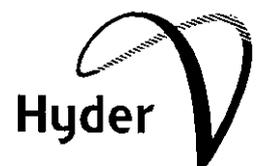


Hyder plc

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

Registered no. 2366776



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Directors and advisors

Directors

I R Evans	(N) Chairman
G A Hawker	(N) Group Chief Executive
M P Brooker*	Managing Director, Dwr Cymru Cyfyngedig
B H Charles	Executive Chairman, Dwr Cymru Cyfyngedig
S J Doughty	Chief Executive, Hyder Infrastructure Developments Ltd
J M James	Group Commercial Director
J E Roberts	Chief Executive, South Wales Electricity plc
P J Twamley	Group Finance Director
A J Hales	(N, R) Non-executive director
D G Hawkins	(A, N, R) Non-executive director
T Knowles	(A, N, R) Non-executive director
R H Sellier	(A, N, R) Non-executive director

(A) member of the Audit committee

(N) member of the Nominations committee

(R) member of the Remuneration committee

* appointed 2 April 1997

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
UBS 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 Group Chief Executive are held separately. The Board of directors currently comprises the non-executive Chairman, the Group Chief Executive, six 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 Directors' report and the Remuneration committee report. 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 all Audit committee meetings are reported to, and considered by, the Board.

The Remuneration committee, under the chairmanship of D G Hawkins, comprising all of the non-executive directors, other than the non-executive Group 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, long term incentive and pension entitlements. The committee also determines the fees paid to the non-executive Group Chairman. The minutes of all Remuneration committee meetings are reported to the Board.

The Nominations committee, comprising the Chairman, the Group 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 all 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 Group 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 Group Chief Executive, to whom the responsibility for management of the group is delegated by the Board.

Corporate governance statement

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 which has been communicated 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 Group Risk Forum oversees and monitors this process.

Through the Group Risk Forum, the group has established a consolidated action plan to ensure that computer programmes and operational equipment used within the group will be unaffected by the change of date at year 2000. The group's major computer systems have already been identified as 2000 compliant.

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 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.

Corporate governance statement

Going concern

The group's financial statements have been prepared on the basis that the group is a going concern. In arriving at their decision to prepare the financial statements on a going concern basis, the directors have reviewed the group's budget for 1997/98 and medium term business plans for 1997/98 to 1999/2000 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

6 June 1997

Auditors' report to Hyder plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 2 to 4 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

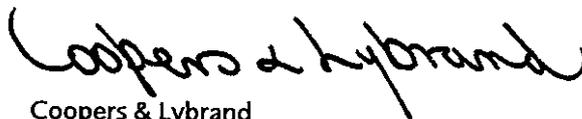
Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance 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 4, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above 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 aspects of the Code specified for our review by Listing Rule 12.43(j).



Coopers & Lybrand
Chartered Accountants
Cardiff

6 June 1997

Directors' report

The directors have pleasure in presenting their eighth annual report to shareholders, together with the audited financial statements for the year ended 31 March 1997 on pages 20 to 66.

Principal activities and business review

The group is principally engaged in utility management and the provision of infrastructure services. The group 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 involves continued strong performance in the regulated sector services businesses and expanding that expertise into related services and adjacent markets. Hyder Infrastructure Developments, 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.

Consolidated results

Profit on ordinary activities before taxation amounted to £208.2m (1996 £112.9m). After preference dividends and appropriations of £16.5m (1996 £7.8m) the profit attributable to ordinary shareholders amounted to £168.1m (1996 £86.1m). Ordinary dividends of £62.7m (1996 £52.3m) are recommended to be paid in respect of the year.

Dividend on ordinary shares

The directors recommend a final dividend of 29.3p (1996 26.1p) (net) per ordinary share, making a total ordinary dividend of 43.9p (1996 38.7p) (net) for the year to 31 March 1997. This will be paid on 6 October 1997 to ordinary shareholders whose names are on the register at the close of business on 4 July 1997.

A scrip dividend alternative will be available to ordinary shareholders. Under the scrip dividend alternative, the price per share at which scrip shares will be issued will be equal to the average of the middle market quotations for ordinary shares, as derived from the Daily Official List of the London Stock Exchange for the five dealing days commencing on the date the shares are first quoted ex-dividend.

Dividend on preference shares

A preference dividend of 3.9375p (1996 3.9375p) (net) per preference share in respect of the six month period ending 31 July 1997 will be paid on 31 July 1997 to all preference shareholders whose names are on the register on 27 June 1997, making a total preference dividend of 7.875p (1996 7.875p) for the year ended 31 July 1997.

Fixed assets

Freehold land and buildings, excluding investment properties, are carried in the accounts at historical cost at a net book value of £58.3m (1996 £59.9m). In the opinion of the directors there was no significant difference between book values of property capable of disposal within the foreseeable future and market values at 31 March 1997.

Directors' report

Directors

The names of the current directors of the company are shown on page 1. With effect from 2 April 1997 M P Brooker was appointed a director. All other directors served throughout the year ended 31 March 1997. B H Charles and A J Hales will retire as directors at the forthcoming annual general meeting on 25 July 1997.

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 M P Brooker as a director of the company.

T Knowles, who retires by rotation in accordance with the company's Articles of Association, offers himself for re-election at the annual general meeting. As a non-executive director, the current term of office for T Knowles expires at the conclusion of the annual general meeting in the calendar year 1999.

Directors' service contracts

The Remuneration committee, as a committee of the Board, is responsible for determining service contracts and remuneration for the executive directors and the non-executive Group Chairman. A Remuneration committee report is included on pages 10 to 17.

No director has a service contract which is terminable by the company on more than twelve months' notice.

Directors' interests in contracts

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 1997 and 31 March 1996 were as follows:

	Ordinary shares of 120p		Cumulative redeemable preference shares of £1		Options over ordinary shares of 120p	
	31 March 1997	31 March 1996	31 March 1997	31 March 1996	31 March 1997	31 March 1996
I R Evans	4,583	4,583	4,950	4,950	-	3,304
G A Hawker	10,512	9,222	7,938	7,938	1,550	1,550
B H Charles	1,833	13,536	2,245	2,245	1,550	5,357
S J Doughty	1,300	1,300	-	-	57,673	57,673
J M James	26,916	416	450	450	44,938	74,938
J E Roberts	1,000	1,000	-	-	-	-
P J Twamley	1,916	1,916	2,070	2,070	18,944	18,944
A J Hales	881	833	900	900	-	-
D G Hawkins	484	475	-	-	-	-
T Knowles	5,415	5,415	5,850	5,850	-	-
R H Sellier	246	233	252	252	-	-
	<u>55,086</u>	<u>38,929</u>	<u>24,655</u>	<u>24,655</u>	<u>124,655</u>	<u>161,766</u>

The beneficial interests of M P Brooker on 2 April 1997, being the date of his appointment as a director, were as follows:

Ordinary shares of 120p	13,341
Cumulative redeemable preference shares of £1	14,408
Options over ordinary shares of 120p	2,481

Directors' report

Directors' interests in shares (continued)

Details of share options exercised by the directors in the year are disclosed on page 16 as part of the Remuneration committee report.

During the period 1 April 1997 to 6 June 1997 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.

Share capital

As at 6 June 1997, 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.	7.98%
Norwich Union Fund Managers Limited	5.38%
Fidelity Investments	3.02%

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 to the supplier's standard terms. The average payment period in the year was 49 days.

Employment policies

It is Hyder's policy that there should be no discrimination against any person for any reason that is not relevant to the effective performance of their job. The group aims to attract, retain and motivate people by recognising initiative and innovation while at the same time providing extensive training and learning opportunities in order to broaden our strategic skills base.

In accordance with the company's equal opportunity policy, disabled people are given the same consideration as others when they apply for jobs. Depending on their skills and abilities, they enjoy the same career opportunities and scope for realising their potential as other employees.

Employee communication activity continues to feature high on our business agenda, and improved electronic mailing facilities, both nationally and internationally, have greatly enhanced internal communications. In-house newsletters and videos continue to play a key role in educating staff about group matters on both a local and a global level.

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 were no political donations and charitable donations amounted to £63,000 (1996 £30,000). In addition, the group has provided funding to community projects and is involved in Business in the Community initiatives.

Environmental policies

The group works closely with the environmental agencies and is committed to the provision of services and products which improve the quality of life, for both customers and the community, using working practices designed to protect the environment.

Directors' report

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 require 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 1997.

Special business at the annual general meeting

Full details of the annual general meeting to be held on 25 July 1997 appear in the notice of annual general meeting enclosed separately with this report. This year, there is one item of special business which proposes changes to the company's Articles of Association. The purpose of this resolution is set out in the explanatory notes which accompany 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

6 June 1997

Remuneration committee report

Statement of compliance

Throughout the year the company complied with Section A and has given full consideration to Section B 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, other than the Group Chairman, under the chairmanship of D G Hawkins. 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 otherwise, or has day-to-day involvement in running the business. The committee consults the Group Chief Executive about its proposals and the performance of 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.

With effect from 1 August 1996 the Group Chairman ceased to be an executive director and assumed a non-executive role.

The Group Chairman's remuneration upon becoming non-executive Group Chairman was determined by the Remuneration committee, which sought independent advice in respect of non-executive chairmen of comparable companies. The Group Chairman was, for the period 1 August 1996 to 31 March 1997, paid fees at the rate of £120,000 per annum. With effect from 1 April 1997 the Group Chairman has been paid fees at the rate of £125,000 per annum.

The fee paid to each non-executive director, other than the Group Chairman, has been £25,000 since 1 April 1994. Non-executive directors cannot participate in any of the company's share option or incentive schemes and are not eligible to join the company's pension scheme. A J Hales will resign from the Board with effect from the completion of the annual general meeting on 25 July 1997. The current terms of office of the other non-executive directors, which are subject to renewal by agreement, expire at the conclusion of the annual general meeting in the following calendar years:

I R Evans	1998
D G Hawkins	1998
T Knowles	1999
R H Sellier	2000

However, save in respect of I R Evans, where twelve months' written notice is required to be given, 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.

Remuneration committee report

Group Chairman

The Group Chairman assumed a non-executive role on 1 August 1996 and during the four month period as an executive director the Group Chairman's remuneration package was as follows:

(a) Basic annual salary

The Group Chairman's salary was £25,488 having been maintained at the previous year's annual salary level of £76,462.

(b) Long term bonus arrangement

The Group Chairman's entitlement to bonus lapsed on 31 July 1996 and in accordance with the criteria agreed at the commencement of this incentive scheme £15,406 was paid in respect of the total period from 1 April 1993 to 31 July 1996.

(c) Pension arrangements

The Group Chairman made his own private pension arrangements and his salary was supplemented by £5,098 (1996 £15,293 restated) in lieu of employer's pension costs.

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 discusses with the Group Chief Executive the remuneration of the other executive directors.

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

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

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

(a) Basic annual salary

Each executive 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, where appropriate, reviewed on the basis of independent professional advice in March 1997. Following the review basic salaries were increased to the amounts detailed below with effect from 1 April 1997:

G A Hawker	£240,000
M P Brooker (appointed 2 April 1997)	£135,000
B H Charles	£150,000
S J Doughty	£160,000
J M James	£160,000
J E Roberts	£176,000
P J Twamley	£176,000

Remuneration committee report

Executive directors (continued)

(b) Annual bonus payments

The committee establishes the objectives that must be met for each financial year if a bonus is to be paid. The committee believes that any incentive compensation awarded should be tied to the interests of the company's shareholders and that the principal measure for annual bonus payments 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 1997 varied between 24% and 40% (1996 34% and 40%).

B H Charles and J M James (being within three years of normal retirement date) are unable to participate in the long term incentive plan (see (c) below). Accordingly, the committee agreed an additional 10% maximum annual bonus opportunity for them based on criteria agreed with the Group Chief Executive. Both have achieved full bonus entitlement of 10%, being £14,500 for B H Charles and £13,000 for J M James.

(c) Long term incentive arrangements

The long term incentive plan, effective from 1 April 1996, for executive directors and selected senior executives was approved by the annual general meeting on 26 July 1996.

The long term incentive plan provides for the conditional award in each year of ordinary shares in the company worth up to 50% of basic salary. The ordinary shares in respect of each conditional award only become available to executive directors to the extent that the performance targets, set at the outset by the Remuneration committee, have been met over the three year period commencing with the conditional award. The first set of performance targets relate to the total shareholder return, over the three year period from 1 April 1996 to 31 March 1999, relative to the companies comprising the 250 top companies by market capitalisation derived from the FTSE 100 and the FTSE mid 250 indices.

Awards will crystallise as follows:-

- (i) if the company's ranking, by total shareholder return, in such top 250 companies at the end of the performance period is lower than ranking position 125, the participants will be entitled to no shares.
- (ii) if the company's ranking, by total shareholder return, in such top 250 companies at the end of the performance period is at position 125, the participants will be entitled to 20% of the shares in the conditional award. This percentage will increase on a straight line basis such that if the company is ranked at position 62 or higher, the participants will be entitled to 100% of the shares in the conditional award.
- (iii) to the extent that the relevant performance measure is satisfied, conditional awards will vest at the end of the relevant three year period. If a participant leaves employment with the group before the third anniversary of the relevant conditional award the participant will generally forfeit all conditional awards subject to the discretion of the Remuneration committee. Shares will be retained within the employee benefit trust and, in general terms, will be released to the participant in three equal amounts over the period of three years following the date of vesting. In the event of change of control of the company all conditional awards (prorated as to time) will vest.

Remuneration committee report

Executive directors (continued)

(c) Long term incentive arrangements (continued)

The ordinary shares for use under the long term incentive plan are purchased in the market by an employee benefit trust with funds allocated by the company. The trust has provisionally allocated ordinary shares to the participating executive directors at 742p per share as set out below:-

	Ordinary shares
G A Hawker	15,162
S J Doughty	10,107
J E Roberts	11,455
P J Twamley	10,107

The cost of the 46,831 ordinary shares was £391,039 and is being written off against profits over the three year performance period to 31 March 1999. The trust has not waived dividends on the shares it holds. The dividends which the trust receives will be used to offset the costs of the trust. The market value on 31 March 1997 of the shares purchased was £369,965.

Subsequent to the introduction of the long term incentive plan executive directors are no longer eligible to participate in the company's discretionary executive share option scheme, although the executive directors can participate in the employee sharesave scheme which is open to all employees. The Remuneration committee determines the maximum number of options granted under the employee sharesave scheme which is an Inland Revenue approved scheme.

(d) Pension arrangements

Executive directors are members of the company pension scheme which is detailed in note 38 to the financial statements. Normal retirement age for executive directors is 60. Each executive director has been notified on an individual basis of the estimated pension payable on retirement at 60. The total pension at 60, including benefits in respect of previous employment, will be restricted in all cases to a maximum of two-thirds of pensionable pay. Pensions accrue uniformly between the date of joining the scheme and the normal retirement date, with an actuarial reduction applying if pensions are paid before the normal retirement age. 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. Post retirement pension increases are payable in line with increases in the retail prices index, subject to a maximum of 5% per annum. Retail prices increases in excess of 5% per annum are paid, providing the actuary to the Water Pension Scheme certifies that the Water Pension Scheme's resources are sufficient. Executive directors' dependants are eligible for dependant's pensions and the payment of a lump sum in the event of death in service. The pension arrangements up to 31 March 1996 provide for a pension on retirement based on salary, annual bonus payment and the value of certain benefits at the date of retirement. Annual bonus payments earned after 1 April 1996 and other fluctuating emoluments paid after this date are excluded from the definition of pensionable pay. However, since the definition of final pensionable pay requires these elements of pay to be averaged over three years, it will be several years before they will be totally excluded from the pension calculation.

Pension contributions are made on behalf of the executive directors at the rate of 12.0% (1996 12.0%) of pensionable pay.

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 Twamley have been granted unfunded pension arrangements which have been set up to provide that part of each director's pension entitlement which exceeds the level approved by the Inland Revenue.

Remuneration committee report

Executive directors (continued)

(d) Pension arrangements (continued)

The directors' pension benefits were as follows:

	Age at 31 March 1997	Total accrued pension at 31 March 1997 £000 p.a.	Increase in accrued pension in the year £000 p.a.	Transfer value equivalent of increase in accrued pension over the year £000	Contributions paid by each director £000	Company pension cost £000
G A Hawker	49	100	21	216	16	200
B H Charles	59	95	9	144	10	134
S J Doughty	53	10	6	67	12	55
J M James	57	19	6	87	10	77
J E Roberts	51	5	4	46	10	36
P J Twamley	50	25	7	76	11	65

The total accrued pension is the annual pension which would be payable from age 60 to which each director would have been entitled, based on service up to 31 March 1997 and based on March 1997 price levels. The increase in accrued pension in the year excludes any increase for inflation during the year ended 31 March 1997.

The company pension cost is the transfer value equivalent of the increase in accrued pension less contributions paid by each director. The transfer values shown make no allowance for the cost of death in service or private health insurance benefits.

The figures for S J Doughty, J M James, J E Roberts and P J Twamley include their unapproved pensions.

Retirement benefits are accruing to six directors under defined benefit schemes. No directors have benefits accruing under defined contribution schemes.

Remuneration policy, service contracts and compensation

In framing its 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.

In line with the recommendations of the Greenbury Report and Section B of the Best Practice Provisions annexed to the Listing Rules, directors' service contracts are on a one year rolling basis. 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 for loss of office, and mitigation would normally be applied, although mitigation does not apply in the event of a change in control.

The Group Chairman's letter of appointment and the executive directors' service contracts will be available for inspection at the annual general meeting.

Remuneration committee report

Remuneration

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

	1997	1996
	£000	Restated £000
Fees	180	100
Salary payments (including benefits in kind)	1,083	733
Performance related bonus	376	254
	<u>1,639</u>	<u>1,087</u>

The directors' emoluments excluding pension contributions were as follows:

	Salary/Fees		Performance related bonus		Benefits in kind		Total	
	1997	1996	1997	1996	1997	1996	1997	1996
	£000	£000	£000	£000	£000	£000	£000	£000
G A Hawker	225	133	90	53	10	9	325	195
B H Charles	141	102	57	35	7	7	205	144
S J Doughty	150	124	37	53	8	8	195	185
J M James	130	102	65	41	10	9	205	152
J E Roberts	170	30	52	-	35	2	257	32
P J Twamley	150	102	60	41	15	12	225	155
	<u>966</u>	<u>593</u>	<u>361</u>	<u>223</u>	<u>85</u>	<u>47</u>	<u>1,412</u>	<u>863</u>
I R Evans (Chairman)	111	92	15	31	1	1	127	124
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
	<u>211</u>	<u>192</u>	<u>15</u>	<u>31</u>	<u>1</u>	<u>1</u>	<u>227</u>	<u>224</u>
	<u>1,177</u>	<u>785</u>	<u>376</u>	<u>254</u>	<u>86</u>	<u>48</u>	<u>1,639</u>	<u>1,087</u>

Highest paid director

	G A Hawker 1997	P J Twamley 1996 Restated
	£000	£000
Aggregate emoluments	325	155
Gains on share options exercised	-	256
	<u>325</u>	<u>411</u>

Accrued pension at end of the year under defined benefit pension schemes

	<u>100</u>	<u>18</u>
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The 1996 comparatives above have been restated as a consequence of the implementation of Statutory Instrument 1997/570, which is an amendment to the Companies Act 1985.

Remuneration committee report

Share options

Options held by each of the directors over the ordinary shares of the company under the employee sharesave scheme and executive share option scheme, and granted to and exercised by the directors during the year to 31 March 1997, were as follows:

	31 March 1996	Exercised in year	31 March 1997	Option price (pence)	Share price on date of exercise (pence)	Date exercisable	Expiry date
I R Evans	£ 3,304	-	-	-	-	-	-
G A Hawker	£ 1,550	-	1,550	425	-	Mar 1998	Aug 1998
M P Brooker [‡]	£ -	-	2,317 [°]	425	-	Mar 1998	Aug 1998
	£ -	-	164 [°]	521	-	Oct 2001	Mar 2002
	-	-	2,481				
B H Charles	£ 3,807	3,807	-	295	718	Oct 1996	Mar 1997
	£ 1,550	-	1,550	425	-	Mar 1998	Aug 1998
	5,357	3,807	1,550				
S J Doughty	* 57,673	-	57,673	676	-	Jan 1998	Jan 2005
J M James	71,070	30,000	41,070	563	727	Jul 1996	Jul 2003
	£ 3,868	-	3,868	425	-	Mar 1998	Aug 1998
	74,938	30,000	44,938				
J E Roberts	-	-	-	-	-	-	-
P J Twamley	14,839	-	14,839	563	-	Jul 1996	Jul 2003
	£ 3,868	-	3,868	425	-	Mar 1998	Aug 1998
	£ 237	-	237	523	-	Oct 1999	Mar 2000
	18,944	-	18,944				

[‡] Appointed as a director on 2 April 1997.

[°] At date of appointment.

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.

The following gains were made by directors on the exercise of share options during the year:

	1997 £000	1996 £000
G A Hawker	-	143
B H Charles	16	180
J M James	49	-
P J Twamley	-	256
	65	579

The gain is the difference between the share option price and the share price on the date the share options were exercised.

The Group Chairman's options under the employee sharesave scheme lapsed on 31 July 1996 when the Group Chairman ceased to be an executive director and assumed a non-executive role. No options held by any other directors lapsed un-exercised during the year.

Remuneration committee report

Share options (continued)

Executive share option prices are fixed at the closing market value on the day preceding the date of grant. 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 circumstances.

The middle market price of an ordinary share at the close of business on 31 March 1997 was 790p (1996 754p) and the range during the year to that date was 658p to 839p (1996 632p to 798p).

Annual general meeting

The committee has 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

6 June 1997

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

6 June 1997

Auditors' report to the members of Hyder plc

We have audited the financial statements on pages 20 to 66.

Respective responsibilities of directors and auditors

As described on page 18 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.

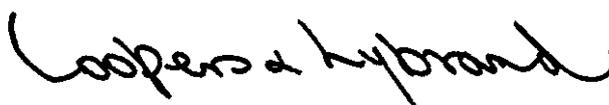
Basis of opinion

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 1997 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

6 June 1997

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

Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention, 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 or disposed of during the year are dealt with in the consolidated financial statements from the date of acquisition or until the date of disposal. 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 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.

Principal accounting policies

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) water and sewerage 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 water and sewerage operational structures , electricity distribution networks, equipment and fixtures and fittings).

Water and sewerage 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, equipment and computer hardware & purchased software	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.

Principal accounting policies

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.

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).

Profits and losses on the disposal of investment properties are calculated as the difference between the net sale proceeds and the net carrying value in the accounts (i.e. the value at the latest valuation). Any revaluation surplus or deficiency held within a revaluation reserve relating to the asset disposed of is released to profit and loss as a movement on reserves, and therefore does not impact on the statement of recognised gains and losses.

Principal accounting policies

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.

Long term investments in infrastructure projects are recognised at the total committed amounts for equity and loan stock with outstanding commitments being disclosed as amounts due to associated undertakings.

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 long term contracts

Amounts recoverable on long term 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.

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.

Principal accounting policies

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 option plan

The consolidated accounts include the assets and related borrowings of South Wales Electricity plc's employee share option plan (ESOP), in accordance with FRSS - Reporting the Substance of Transactions (note 27(d)). 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 1997

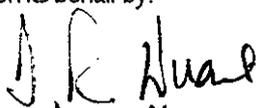
	Note	1997 £m	1996 £m
Turnover:			
Continuing operations	2 & 3	1,140.2	651.6
Net operating costs	4	(862.6)	(525.7)
Operating profit:			
Continuing operations		277.6	125.9
Before exceptional items:			
Continuing operations		277.6	180.9
Exceptional items:			
Continuing operations	5	-	(55.0)
Total operating profit		277.6	125.9
Income from investments:			
Continuing operations	7	6.8	2.7
Profit on ordinary activities before interest		284.4	128.6
Interest receivable		18.9	29.3
Interest payable	8	(95.1)	(45.0)
Profit on ordinary activities before taxation		208.2	112.9
Taxation	9	(23.6)	(19.0)
Profit on ordinary activities after taxation		184.6	93.9
Dividends on preference shares and appropriations	10	(16.5)	(7.8)
Profit attributable to ordinary shareholders		168.1	86.1
Dividends on ordinary shares	10	(62.7)	(52.3)
Retained profit for the year	29	105.4	33.8
Earnings per ordinary share	11	118.6p	68.8p
Earnings per ordinary share before exceptional items	11	118.6p	112.7p
Dividend per ordinary share	10	43.9p	38.7p

Balance sheets at 31 March 1997

	Note	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Fixed assets					
Intangible assets	12	0.6	0.6	-	-
Tangible assets	13	2,252.5	2,008.1	2.4	3.2
Investment properties	14	9.0	18.4	-	-
Investments	15	112.1	99.7	1,291.4	1,278.9
		<u>2,374.2</u>	<u>2,126.8</u>	<u>1,293.8</u>	<u>1,282.1</u>
Current assets					
Stocks and work in progress	16	13.5	14.2	-	-
Debtors	17	253.3	272.1	142.3	122.0
Current asset investments	18(a)	271.4	346.9	25.0	63.1
Cash at bank and in hand		21.7	15.2	0.2	-
		<u>559.9</u>	<u>648.4</u>	<u>167.5</u>	<u>185.1</u>
Current liabilities					
Creditors: amounts falling due within one year	19(a)	(543.1)	(432.8)	(248.4)	(120.7)
Net current assets/(liabilities)		<u>16.8</u>	<u>215.6</u>	<u>(80.9)</u>	<u>64.4</u>
Total assets less current liabilities					
		<u>2,391.0</u>	<u>2,342.4</u>	<u>1,212.9</u>	<u>1,346.5</u>
Creditors: amounts falling due after more than one year					
Provisions for liabilities and charges	24	(174.5)	(193.0)	(2.7)	(1.9)
Accruals and deferred income	25	(140.3)	(133.4)	-	-
Net assets		<u>952.5</u>	<u>848.1</u>	<u>729.9</u>	<u>728.5</u>
Capital and reserves					
Called up share capital	26	378.9	375.7	378.9	375.7
Share premium account	28	100.8	94.3	100.8	94.3
Reserves	29	472.8	378.0	250.2	258.5
Equity shareholders' funds		<u>746.0</u>	<u>641.5</u>	<u>523.4</u>	<u>522.0</u>
Non-equity shareholders' funds		<u>206.5</u>	<u>206.5</u>	<u>206.5</u>	<u>206.5</u>
Total shareholders' funds		<u>952.5</u>	<u>848.0</u>	<u>729.9</u>	<u>728.5</u>
Non-equity minority interests	37	-	0.1	-	-
		<u>952.5</u>	<u>848.1</u>	<u>729.9</u>	<u>728.5</u>

The financial statements on pages 20 to 66 were approved by the Board of directors on 6 June 1997 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 1997

	Note	1997 £m	1996 £m
Cash flow from operating activities	30	324.6	189.8
Returns on investments and servicing of finance			
Interest received		18.5	29.7
Interest paid		(58.6)	(40.7)
Preference dividend paid		(16.3)	(5.2)
Costs of issue of preference shares		-	(2.5)
Interest element of finance lease rental payments		(6.2)	(6.5)
Dividends received and other investment income		6.4	1.8
Distributions from associates		0.2	0.3
		(56.0)	(23.1)
Taxation			
UK corporation tax paid		(16.7)	(13.2)
Overseas tax paid		(0.3)	(0.4)
		(17.0)	(13.6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(329.9)	(220.8)
Sale of tangible fixed assets		8.6	1.5
Sale of fixed asset investments		21.3	31.3
Purchase of fixed asset investments		(7.4)	(31.6)
Grants and contributions received		17.6	15.2
		(289.8)	(204.4)
Acquisitions and disposals			
Purchase of subsidiary undertaking	34	(35.5)	(654.9)
Net overdrafts acquired with subsidiary		-	(51.8)
Purchase of minority interests		(0.1)	(0.6)
Investments in associated undertakings		(8.7)	(13.6)
		(44.3)	(720.9)
Equity dividends paid		(53.7)	(51.5)
Cash outflow before use of liquid resources and financing		(136.2)	(823.7)
Management of liquid resources			
Purchase of commercial paper		(428.1)	(408.7)
Sale of commercial paper		443.2	383.8
Net decrease in deposits		53.4	194.6
		68.5	169.7
Financing			
Issue of ordinary shares	32	5.3	18.3
Issue of preference shares		-	76.8
Costs of issue of ordinary shares		-	(2.8)
New loans, finance leases and eurobonds		615.0	569.2
Loan repayments	32	(533.4)	(3.1)
Capital element of finance lease rental payments	32	(0.2)	(0.2)
		86.7	658.2
Increase in cash in the year	33	19.0	4.2

Statement of total recognised gains and losses for the year ended 31 March 1997

	1997 £m	1996 £m
Profit for the financial year attributable to ordinary shareholders	168.1	86.1
Currency translation differences on foreign currency net investments	(3.7)	1.8
Total recognised gains for the year	164.4	87.9

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

	1997 £m	1996 £m
Total recognised gains for the year	164.4	87.9
Ordinary dividends	(62.7)	(52.3)
New ordinary share capital issued	3.2	20.9
New preference share capital issued	-	75.0
Premium on ordinary share capital issued	2.8	94.5
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
Scrip dividend issued in lieu of cash dividend	3.3	-
Surplus on revaluation of investment properties	0.4	-
Goodwill written off	(6.9)	(570.3)
Net increase/(decrease) in shareholders' funds	104.5	(332.8)
At 1 April	848.0	1,180.8
At 31 March	952.5	848.0

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

Notes to the financial statements

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 £71.3m (1996 £97.4m).

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 1997:				
Continuing operations:				
Regulated water and sewerage activities	425.0	-	0.7	424.3
Regulated electricity distribution and supply activities	691.4	154.5	17.2	519.7
Infrastructure activities	149.5	1.1	29.9	118.5
Common services activities	115.5	0.8	109.8	4.9
Other activities	79.8	1.0	6.0	72.8
	<u>1,461.2</u>	<u>157.4</u>	<u>163.6</u>	<u>1,140.2</u>
Year ended 31 March 1996 (restated):				
Continuing operations:				
Regulated water and sewerage activities	422.9	-	2.5	420.4
Regulated electricity distribution and supply activities	131.6	29.2	0.1	102.3
Infrastructure activities	138.1	1.7	27.7	108.7
Common services activities	44.1	1.5	40.3	2.3
Other activities	20.6	0.1	2.6	17.9
	<u>757.3</u>	<u>32.5</u>	<u>73.2</u>	<u>651.6</u>

The comparatives have been restated due to the creation of the Common services activities segment (see note 41).

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

2 Segmental analysis by class of business (continued)

(b) Profit on ordinary activities before taxation

	1997	1996
	£m	Restated £m
Continuing operations:		
Regulated water and sewerage activities	168.6	147.3
Regulated electricity distribution and supply activities	101.3	12.2
Infrastructure activities	2.6	0.6
Common services activities	18.2	(10.4)
Other activities	5.0	(9.1)
	<u>295.7</u>	<u>140.6</u>
Business development costs, leasehold property provision and corporate overheads	(15.4)	(13.2)
Elimination of intercompany operating profit capitalised	(2.7)	(1.5)
Operating profit	<u>277.6</u>	<u>125.9</u>
Income from investments:		
Continuing operations:		
Infrastructure activities	7.0	2.1
Other activities	(0.2)	0.6
Profit before interest	<u>284.4</u>	<u>128.6</u>
Net interest payable	(76.2)	(15.7)
Profit before taxation	<u><u>208.2</u></u>	<u><u>112.9</u></u>

Operating results for the year ended 31 March 1996, as disclosed above, are after deducting exceptional items (note 5). The operating profits, prior to deducting the exceptional items, are set out below:

Continuing operations:		
Regulated water and sewerage activities	168.6	167.4
Regulated electricity distribution and supply activities	101.3	20.5
Infrastructure activities	2.6	0.6
Common services activities	18.2	6.0
Other activities	5.0	0.5
	<u>295.7</u>	<u>195.0</u>
Business development costs, leasehold property provision and corporate overheads	(15.4)	(12.6)
Elimination of intercompany operating profit capitalised	(2.7)	(1.5)
Operating profit	<u><u>277.6</u></u>	<u><u>180.9</u></u>

The comparatives have been restated due to the creation of the Common services activities segment (see note 41).

The 1996 comparatives only include the two month post acquisition period for South Wales Electricity plc activities.

Notes to the financial statements

2 Segmental analysis by class of business (continued)

(c) Net assets

	1997	1996
	£m	Restated £m
Continuing operations:		
Regulated water and sewerage activities	1,444.0	1,251.5
Regulated electricity distribution and supply activities	257.7	285.5
Infrastructure activities	100.3	83.9
Common services activities	24.0	35.0
Other activities	82.4	1.3
	<hr/>	<hr/>
	1,908.4	1,657.2
Net debt (note 31(b))	(955.9)	(809.1)
	<hr/>	<hr/>
	952.5	848.1

The comparatives have been restated due to the creation of the Common services activities segment (see note 41).

Notes to the financial statements

3 Segmental analysis by geographical area by destination

(a) Turnover

	1997	1996
	£m	Restated £m
United Kingdom and Europe	1,069.2	591.6
Asia Pacific	45.8	42.1
Rest of the World	25.2	17.9
	<u>1,140.2</u>	<u>651.6</u>

(b) Profit on ordinary activities before taxation

	1997	1996
	£m	Restated £m
United Kingdom and Europe	294.0	138.9
Asia Pacific	0.4	1.4
Rest of the World	1.3	0.3
	<u>295.7</u>	<u>140.6</u>
Business development costs, leasehold property provision and corporate overheads	(15.4)	(13.2)
Elimination of intercompany operating profit capitalised	(2.7)	(1.5)
Operating profit	<u>277.6</u>	<u>125.9</u>
Income from investments:		
Continuing operations	6.8	2.7
Profit before interest	<u>284.4</u>	<u>128.6</u>
Net interest payable	(76.2)	(15.7)
Profit before taxation	<u>208.2</u>	<u>112.9</u>

(c) Net assets

	1997	1996
	£m	Restated £m
United Kingdom and Europe	1,888.8	1,632.6
Asia Pacific	10.8	12.7
Rest of the World	8.8	11.9
	<u>1,908.4</u>	<u>1,657.2</u>
Net debt (note 31(b))	(955.9)	(809.1)
	<u>952.5</u>	<u>848.1</u>

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

The comparatives have been restated in order to reflect the current geographical management control over the group's businesses.

Notes to the financial statements

4 Net operating costs

		1997	1996	1996	1996
	Note	Total £m	Before exceptional items £m	Exceptional items (note 5) £m	Total £m
Continuing operations:					
Change in stocks and work in progress		0.6	(8.3)	-	(8.3)
Infrastructure maintenance provision	24(b)	24.1	23.4	-	23.4
Staff costs	6(b)	224.8	169.0	-	169.0
Severance and redundancy costs		-	-	42.2	42.2
Depreciation:					
-Own assets		72.4	47.4	-	47.4
-Assets held under finance leases		4.1	3.9	-	3.9
Amounts written off fixed assets		0.1	1.3	-	1.3
Research and development		0.9	0.7	-	0.7
Rentals under operating leases:					
-Hire of plant and equipment		4.4	2.8	-	2.8
-Other		6.7	7.4	1.2	8.6
Fees paid to auditors:					
-Audit services		0.7	0.7	-	0.7
-Taxation services		0.1	0.2	-	0.2
-Consultancy services		0.7	0.1	-	0.1
-Other services		0.3	-	-	-
Other operating charges		589.9	274.7	11.6	286.3
Leasehold property provision		6.5	-	-	-
Amortisation of grants and contributions	25	(5.1)	(2.6)	-	(2.6)
(Profit)/loss on disposal of fixed asset investments		(0.1)	0.1	-	0.1
Profit on disposal of fixed assets		(2.1)	(0.8)	-	(0.8)
Own work capitalised		(64.7)	(48.9)	-	(48.9)
Net rents receivable		(1.7)	(0.4)	-	(0.4)
		<u>862.6</u>	<u>470.7</u>	<u>55.0</u>	<u>525.7</u>

Other fees paid to the auditors and capitalised were £nil (1996 £0.4m). In addition £0.5m (1996 £nil) was charged against the restructuring provision.

Included in audit services is £8,250 (1996 £7,000) in respect of audit fees incurred by the company.

Notes to the financial statements

5 Exceptional items

	1997	1996
	£m	Restated £m
By type of provision:		
Continuing operations:		
Severance and redundancy costs	-	42.2
Future leasehold rental costs	-	1.2
Other	-	11.6
	-	55.0
By class of business (restated):		
Continuing operations:		
Regulated water and sewerage activities	-	20.1
Regulated electricity distribution and supply activities	-	8.3
Common services activities	-	16.4
Other activities	-	10.2
	-	55.0

The comparatives have been restated due to the creation of the Common services activities segment (see note 41).

6 Directors and employees

(a) Directors' emoluments and interests

Detailed disclosures of directors' individual emoluments and share options are given in the Remuneration committee report on pages 11 to 17. Directors' interests are given in the Directors' report on pages 7 and 8. These statutory disclosures form part of the financial statements.

(b) Staff costs

	1997	1996
	£m	£m
Wages and salaries	196.0	145.5
Social security costs	14.1	12.0
Pension costs	14.7	11.5
	224.8	169.0

Of the above, £40.1m (1996 £21.0m) has been charged to capital.

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

	1997	1996
	Number	Restated Number
Regulated water and sewerage activities	2,255	2,384
Regulated electricity distribution and supply activities	1,390	257
Infrastructure activities	2,896	2,866
Common services activities	1,424	795
Other activities	1,058	466
	9,023	6,768

The comparatives have been restated due to the creation of the Common services activities segment (see note 41).

Notes to the financial statements

7 Income from investments

	1997 £m	1996 £m
Continuing operations:		
Share of results of associated undertakings	0.3	0.9
Profit on disposal of investments	0.1	-
Fixed asset investment income	6.4	1.8
	<u>6.8</u>	<u>2.7</u>

8 Interest payable

	1997 £m	1996 £m
On bank loans and overdrafts	63.6	15.0
On other loans	25.3	25.1
On finance leases	6.2	4.9
	<u>95.1</u>	<u>45.0</u>

9 Taxation

	1997 £m	1996 £m
Based on the results for the year:		
UK corporation tax at 33% (1996 33%)	19.7	18.7
Overseas taxation	0.4	0.3
Advance corporation tax written off	7.7	-
Associated companies taxation	0.6	0.5
	<u>28.4</u>	<u>19.5</u>
Prior year adjustments:		
Corporation tax	(12.5)	(0.6)
Overseas taxation	(0.1)	0.1
Advance corporation tax written off	7.8	-
	<u>23.6</u>	<u>19.0</u>

The tax charge has been reduced by £56.3m (1996 £31.4m) 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 £58.6m (1996 £43.1m) remains available to reduce any future liabilities to UK corporation tax. There are losses within the group of approximately £7.3m (1996 £8.4m) available to carry forward against future profits of those companies which incurred the losses.

Notes to the financial statements

10 Dividends

(a) Dividends on equity shares:

	1997 £m	1996 £m
Interim paid of 14.6p per ordinary share (1996 12.6p)	20.8	15.4
Final proposed of 29.3p per ordinary share (1996 26.1p)	41.9	36.9
	<u>62.7</u>	<u>52.3</u>

(b) Dividends on non-equity shares:

	1997 £m	1996 £m
Dividends paid and proposed each of 7.875p (net) per preference share (1996 7.875p (net))	16.5	7.8

In accordance with FRS 4 - Capital Instruments, included in dividends on non-equity shares, are appropriations in respect of the year of £35,000 (1996 £39,000).

11 Earnings per ordinary share

	1997 Pence	1996 Pence
	<u>118.6</u>	<u>68.8</u>

Earnings per ordinary share have been calculated on the basis of profit, after taxation, minority interests and appropriations in respect of preference shares, of £168.1m (1996 £86.1m) and by reference to 141,760,396 (1996 125,066,682) 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 129.5p (1996 68.8p). There would be no significant dilution of earnings per ordinary share if the outstanding share options were exercised.

Restructuring charges incurred during the year ended 31 March 1996 were significant when comparing earnings per ordinary share with the current year. The directors consider it appropriate to show earnings per ordinary share for the year ended 31 March 1996 based on the profit before taxation prior to deducting the restructuring charges. The following table reconciles earnings per ordinary share for the year ended 31 March 1996 calculated under FRS3 with this alternative basis:

	1997 Pence	1996 Pence
Earnings per ordinary share under FRS 3	118.6	68.8
Adjustment, net of taxation, in respect of restructuring charges	-	43.9
Adjusted earnings per ordinary share	<u>118.6</u>	<u>112.7</u>

Notes to the financial statements

12 Intangible fixed assets

Group	1997 £m	1996 £m
Fishing rights		
Cost		
At 1 April and 31 March	<u>0.9</u>	<u>0.9</u>
Amounts written off		
At 1 April and 31 March	<u>0.3</u>	<u>0.3</u>
Net book value		
At 1 April and 31 March	<u>0.6</u>	<u>0.6</u>

The company had no intangible fixed assets at 31 March 1997 or at 31 March 1996.

Notes to the financial statements

13 Tangible fixed assets

Group

	Freehold land and buildings £m	Leasehold properties and improve- ments £m	Water & sewerage infra- structure assets £m	Operational structures £m	Electricity distribution network assets £m	Vehicles, plant, equipment and computer hardware & purchased software £m	Total £m
Cost or valuation							
At 1 April 1996	77.7	5.9	581.0	992.3	697.4	288.9	2,643.2
Reclassifications	-	0.5	(6.0)	9.5	(3.7)	(0.3)	-
	<u>77.7</u>	<u>6.4</u>	<u>575.0</u>	<u>1,001.8</u>	<u>693.7</u>	<u>288.6</u>	<u>2,643.2</u>
Exchange difference	-	(0.1)	-	-	-	(0.5)	(0.6)
Additions	1.2	0.6	77.8	135.5	67.1	50.2	332.4
Transfer from investment properties	-	0.6	-	-	-	-	0.6
Grants and contributions	-	-	(5.2)	-	-	-	(5.2)
Amounts written off in the year	(0.1)	-	-	-	-	-	(0.1)
Disposals	(2.1)	(1.3)	-	-	(3.3)	(13.6)	(20.3)
At 31 March 1997	<u>76.7</u>	<u>6.2</u>	<u>647.6</u>	<u>1,137.3</u>	<u>757.5</u>	<u>324.7</u>	<u>2,950.0</u>
Accumulated depreciation							
At 1 April 1996	17.8	1.3	-	218.8	215.8	181.4	635.1
Reclassifications	-	0.2	-	0.3	(0.3)	(0.2)	-
	<u>17.8</u>	<u>1.5</u>	<u>-</u>	<u>219.1</u>	<u>215.5</u>	<u>181.2</u>	<u>635.1</u>
Exchange difference	-	-	-	-	-	(0.3)	(0.3)
Charge for the year	1.2	0.4	-	29.9	19.6	25.4	76.5
Amounts written off in the year	-	-	-	-	-	-	-
Disposals	(0.6)	(0.5)	-	-	(1.9)	(10.8)	(13.8)
At 31 March 1997	<u>18.4</u>	<u>1.4</u>	<u>-</u>	<u>249.0</u>	<u>233.2</u>	<u>195.5</u>	<u>697.5</u>
Net book value							
At 31 March 1997	<u>58.3</u>	<u>4.8</u>	<u>647.6</u>	<u>888.3</u>	<u>524.3</u>	<u>129.2</u>	<u>2,252.5</u>
At 31 March 1996	<u>59.9</u>	<u>4.6</u>	<u>581.0</u>	<u>773.5</u>	<u>481.6</u>	<u>107.5</u>	<u>2,008.1</u>
Analysis of net book value at 31 March 1997							
Owned	58.3	3.9	647.6	760.5	524.3	124.3	2,118.9
Held under finance leases	-	0.9	-	127.8	-	4.9	133.6
	<u>58.3</u>	<u>4.8</u>	<u>647.6</u>	<u>888.3</u>	<u>524.3</u>	<u>129.2</u>	<u>2,252.5</u>

(a) Tangible fixed assets at 31 March 1997 include £253.8m (1996 £249.6m) of assets in the course of construction, which are not depreciated until commissioned.

Notes to the financial statements

13 Tangible fixed assets (continued)

(b) Reclassification has arisen as a result of the group's continuing refinement of its historical fixed asset information including assets in the course of construction in prior years.

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

	1997	1996
	£m	£m
Long leasehold	4.6	0.8
Short leasehold	0.2	3.8
Total leasehold	<u>4.8</u>	<u>4.6</u>

(d) Electrical distribution network assets include assets leased to third parties under operating leases. The cost of these was £3.7m (1996 £2.9m) and accumulated depreciation amounted to £0.5m (1996 £0.3m) at 31 March 1997.

(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 22. 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 22 has been adopted in accordance with section 227(6) of the Companies Act 1985 in order to show a true and fair view as, in the opinion of the directors, it is not appropriate to treat grants, contributions and infrastructure charges on infrastructure assets as deferred income. The fixed assets to which they relate are not depreciated and accordingly no basis exists on which to recognise such contributions as deferred income. The contributions relate directly to investment in infrastructure assets and are therefore deducted directly from their purchase price or production cost. As a consequence the net book value for fixed assets is £119.1m (1996 £113.9m) lower than it would have been had this treatment not been adopted.

Company

	Freehold land and buildings £m	Vehicles, plant, equipment and computer hardware & purchased software £m	Total £m
Cost			
At 1 April 1996	1.7	2.0	3.7
Additions	-	0.3	0.3
Transferred to subsidiary undertakings	(0.4)	-	(0.4)
Disposals	(0.4)	(0.4)	(0.8)
At 31 March 1997	<u>0.9</u>	<u>1.9</u>	<u>2.8</u>
Accumulated depreciation			
At 1 April 1996	-	0.5	0.5
Charge for the year	-	0.2	0.2
Disposals	-	(0.3)	(0.3)
At 31 March 1997	<u>-</u>	<u>0.4</u>	<u>0.4</u>
Net book value			
At 31 March 1997	<u>0.9</u>	<u>1.5</u>	<u>2.4</u>
At 31 March 1996	<u>1.7</u>	<u>1.5</u>	<u>3.2</u>

Notes to the financial statements

14 Investment properties

Group

	1997	1996
	£m	£m
At 1 April	18.4	-
On acquisition of subsidiary	-	18.4
Additions	-	0.1
Transfer to tangible fixed assets	(0.6)	-
Disposals	(9.2)	(0.1)
Adjustment to open market value	0.4	-
At 31 March	9.0	18.4

Investment properties were valued at 31 March 1997 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 £8.2m (1996 £16.8m) of freehold properties and £0.8m (1996 £1.6m) 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 £0.3m (1996 £0.1m) higher than it would have been had this treatment not been adopted.

The company had no investment properties at 31 March 1997 or at 31 March 1996.

Notes to the financial statements

15 Fixed asset investments

Group

	Interests in associated undertakings £m	Listed investments £m	Unlisted investments £m	Total £m
Cost				
At 1 April 1996	50.7	34.8	19.0	104.5
Restatement	-	-	0.6	0.6
Restated at 1 April 1996	50.7	34.8	19.6	105.1
Reclassification	(46.6)	-	46.6	-
Exchange differences	(1.7)	(1.0)	-	(2.7)
Additions	20.6	14.4	-	35.0
Disposals	(1.6)	-	(5.1)	(6.7)
Share of retained profits/(losses)	(0.3)	-	-	(0.3)
Distributions	(0.2)	-	-	(0.2)
At 31 March 1997	20.9	48.2	61.1	130.2
Amounts written off				
At 1 April 1996	3.9	-	0.9	4.8
Restatement	13.3	-	0.6	13.9
Restated at 1 April 1996	17.2	-	1.5	18.7
Disposals	-	-	(0.6)	(0.6)
Reclassification	(16.6)	-	16.6	-
At 31 March 1997	0.6	-	17.5	18.1
Net book value				
At 31 March 1997	20.3	48.2	43.6	112.1
At 31 March 1996	46.8	34.8	18.1	99.7

The restatement referred to in the above table relates to revisions to the fair value on the acquisition of South Wales Electricity plc (note 34).

The reclassification referred to in the above table relates to the group's shareholding in CableTel South Wales Limited which was exchanged for non-voting convertible preferred stock in National Telecommunications Inc. during the year.

The market value of the listed investments, excluding the group's £30.3m (1996 £15.9m) investment in the Asian Infrastructure Fund, is £27.5m (1996 £25.6m).

The directors consider that the market value of the group's investment in the Asian Infrastructure Fund, which is a closed end fund with no ready market for the shares, does not materially differ from the cost of that investment.

Notes to the financial statements

15 Fixed asset investments (continued)

Company

	Interests in group undertakings £m	Unlisted investments £m	Total £m
Cost			
At 1 April 1996	1,283.8	1.0	1,284.8
Disposals	(20.0)	(0.6)	(20.6)
Additions	34.0	-	34.0
At 31 March 1997	<u>1,297.8</u>	<u>0.4</u>	<u>1,298.2</u>
Amounts written off			
At 1 April 1996	5.0	0.9	5.9
Disposals	-	(0.6)	(0.6)
Provided in the year	1.5	-	1.5
At 31 March 1997	<u>6.5</u>	<u>0.3</u>	<u>6.8</u>
Net book value			
At 31 March 1997	<u>1,291.3</u>	<u>0.1</u>	<u>1,291.4</u>
At 31 March 1996	<u>1,278.8</u>	<u>0.1</u>	<u>1,278.9</u>

Principal subsidiary undertakings are listed in note 41.

Notes to the financial statements

16 Stocks and work in progress

Group

	1997	1996
	£m	£m
Raw materials and consumables	10.1	9.9
Work in progress	3.4	3.2
Finished goods and goods for resale	-	1.1
	<u>13.5</u>	<u>14.2</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 1997 or at 31 March 1996.

17 Debtors

	Group	1996	Company	1996
	1997	1996	1997	1996
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	122.8	99.9	-	-
Amounts recoverable on contracts	20.5	19.3	-	-
Amounts owed by subsidiary undertakings	-	-	129.1	108.7
Amounts owed by associated undertakings	1.9	1.3	-	-
Other debtors	24.5	35.3	0.5	0.8
Prepayments and accrued income	63.0	65.8	5.6	5.0
Employee share option plan	4.2	3.1	-	-
Own shares	0.2	-	0.2	-
Recoverable advance corporation tax	6.9	39.7	6.9	7.5
	<u>244.0</u>	<u>264.4</u>	<u>142.3</u>	<u>122.0</u>
Amounts falling due after more than one year:				
Other debtors	9.3	7.7	-	-
	<u>253.3</u>	<u>272.1</u>	<u>142.3</u>	<u>122.0</u>

The own shares referred to above relate to ordinary shares purchased under the executive directors' long term incentive plan. The nominal value of these shares is £56,197 (1996 £nil).

Notes to the financial statements

18 Current asset investments

(a) Management of liquid resources

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Investments in:				
Fixed term and call deposits	217.8	278.2	21.0	53.4
Commercial papers	53.6	68.7	4.0	9.7
	<u>271.4</u>	<u>346.9</u>	<u>25.0</u>	<u>63.1</u>
Amounts becoming due:				
Within one year	241.2	338.2	22.0	60.1
After more than one year	30.2	8.7	3.0	3.0
	<u>271.4</u>	<u>346.9</u>	<u>25.0</u>	<u>63.1</u>

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

Of the above, £14.3m (1996 £nil) of fixed term deposits due after more than one year is held on terms which only permit the funds to be used to settle a similar amount of other loans due after more than one year (note 20(b)).

(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 £141.7m (1996 £209.2m), with termination dates ranging between December 1999 and April 2014 (July 1996 and April 2014), and interest rates ranging between 6.04% and 8.35% (6.04% and 8.35%).

At 31 March 1997 the company had no outstanding interest rate swap arrangements. At 31 March 1996 the company's interest rate swap arrangements had a notional principal balance of £60.0m, with termination dates ranging between September 1996 and October 1997 and interest rates ranging between 7.208% and 7.83%.

Notes to the financial statements

19 Creditors

	Note	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
(a) Amounts falling due within one year:					
Bank loans and overdrafts		0.1	8.9	-	0.2
Loan notes	20(c)	12.2	-	12.2	-
Other loans	20(b)	141.1	13.8	138.4	11.2
Payments received on account on contracts		18.6	28.3	-	-
Obligations under finance leases	21	1.2	0.3	-	-
Trade creditors		133.7	128.4	-	-
Amounts owed to subsidiary undertakings		-	-	3.3	15.4
Amounts owed to associated undertakings		4.2	5.9	-	-
Dividends payable		44.7	39.5	44.7	39.5
Corporation tax		40.6	73.1	19.2	15.2
Other taxation and social security		7.2	7.4	0.1	-
Consortium relief		0.7	0.7	-	-
Other creditors		67.2	55.9	-	-
Employee share option plan		4.2	3.1	-	-
Deferred consideration on the acquisition of South Wales Electricity plc	34	-	36.0	-	36.0
Accruals and deferred income		67.4	31.5	30.5	3.2
		<u>543.1</u>	<u>432.8</u>	<u>248.4</u>	<u>120.7</u>
(b) Amounts falling due after more than one year:					
10.75% Eurobonds 2002	20(a)	74.5	74.4	74.5	74.4
7.125% Eurobonds 2004	20(a)	99.3	99.2	-	-
7.625% Eurobonds 2014	20(a)	98.5	98.4	-	-
9.25% Eurobonds 2020	20(a)	147.9	147.8	-	-
8.75% Eurobonds 2006	20(a)	200.9	-	200.9	-
9.5% Eurobonds 2016	20(a)	204.9	-	204.9	-
Other loans	20(b)	124.6	642.9	-	530.0
Loan notes	20(c)	-	11.7	-	11.7
Obligations under finance leases	21	143.8	73.8	-	-
Refundable customer contributions		3.5	3.5	-	-
Consortium relief		8.6	8.6	-	-
Amounts owed to associated undertakings		11.9	-	-	-
Other creditors - between one and five years		5.3	7.6	-	-
		<u>1,123.7</u>	<u>1,167.9</u>	<u>480.3</u>	<u>616.1</u>

Notes to the financial statements

20 Loans

(a) Eurobonds

	Interest rate %	Net proceeds £m	Issue costs £m	Premium on issue £m	Nominal value £m
Eurobonds 2002	10.750	74.0	(1.0)	-	75.0
Eurobonds 2004	7.125	99.1	(2.0)	1.1	100.0
Eurobonds 2014	7.625	98.2	(2.6)	0.8	100.0
Eurobonds 2020	9.250	147.8	(3.9)	1.7	150.0
Eurobonds 2006	8.750	200.9	(2.3)	3.2	200.0
Eurobonds 2016	9.500	204.9	(1.9)	6.8	200.0
		824.9	(13.7)	13.6	825.0

Net issue costs totalling £0.1m 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 FRS4 - Capital Instruments.

The Eurobonds 2006 and 2016 were issued during the year partly to replace the banking facility which was used to finance the acquisition of South Wales Electricity plc.

(b) Other loans

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Repayable as follows:				
Within one year	141.1	13.8	138.4	11.2
Between one and two years	7.2	2.6	-	-
Between two and five years	51.2	576.5	-	530.0
After more than five years	66.2	63.8	-	-
	265.7	656.7	138.4	541.2
Repayable wholly within five years	167.6	570.5	138.4	541.2
Repayable by instalments within five years	0.7	0.6	-	-
Repayable by instalments after five years	97.4	85.6	-	-
	265.7	656.7	138.4	541.2

Of the above, £14.3m (1996 £nil) of loans wholly repayable within five years is secured by fixed term deposits due after more than one year held on terms which only permit those funds to be used to settle this loan (note 18(a)).

Fixed interest rates on these loans range between 6.0% and 10.2% (1996 6.1% and 10.6%) and variable interest rates varied between 1% below to 1.4% above LIBOR (1996 1% below to 1.4% above LIBOR) (London Interbank offer rate).

(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 LIBOR.

Notes to the financial statements

21 Finance leases

Group

	1997 £m	1996 £m
Amounts due under finance leases are payable as follows:		
Within one year	1.2	0.3
Between one and two years	0.2	0.2
Between two and five years	3.5	0.2
After more than five years	140.1	73.4
	<u>145.0</u>	<u>74.1</u>

A long dated interest rate swap was arranged on 1 April 1994 which has the effect of fixing the rate of interest at 7.8% on floating rate sterling finance lease obligations of £62.5m (1996 £62.5m). This obligation reduces over a term of 18 years.

Company

The company had no finance lease obligations at 31 March 1997 or at 31 March 1996.

22 Capital and financial commitments

(a) Capital commitments

Group

	1997 £m	1996 £m
Contracted for but not provided in the financial statements	<u>422.6</u>	<u>221.1</u>

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 £1.6 billion at current prices over the next eight years, and within the regulated electricity distribution and supply business totalling approximately £264 million at current prices over the next four 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 1997 or at 31 March 1996.

(b) Financial commitments

Group

The regulated electricity business has entered into a 15 year power purchase agreement which ceases in 2008. The total volume of electricity that the group is committed to take under this 15 year agreement amounts to 24 tWh. To the extent that the value of this contract was estimated to be in excess of market values prevailing at the date of acquisition of South Wales Electricity plc for such contracts, a fair value provision was established (see note 24(f)).

Company

The company had no financial commitments at 31 March 1997 or at 31 March 1996.

Notes to the financial statements

23 Leasing commitments

Group

	Land and buildings		Others	
	1997 £m	1996 £m	1997 £m	1996 £m
At 31 March 1997 there were revenue commitments, in the ordinary course of business in the next year to the payment of rentals on non-cancellable operating leases expiring:				
Within one year	1.9	1.4	0.5	1.1
Between two and five years	1.9	2.4	2.8	2.8
After five years	3.0	3.0	-	-
	<u>6.8</u>	<u>6.8</u>	<u>3.3</u>	<u>3.9</u>

Company

At 31 March 1997 the company had operating lease commitments of £0.3m (1996 £0.3m).

24 Provisions for liabilities and charges

Group

	Note	1997 £m	1996 £m
Deferred taxation	(a)	-	-
Infrastructure maintenance provision	(b)	12.4	20.7
Group insurance funds	(c)	22.0	20.1
Reorganisation provision	(d)	49.4	71.5
Pensions provision	(e)	3.1	3.4
Power purchase provision	(f)	73.0	73.0
Other provisions	(g)	14.6	4.3
		<u>174.5</u>	<u>193.0</u>

Company

	Note	1997 £m	1996 £m
Deferred taxation	(a)	-	0.7
Reorganisation provision	(d)	0.4	0.6
Pensions provision	(e)	0.6	0.4
Other provisions	(g)	1.7	0.2
		<u>2.7</u>	<u>1.9</u>

Notes to the financial statements

24 Provisions for liabilities and charges (continued)

(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	
	1997	1996	1997	1996
	£m	£m	£m	£m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	-	382.9	331.1
Other timing differences	-	-	(22.8)	(14.8)
	-	-	360.1	316.3
Chargeable gains on properties rolled over	-	-	0.2	0.2
Earnings retained overseas	-	-	3.0	2.2
	-	-	363.3	318.7
Less advance corporation tax	-	-	(58.6)	(43.1)
	-	-	304.7	275.6

Company

	Amount provided		Amount unprovided	
	1997	1996	1997	1996
	£m	£m	£m	£m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	0.1	0.2	-	-
Other timing differences	(0.1)	0.5	-	-
	-	0.7	-	-
	1997	1996		
	£m	£m		
At 1 April	0.7	1.4		
Tax charge for the year	(0.6)	(0.6)		
Prior year tax charge	(0.1)	(0.1)		
At 31 March	-	0.7		

(b) Infrastructure maintenance provision

Group

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

As part of the obligations to the Director General of Water Services, the directors 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

24 Provisions for liabilities and charges (continued)

(c) Group insurance funds

Group

	1997	1996
	£m	£m
At 1 April	20.1	6.5
On acquisition of subsidiary	-	11.1
Premiums	6.0	4.0
Claims	(2.2)	(1.0)
Investment income	0.5	0.6
Released to profit and loss account	(2.4)	(1.1)
At 31 March	<u>22.0</u>	<u>20.1</u>

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 (1996 £7.5m) 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

	Note	1997	1996
		£m	£m
At 1 April		71.5	17.9
On acquisition of subsidiary		-	14.4
Charge for the year	5	-	55.0
Utilised in the year		(22.1)	(15.8)
At 31 March		<u>49.4</u>	<u>71.5</u>

Company

	1997	1996
	£m	£m
At 1 April	0.6	-
Charge for the year	-	0.6
Utilised in the year	(0.2)	-
At 31 March	<u>0.4</u>	<u>0.6</u>

Notes to the financial statements

24 Provisions for liabilities and charges (continued)

(e) Pensions provision

Group

	1997 £m	1996 £m
At 1 April	3.4	-
On acquisition of subsidiary	-	3.1
Transfer from other provisions	-	0.1
Charge for the year	0.2	0.3
Utilised in the year	(0.5)	(0.1)
At 31 March	3.1	3.4

Company

	1997 £m	1996 £m
At 1 April	0.4	-
Transfer from other provisions	-	0.1
Charge for the year	0.2	0.3
At 31 March	0.6	0.4

(f) Power purchase provision

Group

	1997 £m	1996 £m
At 1 April	73.0	-
On acquisition of subsidiary	-	73.0
At 31 March	73.0	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 available at the time of the acquisition of South Wales Electricity plc for fixed price contracts expiring in 2008.

The release of this provision to the profit and loss account will commence on 1 April 1998 with the introduction of the fully competitive electricity supply market when the electricity cost pass-through arrangements cease.

Notes to the financial statements

24 Provisions for liabilities and charges (continued)

(g) Other provisions

Group

	1997	1996
	£m	£m
At 1 April	4.3	0.7
On acquisition of subsidiary	-	3.1
Transfer to pensions provision	-	(0.1)
Charge for the year	10.5	0.7
Utilised in the year	(0.2)	(0.1)
At 31 March	14.6	4.3

Company

	1997	1996
	£m	£m
At 1 April	0.2	0.5
Transfer to pensions provision	-	(0.1)
Charge for the year	1.5	-
Utilised in the year	-	(0.2)
At 31 March	1.7	0.2

Both the group and company other provisions above principally relate to leasehold property provisions and claims arising.

25 Accruals and deferred income

Group

	1997	1996
	£m	£m
At 1 April	133.4	33.3
Receivable during the year	12.0	4.6
On acquisition of subsidiary	-	98.1
Released to profit and loss account	(5.1)	(2.6)
At 31 March	140.3	133.4

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.

Company

The company had no accruals or deferred income at 31 March 1997 or at 31 March 1996.

Notes to the financial statements

26 Called up share capital

	1997 £m	1996 £m
Authorised:		
166,666,667 ordinary shares of 120p each (1996 166,666,667)	200.0	200.0
209,000,000 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1996 209,000,000)	209.0	209.0
	<u>409.0</u>	<u>409.0</u>
Allotted, called up and fully paid:		
143,087,519 ordinary shares of 120p each (1996 139,704,725)	171.7	167.6
207,181,776 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1996 207,181,776)	207.2	207.2
	<u>378.9</u>	<u>374.8</u>
Shares to be allotted:		
Nil ordinary shares of 120p each (1996 727,242)	-	0.9

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.

Ordinary shares were issued in the year resulting from the exercise of share options under the Hyder and South Wales Electricity plc employee sharesave and executive share option schemes at prices between 152p and 716p per share.

In total 3,382,794 ordinary shares, with an aggregate nominal value of £4,059,353 were issued in the year for a cash consideration of £5,323,787. Included within the total are 728,856 ordinary shares, with an aggregate nominal value of £874,627, issued in relation to the acquisition of South Wales Electricity plc and 556,054 ordinary shares with an aggregate nominal value of £667,265 in relation to the scrip dividend plan for which no cash consideration was received.

Notes to the financial statements

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. Employee sharesave 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. No new options may be granted to executive directors under this scheme.

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

Options granted but not yet exercised under these schemes at 31 March 1997 together with their exercise prices and dates are shown below:

	Date option granted	Normal date of exercise	Option price per share (pence)	Number of 120p ordinary shares	
				1997	1996
Employee sharesave scheme	Dec 1989	Mar 1997 - Aug 1997	183	5,957	437,312
	Jul 1991	Oct 1996 - Mar 1997	295 - 296	761	459,126
	Jul 1991	Oct 1998 - Mar 1999	295 - 296	275,631	282,928
	Dec 1992	Mar 1998 - Aug 1998	425 - 427	456,000	505,561
	Dec 1992	Mar 2000 - Aug 2000	425 - 427	361,630	366,959
	Sept 1994	Oct 1999 - Mar 2000	522 - 525	419,923	475,995
	Sept 1994	Oct 2001 - Mar 2002	522 - 525	198,533	215,074
	Dec 1994	Feb 2000 - Aug 2000	522 - 525	281,818	322,540
	Dec 1994	Feb 2002 - Aug 2002	522 - 525	128,830	139,809
				<u>2,129,083</u>	<u>3,205,304</u>
Executive share option scheme	Jan 1991	Jan 1994 - Jan 2001	364	-	1,373
	Jul 1991	Jul 1994 - Jul 2001	354	52,878	140,236
	Jul 1993	Jul 1996 - Jul 2003	563	55,909	85,909
	Aug 1993	Aug 1996 - Aug 2003	648	31,238	126,393
	Jan 1994	Jan 1997 - Jan 2004	716	254,718	283,554
	Jan 1995	Jan 1998 - Jan 2005	676	82,471	82,471
				<u>477,214</u>	<u>719,936</u>
				<u>2,606,297</u>	<u>3,925,240</u>

No new share options were granted during the year.

At the annual general meeting in 1995 shareholders authorised directors to extend the company's then existing share scheme arrangements for the benefit of overseas employees who are resident outside the United Kingdom. The Hyder overseas share plan has now been established and by the end of 1997 eligible staff in the group's overseas subsidiaries will have been given the opportunity to join the plan where possible under local legislation. Under the plan participating staff will enter a fixed term savings contract (similar to UK sharesave) at the end of which they may use aggregate savings to purchase ordinary shares in Hyder plc at a price fixed at the closing market value on the day preceding the date of grant.

Notes to the financial statements

27 Employee share schemes (continued)

(b) Hyder plc long term incentive plan

The company long term incentive plan is available to executive directors and selected senior executives. Full details of this scheme are set out in the Remuneration committee report on pages 12 and 13. The ordinary shares for use under the long term incentive plan are purchased in the market by an employee benefit trust with funds allocated by the company. The cost of the ordinary shares is being written off against profits over the three year performance period to 31 March 1999. The trust has provisionally allocated ordinary shares to the participating executive directors at 742p per share.

(c) 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 accept replacement options over ordinary shares in Hyder plc.

The following replacement options were outstanding at 31 March 1997:

	Date option granted	Normal date of exercise	Option price per share (Pence)	Number of 120p ordinary shares	
				1997	1996
Employee sharesave scheme	Dec 1990	Mar 96 - Sept 96	152	-	810,552
	Oct 1992	Jan 98 - Jul 98	314	514,543	560,459
	Feb 1993	May 98 - Nov 98	363	484,898	551,570
Executive share option scheme	Jan 1992	Jan 95 - Jan 2002	329	18,406	34,511
	Jan 1993	Jan 96 - Jan 2003	454	3,451	10,353
	Jul 1993	Jul 96 - Jul 2003	477	6,902	18,981
				<u>1,028,200</u>	<u>1,986,426</u>

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

Notes to the financial statements

27 Employee share schemes (continued)

(d) 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 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 gave 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 de-merger of NGG in December 1995 and were held by the bank under the terms of the agreement. The market value of trust assets at 31 March 1996 was £5.9m.

During the financial year 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. The purchase of the shares by the trustee under the agreement on 4 April 1996 was financed by a loan from Hyder plc.

In consequence of the above at 31 March 1997 the assets of the ESOP included 113,863 ordinary shares of 120p in Hyder plc (9 April 1996 113,863) and 532,833 NGG shares (9 April 1996 532,833 NGG shares). The market value of trust assets at 31 March 1997 was £6.2m.

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(c)). At 31 March 1997 options over 999,441 (1996 1,922,581) ordinary shares in Hyder plc are outstanding under the South Wales Electricity plc sharesave scheme.

Notes to the financial statements

27 Employee share schemes (continued)

(e) National Grid de-merger

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 de-merger arrangements for NGH. Under the terms of the de-merger 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. 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 1997 the ESOP Trustee had an interest in 881,167 (1996 1,647,284) ordinary shares of 10p in NGG with a value of £1.8m (1996 £3.2m).

Dividends on shares held in the ESOP are received by the trustee for the purposes of settling the expenses of the ESOP. To the extent that the dividends are insufficient to settle these expenses they are borne by the group and charged to the profit and loss account as incurred.

28 Share premium account

	Group £m	Company £m
At 1 April 1996	94.3	94.3
Premium on ordinary shares issued in the year	2.8	2.8
Nominal value of ordinary shares issued under scrip dividend in lieu of cash dividend (note 26)	(0.7)	(0.7)
Eurobond issue costs written off in the year	(0.1)	(0.1)
Transfer from capital reserve (note 29)	4.5	4.5
At 31 March 1997	100.8	100.8

Notes to the financial statements

29 Reserves

Profit and loss account

	Group £m	Company £m
At 1 April 1996	373.5	244.4
Profit/(loss) retained for the year	105.4	(7.9)
Foreign currency translation losses	(3.7)	-
Goodwill - written off in the year	(6.9)	-
Scrip dividend issued in lieu of cash dividend	4.0	4.0
Transfer from share premium account- Eurobond issue costs written off in the year	0.1	0.1
At 31 March 1997	472.4	240.6

The cumulative goodwill written off directly to reserves is £630.0m (1996 £623.1m).

Capital reserve

	Group £m	Company £m
At 1 April 1996	4.5	14.1
Share premium on ordinary shares allotted in the year (note 28)	(4.5)	(4.5)
At 31 March 1997	-	9.6

The capital reserve arose on the acquisition of South Wales Electricity plc and comprised 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(c)).

Investment revaluation reserve

	Group £m	Company £m
At 1 April 1996	-	-
Revaluations in the year	0.4	-
At 31 March 1997	0.4	-

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

30

Net cash inflow from operating activities

	1997 £m	1996 £m
Continuing operations:		
Operating profit	277.6	125.9
Depreciation of tangible fixed assets	76.5	51.3
Amounts written off tangible fixed assets	0.1	1.3
Infrastructure maintenance provision	(8.3)	(3.2)
Amortisation of grants and contributions	(5.1)	(2.6)
Profit on sale of fixed assets	(2.1)	(0.8)
(Profit)/loss on disposal of fixed asset investments	(0.1)	0.1
Net decrease/(increase) in stocks	0.7	(1.0)
Net increase in debtors	(16.2)	(26.6)
Net increase in creditors	22.0	3.4
Contribution from insurance fund	1.9	2.5
Contribution (to)/from pension fund	(0.3)	0.3
Restructuring provisions	(22.1)	39.2
Net cash inflow from operating activities	<u>324.6</u>	<u>189.8</u>

31 Analysis of net debt

(a) Movements in the year

	Cash less bank overdrafts £m	Current asset investments £m	Debt and finance leases £m	Total £m
At 1 April 1996	6.3	346.9	(1,162.3)	(809.1)
Consolidated cashflow statement	19.0	(68.5)	(81.4)	(130.9)
Eurobond issue costs written back in the year	-	-	(0.4)	(0.4)
Loan notes issued for non-cash consideration	-	-	(0.5)	(0.5)
Transfer to fixed asset investments	-	(7.0)	-	(7.0)
Finance leases entered into for non-cash consideration	-	-	(4.3)	(4.3)
Currency translation differences on foreign currency net debt	(3.7)	-	-	(3.7)
At 31 March 1997	<u>21.6</u>	<u>271.4</u>	<u>(1,248.9)</u>	<u>(955.9)</u>

(b) Year end reconciliation

	Note	1997 £m	1996 £m
Loans and finance lease obligations:			
Amounts falling due within one year	19(a)	(154.5)	(14.1)
Amounts falling due after more than one year	19(b) 31(a)	<u>(1,094.4)</u>	<u>(1,148.2)</u>
		(1,248.9)	(1,162.3)
Current asset investments:			
Amounts becoming due within one year	18	241.2	338.2
Amounts becoming due after more than one year	18	30.2	8.7
Cash at bank and in hand		21.7	15.2
Bank loans and overdrafts	19(a)	<u>(0.1)</u>	<u>(8.9)</u>
		<u>(955.9)</u>	<u>(809.1)</u>

Notes to the financial statements

32 Analysis of changes in financing in the year

	Share capital (including premium)		Loans & finance lease obligations	
	1997	1996	1997	1996
	£m	£m	£m	£m
At 1 April	470.0	282.3	1,162.3	436.6
Loans and Eurobonds	-	-	548.2	569.2
On acquisition of subsidiary	-	-	-	147.8
Loan notes issued for non-cash consideration	-	-	0.5	11.7
New finance leases	-	-	71.1	-
Loan repayments	-	-	(533.4)	(3.1)
Finance lease repayments	-	-	(0.2)	(0.2)
Eurobond issue costs written back in the year	(0.1)	(0.1)	0.4	0.3
Proceeds from the issue of ordinary shares	5.3	18.3	-	-
Fair value of ordinary shares issued for non-cash consideration	4.5	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	479.7	470.0	1,248.9	1,162.3

33 Reconciliation of net cash flow to increase in net debt

	Note	1997 £m	1996 £m
Increase in cash as per cashflow statement		19.0	4.2
Increase in loans and finance lease obligations (note 31(a))		(81.4)	(565.9)
Decrease in liquid resources held as current asset investments	18	(75.5)	(169.7)
Increase in net debt resulting from cash flows		(137.9)	(731.4)
Loans and finance lease obligations acquired with subsidiary		-	(68.5)
Loan notes issued for non-cash consideration	34	(0.5)	(11.7)
Finance leases entered into for non-cash consideration		(4.3)	-
Eurobond issue costs written back		(0.4)	(0.3)
Currency translation difference	31(a)	(3.7)	1.8
Increase in net debt		(146.8)	(810.1)
At 1 April		(809.1)	1.0
At 31 March		(955.9)	(809.1)

Notes to the financial statements

34 Purchase of subsidiary undertaking

On 29 January 1996 the company purchased South Wales Electricity plc which was provisionally valued in the 1996 accounts. In accordance with FRS 7 - Fair Values in Acquisition Accounting - further adjustments to the provisional fair value have been made in the 1997 accounts which has resulted in an increase in goodwill on acquisition as detailed below:

	Provisional fair value	Restatement	Fair value adjustments	Amended fair value
	£m	£m	£m	£m
Fixed assets:				
Tangible	508.3	-	-	508.3
Investment properties	18.4	-	-	18.4
Investments	54.0	0.6	(13.9)	40.7
Stocks	7.3	-	-	7.3
Debtors	109.5	-	3.6	113.1
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 one year	76.5	-	-	76.5
Original maturity more than one year	5.0	-	-	5.0
Overdrafts and loans due within one year	(59.3)	-	-	(59.3)
Creditors due within one year	(96.5)	-	-	(96.5)
Taxation	(46.9)	-	5.7	(41.2)
Loans due after one year	(147.8)	-	-	(147.8)
Creditors due after one year	(15.2)	(0.6)	-	(15.8)
Provisions for liabilities and charges	(90.3)	-	(2.0)	(92.3)
Deferred income	(98.1)	-	-	(98.1)
Reorganisation provisions	(14.4)	-	-	(14.4)
Net assets acquired	246.7	-	(6.6)	240.1
Goodwill	568.0	-	6.6	574.6
Consideration	814.7	-	-	814.7

The consideration comprised:

Cash (including costs of acquisition)	690.4
Loan notes	12.2
Ordinary shares	102.5
Fair value of share options granted	9.6
	<u>814.7</u>

Of the above consideration, £35.5m in cash, £0.5m of loan notes and £5.4m of ordinary shares (including share premium of £4.5m) was paid in the year ended 31 March 1997.

The restatement of the provisional fair values related to assets and liabilities omitted from the original valuations.

Notes to the financial statements

35 Disposal of subsidiary undertakings

During the year the group disposed of the trade and assets and liabilities of BEI Distribution Ltd. The proceeds of sale were £3.1m and the net assets sold had a net book value of £2.3m generating a profit on disposal of £0.8m.

On 22 May 1997 the group disposed of its interests in Cribyn Ltd. The proceeds of disposal were £5.3m, the net assets at disposal were £6.1m. Provision has been made for the loss on disposal of £0.8m in the accounts for the year ended 31 March 1997.

36 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.

37 Minority interests

	1997 £m	1996 £m
At 1 April	0.1	0.1
Distributions received	(0.1)	(0.1)
Acquired	-	0.1
At 31 March	-	0.1
Comprising:		
Non-equity minority interests	-	0.1
	-	0.1

38 Pension schemes

The group operates a number of pension schemes both in the UK and overseas. The assets of each pension scheme are held separately from the assets of the group and are administered by trustees. The principal schemes are defined benefit schemes in the UK - the Water Pension Scheme (WPS), the Water Mirror Image Pension Scheme (WMIS), the Electricity Supply Pension Scheme (ESPS) and the Acer Group Pension Scheme (AGPS).

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

The last actuarial valuations for WPS and WMIS were carried out as at 31 March 1996 with the market values being £225.3m and £75.5m respectively. Using the assumptions adopted for the Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs", the actuarial value of assets represented 107% for WPS and 114% for WMIS of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the surpluses in WPS and WMIS are spread over the future working lifetime of employees. For accounting purposes the actuarial assumption for pay growth for WPS and WMIS has been reduced to 6.5% per annum as compared to 7% per annum used for funding purposes.

The pension cost for ESPS has been assessed in accordance with the advice of Bacon & Woodrow, consulting actuaries, using the attained age method. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum, pay growth of 6.5% per annum and increases to pensions in payment and deferred pensions of 5% per annum.

A full valuation of the ESPS was carried out at 31 March 1995 with the market value of the assets being £347.0m. Using the assumptions adopted for SSAP24 the actuarial value of the assets represented 106% 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 as a reduction to pension cost over the future working lifetime of the employees and to cover short term early retirement costs.

The pension cost for AGPS, being the principal UK scheme for Hyder Infrastructure Developments Limited has been assessed in accordance with the advice of Buck Consultants Limited (formerly W F Corroon Limited) using the projected unit method. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum, pay growth of 6.5% per annum, increases to pensions in payment of 3% per annum and increases in deferred pensions of 4.5% per annum.

The latest actuarial valuation was carried out as at 1 May 1996 with the market value of the assets being £32.4m. Using the assumptions adopted for SSAP24 the actuarial value of the assets represented 108% 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 spread over the future working lifetime of employees by way of reduced employer's contribution rates which were implemented on 1 April 1997.

The total group pension cost for the period was £14.7m (1996 £11.5m). A prepayment of pension costs of £2.9m (1996 £nil) is included in note 17 within prepayments and accrued income. 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

39 Contingent liabilities

Group

In accordance with normal commercial practice, various group companies have provided a number of third party guarantees in relation to trading or investment obligations arising from contracts entered into in the normal course of business.

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

Company

The company has provided guarantees in respect of finance lease and loan facilities granted to its subsidiary Dwr Cymru Cyfyngedig amounting to £243.5m (1996 £178.6m). Further guarantees amounting to £173.2m (1996 £140.0m) 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 1997 the overdrafts in subsidiary companies in the cash pooling arrangement amounted to £22.2m (1996 £13.4m).

The company, as ultimate holding company, has provided third party guarantees of £12.3m (1996 £nil) in relation to investment obligations entered into by subsidiary companies. The company has also provided a number of third party guarantees in relation to contractual obligations entered into by subsidiary companies in the normal course of business.

40 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

41 Principal group undertakings

	Country of incorporation, registration and operation	Shareholding	
		Directly %	Indirectly %
Subsidiary undertakings			
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			
Hyder Infrastructure Developments Limited	England and Wales	100	
Hyder Consulting Limited	England and Wales		100
TecnEcon Limited	England and Wales		100
Alan Stratford & Associates Limited	England and Wales		100
Hyder Holdings Inc	USA		100
Hyder Consulting (Pte) Limited	Singapore		100
Hyder Australia Pty Limited	Australia		100
Hyder Consulting Limited	Hong Kong		100
Freeman Fox Group Limited	Hong Kong		100
Hyder Consulting (Thailand) Limited	Thailand		100
Hyder Consulting Sdn Bhd	Malaysia		100
Hyder Industrial Limited	England and Wales		100
Hyder Investments Limited	England and Wales	100	
Hyder Overseas Investments Limited	England and Wales		100
Welsh Water International Limited	England and Wales	100	
Common services activities			
Hyder Services Limited	England and Wales	100	
Lusis Limited	England and Wales		100
Other activities			
Hamdden Limited	England and Wales	100	
Brecon Insurance Company Limited	Guernsey		100
South Wales Electricity Generating Limited	England and Wales		100
Celtic Infrastructure Services Limited	England and Wales		100
Phoenix Electrical Company Limited	England and Wales		100

Notes to the financial statements

41 Principal group undertakings (continued)

Associated undertakings

	Country of incorporation	Associate company's equity	
		Total	Group shareholding
Severoceske Vodovody a Kanalizace a.s. Ordinary shares of Czk1,000 each	Czech Republic	Czk 584.3m	35.8%
UK Highways M40 (Holdings) plc (formerly UK Highways plc) Ordinary shares of £1 each	England and Wales	£11.0m	40.0%
City Greenwich Lewisham Link Rail plc Ordinary shares of £1 each and debt Loan stock	England and Wales	£1.5m £11.0m	40.0% 40.0%
Tieyhtio Nelostie Oy Shares of Fmk 100 each	Finland	Fmk 50,000	43.0%

With the exception of Severoceske Vodovody a Kanalizace a.s., which is a water and sewerage utility, the above associated companies are private finance initiative franchise operators within the highways and railways sectors.

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.

Five year summary

	Year ended 31 March				
	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	1,140.2	651.6	521.9	512.1	382.4
Operating profit:					
Continuing operations	277.6	180.9	155.7	153.9	126.7
Discontinued operations	-	-	-	(7.5)	-
	277.6	180.9	155.7	146.4	126.7
Exceptional items:					
Continuing operations	-	(55.0)	(28.5)	-	-
Total operating profit	277.6	125.9	127.2	146.4	126.7
Profit on disposal of fixed asset investments	-	-	-	-	17.0
Income from investments	6.8	2.7	1.0	0.4	2.7
Profit on ordinary activities before interest and taxation	284.4	128.6	128.2	146.8	146.4
Net interest (payable)/receivable	(76.2)	(15.7)	(7.8)	(2.6)	9.0
Profit on ordinary activities before taxation	208.2	112.9	120.4	144.2	155.4
Taxation	(23.6)	(19.0)	(19.0)	(14.4)	(5.4)
Profit on ordinary activities after taxation	184.6	93.9	101.4	129.8	150.0
Minority interests	-	-	-	(0.1)	0.1
Preference dividends	(16.5)	(7.8)	-	-	-
Ordinary dividends	(62.7)	(52.3)	(49.6)	(37.0)	(34.1)
Retained profit for the year	105.4	33.8	51.8	92.7	116.0
Fixed assets	2,374.2	2,126.8	1,339.5	1,190.4	1,070.6
Net current assets	16.8	215.6	359.1	338.4	240.5
Total assets less current liabilities	2,391.0	2,342.4	1,698.6	1,528.8	1,311.1
Creditors: amounts falling due after more than one year	(1,123.7)	(1,167.9)	(435.4)	(343.9)	(213.2)
Provisions for liabilities and charges	(174.5)	(193.0)	(49.0)	(20.7)	(23.0)
Accruals and deferred income	(140.3)	(133.4)	(33.3)	(35.4)	(34.4)
Net assets	952.5	848.1	1,180.9	1,128.8	1,040.5
Capital and reserves					
Called up share capital	378.9	375.7	146.7	145.4	145.1
Share premium account	100.8	94.3	135.6	134.2	133.7
Reserves	472.8	378.0	898.5	849.1	760.9
Equity shareholders' funds	746.0	641.5	1,180.8	1,128.7	1,039.7
Non-equity shareholders' funds	206.5	206.5	-	-	-
Total shareholders' funds	952.5	848.0	1,180.8	1,128.7	1,039.7
Equity minority interests	-	-	0.1	0.1	0.8
Non-equity minority interests	-	0.1	-	-	-
	952.5	848.1	1,180.9	1,128.8	1,040.5

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