

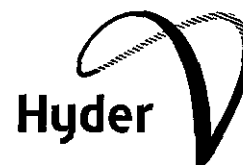
Registered no. 2366777

Dwr Cymru Cyfyngedig

Directors' report and financial statements

for the year ended 31 March 2000

A Hyder group company



Registered Office:-
Plas y Ffynnon
Cambrian Way
BRECON
Powys, LD3 7HP

Contents	Page
Directors and advisors	1
Directors' report	2 - 5
Directors' responsibilities for the financial statements	6
Auditors' report to the members of Dwr Cymru Cyfyngedig	7
Principal accounting policies	8 - 10
Profit and loss account	11
Balance sheet	12
Cash flow statement	13
Reconciliation of movements in shareholder's funds	14
Notes to the financial statements	15 - 31

Directors and advisors

Directors

G A Hawker	Non-executive director and Chairman
M P Brooker	Managing Director
G J Miles	Finance Director
C A Jones	Director
N C Annett	Director
R J Illidge	Director
G W Edwards	Director
J D Williams	Director (appointed 12.5.99)
P B Moriarty	Non-executive director
D H Thomas	Non-executive director

Company secretary

R G Curtis

Auditors

PricewaterhouseCoopers

Solicitors

Edwards Geldard

Principal bankers

National Westminster Bank Plc

Directors' report

The directors have pleasure in presenting their annual report to the shareholders, together with the audited financial statements for the year ended 31 March 2000 on pages 8 to 31.

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 £98.0m (1999 £115.0m). The profit attributable to ordinary shareholders amounted to £85.1m (1999 £92.1m).

The directors recommend payment of a final dividend for the year ended 31 March 2000 of £10m making the total dividend on ordinary shares for the year £15m (1999 £44m). In addition a preference dividend of £14m (1999 £14m) was paid in respect of the year ended 31 March 2000.

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 £32.4m (1999 £33.7m). 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 2000.

Directors' interests in shares

The directors who held office throughout the year are listed on page 1. There were no significant contracts subsisting with the company during or at the end of the year, in which any director is or was materially interested (other than service contracts). 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 ultimate parent company, Hyder plc, at 31 March 2000 and 31 March 1999 are as set out below :-

Ordinary and Preference Shareholdings

	Ordinary shares of 120p		Cumulative redeemable preference shares of £1	
	31 March 2000	31 March 1999	31 March 2000	31 March 1999
N C Annett	648	573	558	558
R J Illidge	1,586	1,463	3,985	3,985
C A Jones	132	60	-	-
P B Moriarty	-	-	-	-
D H Thomas	-	-	-	-
G J Miles	130	63	-	-
G W Edwards	677	2,306	-	-
J D Williams*	4,264	5,780	1,314	1,484
	<u>7,437</u>	<u>8,686</u>	<u>5,857</u>	<u>6,027</u>

Directors' interests in shares (continued)

Executive and Sharesave Option Holdings

	Executive options over ordinary shares of 120p		Share Save Options			
	31 March 2000	31 March 1999	31 March 2000	31 March 1999	Exercise Price	Exercise Period
N C Annett	7,209	7,209	1,983	1,983	522p	1/2/2000-31/7/2000
R J Illidge	-	-	-	806	522p	1/10/1999-31/3/2000
			1,337	1,337	650p	1/9/2002-28/2/2003
C A Jones	-	-	1,404	1,404	650p	1/9/2002-28/2/2003
P B Moriarty	-	-	-	-		
D H Thomas	-	-	-	-		
G J Miles	-	-	-	1,004	522p	01/10/1999-31/3/2000
J D Williams*	-	-	1,818	1,818	425p	01/3/2000-31/8/2000
			1,581	1,581	650p	01/9/2002-28/2/2003
G W Edwards	-	-	2,484	2,484	650p	01/9/2002-28/2/2003
	<u>7,209</u>	<u>7,209</u>	<u>10,607</u>	<u>12,417</u>		

N C Annett holds 7,209 executive options at an exercise price of 648p with an exercise period of 24/8/1996-24/8/2003.

G W Edwards also holds loan notes in multiples of £1 to the value of £24,000

G A Hawker and M P Brooker are directors of Hyder plc and their interests are disclosed in the directors' report of that company.

G W Edwards sold 1,819 ordinary shares during the year.

J D Williams sold 170 preference shares during the year.

G J Miles had 1,004 options lapse during the year.

R J Illidge had 806 options lapse during the year.

* As at Date of Appointment

Policy on the payment of creditors

It is company policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated the company endeavours to adhere to the suppliers' standard terms. The average payment period in the year was 92 days (1999 75 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.

Employment policies

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

The company is committed to achieving a balanced workforce by recruiting and developing employees in a fair and equitable way. Being members of Opportunity 2000 is part of that commitment and the company is seeking to combine this approach in a broader sense with initiatives already in place to achieve a better balance in its workforce. Working 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. During the year, all of the company's employees participated 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 £92,600 (1999 £81,500).

Year 2000 and Euro costs

Year 2000 issues were addressed on behalf of Dwr Cymru Cyfyngedig as part of a Hyder plc group initiative. The company has not experienced any significant problems in its business critical systems following 1 January 2000. Current contingency plans will be kept in place should any issues arise.

Preparations for Euro compliance are at an early stage. Costs incurred to date have been negligible and it is too early to estimate future compliance costs.

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 31st July 2000.

Dividend

The company has declared dividends on ordinary shares for the year ended 31 March 2000 of £15m (1999 £44m) to its shareholder, Hyder Utilities (Holdings) Ltd. 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 broadly 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 and the management of economic risks, 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.

Auditors

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

By order of the Board



R G Curtis
Company Secretary

11 July 2000

Directors' responsibilities for the financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the year. In preparing the financial statements, the directors ensure that appropriate accounting policies have been adopted and applied consistently, and that reasonable and prudent judgements have been made. The directors also confirm that applicable accounting standards have been followed and that reasonable and prudent judgements and estimates have been made.

It is the directors' responsibility to maintain adequate accounting records and to institute and maintain systems and controls designed to safeguard the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



R G Curtis
Company Secretary

11 July 2000

We have audited the financial statements on pages 8 to 31, which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 6, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our professional ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

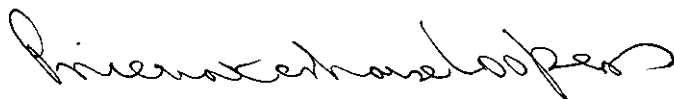
Basis of opinion

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 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cardiff

11 July 2000

Principal accounting policies

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom and, except for the treatment of certain grants and contributions, comply with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in the "Grants and customer contributions" 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 Financial Reporting Standard 16- Current Tax. In addition the Urgent Issues Task Force ("UITF") has issued a number of abstracts in the year. Where relevant these financial statements comply with the new standards and UITF abstracts and have adopted in full FRS 15-Tangible Fixed Assets.

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.

Principal accounting policies

Tangible fixed assets and depreciation

Tangible fixed assets comprise :

- (i) infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- (ii) other assets (including properties, overground operational structures and equipment and fixtures and fittings).

Infrastructure assets

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

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

Other assets

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

Freehold buildings	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.

Principal accounting policies

Grants and customer contributions

Grants and customer contributions relating to infrastructure assets have been offset against fixed assets (see note 9 (c)).

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

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 on borrowings and current asset investments, are recognised by adjusting interest payable or receivable as appropriate.

Research and development

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

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 2000

	Note	2000 £m	1999 £m
Turnover	2	476.9	459.3
Net operating costs	3	(324.9)	(292.9)
Operating profit		152.0	166.4
Before exceptional items :-			
Continuing operations		186.1	166.4
Exceptional items	4	(34.1)	-
Operating profit		152.0	166.4
Profit on disposal of fixed assets		0.3	0.5
Profit on ordinary activities before interest		152.3	166.9
Interest receivable		2.7	6.1
Interest payable	6	(57.0)	(58.0)
Profit on ordinary activities before taxation		98.0	115.0
Taxation	7	1.1	(8.9)
Profit on ordinary activities after taxation		99.1	106.1
Dividends on preference shares	8	(14.0)	(14.0)
Profit attributable to ordinary shareholder		85.1	92.1
Dividends on ordinary shares	8	(15.0)	(44.0)
Retained profit for the year	22	70.1	48.1

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.

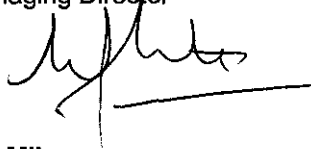
Balance sheet at 31 March 2000

	Note	2000 £m	1999 £m
Fixed assets			
Tangible assets	9	2,144.3	1,980.6
Investments	10	0.1	0.1
		<u>2,144.4</u>	<u>1,980.7</u>
Current assets			
Stocks and work in progress	11	3.8	6.0
Debtors	12	88.9	101.9
Current asset investments	13(a)	37.8	71.9
Cash at bank and in hand		7.3	1.6
		<u>137.8</u>	<u>181.4</u>
Current liabilities			
Creditors: amounts falling due within one year	14(a)	(309.8)	(244.0)
Net current (liabilities)		<u>(172.0)</u>	<u>(62.6)</u>
Total assets less current liabilities		<u>1,972.4</u>	<u>1,918.1</u>
Creditors: amounts falling due after more than one year			
	14(b)	(781.9)	(792.8)
Provisions for liabilities and charges	19	(16.1)	(21.0)
Deferred income	20	(40.3)	(40.3)
Net assets		<u>1,134.1</u>	<u>1,064.0</u>
Capital and reserves			
Called up share capital	21	476.1	476.1
Reserves	22	658.0	587.9
Equity shareholders' funds		934.1	864.0
Non-equity shareholders' funds		200.0	200.0
Total shareholders' funds		<u>1,134.1</u>	<u>1,064.0</u>

The financial statements on pages 8 to 31 were approved by the Board of directors on 11 July 2000 and were signed on its behalf by:



M P Brooker
Managing Director



G J Miles
Finance Director

Cashflow statement for the year ended 31 March 2000

	Note	2000 £m	1999 £m
Cash flow from operating activities	23	253.3	248.0
Returns on investments and servicing of finance			
Interest received		2.8	7.9
Interest paid		(44.9)	(43.8)
Preference dividends paid		(14.0)	(21.0)
Interest element of finance lease rental payments		(16.2)	(9.7)
		(72.3)	(66.6)
Taxation			
UK corporation tax paid		(11.2)	(5.5)
Group relief received/(paid)		3.6	(9.1)
		(7.6)	(14.6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(242.1)	(287.7)
Sale of tangible fixed assets		0.8	0.8
Grants and contributions received		7.0	11.1
		(234.3)	(275.8)
Equity dividends paid		(34.7)	(28.0)
Cash outflow before use of liquid resources and financing		(95.6)	(137.0)
Management of liquid resources			
Net decrease in deposits		34.1	61.1
Financing			
Loan received from parent undertaking		100.0	40.0
Loan repaid to parent undertaking		-	(40.0)
Loan repayments		(36.3)	(7.0)
Finance lease received		-	92.1
		63.7	85.1
Increase in cash in the year	24	2.2	9.2

Reconciliation of movements in shareholder's funds for the year ended 31 March 2000

	2000 £m	1999 £m
Profit for the year attributable to ordinary shareholder	85.1	92.1
Ordinary dividends	(15.0)	(44.0)
Net increase in shareholder's funds	70.1	48.1
At 1 April	1,064.0	1,015.9
At 31 March	1,134.1	1,064.0

Notes to the financial statements

1 Consolidated financial statements

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

2 Segmental analysis by class of business

(a) Turnover

	2000 £m	1999 £m
Regulated water and sewerage activities	472.7	456.0
Non regulated activities	4.2	3.3
	<u>476.9</u>	<u>459.3</u>

Turnover is stated net of customer rebates of £11.6m (1999 - £11.5m).

(b) Profit on ordinary activities before taxation

	2000 £m	1999 £m
Regulated water and sewerage activities		
Operating profit *	151.6	166.1
Profit on disposal of fixed assets	0.3	0.5
Interest payable	(55.2)	(52.9)
	<u>96.7</u>	<u>113.7</u>
	2000	1999
	£m	£m
Non-regulated activities		
Operating profit	0.4	0.3
Interest receivable	0.9	1.0
	<u>1.3</u>	<u>1.3</u>

* Operating results as disclosed above, are after deducting exceptional items of £34.1m (1999 - Nil) (see Note 4). The operating profit, prior to deducting the exceptional items, is set out below:

Operating profit	<u>185.7</u>	<u>166.1</u>
------------------	--------------	--------------

2 Segmental analysis by class of business (continued)

(c) Net assets

	2000 £m	1999 £m
Regulated water and sewerage activities	1,116.5	1,047.7
Non-regulated activities	17.6	16.3
	1,134.1	1,064.0

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

3 Net operating costs

	Note	2000 Before Exceptional Items £m	2000 Exceptional items (Note4) £m	2000 Total £m	1999 Total £m
Staff costs	5(b)	47.6	-	47.6	51.1
Severance and redundancy costs	4	-	14.1	14.1	-
Depreciation:					
-Own assets		70.3	-	70.3	67.1
-Assets held under finance leases		10.4	-	10.4	9.4
Research and development		0.3	-	0.3	0.1
Rentals under operating leases:					
-Hire of plant and equipment		8.1	-	8.1	7.8
-Other		0.2	-	0.2	0.2
Fees paid to auditors:					
-Audit services		0.1	-	0.1	0.1
-Other services		0.1	-	0.1	0.1
Other operating charges		170.2	20.0	190.2	172.5
Amortisation of grants and contributions	20	(1.3)	-	(1.3)	(1.3)
Own work capitalised		(15.1)	-	(15.1)	(13.5)
Net rents receivable		(0.1)	-	(0.1)	(0.7)
		290.8	34.1	324.9	292.9

4 Exceptional items

	2000 £m
By type of provision:	
Severance and redundancy costs	14.1
Bad debt provision	20.0
	<u>34.1</u>

During the financial year, the regulated utility and related managed services businesses of the Hyder group (including Dwr Cymru Cyfyngedig) undertook a programme of reorganisation which involved job reductions. An element of the job reductions were within Dwr Cymru Cyfyngedig. All job reductions were achieved by means of voluntary redundancy. To meet the cost of this restructuring a charge of £14.1m has been made for the year ended 31 March 2000. The effect of this exceptional item on the taxation charge for the period is £1.6m.

The company's ability to collect revenue from certain of its customers has been reduced due to the government's decision to ban water disconnections and its ruling on Watercard last year. Therefore the bad debt provision has been re-assessed and an exceptional charge of £20m has been made for the year. The effect of this exceptional item on the taxation charge for the period is £6.0m.

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:

	2000 £'000	1999 £'000
Aggregate emoluments and other benefits	<u>578</u>	<u>527</u>
Highest paid director:		
Aggregate emoluments and other benefits	<u>134</u>	<u>94</u>
Accrued pension under defined benefit scheme	<u>42</u>	<u>77</u>

Retirement benefits are accruing to eight directors (1999 - seven) under defined benefit schemes. No director has exercised share options in the company's ultimate parent company, Hyder Plc, during the year.

(b) Staff costs

	2000 £m	1999 £m
Wages and salaries	41.5	44.1
Social security costs	3.3	3.5
Pension costs	2.8	3.5
	<u>47.6</u>	<u>51.1</u>

Of the above, £9.2m (1999 £8.3m) has been charged to capital.

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

	2000 Number	1999 Number
Regulated water and sewerage activities	<u>1,737</u>	<u>1,906</u>

6 Interest payable

	2000 £m	1999 £m
On bank loans and overdrafts	1.2	1.9
On other loans	43.7	42.6
On finance leases	12.1	13.5
	<u>57.0</u>	<u>58.0</u>

Included in other loans are amounts payable to group undertakings of £26.2m (1999 £24.6m).

7 Taxation

	2000 £m	1999 £m
Based on the results for the year:		
Group relief payable	8.3	17.3
	<u>8.3</u>	<u>17.3</u>
Prior year adjustments:		
Corporation tax receivable	(12.6)	(12.3)
Group relief payable	3.2	3.9
	<u>(1.1)</u>	<u>8.9</u>

The tax charge has been reduced by £20.9m (1999 £21.7m) in respect of excess tax allowances over depreciation and other timing differences, for which no provision is made.

The effect of an exceptional item on the taxation charge for the period is £7.6m as per note 4.

8 Dividends

	2000 £m	1999 £m
(a) Dividends on ordinary shares		
Interim paid : 1.81p per share (1999 5.19p per share)	5.0	14.3
Final proposed : 3.62p per share (1999 10.76p per share)	10.0	29.7
	<u>15.0</u>	<u>44.0</u>
(b) Dividends on preference shares		
Paid on 7% preference shares	14.0	14.0
	<u>14.0</u>	<u>14.0</u>

9 Tangible fixed assets

(a) analysis by type

	Freehold land and buildings	Infra- structure assets	Operational structures	Vehicles, plant, equipment and computer hardware & software	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 1999	47.0	1,060.0	1,382.7	170.5	2,660.2
Additions	-	137.8	103.1	11.1	252.0
Grants and contributions	-	(6.6)	-	-	(6.6)
Disposals	(0.2)	(1.0)	-	-	(1.2)
Amounts written off in year	-	-	-	(0.3)	(0.3)
Transfers from Group Companies	1.6	-	-	-	1.6
At 31 March 2000	48.4	1,190.2	1,485.8	181.3	2,905.7
Accumulated depreciation					
At 1 April 1999	13.3	240.4	310.6	115.3	679.6
Charge for the year	0.6	34.7	36.6	8.8	80.7
Eliminated on disposal	(0.1)	(1.0)	-	-	(1.1)
Impairment losses	1.6	-	-	-	1.6
Transfers from Group Companies	0.6	-	-	-	0.6
At 31 March 2000	16.0	274.1	347.2	124.1	761.4
Net book value					
At 31 March 2000	32.4	916.1	1,138.6	57.2	2,144.3
At 31 March 1999	33.7	819.6	1,072.1	55.2	1,980.6
Analysis of net book value at 31 March 2000					
Owned	32.4	916.1	783.0	54.0	1,785.5
Held under finance leases	-	-	358.8	-	358.8
	32.4	916.1	1,141.8	54.0	2,144.3

Tangible fixed assets at 31 March 2000 include £358.0m (1999 £345.9m) 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	Total £m
Cost				
At 1 April 1999	1,151.6	1,348.4	160.2	2,660.2
Additions	60.3	183.8	7.9	252.0
Grants and contributions	(3.5)	(3.1)	-	(6.6)
Disposals	(0.6)	(0.4)	(0.2)	(1.2)
Assets written off in year	-	-	(0.3)	(0.3)
Transfers from Group Companies	-	-	1.6	1.6
At 31 March 2000	1,207.8	1,528.7	169.2	2,905.7
Accumulated depreciation				
At 1 April 1999	274.1	305.4	100.1	679.6
Charge for the year	38.6	33.2	8.9	80.7
Eliminated on disposal	(0.6)	(0.4)	(0.1)	(1.1)
Impairment Losses	-	-	1.6	1.6
Transfers from Group Companies	-	-	0.6	0.6
At 31 March 2000	312.1	338.2	111.1	761.4
Net book value				
At 31 March 2000	895.7	1,190.5	58.1	2,144.3
At 31 March 1999	877.5	1,043.0	60.1	1,980.6
Analysis of net book value at 31 March 2000				
Owned	760.0	967.4	58.1	1,785.5
Held under finance leases	135.7	223.1	-	358.8
	895.7	1,190.5	58.1	2,144.3

9 Tangible fixed assets (continued)

(c) The accounting treatment for grants and customer contributions in respect of infrastructure assets is described in the principal accounting policies on page 10. 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 10 has been adopted in accordance with section 227(6) of the Companies Act 1985 in order to show a true and fair view, as in the opinion of the directors, it is not appropriate to treat grants and contributions on infrastructure assets as deferred income. The fixed assets to which they relate do not have determinable finite lives and any grants and contributions relating to such assets would not separately be taken to the profit and loss account, but are reflected in the depreciation charge. As a consequence the net book value for fixed assets and deferred income is £154.9m (1999 £148.3m) lower than it would have been had this treatment not been adopted.

10 Fixed asset investments

The company has £0.1m investments (1999 £0.1m) in the following entities all of whom are incorporated in Great Britain:-

Subsidiary	Nature of Business	Description of shares held	Proportion Held
Welsh Water Utilities Finance PLC	Investment Company	£1 ordinary shares	100%
Joint Venture			
Hyder Utilities (Operations) Ltd	Operational Activities	£1 ordinary shares	50%

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

	2000 £m	1999 £m
Raw materials and consumables	3.3	5.0
Work in progress	0.5	1.0
	<u>3.8</u>	<u>6.0</u>

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

12 Debtors

	2000 £m	1999 £m
Amounts falling due within one year:		
Trade debtors	35.6	40.2
Amounts owed by group undertakings	3.2	1.8
Other debtors	20.2	15.0
Prepayments and accrued income	29.8	37.3
	<u>88.8</u>	<u>94.3</u>
Amounts falling due after more than one year:		
Other debtors	0.1	7.6
	<u>88.9</u>	<u>101.9</u>

13 Current asset investments

(a) Management of liquid resources

	2000 £m	1999 £m
Investments in:		
Fixed term and call deposits	37.8	49.0
Other money market investments	-	22.9
	<u>37.8</u>	<u>71.9</u>
Amounts becoming due:		
Within one year	37.8	71.9
	<u>37.8</u>	<u>71.9</u>

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 interest rate swap arrangements, excluding the long dated interest rate swap specific to finance lease borrowing (note 16), had a notional principal balance of £ Nil (1999 £29.2m). The arrangements terminated in December 1999. The interest rate at the date of termination was 6.12% (1999 6.12%).

14 Creditors

	Note	2000 £m	1999 £m
(a) Amounts falling due within one year:			
Bank loans and overdrafts		28.8	25.3
Other loans	15	8.1	36.3
Trade creditors		89.3	68.0
Amounts owed to group undertakings		110.8	16.0
Dividends payable		10.0	29.7
Corporation tax		-	0.4
Other taxation and social security		1.2	1.5
Other creditors		61.6	66.8
		309.8	244.0

Amounts owed to group undertakings include a loan of £100m at a variable interest rate payable at one months notice.

(b) Amounts falling due after more than one Year

		2000 £m	1999 £m
Loans	15	197.9	206.0
Obligations under finance leases	16	265.4	265.4
Amounts owed to group undertakings		317.3	317.3
Other creditors - between one and five years		1.3	4.1
		781.9	792.8

Amounts owed to group undertakings comprise loans of £99.1m and £98.2m at an interest rate of 7.55%, repayable in 2004 and 2014 respectively and loans of £60.0m and £60.0m at an interest rate of 7.84% repayable in 2007 and 2017 (1999 loans of £99.1m and £98.2m at interest rates of 7.55% repayable 2004 and 2014 and loans of £60.0m and £60.0m at an interest rate of 7.84% repayable in 2007 and 2017).

15 Other loans

	2000 £m	1999 £m
Repayable as follows:		
Within one year	8.1	36.3
Between one and two years	8.1	8.1
Between two and five years	24.2	24.2
After more than five years	165.6	173.7
	<u>206.0</u>	<u>242.3</u>
Repayable wholly within five years	-	29.2
Repayable wholly after five years	140.0	140.0
Repayable by instalments after five years	66.0	73.1
	<u>206.0</u>	<u>242.3</u>

Interest rates on these loans range between 4.98% and 10.15%. (1999 6.12% and 10.15%).

16 Finance leases

	2000 £m	1999 £m
<i>Amounts due under finance leases after more than five years</i>	<u>265.4</u>	<u>265.4</u>

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 £57.9m. This obligation reduces over a term of 14 years.

17 Capital commitments

	2000 £m	1999 £m
Contracted for but not provided in the financial statements	<u>130.9</u>	<u>158.0</u>

In order to meet additional quality and service standards, together with growth and new demands, the company has capital investment obligations over the next five years amounting to approximately £1.13 billion at current prices in the regulated water and sewerage business.

18 Leasing commitments

	Land and buildings		Other	
	2000 £m	1999 £m	2000 £m	1999 £m
At 31 March 2000 there were revenue commitments, in the ordinary course of business in the next year for the payment of rentals on non cancellable operating leases expiring:				
Between two and five years	0.1	0.1	-	-
After five years	0.1	0.1	-	-
	0.2	0.2	-	-
Due to group undertaking expiring:				
within one year	-	-	2.0	2.3
between one and two years	-	-	1.3	1.6
between two and five years	-	-	1.6	2.4
After five years	-	-	0.3	0.8
	-	-	5.2	7.1

19 Provisions for liabilities and charges

		2000	1999
	Note	£m	£m
Deferred taxation	(a)	-	-
Restructuring provision	(b)	14.2	20.1
Provision for uninsured losses	(c)	1.9	0.9
		16.1	21.0

(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	
	2000 £m	1999 £m	2000 £m	1999 £m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	-	310.3	270.8
Other timing differences	-	-	(3.4)	(7.5)
	-	-	306.9	263.3

(b) Restructuring provision

This provision is in respect of payments to be made relating to the restructuring of the business for the items below and will be utilised over the next twelve months.

	2000 £m	2000 £m	2000 £m	2000 £m
	Severance	Property	Other	Total
At 1 April	14.7	5.4	-	20.1
Charge to the profit and loss account	14.1	0.6	0.3	15.0
Utilised in the year	(16.4)	(4.5)	-	(20.9)
At 31 March	12.4	1.5	0.3	14.2

	1999 £m	1999 £m	1999 £m	1999 £m
	Severance	Property	Other	Total
At 1 April	20.0	6.4	-	26.4
Utilised in the year	(5.3)	(1.0)	-	(6.3)
At 31 March	14.7	5.4	-	20.1

(c) Provision for uninsured losses

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

	2000 £m	1999 £m
At 1 April	0.9	1.1
Charge for the year	1.5	0.3
Utilised in year	(0.5)	(0.5)
At 31 March	1.9	0.9

20 Deferred Income

This is in respect of income received and receivable upon completion of assets under construction and will be utilised over the lifetime of those assets.

	2000 £m	1999 £m
At 1 April	40.3	40.4
Received and receivable during the year	1.3	1.2
Released to profit and loss account	(1.3)	(1.3)
At 31 March	40.3	40.3

21 Called up share capital

	2000 £m	1999 £m
Authorised:		
301,050,000 ordinary shares of £1 each (1999 301,050,000)	301.1	301.1
200,000,000 7% preference shares of £1 each (1999 200,000,000)	200.0	200.0
	<u>501.1</u>	<u>501.1</u>
Allotted, called up and fully paid:		
276,050,000 ordinary shares of £1 each (1999 276,050,000)	276.1	276.1
200,000,000 7% preference shares of £1 each (1999 200,000,000)	200.0	200.0
	<u>476.1</u>	<u>476.1</u>

The 7% cumulative preference shares carry a fixed cumulative preference dividend at the rate of 7% per annum, payable ½ yearly in arrears on 31st March and 30th 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 by 6 months or more.

22 Reserves

Profit and loss account

	2000 £m	1999 £m
At 1 April	587.9	539.8
Profit retained for the year	70.1	48.1
At 31 March	<u>658.0</u>	<u>587.9</u>

23 Cash flow from operating activities

	2000 £m	1999 £m
Operating profit	152.0	166.4
Depreciation of tangible fixed assets	80.7	76.5
Amounts written off tangible fixed assets	-	6.2
Impairment losses on fixed assets	1.6	-
Amortisation of grants and contributions	(1.3)	(1.3)
Increase/(decrease) in provision for uninsured losses	1.0	(0.2)
Net decrease in stock	2.2	0.5
Net (increase)/decrease in debtors	18.3	(1.9)
Net increase in creditors	4.7	7.6
Decrease in restructuring provisions	(5.9)	(5.8)
Cash flow from operating activities	<u>253.3</u>	<u>248.0</u>

24 Reconciliation of net cash flow to movement in net debt

	2000 £m	1999 £m
Increase in cash in the year	2.2	9.2
Cash inflow from decrease in liquid resources	(34.1)	(61.1)
Cash inflow from increase in debt and lease financing	(63.7)	(85.0)
Increase in net debt in the year	(95.6)	(136.9)
Net debt at 1 April	(776.8)	(639.9)
Net debt at 31 March	(872.4)	(776.8)

25 Analysis of net debt

(a) Movements in the year

	At 31 March 2000 £m	Cash Flow £m	At 1 April 1999 £m
Net cash:			
Cash at bank and in hand	7.3	5.7	1.6
Bank overdraft	(28.8)	(3.5)	(25.3)
	(21.5)	2.2	(23.7)
Liquid resources:			
Current asset investments	37.8	(34.1)	71.9
Debt:			
Finance leases	(265.4)	-	(265.4)
Debts falling due within one year	(108.1)	(71.8)	(36.3)
Debts falling due after one year	(515.2)	8.1	(523.3)
	(888.7)	(63.7)	(825.0)
Net debt	(872.4)	(95.6)	(776.8)

(b) Year end reconciliation

	2000 £m	1999 £m
Cash at bank and in hand	7.3	1.6
Current asset investments	37.8	71.9
Bank overdraft	(28.8)	(25.3)
Finance leases due after one year	(265.4)	(265.4)
Debt due within one year	(108.1)	(36.3)
Debt due after one year	(515.2)	(523.3)
	(872.4)	(776.8)

26 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.

27 Pension schemes

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

The pension cost under the Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs" for the HWPS and WMIS has been assessed in accordance with the advice of William M. Mercer Limited, consulting actuaries, using the projected unit method for HWPS and the attained age method for WMIS. For funding purposes the main actuarial assumptions used are based upon investment growth of 6.5% per annum, pay growth of 4.5% per annum and increases to pensions in payment and deferred pensions of 3% per annum. The actuarial value of the assets was taken at 88% of the market value of the assets as at 31 March 1998.

The last actuarial valuations for HWPS and WMIS were carried out as at 31 March 1998 with the market values being £324.6m and £99.9m respectively. Using the assumptions adopted for the Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs", the actuarial value of assets represented 113% for HWPS and 118% for WMIS of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the surpluses in HWPS and WMIS are spread over the future working lifetime of employees. A prepayment of pension costs of £5.1m (1999 £3.6m) is included within prepayments and accrued income (note 12).

The total pension cost for the period was £2.8m (1999 £3.5m).

28 Contingent liabilities

The company has provided guarantees in respect of the principal and interest payments relating to Eurobonds issued by its subsidiary undertaking, Welsh Water Utilities Finance PLC, amounting to £200m (1999 £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 2000 the overdrafts of fellow subsidiary companies in the cash pooling arrangement amounted to £29.9m (1999 £29.8m).

29 Elan aqueduct

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

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

30 Related party transactions

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

31 Immediate and Ultimate holding company

The company's immediate parent is Hyder Utilities (Holdings) Ltd . The ultimate holding company and controlling party 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, Rôver Way, Cardiff, CF24 5UE.

Five year summary

	Year ended 31 March				
	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	476.9	459.3	444.2	428.5	430.9
Operating profit	152.0	166.4	149.7	168.3	150.7
Profit/(Loss) on disposal of fixed assets	0.3	0.5	1.6	0.9	0.7
Profit on ordinary activities before interest and taxation	152.3	166.9	151.3	169.2	151.4
Net interest payable	(54.3)	(51.9)	(36.2)	(20.2)	(12.8)
Profit on ordinary activities before taxation	98.0	115.0	115.1	149.0	138.6
Taxation	1.1	(8.9)	(9.1)	(2.0)	(15.2)
Profit on ordinary activities after taxation	99.1	106.1	106.0	147.0	123.4
Preference dividends	(14.0)	(14.0)	(7.0)	-	-
Ordinary dividends	(15.0)	(44.0)	(434.0)	(79.0)	(67.0)
Retained profit/(loss) for the year	70.1	48.1	(335.0)	68.0	56.4
Fixed assets	2,144.4	1,980.7	1,796.3	1,606.6	1,450.7
Net current liabilities	(172.0)	(62.6)	26.7	55.0	94.0
Total assets less current liabilities	1,972.4	1,918.1	1,823.0	1,661.6	1,544.7
Creditors: amounts falling due after more than one year	(781.9)	(792.8)	(735.7)	(449.9)	(386.6)
Provisions for liabilities and charges	(56.4)	(61.3)	(71.4)	(60.8)	(75.2)
Net assets	1,134.1	1,064.0	1,015.9	1,150.9	1,082.9
Capital and reserves					
Called up share capital	476.1	476.1	476.1	276.1	276.1
Reserves	658.0	587.9	539.8	874.8	806.8
Equity shareholders' funds	934.1	864.0	815.9	1,150.9	1,082.9
Non-equity shareholders' funds	200.0	200.0	200.0	-	-
Total shareholders' funds	1,134.1	1,064.0	1,015.9	1,150.9	1,082.9