

Hyder plc
PO Box 295
Alexandra Gate
Rover Way
Cardiff CF2 2UE

(formerly Welsh Water PLC)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 1996

Registered No. 2366776

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DIRECTORS AND ADVISORS

I R Evans	<i>(N)</i> Chairman
G A Hawker	<i>(N)</i> Chief Executive
B H Charles	Group Water Services Director
S J Doughty	Group Engineering Services Director
J M James	Group Commercial Director
J E Roberts	Chief Executive, South Wales Electricity plc
P J Twamley	Group Finance Director
A J Hales	<i>(N, R)</i> Non-executive director
D G Hawkins	<i>(A, N, R)</i> Non-executive director
T Knowles	<i>(A, N, R)</i> Non-executive director
R H Sellier	<i>(A, N, R)</i> Non-executive director

(A) Member of the Audit Committee

(N) Member of the Nominations Committee

(R) Member of the Remuneration Committee

COMPANY SECRETARY AND REGISTERED OFFICE

G W Williams
PO Box 295, Alexandra Gate, Rover Way, Cardiff, CF2 2UE

REGISTRARS

The Royal Bank of Scotland plc,
Securities Services - Registrars, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH

AUDITORS

Coopers & Lybrand

BROKERS

Kleinwort Benson Securities Limited
Brewin Dolphin Bell Lawrie Limited

SOLICITORS

Edwards Geldard
Slaughter and May

PRINCIPAL BANKERS

National Westminster Bank Plc
Midland Bank plc

FINANCIAL ADVISORS

NatWest Markets

CORPORATE GOVERNANCE STATEMENT

STATEMENT OF COMPLIANCE

Throughout the year the Company complied with all of the provisions of the Cadbury Committee's Code of Best Practice.

BOARD OF DIRECTORS

The Board is responsible to the shareholders for all aspects of the Company's performance and meets on a regular basis to review the strategic direction of all business activities and monitors performance against approved business plans and budgets.

The roles of Chairman and Chief Executive are held separately. The Board of Directors currently comprises the Chairman, the Chief Executive, five executive directors and four non-executive directors. All directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The non-executive directors are independent of management and free from any business or other relationship with the Company, other than as shareholders. The non-executive directors have full access to both the internal and external auditors and to management, and there is a formal procedure for non-executive directors to obtain independent professional advice in the furtherance of their duties should this be necessary. The non-executive directors have no financial interest in the Company other than by way of their fees and shareholdings as disclosed in the Report of the Directors and the Report of the Remuneration Committee. They do not participate in the Group's employee share ownership schemes and their service is not pensionable.

The Board has a formal Schedule of Matters reserved for its consideration or approval which includes the Group's strategy, major items of capital expenditure and certain material contracts.

The Audit Committee, under the chairmanship of T Knowles, comprises three of the non-executive directors and has written terms of reference. This Committee meets quarterly to monitor the adequacy of internal controls, accounting policies and financial reporting of the Company and the Group and receives reports from the internal and external auditors on a regular basis. The minutes of the Audit Committee meetings are reported to and considered by the Board.

The Remuneration Committee, under the chairmanship of D G Hawkins, comprises all of the non-executive directors, other than the Chairman, and has written terms of reference. This Committee meets as necessary to consider and determine the terms and conditions of employment of the executive directors, including salary, bonus, share option and pension entitlements. The minutes of the Remuneration Committee meetings are reported to the Board.

The Nominations Committee, appointed in April 1995, comprises the Chairman, the Chief Executive and the non-executive directors, has written terms of reference and meets as required. New directors are recommended for appointment by the Nominations Committee and it may consider and make recommendations on the composition and balance of the Board. The minutes of the Nominations Committee meetings are reported to and considered by the Board.

GROUP EXECUTIVE COMMITTEE

The executive directors are members of the Group Executive Committee, which is chaired by the Chief Executive, and also includes the Company Secretary, the Director of Group Development and the Managing Director of Hyder Services Limited. It meets on a monthly basis and acts as a general management committee which advises the Chief Executive to whom the responsibility for management of the Group is delegated by the Board.

INTERNAL FINANCIAL CONTROL

The Board of Directors has overall responsibility for the Group's system of internal financial control. The Audit Committee, as a committee of the Board, reviews the effectiveness of the system of internal financial control of the Group and receives reports from the internal and external auditors on a regular basis.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. There are also established procedures for planning and capital expenditure, and information and reporting systems for monitoring the Group's businesses and their performance. The Board has adopted a Code of Corporate Ethics applicable to all staff, setting out the standards which the Company expects of them.

Management at Group and operating levels have a responsibility for identifying risks facing each of the Group's businesses and for developing systems to mitigate and monitor risks. Clear parameters and guidelines continue to be codified for all major areas of risk and a Risk Management Forum oversees and monitors this process.

The directors have delegated to executive management implementation of the system of internal financial control throughout the Group. This includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records and compliance with accepted accounting principles in order to show a true and fair view.

The Group operates a comprehensive budgeting and financial reporting system which as a matter of routine compares actual out-turn to budgets, and approved business plans. Management accounts are prepared on a monthly basis and significant variances to plan are investigated with forecasts being revised on a regular basis. Business plans are prepared for a three year period, revised annually and are approved by the Board. Cashflow statements are prepared monthly and as part of the business plans to ensure that the Group has adequate funds and resources for the foreseeable future.

The internal financial control system is monitored and supported by an internal audit function that operates on a global basis and reports to management and the Audit Committee on the Group's operations. The priorities of the internal auditors are developed to focus on the areas of greatest risk to the Group determined on the basis of a risk management approach to audit. The head of internal audit has direct access to management and the Audit Committee. The external auditors are engaged to express an opinion on the financial statements. They review and test the system of internal financial control and the data contained in the financial statements to the extent necessary for expressing their opinion on the financial statements.

The Board believes that the Group's system of internal financial control can provide only reasonable and not absolute assurance that the assets are safeguarded, transactions authorised and recorded properly and that material errors and irregularities are either prevented or detected within a timely period.

GOING CONCERN

The Group's accounts have been prepared on the basis that the Group is a going concern. In arriving at their decision to prepare the accounts on a going concern basis, the directors have reviewed the Group's budget for 1996/97 and medium term business plans for 1996/97 to 1998/99 including capital expenditure plans. This included consideration of the cash flow implications of the plans and comparing these with the Group's cash resources and committed borrowing facilities.

By Order of the Board



G W Williams
Company Secretary

18 June 1996

REPORT BY THE AUDITORS TO HYDER PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 2 and 3 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non compliance with those paragraphs of the Code which is not disclosed.

Basis of opinion

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Company or Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on page 3 and going concern on page 3 in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 2 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.



Coopers & Lybrand
Chartered Accountants
Cardiff

18 June 1996

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their seventh annual report to shareholders, together with the audited financial statements for the year ended 31 March 1996 on pages 18 to 66.

CHANGE OF COMPANY NAME

The name of the Company was changed from Welsh Water PLC to Hyder plc on 25 March 1996 following approval from shareholders at an Extraordinary General Meeting on 21 March 1996.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in utility management and the provision of infrastructure services. Subsequent to the acquisition of South Wales Electricity plc, which became unconditional on 29 January 1996, the Group now provides electricity distribution and supply activities as well as water and sewerage based activities. In addition the Group provides an extensive range of infrastructure services.

The Group's strategy is based on exploiting its skills in utility management and infrastructure services. This will involve continued strong performance in the regulated sector services businesses and expanding that expertise into related services and adjacent markets. Acer, the Group's engineering business, acts as the catalyst for the provision of infrastructure services and gives an international capability.

Overall the business has performed satisfactorily during the year. Business restructuring charges of £55m have been made in relation to manpower reductions and other associated costs which will result in long term reductions in operating costs.

CONSOLIDATED RESULTS

Profit on ordinary activities before taxation amounted to £112.9m (1995 £120.4m). After preference dividends and appropriations of £7.8m (1995 £Nil) the profit attributable to ordinary shareholders amounted to £86.1m (1995 £101.4m). Ordinary dividends of £52.3m (1995 £49.6m) are recommended to be paid in respect of the year.

DIVIDEND ON ORDINARY SHARES

The directors recommend a final dividend of 26.1p (1995 24.6p) (net) per ordinary share, making a total ordinary dividend of 38.7p (1995 33.9p) (net) for the year to 31 March 1996. This will be paid on 7 October 1996 to ordinary shareholders whose names are on the register at the close of business on 9 July 1996.

DIVIDEND ON PREFERENCE SHARES

A preference dividend of 3.9375p (1995 Nil) (net) per preference share in respect of the six month period ending 31 July 1996 will be paid on 31 July 1996 to all preference shareholders whose names are on the register on 2 July 1996, making a total preference dividend of 7.875p (1995 Nil) for the year ended 31 July 1996.

FIXED ASSETS

Freehold land and buildings, excluding investment properties, are carried in the accounts at historical cost at a net book value of £59.9m (1995 £44.6m). 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 1996.

SHARE CAPITAL

As at 18 June 1996, the Company has not been notified of any beneficial interests amounting to 3% or more of the issued ordinary share capital of the Company as at the date of notification apart from the following:

The Capital Group Companies Inc.	4.80%
Norwich Union Fund Managers Limited	5.62%
Fidelity Investments	3.13%

DIRECTORS

The names of the current directors of the Company are shown on page 1. With effect from 29 January 1996 J E Roberts was appointed a director. All other directors served throughout the year.

DIRECTORS' SERVICE CONTRACTS AND INTERESTS

The Remuneration Committee, as a Committee of the Board, is responsible for determining the executive directors' service contracts and remuneration. A report by the Remuneration Committee is included on pages 9 to 15.

DIRECTORS' INTERESTS

There were no significant contracts subsisting during or at the end of the year with the Company or any of its subsidiaries in which any director is or was materially interested (other than service contracts).

Directors' interests in shares

The beneficial interests of the directors in the ordinary shares, preference shares and options to subscribe for ordinary shares of the Company at 31 March 1996 and 31 March 1995 were as follows:

	Ordinary shares of 120p		Cumulative redeemable preference shares of £1		Options over ordinary shares of 120p	
	31 March 1996	31 March 1995	31 March 1996	31 March 1995	31 March 1996	31 March 1995
I R Evans	4583	4583	4950	4950	3304	3304
G A Hawker	9222	9222	7938	7938	1550	41346
B H Charles	13536	2078	2245	2245	5357	58815
S J Doughty	1300	-	-	-	57673	57673
J M James	416	416	450	450	74938	74938
J E Roberts	1000	-#	-	-#	-	-#
P J Twamley	1916	1916	2070	2070	18944	99742
A J Hales	833	833	900	900	-	-
D G Hawkins	475	416	-	450	-	-
T Knowles	5415	5415	5850	5850	-	-
R H Sellier	233	233	252	252	-	-
	38929	25112	24655	25105	161766	335818

At date of appointment.

All interests in shares and share options at 31 March 1995 have been restated to reflect the share capital restructuring approved at the Annual General Meeting on 27 July 1995.

Details of share options exercised by the directors in the year are disclosed on page 14 of the Report of the Remuneration Committee.

During the period 1 April 1996 to 18 June 1996 there were no changes in the directors' interests.

None of the directors has or has had a beneficial interest in the shares of any subsidiary company.

POLICY ON THE PAYMENT OF CREDITORS

It is Group policy to comply with terms of payment agreed with suppliers. Where payment terms are not negotiated the Group endeavours to adhere with the suppliers standard terms.

EMPLOYMENT POLICIES

The Company recognises that its employees are key to both the present and future success of the Group and supports the fundamental belief that to maximise the potential of every individual there must be:-

- Significant investment in training and development.
- A supportive working environment.
- Employee participation and involvement in business matters.

To this end the Group is evolving a framework of comprehensive policies which will balance both Group and subsidiary needs. Across the Group all employees have the opportunity to discuss their individual performance and development in a focused way.

With an increasing international profile, the Group is seeking to maximise its human potential by encouraging employees to consider internal and external secondment opportunities as part of their personal development. This can only be achieved with knowledge of the Group's business aims and objectives, so keeping employees up to date with Company news and views continues to receive high priority. In-house newspapers and videos offer employees a wide range of information striking a balance between local and Group-wide issues.

The Group continues to formally consult employees at all levels in the spirit of partnership and co-operation and the use of employee opinion and attitude surveys provides the Group with valuable information upon which to base policy decisions.

The Group continues to monitor its equal opportunity policy following its membership of Opportunity 2000. A number of initiatives and policy changes have arisen as a result. The Group offers equality of opportunity and support for disabled employees and maintains good links with external organisations to encourage involvement in the workplace of disabled members of the wider community.

Share ownership continues to offer employees direct involvement in the Group.

RESEARCH AND DEVELOPMENT

Research and development is carried out primarily in the water supply and sewerage services and electricity services sectors of the Group.

CONTRIBUTIONS FOR CHARITABLE AND POLITICAL PURPOSES

During the year, there have been no political donations, and charitable donations amounted to £30,000 (1995 £51,000). In addition the Group has provided funding to community projects.

REGULATORY ACCOUNTS

The Instrument of Appointment of the Water and Sewerage Undertakers and the Public Electricity Supply Licence under which the Group's regulated water and electricity businesses operate requires specific accounting statements to be published. Copies of the regulatory accounts for Dwr Cymru Cyfyngedig and South Wales Electricity plc will be available from the Company Secretary after 30 September 1996.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Full details of the Annual General Meeting to be held on 26 July 1996 appear in the notice of Annual General Meeting enclosed separately with this report. This year, there are three items of special business in addition to the ordinary business of the meeting which deal with (i) the introduction of a long term incentive scheme for directors, (ii) amendments to the Company's share option schemes and (iii) the introduction of a scrip dividend alternative. The purpose of these resolutions is set out in the explanatory notes which accompanies the Notice of Meeting.

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



G W Williams
Company Secretary

18 June 1996

REPORT OF THE REMUNERATION COMMITTEE FOR THE YEAR ENDED 31 MARCH 1996

STATEMENT OF COMPLIANCE

Throughout the year the Company complied with Section A of the Best Practice Provisions on Remuneration Committees as annexed to the London Stock Exchange Listing Rules.

REMUNERATION COMMITTEE

The Committee consists of the non-executive directors under the chairmanship of D G Hawkins as set out below. None of the Committee has any personal financial interests in the Group (other than as a shareholder), has any conflict of interests arising from cross-directorships or has day-to-day involvement in running the business. The Committee consults the Chief Executive about its proposals and the performance of the other executive directors and has access to professional advice from inside and outside the Company.

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association and based upon independent advice in respect of fees paid to non-executive directors of similar companies. The fee paid to each non-executive director was £25,000 (1995 £25,000). Non-executive directors cannot participate in any of the Company's share option schemes and are not eligible to join the Company's pension scheme. The current terms of office of the non-executive directors, which are subject to renewal by agreement, expire at the conclusion of the Annual General Meeting in the following calendar years:

A J Hales	2000
D G Hawkins	1998
T Knowles	1999
R H Sellier	2000

However, appointments may be terminated earlier (without compensation) by the Company giving six months notice in writing or in certain other circumstances pursuant to the Articles of Association (including retirement by rotation) or legislation.

GROUP CHAIRMAN

With effect from 1 August 1996 the Group Chairman will cease to be an executive director and will assume a non-executive role. As a consequence the remuneration arrangements described below will cease on that date and new arrangements will be introduced appropriate to his change in status. Arrangements will also be made to terminate the obligations under the long term bonus arrangement.

The terms described below are those which applied during the year and will apply until 31 July 1996.

The Group Chairman's remuneration package has been designed to motivate, retain and reward him for enhancing value to shareholders. The performance measurement of the Group Chairman and the determination of his annual remuneration package is undertaken by the Committee. The Group Chairman does not play a part in any decision about his remuneration.

There are five main elements in the remuneration package for the Group Chairman:

- (a) basic annual salary;
- (b) annual bonus payment;
- (c) long term bonus arrangement;
- (d) share option incentives; and
- (e) pension arrangements.

GROUP CHAIRMAN (CONTINUED)

(a) Basic annual salary

The Group Chairman's basic salary is determined by the Remuneration Committee at the beginning of each year and when the Group Chairman or his responsibilities change. The Group Chairman's basic salary was reviewed in May 1995 with an increase of 1.95% taking effect from 1 April 1995 and is £91,755 per annum.

(b) Annual bonus payment

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. The Committee believe that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure for the short term incentive scheme (annual bonus scheme) is the profitability of the Group. The maximum performance related bonus which could be paid out to the Group Chairman for the year ended 31 March 1996 was 40% of salary and the Group Chairman's actual performance related bonus for the year was 40% of salary.

(c) Long term bonus arrangement

The Group Chairman has the benefit which was granted in 1993 of a long term bonus which is based on the movement in the share price of the Company since June 1993. Such bonus was structured so as to be payable in 1996, 1997 and 1998 calculated at a percentage of basic salary at 1 April 1993, times 1.333. The rate applied is the percentage by which the share price (as adjusted for the capital reorganisation) of the Company on the relevant date each year exceeds the price in June 1993 increased by the rise in the Retail Prices Index plus 2% per annum compound.

(d) Share option incentives

The Group Chairman is entitled to participate in the Company's employee sharesave scheme, which is a savings related Save As You Earn scheme. He is not entitled to participate in the executive share option scheme.

(e) Pension arrangements

The Group Chairman has made his own private pension arrangements. His salary includes £15,219 (1995 £15,000) in lieu of employers' pension costs.

New arrangements

The Group Chairman's remuneration upon becoming non-executive Group Chairman has been determined by the Remuneration Committee, who have sought independent advice in respect of non-executive chairmen of similar companies. The Group Chairman will, from 1 August 1996, be paid fees at the rate of £120,000 per annum.

EXECUTIVE DIRECTORS

Executive remuneration packages are designed to attract, motivate and retain executive directors, and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Committee. No director attends during any decision about his own remuneration. The Committee discuss with the Chief Executive the remuneration of the other executive directors.

There are four main elements in the remuneration package for executive directors:

- (a) basic annual salary;
- (b) annual bonus payments;
- (c) share option incentives and long term bonus arrangements; and
- (d) pension arrangements.

EXECUTIVE DIRECTORS (CONTINUED)

Executive directors are entitled to accept non-executive appointments outside the Company providing the Board's permission is given. Fees earned are retained by the director concerned.

(a) Basic annual salary

Each director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility. Basic salaries were reviewed in May 1995 with increases of 1.95% taking effect from 1 April 1995. Basic salaries were, where appropriate, reviewed on the basis of independent professional advice in March 1996. This review took into account, where appropriate, increased responsibility arising from the acquisition of South Wales Electricity plc, and also reflected the Greenbury Report recommendations on the reduction in contract terms and the exclusion of bonuses from the calculation of executive directors' pension entitlements. Following the review basic salaries were increased to the amounts detailed below with effect from 1 April 1996:

G A Hawker	£225,000
B H Charles	£135,000
S J Doughty	£150,000
J M James	£130,000
J E Roberts	£170,000
P J Twamley	£150,000

(b) Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. The Committee believe that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure for the short term incentive scheme (annual bonus scheme) is the profitability of the Group and, where applicable, the performance of that part of the business for which the executive director is responsible. The maximum annual performance related bonus that can currently be paid is 40% of basic salary. Incentive payments in 1996 varied between 34% and 40% (1995 0% and 9.75%).

(c) Share option incentives and long term bonus arrangements

Conditional upon shareholder approval of the long term incentive plan, details of which appear in the Notice of Annual General Meeting, the Committee proposes to terminate grant of options under the executive share option scheme to the executive directors and certain other senior executives. The executive share option scheme remains in force for other employees. It is proposed that the executive directors may continue to participate in the employee sharesave scheme, which is open to all employees.

The Remuneration Committee determines the maximum number of options to be granted under the executive share option scheme and the employee sharesave scheme. The Committee determines the grant for each executive director under the executive share option scheme.

Both the executive share option and sharesave schemes are Inland Revenue approved schemes. Options are granted in full compliance with the best practice guidance issued by the Association of British Insurers and the National Association of Pension Funds.

Since July 1993 grants of share options for executive directors have been related to performance and options once granted can be exercised only if the increase in the share price of an ordinary share exceeds the increase in the Retail Prices Index plus 2% per annum compound (pro rata for any period of less than one year) in the period between the date of grant and the exercise date.

Save for executive share options granted to S J Doughty upon joining the Group in January 1995 no executive share options have been granted to executive directors since July 1993.

EXECUTIVE DIRECTORS (CONTINUED)

(d) Pension arrangements

Executive directors are members of the Company pension scheme. Their dependants are eligible for dependant's pensions and the payment of a lump sum in the event of death in service. The pension arrangements for the year ended 31 March 1996 provide for a pension on retirement based on salary, annual bonus payment and certain benefits at the date of retirement. From 1 April 1996 annual bonus payments and other fluctuating emoluments will be excluded from the definition of pensionable pay. However, due to pensionable pay being averaged over the last three years, there will be a tail end of the pay elements reflected in the pensionable pay until the year commencing 1 April 1998. The pension for each director is based on service with the Company together with service transferred into the Company's pension scheme from the director's previous employers.

Pension contributions are made on behalf of the executive directors at the rate of 12.0% (1995 12.3%) of pensionable emoluments and in the case of the highest paid director amounted to £23,000 (1995 £17,000).

To the extent that a director's benefits from the Company scheme are restricted by Inland Revenue limits, S J Doughty, J M James, J E Roberts and P J Twanley have been granted unfunded pension arrangements and the provision of £90,000 (1995 £145,000) has been included in the accounts to meet the cost of such pensions. In addition £204,000 (1995 £15,000) has been provided in respect of a former director based on an actuarial review of the Company's total future liability. Further details of pension schemes are given in note 40 to the financial statements.

In order to comply fully with the recommendations of the Greenbury Report, the Committee will modify the disclosures made in relation to directors' pension entitlements once the actuarial professions' recommendations have been accepted by the London Stock Exchange on the method of valuing directors' pensions.

REMUNERATION POLICY, SERVICE CONTRACTS AND COMPENSATION

In framing their policy the Committee has given full consideration to the provisions of Section B of the Best Practice Provisions annexed to the London Stock Exchange Listing Rules.

With effect from 1 April 1996 directors' contracts were reduced from 18 months notice to one year rolling contracts (in line with the recommendations of the Greenbury Report and Section B of the Best Practice Provisions annexed to the Listing Rules). In certain circumstances the Company may be obliged to pay damages for the unexpired portion of the contract, if it is terminated early. No other payments are made for compensation of loss of office and mitigation would normally be applied.

The Group Chairman's and the executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Having been appointed to office since the last Annual General Meeting members will be asked, in accordance with Article 85 of the Company's Articles of Association, to approve the election of J E Roberts as a director of the Company.

I R Evans, G A Hawker and B H Charles who retire by rotation in accordance with the Company's Articles of Association, offer themselves for re-election at the Annual General Meeting. These directors have service contracts which can be terminated by the Company on 12 months notice.

REMUNERATION

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

	1996 £000	1995 £000
Fees	100	100
Contributions to pension scheme	192	208
Salary payments (including benefits in kind)	733	596
Performance related bonus	254	10
	1279	914
Future pension liability for former director	204	15
	1483	929

The directors' emoluments excluding pension contributions were as follows:

	Salary/Fees		Performance related bonus		Benefits in kind		Total	
	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000
I R Evans (Chairman)	92	90	31	-	1	1	124	91
G A Hawker (Highest paid director)	133	130	53	-	9	7	195	137
B H Charles	102	100	35	10	7	6	144	116
S J Doughty	124	41	53	-	8	2	185	43
J M James	102	100	41	-	9	8	152	108
J E Roberts	30	-	-	-	2	-	32	-
P J Twamley	102	100	41	-	12	11	155	111
	685	561	254	10	48	35	987	606
A J Hales	25	25	-	-	-	-	25	25
D G Hawkins	25	25	-	-	-	-	25	25
T Knowles	25	25	-	-	-	-	25	25
R H Sellier	25	25	-	-	-	-	25	25
	100	100	-	-	-	-	100	100
	785	661	254	10	48	35	1087	706

SHARE OPTIONS

Options held by each of the directors over the ordinary shares of the Company under the executive share option scheme and employee sharesave scheme and granted to and exercised by the directors during the year to 31 March 1996 were as follows:

	31 March 1995	Granted in year	Exercised in year	31 March 1996	Option price (pence)	Share price on date of exercise (pence)	Date exercisable	Expiry date
I R Evans	3304	-	-	3304	522	-	Oct 1999	Mar 2000
G A Hawker	19224	-	19224	-	354	752	-	-
	20572	-	20572	-	431	752	-	-
§	1550	-	-	1550	425	-	Mar 1998	Aug 1998
	41346	-	39796	1550				
B H Charles	10430	-	10430	-	354	752	-	-
	43028	-	43028	-	431	752	-	-
§	3807	-	-	3807	295	-	Oct 1996	Mar 1997
§	1550	-	-	1550	425	-	Mar 1998	Aug 1998
	58815	-	53458	5357				
S J Doughty *	57673	-	-	57673	676	-	Jan 1998	Jan 2005
J M James	71070	-	-	71070	563	-	Jul 1996	Jul 2003
§	3868	-	-	3868	425	-	Mar 1998	Aug 1998
	74938	-	-	74938				
J E Roberts	-#	-	-	-	-	-	-	-
P J Twamley	80798	-	80798	-	431	748	-	-
	14839	-	-	14839	563	-	Jul 1996	Jul 2003
§	3868	-	-	3868	425	-	Mar 1998	Aug 1998
§	237	-	-	237	523	-	Oct 1999	Mar 2000
	99742	-	80798	18944				

At date of appointment.

Share options at 31 March 1995 and the option price have been restated to reflect the share capital restructuring approved at the Annual General Meeting on 27 July 1995.

The options above are under the terms of the executive share option scheme, except as marked § which were under the terms of the employee sharesave scheme. Options marked * are performance related.

No options held by directors lapsed un-exercised during the year.

Executive share option prices are fixed at the closing market value on the day preceding the date of grant. Save for the initial price of 183p (as restated for the share capital restructuring) set at privatisation, employee sharesave options are fixed at the closing market value on the day preceding the date of grant less 20% discount.

All executive share options are exercisable between three and ten years from the date of grant. Options granted under the employee sharesave scheme are exercisable within six months after the expiry of a five or seven year Save As You Earn savings contract. All options may be exercisable earlier in certain exceptional circumstances such as retirement.

The middle market price of an ordinary share at the close of business on 31 March 1996 was 754p (1995 638p restated) and the range during the year to that date was 632p to 798p (1995 575p to 746p restated).

ANNUAL GENERAL MEETING

The Committee have decided that the Annual General Meeting will not be invited to approve the remuneration policy set out in this report. The Chairman of the Committee will, however, be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

On behalf of the Remuneration Committee



D G Hawkins
Chairman

18 June 1996

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 and the Group as at the end of the financial year and of the profit of the Group for the year. In preparing the financial statements, the directors ensure that appropriate accounting policies have been adopted and applied consistently, that applicable accounting standards have been followed and that reasonable and prudent judgements 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



G W Williams
Company Secretary

18 June 1996

REPORT OF THE AUDITORS TO THE MEMBERS OF HYDER PLC

We have audited the financial statements on pages 18 to 66.

Respective responsibilities of directors and auditors

As described on page 16 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.

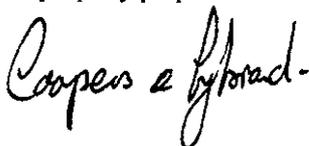
Basis of opinion

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 affairs of the Company and the Group at 31 March 1996 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cardiff

18 June 1996

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 investment properties and 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" and "Investment Properties" sections below and notes 13(e) and 14 respectively. A summary of the principal Group accounting policies, which have been consistently applied, is shown below.

CHANGES IN PRESENTATION OF FINANCIAL INFORMATION

Since the previous Annual Report, the Accounting Standards Board has issued the Financial Reporting Standard 8 - Related Party Transactions. In addition the Urgent Issues Task Force ("UITF") has issued a number of abstracts in the year and Statutory Instrument 1996/189, an amendment to the Companies Act 1985, was approved. Where relevant these financial statements comply with the Standard, UITF abstracts and Statutory Instrument 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, as modified by the inclusion of an external professional valuation of the Group's interest in certain investment properties.

BASIS OF CONSOLIDATION

The Group financial statements comprise a consolidation of the financial statements of Hyder plc and all its subsidiary undertakings and include the Group's share of the profits or losses and net assets of associated undertakings. The financial statements of each company in the Group are prepared to 31 March. Uniform accounting policies are adopted throughout the Group.

ACQUISITIONS AND DISPOSALS

The results of companies and businesses acquired during the year are dealt with in the consolidated financial statements from the date of acquisition. Where appropriate, adjustments are made to bring different accounting policies of newly acquired companies into line with the existing Group accounting policies.

Goodwill arising from the purchase of subsidiary undertakings and investments in associated undertakings, representing the excess of the fair value of the purchase consideration (including costs of acquisition) over the fair value of net assets acquired, is written off on acquisition against consolidated reserves in the year of acquisition.

The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business.

TURNOVER

Turnover represents the income receivable in the ordinary course of business for services provided and excludes Value Added Tax.

ASSOCIATED UNDERTAKINGS

The Group's share of results is included in the consolidated financial statements based on the latest audited accounts for each associated undertaking and the management accounts for the relevant period up to 31 March.

EXCEPTIONAL ITEMS

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

INTANGIBLE FIXED ASSETS

Intangible fixed assets are included at cost and are amortised over their estimated useful economic lives. Where fishing rights effectively have an infinite life, they are not amortised.

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.

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 and freehold hotel properties are 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
Water and sewerage operational structures	40-80 years
Electricity distribution network assets	40 years
Fixed plant	20-40 years
Vehicles, mobile plant and equipment	3-10 years

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

Electricity distribution assets are depreciated at 3% per year for the first 20 years and 2% per year thereafter. All other assets are depreciated evenly over their estimated economic life.

TANGIBLE FIXED ASSETS AND DEPRECIATION (continued)

Freehold hotel properties are maintained in a constant state of good repair and the cost of such maintenance is charged to the profit and loss account. As a result, their economic life and estimated residual value based on prices prevailing at the date of acquisition or later valuation are such, that any depreciation charge would not be material. The estimated residual values are based on existing use valuations regularly undertaken by independent professional valuers. Major refurbishment is provided for by way of an annual renewals provision which is charged to the profit and loss account. Where in the opinion of the directors there has been a permanent diminution in value against the original cost, the shortfall is provided for in the profit and loss account.

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.

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

GRANTS, CUSTOMER CONTRIBUTIONS AND INFRASTRUCTURE CHARGES

Grants, customer contributions and infrastructure charges relating to water and sewerage infrastructure assets, which are non-depreciating assets, have been offset against fixed assets (see note 13(e)).

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.

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

INVESTMENT PROPERTIES

In accordance with Statement of Standard Accounting Practice No. 19 "Accounting for Investment Properties", investment properties are included in the balance sheet at open market value. Depreciation is not applied, except where properties are held by the Group on leasehold with an unexpired term of 20 years or less. This treatment departs from the general requirement of the Companies Act 1985 to provide depreciation on any asset which has a limited useful economic life. The directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view and thus it is necessary to adopt SSAP 19 in order to give a true and fair view (see note 14).

INVESTMENTS

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

PROPERTY CLAWBACK DEBENTURE

Arrangements are in place which entitle HM Government to a proportion of certain gains arising on the disposal (or deemed disposal) of land and buildings, owned by South Wales Electricity plc at vesting, between 31 March 1990 and 31 March 2000. Provisions for this clawback are made only when it is probable that such a liability will crystallise.

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.

AMOUNTS RECOVERABLE ON CONTRACTS

Amounts recoverable on contracts represent work undertaken but not yet invoiced to customers. These amounts, which are included in debtors, are stated at cost plus attributable profit to the extent that such profit is reasonably certain and after making provision for any foreseeable losses in completing contracts, less payments on account. For this purpose, cost comprises the direct costs of providing the service, together with directly attributable overheads. All contracts are accounted for as long term contracts.

PENSION COSTS

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

FOREIGN CURRENCIES

On consolidation, balance sheets and profit and loss accounts of subsidiary undertakings are translated into sterling at closing rates of exchange. Exchange differences resulting from the translation at closing rates of net investments in subsidiary and associated undertakings are dealt with in reserves. All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year.

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.

EMPLOYEE SHARE OWNERSHIP PLAN

The consolidated accounts include the assets and related borrowings of South Wales Electricity plc's Employee Share Ownership Plan (ESOP), in accordance with FRS5 - Reporting the Substance of Transactions (note 27(c)). Shares held by the ESOP are included at cost in debtors and related borrowings in creditors.

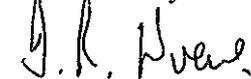
**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1996**

	Note	1996 £m	1995 £m
Turnover:			
Continuing operations		539.6	521.9
Acquisitions		112.0	-
Total turnover	2 & 3	<u>651.6</u>	<u>521.9</u>
Net operating costs	4	<u>(525.7)</u>	<u>(394.7)</u>
Operating profit:			
Continuing operations		123.5	127.2
Acquisitions		2.4	-
		<u>125.9</u>	<u>127.2</u>
Before exceptional items:			
Continuing operations		160.6	155.7
Acquisitions		20.3	-
		<u>180.9</u>	<u>155.7</u>
Exceptional items:			
Continuing operations	5	(37.1)	(28.5)
Acquisitions	5	(17.9)	-
Total operating profit		<u>125.9</u>	<u>127.2</u>
Income from investments:			
Continuing operations	7	1.6	1.0
Acquisitions	7	1.1	-
Profit on ordinary activities before interest		<u>128.6</u>	<u>128.2</u>
Interest receivable		29.3	25.3
Interest payable	8	(45.0)	(33.1)
Profit on ordinary activities before taxation		<u>112.9</u>	<u>120.4</u>
Taxation	9	(19.0)	(19.0)
Profit on ordinary activities after taxation		<u>93.9</u>	<u>101.4</u>
Dividends on preference shares and appropriations	10	(7.8)	-
Profit attributable to ordinary shareholders		<u>86.1</u>	<u>101.4</u>
Dividends on ordinary shares	10	(52.3)	(49.6)
Retained profit for the year	29	<u>33.8</u>	<u>51.8</u>
Earnings per ordinary share (restated comparatives)	11	<u>68.8p</u>	<u>74.9p</u>
Earnings per ordinary share before exceptional items (restated comparatives)	11	<u>112.7p</u>	<u>97.1p</u>
Dividend per ordinary share (restated comparatives)	10	<u>38.7p</u>	<u>32.2p</u>

BALANCE SHEETS AT 31 MARCH 1996

	Note	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
Fixed assets					
Intangible assets	12	0.6	0.6	-	-
Tangible assets	13	2008.1	1333.9	3.2	3.2
Investment properties	14	18.4	-	-	-
Investments	15	99.7	5.0	1278.9	399.5
		<u>2126.8</u>	<u>1339.5</u>	<u>1282.1</u>	<u>402.7</u>
Current assets					
Stocks and work in progress	16	14.2	5.9	-	-
Debtors	17	272.1	133.3	122.0	66.0
Current asset investments	18(a)	346.9	435.1	63.1	151.9
Cash at bank and in hand		15.2	11.8	-	0.1
		<u>648.4</u>	<u>586.1</u>	<u>185.1</u>	<u>218.0</u>
Current liabilities					
Creditors: amounts falling due within one year	19(a)	(432.8)	(227.0)	(120.7)	(55.2)
Net current assets		<u>215.6</u>	<u>359.1</u>	<u>64.4</u>	<u>162.8</u>
Total assets less current liabilities		<u>2342.4</u>	<u>1698.6</u>	<u>1346.5</u>	<u>565.5</u>
Creditors: amounts falling due after more than one year					
Provisions for liabilities and charges	24	(193.0)	(49.0)	(1.9)	(1.9)
Accruals and deferred income	25	(133.4)	(33.3)	-	-
Net assets		<u>848.1</u>	<u>1180.9</u>	<u>728.5</u>	<u>489.3</u>
Capital and reserves					
Called up share capital	26	375.7	146.7	375.7	146.7
Share premium account	28	94.3	135.6	94.3	135.6
Reserves	29	378.0	898.5	258.5	207.0
Equity shareholders' funds		<u>641.5</u>	<u>1180.8</u>	<u>522.0</u>	<u>489.3</u>
Non-equity shareholders' funds		<u>206.5</u>	<u>-</u>	<u>206.5</u>	<u>-</u>
Total shareholders' funds		<u>848.0</u>	<u>1180.8</u>	<u>728.5</u>	<u>489.3</u>
Equity minority interest	39	-	0.1	-	-
Non-equity minority interests	39	0.1	-	-	-
		<u>848.1</u>	<u>1180.9</u>	<u>728.5</u>	<u>489.3</u>

The financial statements on pages 18 to 66 were approved by the Board of Directors on 18 June 1996 and were signed on its behalf by:



I R Evans
Chairman

P J Twamley
Group Finance Director



**CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1996**

	Note	1996 £m	1995 £m
Operating activities			
Net cash inflow from continuing operating activities	30	181.7	195.2
Net cash inflow from acquired operating activities	30	8.1	-
Net cash inflow from operating activities		<u>189.8</u>	<u>195.2</u>
Returns on investments and servicing of finance			
Interest received		29.7	23.3
Interest paid		(40.7)	(28.0)
Interest element of finance leases		(6.5)	(6.5)
Dividends received and other investment income		1.8	0.4
Dividends paid		(56.7)	(50.5)
Distribution from associated undertakings		0.3	-
Net cash outflow from returns on investments and servicing of finance		<u>(72.1)</u>	<u>(61.3)</u>
Taxation			
UK corporation tax paid		(13.2)	(8.8)
Overseas tax paid		(0.4)	(0.2)
Tax paid		<u>(13.6)</u>	<u>(9.0)</u>
Investing activities			
Purchase of tangible fixed assets		(220.8)	(191.5)
Sale of tangible fixed assets		1.5	1.6
Sale of fixed asset investments		31.3	-
Purchase of fixed asset investments		(31.6)	(2.5)
Grants and contributions received		15.2	13.2
Purchase of minority interests	36	(0.6)	(0.6)
Purchase of associated undertakings	37	(13.6)	-
Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	35	(706.7)	-
Net cash outflow from investing activities		<u>(925.3)</u>	<u>(179.8)</u>
Net cash outflow before financing and treasury activities		<u>(821.2)</u>	<u>(54.9)</u>
Financing and treasury activities			
New long term loans and Eurobonds		569.2	85.0
Long term loans repaid		(3.1)	(3.4)
New finance leases		-	8.1
Capital payments under finance leases		(0.2)	(1.1)
Proceeds from issue of ordinary shares		18.3	2.8
Proceeds from issue of preference shares		76.8	-
Expenses of issuing ordinary shares		(2.8)	-
Expenses of issuing preference shares		(2.5)	-
Decrease/(increase) in deposits and other money market investments	33	217.8	(46.5)
Net cash inflow from financing and treasury activities	31	<u>873.5</u>	<u>44.9</u>
Increase/(decrease) in cash and cash equivalents	32	<u>52.3</u>	<u>(10.0)</u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 1996**

	1996 £m	1995 £m
Profit for the financial year attributable to ordinary shareholders	86.1	101.4
Currency translation differences on foreign currency net investments	1.8	(1.2)
Total recognised gains and losses for the year	87.9	100.2

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 MARCH 1996**

	1996 £m	1995 £m
Total recognised gains and losses for the year	87.9	100.2
Ordinary dividends	(52.3)	(49.6)
New ordinary share capital issued	20.9	1.3
New preference share capital issued	75.0	-
Premium on ordinary share capital issued	94.5	1.5
Premium on preference share capital issued	1.8	-
Ordinary shares to be allotted	0.9	-
Premium on ordinary shares to be allotted	4.5	-
Cost of issuing ordinary shares	(2.8)	-
Cost of issuing preference shares	(2.5)	-
Capital reserve arising on acquisition of subsidiary	9.6	-
Goodwill written off	(570.3)	(1.3)
Net (decrease)/increase in shareholders' funds	(332.8)	52.1
At 1 April	1180.8	1128.7
At 31 March	848.0	1180.8

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

1 Company profit and loss account

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these financial statements. The profit after taxation for the year dealt with in the financial statements of the Company was £97.4m (1995 £41.9m).

2 Segmental analysis by class of business

(a) Turnover

	Total turnover £m	Intra segment turnover £m	Inter segment turnover £m	External turnover £m
Year ended 31 March 1996:				
<u>Continuing operations:</u>				
Regulated water and sewerage activities	422.9	-	2.5	420.4
Infrastructure activities	138.1	1.3	28.1	108.7
Other activities	51.5	1.7	39.3	10.5
	612.5	3.0	69.9	539.6
<u>Acquisitions:</u>				
Regulated electricity distribution and supply activities	131.6	29.2	0.1	102.3
Other activities	13.2	0.4	3.1	9.7
	757.3	32.6	73.1	651.6
Year ended 31 March 1995:				
	Restated	Restated	Restated	Restated
<u>Continuing operations:</u>				
Regulated water and sewerage activities	409.2	-	2.6	406.6
Infrastructure activities	135.1	1.3	29.2	104.6
Other activities	45.4	2.0	32.7	10.7
	589.7	3.3	64.5	521.9

The comparatives have been restated as Engineering and environmental and some other activities are now classified as Infrastructure activities (see note 43).

Turnover is derived from the following sources:

- External: transactions between Group companies and external customers.
- Intra segment: transactions between Group companies trading within the same segment.
- Inter segment: transactions between Group companies trading in different segments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

2 Segmental analysis by class of business (continued)

(b) Profit on ordinary activities before taxation

	1996	1995
	£m	Restated £m
Operating profit:		
<u>Continuing operations:</u>		
Regulated water and sewerage activities	147.3	148.8
Infrastructure activities	1.4	(16.0)
Other activities	(10.8)	5.0
<u>Acquisitions:</u>		
Regulated electricity distribution and supply activities	12.2	-
Other activities	(9.5)	-
	140.6	137.8
Business development costs and corporate overheads	(13.2)	(8.9)
Elimination of intercompany operating profit capitalised	(1.5)	(1.7)
	125.9	127.2
Income from investments:		
Continuing operations	1.6	1.0
Acquisitions	1.1	-
Profit before interest	128.6	128.2
Net interest payable	(15.7)	(7.8)
Profit before taxation	112.9	120.4

Operating results, as disclosed above, are after deducting exceptional items (note 5) of £55.0m (1995 £28.5m). The operating profits, prior to deducting the exceptional items, are set out below:

<u>Continuing operations:</u>		
Regulated water and sewerage activities	167.4	165.8
Infrastructure activities	1.4	(4.5)
Other activities	5.6	5.0
<u>Acquisitions:</u>		
Regulated electricity distribution and supply activities	20.5	-
Other activities	0.1	-
	195.0	166.3
Business development costs and corporate overheads	(12.6)	(8.9)
Elimination of intercompany operating profit capitalised	(1.5)	(1.7)
Operating profit	180.9	155.7

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996

2 Segmental analysis by class of business (continued)

(c) Net assets

	1996	1995
	£m	Restated £m
<u>Continuing operations:</u>		
Regulated water and sewerage activities	1251.5	1125.9
Infrastructure activities	75.8	31.8
Other activities	19.9	22.2
	1347.2	1179.9
<u>Acquisitions:</u>		
Regulated electricity distribution and supply activities	295.2	-
Other activities	14.8	-
	1657.2	1179.9
Borrowings less current asset investments and cash at bank	(809.1)	1.0
	848.1	1180.9

The comparatives have been restated as Engineering and environmental and some other activities are now classified as Infrastructure activities (see note 43).

3 Segmental analysis by geographical area by destination

(a) Turnover

	1996	1995
	£m	£m
United Kingdom and Europe	591.6	473.4
Far East	31.0	26.6
Rest of the World	29.0	21.9
	651.6	521.9

(b) Profit on ordinary activities before taxation

	1996	1995
	£m	£m
Operating profit:		
United Kingdom and Europe	138.9	141.1
Far East	0.9	(3.1)
Rest of the World	0.8	(0.2)
	140.6	137.8
Business development costs and corporate overheads	(13.2)	(8.9)
Elimination of intercompany operating profit capitalised	(1.5)	(1.7)
	125.9	127.2
Income from investments:		
Continuing operations	1.6	1.0
Acquisitions	1.1	-
Profit before interest	128.6	128.2
Net interest payable	(15.7)	(7.8)
Profit before taxation	112.9	120.4

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

3 Segmental analysis by geographical area by destination (continued)

(c) Net assets

	1996 £m	1995 £m
United Kingdom and Europe	1632.6	1170.6
Far East	10.8	9.6
Rest of the World	13.8	(0.3)
	1657.2	1179.9
Borrowings less current asset investments and cash at bank	(809.1)	1.0
	848.1	1180.9

Turnover and profit before taxation by origin are not materially different from that by destination.

4 Net operating costs

		1996 Before exceptional items £m	1996 Exceptional items (note 5) £m	1996 Total £m
	Note			
<u>Continuing operations:</u>				
Change in stocks and work in progress		(0.8)	-	(0.8)
Infrastructure renewals charge	24(b)	23.4	-	23.4
Staff costs	6(b)	157.1	-	157.1
Severance and redundancy costs		-	26.4	26.4
Depreciation:				
Own assets		42.9	-	42.9
Assets held under finance leases		3.9	-	3.9
Amounts written off fixed assets		1.3	-	1.3
Research and development		0.6	-	0.6
Rentals under operating leases:				
Hire of plant and equipment		2.4	-	2.4
Other		6.8	1.2	8.0
Fees paid to auditors:				
Audit services		0.6	-	0.6
Taxation services		0.2	-	0.2
Consultancy services		0.1	-	0.1
Other operating charges		188.1	9.5	197.6
Amortisation of grants and contributions	25	(1.9)	-	(1.9)
Profit on disposal of fixed assets		(0.8)	-	(0.8)
Own work capitalised		(44.5)	-	(44.5)
Net rents receivable		(0.4)	-	(0.4)
		379.0	37.1	416.1

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

4 Net operating costs (continued)

	1996 Before exceptional items £m	1996 Exceptional items (note 5) £m	1996 Total £m
<u>Acquisitions:</u>			
Change in stocks and work in progress	(7.5)	-	(7.5)
Staff costs	11.9	-	11.9
Severance and redundancy costs	-	15.8	15.8
Depreciation: own assets	4.5	-	4.5
Research and development	0.1	-	0.1
Rentals under operating leases:			
Hire of plant and equipment	0.4	-	0.4
Other	0.6	-	0.6
Fees paid to auditors:			
Audit services	0.1	-	0.1
Other operating charges	86.6	2.1	88.7
Amortisation of grants and contributions	(0.7)	-	(0.7)
Loss on disposal of fixed asset investments	0.1	-	0.1
Own work capitalised	(4.4)	-	(4.4)
	<u>91.7</u>	<u>17.9</u>	<u>109.6</u>
	1996	1996	1996
	Before	Exceptional	Total
	exceptional	items	£m
	items	(note 5)	
	£m	£m	
<u>Total operating costs:</u>			
Continuing operations	379.0	37.1	416.1
Acquisitions	91.7	17.9	109.6
	<u>470.7</u>	<u>55.0</u>	<u>525.7</u>

Included in audit services is £7,000 (1995 £6,000) in respect of audit fees incurred by the Company. Other fees paid to the auditors and capitalised were £0.4m (1995 £0.2m).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996

4 Net operating costs (continued)

	1995 Before exceptional items £m	1995 Exceptional items (note 5) £m	1995 Total £m
Note			
<u>Continuing operations:</u>			
Change in stocks and work in progress	(0.6)	-	(0.6)
Infrastructure renewals charge	24(b) 23.4	-	23.4
Staff costs	6(b) 149.0	-	149.0
Severance and redundancy costs	-	20.0	20.0
Depreciation:			
Own assets	37.8	-	37.8
Assets held under finance leases	2.2	-	2.2
Amounts written off fixed assets	0.7	-	0.7
Research and development	0.7	-	0.7
Rentals under operating leases:			
Hire of plant and equipment	2.0	-	2.0
Other	6.7	5.7	12.4
Fees paid to auditors:			
Audit services	0.6	-	0.6
Taxation services	0.2	-	0.2
Consultancy services	0.2	-	0.2
Other operating charges	189.6	2.8	192.4
Amortisation of grants and contributions	25 (4.1)	-	(4.1)
Profit on disposal of fixed assets	(0.1)	-	(0.1)
Own work capitalised	(41.7)	-	(41.7)
Net rents receivable	(0.4)	-	(0.4)
	366.2	28.5	394.7

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

5 Exceptional items

	1996	1995
	£m	£m
By type of provision:		
<u>Continuing operations:</u>		
Severance and redundancy costs	26.4	20.0
Future leasehold rental costs	1.2	5.7
Other	9.5	2.8
	37.1	28.5
<u>Acquisitions:</u>		
Severance and redundancy costs	15.8	-
Other	2.1	-
	17.9	-
	55.0	28.5
 By class of business:		
<u>Continuing operations:</u>		
Regulated water and sewerage activities	20.1	17.0
Infrastructure activities	-	11.5
Other activities	17.0	-
	37.1	28.5
<u>Acquisitions:</u>		
Regulated electricity distribution and supply activities	8.3	-
Other activities	9.6	-
	17.9	-
	55.0	28.5

In the absence of the acquisition of South Wales Electricity plc the regulated Water and Sewerage restructuring costs would have been £14.6m.

The tax credit attributable to the restructuring is £0.2m (1995 £1.6m) after deducting the appropriate advance corporation tax relief. This tax credit has reduced the tax charge included in note 9.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

6 Directors and employees

(a) Directors' emoluments and interests

Detailed disclosures of directors' individual emoluments and share options are given in the Report of the Remuneration Committee on pages 13 and 14 and directors' interests are given in the Report of the Directors' on page 6.

(b) Staff costs

	1996	1995
	£m	Restated £m
Wages and salaries	145.5	128.8
Social security costs	12.0	10.6
Pension costs	11.5	9.6
	169.0	149.0
	169.0	149.0

The 1995 comparatives have been restated to correct overseas social security costs.

Of the above, £21.0m (1995 £19.0m) has been charged to capital.

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

	1996	1995
	Number	Restated Number
Regulated water and sewerage activities	2744	2972
Regulated electricity distribution and supply activities	357	-
Infrastructure activities	2866	2937
Other activities	801	656
	6768	6565
	6768	6565

The comparatives have been restated as Engineering and environmental and some other activities are now classified as Infrastructure activities (see note 43).

The staff numbers above include the weighted average staff numbers for South Wales Electricity plc for the two month period post acquisition (regulated electricity distribution and supply activities 357 and other activities 134). The average monthly staff numbers for South Wales Electricity plc for the full year were:

	1996	1995
	Number	Number
Regulated electricity distribution and supply activities	2311	2499
Other activities	668	719
	2979	3218
	2979	3218

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

7 Income from investments

	1996 £m	1995 £m
Continuing operations:		
Share of results of associated undertakings	1.5	0.6
Fixed asset investment income	0.1	0.4
	1.6	1.0
Acquisitions:		
Share of results of associated undertakings	(0.6)	-
Fixed asset investment income	1.7	-
	1.1	-
	2.7	1.0

8 Interest payable

	1996 £m	1995 £m
On bank loans and overdrafts	15.0	5.4
On other loans	25.1	22.8
On finance leases	4.9	4.9
	45.0	33.1

9 Taxation

	1996 £m	1995 £m
Based on the results for the year:		
UK corporation tax at 33% (1995 33%)	18.7	12.8
Overseas taxation	0.3	0.3
Advance corporation tax written off	-	9.0
Associated companies taxation	0.5	0.2
	19.5	22.3
Prior year adjustments:		
Corporation tax	(0.6)	(12.6)
Overseas taxation	0.1	(0.2)
Advance corporation tax written off	-	9.5
	19.0	19.0

The tax charge has been reduced by £31.4m (1995 £33.0m) in respect of excess tax allowances over depreciation and other timing differences, for which no provision is made.

The cumulative amount of advance corporation tax written off of £43.1m (1995 £43.1m) remains available to reduce any future liabilities to UK corporation tax. There are losses within the Group of approximately £8.4m (1995 £8.3m) available to carry forward against future profits of those companies which incurred the losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

10 Dividends

(a) Dividends on equity shares:

	1996	1995
	£m	£m
Interim paid of 12.6p per ordinary share (1995 9.3p)	15.4	13.5
Final proposed of 26.1p per ordinary share (1995 24.6p)	36.9	36.1
	52.3	49.6

The 1995 comparative figures have been restated as follows:

	Pence per share
Dividend per ordinary share as previously reported	33.9
Share capital restructuring on 27 July 1995:	
Preference dividend	(7.1)
Reduction in ordinary shares	5.4
Dividend per ordinary share	32.2

The provision for the proposed dividend is based on 139,704,725 ordinary shares in issue at 31 March 1996, 727,242 ordinary shares issued under the offer for the acquisition of South Wales Electricity plc (note 26) and 804,546 ordinary shares issued to South Wales Electricity plc option holders after 31 March 1996 (note 27(b)).

(b) Dividends on non-equity shares:

	1996	1995
	£m	£m
Dividends paid and proposed each of 7.875% (net) per preference share (1995 Nil) on non-equity shares	7.8	-

In accordance with FRS 4 - Capital Instruments, included in dividends on non-equity shares are appropriations in respect of the year of £39,000 (1995 £Nil) (note 26).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

11 Earnings per ordinary share

	1996	1995 Restated
	68.8p	74.9p

Earnings per ordinary share have been calculated on the basis of profit, after taxation, minority interests and appropriations in respect of preference shares, of £86.1m (1995 £90.9m restated) and by reference to 125,066,682 (1995 121,374,375 restated) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Earnings per ordinary share on a nil distribution basis are 68.8p (1995 90.1p restated). There would be no significant dilution of earnings per ordinary share if the outstanding share options were exercised.

The 1995 comparative figures above have been restated for the capital restructuring undertaken during the year (note 26).

Restructuring charges are significant when comparing earnings per ordinary share with the current period. The directors therefore consider it appropriate to show earnings per ordinary share based on the profit before taxation prior to deducting the restructuring charges. The following table reconciles earnings per ordinary share calculated under FRS3 with this alternative basis:

	1996	1995 Restated
Earnings per ordinary share under FRS 3	68.8p	74.9p
Adjustment, net of taxation, in respect of restructuring charges	43.9p	22.2p
Adjusted earnings per ordinary share	112.7p	97.1p

The 1995 comparative figures have been restated as follows:

	After exceptional item Pence per share	Before exceptional item Pence per share
Earnings per ordinary share as previously reported	69.6	88.1
Share capital restructuring on 27 July 1995:		
Preference dividend	(7.1)	(7.1)
Additional financing costs	(0.1)	(0.1)
	62.4	80.9
Reduction in ordinary shares	12.5	16.2
	74.9	97.1

12 Intangible fixed assets

	1996	1995
Group	£m	£m
Fishing rights		
Cost		
At 1 April and 31 March	0.9	0.9
Amounts written off		
At 1 April and 31 March	0.3	0.3
Net book value		
At 1 April and 31 March	0.6	0.6

The Company had no intangible fixed assets at 31 March 1996 or at 31 March 1995.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

13 Tangible fixed assets

Group	Freehold land and buildings	Leasehold properties and improve- ments	Infra- structure assets	Water & sewerage operational structures	Electricity distribution network assets	Vehicles, plant and equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 1995	60.5	5.1	516.4	860.7	-	216.6	1659.3
Reclassifications	(3.3)	(0.5)	7.6	13.9	-	(17.7)	-
	57.2	4.6	524.0	874.6	-	198.9	1659.3
Exchange difference	-	0.1	-	-	-	0.6	0.7
On acquisition of subsidiary	16.6	0.9	-	-	681.5	71.5	770.5
Additions	4.0	0.9	67.0	117.7	16.6	23.2	229.4
Grants and contributions	-	-	(9.9)	-	-	(0.5)	(10.4)
Amounts written off in the year	-	(0.6)	-	-	-	(1.4)	(2.0)
Disposals	(0.1)	-	(0.1)	-	(0.7)	(3.4)	(4.3)
At 31 March 1996	77.7	5.9	581.0	992.3	697.4	288.9	2643.2
Accumulated depreciation							
At 1 April 1995	15.9	1.3	-	182.8	-	125.4	325.4
Reclassifications	(2.6)	(0.1)	-	9.7	-	(7.0)	-
	13.3	1.2	-	192.5	-	118.4	325.4
Exchange difference	-	-	-	-	-	0.5	0.5
On acquisition of subsidiary	3.4	0.1	-	-	212.9	45.8	262.2
Charge for the year	1.1	0.4	-	26.3	3.4	20.1	51.3
Amounts written off in the year	-	(0.4)	-	-	-	(0.3)	(0.7)
Disposals	-	-	-	-	(0.5)	(3.1)	(3.6)
At 31 March 1996	17.8	1.3	-	218.8	215.8	181.4	635.1
Net book value							
At 31 March 1996	59.9	4.6	581.0	773.5	481.6	107.5	2008.1
At 31 March 1995	44.6	3.8	516.4	677.9	-	91.2	1333.9
Analysis of net book value at 31 March 1996							
Owned	59.9	4.6	581.0	708.6	481.6	106.9	1942.6
Held under finance lease	-	-	-	64.9	-	0.6	65.5
	59.9	4.6	581.0	773.5	481.6	107.5	2008.1

- (a) Tangible fixed assets at 31 March 1996 include £249.6m (1995 £188.5m) of assets in the course of construction, which are not depreciated until commissioned.
- (b) Reclassification has arisen as a result of the Group's continuing refinement of its historical fixed asset information.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

13 Tangible fixed assets (continued)

(c) The net book value of leasehold properties and improvements comprise:

	1996 £m	1995 £m
Long leasehold	0.8	-
Short leasehold	3.8	3.8
Total leasehold	4.6	3.8

(d) Electrical distribution network assets include electrical distribution assets leased to third parties under operating leases. The cost of these was £2.9m and accumulated depreciation amounted to £0.3m at 31 March 1996.

(e) The accounting treatment for grants, customer contributions and infrastructure charges in respect of infrastructure assets is described in the Principal Accounting Policies on page 20. 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 20 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 £113.9m (1995 £103.5m) lower than it would have been had this treatment not been adopted.

Company

	Freehold land and buildings £m	Vehicles, plant and equipment £m	Total £m
Cost			
At 1 April 1995	1.8	1.8	3.6
Additions	-	0.4	0.4
Disposals	(0.1)	(0.2)	(0.3)
At 31 March 1996	1.7	2.0	3.7
Accumulated depreciation			
At 1 April 1995	-	0.4	0.4
Charge for the year	-	0.3	0.3
Disposals	-	(0.2)	(0.2)
At 31 March 1996	-	0.5	0.5
Net book value			
At 31 March 1996	1.7	1.5	3.2
At 31 March 1995	1.8	1.4	3.2

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996

14 Investment properties

Group

	1996 £m	1995 £m
On acquisition of subsidiary	18.4	-
Additions	0.1	-
Disposals	(0.1)	-
At 31 March 1996	18.4	-

Investment properties were valued at 31 March 1996 by Cooke & Arkwright, a firm of Chartered Surveyors, on the basis of open market value. These properties are rented to third parties under operating leases. Investment properties comprise £16.8m (1995 £Nil) of freehold properties and £1.6m (1995 £Nil) of long leasehold properties.

In accordance with Statement of Standard Accounting Practice No. 19 "Accounting for Investment Properties", investment properties are included in the balance sheet at open market value. Depreciation is not applied, except where properties are held by the Group on leasehold with an unexpired term of 20 years or less. This treatment departs from the general requirement of the Companies Act 1985 to provide depreciation on any asset which has a limited useful economic life. The directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view and thus it is necessary to adopt SSAP 19 in order to give a true and fair view. As a consequence the profit before interest for the year is £0.1m (1995 £Nil) higher than it would have been had this treatment not been adopted.

The Company had no investment properties at 31 March 1996 or at 31 March 1995.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

15 Fixed asset investments

Group

	Interests in associated undertakings £m	Listed investments £m	Unlisted investments £m	Total £m
Cost				
At 1 April 1995	2.8	2.5	1.2	6.5
Exchange differences	(0.1)	-	-	(0.1)
Additions	8.0	36.7	0.4	45.1
Reclassification	8.1	(8.1)	-	-
Goodwill written off	(2.0)	-	-	(2.0)
On acquisition of subsidiary	34.1	5.7	17.5	57.3
Disposals	(0.3)	(2.0)	(0.1)	(2.4)
Share of retained profits	0.4	-	-	0.4
Distributions	(0.3)	-	-	(0.3)
At 31 March 1996	50.7	34.8	19.0	104.5
Amounts written off				
At 1 April 1995	0.6	-	0.9	1.5
On acquisition of subsidiary	3.3	-	-	3.3
At 31 March 1996	3.9	-	0.9	4.8
Net book value				
At 31 March 1996	46.8	34.8	18.1	99.7
At 31 March 1995	2.2	2.5	0.3	5.0

The market value of the listed investments, excluding the Group's £15.9m investment in the Asian Infrastructure Fund, is £25.6m (1995 £1.2m).

The directors consider that the market value of the Group's investment in the Asian Infrastructure Fund does not materially differ from the cost of that investment.

The reclassification referred to in the above table relates to the increase in the Group's shareholding in Severoceske vodovody a kanalizace a.s., from 11.3% to 35.8%, which enables the Group to treat the company as an associate.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

15 Fixed asset investments (continued)

Company

	Interests in Group undertakings £m	Unlisted investments £m	Total £m
Cost			
At 1 April 1995	418.9	1.0	419.9
Additions	884.0	-	884.0
Transfer to subsidiary undertakings	(19.1)	-	(19.1)
At 31 March 1996	<u>1283.8</u>	<u>1.0</u>	<u>1284.8</u>
Amounts written off			
At 1 April 1995	19.5	0.9	20.4
Provided in the year	1.0	-	1.0
Transfer to subsidiary undertakings	(15.5)	-	(15.5)
At 31 March 1996	<u>5.0</u>	<u>0.9</u>	<u>5.9</u>
Net book value			
At 31 March 1996	<u>1278.8</u>	<u>0.1</u>	<u>1278.9</u>
At 31 March 1995	<u>399.4</u>	<u>0.1</u>	<u>399.5</u>

Principal subsidiary undertakings are listed in note 43.

16 Stocks and work in progress

Group	1996 £m	1995 £m
Raw materials and consumables	9.9	5.2
Work in progress	3.2	0.7
Finished goods and goods for resale	1.1	-
	<u>14.2</u>	<u>5.9</u>

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

Company

The Company had no stocks and work in progress at 31 March 1996 or at 31 March 1995.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

17 Debtors

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts falling due within one year:				
Trade debtors	99.9	65.1	-	-
Amounts recoverable on contracts	19.3	12.6	-	-
Amounts owed by subsidiary undertakings	-	-	108.7	56.9
Amounts owed by associated undertakings	1.3	1.7	-	-
Other debtors	35.3	15.9	0.8	0.2
Prepayments and accrued income	65.8	31.9	5.0	8.3
Employee share ownership plan	3.1	-	-	-
Recoverable advance corporation tax	39.7	0.6	7.5	0.6
	<u>264.4</u>	<u>127.8</u>	<u>122.0</u>	<u>66.0</u>
Amounts falling due after more than one year:				
Other debtors	7.7	5.5	-	-
	<u>272.1</u>	<u>133.3</u>	<u>122.0</u>	<u>66.0</u>

18 Current asset investments

(a) Investments:

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Fixed term and call deposits	268.8	399.8	53.4	131.6
Other money market investments	78.1	35.3	9.7	20.3
	<u>346.9</u>	<u>435.1</u>	<u>63.1</u>	<u>151.9</u>
Original maturity periods are as follows:				
Within three months and regarded as cash equivalents in the cash flow statement	131.6	81.3	8.4	36.9
Over three months	215.3	353.8	54.7	115.0
	<u>346.9</u>	<u>435.1</u>	<u>63.1</u>	<u>151.9</u>

Of the above amounts, with an original maturity of over three months, £8.7m (1995 £13.0m) matures more than one year after the balance sheet date.

(b) Interest rate swaps:

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

The Group's outstanding interest rate swap arrangements had a notional principal balance of £209.2m (1995 £220.0m), with termination dates ranging between July 1996 and September 2005 (September 1995 and October 1997), and interest rates ranging between 6.040% to 8.350% (6.330% to 7.830%).

The Company's outstanding interest rate swap arrangements had a notional principal balance of £60m (1995 £100.0m), with termination dates ranging between September 1996 and October 1997 (September 1995 and October 1997), and interest rates ranging between 7.208% to 7.830% (6.330% to 7.830%).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

19 Creditors

	Note	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
(a) Amounts falling due within one year:					
Bank loans and overdrafts		8.9	9.3	0.2	-
Other loans	20(b)	13.8	4.1	11.2	1.3
Payments received on account on contracts		28.3	6.0	-	-
Obligations under finance leases	21	0.3	0.6	-	-
Trade creditors		128.4	84.1	-	-
Amounts owed to subsidiary undertakings		-	-	15.4	3.5
Amounts owed to associated undertakings		5.9	-	-	-
Dividends payable		39.5	36.1	39.5	36.1
Corporation tax		73.1	20.0	15.2	12.6
Other taxation and social security		7.4	4.9	-	-
Consortium relief		0.7	-	-	-
Other creditors		55.9	51.5	-	-
Employee share ownership plan		3.1	-	-	-
Deferred consideration on the acquisition of South Wales Electricity plc	35	36.0	-	36.0	-
Accruals and deferred income		31.5	10.4	3.2	1.7
		432.8	227.0	120.7	55.2
(b) Amounts falling due after more than one year:					
10.750% Eurobonds 2002	20(a)	74.4	74.3	74.4	74.3
7.125% Eurobonds 2004	20(a)	99.2	99.1	-	-
7.625% Eurobonds 2014	20(a)	98.4	98.3	-	-
9.250% Eurobonds 2020	20(a)	147.8	-	-	-
Other loans	20(b)	642.9	86.5	530.0	-
Loan notes	20(c)	11.7	-	11.7	-
Obligations under finance leases	21	73.8	73.7	-	-
Refundable customer contributions		3.5	-	-	-
Consortium relief		8.6	-	-	-
Other creditors - Between one and five years		7.6	3.5	-	-
		1167.9	435.4	616.1	74.3

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

20 Loans

(a) Eurobonds

Net issue costs totalling £5.9m have been incurred in relation to the Eurobonds and are credited to the net proceeds at a constant annual rate over the life of each Eurobond in accordance with the Financial Reporting Standard FRS4 - Capital Instruments. Details of the Eurobonds are as follows:-

	Interest rate %	Net proceeds £m	Net issue costs £m	Nominal value £m
Eurobonds 2002	10.750	74.0	1.0	75.0
Eurobonds 2004	7.125	99.1	0.9	100.0
Eurobonds 2014	7.625	98.2	1.8	100.0
Eurobonds 2020	9.250	147.8	2.2	150.0
		419.1	5.9	425.0

The Eurobonds 2020 were issued by South Wales Electricity plc on 3 November 1995 to finance working capital and its capital investment programme. The consideration was £151.7m which included a premium on issue of £1.7m. After deducting issue costs of £3.9m the net proceeds were £147.8m.

(b) Other Loans

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Repayable as follows:				
Within one year	13.8	4.1	11.2	1.3
Between one and two years	2.6	2.7	-	-
Between two and five years	576.5	17.3	530.0	-
After more than five years	63.8	66.5	-	-
	656.7	90.6	541.2	1.3
Repayable wholly within five years	570.5	1.3	541.2	1.3
Repayable by instalments within five years	0.6	0.6	-	-
Repayable by instalments after five years	85.6	88.7	-	-
	656.7	90.6	541.2	1.3

£530.0m (1995 £Nil) of the amounts shown as repayable between two and five years are repayable within twelve months of the balance sheet date but, as they are drawn under committed facilities from the same lender, they are classified in the table above on the basis of the expiry dates of the facility.

Fixed interest rates on these loans range between 6.1% and 10.6% and variable interest rates varied between 1% below to 1.4% above LIBOR.

(c) Loan Notes

The loan notes were issued in lieu of all or part of the cash consideration due under the offer for South Wales Electricity plc to those of its shareholders who elected as such. The notes are unsecured and bear interest, payable half yearly in arrears, at the rate of one per cent below six month's LIBOR (London Inter-Bank Offer Rate).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

21 Finance leases

Group

	1996 £m	1995 £m
Amounts due under finance leases are payable as follows:		
Within one year	0.3	0.6
Between one and two years	0.2	0.2
Between two and five years	0.2	0.1
After more than five years	73.4	73.4
	74.1	74.3

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 (1995 £63.6m), which reduces over a term of 18 years.

Company

The Company had no finance lease obligations at 31 March 1996 or at 31 March 1995.

22 Capital commitments

Group

	1996 £m	1995 £m
Contracted for but not provided in the financial statements	221.1	76.6

In order to meet regulatory and service standards, the Group has longer term capital expenditure obligations within the regulated water and sewerage business totalling approximately £1.8 billion at current prices over the next nine years, and within the regulated electricity distribution and supply business totalling approximately £300 million at current prices over the next five years, which include investments to meet shortfalls in performance and condition, and to provide for new demands and growth.

Company

The Company had no capital commitments at 31 March 1996 or at 31 March 1995.

23 Leasing commitments

	Land and buildings		Others	
	1996 £m	1995 £m	1996 £m	1995 £m
At 31 March 1996 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:				
Within one year	1.4	1.6	1.1	0.3
Between two and five years	2.4	1.6	2.8	0.6
After five years	3.0	3.4	-	-
	6.8	6.6	3.9	0.9

Company

At 31 March 1996 the Company had operating lease commitments of £0.3m (1995 £0.3m).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

24 Provisions for liabilities and charges

Group

	Note	1996 £m	1995 £m
Deferred taxation	(a)	-	-
Infrastructure maintenance provision	(b)	20.7	23.9
Group insurance funds	(c)	20.1	6.5
Reorganisation provision	(d)	71.5	17.9
Pensions provision	(e)	3.4	-
Power purchase provision	(f)	73.0	-
Other provisions	(g)	4.3	0.7
		<u>193.0</u>	<u>49.0</u>

Company

	Note	1996 £m	1995 £m
Deferred taxation	(a)	0.7	1.4
Reorganisation provision	(d)	0.6	-
Pensions provision	(e)	0.4	-
Other provisions	(g)	0.2	0.5
		<u>1.9</u>	<u>1.9</u>

(a) Deferred taxation

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential liability, are as follows:

Group

	Amount provided		Amount unprovided	
	1996 £m	1995 £m	1996 £m	1995 £m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	-	331.1	195.5
Other timing differences	-	-	(14.8)	0.9
			<u>316.3</u>	<u>196.4</u>
Chargeable gains on properties rolled over	-	-	0.2	0.2
Earnings retained overseas	-	-	2.2	1.4
			<u>318.7</u>	<u>198.0</u>
Less advance corporation tax	-	-	(43.1)	(43.1)
			<u>275.6</u>	<u>154.9</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

24 Provisions for liabilities and charges (continued)

(a) Deferred taxation (continued)

Company

	Amount provided		Amount unprovided	
	1996	1995	1996	1995
	£m	£m	£m	£m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	0.2	0.1	-	-
Other timing differences	0.5	1.3	-	-
	<u>0.7</u>	<u>1.4</u>	<u>-</u>	<u>-</u>

	1996	1995
	£m	£m
At 1 April	<u>1.4</u>	<u>0.9</u>
Tax charge for the year	(0.6)	0.1
Prior year tax charge	(0.1)	0.4
At 31 March	<u>0.7</u>	<u>1.4</u>

(b) Infrastructure maintenance provision

Group

	1996	1995
	£m	£m
At 1 April	<u>23.9</u>	<u>13.4</u>
Charge for the year	23.4	23.4
Expenditure in the year	(26.6)	(12.9)
At 31 March	<u>20.7</u>	<u>23.9</u>

As part of the obligations to the Director General of Water Services, the directors of Dwr Cymru Cyfyngedig 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

24 Provisions for liabilities and charges (continued)

(c) Group insurance funds

Group

	1996	1995
	£m	£m
At 1 April	6.5	5.9
On acquisition of subsidiary	11.1	-
Premiums	4.0	2.3
Claims	(1.0)	(0.9)
Investment income	0.6	0.4
Released to profit and loss account	(1.1)	(1.2)
At 31 March	20.1	6.5

In the case of the electricity distribution network the Group provides for certain categories of risk, including storm damage to the distribution network, where appropriate cover is not available in the marketplace: £7.5m (1995 £Nil) has so far been provided. The risks relate to unusual circumstances that are highly unlikely to occur on a year by year basis, the impact of which could, however, be substantial in a single year.

Cover against certain environmental risks and employer and public liability risks is provided by Brecon Insurance Company Limited and St Mellons Insurance Company Limited, wholly owned subsidiary undertakings of the Group.

(d) Reorganisation provision

Group

		1996	1995
	Note	£m	£m
At 1 April		17.9	1.4
On acquisition of subsidiary		14.4	-
Charge for the year	5	55.0	28.5
Utilised in the year		(15.8)	(12.0)
At 31 March		71.5	17.9

Company

	1996	1995
	£m	£m
Charge for the year	0.6	-
At 31 March	0.6	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

24 Provisions for liabilities and charges (continued)

(e) Pensions provision

Group

	1996	1995
	£m	£m
On acquisition of subsidiary	3.1	-
Transfer from other provisions	0.1	-
Charge for the year	0.3	-
Utilised in the year	(0.1)	-
At 31 March	3.4	-

Company

	1996	1995
	£m	£m
Transfer from other provisions	0.1	-
Charge for the year	0.3	-
At 31 March	0.4	-

(f) Power purchase provision

Group

	1996	1995
	£m	£m
On acquisition of subsidiary	73.0	-
At 31 March	73.0	-

The provision relates to a 15 year fixed price electricity purchase contract which ceases in 2008, and reflects the difference between the fixed price inherent in the contract and prices currently available for fixed price contracts expiring in 2008 (note 35).

(g) Other provisions

Group

	1996	1995
	£m	£m
At 1 April	0.7	-
On acquisition of subsidiary	3.1	-
Transfer to pensions provision	(0.1)	-
Charge for the year	0.7	0.7
Utilised in the year	(0.1)	-
At 31 March	4.3	0.7

Company

	1996	1995
	£m	£m
At 1 April	0.5	-
Transfer to pensions provision	(0.1)	-
Charge for the year	-	0.5
Utilised in the year	(0.2)	-
At 31 March	0.2	0.5

**NOTES TO THE FINANCIAL STATEMENTS
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25 Accruals and deferred income

Group

	1996	1995
	£m	£m
At 1 April	33.3	35.4
Receivable during the year	4.6	2.0
On acquisition of subsidiary	98.1	-
Released to profit and loss account	(2.6)	(4.1)
At 31 March	133.4	33.3

Deferred income represents grants and customer contributions received in respect of investment in non-infrastructure fixed assets. These grants are amortised to the profit and loss account over the estimated useful economic life of the related assets.

26 Called up share capital

On 27 July 1995 the Annual General Meeting approved the Board's proposal to restructure the Company's share capital by the creation of 134,000,000 cumulative redeemable preference shares of £1 each, being a capitalisation issue out of the share premium account, and consolidating the Company's ordinary shares of £1 each into new ordinary shares of 120p each. The restructuring resulted in 132,181,776 £1 preference shares being issued with a fixed coupon rate of 7.875% net. In addition 146,868,640 ordinary shares of £1 were consolidated into 122,390,533 new ordinary shares of 120p.

On 8 January 1996 an Extraordinary General Meeting approved the Board's proposal to create an additional 75,000,000 cumulative redeemable preference shares of £1 each, with a fixed coupon of 7.875% net, in relation to the acquisition of South Wales Electricity plc. These additional preference shares were issued on 6 February 1996.

All cumulative redeemable preference shares are redeemable at par on 31 July 2013 at the Company's option. These shares are non-voting and have a preferential right to return of capital on a winding up.

	1996	1995
	£m	£m
Authorised:		
Ordinary shares of £1 each (1995 200,000,000)	-	200.0
166,666,667 Ordinary shares of 120p each (1995 Nil)	200.0	-
209,000,000 Cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1995 Nil)	209.0	-
	409.0	200.0
Allotted, called up and fully paid:		
Ordinary shares of £1 each (1995 146,741,947)	-	146.7
139,704,725 Ordinary shares of 120p each (1995 Nil)	167.6	-
207,181,776 Cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1995 Nil)	207.2	-
	374.8	146.7
Shares to be allotted:		
727,242 Ordinary shares of 120p each (1995 Nil) (note 35)	0.9	-

The called up share capital of the Company at 31 March 1996 is the amount issued at that date and the balance of the nominal value of the shares to be issued under the offer for the acquisition of the entire issued share capital of South Wales Electricity plc (shares to be allotted). The premium on the shares to be allotted has been included in the capital reserve.

**NOTES TO THE FINANCIAL STATEMENTS
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26 Called up share capital (continued)

Further ordinary shares were issued in the year resulting from the exercise of share options under the Company's employee sharesave scheme and executive share option scheme at prices between 183p and 716p per share.

In total 17,419,770 ordinary shares, with an aggregate nominal value of £20,903,724 were issued in the year for a cash consideration of £18,312,215. Included within the total are 12,973,128 ordinary shares, with an aggregate nominal value of £15,567,754, issued in relation to the acquisition of South Wales Electricity plc for which no cash consideration was received.

The offer for the whole of the issued ordinary share capital of South Wales Electricity plc became unconditional on 29 January 1996. As at 31 March 1996 12,973,128 ordinary shares of 120p each had been issued and £654.9m cash had been paid towards meeting the consideration, leaving 727,242 ordinary shares to be allotted and £35.5m in cash to be paid out in the year to 31 March 1997.

The cumulative redeemable preference shares issued as part of the share capital restructuring had a nominal value of £132.2m. After deducting issue costs of £1.1m the net amount taken to non-equity shareholders funds was £131.1m. The consideration for the cumulative redeemable preference shares issued as part of the acquisition of South Wales Electricity plc was £76.8m which included a premium on issue of £1.8m. After deducting issue costs of £1.4m the net proceeds were £75.4m. In accordance with the Financial Reporting Standard FRS4 - Capital Instruments, the total net value of £206.5m taken to non-equity shareholders funds will be progressively increased up to the nominal value of £207.2m by way of an annual charge against profits during the period up to redemption on 31 July 2013.

27 Employee share schemes

(a) Hyder plc share schemes

The Company has two Inland Revenue approved share option schemes for its employees and those of subsidiary undertakings.

The employee sharesave scheme is savings related and the share options are exercisable within six months of completion of a five or seven year Save As You Earn contract. Save for the initial price of 183p (as restated for the share capital restructuring) set at privatisation, employee share save options are fixed at the closing market value on the day preceding the date of grant less 20% discount. The executive share option scheme is a discretionary scheme for senior employees under which options are granted at fixed prices at the closing market value on the day preceding the date of grant. Executive share options granted after July 1993 are performance related and can only be exercised if the increase in the share price of an ordinary share exceeds the increase in the Retail Prices Index plus 2% per annum compound (pro rata for any period of less than one year) in the period between the date of grant and the exercise date. All executive share options are exercisable between three and ten years from the date of grant.

All options granted under the employee sharesave and the executive share option schemes can be exercised early in certain exceptional circumstances such as retirement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

27 Employee share schemes (continued)

(a) Hyder plc share schemes (continued)

Options granted but not yet exercised under these schemes at 31 March 1996 together with their exercise prices and dates are shown below:

	Date option granted	Normal date of exercise	Option price per share (pence)	Number of ordinary shares	
				1996	1995
Employee sharesave scheme	Dec 1989	Mar 1995 - Aug 1995	183	-	64082
	Dec 1989	Mar 1997 - Aug 1997	183	437312	475473
	Jul 1991	Oct 1996 - Mar 1997	295 - 296	459126	490653
	Jul 1991	Oct 1998 - Mar 1999	295 - 296	282928	307722
	Dec 1992	Mar 1998 - Aug 1998	425 - 427	505561	540991
	Dec 1992	Mar 2000 - Aug 2000	425 - 427	366959	383867
	Sept 1994	Oct 1999 - Mar 2000	522 - 525	475995	530434
	Sept 1994	Oct 2001 - Mar 2002	522 - 525	215074	249836
	Dec 1994	Feb 2000 - Aug 2000	522 - 525	322540	347110
	Dec 1994	Feb 2002 - Aug 2002	522 - 525	139809	147583
Executive share option scheme	Jan 1990	Jan 1993 - Jan 2000	292	-	392
	Jan 1991	Jan 1994 - Jan 2001	364	1373	28959
	Jul 1991	Jul 1994 - Jul 2001	354	140236	246154
	Dec 1991	Dec 1994 - Dec 2001	374	-	1500
	Jun 1992	Jun 1995 - Jun 2002	431	-	144398
	Jul 1993	Jul 1996 - Jul 2003	563	85909	85909
	Aug 1993	Aug 1996 - Aug 2003	648	126393	126393
	Jan 1994	Jan 1997 - Jan 2004	716	283554	331614
	Jan 1995	Jan 1998 - Jan 2005	676	82471	82471
			3925240	4585541	

Share options at 31 March 1995 and the exercise price have been restated to reflect the share capital restructuring approved at the Annual General Meeting on 27 July 1995.

(b) South Wales Electricity plc share schemes

At the time of the acquisition of South Wales Electricity plc it also operated two Inland Revenue approved share option schemes for its employees and those of subsidiary undertakings. The rules of the South Wales Electricity plc employee sharesave scheme and the South Wales Electricity plc executive share option scheme ("the SWALEC Schemes") are substantially the same as those schemes operated by the Company, save that no options granted under the executive share option scheme are performance related.

Under the rules of the SWALEC schemes, and in accordance with the terms of the Recommended Offer for the acquisition of South Wales Electricity plc dated 15 December 1995, individuals with share options outstanding under the SWALEC schemes at 31 January 1996 were given the opportunity to (a) accept replacement options over ordinary shares in Hyder plc, or (b) exercise their options over South Wales Electricity plc shares under the rules and accept the terms of the Recommended Offer.

**NOTES TO THE FINANCIAL STATEMENTS
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27 Employee share schemes (continued)

(b) South Wales Electricity plc share schemes (continued)

Under the replacement option alternative option holders were offered 1.1504 Hyder plc 120p ordinary shares under option for each South Wales Electricity plc 50p ordinary share under option. The formula was agreed with the Inland Revenue and designed to reflect the relative value of shares in South Wales Electricity plc and Hyder plc on 29 January 1996 (the day the Recommended Offer became unconditional). The following replacement options were granted over 120p ordinary shares in the Company and were outstanding at 31 March 1996:

	Date option granted	Normal date of exercise	Option price per share (pence)	Number of 120p ordinary shares
Employee sharesave scheme	Dec 1990	Mar 96 - Sept 96	152	810552
	Oct 1992	Jan 98 - Jul 98	314	560459
	Feb 1993	May 98 - Nov 98	363	551570
Executive share option scheme	Jan 1992	Jan 95 - Jan 2002	329	34511
	Jan 1993	Jan 96 - Jan 2003	454	10353
	Jul 1993	Jul 96 - Jul 2003	477	18981
				<u>1986426</u>

Under Inland Revenue rules these options, albeit over shares in Hyder plc, remain subject to the rules of the SWALEC schemes.

(c) South Wales Electricity plc employee share option plan

In the year ended 31 March 1994 South Wales Electricity plc established an employee share option plan (ESOP) whereby ordinary shares in South Wales Electricity plc could be purchased by Coutts & Co. (Isle of Man) Limited (the Trustee) to meet obligations under the South Wales Electricity plc sharesave and executive share option schemes. At 31 March 1996 the ESOP had an interest in 569,315 South Wales Electricity plc ordinary shares of 50p (1995 593,315) held to meet obligations under the South Wales Electricity plc sharesave scheme, comprising 14,315 shares held by the Trustee and a further 555,000 shares held by National Westminster Bank plc (the Bank) under an agreement between South Wales Electricity plc, the Trustee and the Bank dated 22 September 1992 (the Agreement) which gives the Trustee, subject to certain conditions and under a prescribed pricing mechanism, the right to call on the Bank to transfer or procure the transfer of all or some of the shares in South Wales Electricity plc to the Trustee. Under the Agreement the Trustee agreed to grant to the Bank certain rights to require the Trustee to purchase such shares. At 31 March 1996 the Trustee also held 17,101 ordinary shares in National Grid Group plc (NGG) directly and had an interest in a total of 532,833 NGG shares. By the subsequent serving of a purchase notice under the Agreement, ownership of 515,732 NGG shares previously held by the Bank was transferred to the Trustee. These shares were allotted to the Bank under arrangements for the demerger of NGG in December 1995 and were held by the Bank under the terms of the Agreement. The market value of the trust assets at 31 March 1996 was £5.9m (1995 £3.8m).

Subsequent to the financial year end the following transactions were completed:

- (i) On 4 April 1996, the Trustee served a purchase notice under the Agreement and ownership of trust assets comprising 550,000 South Wales Electricity plc shares and 515,732 NGG shares passed to the Trustee at a price of £2.3m; and
- (ii) on 9 April 1996 the Trustee accepted the terms of the recommended offer made by Hyder plc to acquire South Wales Electricity plc, in consequence of which the assets of the ESOP now includes 113,863 ordinary shares of 120p in Hyder plc and £4.0m.

The purchase of the shares by the Trustee under the Agreement on 4 April 1996 was financed by a loan from Hyder plc.

**NOTES TO THE FINANCIAL STATEMENTS
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27 Employee share schemes (continued)

(c) South Wales Electricity plc employee share option plan (continued)

The accounts include the assets and related borrowings of the ESOP in accordance with FRS 5 - Reporting the Substance of Transactions. Shares held in the ESOP are included at cost in debtors and borrowings in creditors. Dividends on shares held in the ESOP are received by the Trustee for the purposes of the ESOP. The expenses of the scheme which are borne by the Group are expensed as incurred.

The shares in the ESOP will be distributed to employees and former employees of South Wales Electricity plc who, at a future date, exercise options held by them under the South Wales Electricity plc sharesave scheme (note 27(b)). At 31 March 1996 options over 1,922,581 ordinary shares in Hyder plc are outstanding under the South Wales Electricity plc sharesave scheme.

(d) National Grid demerger

At 31 March 1995 South Wales Electricity plc (SWALEC) held a 5.4% interest in The National Grid Holdings plc (NGH). On 8 December 1995 SWALEC, together with all other regional electricity companies, disposed of its interest in NGH under the demerger arrangements for NGH. Under the terms of the demerger SWALEC distributed shares in National Grid Group plc (NGG) (a company listed on the London Stock Exchange) by way of a dividend in specie to shareholders in the proportion 91 NGG shares for every 100 SWALEC shares held.

In order that holders of options under the SWALEC sharesave and executive share option schemes were not disadvantaged the Directors of SWALEC established an employee share option plan (ESOP) on 17 November 1995 which received NGG shares which will be transferred to option holders as compensation for the loss in value of the SWALEC shares under option.

The NGG shares are transferred to option holders for nil consideration at such future date as options under the SWALEC share schemes are exercised in the proportion 0.9128 NGG shares for each SWALEC share over which an option is exercised. Notwithstanding options over SWALEC shares which have subsequently been replaced by options over ordinary shares of 120p in Hyder plc, the entitlement to receive NGG shares is calculated by reference to the original option held over SWALEC shares.

At 31 March 1996 the ESOP Trustee had an interest in 1,647,284 ordinary shares of 10p in NGG with a value of £3.2m.

Dividends on shares held in the ESOP are received by the Trustee for the purposes of the ESOP. The expenses of the scheme are borne by the Group and expensed as incurred.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

28 Share premium account

	Group £m	Company £m
At 1 April 1995	135.6	135.6
Utilised on creation of preference shares	(132.2)	(132.2)
Premium on ordinary shares issued in the year	94.5	94.5
Premium on preference shares issued in the year	1.8	1.8
Eurobond issue costs written off in the year	(0.1)	(0.1)
Ordinary share issue costs written off in the year	(2.8)	(2.8)
Preference share issue costs written off in the year	(2.5)	(2.5)
At 31 March 1996	<u>94.3</u>	<u>94.3</u>

29 Reserves

Profit and loss account

	Group £m	Company £m
At 1 April 1995	898.5	207.0
Profit retained for the year	33.8	37.3
Foreign currency translation gains	1.8	-
Goodwill - arising on acquisition in the year	(560.7)	-
Transfer from share premium account- Eurobond issue costs written off in the year	0.1	0.1
At 31 March 1996	<u>373.5</u>	<u>244.4</u>

Capital reserve

	Group £m	Company £m
Arising on acquisition in the year:		
Fair value of options granted (note 35)	9.6	9.6
Premium on ordinary shares to be allotted (note 26)	4.5	4.5
Goodwill - arising on acquisition in the year	(9.6)	-
At 31 March 1996	<u>4.5</u>	<u>14.1</u>

The capital reserve arises on the acquisition of South Wales Electricity plc and comprises:

- (i) the fair value of the options granted by the Company to South Wales Electricity plc share option holders less the option price to be received by the Company on the exercise of those options (note 27(b)); and
- (ii) the premium on the ordinary shares to be allotted subsequent to the year end.

The cumulative goodwill written off directly to reserves is £623.1m (1995 £52.8m).

Capital redemption reserve

On 30 December 1994 the Group and Company created a capital redemption reserve of £1 following the redemption at par of the Special Rights Redeemable Preference share of £1.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

30 Net Cash inflow from operating activities

	1996 £m	1995 £m
<u>Continuing operations:</u>		
Operating profit	123.5	127.2
Depreciation of tangible fixed assets	46.8	40.0
Amounts written off tangible fixed assets	1.3	0.7
Infrastructure maintenance provision	(3.2)	10.5
Amortisation of grants and contributions	(1.9)	(4.1)
Profit on sale of fixed assets	(0.8)	(0.1)
Net increase in stocks	(0.8)	(0.6)
Net (increase)/decrease in debtors	(2.9)	0.1
Net (decrease)/increase in creditors	(4.2)	4.4
Contribution from insurance fund	1.6	0.6
Contribution from pension fund	0.4	-
Restructuring provisions	21.9	16.5
Net cash inflow from continuing operating activities	<u>181.7</u>	<u>195.2</u>
<u>Acquisitions:</u>		
Operating profit	2.4	-
Depreciation of tangible fixed assets	4.5	-
Amortisation of grants and contributions	(0.7)	-
Loss on disposal of fixed asset investments	0.1	-
Net increase in stocks	(0.2)	-
Net increase in debtors	(23.7)	-
Net increase in creditors	7.6	-
Contribution from insurance fund	0.9	-
Contribution to pension fund	(0.1)	-
Restructuring provisions	17.3	-
Net cash inflow from acquired operating activities	<u>8.1</u>	<u>-</u>
Net cash inflow from operating activities	<u><u>189.8</u></u>	<u><u>195.2</u></u>

31 Analysis of changes in financing in the year

	Share capital (including premium)		Long term loans & finance lease obligations	
	1996 £m	1995 £m	1996 £m	1995 £m
At 1 April	282.3	279.6	436.6	347.8
Long term loans and Eurobonds	-	-	569.2	85.0
On acquisition of subsidiary	-	-	147.8	-
Loan notes issued for non-cash consideration	-	-	11.7	-
New finance leases	-	-	-	8.1
Loan repayments	-	-	(3.1)	(3.4)
Finance lease repayments	-	-	(0.2)	(1.1)
Eurobond issue costs written back in the year	(0.1)	(0.1)	0.3	0.2
Proceeds from the issue of ordinary shares	18.3	2.8	-	-
Fair value of ordinary shares issued for non-cash consideration	97.1	-	-	-
Nominal value of ordinary shares to be allotted	0.9	-	-	-
Proceeds from the issue of preference shares	76.8	-	-	-
Expenses of issuing ordinary shares	(2.8)	-	-	-
Expenses of issuing preference shares	(2.5)	-	-	-
At 31 March	<u>470.0</u>	<u>282.3</u>	<u>1162.3</u>	<u>436.6</u>

**NOTES TO THE FINANCIAL STATEMENTS
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32 Analysis of changes in cash and cash equivalents in the year

	Note	1996 £m	1995 £m
At 1 April	34	83.8	95.0
Net cash inflow/(outflow) before adjustments for the effect of foreign currency exchange rate movements		52.3	(10.0)
Foreign currency exchange rate movements		1.8	(1.2)
At 31 March	34	<u>137.9</u>	<u>83.8</u>

33 Analysis of changes in deposits and investments in the year

	1996 £m	1995 £m	1996 Change in year £m	1995 Change in year £m
Fixed term and call deposits and other money market investments	<u>215.3</u>	<u>353.8</u>	(138.5)	<u>46.5</u>
On acquisition of subsidiary			(79.3)	
As per cashflow statement			<u>(217.8)</u>	

Current asset investments which are not treated as cash and cash equivalents are available to finance future capital investment and are therefore treated as a financing and treasury activity, rather than an investing activity, in the cashflow statement.

34 Analysis of cash and cash equivalents

	1996 £m	1995 £m	1996 Change in year £m	1995 Change in year £m
Cash at bank and in hand	15.2	11.8	3.4	5.0
Short term deposits and investments	131.6	81.3	50.3	(14.5)
Bank loans and overdrafts	(8.9)	(9.3)	0.4	(1.7)
	<u>137.9</u>	<u>83.8</u>	<u>54.1</u>	<u>(11.2)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

35 Purchase of subsidiary undertaking

On 29 January 1996 the Company's offer for the issued share capital of South Wales Electricity plc not already held by it was declared unconditional and the level of acceptances at that date, taken together with those up to 31 March 1996 and subsequently, empowers the Company to acquire the remaining shares under the compulsory acquisition provisions of the Companies Act 1985.

The Group accounts are drawn up on the basis that the effective date of acquisition was 29 January 1996 and, having regard to the application of the compulsory purchase provisions referred to above, South Wales Electricity plc has been regarded as a wholly owned subsidiary from that date. The acquisition has been accounted for using acquisition accounting from that date.

The calculation of earnings per share has been based on the assumption that all shares issued in connection with the acquisition were issued on 29 January 1996 (note 11).

The book values of the assets and liabilities of South Wales Electricity plc immediately prior to the acquisition and the fair value adjustments required in recognition of the change in ownership are as follows:

	Book value prior to acquisition £m	Revaluations £m	Fair value to the Group £m
Fixed assets:			
Tangible	508.3		508.3
Investment properties	18.4	-	18.4
Investments	55.5	(1.5)	54.0
Stocks	7.3	-	7.3
Debtors	109.5	-	109.5
Amount receivable on disposal of fixed asset investments	30.9	-	30.9
Cash at bank and in hand	5.3	-	5.3
Current asset investments:			
Original maturity less than three months	2.2	-	2.2
Original maturity more than three months	79.3	-	79.3
Overdrafts and loans due within three months	(59.3)	-	(59.3)
Creditors due within one year	(96.5)	-	(96.5)
Taxation	(46.9)	-	(46.9)
Loans due after one year	(147.8)	-	(147.8)
Creditors due after one year	(15.2)	-	(15.2)
Provisions for liabilities and charges	(17.3)	(73.0)	(90.3)
Deferred income	(98.1)	-	(98.1)
Reorganisation provisions	(11.3)	(3.1)	(14.4)
Net assets acquired	324.3	(77.6)	246.7
	Prior to 31 March 1996 £m	After 1 April 1996 £m	Total £m
Consideration:			
Cash (including costs of acquisition)	654.9	35.5	690.4
Loan notes	11.7	0.5	12.2
Ordinary shares issued and to be allotted (at market value)	97.1	5.4	102.5
Fair value of share options granted (note 29)	9.6	-	9.6
Total consideration	773.3	41.4	814.7
Fair value of net assets acquired (as above)			(246.7)
Goodwill			568.0

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

35 Purchase of subsidiary undertaking (continued)

The balance of the ordinary shares to be issued and other consideration due under the offer are included in shares to be allotted, and capital reserves, and creditors respectively.

The fair values attributed to certain assets and liabilities and the related consideration are provisional and will be adjusted, if necessary, in the year ending 31 March 1997 with a consequential adjustment to goodwill.

No change has been made to the historic cost net book value of the distribution network assets as in the opinion of the directors the adjustment would not be material.

The net cash outflow of cash and cash equivalents arising from the acquisition of South Wales Electricity plc was as follows:

	£m
Cash consideration	690.4
Cash consideration paid after 1 April 1996	(35.5)
Cash acquired (as above)	(7.5)
Overdrafts and loans due within three months acquired (as above)	59.3
Net outflow of cash and cash equivalents	706.7

In the period since acquisition, South Wales Electricity plc contributed £8.1m to the Group's net operating cash flows and payments of £19.0m were made to acquire tangible fixed assets.

A provision of £17.9m was charged to the Groups' operating profits for the year to 31 March 1996 for South Wales Electricity plc's reorganisation. None of the provision was utilised at 31 March 1996.

The results of South Wales Electricity plc prior to acquisition were as follows:

	1 April 1995 to 29 January 1996 £m	Year ended 31 March 1995 £m
Turnover	448.7	641.9
Operating profit before take over defence costs	32.3	107.6
Defence costs	(12.7)	-
Operating profit	19.6	107.6
Profit on sale of fixed asset investments	27.3	-
Investment income	74.6	13.4
	121.5	121.0
Net interest (payable)/receivable	(3.7)	1.6
Profit on ordinary activities before taxation	117.8	122.6
Tax on profit on ordinary activities	(52.8)	(27.8)
Profit for the period	65.0	94.8

Statement of total recognised gains and losses

	1 April 1995 to 29 January 1996 £m	Year ended 31 March 1995 £m
Profit for the period	65.0	94.8
Surplus on revaluation of National Grid Company plc investment:		
Realised	138.1	-
Unrealised	4.1	-
Unrealised surplus on revaluation of investment properties	1.6	0.1
Total recognised gains and losses for the period	208.8	94.9

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

36 Purchase of minority interests

During the year the Group acquired the remaining minority interests in Acer Wargon Chapman Group Pty Limited for a cash consideration of £0.6m. This amount was provided for in the accounts to 31 March 1995.

37 Purchase of associated undertaking

The reclassification referred to in note 15 relates to the increase in the Group's shareholding in Severoceske vodovody a kanalizace a.s., from 11.3% to 35.8%, which enables the Group to treat the company as an associated undertaking.

The Group's share of the net book value of the assets and liabilities immediately prior to the purchase of the shareholding and the fair value adjustments required are as follows:

	£m
Share of net assets acquired	5.4
Fair value adjustments	0.7
Fair value of net assets acquired	6.1
 Discharged by:	
Cash consideration	8.1
Goodwill written off	(2.0)
	6.1

38 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.

39 Minority Interests

	1996	1995
	£m	£m
At 1 April	0.1	0.1
Distributions received	(0.1)	-
Acquired	0.1	-
At 31 March	0.1	0.1
 Comprising:		
Equity minority interests	-	0.1
Non-equity minority interests	0.1	-
	0.1	0.1

**NOTES TO THE FINANCIAL STATEMENTS
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40 Pension schemes

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

The employer's contributions and the pension cost have been assessed in accordance with the advice of William M. Mercer Limited using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum and pay growth of 7% per annum and increases to pensions in payment and deferred pensions of 5% per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1993. An actuarial valuation is currently being undertaken by the scheme's Actuary and results will be made available later in the year. The market value of the assets at the valuation date for the WMIS was £51.8m. Using the assumptions adopted for the Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs", the actuarial value of assets represented 107% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the surplus in the scheme is being recognised by a reduction in employer's contribution rates which was implemented on 1 April 1994.

The market value of the assets at the valuation date for the WPS was £132.4m. Using the assumptions adopted for SSAP24 the actuarial value of the assets represented 95% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the deficiency in the scheme is being spread over the working lifetime of the existing members by way of increased employer's contribution rates which were implemented on 1 April 1994.

South Wales Electricity plc participates in three funded approved pension schemes: the South Wales section of the Electricity Supply Pension Scheme (the ESPS), providing pension and related benefits on a final salary basis; the SWALEC 1992 Pension Scheme (the 1992 Scheme), providing benefits on both a money purchase and final salary basis; and the Joint Industry Board Pension Scheme (the JIB Scheme), providing benefits (principally) on a money purchase basis. The assets of each scheme are held separately from the assets of South Wales Electricity plc and are administered by trustees.

Most of the staff employed by South Wales Electricity plc as at 31 March 1996 are members of the ESPS, which became closed to new entrants after 31 October 1992. The ESPS was replaced by the 1992 Scheme as the main scheme for staff who are ineligible for the JIB Scheme. The JIB Scheme is available to participating companies in the electrical contracting industry.

A full actuarial valuation of the South Wales section of the ESPS was carried out by Bacon & Woodrow, consulting actuaries, as at 31 March 1995 and the results have been used as the basis for assessing pension costs and future contributions. The attained age actuarial method was used and the main actuarial assumptions used are based upon investment growth of 9% per annum and pay growth (exclusive of merit awards) of 6.5% per annum, increases to pensions in payment and deferred pensions of 5% per annum; dividend growth on equity investments of 4.5% per annum; and an average retirement age of 60. The market value of scheme assets at the valuation date was £347.0m.

The valuation showed that the actuarial value of the scheme represented 106% of the actuarial value of the accrued benefits, allowing for future salary increases for active members. The surplus disclosed is being recognised as a reduction to pension cost over the average future working lifetime of the members and to cover short term early retirement costs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

40 Pension schemes (continued)

A full actuarial valuation of the 1992 Scheme was carried out by Bacon and Woodrow as at 31 March 1994 when the market value of the scheme assets was £2.1m. The projected unit credit actuarial method was used and the main actuarial assumptions used are based upon investment growth of 9.5% per annum, pay growth (exclusive of merit awards) of 7.5% per annum, increases to pensions in payment and deferred pensions of 5% per annum, dividend growth on equity investments of 5% per annum; and an average retirement age of 63.

The valuation showed that the actuarial value of the assets of the final salary section represented 102% of the actuarial value of the accrued benefits, allowing for future salary increases for active members. The surplus disclosed is being recognised as a reduction to pension cost over the average future working lifetime of the members.

South Wales Electricity plc also operates a funded unapproved pension scheme (the 1993 Scheme) to provide benefits for those employees whose approved pension benefits are restricted by the Finance Act 1989. The 1993 Scheme can provide benefits on either a final salary or money purchase basis. Currently, all retirement benefits are money purchase in nature and certain death benefits are final salary related.

Acer Group Limited operates a number of defined benefit schemes for the benefit of all eligible employees. The assets of the schemes are held separately from the assets of the Group and are administered by independent trustees. The employer's contributions and the pension cost for all significant schemes have been assessed in accordance with the advice of W F Corroon Limited using the projected unit method.

The latest actuarial valuation of the principal UK scheme was carried out as at 31 December 1993. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum and pay growth of 6.5% per annum. Pensions in payment have been assumed to increase by 3% per annum and deferred pensions by 5% per annum. The total market value of the assets at the valuation date was £24.5m. Using the assumptions adopted for SSAP24 the combined actuarial value of the assets represented 96% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the deficiency in the scheme is being spread over the working lifetime of existing members by way of increased employer's contribution rates which were implemented on 1 April 1994. A full actuarial valuation will be undertaken as at the 1 May 1996 and results will be made available later in 1996.

The total pension cost for the period was £11.5m (1995 £9.6m). As a consequence of changes made by the Finance Act 1989 the Group is unable to provide fully for approved pension for some executive directors who have joined the Group since 1989. The Group has therefore made alternative arrangements in these cases. Provision for the cost of unfunded pension is included in the charge for the period and the arrangements will not result in any individual executive director receiving any greater benefit than would have applied if the full approved provision had been possible.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

41 Contingent liabilities

Company

The Company has provided guarantees in respect of finance lease and loan facilities granted to its subsidiary Dwr Cymru Cyfyngedig amounting to £178.6m (1995 £151.4m). Further guarantees amounting to £140.0m (1995 £171.7m) could be provided if the remainder of the loan and finance lease facilities are fully drawn down.

The Company is 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 subsidiaries of the Company, subject to a maximum amount equal to the Company's own cash balance with the bank. At 31 March 1996 the overdrafts in subsidiary companies in the cash pooling arrangement amounted to £13.4m (1995 £14.6m).

In accordance with normal practice in the engineering and contracting industries, the Company, as ultimate holding company, has provided a number of guarantees in relation to performance by various companies within the Acer Group of their obligations pursuant to contracts concluded by such companies in the normal course of their business.

Group

Acer Group Limited has also granted some guarantees in relation to performance by various subsidiaries of Acer Group Limited of their obligations pursuant to contracts entered into by them in the ordinary course of business.

42 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.

**NOTES TO THE FINANCIAL STATEMENTS
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43 Principal group undertakings

Subsidiary	Country of Incorporation, Registration and Operation	Shareholding	
		Directly %	Indirectly %
Regulated water and sewerage activities			
Dwr Cymru Cyfyngedig	England and Wales	100	
Welsh Water Utilities Finance PLC	England and Wales		100
Regulated electricity distribution and supply activities			
South Wales Electricity plc	England and Wales	100	
Infrastructure activities			
Acer Group Limited	England and Wales	100	
Acer Consultants Limited	England and Wales		100
Acer Holdings Inc	USA		100
Acer Consultants (Pte) Limited	Singapore		100
Acer Wargon Chapman Group Pty Limited	Australia		100
Acer Consultants (Far East) Limited	Hong Kong		100
Freeman Fox Group Limited	Hong Kong		100
Acer Freeman Fox Consultants Limited	Thailand		100
Acer Consultants Sdn Bhd	Malaysia		100
Welsh Water International Limited	England and Wales	100	
Hyder Industrial Limited	England and Wales	100	
Hyder Investments Limited	England and Wales	100	
Hyder Overseas Investments Limited	England and Wales		100
Other principal subsidiaries			
Hyder Services Limited	England and Wales	100	
Hyder Services (Water) Limited	England and Wales	100	
Hyder Services (Electricity) Limited	England and Wales		100
Hamdden Limited	England and Wales	100	
Brecon Insurance Company Limited	Guernsey	100	
St Mellons Insurance Company Limited	Isle of Man		100
South Wales Electricity Generating Limited	England and Wales		100
Phoenix Electrical Company Limited	England and Wales		100
Celtic Exterior Lighting Limited	England and Wales		100

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

43 Principal group undertakings (continued)

Associates	Country of Incorporation, Registration and Operation	Indirect Shareholding %
CROESO Systems Development Limited	England and Wales	50
CableTel South Wales Limited	England and Wales	40
Severoceske vodovody a kanalizace a.s.	Czech Republic	35.8

All the above companies carry on businesses, the consolidated results of which, in the opinion of the directors, principally affect the amount of the profit or the assets of the Group. A complete list of all subsidiary and associate companies is available from the Company Secretary.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996**

Five year summary

	Year ended 31 March				
	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	651.6	521.9	512.1	382.4	341.9
Operating profit:					
Continuing operations	160.6	155.7	153.9	126.7	115.9
Acquisitions	20.3	-	-	-	-
Discontinued operations	-	-	(7.5)	-	-
	180.9	155.7	146.4	126.7	115.9
Exceptional items:					
Continuing operations	(37.1)	(28.5)	-	-	-
Acquisitions	(17.9)	-	-	-	-
	(55.0)	(28.5)	-	-	-
Total operating profit	125.9	127.2	146.4	126.7	115.9
Profit on disposal of fixed asset investments	-	-	-	17.0	-
Profit on disposal of fixed assets	-	-	-	-	1.4
Loss on disposal of subsidiary	-	-	-	-	(0.2)
Share of results of associated undertakings	0.9	0.6	0.4	-	(0.6)
Investment income	1.8	0.4	-	2.7	3.5
Net interest (payable)/receivable	(15.7)	(7.8)	(2.6)	9.0	18.2
Profit on ordinary activities before taxation	112.9	120.4	144.2	155.4	138.2
Taxation	(19.0)	(19.0)	(14.4)	(5.4)	(10.9)
Profit on ordinary activities after taxation	93.9	101.4	129.8	150.0	127.3
Minority interests	-	-	(0.1)	0.1	-
Preference dividends	(7.8)	-	-	-	-
Ordinary dividends	(52.3)	(49.6)	(37.0)	(34.1)	(30.8)
Retained profit for the year	33.8	51.8	92.7	116.0	96.5
Fixed assets	2126.8	1339.5	1190.4	1070.6	972.1
Net current assets	215.6	359.1	338.4	240.5	229.2
Total assets less current liabilities	2342.4	1698.6	1528.8	1311.1	1201.3
Creditors: amounts falling due after more than one year	(1167.9)	(435.4)	(343.9)	(213.2)	(184.1)
Provisions for liabilities and charges	(193.0)	(49.0)	(20.7)	(23.0)	(19.2)
Accruals and deferred income	(133.4)	(33.3)	(35.4)	(34.4)	(35.9)
Net assets	848.1	1180.9	1128.8	1040.5	962.1
Capital and reserves					
Called up share capital	375.7	146.7	145.4	145.1	144.2
Share premium account	94.3	135.6	134.2	133.7	132.1
Reserves	378.0	898.5	849.1	760.9	685.6
Equity shareholders' funds	641.5	1180.8	1128.7	1039.7	961.9
Non-equity shareholders' funds	206.5	-	-	-	-
Total shareholders' funds	848.0	1180.8	1128.7	1039.7	961.9
Equity minority interests	-	0.1	0.1	0.8	0.2
Non-equity minority interests	0.1	-	-	-	-
	848.1	1180.9	1128.8	1040.5	962.1

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