Company Registration No.906936

DALKIA ENERGY MANAGEMENT LIMITED
(Formerly Corrall-Montenay Limited)

Report and Financial Statements

31 December 1998

Deloitte & Touche
Mountbatten House
1 Grosvenor Square
Southampton SO15 2BZ

DALKIA ENERGY MANAGEMENT LIMITED
(Formerly Corrall-Montenay Limited)

REPORT AND FINANCIAL STATEMENTS

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

L Bermejo	(appointed 6 May 1999)
K Roberts	
J Burrell	
P Chattle	(appointed 6 May 1999)
T Clément	(appointed 1 July 1998)
A Wade	(appointed 6 May 1999)
R Wood	(appointed 6 May 1999)

SECRETARY

D France (appointed 1 September 1999)

REGISTERED OFFICE

Buchanan House
24-30 Holborn
London
EC1N 2LX

BANKERS

National Westminster Bank plc
130 Commercial Road
Portsmouth
Hampshire
PO1 1ES

SOLICITORS

Blake Lapthorn
New Court
1 Barnes Wallis Road
Segensworth
Fareham
Hampshire
PO15 5UA

AUDITORS

Deloitte & Touche
Chartered Accountants
Mountbatten House
1 Grosvenor Square
Southampton
Hampshire
SO15 2BZ

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITY

The principal activity of the company is the total management of energy including electricity. This comprises the long term operation, maintenance and management of heating and air conditioning systems, including the provision of energy on a comprehensive basis where appropriate.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

On 30 October 1998 the company changed its name to Dalkia Energy Management Limited. During the period, the investment in Dalkia Technical Services Limited (formerly Ellis Tylin Limited) was sold to another group company at book value.

During 1998 the company has continued its successful strategy of focusing on individual customers' needs and building partnerships through account management. The launch of our unique in-house training for Energy Management Technicians demonstrates our commitment to the future for both our staff and customers.

POST BALANCE SHEET EVENT

In April 1999 it was announced that, as part of an ongoing reorganisation within the Dalkia Group, Dalkia Energy Management and Dalkia Technical Services businesses would be integrated to provide a wider range of services through a single point of access.

Trading as Dalkia Energy and Technical Services the integrated business with a turnover of £90 million will offer:

- Energy Management and Technical Services
- Energy Supply and associated services
- Quality assured Facilities Management of all essential systems and services within the built environment
- Specialist advice on technical, environmental, health & safety and related legislative issues

Our mission remains at all times to provide our customers with leading edge, high quality services focusing on individual needs and then striving for continuous improvement.

RESULTS AND DIVIDEND

The profit for the period after taxation amounted to £1,395,000 (nine month period ended 31 December 1997: £1,087,000). The directors propose a dividend of £2.40 per share (31 December 1997: £nil).

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. Messrs D B Mathews and I A Sexton resigned on 15 September 1998 and 1 June 1999 respectively. Mr K G Jackson was appointed on 20 October 1998 and resigned on 11 April 1999. Mr J Burrell resigned as Secretary on 1 September 1999. None of the directors has or had any interest in the shares of the company or any other group company.

ENVIRONMENT

The company has an active commitment to manage the environmental aspects of its business in accordance with current best practice in the industry.

DIRECTORS' REPORT (continued)

HEALTH AND SAFETY

The company regards the promotion of health and safety to be of paramount importance. All relevant measures are taken to ensure as far as practicable the health, safety and welfare of all employees. These measures are also aimed at protecting others who may be affected by our work.

DISABLED PERSONNEL

Full and fair consideration is given to the skills and aptitudes of disabled people in recruitment and career development. In pursuit of this policy all practicable measures are taken to place disabled people in jobs suited to their individual circumstances and to enable them to share equally with other employees in the opportunities available for training and promotion in the company.

EMPLOYEE INVOLVEMENT AND EQUAL OPPORTUNITIES

Employee involvement and consultation is developed through regular formal meetings and informal channels. The company is an equal opportunity employer, and makes no discrimination on the grounds of race, sex or religion in recruitment or career development.

CHARITABLE DONATIONS

Donations to charitable organisations amounted to £2,418 (1997: £665) in the year.

PAYMENT POLICY

For payment to trade creditors, the company's policy is to:

(a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;

(b) ensure that those suppliers are made aware of the terms of the payment by inclusion of the relevant terms in contracts; and

(c) pay in accordance with its contractual and other legal obligations.

Creditor days at 31 December 1998 were 38 days (1997: 74 days).

YEAR 2000

The company has undertaken a review of the Year 2000 issue and of the potential impact on its business operations.

The company has developed and is implementing plans to upgrade its accounting systems and supporting hardware during 1999 to ensure millennium compliance.

Internal procedures for embedded systems are in place and training has been completed. We are working with our customers to identify any non-compliant systems and to establish the preferred approach for any remedial works that may be required. Options to repair, replace retire or work around so as to provide compliance or readiness are considered. Proposals consistent with contractual arrangements for the provision of services to our customers are being submitted and implemented. Appropriate assurances are provided to customers upon completion.

We have adopted a prioritised approach to operational and contingency planning for the critical millennium rollover period to reflect the relative importance of customers and their operating plans. The costs associated with resolving the Year 2000 issue total approximately £20,000 to 31 December 1998, and will continue to be expensed except in those situations where the modifications and upgrades significantly increase effectiveness or add value to the business' operations. The anticipated future costs will not be material for the company.

DIRECTORS' REPORT (continued)

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 as at the end of the financial year and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

A resolution to appoint Robson Rhodes, auditors to the Dalkia group, will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors
and signed on behalf of the Board

J Burrell

Director

Date: 13 October 1999

Deloitte & Touche

Deloitte & Touche
Mountbatten House
1 Grosvenor Square
Southampton SO15 2BZ

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AUDITORS' REPORT TO THE MEMBERS OF

DALKIA ENERGY MANAGEMENT LIMITED
(Formerly Corrall-Montenay Limited)

We have audited the financial statements on pages 6 to 15 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 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 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 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 the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE

Chartered Accountants and Registered Auditors

Date: 19 October 1999

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	Continuing operations Year ended 31 December 1998 £'000	Continuing operations 9 months ended 31 December 1997 (As restated - note 22) £'000
TURNOVER	2	21,765	14,764
Cost of sales		16,098	10,531
Gross profit		5,667	4,233
Administrative expenses		3,866	2,981
OPERATING PROFIT	5	1,801	1,252
Dividends from subsidiary	6	118	118
Interest receivable and similar income	7	360	177
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,279	1,547
Tax on profit on ordinary activities	8	884	460
PROFIT FOR THE FINANCIAL PERIOD		1,395	1,087
Dividends	9	1,200	-
RETAINED PROFIT FOR THE FINANCIAL PERIOD		195	1,087
Retained profit brought forward		3,461	2,374
Retained profit carried forward		3,656	3,461

There have been no recognised gains or losses other than the profit for the current period and prior year. Hence a statement of total recognised gains and losses has not been prepared.

BALANCE SHEET
31 December 1998

	Note	31 December 1998 £'000	31 December 1997 (As restated - note 22) £'000
FIXED ASSETS			
Tangible assets	10	799	688
Investments	11	-	1,800
		799	2,488
CURRENT ASSETS			
Stocks and work in progress	12	295	989
Debtors: amounts falling due after one year	13	1,037	421
Debtors: amounts falling due within one year	13	8,569	4,827
Cash at bank and in hand	14	1,535	3,212
		11,436	9,449
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	7,414	7,261
NET CURRENT ASSETS		4,022	2,188
TOTAL ASSETS LESS CURRENT LIABILITIES		4,821	4,676
PROVISIONS FOR LIABILITIES AND CHARGES	16	665	715
		4,156	3,961
CAPITAL AND RESERVES			
Called up share capital	17	500	500
Profit and loss account		3,656	3,461
TOTAL EQUITY SHAREHOLDERS' FUNDS	18	4,156	3,961

These financial statements were approved by the Board of Directors on 13 October 1999

Signed on behalf of the Board of Directors

Directors

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with applicable accounting standards. Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of Dalkia plc, for which consolidated financial statements are prepared. The particular accounting policies adopted by the directors are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Related party transactions

The company has taken advantage of the exemption contained in FRS 8 not to present details of transactions with other group entities as it is a wholly owned subsidiary Dalkia plc, and such transactions are eliminated on consolidation.

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:

Plant and equipment	10% - 33% per annum
Computer and office equipment	20% - 33% per annum

Investments

Investments are included at cost less any provision for impairment.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to reverse in the future, calculated at rates at which it is expected that the tax will arise.

Leases

Rentals under operating leases are charged to the profit and loss account in equal annual amounts over the lease term.

Pension

The expected costs of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme operated by the company in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Plant replacement fund

Receipts from customers relating to contracts where the company is responsible for the repair or replacement of specified plant are classified as payments on account to the extent that they are not matched with work performed. Expenditure, when incurred, is charged to cost of sales and an appropriate level of income is recognised at this point, with the corresponding amount recoverable on the contract offsetting the payment on account. Provision is made for all foreseeable losses under these contracts.

This represents a change in accounting policy, the effects of which are set out in note 22. The change is a consquence of the adoption of FRS 12 by the company and parent group during the year.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

2. TURNOVER

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax. The turnover and operating profit are attributable to one activity, the provision of total management of energy, and are derived entirely within the United Kingdom.

3. DIRECTORS' REMUNERATION

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
Directors' emoluments		
Emoluments (excluding pension contributions)	210	148
	No.	No.
Number of directors who are members of a defined benefit scheme	3	2
	1998 £'000	1997 £'000
Highest paid director's remuneration:		
Emoluments (excluding pension contributions)	105	90

The amount of the accrued pension of the highest paid director at 31 December 1998 was £21,000 (1997: £17,375).

4. STAFF COSTS

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
Wages and salaries	4,741	3,340
Social security costs	430	324
Other pension costs	214	191
	5,385	3,855

The average number of employees during the period, including directors, was 211 (period ended 31 December 1997: 204). All employees were engaged in the principal activities of the business.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

5. OPERATING PROFIT

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
This is stated after charging/(crediting):		
Depreciation of tangible fixed assets	358	197
(Profit)/loss on disposal of tangible fixed assets	(3)	6
Auditors' remuneration		
- Audit fees	19	14
- Other services	12	4
Operating lease rentals		
- Land and buildings	234	199
- Plant and machinery	550	507

6. DIVIDENDS FROM SUBSIDIARY

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
Ellis Tylin Limited		
Preference dividend received	118	118

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
Intercompany interest receivable	128	54
Other interest receivable	232	123
	360	177

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
UK Corporation Tax at 31% (period ended 31 December 1997: 31%)		
- Current	463	459
- Deferred	421	1
	884	460

The disproportionate tax charge arises due to the reversal of the deferred tax asset shown in note 13.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

9. DIVIDENDS

	Year ended 31 December 1998 £'000	9 months ended 31 December 1997 £'000
Dividend proposed of £2.40 per share (1997: £nil)	1,200	-

10. TANGIBLE FIXED ASSETS

	Plant and equipment £'000	Computer and office equipment £'000	Total £'000
Cost			
At 1 January 1998	1,018	817	1,835
Additions	255	226	481
Disposals	(49)	(105)	(154)
At 31 December 1998	1,224	938	2,162
Depreciation			
At 1 January 1998	705	442	1,147
Charge for the year	137	221	358
Disposals	(37)	(105)	(142)
At 31 December 1998	805	558	1,363
Net book value			
At 31 December 1998	419	380	799
At 31 December 1997	313	375	688

11. INVESTMENTS HELD AS FIXED ASSETS

	31 December 1998 £'000
Cost and net book value	
At 1 January 1998	1,800
Disposals	(1,800)
At 31 December 1998	-

The company's investment in Dalkia Technical Services Limited (formerly Ellis Tylin Limited) was transferred during the year at book value to Dalkia plc, the immediate parent company.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

12. STOCKS AND WORK IN PROGRESS

	31 December 1998 £'000	31 December 1997 £'000
Raw materials and consumables	175	264
Work in progress	120	725
	295	989

13. DEBTORS

	31 December 1998 £'000	31 December 1997 £'000
Amounts falling due after more than one year		
Deferred taxation asset (see below)	-	421
Finance lease debtor	1,037	-
	1,037	421
Amounts falling due within one year		
Trade debtors	2,674	2,775
Amounts owed by group companies	4,483	1,070
ACT recoverable on dividend paid	-	250
Dividend receivable	-	39
Other debtors	170	176
Prepayments and accrued income	1,242	517
	8,569	4,827
Deferred taxation asset		
Deferred tax at 31% (year ended 31 December 1997: 31%)		
TG plant replacement fund	-	421

	£'000
At 1 January 1998	421
Profit and loss account	(421)
At 31 December 1998	-

14. CASH AT BANK AND IN HAND

Cash at bank includes an amount of £378,580 (31 December 1997: £917,437) held in trust accounts. This amount is to be used in settling specific balances within the plant replacement fund.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 1998 £'000	31 December 1997 (As restated- note 22) £'000
Amounts falling due within one year		
Trade creditors	1,511	2,237
Payments on account	766	1,716
Corporation tax	408	332
Other taxation and social security	426	272
Other creditors	321	342
Accruals and deferred income	2,782	2,362
Proposed dividend	1,200	-
	7,414	7,261

There are no amounts falling due after more than one year.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 1998 £'000	31 December 1997 (As restated- note 22) £'000
Provisions for foreseeable losses on long term contracts		
At 1 January 1998	715	715
Profit and loss account	(50)	-
At 31 December 1998	665	715

17. CALLED UP SHARE CAPITAL

	31 December 1998 £'000	31 December 1997 £'000
Authorised		
500,000 'A' ordinary shares at £1 each	500	500
500,000 'B' ordinary shares at £1 each	500	500
	1,000	1,000
Allotted called up and fully paid		
250,000 'A' ordinary shares at £1 each	250	250
250,000 'B' ordinary shares at £1 each	250	250
	500	500

There is no difference in the rights of 'A' and 'B' ordinary shares.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 December 1998 £'000	31 December 1997 £'000
Profit for the financial year/period	1,395	1,087
Dividends	1,200	-
Net addition to shareholders' funds	195	1,087
Opening shareholders' funds	3,961	2,874
Closing shareholders' funds	4,156	3,961

19. FINANCIAL COMMITMENTS

At 31 December 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	31 December 1998 £'000	31 December 1997 £'000
Land and buildings		
Leases which expire:		
within one year	21	16
within two to five years	80	63
after five years	114	153
	215	232
Other		
Leases which expire:		
within one year	86	25
within two to five years	334	478
	420	503

20. CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 1998 or 31 December 1997.

NOTES TO THE ACCOUNTS
Year ended 31 December 1998

21. PENSION COSTS

Up to 30 September 1997 the company was a participant in the Powell Duffryn Pension Plan, which is a funded defined benefit scheme of the Powell Duffryn plc group. Contributions to that scheme were based on pension costs across that group as a whole.

On 1 October 1997 the company joined the Dalkia plc (formerly ETS) Pension Scheme which is a funded defined benefit scheme of Dalkia plc (formerly Energy and Technical Services Group plc).

In these accounts, the company's cost of participation in the schemes is recognised on the basis of contributions payable, and the net cost for the year ended 31 December 1998 is therefore £214,000 (Nine month period ended 31 December 1997: £191,305), being £nil (1997: £140,309) payable to the Powell Duffryn Pension Plan and £214,000 (1997: £50,996) payable to the Dalkia plc Pension Scheme. This policy is consistent with UK Statement of Standard Accounting Practice No.24.

22. PRIOR PERIOD ADJUSTMENT

The prior period adjustment is in respect of a change of accounting policy for the Plant Replacement Fund. Formerly, income was recognised upon receipt, with an equal provision being established against which expenditure was charged when incurred.

The new policy treats the Fund as a long-term contract under SSAP 9, and is described in note 1. As a consequence, turnover and cost of sales for 1997 have each been increased by £386,000. The net effect on profit before tax and shareholders' funds from this change is £nil.

23. ULTIMATE PARENT COMPANY

In the opinion of the directors, the company's ultimate parent company is Vivendi SA, a company incorporated in France. Copies of the financial statements of Vivendi SA are available at 42 Avenue de Friedland, 75380 Paris, France.