

DIRECTORS' REPORT AND ACCOUNTS

HERMES PENSIONS MANAGEMENT LIMITED

31 DECEMBER 1999



Registered No: 1661776

HERMES PENSIONS MANAGEMENT LIMITED

DIRECTORS' REPORT

Directors: Sir T Chessells (Chairman - appointed 1 January 1999)
 A Ross Goobey (Chief Executive)
 A Watson (Deputy Chief Executive)
 A H M White (Deputy Chief Executive)
 B R Bezdel
 S P Brown
 M L Carter
 R A Harrold
 A D Ormrod
 R A Padgett
 C C Hartridge-Price
 P Bisping
 I A Kirby
 P R Butler
 A Orriss (appointed 24 January 2000)

The directors are those listed above along with D W Davies who is an alternate for Sir T Chessells.

During the year the directors had no interests in the shares of the company or any other group company.

Secretary: F W Le Grice

Registered Office: Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.

The directors submit their report and the audited accounts for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activity of the group is to act as the principal investment manager of the BT Pension Scheme (BTPS) and the Post Office Pension Plan (POPP), (formerly the Post Office Staff Superannuation Scheme (POSSS) and the Post Office Pension Scheme (POPS)).

ELECTIVE RESOLUTIONS

The Board of Hermes Pensions Management Limited has used the written resolution procedures pursuant to S381A of the Companies Act 1985 to pass the following elective resolutions:

- a) that pursuant to S366A of the Companies Act 1985, the company hereby elects to dispense with the holding of Annual General Meetings (until the election is revoked);
- b) that pursuant to S252 of the Companies Act 1985, the company hereby elects to dispense with the laying of accounts and reports before the company in general meeting; and

HERMES PENSIONS MANAGEMENT LIMITED**DIRECTORS' REPORT (continued)**

- c) that pursuant to S386 of the Companies Act 1985, the company hereby elects to dispense with the obligation to appoint auditors annually.

These elective resolutions have also been adopted by all subsidiary companies, apart from *Hermes SLP Limited*.

RESULTS

The results for the year are shown on the attached profit and loss account. The directors do not recommend the payment of a dividend (1998 - nil).

The directors consider the results of the company to be satisfactory and that the company is well placed to take advantage of future opportunities.

EMPLOYEE INVOLVEMENT

During the year meetings are held to discuss the performance of the group. Opportunity is given at these meetings for senior executives to be questioned about matters which concern the employees.

YEAR 2000

The directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business, although the situation is being monitored.

By order of the Board



F W LE GRICE
Secretary

20 June 2000

HERMES PENSIONS MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors 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 that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

HERMES PENSIONS MANAGEMENT LIMITED**AUDITORS' REPORT TO THE MEMBERS OF
HERMES PENSIONS MANAGEMENT LIMITED**

We have audited the financial statements on pages 5 to 21 which have been prepared under the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

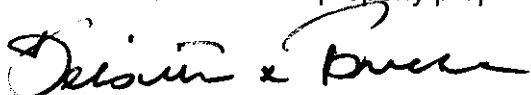
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 as at 31 December 1999 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR



2000

HERMES PENSIONS MANAGEMENT LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

| | Notes | 1999 £ | 1998 £ |
|--|--------------|-------------------|-------------------|
| TURNOVER AND GROSS PROFIT | 2 | 28,444,803 | 24,597,238 |
| Other income | 3 | 366,985 | - |
| Administrative expenses | | (28,354,316) | (24,886,285) |
| Operating profit/(loss) | 4 | 457,472 | (289,047) |
| Interest receivable | | 242,659 | 399,158 |
| Interest payable | | (8,009) | - |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 692,122 | 110,111 |
| Taxation | 6 | (1,158,310) | (356,552) |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | (466,188) | (246,441) |
| Equity minority interest | | (50,587) | 81,972 |
| RETAINED LOSS FOR THE FINANCIAL YEAR | 13 | (516,775) | (164,469) |

There are no recognised gains or losses other than the loss on ordinary activities retained for the year disclosed above. Accordingly, no statement of total recognised gains and losses is given. All operations are continuing operations.

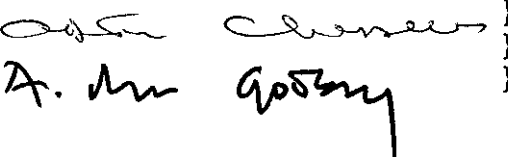
HERMES PENSIONS MANAGEMENT LIMITED

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1999

| | Notes | 1999 £ | 1998 £ |
|---|-------|--------------------|--------------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 7,032,502 | 5,859,349 |
| Investments | 9 | 4,023,227 | 4,026,126 |
| | | <u>11,055,729</u> | <u>9,885,475</u> |
| CURRENT ASSETS | | | |
| Debtors | 10 | 3,771,934 | 4,046,856 |
| Cash at bank and in hand | | 2,085,978 | 1,370,303 |
| | | <u>5,857,912</u> | <u>5,417,159</u> |
| CREDITORS - amounts falling due within one year | 11 | 10,848,093 | 9,392,039 |
| NET CURRENT LIABILITIES | | <u>(4,990,181)</u> | <u>(3,974,880)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 6,065,548 | 5,910,595 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 15 | (1,829,393) | (1,208,252) |
| | | <u>4,236,155</u> | <u>4,702,343</u> |
| Minority interest | | (93,614) | (43,027) |
| | | <u>4,142,541</u> | <u>4,659,316</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 4,475,000 | 4,475,000 |
| Other reserves | | 98,157 | 98,157 |
| Profit and loss account | 13 | (430,616) | 86,159 |
| EQUITY SHAREHOLDERS' FUNDS | | <u>4,142,541</u> | <u>4,659,316</u> |

These financial statements were approved by the Board of Directors *02 20 June 2000*

Signed on behalf of the Board of Directors


 } Directors

HERMES PENSIONS MANAGEMENT LIMITED


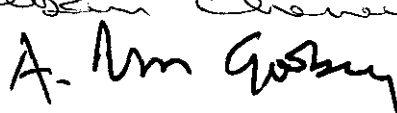
BALANCE SHEET AT 31 DECEMBER 1999

| | Notes | 1999 £ | 1998 £ |
|--|-------|--------------------|--------------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 7,032,502 | 5,859,349 |
| Investments | 9 | 4,403,481 | 4,403,381 |
| | | <u>11,435,983</u> | <u>10,262,730</u> |
| CURRENT ASSETS | | | |
| Debtors | 10 | 3,559,877 | 3,743,632 |
| Cash at bank and in hand | | 146,161 | 163,609 |
| | | <u>3,706,038</u> | <u>3,907,241</u> |
| CREDITORS - amounts falling due within one year | 11 | 10,214,236 | 8,994,703 |
| NET CURRENT LIABILITIES | | <u>(6,508,198)</u> | <u>(5,087,462)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 4,927,785 | 5,175,268 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 15 | (1,829,393) | (1,208,252) |
| | | <u>3,098,392</u> | <u>3,967,016</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 12 | 4,475,000 | 4,475,000 |
| Profit and loss account | 13 | (1,376,608) | (507,984) |
| EQUITY SHAREHOLDERS' FUNDS | | <u>3,098,392</u> | <u>3,967,016</u> |

These financial statements were approved by the Board of Directors

on 20 June 2000

Signed on behalf of the Board of Directors

 }
 } Directors

HERMES PENSIONS MANAGEMENT LIMITED**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1999**

| | Notes | 1999 £ | 1998 £ |
|---|--------------|--------------------|--------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 16 | <u>5,949,607</u> | <u>3,854,124</u> |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 242,659 | 399,158 |
| Interest paid | | (8,009) | - |
| NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | <u>234,650</u> | <u>399,158</u> |
| TAXATION | | | |
| Corporation tax paid | | (418,294) | (272,256) |
| TAX PAID | | <u>(418,294)</u> | <u>(272,256)</u> |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Payments to acquire tangible fixed assets | | (5,053,187) | (3,750,776) |
| Purchase of investments | 9 | (3,996,127) | - |
| Sale of investments | 9 | 3,999,126 | - |
| NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | <u>(5,050,188)</u> | <u>(3,750,776)</u> |
| ACQUISITIONS AND DISPOSALS | | | |
| Payments to acquire investments in subsidiaries | 9 | (100) | (100) |
| NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS | | <u>(100)</u> | <u>(100)</u> |
| NET CASH INFLOW BEFORE FINANCING | | <u>715,675</u> | <u>230,150</u> |
| FINANCING | | | |
| Decrease in debentures | | - | (2,189) |
| Issue of ordinary share capital | | - | 375,000 |
| Issue of share capital to minority interest | | - | 125,000 |
| NET CASH INFLOW FROM FINANCING | | <u>-</u> | <u>497,811</u> |
| INCREASE IN CASH | 17,18 | <u>715,675</u> | <u>727,961</u> |

HERMES PENSIONS MANAGEMENT LIMITED

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1999

| | 1999 | 1998 |
|---|------------------|------------------|
| | £ | £ |
| Loss for the year | (516,775) | (164,469) |
| Issue of ordinary share capital | - | 375,000 |
| NET (REDUCTION)/ADDITION TO CONSOLIDATED SHAREHOLDERS' FUNDS | (516,775) | 210,531 |
| Opening shareholders' funds | 4,659,316 | 4,448,785 |
| CLOSING SHAREHOLDERS' FUNDS | 4,142,541 | 4,659,316 |
| Minority interest | 93,613 | 43,027 |

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999

1. ACCOUNTING POLICIES

The accounts are prepared in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below.

a) Accounting Convention

The accounts are prepared under the historical cost convention.

b) Basis of Consolidation

The consolidated accounts incorporate the accounts of the company and all its subsidiaries.

c) Tangible Fixed Assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

| | |
|----------------------------------|---------------|
| Fixtures, fittings and equipment | 25% per annum |
|----------------------------------|---------------|

d) Investments

Investments held as fixed assets are stated at cost less provision for impairment.

e) Operating Leases

Rentals in respect of operating leases are charged to the profit and loss account on a straight-line basis.

f) Pension Benefits

Pension benefits are funded over the employees' periods of service. The company's contributions are based on the most recent actuarial valuation of the fund.

g) Investment Income

Income from investments is stated on an accruals basis.

h) Deferred Taxation

Deferred taxation, where applicable, is provided in the accounts at the anticipated amounts arising due to timing differences except where they are not expected to reverse in the future.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

2. TURNOVER

Turnover comprises the value of services supplied in the UK by the group exclusive of VAT.

Turnover is analysed as follows:

| | 1999 | 1998 |
|--------------------------------|-------------------|-------------------|
| | £ | £ |
| Investment management services | 27,862,437 | 23,828,306 |
| Property management fees | 582,366 | 768,932 |
| | <u>28,444,803</u> | <u>24,597,238</u> |

3. OTHER INCOME

| | 1999 | 1998 |
|----------------------|----------------|-------------|
| | £ | £ |
| Errors and omissions | <u>366,985</u> | <u>-</u> |

The other income received during the year related to an insurance reimbursement in respect of an errors and omissions payment made in the prior year.

4. OPERATING PROFIT/(LOSS)

| | 1999 | 1998 |
|--|---------------|----------------|
| | £ | £ |
| Operating profit/(loss) is stated after charging: | | |
| Interest payable or similar charges in respect of: | | |
| Bank loans and overdrafts (excluding group loans) | 634 | - |
| Interest on loans from group companies | 7,375 | - |
| Depreciation of tangible fixed assets | 3,880,034 | 2,821,380 |
| Rentals under operating leases: | | |
| - Plant and machinery | 31,944 | 40,335 |
| - Other | 613,191 | 248,941 |
| Auditors' remuneration | | |
| Audit fees - group | 132,250 | 105,000 |
| - company | 20,000 | 20,000 |
| Other services | <u>69,341</u> | <u>245,829</u> |

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Total emoluments of directors excluding pension contributions were:

| Directors | Salary £ | Bonus £ | Benefits £ | Total 1999 £ | Total 1998 £ |
|---------------------|---------------------|--------------------|-----------------------|-----------------------------|-----------------------------|
| A Ross Goobey | 228,800 | 112,179 | 12,481 | 353,460 | 336,279 |
| P Bisping | 97,500 | 84,640 | 711 | 182,851 | 235,774 |
| R A Padgett | 132,500 | 70,755 | 8,972 | 212,227 | 228,366 |
| A H M White | 140,400 | 56,464 | 13,649 | 210,513 | 204,790 |
| R A Harrold | 132,500 | 74,068 | 6,848 | 213,416 | 184,806 |
| A D Ormrod | 123,250 | 49,793 | 10,088 | 183,131 | 179,446 |
| M L Carter | 116,500 | 41,824 | 9,977 | 168,301 | 158,874 |
| P R Butler | 119,600 | 50,830 | 6,395 | 176,825 | 149,371 |
| S P Brown | 114,400 | 45,760 | 711 | 160,871 | 154,931 |
| B R Bezdel | 93,600 | 46,472 | 9,906 | 149,978 | 144,728 |
| C C Hartridge-Price | 84,100 | 40,704 | 3,337 | 128,141 | 135,739 |
| I A Kirby | 63,733 | 37,220 | 8,164 | 109,117 | 95,821 |
| A Watson | 225,000 | - | 10,113 | 235,113 | 29,200 |
| | <u>1,671,883</u> | <u>710,709</u> | <u>101,352</u> | <u>2,483,944</u> | <u>2,238,125</u> |

The directors are those listed above together with Sir T Chessells who was appointed on 1 January 1999, and D W Davies who is his alternate.

The company's pension scheme is a defined benefit scheme and the accrued benefit as at 31 December 1999 for the highest paid director was £12,665 (1998 - £9,960) per annum. The total number of directors who accrue benefits under the scheme is 13 (1998 - 12).

| | 1999 No | 1998 No |
|--|--------------------|--------------------|
| Average number of persons employed by the group in the year: | | |
| Investment management | 83 | 77 |
| Administration | 97 | 100 |
| | <u>180</u> | <u>177</u> |

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)****5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)**

| | 1999 | 1998 |
|---|-------------------|-------------------|
| | £ | £ |
| Staff costs during the year in respect of these employees were: | | |
| Wages and salaries | 11,358,777 | 9,906,277 |
| Social security costs | 1,094,788 | 857,038 |
| Pension cost related to group scheme (see Note 15) | 621,141 | 473,385 |
| Unfunded pension costs | 48,000 | 35,400 |
| | <u>13,122,706</u> | <u>11,272,100</u> |

The unfunded pension cost relates to the increase in the year in the company's liability to pay a pension in excess of that provided by the Hermes Pension Scheme.

6. TAXATION

| | 1999 | 1998 |
|--|------------------|----------------|
| | £ | £ |
| The tax charge for the year comprises the following: | | |
| Corporation tax at 30.25% (1998 - 31%) | 791,772 | 349,714 |
| Adjustments to prior years' tax provisions | 366,538 | 6,838 |
| | <u>1,158,310</u> | <u>356,552</u> |

The effective tax rate is 167.4%. This is largely due to deferred tax assets not being provided for mainly in respect of a large pension provision, £1,829,393, that has accrued due to the contribution holiday advised by the actuary. The provision was overlooked in prior years despite being set up in 1996, hence, the large prior year adjustment to the tax charge.

7. LOSS OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the year amounted to £868,624 (1998 loss £218,102).

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

8. TANGIBLE FIXED ASSETS

| | Fixtures, Fittings and Equipment £ |
|----------------------------------|---|
| The Group and the Company | |
| Cost at 1 January 1999 | 11,361,953 |
| Additions | 5,053,187 |
| Cost at 31 December 1999 | 16,415,140 |
| Accumulated depreciation | |
| At 1 January 1999 | 5,502,604 |
| Charge for the year | 3,880,034 |
| At 31 December 1999 | 9,382,638 |
| Net book value | |
| At 31 December 1999 | 7,032,502 |
| At 31 December 1998 | 5,859,349 |

During the year £671,873 of capital expenditure was incurred in respect of fixtures and fittings for new business premises. As these items have not yet been brought into use, no depreciation has been provided.

9. INVESTMENTS HELD AS FIXED ASSETS

| | Listed Investments at cost £ | Unlisted Investments at cost £ | Total at cost £ |
|---------------------|---|---|-----------------------|
| The Group | | | |
| At 1 January 1999 | 3,999,126 | 27,000 | 4,026,126 |
| Additions | 3,995,927 | 300 | 3,996,227 |
| Disposals | (3,999,126) | - | (3,999,126) |
| At 31 December 1999 | 3,995,927 | 27,300 | 4,023,227 |
| | Shares in subsidiary undertakings £ | | |
| The Company | | | |
| At 1 January 1999 | | 4,403,381 | |
| Additions | | 100 | |
| At 31 December 1999 | | 4,403,481 | |

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

9. INVESTMENTS HELD AS FIXED ASSETS (continued)

Listed investments are floating rate note gilts held at cost by subsidiary companies. Their total market value at 31 December 1999 was £3,973,327 (31 December 1998 £3,987,957).

Information on subsidiaries is disclosed in note 20.

10. DEBTORS

| | 1999 | | 1998 | |
|----------------------|------------------|------------------|------------------|------------------|
| | Group | Company | Group | Company |
| | £ | £ | £ | £ |
| Due within one year | | | | |
| Owed by subsidiaries | - | 2,259,912 | - | 2,214,200 |
| BTPS | 957,496 | - | 779,579 | - |
| POSSS and POPS | 1,592,244 | - | 1,589,391 | 21,765 |
| Other debtors | 440,082 | 417,853 | 1,035,800 | 765,581 |
| Prepayments | 782,112 | 782,112 | 642,086 | 642,086 |
| | <u>3,771,934</u> | <u>3,459,877</u> | <u>4,046,856</u> | <u>3,643,632</u> |
| Due after one year | | | | |
| Owed by subsidiary | - | 100,000 | - | 100,000 |
| | <u>3,771,934</u> | <u>3,559,877</u> | <u>4,046,856</u> | <u>3,743,632</u> |

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

11. CREDITORS

| | 1999 | | 1998 | |
|-------------------------------------|-------------------|-------------------|------------------|------------------|
| | Group | Company | Group | Company |
| | £ | £ | £ | £ |
| Amounts falling due within one year | | | | |
| BTPS | 7,495,035 | 7,495,035 | 7,292,180 | 7,292,180 |
| POSSS | - | - | - | 3,571 |
| Owed to subsidiaries | - | - | - | 15,022 |
| Other creditors | 45,519 | 45,520 | 98,179 | 98,180 |
| Unfunded pension liability | 229,000 | 229,000 | 181,000 | 181,000 |
| Corporation tax | 1,044,062 | 864,361 | 304,046 | 211,159 |
| Other taxation | 394,813 | - | 224,863 | - |
| Accruals | 1,639,664 | 1,580,320 | 1,291,771 | 1,193,591 |
| | <u>10,848,093</u> | <u>10,214,236</u> | <u>9,392,039</u> | <u>8,994,703</u> |

12. CALLED UP SHARE CAPITAL

| | 1999 | 1998 |
|--------------------------------------|------------------|------------------|
| | £ | £ |
| Authorised: | | |
| 5,000,000 ordinary shares of £1 each | <u>5,000,000</u> | <u>5,000,000</u> |
| Called up, allotted and fully paid: | | |
| 4,475,000 ordinary shares of £1 each | <u>4,475,000</u> | <u>4,475,000</u> |

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

13. MOVEMENT ON RESERVES

| Group | Profit and loss account £ | 1999 Capital Reserve £ | Total £ | Profit and loss account £ | 1998 Capital Reserve £ | Total £ |
|--------------------------|------------------------------------|---------------------------------|------------------|------------------------------------|---------------------------------|----------------|
| Reserves brought forward | 86,159 | 98,157 | 184,316 | 250,628 | 98,157 | 348,785 |
| Loss for the year | (516,775) | - | (516,775) | (164,469) | - | (164,469) |
| | <u>(430,616)</u> | <u>98,157</u> | <u>(332,459)</u> | <u>86,159</u> | <u>98,157</u> | <u>184,316</u> |

| Company | £ | £ |
|--------------------------|--------------------|------------------|
| Reserves brought forward | (507,984) | (289,882) |
| Loss for the year | <u>(868,624)</u> | <u>(218,102)</u> |
| | <u>(1,376,608)</u> | <u>(507,984)</u> |

14. COMMITMENTS UNDER OPERATING LEASES

Group annual commitments for the year to 31 December 1999 under operating leases are as follows:

| | 1999 £ | 1998 £ |
|---------------------------------------|------------------|----------------|
| Operating leases which expire within: | | |
| 1 year | 93,876 | 209,659 |
| 2 - 5 years | 139,984 | 207,497 |
| Over 5 years | <u>1,539,780</u> | <u>-</u> |
| | <u>1,773,640</u> | <u>417,156</u> |

All operating leases expiring after 5 years are related to land and buildings which are subject to rent reviews. There are no other land and buildings leases.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

15. PENSION COMMITMENTS

The group operates a number of pension schemes, the main one being a defined benefit scheme funded by the payment of contributions to a separately administered trust fund.

The contributions to this scheme are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the Projected Unit method. The most recent valuation was conducted as at 31 December 1996, using the following main assumptions:

| | % per annum |
|------------------------------|-------------|
| Price inflation | 4.5 |
| Return on new investments | 9.0 |
| Increase in earnings | 6.6 |
| Increase in pensions | 4.5 |
| Increase in equity dividends | 5.0 |
| Increase in rental growth | 4.5 |

The valuation showed that the market value of the scheme's assets at that date amounted to £20,551,000 and the actuarial value was sufficient to cover 127% of the benefits that had accrued to members, after allowing for the effect of future increases in their earnings. The contributions of the company were nil, subject to review at future actuarial valuations. The contributions of the employees were 6% until 31 March 1999 and 5% thereafter.

The regular cost for the year was £937,231 (1998 - £783,643). This was offset by amortisation of the pension surplus of £424,833 (1998 - £376,395). The amortisation was calculated using a level percentage of pensionable salaries. The net cost included in the accounts was £621,141 (1998 - £473,385) including interest of £108,743 (1998 - £66,138) on the opening balance of the balance sheet provision.

The balance sheet provision at 31 December 1999 was £1,829,393 (31 December 1998 - £1,208,252).

On 1 April 1999 the Hermes Group Pension Scheme was formed. All the assets and benefit liabilities of the Hermes Pension Scheme were transferred to the Hermes Group Pension Scheme on 17 May 1999.

16. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 1999 | 1998 |
|---|-----------|-----------|
| | £ | £ |
| Operating profit/(loss) | 457,472 | (289,047) |
| Depreciation charges | 3,880,034 | 2,821,380 |
| Decrease/(increase) in debtors | 274,922 | (101,281) |
| Increase in creditors | 716,038 | 949,687 |
| Increase in provisions | 621,141 | 473,385 |
| Net cash inflow from operating activities | 5,949,607 | 3,854,124 |

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 1999 (continued)****17. ANALYSIS OF NET DEBT**

| | At 1 Jan 1999 £ | Cash Flow £ | At 31 Dec 1999 £ |
|--------------------------|--------------------------|-------------------|---------------------------|
| Cash at bank and in hand | 1,370,303 | 715,675 | 2,085,978 |
| Debt due within one year | - | - | - |
| Total | <u>1,370,303</u> | <u>715,675</u> | <u>2,085,978</u> |

18. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 31 Dec 99 £ | 31 Dec 98 £ |
|--------------------------------------|------------------|------------------|
| Increase in cash in year | 715,675 | 727,961 |
| Cash inflow from decrease in debt | - | 2,189 |
| Movement in net debt in year | 715,675 | 730,150 |
| Net debt at beginning of year | <u>1,370,303</u> | <u>640,153</u> |
| Net debt at end of year | <u>2,085,978</u> | <u>1,370,303</u> |

19. INVESTMENTS IN FOCUS FUNDS

During the year Hermes Lens Asset Management invested £200 and Hermes SLP invested a further £100 in Focus Funds 1 and 2.

20. ADDITIONAL INFORMATION ON SUBSIDIARIESSubsidiary Undertakings

Hermes Lens Asset Management Limited

[formerly Hermes Property Management Services Limited]

Hermes Investment Management Limited

Hermes Property Asset Management Limited

Hermes Administration Services Limited

Hermes SLP Limited

Activity

Investment Management
Company

Investment Management
Company

Investment Management
Company

Administration Company

Special Limited partner to
Hermes UK Focus Fund

HERMES PENSIONS MANAGEMENT LIMITED**NOTES TO THE ACCOUNTS – YEAR ENDED 31 DECEMBER 1999 (continued)**

All subsidiary undertakings are owned as to 100% of ordinary share capital apart from Hermes Lens Asset Management Limited which is owned as to 75% of ordinary share capital. All subsidiaries have been consolidated in the accounts. All are incorporated, registered and operate in England and Wales.

All shareholdings are in the name of Hermes Pensions Management Limited. The above activities were correct at 31 December 1999.

21. RELATED PARTY TRANSACTIONS

During the year there were transactions with the following related parties:

The Trustees of the BT Pension Scheme

The following fees were paid by the Hermes group on behalf of the BT Pension Scheme in respect of the Trustees' services to the BT Pension Scheme.

| | 1999 £'000 | 1998 £'000 |
|---|---------------|---------------|
| Sir Tim Chessells (Chairman) | 60 | - |
| Sir James Spooner (Chairman until 31.12.98) | - | 50 |
| Mr S Birkenhead | 23 | 13 |
| Mr D W Davies | 24 | 23 |
| Mr C R Green | - | - |
| Mr C N Long | 22 | 20 |
| Mr A W Longden | - | - |
| Mr D M MacDonald | 18 | 11 |
| Mr H Marchant | 23 | 22 |
| Mr W McClory | 20 | 17 |
| Mr J S Sadler | - | 8 |
| Mr P H Shaw | - | 2 |
| Total fees | <u>190</u> | <u>166</u> |

Sir James Spooner was Chairman of BT Pension Scheme to 31 December 1998. On 1 January 1999 Sir Tim Chessells became Chairman of the BT Pension Scheme.

Hermes Group Pension Scheme

Certain of the activities of the Scheme are carried out by the Hermes group all of the costs of which are borne by Hermes Pensions Management Limited. These costs have not been apportioned for accounting purposes between those attributable to the Scheme and those attributable to the Hermes group as functions maintained for both entities cannot be divided meaningfully between them.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1999 (continued)

Parent Undertaking

The company is a wholly owned subsidiary and consolidated into the accounts of the BT Pension Scheme, which are available to the public. As such, the company has not disclosed related party transactions with the BT Pension Scheme, as it is taking advantage of the exemption in FRS8 available to wholly owned subsidiaries.

Hermes Lens Asset Management Limited

Hermes Lens Asset Management Limited (HLAM) is a 75% subsidiary of Hermes Pensions Management Limited (HPM). During the year HPM recharged £960,608 of expenditure to HLAM.

At 31 December 1999 HLAM owed £100,000 to HPM in respect of a subordinated loan arrangement.

Lens Investment Management LLC

Lens Investment Management LLC (Lens), a US company, owns 25% of the share capital of HLAM. During the year Lens recharged £70,330 of expenditure to HLAM.

UK Focus Funds 1 and 2

The UK Focus Funds are partnerships investing in UK equities. Hermes Lens Asset Management Limited (HLAM) is the general partner. During the year there were the following transactions between the UK Focus Funds and HLAM:

- HLAM received £1,231,304 from the UK Focus Fund 1 and £99,660 from the UK Focus Fund 2 as profit share.
- HLAM recharged £60,600 of expenditure to the UK Focus Fund 1. This expenditure represented the direct costs of the partnership.

Atlantic Financial Services

During the year £100,000 was charged to the profit and loss account in respect of a placement agency agreement from Atlantic Financial Services, a US company. Atlantic Financial Services is a wholly owned subsidiary of Ram Trust Services Inc, another US company, Ram Trust Services is owned 97% by J.P.M. Higgins, an alternate director of HLAM.

22. ULTIMATE PARENT UNDERTAKING

The directors regard the BT Pension Scheme as the company's ultimate parent undertaking and controlling entity. The accounts of the BT Pension Scheme can be obtained at Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.