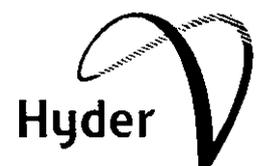


Hyder plc

Directors' report and financial statements
for the year ended 31 March 1998

Registered no. 2366776



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Directors and advisors

Directors

J V H Robins*	(N) Chairman
G A Hawker	(N) Group Chief Executive
M P Brooker	Managing Director, Operations
J M James	Chief Executive, Infrastructure Developments
J E Roberts	Chief Executive, Utilities
P J Twamley	Group Finance 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 to the board 3 September 1997, appointed Chairman 15 May 1998

Company Secretary and registered office

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

Registrars

Computershare Services PLC,
PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH

Auditors

Coopers & Lybrand

Brokers

Dresdner Kleinwort Benson
SBC Warburg Dillon Read

Solicitors

Edwards Geldard
Slaughter and May

Principal bankers

National Westminster Bank Plc
Midland Bank plc

Financial advisors

Dresdner Kleinwort Benson

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, four executive directors and three 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 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, comprises all of the non-executive directors other than the 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 recommends to the board fees to be paid to the non-executive Group Chairman. The minutes of all Remuneration committee meetings are reported to the Board.

The Nominations committee, comprising the Group 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 Chief Executive's committee

The executive directors are members of the Group Chief Executive's committee, which is chaired by the Group Chief Executive, and also includes the Company Secretary and the Director of Group Development. 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 minimise the risk that computer programs and operational equipment used within the group will be affected by the change of date at year 2000. Priority is given to major operational systems. A full inventory has been completed and there is a rolling programme to test and confirm year 2000 compliance and to correct any deficiencies.

A group has also been established to consider and recommend action necessary in relation to adoption of a common European currency.

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 the Group Chief Executive 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

After making enquiries, the directors are of the opinion that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing these financial statements.

By order of the Board



G W Williams
Company Secretary

9 June 1998

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).

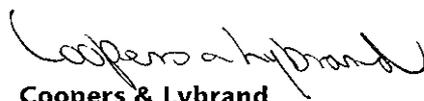
Basis of opinion

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

9 June 1998

Directors' report

The directors have pleasure in presenting their ninth annual report to shareholders, together with the audited financial statements for the year ended 31 March 1998 on pages 22 to 69.

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 electricity and gas supply services as well as water and sewerage based services. 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 trading performance in the regulated sector services businesses and expanding that expertise into related services and adjacent markets. At 31 March 1998, SWALEC Gas had signed up 385,000 customers in advance of the opening of the domestic gas supply market to competition. Hyder Infrastructure Developments, the group's engineering business, acts as the catalyst for the provision of infrastructure services and gives an international capability.

In October 1997 Hyder announced the following management and organisational changes:

- combining into Hyder Utilities of the day to day utility operations of SWALEC and Dwr Cymru Welsh Water extending the common services model successfully implemented by Hyder Services, and
- a continuation of the strategy to develop infrastructure services by bringing together the management of all of the non regulated infrastructure development businesses.

The organisational restructuring necessary to implement these changes in respect of Hyder Infrastructure was completed on 31 March 1998 and for Hyder Utilities on 1 April 1998.

Overall the business has performed satisfactorily during the year.

Consolidated results

Profit on ordinary activities before taxation amounted to £168.5m (1997 £208.2m). After preference dividends, ordinary tax and windfall tax of £312.2m (1997 £40.1m) the loss attributable to ordinary shareholders amounted to £143.7m (1997 profit £168.1m). Ordinary dividends of £73.3m (1997 £62.7m) are recommended to be paid in respect of the year.

Dividend on ordinary shares

The directors recommend a final dividend of 34.2p (1997 29.3p) (net) per ordinary share, making a total ordinary dividend of 50.4p (1997 43.9p) (net) for the year to 31 March 1998. This will be paid on 6 April 1999 to ordinary shareholders whose names are on the register at the close of business on 26 June 1998.

A share alternative to the cash dividend is again being offered. A cash offer to purchase shares arising has been arranged with Dresdner Kleinwort Benson.

Dividend on preference shares

A preference dividend of 3.9375p (1997 3.9375p) (net) per preference share in respect of the six month period ending 31 July 1998 will be paid on 31 July 1998 to all preference shareholders whose names are on the register on 26 June 1998, making a total preference dividend of 7.875p (1997 7.875p) for the year ended 31 July 1998.

Directors' report

Fixed assets

Freehold land and buildings, excluding investment properties, are carried in the accounts at historical cost at a net book value of £53.1m (1997 £58.3m). 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 1998.

Directors

The names of the current directors of the company are shown on page 1. With effect from 3 September 1997 J V H Robins was appointed a director. With effect from 25 July 1997 B H Charles and A J Hales resigned as directors, and with effect from 2 October 1997 S J Doughty resigned as a director. All other directors served throughout the year ended 31 March 1998. I R Evans resigned as director and Chairman with effect from 15 May 1998.

Having been appointed to office since the last annual general meeting, members will be asked, in accordance with Article 91 of the company's Articles of Association, to approve the election of J V H Robins as a director of the company. He was appointed Chairman on 15 May 1998.

J M James, R H Sellier and P J Twamley, who retire by rotation in accordance with Article 108 of the company's Articles of Association, offer themselves for re-election at the annual general meeting. As a non-executive director, the current term of office for R H Sellier expires at the conclusion of the annual general meeting in the calendar year 2000.

The term of office of D G Hawkins (which would otherwise have expired at the conclusion of the 1998 annual general meeting) was extended for a further three years to expire at the end of the annual general meeting in 2001. The Report on Corporate Governance (Hampel Report) published in January 1998 recommends that directors should stand for re-election every three years and accordingly he retires and offers himself for re election notwithstanding that this is not required by the Articles of Association.

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 11 to 19.

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' report

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 1998 and 31 March 1997 were as follows:

	Ordinary shares of 120p preference shares of £1		Cumulative redeemable shares of £1		Options over ordinary shares of 120p	
	31 March 1998	31 March 1997	31 March 1998	31 March 1997	31 March 1998	31 March 1997
J V H Robins	1,000	-*	-	-*	-	-*
I R Evans	4,583	4,583	4,950	4,950	-	-
G A Hawker	13,932	10,512	13,408	7,938	894	1,550
M P Brooker	13,158	13,341**	14,408	14,408**	794	2,481**
J M James	28,284	26,916	450	450	41,070	44,938
J E Roberts	1,000	1,000	-	-	2,484	-
P J Twamley	4,354	1,916	2,070	2,070	15,076	18,944
D G Hawkins	502	484	-	-	-	-
T Knowles	5,415	5,415	5,850	5,850	-	-
R H Sellier	255	246	252	252	-	-
	72,483	64,413	41,388	35,918	60,318	67,913

* At 3 September 1997, being the date of appointment.

** At 2 April 1997, being date of appointment

The above table does not include conditional share allocations under the long term incentive plan, details of which are set out on pages 14 and 15 as part of the Remuneration committee report.

Details of share options exercised by the directors in the year are disclosed on page 18 as part of the Remuneration committee report.

During the period 1 April 1998 to 9 June 1998, the following directors acquired interests in ordinary shares of 120p each under the Hyder scrip dividend plan:-

	Number of ordinary shares
I R Evans (to 15 May 1998)	77
P J Twamley	33
J V H Robins	16
R H Sellier	4
D G Hawkins	8

No other changes in directors' interests occurred during the period 1 April 1998 to 9 June 1998.

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

Share capital

As at 9 June 1998, 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 Inc.	7.92%
Norwich Union plc	5.11%
Fidelity Investments	4.90%

Directors' report

Policy on the payment of creditors

It is group policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated the group endeavours to adhere to the supplier's standard terms. The group's average payment period in the year was 45 days (1997 49 days). The company has no trade creditors.

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 development 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.

Effective employee communication remains a key management focus with monthly internal videos and staff newspapers supporting face to face communications and local information bulletins across the group.

Research and development

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

Contributions for charitable and political purposes

During the year there were no political donations and charitable donations amounted to £99,000 (1997 £63,000). 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. Copies of the 1998 Environment and Conservation Report published by Dwr Cymru Cyfyngedig can be obtained by writing to the Company Secretary.

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 1998.

Special business at the annual general meeting

Full details of the annual general meeting to be held on 24 July 1998 appear in the notice of annual general meeting enclosed separately with this report. This year, there are two items of special business which propose (i) the disapplication of certain provisions of the company's Articles of Association in connection with the recommended final dividend and (ii) to authorise the directors to allot ordinary shares in the company in connection with the Hyder Utilities profit sharing scheme and the Hyder plc profit sharing scheme. The purpose of each resolution to be voted on at the annual general meeting is set out in the explanatory notes which accompany the notice of meeting.

Directors' report

Year 2000 and euro costs

All businesses are well advanced in their review of all equipment affected by the year 2000 date change. During 1998 costs of £2.1m were incurred which has been written off against profits. It is anticipated that additional expenditure in the next two years will be in the range of £10m to £14m bringing the overall year 2000 costs to between £12m and £16m.

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

Post balance sheet event

On 5 May 1998 the group disposed of its interest in National Telecommunications Inc for £45.3m realising a profit on disposal of £15.3m. The profit will be recognised in the group's accounts for the year ending 31 March 1999.

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

9 June 1998

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 Chairman and 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.

Group Chairman

Effective 15 May 1998 the then Group Chairman, I R Evans resigned from the board and J V H Robins was appointed Group Chairman.

During the year I R Evans was paid fees at the rate of £125,000 per annum (1997 £125,000 per annum) and no additional payments have been made to him as a result of his resignation.

Since his appointment as Group Chairman, J V H Robins has been paid fees at the rate of £125,000 per annum.

Non-executive directors

The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association and based upon independent advice in respect of fees paid to non-executive directors of similar companies.

The fee paid to each non-executive director, including J V H Robins in relation to the period prior to his becoming Group Chairman, has been £25,000 per annum since 1 April 1994 and have increased to £28,000 with effect from 1 April 1998. 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. The current terms of office of the current non-executive directors, which are subject to renewal by agreement, expire at the conclusion of the annual general meeting in the following calendar years:

J V H Robins	2001
D G Hawkins	2001
T Knowles	1999
R H Sellier	2000

However, save in respect of J V H Robins, 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

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 and the Group Chairman 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 1998. Following the review basic salaries were increased to the amounts detailed below with effect from 1 April 1998:

G A Hawker	£260,000
M P Brooker	£146,000
J M James	£190,000
J E Roberts	£200,000
P J Twamley	£190,000

(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. In respect of the year ended 31 March 1998 the principal measure for annual bonus payments was the profitability of the group and, where applicable, the performance of that part of the business for which the executive director was responsible. The maximum annual performance related bonus that can currently be paid is 40% of basic salary.

As a result of increased responsibilities following the group restructuring, J M James received an additional bonus of 3% and J E Roberts received an additional bonus of 2%.

Incentive payments in the year ended 31 March 1998 varied between 27% and 42% (1997 24% and 40%).

J M James (being within two years of normal retirement date) is unable to participate in the long term incentive plan (see (c) below). Accordingly, the committee agreed an additional 10% maximum annual bonus opportunity for him based on criteria agreed with the Group Chief Executive. He achieved full bonus entitlement of 10% (1997 10%), being £17,250 (1997 £13,000).

Remuneration committee report

Executive directors (continued)

(c) Long term incentive arrangements

The long term incentive plan 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 performance targets relate to the total shareholder return, over the three year period commencing with the effective date of the conditional award, 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 conditionally allocated 56,918 ordinary shares to the participating executive directors at 779p per share during the year ended 31 March 1998. Conditional allocations of ordinary share to each director under the long term incentive plan together with lapses during the year were as follows:

	31 March 1997	Conditional allocation in year	Lapsed in year	31 March 1998	Price per share of allocation (Pence)	Vesting date
G A Hawker	15,162	-	-	15,162	742	April 1999
	-	15,400	-	15,400	779	April 2000
	15,162	15,400	-	30,562		
M P Brooker	-	8,663	-	8,663	779	April 2000
S J Doughty	10,107		10,107	-		
		10,267	10,267	-		
J E Roberts	11,455	-	-	11,455	742	April 1999
	-	11,294	-	11,294	779	April 2000
	11,455	11,294	-	22,749		
P J Twamley	10,107	-	-	10,107	742	April 1999
	-	11,294	-	11,294	779	April 2000
	10,107	11,294	-	21,401		
	46,831	56,918	20,374	83,375		

Consequent upon the resignation of S J Doughty on 2 October 1997, all conditional allocations made to him lapsed under the terms of the trust. Relevant shares will be retained in the trust for allocation in future years.

The cost of the 56,918 ordinary shares allocated in the year was £491,837. The market value on 31 March 1998 of the 103,364 shares held by the trust was £1,010,383 and the original cost was £882,876. The cost of the shares is written off over the period of the relevant conditional allocation. Lapsed shares are held by the trust for conditional allocation in future years.

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.

Remuneration committee report

Executive directors (continued)

(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. Normally an actuarial reduction applies if pensions are paid before the normal retirement age but there is a discretion to pay pensions unreduced. The pension for each director is based on his 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 Hyder Water Pension Scheme certifies that the 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 next year 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% (1997 12.0%) of pensionable pay.

To the extent that their benefits from the company scheme are restricted by Inland Revenue limits, 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. S J Doughty had similar unfunded pension arrangements during the period he was a director,

The directors' pension benefits were as follows:

	Age at 31 March 1998	Total accrued pension at 31 March 1998 £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	50	139	36	512	14	498
M P Brooker	50	58	10	144	9	135
B H Charles*	60	98	2	29	3	26
S J Doughty**	54	17	6	149	6	143
J M James	58	31	12	188	10	178
J E Roberts	52	9	4	64	11	53
P J Twamley	51	40	14	209	11	198

* Retired 25 July 1997

** resigned 2 October 1997

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 1998 and based on March 1998 price levels. The increase in accrued pension in the year excludes any increase for inflation during the year ended 31 March 1998.

Remuneration committee report

Executive directors (continued)

(d) Pension arrangements (continued)

The transfer value figures have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

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. Paragraph 4.19 of the Report of Committee on Corporate Governance (Hampel Report published January 1998) states that the transfer value represents a liability of the company but not a sum paid or due to the individual. Accordingly it cannot meaningfully be added to annual remuneration.

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

B H Charles retired on his normal retirement date of 25 July 1997. The accrued pension shown above is the total pension payable from this date, including that part of the pension which he had the option to exchange for a retirement cash sum.

S J Doughty resigned on 2 October 1997. The accrued pension shown above is the total pension payable from this date including that part of the pension which he had the option to exchange for a retirement cash sum. No reduction factor was applied to the pension. His pensions benefits provided through the Hyder Water Pension Scheme were calculated in accordance with the scheme's rules and were provided on a discretionary unreduced basis at a cost of £31,000. An additional discretionary one years pensionable service was also purchased at a cost of £9,600. His unfunded pension benefits were also provided on a discretionary unreduced basis and a provision of £102,000 has been made to cover this liability.

Retirement benefits are accruing to five 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:

	1998 £000	1997 £000
Fees	222	180
Salary payments (including benefits in kind)	1,106	1,083
Performance related bonus	355	376
	1,683	1,639
Compensation for loss of office	403	-
	2,086	1,639

The directors' emoluments excluding pension contributions and compensation for loss of office were as follows:

	Salary/fees		Performance related bonus		Benefits in kind		Total	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
G A Hawker	240	225	96	90	9	10	345	325
M P Brooker*	135	-	37	-	9	-	181	-
B H Charles**	61	141	-	57	3	7	64	205
S J Doughty***	93	150	-	37	5	8	98	195
J M James	160	130	78	65	12	10	250	205
J E Roberts	176	170	74	52	9	35	259	257
P J Twamley	176	150	70	60	17	15	263	225
	1,041	966	355	361	64	85	1,460	1,412
J V H Robins****	14	-	-	-	-	-	14	-
I R Evans*****	125	111	-	15	1	1	126	127
A J Hales**	8	25	-	-	-	-	8	25
D G Hawkins	25	25	-	-	-	-	25	25
T Knowles	25	25	-	-	-	-	25	25
R H Sellier	25	25	-	-	-	-	25	25
	222	211	-	15	1	1	223	227
	1,263	1,177	355	376	65	86	1,683	1,639

* appointed 2 April 1997

** retired 25 July 1997

*** resigned 2 October 1997

**** appointed 3 September 1997, Group Chairman from 15 May 1998

***** Group Chairman until 15 May 1998

On 2 October 1997 S J Doughty left the company. In addition to the £142,600 cost of providing him with a discretionary unreduced funded and unfunded pension, and following external legal advice, the company paid sums to which he was entitled under his service contract being £250,000. A further £10,000 was paid to cover outplacement services provided to him.

Remuneration committee report

Remuneration (continued)

Highest paid director	G A Hawker 1998 £000	G A Hawker 1997 £000
Aggregate emoluments	345	325
Gains on share options exercised	9	-
	354	325
Accrued pension at end of the year under defined benefit pension schemes	139	100

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 1998, were as follows:

	31 March 1997	Granted in year	Exercised in year	31 March 1998	Option price (pence)	Share price on date of exercise (pence)	Date exercisable	Expiry date
G A Hawker	1,550	-	1,550	-	425	988		
	-	894	-	894	650	-	Sept 2002	Feb 2003
	1,550	894	1,550	894				
M P Brooker	2,317*	-	2,317	-	425	940		
	164*	-	-	164	521	-	Oct 2001	Mar 2002
	-	630	-	630	650	-	Sept 2002	Feb 2003
	2,481	630	2,317	794				
S J Doughty @	57,673	-	57,673	-	676	996		
J M James §	41,070	-	-	41,070	563	-	Jul 1996	Jul 2003
	3,868	-	3,868	-	425	940		
	44,938		3,868	41,070				
J E Roberts	-	2,484	-	2,484	650	-	Sept 2002	Feb 2003
P J Twamley §	14,839	-	-	14,839	563	-	Jul 1996	Jul 2003
	3,868	-	3,868	-	425	940		
	237	-	-	237	523	-	Oct 1999	Mar 2000
	18,944		3,868	15,076				

* at date of appointment

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

Remuneration committee report

Executive directors (continued)

Share options (continued)

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

	1998	1997
	£000	£000
G A Hawker	9	-
M P Brooker	12	-
B H Charles	-	16
S J Doughty	185	-
J M James	20	49
P J Twamley	20	-
	246	65

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

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

Executive share option prices are fixed at the closing mid market value on the day preceding the date of grant. Employee sharesave options are fixed at the closing mid market value on the day preceding the date of grant less 20% discount.

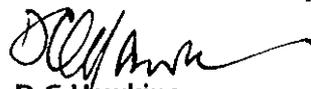
All executive share options are exercisable between three and ten years from the date of grant. Options granted under the employee sharesave scheme are exercisable within six months after the expiry of a three, five or seven year save as you earn savings contract. All options may be exercisable earlier in certain circumstances (such as retirement or redundancy).

The middle market price of an ordinary share at the close of business on 31 March 1998 was 978p (1997 790p) and the range during the year to that date was 774p to 1049p (1997 658p to 839p).

Annual general meeting

The board 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, Remuneration committee

9 June 1998

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 or loss 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

9 June 1998

Auditors' report to the members of Hyder plc

We have audited the financial statements on pages 22 to 69.

Respective responsibilities of directors and auditors

As described on page 20 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.

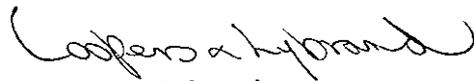
Basis of opinion

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 1998 and of the loss, total recognised losses 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

9 June 1998

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 14(d) and 15 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 9 - Associates and joint ventures (FRS 9) and Financial Reporting Standard 10 - Goodwill and intangible assets (FRS 10). In addition the Urgent Issues Task Force ("UITF") has issued a number of abstracts in the year. Where relevant these financial statements comply with the new Standards and UITF abstracts. Following the introduction of FRS 9 relevant comparative numbers within the profit and loss account, balance sheet and certain related notes have 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 joint venture and associated undertakings. The financial statements of the holding company and each subsidiary company 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 prior to the introduction of FRS 10, representing the excess of the fair value of the purchase consideration (including costs of acquisition) over the fair value of net assets acquired, was written off against consolidated reserves in the year of acquisition. Goodwill arising on acquisitions after 1 April 1997 will be treated in accordance with FRS 10.

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.

Joint ventures and associated undertakings

The group's share of results is included in the consolidated financial statements based on the latest audited accounts for each joint venture or 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.

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 & capitalised software	3-10 years

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

Electricity distribution network 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 14(d)).

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 (see note 15).

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 the statement of total recognised gains and losses.

Fixed asset investments denominated in foreign currencies which are hedged by related currency borrowings are translated into sterling at the rate of exchange ruling at the end of the financial year. The gains or losses arising from the retranslation of these investments at each year end are offset against those gains and losses arising on the retranslation of the related foreign exchange borrowings. Those fixed asset investments which are not hedged by related foreign currency borrowings are translated into sterling at the rate of exchange ruling at the date of acquisition.

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.

Principal accounting policies

Interest rate swaps

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

Research and development

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

Deferred taxation

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

Employee share option plan (Esop)

The consolidated accounts include the assets and related borrowings of South Wales Electricity plc's Esop, in accordance with FRSS - Reporting the substance of transactions (note 28(e)). Shares held by the Esop are included at cost in debtors and related borrowings in creditors.

Qualifying employee share option trusts (Quests)

The consolidated accounts include the shares in the company held by the group's Quests (note 28(d)). The shares held are included at recoverable amount in debtors.

Consolidated profit and loss account for the year ended 31 March 1998

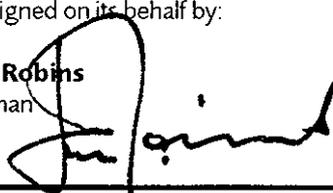
		1998 £m	1997 Restated £m
	Note		
Turnover:			
Group and share of joint ventures		1,192.0	1,141.3
Less: share of joint ventures		(6.9)	(1.1)
Group turnover - Continuing operations	2 & 3	1,185.1	1,140.2
Net operating costs	4	(940.4)	(862.6)
Operating profit:			
Continuing operations		244.7	277.6
Before exceptional items:			
Continuing operations		284.7	277.6
Exceptional items:			
Continuing operations	5	(40.0)	-
Total operating profit		244.7	277.6
Income from investments (Continuing operations):			
Group	7	16.9	6.8
Joint ventures		2.6	-
Profit on ordinary activities before interest		264.2	284.4
Interest receivable		17.8	18.9
Interest payable:			
Group	8	(113.5)	(95.1)
Joint ventures		-	-
Profit on ordinary activities before taxation		168.5	208.2
Ordinary taxation	9	(13.9)	(23.6)
Profit after ordinary taxation		154.6	184.6
Exceptional taxation - Windfall tax	10	(281.9)	-
(Loss)/profit after taxation		(127.3)	184.6
Dividends on preference shares and appropriations	11	(16.4)	(16.5)
(Loss)/profit attributable to ordinary shareholders		(143.7)	168.1
Dividends on ordinary shares	11	(73.3)	(62.7)
Retained (loss)/profit for the year	30	(217.0)	105.4
(Loss)/earnings per ordinary share	12	(99.8)p	118.6p
Earnings per ordinary share before exceptional items and windfall tax	12	122.7p	118.6p
Dividend per ordinary share	11	50.4p	43.9p

Balance sheets at 31 March 1998

		Group 1998	1997 Restated	Company 1998	1997
	Note	£m	£m	£m	£m
Fixed assets					
Intangible assets	13	0.5	0.6	-	-
Tangible assets	14	2,534.6	2,252.5	2.7	2.4
Investment properties	15	8.4	9.0	-	-
Investments in:	16				
Joint ventures:					
Share of gross assets		140.5	94.6	-	-
Share of gross liabilities		(126.2)	(82.2)	-	-
		14.3	12.4	-	-
Associates		15.3	7.9	-	-
Others		83.9	91.8	1,548.6	1,291.4
		2,657.0	2,374.2	1,551.3	1,293.8
Current assets					
Stocks and work in progress	17	14.1	13.5	-	-
Debtors	18	296.2	253.3	337.2	142.3
Current asset investments	19(a)	301.4	271.4	101.0	25.0
Cash at bank and in hand		10.1	21.7	0.2	0.2
		621.8	559.9	438.4	167.5
Current liabilities					
Creditors: amounts falling due within one year	20(a)	(559.2)	(543.1)	(171.8)	(248.4)
Net current assets/(liabilities)		62.6	16.8	266.6	(80.9)
Total assets less current liabilities		2,719.6	2,391.0	1,817.9	1,212.9
Creditors: amounts falling due after more than one year	20(b)	(1,622.4)	(1,123.7)	(835.2)	(480.3)
Provisions for liabilities and charges	25	(171.7)	(174.5)	(2.7)	(2.7)
Accruals and deferred income	26	(152.0)	(140.3)	-	-
Net assets		773.5	952.5	980.0	729.9
Capital and reserves					
Called up share capital	27	386.4	378.9	386.4	378.9
Share premium account	29	138.9	100.8	138.9	100.8
Reserves	30	248.2	472.8	454.7	250.2
Equity shareholders' funds		566.9	746.0	773.4	523.4
Non-equity shareholders' funds		206.6	206.5	206.6	206.5
Total shareholders' funds		773.5	952.5	980.0	729.9

The financial statements on pages 22 to 69 were approved by the Board of directors on 9 June 1998 and were signed on its behalf by:

J V H Robins
Chairman



P J Twamley
Group Finance Director



Consolidated cashflow statement for the year ended 31 March 1998

	Note	1998 £m	1997 £m
Cash flow from operating activities	31	296.7	324.6
Returns on investments and servicing of finance			
Interest received		19.8	18.5
Interest paid		(96.0)	(58.6)
Preference dividend paid		(16.3)	(16.3)
Interest element of finance lease rental payments		(3.9)	(6.2)
Dividends received and other investment income		12.3	6.4
Distributions from joint ventures and associated undertakings		0.9	0.2
		(83.2)	(56.0)
Taxation			
UK corporation tax paid		(21.8)	(16.7)
Windfall tax paid		(140.9)	-
Overseas tax repaid/(paid)		0.1	(0.3)
		(162.6)	(17.0)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(384.0)	(329.9)
Sale of tangible fixed assets		5.3	8.6
Sale of fixed asset investments		6.7	21.3
Purchase of fixed asset investments		(0.4)	(7.4)
Grants and contributions received		29.4	17.6
		(343.0)	(289.8)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(35.5)
Purchase of minority interests		-	(0.1)
Investments in joint ventures and associated undertakings		(6.8)	(8.7)
		(6.8)	(44.3)
Equity dividends paid			
		(32.0)	(53.7)
Cash outflow before use of liquid resources and financing			
		(330.9)	(136.2)
Management of liquid resources			
Purchase of commercial paper		(569.9)	(428.1)
Sale of commercial paper		538.6	443.2
Net (increase)/decrease in deposits		(1.1)	53.4
		(32.4)	68.5
Financing			
Issue of ordinary shares	33	4.9	5.3
New loans, finance leases and bonds		482.8	615.0
Expenses of issuing US bonds	21(b)	(3.5)	-
Loan and finance lease repayments	33	(150.1)	(533.4)
Capital element of finance lease rental payments	33	(0.5)	(0.2)
		333.6	86.7
(Decrease)/increase in cash in the year	34	(29.7)	19.0

Statement of total recognised gains and losses for the year ended 31 March 1998

	1998 £m	1997 £m
(Loss)/profit for the financial year attributable to ordinary shareholders	(143.7)	168.1
Currency translation differences on foreign currency net investments	(3.2)	(3.7)
(Deficit)/surplus on revaluation of investment properties	(0.2)	0.4
Total recognised (losses)/gains for the year	(147.1)	164.8

Reconciliation of movements in shareholders' funds for the year ended 31 March 1998

	1998 £m	1997 £m
Total recognised (losses)/gains for the year	(147.1)	164.8
Ordinary dividends	(73.3)	(62.7)
New ordinary share capital issued	7.5	3.2
Premium on ordinary share capital issued	39.5	2.8
Scrip dividend issued in lieu of cash dividend	14.9	4.0
Utilisation of share premium account for the nominal value of ordinary shares issued under the scrip dividend	(1.5)	(0.7)
Charge to reserves arising on issue of shares to qualifying employee share ownership trust	(18.7)	-
Goodwill written off	(0.3)	(6.9)
Net (decrease)/increase in shareholders' funds	(179.0)	104.5
At 1 April	952.5	848.0
At 31 March	773.5	952.5

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 £298.1m (1997 £71.3m).

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 1998:				
Continuing operations:				
Regulated water and sewerage activities	440.7	-	1.2	439.5
Regulated electricity distribution and supply activities	716.0	146.6	17.5	551.9
Infrastructure activities	148.9	1.2	28.6	119.1
Common services activities	145.4	12.7	126.7	6.0
Other activities	75.2	-	6.6	68.6
	1,526.2	160.5	180.6	1,185.1
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
	1,461.2	157.4	163.6	1,140.2

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

	1998 Before exceptional items £m	1998 Exceptional items (note 5) £m	1998 Total £m	1997 Total £m
Continuing operations:				
Regulated water and sewerage activities	178.3	(28.0)	150.3	168.6
Regulated electricity distribution and supply activities	102.3	(9.0)	93.3	101.3
Infrastructure activities	18.7	(3.2)	15.5	9.6
Common services activities	21.9	3.3	25.2	18.2
Other activities:				
Domestic gas marketing activities	(12.0)	-	(12.0)	-
Other	7.2	(2.0)	5.2	4.8
	316.4	(38.9)	277.5	302.5
Business development costs, leasehold property provision and corporate overheads	(8.6)	(1.1)	(9.7)	(15.4)
Elimination of intercompany operating profit capitalised	(3.6)	-	(3.6)	(2.7)
Profit before interest	304.2	(40.0)	264.2	284.4
Net interest payable	(95.7)	-	(95.7)	(76.2)
Profit before taxation	208.5	(40.0)	168.5	208.2

Infrastructure activities and Other activities include £16.9m (1997 £6.8m) in respect of income from investments (see note 7 below) and £2.6m (1997 £nil) in respect of joint ventures as this reflects the management control of those investments.

(c) Net assets

	1998 £m	1997 £m
Continuing operations:		
Regulated water and sewerage activities	1,519.6	1,444.0
Regulated electricity distribution and supply activities	227.0	257.7
Infrastructure activities	147.7	100.3
Common services activities	33.0	24.0
Other activities	128.4	82.4
	2,055.7	1,908.4
Net debt (note 32(b))	(1,282.2)	(955.9)
	773.5	952.5

Notes to the financial statements

3 Segmental analysis by geographical area by destination

(a) Turnover

	1998 £m	1997 £m
United Kingdom and Europe	1,120.7	1,069.2
Asia Pacific	38.7	45.8
Rest of the World	25.7	25.2
	<u>1,185.1</u>	<u>1,140.2</u>

(b) Profit on ordinary activities before taxation

	1998 £m	1997 £m
United Kingdom and Europe	278.0	300.8
Asia Pacific	(2.5)	0.4
Rest of the World	2.0	1.3
	<u>277.5</u>	<u>302.5</u>
Business development costs, leasehold property provision and corporate overheads	(9.7)	(15.4)
Elimination of intercompany operating profit capitalised	(3.6)	(2.7)
Profit before interest	<u>264.2</u>	<u>284.4</u>
Net interest payable	(95.7)	(76.2)
Profit before taxation	<u>168.5</u>	<u>208.2</u>

(c) Net assets

	1998 £m	1997 £m
United Kingdom and Europe	2,035.0	1,888.8
Asia Pacific	8.4	10.8
Rest of the World	12.3	8.8
	<u>2,055.7</u>	<u>1,908.4</u>
Net debt (note 32(b))	(1,282.2)	(955.9)
	<u>773.5</u>	<u>952.5</u>

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

Notes to the financial statements

4 Net operating costs

		1998	1998	1998	1997
		Before exceptional items £m	Exceptional items (note 5) £m	Total £m	Total £m
	Note				
Continuing operations:					
Change in stocks and work in progress	17	(0.6)	-	(0.6)	0.6
Infrastructure maintenance provision	25(b)	24.8	-	24.8	24.1
Staff costs	6(b)	231.9	-	231.9	224.8
Severance and redundancy costs		-	25.0	25.0	-
Depreciation:					
- Own assets		76.5	-	76.5	72.4
- Assets held under finance leases		4.9	-	4.9	4.1
Amounts written off fixed assets		0.1	1.5	1.6	0.1
Amounts written off fixed asset investments		1.4	-	1.4	-
Research and development		1.4	-	1.4	0.9
Rentals under operating leases:					
- Hire of plant and equipment		1.3	-	1.3	4.4
- Other		6.5	-	6.5	6.7
Fees paid to auditors:					
- Audit services		0.7	-	0.7	0.7
- Taxation services		0.2	-	0.2	0.1
- Consultancy services		0.1	-	0.1	0.7
- Other services		0.4	-	0.4	0.3
Year 2000 costs		2.1	-	2.1	-
Electricity purchases		296.9	-	296.9	255.9
Other operating charges		333.5	13.5	347.0	334.0
Leasehold property provision		-	-	-	6.5
Amortisation of grants and contributions	26	(5.5)	-	(5.5)	(5.1)
Profit on disposal of fixed asset investments		-	-	-	(0.1)
Profit on disposal of fixed assets		(0.8)	-	(0.8)	(2.1)
Own work capitalised		(75.0)	-	(75.0)	(64.7)
Net rents receivable		(0.4)	-	(0.4)	(1.7)
		900.4	40.0	940.4	862.6

Other fees paid to the auditors and charged against the restructuring provision were £nil (1997 £0.5m).

Included in audit services is £8,650 (1997 £8,250) in respect of audit fees incurred by the company.

Notes to the financial statements

5 Exceptional items

	1998 Redundancy costs £m	1998 Other costs £m	1998 Total £m	1997 Total £m
Continuing operations:				
Regulated water and sewerage activities	23.2	4.8	28.0	-
Regulated electricity distribution and supply activities	2.7	6.3	9.0	-
Infrastructure activities	1.2	2.0	3.2	-
Common services activities	(3.0)	(0.3)	(3.3)	-
Other activities	0.5	1.5	2.0	-
Business development costs, leasehold property provision and corporate overheads	0.4	0.7	1.1	-
	25.0	15.0	40.0	-

The tax credit attributable to the restructuring is £1.6m (1997 £nil). This tax credit has reduced the tax charge included in note 9.

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 19. 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

	1998 £m	1997 £m
Wages and salaries	202.8	196.0
Social security costs	14.8	14.1
Pension costs	14.3	14.7
	231.9	224.8

Of the above, £47.3m (1997 £40.1m) has been charged to capital.

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

	1998 Number	1997 Number
Regulated water and sewerage activities	2,071	2,255
Regulated electricity distribution and supply activities	1,405	1,390
Infrastructure activities	2,947	2,896
Common services activities	1,536	1,424
Other activities	985	1,058
	8,944	9,023

Notes to the financial statements

7 Group income from investments

	1998 £m	1997 £m
Continuing operations:		
Infrastructure activities:		
Share of results of associated undertakings	1.8	0.3
Profit on disposal of investments	-	0.1
Fixed asset investment income	9.2	6.2
Profit on the grant of option in Transurban City Link Ltd	3.9	-
	14.9	6.6
Other activities:		
Profit on disposal of investments	1.6	-
Fixed asset investment income	0.4	0.2
	16.9	6.8

8 Group interest payable

	1998 £m	1997 £m
On bank loans and overdrafts	1.5	63.6
On other loans	99.8	25.3
On finance leases	12.2	6.2
	113.5	95.1

9 Taxation

	1998 £m	1997 £m
Based on the results for the year:		
UK corporation tax at 31% (1997 33%)	10.9	19.7
Overseas taxation	(0.1)	0.4
Advance corporation tax written off	5.9	7.7
Tax suffered on dividends received	0.3	-
Share of joint ventures taxation	0.8	-
Share of associated undertakings taxation	0.5	0.6
	18.3	28.4
Prior year adjustments:		
Corporation tax	2.8	(12.5)
Overseas taxation	-	(0.1)
Consortium relief	(7.2)	-
Advance corporation tax written off	-	7.8
	13.9	23.6

The tax charge has been reduced by £32.8m (1997 £56.3m) 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 £64.5m (1997 £58.6m) remains available to reduce any future liabilities to UK corporation tax. There are losses within the group of approximately £5.0m (1997 £7.3m) available to carry forward against future profits of those companies which incurred the losses.

Notes to the financial statements

10 Exceptional taxation - windfall tax

The exceptional taxation charge relates to the windfall tax levied on privatised utility companies. The liability has been ascertained as £281.9m in respect of the two privatised utility businesses (£192.3m for Hyder plc and £89.6m for South Wales Electricity plc). The first instalment of £140.9m was paid on 1 December 1997 and the balance of the liability is payable on 1 December 1998.

11 Dividends

(a) Dividends on equity shares:

	1998	1997
	£m	£m
Interim paid of 16.2p per ordinary share (1997 14.6p)	23.4	20.8
Final proposed of 34.2p per ordinary share (1997 29.3p)	49.9	41.9
	<u>73.3</u>	<u>62.7</u>

(b) Dividends on non-equity shares:

	1998	1997
	£m	£m
Dividends paid and proposed each of 7.875p (net) per preference share (1997 7.875p (net))	16.4	16.5

Notes to the financial statements

12 (Loss)/earnings per ordinary share

1998 Pence	1997 Pence
(99.8)	118.6

(Loss)/earnings per ordinary share have been calculated on the basis of (loss)/profit, after taxation, minority interests and appropriations in respect of preference shares, of £(143.7)m (1997 £168.1m) and by reference to 143,953,849 (1997 141,760,396) ordinary shares, being the weighted average number of ordinary shares in issue during the year after excluding the 3,855,800 ordinary shares held by the Quests and under the long term incentive plan on which dividends have been waived.

(Loss)/earnings per ordinary share on a nil distribution basis are (95.7)p (1997 129.5p). There would be no significant dilution of (loss)/earnings per ordinary share if the outstanding share options were exercised.

Restructuring charges and the windfall tax incurred during the year ended 31 March 1998 were significant when comparing earnings per ordinary share with the prior year. The directors consider it appropriate to show earnings per ordinary share for the year ended 31 March 1998 based on the profit before taxation prior to deducting the restructuring charges and windfall tax. The following table reconciles earnings per ordinary share for the year ended 31 March 1998 calculated under FRS3 with this alternative basis:

	1998 Pence	1997 Pence
(Loss)/earnings per ordinary share under FRS 3	(99.8)	118.6
Adjustment, net of taxation, in respect of restructuring charges	26.6	-
Adjustment, in respect of exceptional taxation - windfall tax	195.9	-
Adjusted earnings per ordinary share	122.7	118.6

Earnings per ordinary share on a nil distribution basis, prior to the restructuring charges and the windfall tax, are 126.8p (1997 129.5p).

13 Intangible fixed assets

Group	Fishing rights £m
Cost	
At 31 March 1997 and 31 March 1998	0.9
Amounts written off	
At 1 April 1997	0.3
Amounts written off in the year	0.1
At 31 March 1998	0.4
Net book value	
At 31 March 1998	0.5
At 31 March 1997	0.6

Notes to the financial statements

14 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 & capitalised software £m	Total £m
Cost or valuation							
At 1 April 1997	76.7	6.2	647.6	1,137.3	757.5	324.7	2,950.0
Exchange difference	-	(0.1)	-	-	-	(0.7)	(0.8)
Additions	2.8	0.1	93.6	142.2	76.2	73.3	388.2
Transfer to investment properties	(0.3)	-	-	-	(0.1)	-	(0.4)
Grants and contributions	-	-	(12.3)	-	-	-	(12.3)
Amounts written off in the year	(1.5)	-	-	-	-	(0.3)	(1.8)
Disposals	(5.5)	(0.3)	-	-	(2.9)	(18.3)	(27.0)
At 31 March 1998	72.2	5.9	728.9	1,279.5	830.7	378.7	3,295.9
Accumulated depreciation							
At 1 April 1997	18.4	1.4	-	249.0	233.2	195.5	697.5
Exchange difference	-	-	-	-	-	(0.4)	(0.4)
Charge for the year	1.1	0.5	-	31.2	22.2	26.4	81.4
Amounts written off in the year	(0.3)	-	-	-	-	-	(0.3)
Disposals	(0.1)	(0.1)	-	-	(2.0)	(14.7)	(16.9)
At 31 March 1998	19.1	1.8	-	280.2	253.4	206.8	761.3
Net book value							
At 31 March 1998	53.1	4.1	728.9	999.3	577.3	171.9	2,534.6
At 31 March 1997	58.3	4.8	647.6	888.3	524.3	129.2	2,252.5
Analysis of net book value at 31 March 1998							
Owned	53.1	3.5	728.9	842.6	577.3	171.1	2,376.5
Held under finance leases	-	0.6	-	156.7	-	0.8	158.1
	53.1	4.1	728.9	999.3	577.3	171.9	2,534.6

- (a) Tangible fixed assets at 31 March 1998 include £387.2m (1997 £253.8m) of assets in the course of construction, which are not depreciated until commissioned.

Notes to the financial statements

14 Tangible fixed assets (continued)

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

	1998 £m	1997 £m
Long leasehold	0.6	4.6
Short leasehold	3.5	0.2
Total leasehold	<u>4.1</u>	<u>4.8</u>

(c) Electrical distribution network assets include assets leased to third parties under operating leases. The cost of these was £3.8m (1997 £3.7m) and accumulated depreciation amounted to £0.7m (1997 £0.5m) at 31 March 1998.

(d) The accounting treatment for grants, customer contributions and infrastructure charges in respect of infrastructure assets is described in the principal accounting policies on page 24. 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 24 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 £131.4m (1997 £119.1m) lower than it would have been had this treatment not been adopted.

Company

	Freehold land and buildings £m	Vehicles, plant, equipment and computer hardware & capitalised software £m	Total £m
Cost			
At 1 April 1997	0.9	1.9	2.8
Additions	0.5	0.2	0.7
Transferred from subsidiary undertakings	0.7	-	0.7
Disposals	(0.9)	-	(0.9)
At 31 March 1998	<u>1.2</u>	<u>2.1</u>	<u>3.3</u>
Accumulated depreciation			
At 1 April 1997	-	0.4	0.4
Charge for the year	-	0.2	0.2
At 31 March 1998	<u>-</u>	<u>0.6</u>	<u>0.6</u>
Net book value			
At 31 March 1998	<u>1.2</u>	<u>1.5</u>	<u>2.7</u>
At 31 March 1997	<u>0.9</u>	<u>1.5</u>	<u>2.4</u>

Notes to the financial statements

15 Investment properties

Group

	1998	1997
	£m	£m
At 1 April	9.0	18.4
Transfer from/(to) tangible fixed assets	0.4	(0.6)
Disposals	(0.8)	(9.2)
Adjustment to open market value	(0.2)	0.4
At 31 March	8.4	9.0

Investment properties were valued at 31 March 1998 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 £8.4m (1997 £8.2m) of freehold properties and £nil (1997 £0.8m) 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 £0.2m (1997 £0.3m) higher than it would have been had this treatment not been adopted.

Notes to the financial statements

16 Fixed asset investments

Group

	Interests in joint ventures Restated £m	Interests in associated undertakings Restated £m	Listed investments £m	Unlisted investments £m	Total £m
Cost					
At 1 April 1997	12.4	8.5	48.2	61.1	130.2
Exchange differences	0.1	0.2	(2.4)	-	(2.1)
Additions	-	6.8	0.2	-	7.0
Disposals	-	-	(4.1)	(0.2)	(4.3)
Share of retained profits	1.8	1.3	-	-	3.1
Distributions	-	(0.9)	-	-	(0.9)
At 31 March 1998	14.3	15.9	41.9	60.9	133.0
Amounts written off					
At 1 April 1997	-	0.6	-	17.5	18.1
Provided in the year	-	-	1.2	0.2	1.4
At 31 March 1998	-	0.6	1.2	17.7	19.5
Net book value					
At 31 March 1998	14.3	15.3	40.7	43.2	113.5
At 31 March 1997	12.4	7.9	48.2	43.6	112.1

The market value of the listed investments, excluding the group's £28.8m (1997 £30.3m) investment in the Asian Infrastructure Fund, is £23.1m (1997 £27.5m).

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 carrying value of that investment.

Notes to the financial statements

16 Fixed asset investments (continued)

Company

	Interests in group undertakings £m	Unlisted investments £m	Total £m
Cost			
At 1 April 1997	1,297.8	0.4	1,298.2
Disposals	(24.4)	-	(24.4)
Additions	276.5	-	276.5
At 31 March 1998	<u>1,549.9</u>	<u>0.4</u>	<u>1,550.3</u>
Amounts written off			
At 1 April 1997	6.5	0.3	6.8
Disposals	(6.6)	-	(6.6)
Provided in the year	1.5	-	1.5
At 31 March 1998	<u>1.4</u>	<u>0.3</u>	<u>1.7</u>
Net book value			
At 31 March 1998	<u>1,548.5</u>	<u>0.1</u>	<u>1,548.6</u>
At 31 March 1997	<u>1,291.3</u>	<u>0.1</u>	<u>1,291.4</u>

Principal subsidiary undertakings are listed in note 41.

Notes to the financial statements

17 Stocks and work in progress

Group

	1998 £m	1997 £m
Raw materials and consumables	9.4	10.1
Work in progress	4.4	3.4
Finished goods and goods for resale	0.3	-
	14.1	13.5

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

18 Debtors

	Group 1998 £m	1997 £m	Company 1998 £m	1997 £m
Amounts falling due within one year:				
Trade debtors	126.8	122.8	-	-
Amounts recoverable on contracts	20.4	20.5	-	-
Amounts owed by subsidiary undertakings	-	-	305.4	129.1
Amounts owed by associated undertakings	1.9	1.9	-	-
Other debtors	40.5	24.5	2.8	0.5
Prepayments and accrued income	66.3	63.0	4.1	5.6
Employee share option plan	4.2	4.2	-	-
Own shares	22.4	0.2	22.4	0.2
Recoverable advance corporation tax	-	6.9	-	6.9
	282.5	244.0	334.7	142.3
Amounts falling due after more than one year:				
Other debtors	13.7	9.3	2.5	-
	296.2	253.3	337.2	142.3

The own shares referred to above relate to ordinary shares purchased under the qualifying employee share option trust (note 28(d)) and the executive directors' long term incentive plan (note 28(b)). The nominal value of these shares is £4.6m (1997 £0.1m).

Notes to the financial statements

19 Current asset investments

(a) Management of liquid resources

	Group		Company	
	1998	1997	1998	1997
	£m	£m	£m	£m
Investments in:				
Fixed term and call deposits	203.3	217.8	78.4	21.0
Commercial papers	98.1	53.6	22.6	4.0
	301.4	271.4	101.0	25.0
Amounts becoming due:				
Within one year	277.9	241.2	101.0	22.0
After more than one year	23.5	30.2	-	3.0
	301.4	271.4	101.0	25.0

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, £11.9m (1997 £14.3m) 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 21(c)).

(b) Interest rate swaps

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

Group

The group's outstanding interest rate swap arrangements had a notional principal balance of £440.1m (1997 £141.7m), with termination dates ranging between December 1999 and December 2017 (1997 December 1999 and April 2014), and interest rates ranging between 6.04% and 8.35% (1997 6.04% and 8.35%).

Company

At 31 March 1998 the company's outstanding interest rate swap arrangements had a notional principal balance of £300.0m with termination dates ranging between December 2004 and December 2017, and interest rate ranging between 7.73% and 8.04%. At 31 March 1997 the company had no outstanding interest rate swap arrangements.

Notes to the financial statements

20 Creditors

	Note	Group 1998 £m	1997 £m	Company 1998 £m	1997 £m
(a) Amounts falling due within one year:					
Bank loans and overdrafts		18.6	0.1	-	-
Loan notes	21(d)	8.1	12.2	8.1	12.2
Other loans	21(c)	7.5	141.1	0.3	138.4
Payments received on account on contracts		22.8	18.6	-	-
Obligations under finance leases	22	0.4	1.2	-	-
Trade creditors		144.1	133.7	-	-
Amounts owed to subsidiary undertakings		-	-	2.6	3.3
Amounts owed to associated undertakings		12.0	4.2	-	-
Dividends payable		21.2	44.7	21.2	44.7
Corporation tax		31.8	40.6	8.7	19.2
Windfall tax		141.0	-	96.2	-
Other taxation and social security		7.1	7.2	0.1	0.1
Consortium relief		-	0.7	-	-
Other creditors		78.0	67.2	-	-
Employee share option plan		4.2	4.2	-	-
Accruals and deferred income		62.4	67.4	34.6	30.5
		559.2	543.1	171.8	248.4
(b) Amounts falling due after more than one year:					
10.75% Eurobonds 2002	21(a)	74.6	74.5	74.6	74.5
7.125% Eurobonds 2004	21(a)	99.4	99.3	-	-
7.625% Eurobonds 2014	21(a)	98.6	98.5	-	-
9.25% Eurobonds 2020	21(a)	147.9	147.9	-	-
8.75% Eurobonds 2006	21(a)	200.8	200.9	200.8	200.9
9.5% Eurobonds 2016	21(a)	204.8	204.9	204.8	204.9
Term loans	21(b)	298.5	-	298.5	-
Other loans	21(c)	260.7	124.6	6.6	-
Obligations under finance leases	22	173.8	143.8	-	-
Refundable customer contributions		4.5	3.5	-	-
Consortium relief		2.1	8.6	-	-
Amounts owed to associated undertakings		2.3	11.9	-	-
Dividends payable		49.9	-	49.9	-
Other creditors - between one and five years		4.5	5.3	-	-
		1,622.4	1,123.7	835.2	480.3

Notes to the financial statements

21 Loans

(a) Eurobonds

	Interest rate %	Net proceeds £m	Issue costs £m	Premium on issue £m	Nominal value £m	Unamortised amount £m	Carrying value £m
Eurobonds 2002	10.750	74.0	(1.0)	-	75.0	0.4	74.6
Eurobonds 2004	7.125	99.1	(2.0)	1.1	100.0	0.6	99.4
Eurobonds 2014	7.625	98.2	(2.6)	0.8	100.0	1.4	98.6
Eurobonds 2020	9.250	147.8	(3.9)	1.7	150.0	2.1	147.9
Eurobonds 2006	8.750	200.9	(2.3)	3.2	200.0	(0.8)	200.8
Eurobonds 2016	9.500	204.9	(1.9)	6.8	200.0	(4.8)	204.8
		824.9	(13.7)	13.6	825.0	(1.1)	826.1

(b) Term loans

On 11 December 1997 the company issued US\$ loan notes with a total nominal value of US\$500m. These loans were swapped into sterling together with the future interest liability. The details of the issue are set out below:

	Interest rate %	Net proceeds £m	Issue costs £m	Premium on issue £m	Nominal value £m	Unamortised amount £m	Carrying value £m
US notes 2004	6.750	119.4	(1.4)	0.8	120.0	0.6	119.4
US notes 2007	6.875	119.4	(1.4)	0.8	120.0	0.6	119.4
US notes 2017	7.250	59.7	(0.7)	0.4	60.0	0.3	59.7
		298.5	(3.5)	2.0	300.0	1.5	298.5

Fixed interest rates on the sterling/US dollar cross currency interest rate swaps used to cover the US\$ loan notes referred to above range between 7.65% and 8.08% (semi-annually). The full nominal value of US\$500m was also swapped for sterling to match the future US\$ repayment liabilities in 2004, 2007 and 2017.

Notes to the financial statements

21 Loans (continued)

(c) Other loans

	Group 1998 £m	1997 £m	Company 1998 £m	1997 £m
Repayable as follows:				
Within one year	7.5	141.1	0.3	138.4
Between one and two years	36.2	7.2	-	-
Between two and five years	21.2	51.2	-	-
After more than five years	203.3	66.2	6.6	-
	268.2	265.7	6.9	138.4
Repayable wholly within five years	29.5	167.6	0.3	138.4
Repayable by instalments within five years	-	0.7	-	-
Repayable by instalments after five years	238.7	97.4	6.6	-
	268.2	265.7	6.9	138.4

The loans are denominated in the following currencies:

Sterling	220.5	222.2	0.3	138.4
US Dollars	6.6	-	6.6	-
Others	41.1	43.5	-	-
	268.2	265.7	6.9	138.4

Of the above, £11.9m (1997 £14.3) of foreign currency 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 19(a)).

Fixed interest rates on these loans range between 6.4% and 10.2% (1997 6.0% and 10.2%) and variable interest rates varied between 1.0% below to 0.3% above LIBOR (1997 1% below to 1.4% above LIBOR) (London Interbank offer rate).

(d) 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

22 Finance leases

Group

	1998 £m	1997 £m
Amounts due under finance leases are payable as follows:		
Within one year	0.4	1.2
Between one and two years	0.2	0.2
Between two and five years	0.2	3.5
After more than five years	173.4	140.1
	174.2	145.0

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 £60.9m (1997 £62.5m). The obligations under the swap and the finance lease reduce over a term of 18 years.

Company

The company had no finance lease obligations at 31 March 1998 or at 31 March 1997.

23 Capital and financial commitments

(a) Capital commitments

Group

	1998 £m	1997 £m
Contracted for but not provided in the financial statements	391.7	422.6

In order to meet regulatory and service standards, the group has longer term capital expenditure obligations within the regulated water and sewerage business totalling approximately £1.6 billion at current prices over the next seven years, and within the regulated electricity distribution and supply business totalling approximately £135 million at current prices over the next two years, which include investments to meet shortfalls in performance and condition, to provide for new demands and growth and to meet additional quality standards.

Company

The company had no capital commitments at 31 March 1998 or at 31 March 1997.

(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 25(f)).

Company

The company had no financial commitments at 31 March 1998 or at 31 March 1997.

Notes to the financial statements

24 Leasing commitments

Group

	Land and buildings		Others	
	1998	1997	1998	1997
	£m	£m	£m	£m
At 31 March 1998 there were revenue commitments, in the ordinary course of business in the next year relating to the payment of rentals on non-cancellable operating leases expiring:				
Within one year	1.3	1.9	0.5	0.5
Between two and five years	1.3	1.9	0.5	2.8
After five years	3.9	3.0	-	-
	6.5	6.8	1.0	3.3

Company

	Land and buildings		Others	
	1998	1997	1998	1997
	£m	£m	£m	£m
At 31 March 1998 there were revenue commitments, in the ordinary course of business in the next year relating to the payment of rentals on non-cancellable operating leases expiring:				
Within one year	0.2	0.2	-	-
After five years	0.1	0.1	-	-
	0.3	0.3	-	-

Notes to the financial statements

25 Provisions for liabilities and charges

Group

	Note	1998 £m	1997 £m
Deferred taxation	(a)	-	-
Infrastructure maintenance provision	(b)	4.0	12.4
Group insurance funds	(c)	19.2	22.0
Reorganisation provision	(d)	59.1	49.4
Pensions provision	(e)	3.0	3.1
Power purchase provision	(f)	73.0	73.0
Other provisions	(g)	13.4	14.6
		171.7	174.5

Company

	Note	1998 £m	1997 £m
Deferred taxation	(a)	-	-
Reorganisation provision	(d)	0.5	0.4
Pensions provision	(e)	0.9	0.6
Other provisions	(g)	1.3	1.7
		2.7	2.7

Notes to the financial statements

25 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	
	1998	1997	1998	1997
	£m	£m	£m	£m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	-	406.9	382.9
Other timing differences	-	-	(31.2)	(22.8)
	-	-	375.7	360.1
Chargeable gains on properties rolled over	-	-	0.2	0.2
Earnings retained overseas	-	-	2.9	3.0
	-	-	378.8	363.3
Less advance corporation tax	-	-	(64.5)	(58.6)
	-	-	314.3	304.7

Company

	Amount provided		Amount unprovided	
	1998	1997	1998	1997
	£m	£m	£m	£m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	0.1	0.1	-
Other timing differences	-	(0.1)	(0.3)	-
	-	-	(0.2)	-
	1998	1997		
	£m	£m		
At 1 April	-	0.7		
Tax charge for the year	-	(0.6)		
Prior year tax charge	-	(0.1)		
At 31 March	-	-		

(b) Infrastructure maintenance provision

Group

	1998	1997
	£m	£m
At 1 April	12.4	20.7
Charge for the year	24.8	24.1
Expenditure in the year	(33.2)	(32.4)
At 31 March	4.0	12.4

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

25 Provisions for liabilities and charges (continued)

(c) Group insurance funds

Group

	1998 £m	1997 £m
At 1 April	22.0	20.1
Premiums	5.5	6.0
Claims	(6.7)	(2.2)
Investment income	0.1	0.5
Released to profit and loss account	(1.7)	(2.4)
At 31 March	<u>19.2</u>	<u>22.0</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: £6.5m (1997 £7.5m) has 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, a wholly owned subsidiary undertaking of the group.

(d) Reorganisation provision

Group

	Note	1998 £m	1997 £m
At 1 April		49.4	71.5
Charge for the year	5	40.0	-
Transfer to pensions provision	25(e)	(0.1)	-
Utilised in the year		(30.2)	(22.1)
At 31 March		<u>59.1</u>	<u>49.4</u>

Company

	Note	1998 £m	1997 £m
At 1 April		0.4	0.6
Charge for the year		0.6	-
Transfer to pensions provision	25(e)	(0.1)	-
Utilised in the year		(0.4)	(0.2)
At 31 March		<u>0.5</u>	<u>0.4</u>

Notes to the financial statements

25 Provisions for liabilities and charges (continued)

(e) Pensions provision

Group

	1998	1997
	£m	£m
At 1 April	3.1	3.4
Charge for the year	0.2	0.2
Transfer from reorganisation provision	0.1	-
Utilised in the year	(0.4)	(0.5)
At 31 March	3.0	3.1

Company

	1998	1997
	£m	£m
At 1 April	0.6	0.4
Charge for the year	0.2	0.2
Transfer from reorganisation provision	0.1	-
At 31 March	0.9	0.6

(f) Power purchase provision

Group

	1998	1997
	£m	£m
At 1 April and 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 when the electricity cost pass-through arrangements cease.

Notes to the financial statements

25 Provisions for liabilities and charges (continued)

(g) Other provisions

Group

	1998	1997
	£m	£m
At 1 April	14.6	4.3
Charge for the year	2.4	10.5
Utilised in the year	(3.6)	(0.2)
At 31 March	13.4	14.6

Company

	1998	1997
	£m	£m
At 1 April	1.7	0.2
Charge for the year	0.1	1.5
Utilised in the year	(0.5)	-
At 31 March	1.3	1.7

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

26 Accruals and deferred income

Group

	1998	1997
	£m	£m
At 1 April	140.3	133.4
Receivable during the year	17.2	12.0
Released to profit and loss account	(5.5)	(5.1)
At 31 March	152.0	140.3

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

Notes to the financial statements

27 Called up share capital

	1998 £m	1997 £m
Authorised:		
166,666,667 ordinary shares of 120p each (1997 166,666,667)	200.0	200.0
209,000,000 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1997 209,000,000)	209.0	209.0
	409.0	409.0
Allotted, called up and fully paid:		
149,293,550 ordinary shares of 120p each (1997 143,087,519)	179.2	171.7
207,181,776 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1997 207,181,776)	207.2	207.2
	386.4	378.9

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 183p and 715p per share. In addition shares were issued during the year under qualifying employee share option trusts (see note 28(d)).

In total 6,206,031 ordinary shares, with an aggregate nominal value of £7.5m were issued in the year. The cash consideration received in respect of the issue of 1,198,478 ordinary shares was £4.9m. Included within the total are 3,752,436 ordinary shares with an aggregate nominal value of £4.5m issued under Quest 2 (see note 28(d)) and 1,255,117 ordinary shares with an aggregate nominal value of £1.5m issued in relation to the scrip dividend plan for which no cash consideration was received.

Notes to the financial statements

28 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. There is also an unapproved scheme (the Hyder overseas share plan) which extends share scheme arrangements for the benefit of overseas employees resident outside of the United Kingdom.

The employee sharesave scheme is savings related and the share options are exercisable within six months of completion of a three five or seven year save as you earn contract. Employee sharesave options are fixed at the closing mid 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 mid 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 or redundancy.

Options granted but not yet exercised under these schemes at 31 March 1998 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	
				1998	1997
Employee sharesave scheme	Dec 1989	Mar 1997 - Aug 1997	183	-	5,957
	Jul 1991	Oct 1996 - Mar 1997	295 - 296	-	761
	Jul 1991	Oct 1998 - Mar 1999	295 - 296	254,025	275,631
	Dec 1992	Mar 1998 - Aug 1998	425 - 427	19,585	456,000
	Dec 1992	Mar 2000 - Aug 2000	425 - 427	335,955	361,630
	Sept 1994	Oct 1999 - Mar 2000	522 - 525	387,769	419,923
	Sept 1994	Oct 2001 - Mar 2002	522 - 525	186,328	198,533
	Dec 1994	Feb 2000 - Aug 2000	522 - 525	258,100	281,818
	Dec 1994	Feb 2002 - Aug 2002	522 - 525	113,198	128,830
	Jul 1997	Sep 2000 - Feb 2001	650	826,449	-
Jul 1997	Sep 2002 - Feb 2003	650	2,579,177	-	
			4,960,586	2,129,083	
Executive share option scheme	Jul 1991	Jul 1994 - Jul 2001	354	29,484	52,878
	Jul 1993	Jul 1996 - Jul 2003	563	55,909	55,909
	Aug 1993	Aug 1996 - Aug 2003	648	26,432	31,238
	Jan 1994	Jan 1997 - Jan 2004	716	185,084	254,718
	Jan 1995	Jan 1998 - Jan 2005	676	21,857	82,471
			318,766	477,214	
Overseas share plan	Oct 1997	Nov 2000 - Apr 2001	841	78,847	-
	Oct 1997	Nov 2002 - Apr 2003	841	48,909	-
			127,756	-	
			5,407,108	2,606,297	

Notes to the financial statements

28 Employee share schemes (continued)

(a) Hyder plc share schemes (continued)

During the year 3,478,568 options were granted under the sharesave scheme to 4,510 eligible employees from whom valid applications to join the scheme had been received. No options were granted under the executive share option scheme. Also during the year 128,894 options were granted to 201 eligible employees from whom valid applications were received under the Hyder overseas share plan. Under this plan participating staff 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. This scheme was approved by shareholders at the annual general meeting in 1995.

Since the financial year end, application has been made for the establishment of two Inland Revenue approved profit sharing schemes for the benefit of staff employed by the Hyder Utilities division of the group (the Hyder Utilities profit sharing scheme) and a separate scheme for employees of Hyder plc itself. Shares to be appropriated under these schemes in 1998/99 will be provided by the trustee purchasing sufficient shares. These shares will be held in trust under the rules of the schemes. These schemes will be open to all eligible staff in Hyder Utilities and Hyder plc subject to scheme targets and eligibility criteria being met.

(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 13 and 14. The ordinary shares which are conditionally allocated 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 which the conditional allocation relates. The cost of shares which have lapsed are credited to profits. The trustees have waived dividends on the shares held.

Notes to the financial statements

28 Employee share schemes (continued)

(c) South Wales Electricity plc share schemes

At the time of the acquisition, South Wales Electricity plc 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 Hyder plc, 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 1998:

	Date option granted	Normal date of exercise	Option price per share (Pence)	Number of 120p ordinary shares	
				1998	1997
Employee sharesave scheme	Oct 1992	Jan 98 - Jul 98	314	5,152	514,543
	Feb 1993	May 98 - Nov 98	363	429,045	484,898
Executive share option scheme	Jan 1992	Jan 95 - Jan 2002	329	9,203	18,406
	Jan 1993	Jan 96 - Jan 2003	454	3,451	3,451
	Jul 1993	Jul 96 - Jul 2003	477	6,902	6,902
				453,753	1,028,200

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

28 Employee share schemes (continued)

(d) Qualifying employee share option trusts (Quest's)

On 23 December 1997 the company established a qualifying employee share option trust (Quest 1) as a vehicle to procure ordinary shares in Hyder plc to meet in part the obligations of the company pursuant to valid exercises of options under the rules of the Hyder and SWALEC sharesave schemes. Subsequently between 5 January 1998 and 9 March 1998 the company allotted a total of 892,127 ordinary shares of 120 pence to Hyder Share Scheme Trustee Limited at prices between 936.5 pence and 1,006.5 pence per share. These shares were then transferred to the individuals exercising options. At 31 March 1998 no ordinary shares were held by Hyder Share Scheme Trustee Limited.

On 12 March 1998 the company established a second qualifying employee share option trust (Quest 2) as a vehicle to procure further ordinary shares in Hyder plc to further meet in part the obligations of the company pursuant to valid exercises of options under the rules of the Hyder and SWALEC sharesave schemes. On 12 March 1998 the company allotted 3,752,436 ordinary shares of 120 pence to Hyder Share Scheme Trustee (2) Limited at a price of 941 pence per share. At 31 March 1998 Hyder Share Scheme Trustee (2) Limited held 3,752,436 ordinary shares of 120 pence with a market value of £36.7 million.

The accounts include the shares held by both Quest's. Shares held by the Quest's are included at recoverable amount in debtors. Under the rules of Quest 2 dividends have been waived by the trustee. The expenses of both Quest's which are borne by the group are expensed as incurred. The purchase of shares by Hyder Share Scheme Trustee Limited and Hyder Share Scheme Trustee (2) Limited were financed by loans from Hyder plc.

Details of share options outstanding under the Hyder and SWALEC sharesave schemes are stated in notes 28 (a) and 28(c) above.

(e) South Wales Electricity plc employee share option plan

In 1994 SWALEC established an employee share option plan (Esop) whereby shares could be purchased by Coutts & Co (Isle of Man) Limited (as trustee of the Esop) to meet in part the obligations of the company under the South Wales Electricity plc Sharesave Scheme (the scheme).

At 31 March 1998 the assets of the Esop included 113,863 ordinary shares of 120 pence in Hyder plc (1997 113,863 ordinary shares) and 452,908 ordinary shares of 11.7647 pence in National Grid Group plc (1997 532,833 ordinary shares of 10 pence). The total value of trust assets at 31 March 1998 was £7.6 million (1997 £6.2 million).

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 SWALEC who, at a future date, exercise options held by them under the Scheme. At 31 March 1998 options over 434,197 (1997 999,441) ordinary shares in Hyder plc are outstanding under the Scheme.

Notes to the financial statements

28 Employee share schemes (continued)

(f) National Grid de-merger

In December 1995 SWALEC sold its 5.4% interest in National Grid Holdings plc as part of the de-merger arrangements of that company. Under the terms of this de-merger SWALEC made a distribution of shares in National Grid Group plc (NGG) by way of a dividend in specie. In order that holders of options under the South Wales Electricity plc sharesave scheme (the scheme) were not disadvantaged the directors of SWALEC established an employee share option plan (Esop) which received shares in NGG which will be transferred to option holders as compensation for the loss in value of the SWALEC shares then under option.

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

At 31 March 1998 the Esop trustee had an interest in 380,585 ordinary shares of 11.7647 pence each in NGG (1997 881,167 ordinary shares of 10 pence each) with a value of £1.34 million (1997 £1 million).

Dividends on shares held in the Esop are received by the trustee for the purposes of the Esop. The expenses of the scheme are borne by the group and expensed as incurred.

29 Share premium account

	Group £m	Company £m
At 1 April 1997	100.8	100.8
Premium on ordinary shares issued in the year	39.5	39.5
Nominal value of ordinary shares issued under scrip dividend in lieu of cash dividend (note 27)	(1.5)	(1.5)
Bond issue costs written back in the year	0.1	0.1
At 31 March 1998	<u>138.9</u>	<u>138.9</u>

Notes to the financial statements

30 Reserves

Profit and loss account

	Group £m	Company £m
At 1 April 1997	472.4	240.6
(Loss)/profit retained for the year	(217.0)	208.4
Foreign currency translation losses	(3.2)	-
Goodwill - written off in the year	(0.3)	-
Scrip dividend issued in lieu of cash dividend	14.9	14.9
Charge to reserves arising on issue of ordinary shares to qualifying employee share ownership trust	(18.7)	(18.7)
Transfer from share premium account- bond issue costs written back in the year	(0.1)	(0.1)
At 31 March 1998	<u>248.0</u>	<u>445.1</u>

The cumulative goodwill written off directly to reserves is £630.3m (1997 £630.0m).

In accordance with the group's accounting policy, £0.2m of net exchange gains on foreign currency loans which match investments have been offset in reserves.

Capital reserve

	Group £m	Company £m
At 1 April 1997 and 31 March 1998	<u>-</u>	<u>9.6</u>

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 28(c)).

Investment revaluation reserve

	Group £m	Company £m
At 1 April 1997	0.4	-
Revaluations in the year	(0.2)	-
At 31 March 1998	<u>0.2</u>	<u>-</u>

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

31 Net cash inflow from operating activities

	1998 £m	1997 £m
Operating profit	244.7	277.6
Depreciation of tangible fixed assets	81.4	76.5
Amounts written off tangible and intangible fixed assets	1.6	0.1
Amounts written off fixed asset investments	1.4	-
Infrastructure maintenance provision	(8.4)	(8.3)
Amortisation of grants and contributions	(5.5)	(5.1)
Profit on sale of fixed assets	(0.8)	(2.1)
Profit on disposal of fixed asset investments	-	(0.1)
Net (increase)/decrease in stocks	(0.6)	0.7
Net increase in debtors	(23.7)	(16.2)
Net (decrease)/increase in creditors	(0.2)	22.0
Contribution (to)/from insurance fund	(2.8)	1.9
Contribution to pension fund	(0.1)	(0.3)
Reorganisation provisions	9.7	(22.1)
Net cash inflow from operating activities	<u>296.7</u>	<u>324.6</u>

32 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 1997	21.6	271.4	(1,248.9)	(955.9)
Consolidated cashflow statement	(29.7)	32.4	(328.7)	(326.0)
Bond issue costs written back in the year	-	-	(0.1)	(0.1)
Currency translation differences on foreign currency net debt	(0.4)	(2.4)	2.6	(0.2)
At 31 March 1998	<u>(8.5)</u>	<u>301.4</u>	<u>(1,575.1)</u>	<u>(1,282.2)</u>

(b) Year end reconciliation

	Note	1998 £m	1997 £m
Loans and finance lease obligations:			
Amounts falling due within one year	20(a)	(16.0)	(154.5)
Amounts falling due after more than one year	20(b)	(1,559.1)	(1,094.4)
	32(a)	<u>(1,575.1)</u>	<u>(1,248.9)</u>
Current asset investments:			
Amounts becoming due within one year	19	277.9	241.2
Amounts becoming due after more than one year	19	23.5	30.2
Cash at bank and in hand		10.1	21.7
Bank loans and overdrafts	20(a)	(18.6)	(0.1)
		<u>(1,282.2)</u>	<u>(955.9)</u>

Notes to the financial statements

33 Analysis of changes in financing in the year

	Share capital (including premium)		Loans & finance lease obligations	
	1998 £m	1997 £m	1998 £m	1997 £m
At 1 April	479.7	470.0	1,248.9	1,162.3
Loans and bonds	-	-	448.7	548.2
Loan notes issued for non-cash consideration	-	-	-	0.5
New finance leases	-	-	34.1	71.1
Loan repayments	-	-	(145.7)	(533.4)
Finance leases redeemed	-	-	(4.4)	-
Finance lease repayments	-	-	(0.5)	(0.2)
Bond issue costs written back/(off) in the year	0.1	(0.1)	0.1	0.4
Proceeds from the issue of ordinary shares	4.9	5.3	-	-
Fair value of ordinary shares issued under Quest schemes for non-cash consideration	40.6	-	-	-
Expenses of issuing US loan notes	-	-	(3.5)	-
Currency translation difference	-	-	(2.6)	-
Fair value of ordinary shares issued for non-cash consideration	-	4.5	-	-
At 31 March	525.3	479.7	1,575.1	1,248.9

34 Reconciliation of net cash flow to increase in net debt

	Note	1998 £m	1997 £m
(Decrease)/increase in cash as per cashflow statement		(29.7)	19.0
Increase in loans and finance lease obligations	32(a)	(328.7)	(81.4)
Increase/(decrease) in liquid resources held as current asset investments	32(a)	32.4	(68.5)
Transfer from current asset investments to fixed asset investments		-	(7.0)
Increase in net debt resulting from cash flows		(326.0)	(137.9)
Loan notes issued for non-cash consideration		-	(0.5)
Finance leases entered into for non-cash consideration		-	(4.3)
Bond issue costs written back		(0.1)	(0.4)
Currency translation difference	32(a)	(0.2)	(3.7)
Increase in net debt		(326.3)	(146.8)
At 1 April		(955.9)	(809.1)
At 31 March		(1,282.2)	(955.9)

Notes to the financial statements

35 Disposal of subsidiary undertakings

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 was 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

	1998	1997
	£m	£m
At 1 April	-	0.1
Distributions received	-	(0.1)
At 31 March	-	-

Notes to the financial statements

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.

As a result of the decentralisation of the WPS as a whole, the group has set up its own scheme being a copy of the WPS. However, this will be known as the Hyder Water Pension Scheme (HWPS). As a result of this decentralisation and the appointment of new Trustees, an actuarial valuation is now due as at 1 April 1998, the results of which will be available later in the year.

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. There is currently an actuarial valuation due as at 31 March 1998, the results of which will be available later in the year. 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 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.

Notes to the financial statements

38 Pension schemes (continued)

The total group pension cost for the period was £14.3m (1997 £14.7m). A prepayment of pension costs of £5.9m (1997 £2.9m) is included in note 18 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.

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.

Company

The company has provided guarantees in respect of finance lease and loan facilities granted to its subsidiary Dwr Cymru Cyfyngedig amounting to £414.8m (1997 £243.5m). The loan and finance lease facilities are fully drawn down and therefore no further guarantees are required.

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 1998 the overdrafts in subsidiary companies in the cash pooling arrangement amounted to £23.3 (1997 £22.2m).

The company, as ultimate holding company, has provided third party guarantees of £11.9m (1997 £12.3m) 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 Consulting Group Limited	England and Wales	100	
Hyder Consulting 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 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	
Other activities			
Celtic Infrastructure Services Limited	England and Wales	100	
Phoenix Electrical Company Limited	England and Wales		100
South Wales Electricity Generating Limited	England and Wales		100
Brecon Insurance Company Limited	Guernsey		100

*In April 1998 these companies became subsidiaries of Hyder Utilities (Holdings) Limited, a wholly owned subsidiary of Hyder plc. In April 1998 Hyder Utilities (Operations) Limited was created as a subsidiary of Hyder Utilities (Holdings) Limited.

Notes to the financial statements

41 Principal group undertakings (continued)

Joint ventures and associated undertakings

	Country of incorporation	Joint venture/associate company's equity	
		Total	Group shareholding
Joint ventures			
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 Loan stock	England and Wales	£1.5m £11.0m	40.0% 40.0%
Tieyhtio Nelostie Oy Shares of Fmk 100 each Loan stock	Finland	Fmk 50,000 Fmk 50m	43.0% 43.0%
Associated undertakings			
Severoceske Vodovody a Kanalizace a.s. Ordinary shares of Czk1,000 each	Czech Republic	Czk 584.3m	35.8%
The China Water Co Ltd Shares of US\$ 0.50 each	Cayman Islands	US\$ 48.0m	20.0%

With the exception of Severoceske Vodovody a Kanalizace a.s., which is a water and sewerage utility and The China Water Co Ltd which is an infrastructure investment business operating in the water and waste water sectors, the above companies are franchise operators within the highways and railways sectors.

All the above companies are, in the opinion of the directors, material to the group. A complete list of all subsidiary, joint venture and associate companies is available from the Company Secretary.

42 Post balance sheet event

On 5 May 1998 the group disposed of its interest in National Telecommunications Inc for £45.3m realising a profit on disposal of £15.3m. The profit will be recognised in the group's accounts for the year ending 31 March 1999.

Five year summary

	Year ended 31 March				
	1998	1997	1996	1995	1994
	£m	£m	£m	£m	£m
Turnover	1,185.1	1,140.2	651.6	521.9	512.1
Operating profit:					
Continuing operations	284.7	277.6	180.9	155.7	153.9
Discontinued operations	-	-	-	-	(7.5)
	284.7	277.6	180.9	155.7	146.4
Exceptional items:					
Continuing operations	(40.0)	-	(55.0)	(28.5)	-
Total operating profit	244.7	277.6	125.9	127.2	146.4
Income from investments	19.5	6.8	2.7	1.0	0.4
Profit on ordinary activities before interest and taxation	264.2	284.4	128.6	128.2	146.8
Net interest payable	(95.7)	(76.2)	(15.7)	(7.8)	(2.6)
Profit on ordinary activities before taxation	168.5	208.2	112.9	120.4	144.2
Ordinary taxation	(13.9)	(23.6)	(19.0)	(19.0)	(14.4)
Profit after ordinary taxation	154.6	184.6	93.9	101.4	129.8
Exceptional taxation	(281.9)	-	-	-	-
(Loss)/profit after taxation	(127.3)	184.6	93.9	101.4	129.8
Minority interests	-	-	-	-	(0.1)
Preference dividends	(16.4)	(16.5)	(7.8)	-	-
Ordinary dividends	(73.3)	(62.7)	(52.3)	(49.6)	(37.0)
Retained (loss)/profit for the year	(217.0)	105.4	33.8	51.8	92.7
Fixed assets	2,657.0	2,374.2	2,126.8	1,339.5	1,190.4
Net current assets	62.6	16.8	215.6	359.1	338.4
Total assets less current liabilities	2,719.6	2,391.0	2,342.4	1,698.6	1,528.8
Creditors: amounts falling due after more than one year	(1,622.4)	(1,123.7)	(1,167.9)	(435.4)	(343.9)
Provisions for liabilities and charges	(171.7)	(174.5)	(193.0)	(49.0)	(20.7)
Accruals and deferred income	(152.0)	(140.3)	(133.4)	(33.3)	(35.4)
Net assets	773.5	952.5	848.1	1,180.9	1,128.8
Capital and reserves					
Called up share capital	386.4	378.9	375.7	146.7	145.4
Share premium account	138.9	100.8	94.3	135.6	134.2
Reserves	248.2	472.8	378.0	898.5	849.1
Equity shareholders' funds	566.9	746.0	641.5	1,180.8	1,128.7
Non-equity shareholders' funds	206.6	206.5	206.5	-	-
Total shareholders' funds	773.5	952.5	848.0	1,180.8	1,128.7
Equity minority interests	-	-	-	0.1	0.1
Non-equity minority interests	-	-	0.1	-	-
	773.5	952.5	848.1	1,180.9	1,128.8

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