Registered N^{o}: 2366777

Dwr Cymru Cyfyngedig

Directors' report and financial statements

for the year ended 31 March 2002

Registered Office:-
Pentwyn Road
Nelson
Treharris
Mid Glamorgan
CF46 6LY

Contents

Page

Foreword

These financial statements for Dwr Cymru Cyfyngedig cover the year to 31 March 2002. The company's immediate parent company is Dwr Cymru (Holdings) Limited. On 11 May 2001, the entire share capital of Dwr Cymru (Holdings) Limited was acquired by Glas Cymru (Securities) Cyfyngedig.

Full details and analysis of the operational performance of Dwr Cymru during the year to 31 March 2002 is included in the published report and accounts for Glas Cymru Cyfyngedig.

Directors and advisors

Directors

Lord Burns	Director (Appointed 11/05/2001)
C A Jones	Director (Appointed 11/05/2001)
A J Hobson	Director (Appointed 11/05/2001)
M P Brooker	Director
N C Annett	Director (Appointed 11/05/2001)
Dame D J Hine	Director (Appointed 11/05/2001)
A Carnwath	Director (Appointed 11/05/2001)
G Talfan-Davies	Director (Appointed 11/05/2001)
J M Bryant	Director (Appointed 11/05/2001)
M S Lynch	Chairman (resigned 11/05/2001)
D C S Oosthuizen	Director (resigned 11/05/2001)
R A Symons	Director (resigned 11/05/2001)
J M Barham	Director (resigned 11/05/2001)
G W Edwards	Director (resigned 12/04/2001)
G J Miles	Finance Director (resigned 11/05/2001)
R J Illidge	Director (resigned 11/05/2001)
J D Williams	Director (resigned 11/05/2001)
P B Moriarty	Non executive director (resigned 11/05/2001)
D H Thomas	Non executive director (resigned 11/05/2001)

Company secretary

R Curtis	(appointed 11/05/2001)
Mrs S Jones	(resigned 11/05/2001)

Auditors

PricewaterhouseCoopers

Solicitors
Linklaters & Alliance
Edwards Geldard

Principal bankers

National Westminster Bank Plc

Directors' report

The directors have pleasure in presenting their annual report to the shareholders, together with the audited financial statements for the year ended 31 March 2002 on pages 7 to 33.

Principal activity and business review

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.

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

Dwr Cymru was involved in and entered into agreements in connection with a £1,910 million asset backed bond issue by Dwr Cymru (Financing) Limited. The purpose of the bond issue was to facilitate the refinancing of Dwr Cymru and to meet the future financing and operating and capital expenditure requirements of the Company.

Full details and analysis of the operational performance of Dwr Cymru during the year to 31 March 2002 is included in the published report and accounts for Glas Cymru Cyfyngedig.

Trading results

Profit on ordinary activities before taxation amounted to £41.7m (2001 £41.6m). The loss attributable to ordinary shareholders amounted to £6.1m (2001 Profit of £32.9m restated).

Overall the business has performed satisfactorily during the year.

Dividend

During the year, the Company has declared and paid £33.5m in ordinary dividends and £14m in preference dividend.

Fixed assets

Freehold land and buildings are carried in the accounts at historical cost at a net book value of £23.0m (2001 £25.5m). 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 at 31 March 2002.

Directors' interests

The directors who held office during the year are listed on page 2. There were no significant contracts subsisting with the company during or at the end of the year, in which any director is or was materially interested (other than service contracts).

Policy on the payment of creditors

It is company policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated the company endeavours to adhere to the suppliers' standard terms. The average payment period in the year was 96 days (2001 116 days).

The company has included within trade creditors retention of monies held in respect of capital contracts.

Employment policies

The success of the company lies in its ability to manage and develop the skills and potential of the people it 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.

Directors' report cont'd

There is a great 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. Electronic mailing has become the most 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. Working 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.

Research and development

The company continues to monitor and selectively participate in industry research and development initiatives with a view to maintaining the Company's achievements in improving operational efficiency and to ensure continuing achievement of appropriate national and international standards for potable water, sewage effluent and sludge.

Contributions for charitable and political purposes

During the year, there have been no political donations, and charitable donations amounted to £16,000 (2001 £123,228).

Regulatory accounts

Condition F of the Instrument of Appointment, under which Dwr Cymru Cyfyngedig operates, requires specified accounting statements to be published. Copies of these accounts will be available from the Company Secretary after 31 July 2002.

Welsh language policy

The company welcomes dealings with its customers in Welsh or English and aims to provide an equally effective standard of service in both languages.

Auditors

A resolution to re-appoint the auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting.

By order of the Board

R.G. Curtis

R Curtis LLB ACIS
Company Secretary

12 June 2002

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 or loss of the company for the year. In preparing the financial statements, the directors ensure that appropriate accounting policies have been adopted and applied consistently, and that reasonable and prudent judgements have been made. The directors also confirm that applicable accounting standards have been followed and that reasonable and prudent judgements and estimates have been made.

It is 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

R.G. Curtis

R Curtis LLB ACIS
Company Secretary

12 June 2002

Independent auditors' report to the members of Dwr Cymru Cyfyngedig

We have audited the financial statements on pages 7 to 33, which comprise the profit and loss account, balance sheet and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit 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 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cardiff

12 June 2002

Principal accounting policies

A summary of the principal accounting policies is shown below, which have been consistently applied, except as noted in respect of deferred taxation.

Changes in presentation of financial information

Since the previous directors' report and financial statements, the Accounting Standards Board has issued Financial Reporting (FRS) 17 – Retirement Benefits, FRS18 – Accounting Policies and FRS19 – Deferred Taxation.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in the "Grants and customers contributions" section below and note 9(c).

Turnover

Turnover represents the income receivable in the ordinary course of business for services provided and excludes value added tax.

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 operational structures and equipment and fixtures and fittings).

Infrastructure assets

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

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on the company's independently certified asset management plan.

Other assets

Other assets are included at cost less accumulated depreciation. Freehold land is not depreciated.

Other assets are depreciated over their estimated useful economic lives, which are principally as follows:

Freehold buildings	up to 60 years
Leasehold properties	over the lease period
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant, equipment and computer hardware & software	3-16 years

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

The carrying value of tangible fixed assets is reviewed for impairment if circumstances dictate that they may not be recoverable.

Principal accounting policies cont'd

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 customer contributions

Grants and customer contributions relating to infrastructure assets have been offset against fixed assets (see note 9(c)). Grants and customer contributions in respect of expenditure on other 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.

Pension costs

The majority of the company's employees belong to pension schemes, which are funded by both employers' and employees' contributions and which are of the defined benefit type. 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.

Debt and debt issue costs

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. Debt issue costs are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Investments

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

Financial instruments

Derivative instruments utilised by the group are currency swaps, currency forward exchange contracts and interest rate swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Currency swap agreements and currency forward exchange contracts are translated at the rates ruling in the agreements and contracts.

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

Research and development

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

Principal accounting policies cont'd

Taxation

The charge for current taxation is based on the profit for the period as adjusted for disallowable and non-taxable items. The new accounting standard FRS19 "Deferred Tax" has been adopted. This requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur. Previously, provision was made for deferred tax on all material timing differences to the extent that it was probable that a liability or asset would crystalise. In adopting FRS19, the company has chosen to discount deferred tax assets and liabilities.

Provision for insurance liabilities

Provision is made for all known and estimated liabilities arising from uninsured claims against the company where there is a present obligation that will result in transfer of economic benefits.

Profit and loss account for the year ended 31 March 2002

	Note	2002 £m	Restated 2001 £m
Turnover	2	**458.7**	441.0
Net operating costs	3	**(303.6)**	(310.0)
Operating profit		**155.1**	131.0
Before exceptional items:-			
Continuing operations		**158.5**	142.8
Exceptional items	4	**(3.4)**	(11.8)
Operating profit		**155.1**	131.0
Profit/(loss) on disposal of fixed assets		**1.3**	(0.3)
Profit on ordinary activities before interest		**156.4**	130.7
Net interest payable	6	**(114.7)**	(89.1)
Profit on ordinary activities before taxation		**41.7**	41.6
Taxation	7	**(0.3)**	5.3
Profit on ordinary activities after taxation		**41.4**	46.9
Dividends on preference shares	8b	**(14.0)**	(14.0)
Profit attributable to ordinary shareholder		**27.4**	32.9
Dividends on ordinary shares	8a	**(33.5)**	-
Retained (loss)/profit for the year	23	**(6.1)**	32.9

All operations are continuing.

The 2001 profit and loss account has been restated in order to reflect prior year adjustments regarding Deferred Taxation, in compliance with FRS 19, and to reflect a change in accounting for the income received from the Elan Valley Trust Fund which is included in Interest Receivable in the current year as opposed to turnover in previous years (notes 22 and 6 respectively).

Balance sheet at 31 March 2002

	Note	2002 £m	Restated 2001 £m
Fixed assets			
Tangible assets	9	**2,358.1**	2,252.8
Investments	10	**0.2**	0.1
		2,358.3	2,252.9
Current assets			
Stocks and work in progress	11	**-**	1.5
Debtors-due within one year	12(a)	**79.6**	72.2
Debtors-due after one year	12(b)	**436.2**	0.1
Current asset investments	13(a)	**367.8**	69.0
Cash at bank and in hand		**-**	3.8
		883.6	146.6
Current liabilities			
Creditors: amounts falling due within one year	14(a)	**(256.7)**	(1,434.7)
Net current assets/(liabilities)		**626.9**	(1,288.1)
Total assets less current liabilities		**2,985.2**	964.8
Creditors: amounts falling due after more than one year	14(b)	**(2,194.5)**	(178.7)
Provisions for liabilities and charges	19	**(99.5)**	(88.0)
Deferred income	20	**(38.6)**	(39.4)
Net assets		**652.6**	658.7
Capital and reserves			
Called up share capital	21	**309.9**	309.9
Capital redemption reserve	23	**166.2**	166.2
Profit and loss account	23	**176.5**	182.6
Equity shareholder's funds		**452.6**	458.7
Non-equity shareholders' funds		**200.0**	200.0
Total shareholders' funds		**652.6**	658.7

The financial statements on pages 7 to 33 were approved by the Board of directors on 12 June 2002 and were signed on its behalf by:

Lord Burns
Chairman

M P Brooker
Managing Director

C A Jones
Finance Director

Cashflow statement for the year ended 31 March 2002

	Note	2002 £m	Restated 2001 £m
Cash flow from operating activities	24	**247.4**	257.2
Returns on investments and servicing of finance			
Interest received		**33.4**	4.6
Interest paid		**(75.8)**	(86.9)
Preference dividends paid		**(7.0)**	(14.0)
Interest element of finance lease rental payments		**(8.1)**	(12.2)
		(57.5)	(108.5)
Taxation			
UK corporation tax received		**0.1**	16.8
Group relief paid		**-**	(11.5)
		0.1	5.3
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(209.6)**	(200.2)
Purchase of financial investments		**(0.1)**	-
Sale of tangible fixed assets		**4.2**	1.7
Grants and contributions received		**8.7**	7.8
		(196.8)	(190.7)
Equity dividends paid		**(33.5)**	(10.0)
Cash outflow before use of liquid resources and financing		**(40.3)**	(46.7)
Management of liquid resources			
Net (increase)/decrease in deposits		**(298.8)**	(31.2)
Cash (outflow)/inflow before financing		**(339.1)**	(77.9)
Financing			
Short term loans received		**-**	1,149.4
Loan received from group undertaking		**1,910.0**	25.0
Bond issue costs paid		**(13.6)**	-
New finance lease received		**120.0**	-
Loan repaid to parent undertaking		**-**	(245.0)
Loan repaid to subsidiary undertaking		**-**	(197.3)
Loan made to parent undertaking		**(450.0)**	
Loan and lease repayments		**(1,246.6)**	(200.2)
Share buyback		**-**	(428.7)
		319.8	103.2
(Decrease)/Increase in cash in the year	25	**(19.3)**	25.3

Statement of total recognised gains & losses

	Note	2002 £m	Restated 2001 £m
(Loss)/Profit for the financial year		**(6.1)**	32.9
Total recognised (losses) and gains relating to the financial year		**(6.1)**	32.9
Prior year adjustment: Deferred Taxation	22	**(78.9)**	-
Total (losses) and gains recognised since last annual report		**(85.0)**	32.9

Reconciliation of movements in shareholder's funds for the year ended 31 March 2002

	Note	2002 £m	Restated 2001 £m
At start of the year		**658.7**	1,134.1
Prior year adjustment	22	**-**	(79.6)
At 1 April (as restated)		**658.7**	1,054.5
Profit for the year attributable to ordinary shareholders		**27.4**	32.9
Repurchase of ordinary shares		**-**	(428.7)
Dividends on ordinary shares		**(33.5)**	-
At end of the year		**652.6**	658.7

Notes to the financial statements

1 Consolidated financial statements

The company has taken advantage of Section 228 (1) of the Companies Act 1985 not to produce consolidated financial statements as it is a wholly owned subsidiary of Glas Cymru Cyfyngedig.

2 Segmental analysis by class of business

(a) Turnover

	2002 £m	2001 Restated £m
Regulated water and sewerage activities	**453.6**	435.6
Non regulated activities	**5.1**	5.4
	458.7	441.0

(b) Profit on ordinary activities before taxation

	2002 £m	Restated 2001 £m
Regulated water and sewerage activities		
Operating profit*	**154.9**	131.3
Profit on disposal of fixed assets	**1.9**	0.9
Net Interest payable	**(115.5)**	(90.1)
	41.3	42.1
Non-regulated activities		
Operating profit/(loss)	**0.2**	(0.3)
Loss on disposal of fixed assets	**(0.6)**	(1.2)
Interest receivable	**0.8**	1.0
	0.4	(0.5)
* *Operating profits as disclosed above, are after* deducting exceptional items of £3.4m (2001 £11.8m (see Note 4)). The operating profit, prior to deducting the exceptional items, is set out below:		
Operating profit	**158.3**	143.1

(c) Net assets

	2002 £m	Restated 2001 £m
Regulated water and sewerage activities	**635.1**	641.6
Non-regulated activities	**17.5**	17.1
	652.6	658.7

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

Notes to the financial statements cont'd

3 Net operating costs

	Note	2002 Before Exceptional Items £m	2002 Exceptional items (Note 4) £m	2002 Total £m
Staff costs	5(b)	**6.9**	-	**6.9**
Depreciation:				
- Own assets		**77.2**	-	**77.2**
- Assets held under finance leases		**13.0**	-	**13.0**
Research and development		**0.1**	-	**0.1**
Rentals under operating leases:		**0.2**	-	**0.2**
Fees paid to auditors:				
- Audit services		**0.2**	-	**0.2**
Amortisation of grants and contributions	20	**(1.4)**	-	**(1.4)**
Own work capitalised		**(3.2)**	-	**(3.2)**
Net rents payable		**1.6**	-	**1.6**
Other operating charges		**205.6**	**3.4**	**209.0**
		300.2	**3.4**	**303.6**

	Note	2001 Before Exceptional Items £m	2001 Exceptional items (Note 4) £m	2001 Total £m
Staff costs	5(b)	47.0	-	47.0
Severance and redundancy costs		-	1.7	1.7
Depreciation:				
- Own assets		74.9	-	74.9
- Assets held under finance leases		10.8	-	10.8
Impairment of fixed assets		3.5	-	3.5
Research and development		0.2	-	0.2
Rentals under operating leases:				
- Hire of plant and equipment		8.3	-	8.3
- Other		0.2	-	0.2
Fees paid to auditors:				
- Audit services		0.1	-	0.1
- Other services		0.1	0.1	0.2
Amortisation of grants and contributions	20	(1.4)	-	(1.4)
Own work capitalised		(13.5)	-	(13.5)
Net rents payable		2.2	-	2.2
Other operating charges		165.8	10.0	175.8
		298.2	11.8	310.0

4 Exceptional items

	2002 £m	2001 £m
By type of provision:		
Severance and redundancy costs	-	1.7
Refinancing Fees (see Note 15)	3.4	10.1
	3.4	11.8

5 Directors and employees

(a) Directors' emoluments

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

	2002 £'000	2001 £'000
Salary (including benefits in kind)	611	462
Fees	415	29
Compensation for loss of office	52	-
	1,078	491
Highest paid director:		
Aggregate emoluments	240	137
Accrued pension under defined benefit scheme	88	52

Retirement benefits are accruing to three directors (2001 - five) under defined benefit schemes.

(b) Staff costs

	2002 £m	2001 £m
Wages and salaries	5.8	35.3
Social security costs	0.5	2.9
Pension costs (see Note 28)	0.6	8.8
	6.9	47.0

Of the above, £2.3m (2001 £7.9m) has been charged to capital.

Notes to the financial statements cont'd

5 Directors and employees (cont'd)

(c) Average monthly number of employees during the year (including executive directors)

	2002 Number	2001 Number
Regulated water and sewerage activities	**136**	1,476

6 Net interest payable

	2002 £m	2001 £m
Interest receivable	**34.8**	4.6
Interest payable:		
On bank loans and overdrafts	**-**	(1.3)
On other loans	**(127.8)**	(56.7)
On finance leases	**(10.8)**	(12.1)
Exceptional item:-Termination cost on early redemption of swaps	**(10.9)**	-
Exceptional item:- Interest payments on early loan repayments	**-**	(23.6)
	(149.5)	(93.7)
Net interest payable	**(114.7)**	(89.1)

Included in other loans are amounts payable to group undertakings of £106.0m (2001 £29.3m).

In prior years, income from the Elan Valley Trust Fund has been shown as turnover. During the current financial year this practise has been altered and the income has now been shown as interest receivable. The effect of this is a prior year adjustment of £1.9m reducing turnover and increasing interest receivable.

7 Taxation

	Note	2002 £m	Restated 2001 £m
(a) Analysis of charge/(credit) in period			
Current tax:			
Adjustments in respect of previous periods		**(0.1)**	(4.6)
Total current tax	7(b)	**(0.1)**	(4.6)
Deferred Tax:			
Origination and reversal of timing differences		**5.3**	16.9
Increase in discount		**(4.9)**	(17.6)
Total deferred tax		**0.4**	(0.7)
Tax charge/(credit) on profit on ordinary activities	19(a)	**0.3**	(5.3)

Notes to the financial statements cont'd

7 Taxation cont'd

		2002 £m	Restated 2001 £m
(b)	**Factors affecting current tax charge for period**		
	Profit on ordinary activities before tax	**41.7**	41.6
	Profit on ordinary activities multiplied by the corporation tax rate in the UK of 30%	**12.5**	12.5
	Effects of:		
	Expenses not deductible for tax purposes	**1.9**	0.1
	Capital allowances in excess of depreciation	**(9.7)**	(19.2)
	Other timing differences	**1.6**	0.3
	Tax losses carried forward	**-**	5.6
	Adjustments to tax charge in respect of previous periods	**(0.1)**	(4.6)
	Group relief received for no consideration	**(6.3)**	-
	Tax charge for current period	**(0.1)**	(5.3)

(c) Factors that may affect future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years but at a slightly lower level than in the current year.

8 Dividends

		2002 £m	2001 £m
(a)	**Dividends on ordinary shares**		
	Special paid: 10.9p per share (2001 Nil)	**12.0**	-
	Interim paid: 19.6p per share (2001 Nil)	**21.5**	-
		33.5	-
(b)	**Dividends on preference shares**		
	7% preference shares	**14.0**	14.0

Notes to the financial statements cont'd

9 Tangible fixed assets

(a) analysis by type

	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant, equipment & computer hardware & software £m	Total £m
Cost					
At 1 April 2001	44.7	1,290.4	1,581.4	185.5	3,102.0
Additions	0.7	112.1	83.5	10.2	206.5
Grants and contributions	-	(8.1)	-	-	(8.1)
Disposals	(4.5)	(1.0)	(0.1)	-	(5.6)
At 31 March 2002	**40.9**	1,393.4	1,664.8	195.7	3,294.8
Accumulated depreciation					
At 1 April 2001	19.2	309.0	388.5	132.5	849.2
Charge for the year	0.4	35.9	44.8	9.1	90.2
Eliminated on disposals	(1.7)	(1.0)	-	-	(2.7)
At 31 March 2002	**17.9**	**343.9**	**433.3**	**141.6**	**936.7**
Net book value					
At 31 March 2002	**23.0**	**1,049.5**	**1,231.5**	**54.1**	**2,358.1**
At 31 March 2001	25.5	981.4	1,192.9	53.0	2,252.8
Analysis of net book value at 31 March 2002					
Owned	23.0	1,049.5	844.3	54.1	1,970.9
Held under finance leases	-	-	387.2	-	387.2
	23.0	**1,049.5**	**1,231.5**	**54.1**	**2,358.1**

Tangible fixed assets at 31 March 2002 include £158.4m (2001 £316.7m) of assets in the course of construction, which are not depreciated until commissioned. This is considerably less than 2001 owing to the completion of large projects in Cardiff and Newport totalling approximately £177m.

9 Tangible fixed assets cont'd

During the prior year, the company entered into a conditional sale agreement of certain non-operational land and buildings, which was conditional on regulatory approval. The consideration of £19.5 million was based on independent valuations. During the year, one of these properties has been disposed of which had a value of £1.8m attributed to it. The remaining proceeds of the conditional sale are included in other creditors as at 31 March 2002.

(b) analysis by service

	Water Services £m	Sewerage Services £m	General £m	Total £m
Cost				
At 1 April 2001	1,282.1	1,650.6	169.3	3,102.0
Additions	88.9	107.4	10.2	206.5
Grants and contributions	(5.6)	(2.5)	-	(8.1)
Disposals	(3.2)	(2.4)	-	(5.6)
At 31 March 2002	**1,362.2**	**1,753.1**	**179.5**	**3,294.8**
Accumulated depreciation				
At 1 April 2001	356.2	372.8	120.2	849.2
Charge for the year	44.5	36.1	9.6	90.2
Eliminated on disposals	(1.5)	(1.2)	-	(2.7)
At 31 March 2002	**399.2**	**407.7**	**129.8**	**936.7**
Net book value				
At 31 March 2002	**963.0**	**1,345.4**	**49.7**	**2,358.1**
At 31 March 2001	925.9	1,277.8	49.1	2,252.8
Analysis of net book value at 31 March 2002				
Owned	827.9	1,093.3	49.7	1,970.9
Held under finance leases	135.1	252.1	-	387.2
	963.0	**1,345.4**	**49.7**	**2,358.1**

(c) The accounting treatment for grants and customer contributions in respect of infrastructure assets is described in the principal accounting policies on page 8. 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 8 has been adopted in accordance with section 227(6) 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 and contributions on infrastructure assets as deferred income. The fixed assets to which they relate do not have determinable finite lives and therefore no basis exists for releasing any deferred income to the profit and loss account. As a consequence, the net book value of fixed assets and deferred income is £169.8m (2001 £161.7m) lower than they would have been the case had grants and contributions been treated as deferred income indefinitely.

Notes to the financial statements cont'd

10 Fixed asset investments

At Cost and net book value	2002 £m
At 1 April 2001	0.1
Additions in period	0.1
At 31 March 2002	**0.2**

The company owns 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.

The company has a 50% interest in the following unlisted company:-

	Nature of Business	Country of Incorporation	Description of Holding
Garwnant Visitors Centre	Recreation and Education	Great Britain	Ordinary Shares of £1

During the financial year, the company purchased the above from Hamdden Limited for £115,000. This investment is a joint venture with the Forestry Commission to operate the retail, recreational and educational facilities. This investment was disposed of post 31 March 2002. The results and net assets of this associate are not considered material, for the purposes of equity accounting and the investment is not, in addition, being held for the long term.

100% interest in the following subsidiary:

	Nature of Business	Country of Incorporation	Description of Holding
Welsh Water Utilities Finance Plc	Raising finance	Great Britain	Ordinary Shares of £1

11 Stocks and work in progress

	2002 £m	2001 £m
Raw materials and consumables	-	1.3
Work in progress	-	0.2
	-	1.5

Notes to the financial statements cont'd

12 Debtors

	2002 £m	2001 £m
(a) Amounts falling due within one year:		
Trade debtors	**26.5**	34.6
Amounts owed by group undertakings	**15.8**	-
Other debtors	**4.9**	13.4
Prepayments and accrued income	**32.4**	24.2
	79.6	72.2
(b) Amounts falling due after more than one year:		
Amounts owed by group undertakings	**436.0**	-
Other debtors	**0.2**	0.1
	436.2	72.3

13 Current asset investments

(a) Management of liquid resources

	2002 £m	2001 £m
Investments in:		
Fixed term and call deposits-due within one year	**360.8**	69.0
Fixed term and call deposits-due after one year	**7.0**	-
	367.8	69.0

Cash generated from operating activities and from long-term borrowings in advance of future capital expenditure obligations is invested. These investments include long-term deposits, government securities and corporate bonds.

Treasury activities are managed under policies, procedures and authorities approved by the Glas board.

(b) Interest rate swaps

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

Notes to the financial statements cont'd

14 Creditors

	Note	2002 £m	2001 £m
(a) Amounts falling due within one year:			
Bank overdrafts		**15.5**	-
Other loans	15	**0.6**	1,150.0
Finance leases	16	**1.1**	92.4
Trade creditors		**103.9**	108.7
Amounts owed to group undertakings		**50.0**	4.5
Dividends payable		**7.0**	-
Other taxation and social security		**2.8**	1.5
Other creditors		**75.8**	77.6
		256.7	1,434.7
(b) Amounts falling due after more than one year			
Other loans	15	**4.8**	5.2
Obligations under finance leases	16	**287.5**	173.0
Amounts owed to group undertakings		**1,902.0**	-
Other creditors - between one and five years		**0.2**	0.5
		2,194.5	178.7

15 Other loans

	2002 £m	2001 £m
Repayable as follows:		
Within one year	**0.6**	1,150.0
Between one and two years	**0.6**	0.6
Between two and five years	**1.6**	1.6
After more than five years	**1,904.6**	3.0
	1,907.4	1,155.2
Repayable wholly within five years	**-**	1,149.4
Repayable wholly after five years	**1,902.0**	-
Repayable by instalments of which some repayments are after five years	**5.4**	5.8
	1,907.4	1,155.2

Interest rates on these loans ranged between 6.62% and 12.0% (2001 5.85% and 10.15%).

On 10 May 2001 Dwr Cymru (Financing) Limited, a fellow group company, completed a £1,910 million asset-backed bond issue, the proceeds of which were on lent to Dwr Cymru Cyfyngedig under an inter-company loan agreement. All costs relating to this refinancing have been recharged to Dwr Cymru Cyfyngedig. The costs directly attributable to issuing the bonds have been capitalised in accordance with FRS4 and are being amortised to the profit and loss account over the life of the bonds.

In addition, £3.4m (2001: £10.1m) of fees that could not be capitalised under FRS4 have been expensed to the profit and loss and are shown as exceptional items in note 4.

Notes to the financial statements cont'd

16 Finance leases

	2002 £m	2001 £m
Amounts due under finance leases within one year	**1.1**	92.4
Amounts due under finance leases between two and five years inclusive	**11.2**	6.6
Amounts due under finance leases after more than five years	**276.3**	166.4
Total	**288.6**	265.4

A long dated interest rate swap was arranged on 1 April 1994 which has the effect of fixing the rate of interest at 7.8% on floating rate sterling finance lease obligations of £55.3m. This obligation reduces over a term of 12 years.

17 Capital commitments

	2002 £m	2001 £m
Contracted for but not provided in the financial statements	**77.8**	**72.4**

In order to meet additional quality and service standards, together with growth and new demands, the company has capital investment obligations over the next three years amounting to approximately £740m at current prices in the regulated water and sewerage business.

18 Leasing commitments

	Land and buildings		Other	
	2002 £m	2001 £m	2002 £m	2001 £m
At 31 March 2002 there were revenue commitments, in the ordinary course of business in the next year for the payment of rentals on non cancellable operating leases expiring:				
within one year	-	-	-	1.3
between one and two years	-	-	-	0.9
between two and five years	-	-	-	2.1
after five years	**0.4**	0.6	-	0.2
	0.4	0.6	-	4.5

19 Provisions for liabilities and charges

	Note	2002 £m	Restated 2001 £m
Deferred taxation	(a)	**79.3**	78.9
Restructuring provision	(b)	**5.1**	6.0
Contract management provision	(c)	**0.9**	1.6
Provision for uninsured losses	(d)	**4.0**	1.5
Provision for loss on swap closure	(e)	**10.2**	-
		99.5	88.0

(a) Deferred taxation

	2002 £m	2001 £m
Tax effect of timing differences		
Excess of tax allowances over depreciation	**335.8**	333.8
Other timing differences	**(1.7)**	(5.0)
Undiscounted provision for deferred tax	**334.1**	328.8
Discount	**(254.8)**	(249.9)
Discounted provision for deferred tax	**79.3**	78.9
Provision at start of year	**78.9**	79.6
Deferred tax charge/(credit) on profit and loss account for year	**0.4**	(0.7)
Provision at end of year	**79.3**	78.9

(b) Restructuring provision

This provision at 31 March 2002 is in respect of surplus property, which will be utilised over the next six years.

	2002 £m Severance	2002 £m Property	2002 £m Other	2002 £m Total
At 1 April	**0.8**	**5.1**	**0.1**	**6.0**
Charge to the profit and loss account	**-**	**0.6**	**-**	**0.6**
Utilised in the year	**(0.8)**	**(0.6)**	**(0.1)**	**(1.5)**
At 31 March	**-**	**5.1**	**-**	**5.1**

Notes to the financial statements cont'd

19 Provisions for liabilities and charges cont'd

(c) Management contract provision

This provision is in respect of the expected costs of terminating sewerage management contracts on 31 March 2001 and in relation to the TUPE arrangements of the employees within that contract. It is anticipated that the provision will be utilised over the next twelve months.

	2002 £m
At 1 April	1.6
Charge to profit & loss account	-
Utilised in the year	(0.7)
At 31 March	0.9

(d) Provision for uninsured losses

This provision is in respect of uninsured losses and its utilisation period is uncertain due to the nature of insurance claims.

	2002 £m
At 1 April	1.5
Charge to profit & loss account	3.4
Utilised in the year	(0.9)
At 31 March	4.0

(e) Provision for loss on swap closure

	2002 £m
At 1 April	-
Charge to profit & loss account	10.9
Utilised in the year	(0.7)
At 31 March	10.2

This provision is in respect of a liability that arose on the cancellation on 2 May 2001 of certain swap contracts. It is anticipated that the provision will be utilised over the life of the revised swap, which expires on 31 March 2031.

20 Deferred Income

This is in respect of grants and contribution received and receivable in respect of operational fixed assets and will be utilised over the lifetime of those assets.

	2002 £m	2001 £m
At 1 April	**39.4**	40.3
Received and receivable during the year	**0.6**	0.5
Released to profit and loss account	**(1.4)**	(1.4)
At 31 March	**38.6**	39.4

21 Called up share capital

	2002 £m	2001 £m
Authorised:		
301,050,000 ordinary shares of £1 each	**301.1**	301.1
200,000,000 7% preference shares of £1 each	**200.0**	200.0
	501.1	501.1
Allotted, called up and fully paid:		
109,876,374 ordinary shares of £1 each	**109.9**	109.9
200,000,000 7% preference shares of £1 each	**200.0**	200.0
	309.9	309.9

The 7% cumulative preference shares carry a fixed cumulative preference dividend at the rate of 7% per annum, payable ½ yearly in arrears on 31 March and 30 September. The shares have no redemption entitlement and are held by a fellow subsidiary undertaking. On a winding up, the holders have priority before all other classes of shares to receive repayment of capital plus any arrears of dividend. The holders have no voting rights unless the dividend is in arrears by 6 months or more.

22 Prior year adjustment - Deferred Taxation

FRS19 Deferred taxation has been adopted in these financial statements. The comparative figures in the primary statements have been restated to reflect the new policy. The effects of the change are shown below:

	2002 £m	2001 £m
Profit and loss account – (decrease)/increase in profit in the year	**(0.4)**	0.7
Balance sheet – decrease in net assets	**(0.4)**	(78.9)

Notes to the financial statements cont'd

23 Reserves

	2002 Profit and Loss Account £m	2002 Capital Redemption Reserve £m
At 1 April 2001	**261.5**	**166.2**
Prior year adjustment	**(78.9)**	**-**
At 1 April (as restated)	**182.6**	**166.2**
Loss retained for the year	**(6.1)**	**-**
At 31 March 2002	**176.5**	**166.2**

24 Cash flow from operating activities

	2002 £m	Restated 2001 £m
Operating profit	**155.1**	131.0
Depreciation of tangible fixed assets	**90.2**	85.7
Impairment losses on fixed assets	**-**	3.5
Amortisation of grants and contributions	**(1.4)**	(1.4)
Increase/(decrease) in provision for uninsured losses	**2.5**	(0.4)
Net decrease in stock	**1.5**	2.3
Net decrease in debtors	**7.7**	13.0
Net (decrease)/increase in creditors	**(6.7)**	30.1
Decrease in restructuring provisions	**(1.5)**	(6.6)
Cash flow from operating activities	**247.4**	257.2

25 Reconciliation of net cash flow to movement in net debt

	2002 £m	2001 £m
(Decrease)/increase in cash in the year	**(19.3)**	25.3
Cash outflow from management of liquid resources	**298.8**	31.2
Cash inflow from increase in debt and lease financing	**(319.8)**	(531.9)
Non-cash flow items	**(5.6)**	-
Increase in net debt in the year	**(45.9)**	(475.4)
Net debt at 1 April	**(1,347.8)**	(872.4)
Net debt at 31 March	**(1,393.7)**	(1,347.8)

Notes to the financial statements cont'd

26 Analysis of net debt

	At 1 April 2001 £m	Cash Flow £m	Non-Cash Items £m	At 31 March 2001 £m
Net cash:				
Cash at bank and in hand	3.8	(3.8)	-	-
Bank overdraft	-	(15.5)	-	(15.5)
	3.8	(19.3)	-	(15.5)
Liquid resources:				
Current asset investments	69.0	298.8	-	367.8
Group receivables:				
Debt owed by subsidiary undertaking within one year	-	14.0	-	14.0
Debt owed by subsidiary undertaking after one year	-	436.0	-	436.0
Debt:				
Finance leases	(265.4)	(23.2)	-	(288.6)
Debts falling due within one year	(1,150.0)	1,149.4	-	(0.6)
Bond issue costs	-	13.6	(1.1)	12.5
Indexation of inter-company loan	-	-	(4.5)	(4.5)
Debts falling due after one year	(5.2)	(1,909.6)	-	(1,914.8)
	(1,420.6)	(319.8)	(5.6)	(1,746.0)
Net debt	(1,347.8)	(40.3)	(5.6)	(1,393.7)

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.

Notes to the financial statements

28 Pensions – current arrangements

Following the acquisition of Dwr Cymru Cyfyngedig by Glas Cymru Cyfyngedig, a new pension scheme for current employees was introduced with effect from 1 December 2001. All existing staff joined the new scheme on 1 December 2001. As a consequence, these staff have now become deferred members in the predecessor pension schemes referred to below. Under the new arrangements, employees will have the right to transfer their past service and benefits to the new scheme in the course of the next twelve months, pending finalisation of the transfer values under the predecessor schemes. As at 31 March 2002 and up to the date of approval of these accounts these transfer values had not been determined nor had any employee formally elected to transfer.

The first formal valuation of the new scheme is due at 31 March 2003. The current company contribution is 12% per annum. This rate will be revisited at the valuation date. The pension cost for the period from 1 December 2001 to 31 March 2002 was £0.3m.

Additional disclosures regarding the defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for the full implementation of FRS 17 in the year ending 31 March 2004.

An informal actuarial valuation of the new scheme at 31 March 2002 has been performed by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value. The major assumptions used by the actuary were:

	2002 %
Rate of increase in salaries	4.46
Rate of increase in pensions payment	2.96
Discount rate	5.92
Inflation assumption	2.96

The fair value of the assets, and the present value of the liabilities in the scheme, at the balance sheet date were:

	Long term rate of return expected	2002 £'000
Equities	7%	-
Bonds	5%	-
Cash	4%	258.4
Total market value of the assets		258.4
Present value of scheme liabilities		243.1
Surplus in the scheme		15.3
Related deferred tax asset		*(5.0)*
Net pension asset		10.3

Balance Sheet	2002 £m
Net assets excluding pension asset	652.6
Pension asset	-
Net assets including pension asset	652.6

Notes to the financial statements

Reserves	2002 £m
Profit and loss reserve excluding pension asset	**176.5**
Pension asset*	**-**
Profit and loss reserve including pension asset	**176.5**

* The net assets and profit and loss reserve of the company would increase by £10,300 if this pension asset was incorporated in the balance sheet as at 31 March 2002.

Previous arrangements

Until 30 November 2001, the company participated in a number of pension schemes in the UK. The assets of each pension scheme are held separately from the assets of the company and are administered by trustees. The principal schemes are defined benefit schemes in the UK - the Hyder Water Pension Scheme (HWPS), and the Water Mirror Image Pension Scheme (WMIS).

Under the terms of the Purchase and Sale Agreement by which Glas Cymru Cyf acquired Dwr Cymru Cyfyngedig, the company will have no ongoing pension liabilities or the ability to use the surplus arising in respect of those employees who have transferred to the new service providers or in respect of the remaining employees who are now deferred members of the schemes.

The total pension cost for the period up to 30 November 2001 was £0.3m (2001: £8.8m).

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 Dwr Cymru Cyfyngedig under the provisions of the Water Act 1989. The assets of the fund are not included in these financial statements.

Interest receivable includes £1.2m in respect of Elan Valley Trust Fund.

30 Related party transactions

In accordance with the exemption afforded by Financial Reporting Standard 8 there is no disclosure in these financial statements of transactions with entities that are part of the Glas Cymru Cyfyngedig group.

Notes to the financial statements

31 Immediate and Ultimate holding company

The company's immediate parent company is Dwr Cymru (Holdings) Limited, which is registered in England and Wales.

On 11 May 2001, pursuant to a share purchase agreement dated 5 February 2001, the entire ordinary share capital of Dwr Cymru (Holdings) Limited was acquired by Glas Cymru (Securities) Cyfyngedig. On this date the ultimate holding company and controlling party became Glas Cymru Cyfyngedig, a company registered in England and Wales.

The smallest and largest group within which the results of this company are consolidated is headed by Glas Cymru Cyfyngedig, whose consolidated financial statements can be obtained from the Company Secretary at Pentwyn Road, Nelson, Treharris, Caerphilly CF46 6LY.

Five Year Summary

	Year ended 31 March				
	2002 £m	2001 Restated £m	2000 Restated £m	1999 Restated £m	1998 Restated £m
Turnover	**458.7**	441.0	476.9	459.3	444.2
Operating profit	**155.1**	131.0	152.0	166.4	149.7
(Loss)/Profit on disposal of fixed assets	**1.3**	(0.3)	0.3	0.5	1.6
Profit on ordinary activities before interest and taxation	**156.4**	130.7	152.3	166.9	151.3
Net interest payable	**(114.7)**	(89.1)	(54.3)	(51.9)	(36.2)
Profit on ordinary activities before taxation	**41.7**	41.6	98.0	115.0	115.1
Taxation	**(0.3)**	5.3	15.1	(9.8)	(10.8)
Profit on ordinary activities after taxation	**41.4**	46.9	113.1	105.2	104.3
Preference dividends	**(14.0)**	(14.0)	(14.0)	(14.0)	(7.0)
Ordinary dividends	**(33.5)**	-	(15.0)	(44.0)	(434.0)
Retained (loss)/profit for the year	**(6.1)**	32.9	84.1	47.2	(336.7)
Fixed assets	**2,358.3**	2,252.9	2,144.4	1,980.7	1,796.3
Net current assets/(liabilities)	**626.9**	(1,288.1)	(172.0)	(62.6)	26.7
Total assets less current liabilities	**2,985.2**	964.8	1,972.4	1,918.1	1,823.0
Creditors: amounts falling due after more than one year	**(2,194.5)**	(178.7)	(781.9)	(792.8)	(735.7)
Provisions for liabilities and charges	**(99.5)**	(88.0)	(95.7)	(86.6)	(97.5)
Deferred income	**(38.6)**	(39.4)	(40.3)	(40.3)	(40.4)
Net assets	**652.6**	658.7	1,054.5	998.4	949.4
Capital and reserves					
Called up share capital	**309.9**	309.9	476.1	476.1	476.1
Capital redemption reserve	**166.2**	166.2	-	-	-
Profit and loss account	**176.5**	182.6	578.4	522.3	473.3
Equity shareholder's funds	**452.6**	458.7	854.5	798.4	749.4
Non-equity shareholders' funds	**200.0**	200.0	200.0	200.0	200.0
Total shareholders' funds	**652.6**	658.7	1,054.5	998.4	949.4

The comparatives have been restated to reflect the implementation of FRS19 – Deferred Taxation.