

**Western Power Distribution (South Wales) plc**  
(formerly South Wales Electricity plc)

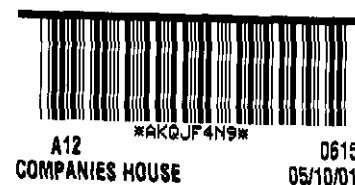
Directors' report and financial statements  
for the year ended 31 March 2001

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Registered No : 2366985

Registered Office

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## Directors' report

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The Directors present their report and the audited financial statements for the year ended 31 March 2001.

### Principal activity

The principal activity of the company and its subsidiaries ('the group') during the year was the distribution of electricity to domestic, commercial and industrial customers.

### Ownership

Western Power Distribution (South Wales) plc ("WPD South Wales", formerly South Wales Electricity plc) was a subsidiary of Hyder Limited ("Hyder", formerly Hyder plc) through to 16 March 2001.

On 15 September 2000, WPD Limited completed its acquisition of a controlling interest in Hyder and in December 2000 completed the acquisition of the remaining shares in Hyder. Since acquisition, WPD Limited has been engaged in restructuring the Hyder group with the aim of integrating WPD South Wales into the ownership of an affiliate, WPD Holdings UK, and disposing of the other assets of Hyder. On 16 March 2001, WPD South Wales was transferred to the ownership of WPD Holdings UK.

Both WPD Limited and WPD Holdings UK are owned indirectly by Mirant Corporation ("Mirant") and PPL Corporation ("PPL"), who share, equally, management control in the two companies. Both Mirant and PPL are energy companies based in the United States of America. WPD Holdings UK owns Western Power Distribution (South West) plc ("WPD South West", formerly South Western Electricity plc), the company which owns and operates the electricity distribution system in the South West of England. Both WPD South Wales and WPD South West now trade as Western Power Distribution ("WPD").

### Business review and future developments

The consolidated profit and loss account for the year is set out on pages 8 and 9. Both the level of business and the year end financial position remain satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future. The structure of the WPD Holdings UK group is such that the accounts of WPD South Wales must be read in conjunction with the accounts of WPD Holdings UK to gain a full understanding of the financial position of the overall group at 31 March 2001.

During the year the price controls for the regulated electricity distribution business were implemented which covers the period 2000 to 2005. WPD South Wales was required to reduce its regulated prices by 26% from 1 April 2000, with a price change of 3% below the retail price index for each of the following four years.

Since WPD South West was acquired in 1995, a key focus has been in improving customer service. The average number of minutes customers were off supply in the South West have fallen by 55% since 1995/96 and, of the twelve regional electricity companies in England and Wales, WPD South West now has the lowest number of complaints to the Regulator. The lessons learnt in the South West will be applied in South Wales.

### Dividends

An interim dividend of 198.7p per share was paid on 31 December 2000. Two instalments of preference dividend of 0.35p per share were paid on 29 September 2000 and 30 March 2001.

### Fixed assets

Freehold land and buildings are carried in the accounts at historical cost at a net book value of £1.6m (2000: £10.9m). The market value of these properties as at 31 March 2001 was £2.5m (2000: £17.7m).

### Policy on the payment of creditors

It is group policy to comply with the terms of payment agreed with suppliers. Where payment terms are not negotiated the group endeavours to adhere to the suppliers' standard terms. The average payment term of the group in respect of the year was 25 days (2000: 30 days) and of the company was 26 days (2000: 27 days).

## Directors' report

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### Directors and their interests

The directors who served during the year are shown below.

R A Symons	Appointed 15 September 2000
G J Miles	
D C S Oosthuizen	Appointed 4 January 2001
M P Brooker	Resigned 21 March 2001
G W Edwards	Resigned 21 March 2001
G A Hawker	Resigned 15 September 2000
C A Jones	Resigned 12 March 2001

Subsequent to the year end, on 17 May 2001 M E Fletcher was appointed as a director.

### Equal opportunities

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

### Employee consultation

The group places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the group's aims, objectives, performance and plans, and their effect on them as employees, through newsletters, regular team briefings and other meetings, as well as through the group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest.

### Contributions for charitable and political purposes

During the year there have been no political donations, and charitable donations amounted to £3,197 (2000: £34,219).

### Regulatory accounts

Additional accounts are prepared for the Chairman of the Gas and Electricity Markets Authority (the "Regulator") in accordance with the provisions of the group's Public Electricity Supply Licence. An extract from these accounts for the year to 31 March 2001 is available.

### By order of the Board



R A Symons  
Chief Executive

Western Power Distribution (South Wales) plc  
Newport Road  
St Mellons  
Cardiff  
CF3 5WW

27 September 2001

## **Directors' responsibilities for the financial statements**

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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 and the group as at the end of the financial year and of the profit or loss of the group 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 the financial statements have been prepared on the going concern basis.

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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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We have audited the financial statements on pages 6 to 34, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 6 and 7.

### **Respective responsibilities of Directors and Auditors**

The directors are responsible for preparing the Annual Report. As described on page 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 required for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

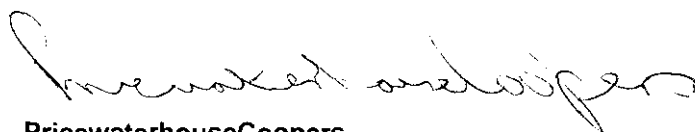
### **Basis of opinion**

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 group'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 misstatements, 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 affairs of the company and the group at 31 March 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
Cardiff

27 September 2001

## Principal accounting policies

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The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom. However, compliance with SSAP 19 "Accounting for Investment Properties" required departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given in note 13. A summary of the principal group accounting policies, which have been consistently applied, is shown below.

### Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention as modified by the inclusion of an external professional valuation of the group's interest in certain investment properties.

### Basis of consolidation

The group financial statements comprise the consolidation of the financial statements of Western Power Distribution (South Wales) plc and all its subsidiary undertakings, and include the group's share of the turnover, gross assets and gross liabilities of joint ventures. The results of subsidiary and associated companies acquired or disposed of in the period are included or excluded from the effective date of acquisition or disposal respectively. When a business is disposed of and purchased goodwill has previously been written off to reserves, the attributable goodwill is charged to the profit and loss account in the year of disposal. The financial statements of the holding company and each subsidiary company are prepared to 31 March. Uniform accounting policies are adopted throughout the group.

### Turnover

Turnover represents the income receivable in the ordinary course of business for goods and 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 group, 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

Fixed assets are stated at cost, except in cases where the open market value of any property not dedicated to the distribution system is below historical cost net book value, when its carrying value is written down to open market value. Depreciation is provided at rates calculated to write off assets over their estimated useful lives. Useful lives are regularly reviewed in the light of changing operational circumstances.

The main classes of tangible fixed assets are depreciated over the following useful lives:

Distribution network assets	Up to 40 years
Freehold buildings	Up to 60 years
Leasehold properties	Shorter of 60 years and lease term
Operational structures	10 to 60 years
Fixed plant, vehicles, mobile plant and equipment	Up to 20 years

Freehold land is not depreciated. Depreciation of other assets begins in the month following their commissioning. Depreciation is charged on the main elements of the distribution network (excluding meters and the fibre optic network) at 3% per year for the first 20 years and 2% per year thereafter. All other assets are depreciated on a straight line basis.

### Leases

Operating lease income receivable as lessor is recognised over the period of the lease as it falls due. Operating lease rentals payable as lessee are charged to the profit and loss account as incurred.

### Investments

Listed investments held as fixed assets are stated at market value and long term investments held as fixed assets are stated at historical cost less any provisions for impairment.

Current asset investments are stated at the lower of cost and net realisable value.

### Stocks and work in progress

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

### Pension costs

Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. 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.

### Deferred income

Consumers' contributions to the cost of distribution network assets are credited to the profit and loss account in line with distribution network asset depreciation. Contributions not yet credited to the profit and loss account are treated as deferred income.

Certain contributions are wholly or partly refundable to consumers if an agreed volume of electricity is distributed to them. Such contributions are included in creditors until there is no further liability to make refunds.

### Financial instruments

The only derivative instruments utilised by the group are interest rate swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Interest differentials under swap arrangements are used to manage interest rate exposure of borrowings and current asset investments, and are recognised by adjusting interest payable or receivable as appropriate.

### Research and development

Expenditure on research and development is charged to the profit and loss account as incurred.

### Deferred tax

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.



Consolidated profit and loss account for the year ended 31 March 2001

	Note	2001 £m	2000 £m
<b>Turnover</b>			
Group and share of joint ventures - continuing operations		171.1	82.0
Less: share of joint ventures		(2.6)	(1.8)
Group turnover - continuing operations		168.5	80.2
Group turnover - discontinued operations		-	517.4
Group turnover	1(a)	168.5	597.6
<b>Cost of sales</b>	1(a)	(13.6)	(340.4)
<b>Gross profit</b>	1(a)	154.9	257.2
<b>Net operating expenses</b>	2	(102.0)	(231.6)
<b>Group operating profit</b>	1(b)	52.9	25.6
<b>Group operating profit before exceptional items:</b>			
Continuing operations	1(b)	68.6	91.5
Discontinued operations	1(b)	-	14.1
	1(b)	68.6	105.6
<b>Exceptional items:</b>			
Continuing operations	3	(15.7)	(61.6)
Discontinued operations		-	(18.4)
	1(b)	(15.7)	(80.0)
<b>Group operating profit/(loss) after exceptional items:</b>			
Continuing operations	1(b)	52.9	29.9
Discontinued operations	1(b)	-	(4.3)
	1(b)	52.9	25.6
Income from fixed asset investments	5	1.3	2.5
Profit on disposal of interests in investments	6	6.0	3.1
Profit on disposal of group operations	7	2.8	90.1
<b>Profit on ordinary activities before interest</b>		63.0	121.3
Interest receivable	8	2.9	2.4
Interest payable	9	(22.0)	(23.3)
<b>Profit on ordinary activities before taxation</b>		43.9	100.4

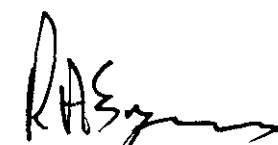
# Consolidated profit and loss account for the year ended 31 March 2001

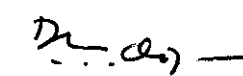
	Note	2001 £m	2000 £m
<b>Profit on ordinary activities before taxation</b>		<b>43.9</b>	100.4
Taxation	10	(4.6)	(11.9)
<b>Profit on ordinary activities after taxation</b>		<b>39.3</b>	88.5
Dividends on preference shares	11(b)	(3.5)	(3.5)
<b>Profit attributable to ordinary shareholders</b>		<b>35.8</b>	85.0
Dividends on ordinary shares	11(a)	(190.0)	(55.1)
<b>Retained (loss) / profit for the year</b>	28	<b>(154.2)</b>	29.9

Balance sheets as at 31 March 2001

	Notes	Group		Company	
		2001	2000	2001	2000
		£m	£m	£m	£m
<b>Fixed assets</b>					
Tangible assets	12	705.2	693.3	705.2	693.3
Investment properties	13	-	10.9	-	10.9
Investments in joint ventures:	14(a)				
Share of gross assets		-	4.4	-	-
Share of gross liabilities		-	(4.4)	-	-
Other Investments	14(b)	0.1	-	0.1	-
		705.3	704.2	705.3	704.2
<b>Current assets</b>					
Stocks and work in progress	15	4.1	5.5	4.1	5.5
Debtors	16	41.8	52.2	40.2	52.2
Current asset investments	17	14.2	19.6	14.2	19.6
Cash at bank and in hand		0.9	0.9	0.9	0.9
		61.0	78.2	59.4	78.2
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	18(a)	(58.5)	(67.9)	(57.0)	(67.9)
Net current assets		2.5	10.3	2.4	10.3
Total assets less current liabilities		707.8	714.5	707.7	714.5
Creditors: amounts falling due after more than one year	18(b)	(304.6)	(152.5)	(304.6)	(152.5)
Provisions for liabilities and charges	24	(25.1)	(33.5)	(25.1)	(33.5)
Deferred income	25	(123.2)	(119.4)	(123.2)	(119.4)
Net assets	1(c)	254.9	409.1	254.8	409.1
<b>Capital and reserves</b>					
Called up share capital	26	97.8	97.8	97.8	97.8
Share premium account	27	23.2	23.2	23.2	23.2
Reserves	28	133.9	288.1	133.8	288.1
Equity shareholders' funds		204.9	359.1	204.8	359.1
Non-equity shareholders' funds		50.0	50.0	50.0	50.0
Total shareholders' funds		254.9	409.1	254.8	409.1

The financial statements on pages 6 to 34 were approved by the board of directors on 27 September 2001 and signed on behalf of the board by:

  
**R A Symons**  
 Chief Executive

  
**D C S Oosthuizen**  
 Finance Director

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**Statement of total recognised gains and losses for the year ended 31 March 2001**

	<b>2001 £m</b>	<b>2000 £m</b>
Profit for the year attributable to ordinary shareholders	<b>35.8</b>	85.0
Unrealised surplus on revaluation of investment properties	-	1.5
Total recognised gains for the year	<b>35.8</b>	86.5

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**Reconciliation of movement in shareholders' funds for the year ended 31 March 2001**

	<b>2001 £m</b>	<b>2000 £m</b>
Total recognised gains for the year	<b>35.8</b>	86.5
Ordinary dividends	<b>(190.0)</b>	(55.1)
Net (decrease) / increase in shareholders' funds	<b>(154.2)</b>	31.4
At 1 April	<b>409.1</b>	377.7
At 31 March	<b>254.9</b>	409.1

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There is no material difference between the results disclosed in the profit and loss account and the results on an unmodified historical cost basis.

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**1 Segmental analysis by class of business - all related to UK activities****1(a) Turnover and gross profit/(loss)**

	Turnover		Cost of sales		Gross profit/(loss)	
	2001	2000	2001	2000	2001	2000
	£m	£m	£m	£m	£m	£m
<b>Continuing businesses:</b>						
Electricity distribution	166.2	199.1	13.0	13.9	153.2	185.2
Other businesses	2.4	5.6	0.6	2.1	1.8	3.5
<b>Discontinued businesses:</b>						
Electricity and gas supply	-	501.9	-	450.5	-	51.4
Infrastructure	-	18.8	-	-	-	18.8
Intra-business trading	(0.1)	(127.8)	-	(126.1)	(0.1)	(1.7)
<b>Group turnover</b>	<b>168.5</b>	<b>597.6</b>	<b>13.6</b>	<b>340.4</b>	<b>154.9</b>	<b>257.2</b>
Share of joint ventures - other continuing businesses	2.6	1.8				
<b>Group and share of joint ventures</b>	<b>171.1</b>	<b>599.4</b>				

**1(b) Profit/(loss) on ordinary activities before taxation**

	Before exceptional items	Exceptional items	Total	Total
	2001 £m	2001 £m	2001 £m	2000 £m
<b>Continuing businesses:</b>				
Electricity distribution	67.9	(15.7)	52.2	26.9
Other businesses	0.7	-	0.7	3.2
Intra business trading	-	-	-	(0.2)
	68.6	(15.7)	52.9	29.9
<b>Discontinued businesses:</b>				
Electricity and gas supply	-	-	-	(9.9)
Infrastructure	-	-	-	5.6
<b>Group operating profit</b>	<b>68.6</b>	<b>(15.7)</b>	<b>52.9</b>	<b>25.6</b>
Income from fixed asset investments			1.3	2.5
Profit on disposal of interests in investments			6.0	3.1
Profit on disposal of group operations			2.8	90.1
<b>Profit before interest</b>			<b>63.0</b>	<b>121.3</b>
Interest receivable			2.9	2.4
Interest payable			(22.0)	(23.3)
<b>Profit on ordinary activities before tax</b>			<b>43.9</b>	<b>100.4</b>

**1(c) Net assets**

	Total 2001	Total 2000
	£m	£m
<b>Continuing businesses:</b>		
Electricity distribution	580.2	563.3
Other businesses	5.9	38.4
<b>Other corporate items</b>	<b>(29.6)</b>	<b>(65.2)</b>
Capital employed	556.5	536.5
Net debt	(301.6)	(127.4)
<b>Net assets</b>	<b>254.9</b>	<b>409.1</b>

**1(d)** Other businesses include the group's property business, which provides services on an arm's length basis to other parts of the group and to third parties.

**1(e)** Other corporate items include dividends, tax and other assets or liabilities which cannot be apportioned to specific business segments.

**1(f) Company profit and loss account**

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these financial statements. The profit after taxation for the year dealt with in the financial statements of the company was £39.2m (2000: £95.5m profit).

**2 Operating profit****2(a) Operating profit is stated after charging/(crediting):**

	Before exceptional items 2001 £m	Exceptional items 2001 £m	Total 2001 £m	Total 2000 £m
<b>Continuing operations:</b>				
Changes in stocks and work in progress	1.4	-	1.4	(0.6)
Staff costs	22.9	-	22.9	27.9
Severance and redundancy costs	-	0.7	0.7	6.0
Depreciation of own assets	31.4	-	31.4	33.1
Amounts written off fixed assets	-	5.5	5.5	49.4
Research and development	0.6	-	0.6	0.4
Rentals under operating leases:				
- operating assets	0.4	-	0.4	0.4
- net rents receivable	(0.1)	-	(0.1)	(0.9)
Fees paid to auditors:				
- audit services	0.1	-	0.1	0.1
- consultancy services	-	5.9	5.9	1.4
Year 2000 costs	-	-	-	0.8
Amortisation of grants and contributions	(4.8)	-	(4.8)	(4.7)
Other operating charges	48.5	3.6	52.1	66.6
Loss on disposal of fixed assets	0.6	-	0.6	0.4
Own work capitalised	(14.7)	-	(14.7)	(23.2)
Net operating expenses	86.3	15.7	102.0	157.1

**2(b) Operating profit is stated after charging/(crediting):**

	Total 2000 £m
<b>Discontinued operations:</b>	
Staff costs	7.4
Severance and redundancy costs	0.5
Depreciation of own assets	5.1
Amounts written off fixed assets	16.8
Research and development	0.2
Fees paid to auditors:	
- consultancy services	0.1
Year 2000 costs	0.1
Other operating charges	45.3
Own work capitalised	(1.0)
Net operating expenses	74.5
Total operating expenses	231.6

Fees of £nil (2000: £43,806) were payable to the auditors for services provided in respect of the disposal of the supply business. These costs have been deducted from the profit on disposal of the business.

Fees of £nil (2000: £7,563) were payable to the auditors for services provided in respect of the disposal of the group's investment in UK Data Collection Services Limited. These costs have been deducted from the profit on disposal of the investment.

### 3 Exceptional items

#### Continuing operations

	2001 £m
Staff severance and early retirement costs (note 3a)	0.7
Release of write down of asset provision (note 3b)	(1.0)
Write down of computer systems (note 3c)	3.5
Other computer system development costs (note 3d)	12.5
	<u>15.7</u>

#### 3(a) Staff Severance and early retirement costs

Following acquisition by WPD Limited a review of the operation has resulted in staff reductions. The effect of this exceptional item on the taxation charge for the period is a reduction of £0.2m.

#### 3(b) Release of Write down of computer systems provision

At 31 March 2000 a provision was carried for the write down of assets due to be rationalised as a result of merging some distribution and water operating systems. Following the acquisition this provision was no longer required.

#### 3(c) Write down of computer systems

Following the acquisition by WPD Limited, WPD South Wales will be using certain of WPD South West's computerised systems. A review of the existing systems has resulted in this write down of systems which have become obsolete. The value is shown net of a capital receipt. The effect of this exceptional item on the tax charge is an increase of £0.1m.

#### 3(d) Other computer system development costs

WPD South Wales had to meet certain regulatory criteria during the year that involved additional development of existing computer systems. The Board considers that the cost of the additional development should be charged to the profit and loss account in the period during which the expenditure is incurred. A charge of £12.5m has been made in the year to 31 March 2001 which included fees paid to the auditors for consultancy work of £5.9m. The effect of this exceptional item on the taxation charge for the period is a reduction of £0.9m.



**4 Directors and employees****4(a) Directors' remuneration**

The combined emoluments of the directors for their services as directors of the group and its subsidiaries are set out below:

	<b>2001</b> <b>£000</b>	<b>2000</b> <b>£000</b>
Salary payments (including benefits in kind)	<b>111.0</b>	265.4
Performance related bonuses	<b>9.0</b>	60.8
Compensation for loss of office	-	236.9

Retirement benefits are accruing to 3 directors (2000: 5 directors) under defined benefit schemes.

**Highest paid Director**

	<b>2001</b> <b>£000</b>	<b>2000</b> <b>£000</b>
Aggregate emoluments and benefits	<b>43.0</b>	78.6
Accrued annual pensions at end of year	<b>32.7</b>	28.9

**4(b) Directors' service contracts**

During the year ended 31 March 2001, R A Symons and D C S Oosthuizen had service contracts with WPD South West, G A Hawker and M P Brooker with Hyder and C A Jones and G W Edwards with Dwr Cymru Cyfyngedig. The group has borne a management charge from Hyder which includes charges for the services of G A Hawker and M P Brooker which have been taken into account within the emoluments above. Also, an element of the operational charge to the group from Hyder Utilities (Operations) Limited relate to the emoluments of C A Jones and G W Edwards which have been included in the above. A management charge has been borne from WPD South West for the services of R A Symons and D C S Oosthuizen. The emoluments included in the management charge are not separately identifiable and therefore have not been included above.

**4(c) Staff costs**

	<b>2001</b> <b>£m</b>	<b>2000</b> <b>£m</b>
Wages and salaries	<b>19.5</b>	30.3
Social security costs	<b>1.8</b>	2.6
Other pension and related costs	<b>1.6</b>	2.5
	<b>22.9</b>	35.4

Of the above, £8.7m (2000: £13.3m) has been charged to capital.

**4(d) Average monthly number of full and part-time employees (including executive directors):**

	<b>2001</b> <b>Number</b>	<b>2000</b> <b>Number</b>
Continuing operations:		
Electricity distribution	805	994
Discontinued operations:		
Energy supply	-	193
Infrastructure	-	85
	<b>805</b>	<b>1,272</b>

**5 Income from fixed asset investments**

	2001 £m	2000 £m
Continuing operations:		
Dividends receivable	1.3	0.1
Discontinued operations:		
Dividends receivable from Teesside Power Limited	-	1.9
Other dividends receivable	-	0.5
	<u>1.3</u>	<u>2.5</u>

**6 Profit on disposal of interests in investments**

	2001 £m	2000 £m
Property disposals	6.0	-
Other activities	-	3.1
	<u>6.0</u>	<u>3.1</u>

**7 Profit on disposal of group operations**

On 17 February 2000 the group sold SWALEC Gas Limited and the electricity supply business of WPD South Wales to British Energy Retail Markets Limited for a consideration of £106.8m.

On 29 March 2000, as part of a reorganisation of the parent Hyder group, WPD South Wales sold a number of subsidiaries to Hyder. These disposals were made for a consideration of £64.0m.

The 1999/2000 profit on disposal of group operations of £90.1m is stated after deducting transaction costs and the value of net assets disposed of or written off, from the gross consideration arising on the two disposals of £170.8m.

The amounts included in the consolidated profit and loss account up to the dates of disposal in respect of all businesses disposed of are disclosed in note 1.

The £2.8m profit in 2000/01 was recognised following the final settlement of the working capital adjustment with British Energy Retail Markets Limited in November 2000.

**8 Interest receivable**

	2001 £m	2000 £m
From fellow subsidiary undertakings	0.1	1.3
On other loans	2.8	1.1
	<b>2.9</b>	<b>2.4</b>

**9 Interest payable**

	2001 £m	2000 £m
To parent company, fellow subsidiary undertakings and associate companies	2.9	8.1
On other loans	19.1	15.2
	<b>22.0</b>	<b>23.3</b>

**10 Taxation**

	2001 £m	2000 £m
<b>Based on the results for the year:</b>		
UK Corporation Tax at 30% (2000: 30%)	5.2	-
Group relief payable	-	9.7
Deferred taxation	-	18.1
	<b>5.2</b>	<b>27.8</b>
<b>Prior year adjustments:</b>		
UK Corporation Tax	(0.6)	(18.0)
Group relief payable	-	2.1
	<b>4.6</b>	<b>11.9</b>

The tax charge has been decreased by £6.1m (2000: increased by £10.1m) in respect of timing differences for which no deferred tax provision is made.

**11 Dividends**

	2001 £m	2000 £m
<b>11(a) Dividends on equity shares:</b>		
First interim paid of 198.7p per ordinary share (2000: 8.1p)	190.0	7.7
Second interim paid of nil p per ordinary share (2000: 33.5p)	-	32.0
Final proposed of nil p per ordinary share (2000: 16.1p)	-	15.4
	<u>190.0</u>	<u>55.1</u>
<b>11(b) Dividends on non-equity shares:</b>		
Paid on 7% preference shares	<u>3.5</u>	<u>3.5</u>

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## 12 Tangible fixed assets

<u>Group</u>	<u>Freehold land &amp; buildings</u> £m	<u>Leasehold properties</u> £m	<u>Distribution network assets</u> £m	<u>Vehicles, mobile plant &amp; equipment</u> £m	<u>Total</u> £m
<b>Cost or valuation</b>					
At 1 April 2000	14.9	0.8	964.0	48.9	1,028.6
Additions	-	-	49.4	8.4	57.8
Acquisition of subsidiary	-	-	-	1.5	1.5
Amounts written off	-	-	-	(17.2)	(17.2)
Disposals	(12.3)	-	(1.9)	-	(14.2)
<b>At 31 March 2001</b>	<b>2.6</b>	<b>0.8</b>	<b>1,011.5</b>	<b>41.6</b>	<b>1,056.5</b>
<b>Depreciation</b>					
At 1 April 2000	4.0	-	299.3	32.0	335.3
Charge for the year	-	-	26.8	4.6	31.4
Acquisition of subsidiary	-	-	-	0.6	0.6
Amounts written off	-	-	-	(11.7)	(11.7)
Disposals	(3.0)	-	(1.3)	-	(4.3)
<b>At 31 March 2001</b>	<b>1.0</b>	<b>-</b>	<b>324.8</b>	<b>25.5</b>	<b>351.3</b>
<b>Net book value</b>					
<b>At 31 March 2001</b>	<b>1.6</b>	<b>0.8</b>	<b>686.7</b>	<b>16.1</b>	<b>705.2</b>
At 31 March 2000	10.9	0.8	664.7	16.9	693.3

<u>Company</u>	<u>Freehold land &amp; buildings</u> £m	<u>Leasehold properties</u> £m	<u>Distribution network assets</u> £m	<u>Vehicles, mobile plant &amp; equipment</u> £m	<u>Total</u> £m
<b>Cost or valuation</b>					
At 1 April 2000	14.9	0.8	964.0	48.9	1,028.6
Additions	-	-	49.4	8.4	57.8
Amounts written off	-	-	-	(15.7)	(15.7)
Disposals	(12.3)	-	(1.9)	-	(14.2)
<b>At 31 March 2001</b>	<b>2.6</b>	<b>0.8</b>	<b>1,011.5</b>	<b>41.6</b>	<b>1,056.5</b>
<b>Depreciation</b>					
At 1 April 2000	4.0	-	299.3	32.0	335.3
Charge for the year	-	-	26.8	4.6	31.4
Amounts written off	-	-	-	(11.1)	(11.1)
Disposals	(3.0)	-	(1.3)	-	(4.3)
<b>At 31 March 2001</b>	<b>1.0</b>	<b>-</b>	<b>324.8</b>	<b>25.5</b>	<b>351.3</b>
<b>Net book value</b>					
<b>At 31 March 2001</b>	<b>1.6</b>	<b>0.8</b>	<b>686.7</b>	<b>16.1</b>	<b>705.2</b>
At 31 March 2000	10.9	0.8	664.7	16.9	693.3

## 12 Tangible fixed assets (Continued)

Land and buildings, which are offices, depots and other sites not dedicated to the distribution of electricity, were valued at 31 March 2000 by Messrs. Cooke & Arkwright, a firm of Chartered Surveyors, on the basis of open market value for existing use. These valuations have been adopted in the historical cost accounts only in those cases where individual properties are valued at below historical cost net book value.

The offices and service centres were sold to Hyder Limited at the March 2000 market value during the year.

Distribution network assets include assets leased to third parties under operating leases. The cost of these is £3.8m (2000: £3.8m) and accumulated depreciation amounts to £1.4m (2000: £1.1m).

Leasehold properties are all held on long term leases.

Included in tangible fixed assets at 31 March 2001 are assets in the course of construction amounting to £57.5m (2000: £56.8m).

## 13 Investment properties

	<u>Group and Company</u>	
	<b>2001</b>	<b>2000</b>
	<b>£m</b>	<b>£m</b>
At 1 April 2000	<b>10.9</b>	9.4
Adjustment to open market value	-	1.5
Disposals	<b>(10.9)</b>	-
<b>At 31 March 2001</b>	<b>-</b>	<b>10.9</b>

In accordance with SSAP 19, "accounting for investment properties", investment properties are revalued annually by independent property consultants. No provision is made for depreciation of investment properties. This departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated is, in the opinion of the directors, necessary for the financial statements to show a true and fair view in accordance with applicable accounting standards.

On 14 April 2000 the investment properties were sold at market value to Hyder Limited which at the date of disposal was the ultimate holding company. Investment properties comprise £nil (2000: £10.9m) freehold properties.

**14 Investments**

**14 (a) Investment in Joint Ventures**

During the year, the group acquired an additional 50% of the issued share capital of Hyder Utilities Operations Limited for a nominal value. The acquisition is not material to the group therefore no fair value table has been included on the grounds of materiality.

**14 (b) Other Investments**

<b>Group and company</b>	<b>Unlisted investments £m</b>
<b>Cost</b>	
At 1 April 2000	-
Additions	0.1
<b>At 31 March 2001</b>	<b>0.1</b>
<b>Net book value at 31 March 2001</b>	<b>0.1</b>
Net book value at 31 March 2000	-

**15 Stocks and work in progress**

	Group and Company	
	2001 £m	2000 £m
Raw materials and consumables	1.4	3.5
Work in progress	2.7	2.0
	<b>4.1</b>	<b>5.5</b>

The replacement cost of stocks is not materially different from their carrying value.

**16 Debtors**

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<b>Amounts falling due within one year:</b>				
Trade debtors	16.3	19.5	14.8	19.5
Amounts owed by group undertakings	-	7.8	-	7.8
Other debtors	1.6	4.0	1.5	4.0
Prepayments and accrued income	23.9	20.9	23.9	20.9
	<b>41.8</b>	<b>52.2</b>	<b>40.2</b>	<b>52.2</b>

**17 Current asset investments**

Investment in:	Group and Company	
	2001 £m	2000 £m
Fixed term and call deposits	14.2	19.6
<b>Amounts becoming due:</b>		
Within one year	14.2	19.6



## 18 Creditors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
(a) <b>Amounts falling due within one year:</b>				
Payments received on account	7.5	6.3	7.5	6.3
Bank overdraft	15.0	-	-	-
Other trade creditors	6.1	4.4	5.8	4.4
Amounts owed to joint venture	-	7.4	-	7.4
Amounts owed to group undertakings	-	0.2	14.0	0.2
Amounts owed to parent company	0.2	1.9	0.2	1.9
Dividends payable	-	15.4	-	15.4
Corporation tax	2.7	1.2	2.7	1.2
Other taxes and social security	3.7	5.7	3.6	5.7
Other creditors	7.0	14.8	6.9	14.8
Accruals	16.3	10.6	16.3	10.6
	<b>58.5</b>	<b>67.9</b>	<b>57.0</b>	<b>67.9</b>

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
(b) <b>Amounts falling due after more than one year:</b>				
9.25% Eurobonds 2020 (note 19)	148.0	147.9	148.0	147.9
Loan from group undertaking (note 18(c))	153.7	-	153.7	-
Accruals	-	0.6	-	0.6
Refundable consumers' contributions	2.9	4.0	2.9	4.0
	<b>304.6</b>	<b>152.5</b>	<b>304.6</b>	<b>152.5</b>

- (c) The loan from the group undertaking which is unsecured is due for repayment on 15 December 2005. Interest is payable on 15 December annually at the rate of 6.47% per annum.

**19 Loans**

<u>Group and company</u>	<u>Interest rate %</u>	<u>Net proceeds £m</u>	<u>Issue costs £m</u>	<u>Premium on issue £m</u>	<u>Nominal Value £m</u>	<u>Unamortised amount £m</u>	<u>Carrying value £m</u>
Eurobond 2020	9.25	147.8	3.9	1.7	150.0	2.0	148.0

Net issue costs totalling £2.2m incurred in relation to the Eurobond are credited to the net proceeds at a constant annual rate over its life, in accordance with the Financial Reporting Standard No. 4 - Capital Instruments.

The Eurobond loan is unsecured.

**20 Maturity of financial liabilities**

The maturity profile of the group's long term borrowings, preference shares and other financial liabilities, was as follows:

	<u>2001 £m</u>	<u>2000 £m</u>
<b>Long term borrowings:</b>		
In more than five years	148.0	147.9
<b>Preference shares:</b>		
In more than five years	50.0	50.0
<b>Other financial liabilities:</b>		
In more than one year but not more than two years	1.0	1.6
In more than two years and less than five year	154.1	-
In more than five years	1.5	3.0
	<u>354.6</u>	<u>202.5</u>

**21 Financial instruments and risk management**

The treasury activities of WPD South Wales during the year were managed centrally by the Hyder treasury team, within a formal set of treasury policies and objectives which are regularly reviewed. The policy specifically prohibits any transactions of a speculative nature and does not envisage the use of complex financial instruments. Surplus cash is invested in short to medium term sterling financial investments. The policy establishes the investment criteria which are restricted to banks or other institutions meeting required standards assessed by reference to the major credit rating agencies.

The Hyder policy was to finance operating subsidiaries by a mixture of retained profits, bank borrowings, finance leases and long term loans. The aim is to keep the greater proportion of gross borrowings at fixed rates of interest. A major objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings. In addition, the practice is to maintain adequate undrawn committed facilities. Short term flexibility is achieved by managing an investment portfolio of short term money market deposits and commercial paper purchases.

Short term debtors and creditors have been excluded from all the following disclosures.

**21(a) Interest rate swaps**

The company had entered into interest rate swap arrangements in order to manage interest rate exposure and not for trading or speculative purposes.

At 31 March 2000 the company's outstanding interest rate swap arrangements had a notional principal balance of £50m, termination dates ranging between 14 June 2005 and 1 September 2005, and interest rates ranging between 8.18% and 8.35%. Following the acquisition of the company by WPD Limited these arrangements were terminated on 22 November 2000. The termination was by a combination of cancellation and assignment at a cost of £4.7m (see note 21 (g) ).

**21(b) Credit facilities**

By deed of accession WPD South Wales has access to committed bilateral borrowing facilities which expire in August 2002. Undrawn committed borrowing facilities were:

	2001 £m	2000 £m
Committed borrowing facilities available	45.0	450.0
Drawn down as at 31 March	(13.4)	(10.8)
Expiring after more than one year but not more than two years	31.6	439.2

**21(c) Currency and interest rate profile of financial liabilities**

After taking into account the interest rate swap arrangements entered into by the group, the fixed and floating interest rate profile of the group's financial liabilities by currency was as follows:

Currency	Note	Total 2001 £m	Total 2000 £m	Fixed rate 2001 £m	Fixed rate 2000 £m
Sterling:					
Long term borrowings	18(b)	(148.0)	(147.9)	(148.0)	(147.9)
Preference shares	26	(50.0)	(50.0)	(50.0)	(50.0)
Loan from group undertaking	18(b)	(153.7)	-	(153.7)	-
Other financial liabilities	18(b)	(2.9)	(4.6)	-	-
		(354.6)	(202.5)	(351.7)	(197.9)

No interest is charged on the other financial liabilities.

**21(d) Interest rate profile of financial liabilities**

Currency	Weighted average interest rate 2001 %	2000 %	Weighted average period for which rate is fixed 2001 Years	2000 Years
Sterling:				
Long term borrowings	9.25	9.25	19.70	20.70
Loan from group undertaking	6.47	-	4.75	-
Preference shares	7.00	7.00	-	-

The figures in the above table take into account the interest rate swaps used to manage the group's fixed interest rate profile. No interest is charged on the other financial liabilities.

**21(e) Currency and interest rate profile of financial assets**

	Cash less bank overdraft	Short term deposits (note 17)	Total	Cash	Short term deposits (note 17)	Total
	2001 £m	2001 £m	2001 £m	2000 £m	2000 £m	2000 £m
Sterling	(14.1)	14.2	0.1	0.9	19.6	20.5
Fixed rate	(14.1)	14.2	0.1	0.9	19.6	20.5

The sterling money market deposits above comprise deposits placed on money markets from overnight to one month. All the investments in commercial paper are at fixed interest rates. The weighted average interest rate on commercial paper and money market deposits is 6.04% (2000: 5.43%) and the weighted average time for which they are held is 3 days (2000: 3 days). These assets are held as part of the financing arrangements of the group.

Cash generated from operating activities during the year was invested on a daily basis by Hyder, under an agency agreement, in money market investments. These investments were made with banks rated at least AA in the form of short term deposits.

**21(f) Fair values of financial instruments**

In the table below the fair value of current asset investments and cash at bank and in hand approximates to book values due to the short maturity of these instruments.

The fair value of long term borrowings has been determined by reference to prices available from the financial markets on which these borrowings are traded. The fair value fundamentally represents the change in anticipated future interest rates to the dates of maturity of the borrowings, between the date those long term borrowings were raised and the year end. The fair value of interest rate swaps are based on market prices of comparable investments.

	Note	Book value 2001 £m	Fair value 2001 £m	Book value 2000 £m	Fair value 2000 £m
<b>Primary financial instruments held or issued to finance the group's operations</b>					
Long term borrowings	18(b)	(148.0)	(193.8)	(147.9)	(192.0)
Preference shares	26	(50.0)	(50.0)	(50.0)	(50.0)
Loan from group undertaking	18(b)	(153.7)	(153.7)	-	-
Other financial liabilities	18(b)	(2.9)	(2.9)	(4.6)	(4.6)
Current asset investments	17	14.2	14.2	19.6	19.6
Overdraft and cash at bank		(14.1)	(14.1)	0.9	0.9
		(354.5)	(400.3)	(182.0)	(226.1)
<b>Derivative financial instruments held to manage the interest rate profile and not matched by a primary financial instrument</b>					
Interest rate swaps		-	-	-	(3.5)
		(354.5)	(400.3)	(182.0)	(229.6)

## 21(g) Losses on derivative financial instruments

The fair value of losses on derivative financial instruments is recognised in the financial statements within interest payable as per note 9 and are analysed below:

	Total net gains/(losses) £m
At 1 April 2000	(3.5)
Losses in 2000/01	(1.2)
Recognised in 2000/01 income	4.7
At 31 March 2001	-

## 22 Capital commitments

Capital expenditure contracted, but not provided for at 31 March 2001, amounted to £8.3m (2000: £22.6m). In order to meet continuing quality and service standards, together with growth and new demands, WPD South Wales has capital investment obligations over the next five years amounting to approximately £250m at current prices in the distribution business.

## 23 Leasing commitments

At 31 March, the following annual commitments were in place for operating leases expiring:

	Group & Company	
	Land & Buildings	
	2001	2000
	£m	£m
Within one year	0.1	0.1
Between one and two years	-	0.1
In the second to fifth year inclusive	-	0.1
In more than five years	0.1	0.8
	0.2	1.1

**24 Provisions for liabilities and charges**

	Note	Group and company	
		2001 £m	2000 £m
Deferred taxation	(a)	18.0	18.0
Insurance	(b)	0.7	1.0
Reorganisation and severance	(c)	1.0	5.1
Pension	(d)	0.8	1.3
Other	(e)	4.6	8.1
		<b>25.1</b>	<b>33.5</b>

**24(a) Deferred taxation**

	Group and company	
	2001 £m	2000 £m
<b>Tax effect of timing differences</b>		
<b>Amount provided:</b>		
Capital gains	18.0	18.0
<b>Amount not provided:</b>		
Excess of tax allowances over depreciation	109.6	100.6
Other - capital gains	2.7	2.8
Other	(2.7)	(4.4)
	<b>109.6</b>	<b>99.0</b>

**24(b) Insurance**

	Group and company	
	2001 £m	2000 £m
At 1 April	1.0	1.1
Claims provided	0.4	0.4
Claims paid	(0.7)	(0.5)
<b>At 31 March</b>	<b>0.7</b>	<b>1.0</b>

Cover against certain environmental risks, employer, motor and public liability risks is provided by Brecon Insurance Company Limited, a wholly owned subsidiary of Hyder.

**24(c) Reorganisation and severance**

<u>Group and company</u>	<b>2001 £m</b>	<b>2001 £m</b>	<b>2001 £m</b>	<b>2001 £m</b>
	<b>Severance</b>	<b>Property</b>	<b>Other</b>	<b>Total</b>
At 1 April	3.1	0.8	1.2	5.1
Charge to profit and loss account	0.5	-	-	0.5
Released in year	-	-	(1.0)	(1.0)
Utilised in year	(3.1)	(0.3)	(0.2)	(3.6)
<b>At 31 March</b>	<b>0.5</b>	<b>0.5</b>	<b>-</b>	<b>1.0</b>

This provision is in respect of payments to be made relating to the restructuring of the business and is expected to be utilised over the next 12 months.

**24(d) Pensions**

	<u>Group and company</u>	
	<b>2001 £m</b>	<b>2000 £m</b>
At 1 April	1.3	1.7
Released in year	(0.5)	(0.4)
<b>At 31 March</b>	<b>0.8</b>	<b>1.3</b>

This provision relates to retirement abatements and the "Barber" provisions, which are expected to be utilised during the next 18 months.

**24(e) Other**

	<u>Group and company</u>	
	<b>2001 £m</b>	<b>2000 £m</b>
At 1 April	8.1	8.6
Charge to profit and loss account	-	1.7
Released in year	(1.6)	(1.9)
Utilised in year	(1.9)	(0.3)
<b>At 31 March</b>	<b>4.6</b>	<b>8.1</b>

This provision relates to penalties or claims against the group. It is anticipated that the provisions will be utilised during the next 12 months.

**25 Deferred income**

	<u>Group and company</u>	
	<b>2001 £m</b>	<b>2000 £m</b>
At 1 April 2000	119.4	115.0
Receivable during the year	8.6	9.2
Released to profit and loss account	(4.8)	(4.7)
Released to profit and loss account on disposal of subsidiary	-	(0.1)
<b>At 31 March 2001</b>	<b>123.2</b>	<b>119.4</b>

**26 Called up share capital**

	2001 £m	2000 £m
<b>Authorised:</b>		
150,000,000 ordinary shares of 50p each (2000: 150,000,000)	75.0	75.0
50,000,000 preference shares (7% net) of £1 each (2000: 50,000,000)	50.0	50.0
	<b>125.0</b>	<b>125.0</b>
	2001 £m	2000 £m
<b>Allotted, called up and fully paid:</b>		
95,606,306 ordinary shares of 50p each (2000: 95,606,306)	47.8	47.8
50,000,000 preference shares (7% net) of £1 each (2000: 50,000,000)	50.0	50.0
	<b>97.8</b>	<b>97.8</b>

The 7% cumulative preference shares carry a fixed dividend. Dividends are payable every six months, in arrears, on 31 March and 30 September. The shares have no redemption entitlement. On a winding up, the holders have priority before all other classes of shares to receive repayment of capital plus any arrears of dividend. The holders have no voting rights unless the dividend is in arrears.

**27 Share premium account**

	£m
At 1 April 2000 and 31 March 2001	<b>23.2</b>



## 28 Reserves

Group	Profit & loss account £m	Investment Property £m	Capital Redemption Reserve £m	Total £m
At 1 April 2000	274.0	9.0	5.1	288.1
Transfers during the year	9.0	(9.0)	-	-
Retained loss for the year	(154.2)	-	-	(154.2)
<b>At 31 March 2001</b>	<b>128.8</b>	<b>-</b>	<b>5.1</b>	<b>133.9</b>

Company	Profit & loss account £m	Investment Property £m	Capital Redemption Reserve £m	Total £m
At 1 April 2000	274.0	9.0	5.1	288.1
Transfers during the year	9.0	(9.0)	-	-
Retained loss for the year	(154.3)	-	-	(154.3)
<b>At 31 March 2001</b>	<b>128.7</b>	<b>-</b>	<b>5.1</b>	<b>133.8</b>

## 29 Pensions

WPD South Wales and each of its subsidiaries participate in two principal funded pension schemes: the South Wales section of the Electricity Supply Pension Scheme (the "ESPS"), providing pension and related benefits on a final salary basis and the INFRALEC 1992 Pension Scheme (the "1992 Scheme"), providing benefits on both a money purchase and final salary basis. Most of the staff employed by WPD South Wales and each of its subsidiaries as at 31 March 2001 are members of the ESPS, which became closed to new entrants after 31 October 1992 but which, since acquisition, has reopened. ESPS was replaced by the 1992 Scheme. In addition, some employees are members of the Hyder Water Pension Scheme (the "HWPS"), the Water Mirror Image Pension Scheme (the "WMIS") and the Acer group Pension Scheme (the "AGPS"). Each of HWPS, WMIS and AGPS are defined benefit schemes. The assets of all of the schemes within which the group participates are held separately from the assets of the group and are administered by trustees.

The total pension cost for the period was £1.6m (2000: £2.5m).

### Electricity Supply Pension Scheme

A full actuarial valuation of the WPD South Wales section of the ESPS was carried out by Bacon and Woodrow as at 31 March 1998 and the results have been used as the basis for assessing pension costs and future contributions. The attained age actuarial method was used and the principal actuarial assumptions adopted were: an investment return averaging 8.5% per annum; salary increases (exclusive of merit awards) of 6% per annum; future pension increases of 4.5% per annum; dividend growth on equity investments of 4.75% per annum; and an average retirement age of 60. The market value of the assets (excluding AVCs) of the WPD South Wales section of ESPS at the valuation date was £526.3m.

The valuation showed that, following a number of agreed benefit improvements, the actuarial value of the section's assets represented 110% of the actuarial value of the accrued benefits, allowing for future salary increases for active members. In deriving the pension cost under Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs" ("SSAP24"), the scheme surplus is being recognised as a reduction to costs over the future remaining working lifetime of the employees, and to cover short term early retirement costs.

An actuarial valuation as at 31 March 2001 is currently being undertaken; the results are not yet available.

### The 1992 Scheme

The last actuarial valuation of the 1992 Scheme was carried out by Bacon & Woodrow as at 31 March 2000. The value of the scheme assets was £9m as at that date. The projected unit credit actuarial method was used and the main actuarial assumptions used were: a pre retirement investment return of 6.5% per annum and a post - retirement investment return of 5.5% per annum; salary increases (exclusive of merit awards) of 4% per annum; increases to pensions in payment of 3% per annum; and an average retirement age of around 62.5.

The valuation showed that the actuarial value of the assets of the final salary section represented 107% of the actuarial value of the accrued benefits, allowing for future salary increases for active members. In deriving the pension cost under SSAP24, the scheme surplus is being recognised as a reduction to costs over the future remaining working lifetime of the employees.

### Hyder Water Pension Scheme and Water Mirror Image Pension Scheme

The pension cost for the HWPS and WMIS has been assessed in accordance with the advice of William M. Mercer Limited, consulting actuaries, using the projected unit method for HWPS and the attained age method for WMIS. For funding purposes the main actuarial assumptions used are based upon investment growth of 6.5% per annum, pay growth of 4.5% per annum and increases to pensions in payment and deferred pensions of 3% per annum.

The last actuarial valuations for HWPS and WMIS were carried out as at 31 March 1998 with the market values being £324.6m and £99.9m respectively. Using the assumptions adopted for SSAP24, the actuarial value of assets represented 113% for HWPS and 118% for WMIS of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the surpluses in HWPS and WMIS are spread over the future working lifetime of employees.

### **Acer Group Pension Scheme**

The employer's contributions and pension cost for AGPS has been assessed in accordance with the advice of Buck Consultants Limited using the projected unit method. For this purpose the main actuarial assumptions used are based upon investment growth of 7.5% per annum, pay growth of 4.5% per annum and increases to pensions in payment of 3.5% per annum.

The latest actuarial valuation was carried out as at 1 May 1999 with the market value of the assets being £55.0m. Using the assumptions adopted for SSAP24 the actuarial value of the assets represented 94% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the deficit in the scheme is being spread over the future working lifetime of employees by way of increased employer's contribution rates.

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### **30 Related party transactions**

In accordance with the exemption afforded by Financial Reporting Standard No. 8 there is no disclosure in these financial statements of transactions with entities that are part of the WPD Holdings UK group.

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### **31 Cash flow statement**

A cash flow statement is not presented since WPD Holdings UK, the parent company, has prepared a consolidated cash flow statement, including the cash flows of this group, in accordance with the Financial Reporting Standard No. 1 (revised).

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### **32 Parent and ultimate parent company**

The immediate parent company is Hyder Industrial Group Limited. At 31 March 2001, the ultimate UK parent company was WPD Holdings UK. Both companies are registered in England and Wales.

Copies of WPD Holdings UK's report and financial statements are available from the Company Secretary, Avonbank, Feeder Road, Bristol, BS2 OTB.

The ultimate controlling parties are Mirant Corporation and PPL Corporation, both registered in the United States, who have equal control of WPD Holdings UK.

On 11 September 2001, the two ultimate controlling parties agreed on a group reconstruction. WPD 1953 Limited is now the ultimate UK holding company. The rights of the two US parents remain unchanged.

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