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**PENNON GROUP PLC**  
**ANNUAL REPORT 2000**



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COMPANIES HOUSE 27/07/00

# Pennon Group Plc

HIGHLIGHTS OF THE YEAR 

■ **Turnover £467.0 million**

■ **Profit before tax**  
(before exceptional items) **£121.6 million**

■ **Earnings per share**  
(before exceptional items) **85.8p**

■ **Dividend per share 47.8p**

■ **Further improvements in product quality  
and customer service**

■ **A difficult trading year for Viridor businesses**

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# Pennon Group Plc

## CHAIRMAN'S STATEMENT



### **It has been another eventful year for the Group – one of considerable change and challenge following several years of profitable growth.**

South West Water Limited continued to provide first class customer service, enhanced levels of product quality and significant environmental improvements. These were achieved against a backdrop of continued operational efficiencies.

The group of environmental businesses within Viridor Limited encountered difficult market conditions in the UK and overseas but remains well placed to produce profitable growth in the future.

#### **Group performance**

The Group made good progress during the year which saw turnover increase by 7% to £467 million. South West Water contributed £11.6 million of increased turnover, with Viridor and other non-regulated activities contributing £18.3 million.

Profit before tax was maintained at £121.6 million and earnings per share showed a 10% increase to 85.8p. The Directors are recommending a final dividend of 32.4p which, with the interim dividend, will provide a full year dividend of 47.8p – a 4.8% increase.

#### **South West Water Limited**

The water and sewerage business performed well during the year providing enhanced levels of customer service and product quality while delivering further reductions in overheads and operating costs. The restructuring initiatives which continued throughout the year helped achieve efficiency savings and cost reductions amounting to £4.9 million. The company is on track to deliver further significant savings in the future.

The company's capital investment programme continued apace during the year, providing significant benefits for customers, the environment and the region. Its ongoing 'Clean Sweep' bathing water improvement programme was the most high profile example of regional enhancement.

The good progress made in all areas of the company's business is described more fully in the operating review which also confirms details of improved levels of drinking water quality and the achievement of leakage reduction targets set by Ofwat.

#### **Viridor Limited**

Following a period of sustained expansion which saw the Viridor businesses grow significantly, the rate of growth slowed during the year as a result of difficult trading conditions in both the home and overseas markets. Viridor Waste Limited is one of the largest waste disposal businesses in the United Kingdom and during the year a new 10 million cubic metre site was opened in Erin, Derbyshire and three other sites operated for a first full year. With the benefit of the input from these sites, volume increased during the year by 7%.

Viridor Instrumentation Limited continues to enjoy a share of up to 50% of the world market in certain key product areas and during the year several new products were launched to further enhance the group's range. The integration of Orbisphere, acquired in 1998, was completed as planned, together with other restructuring and refocusing programmes which helped partially to offset the trading difficulties prevalent in certain markets.

During the year Viridor Contracting Limited increased its proportion of external business to 70%. While turnover decreased, operating profit and operating margins improved as a direct result of positive action taken last year in response to changes in its market.

Further details of Viridor's progress during the year are contained in the operating review.

### Competition in the water industry

The Group welcomes the advent of competition within the water industry and indeed, through its investment in Enviro-Logic Limited, has been successful in securing clean and waste water contracts with major companies throughout the UK.

South West Water's plans to meet the challenge of the competitive market are well advanced.

### Prospects

In November last year the Director General of Water Services announced his Final Determination of price limits for water and sewerage services for the five years 2000-2005. His Determination will have a major impact on the Group. Both turnover and profitability for South West Water will be reduced as a result of the price reduction of 12.2% imposed for the financial year 2000/01. The Determination represents a significant challenge. However, with detailed plans already in place and now being implemented, there is a confident expectation that a degree of out-performance can be achieved.

The Viridor businesses, in their respective areas, are well-positioned to produce profitable growth. The challenge is to deliver the full potential offered by these businesses.

The Board announced with its Interim Results in December 1999 its intention to reduce the 2000/01 dividend by 25% and thereafter to pursue a progressive dividend policy. This remains the Board's intent.

The Board has also announced that it is actively reviewing strategic options to maximise shareholder value.

Further announcements on the strategic review will be made as and when appropriate.

### Board matters

Mr B A O Hewett retired from the Board in July 1999 and Mr S M Yassukovich retired as non-executive Deputy Chairman in March 2000. My Board colleagues and I thank them for their contributions during many years of service.

I am pleased to report that Sir Geoffrey Chipperfield has agreed to become Deputy Chairman and Ms Kate Mortimer was appointed to the Board as a non-executive Director on 1 May 2000. The Board welcomes their appointments.

### Employees

I have been Chairman of the Group for three years now and during that time the structure of the organisation has changed considerably in order to meet regulatory demands and pressures, and the vagaries of national and international markets. In an era of constant change, employees continue to provide consistently high levels of professionalism, dedication and loyalty and once again I express my sincere thanks to them all.



K G HARVEY  
Chairman  
Pennon Group Plc  
22 June 2000

# South West Water Limited

OPERATING REVIEW 

**Exemplary levels of customer service remain one of the company's key objectives for the future.**

Financial performance

The Periodic Review Final Determination

Customer service

Drinking water supplies

Environmental enhancement and protection

## Sound progress has been made during the year by South West Water Limited in all areas of its business.

Product quality improvements have continued, together with enhanced levels of customer service. Further operational efficiencies were also achieved as part of the company's ongoing operational cost reduction programme.

### Financial performance

South West Water's turnover increased by 4.2% to £281.4 million. Operating costs prior to depreciation have reduced in real terms from the 1998/99 levels. The impact of operating new works, inflation and other cost increases has been substantially mitigated by further efficiency savings amounting to £4.9 million.

Operating profit increased by 5.8% to £146.8 million.

Customers switching from an unmeasured charging basis to a metered basis continues to have an adverse impact on turnover and profits. During the year some 24,000 customers switched to measured billing adversely affecting turnover by £6.3 million.

Capital expenditure for the year increased by £28.4 million to £133.6 million with £58.9 million invested in water supply improvements including

water treatment works enhancement, leakage control and water mains renovation. Waste water services investment expenditure was £74.7 million of which £52.0 million was invested in the company's 'Clean Sweep' bathing water improvement programme.

### The Periodic Review Final Determination

In November 1999, the Director General of Water Services announced his Final Determination of price limits for water and sewerage services for the first five financial years of the new Millennium.

The extremely tough Final Determination confirmed a one-off price cut of 12.2% for the year 2000/01, followed by 'K' price increases of 0%, 2%, 2% and 2% for the years 2001/02 to 2004/05. The Determination provided for a capital investment of £725 million at May 1999 prices for the five year period. It also required operating cost efficiencies of 14% for water services and 17% for sewerage services, with associated capital programme savings of 7% and 13% respectively, by 2004/05.

Recognising that the outcome of the Periodic Review would be of crucial

importance to its future operation, the company had already embarked upon a restructuring programme to deliver significant reductions in operating and overhead costs.

This included a planned manpower reduction of 200, of which just under one half is expected to take place before the end of 2000/01.

The Final Determination represents one of the most significant challenges ever for South West Water. Despite the severity of the Determination and the resultant reduction in manpower numbers, exemplary levels of customer service remain one of the company's key objectives for the future.

### Customer service

The drive to become a leading customer-orientated service provider continued throughout the year with a number of significant additions to the company's already extensive programme of customer benefits. In tandem with the new benefits the company carried out further market research amongst its customers which confirmed that around 80% of customers are now satisfied with the overall service provided by the company.

A further new customer benefit introduced during the year was the launch of freephone telephone numbers to enable customers to contact the company's Accounts and

# South West Water Limited

## OPERATING REVIEW

Customer Service Helplines free of charge. The freephone facility was complemented by the extension of the Accounts Helpline Service which is now available seven days a week between 7.00am and 8.00pm.

In order to provide consistently high standards of customer service, further business structure changes were effected. The improved communications and new customer service management processes which will result from the changes will help the company achieve the efficiencies required by the Periodic Review and assist in further customer service improvements.

A considerable amount of time and effort was expended during the year as the company prepared for the introduction of service changes from 1 April 2000 as a result of newly introduced legislation.

The changes included the provision of free water meters for domestic customers in post-1989 properties, together with a right to revert to unmeasured charges within twelve months and assistance with water bills for certain vulnerable groups of metered customers who need to use large volumes of water.

A further challenge for the future follows the introduction of competition within the water industry. This will inevitably bring about changes and the company is determined to ensure that if customers are presented with a

choice they will choose South West Water as their preferred water and sewerage services provider.

### **Drinking water supplies**

There were no water restrictions in any part of the region during the year and, as a result of focused investment, drinking water quality levels were increased to an all time high of 99.8% overall compliance.

The company's ongoing water mains rehabilitation programme continued to improve the quality of drinking water for many thousands of customers and during the year almost 200 kilometres of water mains were renovated or replaced at a cost of £15 million.

The company's performance in terms of leakage continued to improve and it has consistently achieved the targets set by Ofwat. The approved leakage figure for 1999/00 of 84 megalitres per day was met and the company is on track to meet next year's target.

In the early 1990s, the company introduced an innovative 'Leak Seekers' programme which included one of the most comprehensive water supply monitoring systems in the industry. This programme has delivered excellent results and the company is now saving the equivalent of enough water to supply the entire daily domestic needs of the county of Cornwall and the city of Plymouth.

Throughout the year, the region-wide water conservation promotional programme continued to advocate the efficient use of water. It included sponsorship of a series of gardening programmes on television, a 'waterwise' roadshow, garden centre promotions and many other water efficiency related initiatives.

As a direct result of South West Water's practical and financial assistance, the historic Probus Gardens in Cornwall are able to survive and demonstrate a range of water conservation features.

The comprehensive plan evolved for managing water and sewerage services during the August 1999 Eclipse was not activated following minimal additional demand on the company's services. In addition, as a direct result of careful planning, coupled with an investment of £4.0 million, including £0.4 million in the year, customer services were not affected by potential Y2K information technology problems.

### **Environmental enhancement and protection**

The largest area of investment in recent years has been the company's £1 billion 'Clean Sweep' coastal sewage treatment improvement programme and during the year schemes were completed at Newquay, Porthallow and Porthtowan at a cost of

£17 million. These provided sewage treatment to over 83,000 customers for the first time.

At privatisation in 1989, the company inherited 227 crude sewage discharges, many of them located at environmentally sensitive sites. Already more than 180 of those have been eliminated and replaced with modern sewage treatment works at a cost of over £680 million at current prices. Twenty of the thirty new works incorporate ultra violet disinfection.

The region's coastline includes 140 designated bathing waters. 125 of them now meet mandatory EU bathing water standards and of the 15 failures, seven will be subject to future capital schemes, seven result from non-South West Water discharges and one is subject to further investigation by the Environment Agency. 66 of the 125 bathing waters comply with the stringent European guideline standards required for 'Blue Flag' status. Successful delivery of the company's 'Clean Sweep' programme was a major factor in enabling the region to win more coveted Tidy Britain Group Seaside Awards than any other area in the UK.

Progress on the £95 million scheme for Torbay continues with completion scheduled for April 2001. Over £30 million of that sum has already been invested in improvements to the existing sewer network. The new sewage treatment scheme at Newquay in Cornwall is now operating and a further scheme at Falmouth, also in Cornwall, will be completed this summer. Around £38 million has been invested in both schemes.

Work on similar schemes at Dawlish and Sidmouth in Devon will be completed during the summer of 2000.

Over 200 inland sewage treatment works have been modernised and upgraded since 1989 when only 60% complied with consent standards. Now over 97% of the works comply, helping the region to achieve a higher percentage of Grade A classification rivers than in any other area in England. The company's investment has not only helped

deliver significantly improved levels of environmental protection for inland waterways, it has also been a major factor in enabling around 400 planning embargoes to be lifted, allowing commercial and residential development, which is important to the region's economy, to proceed.



R J BATY  
Chief Executive  
South West Water Limited  
22 June 2000

# Viridor Limited

OPERATING REVIEW



**Viridor is one of the premier waste disposal companies in the UK.**

Financial performance

Waste management

Instrumentation

Construction services

Property

## Viridor Limited has built a group of businesses with strong positions in their respective segments.

Viridor Waste Limited is one of the premier waste disposal companies in the UK. It has an extensive network of licensed disposal facilities operated to the highest environmental standards. It is well placed to benefit from the increasing environmental demands and shortage of disposal capacity in the UK market.

Viridor Instrumentation Limited is a leading world-wide supplier of specialist monitoring instrumentation. It is focusing on the environmental monitoring and process control sectors where long term potential is believed to be excellent.

Viridor Contracting Limited is a leading specialist construction services company.

### Financial performance

Viridor turnover increased by 9.3% to £206.9 million during the year. Operating profit reduced by £3.8 million to £19.8 million. This reflected difficult trading conditions in certain areas and special profit gains in the previous year. Capital expenditure for the year was £20.6 million with £17.5 million invested in Viridor Waste.

### Waste management

Viridor Waste is one of the largest waste disposal businesses in the United Kingdom in terms of total landfill void. It is also active in recycling, in partnership with a number of local authorities, and in clinical waste incineration. The company is a leading collector of waste in the South West of England.

At year end, Viridor Waste's total consented landfill void amounted to 82 million cubic metres, with a further 58 million cubic metres of unconsented void for potential future development. The company is therefore ideally positioned to capitalise on the increasing shortage of disposal capacity in the United Kingdom caused by environmental pressures and a more restrictive planning consent process.

In September, Viridor Waste commenced operations of its new landfill site at Erin, Derbyshire. The former open-cast coal mine has a void space of some 10 million cubic metres and represents an important disposal site for the waste requirements of Derbyshire and South Yorkshire for the next 12 years. This is the fourth new landfill that Viridor Waste has opened in the past two years.

Viridor Waste disposed of a total of 3.0 million tonnes of waste in 1999/00, an increase of 7% over the previous year with increased overall market share more than offsetting a decline in contaminated soil volumes. Average landfill gate prices increased slightly.

During the year the company achieved planning permission for a number of small extensions to existing landfill sites totalling 3.0 million cubic metres. However, an extension of its landfill site at Yanley near Bristol was turned down on appeal. This reflects the general tightening in the planning regime which has become apparent over the last year.

Viridor Waste's landfill gas power generation with a capacity of 24.5 megawatts has operated successfully in the year helping to offset the impact of the ending of NFFO 1 and 2 contracts in December 1998.

Reflecting its commitment to high environmental standards, Viridor Waste has now achieved ISO 14001, the international environmental accreditation, at 24 sites, 80% of its total and considerably more than any other company in the UK waste industry. As part of its commitment to environmental improvements, particularly in areas near its landfill operation, Viridor Waste made a total contribution of £5.8 million to environmental bodies under the landfill tax credit scheme.

# Viridor Limited

## OPERATING REVIEW



Turnover in Viridor Waste increased by 20.6% to £100.6 million. Landfill tax included in turnover increased by £11.5 million to £29.7 million. Operating profit decreased by £2.7 million to £15.2 million, impacted by the ending of NFFO 1 and 2 contracts and special profit gains in the previous year.

### Instrumentation

Trading in over 150 countries, Viridor Instrumentation is a leading supplier of specialist environmental monitoring and process control equipment. It has research and development and manufacturing facilities in the UK, USA and Switzerland. It has a share of up to 50% of the world market in certain product areas and focuses on the increasing long term world-wide demand for environmental monitoring and process control equipment.

During the year the company completed integration of Orbisphere, acquired in December 1998. At the same time it continued the restructuring and refocusing programme instigated in its ELE materials testing business during 1998/99 to help combat the trading difficulties experienced in certain markets and the impact of the strength of the US dollar and sterling. The Pacific Rim and Latin American

markets remained weak in the early part of the year but showed a recovery in the last quarter. Capital expenditure constraints within the UK water sector produced a highly competitive market situation. The USA market remains a strong trading sector for the instrumentation businesses.

The cost reductions and synergies identified at the time of the Orbisphere acquisition are being achieved. GLI and Orbisphere sales operations in the UK were merged to provide a wider choice of product and services from a single source. Research and development is being co-ordinated across Orbisphere, GLI and Hydrolab. In the last quarter of the year the ELE Inc sales operation was relocated to a lower cost location in Alabama, whilst the ELE Ltd operation in the UK is due to relocate later this year to smaller, lower cost premises in Leighton Buzzard, Bedfordshire; together these steps will generate significant overhead savings.

Research and development expenditure is vital for the continued growth of the company and during the year it amounted to 8% of turnover. New products launched included an automatic weather monitoring system, a range of dissolved oxygen analysers, the 'Spectrac' alcohol analyser and a

multi-parameter water quality monitoring instrument. The 'Probrix' analyser for measuring sweetener in soft drinks launched at the end of last year achieved approval and sales of £1.2 million to the world's leading cola suppliers.

Given Viridor Instrumentation's strong brand name and extensive product offering, business to business e-commerce offers considerable opportunities. All businesses within the instrumentation group are actively utilising web site technology for marketing and sales support and are starting to use it for transaction purposes.

Turnover in Viridor Instrumentation increased by 21.0% to £49.6 million. Operating profit, before goodwill amortisation charges of £1.2 million, reduced by £0.1 million to £4.1 million after charging £0.3 million for the integration of Orbisphere.

### Construction services

Viridor Contracting's subsidiary, T J Brent Limited, is a market leader in utilities contracting, civil engineering, mechanical and electrical engineering and waste water process engineering particularly in the South West of England. As a result of the action taken last year, the company significantly improved its financial performance.

The company's Civils division has partnership/framework agreements with three UK water companies and is nearing completion of its largest single contract, a new £7 million sewage treatment plant in Swanage, Dorset. A £3 million land reclamation project forming part of the Cattedown Regeneration Scheme in Plymouth, Devon, was also completed.

The Utilities division is a market leader in the management of utility contracts, including pipelines, mains rehabilitation, leakage control, meter installation and highway cleansing and has a number of term contracts with water and electricity utilities.

Its Copa division has significantly expanded its product range in order to meet the demands of the waste water improvement and combined storm overflow programmes of the UK water companies for the next five years. It has made an encouraging start in the USA by supplying large storm water screens for sewerage systems in Chattanooga and Detroit.

During the year the company established a trading company in Guernsey and won its first major contracts, a £2 million pumping station and pressure mains scheme in St Sampson's Harbour and a £0.6 million sewer rehabilitation contract on the island.

In its commitment to quality improvement, T J Brent has extended its ISO 9001/2 accreditations to eight of its 15 operating bases, including this year its mechanical and electrical business locations in Devon and Manchester.

In line with its strategy, it has continued to grow its business external to the Pennon Group both at home and overseas. Its total turnover decreased by 7.1% to £56.0 million, with external turnover at £39.4 million, 70% of the total. Operating profit increased by £0.5 million to £1.6 million.

## Property

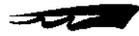
The Group continues to seek to maximise the value of its property assets. During the year a number of profitable disposals were contracted with a sales value of £2 million.



C I J H DRUMMOND  
Chief Executive  
Viridor Limited  
22 June 2000

# Pennon Group Plc

FINANCIAL REVIEW



## Earnings per share increased by 10.1% to 85.8p.

Operating profit

Finance costs

Profit before tax

Taxation

Earnings per share

Dividends and retained earnings

Investment

Financing

Treasury activities

Share capital

Shareholders' return

## **Group profit before tax was maintained at £121.6 million before the 1998/99 exceptional item.**

The water and sewerage business profit before tax at £108.0 million increased by £1.8 million.

Viridor profit before tax at £18.5 million, reduced by £4.2 million.

Net interest payable increased by £4.2 million to £15.1 million in 1999/00.

The Group's taxation charge benefited from a £12.5 million reduction to £5.0 million in 1999/00.

Earnings per share increased by 10.1% to 85.8p (before the exceptional item in 1998/99).

### **Operating profit**

Group turnover for the year increased by 6.8% to £467.0 million. Total water and sewerage business turnover was £281.4 million, up 4.2% on 1998/99 principally emanating from the approved tariff increase. The £6.3 million adverse cost of customers moving from the unmeasured to the measured usage tariff was covered in part by an increase in the number of billed customers. Total turnover for Viridor businesses reached £206.9 million, up 9.3% on 1998/99, including £100.6 million for waste management (1998/99 £83.4 million), £49.6 million for instrumentation (1998/99 £41.0

million) and £56.0 million for construction services (1998/99 £60.3 million). Group operating costs for 1999/00 at £299.9 million increased by £25.5 million. Further efficiency benefits of £4.9 million were achieved in the water and sewerage business.

Group operating profit for the year increased by £4.4 million to £167.1 million, before the exceptional item in 1998/99. The water and sewerage business achieved a £146.8 million operating profit, up £8.1 million on 1998/99. Viridor businesses contributed £19.8 million, or 12% of Group operating profit in 1999/00, with £15.2 million being delivered by waste management.

Non-regulated operating profit performance for 1999/00 experienced a £3.7 million reduction (before the 1998/99 exceptional item). This arose in waste management, principally through the impact of changes to power generation contracts and special profit gains in 1998/99, and in instrumentation from competitive pressures in the international markets.

### **Finance costs**

Net interest payable was £45.1 million, compared with £40.9 million in 1998/99.

Gross interest payable was £49.7 million arising on borrowings, predominantly denominated in sterling. Gross interest receivable of £4.8 million was derived from the investment of temporarily surplus funds.

Net interest payable was 3.7 times covered by Group operating profits.

### **Profit before tax**

Profit before tax was £121.6 million, unchanged on 1998/99 (before the exceptional item).

Water and sewerage business profit before tax increased by £1.8 million to £108.0 million. The turnover driven operating profit improvement was impacted by a £6.3 million increase in net interest payable, principally arising from funding the capital investment programme.

Non-regulated businesses provided £13.6 million profit before tax, a £1.8 million reduction on the 1998/99 position before the exceptional item.

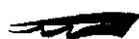
### **Taxation**

The Group's taxation charge for the year was £5.0 million (1998/99 £17.5 million). The reduction reflects the benefit delivered from the policy of disclaiming capital allowances in order to utilise the Group's entire surplus advance corporation tax.

The Group's capital investment programme continues to generate substantial capital allowances to be set against taxable profits.

# Pennon Group Plc

## FINANCIAL REVIEW



### Earnings per share

Earnings per share increased by 10.1% to 85.8p (before the exceptional item in 1998/99) benefiting from the £12.5 million reduction in the Group's taxation charge.

### Dividends and retained earnings

The Directors recommend the payment of a final dividend of 32.4p per share for the year ended 31 March 2000. Together with the interim dividend of 15.4p per share paid on 6 April 2000 this makes a total dividend for the year of 47.8p per share, an increase of 4.8% on the dividend for 1998/99.

The total cost of the interim and recommended final dividend of the Company is £65.1 million.

The retained profit of £51.5 million has been transferred to reserves.

The dividend paid by South West Water Limited to the Company for 1999/00 amounted to £64.0 million.

The Directors foreshadowed, with the interim results announcement in December 1999, a proposed dividend cut of 25% to be applied in 2000/01. This action is necessary to maintain dividend covers at acceptable levels following the impact of the windfall tax, the Periodic Review price reductions and a review of Viridor profit projections. In the absence of unforeseen circumstances, the Directors expect to pursue a progressive dividend policy thereafter.

### Investment

Capital expenditure by the Group on tangible fixed assets was £153.8 million (1998/99 £125.3 million) of which £133.6 million arose in the water and sewerage business.

There were no business acquisitions in the year.

In the opinion of the Directors the current market value of land and buildings is not significantly different from the holding cost shown in the financial statements.

### Financing

The cash inflow from operating activities was £216.3 million (1998/99 £193.6 million). Capital expenditure and financial investment cash outflow accelerated from £125.0 million in 1998/99 to £140.6 million in 1999/00. Taxation cash outflow was £15.9 million (1998/99 £79.9 million, including £52.0 million windfall tax). Acquisitions and disposals involved a cash inflow of £0.5 million (1998/99 £29.7 million outflow). Overall, the cash inflow of the Group, before the use of liquid resources and financing, was £1.5 million (1998/99 £97.5 million outflow).

No significant new borrowings were made in the year. Finance lease obligations increased by £11.7 million principally from increased accrued finance charges.

At 31 March 2000 loans and finance lease obligations were £706.1 million

and the Group held current asset investments and cash of £39.3 million. Net borrowings, which increased by £11.7 million during the year to £666.8 million, represent 71% of shareholders' funds (1998/99 73%).

The borrowing powers of the Directors are limited to two and a half times capital and reserves, as defined in the Company's Articles of Association. At 31 March 2000 the limit was £2.4 billion. The Directors confirm that the Group can meet its short-term requirements from the existing borrowing facilities without breaching covenants or other borrowing restrictions.

### Treasury activities

The Group's treasury operations are managed in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance and to manage risk. The Group does not engage in speculative activity.

The principal financial risks faced by the Group relate to interest rate, exchange rate and counterparty risk.

### Finance and interest rate risks

The Group is financed by a combination of equity, retained profits, bank borrowings, finance

leases, loan notes and a long-term debt market issue. Individual subsidiaries are financed through a combination of external debt, and loan and equity finance from the Company.

Derivatives, usually interest rate swaps, are used to manage the mix of fixed and floating rate debt – ensuring at least 50% of net debt is at fixed rate. At 31 March 2000, after taking account of interest rate swaps with a notional principal amount of £160.0 million, 57% of net debt was at fixed rate (1998/99 60%), with debt in place for periods of between 2 and 12 years (1998/99 3 and 13 years), with an average maturity of 7 years (1998/99 8 years).

During the year, interest rate swaps with a notional principal amount of £200 million, commencing from April 2006 and maturing in March 2030, were entered into as part of the Group's risk management policy. These derivatives diversify the mix of interest rate exposures by swapping the basis of floating rate interest payments from being based on UK bank rates to being based on European bank rates, as set out in the financial statements. The settlement of £18.2 million, received when these swaps were entered into, has been deferred and will be matched with interest charges on the underlying hedged debt over the periods of the swaps.

The notional principal amounts of the interest rate swaps are used to

determine settlement under those swaps and are not, therefore, an exposure for the Group.

Net interest costs represent a rate of 6.8% when measured against average net debt (1998/99 6.8%).

The Group ensures continuity of funding by arranging new committed facilities and borrowings in accordance with anticipated requirements, supported by extensive short-term uncommitted bank facilities of over £200 million.

#### ***Current asset investments***

The Group invests funds which are surplus to immediate operational requirements in high quality deposits and financial instruments in accordance with policies established by the Board.

#### ***Foreign currency risk***

The Group's principal exchange rate risk is to the value of overseas investments. Net equity value, including capitalised goodwill, is now protected by the forward sale of foreign currency – at 31 March 2000 US dollar 18.5 million and Swiss franc 65.0 million. Foreign currency transaction exposure is covered on a case by case basis – at 31 March 2000 contracts for overseas transactions, with a sterling value of £9.0 million, existed for settlement in Swiss francs.

## **Share capital**

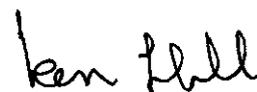
During the year the issued ordinary share capital increased from £136.1 million to £136.3 million.

Permission was obtained from shareholders at the annual general meeting in July 1999 to purchase up to 10% of the Company's ordinary share capital. Renewal of the authority will be sought at the July 2000 annual general meeting.

## **Shareholders' return**

The dividend of 47.8p is paid out of earnings per share of 85.8p. The cover for payment of dividends is 1.8 times.

The Company's share price started the year at 954p and was 465p at 31 March 2000. The value of net assets per share at book value, at 31 March 2000, was 692p.



K L HILL  
Group Director of Finance  
Pennon Group Plc  
22 June 2000

# Board OF DIRECTORS

## Kenneth George Harvey

BSc, CEng, FIEE (59)

### Non-executive Chairman

was appointed on 1 March 1997. He was formerly chairman and chief executive of Norweb Plc. He was chairman of National Grid Holdings in 1995 and was previously deputy chairman of London Electricity and earlier its engineering director. He is also a non-executive chairman of Beaufort Group Plc and The Intercare Group Plc.

## Sir Geoffrey Howes Chipperfield

KCB, DCL (67)

### Non-executive Deputy Chairman

was appointed on 1 October 1993 and became Deputy Chairman on 1 May 2000. He was the permanent secretary and chief executive of PSA Services from 1991 and previously he was permanent secretary in the Department of Energy. He is chairman of the Energy Advisory Panel of the Department of Trade and Industry, chairman of the British Cement Association and pro-chancellor of University of Kent.

## Robert John Baty

CEng, FICE, FCIWEM, MIMgt,  
ACI/Arb, FIWO (56)

### Chief Executive, South West Water Limited

was appointed on 1 March 1996. He was formerly engineering and scientific director of South West Water Services Limited having joined South West Water Authority in 1988. Previously he held engineering and operational appointments with North West Water Authority.

## Colin Irwin John Hamilton Drummond

MA, MBA (49)

### Chief Executive, Viridor Limited

was appointed on 1 April 1992. Prior to joining the Company he was a divisional chief executive of Coats Viyella, having previously been corporate development director of Renold plc, a strategy consultant with the Boston Consulting Group and an official of the Bank of England.

## Kenneth Leslie Hill

CPFA (59)

### Group Director of Finance

was appointed on 21 September 1989. He is a public finance accountant with wide experience in the water industry. Prior to joining the Company he was finance director of Severn Trent Water. He is chairman of Eden Project Limited, a non-executive director of Vocalis Plc and a City Disputes panellist.

## Alan Thomas Fletcher

MA (65)

### Non-executive Director

was appointed on 26 May 1993. He is managing partner of Rubicon Partners, chairman of Vector Industries Limited, deputy chairman of Shepherd Building Group and a director of a number of subsidiary companies within those groups. Formerly he was chairman and chief executive of the Wilkinson Sword Group and chief operating officer of Swedish Match.

## Katharine Mary Hope Mortimer

MA, BPhil (54)

### Non-executive Director

was appointed on 1 May 2000. She is currently a freelance financial consultant, a non-executive director of British Nuclear Fuels Plc, a member of the Competition Commission and of the Crown Agents Foundation Council and a director of Crown Agents Financial Services Limited and Crown Agents Asset Management Limited. She was formerly a director of N M Rothschild & Sons Limited, Director of Policy at the Securities and Investments Board and Chief Executive of Walker Books.

## Committees of the Board

### Audit

Sir Geoffrey H Chipperfield (Chairman)  
A T Fletcher  
Ms K M H Mortimer

### Environment

B A O Hewett (Chairman) (co-opted member)  
R J Baty  
C I J H Drummond

### Nomination

K G Harvey (Chairman)  
Sir Geoffrey H Chipperfield  
A T Fletcher

### Remuneration

A T Fletcher (Chairman)  
Sir Geoffrey H Chipperfield  
Ms K M H Mortimer

### Compliance

K D Woodier (Chairman)  
R J Baty  
C I J H Drummond  
K L Hill  
J Ostle

### Company secretary and registered office

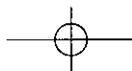
K D Woodier  
Peninsula House, Rydon Lane  
Exeter EX2 7HR  
Registered in England No 2366640

### Auditors

PricewaterhouseCoopers  
Chartered Accountants  
31 Great George Street, Bristol BS1 5QD

### Registrars

Lloyds TSB Registrars  
The Causeway, Worthing  
West Sussex BN99 6DA



# Report OF THE DIRECTORS

The Directors of Pennon Group Plc (the Company) present their eleventh Annual Report, in respect of the year ended 31 March 2000, together with the audited Financial Statements of the Company for that year.

The Financial Statements will be laid before the shareholders at the eleventh annual general meeting of the Company, to be held on 27 July 2000, notice of which is given on page 59.

## Principal activities

The principal activities of the Company and its subsidiaries (the Group) continued to be the provision of water and sewerage services, waste management, instrumentation and specialist construction services. The activities are described in more detail in the operating reviews.

## Financial results and dividend

Group profit on ordinary activities after taxation was £116.6 million. The Directors recommend a final dividend of 32.4p per ordinary share, making a total for the year of 47.8p, the cost of which would be £65.1 million, leaving retained profit of £51.5 million to be transferred into reserves.

The financial review on pages 12 to 15 analyses the results in more detail, and sets out other financial information.

## Directors

Mr B A O Hewett retired from the Board on 29 July 1999 and Mr S M Yassukovich retired as Non-executive Deputy Chairman on 31 March 2000. Ms K M H Mortimer was appointed as a Non-executive Director on 1 May 2000.

Messrs K G Harvey, C I J H Drummond and A T Fletcher are due to retire by rotation at the annual general meeting.

Having been appointed by the Board, Ms K M H Mortimer is also due to retire. All of the Directors due to retire offer themselves for re-election and resolutions for their re-election will be proposed at the annual general meeting.

Mr C I J H Drummond has a service contract which provides for not less than one year's notice of termination by the Company or by the Director, expiring at any time. Messrs A T Fletcher and K G Harvey and Ms K M H Mortimer do not have service contracts with the Company but Mr Harvey is entitled to twelve months' notice of termination under the terms of his appointment.

No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the Company's business.

Details of Directors' interests in shares of the Company are given on pages 21 and 22.

## Employees

The Company is committed to effective communication with all employees which is effected, inter alia, via a monthly employee briefing system and an employee newspaper. Employees of South West Water Limited elect representatives from all levels to a Staff Council, which deals with matters of concern to all staff employees, both trade union and non-trade union members alike.

Employees are encouraged to become shareholders in the Company through the all-employee share schemes.

Training and development of staff is a priority and particular attention is given to the management of change and training for revised working processes.

The Group operates a non-discriminatory employment policy and makes every

reasonable effort to provide disabled people with equal opportunities for employment, training and development, having regard to their particular aptitudes and abilities.

## Year 2000

As a direct result of careful planning allied to an investment of £4.6 million, including £0.5 million in the year, businesses within the Group were not affected by potential Y2K information technology problems.

## Research and development

Research and development activities continued throughout the Group during the year, with expenditure of £4.1 million.

## Donations

During the year charitable donations amounting to £42,000 were made. No political donations were made.

## Tax status

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

## Payments to suppliers

It is the Company's payment policy for the year ending 31 March 2001 to follow the Code of The Better Payment Practice Group on supplier payments. The Company will agree payment terms with individual suppliers in advance and abide by such terms. Information about the Code may be obtained from The Better Payment Practice Group's website at [www.payontime.co.uk](http://www.payontime.co.uk). The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during 1999/00 and the amount owed to its trade creditors at 31 March 2000, was 23 days.

# Report OF THE DIRECTORS

## Substantial shareholdings

At 22 June 2000 interests in the issued share capital had been reported by:

	Shares	%
AXA Group	7,966,434	6.19
Norwich Union Life Insurance Society	6,774,446	4.97
Sanford C Bernstein & Co Inc	6,288,307	4.61
Standard Life Group	5,408,865	3.96

## Future developments

The Board is actively reviewing strategic options to maximise shareholder value.

In November last year the Director General of Water Services announced his Final Determination of price limits for water and sewerage services for the five years 2000-2005 following the Periodic Review. His Determination will have a major impact on the Group. Both turnover and profitability for South West Water Limited will reduce as a result of the price reduction of 12.2% imposed for the financial year 2000/01. The Determination represents a significant challenge. However, with detailed plans in place and now being implemented, there is a confident expectation that a degree of out-performance can be achieved.

The Viridor businesses, in their respective areas, are well positioned to produce profitable growth. The challenge is to deliver the full potential offered by these businesses.

The Board has previously announced its intention to reduce the 2000/01 dividend by 25% and thereafter to pursue a progressive dividend policy.

## Auditors

PricewaterhouseCoopers were appointed auditors until the conclusion of the eleventh annual general meeting and have indicated their willingness to continue in office. A resolution for their re-appointment will be proposed at the annual general meeting.

## Appointed business

South West Water Limited is required to publish additional financial information relating to the 'Appointed Business' as water and sewerage undertaker in accordance with the Instrument of Appointment from the Secretary of State for the Environment. A copy of this information will be available from 17 July 2000 by application to the Company Secretary at Peninsula House, Rydon Lane, Exeter EX2 7HR.

## Annual general meeting

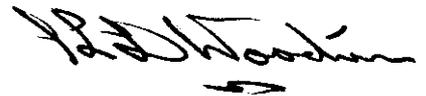
The eleventh annual general meeting will be held at The Plymouth Pavilions, Millbay Road, Plymouth, Devon on 27 July 2000 at 11.00 a.m.

In addition to routine business, resolutions will be proposed at the annual general meeting to renew the existing authorities to issue a limited number of shares and to purchase up to 10% of the issued share capital. Details are set out in the notice of meeting on page 59.

*By Order of the Board*

K D WOODIER  
Company Secretary  
Peninsula House, Rydon Lane,  
Exeter EX2 7HR

22 June 2000



# Report ON REMUNERATION

## POLICY AND REMUNERATION

This report is made in compliance with Section B of the Best Practice Provisions on Directors' Remuneration, annexed to the Listing Rules of the UK Listing Authority.

### Remuneration policy

The policy of the Group continues to be to provide for Executive Directors a remuneration package which is adequate to attract, retain and motivate good quality executives and which is commensurate with the remuneration packages provided by companies of similar size and complexity.

### Executive Directors

The remuneration package of the Executive Directors comprises:

- i* Salary and benefits – these are based on surveys conducted by external consultants and reviewed annually by the Remuneration Committee ("the Committee");
- ii* Performance related bonus – annual performance related bonuses are awarded in accordance with an incentive bonus scheme for Executive Directors and based on the achievement of overall corporate and individual objectives established by the Committee. The maximum bonus achievable under the scheme for Executive Directors is 40% of basic salary;
- iii* Long-Term Incentive Plan – a restricted share plan for Executive Directors, as approved by shareholders at the annual general meeting on 29 July 1997, was operated by the Company during the year. In line with Schedule A of the Combined Code, the Committee ensures that awards under the Plan are subject to challenging performance criteria which are reflected in the Company's relative performance against comparators and it also ensures that awards made under the Plan are phased over time. In addition, the Committee requires

participants in the Plan to provide a matching investment in shares of the Company by way of shares they already hold or which they purchase. The basis of matching for Executive Directors in each award made between 1997 and 1999 has been one share for every four shares awarded. The eventual number of shares, if any, which participants may receive is dependent upon the achievement of the performance conditions of the Plan over a three year period. For the 1997 and 1998 awards these were:

- a* the Company's growth in earnings per share, calculated in accordance with IIMR guidelines, must be equal to at least 2.5% per annum above the Retail Prices Index; and
- b* the Company's total shareholder return (share price growth and dividends paid) must be at least equal to that of the company ranked at the 13th position (reading from the bottom) of a list of 25 companies in the FT-SE classified as 'Utilities'.

For the 1999 award the performance condition was:-

the total shareholder return achieved by the Company in the performance period is greater than that of the company at or nearest to (but not above) the 50th percentile position of the comparator group.

A condition relating to the Company's earnings per share was not applied in 1999 because the Committee, taking account of the expected Determination by the Director General of Water Services in respect of price limits for South West Water Limited, believed that such a condition would be unachievable at the end of the three year period and therefore the Plan would not have been an incentive to participants.

The ranked performance of the Company, as described above in the conditions relating to total shareholder return, will determine the proportion of the awards (if any) to which participants will be entitled;

*iv* Provision for pension – Executive Directors participate in the Pennon Group Pension Scheme and the Pennon Group Executive Pension Scheme. These are funded defined benefit schemes. Through membership of these schemes Executive Directors will be provided with a pension which, dependent on length of service, at normal retirement date will normally amount to two-thirds of final pensionable pay (subject to any restriction in respect of the Earnings Cap).

Messrs Drummond and Hill are subject to the Earnings Cap and are provided with additional pension benefits under the unapproved funded Supplementary Pension Scheme in order to bring their pension benefits up to the level which would have been provided under the other schemes if the Earnings Cap had not applied. Executive Directors included in the unapproved pension arrangements receive payments equivalent to the tax liability which arises in respect of Company contributions to the Supplementary Pension Scheme.

The pensionable pay for participants consists of the highest basic salary in any consecutive twelve month period of service within five years of retirement. Bonuses are not included in pensionable pay.

In determining remuneration arrangements for Executive Directors, full consideration is given to their impact on the pension funds and costs of providing individual pension arrangements; and

*v* Service agreements – all Executive Directors have one year rolling service agreements.

# Report ON REMUNERATION

## POLICY AND REMUNERATION

### Emoluments of Directors

The emoluments of individual Directors are shown in the table below:

	Salary/fees £000	Performance bonuses £000	Other emoluments £000	Payments related to supplementary pension £000	Total 2000 £000	Total 1999 £000
<b>Non-executive Chairman</b>						
K G Harvey	118	–	14	–	132	122
<b>Executive Directors</b>						
R J Baty	140	7	13	–	160	157
C I J H Drummond	140	6	14	21	181	197
K L Hill	145	24	12	11	192	194
<b>Non-executive Directors</b>						
Sir Geoffrey H Chipperfield	25	–	–	–	25	22
A T Fletcher	40	–	–	–	40	35
B A O Hewett (retired 29 July 1999)	12	–	–	–	12	21
S M Yassukovich (retired 31 March 2000)	27	–	–	–	27	26
Sir Simon J Day (retired 30 July 1998)	–	–	–	–	–	7
	647	37	53	32	769	781

Other emoluments include car benefit and health cover.

The remuneration of Non-executive Directors is determined by the Board taking account of independent surveys of comparable appointments. Non-executive Directors do not vote on any resolutions submitted as part of this process.

### Directors' pensions

Defined benefit pensions accrued and payable on retirement for Directors holding office during 1999/00 are shown in the table below:

	Increase in accrued pension during 2000 (net of inflation)	Increase in transfer value (net of inflation)	Accrued pension entitlement at 31 March 2000
	<i>a</i> £000	<i>b</i> £000	<i>c</i> £000
R J Baty	11	182	91
C I J H Drummond	4	52	22
K L Hill	10	184	90

Column *a* above is the increase in accrued pension during 1999/00 (net of inflation). It recognises:

- i* the accrual rate for the additional year's service based upon the pensionable pay at the end of the year; and
- ii* the effect of pay changes in real terms (net of inflation) based upon the accrued pension at the start of the year.

Column *b* is the increase in the transfer value of column *a*. This has been calculated in accordance with Actuarial Guidance Note GN11 less, where paid, directors' contributions.

Column *c* is the accumulated total pension at the end of the year payable at normal retirement age.

The Supplementary Pension Scheme, which mainly funds pension provision above the Earnings Cap, provides benefits in tax-paid lump sum form at retirement. Appropriate figures have been included in the above accrued pension totals.

Directors have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the table opposite.

#### Directors' share interests

##### *a Shareholdings*

The number of shares of the Company in which Directors held beneficial interests at 31 March 2000 and 31 March 1999 were:

	2000	1999		2000	1999
R J Baty	<b>16,189</b>	5,593	K G Harvey	<b>3,180</b>	2,117
Sir Geoffrey H Chipperfield	<b>2,500</b>	1,500	K L Hill	<b>19,017</b>	15,139
C I J H Drummond	<b>8,076</b>	4,951	S M Yassukovich	—	—
A T Fletcher	<b>1,321</b>	1,283			

Following an exercise of options on 3 April 2000 under the Company's Sharesave Scheme, Mr R J Baty acquired a further 2,774 shares.

Messrs R J Baty and C I J H Drummond acquired an additional 85 and 55 shares respectively on 7 April 2000 as a result of reinvestment of dividends in a Personal Equity Plan.

As a result of participation in the Company's Dividend Reinvestment Plan, Directors acquired additional shares on 20 April 2000 as follows:

R J Baty	<b>1,217</b>	K G Harvey	<b>64</b>
C I J H Drummond	<b>983</b>	K L Hill	<b>1,208</b>
A T Fletcher	<b>39</b>		

No Director had any interest in the shares of any subsidiary undertaking during the year.

##### *b Restricted Share Plan*

In addition to the above beneficial interests, the following Directors have a contingent interest in the number of shares shown, representing the maximum number of shares to which they would become entitled under the Group's Long-Term Incentive Plan if all of the relevant criteria were met:

Date of conditional award:	September 1997	September 1998	September 1999	Total
R J Baty	7,949	9,558	10,314	27,821
C I J H Drummond	7,949	9,558	10,314	27,821
K L Hill	8,532	9,852	10,683	29,067

On the basis of the financial results for the year ended 31 March 2000, it is not anticipated that any of the shares under the 1997 award will vest.

# Report ON REMUNERATION POLICY AND REMUNERATION

## **c Executive Share Option Scheme**

Options to subscribe for shares of the Company under the Executive Share Option Scheme at 31 March 2000 and 31 March 1999 were:

	2000	1999
R J Baty	-	47,100
C I J H Drummond	-	30,500
K L Hill	-	33,500

As disclosed in the Annual Report 1999, on 28 May 1999, Messrs R J Baty, C I J H Drummond and K L Hill exercised all of their outstanding options under the above Scheme as follows:

Grant date Subscription price	1995 503p	1993 496p	1992 418p	1991 328p
R J Baty	7,500	15,000	4,600	20,000
C I J H Drummond	8,000	22,500	-	-
K L Hill	8,000	25,500	-	-

On that date, the market price of the shares was 1,005p per share.

As announced in 1995, the Company ceased granting options under the Executive Share Option Scheme in that year and, consequent upon these exercises, no Director has an interest in the Scheme. The performance targets in respect of exercise of the above options are shown in note 23 to the financial statements.

## **d Sharesave Scheme**

Options to subscribe for shares of the Company under the Sharesave Scheme at 31 March 2000 and 31 March 1999 were:

Grant date Subscription price	1998 775p	1997 556p	1995 373p	2000 Total	1999 Total
R J Baty	-	701	2,774	3,475	3,475
C I J H Drummond	-	1,753	-	1,753	1,753
K L Hill	1,335	1,241	-	2,576	2,576

On 3 April 2000, Mr R J Baty exercised options under the scheme in respect of 2,774 shares at an exercise price of 373p per share. At that date, the market price of the shares was 473p per share.

The exercise dates of the above options are shown in note 23 to the financial statements.

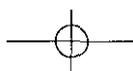
## **e Share price**

The market price of the Company's shares at 31 March 2000 was 465p (1999 954p) and the range during the year to that date was 370p to 1,126.5p (1999 927.5p to 1,169p).

*By Order of the Board*

K D WOODIER  
Company Secretary

22 June 2000

# Corporate GOVERNANCE –

## STATEMENT OF COMPLIANCE

The Board of Pennon Group Plc is committed to high standards of corporate governance and is accountable to the Company's shareholders for those standards. This Statement sets out how the principles of corporate governance contained in Section 1 of the Combined Code attached to the UK Listing Authority Rules are applied by the Company in practice. Throughout the year, the Company has complied with the current provisions of the Combined Code.

### Board of Directors

The Board of Directors currently comprises three Executive Directors and four Non-executive Directors, including the Chairman, Mr K G Harvey. Messrs B A O Hewett and S M Yassukovich, Non-executive Directors, retired from the Board during the year and Ms K M H Mortimer was appointed a Non-executive Director on 1 May 2000. All of the Non-executive Directors are regarded as independent and Sir Geoffrey H Chipperfield is the nominated senior Non-executive Director. The biographies on page 16 demonstrate a broad range of business and financial experience and there is a clear separation in the roles of Chairman and the Chief Executives of South West Water Limited and Viridor Limited. All Directors are subject to re-election at least every three years.

The Board meets monthly and has adopted a schedule of matters reserved for its decision. These include the approval of financial statements, acquisitions and disposals, major items of capital expenditure, authority levels for other expenditure, risk management and approval of the strategic plan and annual operating budgets.

Directors have access to the advice and services of the Company Secretary and the Board has established a procedure

whereby any Director, in order to fulfil their duties, may seek independent professional advice at the Company's expense. The training needs of Directors are reviewed on a regular basis.

All Directors are equally accountable for the proper stewardship of the Group's affairs with the Non-executive Directors having a particular responsibility for ensuring strategies proposed for the development of the business are critically reviewed. The Non-executive Directors also critically examine the operational and financial performance of the Group and fulfil a key role in corporate accountability through their membership of various Committees of the Board as set out below.

### Audit Committee

The Audit Committee, consisting of Non-executive Directors, Mr A T Fletcher, and Ms K M H Mortimer under the chairmanship of Sir Geoffrey H Chipperfield, meets at least four times a year. Its Terms of Reference cover the points recommended by the Combined Code. The Chairman and the Group Director of Finance attend by invitation and the Company's auditors have the right of direct access to the Committee without the presence of any Executive Director.

### Remuneration Committee

The Remuneration Committee comprises three Non-executive Directors being Mr A T Fletcher, who chairs the Committee, Sir Geoffrey H Chipperfield, and Ms K M H Mortimer. The Chairman (who was formerly a member of the Committee) attends by invitation. The Committee meets as and when required and is responsible for determining the remuneration and terms of employment of the Executive Directors and senior management of the Group. Members of

the Remuneration Committee do not participate in decisions concerning their own remuneration. The report on remuneration policy and remuneration appears on pages 19 to 22.

### Nomination Committee

The Nomination Committee is chaired by Mr K G Harvey and also comprises Sir Geoffrey H Chipperfield and Mr A T Fletcher. It meets as and when required to select and recommend to the Board suitable candidates for appointment as Executive and Non-executive Directors.

### Environment Committee

The Environment Committee is chaired by Mr B A O Hewett (a co-opted member and former Non-executive Director of the Company) and also comprises the Chief Executives of South West Water Limited and Viridor Limited. It usually meets four times a year and is responsible for reviewing and monitoring the environmental policies of Group companies and their achievement of environmental objectives and targets. The Board reviews the environmental objectives of the Group on an annual basis having regard to the recommendations of the Committee.

### Compliance Committee

The Compliance Committee is chaired by the Company Secretary, Mr K D Woodier and comprises all of the Executive Directors and the Head of Personnel. It is expected to meet five times a year and is responsible for reviewing the systems to manage risk and the effectiveness of the Group's internal control procedures including financial, operational and compliance controls.

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# Corporate GOVERNANCE –

## STATEMENT OF COMPLIANCE

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### Internal control

The Group has adopted the transitional approach for the Combined Code set out in the letter from The London Stock Exchange to listed companies at the end of September 1999 and reports as follows:

### Wider aspects of internal control

The Board confirms that it has established the procedures necessary to implement the guidance "Internal Control : Guidance for Directors on the Combined Code". As part of these procedures the Board has formalised its risk management policy which provides for the identification of key risks in relation to the achievement of the business objectives of the Group. This has been disseminated to all business units within the Group together with guidance on the implementation and operation of the policy in accordance with an annual timetable.

From April 2000 each business unit has received as part of its regular management reports an enhanced and focused assessment of key risks against corporate objectives and the Compliance Committee will receive and report on high level risk issues to the Board on a quarterly basis. A full risk and control assessment has been undertaken and will be reviewed before reporting on the year ending 31 March 2001.

### Internal financial control

The Directors are responsible for the Group's system of internal financial control. A system can only provide reasonable and not absolute assurance against material mis-statement or loss.

There is an established internal control framework which comprises:

*a* a clearly defined structure which delegates authority, responsibility and accountability, including responsibility for internal financial control, to management of operating units;

*b* a comprehensive budgeting and reporting function with an annual budget approved by the Board of Directors, which also monitors monthly achieved results and updated forecasts for the year against budget;

*c* documented financial control procedures; managers of operating units are required to confirm annually that they have adequate financial controls in operation and to report all material areas of financial risk; compliance with procedures is reviewed by the Company's internal audit function; and

*d* an investment appraisal process for evaluating proposals for all major capital expenditure and acquisitions, with defined levels of approval and a system for monitoring the progress of capital projects.

The Audit Committee regularly reviews the operation and effectiveness of this framework.

### Going concern

The Directors consider, after making appropriate enquiries, that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### Directors' responsibility statement

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 financial year.

In preparing the financial statements appropriate accounting policies have been used and consistently applied and reasonable and prudent judgements and estimates have been made. All relevant accounting standards which the Directors consider to be applicable have been followed.

The Directors have responsibility for ensuring that accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

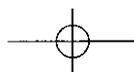
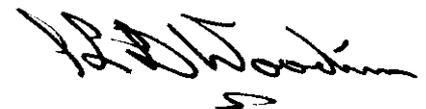
### Relations with shareholders

The Company maintains a regular dialogue with its institutional shareholders and has a well developed investor relations programme. The Board encourages the participation of shareholders at the annual general meeting and complies with the provisions of the Combined Code in respect of relations with shareholders.

*By Order of the Board*

K D WOODIER  
Company Secretary

22 June 2000



# Report BY THE AUDITORS

## ON THE FINANCIAL STATEMENTS

### Auditors' report to the shareholders of Pennon Group Plc

We have audited the financial statements on pages 26 to 57 (including the additional disclosures on pages 20 to 22 relating to the remuneration of the Directors specified for our review by the Financial Services Authority) which have been prepared under the historical cost convention and the accounting policies set out on pages 29 and 30.

### Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 24, 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 Report of the Directors 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 23 and 24 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*  
PRICEWATERHOUSECOOPERS

Chartered Accountants  
and Registered Auditors  
Bristol

22 June 2000

# Group PROFIT AND

LOSS ACCOUNT *for the year ended 31 March 2000*

	Notes	2000 £m	1999 £m
Turnover	2	467.0	437.1
Other operating income	4	—	5.0
Operating costs	3	(299.9)	(274.4)
Group operating profit	2	167.1	167.7
Share of operating loss in associate		(0.4)	(0.2)
Total operating profit		166.7	167.5
Net interest payable	5	(45.1)	(40.9)
Profit on ordinary activities before taxation	2	121.6	126.6
Tax on profit on ordinary activities	6	(5.0)	(17.5)
Profit on ordinary activities after taxation		116.6	109.1
Dividends	8	(65.1)	(61.9)
Retained profit transferred to reserves	24	51.5	47.2
Earnings per share	9		
Before exceptional item:			
Basic earnings per share		85.8p	77.9p
Diluted earnings per share		85.4p	77.4p
After exceptional item:			
Basic earnings per share		85.8p	81.7p
Diluted earnings per share		85.4p	81.1p
Dividend per share	8	47.8p	45.6p

All the activities are continuing operations.

## Statement OF TOTAL RECOGNISED GAINS AND LOSSES

*for the year ended 31 March 2000*

	Notes	2000 £m	1999 £m
Profit on ordinary activities after taxation		116.6	109.1
Currency retranslation differences on foreign currency net investments	24	(1.1)	(0.9)
Total gains and losses recognised for the year		115.5	108.2
Prior year adjustment		—	2.4
Total gains and losses recognised since last Annual Report		115.5	110.6

There were no recognised gains or losses for the Company, other than profit for the year, in 2000 or 1999.  
The notes on pages 29 to 57 form part of these financial statements.

# Balance SHEETS

at 31 March 2000

	Notes	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
<b>Fixed assets</b>					
Intangible assets	12	23.3	27.0	—	—
Tangible assets	13	1,711.2	1,623.2	0.3	0.2
Investments	14	2.1	2.2	748.7	664.4
		<b>1,736.6</b>	1,652.4	<b>749.0</b>	664.6
<b>Current assets</b>					
Stocks	15	15.1	15.5	—	—
Debtors: amounts falling due after more than one year	16	8.4	9.8	162.5	162.0
Debtors: amounts falling due within one year	17	100.1	91.7	14.8	55.2
Investments	18	35.5	56.4	—	26.7
Cash at bank and in hand		3.8	7.3	—	—
		<b>162.9</b>	180.7	<b>177.3</b>	243.9
<b>Current liabilities</b>					
Creditors: amounts falling due within one year	19	(217.5)	(206.9)	(116.9)	(99.8)
Net current (liabilities)/assets		<b>(54.6)</b>	(26.2)	<b>60.4</b>	144.1
<b>Total assets less current liabilities</b>					
Creditors: amounts falling due after more than one year	20	(664.5)	(675.9)	(272.9)	(282.9)
Provisions for liabilities and charges	21	(24.3)	(26.5)	—	—
Deferred income	22	(49.9)	(32.1)	—	—
Net assets	2	<b>943.3</b>	891.7	<b>536.5</b>	525.8
<b>Capital and reserves</b>					
Called-up share capital	23	136.3	136.1	136.3	136.1
Share premium account	24	148.6	147.0	148.6	147.0
Other reserves	24	—	—	3.1	3.1
Profit and loss account	24	658.4	608.6	248.5	239.6
Shareholders' funds	25	<b>943.3</b>	891.7	<b>536.5</b>	525.8

The notes on pages 29 to 57 form part of these financial statements.

Approved by the Board on 22 June 2000 and signed on its behalf by:

K G HARVEY  
Chairman



# Group CASH FLOW STATEMENT

*for the year ended 31 March 2000*

	Notes	2000 £m	1999 £m
Cash inflow from operating activities	31a	<b>216.3</b>	193.6
Returns on investments and servicing of finance	31b	<b>(10.1)</b>	(31.1)
Taxation	31b	<b>(15.9)</b>	(79.9)
Capital expenditure and financial investment	31b	<b>(140.6)</b>	(125.0)
Acquisitions and disposals	31b	<b>0.5</b>	(29.7)
Equity dividends paid		<b>(48.7)</b>	(25.4)
<b>Cash inflow/(outflow) before use of liquid resources and financing</b>		<b>1.5</b>	(97.5)
Management of liquid resources	31b	<b>20.8</b>	34.0
Financing	31b	<b>(27.4)</b>	64.6
<b>(Decrease)/increase in cash in year</b>		<b>(5.1)</b>	1.1

# Notes TO THE FINANCIAL STATEMENTS

## Accounting policies

The following paragraphs describe the main policies:

### **a Accounting convention**

The financial statements have been prepared under the historical cost convention and in compliance with all applicable accounting standards, the requirements of the Financial Services Authority and except for the treatment of grants and contributions on infrastructure assets, with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act 1985 is given in note 1g below.

### **b Basis of consolidation**

The Group financial statements include the results of the Company and its subsidiary undertakings, each made up to 31 March 2000, together with the attributable share of results and reserves of associated undertakings on the basis of their latest financial statements. The results of subsidiary and associated undertakings acquired or disposed of during the year are included for the periods of ownership.

### **c Turnover**

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

### **d Landfill tax**

Landfill tax is included within both turnover and operating costs.

### **e Tangible fixed assets and depreciation**

*i Infrastructure assets* (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls).

Infrastructure assets comprise a network that, as a whole, is intended to be maintained in perpetuity at a specified level of service by the continuing replacement and refurbishment of its components.

Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network, in accordance with defined standards of service, and to the maintenance of the operating capacity of the network, is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charge on infrastructure assets represents the level of annual expenditure required to maintain the operating capacity of the network and is calculated from an independently certified asset management plan.

*ii Landfill sites*

Landfill sites are included at cost less accumulated depreciation. The cost of a landfill site is depreciated over its estimated operational life taking account of the usage of void space. Cost includes acquisition and development expenses.

*iii Other assets* (including properties, overground plant and equipment).

Other assets are stated at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Leaschold buildings	Over the period of the lease
Freehold buildings	30 – 60 years
Operational structures	40 – 80 years
Fixed plant	20 – 40 years
Vehicles, mobile plant and computers	3 – 10 years

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

### **f Leased assets**

Assets held under finance leases are included in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as a creditor. The interest element of the rental costs is charged against profits, using the actuarial method, over the period of the lease.

Rental costs arising under operating leases are charged against profits in the year they are incurred.

### **g Grants and contributions**

Grants and contributions receivable in respect of capital expenditure on non-infrastructure assets are included in the balance sheet as deferred income and are released to profits over the depreciable lives of the assets to which they relate.

# Notes TO THE FINANCIAL STATEMENTS

## 7. Accounting policies *continued*

### **g Grants and contributions *continued***

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible 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 contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 13.

Grants and contributions receivable in respect of expenditure charged against profits in the year have been included in the profit and loss account.

### **h Investments**

Listed investments held as current assets are stated at the lower of cost and net realisable value.

Short-dated unlisted securities held as current assets are stated at cost plus accrued income.

### **i Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes labour, materials and an element of overheads.

### **j Pension costs**

The expected cost of pensions in respect of the Group's defined benefit pension schemes is charged against profits so as to spread evenly the cost of pensions over

the service lives of employees in the schemes. A pension surplus (or deficit) is released (or charged) to profits using the straight line method, over the average remaining service lives of employees in the scheme.

Pension costs for the Group's defined contribution schemes are charged against profits in the year in which they are incurred.

### **k Research and development expenditure**

Research and development expenditure is charged against profits in the year in which it is incurred.

### **l Taxation**

Tax payable on profits for the year is provided at current rates. Tax deferred or accelerated as a result of timing differences between the treatment of certain items for taxation and for accounting purposes is provided for to the extent that it is probable that a material liability or asset will crystallise in the foreseeable future.

### **m Goodwill**

From 1 April 1998 goodwill, arising from the acquisition of subsidiary and associated undertakings, representing the excess of the purchase consideration over the fair value of net assets acquired, is capitalised and classified as an asset on the balance sheet. Where goodwill has a finite economic life it is amortised evenly over that period. Previously such goodwill arising on acquisitions was written off directly to Group reserves.

When a subsidiary or associated undertaking is sold the profit or loss on disposal is determined after including the attributable amount of unamortised goodwill.

### **n Foreign currency**

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Profit and loss accounts are translated at average rates for the relevant accounting period. Exchange differences arising from the retranslation of the opening net investment in overseas enterprises at closing rates, offset by translation differences on foreign currency loans and forward currency contracts which hedge such investments, are dealt with in reserves.

### **o Landfill restoration and environmental costs**

Provisions for restoration, aftercare and environmental control costs are made when an obligation arises. Where the obligation recognised as a provision gives access to future economic benefits a tangible fixed asset is recognised. Provisions are otherwise charged against profits.

Where the effect of the time value of money is material the current amount of the provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as a financial item within net interest payable.

### **p Financial instruments**

Derivative financial instruments are used to hedge interest rate and foreign exchange risks. All such hedging instruments, including interest differentials and foreign exchange gains and losses that arise, are matched with their underlying hedged item.

## 2. Segmental analysis

By class of business

	Turnover		Group operating profit		Profit before tax	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Water and sewerage business:	<b>281.4</b>	270.1	<b>146.8</b>	138.7	<b>108.0</b>	106.2
Less: Intra-group trading	<b>(1.2)</b>	(1.5)	—	—	—	—
	<b>280.2</b>	268.6	<b>146.8</b>	138.7	<b>108.0</b>	106.2
Non-regulated businesses:						
Viridor businesses:						
Waste management	<b>100.6</b>	83.4	<b>15.2</b>	17.9	<b>14.0</b>	17.3
Instrumentation	<b>49.6</b>	41.0	<b>2.9</b>	3.7	<b>2.9</b>	3.6
Construction services	<b>56.0</b>	60.3	<b>1.6</b>	1.1	<b>1.4</b>	0.7
Property and other	<b>0.7</b>	4.6	<b>0.1</b>	0.9	<b>0.2</b>	1.1
Total Viridor	<b>206.9</b>	189.3	<b>19.8</b>	23.6	<b>18.5</b>	22.7
Other non-regulated businesses	<b>6.8</b>	6.3	<b>0.5</b>	0.4	<b>(4.9)</b>	(7.3)
Less: Intra-group trading	<b>(26.9)</b>	(27.1)	—	—	—	—
Before exceptional item	<b>186.8</b>	168.5	<b>20.3</b>	24.0	<b>13.6</b>	15.4
Exceptional item:						
Settlement of legal claim	—	—	—	5.0	—	5.0
After exceptional item	<b>186.8</b>	168.5	<b>20.3</b>	29.0	<b>13.6</b>	20.4
Group totals	<b>467.0</b>	437.1	<b>167.1</b>	167.7	<b>121.6</b>	126.6

	Net assets		Employees (average number)	
	2000 £m	1999 £m	2000	1999
Water and sewerage business	<b>1,000.4</b>	882.8	<b>1,638</b>	1,700
Non-regulated businesses:				
Viridor businesses:				
Waste management	<b>90.4</b>	88.4	<b>438</b>	441
Instrumentation	<b>48.3</b>	48.9	<b>556</b>	437
Construction services	<b>5.4</b>	5.4	<b>837</b>	875
Property and other	<b>2.8</b>	2.7	<b>4</b>	4
Total Viridor	<b>146.9</b>	145.4	<b>1,835</b>	1,757
Other non-regulated businesses	<b>(197.2)</b>	(129.7)	<b>53</b>	51
Total non-regulated businesses	<b>(50.3)</b>	15.7	<b>1,888</b>	1,808
Intra-group trading	<b>(6.8)</b>	(6.8)	—	—
Group totals	<b>943.3</b>	891.7	<b>3,526</b>	3,508

# Notes TO THE FINANCIAL STATEMENTS

## 2. Segmental analysis *(continues)*

By class of business *continued*

Water and sewerage business comprises the regulated water and sewerage services undertaken by South West Water Limited.

Instrumentation operating profit in 2000 is after charging £0.3 million for the post-acquisition integration of Orbisphere Management Holding SA (1999 nil).

Net liabilities of other non-regulated businesses include parent company financing of business acquisitions. Profit before tax of other non-regulated businesses is shown after interest arising thereon.

By geographical origin

	Turnover		Group operating profit	
	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	428.8	408.6	163.4	165.2
Continental Europe	14.1	4.8	0.5	0.4
Americas	24.1	23.7	3.2	2.1
	<b>467.0</b>	<b>437.1</b>	<b>167.1</b>	<b>167.7</b>

By geographical destination

	Turnover		Group operating profit	
	2000 £m	1999 £m	2000 £m	1999 £m
United Kingdom	423.4	400.8	164.1	164.5
Continental Europe	6.9	4.3	(0.2)	0.4
Americas	26.7	22.2	3.3	2.0
Other	10.0	9.8	(0.1)	0.8
	<b>467.0</b>	<b>437.1</b>	<b>167.1</b>	<b>167.7</b>

Intra-group trading arose in the United Kingdom.

Net assets and profit before tax are not separately disclosed by geographical origin and destination since they are substantially located in the United Kingdom.

The employee numbers include 403 working outside the United Kingdom (1999 291).

## 3. Operating costs

	2000 £m	1999 £m
Manpower costs (note 10)	70.2	61.0
Raw materials and consumables	39.1	38.6
Rentals under operating leases:		
Hire of plant and machinery	3.7	1.9
Other operating leases	2.1	3.0
Research and development expenditure	4.1	2.0
Auditors' remuneration	0.4	0.3
Other external charges	59.2	68.4
Amortisation of goodwill	1.2	0.5
Depreciation:		
On owned assets	44.2	40.1
On assets held under finance leases	13.1	14.0
On assets held under defaced finance leases	3.6	3.2
Profit on disposal of tangible fixed assets	(0.7)	(1.0)
Deferred income released to profits	(1.2)	(1.3)
Other operating charges	60.9	43.7
	<b>299.9</b>	<b>274.4</b>

Fees payable to the Company's auditors for non-audit work, mainly in connection with taxation advice, amounted to £0.2 million (1999 £0.3 million).

## 4. Exceptional item

	2000 £m	1999 £m
Operating profit of continuing operations is after crediting the following exceptional item in other operating income:		
Settlement of legal claim on Browning-Ferris Industries Inc	—	5.0

# Notes TO THE FINANCIAL STATEMENTS

## 8. Net interest payable

	2000 £m	1999 £m
Interest payable:		
Bank loans and overdrafts	(17.5)	(18.2)
Other loans	(17.0)	(19.3)
Interest element of finance lease rentals	(14.9)	(13.5)
Other finance costs	(0.3)	(1.3)
	<b>(49.7)</b>	<b>(52.3)</b>
Interest receivable:		
Listed redeemable securities	0.6	1.4
Other investments (as defined in note 18)	4.2	6.6
	<b>4.8</b>	<b>8.0</b>
Unwinding of discount in provisions	(0.6)	(0.5)
Gain on defeasance of finance leases	0.4	3.9
Net interest payable	<b>(45.1)</b>	<b>(40.9)</b>

The gain on defeasance of finance leases results from the in-substance early extinguishment (defeasance) of obligations under finance leases. South West Water Limited has:

- a utilised finance lease facilities for certain water and sewerage business tangible fixed assets; and
- b deposited amounts, equal to the present value of rental obligations arising from those finance leases, with United Kingdom financial institutions, to counter-indemnify the letters of credit issued by those financial institutions to the lessors in order to secure those rental obligations.

These deposited funds, which totalled £145.9m at 31 March 2000 (1999 £143.8m), together with interest earned thereon, may be used to settle the rental obligations under those finance leases. If the finance leases terminate due to the insolvency of the financial institutions which have issued the letters of credit no liability will fall on South West Water Limited, or any Pennon Group company.

The rentals payable under the finance leases will vary if interest rates, or effective tax rates, change. The Group has deferred the recognition of income, based upon the Directors' assessment of likely outcomes, for possible future costs arising from such variations in arriving at the gain recognised.

A gain of £0.4m (1999 £3.9m) has been recognised, equivalent to the difference between the finance lease proceeds and the funds deposited with financial institutions to cover rentals arising therefrom, after deferring income in recognition of possible rental variations as follows:

	2000 £m	1999 £m
Gain on defeasance of finance leases	0.5	5.1
Less: Deferred income (note 22)	(0.1)	(1.2)
	<b>0.4</b>	<b>3.9</b>

## 3. Tax on profit on ordinary activities

	2000 £m	1999 £m
United Kingdom taxation:		
Corporation tax at 30% (1999 31%):		
Current year	-	43.3
Prior year	14.8	22.7
Advance corporation tax:		
Previous year utilisation	(10.5)	(48.8)
Overseas taxation	0.7	0.3
	<b>5.0</b>	<b>17.5</b>

No provision for deferred tax has been made (note 21).

The corporation tax charge arising in 2000 and 1999 reflects actions to utilise all the advance corporation tax charged against profits in previous years.

## 7. Profit of parent company

	2000 £m	1999 £m
<i>Profit on ordinary activities after taxation dealt with in the accounts of the parent company</i>	<b>74.6</b>	<b>96.7</b>

As permitted by section 230 of the Companies Act 1985, no profit and loss account is presented for the Company.

## 7. Dividends

	2000 £m	1999 £m
Interim dividend of 15.4p (1999 14.7p) per share paid 6 April 2000	21.0	19.8
Proposed final dividend of 32.4p (1999 30.9p) per share payable 2 October 2000	44.1	42.1
	<b>65.1</b>	<b>61.9</b>

# Notes TO THE FINANCIAL STATEMENTS

## 9. Earnings per share

	Profit after tax £m	2000 Earnings per share		Profit after tax £m	1999 Earnings per share	
		Basic p	Diluted p		Basic p	Diluted p
Before exceptional item	116.6	85.8	85.4	104.1	77.9	77.4
Exceptional item:						
Settlement of legal claim	—	—	—	5.0	3.8	3.7
After exceptional item	116.6	85.8	85.4	109.1	81.7	81.1

Earnings per share before the exceptional item in 1999 have been calculated to show the impact of that item on the results, as exceptional items can have a distorting effect on earnings from year to year and therefore warrant separate consideration.

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of ordinary shares in issue during the year of 135.9 million (1999 133.6 million).

All share options with an exercise price lower than the average market price of the Company's shares during the year have been included in the calculation of diluted earnings per share. The weighted average number of shares in issue during the year, taking account of the dilutive effect of share options, was 136.5 million (1999 134.5 million).

## 10. Employees and employment costs

The average number of persons (including Directors) employed by the Group was 3,526 (1999 3,508).

Employment costs comprise:	2000 £m	1999 £m
Wages and salaries	76.1	68.9
Social security costs	7.3	6.2
Pension costs (note 29)	1.4	1.0
Total employment costs	84.8	76.1
Charged as follows:		
Manpower costs (note 3)	70.2	61.0
Research and development expenditure	2.3	1.3
Restructuring provision	1.7	1.4
Capital schemes	10.6	12.4
	84.8	76.1

11. Directors' emoluments

	2000 £000	1999 £000
Executive Directors:		
Salary	425	394
Performance bonus	37	86
Other emoluments	39	35
Payments in respect of tax liability from supplementary pension arrangements	32	33
Non-executive Directors	236	233
<b>Total emoluments</b>	<b>769</b>	<b>781</b>

The emoluments of the highest paid Director, including gains on the exercise of share options, were £436,000 (1999 £197,000).

Total gains made by Directors on the exercise of share options were £601,000 (1999 nil).

Total emoluments include £219,000 (1999 £225,000) payable to Directors for services as directors of subsidiary undertakings.

At 31 March 2000 and 31 March 1999 retirement benefits were accruing to three Directors under defined benefit pension schemes. The accrued pension entitlement at 31 March 2000 under defined benefit pension schemes of the highest paid Director was £91,000 (1999 £18,000). No pension contributions were payable to defined contribution schemes in 2000 or 1999.

More detailed information concerning Directors' emoluments, shareholdings and share options is shown in the report on remuneration policy and remuneration on pages 19 to 22.

12. Intangible fixed assets

Goodwill	Group	
	2000 £m	1999 £m
Cost:		
At 1 April	27.5	-
Arising on acquisitions	-	29.1
Currency retranslation	(2.5)	(1.6)
At 31 March	25.0	27.5
Amortisation:		
At 1 April	0.5	-
Charge for year	1.2	0.5
At 31 March	1.7	0.5
<b>Net book value at 31 March</b>	<b>23.3</b>	<b>27.0</b>

Goodwill is amortised evenly over its useful economic life of twenty years.

# Notes TO THE FINANCIAL STATEMENTS

## 19. Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Operational properties £m	Fixed and mobile plant, vehicles and computers £m	Construction in progress £m	Group Total 2000 £m	Company Total 2000 £m
<b>Cost:</b>							
At 1 April 1999	134.9	780.7	484.0	560.1	38.5	<b>1,998.2</b>	<b>0.4</b>
Additions	11.7	44.3	7.1	47.4	43.3	<b>153.8</b>	<b>0.2</b>
Grants and contributions	-	(1.9)	-	-	-	<b>(1.9)</b>	-
Disposals	-	(0.3)	(0.1)	(7.3)	-	<b>(7.7)</b>	<b>(0.2)</b>
Transfers	(4.6)	20.0	(26.0)	22.3	(11.7)	-	-
At 31 March 2000	142.0	842.8	465.0	622.5	70.1	<b>2,142.4</b>	<b>0.4</b>
<b>Depreciation:</b>							
At 1 April 1999	27.7	68.3	91.2	187.8	-	<b>375.0</b>	<b>0.2</b>
Charge for year	9.2	7.5	9.2	36.7	-	<b>62.6</b>	-
Disposals	-	(0.3)	-	(6.1)	-	<b>(6.4)</b>	<b>(0.1)</b>
At 31 March 2000	36.9	75.5	100.4	218.4	-	<b>431.2</b>	<b>0.1</b>
<b>Net book value:</b>							
At 31 March 2000	105.1	767.3	364.6	404.1	70.1	<b>1,711.2</b>	<b>0.3</b>
At 31 March 1999	107.2	712.4	392.8	372.3	38.5	1,623.2	0.2
<b>Assets held under finance leases included above:</b>							
Cost: At 31 March 2000	-	-	193.9	116.2	-	<b>310.1</b>	-
Depreciation: Charge for year	-	-	3.3	9.8	-	<b>13.1</b>	-
Depreciation: At 31 March 2000	-	-	19.4	61.3	-	<b>80.7</b>	-
<b>Assets held under defaced finance leases included above:</b>							
Cost: At 31 March 2000	-	75.3	69.2	32.5	3.0	<b>180.0</b>	-
Depreciation: Charge for year	-	0.7	1.2	1.7	-	<b>3.6</b>	-
Depreciation: At 31 March 2000	-	2.2	2.5	4.5	-	<b>9.2</b>	-

Tangible fixed assets of the Company comprise fixed and mobile plant, vehicles and computers.

**Tangible fixed assets**

The cost of land and buildings and of operational properties includes non-depreciable land of £1.7 million (1999 £1.7 million) and £8.9 million (1999 £8.8 million) respectively.

The net book value of land and buildings comprises:

	2000 £m	1999 £m
Freehold	62.8	65.7
Long leasehold	0.8	0.8
Short leasehold	41.5	40.7
	<b>105.1</b>	<b>107.2</b>

The net book value of infrastructure assets is stated after deducting £42.5 million (1999 £40.6 million) grants and contributions.

The net book value of infrastructure assets includes £4.0 million (1999 £2.8 million) for the accumulated difference between expenditure on maintaining operating capacity and depreciation charges. Expenditure in the year was £8.7 million (1999 £9.6 million).

Out of the total depreciation charge for the Group of £62.6 million (1999 £58.7 million), the sum of £1.7 million (1999 £1.4 million) has been charged to capital projects and £60.9 million (1999 £57.3 million) against profits.

# Notes TO THE FINANCIAL STATEMENTS

## 14. Fixed asset investments

	Group 2000 £m	Company 2000 £m
Subsidiary undertakings		
Cost:		
At 1 April 1999	—	663.2
Additions	—	85.0
At 31 March 2000	—	748.2
Associated undertakings		
Cost:		
At 1 April 1999	—	0.8
Provision for impairment	—	(0.8)
At 31 March 2000	—	—
Own shares		
Cost:		
At 1 April 1999	1.2	0.4
Additions	1.4	0.5
Provision for impairment	(1.1)	(0.4)
At 31 March 2000	1.5	0.5
Other investments		
Cost:		
At 1 April 1999	1.0	—
Disposals	(0.4)	—
At 31 March 2000	0.6	—
Total investments		
At 31 March 2000	2.1	748.7
At 31 March 1999	2.2	664.4

All investments are in shares except other investments which are loans.

Investments made by the Company during the year in subsidiary undertakings comprise the subscription for shares in South West Water Limited.

A Long-Term Incentive Plan is operated for senior management of the Group. Awards under the Plan, involving the release of ordinary shares in the Company to participants, is dependent upon performance conditions being met. These shares are released out of an Employee Share Ownership Plan, a discretionary trust, established to facilitate the operation of the incentive scheme. More information on the operation of the incentive scheme is included in the report on remuneration policy and remuneration on pages 19 to 22.

14. Fixed asset investments *continued*

During the year the trustees of the Employee Share Ownership Plan purchased 139,000 of the Company's ordinary shares (1999 99,000) financed through non-interest bearing advances made by sponsoring Group companies. The market value of the 393,000 shares held as Group investments at 31 March 2000 was £1.8 million (1999 £2.4 million). 131,000 of those shares (1999 83,000) held as Company investments had a market value of £0.6 million at 31 March 2000 (1999 £0.8 million). The costs of the incentive scheme are recognised as a provision for impairment and are charged to profits over the period of its operation, and are included in employment costs.

Details of principal subsidiary and associated undertakings of the Group are set out in note 28.

## 15. Stocks

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Raw materials and consumables	7.2	8.3	—	—
Work in progress	3.6	1.9	—	—
Finished goods	4.3	5.3	—	—
	<b>15.1</b>	<b>15.5</b>	<b>—</b>	<b>—</b>

## 16. Debtors: amounts falling due after more than one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts owed by subsidiary undertakings	—	—	161.2	161.2
Other debtors	1.2	—	1.1	—
Prepayments for pension costs	7.2	9.2	0.2	0.3
Other prepayments and accrued income	—	0.6	—	0.5
	<b>8.4</b>	<b>9.8</b>	<b>162.5</b>	<b>162.0</b>

## 17. Debtors: amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Trade debtors	70.6	61.9	—	—
Amounts owed by subsidiary undertakings	—	—	14.0	53.6
Other debtors	5.7	7.0	0.2	0.8
Prepayments for pension costs	1.6	0.5	0.1	—
Other prepayments and accrued income	20.7	20.8	0.5	0.6
Advance corporation tax recoverable	1.5	1.5	—	0.2
	<b>100.1</b>	<b>91.7</b>	<b>14.8</b>	<b>55.2</b>

# Notes TO THE FINANCIAL STATEMENTS

## 19. Current asset investments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Listed investments	9.3	16.3	—	—
Other investments:				
Overnight deposits	0.1	0.2	—	—
Other	26.1	39.9	—	26.7
	26.2	40.1	—	26.7
	35.5	56.4	—	26.7

At 31 March 2000 the market value of listed investments was £9.3 million (1999 £16.4 million).

Other investments include certificates of deposit, variable rate notes, commercial paper and other short-dated unlisted securities.

## 20. Creditors: amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans:				
Bank loans and overdrafts	2.4	0.7	15.4	19.1
Short-term loans	0.8	2.1	—	—
European Investment Bank loans	11.4	10.8	—	—
Unsecured loan stock notes	17.8	21.9	17.8	21.9
	32.4	35.5	33.2	41.0
Obligations under finance leases	9.7	8.4	—	—
Trade creditors	54.6	53.0	0.3	0.6
Amounts owed to subsidiary undertakings	—	—	10.7	2.4
Other creditors	15.2	14.8	6.8	6.6
Corporation tax	1.7	13.3	—	—
Foreign tax	1.6	0.9	—	—
Other taxation and social security	13.8	9.1	0.1	0.1
Accruals and deferred income	23.4	23.1	0.7	0.3
Interim dividend	21.0	6.7	21.0	6.7
Proposed final dividend	44.1	42.1	44.1	42.1
	217.5	206.9	116.9	99.8

## 20. Creditors: amounts falling due after more than one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans:				
Sterling bond	150.0	150.0	150.0	150.0
European Investment Bank loans	74.1	85.5	—	—
Other bank loans	120.1	130.0	120.0	130.0
	<b>344.2</b>	<b>365.5</b>	<b>270.0</b>	<b>280.0</b>
Obligations under finance leases	319.8	309.4	—	—
Amounts owed to subsidiary undertakings	—	—	2.9	2.9
Other creditors	0.5	1.0	—	—
	<b>664.5</b>	<b>675.9</b>	<b>272.9</b>	<b>282.9</b>

## 21. Provisions for liabilities and charges

	Environmental & landfill restoration £m	Restructuring £m	Other provisions £m	Group Total 2000 £m
At 1 April 1999	22.0	2.2	2.3	26.5
Arising in year	2.8	1.0	1.3	5.1
Released to profits	(2.1)	—	—	(2.1)
Utilised during year	(2.4)	(2.2)	(0.6)	(5.2)
At 31 March 2000	20.3	1.0	3.0	24.3

Environmental and landfill restoration provisions will be utilised over the period 2001 to 2076. The provisions have been established assuming current waste management technology based upon estimated costs at future prices, which have been discounted to present value. The restructuring provision principally relates to severance costs, most of which are expected to be incurred in the next financial year. Other provisions include onerous contracts, which will unwind over the period to 2017, and £1.2 million for the decommissioning of an operational site in the water and sewerage business in 2004.

**Deferred taxation**

The maximum potential liability for deferred taxation, for which no provision is considered necessary, was:

	Group	
	2000 £m	1999 £m
Tax effect of timing differences due to:		
Accelerated capital allowances	202.7	181.2
Other timing differences	7.3	4.6
	<b>210.0</b>	<b>185.8</b>
Advance corporation tax recoverable	—	(10.5)
Maximum potential liability	<b>210.0</b>	<b>175.3</b>

# Notes TO THE FINANCIAL STATEMENTS

## 12. Deferred income

	Finance lease variations (note 5) £m	Forward interest rate swaps (note 27) £m	Grants and contributions £m	Group Total 2000 £m	Finance lease variations (note 5) £m	Forward interest rate swaps (note 27) £m	Grants and contributions £m	Group Total 1999 £m
At 1 April:								
Amount to be released:								
After more than one year	7.4	~	24.7	<b>32.1</b>	-	-	25.5	25.5
Prior year adjustment	-	~	-	-	6.2	-	-	6.2
Restated	7.4	~	24.7	<b>32.1</b>	6.2	-	25.5	31.7
Within one year	-	~	1.2	<b>1.2</b>	-	-	1.2	1.2
	7.4	~	25.9	<b>33.3</b>	6.2	-	26.7	32.9
Additions	0.1	18.2	0.7	<b>19.0</b>	1.2	-	0.5	1.7
Released to profits	-	-	(1.2)	<b>(1.2)</b>	-	-	(1.3)	(1.3)
At 31 March:	7.5	18.2	25.4	<b>51.1</b>	7.4	-	25.9	33.3
Amount to be released:								
Within one year	-	~	(1.2)	<b>(1.2)</b>	-	-	(1.2)	(1.2)
After more than one year	7.5	18.2	24.2	<b>49.9</b>	7.4	-	24.7	32.1

## 13. Called-up share capital

	2000 £m	1999 £m
Authorised		
175,000,000 ordinary shares of £1 each	<b>175.0</b>	175.0
Allotted, called-up and fully paid		
136,345,283 ordinary shares of £1 each (1999 136,068,577)	<b>136.3</b>	136.1

	2000 Number	1999 Number
Ordinary shares allotted during the year		
In lieu of £41.9 million cash under scrip dividend alternative	-	4,335,310
For consideration of £0.8 million (1999 £0.4 million) under the Company's Executive Share Option Scheme to Directors and senior employees who exercised their options	<b>176,600</b>	85,000
For consideration of £1.0 million (1999 £2.9 million) to Pennon Trustee Limited on behalf of employees who exercised their options under the Company's Sharesave Scheme	<b>100,106</b>	275,458
	<b>276,706</b>	4,695,768

## 23. Called-up share capital

**Share options**

Outstanding options to subscribe for shares of £1 each under the Company's share option schemes are:

Nature of scheme	Date granted and subscription price fully paid	Performance targets	Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March		
				2000	1999	
Sharesave	3 July 1992	332p	–	1997 – 1999	–	88
	2 July 1993	393p	–	1998 – 2000	34	36
	6 Jan 1995	373p	–	2000 – 2002	308	338
	8 July 1997	556p	–	2000 – 2004	530	669
	7 July 1998	775p	–	2001 – 2005	226	336
	6 July 1999	825p	–	2002 – 2006	219	–
Executive	5 July 1991	328p	<i>a</i>	1994 – 2001	–	20
	3 July 1992	418p	<i>a</i>	1995 – 2002	9	14
	5 July 1993	496p	<i>b</i>	1996 – 2003	45	138
	6 Jan 1995	503p	<i>c</i>	1998 – 2005	115	174
				<b>1,486</b>	<b>1,813</b>	

The performance targets for exercise of Executive Scheme options are:

- a* gross dividend yield of 9.68% on the 1989 water share offer price;
- b* increase in earnings per share in excess of the Retail Prices Index movement over the period March 1993 to date of exercise; and
- c* increase in earnings per share in excess of the Retail Prices Index movement over the period March 1994 to date of exercise.

At 31 March 2000 there were 1,489 participants in the Sharesave Scheme (1999 1,622) and 24 in the Executive Scheme (1999 40).

Options granted to Directors, included above, are shown in the report on remuneration policy and remuneration on pages 19 to 22.

## 24. Reserves

	Group and Company share premium account £m	Company other reserves £m	Group profit and loss account £m	Company profit and loss account £m
At 1 April 1999	147.0	3.1	608.6	239.6
Retained profit for year	–	–	51.5	9.5
Currency retranslation differences on foreign currency net investments	–	–	(1.1)	–
Premium on shares issued	1.0	–	–	–
Adjustment for shares issued under the Sharesave Scheme through Employee Share Ownership Trust	0.6	–	(0.6)	(0.6)
At 31 March 2000	<b>148.6</b>	<b>3.1</b>	<b>658.4</b>	<b>248.5</b>

Currency retranslation differences on foreign currency net investments is after a £1.8 million gain arising on a currency hedge (1999 £0.7 million).

The cumulative value of goodwill at 31 March 2000 resulting from acquisitions, which has been written off to reserves, is £173.4 million (1999 £173.4 million).

# Notes TO THE FINANCIAL STATEMENTS

## 25. Statement of movements in shareholders' funds

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit on ordinary activities after taxation	<b>116.6</b>	109.1	<b>74.6</b>	96.7
Dividends	<b>(65.1)</b>	(61.9)	<b>(65.1)</b>	(61.9)
	<b>51.5</b>	47.2	<b>9.5</b>	34.8
Other recognised gains and losses for the year	<b>(1.1)</b>	(0.9)	–	–
Adjustment for shares issued under the scrip dividend alternative	–	35.9	–	35.9
Shares issued for cash consideration	<b>1.8</b>	3.2	<b>1.8</b>	3.2
Share issue expenses	–	(0.5)	–	(0.5)
Adjustment for shares issued under the Sharesave Scheme through Employee Share Ownership Trust	<b>(0.6)</b>	(1.9)	<b>(0.6)</b>	(1.9)
Shareholders' funds (equity interest):				
Addition for year	<b>51.6</b>	83.0	<b>10.7</b>	71.5
At 1 April	<b>891.7</b>	808.7	<b>525.8</b>	454.3
At 31 March	<b>943.3</b>	891.7	<b>536.5</b>	525.8

During the year no fair value acquisition accruals and provisions were established (1999 £0.7 million), £2.3 million were utilised (1999 £0.7 million), £4.0 million were released (1999 £1.5 million), and at 31 March 2000 £12.2 million (1999 £18.5 million) were carried forward.

## 26. Loans and other borrowings

### Loans

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Repayable:				
Over five years	<b>171.2</b>	235.6	<b>150.0</b>	200.0
Over two and up to five years	<b>150.9</b>	118.5	<b>110.0</b>	80.0
Over one and up to two years	<b>22.1</b>	11.4	<b>10.0</b>	–
Falling due after more than one year (note 20)	<b>344.2</b>	365.5	<b>270.0</b>	280.0
Falling due within one year (note 19)	<b>32.4</b>	35.5	<b>33.2</b>	41.0
	<b>376.6</b>	401.0	<b>303.2</b>	321.0

26. Loans and other borrowings *continued***Obligations under finance leases**

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Repayable:				
Over five years	297.6	293.5	—	—
Over two and up to five years	11.4	9.5	—	—
Over one and up to two years	10.8	6.4	—	—
Falling due after more than one year (note 20)	319.8	309.4	—	—
Falling due within one year (note 19)	9.7	8.4	—	—
	<b>329.5</b>	<b>317.8</b>	<b>—</b>	<b>—</b>

Included above are accrued finance charges arising on obligations under finance leases totalling £53.2 million (1999 £37.1 million), of which £6.9 million (1999 £4.2 million) is repayable within one year.

**Loans and obligations under finance leases**

Included above are instalment debts, of which any part falls due for repayment after five years, and non-instalment debts due after five years:

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans	235.5	296.4	150.0	200.0
Obligations under finance leases	322.3	305.3	—	—
	<b>557.8</b>	<b>601.7</b>	<b>150.0</b>	<b>200.0</b>

Loans are repayable over the period 2001 to 2021. The rates of interest payable on loans and other borrowings, any part of which is due after five years, range between 5.7% and 11.3% (1999 5.1% and 11.3%).

**Borrowing facilities**

Undrawn committed borrowing facilities of £30.0 million were available to the Group at 31 March 2000 which expire as follows:

	2000 £m	1999 £m
In one year or less	—	2.6
Over two and up to five years	30.0	20.0
	<b>30.0</b>	<b>22.6</b>

In addition, the Group has short-term uncommitted bank facilities of over £200 million.

# Notes TO THE FINANCIAL STATEMENTS

## 27. Financial instruments

Disclosures on financial and treasury policies are also included in the financial review on pages 12 to 15.

### *Interest rate and currency profile of financial assets and liabilities*

After taking into account interest rate swaps and forward currency contracts entered into by the Group, the interest rate and currency profile of the Group's financial assets and liabilities was:

	Financial assets		Financial liabilities	
	2000 £m	1999 £m	2000 £m	1999 £m
Floating rate	36.0	57.2	(318.8)	(322.3)
Fixed rate	4.7	6.6	(387.3)	(396.5)
On which no interest is paid	0.4	1.6	(19.9)	(2.6)
	<b>41.1</b>	65.4	<b>(726.0)</b>	(721.4)
Which is included in:				
Net debt	39.3	63.7	(706.1)	(718.8)
Provisions for liabilities and charges	—	—	(1.7)	(2.3)
Deferred income	—	—	(18.2)	—
Other long-term monetary assets/(liabilities)	1.8	1.7	—	(0.3)
	<b>41.1</b>	65.4	<b>(726.0)</b>	(721.4)
Floating rate financial assets and liabilities are denominated in:				
Sterling	31.7	53.4	(281.0)	(289.1)
US dollar	2.8	2.7	(12.4)	(10.3)
Swiss franc	1.0	0.6	(25.4)	(22.9)
Other currencies	0.5	0.5	—	—
	<b>36.0</b>	57.2	<b>(318.8)</b>	(322.3)
Fixed rate financial assets and liabilities:				
Weighted average interest rate	6.3%	5.0%	8.7%	8.8%
Weighted average period for which rate is fixed	1.6 years	0.7 years	6.8 years	7.8 years
Range of interest rates	3.5% to 8.0%	4.7% to 5.8%	5.4% to 11.3%	5.4% to 11.3%
Financial assets and liabilities on which no interest is paid:				
Weighted average period until maturity	—	0.5 years	17.9 years	10.2 years

Financial assets and liabilities with a fixed interest rate, or on which no interest is paid, are denominated in sterling.

The floating rate financial assets earn interest, in some cases fixed in advance for periods up to twelve months, based on short-term money market rates.

The floating rate financial liabilities bear interest at rates, in some cases fixed in advance for periods up to twelve months, related to the London Inter Bank Offered Rate (LIBOR) or equivalent. The range of interest rates applying at 31 March 2000 was 3.8% to 8.0% (1999 2.8% to 6.3%).

## 27. Financial instruments *continued*

### ***Interest rate and currency profile of financial assets and liabilities continued***

The maturity profile of floating rate and fixed rate financial liabilities is shown in note 26. Other financial liabilities fall due for payment principally after five years.

Interest rate swaps are used to achieve a mix of fixed and floating rates – ensuring at least 50% of net debt is at fixed rate:

at 31 March 2000 interest rate swaps to hedge financial liabilities, with a notional principal value of £160.0 million, existed with a weighted average maturity of 3.6 years (1999 £160.0 million, with 4.6 years) to swap from floating to fixed rate; and

at 31 March 2000 floating rate interest rate swaps, to hedge financial liabilities, with a notional principal value of £200.0 million, existed to swap LIBOR to European Inter Bank Offered Rate (EURIBOR) with commencement dates between 1 April 2006 and 1 April 2010, and maturing on 31 March 2030. A settlement of £18.2 million, shown in note 22, was received when these swaps were entered into during December 1999.

Forward currency contracts are used to hedge the net investment in overseas subsidiaries. At 31 March 2000 forward currency sales of US dollar 18.5 million and Swiss franc 65.0 million existed for settlement in twelve months (1999 US dollar 15.5 million and Swiss franc 50.0 million, with twelve month settlement).

Financial assets and liabilities exclude short-term debtors and creditors (other than loans and obligations under finance leases falling due within one year).

### ***Currency profile of net monetary assets and liabilities***

Net monetary assets and liabilities of Group companies that are not denominated in their functional currency give rise to exchange gains and losses that are credited, or charged, to the profit and loss account. Net foreign monetary assets and liabilities comprise:

	Sterling £m	US dollar £m	Deutsche mark £m	Other £m	Total £m
Functional currency of Group operation:					
At 31 March 2000:					
Sterling	–	0.6	–	0.1	<b>0.7</b>
US dollar	(0.5)	–	–	–	<b>(0.5)</b>
Swiss franc	–	0.4	0.7	1.0	<b>2.1</b>
	(0.5)	1.0	0.7	1.1	<b>2.3</b>
	Sterling £m	US dollar £m	Yen £m	Other £m	Total £m
At 31 March 1999:					
Sterling	–	1.4	–	–	1.4
US dollar	(0.5)	–	–	–	(0.5)
Swiss franc	0.9	2.7	1.1	1.9	6.6
	0.4	4.1	1.1	1.9	7.5

Forward currency contracts which are used to hedge the net investment in overseas subsidiaries are not included in the analysis above. The exchange gains and losses on those hedges are included in the statement of total recognised gains and losses.

# Notes TO THE FINANCIAL STATEMENTS

## 2. Financial instruments *continued*

### **Fair values of financial assets and liabilities**

The fair values of the Group's financial assets and liabilities are as follows:

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Financial assets:</b>				
Current asset investments	35.5	35.5	56.4	56.5
Cash at bank	3.8	3.8	7.3	7.3
Other	1.8	1.8	1.7	1.7
	<b>41.1</b>	<b>41.1</b>	<b>65.4</b>	<b>65.5</b>
<b>Financial liabilities:</b>				
Short-term debt	(32.4)	(32.5)	(35.5)	(35.6)
Long-term debt	(344.1)	(395.8)	(365.5)	(438.8)
Finance lease obligations	(329.5)	(329.5)	(317.8)	(317.8)
Other	(1.7)	(1.7)	(2.6)	(2.3)
	<b>(707.7)</b>	<b>(759.5)</b>	<b>(721.4)</b>	<b>(794.5)</b>
<b>Derivative financial instruments</b>				
<b>(used to manage interest rate and currency profile):</b>				
Interest rate swaps	(18.2)	(16.0)	-	(7.7)
Forward currency contracts	(0.1)	(0.5)	-	(0.3)
	<b>(18.3)</b>	<b>(16.5)</b>	<b>-</b>	<b>(8.0)</b>

Floating rate debt, short-dated unlisted current asset investments and cash at bank is assumed to have a fair value equal to the book value. Other fair values shown above have been determined by utilising, where available, market rates as at 31 March or otherwise have been calculated by discounting cash flows at prevailing interest and exchange rates.

## 27. Financial instruments *(continued)*

### **Hedging interest rate and currency exposures**

As explained in the financial review the Group uses derivative financial instruments to manage certain interest rate risks and currency exposures. The unrecognised gains and losses on such instruments are:

	Gains £m	Losses £m	2000 Total net gains £m	Gains £m	Losses £m	1999 Total net losses £m
Unrecognised gains and losses on hedges:						
At 1 April	–	(8.0)	<b>(8.0)</b>	0.3	(3.9)	(3.6)
Of which recognised in current year	–	(2.2)	<b>(2.2)</b>	0.3	(0.6)	(0.3)
	–	(5.8)	<b>(5.8)</b>	–	(3.3)	(3.3)
Arising and not recognised in current year	2.9	4.7	<b>7.6</b>	–	(4.7)	(4.7)
At 31 March	2.9	(1.1)	<b>1.8</b>	–	(8.0)	(8.0)
Expected to be recognised:						
In next year	0.8	(0.5)	<b>0.3</b>	–	(1.9)	(1.9)
Thereafter	2.1	(0.6)	<b>1.5</b>	–	(6.1)	(6.1)
	2.9	(1.1)	<b>1.8</b>	–	(8.0)	(8.0)

Gains and losses on instruments used for hedging are recognised as the exposure that is being hedged is itself recognised.

# Notes TO THE FINANCIAL STATEMENTS

## 28. Principal subsidiary and associated undertakings

### **Subsidiary undertakings:**

		Country of incorporation, registration and principal operations
Water and sewerage	South West Water Limited*	England
Waste management	Viridor Waste Limited†	England
	Viridor Waste Disposal Limited	England
	VWM (Scotland) Limited	Scotland
	Viridor Waste Exeter Limited	England
	Dragon Waste Limited	England
	Viridor Waste Wootton Limited	England
	Viridor Waste Hampshire Limited	England
Instrumentation	Viridor Instrumentation Limited†	England
	ELE International Limited	England
	Exe International Inc	United States
	ELE International Inc	United States
	GLI International Inc	United States
	Hydrolab Corporation	United States
	GLI International Limited	England
	Orbisphere Management Holding SA	Switzerland
	Orbisphere Laboratories Neuchâtel SA	Switzerland
	Orbisphere Canada Inc	Canada
	Orbisphere France Sarl	France
	Orbisphere GmbH	Germany
	Orbisphere Laboratories Geneva SA	Switzerland
	Orbisphere Laboratories Japan Inc	United States
	Orbisphere Laboratories Overseas Corporation	United States
	Orbisphere South Africa (Pty) Limited	South Africa
Orbisphere UK Limited	England	
Construction services	Viridor Contracting Limited†	England
	T J Brent Limited	England
Property	Viridor Properties Limited†	England
Insurance services	Peninsula Insurance Limited*	Guernsey
Other companies	Viridor Limited*	England
	Exe Continental Limited*	England

\* indicates the shares were held directly by the Company; † indicates the shares were held by Viridor Limited.

All shares in issue are ordinary shares. The subsidiary undertakings are wholly owned, except for Dragon Waste Limited, where 81% of the ordinary shares are held by Viridor Waste Exeter Limited.

### **Associated undertakings:**

		Share capital in issue	Percentage held
Water and sewerage concessions	Enviro-Logic Limited	2000 A ordinary shares	100%
		2000 B ordinary shares	—
	Albion Water (Shotton) Limited	1 ordinary share	100%

Shares in Enviro-Logic Limited were held directly by the Company. The share in Albion Water (Shotton) Limited was held by Enviro-Logic Limited.

## 29. Pensions

The Group operates a number of pension schemes. The assets of the Group's pension schemes are held in separate trustee administered funds. During the year the two main funded defined benefit schemes were merged.

The latest actuarial valuations of the two main schemes were as at 31 March 1998 prior to their merger. At that date, the market value of the schemes' assets was £186.2 million, and the actuarial value of those assets represented 127% and 149% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments, the rate of dividend growth, and the rates of increase in earnings and pensions. The valuations assume that the investment return would be 8.5% per annum, the dividend growth would be 4.5% per annum, pensionable pay increases would average 6.5% per annum and that present and future pensions would both increase at a rate of 4.5% and 5.0% per annum for the two main schemes.

The pension cost of the defined benefit schemes has been determined on the advice of independent qualified actuaries using the projected unit method. The employers' regular pension cost for the year of the two main schemes is 12.2% and 15.9% of pensionable earnings (1999 12.2% and 15.9%). The net pension charge for the year ended 31 March 2000 was £1.4 million (1999 £1.0 million) which benefits from the actuarial surpluses, after allowing for benefit improvements implemented on the merger of the two main pension schemes. Following the actuarial valuations, employer contributions to the two main schemes ceased until the actuarial review of the merged scheme (which is expected to be as at 31 March 2001).

Pension prepayments included as debtors of the Group amount to £8.8 million (1999 £9.7 million), representing the accumulated difference between the Group pension cost and employer contributions paid.

## 30. Commitments and contingent liabilities

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Capital commitments				
Contracted but not provided	<b>85.4</b>	52.5	<b>24.0</b>	24.0
Commitments under operating leases				
Rentals during the year following the balance sheet date:				
Land and buildings leases expiring:				
Within one year	<b>0.3</b>	0.2	-	-
Between one and five years	<b>1.0</b>	1.2	-	-
After five years	<b>3.1</b>	2.6	-	-
Other leases expiring:				
Within one year	<b>0.1</b>	0.1	-	-
Between one and five years	<b>0.5</b>	0.4	-	-
	<b>5.0</b>	4.5	-	-
Contingent liabilities				
Contractors' claims on capital schemes	<b>0.8</b>	1.1	-	-
Guarantees	<b>25.9</b>	23.0	<b>442.1</b>	414.6
	<b>26.7</b>	24.1	<b>442.1</b>	414.6

Guarantees by the Company are principally in respect of borrowing facilities of subsidiary undertakings. Guarantees by the Group are principally in respect of performance bonds entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

# Notes TO THE FINANCIAL STATEMENTS

## 31. Notes to the Group cash flow statement

### a Reconciliation of Group operating profit to net cash inflow from operating activities

	2000 £m	1999 £m
Group operating profit	167.1	167.7
Depreciation charge	60.9	57.3
Amortisation of goodwill	1.2	0.5
Provision for impairments of fixed asset investments	1.1	0.7
Deferred income released to profits	(1.2)	(1.3)
Decrease in provisions for liabilities and charges	(4.0)	(3.3)
Decrease in stocks	0.1	3.1
Increase in debtors (amounts falling due within and over one year)	(8.6)	(9.7)
Increase/(decrease) in creditors (amounts falling due within and over one year)	0.4	(20.4)
Profit on disposal of tangible fixed assets	(0.7)	(1.0)
Net cash inflow from operating activities	216.3	193.6

Net cash outflow from operating activities accounted for as exceptional items in previous years, included above, were £1.7 million in respect of the utilisation of the restructuring provision (1999 £1.6 million). In addition, in 1999 there was a £5.0 million exceptional cash inflow from the settlement of a legal claim.

### b Analysis of cash flows for headings netted in the Group cash flow statement

	2000 £m	1999 £m
<i>i Returns on investments and servicing of finance</i>		
Interest received	4.8	12.4
Interest paid	(35.1)	(38.5)
Interest element of finance lease rentals	1.9	(5.6)
Costs associated with defeased finance leases (note 5)	-	(0.1)
Gain on currency hedge	0.1	0.7
Forward interest rate swap settlements (note 22)	18.2	-
Net cash outflow for returns on investments and servicing of finance	(10.1)	(31.1)
<i>ii Taxation</i>		
Windfall tax	-	(52.0)
Other taxes	(15.9)	(27.9)
Net cash outflow for taxation	(15.9)	(79.9)

The windfall tax was accounted for as an exceptional item in 1997/98.

30. Notes to the Group cash flow statement (continued)

**b Analysis of cash flows for headings netted in the Group cash flow statement continued**

	2000 £m	1999 £m
<i>iii Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	<b>(144.1)</b>	(131.9)
Grants and contributions:		
Infrastructure assets	<b>1.9</b>	3.6
Non-infrastructure assets	<b>0.6</b>	0.8
Receipts from disposal of tangible fixed assets	<b>2.0</b>	2.6
Purchase of Company shares by Employee Share Ownership Plan	<b>(1.4)</b>	(1.0)
Other investments disposals	<b>0.4</b>	0.9
Net cash outflow for capital expenditure and financial investment	<b>(140.6)</b>	(125.0)

	2000 £m	1999 £m
<i>iv Acquisitions and disposals</i>		
Purchase of businesses	–	(33.1)
Net cash acquired with businesses	–	1.8
Sale of businesses	<b>0.5</b>	1.6
Net cash inflow/(outflow) for acquisitions and disposals	<b>0.5</b>	(29.7)

During the year £0.5 million of the deferred consideration, arising from businesses sold in earlier years, was received (1999 £1.6 million).

	2000 £m	1999 £m
<i>v Management of liquid resources</i>		
Purchase of current asset investments	<b>(186.7)</b>	(265.4)
Sale of current asset investments	<b>207.5</b>	299.4
Net cash inflow from management of liquid resources	<b>20.8</b>	34.0

Liquid resources comprise readily disposable current asset investments.

# Notes TO THE FINANCIAL STATEMENTS

## 31. Notes to the Group cash flow statement continued

### b Analysis of cash flows for headings netted in the Group cash flow statement continued

	2000 £m	1999 £m
<i>vi Financing</i>		
Issue of ordinary share capital	1.8	3.3
Adjustment for shares issued under the Sharesave Scheme through Employee Share Ownership Trust	(0.6)	(1.9)
Share issue expenses	-	(0.5)
	<b>1.2</b>	<b>0.9</b>
Reduction in debt due within one year (other than bank overdrafts)	(16.2)	(92.5)
(Reduction)/increase in debt due after more than one year	(10.1)	80.0
Cash inflow from currency hedge	1.8	-
Cash withdrawn from deposit against finance lease obligations	-	75.0
Cash placed on deposit with financial institutions (note 5)	(2.1)	(15.9)
Deceased finance lease drawdowns (note 5)	2.6	21.0
Other finance lease drawdowns	-	1.9
Capital element of finance lease rental payments	(4.6)	(5.8)
	<b>(28.6)</b>	<b>63.7</b>
Net cash (outflow)/inflow from financing	<b>(27.4)</b>	<b>64.6</b>

### c Analysis of net debt

	At 1 April 1999 £m	Cash flow £m	Non-cash movements £m	Exchange movements £m	At 31 March 2000 £m
Cash at bank and in hand	7.3	(3.3)	-	(0.2)	3.8
Current asset investments: Overnight deposits	0.2	(0.1)	-	-	0.1
Bank overdrafts	(0.7)	(1.7)	-	-	(2.4)
	6.8	(5.1)	-	(0.2)	1.5
Debt due within one year (other than bank overdrafts)	(34.8)	16.2	(11.3)	(0.1)	(30.0)
Debt due after more than one year	(365.5)	8.3	11.3	1.7	(344.2)
Finance lease obligations	(317.8)	4.1	(15.8)	-	(329.5)
	(718.1)	28.6	(15.8)	1.6	(703.7)
Current asset investments:					
Other than overnight deposits	56.2	(20.8)	-	-	35.4
	(655.1)	2.7	(15.8)	1.4	(666.8)

Non-cash movements include transfers between categories of debt for changing maturities, increased accrued finance charges within finance lease obligations and the in-substance extinguishment of finance lease obligations (note 5).

31. Notes to the Group cash flow statement

**d Reconciliation of net cash flow to movement in net debt**

	2000 £m	1999 £m
(Decrease)/increase in cash in year	(5.1)	1.1
Cash outflow/(inflow) from reduction/(increase) in debt and finance leasing	28.6	(63.7)
Cash inflow from decrease in liquid resources	(20.8)	(34.0)
Reduction/(increase) in net debt arising from cash flows	2.7	(96.6)
Acquisitions (excluding cash items):		
Loans acquired with businesses	-	(2.2)
Loan stock notes issued as part consideration for businesses acquired	-	(6.3)
Non-cash movements:		
In-substance extinguishment of finance lease obligations (note 5)	0.5	5.1
Increase in accrued finance charges on finance lease obligations	(16.3)	(10.5)
Exchange movements	1.4	(0.1)
Increase in net debt in the year	(11.7)	(110.6)
Net debt at 1 April	(655.1)	(544.5)
Net debt at 31 March	(666.8)	(655.1)

**e Purchase of businesses**

	2000 £m	1999 £m
Net assets acquired:		
Tangible fixed assets	-	6.0
Net current assets	-	2.4
Cash at bank and in hand	-	1.8
Loans	-	(2.2)
Fair value of net assets acquired	-	8.0
Goodwill	-	29.1
	-	37.1

The businesses purchased in 1999 were satisfied by cash consideration of £33.1 million and the issue of loan stock notes of £4.0 million.

During 1999 £2.3 million of the contingent consideration, arising on businesses purchased in 1998, was paid.

**32. Related party transactions**

In September 1999, Mr R J Baty acquired a surplus property from South West Water Limited, a wholly owned subsidiary of the Company, for a consideration of £78,500 which was the valuation of the property as determined by an independent property valuer.

During the year the Company advanced £0.4 million to Enviro-Logic Limited, an associated undertaking, to finance business development costs. The advance was outstanding at 31 March 2000 and the Company had fully provided against the debt.

# Five year

## FINANCIAL SUMMARY

Profit and loss account	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	467.0	437.1	382.4	343.6	314.4
Group operating profit	167.1	167.7	134.8	130.2	134.1
Share of operating (loss)/profit in associates	(0.4)	(0.2)	(0.4)	1.2	1.6
Business disposal (loss)/profit	—	—	(7.5)	19.2	—
Net interest payable	(45.1)	(40.9)	(20.3)	(18.0)	(26.6)
Profit on ordinary activities before taxation	121.6	126.6	106.6	132.6	109.1
Tax on profit on ordinary activities*	(5.0)	(17.5)	(117.0)	(14.3)	(10.3)
Profit/(loss) on ordinary activities after taxation	116.6	109.1	(10.4)	118.3	98.8
Dividends	(65.1)	(61.9)	(54.1)	(47.4)	(38.9)
Retained profit/(loss) transferred to/(from) reserves	51.5	47.2	(64.5)	70.9	59.9
Earnings per share (basic):					
Before exceptional items	85.8p	77.9p	83.3p	81.2p	72.4p
Exceptional items	—	3.8p	(91.3p)	10.9p	5.3p
After exceptional items	85.8p	81.7p	(8.0p)	92.1p	77.7p
Dividend per share	47.8p	45.6p	41.0p	36.7p	30.5p

\* including £104.0 million windfall tax in 1998

Capital expenditure	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Acquisitions	—	37.1	93.9	0.9	103.0
Tangible fixed assets	153.8	125.3	184.6	157.2	110.3

Balance sheet	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Fixed assets	1,736.6	1,652.4	1,558.9	1,397.8	1,301.2
Net current (liabilities)/assets	(54.6)	(26.2)	(166.0)	(42.9)	63.6
Non-current liabilities	(738.7)	(734.5)	(584.2)	(439.0)	(524.7)
Net assets	943.3	891.7	808.7	915.9	840.1

Number of employees (average for year)	2000	1999	1998	1997	1996
Water and sewerage business	1,638	1,700	1,734	1,765	1,815
Waste management	438	441	312	297	322
Instrumentation	556	437	443	411	357
Construction services	837	875	838	567	398
Other businesses	57	55	93	113	113
	3,526	3,508	3,420	3,153	3,005

The adoption of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets', Financial Reporting Standard 14 'Earnings per Share', and Financial Reporting Standard 15 'Tangible Fixed Assets', required the revised presentation of certain numbers which have been incorporated for the periods 2000 to 1998 above. Comparatives for the two earlier years have not been restated.

# Notice OF MEETING

The eleventh annual general meeting of Pennon Group Plc will be held at The Plymouth Pavilions, Millbay Road, Plymouth, Devon on Thursday, 27 July 2000 at 11.00 a.m. for the transaction of the following business:

## Resolution 1

To receive the Report of the Directors and the financial statements for the year ended 31 March 2000.

## Resolution 2

To declare a final dividend for the year ended 31 March 2000.

## Resolution 3

To re-elect Mr K G Harvey as a Director.

## Resolution 4

To re-elect Mr C I J H Drummond as a Director.

## Resolution 5

To re-elect Mr A T Fletcher as a Director.

## Resolution 6

To re-elect Ms K M H Mortimer as a Director.

## Resolution 7

To re-appoint PricewaterhouseCoopers as auditors until the conclusion of the next general meeting at which financial statements are laid before the Company and to authorise the Directors to fix their remuneration.

## Resolution 8

To propose the following as an ordinary resolution:

That, in accordance with Article 5 of the Company's Articles of Association, the Directors be authorised to allot relevant securities up to a maximum nominal amount of £38,390,000, that such authority shall expire on the day five years after the passing of this resolution and that all previous authorities under section 80 of the Companies Act 1985 be revoked.

## Resolution 9

To propose the following as a special resolution:

That, in accordance with Article 6 of the Company's Articles of Association, *a* the Directors be given power to allot equity securities for cash, *b* that for the purpose of paragraph (A)(ii) of that Article, the nominal amount to which this power is limited is £6,830,000 and *c* this power shall expire on 27 October 2001 or, if earlier, at the conclusion of the next annual general meeting of the Company.

## Resolution 10

To propose the following as a special resolution:

That the Company is generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of Ordinary Shares of £1 each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company may from time to time determine provided that:

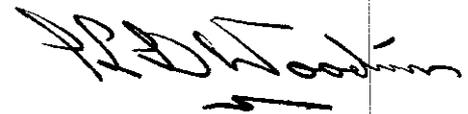
*a* the maximum number of Ordinary Shares that may be purchased under this authority is 13,660,000 (being 10% of the current issued share capital of the Company);

*b* the maximum price which may be paid for an Ordinary Share purchased under this authority is an amount equal to 105% of the average of the middle market quotations for Ordinary Shares, as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that share is purchased, and the minimum price which may be paid is £1 per Ordinary Share; and

*c* this authority will, unless previously varied, revoked or renewed, expire at the conclusion of the next annual general meeting of the Company, but the Company may make a contract to purchase Ordinary Shares under this authority before its expiry which will or may be executed wholly or partly after the expiry of this authority and may make purchases of Ordinary Shares pursuant to such a contract.

*By Order of the Board*

K D WOODIER  
Company Secretary  
Peninsula House, Rydon Lane  
Exeter EX2 7HR  
22 June 2000



# Notice OF MEETING

## Notes

Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, only those shareholders registered in the register of members as at 6.00 p.m. on 25 July 2000 will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after 6.00 p.m. on 25 July 2000 will be disregarded in determining the rights of any person to attend or vote at the meeting.

A person entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.

A Form of Proxy is enclosed and, if used, should be lodged with the Company's Registrars, Lloyds TSB Registrars, not less than 48 hours before the time fixed for the meeting.

## Explanatory notes on certain business of the annual general meeting

### **Authority to allot shares**

Resolution 8 requests shareholder approval by way of an ordinary resolution to renew for a period not exceeding five years the Directors' existing general and unconditional authority to allot securities in accordance with the Companies Act 1985 and the Articles of Association of the Company. This authority would continue that granted in July 1999. The share capital to which this authority relates of £38,390,000 Ordinary Shares represents approximately 28% of the issued share capital at the date of this report, being the balance between the current issued share capital and the authorised share capital of the Company.

Resolution 9 requests shareholder approval by way of a special resolution to renew until next year's annual general meeting the Directors' existing authority to allot equity securities for cash without first being required to offer such securities to existing shareholders. The share capital to which this authority relates represents approximately 5% of the issued share capital at the date of this report.

The Directors consider that they should have the above authorities in order to be able to take advantage of opportunities as they arise and to retain flexibility although they have no current plans to issue shares.

### **Authority to purchase Ordinary Shares of the Company**

Resolution 10 requests shareholder approval by way of a special resolution to renew the Company's authority to purchase up to 10% of its Ordinary Shares at or between the minimum and maximum prices specified in the resolution. This authority is requested in order to increase the Company's flexibility to optimise the long-term financial and tax efficiency of its capital structure. The Directors have no specific plans to exercise such powers in the immediate future but will keep the matter under review and will only make such purchases if they would result in an increase in the Company's earnings per share and are in the best interests of the Company's shareholders generally.

