WESTERN POWER DISTRIBUTION (SOUTH WALES) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2002

Western Power Distribution (South Wales) plc is an integral part of a larger UK group. The structure of the group is such that the financial statements of Western Power Distribution (South Wales) plc must be read in conjunction with the group financial statements of Western Power Distribution Holdings Limited to gain a full understanding of the group results for the year and the related cash flows, together with the financial position of the group as at 31 March 2002.

Registered Number: 2366985

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For the year ended 31 March 2002

Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales", formerly South Wales Electricity plc), trading as Western Power Distribution, is an integral part of a larger UK group. *The structure of the group is such that the financial statements of the Company must be* read in conjunction with the group financial statements of Western Power Distribution Holdings Limited to gain a full understanding of the group results for the year and the related cash flows, together with the financial position of the group as at 31 March.

Background

Western Power Distribution (South Wales) plc ("WPD South Wales"), formerly South Wales Electricity plc, was part of the Hyder Limited group ("Hyder", formerly Hyder plc). On 15 September 2000, control of the Hyder group was acquired by WPD Limited. Both WPD Limited and Western Power Distribution Holdings Limited have the same ultimate ownership. Both are owned 49% indirectly by Mirant Corporation ("Mirant"), a global energy company based in Atlanta, Georgia, United States of America ("US"), and 51% indirectly by PPL Corporation ("PPL"), an electricity utility of Allentown, Pennsylvania, US. Both parties share operational and management control equally.

On 12 March 2001, the Hyder group was restructured such that WPD South Wales became a subsidiary of another company in the Hyder group, Hyder Industrial Group Limited ("HIG"). On 16 March 2001, HIG was transferred from the Hyder group to the Western Power Distribution Holdings Limited group ("WPD Group").

WPD South Wales owns and operates the electricity distribution network in South Wales.

The Annual Report and Financial Statements of Western Power Distribution Holdings Limited are thus the only financial statements to give an overall picture of the operations and results of the group.

Reconciliation to group results

In accordance with UK generally accepted accounting principles, the results of WPD South Wales have been consolidated into the results of the WPD Group for the year ended 31 March 2002 as detailed below :

	2002 **£m**
Profit for WPD South Wales (as shown on page 10)	**37.0**
Profit for WPD South West *	**86.6**
Profit for other WPD group subsidiaries *	**27.1**
Consolidation adjustments - additional depreciation on acquisition revaluations, etc.	**(48.4)**
SIUK plc company results * - primarily interest expense	**(3.7)**
WPD Holdings UK company results * - primarily interest expense	**(40.3)**
Group profit for the financial year	**58.3**
Dividends declared to the group's shareholders	**(140.7)**
Amounts transferred from reserves	**(82.4)**

* Intra-group dividends are excluded from the above as, under UK generally accepted accounting principles, they are eliminated on group consolidation.

Directors' report

For the year ended 31 March 2002

The directors present their annual report on the affairs of Western Power Distribution (South Wales) plc (the "Company" or "WPD South Wales"), together with the financial statements and auditors' report, for the year ended 31 March 2002.

Ownership

Western Power Distribution Holdings Limited is the parent of the WPD Group which includes WPD South Wales. Until 16 March 2001, WPD South Wales was an indirect subsidiary of Hyder. In September 2000, Hyder was acquired by WPD Limited which has the same ultimate ownership as Western Power Distribution Holdings Limited. As part of the restructuring of the Hyder group, on 16 March 2001 WPD South Wales was transferred to the WPD Group. This group also owns Western Power Distribution (South West) plc ("WPD South West", formerly South Western Electricity plc).

Both the WPD Group and Hyder are owned 49% indirectly by Mirant and 51% indirectly by PPL. Both parties share operational and management control equally. Western Power Distribution Holdings Limited is the UK parent of the group whose principal operating activity during 2002 was conducted by WPD South Wales and WPD South West.

Principal activities

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

Business review

The final outcome of the distribution price control review was announced in December 1999. The price control is effective for a five year period from 1 April 2000. 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. Cost savings have been achieved through the sharing of systems and facilities by the two distribution businesses now owned by the WPD Group. Further savings have been achieved through the introduction of an engineering team structure based upon that within WPD South West.

WPD South Wales met the regulatory requirement that all distribution businesses must be separate from their local supply company by April 2002. Under the new licence conditions introduced by the Utilities Act 2000, it was decided to make an official name change. Therefore, from 1 August 2001, South Wales Electricity plc became Western Power Distribution (South Wales) plc.

Foot and mouth epidemic

The foot and mouth epidemic which devastated farming, tourism and rural businesses across much of the UK also posed a number of operational problems for WPD South Wales during the year. Stringent restrictions on access to land imposed by council authorities and MAFF - the agricultural ministry - had a significant impact on our operations. Most work on our maintenance and refurbishment of rural networks had to be put on hold for at least 50% of the year. During the foot and mouth outbreak, work activity was concentrated on underground cable and roadside overhead work in urban areas, towns and villages.

Business integration

The main focus for the year was the completion of the integration of WPD South Wales into its existing operation in the South West of England.

Business review (continued)

During the year, the restructuring of the electricity business in South Wales was completed to exactly mirror the team based engineering structure that already successfully operates in WPD South West. A Network Services Manager was appointed for South Wales along with a team of six Distribution Managers, each of whom is responsible for an area and a group of geographically based teams. All network services staff in Wales have now been allocated to one of these teams.

Joint goals and targets were established for the Company, which allow everyone to contribute to the success of the organisation. Every member of staff was sent a letter outlining the 'top ten' priorities for the year. In both companies, the focus centred on customer service, delivering exceptional network performance and being financially prudent.

To deliver the improved network performance in South Wales, a number of successful initiatives from WPD South West were replicated and implemented during 2000/01. Two of the key programmes continued in 2001/02 were:

Tree Trimming

A managed tree-trimming programme was introduced into South Wales. The WPD Group carried out a competitive tendering process across the whole of the South West and South Wales to ensure we maximise value for money.

Tree maintenance is essential for protecting the reliability of power supplies to customers. With the easing of foot and mouth restrictions, an extensive programme of tree trimming was begun across South and West Wales in the latter part of 2001. Over £6m was spent during the year. This programme will continue for some time.

WPD South Wales uses suitably qualified contractors who have obtained all the British Standard certificates of competence. In addition, we have independent qualified arborists to check the contractors' work and ensure that high standards are maintained.

ENMAC Network Management System

ENMAC ensures that the Company has network control data at its fingertips, and can automatically update the call centre, relay electronic messages to customers, and increase flexibility for control centre staff.

We installed the latest version of the ENMAC network management system into WPD South Wales to bring it into line with the system in use in WPD South West. This allows the control room to monitor all 250 primary and grid substations in South Wales, which are fully integrated with a SCADA (System Control and Data Acquisition) system, also known as telecontrol. This allows equipment at substations to be closely monitored and remotely operated. The system also incorporates a trouble-call system that monitors the network and any "no-supply" calls from customers, and then matches the two together.

As technology continues to improve, it means we are well placed to provide a better service to our customers. New improved versions of ENMAC will be introduced during the latter part of 2002.

Live Working

Additional "Hot Gloving" vehicles were also introduced to allow more live line working. This reduces interruptions to the supply.

Directors' report

For the year ended 31 March 2002

Business review (continued)

Customer Service

During the year, the WPD Group was awarded the Charter Mark for outstanding customer service provision.

The award is the Government's top seal of approval for service excellence and followed a rigorous and detailed assessment of the WPD Group's operations as well as interviews with the Group's main customers.

In particular, Charter Mark assessors singled out "target 60", a unique WPD Group initiative that goes beyond the regulatory requirement, empowering staff to ensure the maximum number of customer supplies is restored within one hour of a fault occurring.

Streamlining of call centres was also completed and all call centre operations in South Wales are now outsourced to an external company. This ensures that we improve the quality and speed of our response to our customers. The company we use has already provided call centre services to WPD South West for a number of years and has recently won a top European award and been given the title of "best multi service call centre".

The overall industry regulator is the Gas and Electricity Markets Authority (known as "Ofgem"). A new watchdog group was established during the year, the Gas and Electricity Consumer Council (known as "*energywatch*"). *energywatch* replaced the South Wales Electricity Consumers' Committee, which had been active in South Wales for nearly 11 years. The new arrangements were introduced as part of the Government's drive to protect customer interests via the Utilities Act 2000. *energywatch* took over the role of complaint handling and customer representation. The Company has worked hard with the new regulatory body to ensure that we establish an effective and positive working relationship. During the year, customer complaints to *energywatch* fell for the Company by 100% from 49 in the twelve months to March 2001 compared to nil in the twelve months up to March 2002. WPD Group maintained its position as number one for fewest complaints to *energywatch*.

Capital investment

Investment during 2001/02 was £58.2m (2000/01: £57.8m) across South Wales and included the replacement of overhead lines, replacement of switchgear, and the introduction of new technology.

During 2001/02, we continued our focus on capital programmes to further improve reliability, system performance and customer service.

Over 900 metres of coastal road and verges were dug up to lay replacement double-circuit 132kV cable, including a section under the main Llanelli-Carmarthen railway line. The work was carried out in conjunction with the Welsh Development Agency and Carmarthenshire County Council as part of the millennium work on the Llanelli Coastal Park; the Queen is scheduled to visit the site in June 2002.

Business review (continued)

Performance

A combination of continued investment and close monitoring of goals and targets is ensuring that WPD South Wales continues to improve in all areas of network performance and that the early plans implemented have paid off. Among the highlights are:

Network reliability
Minutes Lost per customer 2000/01 - 123.3
Minutes Lost per customer 2001/02 - 90.6
Improvement – 27%

Interruptions per 100 customers 2000/01 - 158.2
Interruptions per 100 customers 2001/02 - 128.5
Improvement – 19%

More than 94.2% of customers in WPD South Wales who lost their supply were restored in less than three hours – beating the Ofgem target of 85%. More than 72.3% were in fact restored within one hour of a fault occurring.

Among the initiatives identified for the coming year are:

- installation of more automatic switchgear in rural areas
- increasing the number of protective devices on the network thus reducing the number of customers affected by a fault
- a continued drive on line refurbishment and tree trimming.

WPD Group and the environment

The WPD Group has developed systems to capture data on greenhouse emissions using the guidelines issued by the UK Government's Department of Environment, Food and Rural Affairs, and prepared a report. It has updated its Environmental Policy to reflect its current areas of operation.

The WPD Group has had no prosecutions or notice of intended prosecution for any environmental matter during the reporting year.

Regulatory issues

One of the more significant priorities for the year was to monitor and aim to influence Ofgem's Information and Incentive Project ("IIP"). This initiative, which commenced in April 2002, can lead to an increase or reduction in revenue of up to two per cent depending on performance. The incentives for distribution companies focus on three main areas:

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

Directors' report

For the year ended 31 March 2002

Results and dividends

The profit for the financial year 2002 was £37.0m (2001 : £36.2m). The profit for 2001 has been restated - see Note 1.

Dividends on equity shares totalling £17.0m (2001: £190.0m) have been declared by the Company during the year. The WPD Group is structured such that much of the debt outstanding is owed by the holding companies. Dividend payments from the Company include those used to enable the holding companies to make interest payments. Dividends totalling £3.5m (2001: £3.5m) were charged on non-equity preference shares.

Payment of creditors

The Company's policy in respect of its suppliers (other than those providing electricity utility supplies and services) is to require suppliers to accept our terms which are displayed on our official orders unless alternative terms of mutual benefit can be agreed. The average length of time for the payment of creditors during 2002 was 21 days.

Charitable and political contributions

During the year ended 31 March 2002, donations of £57,000 were made by the Company to community organisations of which £21,000 was donated to charities. No contributions were made for political purposes. In addition, WPD South West established a charitable foundation in 1996 with a £1.0m donation. In May 2001, Hyder Limited, which is under the same ultimate ownership as the WPD group, donated a further £1.0m to the foundation. The foundation made donations of £78,000 in 2002.

Equal opportunities

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

Employee consultation

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

Directors' report

For the year ended 31 March 2002

Directors and their interests

The directors who served during the year were as follows :

	Appointed	Resigned
RA Symons, Chief Executive	15 September 2000	-
DCS Oosthuizen, Finance Director	4 January 2001	-
ME Fletcher, Resources and External Affairs Director	17 May 2001	-
GJ Miles	31 January 1996	28 September 2001

During and at the end of the financial year, no director was materially interested in any contract of significance in relation to the Company's business. At 31 March 2002, no director had a beneficial interest in any of the WPD Group companies other than service contracts.

Regulatory financial statements

As a condition of its Electricity Distribution Licence, the Company is required to prepare and publish separate financial statements for its distribution business for each year ending 31 March. These are expected to be available after 30 September 2002.

Auditors

During the year, PricewaterhouseCoopers resigned as auditors and Arthur Andersen were appointed by the directors to fill the casual vacancy. Their appointment as auditors will be put before the Annual General Meeting. Arthur Andersen will not be seeking re-appointment for the forthcoming year. A resolution to appoint a successor will be proposed at the Annual General Meeting.

By order of the Board,

RA Symons
Chief Executive

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

31 May 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the shareholders of Western Power Distribution (South Wales) plc

We have audited the financial statements of Western Power Distribution (South Wales) plc for the year ended 31 March 2002 which comprise the Profit and loss account, the Balance sheet, Statement of total recognised gains and losses, Reconciliation of movements in shareholders' funds, Statement of cash flows, and the related Notes numbered 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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 with the Company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company, 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 affairs of the Company at 31 March 2002 and of the Company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
1 The Square
Temple Quay
Bristol BS1 6DG

31 May 2002

Profit and loss account

For the year ended 31 March 2002

	Note	2002 £m	2001 (As restated) £m
Turnover			
Continuing operations	2	**164.6**	171.1
Less: share of joint ventures	2	-	(2.6)
		164.6	168.5
Cost of sales		**(13.6)**	(13.6)
Other operating expenses	3	**(76.7)**	(102.1)
Operating profit	3	**74.3**	52.8
Income from fixed asset investments		**0.1**	1.3
Profit on disposal of interests in property investments		-	6.0
Deferred contingent gain on disposal of the electricity supply activity		-	2.8
Profit on ordinary activities before finance charges and tax		**74.4**	62.9
Finance charges (net)	4	**(23.7)**	(19.1)
Profit on ordinary activities before tax		**50.7**	43.8
Tax on profit on ordinary activities	5	**(13.7)**	(7.6)
Profit on ordinary activities after tax, being profit for the financial year		**37.0**	36.2
Dividends declared	6	**(20.5)**	(193.5)
Amounts transferred to/(from) reserves	18	**16.5**	(157.3)

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 March 2002

	Note	2002 £m	2001 (As restated) £m
Fixed assets			
Tangible assets	10	**604.6**	582.0
Investments	11	**0.1**	0.1
		604.7	582.1
Current assets			
Stocks	12	**1.5**	4.1
Debtors	13	**59.0**	40.2
Investment - unlisted loan to associate		**-**	14.2
Cash at bank and in hand		**-**	0.9
		60.5	59.4
Creditors			
Amounts falling due within one year	14	**(66.6)**	(57.0)
Net current (liabilities)/assets		**(6.1)**	2.4
Total assets less current liabilities		**598.6**	584.5
Creditors			
Amounts falling due after more than one year	14	**(304.7)**	(304.6)
Provisions for liabilities and charges	15	**(74.5)**	(77.0)
Net assets	2	**219.4**	202.9
Capital and reserves			
Called-up share capital	17	**97.8**	97.8
Share premium account	18	**23.2**	23.2
Capital redemption reserve	18	**5.1**	5.1
Profit and loss account	18	**93.3**	76.8
Equity shareholders' funds		**169.4**	152.9
Non-equity shareholders' funds		**50.0**	50.0
Total shareholders' funds		**219.4**	202.9

The accompanying notes are an integral part of this balance sheet.

The financial statements on pages 10 to 29 were approved by the Board of Directors on 31 May 2002 and were signed on its behalf by:

RA Symons
Chief Executive

DCS Oosthuizen
Finance Director

Statement of total recognised gains and losses

For the year ended 31 March 2002

	2002 £m	2001 (As restated) £m
Profit for the financial year	**37.0**	36.2
Prior year adjustment for implementation of FRS19 Deferred Tax (Note 1)	**(51.9)**	
Total gains and losses recognised since last financial statements	**(14.9)**	

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2002

	2002 £m	2001 (As restated) £m
Profit for the financial year	**37.0**	36.2
Dividends declared	**(20.5)**	(193.5)
Net increase/(reduction) in shareholders' funds	**16.5**	(157.3)
Opening shareholders' funds (as adjusted for the implementation of FRS19 Deferred tax - Note 1)	**202.9**	360.2
Closing shareholders' funds	**219.4**	202.9

The opening shareholders' funds at 1 April 2001 were originally £254.8m before a prior year adjustment of £51.9m (Note 1).

Statement of cash flows

For the year ended 31 March 2002

	Cash flow note		2002		2001
		£m	£m	£m	£m
Net cash inflow from operating activities	A		**71.1**		88.3
Returns on investments and servicing of finance					
Interest received		**0.2**		2.9	
Interest paid		**(20.7)**		(22.2)	
Dividends paid		**(17.0)**		(208.9)	
Dividends received		**0.1**		1.2	
Net cash outflow from returns on investments and servicing of finance			**(37.4)**		(227.0)
UK corporation tax paid			**-**		(3.1)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(48.8)**		(46.2)	
Sale of tangible fixed assets		**-**		26.2	
Purchase of short term investments		**14.2**		5.4	
Purchase of fixed asset investments		**-**		(0.1)	
Net cash outflow from capital expenditure and financial investment			**(34.6)**		(14.7)
Acquisitions and disposals					
Consideration received in respect of disposals made in previous years		**-**		2.8	
Net cash inflow from acquisitions and disposals			**-**		2.8
Cash outflow before use of liquid resources and financing			**(0.9)**		(153.7)
Financing					
Short term loans		**-**		153.7	
Net cash inflow from financing			**-**		153.7
Decrease in cash in the year	B		**(0.9)**		-

The accompanying notes are an integral part of this statement of cash flows.

Notes to the statement of cash flows

For the year ended 31 March 2002

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

	2002 £m	2001 £m
Operating profit	**74.3**	52.8
Depreciation and amortisation	**21.9**	31.2
Loss on sale of tangible fixed assets	**4.3**	0.6
Decrease in stocks	**2.6**	1.4
(Increase)/decrease in debtors	**(18.9)**	12.1
Decrease in creditors	**(6.7)**	(1.4)
Decrease in provisions	**(6.4)**	(8.4)
Net cash inflow from operating activities	**71.1**	88.3

B. Analysis of changes in net debt

	At 1 April 2001 £m	Cash Flow £m	Other non-cash movements £m	**At 31 March 2002 £m**
Cash at bank	0.9	(0.9)	-	-
Debt due after one year :				
9.25% Eurobonds 2020	(148.0)	-	(0.1)	**(148.1)**
Loan from group undertaking	(153.7)	-	-	**(153.7)**
	(300.8)	(0.9)	(0.1)	**(301.8)**

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

	2002 £m	2001 £m
Decrease in cash in the year	**(0.9)**	-
Cash inflow from increase in debt	**-**	(153.7)
Change in net debt resulting from cash flows	**(0.9)**	(153.7)
Amortisation of finance costs	**(0.1)**	(0.1)
Movement in net debt in year	**(1.0)**	(153.8)
Net debt at 1 April	**(300.8)**	(147.0)
Net debt at 31 March	**(301.8)**	(300.8)

Notes to the financial statements

For the year ended 31 March 2002

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of the policy for deferred tax as detailed in the next paragraph.

Restatement of prior years

Following the introduction of Financial Reporting Standard 19 ("FRS 19") 'Deferred tax', the Company now makes full provision for deferred tax on most timing differences which arise between its taxable profits and results as stated in the financial statements. The full amount of the provision is discounted using a discount rate similar to the current post tax rates of return on UK treasury gilts. The change in accounting policy as a result of the introduction of FRS19 has necessitated a restatement of prior years. The impact is to increase the deferred tax provision and reduce profit and loss account reserves by £51.9m at 31 March 2001. The deferred tax charge in the profit and loss account for the year ended 31 March 2001 was increased by £3.0m. Accordingly, the results for prior periods have been restated by these amounts.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Group financials statements

Group financial statements have not been prepared as the Company has taken advantage of the relief under s228 of the Companies Act 1985. The results of the Company are consolidated in the financial statements of Western Power Distribution Holdings Limited. These financial statements therefore present information about the Company and not the Western Power Distribution (South Wales) plc group.

Turnover

Turnover is stated net of value added tax. Sales relating to electricity distributed during the year include an estimate of the sales value of units distributed to customers but not billed by the period end. Remaining sales relate to the invoice value of other goods and services provided.

IT consultancy and development costs

Significant IT consultancy and development costs are capitalised when tangible benefits accrue and are amortised over their estimated useful economic life from the date of first use. Other IT consultancy and development costs are charged to the profit and loss account in the year in which they are incurred.

Leases

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

Research

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

Notes to the financial statements

For the year ended 31 March 2002

1. Accounting policies (continued)

Tangible fixed assets

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

	Years
Distribution assets	Up to 40
Buildings - freehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

Depreciation on distribution network assets is charged at 3% for 20 years followed by 2% for the remaining 20 years. Other assets are depreciated on a straight line basis. Customers' contributions towards distribution network assets, which include capital grants, are credited to the profit and loss account over the life of the distribution network assets to which they relate. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 1985 requirements which require fixed assets to be included at their purchase price or production cost and hence the unamortised amount of contributions would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view. The value of contributions is shown in Note 10.

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

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Derivative financial instruments

Derivative financial instruments are used by the Company for the management of interest rate exposures. The Company only uses derivatives for hedging purposes. Interest rate differentials are reflected as an adjustment to interest expense as they accrue.

Pension costs

The Company operates two defined benefit pension schemes. Contributions are charged to the profit and loss account or capital expenditure so as to spread the cost of pensions over employees' working lives with the Company. Differences between amounts charged to the profit and loss account or capital expenditure and amounts funded are shown as either accruals or prepayments in the balance sheet. Any capital cost of ex gratia and supplementary pensions is charged to the profit and loss account in the accounting period in which they are granted.

1. Accounting policies (continued)

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

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

Property

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

Investments

Investment income is included in the financial statements of the year in respect of which it is receivable.

Fixed asset investments are stated at cost less any provisions for impairment. Current asset investments are valued at the lower of cost and net realisable value.

Stocks

Stocks, which consist primarily of raw materials and consumables, are valued at the lower of cost and net realisable value which takes account of any provision necessary to recognise damage and obsolescence.

2. Segmental analysis

Distribution involves the delivery of electricity across the Company's distribution network.

	Turnover		Operating profit		Net assets	
	2002	2001	**2002**	2001	**2002**	2001 (As restated)
	£m	£m	**£m**	£m	**£m**	£m
Electricity distribution	**161.4**	166.2	**73.7**	52.2	**521.2**	497.8
Other activities	**3.2**	2.4	**0.6**	0.6	**-**	5.9
Net debt	**-**	-	**-**	-	**(301.8)**	(300.8)
Less inter business trading	**-**	(0.1)			**-**	-
	164.6	168.5				
Share of joint ventures - other continuing businesses	**-**	2.6				
	164.6	171.1	**74.3**	52.8	**219.4**	202.9

Turnover is all in respect of sales to customers in the UK.

Notes to the financial statements

For the year ended 31 March 2002

3. Operating profit

The directors consider that the nature of the business is such that the analysis of expenses shown on the face of the profit and loss account is more informative than that set out in the formats specified by the Companies Act 1985.

Other operating expenses include network costs, customer service, billing, marketing activities, and administration.

	2002	2001
	£m	£m
Operating profit is stated after charging:		
Depreciation	**21.9**	26.6
Operating lease rentals:	**-**	0.4
Plant, machinery and equipment	**1.2**	0.4
Other	**0.1**	-
Research and development	**0.2**	0.6
Auditors' remuneration:		
Audit fees and expenses	**0.1**	0.1
Other fees and expenses	**-**	5.9

4. Finance charges (net)

	2002	2001
	£m	£m
Interest payable and similar charges:		
On loans from WPD Group company	**9.8**	2.9
Other	**14.0**	19.1
	23.8	22.0
Interest receivable:		
On loans to affiliated companies	**-**	(0.1)
Other	**(0.1)**	(2.8)
	23.7	19.1

5. Tax on profit on ordinary activities

(a) Analysis of charge in the year	**2002**	2001
		(As restated)
	£m	£m
Current tax:		
UK corporation tax on profits for the year	**9.8**	5.2
Adjustment to current tax in respect of previous years	**-**	(0.6)
Total current tax (Note 5(b))	**9.8**	4.6
Deferred tax:		
Origination and reversal of timing differences	**5.7**	6.2
Increase in discount	**(1.8)**	(3.2)
Total deferred tax (Note 15)	**3.9**	3.0
Tax on profit on ordinary activities	**13.7**	**7.6**

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002	2001
	£m	£m
Profit on ordinary activities before tax	**50.7**	43.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**15.2**	13.1
Effects of:		
Expenses not deductible and income not taxable for tax purposes	**0.3**	(1.7)
Capital allowances for the year in excess of depreciation	**(6.1)**	(4.3)
Other timing differences	**0.4**	(1.9)
Adjustments to tax charge in respect of previous years	**-**	(0.6)
Current tax charge for the year (Note 5(a))	**9.8**	4.6

(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.

Notes to the financial statements

For the year ended 31 March 2002

6. Dividends declared

	2002 **£m**	2001 £m
Dividends declared on equity shares:		
Interim dividends declared	**17.0**	190.0
Dividends declared on non-equity shares:		
Payable on 7% preference shares	**3.5**	3.5
	20.5	193.5

7. Employee costs and numbers (including executive directors)

(a) Employee costs

	2002 **£m**	2001 £m
Total employee costs during the year amounted to:		
Wages and salaries	**23.8**	19.5
Social security costs	**1.9**	1.8
Pension costs	**0.2**	1.6
Total employee costs	**25.9**	22.9
Less allocated to capital expenditure	**(9.6)**	(8.7)
Charged to the profit and loss account	**16.3**	14.2

(b) The average number of employees during the year was 970 (2001: 805). This increase is primarily caused by the transfer into WPD South Wales of staff previously employed by other Hyder group companies.

8. Pension commitments

The Company has continued to account for pensions in accordance with Statement of Standard Accounting Practice 24 ("SSAP 24"). FRS17 "Retirement Benefits" was issued in November 2000 but will not be mandatory for the Company until the year ending 31 March 2004. Prior to this, phased disclosures are required from 31 March 2002. These disclosures are set out below.

The Company operates two defined benefit schemes, the WPD South Wales segment of the Electricity Supply Pension Scheme ("ESPS") and the Infralec 1992 Scheme. The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the Electricity Supply Industry. On 1 April 2002, the separate funds for both WPD South West and WPD South Wales were merged. The Infralec 1992 Scheme provides benefits on both a money purchase and final salary basis and is operated in WPD South Wales. The assets of both schemes are held separately from those of the Company in trustee administered funds.

A full actuarial valuation of the ESPS and the Infralec 1992 Scheme was carried out at 31 March 2001 and 31 March 2000, respectively, and updated to 31 March 2002 by Bacon & Woodrow, consulting actuaries. The major assumptions used by the actuary were:

	ESPS At 31 March 2002	Infralec 1992 Scheme At 31 March 2002
Rate of increase in salaries	4.3%	4.3%
Discount rate	6.0%	6.0%
Inflation assumption	2.8%	2.8%

The assets in the scheme and the expected rate of return were:

	ESPS		**Infralec 1992 Scheme**	
	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m	Long-term rate of return expected at 31 March 2002	Value at 31 March 2002 £m
Equities	8.2%	319.7	8.2%	1.7
Corporate Bonds	6.0%	0.3	5.6%	0.2
Gilts	5.2%	131.3		
Property	7.2%	18.3	7.2%	0.1
Other	3.5%	10.3	3.5%	0.1
Total market value of assets		479.9		2.1
Present value of scheme liabilities		(472.4)		(2.1)
Surplus in the scheme		7.5		-
Related deferred tax liability		(2.3)		-
Net pension asset		5.2		-

8. Pension commitments (continued)

The ESPS surplus is being utilised for benefit improvements, to fund a reduction of 1% in employees' contributions for the three years from 1 April 2002, to cover anticipated short term early retirement costs, and to continue the suspension of contributions to the ESPS from the Company until 31 March 2005. The reduced surplus is being recognised in the financial statements over the average service lives of employees, as required under SSAP 24. Contributions paid by the Company to the ESPS during the year related to payments associated with enhanced pensions and amounted to £0.3m (2001: £3.3m).

Contributions in respect of the Infralec 1992 Scheme for the year amounted to £0.2m (2001: £0.5m).

9. Directors' emoluments

The service contracts of the current three directors are with WPD South West. A share of their emoluments are included in the overall management charge from WPD South West but cannot be separately identified. During the year to 31 March 2002, the duties of G J Miles in respect of WPD South Wales were incidental to his duties elsewhere in the Hyder group.

During 2001, WPD South Wales incurred a management charge from Hyder in respect of directors who served during that year. The emoluments relating to their duties for WPD South Wales were :

	2001 £000
Aggregate emoluments and benefits	120
The emoluments of the highest paid director comprised :	
Aggregate emoluments and benefits	43
Accrued annual pension at the year end	33

Notes to the financial statements

For the year ended 31 March 2002

10. Tangible fixed assets

	Freehold land & buildings £m	Leasehold improvements £m	Distribution network £m	Fixtures & equipment £m	Deduct: customers' contributions £m	Total £m
Cost						
At 1 April 2001	2.6	0.8	1,011.5	41.6	(186.0)	870.5
Additions	0.1	0.9	48.7	8.5	(8.4)	49.8
Disposals	-	-	(11.9)	(16.8)	0.2	(28.5)
At 31 March 2002	2.7	1.7	1,048.3	33.3	(194.2)	891.8
Depreciation						
At 1 April 2001	1.0	-	324.8	25.5	(62.8)	288.5
Charge for the year	0.1	-	23.8	4.0	(5.0)	22.9
Disposals	-	-	(8.8)	(15.5)	0.1	(24.2)
At 31 March 2002	1.1	-	339.8	14.0	(67.7)	287.2
Net book value						
At 31 March 2002	**1.6**	**1.7**	**708.5**	**19.3**	**(126.5)**	**604.6**
At 1 April 2001	1.6	0.8	686.7	16.1	(123.2)	582.0

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

	2002 £m	2001 £m
Freehold	**18.9**	16.6

Included within the Company's fixed assets are assets in the course of construction amounting at 31 March 2002 to £9.0m (2001: £57.5m) and land at a cost of £3.2m (2001: £2.8m).

Leasehold properties are held on long term leases.

Notes to the financial statements

For the year ended 31 March 2002

11. Fixed asset investments

	Shares in group undertakings £m
Balance at beginning and end of the year	**0.1**

Principal subsidiaries at 31 March 2002 are:

Name	**Principal activity**	**Holding**	**Proportion held %**
Croeso Systems Development Limited	Customers systems	Ordinary Shares	50%
Hyder Utilities (Operations) Limited	Services	Ordinary Shares	100%

Both companies are no longer actively trading.

12. Stocks

	2002 £m	2001 £m
Raw materials and consumables	**1.5**	1.4
Work in progress	-	2.7
	1.5	4.1

13. Debtors

	2002 £m	2001 £m
Amounts falling due within one year:		
Trade debtors	**26.6**	32.5
Amounts owed by group undertakings	**29.8**	-
Other debtors	**1.8**	1.5
Prepayments	**0.8**	6.2
	59.0	40.2

14. Creditors

	2002 £m	2001 £m
Amounts falling due within one year:		
Payments received on account	-	7.5
Other trade creditors	**3.9**	5.8
Amounts owed to group undertakings	**13.0**	14.0
Amounts owed to parent company	-	0.2
UK corporation tax	**12.5**	2.7
Other taxation and social security	-	3.6
Other creditors	**12.5**	6.9
Accruals and deferred income	**24.7**	16.3
	66.6	57.0
Amounts falling due after more than one year:		
9.25% Eurobonds 2020	**148.1**	148.0
Loan from group undertaking *	**153.7**	153.7
Refundable consumers' contributions	**2.9**	2.9
	304.7	304.6

* 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.

15. Provisions for liabilities and charges

	Deferred taxation (Note 16) £m	Pensions £m	Other £m	Total £m
At 1 April 2001 - as previously stated	18.0	0.8	6.3	25.1
Prior year adjustment for FRS19 (Note 1)	51.9	-	-	51.9
At 1 April 2001 - as restated	69.9	0.8	6.3	77.0
Arising/(released) during the year	3.9	(0.8)	(5.0)	(1.9)
Utilised during the year	-	-	(0.6)	(0.6)
At 31 March 2002	**73.8**	-	**0.7**	**74.5**

Other provisions at 31 March 2002 relate to uninsured losses.

16. Deferred tax

	2002 £m	2001 (As restated) £m
Accelerated capital allowances	**115.5**	109.4
Chargeable gain on sale of electricity supply business	**18.0**	18.0
Other timing differences	**(3.0)**	(2.6)
Undiscounted provision for deferred tax	**130.5**	124.8
Discount	**(56.7)**	(54.9)
Discounted provision for deferred tax	**73.8**	69.9

17. Called-up share capital

	2002 £m	2001 £m
Authorised:		
150,000,000 ordinary shares of 50p each	**75.0**	75.0
50,000,000 preference shares (7% net) of £1 each	**50.0**	50.0
Allotted, called-up and fully paid:		
95,606,306 ordinary shares of 50p each	**47.8**	47.8
50,000,000 preference shares (7% net) of £1 each	**50.0**	50.0

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.

Notes to the financial statements

For the year ended 31 March 2002

18. Reserves	Share premium account £m	Capital redemption reserve £m	Profit & loss account £m
At 1 April 2001 - as originally stated	23.2	5.1	128.7
Prior year adjustment for FRS19 Deferred Tax (Note 1)	-	-	(51.9)
At 1 April 2001 - as restated	23.2	5.1	76.8
Retained profit for the year	-	-	16.5
Balance at 31 March 2002	**23.2**	**5.1**	**93.3**

The share premium account arose on the issue of shares under share option schemes. The capital redemption reserve is in respect of the purchase of its own shares by the Company.

19. Capital and other commitments

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

	Land & buildings		Equipment & vehicles	
	2002 £m	2001 £m	**2002 £m**	2001 £m
Within one year	-	0.1	-	-
Over five years	**0.1**	0.1	**0.2**	0.2
	0.1	0.2	**0.2**	0.2

b) Fixed asset expenditure contracted but not provided for at 31 March 2002 in the financial statements was £nil (2001: £8.3m).

20. Related party transactions

The Company, a wholly-owned subsidiary undertaking, has taken the exemption available from related party disclosure requirements of Financial Reporting Standard 8 as the financial statements of the parent company are available to the public (see Note 21).

21. Ultimate parent undertakings

The immediate parent undertaking of WPD South Wales is Hyder Industrial Group Limited. At 31 March 2002, the ultimate parent undertaking is Western Power Distribution Holdings Limited. All companies are registered in England and Wales.

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

The ultimate controlling parties are Mirant Corporation and PPL Corporation, both registered in the United States, who have equal control of Western Power Distribution Holdings Limited.

Registered office:

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

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

Registered number 2366985