

Hyder plc

Directors' report and financial statements for the year ended 31 March 2000

Registered no. 2366776



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Directors and advisors

Directors

J V H Robins	Non-executive Group Chairman (<i>N</i>)
G A Hawker	Group Chief Executive (<i>N</i>)
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 (<i>A, N, R</i>)
R B Salmon	Non-executive director (<i>A, N, R</i>)
R H Sellier	Non-executive director (<i>A, N, R</i>)

(A) member of the Audit committee

(N) member of the Nominations committee

(R) member of the Remuneration committee

Company Secretary and registered office

R G Curtis
PO Box 295, Alexandra Gate, Rover Way, Cardiff, CF24 5UE

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
JP Morgan

Operating and financial review

Review of strategic options

On 9 December 1999 the board announced that it had been undertaking a review of strategic options. The review was undertaken following the imposition of the windfall tax and in the light of the final periodic water and electricity distribution regulatory price review proposals. The price reviews imposed a sharp reduction in permitted revenues, adversely impacting future regulated profitability, and it was clear that the group's financial structure, and in particular the high level of borrowings, was no longer appropriate to the needs of the group given the new circumstances.

A number of strategic options had been and were subsequently considered and detailed discussions were held with various counterparties. On 18 April the Board announced that it had reached agreement with the Board of St David Capital plc ("SDC") (a company formed by the Principal Finance Group of Nomura International plc group of companies) on the terms of a recommended cash offer to acquire the whole of the issued and to be issued ordinary share capital of Hyder.

Subsequent to the posting of this offer to shareholders on 28 April, the board of WPD Limited ("WPD") (a company owned by PPL Corporation and Southern Company) announced that it was considering making an offer for Hyder. Subsequently, on 31 May WPD, announced the terms of a cash offer to be made, which was posted to shareholders on 26 June. The Board considered the terms offered carefully and concluded that, at the time of posting, it was not able to recommend the WPD offer as a number of regulatory issues associated with the offer remained to be resolved. SDC subsequently announced on 29 June that it was to extend its offer for a further 14 days.

In view of the present offers for the Company the Board has decided not to declare a final dividend for the year ended 31 March 2000. In the absence of the offers for the company the Board would have expected to declare a final dividend of 13.3p (1999: 33.6p) per ordinary share, making a total dividend for the year ended 31 March 2000 of 20.0p (1999: 50.4p). Should neither of the offers proceed and be declared unconditional it would be the intention of the Board to then review the dividend position and whether it would be appropriate to declare a special interim dividend.

Group performance

Our underlying performance in the regulated businesses was in line with expectations. In anticipation of the water and electricity price settlements, we have also undertaken a significant restructuring entailing, without disruption to the business, a reduction of 1,000 jobs (approximately 20% of the utility workforce). This will leave us well placed to meet the challenges of the price determinations.

Our non-regulated businesses have continued to develop strong positions in their markets, building on progress made over a number of years. This has been achieved through our privately financed investment in transport, other major infrastructure projects and buildings, as well as in providing and operating a range of utility and managed services to businesses and the public sector, and through our activities as a leading developer of renewable energy sources. The external managed services business, in particular, has made very significant progress, with its order-book increasing to over £450m during the year.

The group's performance is dependent upon the quality of its employees. The Board acknowledges their exceptional contribution and continued dedication throughout the year, despite the difficult circumstances facing the group, and uncertainties caused by the two competing bids.

Group turnover from operations was £1,285.9m (1999: £1,294.4m) while profit before interest, tax and exceptional items and profit on disposal of group operations was £305.0m (1999: £329.6m).

Operating and financial review

Water and sewerage

Total turnover in our regulated water and sewerage business, Dwr Cymru Welsh Water, was £472.7m (1999: £456.0m) and profit before interest and exceptional items was £186.0m (1999: £166.6m).

Exceptional costs totalling £34.1m (1999: £nil) were incurred. A £20.0m charge arose following assessment of the impact on our ability to collect domestic water and sewerage debt of the Government's decision to ban disconnection of domestic water supplies, combined with last year's ruling on the Watercard budget system, and the High Court decision that the "Two in One" budget scheme was not authorised under the Electricity Act. Restructuring costs of £14.1m were also incurred during the year. Significant progress has been made towards meeting the particularly demanding operating cost efficiency targets set by Ofwat at the regulatory price review.

During the year sales of metered units to industrial and commercial customers increased by 1.5% which follows a 3.5% reduction last year. In addition, some 12,500 domestic customers (1999: 15,000) switched to taking supply on a metered basis which reduced our income base by some £2.5m per annum.

Underlying operating costs fell in real terms by 1% having absorbed the additional operating costs arising from the investment programme. Capital investment was £252m which brings to £1,282m total capital investment since April 1995, when price limits for the completed five year regulatory period to March 2000 came into effect. All capital investment output obligations under the five year regulatory period had been met in full by the end of the financial year.

Dwr Cymru Welsh Water has continued to make substantial progress in improving the water environment during the year. The company's 1995 - 2000 investment in sewers and sewage treatment has been instrumental in meeting our own target of more than 50 Blue Flag awards (or their equivalent) by 2000 (half of the UK total) from a starting base of only 2 in 1995. In all, some 75 bathing beaches have achieved the guideline standard set out in the European Bathing Water Directive.

Compliance on water quality was at best ever levels. Drinking water quality as measured by Ofwat's "water quality index" continued to improve. We continue to make good progress on leakage reduction, beating the target set by Ofwat. Leakage levels have been reduced by some 30% over the last 5 years. Quality of service to customers, as measured by Ofwat, remained at very high levels, placing the company in the top category on overall customer service performance. The commitment to high levels of customer service was recognised in the award of CharterMark to Dwr Cymru Welsh Water for the third time.

Electricity distribution

Total turnover in our electricity distribution business was £199.1m (1999: £195.4m). Underlying operating costs fell in real terms by 6%. Profit before interest and exceptional items was £87.5m (1999: £96.0m including a one-off credit of £6.5m due to the release of storm damage provisions in accordance with accounting standard FRS12).

Exceptional costs totalling £60.7m (1999: £nil) were incurred, comprising the write off of £50.2m of computer system development costs, £6.0m of restructuring costs and £4.5m of costs relating to new licence obligations taking effect from April 2000. Computer system development write-offs included a £26.1m charge on the cancellation of a proposed new utility billing system which did not meet the needs of the rapidly developing and sophisticated multi-product offerings. Following acceptance of Ofgem's distribution price review proposals in which the actual cost of systems developed for the opening of the competitive electricity market during 1998 were not fully allowed, a £24.1m charge has been made against the carrying value of relevant systems.

Capital investment on improving and maintaining the distribution network was £63m (1999: £74m). Total network investment during the period from April 1995 amounted to £341m.

Operating and financial review

Customer service standards continued to improve from the levels achieved in 1999, with customer complaints falling by a further 28%, guaranteed standard payments down by 22%, and the average time customers were without their electricity supply improved by a further 7%.

Energy supply

Total turnover in our energy supply business was £501.9m for the 10½ month period up to 17 February 2000, being the date on which legal completion of the sale of the business took place (1999: £588.9m for the full financial year). Profit before interest and exceptional items was £14.9m (1999: £26.3m). Exceptional costs of £17.9m were incurred during the year, which included a £17.4m share of the write-off arising on cancellation of the proposed new utility billing system and £0.5m restructuring costs.

Following the cancellation of the utility billing system development, the terms of the business sale to British Energy were revised to provide for the early termination of the related managed services agreement, and the business sale consideration was reduced by £20m. As a consequence of these revisions, a review has been undertaken of the systems which would have been used to support that contract, and a further write-down of fixed assets amounting to £8.5m has been made.

The net profit on disposal of the Supply activities amounted to £44.3m after taking into account the above items, the release of unutilised fair value adjustments which arose on the acquisition of South Wales Electricity plc in 1996, and after charging £84m of acquisition goodwill previously charged to reserves. Group net assets therefore increased by £128m before taxation on the sale of the Supply business.

Managed services

Total turnover in our managed services business was £164.0m (1999: £176.1m). The reduction in turnover mainly reflects the completion of major IT projects and lower inter company sales. Profit before interest and exceptional items was £6.7m (1999: £22.2m). This reflects the general reduction in activity levels, start-up costs on new managed services contracts, costs associated with re-basing our level of IT support for systems development, and anticipated losses following renegotiation of the British Energy contract.

The business underwent an important change during the year, with it making the transition from a single management unit with a predominantly internal customer base into two separately managed businesses with their own distinct identities and areas of activity. This was driven by the rapid development of the external managed services activities into a business of scale in its own right, necessitating the establishment of a distinct management team which could give focused attention to its markets and customers. The transition has been successfully implemented.

Significant progress was made by the external business under the name Hyder Business Services. It is focused on providing value adding managed services to the governmental, utility and commercial sectors. The value of orders secured during the year amounted to over £400m (1999: £46m), and its order-book at March 2000 amounted to over £450m. The level of bid prospects continues to improve, and is now at the highest ever level.

Significant achievements during the year include:

- winning a £306m 10 year contract for provision of a range of key services commencing in April 2000 including IT, human resource, financial and property management to Lincolnshire County Council under the government's "best value" initiative. Additional work has already been secured under the contract,
- securing a four year contract for Greenwich NHS Trust to provide the first healthcare procurement system of its kind in the UK. This will enable medical staff to dedicate more time to patient care and less on administration, and
- opening a commercial 300 seat, fully web enabled, new generation contact centre in South Wales.

Operating and financial review

Hyder Business Services is rapidly establishing a reputation as an innovative and competitive supplier of managed services to its chosen sectors, and has seen its workforce increase to more than 1,600 staff by April 2000 from less than 150 at March 1999.

The internal business provides customer, IT, procurement and fleet services to our two regulated utility businesses, and to British Energy and Hyder Business Services. Its focus is on reducing costs and providing innovative, high quality service to its customers. It has made significant progress in reducing its cost base during the year, without affecting the quality of services provided, and is now well placed to make a substantial contribution towards achieving the overall efficiency targets set in the latest water and electricity distribution regulatory reviews. Following the revision of the initial terms of the managed service agreement with British Energy, a new service provider is being appointed by British Energy, and some 600 staff will in due course transfer to the new service provider at no cost to Hyder.

Infrastructure

Profit before interest and exceptional items in Infrastructure was £11.4m (1999: £22.2m). Last year's results included the sale of our investment in NTL which realised a profit of £15.3m. As at 31 March 2000, investments by Infrastructure totalled £161m (1999: £141m). A number of investment disposals were deferred during the year because we considered that investment returns could be maximised by deferring disposals to future years.

We successfully concluded, shortly after the end of the financial year, negotiations to secure a 25 year PFI contract with the Ministry of Defence for the refurbishment and subsequent facilities management of its Whitehall Main Building. We are the largest shareholder in this project, and will invest £21.2m in the project vehicle. During the year we also concluded investments in a company to provide telecommunications infrastructure to the London Underground, and also in a waste water treatment service provider in Belfast. Both of these companies have performed well during the year.

We continue to actively manage our investments in projects. A number of our early concession investments have now successfully progressed through the initial construction and revenue risk period, and opportunities to release value by refinancing or part realisation are being pursued.

We have established a strong capability in the PFI/PPP market, with a proven ability to successfully bid and negotiate projects on attractive commercial terms. We continue to pursue appropriate investment opportunities, and a number of suitable projects are currently under development. Our list of prospects, which includes a number of projects which have advanced to either preferred bidder or to exclusive negotiation stage, has improved during the year, and the business is well placed to continue its growth and development.

We have established a strong competitive position in the growing market for renewable energy provision in the UK. During 2000 we successfully commissioned 7 further generation projects, taking our total contracted capacity to 62MW. The output from the majority of these projects is sold under 10 - 15 year NFFO contracts at guaranteed premium rates. We have a further 50MW of projects under development, including the exclusive rights to develop a portfolio of landfill gas generation projects for the Waste Recycling Group. We continue to consolidate our leading position in the market for outsourced water and effluent treatment services to industry, and have an established list of "blue-chip" customers.

Our electrical contracting business operates in a broad range of markets providing a range of outsourced operational and installation services. It continues to develop soundly, and has achieved improved results during the year. Prestigious contract wins include electrical contracts for the redevelopment of the former Daily Mirror premises at Holborn, and a 46 storey tower in Canary Wharf.

The performance of our engineering and environmental consulting business was disappointing, suffering a trading loss in highly competitive markets. A restructuring is being undertaken to realign the business in response to current market conditions.

Operating and financial review

Exceptional items

Restructuring costs of £35.1m principally relate to a reduction of 1,000 jobs in the regulated water and electricity distribution businesses. Surplus provisions of £10.2m relating to prior year manpower reduction programmes were released during the year after reappraisal of obligations and were offset against the £35.1m charge in the year.

Computer system development costs written off amounting to £43.5m related to the cancellation of a new utility billing system which did not meet the needs of the rapidly developing and sophisticated multi purpose product offerings.

Computer system development costs of £24.1m were also written off following the electricity distribution price review whereby the costs of systems developed before the opening of the electricity competitive market were not remunerated by the regulator. The carrying value of these computer systems were written down to £8.8m. Costs of £4.5m relating to new electricity metering obligations, effective from April 2000, have also been charged as an exceptional item.

The bad and doubtful debt provision of £20m arose from a reassessment of our ability to collect domestic water and sewerage debt following the Government's decision to ban disconnection of domestic water supplies, combined with the ruling on the watercard and the High Court decision that the "Two in One" budget scheme was not authorised under the Electricity Act.

The write down of own shares of £10.0m reflects the reduction of in value of Hyder shares held by the company under the Qualifying employee share option schemes and the directors' long term incentive scheme.

Leasehold property provisions of £1.6m related to the directors' assessment of the future cost of unoccupied leasehold properties.

Profit on disposal of group operations

On 17 February 2000 we completed the sale of the electricity and gas energy supply businesses to British Energy which resulted in a profit on disposal of £44.3 after releasing unutilised fair value adjustments which arose on the acquisition of South Wales Electricity plc, and after charging £84.0m of acquisition goodwill previously written off to reserves and £8.5m of fixed asset write downs. On 31 March 2000, we sold our environmental laboratories to Severn Trent which yielded a profit of £2.7m. Total profits on disposals amounted to £47.0m

Interest

Net interest payable for the year was £146.7m (1999 £123.6m). The increase of £23.1m primarily relates to the funding of the investment programmes, which amounted to £382m (1999 £463m) and the full year effect of the second instalment of the windfall tax (£141m) which was paid in December 1998. The increase in interest payable was however offset by the £104m net proceeds from the sale of the energy supply businesses.

The average interest rate on fixed interest rate borrowings for the year was 8.0% (1999 8.0%) with interest being covered 2.1 times by profits before interest, exceptional items and profit on disposal of group operations (1999 2.7 times).

Taxation

The taxation charge for the year of £1.9m is an effective rate prior to profits on disposal of group operations, exceptional items and prior year tax credits of 6.9% compared to 13.4% last year. The tax charge includes a £9.7m tax credit relating to exceptional items (1999 £nil), deferred tax of £15.0m (1999 £nil), overseas taxation of £1.0m (1999 £0.4m) and prior year credits of £14.4m (1999 £19.0m). The tax charge has been reduced by £12.2m (1999 increased by £9.0m) in respect of timing differences for which no deferred tax provision is made.

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Dividends on ordinary shares

In the absence of the two offers for the company the Board would have declared a final dividend of 13.3p (1999 33.6p) per ordinary share. Should neither of the offers proceed and be declared unconditional it would be the intention of the Board to then review the dividend position and whether it would be appropriate to declare a special interim dividend.

Change in net debt

Net debt, being borrowings of £2,131m less net cash balances and deposits of £457m, amounted to £1,674m (1999 £1,574m). This increase reflects the group's cash characteristics and principally relates to the cash outflow from our capital investment programmes and investments in joint ventures and associates of £382m (1999 £463m). This year our net debt was reduced by the £104m net proceeds from the sale of the energy supply businesses to British Energy. Net cash inflows from operating activities, but after deducting interest, normal taxation and dividends, amounted to £126m (1999 £235m). The reduction of £109m in cash inflows principally related to two significant items; namely ordinary dividends paid which were £80m higher than in 1999 due to the delay in dividend payment dates in 1999 which maximised advance corporation tax relief, and £27m being higher interest payments reflecting the full year effect of the second instalment of the windfall tax (paid December 1998).

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 89% (1999 87%) of gross borrowings of £2,131m, were at long term fixed interest rates, fixed for an average period of 12.9 years (1999 13.8 years). The remaining 11% (1999 13%) were at floating rates of interest.

Our exposure to floating rate debt of £244m (1999 £291m) is hedged against interest rate movements by cash balances and deposits of £457m (1999 £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 £2.1m (1999 £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 17% (1999 16%)

Operating and financial review

not place an excessive strain on our ability to repay loans. Currently no more than 17% (1999 16%) of our borrowings mature in any twelve month period. In addition, to preserve continuity of funding, at least 83% of borrowings will mature in more than five years and at least 53% in more than ten years.

At the year end, 1% (1999 2%) of gross borrowings were due to mature in the next twelve months; 16% (1999 10%) will mature in the following four years and 83% (1999 88%) thereafter.

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 £10.8m (1999 £14.7m) had been utilised. The £10.8m 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 2.4 years.

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

Foreign currency risk

Cumulative US Bond issues amounting to US\$1,025m have been converted into sterling as £617m. We have entered into US dollar swaps which ensure that we are not exposed to any currency exposure when the dollar repayments fall due.

We have also entered into cross currency interest rate swaps whereby the dollar coupon rates were exchanged for sterling interest rates.

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 operating units in currencies other than the group's reporting 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 currency exposures with a net unrealised loss of £1m (1999 £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 reduced by £1.3m at 31 March 2000 (1999 £0.2m increase) due to foreign exchange movements affecting overseas debt, cash balances and other assets.

Contracts for differences

Contracts for differences (CFDs) existed within the energy supply business prior to the disposal of the business to British Energy on 17 February 2000. The CFDs largely insulated the group against the effects of variability of electricity pool prices.

Any obligations arising under the CFDs were taken over by British Energy when they acquired the energy supply businesses. No residual risk resides within Hyder and as a consequence the unutilised power purchase provision of £59.3m (note 27(e)) on 17 February 2000 was released to the profit and loss account as part of the profit on disposal of group operations (note 39).

Operating and financial review

Year 2000

Over the Millennium and Leap Year transition periods there was no material disruption of our operations and services resulting from date related issues and all services were delivered as normal.

In response to the potential year 2000 threat, we implemented a group-wide programme of work to protect our business operations and interests from the impact of date changes associated with the millennium, in particular the transition period from the year 1999 to the year 2000. Since the inception of the Year 2000 programme in 1997 progress was regularly audited and reviewed at Board level.

We recognised our key role in the infrastructure supporting Wales, and actively participated in industry wide Year 2000 initiatives such as the UK Utilities Group, the Welsh Assembly High Level Forum and groups established by Water UK and the Electricity Association. A policy of information sharing and transparency was adopted throughout the programme which extended to assisting members of our broader supply chain in their own Year 2000 preparations.

Our year 2000 preparations were subjected to rigorous and independent assessment by our industry regulators and assessment findings were reported nationally to Action 2000. In August 1999, our regulated water and electricity businesses were classified as being at Blue status, meaning that the independent assessment had not revealed any risks of material disruption arising from the Year 2000 date change.

Notwithstanding the progress that was made throughout the group to tackle the Year 2000 issues, specific Year 2000 business continuity plans were developed which were underpinned by having additional staff working over the millennium weekend. A formal reporting structure was established over the New Year period to enable regular status reports to be submitted to OFGEM, OFWAT, the Cabinet Office, the Welsh Assembly, local and national media and emergency service organisations operating within Wales.

We did not experience any significant problems in our business critical systems following the 1 January 2000 date change or during the February leap year period. Contingency plans have however been kept in place should any issues arise.

Year 2000 costs in the year were £2.9m bringing the total expenditure on the Year 2000 programme since 1997 to £13.7m.

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.

Accounting policy changes

A description of the principal accounting policies is provided on pages 29 to 33. For the year ended 31 March 2000, Financial Reporting Standard (FRS) 16 'Current tax' became mandatory and has 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' became mandatory in the year ended 31 March 2000. In preparing the accounts for the year ended 31 March 1999 we adopted the FRS 15 section on renewals accounting. For the year ended 31 March 2000 the provisions of FRS 15 have been adopted in full.

Corporate governance statement

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 directors have reviewed the group's internal control systems in light of the Combined Code provision D.2.1. In accordance with the continued dispensation from the London Stock Exchange for the financial year ended 31 March 2000 the group is reporting on their review of internal financial controls in accordance with the Rutteman guidelines issued in December 1994. Directors believe that arrangements have been put in place with effect from 1 April 2000 which will allow the group to report fully under the Combined Code for the financial year ending 31 March 2001.

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 2000 annual general meeting to those shareholders that request them.

Board of directors

The Board is responsible to the shareholders for all aspects of the group's performance and meets on a regular basis to set and review the strategic direction of all the group's 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 three non-executive directors. All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

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 group 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 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

Corporate governance statement

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 R B Salmon.

The Remuneration committee comprises all of the non-executive directors other than the Group Chairman and has written terms of reference. This committee meets as necessary to consider and determine the terms and conditions of employment of the executive directors, including salary, bonus, long term incentive and pension entitlements. The committee also 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, 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. The committee is chaired by the Group Chairman.

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, the Director of Legal Services, the Director of Group Development and the Managing Directors of the group's principal businesses. 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.

The Group Chief Executive is also advised by two steering groups which were established during the year - the Environment Group and the Health and Safety Group. Both groups are chaired by an executive director, M P Brooker, and include representatives from each of the group's principal businesses.

Internal financial control and risk management

The Board of directors has overall responsibility for the group's system of control, including 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. During the year a procedure was established and communicated to all staff under the new "whistle-blower" legislation.

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.

The Group Risk Forum, which meets bi-monthly and is chaired by an executive director, oversees and monitors the processes of risk management in the group and reports and, where necessary, makes recommendations to the Group Chief Executive. This forum also promotes best practice by the issue of guidance on topical issues, which have risk management implications and require specialised knowledge or expertise, and by testing the robustness of the process of the assessment of the principal risks facing each group business and the policy, procedure and controls in place to mitigate and monitor such risks.

Corporate governance statement

We have endeavoured 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 has routinely taken 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 has been to develop confidence that the group follows company strategy and plans and that any deviation from this was communicated effectively. During the period of the group's strategic review meetings were held with the holders of over 45% of the Company's issued ordinary share capital.

The group experienced no significant business disruption as a result of the "millennium bug". Through the Group Risk Forum, the Company established a consolidated action plan to minimise the risk that computer programs and operational equipment used within the group would be affected by the change of date at year 2000. A steering group has also been established to consider and recommend action necessary in relation to 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 that the financial statements 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 group's internal control systems are monitored and supported by the corporate audit function which operates on a global basis and reports to the Group Chief Executive and the Audit committee on the group's operations. The head of corporate audit has direct access to management and the Audit committee. The priorities of corporate audit are developed to focus on the areas of greatest risk to the group, determined on the basis of a risk management approach to audit.

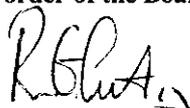
The external auditors are engaged to express an opinion on the financial statements. They review and test the system of internal financial control and the data contained in the financial statements to the extent necessary for expressing their opinion on the financial statements.

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 company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis of accounting.

By order of the Board



Company Secretary

12 July 2000

Directors' report

The directors present their eleventh annual report to shareholders, together with the audited financial statements for the year ended 31 March 2000 on pages 29 to 78.

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. On 17 February 2000, the group's electricity and gas supply businesses were sold to British Energy Retail Markets Limited, together with the business name SWALEC. The group's electricity distribution business now operates under the trading name Infraclec.

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; the provision of outsourced utility services including on-site generation and treatment of liquid wastes and the development of green energy projects including renewable power generation - hydropower and gas to energy schemes.

During the year the group continued its growth in the outsourced managed services market place where it has an increasing presence and reputation especially in the local government and health sectors of the market. Subsequent to the financial year end on 3 April 2000 Hyder Business Services Group Limited signed the largest outsourcing contract of its kind in the United Kingdom with Lincolnshire County Council.

During the year the price controls for the regulated water and electricity businesses were set for the period 2000 to 2005. On 5 January 2000, the Boards of Hyder plc, Dwr Cymru Cyfyngedig and South Wales Electricity plc concluded that, while dissatisfied with certain elements of these very challenging price controls, particularly for the water business, it was in the best interests of shareholders to accept the price controls and not to appeal to the Competition Commission.

Overall, the underlying trading performance has been satisfactory during the year.

Offers to acquire the entire ordinary issued share capital of Hyder plc

Subsequent to the financial year end St David Capital plc made an offer to shareholders to acquire the entire issued ordinary share capital of Hyder plc. Details of the offer were set out in a circular to shareholders dated 28 April 2000. At 28 June 2000, the third closing date for acceptances of this offer, St David Capital plc, in addition to the 25,135,547 ordinary shares acquired in the market (representing 16.25 per cent of issued capital), had received acceptances from shareholders representing 2.5 per cent of the issued share capital. The fourth closing date for acceptances of this offer is 12 July 2000. The level of acceptances at this time will be announced by St David Capital plc on 13 July 2000.

On 26 June 2000 a second circular was mailed to shareholders which set out details of a second offer to acquire the entire issued ordinary share capital of Hyder plc made by WPD Limited. The first closing date for acceptances of this offer is 25 July 2000. WPD Limited currently owns 11,069,278 ordinary shares acquired in the market.

The advice of the board at 12 July 2000 in respect of these offers remains as announced on 29 June 2000 and circulated to all shareholders on 3 July 2000.

Consolidated results

Profit on ordinary activities before taxation and excluding exceptional items amounted to £205.3m (1999 £206.0m). After exceptional items, minority interests, preference dividends and ordinary tax of £147.1m (1999 £25.0m) the profit attributable to ordinary shareholders amounted to £58.2m (1999

Directors' report

£181.0m). Ordinary dividends of £10.1m (1999 £74.5m) are recommended to be paid in respect of the year.

Dividend on ordinary shares

The directors do not recommend a final dividend (1999 33.6p (net) per ordinary share), making a total ordinary dividend of 6.7p (net) for the year to 31 March 2000 (1999 50.4p). The interim dividend of 6.7p (net) was paid on 6 March 2000.

Dividend on preference shares

A preference dividend of 3.9375p (1999 3.9375p) (net) per preference share in respect of the six month period ending 31 July 2000 will be paid on that date to all preference shareholders whose names are on the register on 30 June 2000, making a total preference dividend of 7.875p (1999 7.875p) for the year ending 31 July 2000.

Fixed assets

Freehold land and buildings, excluding investment properties, are carried in the accounts at historical cost at a net book value of £52.9m (1999 £55.6m). In the opinion of the directors there was no significant difference between book values of property capable of disposal within the foreseeable future and market values at 31 March 2000.

Directors

The names of the current directors of the company are shown on page 1. All directors, other than T Knowles who retired on 23 July 1999 and J E Roberts who resigned on 25 May 1999, served throughout the year ended 31 March 2000.

In the normal course of events M P Brooker and P J Twamley will retire by rotation in accordance with Article 108 of the company's Articles of Association at the annual general meeting in 2000.

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 18 to 26.

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 2000 and 31 March 1999 were as follows:

	Ordinary shares of 120p		Cumulative redeemable preference shares of £1		Options over ordinary shares of 120p	
	31 March 2000	31 March 1999	31 March 2000	31 March 1999	31 March 2000	31 March 1999
J V H Robins	1,109	1,016	-	-	-	-
G A Hawker	14,212	* 14,212	13,408	13,408	894	894
M P Brooker	13,158	13,158	14,408	14,408	794	794
J M James	13,084	20,584	450	450	41,070	41,070
P J Twamley	5,202	4,538	2,070	2,070	14,839	15,076
D G Hawkins	577	528	-	-	-	-
R B Salmon	4,500	-	-	-	-	-
R H Sellier	294	268	252	252	-	-
T Knowles (i)	n/a	5,415	n/a	5,850	n/a	-
J E Roberts (ii)	n/a	1,034	n/a	-	n/a	2,484
	52,136	60,753	30,588	36,438	57,597	60,318

* The interest of GA Hawker has been revised from that previously reported following notification of an under-reporting of his PEP interest in a previous financial period

(i) Retired 23 July 1999

(ii) Resigned 25 May 1999

In addition, at 31 March 2000 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 (1999 £9,000).

The above table does not include conditional allocations of shares under the long term incentive plan, details of which are set out on pages 20 and 21.

On 1 October 1999 PJ Twamley exercised 237 options under the sharesave scheme at a price of 523p per share. The market value of ordinary shares at that date was 543.5p per share. This resulted in a gain on exercise of options by directors during the year of £48 (1999: nil). The gain is the difference between the share option price and the share price on the date the share options are exercised.

No changes in directors' interests occurred during the period 1 April 2000 to 12 July 2000.

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

Share capital - substantial interests

As at 12 July 2000, 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
St David Capital plc	16.26%
WPD Limited	7.15%
Fidelity Investments	6.94%
The Capital Group Inc.	5.84%
Sanford C Bernstein & Co. Inc.	5.23%
Deutsche Bank AG London	3.01%

Directors' report

Policy on the payment of creditors

It is group policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated the group endeavours to adhere to the supplier's standard terms. The group's average payment period in the year for the continuing businesses was 50 days (1999 43 days). After including the businesses which were discontinued in the year the average payment period in the year was 47 days (1999 43 days). The company has no trade creditors.

Employment policies

The Group aims to attract, retain and motivate employees through effective employment policies and membership of employee sharesave schemes and providing a wide range of development opportunities and training initiatives aimed at broadening the skills base of the employees and the Group.

It is Hyder's policy that there should be no discrimination against any person for any reason that is not relevant to the effective performance of their job.

In accordance with the company's equal opportunity policy, disabled people are given the same consideration as others in applying for jobs and enjoy the same career opportunities and scope for realising their potential as other employees.

Effective communication continues to be a key priority for managers throughout the group, with regular staff newspapers, videos and information bulletins supporting face to face communications.

Research and development

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

Contributions for charitable and political purposes

During the year there were no political donations and charitable donations amounted to £200,000 (1999 £155,000). In addition, the group has provided funding to community projects and is involved in Business in the Community initiatives.

Environmental policies

The group continues to work 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, and the Conservation, Access and Recreation Report published by Dwr Cymru Cyfyngedig can be obtained by writing to the Company Secretary or from the Hyder web-site (www.hyder.com/environment), as will the reports for 2000 when published later in the summer.

Directors' report

Regulatory accounts

The Instrument of Appointment of the Water and Sewerage Undertakers and the Public Electricity Supply Licence, under which the group's regulated water and electricity businesses operate, requires specific accounting statements to be published. Copies of the regulatory accounts for Dwr Cymru Cyfyngedig and South Wales Electricity plc will be available from the Company Secretary after 31 July 2000 and 30 September 2000 respectively.

Auditors

PricewaterhouseCoopers have signified their willingness to continue in office as auditors of the company and a resolution for their re-appointment will be proposed at the annual general meeting.

By order of the Board



RG Curtis
Company Secretary

12 July 2000

Remuneration committee report

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 Financial Services Authority 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.

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.

Since his appointment as Group Chairman in 1998 J V H Robins has been paid fees at the rate of £125,000 per annum.

The fee paid to each non-executive director, excluding the chairman, was £28,000 (1999 £28,000). 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
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

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 a review on 1 April 2000 basic salaries remain unchanged from those agreed, and reported previously, and are set out below.

G A Hawker	£267,800
M P Brooker	£150,380
J M James	£195,700
P J Twamley	£195,700

(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 2000 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, other than in the case of J M James where 30% of basic salary can be paid in relation to the achievement of personal objectives.

No incentive payments have been paid in respect of the year ended 31 March 2000. In 1999 incentive payments varied between 32% and 37%.

Subsequent to the financial year end the committee determined that a bonus of £50,000 be awarded to JM James. This award was previously disclosed in the circular issued to Hyder shareholders on 28 April 2000. By way of clarification of the disclosure set out in the circular, this conditional award is payable only on successful completion of the Hyder strategic review and is therefore made in respect of the financial year ending 31 March 2001.

Remuneration committee report

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. A second long term incentive plan specifically for JM James, which is in all essential terms identical to the plan approved by shareholders, except that a time related proportion of the shares earned up to the date of JM James' retirement will be vested and released at that date, was approved by the Board with effect from 1 April 1998.

The long term incentive plans provide 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.

The rules of the long term incentive plans provide that if the company's ranking, by total shareholder return, in the FTSE mid 250 index at the end of the performance period is 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.

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 51,052 ordinary shares to the participating executive directors at 792.9p per share on 7 July 1999. Of the 51,052 ordinary shares allocated in the year, 46,936 ordinary shares were reallocated from previously lapsed conditional allocations and 4,116 ordinary shares were purchased in the market. The additional cost of the 51,052 ordinary shares allocated in the year was £0.03m. The market value on 31 March 2000 of the 137,850 shares held by the trust was £0.3m and the original cost was £1.23m. 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.

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.

On 8 March 2000 the FTSE Equity Indices Committee announced that the market capitalisation of Hyder was below that necessary to maintain its status as part of the FTSE mid 250 index. Accordingly interests under the Hyder LTIP which would ordinarily vest in April 2001 and April 2002 would not, if present circumstances were to continue, be capable at those future dates of meeting the performance criteria for these awards to crystallise. The remuneration committee does not regard it appropriate at this time to consider exercising its powers under the rules of the long term incentive plans to modify the exercise criteria.

Remuneration committee report

	1 April 1999	Conditional allocation in year	Lapsed in year	31 March 2000	Shares incapable of vesting *	Price per share of allocation (Pence)	Vesting date
G A Hawker	4,664	-	-	4,664	-	742	April 1999
	15,400	-	(15,400)	-	-	779	April 2000
	13,279	-	-	13,279	(13,279)	978	April 2001
	-	16,887	-	16,887	(16,887)	793	April 2002
	33,343	16,887	(15,400)	34,830	(30,166)		
M P Brooker	8,663	-	(8,663)	-	-	779	April 2000
	7,457	-	-	7,457	(7,457)	978	April 2001
	-	9,483	-	9,483	(9,483)	793	April 2002
	16,120	9,483	(8,663)	16,940	(16,940)		
J M James	9,704	-	-	9,704	(9,704)	978	April 2001
	-	12,341	-	12,341	(12,341)	793	April 2002
	9,704	12,341	-	22,045	(22,045)		
J E Roberts **	3,524	-	-	3,524	-	742	April 1999
	11,294	-	(11,294)	-	-	779	April 2000
	10,215	-	(10,215)	-	-	978	April 2001
	25,033	-	(21,509)	3,524	-		
P J Twamley	3,109	-	-	3,109	-	742	April 1999
	11,294	-	(11,294)	-	-	779	April 2000
	9,704	-	-	9,704	(9,704)	978	April 2001
	-	12,341	-	12,341	(12,341)	793	April 2002
	24,107	12,341	(11,294)	25,154	(22,045)		
	108,307	51,052	(56,866)	102,493	(91,196)		

* these interests at 31 March 2000 were incapable of vesting because at that time the market capitalisation of Hyder was below that necessary to maintain its status as part of the FTSE mid 250 index.

** resigned on 25 May 1999 as a result of which the 21,509 ordinary shares, conditionally allocated but not yet crystallised, lapsed.

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) his 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% (1999 12.0%) of pensionable pay.

To the extent that their benefits from the company scheme are restricted by Inland Revenue limits, J M James, P J Twamley and J E Roberts 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 2000	Total pension at 31 March 2000 £000 p.a.	Increase/ (decrease) in accrued pension in the year £000 p.a.	Transfer value equivalent of increase/ (decrease) in accrued pension over the year £000	Contributions paid by each director £000	Company pension cost £000
G A Hawker	52	153	(3)	(49)	16	(65)
M P Brooker	52	80	2	25	9	16
J M James	60	48	4	77	12	65
P J Twamley	53	54	4	62	12	50
J E Roberts *	54	17	1	19	3	16

* resigned on 25 May 1999

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 2000 and based on 31 March 2000 pay levels. The increase/(decrease) in accrued pension in the year excludes any increase for inflation during the year ended 31 March 2000.

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

Remuneration committee report

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, P J Twamley and J E Roberts 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

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

	2000	1999
	£000	£000
Fees	<u>218</u>	215
Salary payments (including benefits in kind)	929	1,056
Performance related bonus	-	345
	<u><u>1,147</u></u>	<u>1,616</u>

Remuneration committee report

The directors' emoluments, excluding pension contributions, were as follows:

	Salary/fees		Performance related bonus		Benefits in kind		Total	
	2000	1999	2000	1999	2000	1999	2000	1999
	£000	£000	£000	£000	£000	£000	£000	£000
G A Hawker	268	260	-	95	13	10	281	365
M P Brooker	150	146	-	47	14	13	164	206
J M James	196	190	-	64	19	19	215	273
J E Roberts (iv)	52	200	-	69	4	12	56	281
P J Twamley	196	190	-	70	17	16	213	276
	862	986	-	345	67	70	929	1,401
J V H Robins (i)	125	113	-	-	-	-	125	113
I R Evans	-	15	-	-	-	-	-	15
D G Hawkins	28	28	-	-	-	-	28	28
T Knowles (ii)	9	28	-	-	-	-	9	28
R B Salmon (iii)	28	3	-	-	-	-	28	3
R H Sellier	28	28	-	-	-	-	28	28
	218	215	-	-	-	-	218	215
	1,080	1,201	-	345	67	70	1,147	1,616

- (i) appointed Group Chairman from 15 May 1998
(ii) retired as a non-executive director on 23 July 1999
(iii) appointed as non-executive director on 24 February 1999
(iv) resigned on 25 May 1999

Highest paid director

	G A Hawker 2000 £000	G A Hawker 1999 £000
Aggregate emoluments	281	365
Gains on share options exercised	-	-
	281	365
Accrued pension at end of the year under defined benefit pension schemes	153	153

Remuneration committee report

Share options

No director was granted any share options during the period 1 April 1999 to 31 March 2000.

Options held by each of the directors over the ordinary shares of the company are as below. Options are held under the terms of the employee sharesave scheme, except as marked § which were under the terms of the executive share option scheme.

	1 April 1999	Granted in year	Exercised in year	31 March 2000	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
P J Twamley	§ 14,839	-	-	14,839	563	-	Jul 1996	Jul 2003
	237	-	237	-	523	544	Oct 1999	Mar 2000
	15,076	-	237	14,839				

On 1 October 1999 PJ Twamley exercised 237 options under the sharesave scheme. This resulted in a gain on exercise of options by directors during the year of £48 (1999: nil). The gain is the difference between the share option price and the share price on the date the share options are exercised.

No other director exercised any options during the year.

JE Roberts resigned as a director on 25 May 1999 and subsequently 2,484 options held under the sharesave scheme lapsed.

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 2000 was 221.75p (1999: 786p) and the range during the year to that date was 179p to 789.5p (1999: 748p to 1,040p).

Remuneration committee report

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.

On behalf of the Remuneration committee



D G Hawkins
Chairman, Remuneration committee

12 July 2000

Directors' responsibilities for the financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company 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



R G Curtis
Company Secretary

12 July 2000

Auditors' report to the members of Hyder plc

We have audited the financial statements on pages 29 to 78 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 29 to 33.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 27, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations 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 10 to 12 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

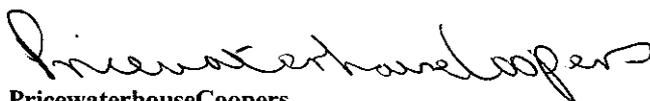
Basis of audit opinion

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 2000 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
12 July 2000

Principal accounting policies

The financial statements have been prepared in accordance with Accounting Standards applicable in the United Kingdom and, except for the treatment of 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 14(d) and 15 respectively. A summary of the principal group accounting policies, which have been consistently applied, is shown below.

Changes in presentation of financial information

Since the previous directors' report and financial statements, the Accounting Standards Board has issued Financial Reporting Standard (FRS) 16 - Current tax. In addition the Urgent Issues Task Force (UITF) has issued a number of abstracts in the year. FRS 15 - Tangible fixed assets became mandatory in respect of the year ended 31 March 2000. In preparing the accounts for the year ended 31 March 1999, only the section of FRS 15 on infrastructure maintenance accounting had been adopted. Where relevant these financial statements comply with the new standards and UITF abstracts and have adopted in full FRS 15. Where appropriate comparative figures have been restated.

Basis of accounting

These financial statements have been prepared in accordance with the historical cost convention, as modified by the inclusion of an external professional valuation of the group's interest in certain investment properties.

Basis of consolidation

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

Acquisitions and disposals

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

Goodwill arising from the purchase of subsidiary undertakings and investments in associated undertakings prior to the introduction of FRS 10 - 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, positive and negative, 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.

Principal accounting policies

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).

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.

Principal accounting policies

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 14(d).

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

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

Investment properties

In accordance with Statement of Standard Accounting Practice No. 19 "Accounting for Investment Properties", investment properties are included in the balance sheet at open market value. Depreciation is not applied, except where properties are held by the group on leasehold with an unexpired term of 20 years or less. This treatment departs from the general requirement of the Companies Act 1985 to provide depreciation on any asset which has a limited useful economic life. 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 15).

Profits and losses on the disposal of investment properties are calculated as the difference between the net sale proceeds and the net carrying value in the accounts (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.

Principal accounting policies

Investments

Long term investments held as fixed assets are stated at cost less amounts written off or provided to reflect impairments 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 and joint ventures.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value which takes account of any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and directly attributable overheads.

Amounts recoverable on long term contracts

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

Pension costs

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

Foreign currencies

On consolidation, balance sheets and profit and loss accounts of subsidiary undertakings are translated into sterling at closing rates of exchange. Exchange differences resulting from the translation at closing rates of net investments in subsidiary and associated undertakings are dealt with in the statement of total recognised gains and losses.

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

All other exchange gains or losses on settlement or translation at closing rates of exchange of monetary assets and liabilities are included in the determination of profit for the year.

Principal accounting policies

Financial instruments

Derivative instruments utilised by the group are currency swaps, currency forward exchange contracts, and interest rate swaps. Derivative instruments are used for hedging purposes to alter the risk profile of existing underlying exposures within the group. Currency swap agreements and currency forward exchange contracts are translated at the rates ruling in the agreements and contracts.

Interest differentials, under interest 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 30(c)). The shares held are included as fixed asset investments and are stated at cost less amounts provided to reflect impairment in value. 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 30(b)). Whilst the L-Tips are capable of vesting to the directors the cost of the ordinary shares are written off against profits over the three year performance period to which the conditional allocation relates. The cost of shares which have lapsed under the L-Tip criteria are credited to profits. The shares held are included in fixed assets investments and are stated at cost less amounts provided to reflect impairment in value.

Consolidated profit and loss account for the year ended 31 March 2000

	Note	2000 £m	1999 Restated £m
Turnover:			
Group and share of joint ventures - continuing operations		810.8	709.7
Less: share of joint ventures		(30.9)	(7.9)
Group turnover - continuing operations		779.9	701.8
Group turnover - discontinued operations		506.0	592.6
Group turnover	2 & 3	1,285.9	1,294.4
Net operating costs:			
Continuing operations	4	(615.8)	(431.2)
Discontinued operations		(509.7)	(566.6)
		(1,125.5)	(997.8)
Group operating profit:			
Continuing operations		164.1	270.6
Discontinued operations		(3.7)	26.0
		160.4	296.6
Group operating profit before exceptional items :			
Continuing operations		274.8	270.6
Discontinued operations		14.2	26.0
		289.0	296.6
Exceptional items :			
Continuing operations	5	(110.7)	-
Discontinued operations		(17.9)	-
		(128.6)	-
Group operating profit after exceptional items :			
Continuing operations		164.1	270.6
Discontinued operations		(3.7)	26.0
		160.4	296.6
Share of operating profit in:			
Joint ventures - continuing operations		6.0	2.6
Associates - continuing operations		0.8	1.9
		167.2	301.1
Total operating profit - Group and share of joint ventures and associates :			
Continuing operations		170.9	275.1
Discontinued operations		(3.7)	26.0
		167.2	301.1
Group income from investments -continuing operations	7	3.5	9.9
Profit on disposal of interests in investments	8	5.7	18.6
Profit on disposal of group operations	39	47.0	-
Profit on ordinary activities before interest		223.4	329.6

Consolidated profit and loss account for the year ended 31 March 2000 (continued)

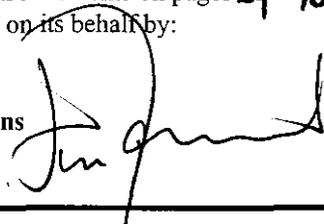
	2000	1999
	£m	Restated £m
	Note	
Interest receivable		20.5
Interest payable:		
Group	9	(143.4)
Joint ventures		(0.7)
Profit on ordinary activities before taxation		206.0
Taxation	10	(8.6)
Profit on ordinary activities after taxation		197.4
Equity minority interests	33	-
Dividends on preference shares and appropriations	11	(16.4)
Profit attributable to ordinary shareholders		181.0
Dividends on ordinary shares	11	(74.5)
Retained profit for the year	32	106.5
Earnings per ordinary share		
- basic	12	123.4p
- diluted	12	122.5p
Earnings per ordinary share before exceptional items and profit on disposal of group operations		
- basic	12	123.4p
- diluted	12	122.5p
Dividends per ordinary share	11	50.4p

Balance sheets at 31 March 2000

	Note	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Intangible assets	13	3.5	3.8	-	-
Tangible assets	14	2,951.1	2,832.4	2.2	2.4
Investment properties	15	10.9	9.4	-	-
Investments in:	16				
Joint ventures:					
Share of gross assets		217.2	150.2	-	-
Share of gross liabilities		(179.4)	(129.8)	-	-
		37.8	20.4	-	-
Associates		10.4	9.8	-	-
Others		52.2	62.1	1,536.5	1,548.6
Own shares		10.3	21.7	10.3	21.7
		<u>3,076.2</u>	<u>2,959.6</u>	<u>1,549.0</u>	<u>1,572.7</u>
Current assets					
Stocks and work in progress	17	16.9	16.0	-	-
Debtors	18	238.0	314.2	364.5	423.4
Current asset investments	19	433.3	591.3	354.7	464.4
Cash at bank and in hand		34.0	21.0	0.3	0.4
		<u>722.2</u>	<u>942.5</u>	<u>719.5</u>	<u>888.2</u>
Current liabilities					
Creditors: amounts falling due within one year	20(a)	(363.6)	(556.3)	(113.3)	(177.4)
Net current assets		<u>358.6</u>	<u>386.2</u>	<u>606.2</u>	<u>710.8</u>
Total assets less current liabilities		<u>3,434.8</u>	<u>3,345.8</u>	<u>2,155.2</u>	<u>2,283.5</u>
Creditors: amounts falling due after more than one year	20(b)	(2,143.5)	(2,147.0)	(1,304.9)	(1,302.2)
Provisions for liabilities and charges	27	(79.9)	(143.1)	(2.4)	(2.4)
Accruals and deferred income	28	(159.8)	(155.3)	-	-
Net assets		<u>1,051.6</u>	<u>900.4</u>	<u>847.9</u>	<u>978.9</u>
Capital and reserves					
Called up share capital	29	392.8	388.4	392.8	388.4
Share premium account	31	133.0	137.4	133.0	137.4
Reserves	32	525.1	372.0	322.1	453.1
Equity shareholders' funds		844.3	691.2	641.3	772.3
Non-equity shareholders' funds		206.6	206.6	206.6	206.6
Total shareholders' funds		<u>1,050.9</u>	<u>897.8</u>	<u>847.9</u>	<u>978.9</u>
Equity minority interests	33	0.7	2.6	-	-
		<u>1,051.6</u>	<u>900.4</u>	<u>847.9</u>	<u>978.9</u>

The financial statements on pages 29 to 78 were approved by the Board of directors on 12 July 2000 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 2000

	Note	2000 £m	1999 £m
Net cash inflow from operating activities :			
- Continuing operations	34	368.7	382.5
- Discontinued operations	34	7.9	1.3
		376.6	383.8
Dividends received from joint ventures and associated undertakings			
		0.7	-
Returns on investments and servicing of finance			
Interest received		22.9	14.5
Interest paid		(144.8)	(115.5)
Preference dividend paid		(16.4)	(16.4)
Interest element of finance lease rental payments		(16.2)	(9.7)
Dividends received and other investment income		3.5	12.8
		(151.0)	(114.3)
Taxation			
UK corporation tax paid		(0.9)	(15.5)
Windfall tax paid		-	(141.0)
Overseas tax paid		(1.1)	(0.2)
		(2.0)	(156.7)
Capital expenditure and financial investment			
Sale of intangible fixed assets		0.4	-
Purchase of tangible fixed assets		(353.1)	(447.4)
Sale of tangible fixed assets		4.7	5.5
Purchase of fixed asset investments		(1.7)	(5.7)
Sale of fixed asset investments		12.5	61.3
Grants and contributions received		14.3	19.0
		(322.9)	(367.3)
Acquisitions and disposals			
Purchase of additional interest in subsidiary undertakings	38	(1.5)	(4.3)
Net cash acquired with subsidiaries		-	1.9
Investments in joint ventures and associated undertakings		(3.9)	(11.9)
Sale of group operations	39	103.9	-
		98.5	(14.3)
Equity dividends paid			
		(98.4)	(18.5)
Cash outflow before use of liquid resources and financing			
		(98.5)	(287.3)

Consolidated cashflow statement for the year ended 31 March 2000 (continued)

	Note	2000 £m	1999 £m
Management of liquid resources			
Purchase of commercial paper		(323.0)	(467.0)
Sale of commercial paper		412.0	446.5
Net decrease/(increase) in deposits		73.0	(269.2)
		162.0	(289.7)
Financing			
Issue of ordinary shares	36	-	0.5
New loans, finance leases and bonds		2.0	621.5
Expenses of issuing bonds	36	-	(6.6)
Loan repayments	36	(57.5)	(9.0)
Capital element of finance lease rental payments	36	(0.2)	(0.5)
		(55.7)	605.9
Increase in cash in the year	37	7.8	28.9

Statement of total recognised gains and losses for the year ended 31 March 2000

	2000	1999
	£m	£m
Profit for the financial year attributable to ordinary shareholders	58.2	181.0
Currency translation differences on foreign currency net investments	(1.3)	0.2
Surplus on revaluation of investment properties	1.5	1.0
Total recognised gains for the year	58.4	182.2

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

	2000	1999
	£m	£m
Total recognised gains for the year	58.4	182.2
Ordinary dividends	(10.1)	(74.5)
New ordinary share capital issued	4.4	2.0
Premium on ordinary share capital issued	-	0.4
Scrip dividend issued in lieu of cash dividend	21.5	14.6
Utilisation of share premium account for the nominal value of ordinary shares issued under the scrip dividend	(4.4)	(1.9)
Goodwill written back on disposal	84.0	2.0
Adjustment to reserves on increased shareholding in subsidiary	(0.7)	(0.5)
Net increase in shareholders' funds	153.1	124.3
At 1 April	897.8	773.5
At 31 March	1,050.9	897.8

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

Notes to the financial statements

1 Company profit and loss account

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the company has not been included in these financial statements. The loss after taxation for the year dealt with in the financial statements of the company was £125.8m (1999 profit of £74.7m).

2 Segmental analysis by class of business

(a) Turnover

	Total turnover £m	Intra segment turnover £m	Inter segment turnover £m	External turnover £m
Year ended 31 March 2000:				
Continuing operations:				
Regulated water and sewerage activities	472.7	-	1.5	471.2
Regulated electricity distribution activities	199.1	-	124.2	74.9
Infrastructure activities:				
- group	237.3	2.1	28.9	206.3
- joint ventures	30.9	-	-	30.9
Managed services activities	164.0	6.0	136.2	21.8
Other activities	21.6	-	15.9	5.7
	1,125.6	8.1	306.7	810.8
Discontinued operations:				
Energy supply activities	501.9	-	6.0	495.9
Infrastructure activities	10.1	-	-	10.1
	1,637.6	8.1	312.7	1,316.8
Total:				
- group	1,606.7	8.1	312.7	1,285.9
- joint ventures	30.9	-	-	30.9
Year ended 31 March 1999:				
Continuing operations:				
Regulated water and sewerage activities	456.0	-	1.5	454.5
Regulated electricity distribution activities	195.4	-	153.3	42.1
Infrastructure activities:				
- group	225.8	4.6	33.4	187.8
- joint ventures	7.9	-	-	7.9
Managed services activities	176.1	4.4	162.1	9.6
Other activities	10.7	-	2.9	7.8
	1,071.9	9.0	353.2	709.7
Discontinued operations:				
Energy supply activities	588.9	-	6.7	582.2
Infrastructure activities	10.4	-	-	10.4
	1,671.2	9.0	359.9	1,302.3
Total:				
- group	1,663.3	9.0	359.9	1,294.4
- joint ventures	7.9	-	-	7.9

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

	2000 Before exceptional items £m	2000 Exceptional items (note 5) £m	2000 Total £m	1999 Restated Total £m
Continuing operations:				
Regulated water and sewerage activities	186.0	(34.1)	151.9	166.6
Regulated electricity distribution activities	87.5	(60.7)	26.8	96.0
Infrastructure activities	11.4	(4.4)	7.0	24.8
Managed services activities	6.7	(1.0)	5.7	22.2
Other activities	5.1	-	5.1	5.4
	<u>296.7</u>	<u>(100.2)</u>	<u>196.5</u>	<u>315.0</u>
Discontinued operations:				
Energy supply activities	14.9	(17.9)	(3.0)	26.3
Infrastructure activities	(0.7)	-	(0.7)	(0.3)
	<u>310.9</u>	<u>(118.1)</u>	<u>192.8</u>	<u>341.0</u>
Business development costs and corporate overheads	(3.9)	(10.5)	(14.4)	(7.6)
Elimination of intercompany operating profit capitalised	(2.0)	-	(2.0)	(3.8)
Profit on disposal of group operations	47.0	-	47.0	-
Profit before interest	<u>352.0</u>	<u>(128.6)</u>	<u>223.4</u>	<u>329.6</u>
Net interest payable			(146.7)	(123.6)
Profit before taxation			<u>76.7</u>	<u>206.0</u>

Infrastructure activities and Other activities include £9.2m (1999 £28.5m) in respect of income from investments (including profit on disposal of investments) (notes 7 and 8 below) and £6.8m (1999 £4.5m) in respect of share of operating profit of joint ventures and associates as this reflects the management control of those investments.

(c) Net assets

	2000 £m	1999 £m
Continuing operations:		
Regulated water and sewerage activities	1,991.3	1,825.9
Regulated electricity distribution activities	505.2	471.7
Infrastructure activities	146.9	152.8
Managed services activities	67.2	81.1
Other activities	15.1	(44.0)
	<u>2,725.7</u>	<u>2,487.5</u>
Discontinued operations:		
Energy supply activities	-	(19.6)
Infrastructure activities	-	6.6
	<u>2,725.7</u>	<u>2,474.5</u>
Net debt (note 35 (b))	<u>(1,674.1)</u>	<u>(1,574.1)</u>
	<u>1,051.6</u>	<u>900.4</u>

Infrastructure activities includes £48.2m (1999 £30.2m) 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

	2000 £m	1999 £m
United Kingdom and Europe		
- group	1,223.6	1,223.7
- joint ventures	30.9	7.9
Asia Pacific	38.2	48.5
Rest of the World	24.1	22.2
Total:		
- group	1,285.9	1,294.4
- joint ventures	30.9	7.9

Included in United Kingdom and Europe turnover by destination is turnover of £506.0m (1999 £592.6m) relating to the discontinued energy supply and infrastructure activities.

(b) Profit on ordinary activities before taxation

	2000 £m	1999 Restated £m
United Kingdom and Europe	195.0	339.2
Asia Pacific	(3.4)	0.6
Rest of the World	1.2	1.2
	192.8	341.0
Business development costs and corporate overheads	(14.4)	(7.6)
Elimination of intercompany operating profit capitalised	(2.0)	(3.8)
Profit on disposal of group operations	47.0	-
Profit before interest	223.4	329.6
Net interest payable	(146.7)	(123.6)
Profit before taxation	76.7	206.0

United Kingdom and Europe include £9.2m (1999 £28.5m) in respect of income from investments (including profit on disposal of investments) (notes 7 and 8 below) and £6.8m (1999 £4.5m) in respect of share of operating profit of joint ventures and associates as this reflects the management control of those investments.

(c) Net assets

	2000 £m	1999 £m
United Kingdom and Europe	2,690.1	2,450.4
Asia Pacific	7.0	4.6
Rest of the World	27.1	19.5
	2,724.2	2,474.5
Net debt (note 35(b))	(1,674.1)	(1,574.1)
	1,050.1	900.4

United Kingdom and Europe includes £48.2m (1999 £30.2m) 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

	Note	2000 Before exceptional items £m	2000 Exceptional items (note 5) £m	2000 Total £m	1999 Total £m
Continuing operations:					
Change in stocks and work in progress	17	(0.6)	-	(0.6)	(1.9)
Staff costs	6(b)	253.5	-	253.5	236.4
Severance and redundancy costs		-	21.9	21.9	2.0
Depreciation:					
- Own assets		126.5	-	126.5	117.8
- Assets held under finance leases		10.3	-	10.3	5.0
Amounts written off fixed assets		-	51.0	51.0	7.1
Amounts written off fixed asset investments	16	1.1	-	1.1	2.0
Amounts written off own shares		-	10.0	10.0	-
Research and development		0.7	-	0.7	0.7
Rentals under operating leases:					
- Hire of plant and equipment		9.0	-	9.0	1.3
- Other		5.0	-	5.0	3.2
Fees paid to auditors:					
- Audit services		0.7	-	0.7	0.7
- Taxation services		0.1	-	0.1	0.1
- Consultancy services		-	1.4	1.4	0.1
- Other services		0.4	-	0.4	-
Year 2000 costs		2.8	-	2.8	7.0
Other operating charges		178.1	26.4	204.5	132.3
Amortisation of grants and contributions	28	(6.0)	-	(6.0)	(5.9)
Loss on disposal of fixed assets		0.5	-	0.5	-
Own work capitalised		(74.7)	-	(74.7)	(76.0)
Net rents receivable		(2.3)	-	(2.3)	(0.7)
Net continuing operating costs		505.1	110.7	615.8	431.2

Notes to the financial statements

4 Net operating costs (continued)

	Note	2000 Before exceptional items £m	2000 Exceptional items (note 5) £m	2000 Total £m	1999 Total £m
Discontinued operations:					
Change in stocks and work in progress	17	(0.3)	-	(0.3)	-
Staff costs	6(b)	9.2	-	9.2	9.3
Severance and redundancy costs		-	0.5	0.5	-
Depreciation:					
- Own assets		3.6	-	3.6	1.6
Amounts written off fixed assets		-	16.3	16.3	-
Research and development		0.2	-	0.2	0.1
Rentals under operating leases:					
- Other		-	-	-	0.5
Fees paid to auditors:					
- Consultancy services		-	0.1	0.1	0.4
Year 2000 costs		0.1	-	0.1	1.7
Energy purchases		287.1	-	287.1	329.6
Power purchase provision	27(e)	(6.4)	-	(6.4)	(7.3)
Other operating charges		198.3	1.0	199.3	230.7
Net discontinued operating costs		491.8	17.9	509.7	566.6
Total operating costs		996.9	128.6	1,125.5	997.8

Other fees paid to the auditors and capitalised were £91,500 (1999 £104,000). Included in audit services is £9,250 (1999 £9,000) in respect of audit fees incurred by the company.

Fees of £7,000 and £44,000 were paid to the auditors for services provided in respect of the disposal of the investment in UK Data Collection Services Limited and the energy supply business respectively. These costs have been deducted in arriving at the profit on disposal.

Notes to the financial statements

5 Exceptional items

	2000 £m
Continuing operations:	
Restructuring costs:	
Regulated water and sewerage activities	14.1
Regulated electricity distribution activities	12.7
Infrastructure activities	2.8
Managed services activities	4.5
Business development costs and corporate overheads	0.5
	<u>34.6</u>
Restructuring credits	
Regulated electricity distribution activities	(6.7)
Managed services activities	(3.5)
	<u>24.4</u>
Computer system development costs:	
Regulated electricity distribution services	54.7
Amounts written off own shares:	
Business development costs and corporate overheads	10.0
Bad and doubtful debt provisions:	
Regulated water and sewerage activities	20.0
Leasehold property provisions:	
Infrastructure activities	1.6
	<u>110.7</u>
Discontinued operations:	
Restructuring costs:	
Energy supply activities	0.5
Computer systems development costs:	
Energy supply activities	17.4
	<u>17.9</u>
	<u><u>128.6</u></u>

The tax credit attributable to these exceptional items is £9.7m (1999 £nil).

Restructuring costs of £35.1m principally relate to a reduction of 1,000 jobs in the regulated water and electricity distribution businesses. Surplus provisions of £10.2m relating to prior year manpower reduction programmes were released during the year after reappraisal of obligations and were offset against the £35.1m charge in the year.

Computer system development costs written off amounting to £43.5m related to the cancellation of a new utility billing system which did not meet the needs of the rapidly developing and sophisticated multi purpose product offerings.

Computer system development costs of £24.1m were also written off following the electricity distribution price review whereby the costs of systems developed before the opening of the electricity competitive market were not remunerated by the regulator. The carrying value of these computer systems were written down to £8.8m. Costs of £4.5m relating to new electricity metering obligations, effective from April 2000, have also been charged as an exceptional item.

Notes to the financial statements

5 Exceptional items (continued)

The bad and doubtful debt provision of £20m arose from a reassessment of our ability to collect domestic water and sewerage debt following the Government's decision to ban disconnection of domestic water supplies, combined with the ruling on the watercard and the High Court decision that the "Two in One" budget scheme was not authorised under the Electricity Act.

The write down of own shares of £10.0m reflects the reduction of in value of Hyder shares held by the company under the Qualifying employee share option schemes and the directors' long term incentive scheme.

Leasehold property provisions of £1.6m related to the directors' assessment of the future cost of unoccupied leasehold properties.

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 18 to 26. Directors' interests are given in the Directors' report on pages 14 and 15. These disclosures form part of the financial statements.

(b) Staff costs

	2000 £m	1999 £m
Wages and salaries	231.5	215.3
Social security costs	16.5	15.9
Pension costs	14.7	14.5
	<u>262.7</u>	<u>245.7</u>

Of the above, £38.4m (1999 £43.9m) has been charged to capital.

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

	2000 Number	1999 Number
Continuing operations :		
Regulated water and sewerage activities	1,737	1,906
Regulated electricity distribution activities	994	1,129
Infrastructure activities	4,161	3,700
Managed services activities	2,008	1,910
Other activities	199	214
	<u>9,099</u>	<u>8,859</u>
Discontinued operations :		
Energy supply activities	193	236
Infrastructure activities	254	287
	<u>9,546</u>	<u>9,382</u>

Notes to the financial statements

7 Group income from investments

	2000	1999
	£m	Restated £m
Fixed asset investment income - continuing operations		
Infrastructure activities	3.0	6.5
Other activities	0.5	3.4
	<u>3.5</u>	<u>9.9</u>

8 Profit on disposal of interests in investments

	2000	1999
	£m	£m
Profit on disposal of investments:		
Infrastructure activities	2.3	18.6
Other activities	3.4	-
	<u>5.7</u>	<u>18.6</u>

On 21 January 2000 the group disposed of 50% of its interest in Transurban City Link for £7.3m realising a profit on disposal of £1.3m.

On 25 February 2000 the group received £1.6m in respect of a part disposal by the Asian Infrastructure Fund of its shares in FLAG (Fibre Optic Cable Company) following its listing on the New York Stock Exchange, realising a profit of £1.0m.

On 4 August 1999 the group disposed of its interest in EA Technology Limited for £0.4m realising a profit of £0.3m.

On 9 August 1999 the group disposed of its interest in UK Data Collection Services Limited for £3.2m realising a profit of £3.1m.

9 Group interest payable

	2000	1999
	£m	£m
On bank loans and overdrafts	1.7	2.0
On other loans	152.4	127.8
On finance leases	12.2	13.6
	<u>166.3</u>	<u>143.4</u>

Notes to the financial statements

10 Taxation

	2000	1999
	£m	Restated £m
Based on the results for the year:		
UK corporation tax at 30% (1999 31%)	-	66.4
Advance corporation tax written back	-	(40.3)
Deferred taxation	15.0	-
Overseas taxation	1.0	0.4
Share of joint ventures taxation	0.3	0.7
Share of associated undertakings taxation	-	0.4
	<u>16.3</u>	<u>27.6</u>
Prior year adjustments:		
Corporation tax	(14.4)	(16.8)
Overseas taxation	-	(0.1)
Consortium relief	-	(2.1)
	<u>1.9</u>	<u>8.6</u>

The tax charge on the profit for the year has been reduced by £12.2m (1999 increased by £9.0m) in respect of timing differences for which no deferred tax provision is made, and by £9.7m (1999 £nil) in respect of exceptional items incurred in the year (note 5).

The cumulative amount of advance corporation tax written off of £51.2m (1999 £35.3m) 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 27(a).

There are losses within the group of approximately £1.0m (1999 £5.0m) available to carry forward against future profits of those companies which incurred the losses.

11 Dividends

(a) Dividends on equity shares:

	2000	1999
	£m	£m
Interim paid of 6.7p per ordinary share (1999 16.8p)	10.1	24.8
Final proposed of nil pence per ordinary share (1999 33.6p)	-	49.7
Total paid and proposed 6.7p per ordinary share (1999 50.4p)	<u>10.1</u>	<u>74.5</u>

(b) Dividends on non-equity shares:

	2000	1999
	£m	£m
Dividends of 7.875p (net) per preference share (1999 7.875p (net))	16.4	16.4

Notes to the financial statements

12 Earnings per share

	2000			1999		
	Profit attributable to ordinary shareholders £m	Earnings per share		Profit attributable to ordinary shareholders £m	Earnings per share	
		Basic pence	Diluted pence		Basic pence	Diluted pence
Profit attributable to ordinary shareholders	58.2	39.0	39.0	181.0	123.4	122.5
Adjusting items:						
Exceptional items (net of taxation)	118.9	79.6	79.5	-	-	-
Profit on disposal of group operations (net of taxation)	(32.0)	(21.4)	(21.4)	-	-	-
Adjusted profit attributable to ordinary shareholders	145.1	97.2	97.1	181.0	123.4	122.5

Earnings per share have been calculated based upon:

	2000		1999	
	Basic Number millions	Diluted Number millions	Basic Number millions	Diluted Number millions
Weighted average ordinary shares in issue	149.3	149.4	146.7	147.7

The weighted average number of shares disclosed above is stated after excluding the 3.5m (1999 3.7m) 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.

13 Intangible fixed assets

Group	Fishing rights £m	Goodwill (positive) £m	Goodwill (negative) £m	Total £m
Cost				
At 1 April 1999	0.9	5.2	(1.8)	4.3
Additions	-	0.3	0.1	0.4
Disposals	(0.9)	-	-	(0.9)
At 31 March 2000	-	5.5	(1.7)	3.8
Amounts provided				
At 1 April 1999	0.5	-	-	0.5
Provided in the year	-	0.3	-	0.3
Disposals	(0.5)	-	-	(0.5)
At 31 March 2000	-	0.3	-	0.3
Net book value				
At 31 March 2000	-	5.2	(1.7)	3.5
At 31 March 1999	0.4	5.2	(1.8)	3.8

Goodwill is amortised over a period of 20 years being the directors' estimate of the useful economic life of these assets. Negative goodwill has resulted from acquisitions where net assets are acquired at a discount to the book value of net assets and is amortised between 2.5 years and 20 years.

Notes to the financial statements

14 Tangible fixed assets

Group

	Freehold land and buildings £m	Leasehold properties and improve- ments £m	Water & sewerage infra- structure assets £m	Operational structures £m	Electricity distribution network assets £m	Vehicles, plant, equipment, computer hardware & capitalised software £m	Total £m
Cost or valuation							
At 1 April 1999	76.9	6.7	1,060.0	1,425.5	902.4	435.8	3,907.3
Exchange difference	(0.5)	(0.1)	-	-	-	(0.1)	(0.7)
Additions	1.8	0.2	137.8	119.6	62.5	41.5	363.4
Grants and contributions	-	-	(6.6)	(1.4)	-	-	(8.0)
Amounts written off	(3.1)	-	-	-	-	(80.2)	(83.3)
Disposals	(0.4)	(3.9)	(1.0)	-	(1.8)	(18.6)	(25.7)
Sale of group operations	-	-	-	-	-	(20.9)	(20.9)
At 31 March 2000	74.7	2.9	1,190.2	1,543.7	963.1	357.5	4,132.1
Accumulated depreciation							
At 1 April 1999	21.3	2.2	240.4	315.0	275.7	220.3	1,074.9
Exchange difference	(0.1)	-	-	-	-	-	(0.1)
Charge for the year	1.7	0.3	34.7	39.1	25.1	39.5	140.4
Amounts written off	(1.0)	-	-	-	-	(5.7)	(6.7)
Disposals	(0.1)	(1.0)	(1.0)	-	(1.4)	(17.0)	(20.5)
Sale of group operations	-	-	-	-	-	(7.0)	(7.0)
At 31 March 2000	21.8	1.5	274.1	354.1	299.4	230.1	1,181.0
Net book value							
At 31 March 2000	52.9	1.4	916.1	1,189.6	663.7	127.4	2,951.1
At 31 March 1999	55.6	4.5	819.6	1,110.5	626.7	215.5	2,832.4
Analysis of net book value at 31 March 2000							
Owned	52.9	0.8	916.1	964.1	663.7	127.0	2,724.6
Held under finance leases	-	0.6	-	225.5	-	0.4	226.5
	52.9	1.4	916.1	1,189.6	663.7	127.4	2,951.1

(a) Tangible fixed assets at 31 March 2000 include £428.1m (1999 £429.5m) of assets in the course of construction, which are not depreciated until commissioned.

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

	2000 £m	1999 £m
Long leasehold	1.4	0.6
Short leasehold	-	3.9
Total leasehold	1.4	4.5

Notes to the financial statements

14 Tangible fixed assets (continued)

- (c) Electricity distribution network assets include assets leased to third parties under operating leases. The cost of these was £3.8m (1999 £3.8m) and accumulated depreciation amounted to £1.1m (1999 £0.9m) at 31 March 2000.
- (d) The accounting treatment for grants and customer contributions in respect of infrastructure assets is set out in the principal accounting policies on page 31. This treatment is not in accordance with schedule 4 to the Companies Act 1985. As a consequence the net book value of fixed assets and deferred income is £156.3m (1999 £140.2m) lower than it would have been had this treatment not been adopted.

Company

	Freehold land and buildings £m	Vehicles, plant, equipment and computer hardware & capitalised software £m	Total £m
Cost			
At 1 April 1999	0.8	2.4	3.2
Additions	-	0.1	0.1
At 31 March 2000	0.8	2.5	3.3
Accumulated depreciation			
At 1 April 1999	-	0.8	0.8
Charge for the year	-	0.3	0.3
At 31 March 2000	-	1.1	1.1
Net book value			
At 31 March 2000	0.8	1.4	2.2
At 31 March 1999	0.8	1.6	2.4

Notes to the financial statements

15 Investment properties

Group

	£m
At 1 April 1999	9.4
Adjustment to open market value	1.5
At 31 March 2000	10.9

Investment properties were valued at 31 March 2000 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 £10.9m (1999 £9.4m) of freehold properties.

The accounting treatment for investment properties is set out in the principal accounting policies on page 31. This treatment is not in accordance with schedule 4 to the Companies Act 1985. As a consequence the profit before interest for the year is £0.2m (1999 £0.2m) higher than it would have been had this treatment been adopted.

16 Fixed asset investments

Group

	Own shares	Interests in joint ventures	Interests in associated undertakings	Listed investments	Unlisted investments	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 April 1999	21.7	20.4	9.9	46.5	19.4	117.9
Exchange differences	-	(0.1)	0.1	-	(0.1)	(0.1)
Additions	-	16.5	-	1.8	-	18.3
Disposals	(1.4)	-	-	(6.6)	(0.2)	(8.2)
Share of retained profits	-	0.9	0.6	-	-	1.5
Reclassification	-	0.1	(0.1)	(4.3)	-	(4.3)
At 31 March 2000	20.3	37.8	10.5	37.4	19.1	125.1
Amounts provided						
At 1 April 1999	-	-	0.1	3.0	0.8	3.9
Disposals	-	-	-	(1.1)	-	(1.1)
Provided in the year	10.0	-	-	1.6	-	11.6
At 31 March 2000	10.0	-	0.1	3.5	0.8	14.4
Net book value						
At 31 March 2000	10.3	37.8	10.4	33.9	18.3	110.7
At 31 March 1999	21.7	20.4	9.8	43.5	18.6	114.0

The market value of the listed investments, excluding the group's £27.9m (1999 £27.1m) investment in the Asian Infrastructure Fund, is £15.4m (1999 £31.1m).

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.

The listed investment of £4.3m has been reclassified as a current asset investment (note 19).

Own shares relate to ordinary shares purchased under the qualifying employee share option trust (note 30(c)) and the executive directors' long term incentive plan (note 30(b)). The nominal value of these shares is £4.1m (1999 £4.3m).

Notes to the financial statements

16 Fixed asset investments (continued)

Company

	Own shares £m	Interests in group undertakings £m	Unlisted investments £m	Total £m
Cost				
At 1 April 1999	21.7	1,549.9	0.4	1,572.0
Additions	-	64.0	-	64.0
Disposals	(1.4)	-	-	(1.4)
At 31 March 2000	20.3	1,613.9	0.4	1,634.6
Amounts provided				
At 1 April 1999	-	1.4	0.3	1.7
Provided in the year	10.0	76.1	-	86.1
At 31 March 2000	10.0	77.5	0.3	87.8
Net book value				
At 31 March 2000	10.3	1,536.4	0.1	1,546.8
At 31 March 1999	21.7	1548.5	0.1	1,570.3

Principal group undertakings are listed in note 44.

17 Stocks and work in progress

Group	2000 £m	1999 £m
Raw materials and consumables	7.8	8.8
Work in progress	9.0	6.5
Finished goods and goods for resale	0.1	0.7
	16.9	16.0

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

Notes to the financial statements

18 Debtors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts falling due within one year:				
Trade debtors	101.6	145.2	-	-
Amounts recoverable on contracts	29.2	26.1	-	-
Amounts owed by subsidiary undertakings	-	-	353.8	410.9
Amounts owed by associated undertakings	0.7	0.5	-	-
Net investment in finance leases	0.2	0.1	-	-
Other debtors	29.6	40.1	0.6	3.2
Prepayments and accrued income	62.1	91.8	10.1	9.3
Amounts due on sale of group operations (note 39)	11.2	-	-	-
	234.6	303.8	364.5	423.4
Amounts falling due after more than one year:				
Net investment in finance leases	1.6	1.0	-	-
Other debtors	1.8	9.4	-	-
	238.0	314.2	364.5	423.4

19 Current asset investments

Management of liquid resources	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Investments in:				
Sterling fixed term and call deposits	397.2	470.5	339.8	381.9
Sterling denominated commercial papers	31.8	120.8	14.9	82.5
	429.0	591.3	354.7	464.4
Listed investment held for resale	4.3	-	-	-
	433.3	591.3	354.7	464.4
Amounts becoming due:				
Within one year	433.3	591.3	354.7	464.4

The fixed asset investment held for resale is the group's 20% interest in the issued share capital of Severoceske Vodovody a Kanalizace a.s. ("ScVK") which is held at cost. The market value of the ScVK investment is £2.6m (1999 £1.9m). The directors do not consider that the group's 20% interest in ScVK gives them significant influence over the operations of that company to include the investment as an associate.

Notes to the financial statements

20 Creditors

	Note	Group 2000 £m	1999 £m	Company 2000 £m	1999 £m
(a) Amounts falling due within one year:					
Bank loans and overdrafts		5.8	0.6	-	-
Loan notes	21(d)	4.2	6.3	3.4	6.3
Other loans	21(c)	8.1	54.7	-	6.4
Obligations under finance leases	22	0.3	0.3	-	-
Payments received on account on contracts		19.9	18.1	-	-
Trade creditors		115.6	145.1	-	-
Amounts owed to subsidiary undertakings		-	-	0.2	1.0
Loans from subsidiary undertakings		-	-	50.0	-
Dividends payable		2.7	112.5	2.7	112.5
Corporation tax		12.8	28.0	-	3.0
Other taxation and social security		13.0	12.3	-	0.1
Other creditors		89.1	88.0	-	-
Accruals and deferred income		86.4	90.4	57.0	48.1
Capital commitments due to joint ventures and associates		5.7	-	-	-
		<u>363.6</u>	<u>556.3</u>	<u>113.3</u>	<u>177.4</u>
(b) Amounts falling due after more than one year:					
Sterling bonds	21(a)	1,024.9	1,024.5	678.7	678.4
US\$ bonds	21(b)	615.4	615.2	615.4	615.2
Other loans	21(c)	212.9	219.1	10.8	8.6
Obligations under finance leases	22	265.5	265.7	-	-
Creditors between one and five years :				-	-
Capital commitments due to joint ventures and associates		17.7	10.3	-	-
Refundable customer contributions		4.0	4.9	-	-
Other		3.1	7.3	-	-
		<u>2,143.5</u>	<u>2,147.0</u>	<u>1,304.9</u>	<u>1,302.2</u>

Notes to the financial statements

21 Loans

(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
Group							
2002	10.750	75.0	-	(1.0)	74.0	0.8	74.8
2004	7.125	100.0	1.1	(2.0)	99.1	0.5	99.6
2006	8.750	200.0	3.2	(2.3)	200.9	(0.1)	200.8
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	(0.3)	204.6
2020	9.250	150.0	1.7	(3.9)	147.8	0.1	147.9
2020	7.000	200.0	-	(1.6)	198.4	0.1	198.5
		1,025.0	13.6	(15.3)	1,023.3	1.6	1,024.9
Company							
2002	10.750	75.0	-	(1.0)	74.0	0.8	74.8
2006	8.750	200.0	3.2	(2.3)	200.9	(0.1)	200.8
2016	9.500	200.0	6.8	(1.9)	204.9	(0.3)	204.6
2020	7.000	200.0	-	(1.6)	198.4	0.1	198.5
		675.0	10.0	(6.8)	678.2	0.5	678.7

(b) US\$ 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
Group & company							
2004	6.750	120.0	0.8	(1.4)	119.4	0.2	119.6
2007	6.875	120.0	0.8	(1.4)	119.4	0.1	119.5
2008	6.500	136.0	1.9	(2.1)	135.8	-	135.8
2017	7.250	60.0	0.4	(0.7)	59.7	-	59.7
2028	7.375	181.0	2.6	(2.9)	180.7	0.1	180.8
		617.0	6.5	(8.5)	615.0	0.4	615.4

Fixed interest rates on the sterling/US\$ cross currency interest rate swaps used to cover the US\$ bonds referred to above range between 6.8% and 8.1%. 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

21 Loans (continued)

(c) Other loans

	Group		Company	
	2000	1999	2000	1999
	£m	£m	£m	£m
Repayable as follows:				
Within one year	8.1	54.7	-	6.4
Between one and two years	18.3	7.4	10.8	-
Between two and five years	24.2	24.5	-	-
After more than five years	170.4	187.2	-	8.6
	221.0	273.8	10.8	15.0
Repayable wholly within five years	11.2	49.0	10.8	6.4
Repayable wholly after five years	140.0	148.6	-	8.6
Repayable by instalments after five years	69.8	76.2	-	-
	221.0	273.8	10.8	15.0

These loans are denominated in the following currencies:

Sterling	206.4	243.7	-	-
Australian \$	-	11.7	-	-
US\$	10.0	8.6	10.0	8.6
Canadian \$	-	6.4	-	6.4
German marks	3.8	3.4	-	-
Euros	0.8	-	0.8	-
	221.0	273.8	10.8	15.0

Fixed interest rates on these loans range between 6.5% and 10.2% (1999 5.2% and 10.2%) and variable interest rates varied between 1.0% below to 0.2% above LIBOR (1999 1.0% below to 0.2% 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 bear interest, payable half yearly in arrears, at the rate of 1 % below six month LIBOR.

Notes to the financial statements

22 Finance leases

Group	2000 £m	1999 £m
Amounts due under finance leases are payable as follows:		
Within one year	0.3	0.3
Between one and two years	0.1	0.2
Between two and five years	-	0.1
After more than five years	265.4	265.4
	265.8	266.0

A long dated interest rate swap was arranged on 1 April 1994 which has the effect of fixing the rate of interest at 7.8% on floating rate sterling finance lease obligations of £57.9m (1999 £59.3m). The obligations under the swap and the finance lease reduce over a remaining period of 14 years.

23 Maturity of financial liabilities

The maturity profile of the group's gross borrowings, preference shares and other financial liabilities, excluding bank overdrafts, was as follows:

	2000 £m	1999 £m
Gross borrowings:		
In one year or less, or on demand	12.6	61.3
In more than one year but not more than two years	94.8	7.6
In more than two years but not more than five years	249.8	198.7
In more than five years	1,774.1	1,918.2
	2,131.3	2,185.8
Preference shares:		
In more than five years	206.6	206.6
Other financial liabilities:		
In more than one year but not more than two years	3.0	7.7
In more than two years but not more than five years	17.5	5.8
In more than five years	4.3	9.0
	2,362.7	2,414.9

24 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. Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk disclosure.

(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 £724.9m (1999 £755.5m), with termination dates ranging between December 2004 and December 2028 (1999 December 1999 and December 2028), and interest rates ranging between 6.8% and 8.3% (1999 6.0% and 8.4%).

Company

At 31 March 2000 the company's outstanding interest rate swap arrangements had a notional principal balance of £617.0m (1999 £617.0m) with termination dates ranging between December 2004 and December 2028 (1999 December 2004 and December 2028), and interest rates ranging between 6.8% and 8.1% (1999 6.9% and 8.2%).

Notes to the financial statements

24 Financial instruments and risk management (continued)

(b) Currency and interest rate profile of financial liabilities

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 financial liabilities by currency was as follows:

Currency	Total		Fixed rate		Floating rate	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Gross borrowings:						
Sterling	2,116.7	2,155.7	1,887.7	1,894.9	229.0	260.8
US\$	10.0	8.6	-	-	10.0	8.6
Australian \$	-	11.7	-	-	-	11.7
Canadian \$	-	6.4	-	-	-	6.4
German marks	3.8	3.4	-	-	3.8	3.4
Euros	0.8	-	-	-	0.8	-
	2,131.3	2,185.8	1,887.7	1,894.9	243.6	290.9
Preference shares:						
Sterling	206.6	206.6	206.6	206.6	-	-
Other financial liabilities:						
Sterling	19.8	15.4	-	-	-	-
Australian \$	4.6	5.1	-	-	-	-
German marks	0.4	-	-	-	-	-
Finnish marks	-	2.0	-	-	-	-
	2,362.7	2,414.9	2,094.3	2,101.5	243.6	290.9

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 that bear interest based on sterling LIBOR rates; and,
- foreign currency denominated bank borrowings that bear interest based on prevailing interbank borrowing rates.

No interest is paid on the other financial liabilities.

All overseas currency borrowings set out in the above table are fully hedged against assets denominated in those currencies.

(c) Interest rate profile of financial liabilities

Currency	Fixed rate financial liabilities			
	Weighted average interest rate		Weighted average period for which rate is fixed	
	2000 %	1999 %	2000 Years	1999 Years
Sterling:				
Borrowings	8.0	8.0	12.9	13.8
Preference shares	7.9	7.9	13.3	14.3

No interest is paid on the other financial liabilities. 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.

Notes to the financial statements

24 Financial instruments and risk management (continued)

(d) Borrowing facilities

Undrawn committed borrowing facilities were:-

	2000 £m	1999 £m
Committed borrowing facilities available	450.0	450.0
Drawn down as at 31 March	(10.8)	(14.7)
Expiring after more than two years	<u>439.2</u>	<u>435.3</u>

(e) Currency and interest rate profile of financial assets

	2000			1999		
	Cash net of overdrafts £m	Short term deposits (note 19) £m	Total £m	Cash net of overdrafts £m	Short term deposits (note 19) £m	Total £m
Currency :						
Sterling	8.6	428.7	437.3	10.7	568.1	578.8
US Dollars	4.1	0.1	4.2	1.6	-	1.6
EU currencies (other than Sterling)	13.6	0.2	13.8	2.2	5.3	7.5
Other currencies	1.9	-	1.9	5.9	17.9	23.8
	<u>28.2</u>	<u>429.0</u>	<u>457.2</u>	<u>20.4</u>	<u>591.3</u>	<u>611.7</u>
Long term debtors:						
Sterling	-	-	3.4	-	-	10.4
At 31 March	<u>28.2</u>	<u>429.0</u>	<u>460.6</u>	<u>20.4</u>	<u>591.3</u>	<u>622.1</u>
Currency :						
Floating rate	28.2	0.6	28.8	20.4	-	20.4
Fixed rate	-	428.4	428.4	-	591.3	591.3
Long term debtors:						
Nil interest rate	-	-	3.4	-	-	10.4
At 31 March	<u>28.2</u>	<u>429.0</u>	<u>460.6</u>	<u>20.4</u>	<u>591.3</u>	<u>622.1</u>

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 commercial paper and money market deposits is 5.7% (1999 5.5%) and the weighted average time for which they are held is 55 days (1999 71 days). 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.

Notes to the financial statements

24 Financial instruments and risk management (continued)

(f) 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. The preference shares are listed on the London Stock Exchange and the fair value has been quoted at the listed price. The fair value of interest rate swaps and combined interest rate and forward foreign currency swaps are based on market prices of comparable investments.

	Note	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Primary financial instruments held or issued to finance the group's operations:					
Short term borrowings		(12.6)	(12.6)	(61.3)	(61.3)
Long term borrowings		(2,118.7)	(2,188.7)	(2,124.5)	(2,321.0)
Preference shares		(206.6)	(157.5)	(206.6)	(254.8)
Other financial liabilities		(24.8)	(24.8)	(22.5)	(22.5)
Long term debtors		3.4	3.4	10.4	10.4
Current asset investments	19	429.0	429.0	591.3	591.3
Cash at bank and in hand		34.0	34.0	21.0	21.0
Bank loans and overdrafts	20(a)	(5.8)	(5.8)	(0.6)	(0.6)
		<u>(1,902.1)</u>	<u>(1,923.0)</u>	<u>(1,792.8)</u>	<u>(2,037.5)</u>
Derivative financial instruments held to manage the interest rate and currency profile and matched by primary financial instruments:					
Interest rate swaps		-	(6.3)	-	(10.5)
Combined interest rate and forward foreign currency swaps		-	(59.2)	-	(51.1)
		<u>(1,902.1)</u>	<u>(1,988.5)</u>	<u>(1,792.8)</u>	<u>(2,099.1)</u>
Derivative financial instruments held to manage the interest rate profile and not matched by a primary financial instrument:					
Interest rate swaps		-	(3.5)	-	(8.1)
		<u>(1,902.1)</u>	<u>(1,992.0)</u>	<u>(1,792.8)</u>	<u>(2,107.2)</u>

The fair value of derivative financial instruments matched by primary financial instruments relates to long term borrowings with a book value of £673.4m (1999 £674.5m) which have been included within the primary financial instruments issued to finance the group's operations at a fair value of £637.6m (1999 £676.3m), which is the redemption value of those borrowings.

Notes to the financial statements

24 Financial instruments and risk management (continued)

(g) 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 24(f)).

	Unrecognised total net gains/losses 2000 £m
Losses on hedges at 1 April 1999	<u>(69.7)</u>
Gains not included in 1999/2000 income	0.7
Losses on hedges at 31 March 2000	<u>(69.0)</u>
Of which:	
Losses expected to be included in 2000/01 income	(0.6)
Losses expected to be included in 2001/02 income or later years	(2.9)
Losses not expected to be included in 2001/02 income or later years	<u>(65.5)</u>
	<u>(69.0)</u>

Notes to the financial statements

25 Capital commitments

Group	2000 £m	1999 £m
Contracted for but not provided in the financial statements	155.4	182.5

In order to meet additional quality and service standards, together with growth and new demands, the group has capital investment obligations over the next five years amounting to approximately £1.13billion at current prices in the regulated water and sewerage business and approximately £250million at current prices, within the regulated electricity distribution business.

26 Leasing commitments

At 31 March 2000 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	
	2000 £m	1999 £m	2000 £m	1999 £m
Within one year	0.5	0.9	2.9	4.7
Between two and five years	1.4	2.8	4.2	2.6
After five years	3.5	2.6	0.3	3.0
	5.4	6.3	7.4	10.3

Company	Land and buildings		Others	
	2000 £m	1999 £m	2000 £m	1999 £m
Within one year	0.2	0.2	-	-
After five years	0.1	0.1	-	-
	0.3	0.3	-	-

Notes to the financial statements

27 Provisions for liabilities and charges

	Note	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
Deferred taxation	(a)	15.0	-	-	-
Group insurance funds	(b)	15.1	12.9	-	-
Reorganisation provision	(c)	26.9	47.9	0.4	0.7
Pensions provision	(d)	2.8	2.8	1.5	1.2
Power purchase provision	(e)	-	65.7	-	-
Other provisions	(f)	20.1	13.8	0.5	0.5
		<u>79.9</u>	<u>143.1</u>	<u>2.4</u>	<u>2.4</u>

(a) Deferred taxation

Group	Amount provided		Amounts unprovided	
	2000 £m	1999 £m	2000 £m	1999 £m
Tax effect of timing differences:				
Excess of tax allowances over depreciation	-	-	371.3	375.6
Other timing differences	-	-	(8.7)	(20.5)
	-	-	<u>362.6</u>	<u>355.1</u>
Trading losses	-	-	(0.3)	(1.5)
Capital gains rolled over	15.0	-	10.4	2.5
Earnings retained overseas	-	-	4.3	3.3
	<u>15.0</u>	<u>-</u>	<u>377.0</u>	<u>359.4</u>

Company

	Amount unprovided	
	2000 £m	1999 £m
Tax effect of timing differences:		
Excess of tax allowances over depreciation	0.2	0.2
Other timing differences	(0.6)	(0.4)
	<u>(0.4)</u>	<u>(0.2)</u>

(b) Group insurance funds

	Group £m	Company £m
At 1 April 1999	12.9	-
Premiums	5.7	-
Claims	(3.1)	-
Released to profit and loss account	(0.4)	-
At 31 March 2000	<u>15.1</u>	<u>-</u>

Cover against certain risks is provided by Brecon Insurance Company Limited, a wholly owned subsidiary undertaking of the group.

Notes to the financial statements

27 Provisions for liabilities and charges (continued)

(c) Reorganisation provision

	Note	Group £m	Company £m
At 1 April 1999		47.9	0.7
Charged to profit and loss account	5	35.1	0.5
Released to profit and loss account	5	(10.2)	-
Utilised		(45.9)	(0.8)
At 31 March 2000		26.9	0.4

The reorganisation provision includes severance, related pension costs and property costs for restructuring initiatives which will be completed within the next 24 months.

(d) Pensions provision

	Group £m	Company £m
At 1 April 1999	2.8	1.2
Charged to profit and loss account	0.4	0.3
Utilised	(0.4)	-
At 31 March 2000	2.8	1.5

This provision relates to unfunded directors pensions (page 22) and the "Barber" provisions which are expected to be utilised within the next 24 months.

(e) Power purchase provision

	Note	Group £m	Company £m
At 1 April 1999		65.7	-
Utilised	4	(6.4)	-
Released to profit and loss account on disposal of supply business	39	(59.3)	-
At 31 March 2000		-	-

(f) Other provisions

	Group £m	Company £m
At 1 April 1999	13.8	0.5
Charged to profit and loss account	10.1	-
Utilised	(3.8)	-
At 31 March 2000	20.1	0.5

These provisions principally relate to leasehold property provisions, onerous contracts, uninsured losses and other claims arising which are expected to be utilised within the next 16 years.

Notes to the financial statements

28 Accruals and deferred income

Group

	<u>£m</u>
At 1 April 1999	155.3
Receivable during the year	10.5
Released to profit and loss account	<u>(6.0)</u>
At 31 March 2000	<u>159.8</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.

29 Called up share capital

	<u>2000</u>	<u>1999</u>
	<u>£m</u>	<u>£m</u>
Authorised:		
166,666,667 ordinary shares of 120p each (1999 166,666,667)	200.0	200.0
209,000,000 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1999 209,000,000)	<u>209.0</u>	<u>209.0</u>
	<u>409.0</u>	<u>409.0</u>
Allotted, called up and fully paid:		
154,710,591 ordinary shares of 120p each (1999 151,018,332)	185.6	181.2
207,181,776 cumulative redeemable preference shares (7.875% net) of £1 each (redeemable 31 July 2013) (1999 207,181,776)	<u>207.2</u>	<u>207.2</u>
	<u>392.8</u>	<u>388.4</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 354p and 676p per share.

In total 3,692,259 ordinary shares, with an aggregate nominal value of £4.4m were issued in the year. The cash consideration received in respect of the issue of 5,957 ordinary shares was £37,000. Included within the total are 3,686,302 ordinary shares with an aggregate nominal value of £4.4m issued in relation to the scrip dividend plan for which no cash consideration was received.

Notes to the financial statements

30 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 2000 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	
				2000	1999
Employee sharesave scheme	Dec 1992	Mar 2000 - Aug 2000	425 - 427	103,830	321,180
	Sept 1994	Oct 1999 - Mar 2000	522 - 525	-	358,333
	Sept 1994	Oct 2001 - Mar 2002	522 - 525	143,096	165,911
	Dec 1994	Feb 2000 - Aug 2000	522 - 525	55,240	243,724
	Dec 1994	Feb 2002 - Aug 2002	522 - 525	87,153	107,021
	Jul 1997	Sep 2000 - Feb 2001	650	525,180	734,208
	Jul 1997	Sep 2002 - Feb 2003	650	1,780,396	2,477,291
				2,694,895	4,407,668
Executive share option scheme	Jul 1991	Jul 1994 - Jul 2001	354	23,021	24,049
	Jul 1993	Jul 1996 - Jul 2003	563	55,909	55,909
	Aug 1993	Aug 1996 - Aug 2003	648	13,937	21,146
	Jan 1994	Jan 1997 - Jan 2004	716	151,442	151,442
	Jan 1995	Jan 1998 - Jan 2005	676	16,928	21,857
				261,237	274,403
Overseas share plan	Oct 1997	Nov 2000 - Apr 2001	841	38,749	67,280
	Oct 1997	Nov 2002 - Apr 2003	841	14,424	32,910
				53,173	100,190
				3,009,305	4,782,261

No options were granted during the year ended 31 March 2000. 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.

30 Employee share schemes (continued)

(a) Hyder plc share schemes (continued)

During the year ended 31 March 1999 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 2000 were 146,263 (1999 72,211) ordinary shares under the utilities scheme and 3,748 (1999 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 2000 subject to scheme targets and eligibility criteria being met.

(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 20 and 21. 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.

A second L-Tip was established in 1999 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 20 and 21.

(c) 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 South Wales Electricity sharesave schemes. At 31 March 2000 Hyder Share Scheme Trustee (2) Limited, as trustee, held 3,261,565 ordinary shares (1999 3,437,499) with a value, based on the average closing price of the shares in the thirty days up to 7 July, being the latest practicable date prior to the directors' approving the financial statements, of £10.4m (1999 market value £27.0m). If the shares are transferred at this value otherwise than for a qualifying purpose of the Quest, an income tax charge of £5.3m will be payable by Hyder Share Scheme Trustees (2) Limited.

The accounts include the shares held by the Quest, which are included as fixed asset investments. 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 sharesave schemes are stated in notes 30(a) above.

Notes to the financial statements

31 Share premium account

	Group £m	Company £m
At 1 April 1999	137.4	137.4
Nominal value of ordinary shares issued under scrip dividend in lieu of cash dividend (note 29)	(4.4)	(4.4)
At 31 March 2000	133.0	133.0

32 Reserves

(a) Profit and loss account

	Group £m	Company £m
At 1 April 1999	370.8	443.5
Profit/(loss) retained for the year	48.1	(152.3)
Goodwill written back on disposal	84.0	-
Scrip dividend issued in lieu of cash dividend	21.5	21.5
Foreign currency translation losses	(1.3)	(0.2)
Reserves adjustment on acquisition of additional interest in subsidiary	(0.7)	-
At 31 March 2000	522.4	312.5

The cumulative goodwill written off directly to reserves is £544.3m (1999 £628.3m).

In accordance with the group's accounting policy, £nil of net exchange differences (1999 £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 1999 and 31 March 2000	-	9.6

The capital reserve arose on the acquisition of South Wales Electricity plc and comprised the fair value of the options granted by the company to South Wales Electricity plc share option holders less the option price to be received by the company on the exercise of those options.

(c) Investment revaluation reserve

	Group £m	Company £m
At 1 April 1999	1.2	-
Revaluations (note 15)	1.5	-
At 31 March 2000	2.7	-

(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

33 Equity minority interest

	Group £m	Company £m
At 1 April 1999	2.6	-
Adjustment to fair value of assets	(0.4)	-
Purchase of minority interest	(1.5)	-
Recognition of results for the year	0.2	-
Currency translation differences	(0.2)	-
At 31 March 2000	<u>0.7</u>	<u>-</u>

34 Net cash inflow from operating activities

	Note	2000 £m	1999 £m
Continuing operations:			
Operating profit		164.1	270.6
Non cash element of exceptional items (excluding reorganisation costs)		73.3	-
Depreciation of tangible fixed assets		136.8	122.8
Amounts written off tangible fixed assets		-	7.1
Amounts provided on intangible fixed assets and fixed asset investments		1.1	2.0
Amortisation of grants and contributions		(6.0)	(5.9)
Loss on sale of fixed assets		0.5	-
Net increase in stocks	17	(1.7)	(1.9)
Net (increase)/decrease in debtors		(34.0)	1.2
Net increase in creditors		46.5	4.0
Contribution from insurance fund	27(b)	2.3	0.1
Reorganisation provisions	27(c)	(20.5)	(11.2)
Contributions to pension fund	27(d)	-	(0.2)
Other provisions - storm damage		-	(6.5)
Other provisions	27(f)	6.3	0.4
Net cash inflow from continuing operating activities		<u>368.7</u>	<u>382.5</u>
Discontinued operations:			
Operating (loss)/profit		(3.7)	26.0
Non cash element of exceptional items (excluding reorganisation costs)		12.8	-
Depreciation of tangible fixed assets		3.6	1.6
Net increase in stocks	17	(0.3)	-
Net decrease/(increase) in debtors		1.1	(29.0)
Net increase in creditors		1.9	9.9
Contribution (to)/from insurance fund	27(b)	(0.1)	0.1
Reorganisation provisions	27(c)	(0.5)	-
Power purchase provision release	27(e)	(6.4)	(7.3)
Other provisions	27(f)	(0.5)	-
Net cash inflow from discontinued operating activities		<u>7.9</u>	<u>1.3</u>
Net cash inflow from operating activities		<u>376.6</u>	<u>383.8</u>

Debtors have increased in the continuing operations principally due to amounts owing to the electricity distribution business by the energy supply business which in prior years were intercompany balances and eliminated in the group accounts.

Notes to the financial statements

35 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 1999	20.4	591.3	(2,185.8)	(1,574.1)
Consolidated cashflow statement	7.8	(162.0)	55.7	(98.5)
Bond issue costs written back	-	-	(0.6)	(0.6)
Currency translation differences	-	(0.3)	(0.6)	(0.9)
At 31 March 2000	28.2	429.0	(2,131.3)	(1,674.1)

(b) Year end reconciliation

	Note	2000 £m	1999 £m
Loans and finance lease obligations:			
Amounts falling due within one year	20(a)	(12.6)	(61.3)
Amounts falling due after more than one year	20(b)	(2,118.7)	(2,124.5)
	35(a)	(2,131.3)	(2,185.8)
Current asset investments	19	429.0	591.3
Cash at bank and in hand		34.0	21.0
Bank loans and overdrafts	20(a)	(5.8)	(0.6)
	35(a)	(1,674.1)	(1,574.1)

36 Analysis of changes in financing in the year

	Share capital (including premium)		Loans & finance lease obligations	
	2000 £m	1999 £m	2000 £m	1999 £m
At 1 April	525.8	525.3	2,185.8	1,575.1
New loans and bonds	-	-	2.0	529.4
New finance leases	-	-	-	92.1
Loans acquired with subsidiaries	-	-	-	3.4
Loan notes issued on acquisition of subsidiaries	-	-	-	1.7
Loan repayments	-	-	(57.5)	(9.0)
Finance lease repayments	-	-	(0.2)	(0.5)
Bond issue costs written back	-	-	0.6	0.1
Proceeds from the issue of ordinary shares	-	0.5	-	-
Expenses of issuing bonds	-	-	-	(6.6)
Currency translation difference	-	-	0.6	0.1
At 31 March	525.8	525.8	2,131.3	2,185.8

Notes to the financial statements

37 Reconciliation of net cash flow to increase in net debt

	Note	2000 £m	1999 £m
Increase in cash as per cashflow statement		7.8	28.9
Decrease/(increase) in loans and finance lease obligations	35(a)	55.7	(605.4)
(Decrease)/increase in liquid resources held as current asset investments	35(a)	(162.0)	289.7
Increase in net debt resulting from cash flows		(98.5)	(286.8)
Acquired with subsidiaries		-	(3.4)
Issued on acquisition of subsidiaries		-	(1.7)
Bond issue costs written back		(0.6)	(0.1)
Currency translation differences	35(a)	(0.9)	0.1
Increase in net debt		(100.0)	(291.9)
At 1 April		(1,574.1)	(1,282.2)
At 31 March		(1,674.1)	(1,574.1)

38 Acquisition

During the year the group increased its shareholding in AcerPlan GmbH from 56% to 89%. These operations have been integrated into the continuing activities of the group. The additional shareholding of 33% resulted from a further consideration of £1.7m, of which £0.2m is deferred consideration.

Notes to the financial statements

39 Disposals of group operations

On 17 February 2000 the group sold SWALEC Gas Limited and the electricity supply business of South Wales Electricity plc for a consideration of £106.8m. On 31 March 2000 the group also disposed of Environmental Laboratories, an unincorporated division of Hyder Consulting Limited, for a consideration of £11.4m of which the final payment of £11.2m was received on 7 April 2000. The values of the assets disposed of were as follows:

	<u>£m</u>
Tangible fixed assets	13.9
Debtors	102.7
Work in progress	1.1
Cash	1.0
Creditors	(84.1)
Provisions arising on disposal	1.3
Tangible fixed assets written off	8.5
Transaction costs	2.1
Goodwill previously written off to reserves	84.0
Power purchase provision released on disposal	(59.3)
	<u>71.2</u>
Profit on disposal	47.0
	<u>118.2</u>
 Consideration:	
Cash received in the year	107.0
Cash received on 7 April 2000	11.2
	<u>118.2</u>

The net inflow of cash arising from the above disposals was as follows :

	<u>£m</u>
Cash received	107.0
Cash released	(1.0)
Transaction costs	(2.1)
	<u>103.9</u>

The amounts included in the consolidated profit and loss account and cashflows up to the date of disposal in respect of the energy supply business and Environmental Laboratories are shown in notes 2, 4 and 34.

The deferred tax charge of £15.0m in respect of the above disposals relates to capital gains rolled over (note 27 (a)).

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.

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 7.5% per annum, pay growth of 4.5% per annum, and increases to pensions in payment of 3.5% per annum.

The latest actuarial valuation was carried out as at 1 May 1999 with the market value of the assets being £55.0m. Using the assumptions adopted for SSAP24 the actuarial value of the assets represented 94% of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24 the deficit in the scheme is being spread over the future working lifetime of employees by way of increased employer's contribution rates.

41 Pension schemes (continued)

The total group pension cost for the period was £14.7m (1999 £14.5m). A prepayment of pension costs of £8.5m (1999 £6.6m) is included in note 18 within prepayments and accrued income. As a consequence of changes made by the Finance Act 1989 the group is unable to provide fully for approved pension for some executive directors who have joined the group since 1989. The group has therefore made alternative arrangements in these cases. Provision for the cost of unfunded pension is included in the charge for the period 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.

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. In addition guarantees of £12m (1999 £nil) have been provided in respect of third party debt obligations.

Company

The company has provided guarantees in respect of finance lease and loan facilities granted to its subsidiary Dwr Cymru Cyfyngedig amounting to £464.8m (1999 £500.4m). 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 2000 the overdrafts in subsidiary companies in the cash pooling arrangement amounted to £29.9m (1999 £29.8m).

The company, as ultimate holding company, has provided third party guarantees of £35.5m (1999 £18.8m) 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.

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.

Notes to the financial statements

44 Principal group undertakings

	Country of incorporation, registration and operation	Shareholding	
		Directly %	Indirectly %
Subsidiary undertakings			
Utility activities			
Hyder Utilities (Holdings) Limited	England and Wales	100	
Regulated water and sewerage activities			
Dwr Cymru Cyfyngedig	England and Wales		100
Welsh Water Utilities Finance PLC	England and Wales		100
Hyder Utilities (Operations) Limited	England and Wales		50
Regulated electricity distribution activities			
South Wales Electricity plc (distribution business)	England and Wales		100
Hyder Utilities (Operations) Limited	England and Wales		50
Managed Services activities			
Hyder Services Limited	England and Wales		100
Infrastructure activities			
Hyder Consulting Group Limited	England and Wales	100	
Hyder Consulting Limited	England and Wales		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 Group Limited	England and Wales	100	
Hyder Industrial Limited	England and Wales		100
Hyder Holdings Inc	USA		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
Other activities			
Brecon Insurance Co Limited	Guernsey		100

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
Joint ventures			
UK Highways M40 (Holdings) plc Ordinary shares of £1 each	England and Wales	£11.0m	44.0%
UK Highways A55 (Holdings) Limited Ordinary shares of £1 each Subordinated loan stock	England and Wales	£0.5m £9.3m	45.0% 45.0%
City Greenwich Lewisham Link Rail plc Ordinary shares of £1 each Loan stock	England and Wales	£1.5m £11.0m	40.0% 40.0%
Tieyhtio Nelostie Oy Shares of Fmk 100 each Loan stock	Finland	Fmk 50,000 Fmk 50m	43.0% 43.0%
Laing Hyder plc Ordinary shares of £1 each Loan stock	England and Wales	£4.0m £0.5m	50.0% 50.0%
CountyRoute Limited Ordinary shares Loan stock	England and Wales	£0.5m £9.4m	50.0% 50.0%
Citylink Telecommunications (Holdings) Limited Ordinary shares Loan stock	England and Wales	£10.7m £32.2m	19.5% 19.5%
Coastal Clearwater (Holdings) Limited Ordinary shares Loan stock	England and Wales	£0.1m £0.9m	50.0% 50.0%
Associated undertakings			
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, railways and telecommunications sectors, with the exception of The China Water Co Ltd and Coastal Clearwater (Holdings) Limited which are infrastructure investment businesses operating in the Chinese and UK 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				
	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	1,285.9	1,294.4	1,185.1	1,140.2	651.6
Operating profit:					
Continuing operations	274.8	296.6	284.7	277.6	180.9
Discontinued operations	14.2	-	-	-	-
Exceptional items:					
Continuing operations	(110.7)	-	(40.0)	-	(55.0)
Discontinued operations	(17.9)	-	-	-	-
Total operating profit	160.4	296.6	244.7	277.6	125.9
Profit on disposal of group operations	47.0	-	-	-	-
Income from investments	16.0	33.0	19.5	6.8	2.7
Profit on ordinary activities before interest and taxation	223.4	329.6	264.2	284.4	128.6
Net interest payable	(146.7)	(123.6)	(95.7)	(76.2)	(15.7)
Profit on ordinary activities before taxation	76.7	206.0	168.5	208.2	112.9
Ordinary taxation	(1.9)	(8.6)	(13.9)	(23.6)	(19.0)
Profit after ordinary taxation	74.8	197.4	154.6	184.6	93.9
Exceptional taxation	-	-	(281.9)	-	-
Profit/(loss) after taxation	74.8	197.4	(127.3)	184.6	93.9
Preference dividends	(16.4)	(16.4)	(16.4)	(16.5)	(7.8)
Ordinary dividends	(10.1)	(74.5)	(73.3)	(62.7)	(52.3)
Minority interests	(0.2)	-	-	-	-
Retained profit/(loss) for the year	48.1	106.5	(217.0)	105.4	33.8
Fixed assets	3,076.2	2,959.6	2,653.0	2,361.8	2,106.1
Net current assets	358.6	386.2	62.6	16.8	215.6
Total assets less current liabilities	3,434.8	3,345.8	2,715.6	2,378.6	2,321.7
Creditors: amounts falling due after more than one year	(2,143.5)	(2,147.0)	(1,622.4)	(1,123.7)	(1,167.9)
Provisions for liabilities and charges	(79.9)	(143.1)	(167.7)	(162.1)	(172.3)
Accruals and deferred income	(159.8)	(155.3)	(152.0)	(140.3)	(133.4)
Net assets	1,051.6	900.4	773.5	952.5	848.1
Capital and reserves					
Called up share capital	392.8	388.4	386.4	378.9	375.7
Share premium account	133.0	137.4	138.9	100.8	94.3
Reserves	525.1	372.0	248.2	472.8	378.0
Equity shareholders' funds	844.3	691.2	566.9	746.0	641.5
Non-equity shareholders' funds	206.6	206.6	206.6	206.5	206.5
Total shareholders' funds	1,050.9	897.8	773.5	952.5	848.0
Equity minority interests	0.7	2.6	-	-	-
Non-equity minority interests	-	-	-	-	0.1
	1,051.6	900.4	773.5	952.5	848.1

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