Dwr Cymru Cyfyngedig

Directors' report and financial statements for the year ended 31 March 1997

Registered no. 2366777

A Hyder group company

Hyder

Contents

Directors

B H Charles	Executive Chairman	
M P Brooker	Managing Director	
C A Jones	Finance Director	
N C Annett	Director of Planning	
J Williams	Personnel Director	(Appointed 2 April 1997)
M J Harrington	Divisional Director (Southern)	
R J Illidge	Divisional Director (Northern)	
P J Twamley	Non-executive Director	
G A Hawker	Non-executive Director	
P B Moriarty	Non-executive Director	
D H Thomas	Non-executive Director	

Company secretary and registered office

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

Registered auditors

Coopers & Lybrand

Solicitors

Edwards Geldard

Principal bankers

National Westminster Bank Plc

The directors have pleasure in presenting their annual report to the shareholders, together with the audited financial statements for the year ended 31 March 1997 on pages 8 to 32.

Principal activity and business review

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

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

Trading results

Profit on ordinary activities before taxation amounted to £149.0m (1996 £138.6m). The profit attributable to shareholders amounted to £147.0m (1996 £123.4m).

The directors recommend payment of a final dividend for the year ended 31 March 1997 of £52.0m making the total dividend for the year £79.0m.

Overall the business has performed satisfactorily during the year.

Fixed assets

Freehold land and buildings are carried in the accounts at historical cost at a net book value of £33.8m (1996 £34.5m). In the opinion of the directors there was no significant difference between book values of property capable of disposal within the foreseeable future and market values at 31 March 1997.

Directors

The names of the current directors of the company are shown on page 1. Directors who served during the year were:-

B H Charles		
M P Brooker		
C A Jones		
N C Annett		
M J Harrington		
R J Illidge		
G A Hawker		
P J Twamley	Appointed	18 April 1996
P B Moriarty	Appointed	1 October 1996
D H Thomas	Appointed	1 October 1996
C J Thomas	Resigned	2 April 1997

Directors' interests in shares

No director had any interest in the share capital of the company at any time during the year.

The beneficial interests of the directors in the ordinary shares, preference shares and options to subscribe for ordinary shares of the company's parent company, Hyder plc, at 31 March 1997 and 31 March 1996 were as set out on page 3.

Directors' interests in shares (continued)

	Ordinary shares of 120p 31 March 1997	31 March 1996	Cumulative redeemable preference shares of £1 31 March 1997	31 March 1996	Executive Options over ordinary shares of 120p 31 March 1997	31 March 1996	Sharesave Options over ordinary shares of 120p 31 March 1997	31 March 1996
N C Annett	**516**	516	**558**	558	**7,209**	7,209	**3,553**	3,533
C J Thomas	-	-	-	2,097	**2,841**	5,674	**2,736**	2,736
M P Brooker	**13,341**	13,341	**14,408**	14,408	-	9,514	**2,481**	3,749
M J Harrington	**3,473**	2,980	**1,064**	1,373	**5,307**	5,307	**1,550**	1,550
R J Illidge	**2,240**	2,240	**3,985**	3,985	-	-	**1,725**	1,725
C A Jones	-	-	-	-	-	-	-	-
P B Moriarty	-	* -	-	* -	-	* -	-	* -
D H Thomas	-	* -	-	* -	-	* -	-	* -
	19,570	19,077	**20,015**	22,421	**15,357**	27,704	**12,045**	13,293

* as at date of appointment

B H Charles, G A Hawker and P J Twamley are directors of Hyder plc and their interests are disclosed in the directors' report of that company.

Executive share options are held at prices between 354p and 676p. Sharesave options are held at prices between 296p and 523p.

During the period 1 April 1997 to 5 June 1997 there were no changes in the directors' interests.

Policy on the payment of creditors

It is company policy to comply with terms of payment agreed with suppliers. Where payment terms are not negotiated the company endeavours to adhere with the suppliers' standard terms. The average payment period in respect of the year was 82 days.

The company has, included within trade creditors, an amount of retention monies held in respect of capital contracts. This has adversely affected the average payment period for the year.

Employment policies

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

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

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

Employment policies (continued)

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

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

Research and development

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

Contributions for charitable and political purposes

During the year, there have been no political donations, and charitable donations amounted to £3,378 (1996 £16,000).

Regulatory accounts

Condition F of the Instrument of Appointment under which Dwr Cymru Cyfyngedig operates requires specified accounting statements to be published. Copies of these accounts will be available from the Company Secretary after 31 July 1997.

Dividend

The company has declared a dividend for the year ended 31 March 1997 of £79m (1996 £67m) to its shareholder, Hyder plc. The company's policy is to pay dividends which do not impair the company's ability to finance its Appointed Business as a Water and Sewerage undertaker. The company has received written confirmation from the Director General of Water Services that its policy is consistent with the basic principles with which he believes a company dividend policy should comply.

The Directors will recommend the level of dividend each year in light of the policy and the circumstances applying at the time. The company believes that, under a system of incentive based price-cap regulation, dividends should reward improved operating performance, the management of economic risks and any retention of profits, whilst maintaining a financial position consistent with the stated policy.

Welsh language policy

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

Continuing this longstanding commitment to provide customer services in both of the Welsh and English languages, the board of Dwr Cymru Cyfyngedig, at its meeting on the 14 May 1997, formally adopted the principle that in the conduct of its public business in Wales it will treat both languages on a basis of equality. To this end, the company has prepared a Welsh language scheme in accordance with guidelines prepared by the Welsh Language Board pursuant of the Welsh Language Act 1993, and has submitted the scheme to the Welsh Language Board for its approval for customer consultation.

Auditors

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

By order of the Board

R G Curtis
Company Secretary

5 June 1997

Directors' responsibilities for the financial statements

The directors are required by U K Company Law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for the year. In preparing the financial statements, the directors ensure that appropriate accounting policies have been adopted and applied consistently, and that reasonable and prudent judgements have been made. The directors also confirm that applicable accounting standards have been followed and that 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

RG Curtis

R G Curtis
Company Secretary

5 June 1997

We have audited the financial statements on pages 8 to 32.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1997 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cardiff

5 June 1997

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom and, except for the treatment of certain grants and contributions, comply with the Companies Act 1985. An explanation of these departures from the requirements of the Companies Act 1985 is given in the "Grants, customer contributions and infrastructure charges" section below and note 9(c) . A summary of the principal accounting policies, which have been consistently applied, is shown below.

Changes in presentation of financial information

Since the previous directors' report and financial statements, the Accounting Standards Board has issued the Financial Reporting Standard 1 (Revised) - Cash flow statements. In addition the Urgent Issues Task Force ("UITF") has issued a number of abstracts in the year and Statutory Instruments 1997/570 and 571, amendments to the Companies Act 1985, were approved. Where relevant these financial statements comply with the revised Standard, UITF abstracts and Statutory Instruments and the presentation of financial information has been restated accordingly.

Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention.

Turnover

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

Exceptional items

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

Tangible fixed assets and depreciation

Tangible fixed assets comprise :

(i) infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and

(ii) other assets (including properties, overground operational structures and equipment and fixtures and fittings).

Infrastructure assets

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

Tangible fixed assets and depreciation (continued)

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

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

Other assets

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

Freehold buildings	30-60 years
Leasehold properties	over the period of the lease
Operational structures	40-80 years
Fixed plant	20-40 years
Vehicles, mobile plant, equipment and computer hardware & software	3-16 years

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

Leased assets

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

Grants, customer contributions and infrastructure charges

Grants, customer contributions and infrastructure charges relating to infrastructure assets, which are non-depreciating assets, have been offset against fixed assets (see note 9 (c)).

Grants and customer contributions in respect of expenditure on other fixed assets are treated as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets.

Investments

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

Stocks and work in progress

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

Pension costs

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

Interest rate swaps

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

Research and development

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

Deferred taxation

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

Profit and loss account for the year ended 31 March 1997

	Note	1997 £m	1996 £m
Turnover	2	**428.5**	430.9
Net operating costs	3	**(260.2)**	(280.2)
Operating profit		**168.3**	150.7
Continuing operations		**168.3**	170.8
Exceptional items	4	**-**	(20.1)
Operating profit		**168.3**	150.7
Profit on disposal of fixed assets		**0.9**	0.7
Profit on ordinary activities before interest		**169.2**	151.4
Interest receivable		**12.2**	17.9
Interest payable	6	**(32.4)**	(30.7)
Profit on ordinary activities before taxation		**149.0**	138.6
Taxation	7	**(2.0)**	(15.2)
Profit on ordinary activities after taxation		**147.0**	123.4
Dividends	8	**(79.0)**	(67.0)
Retained profit for the year	21	**68.0**	56.4

All operations are continuing.

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

There is no difference between the results disclosed above and the results on an unmodified historical cost basis.

	Note	1997 £m	1996 £m
Fixed assets			
Tangible assets	9	**1,606.5**	1,450.6
Investments	10	**0.1**	0.1
		1,606.6	1,450.7
Current assets			
Stocks and work in progress	11	**6.5**	6.5
Debtors	12	**110.2**	83.6
Current asset investments	13(a)	**181.6**	225.5
Cash at bank and in hand		**0.9**	3.4
		299.2	319.0
Current liabilities			
Creditors: amounts falling due within one year	14(a)	**(244.2)**	(225.0)
Net current assets		**55.0**	94.0
Total assets less current liabilities		**1,661.6**	1,544.7
Creditors: amounts falling due after more than one year	14(b)	**(449.9)**	(386.6)
Provisions for liabilities and charges	19	**(60.8)**	(75.2)
Net assets		**1,150.9**	1,082.9
Capital and reserves			
Called up share capital	20	**276.1**	276.1
Reserves	21	**874.8**	806.8
Equity shareholder's funds		**1,150.9**	1,082.9

The financial statements on pages 8 to 32 were approved by the Board of directors on 5 June 1997 and were signed on its behalf by:

B H Charles
Executive Chairman

C A Jones
Finance Director

Cashflow statement for the year ended 31 March 1997

	Note	1997 £m	1996 £m
Cash flow from operating activities	22	**187.1**	182.4
Returns on investments and servicing of finance			
Interest received		**13.6**	17.8
Interest paid		**(26.1)**	(25.8)
Interest element of finance lease rental payments		**(3.2)**	(4.9)
		(15.7)	(12.9)
Taxation			
UK corporation tax paid		**(2.2)**	(1.0)
Group relief paid		**(9.9)**	(0.9)
		(12.1)	(1.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(222.9)**	(191.4)
Sale of tangible fixed assets		**0.9**	1.0
Grants and contributions received		**8.0**	14.8
		(214.0)	(175.6)
Equity dividends paid		**(64.0)**	(62.6)
Cash outflow before use of liquid resources and financing		**(118.7)**	(70.6)
Management of liquid resources			
Net movement in deposits		**43.9**	45.9
Financing			
Loan received from parent undertaking		-	5.9
Loan repaid to parent undertaking		-	(2.9)
Long term loans and Eurobonds		-	29.2
Loan repayments		**(2.6)**	(2.7)
Finance lease received		**66.7**	-
		64.1	29.5
(Decrease)/increase in cash in the year	23	**(10.7)**	4.8

Reconciliation of movements in shareholder's funds for the year ended 31 March 1997

	1997 £m	1996 £m
Profit for the year	**147.0**	123.4
Dividends	**(79.0)**	(67.0)
Net increase in shareholder's funds	**68.0**	56.4
At 1 April	**1,082.9**	1,026.5
At 31 March	**1,150.9**	1,082.9

1 Consolidated financial statements

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

2 Segmental analysis by class of business

(a) Turnover

Year ended 31 March 1997

	Total turnover £m	Intra segment turnover £m	Inter segment turnover £m	External turnover £m
Regulated water and sewerage activities	**425.0**	-	-	**425.0**
Non regulated activities	**3.5**	-	-	**3.5**
	428.5	-	-	**428.5**

Year ended 31 March 1996

	Total turnover £m	Intra segment turnover £m	Inter segment turnover £m	External turnover £m
Regulated water and sewerage activities	422.9	-	1.0	421.9
Non regulated activities	43.6	0.6	34.0	9.0
	466.5	0.6	35.0	430.9

External turnover is stated net of customer rebates of £11.3m (1996 - £nil)

(b) Profit on ordinary activities before taxation

	1997 £m	1996 £m
Regulated water and sewerage activities		
Operating profit *	**168.2**	146.8
Interest payable	**(20.2)**	(10.7)
Profit on disposal of fixed assets	**0.9**	0.5
	148.9	136.6

	1997 £m	1996 £m
Non-regulated activities		
Operating profit	**0.1**	3.9
Interest payable	-	(2.1)
Profit on disposal of fixed assets	-	0.2
	0.1	2.0

* Operating results as disclosed above, are after deducting exceptional items of Nil (1996 - £20.1m) (see Note 4). The operating profit, prior to deducting the exceptional items, is set out below:

Operating profit	**168.2**	166.9

2 Segmental analysis by class of business (continued)

(c) Net assets

	1997 £m	1996 £m
Regulated water and sewerage activities	**1,137.9**	1,070.0
Non-regulated activities	**13.0**	12.9
	1,150.9	1,082.9

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

3 Net operating costs

	Note	1997 Total £m
Change in stocks and work in progress		-
Infrastructure maintenance charge	19(b)	**24.1**
Staff costs	5(b)	**56.3**
Severance and redundancy costs		-
Depreciation:		
-Own assets		**35.4**
-Assets held under finance leases		**3.9**
Research and development		**0.6**
Rentals under operating leases:		
-Hire of plant and equipment		**11.9**
-Land and buildings		-
-Other		**0.2**
Fees paid to auditors:		
-Audit services		**0.1**
-Consultancy services		-
Other operating charges		**144.5**
Amortisation of grants and contributions	19(c)	**(1.0)**
Own work capitalised		**(15.5)**
Net rents receivable		**(0.3)**
		260.2

3 Net operating costs (continued)

	Note	1996 Before exceptional items £m	1996 Exceptional items (note 4) £m	1996 Total £m
Change in stocks and work in progress		(0.8)	-	(0.8)
Infrastructure maintenance charge	19(b)	23.4	-	23.4
Staff costs	5(b)	73.1	-	73.1
Severance and redundancy costs		-	16.4	16.4
Depreciation:				
-Own assets		38.0	-	38.0
-Assets held under finance leases		3.6	-	3.6
Research and development		0.6	-	0.6
Rentals under operating leases:				
-Hire of plant and equipment		1.8	-	1.8
-Land and buildings		0.6	-	0.6
-Other		0.1	-	0.1
Fees paid to auditors:				
-Audit services		0.1	-	0.1
-Consultancy services		0.1	-	0.1
Other operating charges		144.2	3.7	147.9
Amortisation of grants and contributions	19(c)	(1.9)	-	(1.9)
Own work capitalised		(22.5)	-	(22.5)
Net rents receivable		(0.3)	-	(0.3)
		260.1	20.1	280.2

4 Exceptional items

Provision for restructuring the regulated water and sewerage business:-

	1997 £m	1996 £m
By type of provision:		
Severance and redundancy costs	-	16.4
Other	-	3.7
	-	20.1

The tax credit attributable to the exceptional item is Nil (1996 £0.2m). This tax credit has reduced the tax charge in note 7.

5 Directors and employees

(a) Directors' emoluments

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

	1997 £'000	1996 £'000
Aggregate emoluments and other benefits	**685**	544
Compensation for loss of office and other termination payments	**-**	50
	685	594

Highest paid director:

	1997 £'000	1996 £'000
Aggregate emoluments and other benefits	**150**	91
Accrued pension under defined benefit scheme	**95**	88

Retirement benefits are accruing to 8 directors (1996 - 8) under defined benefit schemes. Two directors exercised share options in the company's ultimate parent company, Hyder plc, during the year.

5 Directors and employees (continued)

(b) Staff costs

	1997 £m	1996 £m
Wages and salaries	**47.6**	61.9
Social security costs	**3.7**	4.9
Pension costs	**5.0**	6.3
	56.3	73.1

Of the above, £8.2m (1996 £8.6m) has been charged to capital.

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

	1997 Number	1996 Number
Regulated water and sewerage activities	**2,255**	2,744
Non regulated activities	-	317
	2,255	3,061

6 Interest payable

	1997 £m	1996 £m
On bank loans and overdrafts	**1.2**	1.0
On other loans	**25.1**	24.9
On finance leases	**6.1**	4.8
	32.4	30.7

Included in other loans are amounts payable to Group undertakings of £14.9m (1996 £16.1m).

7 Taxation

	1997 £m	1996 £m
Based on the results for the year:		
UK corporation tax	**7.8**	13.4
Group relief payable	**-**	1.3
	7.8	14.7
Prior year adjustments:		
Corporation tax	**(12.3)**	-
Group relief payable	**6.5**	0.5
	2.0	15.2

The tax charge has been reduced by £36.4m (1996 £34.5m) in respect of excess tax allowances over depreciation and other timing differences, for which no provision is made.

8 Dividends

	1997 £m	1996 £m
Interim paid	**27.0**	30.0
Final proposed	**52.0**	37.0
	79.0	67.0

9 Tangible fixed assets

(a) - analysis by type

	Freehold land and buildings £m	Infra-structure assets £m	Operational structures £m	Vehicles, plant, equipment and computer hardware & software £m	Total £m
Cost					
At 1 April 1996	46.2	575.0	994.1	175.7	1,791.0
Additions	1.0	77.8	122.7	19.2	220.7
Grants and contributions	-	(5.2)	-	-	(5.2)
Assets transferred to group undertaking	(1.3)	-	-	(37.4)	(38.7)
Disposals	-	-	-	(2.8)	(2.8)
Assets written off in year	-	-	-	(0.8)	(0.8)
At 31 March 1997	**45.9**	**647.6**	**1,116.8**	**153.9**	**1,964.2**
Accumulated depreciation					
At 1 April 1996	11.7	-	218.1	110.6	340.4
Charge for the year	0.8	-	29.3	9.2	39.3
Assets transferred to group undertaking	(0.4)	-	-	(19.3)	(19.7)
Disposals	-	-	-	(2.3)	(2.3)
At 31 March 1997	**12.1**	**-**	**247.4**	**98.2**	**357.7**
Net book value					
At 31 March 1997	**33.8**	**647.6**	**869.4**	**55.7**	**1,606.5**
At 31 March 1996	34.5	575.0	776.0	65.1	1,450.6
Analysis of net book value at 31 March 1997					
Owned	33.8	647.6	741.6	55.7	1,478.7
Held under finance leases	-	-	127.8	-	127.8
	33.8	**647.6**	**869.4**	**55.7**	**1,606.5**

Tangible fixed assets at 31 March 1997 include £195.9m (1996 £203.7m) of assets in the course of construction, which are not depreciated until commissioned.

9 Tangible fixed assets (continued)

(b) - analysis by service

	Water Services £m	Sewerage Services £m	General £m	Other Trading Activities £m	Total £m
Cost					
At 1 April 1996	844.3	779.6	166.8	0.3	1,791.0
Additions	68.1	133.4	19.2	-	220.7
Grants and contributions	(4.0)	(1.2)	-	-	(5.2)
Assets transferred to group undertaking	-	-	(38.7)	-	(38.7)
Disposals	-	-	(2.8)	-	(2.8)
Assets written off in year	-	-	(0.8)	-	(0.8)
At 31 March 1997	**908.4**	**911.8**	**143.7**	**0.3**	**1,964.2**
Accumulated depreciation					
At 1 April 1996	120.0	127.0	93.4	-	340.4
Charge for the year	17.1	13.2	9.0	-	39.3
Assets transferred to group undertaking	-	-	(19.7)	-	(19.7)
Disposals	-	-	(2.3)	-	(2.3)
At 31 March 1997	**137.1**	**140.2**	**80.4**	**-**	**357.7**
Net book value					
At 31 March 1997	**771.3**	**771.6**	**63.3**	**0.3**	**1,606.5**
At 31 March 1996	724.3	652.6	73.4	0.3	1,450.6
Analysis of net book value at 31 March 1997					
Owned	718.0	697.1	63.3	0.3	1,478.7
Held under finance leases	53.3	74.5	-	-	127.8
	771.3	**771.6**	**63.3**	**0.3**	**1,606.5**

9 Tangible fixed assets (continued)

(c) The accounting treatment for grants, customer contributions and infrastructure charges in respect of infrastructure assets is described in the principal accounting policies on page 9. This treatment is not in accordance with Schedule 4 to the Companies Act 1985 which requires fixed assets to be shown at the purchase price or production cost and hence grants and contributions would be presented under the Act as deferred income. The treatment explained on page 9 has been adopted in accordance with section 227(6) of the Companies Act 1985 in order to show a true and fair view, as in the opinion of the directors, it is not appropriate to treat grants, contributions and infrastructure charges on infrastructure assets as deferred income. The fixed assets to which they relate are not depreciated and accordingly no basis exists on which to recognise such contributions as deferred income. The contributions relate directly to investment in infrastructure assets and are therefore deducted directly from their purchase price or production cost. As a consequence the net book value for fixed assets is £119.1m (1996 £113.9m) lower than it would have been had this treatment not been adopted.

10 Fixed asset investments

The Company has fixed asset investments of £0.1m (1996 £0.1m) as follows:-

Equity in the following subsidiary company:-

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

Welsh Water Utilities Finance PLC is an investment company providing long term funding for Dwr Cymru Cyfyngedig. The share capital and reserves of that company were:-

	1997 £'000	**1996 £'000**
Share Capital	**50**	50
Reserves	**270**	227
	320	277

Equity of less than 10% in the following unlisted company:-

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

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

11 Stocks and work in progress

	1997 £m	1996 £m
Raw materials and consumables	**5.3**	5.7
Work in progress	**1.2**	0.8
	6.5	6.5

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

12 Debtors

	1997 £m	1996 £m
Amounts falling due within one year:		
Trade debtors	**51.3**	40.9
Amounts owed by group undertakings	**20.7**	0.7
Other debtors	**9.2**	11.4
Prepayments and accrued income	**20.9**	23.1
	102.1	76.1
Amounts falling due after more than one year:		
Other debtors	**8.1**	7.5
	110.2	83.6

13 Current asset investments

(a) Management of liquid resources

	1997 £m	1996 £m
Investments in:		
Fixed term and call deposits	**130.6**	161.4
Other money market investments	**51.0**	64.1
	181.6	225.5
Amounts becoming due:		
Within one year	**181.6**	223.5
After more than one year	**-**	2.0
	181.6	225.5

Cash generated from operating activities and from long term loan drawdowns in advance of future capital expenditure obligations is invested on a daily basis by Hyder plc under an agency agreement in money market investments. These investments include term deposits, government securities and corporate bonds and papers rated at not less than AA.

13 Current asset investments (continued)

(b) Interest rate swaps

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

The company's outstanding interest rate swap arrangements, excluding the long dated interest rate swap specific to finance lease borrowing (note 16), had a notional principal balance of £29.2m (1996 £99.2m), terminating December 1999 (1996 - July 1996 and December 1999) with an interest rate of 6.04% (1996 - 6.04% to 7.42%).

14 Creditors

	Note	1997 £m	1996 £m
(a) Amounts falling due within one year:			
Bank loans and overdrafts		**28.4**	20.2
Other loans	15	**2.7**	2.6
Trade creditors		**71.6**	79.6
Amounts owed to group undertakings		**25.2**	29.6
Dividend payable		**52.0**	37.0
Corporation tax		**7.3**	10.8
Other taxation and social security		**1.8**	1.6
Other creditors		**54.7**	43.1
Accruals and deferred income		**0.5**	0.5
		244.2	225.0
(b) Amounts falling due after more than one year:			
Other loans	15	**109.6**	112.3
Obligations under finance leases	16	**140.1**	73.4
Amount owed to group undertaking		**197.3**	197.3
Other creditors - between one and five years		**2.9**	3.6
		449.9	386.6

Amounts owed to group undertaking comprises loans of £99.1m and £98.2m at an interest rate of 7.55%. The loans are repayable in 2004 and 2014 respectively.

15 Other loans

	1997 £m	1996 £m
Repayable as follows:		
Within one year	**2.7**	2.6
Between one and two years	**7.2**	2.6
Between two and five years	**50.5**	45.8
After more than five years	**51.9**	63.9
	112.3	114.9
Repayable wholly within five years	**29.2**	29.2
Repayable by instalments after five years	**83.1**	85.7
	112.3	114.9

Interest rates on these loans range between 6 month sterling LIBOR minus 22 basis points and 10.15%. (1996 - 6 month sterling LIBOR minus 22 basis points and 11.2%).

16 Finance leases

	1997 £m	1996 £m
Amounts due under finance leases after more than five years	**140.1**	73.4

A long dated interest rate swap was arranged on 1 April 1994 which has the effect of fixing the rate of interest at 7.8% on floating rate sterling finance lease obligations of £62.5m. This obligation reduces over a term of 18 years.

17 Capital commitments

	1997 £m	1996 £m
Contracted for but not provided in the financial statements	**396.7**	196.9

In order to meet regulatory and service standards, the company has longer term capital expenditure obligations totalling approximately £1.6 billion at current prices over the next seven years, which include investments to meet shortfalls in performance and condition, and to provide for new demands and growth.

18 Leasing commitments

	Land and buildings			Others
	1997 £m	1996 £m	1997 £m	1996 £m
At 31 March 1997 there were revenue commitments, in the ordinary course of business in the next year to the payment of rentals on non cancellable operating leases expiring:				
Between two and five years	**0.1**	0.1	-	0.2
After five years	**0.1**	0.6	-	-
	0.2	0.7	-	0.2
Due to group undertaking expiring:				
within one year	-	-	**5.2**	-
between one and two years	-	-	**2.0**	-
between two and five years	-	-	**2.9**	0.5
	-	-	**10.1**	0.5

19 Provisions for liabilities and charges

	Note	1997 £m	1996 £m
Deferred taxation	(a)	-	-
Infrastructure maintenance provision	(b)	**12.4**	20.7
Deferred Income	(c)	**37.0**	35.5
Restructuring provision	(d)	**11.4**	19.0
		60.8	75.2

19 Provisions for liabilities and charges (continued)

(a) Deferred taxation

No provision is required for deferred taxation in accordance with the policy described on page 10. The amount unprovided of the total potential liability, is as follows:

	Amount provided		Amount unprovided	
	1997	1996	1997	1996
	£m	£m	£m	£m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	-	**270.3**	234.7
Other timing differences	-	-	**(4.8)**	(5.7)
	-	-	**265.5**	229.0

(b) Infrastructure maintenance provision

	1997	1996
	£m	£m
At 1 April	**20.7**	23.9
Charge for the year	**24.1**	23.4
Expenditure in the year	**(32.4)**	(26.6)
At 31 March	**12.4**	20.7

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

(c) Deferred income

	1997	1996
	£m	£m
At 1 April	**35.5**	33.3
Received during the year	**2.5**	4.1
Released to profit and loss account	**(1.0)**	(1.9)
At 31 March	**37.0**	35.5

(d) Restructuring provision

	Note	1997	1996
		£m	£m
At 1 April		**19.0**	10.1
Charge for the year	4	-	20.1
Transferred to group undertaking		**(2.6)**	-
Utilised in the year		**(5.0)**	(11.2)
At 31 March		**11.4**	19.0

20 Called up share capital

	1997 £m	1996 £m
Authorised:		
301,050,000 ordinary shares of £1 each	**301.1**	301.1
Allotted, called up and fully paid:		
276,050,000 ordinary shares of £1 each	**276.1**	276.1

21 Reserves

Profit and loss account

	1997 £m	1996 £m
At 1 April	**806.8**	750.4
Profit retained for the year	**68.0**	56.4
At 31 March	**874.8**	806.8

22 Cash flow from operating activities

	1997 £m	1996 £m
Operating profit	**168.3**	150.7
Depreciation of tangible fixed assets	**39.3**	41.6
Amounts written off tangible fixed assets	**0.8**	1.1
Infrastructure maintenance provision	**(8.3)**	(3.2)
Amortisation of grants and contributions	**(1.0)**	(1.9)
Net increase in stocks	**-**	(0.8)
Net increase in debtors	**(8.9)**	(4.5)
Net increase/(decrease) in creditors	**4.5**	(9.5)
Restructuring provisions	**(7.6)**	8.9
Cash flow from operating activities	**187.1**	182.4

23 Reconciliation of net cash flow to movement in net debt

	1997 £m	1996 £m
(Decrease)/increase in cash in the year	**(10.7)**	4.8
Cash inflow from decrease in liquid resources	**(43.9)**	(45.9)
Cash inflow from increase in debt and lease financing	**(64.1)**	(29.5)
Movement in net debt in the year	**(118.7)**	(70.6)
Net debt at 1 April	**(176.9)**	(106.3)
Net debt at 31 March	**(295.6)**	(176.9)

24 Analysis of net debt

(a) Movements in the year

	At 31 March 1997 £m	Cash Flow £m	At 1 April 1996 £m
Net cash:			
Cash at bank and in hand	**0.9**	(2.5)	3.4
Bank overdraft	**(28.4)**	(8.2)	(20.2)
	(27.5)	(10.7)	(16.8)
Liquid resources:			
Current asset investments	**181.6**	(43.9)	225.5
Debt:			
Finance leases	**(140.1)**	(66.7)	(73.4)
Debts falling due within one year	**(2.7)**	(0.1)	(2.6)
Debts falling due after one year	**(306.9)**	2.7	(309.6)
	(449.7)	(64.1)	(385.6)
Net debt	**(295.6)**	(118.7)	(176.9)

(b) Year end reconciliation

	1997 £m	1996 £m
Cash at bank and in hand	**0.9**	3.4
Current asset investments	**181.6**	225.5
Bank overdraft	**(28.4)**	(20.2)
Finance leases due after one year	**(140.1)**	(73.4)
Debt due within one year	**(2.7)**	(2.6)
Debt due after one year	**(306.9)**	(309.6)
	(295.6)	(176.9)

25 Directors' and officers' loans and transactions

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

26 Pension schemes

Hyder plc operates as principal employer two funded defined benefit pension schemes - the Water Pension Scheme (WPS) and the Water Mirror Image Pension Scheme (WMIS) for the benefit of all eligible employees of the company. The assets of the schemes are held separately from the assets of the group and are administered by independent trustees.

The pension cost for the WPS and WMIS has been assessed in accordance with the advice of William M. Mercer Limited, consulting actuaries, using the projected unit method for WPS and the attained age method for WMIS. For funding purposes the main actuarial assumptions used are based upon investment growth of 9% per annum, pay growth of 7% per annum and increases to pensions in payment and deferred pensions of 5% per annum.

The last actuarial valuations for WPS and WMIS were carried as at 31 March 1996 with the market values being £225.3m and £75.5m respectively. Using the assumptions adopted for the Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs", the actuarial value of assets represented 107% for WPS and 114% 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 WPS and WMIS are spread over the future working lifetime of employees. For accounting purposes the actuarial assumption for pay growth for WPS and WMIS has been reduced to 6.5% per annum as compared to 7% per annum used for funding purposes.

The total pension cost for the period was £5.0m (1996 £6.3m).

27 Contingent liabilities

On 2 May 1997, the Labour Party became the Government of the United Kingdom. The Labour Party's election manifesto contained proposals for a "windfall levy" of unspecified amount to be imposed on United Kingdom utility companies. The windfall levy has been reflected in the Government's legislative proposals for 1997-98. However, details of the application of the proposed levy and its basis of calculation have not been published. Therefore it is not possible for the company to ascertain whether or not it will be liable to a levy, and if it were, the amount that would be charged. Provision for the company's liability, if any, in respect of such a levy will therefore be charged in arriving at the results of the group once details of the levy and its application have been determined.

The company has provided guarantees in respect of the principal and interest payments relating to Eurobonds issued by its subsidiary undertaking, Welsh Water Utilities Finance Plc, amounting to £200m (1996 £200m).

The company is also a participant in a cash pooling arrangement operated by National Westminster Bank Plc in the United Kingdom. The company has guaranteed the bank overdraft balances of the participating companies, all of which are fellow subsidiaries, subject to a maximum amount equal to the company's own cash balance with the bank. At 31 March 1997 the overdrafts of fellow subsidiary companies in the cash pooling arrangement amounted to £22.2m (1996 £13.4m).

28 Elan aqueduct

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

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

29 Related party transactions

In accordance with the exemption afforded by Financial Reporting Standard 8 there is no disclosure in these financial statements of transactions with entities that are part of the Hyder plc group (note 30).

30 Ultimate holding company

The ultimate holding company is Hyder plc which is registered in England and Wales.

The financial statements of Hyder plc can be obtained from the company secretary of Hyder plc, PO Box 295, Alexandra Gate, Rover Way, Cardiff, CF2 2UE.

	Year ended 31 March				
	1997	**1996**	**1995**	**1994**	**1993**
	£m	**£m**	**£m**	**£m**	**£m**
Turnover	**428.5**	430.9	415.5	396.2	363.1
Operating profit	**168.3**	150.7	152.8	153.1	132.5
Profit on disposal of fixed assets	**0.9**	0.7	0.2	0.3	2.2
Profit on ordinary activities before interest and taxation	**169.2**	151.4	153.0	153.4	134.7
Net interest (payable)/receivable	**(20.2)**	(12.8)	(10.8)	(4.4)	4.3
Profit on ordinary activities before taxation	**149.0**	138.6	142.2	149.0	139.0
Taxation	**(2.0)**	(15.2)	(4.0)	(9.4)	1.7
Profit on ordinary activities after taxation	**147.0**	123.4	138.2	139.6	140.7
Dividends	**(79.0)**	(67.0)	(65.0)	(98.0)	(74.7)
Retained profit for the year	**68.0**	56.4	73.2	41.6	66.0
Fixed assets	**1,606.6**	1,450.7	1,305.0	1,162.7	1,045.6
Net current assets	**55.0**	94.0	147.5	107.1	44.2
Total assets less current liabilities	**1,661.6**	1,544.7	1452.5	1,269.8	1,089.8
Creditors: amounts falling due after more than one year	**(449.9)**	(386.6)	(358.7)	(267.7)	(133.8)
Provisions for liabilities and charges	**(60.8)**	(75.2)	(67.3)	(48.8)	(44.3)
Net assets	**1,150.9**	1,082.9	1,026.5	953.3	911.7
Capital and reserves					
Called up share capital	**276.1**	276.1	276.1	276.1	276.1
Reserves	**874.8**	806.8	750.4	677.2	635.6
	1,150.9	1,082.9	1,026.5	953.3	911.7

Prior years' figures have been restated to reflect subsequent changes in accounting policies.