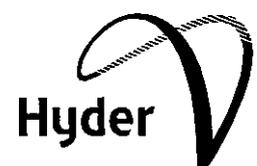


# Hyder plc

## Directors' report and financial statements for the year ended 31 March 1999

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Registered no. 2366776



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## Directors and advisors

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### Directors

J V H Robins	Non-executive Group Chairman (N)
G A Hawker	Group Chief Executive (N)
M P Brooker	Managing Director, Hyder Operations
J M James	Group Commercial Director
P J Twamley	Group Finance Director
D G Hawkins	Non-executive director (A, N, R)
T Knowles	Non-executive director (A, N, R)
R B Salmon	Non-executive director (N, R)
R H Sellier	Non-executive director (A, N, R)

(A) member of the Audit committee

(N) member of the Nominations committee

(R) member of the Remuneration committee

### Company Secretary and registered office

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

### Registrars

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

### Auditors

PricewaterhouseCoopers

### Brokers

Cazenove & Co  
Dresdner Kleinwort Benson

### Solicitors

Edwards Geldard  
Slaughter and May

### Principal bankers

HSBC Bank PLC  
National Westminster Bank Plc

### Financial advisors

Dresdner Kleinwort Benson

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## Operating and financial review

Group summary	1999	1998
Turnover	£1,294.4m	£1,185.1m
Profit before interest and 1998 exceptional items	£331.3m	£304.2m
Profit before taxation and 1998 exceptional items	£207.7m	£208.5m
Basic earnings per share:		
• before exceptional items and windfall tax	123.4p	122.7p
• after exceptional items and windfall tax	123.4p	(99.8)p
Ordinary dividend per share:		
• before compensation payment for the delay in payment of last year's final dividend	50.4p	48.9p
• after compensation payment for the delay in payment of last year's final dividend	50.4p	50.4p
Net debt	£1,574.1m	£1,282.2m

### Group performance

We have had a strong year in terms of the financial outturn, achievement of service standards and objectives, investments and contracts secured and capital investment outputs in the regulated businesses.

The performance of our non regulated businesses is particularly pleasing with these businesses now representing 24% of group profits before interest.

During the year we incurred £8.7m year 2000 costs (compared to £2.1m last year) and £15.2m costs arising from the legal ruling that our watercard budget system could no longer be used. Profits were increased by a £6.5m release of the storm damage provision in accordance with the new FRS12 accounting standard.

### Hyder Utilities

Hyder Utilities comprises the utility operations, energy supply and managed services activities, with utility operations undertaking the day to day operating activities of the water and sewerage and electricity distribution businesses.

### Water and sewerage

Total turnover for the year was £456.0m (1998 £440.7m) with profit before interest being £166.6m (1998 £178.3m before exceptional items).

Sales of measured water were 3.5% lower than last year, as water consumption by industrial and commercial customers fell as they made more efficient uses of water including recycling on site and leakage initiatives. The 3.5% reduction this year continues the recent downward trend which resulted in a 4% reduction last year. Switching by domestic customers to meters has continued to increase with some customers switching to meters last year which reduces our income base by some £3m per annum.

Underlying operating costs fell by 1.5% in real terms having absorbed the additional operating costs arising from the investment programme.

Operating costs in the year included £15.2m arising from the legal ruling that our watercard budget system, which had proved very popular with customers, could no longer be used. We have therefore

## Operating and financial review

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had to increase our bad debt provision in respect of watercard customers by £9.0m and in addition we have written off £6.2m being the capitalised value of the watercard units which had been installed in customers' homes. This ruling, together with other Government initiatives on customer disconnections, is likely to have a detrimental effect on future debt recovery and we have therefore included revised long term projections on debt recovery in the Strategic Business Plan submitted to Ofwat.

Good progress has been made on leakage which has been reduced by over 25% during the last three years. Dwr Cymru Welsh Water has a relatively strong water resource position overall and our leakage performance (measured on the basis of losses per length of network) is around the sector average.

We have continued to improve on Ofwat customer services measures, with nearly all being better than last year. This year we have secured marked improvements in respect of interruptions to water supply, flooding from sewers, pollution incidents, prosecutions and bacteriological compliance. On all other customer service standards we remain towards the top of Ofwat's industry rankings.

Capital investment this year was £280m which brings the total to £1,030m in the first four years of the five year period covered by current price limits. During the year we commissioned or opened 20 schemes, with the major schemes including Swansea (£90m), Cardiff West (£65m), Llandudno/Colwyn (£45m), Bangor (£30m), and Bryn Cowlyd (£20m). Work is proceeding on schedule on the two remaining major waste water projects at Cardiff East and Newport with investment to date amounting to some £75m. Overall our £1.25bn five year investment programme up to the year 2000 remains within budget and on track.

### Electricity distribution

Total turnover in the electricity distribution business was £195.4m compared to £190.4m last year which is principally derived from charges to electricity suppliers including our own energy supply business, for using the distribution network.

Profit before interest increased to £96.0m (1998 £86.1m before exceptional items). The increase in profit included a one off credit of £6.5m due to the release of the storm damage provision in accordance with the new FRS 12 accounting standard, and a reduction in underlying operating costs which fell by 1.5% in real terms.

Capital investment was £103m compared to £98m last year. Investments continued in strengthening and extending the distribution network as well as systems development in anticipation of the introduction of competition into the domestic electricity supply market which commenced in January 1999. Particular emphasis has been placed on investment to improve the reliability of supply to the worst served customers in line with the findings of extensive customer opinion research.

Customer service measures in the year continued to show sharp improvement on top of the improvements last year. Customer complaints were down 40% on last year, guaranteed standards payments fell by 66% to an all time low and the average time customers were without their electricity supply improved by 20%.

### Price reviews

The strategic business plan for the water and sewerage business was submitted to Ofwat in April 1999. Based on the £1.7 billion capital investment plans for 2000 - 2005 required by the government and environment agencies, our plan envisages that average customer bills will need to increase by 3.5% per annum in real terms for the five year period up to 2005. Our customers have made it clear that they want stable prices and we continue to press the government to moderate the pace of required environmental and quality improvements for the five years to 2005 which would otherwise result in capital investment per household being the highest in England and Wales. We will work positively with the regulator to achieve a sensible outcome.

## Operating and financial review

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As with the water and sewerage business, the electricity distribution business has submitted its plans for the price review to Offer for the period 2000 - 2005.

We believe that our leadership and progress in customer satisfaction within the water and sewerage and distribution sectors is a very significant point which both regulators should feel compelled to take into account in reaching their final price determinations in November 1999.

### Energy supply

Total turnover in the energy supply business was £588.9m compared to £534.2m last year, with profit before interest being £26.3m (1998 £4.2m before exceptional items). The increase in profits reflects the reduction in purchase costs due to favourable purchasing conditions, the £7.3m release of power purchase provision and last year's £12m gas business start up costs.

At the end of the year we had some 320,000 gas customers on supply and a further 1,000 were in the process of being registered prior to transfer into SWALEC Gas. These gas customers represent 30% of the south Wales domestic gas market. The rate of transfer from contract to actual gas supply was slower than we anticipated as a result of difficulties and delays which we, and other new suppliers in the competitive gas market, have experienced with the registration process and in obtaining 'clean' account information upon which we could calculate bills to customers.

Within the electricity supply sector we completed our preparations for the fully competitive electricity supply market in January 1999 when other electricity suppliers were allowed to compete for domestic customers within the SWALEC region. Although the opening up of the domestic market did result in some loss of customers the vast majority of domestic customers have remained loyal due to the strength of the SWALEC brand and our competitive prices. Overall electricity units sold to industrial and domestic customers reduced by 2%. At the end of the year in the fully competitive market for business supply, we supplied 2,455 GWh to 1,802 sites throughout the UK and our share of the over 100 kw market for large and medium businesses in south Wales was over 25%.

### Managed services

Total turnover was £176.1m (1998 £145.4m). After reducing charges to the regulated businesses, profits before interest were £22.2m (1998 £21.9m before exceptional items). External turnover increased by 60% up to £9.6m.

Hyder Services has grown out of our internal customer services. It markets our core skills in business and information systems which are needed to administer and serve large customer bases, as well as our expertise in call centres, billing and collection services, payroll and financial systems.

This has been a particularly successful year for Hyder Services who have gained a significant presence in the growing market for out sourced managed services. During the year we built up resources within our business development unit and we secured managed service contracts with a contract value of £41m bringing our external contracts acquired at the year end to some £46m. The major contracts won in the year included Torfaen County Borough Council, George Elliott NHS Trust, South Warwickshire NHS Trust, South Warwickshire Combined Care NHS Trust, Companies House and in April 1999 we secured contracts with Birmingham Children's Hospital and the Patent Office.

In September 1998 we acquired for £2.3m The Oxford Consortium, the former computer centre of the Anglian and Oxford Regional Health Authority. The Oxford Consortium provides a wide range of IT systems, encompassing patient administration and financial management and IT consulting services to NHS trusts. In February 1999 we acquired for £2.6m BPS (Public Sector) Limited which provides payroll processing for NHS trusts for some 130,000 employees.

These two acquisitions provide us with a firm base on which to expand further into the NHS, local government and educational sectors.

## Operating and financial review

At the same time as achieving these new contracts, Hyder Services continued to provide internal IT, call centre, customer service and business support systems within the Hyder group. Significant improvements have been achieved in utility customer service performance measures with meter reading, answering calls and dealing with correspondence in Dwr Cymru Welsh Water being in Ofwat's top quartile, whilst in SWALEC all Offer standards of performance targets were exceeded.

Whilst continuing to improve customer service performance measures Hyder Services has completed the cost reduction programme, which was agreed when SWALEC was acquired in January 1996, with the annual cost savings now amounting to some £17m.

### Hyder Infrastructure

Total turnover for the year was £236.2m (1998 £211.2m) with profits before interest being £24.5m (1998 £21.4m before exceptional items).

Hyder Infrastructure is now firmly established in three rapidly growing markets which are:

- large scale infrastructure projects, requiring project finance, where we participate in the bidding process and provide down stream management and other services. These activities are mainly concentrated on the PFI/PPP market within the UK.
- green energy, where we are rapidly building a business whose current focus is on landfill gas, and small scale hydro electricity exclusively within the UK.
- the provision of utility services to industry and commerce. Water cycle management, providing and maintaining utility infrastructure, energy efficiency, combined heat and power plants all figure in our project portfolio.

All three markets are based on long term contracts with long term secure cash flows, often index linked. Each new project added in these markets brings an incremental profit stream for up to 25 years into the future.

Our international engineering and environmental consultancy, and our infrastructure management business provide support to these activities.

We have now built up an investment portfolio amounting to £141m (at cost price) across the following sectors:

	Total investments £m	Investments during the year £m
Roads - UK	12	4
- Overseas	2	-
Rail links - UK	5	-
- Overseas	17	5
Water and wastewater - UK	15	3
- Overseas	14	2
Power - UK	13	-
Asia Infrastructure Fund- Overseas	27	-
Public sector buildings - UK	1	1
Renewable energy - UK	35	13
	141	28

During the year we secured an investment in the Airtrain Citylink in Brisbane, our joint venture company UK Highways won the A55 "Public Private Partnership" (PPP) road contract in North Wales and together with Lagan Holdings we were awarded the Kinnegar waste water treatment works in Northern Ireland.

In September 1998 we joined forces with the construction group John Laing to form a joint venture company Laing Hyder plc, which will address investment opportunities under the Government's

## Operating and financial review

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'Public Private Partnerships' in the target sectors of education, health, courts, emergency services and government buildings. Laing Hyder has since won a £25m project for Enfield Council to build, manage and maintain a secondary school building for 1,290 pupils. It is actively pursuing eight further projects.

Our priority however remains, and will remain for the foreseeable future, in the UK. In the year we sold our investment in NTL and part of our holding in ScVK, the North Bohemian Water Company, realising profits of £15.3m and £3.3 respectively. Overall our investment portfolio is performing very well although the Asian down turn in the early part of the year required us to make a £1.8m provision against some of our investments in the Asia Infrastructure Fund.

We have been responsible for some 10% of all green energy schemes built under the UK Government's Non Fossil Fuel Obligation (NFFO) programme which generates power from landfill gas, small hydro electricity and other renewable sources. We now have 13 new power projects under construction which will bring our green energy generating capacity up to 62MW. At Tower Colliery, the last deep mine in Wales, we have adapted landfill gas technology to generate electricity from methane gas produced during mining.

We continue to consolidate our leading position in the developing market for on site utility services and in the year we added Acordis, Hazlewood Foods, Young's Potato Products, SCA Packaging and Grovehurst Energy to our existing blue chip clients such as Unigate, Ford, Sony and Dow Corning.

Our infrastructure management business was formed in October 1997 to provide out sourced operational and installation services to a varied client base including military complexes, utilities, local authorities and commercial and industrial businesses. We are working closely with developers on new housing and commercial property schemes as well as managing mechanical and electrical services at some forty Ministry of Defence sites. We are also installing, repairing and maintaining road lighting for local authorities and highways agencies.

Within the engineering consultancy our experience spans roads, bridges, tunnels, railways, ports and airports. In difficult international markets, we are currently working on major contracts including the design of the US\$2.8 billion port development of Damman in Saudi Arabia, the Melbourne City Link, the Kowloon-Canton Railway Corporation's £5 billion West Rail infrastructure project, the Sydney M5 motorway and the Emirates Towers project in the Middle East.

### Interest

Net interest payable for the year was £123.6m (1998 £95.7m). The increase of £27.9m relates to the funding of the investment programmes, which amounted to £460m (1998 £428m) and the full year effect of the first instalment of the windfall tax (£140.9m) which was paid in December 1997 and the second and final instalment of £141.0m which was paid in December 1998.

The average interest rate on fixed interest rate borrowings for the year was 8.0% (1998 8.4%) with interest being covered 2.7 times by profits before interest (1998 3.2 times).

### Taxation

The taxation charge for the year at £10.3m is an effective rate of 5% compared to 7% last year (before exceptional items). The charge for the year has been reduced by £19.0m (1998 £4.8m) in respect of prior year credits and has been increased by £9.0m (1998 reduced by £32.8m) in respect of timing differences for which no deferred tax provision is made.

### Dividends on ordinary shares

The proposed final dividend is 33.6p per ordinary share. In November 1998, when the interim dividend was declared, the Board stated that it did not consider it was appropriate to increase the distribution to ordinary shareholders by more than inflation due to the uncertainty relating to the forthcoming regulatory price reviews for the water and sewerage and electricity businesses. The outcome of these reviews is still outstanding and in declaring the final dividend the Board is

## Operating and financial review

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continuing this policy. It is therefore proposing the final dividend at 33.6p per ordinary share giving a total dividend payment of 50.4p for this year. After excluding the 1.5p compensation for the delay in payment of last year's final dividend this represents an increase of 3.1%. The Board will review its dividend policy again when the regulatory price reviews have been concluded.

### Change in net debt

Net debt, being borrowings of £2,186m less net cash balances and deposits of £612m, amounted to £1,574m (1998 £1,282m). This increase reflects the cash characteristics of the group and principally relates to the cash outflow from our capital investment programmes and acquisitions of £465m (1998 £420m). Net cash inflows from operating activities, but after deducting interest, normal taxation, dividends, etc amounted to £314m (1998 £235m). In addition to normal taxation outflows the final windfall tax payment of £141m was made in December 1998, with the first instalment of £141m having been paid in December 1997. The total windfall tax charge of £282m represented 24% of our market value compared to the water sector average of some 10% and was a much higher burden for Hyder relative to its size than for any other utility.

### Treasury management and financial instruments

Group treasury activities are managed centrally within a formal set of treasury policies and objectives which are regularly reviewed and approved by the Board. Our policy specifically prohibits any transactions of a speculative nature and does not envisage the use of complex financial instruments. The treasury team uses financial instruments including derivatives, to raise finance and to manage risk from its operations. Surplus cash is invested in short to medium term sterling financial investments. The Board annually establishes the investment criteria which is restricted to banks or other institutions meeting required standards assessed by reference to the major credit rating agencies.

The main treasury management risks faced relate to interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing these risks as summarised below.

#### Finance and interest rate risk

Our policy is to finance operating subsidiaries by a mixture of retained profits, bank borrowings, finance leases and long term loans.

Our policy is to keep the greater proportion of gross borrowings at fixed rates of interest. Derivatives, predominately interest rate swaps and forward rate agreements, are used to help manage the mix of fixed and floating rate debt. At the year end, after taking account of interest rate swaps 87% (1998 88%) of gross borrowings, £2,186m, was at long term fixed interest rates, fixed for an average period of 13.8 years (1998 12.4 years). The remaining 13% (1998 12%) was at floating rates of interest.

Our exposure to floating rate debt of £290m is hedged against interest rate movements by cash balances and deposits of £612m. Decisions on fixing interest rates on the floating rate loans will continue to be considered as cash and deposit balances are utilised. The net effect of an average increase in interest rates of 1% on the variable rate components of the group's short term floating rate loans and cash balances during the year would have resulted in an increase in profit before tax of £0.5m.

#### Liquidity risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturity dates. Our policy is to ensure that the maturity profile does not place an excessive strain on our ability to repay loans. Currently no more than 16% (1998 17%) of our borrowings mature in any twelve month period. In addition, to preserve continuity of funding, at least 80% of borrowings will mature in more than five years and at least 40% in more than ten years. At the year end, 2% (1998 1%) of gross borrowings were due to mature in the next twelve months; 10% (1998 8%) will mature in the next four years and 88% (1998 91%) thereafter.

## Operating and financial review

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In addition, our practice is to maintain adequate undrawn committed facilities of at least 10% of borrowings in order to provide flexibility in the management of the group's liquidity. At the year end we had multicurrency committed facilities of £450m with ten banks of which £14.7m (1998 £6.6m) had been utilised. The £14.7m utilisation relates to foreign currency loans required for overseas investments thus creating a natural hedge. The weighted average period until maturity of these facilities was 3.4 years.

Short term flexibility is achieved by managing an investment portfolio of short term money market deposits and commercial paper purchases.

### Foreign currency risk

In December 1998 we issued US\$525m Bonds and at the same time we entered into US dollar swaps. This ensures that we are not exposed to any currency exposure when the dollar repayments fall due in 2008 and 2028.

At the same time we also entered into cross currency interest rate swaps whereby the dollar coupon rates were exchanged for sterling interest rates of 6.9% for the 2008 Bonds and 7.4% for the 2028 Bonds.

Cumulative US Bond issues amounting to US\$1,025m have been converted into sterling as £617m.

We have a number of overseas subsidiaries, joint venture and associate entities reporting in local currencies and in order to protect the group's sterling balance sheet from the movements in the respective currency/sterling exchange rate, we finance certain of our net investments in subsidiary, joint ventures and associate entities by means of related currency borrowings.

We also have transactional currency exposures which arise from sales and purchases by certain operating units in currencies other than the group's functional currency. All operating units are required to notify the treasury team of all material currency contracts and commitments which potentially create currency exposure on either a transaction or translation basis in order that the currency exposure can be minimised.

At the year end, after taking into account the effects of forward foreign exchange contracts, the group had foreign exposures with a net unrealised loss of £1m in respect of unhedged foreign currency fixed asset investments.

On average, foreign currencies relating to group activities did not move materially against sterling during the year. Shareholders' funds were however increased by £0.1m at 31 March 1999 (1998 £0.2m reduction) due to foreign exchange movements affecting overseas debt and cash balances.

### Contracts for differences

We have entered into contracts for differences (CFDs) which are agreements between the regional electricity companies, including Swalec, as purchasers of electricity through the UK electricity pool, and the power generating companies, as sellers of electricity through the pool. The CFDs effectively convert the majority of the group's anticipated pool purchases from market prices to fixed prices. The gains and losses on such contracts are deferred and recognised as electricity is purchased under the CFDs.

We do not use CFDs as a vehicle for speculating against pool prices but seek to achieve a broad match between the volume of cover provided by the contracts and the expected level of exposure to the electricity pool. The degree of protection provided by the CFDs depends principally on the extent to which the levels of actual customer power consumption match the assumptions underlying the CFDs.

The CFDs have largely insulated the group against the effects of the variability of electricity pool prices. The current level of pool prices and the expected future generating costs are expected to have a considerable significance on future contract prices.

## Operating and financial review

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In the year ended 31 March 1999 we covered the majority of our exposure to electricity pool prices through CFDs. Approximately 19% of the exposure was covered by way of a 15 year CFD with Teesside Power Ltd entered into in 1993. The remaining exposure was covered by other CFDs with the power generators, with durations of less than five years.

Estimates of the fair value of CFDs which had not expired at the year end would be based upon assumptions of a number of complex factors, in particular the anticipated long term level of electricity pool prices and appropriate market discount rates. In addition, there is currently no readily identifiable market through which the CFDs could be realised in an exchange. Given the high level of estimation involved, the directors do not consider it possible to estimate, with reasonable accuracy, the long term level of electricity pool prices and have therefore not ascribed a fair value to these CFDs.

### Year 2000

Throughout the group considerable progress has been made in addressing the Year 2000 date change issue. We have substantially completed our programme of work in order to minimise the risks that computer systems and operational equipment might fail or function incorrectly as a result of the Year 2000 date change. All critical systems have now been identified and assessed for year 2000 compliance and with few exceptions all remediation and certification was completed by March 1999. With a few exceptions, which are being closely monitored, all service critical and other systems will be year 2000 ready by the end of June 1999.

We have evaluated the Year 2000 efforts being made by the external parties that the group depend on to reliably deliver their products and services, including customers, suppliers, business partners, utility service provider, government agencies and financial institutions. We continue to monitor the status of our critical suppliers and plan to complete all our critical supplier audits by June 1999.

Notwithstanding the progress that has been made on tackling the Year 2000 issues, we are developing specific business continuity plans to ensure that any unforeseen risks will not adversely affect our business critical functions and our ability to maintain services to customers. Contingency planning arrangements will be underpinned by having additional staff working over the millennium weekend period.

We continue to participate in a number of industry wide initiatives such as the UK Utilities Group, the Welsh Office High Level Forum and groups established by Water UK and the Electricity Association. Our year 2000 preparations have been subject to an ongoing process of independent assessment by our industry regulators and assessment findings are reported nationally to Action 2000. The results to date have been very complimentary with Offer placing SWALEC as the top regional electricity company in terms of project completion.

Year 2000 compliance costs in the year were £8.7m bringing the total expenditure to date to £10.8m. It is anticipated that total expenditure (including contingency plans) will not exceed £16m.

### European Monetary Union

Preparations for the impact of the European Monetary Union are at an early stage. The UK Government has stated that the UK will not enter the European Monetary Union until after the next general election. We are currently working on the assumption that the UK will not enter the European Monetary Union until at least 2002. The majority of our business is undertaken in the UK and we will be largely unaffected until the UK joins the European Monetary Union. Costs incurred to date have been negligible and at the present time it is too early to estimate future compliance costs.

## Operating and financial review

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### Accounting policy changes

A description of the principal accounting policies is provided on pages 30 to 34. For the year ended 31 March 1999, Financial Reporting Standard (FRS) 11 'Impairment of fixed assets and goodwill'; FRS 12 'Provisions, contingent liabilities and contingent assets'; FRS 13 'Derivatives and other financial instruments disclosures'; and FRS 14 'Earnings per share' became mandatory and have been adopted in the accounts. In addition the Urgent Issues Task Force has issued a number of abstracts which have been adopted where relevant.

FRS 15 'Tangible fixed assets' becomes mandatory in the year ended 31 March 2000. In preparing the accounts for the year ended 31 March 1999 we have adopted the FRS 15 section on Renewals accounting in order to reflect the new accounting treatment for expenditure which in previous years had been treated as infrastructure renewals expenditure and charged against the infrastructure renewals provision. FRS 12 prohibited this type of provision which had been used by the water industry since privatisation in 1989. Where appropriate the profit and loss account, balance sheet and cashflow figures for the year ended 31 March 1998 have been restated to reflect the adoption of the FRS 15 section on Renewals accounting.

## Corporate governance statement

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### Statement of compliance

In June 1998 the London Stock Exchange published the Principles of Good Governance and Code of Best Practice (the Combined Code) which embraces the findings of the Cadbury, Greenbury and Hampel committees. The Combined Code became effective in respect of accounting periods ending on or after 31 December 1998.

The directors have reviewed the group's internal control systems in light of the Combined Code provision D.2.1. In accordance with a dispensation from the London Stock Exchange the group has continued to report under corporate governance on their review of internal financial controls in accordance with the Rutterman guidelines issued in December 1994. The group will report fully under the Combined Code once the working party set up jointly by the London Stock Exchange and the Institute of Chartered Accountants in England & Wales (Turnbull Committee) has issued its final report and the recommendations have been formally adopted by the London Stock Exchange.

Throughout the year the company complied with the provisions of the Combined Code's Code of Best Practice with the exception of the nomination of a senior non-executive director (provision A.2.1) and the announcement of proxy votes at the annual general meeting after each vote on a show of hands (provision C.2.1). All non-executive directors provide equally valuable contributions to the Board and, particularly with a non-executive Group Chairman, it is not considered necessary to appoint a senior non-executive director. Details of proxy votes received will be available at the 1999 annual general meeting to those shareholders that request them.

### 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 non-executive Group Chairman and Group Chief Executive are held separately. The Board of directors currently comprises the Group Chairman, the Group Chief Executive, three executive directors and four non-executive directors. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

An appropriate induction programme is prepared for all new directors when they first join the Board. Thereafter a greater understanding of the key issues affecting the performance of the Company is developed through a rolling programme of business presentations to the Board. More general training for directors will be provided where a need is identified by the Board or any individual director.

The Board considers that 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 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 comprises three of the non-executive directors, one of whom chairs the meeting, and has written terms of reference. This committee meets quarterly and has monitored the adequacy and reviewed the effectiveness of internal financial controls, accounting policies and the financial reporting of the company and the group on behalf of the Board. The committee 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 committee is chaired by T Knowles.

## Corporate governance statement

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The Remuneration committee comprises all of the non-executive directors other than the Group Chairman, one of whom chairs the meeting, and has written terms of reference. This committee meets as necessary to consider and determine the terms and conditions of employment of the executive directors, including salary, bonus, long term incentive and pension entitlements. The committee also determines the fees to be paid to the Group Chairman. The minutes of all Remuneration committee meetings are reported to the Board. The committee is chaired by D G Hawkins.

The Nominations committee, comprising the Group Chairman, the Group Chief Executive and the non-executive directors, one of whom chairs the meeting, 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.

### Internal financial control and risk management

The Board of directors has overall responsibility for the group's system of internal financial control.

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. The group is committed to pursuing our business objectives in a way which avoids the taking of unnecessary risk and it is the culture of the group that all employees carry out their duties in a similar manner. Clear parameters and guidelines continue to be codified and a Group Risk Forum oversees and monitors this process for all major areas of risk.

We endeavour to develop and maintain significant institutional shareholdings that will be supportive of the Company's medium and long term objectives through a structured programme of communication with institutional investors. This takes the form of a combination of presentations following announcement of financial results and on key strategic issues, visits to operational units and one to one meetings. The objective of this programme is to develop confidence that the performance of the group follows company strategy and plans and that any deviation from this is communicated effectively.

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 has been 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 steering group has also been established to consider and recommend action necessary in relation to adoption of the Euro.

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.

## Corporate governance statement

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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.

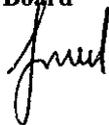
The internal financial control system is monitored and supported by an internal audit function that operates on a global basis and reports to the Group Chief Executive and the Audit committee on the group's operations. The priorities of the internal auditors are developed to focus on the areas of greatest 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.

### 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, the directors continue to adopt a going concern basis in preparing these financial statements.

By order of the Board



G W Williams  
Company Secretary

2 June 1999

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## Directors' report

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The directors have pleasure in presenting their tenth annual report to shareholders, together with the audited financial statements for the year ended 31 March 1999 on pages 30 to 72.

### Principal activities and business review

The group is principally engaged in utility management and the provision of infrastructure and managed services.

Within utility management the group provides integrated water and sewerage and electricity distribution services, and energy supply which principally comprises the supply of electricity and gas.

The group provides an extensive range of infrastructure services both within the UK and internationally. Infrastructure activities include investments in infrastructure projects; the design, installation, operation and maintenance of infrastructure assets; outsourcing of utility services and the development of renewable energy projects.

During the year the group continued to grow in the outsourced managed services market place where it now has an increasing presence and reputation.

Price reviews for the period 2000 to 2005 for the regulated water and electricity businesses commenced during the year. Both regulated businesses have submitted business plans to the respective regulators who are expected to announce their price determinations in November 1999.

Overall the business has performed satisfactorily during the year.

### Consolidated results

Profit on ordinary activities before taxation amounted to £207.7m (1998 £168.5m). After preference dividends and ordinary tax of £26.7m (1998 £312.2m including £281.9m windfall tax) the profit attributable to ordinary shareholders amounted to £181.0m (1998 loss of £143.7m after windfall tax). Ordinary dividends of £74.5m (1998 £73.3m) are recommended to be paid in respect of the year.

### Dividend on ordinary shares

The directors recommend a final dividend of 33.6p (1998 34.2p) (net) per ordinary share, making a total ordinary dividend of 50.4p (net) for the year to 31 March 1999 (1998 50.4p which included 1.5p per share compensation for delayed payment). This will be paid on 4 October 1999 to ordinary shareholders whose names are on the register at the close of business on 18 June 1999.

A scrip dividend alternative to the cash dividend is again being offered to ordinary shareholders. Under the scrip dividend alternative, the price per share at which scrip shares will be issued will be equal to the average of the middle market quotations for ordinary shares, as derived from the Daily Official List of the London Stock Exchange for the five dealing days commencing on the date the shares are first quoted ex-dividend (14 June 1999).

### Dividend on preference shares

A preference dividend of 3.9375p (1998 3.9375p) (net) per preference share in respect of the six month period ending 31 July 1999 will be paid on 2 August 1999 to all preference shareholders whose names are on the register on 25 June 1999, making a total preference dividend of 7.875p (1998 7.875p) for the year ending 31 July 1999.

### Fixed assets

Freehold land and buildings, excluding investment properties, are carried in the accounts at historical cost at a net book value of £55.6m (1998 £53.1m). 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 1999.

## **Directors' report**

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### **Directors**

The names of the current directors of the company are shown on page 1. J E Roberts, who also served throughout the year, resigned on 25 May 1999. I R Evans resigned as director and Chairman with effect from 15 May 1998, when J V H Robins was appointed Group Chairman. With effect from 24 February 1999 R B Salmon was appointed a director. All other directors served throughout the year ended 31 March 1999.

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 R B Salmon as a director of the company.

G A Hawker and T Knowles will retire by rotation in accordance with Article 108 of the company's Articles of Association. G A Hawker will offer himself for re-election at the annual general meeting. T Knowles will not offer himself for re-election at the annual general meeting.

### **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 Group Chairman. A Remuneration committee report is included on pages 19 to 27.

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 1999 and 31 March 1998 were as follows:

	Ordinary shares of 120p		Cumulative redeemable preference shares of £1		Options over ordinary shares of 120p	
	31 March 1999	31 March 1998	31 March 1999	31 March 1998	31 March 1999	31 March 1998
J V H Robins	1,016	1,000	-	-	-	-
G A Hawker	13,932	13,932	13,408	13,408	894	894
M P Brooker	13,158	13,158	14,408	14,408	794	794
J M James	20,584	28,284	450	450	41,070	41,070
J E Roberts	1,034	1,000	-	-	2,484	2,484
P J Twamley	4,538	4,354	2,070	2,070	15,076	15,076
D G Hawkins	528	502	-	-	-	-
T Knowles	5,415	5,415	5,850	5,850	-	-
R B Salmon	-	-*	-	-*	-	-*
R H Sellier	268	255	252	252	-	-
	<b>60,473</b>	<b>67,900</b>	<b>36,438</b>	<b>36,438</b>	<b>60,318</b>	<b>60,318</b>

\* At 24 February 1999, being date of appointment.

In addition, at 31 March 1999 R H Sellier was beneficially interested in 7.125% Sterling bonds redeemable in 2004 issued by Welsh Water Utilities Finance plc with a nominal value of £9,000 (1998 nil).

The above table does not include conditional share allocations under the long term incentive plan, details of which are set out on pages 21 and 22.

No director exercised any share options during the year.

During the period 1 April 1999 to 2 June 1999, the following directors acquired interests in ordinary shares of 120p each under the Hyder scrip dividend plan:

	Number of ordinary shares
J V H Robins	21
D G Hawkins	11
J E Roberts	21
R H Sellier	6
P J Twamley	94

No other changes in directors' interests occurred during the period 1 April 1999 to 2 June 1999.

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

### Share capital - substantial interests

As at 2 June 1999, 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:

	Shareholding
The Capital Group Inc.	8.51%
Fidelity Investments	7.17%
Sanford C Bernstein & Co. Inc.	5.82%
Norwich Union plc	5.33%
Global Asset Management	3.73%

## **Directors' report**

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### **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 43 days (1998 45 days). The company has no trade creditors.

### **Employment policies**

The group aims to attract, retain and motivate employees through effective and progressive employment policies. Extensive training and development opportunities are in place to encourage initiative and innovation and to broaden the group's strategic skills base.

It is the company'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. In accordance with the group's equal opportunities policy, disabled people are given the same consideration as others when applying for jobs and given the same support as other employees to develop and realise their potential.

Managers throughout the group are committed to effective communication, using regular staff newspapers, videos and information bulletins to support face to face communications.

### **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 £155,000 (1998 £99,000). 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 1999 Hyder Environment Report, which will be available later in the year, and the Conservation, Access and Recreation 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 31 July 1999 and 30 September 1999 respectively.

### **Special business at the annual general meeting**

The annual general meeting will be held on 23 July 1999. There are four items of special business: (i) an ordinary resolution to seek general authority for the directors to allot shares under section 80 of the Companies Act 1985; (ii) subject to the passing of the first resolution, a special resolution to seek authority for directors to allot shares for cash under section 95 of the Companies Act 1985; (iii) an ordinary resolution to seek authority for the directors to establish the Hyder Sharesave Scheme (1999); and (iv) an ordinary resolution to seek authority for the directors to establish the Hyder Discretionary Share Scheme (1999). All resolutions are set out in full in the notice of annual general meeting and the purpose of each resolution is set out in the explanatory notes which accompany the notice of meeting.

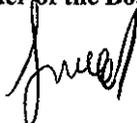
## Directors' report

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### Auditors

Following the merger of Coopers & Lybrand and Price Waterhouse, Coopers & Lybrand resigned as auditors of the company on 30 September 1998 and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. Special notice has been received in accordance with sections 379 and 388(3)(b) Companies Act 1985 of a resolution that PricewaterhouseCoopers be reappointed as auditors of the company and this will be proposed at the Annual General Meeting.

By order of the Board



**G W Williams**  
Company Secretary

2 June 1999

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## Remuneration committee report

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### Statement of compliance

Throughout the year the company complied with Schedule A and has given full consideration to Schedule 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 or bondholder), 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

On 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 (1998 £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, was £28,000 (1998 £25,000). 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 terms of office of the non-executive directors, which are subject to renewal by agreement, expire not later than 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 B Salmon	2002
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

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### 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 may accept non-executive appointments outside the company, subject to the permission of the Board. 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. Following the review this year basic salaries were increased to the amounts detailed below with effect from 1 April 1999. This reflects an increase on the previous year of 3% in line with the general level of pay increases for employees.

G A Hawker	£267,800
M P Brooker	£150,380
J M James	£195,700
J E Roberts*	£206,000
P J Twamley	£195,700

\*resigned 25 May 1999

#### (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 1999 the principal measures for annual bonus payments were, firstly, the profitability of the group, secondly a specific set of personal objectives for each director 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 of which a maximum of 10% of basic salary can be paid in relation to achievement of personal objectives.

Incentive payments in the year ended 31 March 1999 varied between 32% and 37% (1998 27% and 42%).

## Remuneration committee report

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### Executive directors (continued)

#### (c) Long term incentive arrangements

The long term incentive plan for executive directors 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 crystallise as follows if the company's ranking, by total shareholder return, in such top 250 companies at the end of the performance period is:

- (i) lower than ranking position 125 (adjusted as appropriate if any of the original comparator companies have dropped out of the top 250 companies), the participants are entitled to no shares.
- (ii) at position 125 (as may be adjusted as detailed in (i) above), the participants are entitled to 20% of the shares in the conditional award. This percentage increases on a straight line basis such that if the company is ranked at position 62 (as may be adjusted as detailed in (i) above), or higher, the participants are entitled to 100% of the shares in the conditional award.

The criteria were reviewed by the Remuneration committee and confirmed appropriate for awards made during the year.

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.

J M James, being within three years of his normal date of retirement, was not eligible to participate in the long term incentive plan approved by shareholders at the AGM in 1996. Following his agreement to remain a director for a further period of eighteen months beyond 1 June 1999 the Board has approved the establishment, with effect from 1 April 1998, of a second long term incentive plan specifically for J M James. This second plan is in all essential terms identical to the long term incentive plans approved by shareholders in 1996, except that a time related proportion of the shares earned up to the date of retirement will be vested and released at that date. The Remuneration committee will notify the trustee of the number of shares over which it is proposed an award will be made, subject to the value of the award not exceeding 50% of J M James' base salary at the time of the grant. Awards will generally only be exercisable depending on the performance of the company's total shareholder return against the agreed comparator group. A summary of the rules of this plan are set out in the document containing notice of annual general meeting.

The ordinary shares for use under the long term incentive plans are purchased in the market by an employee benefit trust with funds allocated by the company. The trust conditionally allocated 50,359 ordinary shares to the participating executive directors at 978p per share during the year ended 31 March 1999. Pursuant to the scheme rules, the total shareholder return performance of the company over the three year period commencing 1 April 1996 has resulted in an entitlement to participants of 30.76% of the shares conditionally allocated to them on 1 April 1996. The table below lists conditional allocations of ordinary shares to each director under the long term incentive plans, shares which have crystallised for future vesting in each director pursuant to the scheme rules and lapsed shares during the year.

## Remuneration committee report

### Executive directors (continued)

#### (c) Long term incentive arrangements (continued)

	1 April 1998	Conditional allocation in year	Lapsed in year	31 March 1999	Price per share of allocation (Pence)	Vesting date
G A Hawker	15,162	-	(10,498)	4,664	742	April 1999
	15,400	-	-	15,400	779	April 2000
	-	13,279	-	13,279	978	April 2001
	<b>30,562</b>	<b>13,279</b>	<b>(10,498)</b>	<b>33,343</b>		
M P Brooker	8,663	-	-	8,663	779	April 2000
	-	7,457	-	7,457	978	April 2001
	<b>8,663</b>	<b>7,457</b>	<b>-</b>	<b>16,120</b>		
J M James	-	9,704	-	9,704	978	April 2001
J E Roberts*	11,455	-	(7,931)	3,524	742	April 1999
	11,294	-	-	11,294	779	April 2000
	-	10,215	-	10,215	978	April 2001
	<b>22,749</b>	<b>10,215</b>	<b>(7,931)</b>	<b>25,033</b>		
P J Twamley	10,107	-	(6,998)	3,109	742	April 1999
	11,294	-	-	11,294	779	April 2000
	-	9,704	-	9,704	978	April 2001
	<b>21,401</b>	<b>9,704</b>	<b>(6,998)</b>	<b>24,107</b>		
	<b>83,375</b>	<b>50,359</b>	<b>(25,427)</b>	<b>108,307</b>		

\* resigned on 25 May 1999 as a result of which the 21,509 ordinary shares conditionally allocated to him but not yet crystallised under the long term incentive plan lapsed.

The cost of the 50,359 ordinary shares allocated in the year was £0.5m. Of the 50,359 ordinary shares allocated in the year, 19,989 ordinary shares were reallocated from previously lapsed conditional allocations and 30,370 ordinary shares were purchased in the market. The market value on 31 March 1999 of the 133,734 shares held by the trust was £1.1m and the original cost was £1.2m. The cost of the shares is written off over the period of the relevant conditional allocation. Shares available from lapsed allocations 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

### (d) Pension arrangements

Executive directors are members of the company pension scheme which is detailed in note 41 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. The pension arrangements provide for a pension on retirement based on salary alone. 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 a director's death in service.

In the case of J M James (who has agreed to continue service for a further 18 months beyond attaining the age of 60) pension will continue to accrue during his extended period of service on an uniform basis.

Pension contributions are made on behalf of the executive directors at the rate of 12.0% (1998 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 Inland Revenue limits.

The directors' pension benefits were as follows:

	Age at 31 March 1999	Total accrued pension at 31 March 1999 £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	51	153	10	139	16	123
M P Brooker	51	77	17	227	9	218
J M James	59	43	11	210	11	199
J E Roberts	53	16	6	87	12	75
P J Twamley	52	49	8	114	11	103

The total accrued pension shown 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 1999 and based on 31 March 1999 pay levels. The increase in accrued pension in the year excludes any increase for inflation during the year ended 31 March 1999.

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

## Remuneration committee report

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### (d) Pension arrangements (continued)

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 J M James, J E Roberts and P J Twamley include their unapproved pensions.

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

### Remuneration policy, service contracts and compensation

In performing its duties, the committee has considered the provisions of Schedule B of the Combined Code annexed to the London Stock Exchange Listing Rules.

Directors' service contracts are on a one year rolling basis. In certain circumstances the company may be obliged to pay compensation 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 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:

	1999 £000	1998 £000
Fees	215	222
Salary payments (including benefits in kind)	1,056	1,106
Performance related bonus	345	355
	<b>1,616</b>	<b>1,683</b>
Compensation for loss of office	-	403
	<b>1,616</b>	<b>2,086</b>

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

	Salary/fees		Performance related bonus		Benefits in kind		Total	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
G A Hawker	260	240	95	96	10	9	365	345
M P Brooker (iii)	146	135	47	37	13	9	206	181
B H Charles (iv)	-	61	-	-	-	3	-	64
S J Doughty (v)	-	93	-	-	-	5	-	98
J M James	190	160	64	78	19	12	273	250
J E Roberts	200	176	69	74	12	9	281	259
P J Twamley	190	176	70	70	16	17	276	263
	<b>986</b>	<b>1,041</b>	<b>345</b>	<b>355</b>	<b>70</b>	<b>64</b>	<b>1,401</b>	<b>1,460</b>
J V H Robins (i)	113	14	-	-	-	-	113	14
I R Evans (ii)	15	125	-	-	-	1	15	126
A J Hales (iv)	-	8	-	-	-	-	-	8
D G Hawkins	28	25	-	-	-	-	28	25
T Knowles	28	25	-	-	-	-	28	25
R B Salmon (vi)	3	-	-	-	-	-	3	-
R H Sellier	28	25	-	-	-	-	28	25
	<b>215</b>	<b>222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>215</b>	<b>223</b>
	<b>1,201</b>	<b>1,263</b>	<b>345</b>	<b>355</b>	<b>70</b>	<b>65</b>	<b>1,616</b>	<b>1,683</b>

- (i) appointed 3 September 1997, Group Chairman from 15 May 1998  
(ii) Group Chairman until his resignation from the Board on 15 May 1998  
(iii) appointed 2 April 1997  
(iv) retired 25 July 1997  
(v) resigned 2 October 1997 and received the compensation for loss of office referred to above  
(vi) appointed 24 February 1999

#### Highest paid director

	G A Hawker 1999 £000	G A Hawker 1998 £000
Aggregate emoluments	365	345
Gains on share options exercised	-	9
	<b>365</b>	<b>354</b>
Accrued pension at end of the year under defined benefit pension schemes	<b>153</b>	<b>139</b>

## Remuneration committee report

### Share options

No director was granted any share options during the period 1 April 1998 to 31 March 1999.

Options held by each of the directors over the ordinary shares of the company under the employee sharesave scheme and executive share option scheme are as follows:

	1 April 1998	Granted in year	Exercised in year	31 March 1999	Option price (pence)	Share price on date of exercise (pence)	Date exercisable	Expiry date
G A Hawker	894	-	-	894	650	-	Sept 2000	Feb 2001
M P Brooker	164	-	-	164	521	-	Oct 2001	Mar 2002
	630	-	-	630	650	-	Sept 2000	Feb 2001
	794	-	-	794				
J M James	§ 41,070	-	-	41,070	563	-	Jul 1996	Jul 2003
J E Roberts*	2,484	-	-	2,484	650	-	Sept 2002	Feb 2003
P J Twamley	§ 14,839	-	-	14,839	563	-	Jul 1996	Jul 2003
	237	-	-	237	523	-	Oct 1999	Mar 2000
	15,076	-	-	15,076				

\* resigned on 25 May 1999 and will cease to be an employee on 30 June 1999 as a result of which the options over shares referred to above will lapse.

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.

No gains were made by directors on the exercise of share options during the year (1998 £246,000). The gain is the difference between the share option price and the share price on the date the share options are 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 1999 was 786p (1998 978p) and the range during the year to that date was 748p to 1,040p (1998 774p to 1,049p).

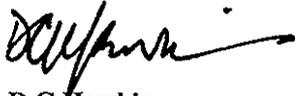
## Remuneration committee report

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### 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

2 June 1999

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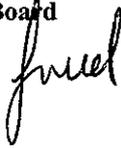
## Directors' responsibilities for the financial statements

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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 and estimates have been made.

It is the directors' responsibility to maintain adequate accounting records and to institute and maintain systems and controls designed to safeguard the assets of the company and 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

2 June 1999

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## Auditors' report to the members of Hyder plc

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We have audited the financial statements on pages 30 to 72 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 30 to 34.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 28 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

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

We review whether the statement on pages 11 to 13 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

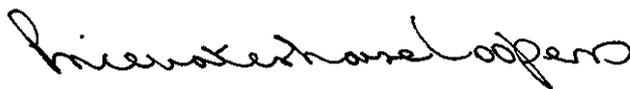
### Basis of opinion

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 1999 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
Cardiff

2 June 1999

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## **Principal accounting policies**

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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 are given in the "Grants, customer contributions and infrastructure charges" and "Investment properties" sections below and notes 15(e) and 16 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 Financial Reporting Standard (FRS) 11 - Impairment of fixed assets and goodwill, FRS 12 - Provisions, contingent liabilities and contingent assets, FRS 13 - Derivatives and other financial instruments: disclosures, FRS 14 - Earnings per share and FRS 15 - Tangible Fixed Assets. In addition the Urgent Issues Task Force ("UITF") has issued a number of abstracts in the year. Where relevant these financial statements comply with the new Standards and UITF abstracts and comparatives have been restated accordingly. FRS 15 becomes mandatory in respect of the year ending 31 March 2000. In preparing the accounts for the year ended 31 March 1999, only the FRS 15 section on infrastructure maintenance accounting has been adopted in order to reflect the new accounting treatment as described below.

Following the creation of the energy supply activities segment and the transfer of certain business activities into infrastructure activities from other activities, comparative numbers in notes 2, 5 and 6(c) have been restated accordingly.

### **Prior year adjustment**

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS 12 as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence the balance sheet has been restated to take account of necessary changes since the year ended 31 March 1989, when renewals accounting was first adopted in the accounts, and any previous provisions or prepayments have been subsumed into fixed assets. Further information is given in note 15. This change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation. In addition, the cash flow statement and certain notes have been restated where relevant to reflect these changes.

### **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.

## **Principal accounting policies**

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### **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 - Goodwill and intangible fixed assets, 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 is treated in accordance with FRS 10 and, where appropriate, is capitalised and amortised over its expected useful economic life.

The profit or loss on the disposal of a previously acquired business is derived after adjusting for the attributable amount of purchased goodwill relating to that business not already charged to the profit and loss account.

### **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 of joint ventures and associated undertakings 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.

### **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).

## Principal accounting policies

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### 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 and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as additions which are included at cost after deducting grants and contributions.

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

### Other assets

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

Freehold buildings	30-60 years
Leasehold properties	over the period of the lease
Water and sewerage operational structures	40-80 years
Electricity distribution network assets	40 years
Fixed plant	20-40 years
Vehicles, mobile plant, equipment, 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.

### 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 and customer contributions receivable relating to water and sewerage infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and customer contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 15(e).

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

## **Principal accounting policies**

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

### **Investment properties**

In accordance with Statement of Standard Accounting Practice No. 19 "Accounting for Investment Properties", investment properties are included in the balance sheet at open market value. Depreciation is not applied, except where properties are held by the group on leasehold with an unexpired term of 20 years or less. This treatment departs from the general requirement of the Companies Act 1985 to provide depreciation on any asset which has a limited useful economic life. The directors consider that, as these properties are not held for consumption but for investment, to depreciate them would not give a true and fair view and thus it is necessary to adopt SSAP 19 in order to give a true and fair view (note 16).

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 (ie 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.

### **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.

## **Principal accounting policies**

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### **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.

### **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.

### **Qualifying employee share option trust (Quest)**

The consolidated accounts include the shares in the company held by the group's Quest (note 31(d)). The shares held are included at recoverable amount in debtors.. Under the rules of the Quest dividends have been waived by the trustee. The expenses of the Quest which are borne by the group are expensed as incurred.

### **Long Term incentive plan (L-Tip)**

The consolidated accounts include the shares in the company held by the group's L-Tip (note 31(b)). The cost of the ordinary shares is written off against profits over the three year performance period to which the conditional allocation relates. The cost of shares which have lapsed is credited to profits. The unamortised cost of the shares is included in debtors.

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## Consolidated profit and loss account for the year ended 31 March 1999

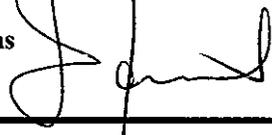
		1999	1998
	Note	£m	Restated £m
<b>Turnover:</b>			
Group and share of joint ventures		1,302.3	1,192.0
Less: share of joint ventures		(7.9)	(6.9)
Group turnover - Continuing operations	2 & 3	1,294.4	1,185.1
<b>Net operating costs</b>	4	(997.8)	(940.4)
Group operating profit:			
Continuing operations		296.6	244.7
Before exceptional items: continuing operations		296.6	284.7
Exceptional items: continuing operations	5	-	(40.0)
<b>Group operating profit</b>		296.6	244.7
<b>Share of operating profit in:</b>			
Joint ventures		2.6	2.6
Associates		1.9	1.8
<b>Total operating profit: Group and share of joint ventures and associates</b>		301.1	249.1
Group income from investments (continuing operations)	7	11.6	9.6
Profit on disposal of interests in investments	8	18.6	5.5
<b>Profit on ordinary activities before interest</b>		331.3	264.2
Interest receivable		20.5	17.8
Interest payable:			
Group	9	(143.4)	(113.5)
Joint ventures		(0.7)	-
<b>Profit on ordinary activities before taxation</b>		207.7	168.5
Ordinary taxation	10	(10.3)	(13.9)
<b>Profit after ordinary taxation</b>		197.4	154.6
Exceptional taxation - Windfall tax	11	-	(281.9)
<b>Profit/(loss) after taxation</b>		197.4	(127.3)
Dividends on preference shares and appropriations	12	(16.4)	(16.4)
<b>Profit/(loss) attributable to ordinary shareholders</b>		181.0	(143.7)
Dividends on ordinary shares	12	(74.5)	(73.3)
<b>Retained profit/(loss) for the year</b>	33	106.5	(217.0)
Earnings/(loss) per ordinary share - basic	13	123.4p	(99.8)p
- diluted	13	122.5p	(98.4)p
Earnings per ordinary share before exceptional items and windfall tax - basic	13	123.4p	122.7p
- diluted	13	122.5p	120.9p
Dividend per ordinary share	12	50.4p	50.4p

## Balance sheets at 31 March 1999

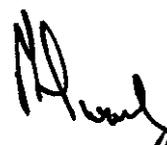
		Group		Company	
		1999	1998	1999	1998
	Note	£m	Restated £m	£m	£m
<b>Fixed assets</b>					
Intangible assets	14	3.8	0.5	-	-
Tangible assets	15	2,832.4	2,530.6	2.4	2.7
Investment properties	16	9.4	8.4	-	-
Investments in:	17				
Joint ventures:					
Share of gross assets		150.2	140.5	-	-
Share of gross liabilities		(129.8)	(126.2)	-	-
		20.4	14.3	-	-
Associates		9.8	15.3	-	-
Others		62.1	83.9	1,548.6	1,548.6
		<u>2,937.9</u>	<u>2,653.0</u>	<u>1,551.0</u>	<u>1,551.3</u>
<b>Current assets</b>					
Stocks and work in progress	18	16.0	14.1	-	-
Debtors	19	335.9	296.2	445.1	337.2
Current asset investments	20	591.3	301.4	464.4	101.0
Cash at bank and in hand		21.0	10.1	0.4	0.2
		<u>964.2</u>	<u>621.8</u>	<u>909.9</u>	<u>438.4</u>
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	21(a)	(556.3)	(559.2)	(177.4)	(171.8)
Net current assets		<u>407.9</u>	<u>62.6</u>	<u>732.5</u>	<u>266.6</u>
Total assets less current liabilities		<u>3,345.8</u>	<u>2,715.6</u>	<u>2,283.5</u>	<u>1,817.9</u>
Creditors: amounts falling due after more than one year	21(b)	(2,147.0)	(1,622.4)	(1,302.2)	(835.2)
Provisions for liabilities and charges	28	(143.1)	(167.7)	(2.4)	(2.7)
Accruals and deferred income	29	(155.3)	(152.0)	-	-
Net assets		<u>900.4</u>	<u>773.5</u>	<u>978.9</u>	<u>980.0</u>
<b>Capital and reserves</b>					
Called up share capital	30	388.4	386.4	388.4	386.4
Share premium account	32	137.4	138.9	137.4	138.9
Reserves	33	372.0	248.2	453.1	454.7
Equity shareholders' funds		<u>691.2</u>	<u>566.9</u>	<u>772.3</u>	<u>773.4</u>
Non-equity shareholders' funds		<u>206.6</u>	<u>206.6</u>	<u>206.6</u>	<u>206.6</u>
Total shareholders' funds		<u>897.8</u>	<u>773.5</u>	<u>978.9</u>	<u>980.0</u>
Equity minority interests	34	2.6	-	-	-
		<u>900.4</u>	<u>773.5</u>	<u>978.9</u>	<u>980.0</u>

The financial statements on pages 30 to 72 were approved by the Board of directors on 2 June 1999 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 1999

		1999	1998
	Note	£m	Restated £m
<b>Net cash inflow from operating activities</b>	<b>35</b>	<b>383.8</b>	<b>325.0</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		14.5	19.8
Interest paid		(115.5)	(96.0)
Preference dividend paid		(16.4)	(16.3)
Interest element of finance lease rental payments		(9.7)	(3.9)
Dividends received and other investment income		12.8	12.3
Distributions from joint ventures and associated undertakings		-	0.9
		<u>(114.3)</u>	<u>(83.2)</u>
<b>Taxation</b>			
UK corporation tax paid		(15.5)	(21.8)
Windfall tax paid		(141.0)	(140.9)
Overseas tax (paid)/repaid		(0.2)	0.1
		<u>(156.7)</u>	<u>(162.6)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(447.4)	(412.3)
Sale of tangible fixed assets		5.5	5.3
Sale of fixed asset investments		61.3	6.7
Purchase of fixed asset investments		(5.7)	(0.4)
Grants and contributions received		19.0	29.4
		<u>(367.3)</u>	<u>(371.3)</u>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	39	(4.3)	-
Net cash acquired with subsidiaries	39	1.9	-
Investments in joint ventures and associated undertakings		(11.9)	(6.8)
		<u>(14.3)</u>	<u>(6.8)</u>
<b>Equity dividends paid</b>		<u>(18.5)</u>	<u>(32.0)</u>
<b>Cash outflow before use of liquid resources and financing</b>		<u>(287.3)</u>	<u>(330.9)</u>
<b>Management of liquid resources</b>			
Purchase of commercial paper		(467.0)	(569.9)
Sale of commercial paper		446.5	538.6
Net increase in deposits		(269.2)	(1.1)
		<u>(289.7)</u>	<u>(32.4)</u>
<b>Financing</b>			
Issue of ordinary shares	37	0.5	4.9
New loans, finance leases and bonds		621.5	482.8
Expenses of issuing bonds	37	(6.6)	(3.5)
Loan and finance lease repayments	37	(9.0)	(150.1)
Capital element of finance lease rental payments	37	(0.5)	(0.5)
		<u>605.9</u>	<u>333.6</u>
<b>Increase/(decrease) in cash in the year</b>	<b>38</b>	<u>28.9</u>	<u>(29.7)</u>

**Statement of total recognised gains and losses for the year ended 31 March 1999**

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	1999	1998
	£m	£m
Profit/(loss) for the financial year attributable to ordinary shareholders	181.0	(143.7)
Currency translation differences on foreign currency net investments	0.2	(3.2)
Surplus/(deficit) on revaluation of investment properties	1.0	(0.2)
<b>Total recognised gains/(losses) for the year</b>	<b>182.2</b>	<b>(147.1)</b>

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**Reconciliation of movements in shareholders' funds for the year ended 31 March 1999**

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	1999	1998
	£m	£m
Total recognised gains/(losses) for the year	182.2	(147.1)
Ordinary dividends	(74.5)	(73.3)
New ordinary share capital issued	2.0	7.5
Premium on ordinary share capital issued	0.4	39.5
Scrip dividend issued in lieu of cash dividend	14.6	14.9
Utilisation of share premium account for the nominal value of ordinary shares issued under the scrip dividend	(1.9)	(1.5)
Charge to reserves arising on issue of shares to qualifying employee share ownership trust	-	(18.7)
Goodwill written back on disposal of investment	2.0	-
Adjustment to reserves on associate becoming a subsidiary	(0.5)	-
Goodwill written off	-	(0.3)
Net increase/(decrease) in shareholders' funds	124.3	(179.0)
At 1 April	773.5	952.5
<b>At 31 March</b>	<b>897.8</b>	<b>773.5</b>

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

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## 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 £74.7m (1998 £298.1m).

### 2 Segmental analysis by class of business

#### (a) Turnover

	Total turnover £m	Intra segment turnover £m	Inter segment turnover £m	External turnover £m
<b>Year ended 31 March 1999:</b>				
Continuing operations:				
Regulated water and sewerage activities	456.0	-	1.5	454.5
Regulated electricity distribution activities	195.4	-	153.3	42.1
Energy supply activities	588.9	-	6.7	582.2
Infrastructure activities	236.2	4.6	33.4	198.2
Managed services activities	176.1	4.4	162.1	9.6
Other activities	10.7	-	2.9	7.8
	<b>1,663.3</b>	<b>9.0</b>	<b>359.9</b>	<b>1,294.4</b>
<b>Year ended 31 March 1998 restated:</b>				
Continuing operations:				
Regulated water and sewerage activities	440.7	-	1.2	439.5
Regulated electricity distribution activities	190.4	-	146.6	43.8
Energy supply activities	534.2	-	17.5	516.7
Infrastructure activities	211.2	1.2	35.1	174.9
Managed services activities	145.4	12.7	126.7	6.0
Other activities	4.3	-	0.1	4.2
	<b>1,526.2</b>	<b>13.9</b>	<b>327.2</b>	<b>1,185.1</b>

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

	1999	1998	1998	1998
	Total	Before exceptional items Restated	Exceptional items (note 5) Restated	Total Restated
	£m	£m	£m	£m
Continuing operations:				
Regulated water and sewerage activities	166.6	178.3	(28.0)	150.3
Regulated electricity distribution activities	96.0	86.1	(9.0)	77.1
Energy supply activities	26.3	4.2	-	4.2
Infrastructure activities	24.5	21.4	(5.2)	16.2
Managed services activities	22.2	21.9	3.3	25.2
Other activities	7.1	4.5	-	4.5
	<b>342.7</b>	<b>316.4</b>	<b>(38.9)</b>	<b>277.5</b>
Business development costs and corporate overheads	(7.6)	(8.6)	(1.1)	(9.7)
Elimination of intercompany operating profit capitalised	(3.8)	(3.6)	-	(3.6)
<b>Profit before interest</b>	<b>331.3</b>	<b>304.2</b>	<b>(40.0)</b>	<b>264.2</b>
Net interest payable	(123.6)	(95.7)	-	(95.7)
<b>Profit before taxation</b>	<b>207.7</b>	<b>208.5</b>	<b>(40.0)</b>	<b>168.5</b>

Infrastructure activities and Other activities include £30.2m (1998 £15.1m) in respect of income from investments (including profit on disposal of investments) (notes 7 and 8 below) and £4.5m (1998 £4.4m) in respect of share of operating profit of joint ventures and associates as this reflects the management control of those investments.

#### (c) Net assets

	1999	1998
	£m	Restated £m
Continuing operations:		
Regulated water and sewerage activities	1,825.9	1,643.2
Regulated electricity distribution activities	471.7	403.4
Regulated electricity distribution activities - windfall tax	-	(44.8)
Energy supply activities	(19.6)	(61.6)
Infrastructure activities	159.4	159.3
Managed services activities	81.1	58.3
Other activities	(44.0)	(5.9)
Other activities - windfall tax	-	(96.2)
	<b>2,474.5</b>	<b>2,055.7</b>
Net debt (note 36(b))	<b>(1,574.1)</b>	<b>(1,282.2)</b>
	<b>900.4</b>	<b>773.5</b>

Infrastructure activities includes £30.2m (1998 £29.6m) in respect of share of net assets of joint ventures and associates as this reflects the management control of those investments.

## Notes to the financial statements

### 3 Segmental analysis by geographical area by destination

#### (a) Turnover

	1999 £m	1998 £m
United Kingdom and Europe	1,223.7	1,120.7
Asia Pacific	48.5	38.7
Rest of the World	22.2	25.7
	<u>1,294.4</u>	<u>1,185.1</u>

#### (b) Profit on ordinary activities before taxation

	1999 £m	1998 £m
United Kingdom and Europe	340.9	278.0
Asia Pacific	0.6	(2.5)
Rest of the World	1.2	2.0
	<u>342.7</u>	<u>277.5</u>
Business development costs and corporate overheads	(7.6)	(9.7)
Elimination of intercompany operating profit capitalised	(3.8)	(3.6)
<b>Profit before interest</b>	<u>331.3</u>	<u>264.2</u>
Net interest payable	(123.6)	(95.7)
<b>Profit before taxation</b>	<u>207.7</u>	<u>168.5</u>

United Kingdom and Europe include £30.2m (1998 £15.1m) in respect of income from investments (including profit on disposal of investments) (notes 7 and 8 below) and £4.5m (1998 £4.4m) in respect of share of operating profit of joint ventures and associates as this reflects the management control of those investments.

#### (c) Net assets

	1999 £m	1998 £m
United Kingdom and Europe	2,450.4	2,035.0
Asia Pacific	4.6	8.4
Rest of the World	19.5	12.3
	<u>2,474.5</u>	<u>2,055.7</u>
Net debt (note 36(b))	(1,574.1)	(1,282.2)
	<u>900.4</u>	<u>773.5</u>

United Kingdom and Europe includes £30.2m (1998 £29.6m) in respect of share of net assets of joint ventures and associates as this reflects the management control of those investments.

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

## Notes to the financial statements

### 4 Net operating costs

		1999	1998	1998	1998
		Total	Before exceptional items Restated	Exceptional items (note 5)	Total Restated
	Note	£m	£m	£m	£m
Continuing operations:					
Change in stocks and work in progress	18	(1.9)	(0.6)	-	(0.6)
Staff costs	6(b)	245.7	231.9	-	231.9
Severance and redundancy costs	28(c)	2.0	-	25.0	25.0
Depreciation:					
- Own assets		119.4	101.3	-	101.3
- Assets held under finance leases		5.0	4.9	-	4.9
Amounts written off fixed assets		7.1	0.1	1.5	1.6
Amounts written off fixed asset investments		2.0	1.4	-	1.4
Research and development		0.8	1.4	-	1.4
Rentals under operating leases:					
- Hire of plant and equipment		1.3	1.3	-	1.3
- Other		3.7	6.5	-	6.5
Fees paid to auditors:					
- Audit services		0.7	0.7	-	0.7
- Taxation services		0.1	0.2	-	0.2
- Consultancy services		0.1	0.1	-	0.1
- Other services		0.4	0.4	-	0.4
Year 2000 costs		8.7	2.1	-	2.1
Energy purchases		322.3	305.3	-	305.3
Other operating charges		363.0	325.1	13.5	338.6
Amortisation of grants and contributions	29	(5.9)	(5.5)	-	(5.5)
Profit on disposal of fixed assets		-	(0.8)	-	(0.8)
Own work capitalised		(76.0)	(75.0)	-	(75.0)
Net rents receivable		(0.7)	(0.4)	-	(0.4)
		<u>997.8</u>	<u>900.4</u>	<u>40.0</u>	<u>940.4</u>

Other fees paid to the auditors and capitalised were £104,000 (1998 £nil). Included in audit services is £9,000 (1998 £8,650) in respect of audit fees incurred by the company.

The comparatives shown above have been restated following the group's adoption of the infrastructure maintenance accounting aspects of FRS 15. As a result, the infrastructure maintenance provision charge of £24.8m for the year ended 31 March 1998 has been restated as depreciation (notes 15 and 28(g)).

## Notes to the financial statements

### 5 Exceptional items

	1999 Total £m	1998 Redundancy costs Restated £m	1998 Other costs Restated £m	1998 Total Restated £m
Continuing operations:				
Regulated water and sewerage activities	-	23.2	4.8	28.0
Regulated electricity distribution activities	-	2.7	6.3	9.0
Energy supply activities	-	-	-	-
Infrastructure activities	-	1.2	2.0	3.2
Managed 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 £nil (1998 £1.6m). The 1998 tax credit has reduced the tax charge included in note 10.

### 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 19 to 26. Directors' interests are given in the Directors' report on pages 15 and 16. These disclosures form part of the financial statements.

#### (b) Staff costs

	1999 £m	1998 £m
Wages and salaries	215.3	202.8
Social security costs	15.9	14.8
Pension costs	14.5	14.3
	245.7	231.9

Of the above, £43.9m (1998 £47.3m) has been charged to capital.

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

	1999 Number	1998 Restated Number
Regulated water and sewerage activities	1,906	2,071
Regulated electricity distribution activities	1,129	1,279
Energy supply activities	236	126
Infrastructure activities	3,987	3,733
Managed services activities	1,910	1,536
Other activities	214	199
	9,382	8,944

## Notes to the financial statements

### 7 Group income from investments

	1999	1998
	£m	Restated £m
Fixed asset investment income (continuing operations):		
Infrastructure activities	6.5	9.2
Other activities	5.1	0.4
	<u>11.6</u>	<u>9.6</u>

### 8 Profit on disposal of interests in investments

	1999	1998
	£m	Restated £m
Continuing operations:		
Infrastructure activities:		
Profit on disposal of investments	18.6	-
Profit on the grant of option in Transurban Link Limited	-	3.9
	<u>18.6</u>	<u>3.9</u>
Other activities:		
Profit on disposal of investments	-	1.6
	<u>18.6</u>	<u>5.5</u>

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.

On 13 November 1998 the group disposed of the majority of its interest in Severoceske Vodovody a Kanalizace a.s. for £16.0m realising a profit on disposal of £3.3m after writing back goodwill previously written off directly to reserves of £2.0m.

### 9 Group interest payable

	1999	1998
	£m	£m
On bank loans and overdrafts	2.0	1.5
On other loans	127.8	99.8
On finance leases	13.6	12.2
	<u>143.4</u>	<u>113.5</u>

## Notes to the financial statements

### 10 Taxation

	1999 £m	1998 £m
Based on the results for the year:		
UK corporation tax at 31% (1998 31%)	66.4	10.9
Overseas taxation	0.4	(0.1)
Advance corporation tax written (back)/off	(40.3)	5.9
Tax suffered on dividends received	1.7	0.3
Share of joint ventures taxation	0.7	0.8
Share of associated undertakings taxation	0.4	0.5
	<u>29.3</u>	<u>18.3</u>
Prior year adjustments:		
Corporation tax	(16.8)	2.8
Overseas taxation	(0.1)	-
Consortium relief	(2.1)	(7.2)
	<u>10.3</u>	<u>13.9</u>

The tax charge on the profit for the year has been increased by £9.0m (1998 reduced by £32.8m) in respect of timing differences for which no deferred tax provision is made.

The cumulative amount of advance corporation tax written off of £35.3m (1998 £64.5m) is available for relief against future tax liabilities in very limited circumstances and therefore has not been treated as reducing the unprovided amount of deferred taxation as disclosed in note 28(a).

There are losses within the group of approximately £5.0m (1998 £5.0m) available to carry forward against future profits of those companies which incurred the losses.

### 11 Exceptional taxation - windfall tax

The exceptional taxation charge relates to the windfall tax levied on privatised utility companies. The liability was £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 was paid on 1 December 1998.

### 12 Dividends

#### (a) Dividends on equity shares:

	1999 £m	1998 £m
Interim paid of 16.8p per ordinary share (1998 16.2p)	24.8	23.4
Final proposed of 33.6p per ordinary share (1998 34.2p including 1.5p per share compensation for delayed payment)	49.7	49.9
Total paid and proposed 50.4p per ordinary share (1998 50.4p)	<u>74.5</u>	<u>73.3</u>

#### (b) Dividends on non-equity shares:

	1999 £m	1998 £m
Dividends of 15.75p (net) per preference share (1998 15.75p (net))	<u>16.4</u>	<u>16.4</u>

## Notes to the financial statements

### 13 Earnings/(loss) per share

	1999			1998		
	Profit attributable to ordinary shareholders £m	Earnings per share		(Loss)/profit attributable to ordinary shareholders £m	(Loss)/earnings per share	
		Basic pence	Diluted pence		Basic pence	Diluted pence
Profit/(loss) attributable to ordinary shareholders	181.0	123.4	122.5	(143.7)	(99.8)	(98.4)
Adjusting items:						
Exceptional items (net of taxation)	-	-	-	38.4	26.7	26.3
Windfall tax	-	-	-	281.9	195.8	193.0
Adjusted profit attributable to ordinary shareholders	181.0	123.4	122.5	176.6	122.7	120.9

Earnings per share have been calculated based upon:

	1999		1998	
	Basic Number millions	Diluted Number millions	Basic Number million	Diluted Number million
Weighted average ordinary shares in issue	146.7	147.7	143.9	146.0

The weighted average number of shares disclosed above is stated after excluding the 3.7m (1998 3.9m) weighted average ordinary shares held by the qualifying employee share options trust and under the executive directors' long term incentive plan, the shares in which are treated as held by the company until they vest.

The difference between the basic and diluted weighted average number of ordinary shares in issue is wholly attributable to outstanding share options.

### 14 Intangible fixed assets

Group	Fishing rights £m	Goodwill £m	Total £m
<b>Cost</b>			
At 1 April 1998	0.9	-	0.9
Additions (note 39)	-	3.4	3.4
At 31 March 1999	0.9	3.4	4.3
<b>Amounts provided</b>			
At 1 April 1998	0.4	-	0.4
Provided in the year	0.1	-	0.1
At 31 March 1999	0.5	-	0.5
<b>Net book value</b>			
At 31 March 1999	0.4	3.4	3.8
At 31 March 1998	0.5	-	0.5

## Notes to the financial statements

### 15 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, computer hardware & capitalised software £m	Total £m
<b>Cost or valuation</b>							
At 1 April 1998	72.2	5.9	728.9	1,279.5	830.7	378.7	3,295.9
Prior year adjustment	-	-	203.7	-	-	-	203.7
Restated brought forward balance	72.2	5.9	932.6	1,279.5	830.7	378.7	3,499.6
Exchange difference	-	-	-	-	-	0.2	0.2
Additions	1.3	0.2	137.2	146.0	73.9	82.7	441.3
Acquired with subsidiaries	5.2	0.7	-	-	-	1.2	7.1
Grants and contributions	-	-	(8.8)	-	-	-	(8.8)
Amounts written off	(0.8)	-	-	-	-	(9.8)	(10.6)
Disposals	(1.0)	(0.1)	(1.0)	-	(2.2)	(17.2)	(21.5)
At 31 March 1999	<b>76.9</b>	<b>6.7</b>	<b>1,060.0</b>	<b>1,425.5</b>	<b>902.4</b>	<b>435.8</b>	<b>3,907.3</b>
<b>Accumulated depreciation</b>							
At 1 April 1998	19.1	1.8	-	280.2	253.4	206.8	761.3
Prior year adjustment	-	-	207.7	-	-	-	207.7
Restated brought forward balance	19.1	1.8	207.7	280.2	253.4	206.8	969.0
Exchange difference	-	-	-	-	-	0.1	0.1
Charge for the year	1.4	0.5	33.7	34.8	24.1	29.9	124.4
Acquired with subsidiaries	0.8	-	-	-	-	0.1	0.9
Amounts written off	-	-	-	-	-	(3.5)	(3.5)
Disposals	-	(0.1)	(1.0)	-	(1.8)	(13.1)	(16.0)
At 31 March 1999	<b>21.3</b>	<b>2.2</b>	<b>240.4</b>	<b>315.0</b>	<b>275.7</b>	<b>220.3</b>	<b>1,074.9</b>
<b>Net book value</b>							
At 31 March 1999	<b>55.6</b>	<b>4.5</b>	<b>819.6</b>	<b>1,110.5</b>	<b>626.7</b>	<b>215.5</b>	<b>2,832.4</b>
At 31 March 1998 (restated)	53.1	4.1	724.9	999.3	577.3	171.9	2,530.6
<b>Analysis of net book value at 31 March 1999</b>							
Owned	55.6	0.7	819.6	877.2	626.7	211.9	2,591.7
Held under finance leases	-	3.8	-	233.3	-	3.6	240.7
	<b>55.6</b>	<b>4.5</b>	<b>819.6</b>	<b>1,110.5</b>	<b>626.7</b>	<b>215.5</b>	<b>2,832.4</b>

- (a) The opening fixed assets have been restated by way of a prior year adjustment in accordance with FRS 12. Water and sewerage infrastructure expenditure incurred since 1989 when renewals accounting was adopted as industry practice has been treated as additions to fixed assets and infrastructure maintenance charges since 1989 have been treated as accumulated depreciation in accordance with FRS 15 (note 28 (g)).

## Notes to the financial statements

### 15 Tangible fixed assets (continued)

(b) Tangible fixed assets at 31 March 1999 include £429.5m (1998 £387.2m) of assets in the course of construction, which are not depreciated until commissioned.

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

	1999 £m	1998 £m
Long leasehold	0.6	0.6
Short leasehold	3.9	3.5
Total leasehold	<u>4.5</u>	<u>4.1</u>

(d) Electricity distribution network assets include assets leased to third parties under operating leases. The cost of these was £3.8m (1998 £3.8m) and accumulated depreciation amounted to £0.9m (1998 £0.7m) at 31 March 1999.

(e) The accounting treatment for grants and customer contributions in respect of infrastructure assets is set out in the principal accounting policies on page 33. This treatment is not in accordance with schedule 4 to the Companies Act 1985. As a consequence the net book value of fixed assets is £140.2m (1998 £131.4m) 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
<b>Cost</b>			
At 1 April 1998	1.2	2.1	3.3
Additions	-	0.3	0.3
Transferred to current assets	(0.2)	-	(0.2)
Written off	(0.2)	-	(0.2)
At 31 March 1999	<u>0.8</u>	<u>2.4</u>	<u>3.2</u>
<b>Accumulated depreciation</b>			
At 1 April 1998	-	0.6	0.6
Charge for the year	-	0.2	0.2
At 31 March 1999	<u>-</u>	<u>0.8</u>	<u>0.8</u>
<b>Net book value</b>			
At 31 March 1999	<u>0.8</u>	<u>1.6</u>	<u>2.4</u>
At 31 March 1998	<u>1.2</u>	<u>1.5</u>	<u>2.7</u>

## Notes to the financial statements

### 16 Investment properties

#### Group

	<u>£m</u>
At 1 April 1998	8.4
Adjustment to open market value	<u>1.0</u>
At 31 March 1999	<u><u>9.4</u></u>

Investment properties were valued at 31 March 1999 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 £9.4m (1998 £8.4m) of freehold properties.

The accounting treatment for investment properties is set out in the principal accounting policies on page 33. This treatment is not in accordance with Statement of Standard Accounting Practice No. 19 "Accounting for investment properties". As a consequence the profit before interest for the year is £0.2m (1998 £0.2m) higher than it would have been had this treatment not been adopted.

### 17 Fixed asset investments

#### Group

	Interests in joint ventures £m	Interests in associated undertakings £m	Listed investments £m	Unlisted investments £m	Total £m
<b>Cost</b>					
At 1 April 1998	14.3	15.9	41.9	60.9	133.0
Exchange differences	(0.3)	0.5	(0.1)	(0.2)	(0.1)
Additions	5.2	7.5	0.1	5.6	18.4
On acquisition of subsidiaries	-	0.1	-	-	0.1
Disposals	-	(9.0)	-	(46.9)	(55.9)
Share of retained profits	1.2	1.6	-	-	2.8
Reclassification	-	(4.6)	4.6	-	-
Transfer to subsidiary	-	(1.0)	-	-	(1.0)
Fair value adjustment on becoming a subsidiary	-	(1.1)	-	-	(1.1)
At 31 March 1999	<u>20.4</u>	<u>9.9</u>	<u>46.5</u>	<u>19.4</u>	<u>96.2</u>
<b>Amounts provided</b>					
At 1 April 1998	-	0.6	1.2	17.7	19.5
Disposals	-	(0.6)	-	(16.9)	(17.5)
Provided in the year	-	0.1	1.8	-	1.9
At 31 March 1999	<u>-</u>	<u>0.1</u>	<u>3.0</u>	<u>0.8</u>	<u>3.9</u>
<b>Net book value</b>					
At 31 March 1999	<u>20.4</u>	<u>9.8</u>	<u>43.5</u>	<u>18.6</u>	<u>92.3</u>
At 31 March 1998	<u>14.3</u>	<u>15.3</u>	<u>40.7</u>	<u>43.2</u>	<u>113.5</u>

The market value of the listed investments, excluding the group's £27.1m (1998 £28.8m) investment in the Asian Infrastructure Fund is £33.0m (1998 £23.1m).

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, is not materially different from the carrying value of that investment.

## Notes to the financial statements

### 17 Fixed asset investments (continued)

#### Group (continued)

Following the disposal by the group of the majority of its shareholding, the directors do not consider that the group's remaining 20% interest in the issued share capital of Severoceske Vodovody a Kanalizace a.s. gives them significant influence over the operations of that company to include the investment in the group accounts as an associate. Accordingly, the group's remaining interest has been reclassified as a listed investment.

Company	Interests in group undertakings £m	Listed investments £m	Unlisted investments £m	Total £m
<b>Cost</b>				
At 1 April 1998	1,549.9	-	0.4	1,550.3
Additions	1,120.1	5.7	-	1,125.8
Disposals	(1,120.1)	(5.7)	-	(1,125.8)
At 31 March 1999	<u>1,549.9</u>	<u>-</u>	<u>0.4</u>	<u>1,550.3</u>
<b>Amounts provided</b>				
At 1 April 1998 and 31 March 1999	<u>1.4</u>	<u>-</u>	<u>0.3</u>	<u>1.7</u>
<b>Net book value</b>				
At 31 March 1999	<u>1,548.5</u>	<u>-</u>	<u>0.1</u>	<u>1,548.6</u>
At 31 March 1998	<u>1,548.5</u>	<u>-</u>	<u>0.1</u>	<u>1,548.6</u>

Principal subsidiary undertakings are listed in note 44.

### 18 Stocks and work in progress

Group	1999 £m	1998 £m
Raw materials and consumables	8.8	9.4
Work in progress	6.5	4.4
Finished goods and goods for resale	0.7	0.3
	<u>16.0</u>	<u>14.1</u>

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

## Notes to the financial statements

### 19 Debtors

	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
<b>Amounts falling due within one year:</b>				
Trade debtors	145.2	126.8	-	-
Amounts recoverable on contracts	26.1	20.4	-	-
Amounts owed by subsidiary undertakings	-	-	410.9	305.4
Amounts owed by associated undertakings	0.5	1.9	-	-
Other debtors	40.2	40.5	3.2	2.8
Prepayments and accrued income	91.8	66.3	9.3	4.1
Employee share option plan	-	4.2	-	-
Own shares	21.7	22.4	21.7	22.4
	<b>325.5</b>	<b>282.5</b>	<b>445.1</b>	<b>334.7</b>
<b>Amounts falling due after more than one year:</b>				
Other debtors	10.4	13.7	-	2.5
	<b>335.9</b>	<b>296.2</b>	<b>445.1</b>	<b>337.2</b>

The own shares referred to above relate to ordinary shares purchased under the qualifying employee share option trust (note 31(d)) and the executive directors' long term incentive plan (note 31(b)). The nominal value of these shares is £4.3m (1998 £4.6m).

### 20 Current asset investments

Management of liquid resources	Group		Company	
	1999	1998	1999	1998
	£m	£m	£m	£m
<b>Investments in:</b>				
Sterling fixed term and call deposits	470.5	203.3	381.9	78.4
Sterling denominated commercial papers	120.8	98.1	82.5	22.6
	<b>591.3</b>	<b>301.4</b>	<b>464.4</b>	<b>101.0</b>
<b>Amounts becoming due:</b>				
Within one year	591.3	277.9	464.4	101.0
After more than one year	-	23.5	-	-
	<b>591.3</b>	<b>301.4</b>	<b>464.4</b>	<b>101.0</b>

The sterling money market deposits above comprise deposits placed on money markets from overnight to four months. All the investments in commercial paper are at fixed interest rates; the weighted average interest rate on these securities is 5.5% and the weighted average time for which the commercial paper investment is held is one month. These assets are held as part of the financing arrangements of the group.

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, £11.7m (1998 £11.9m due after more than one year) of fixed term deposits due within one year is held on terms which only permit the funds to be used to settle a similar amount of other loans due within one year (1998 due after more than one year) (note 22(c)).

## Notes to the financial statements

### 21 Creditors

	Note	Group 1999 £m	1998 £m	Company 1999 £m	1998 £m
<b>(a) Amounts falling due within one year:</b>					
Bank loans and overdrafts		0.6	18.6	-	-
Loan notes	22(d)	6.3	8.1	6.3	8.1
Other loans	22(c)	54.7	7.5	6.4	0.3
Obligations under finance leases	23	0.3	0.4	-	-
Payments received on account on contracts		18.1	22.8	-	-
Trade creditors		145.1	144.1	-	-
Amounts owed to subsidiary undertakings		-	-	1.0	2.6
Amounts owed to associated undertakings		-	12.0	-	-
Dividends payable		112.5	21.2	112.5	21.2
Corporation tax		28.0	31.8	3.0	8.7
Windfall tax		-	141.0	-	96.2
Other taxation and social security		12.3	7.1	0.1	0.1
Other creditors		88.0	78.0	-	-
Employee share option plan		-	4.2	-	-
Accruals and deferred income		90.4	62.4	48.1	34.6
		<b>556.3</b>	<b>559.2</b>	<b>177.4</b>	<b>171.8</b>
<b>(b) Amounts falling due after more than one year:</b>					
Sterling bonds	22(a)	1,024.5	826.1	678.4	480.2
US\$ bonds	22(b)	615.2	298.5	615.2	298.5
Other loans	22(c)	219.1	260.7	8.6	6.6
Obligations under finance leases	23	265.7	173.8	-	-
Refundable customer contributions		4.9	4.5	-	-
Consortium relief		-	2.1	-	-
Amounts owed to associated undertakings		-	2.3	-	-
Dividends payable		-	49.9	-	49.9
Other creditors - between one and five years		17.6	4.5	-	-
		<b>2,147.0</b>	<b>1,622.4</b>	<b>1,302.2</b>	<b>835.2</b>

## Notes to the financial statements

### 22 Loans

On 22 December 1998 the company issued sterling bonds with a total nominal value of £140m and on 3 March 1999 the company issued further sterling bonds with a nominal value of £60m on identical terms. The details of these issues together with previous issues are set out below:

#### (a) Sterling bonds

Maturity date	Interest rate %	Nominal value £m	Premium on issue £m	Issue costs £m	Net proceeds £m	Net costs amortised £m	Carrying value £m
<b>Group</b>							
2002	10.750	75.0	-	(1.0)	74.0	0.6	74.6
2004	7.125	100.0	1.1	(2.0)	99.1	0.4	99.5
2006	8.750	200.0	3.2	(2.3)	200.9	(0.2)	200.7
2014	7.625	100.0	0.8	(2.6)	98.2	0.5	98.7
2016	9.500	200.0	6.8	(1.9)	204.9	(0.2)	204.7
2020	9.250	150.0	1.7	(3.9)	147.8	0.1	147.9
2020	7.000	200.0	-	(1.6)	198.4	-	198.4
		1,025.0	13.6	(15.3)	1,023.3	1.2	1,024.5
<b>Company</b>							
2002	10.750	75.0	-	(1.0)	74.0	0.6	74.6
2006	8.750	200.0	3.2	(2.3)	200.9	(0.2)	200.7
2016	9.500	200.0	6.8	(1.9)	204.9	(0.2)	204.7
2020	7.000	200.0	-	(1.6)	198.4	-	198.4
		675.0	10.0	(6.8)	678.2	0.2	678.4

#### (b) US\$ bonds

On 11 December 1998 the company issued US\$ bonds with a total nominal value of US\$525m. These bonds were swapped into sterling together with the future interest liability. The details of this issue together with previous issues are set out below:

Maturity date	Interest rate %	Nominal value £m	Premium on issue £m	Issue costs £m	Net Unamortised amount £m	Carrying value £m
<b>Group &amp; company</b>						
2004	6.750	120.0	0.8	(1.4)	119.4	0.1
2007	6.875	120.0	0.8	(1.4)	119.4	-
2008	6.500	136.0	1.9	(2.1)	135.8	-
2017	7.250	60.0	0.4	(0.7)	59.7	-
2028	7.375	181.0	2.6	(2.9)	180.7	0.1
		617.0	6.5	(8.5)	615.0	0.2

Fixed interest rates on the sterling/US\$ cross currency interest rate swaps used to cover the US\$ bonds referred to above range between 6.9% and 8.2%. The full nominal value of US\$1,025m was simultaneously swapped for sterling to match the future US\$ repayment liabilities at maturity.

## Notes to the financial statements

### 22 Loans (continued)

#### (c) Other loans

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>Repayable as follows:</b>				
Within one year	54.7	7.5	6.4	0.3
Between one and two years	7.4	36.2	-	-
Between two and five years	24.5	21.2	-	-
After more than five years	187.2	203.3	8.6	6.6
	<b>273.8</b>	<b>268.2</b>	<b>15.0</b>	<b>6.9</b>
Repayable wholly within five years	49.0	29.5	6.4	0.3
Repayable wholly after five years	148.6	146.6	8.6	6.6
Repayable by instalments after five years	76.2	92.1	-	-
	<b>273.8</b>	<b>268.2</b>	<b>15.0</b>	<b>6.9</b>
<b>These loans are denominated in the following currencies:</b>				
Sterling	243.7	249.7	-	0.3
Australian \$	11.7	11.9	-	-
US\$	8.6	6.6	8.6	6.6
Canadian \$	6.4	-	6.4	-
German Marks	3.4	-	-	-
	<b>273.8</b>	<b>268.2</b>	<b>15.0</b>	<b>6.9</b>

Of the above, £11.7m (1998 £11.9m) of foreign currency loans wholly repayable within five years is secured by fixed term deposits due within one year (1998 due after more than one year) held on terms which only permit those funds to be used to settle this loan (note 20).

Fixed interest rates on these loans range between 5.2% and 10.2% (1998 6.4% and 10.2%) and variable interest rates varied between 1.0% below to 0.2% above LIBOR (1998 1.0% below to 0.3% 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

### 23 Finance leases

Group	1999 £m	1998 £m
<b>Amounts due under finance leases are payable as follows:</b>		
Within one year	0.3	0.4
Between one and two years	0.2	0.2
Between two and five years	0.1	0.2
After more than five years	265.4	173.4
	<b>266.0</b>	<b>174.2</b>

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 £59.3m (1998 £60.9m). The obligations under the swap and the finance lease reduce over a term of 18 years.

### 24 Maturity of gross borrowings

The maturity profile of the group's gross borrowings, excluding bank overdrafts, was as follows:

	1999 £m	1998 £m
In one year or less, or on demand	61.3	16.0
In more than one year but not more than two years	7.6	36.4
In more than two years but not more than five years	198.7	96.0
In more than five years	1,918.2	1,426.7
	<b>2,185.8</b>	<b>1,575.1</b>

### 25 Financial instruments and risk management

Detailed disclosures of the group's financial instruments and risk management objectives, policies and strategy are set out on pages 7 to 9 of the operating and financial review. These disclosures form part of the financial statements.

#### (a) 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 £755.5m (1998 £440.1m), with termination dates ranging between December 1999 and December 2028 (1998 December 1999 and April 2017), and interest rates ranging between 6.0% and 8.4% (1998 6.0% and 8.4%).

#### Company

At 31 March 1999 the company's outstanding interest rate swap arrangements had a notional principal balance of £617.0m (1998 £300.0m) with termination dates ranging between December 2004 and December 2028 (1998 December 2004 and December 2017), and interest rates ranging between 6.9% and 8.2% (1998 7.8% and 8.2%).

## Notes to the financial statements

### 25 Financial instruments and risk management (continued)

#### (b) Currency and interest rate composition of gross borrowings

After taking into account the various interest rate and forward foreign currency swaps entered into by the group, the fixed and floating interest rate profile of the group's gross borrowings by currency was as follows:

Currency	Total		Fixed rate		Floating rate	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Sterling	2,159.1	1,556.6	1,894.9	1,387.8	264.2	168.8
US\$	8.9	6.6	-	-	8.9	6.6
Australian \$	11.7	11.9	-	-	11.7	11.9
Canadian \$	6.1	-	-	-	6.1	-
<b>Total</b>	<b>2,185.8</b>	<b>1,575.1</b>	<b>1,894.9</b>	<b>1,387.8</b>	<b>290.9</b>	<b>187.3</b>

The floating rate borrowings comprise:

- loans from the European Investment Bank that bear interest based on sterling LIBOR rates;
- sterling denominated bank borrowings that bear interest based on sterling LIBOR rates;
- finance leases;
- loan notes; and,
- foreign currency denominated bank borrowings that bear interest based on prevailing interbank borrowing rates.

The US\$ and Australian \$ borrowings set out in the above table are fully hedged against assets denominated in those currencies.

#### (c) Interest rate profile of fixed rate borrowings

Currency	Weighted average interest rate		Weighted average period for which rate is fixed	
	1999 %	1998 %	1999 Years	1998 Years
Sterling	8.0	8.4	13.8	12.0

The figures in the above table take into account the interest rate and forward foreign currency swaps used to manage the group's fixed interest rate profile.

#### (d) Borrowing facilities

Undrawn committed borrowing facilities were:-

	1999 £m	1998 £m
Committed borrowing facilities available	450.0	450.0
Drawn	(14.7)	(6.4)
Expiring after more than two years	435.3	443.6

## Notes to the financial statements

### 25 Financial instruments and risk management (continued)

#### (e) Fair values of financial instruments

In the table below the fair value of short term borrowings, current asset investments, cash at bank and in hand and bank loans and overdrafts approximates to book values due to the short maturity of these instruments.

The fair value of long term borrowings has been determined by reference to prices available from the financial markets on which these borrowings are traded. The fair value fundamentally represents the change in anticipated future interest rates and foreign exchange rates, to the dates of maturity of the borrowings, between the date those long term borrowings were raised and the year end. This increased liability will only materialise if the group ceases trading and future anticipated interest and foreign exchange rates remain at year end levels.

	Note	Book value £m	1999 Fair Value £m
<b>Primary financial instruments held or issued to finance the group's operations:</b>			
Short term borrowings		(61.3)	(61.3)
Long term borrowings		(2,124.5)	(2,321.0)
Current asset investments	20	591.3	591.3
Cash at bank and in hand		21.0	21.0
Bank loans and overdrafts	21(a)	(0.6)	(0.6)
	38	(1,574.1)	(1,770.6)
<b>Derivative financial instruments held to manage the interest rate and currency profile and matched by primary financial instruments:</b>			
Interest rate swaps		-	(10.5)
Combined interest rate and forward foreign currency swaps		-	(51.1)
		(1,574.1)	(1,832.2)
<b>Derivative financial instruments held to manage the interest rate profile and not matched by a primary financial instrument:</b>			
Interest rate swaps		-	(8.1)
		(1,574.1)	(1,840.3)

The fair value of derivative financial instruments matched by primary financial instruments relates to long term borrowings with a book value of £674.5m which have been included within the primary financial instruments issued to finance the group's operations at a fair value of £676.3m, which is the redemption value of those borrowings.

## Notes to the financial statements

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### 25 Financial instruments and risk management (continued)

#### (f) Losses on derivative financial instruments

The fair value of losses on derivative financial instruments are not recognised in the financial statements. These instruments are held to manage the group's interest rate and currency exposures and the resultant fixed interest charges are made in the accounting periods to which they relate. The table below analyses the composition of the fair value losses (note 25(e)). Of these losses, £61.6m are entirely notional and would only materialise if the group were to cease trading:

	<b>Total losses</b>
	<b>1999</b>
	<b>£m</b>
At 1 April 1998	<u>(42.1)</u>
Entered into during the year	<u>(27.6)</u>
At 31 March 1999	<u><u>(69.7)</u></u>
Of which:	
Losses expected to be included in 1999/2000	(1.3)
Losses expected to be included in 2000/01 or later years	(6.8)
Losses not expected to be included in 2000/01 or later years	<u>(61.6)</u>
	<u><u>(69.7)</u></u>

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### 26 Capital and financial commitments

#### (a) Capital commitments

Group	1999	1998
	£m	£m
Contracted for but not provided in the financial statements	<u>182.5</u>	<u>391.7</u>

In order to meet additional quality and service standards, together with growth and new demands, the group has capital investment obligations over the next six years amounting to approximately £2.0 billion at current prices in the regulated water and sewerage business and approximately £450 million at current prices, within the regulated electricity distribution and supply business. These investment plans are subject to potential modifications as part of the regulatory price review processes which are currently taking place for both regulated businesses.

#### (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 committed to take under this 15 year agreement amounted to 24 tWh. To the extent that the value of this contract was estimated to be in excess of market values for such contracts prevailing at the date of acquisition of South Wales Electricity plc, a fair value provision was established (see note 28(e)).

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## Notes to the financial statements

### 27 Leasing commitments

At 31 March 1999 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:

Group	Land and buildings		Others	
	1999 £m	1998 £m	1999 £m	1998 £m
Within one year	0.9	1.3	4.7	0.5
Between two and five years	2.8	1.3	2.6	0.5
After five years	2.6	3.9	3.0	-
	<b>6.3</b>	<b>6.5</b>	<b>10.3</b>	<b>1.0</b>

Company	Land and buildings		Others	
	1999 £m	1998 £m	1999 £m	1998 £m
Within one year	0.2	0.2	-	-
After five years	0.1	0.1	-	-
	<b>0.3</b>	<b>0.3</b>	<b>-</b>	<b>-</b>

### 28 Provisions for liabilities and charges

	Note	Group		Company	
		1999 £m	1998 Restated £m	1999 £m	1998 £m
Deferred taxation	(a)	-	-	-	-
Group insurance funds	(b)	12.9	19.2	-	-
Reorganisation provision	(c)	47.9	59.1	0.7	0.5
Pensions provision	(d)	2.8	3.0	1.2	0.9
Power purchase provision	(e)	65.7	73.0	-	-
Other provisions	(f)	13.8	13.4	0.5	1.3
		<b>143.1</b>	<b>167.7</b>	<b>2.4</b>	<b>2.7</b>

#### (a) Deferred taxation

No deferred taxation has been provided in either the group or company. The amounts unprovided of the total potential liability are as follows:

Group	Amount unprovided	
	1999 £m	1998 £m
Tax effect of timing differences:		
Excess of tax allowances over depreciation	355.3	406.9
Other timing differences	(20.5)	(31.2)
	<b>334.8</b>	<b>375.7</b>
Chargeable gains on properties rolled over	0.2	0.2
Earnings retained overseas	3.3	2.9
	<b>338.3</b>	<b>378.8</b>
Less advance corporation tax (note 10)	-	(64.5)
	<b>338.3</b>	<b>314.3</b>

## Notes to the financial statements

### 28 Provisions for liabilities and charges (continued)

#### (a) Deferred taxation (continued)

Company	Amount unprovided	
	1999 £m	1998 £m
Tax effect of timing differences:		
Excess of tax allowances over depreciation	0.2	0.1
Other timing differences	(0.4)	(0.3)
	<u>(0.2)</u>	<u>(0.2)</u>

#### (b) Group insurance funds

Group	£m
At 1 April 1998	<u>19.2</u>
Premiums	1.9
Claims	(0.4)
Investment income	0.2
Released to profit and loss account	<u>(8.0)</u>
At 31 March 1999	<u>12.9</u>

Cover against certain risks is provided by Brecon Insurance Company Limited, a wholly owned subsidiary undertaking of the group. The storm damage provision of £6.5m at 31 March 1998 has been released to the profit and loss account during the year in accordance with FRS 12.

#### (c) Reorganisation provision

	Note	Group £m	Company £m
At 1 April 1998		<u>59.1</u>	<u>0.5</u>
Charge for the year	4	2.0	0.3
Utilised		<u>(13.2)</u>	<u>(0.1)</u>
At 31 March 1999		<u>47.9</u>	<u>0.7</u>

#### (d) Pensions provision

	Note	Group £m	Company £m
At 1 April 1998		<u>3.0</u>	<u>0.9</u>
Charge for the year		0.3	0.3
Utilised		<u>(0.5)</u>	-
At 31 March 1999		<u>2.8</u>	<u>1.2</u>

## Notes to the financial statements

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### 28 Provisions for liabilities and charges (continued)

#### (e) Power purchase provision

##### Group

	<u>£m</u>
At 1 April 1998	73.0
Utilised	<u>(7.3)</u>
At 31 March 1999	<u>65.7</u>

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 commenced when the electricity cost pass-through arrangements ceased.

#### (f) Other provisions

	Group	Company
	£m	£m
At 1 April 1998	<u>13.4</u>	<u>1.3</u>
Charge	3.3	0.3
Utilised	<u>(2.9)</u>	<u>(1.1)</u>
At 31 March 1999	<u>13.8</u>	<u>0.5</u>

These provisions principally relate to leasehold property provisions and other claims arising.

#### (g) Infrastructure maintenance provision

##### Group

	<u>£m</u>
At 1 April 1998	4.0
Prior year adjustment	<u>(4.0)</u>
Restated at 1 April 1998 and 31 March 1999	<u>-</u>

The infrastructure maintenance provision has been restated by way of a prior year adjustment in accordance with FRS 12. All water and sewerage infrastructure expenditure is now treated as additions to fixed assets, in accordance with FRS 15, with an annual depreciation charge which is equivalent to the annual expenditure required to maintain the operating capability of the water and sewerage infrastructure network based on the independently certified asset management plan (note 15(a)).

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## Notes to the financial statements

### 29 Accruals and deferred income

#### Group

	<u>£m</u>
At 1 April 1998	152.0
Receivable during the year	9.2
Released to profit and loss account	<u>(5.9)</u>
At 31 March 1999	<u>155.3</u>

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.

### 30 Called up share capital

	<u>1999</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>
<b>Authorised:</b>		
166,666,667 ordinary shares of 120p each (1998 166,666,667)	200.0	200.0
209,000,000 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1998 209,000,000)	<u>209.0</u>	<u>209.0</u>
	<u>409.0</u>	<u>409.0</u>
<b>Allotted, called up and fully paid:</b>		
151,018,332 ordinary shares of 120p each (1998 149,293,550)	181.2	179.2
207,181,776 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1998 207,181,776)	<u>207.2</u>	<u>207.2</u>
	<u>388.4</u>	<u>386.4</u>

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 716p per share.

In total 1,724,782 ordinary shares, with an aggregate nominal value of £2.1m were issued in the year. The cash consideration received in respect of the issue of 114,564 ordinary shares was £0.5m. Included within the total are 1,610,218 ordinary shares with an aggregate nominal value of £1.9m issued in relation to the scrip dividend plan for which no cash consideration was received.

## Notes to the financial statements

### 31 Employee share schemes

#### (a) Hyder plc share schemes

The company has four 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.

Options granted but not yet exercised under these schemes at 31 March 1999 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	
				1999	1998
Employee sharesave scheme	Jul 1991	Oct 1998 - Mar 1999	295 - 296	-	254,025
	Dec 1992	Mar 1998- Aug 1998	425 - 427	-	19,585
	Dec 1992	Mar 2000- Aug 2000	425 - 427	321,180	335,955
	Sept 1994	Oct 1999 - Mar 2000	522 - 525	358,333	387,769
	Sept 1994	Oct 2001 - Mar 2002	522 - 525	165,911	186,328
	Dec 1994	Feb 2000 - Aug 2000	522 - 525	243,724	258,100
	Dec 1994	Feb 2002 - Aug 2002	522 - 525	107,021	113,198
	Jul 1997	Sep 2000 - Feb 2001	650	734,208	826,449
Jul 1997	Sep 2002 - Feb 2003	650	2,477,291	2,579,177	
				<u>4,407,668</u>	<u>4,960,586</u>
Executive share option scheme	Jul 1991	Jul 1994 - Jul 2001	354	24,049	29,484
	Jul 1993	Jul 1996 - Jul 2003	563	55,909	55,909
	Aug 1993	Aug 1996- Aug 2003	648	21,146	26,432
	Jan 1994	Jan 1997 - Jan 2004	716	151,442	185,084
	Jan 1995	Jan 1998 - Jan 2005	676	21,857	21,857
				<u>274,403</u>	<u>318,766</u>
Overseas share plan	Oct 1997	Nov 2000 - Apr 2001	841	67,280	78,847
	Oct 1997	Nov 2002 - Apr 2003	841	32,910	48,909
				<u>100,190</u>	<u>127,756</u>
				<u>4,782,261</u>	<u>5,407,108</u>

No options were granted during the year ended 31 March 1999. All options and rights over Hyder plc ordinary shares held under Inland Revenue approved share schemes can be exercised early in certain exceptional circumstances such as retirement or redundancy.

During the year two Inland Revenue approved profit sharing schemes were established, one for the benefit of staff employed by Hyder Utilities (the utilities scheme) and a separate scheme for the benefit of employees of Hyder plc (the plc scheme). The number of Hyder ordinary shares appropriated under these schemes in July 1998 and held in trust at 31 March 1999 were 72,211 ordinary shares under the utilities scheme and 1,688 ordinary shares under the plc scheme. All shares are held in trust under the rules of the schemes. A further appropriation of shares will take place in July 1999 subject to scheme targets and eligibility criteria being met.

## Notes to the financial statements

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### (b) Hyder plc long term incentive plan (L-Tip)

The company L-Tip is available to executive directors and selected senior executives. Full details of this scheme are set out in the Remuneration committee report on pages 21 and 22. The ordinary shares which are conditionally allocated under the L-Tip are purchased in the market by an employee benefit trust with funds allocated by the company. The trustees have waived dividends on the shares held.

During the year a second L-Tip was established for the benefit of a director, J M James, who does not participate in the main L-Tip. Details are disclosed in the Remuneration committee report on pages 21 and 22.

### (c) South Wales Electricity plc share schemes

At the time of its acquisition by Hyder plc, South Wales Electricity plc operated two Inland Revenue approved share schemes for the benefit of its employees, the South Wales Electricity plc employee sharesave scheme and the South Wales Electricity plc executive share option scheme ("the SWALEC schemes") which are substantially the same as those operated by Hyder plc.

At 31 March 1999 no options were outstanding under the SWALEC schemes all options having been exercised or lapsed during the year. At 31 March 1998 the following options were outstanding.

	<u>Date option granted</u>	<u>Normal date of exercise</u>	<u>Option price per share</u>	<u>Number of 120p ordinary shares</u>
Sharesave scheme	Oct 1992	Jan 1998 - Jul 1998	314p	5,152
	Feb 1993	May 1998-Nov 1998	363p	429,045
Discretionary share scheme	Jan 1992	Jan 1995 - Jan 2002	329p	9,203
	Jan 1993	Jan 1996 - Jan 2003	454p	3,451
	Jul 1993	Jul 1996 - Jul 2003	477p	6,902
				<u>453,753</u>

### (d) Qualifying employee share option trust (Quest)

In March 1998 the company established a qualifying employee share option trust (Quest) 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. At 31 March 1999 Hyder Share Scheme Trustee (2) Limited, as trustee, held 3,437,499 ordinary shares (1998 3,752,436) with a market value of £27.0m (1998 £36.7m).

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

Details of share options outstanding under the Hyder and SWALEC sharesave schemes are stated in notes 31(a) and 31(c) above.

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## Notes to the financial statements

### 32 Share premium account

	Group £m	Company £m
At 1 April 1998	138.9	138.9
Premium on ordinary shares issued	0.4	0.4
Nominal value of ordinary shares issued under scrip dividend in lieu of cash dividend (note 30)	(1.9)	(1.9)
At 31 March 1999	<u>137.4</u>	<u>137.4</u>

### 33 Reserves

#### (a) Profit and loss account

	Group £m	Company £m
At 1 April 1998	248.0	445.1
Profit/(loss) retained for the year	106.5	(16.2)
Goodwill written back on disposal of investment	2.0	-
Scrip dividend issued in lieu of cash dividend	14.6	14.6
Foreign currency translation gains	0.2	-
Reserves adjustment on acquisition of subsidiary	(0.5)	-
At 31 March 1999	<u>370.8</u>	<u>443.5</u>

The cumulative goodwill written off directly to reserves is £628.3m (1998 £630.3m).

In accordance with the group's accounting policy, £0.2m of net exchange losses (1998 £0.2m net gains) on foreign currency loans which match investments have been offset in reserves.

#### (b) Capital reserve

	Group £m	Company £m
At 1 April 1998 and 31 March 1999	<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 31(c)).

#### (c) Investment revaluation reserve

	Group £m	Company £m
At 1 April 1998	0.2	-
Revaluations	1.0	-
At 31 March 1999	<u>1.2</u>	<u>-</u>

#### (d) 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

### 34 Minority interest

Equity minority interests	Group £m	Company £m
At 1 April 1998	-	-
Arising on acquisition of subsidiaries (note 39)	2.6	-
At 31 March 1999	2.6	-

### 35 Net cash inflow from operating activities

	1999	1998
	£m	Restated £m
Operating profit	296.6	244.7
Depreciation of tangible fixed assets	124.4	101.3
Amounts written off tangible fixed assets	7.1	1.5
Amounts provided on intangible fixed assets and fixed asset investments	2.0	1.5
Amortisation of grants and contributions	(5.9)	(5.5)
Profit on sale of fixed assets	-	(0.8)
Net increase in stocks	18 (1.9)	(0.6)
Net increase in debtors	(27.8)	(23.7)
Net increase/(decrease) in creditors	14.3	(0.2)
Contribution from/(to) insurance fund	28(b) 0.2	(2.8)
Reorganisation provisions	28(c) (11.2)	9.7
Contribution to pension fund	28(d) (0.2)	(0.1)
Power purchase provision release	28(e) (7.3)	-
Other provisions - storm damage	28(f) (6.5)	-
Net cash inflow from operating activities	383.8	325.0

## Notes to the financial statements

### 36 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 1998	(8.5)	301.4	(1,575.1)	(1,282.2)
Consolidated cashflow statement	28.9	289.7	(605.4)	(286.8)
Acquired with subsidiaries (note 39)	-	-	(3.4)	(3.4)
Issued on acquisition of subsidiaries (note 39)	-	-	(1.7)	(1.7)
Bond issue costs written back	-	-	(0.1)	(0.1)
Currency translation differences on foreign currency net debt	-	0.2	(0.1)	0.1
At 31 March 1999	20.4	591.3	(2,185.8)	(1,574.1)

#### (b) Year end reconciliation

	Note	1999 £m	1998 £m
Loans and finance lease obligations:			
Amounts falling due within one year	21(a)	(61.3)	(16.0)
Amounts falling due after more than one year	21(b)	(2,124.5)	(1,559.1)
	36(a)	(2,185.8)	(1,575.1)
Current asset investments:			
Amounts becoming due within one year	20	591.3	277.9
Amounts becoming due after more than one year	20	-	23.5
Cash at bank and in hand		21.0	10.1
Bank loans and overdrafts	21(a)	(0.6)	(18.6)
	36(a)	(1,574.1)	(1,282.2)

### 37 Analysis of changes in financing in the year

	Share capital (including premium)		Loans & finance lease obligations	
	1999 £m	1998 £m	1999 £m	1998 £m
At 1 April	525.3	479.7	1,575.1	1,248.9
Loans and bonds	-	-	529.4	448.7
New finance leases	-	-	92.1	34.1
Loans acquired with subsidiaries (note 39)	-	-	3.4	-
Loan notes issued on acquisition of subsidiaries (note 39)	-	-	1.7	-
Loan repayments	-	-	(9.0)	(145.7)
Finance leases redeemed	-	-	-	(4.4)
Finance lease repayments	-	-	(0.5)	(0.5)
Bond issue costs written back	-	0.1	0.1	0.1
Proceeds from the issue of ordinary shares	0.5	4.9	-	-
Fair value of ordinary shares issued under Quest schemes for non-cash consideration	-	40.6	-	-
Expenses of issuing bonds	-	-	(6.6)	(3.5)
Currency translation difference	-	-	0.1	(2.6)
At 31 March	525.8	525.3	2,185.8	1,575.1

## Notes to the financial statements

### 38 Reconciliation of net cash flow to increase in net debt

	Note	1999 £m	1998 £m
Increase/(decrease) in cash as per cashflow statement		28.9	(29.7)
Increase in loans and finance lease obligations	36(a)	(605.4)	(328.7)
Increase in liquid resources held as current asset investments	36(a)	289.7	32.4
Increase in net debt resulting from cash flows		(286.8)	(326.0)
Acquired with subsidiaries	39	(3.4)	-
Issued on acquisition of subsidiaries	39	(1.7)	-
Bond issue costs written back		(0.1)	(0.1)
Currency translation difference	36(a)	0.1	(0.2)
Increase in net debt		(291.9)	(326.3)
At 1 April		(1,282.2)	(955.9)
At 31 March		(1,574.1)	(1,282.2)

### 39 Acquisitions

On 30 September 1998 the group acquired the trade and assets of The Oxford Consortium and on 26 February 1999 the entire issued share capital of BPS (Public Sector) Ltd. In addition, on 25 June 1998 the group increased its interest in Acer (Cyprus) Ltd from 50% to 100% and on 19 March 1999 the group increased its shareholding in AcerPlan GmbH from 41.3% to 56%. These operations have been integrated into the continuing activities of the group.

The provisional fair values attributable to these businesses were as follows:

	fair value to the group	
	£m	£m
Tangible fixed assets		6.2
Fixed asset investments		0.1
Debtors		8.2
Cash		1.9
Bank loans		(3.2)
Creditors		(6.8)
Lease obligations		(0.2)
Net assets		6.2
Associate share already held		(1.0)
Minority interests remaining (note 34)		(2.6)
Net assets acquired		2.6
<b>Consideration:</b>		
Cash	4.3	
Loans	1.7	6.0
Goodwill (note 14)		3.4

All businesses purchased have been accounted for using the acquisition method. The resulting goodwill capitalised, including £1.8m of negative goodwill on the acquisition of AcerPlan, is being amortised in accordance with the group accounting policy.

No significant fair value adjustments were made in respect of these acquisitions. However, because of the proximity of the acquisition of BPS (Public Sector) Ltd and AcerPlan GmbH to the year end, the fair values will be reassessed next year. The results of the acquired businesses are not considered by the directors to be significant to the group.

## Notes to the financial statements

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### 40 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.

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### 41 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 Hyder Water Pension Scheme (HWPS), the Water Mirror Image Pension Scheme (WMIS), the Electricity Supply Pension Scheme (ESPS) and the Acer Group Pension Scheme (AGPS).

The employer's contributions and pension cost under the accounting standard Statement of Standard Accounting Practice No. 24 "Accounting for Pension Costs" (SSAP24) for the HWPS and WMIS has been assessed in accordance with the advice of William M. Mercer Limited, consulting actuaries, using the projected unit method for HWPS and the attained age method for WMIS. For this purpose the actuarial assumptions adopted are based upon investment growth of 6.5% per annum, pay growth of 4.5% per annum and increases to pensions in payment and deferred pensions of 3% per annum.

The last actuarial valuations for HWPS and WMIS were carried out as at 31 March 1998 with the market values being £324.6m and £99.9m respectively. Using the assumptions adopted for SSAP 24, the actuarial value of assets represented 113% for HWPS and 118% for WMIS of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the surpluses in HWPS and WMIS are spread over the future working lifetime of employees.

The employer's contributions and pension cost for the South Wales section of the ESPS has been assessed in accordance with advice from Bacon and Woodrow, consulting actuary, at 31 March 1998, using the attained age actuarial method. For this purpose the principal actuarial assumptions adopted were an investment growth of 8.5% per annum, pay growth of 6% per annum and increases to pensions in payment of 4.5% per annum.

The latest actuarial valuation was carried out at 31 March 1998, with the market value of the assets being £526.3m. Using the assumptions adopted for SSAP24 the actuarial value of the assets represented 110% 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 employer's contributions and pension cost for AGPS, being the principal UK scheme for Hyder Consulting Group 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

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### 41 Pension schemes (continued)

The total group pension cost for the period was £14.5m (1998 £14.3m). A prepayment of pension costs of £6.6m (1998 £5.9m) is included in note 19 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 on a basis consistent with SSAP 24. These 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.

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### 42 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 £500.4m (1998 £414.8m). 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 1999 the overdrafts in subsidiary companies in the cash pooling arrangement amounted to £29.8m (1998 £23.3m).

The company, as ultimate holding company, has provided third party guarantees of £18.8m (1998 £11.9m) 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.

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### 43 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.

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## Notes to the financial statements

### 44 Principal group undertakings

	Country of incorporation, registration and operation	Shareholding	
		Directly %	Indirectly %
<b>Subsidiary undertakings</b>			
<b>Utility activities</b>			
Hyder Utilities (Holdings) Limited	England and Wales	100	
<b>Regulated water and sewerage activities</b>			
Dwr Cymru Cyfyngedig*	England and Wales		100
Welsh Water Utilities Finance PLC	England and Wales		100
Hyder Utilities (Operations) Limited	England and Wales		50
<b>Regulated electricity distribution activities</b>			
South Wales Electricity plc (distribution business)*	England and Wales		100
Hyder Utilities (Operations) Limited	England and Wales		50
<b>Energy supply activities</b>			
South Wales Electricity plc (supply business)*	England and Wales		100
SWALEC Gas Limited	England and Wales		100
<b>Managed Services activities</b>			
Hyder Services Limited	England and Wales		100
<b>Infrastructure activities</b>			
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
Hyder Infrastructure Management Limited	England and Wales	100	
Phoenix Electrical Company Limited	England and Wales		100
South Wales Electricity Generating Limited	England and Wales		100
<b>Other activities</b>			
Brecon Insurance Co 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 an indirect subsidiary of Hyder Utilities (Holdings) Limited.

## Notes to the financial statements

### 44 Principal group undertakings (continued)

#### Joint ventures and associated undertakings

	Country of incorporation	Total joint venture / associate company's equity	Group shareholding
<b>Joint ventures</b>			
UK Highways M40 (Holdings) plc Ordinary shares of £1 each	England and Wales	£11.0m	40.0%
UK Highways A55 (Holdings) Limited Ordinary shares of £1 each	England and Wales	£0.5m	45.0%
Subordinated loan stock		£9.3m	45.0%
City Greenwich Lewisham Link Rail plc Ordinary shares of £1 each	England and Wales	£1.5m	40.0%
Loan stock		£11.0m	40.0%
Tieyhtio Nelostie Oy Shares of Fmk 100 each	Finland	Fmk 50,000	43.0%
Loan stock		Fmk 50m	43.0%
Laing Hyder plc Ordinary shares of £1 each	England and Wales	£1.1m	50.0%
Loan stock		£0.5m	50.0%
<b>Associated undertakings</b>			
The China Water Co Ltd Shares of US\$ 0.50 each	Cayman Islands	US\$ 64.8m	20.0%

The above companies are franchise operators within the highways and railways sectors, with the exception of The China Water Co Ltd which is an infrastructure investment business operating in the Chinese water and waste water sectors and Laing Hyder plc, which is an infrastructure investment business operating in the UK Public Private Partnership accommodation sector.

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.

## Five year summary

	Year ended 31 March				
	1999	1998	1997	1996	1995
	£m	£m	£m	£m	£m
<b>Turnover</b>	<b>1,294.4</b>	<b>1,185.1</b>	<b>1,140.2</b>	<b>651.6</b>	<b>521.9</b>
<b>Operating profit:</b>					
Continuing operations	296.6	284.7	277.6	180.9	155.7
Exceptional items:					
Continuing operations	-	(40.0)	-	(55.0)	(28.5)
<b>Total operating profit</b>	<b>296.6</b>	<b>244.7</b>	<b>277.6</b>	<b>125.9</b>	<b>127.2</b>
Income from investments	34.7	19.5	6.8	2.7	1.0
<b>Profit on ordinary activities before interest and taxation</b>	<b>331.3</b>	<b>264.2</b>	<b>284.4</b>	<b>128.6</b>	<b>128.2</b>
Net interest payable	(123.6)	(95.7)	(76.2)	(15.7)	(7.8)
<b>Profit on ordinary activities before taxation</b>	<b>207.7</b>	<b>168.5</b>	<b>208.2</b>	<b>112.9</b>	<b>120.4</b>
Ordinary taxation	(10.3)	(13.9)	(23.6)	(19.0)	(19.0)
<b>Profit after ordinary taxation</b>	<b>197.4</b>	<b>154.6</b>	<b>184.6</b>	<b>93.9</b>	<b>101.4</b>
Exceptional taxation	-	(281.9)	-	-	-
<b>Profit/(loss) after taxation</b>	<b>197.4</b>	<b>(127.3)</b>	<b>184.6</b>	<b>93.9</b>	<b>101.4</b>
Preference dividends	(16.4)	(16.4)	(16.5)	(7.8)	-
Ordinary dividends	(74.5)	(73.3)	(62.7)	(52.3)	(49.6)
<b>Retained profit/(loss) for the year</b>	<b>106.5</b>	<b>(217.0)</b>	<b>105.4</b>	<b>33.8</b>	<b>51.8</b>
<b>Fixed assets</b>	<b>2,937.9</b>	<b>2,653.0</b>	<b>2,361.8</b>	<b>2,106.1</b>	<b>1,315.6</b>
<b>Net current assets</b>	<b>407.9</b>	<b>62.6</b>	<b>16.8</b>	<b>215.6</b>	<b>359.1</b>
<b>Total assets less current liabilities</b>	<b>3,345.8</b>	<b>2,715.6</b>	<b>2,378.6</b>	<b>2,321.7</b>	<b>1,674.7</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>(2,147.0)</b>	<b>(1,622.4)</b>	<b>(1,123.7)</b>	<b>(1,167.9)</b>	<b>(435.4)</b>
<b>Provisions for liabilities and charges</b>	<b>(143.1)</b>	<b>(167.7)</b>	<b>(162.1)</b>	<b>(172.3)</b>	<b>(25.1)</b>
<b>Accruals and deferred income</b>	<b>(155.3)</b>	<b>(152.0)</b>	<b>(140.3)</b>	<b>(133.4)</b>	<b>(33.3)</b>
<b>Net assets</b>	<b>900.4</b>	<b>773.5</b>	<b>952.5</b>	<b>848.1</b>	<b>1,180.9</b>
<b>Capital and reserves</b>					
Called up share capital	388.4	386.4	378.9	375.7	146.7
Share premium account	137.4	138.9	100.8	94.3	135.6
Reserves	372.0	248.2	472.8	378.0	898.5
Equity shareholders' funds	691.2	566.9	746.0	641.5	1,180.8
Non-equity shareholders' funds	206.6	206.6	206.5	206.5	-
<b>Total shareholders' funds</b>	<b>897.8</b>	<b>773.5</b>	<b>952.5</b>	<b>848.0</b>	<b>1,180.8</b>
Equity minority interests	2.6	-	-	-	0.1
Non-equity minority interests	-	-	-	0.1	-
	<b>900.4</b>	<b>773.5</b>	<b>952.5</b>	<b>848.1</b>	<b>1,180.9</b>

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