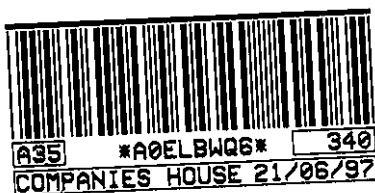


DIRECTORS' REPORT AND ACCOUNTS

HERMES PENSIONS MANAGEMENT LIMITED

31 DECEMBER 1996



Registered No: 1661776

HERMES PENSIONS MANAGEMENT LIMITED

DIRECTORS' REPORT

Directors:	Sir James D Spooner	(Chairman)
	R A Cox CBE	(Non Executive Director)
	A Ross Goobey	(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	(appointed 1 February 1996)
	P Bisping	(appointed 5 March 1997)

The directors of the company during the year were those listed above together with M J Reed who was appointed on 1 May 1995 and resigned on 31 January 1996 and A B Conway who resigned on 17 January 1997.

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

Secretary: F W Le Grice

Registered Office: Standon House, 21 Mansell Street, London E1 8AA

The directors submit their report and the audited accounts for the year ended 31 December 1996.

PRINCIPAL ACTIVITIES

The principal activity of the group is to act as the principal investment manager of the BT Pension Scheme (BTPS), 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 in 1996 and subsequent years (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.

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.

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.

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.

By order of the Board

A handwritten signature in black ink, appearing to read 'F W Le Grice', written in a cursive style.

F W LE GRICE
Secretary

16 JUN 1997

HERMES PENSIONS MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period 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 period and of the profit or loss of the group for that period. 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.

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 pages 10 and 11.

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.

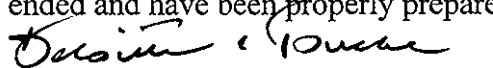
Basis of opinion

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 1996 and of the profit 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

18 June 1997

HERMES PENSIONS MANAGEMENT LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
TURNOVER AND GROSS PROFIT	2	16,610,957	10,894,458
Administrative Expenses		(16,528,372)	(10,877,012)
Operating profit	3	<u>82,585</u>	<u>17,446</u>
Interest receivable		218,651	193,859
Interest payable on debentures		(3,052)	(4,807)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>298,184</u>	<u>206,498</u>
Taxation	5	(181,609)	(301,415)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	12	<u><u>116,575</u></u>	<u><u>(94,917)</u></u>

There are no recognised gains or losses other than those shown above. All the turnover and operating profit of the group are derived from continuing operations.

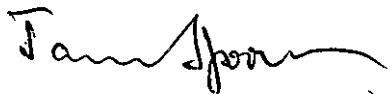
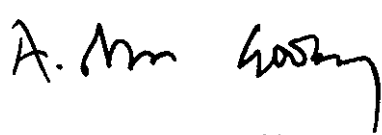
HERMES PENSIONS MANAGEMENT LIMITED

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1996

	Notes	31 December 1996 £	31 December 1995 £
FIXED ASSETS			
Tangible assets	7	2,130,520	178,361
Investments	8	3,026,150	3,026,150
		<u>5,156,670</u>	<u>3,204,511</u>
CURRENT ASSETS			
Debtors	9	5,260,280	5,050,209
Cash at bank		293,850	534,937
		<u>5,554,130</u>	<u>5,585,146</u>
CREDITORS - amounts falling due within one year	10	7,036,317	5,587,420
NET CURRENT LIABILITIES		<u>(1,482,187)</u>	<u>(2,274)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,674,483	3,202,237
CREDITORS - amounts falling due after more than one year	10	(17,329)	(7,958)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(346,300)	-
		<u>3,310,854</u>	<u>3,194,279</u>
CAPITAL AND RESERVES			
Called up share capital	11	3,100,000	3,100,000
Profit and loss account	12	112,697	(3,878)
Other reserves	12	98,157	98,157
EQUITY SHAREHOLDERS' FUNDS		<u>3,310,854</u>	<u>3,194,279</u>

These financial statements were approved by the Board of Directors.

Signed on behalf of the Board of Directors


 } Directors
 16 JUNE 1997

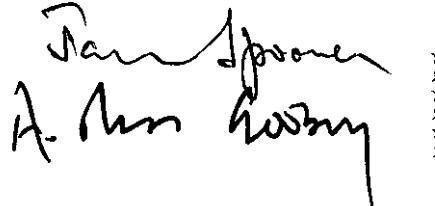
HERMES PENSIONS MANAGEMENT LIMITED

BALANCE SHEET AT 31 DECEMBER 1996

	Notes	31 December 1996 £	31 December 1995 £
FIXED ASSETS			
Tangible assets	7	2,130,520	178,361
Investments	8	3,020,102	3,020,102
		<u>5,150,622</u>	<u>3,198,463</u>
CURRENT ASSETS			
Debtors	9	4,724,645	4,621,653
Cash at bank		215,888	354,521
		<u>4,940,533</u>	<u>4,976,174</u>
CREDITORS - amounts falling due within one year	10	6,818,557	5,195,615
NET CURRENT LIABILITIES		<u>(1,878,024)</u>	<u>(219,441)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,272,598	2,979,022
CREDITORS - amounts falling due after more than one year	10	(17,329)	(7,958)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(346,300)	-
		<u>2,908,969</u>	<u>2,971,064</u>
CAPITAL AND RESERVES			
Called up share capital	11	3,100,000	3,100,000
Profit and loss account	12	(191,031)	(128,936)
EQUITY SHAREHOLDERS' FUNDS		<u>2,908,969</u>	<u>2,971,064</u>

These financial statements were approved by the Board of Directors.

Signed on behalf of the Board of Directors


} Directors

16 JUNE 1997

HERMES PENSIONS MANAGEMENT LIMITED
**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1996**

	Notes	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	<u>2,604,101</u>	<u>401,810</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		218,651	193,859
Interest paid		(3,052)	(4,807)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>215,599</u>	<u>189,052</u>
TAXATION			
Corporation tax paid		<u>(342,948)</u>	<u>(52,425)</u>
TAX PAID		<u>(342,948)</u>	<u>(52,425)</u>
INVESTING ACTIVITIES			
Payments to acquire tangible fixed assets		(2,798,940)	(237,815)
Receipts from sales of fixed assets		120,904	-
Purchase of investments		-	(3,026,150)
NET OUTFLOW FROM INVESTING ACTIVITIES		<u>(2,678,036)</u>	<u>(3,263,965)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(201,284)</u>	<u>(2,725,528)</u>
FINANCING			
Decrease in debentures	16	39,803	53,212
NET CASH OUTFLOW FROM FINANCING		<u>39,803</u>	<u>53,212</u>
DECREASE IN CASH AND CASH EQUIVALENTS	17	<u>(241,087)</u>	<u>(2,778,740)</u>
		<u>(201,284)</u>	<u>(2,725,528)</u>

HERMES PENSIONS MANAGEMENT LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 1996

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Profit/(Loss) for the year/period	116,575	(94,917)
NET ADDITION/(REDUCTION) TO SHAREHOLDERS' FUNDS	<u>116,575</u>	<u>(94,917)</u>
Opening shareholders' funds	<u>3,194,279</u>	<u>3,289,196</u>
CLOSING SHAREHOLDERS' FUNDS	<u><u>3,310,854</u></u>	<u><u>3,194,279</u></u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996

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
Cars	25% per annum

(d) Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

(e) Operating Leases

Rentals in respect of operating leases are charged to the profit and loss account as incurred.

(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.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

1 ACCOUNTING POLICIES (continued)

(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.

2 TURNOVER

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

Turnover is analysed as follows:

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Investment management services	15,872,873	9,942,235
Property management fees	738,084	952,223
	<u>16,610,957</u>	<u>10,894,458</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

3 OPERATING PROFIT

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Operating profit is after charging:		
Depreciation written off tangible fixed assets	727,238	59,454
Rentals under operating leases	261,913	61,212
Auditors' remuneration		
Audit fees	68,000	5,000
Other services	147,100	27,450

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Directors' emoluments		
Remuneration	1,470,541	772,960
Unfunded pension cost	34,700	26,900
	<u>1,505,241</u>	<u>799,860</u>
Chairman's emoluments	<u>-</u>	<u>-</u>

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Emoluments of highest paid director		
Remuneration	262,097	136,583
Unfunded pension cost	34,700	26,900
	<u>296,797</u>	<u>163,483</u>

No bonus payments were made in the nine months to 31 December 1995. 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.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	12 months ended 31 December 1996 No	9 months ended 31 December 1995 No
Emoluments of the directors, excluding pension contributions, were within the following scales:		
£0 to £5,000	2	2
£5,001 to £10,000	1	0
£10,001 to £15,000	0	1
£15,001 to £20,000	0	1
£20,001 to £25,000	0	1
£25,001 to £30,000	0	1
£30,001 to £35,000	1	1
£35,001 to £40,000	0	1
£40,001 to £45,000	0	2
£45,001 to £50,000	0	1
£50,001 to £55,000	1	0
£55,001 to £60,000	1	0
£60,001 to £65,000	1	0
£65,001 to £70,000	0	1
£70,001 to £75,000	2	0
£75,001 to £80,000	1	0
£80,001 to £85,000	1	0
£85,001 to £90,000	1	0
£90,001 to £95,000	1	0
£95,001 to £100,000	1	0
£100,001 to £105,000	1	0
£105,001 to £110,000	1	0
£110,001 to £115,000	1	0
£115,001 to £120,000	1	0
£120,001 to £125,000	1	0
£125,001 to £130,000	1	0
£130,001 to £135,000	1	0
£135,001 to £140,000	1	0
£140,001 to £145,000	1	0
£145,001 to £150,000	1	0
£150,001 to £155,000	1	0
£155,001 to £160,000	1	0
£160,001 to £165,000	1	0
£165,001 to £170,000	1	0
£170,001 to £175,000	1	0
£175,001 to £180,000	1	0
£180,001 to £185,000	1	0
£185,001 to £190,000	1	0
£190,001 to £195,000	1	0
£195,001 to £200,000	1	0
£200,001 to £205,000	1	0
£205,001 to £210,000	1	0
£210,001 to £215,000	1	0
£215,001 to £220,000	1	0
£220,001 to £225,000	1	0
£225,001 to £230,000	1	0
£230,001 to £235,000	1	0
£235,001 to £240,000	1	0
£240,001 to £245,000	1	0
£245,001 to £250,000	1	0
£250,001 to £255,000	1	0
£255,001 to £260,000	1	0
£260,001 to £265,000	1	0

	12 months ended 31 December 1996 No	9 months ended 31 December 1995 No
Average number of persons employed by the group in the year/period:		
Investment management	66	68
Administration	107	115
Property maintenance	-	8
	<u>173</u>	<u>191</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR 31 DECEMBER 1996 (continued)

4 INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Staff costs during the year/period in respect of these employees were:		
Wages and salaries	7,190,848	4,988,015
Social security costs	618,103	401,563
Pension cost related to group scheme (see Note 14)	346,300	-
Other pension costs	34,700	33,569
	<u>8,189,951</u>	<u>5,423,147</u>

5 TAXATION

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
The tax charge for the year/period comprises the following:		
Corporation tax at 33% based on the profit for the year/period	169,415	293,261
Adjustments to prior years' tax provisions	12,194	8,154
	<u>181,609</u>	<u>301,415</u>

6 PROFIT 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 £62,095 (9 months to 31 December 1995 loss £203,807).

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

7 TANGIBLE FIXED ASSETS

	Cars £	Fixtures, Fittings and Equipment £	Total £
The Group and the Company			
Cost at 1 January 1996	33,048	204,767	237,815
Additions	94,757	2,704,183	2,798,940
Disposals	(127,805)	-	(127,805)
Cost at 31 December 1996	<u>-</u>	<u>2,908,950</u>	<u>2,908,950</u>
Accumulated depreciation			
At 1 January 1996	8,262	51,192	59,454
Charge for the year	-	727,238	727,238
Disposals	(8,262)	-	(8,262)
At 31 December 1996	<u>-</u>	<u>778,430</u>	<u>778,430</u>
Net book value			
At 31 December 1996	<u>-</u>	<u>2,130,520</u>	<u>2,130,520</u>
At 31 December 1995	<u>24,786</u>	<u>153,575</u>	<u>178,361</u>

8 INVESTMENTS HELD AS FIXED ASSETS

	Listed Investments at cost £	Unlisted Investments at cost £	Total at cost £
The Group			
At 31 December 1996	<u>2,999,250</u>	<u>26,900</u>	<u>3,026,150</u>
At 31 December 1995	<u>2,999,250</u>	<u>26,900</u>	<u>3,026,150</u>

Shares in subsidiary undertakings
£

The Company
Cost at 31 December 1995 and
31 December 1996

3,020,102

All of the above investments are unlisted.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

9 DEBTORS

	31 December 1996		31 December 1995	
	Group	Company	Group	Company
	£	£	£	£
Due within one year				
Trade debtors	-	-	289,119	-
Owed by subsidiaries	-	4,123,574	-	3,934,912
BTPS	3,126,179	-	2,585,163	-
POSSS and POPS	1,523,059	-	1,467,972	-
Other debtors	184,032	174,061	217,702	196,488
Prepayments	409,681	409,681	482,295	482,295
	<u>5,242,951</u>	<u>4,707,316</u>	<u>5,042,251</u>	<u>4,613,695</u>
Due after one year				
Other debtors	17,329	17,329	7,958	7,958
	<u>5,260,280</u>	<u>4,724,645</u>	<u>5,050,209</u>	<u>4,621,653</u>

10 CREDITORS

	31 December 1996		31 December 1995	
	Group	Company	Group	Company
	£	£	£	£
Amounts falling due within one year				
BTPS	4,907,207	4,907,207	3,040,608	3,040,608
POSSS	10,140	10,140	27,916	27,916
Debentures	5,888	5,888	55,062	55,062
Other creditors	264,343	150,752	766,625	469,623
Unfunded pension liability	105,200	105,200	70,500	70,500
Corporation tax	131,922	81,413	293,261	222,661
Other taxation	528,025	474,365	517,860	493,657
Accruals	1,083,592	1,083,592	815,588	815,588
	<u>7,036,317</u>	<u>6,818,557</u>	<u>5,587,420</u>	<u>5,195,615</u>

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

10 CREDITORS (continued)

	31 December 1996		31 December 1995	
	Group	Company	Group	Company
	£	£	£	£
Amounts falling due after more than one year				
Debentures 1-2 years	<u>17,329</u>	<u>17,329</u>	<u>7,958</u>	<u>7,958</u>

The unsecured debentures, due to BTPS and POSSS, may be utilised by the company up to a maximum facility of £330,000. Repayment is made five years from the date of each advance and interest is charged at a rate equivalent to the gross redemption yield on fixed interest British Government securities. No further usage is being made of this facility and it will expire in June 1998.

11 CALLED UP SHARE CAPITAL

	31 December 1996	31 December 1995
	£	£
Authorised:		
Ordinary shares of £1 each	<u>5,000,000</u>	<u>5,000,000</u>
Called up, allotted and fully paid:		
Ordinary shares of £1 each	<u>3,100,000</u>	<u>3,100,000</u>

12 RESERVES

Group	31 December 1996			31 December 1995		
	Profit and Loss Account	Capital Reserve	Total	Profit and Loss Account	Capital Reserve	Total
	£	£	£	£	£	£
Reserves brought forward	(3,878)	98,157	94,279	91,039	98,157	189,196
Profit/(loss) for the year/period	116,575	-	116,575	(94,917)	-	(94,917)
	<u>112,697</u>	<u>98,157</u>	<u>210,854</u>	<u>(3,878)</u>	<u>98,157</u>	<u>94,279</u>

Company	31 December 1996		31 December 1995	
	Profit and Loss Account		Profit and Loss Account	
	£		£	
Reserves brought forward	(128,936)		74,871	
Loss for the year/period	(62,095)		(203,807)	
	<u>(191,031)</u>		<u>(128,936)</u>	

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

13 COMMITMENTS UNDER OPERATING LEASES

Group commitments for the year to 31 December 1996 under operating leases are as follows:-

	31 December 1996	31 December 1995
	£	£
1 year	260,055	61,212
2 to 5 years	380,038	239,810
Over 5 years	-	14,037
	<u>640,093</u>	<u>315,059</u>

All leases are in respect of equipment and cars.

14 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 Attained Age funding method. The most recent valuation was conducted as at 31 December 1993, using the following main assumptions.

	% per annum
Return on new investments	9.25
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 £15,560,000 and the actuarial value was sufficient to cover 141% 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 remain at 6%.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

14 PENSION COMMITMENTS (continued)

The regular cost for the year was £687,400. This was offset by amortisation of the pension surplus of £341,100. The amortisation was calculated using a level percentage of pensionable salaries. Thus the net cost included in the accounts was £346,300 (9 months to 31 December 1995 - nil).

A provision has been established of £346,300.

15 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	12 months ended 31 December 1996 £	9 months ended 31 December 1995 £
Operating profit	82,585	17,446
Profit on sale of fixed assets	(1,361)	-
Depreciation charges	727,238	59,454
Increase in operating debtors	(210,071)	(429,997)
Increase in operating creditors	1,659,410	754,907
Increase in provisions	346,300	-
	<u>2,604,101</u>	<u>401,810</u>

16 RECONCILIATION OF FINANCING FROM DEBENTURES

	31 December 1996 £	31 December 1995 £	31 March 1995 £
Debentures (note 10)			
- repayable within one year	5,888	55,062	90,540
- repayable after more than one year	17,329	7,958	25,692
	<u>23,217</u>	<u>63,020</u>	<u>116,232</u>
Decrease in debentures in the year/period	<u>(39,803)</u>	<u>(53,212)</u>	

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

17 CASH AND CASH EQUIVALENTS

	31 December 1996 £	31 December 1995 £	31 March 1995 £
Cash at bank	<u>293,850</u>	<u>534,937</u>	<u>3,313,677</u>
Decrease in cash and cash equivalents in the year/period	<u>(241,087)</u>	<u>(2,778,740)</u>	

18 ADDITIONAL INFORMATION ON SUBSIDIARIES

<u>Subsidiary Undertakings</u>	<u>Activity</u>
Hermes Property Management Services Limited	Dormant
Hermes Investment Management Limited	Investment Management Company
Hermes Property Asset Management Limited	Investment Management Company
Hermes Administration Services Limited	Administration Company

All subsidiary undertakings are owned as to 100% of ordinary share capital and all are incorporated, registered and operate in England.

All shareholdings are in the name of Hermes Pensions Management Limited. The above activities were correct at 31 December 1996.

19 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 in respect of the Trustees' services to the BT Pension Scheme.

HERMES PENSIONS MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 1996 (continued)

19 RELATED PARTY TRANSACTIONS (continued)

	1996 £000s
Sir James Spooner	50
Mr P D Bairstow	20
Mr C R Green	-
Mr C N Long	16
Mr A W Longden	-
Mr H Marchant	16
Mr J S Sadler	25
Mr P H Shaw	20
Mr K R Thomas	22
Total fees	<u>169</u>

Sir James Spooner is also Chairman of Hermes Pensions Management Limited.

Hermes Pensions 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.

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.

20 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 Standon House, 21 Mansell Street, London E1 8AA.