

SAUR (UK) Limited

Annual Report and Accounts

For the year ended 31 December 2002

Registered number: 1990891



CONTENTS

Chairman's statement	2
Financial highlights	3
Business review	4
Directors, secretary and advisors	7
Directors' report	9
Statement of directors' responsibilities	11
Independent auditors' report	12
Consolidated profit and loss account	13
Consolidated statement of total recognised gains and losses	15
Consolidated balance sheet	16
Company balance sheet	17
Consolidated cash flow statement	18
Notes to the financial statements	19 - 50

THE PRIVATE MANAGER OF PUBLIC UTILITIES

The SAUR UK group provides services that are vital to everyday life – from water supply to facilities management, environmental services, engineering and professional consultancy services and contracting.

The group operates in the UK through its subsidiaries SAUR Water Services, Ecovert Management and Pipeway and employs over 1000 people.

SAUR Water Services subsidiary, South East Water, supplies water to 1.5 million people in Berkshire, Hampshire, Kent, Surrey and Sussex in the south of England. It carries out engineering consultancy and project management through its subsidiary, Dynamco, and provides scientific services at its state of the art laboratories, Dynamco Laboratories. The company is located in Haywards Heath, West Sussex. SAUR Services (Glasgow) operates a waste water treatment plant on the River Clyde under a joint venture arrangement.

Ecovert Management provides a range of facilities management and environmental services to local authorities and is headquartered in Brighton, East Sussex.

Pipeway, based in West Sussex, offers pipelining technologies within the water industry and supplies process equipment to industry.

SAUR UK provides business services to the group from its headquarters in Frimley Green, Surrey and is part of the international operations of the SAUR group, a world leader in the private management of public utilities. The group employs 24,000 people and serves 52 million people across Europe, the Americas, Asia and Africa. SAUR is part of the Bouygues group.

Chairman's Statement

I am pleased to announce the financial results for the SAUR UK group for the 12 months ending December 2002. Turnover for the period was £110.4 million and pre-tax profits were £26.1 million, an increase of 23% over the previous year.

Through its subsidiary South East Water, SAUR Water Services continued to be a significant feature of our activities during the period, investing close to £42 million in capital expenditure, including mains rehabilitation, renewal of trunk mains, automation of water treatment plants and new boreholes. Dynamco and Dynamco Laboratories have both had a successful year and can look forward to further development in 2003.

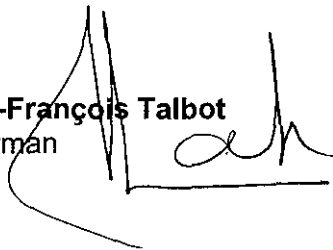
We have continued the rationalisation of our environmental services and facilities management business, and I am pleased to report that our strategy in respect of these activities has contributed to the group's increased profitability in 2002.

The challenging trading environment in the contracting industry has meant that Pipeway has rationalised its commercial portfolio, terminating non-viable contracts and concentrating on its existing pipelining technologies, to develop a sound base for the future.

Our group works at the heart of every community it serves and we place great importance on our commitment to provide customers with the best possible services in all aspects of our businesses, whilst continuing to seek efficiencies and reduce costs.

The directors and staff made an outstanding contribution to the success of our businesses throughout 2002, and I would like to thank them for their continued commitment.

Jean-François Talbot
Chairman

A handwritten signature in black ink, appearing to read 'JFT', is written over a horizontal line. The signature is stylized and fluid.

Financial Highlights

The SAUR UK group has had a very good year, with gross profit increasing by 27% to £28.6 million. This reflects the group's strategy to move away from the environmental market and the non-profitable contracts, to concentrate on the core businesses. This strategy also accounts for most of the fall in turnover since last year – turnover in the core water supply business has increased from £89.9 million to £90.4 million, although a fall in the external turnover of the contracting business and a decline in the continuing turnover of the environmental business has resulted in a 7% net fall in turnover relating to continuing activities.

The introduction of FRS19 has meant that the group has had to make large deferred tax provisions. Consequently shareholder funds have been reduced by £21.1 million, and the tax charge for the year has increased by £1.9 million. 2001 figures have been restated to reflect this change in policy.

Lower interest rates in the year, coupled with lower average borrowings have reduced interest paid in the year significantly. This, along with lower finance lease commitments, has resulted in a 27% reduction in interest costs in 2002 compared to 2001.

These lower interest costs offset the higher tax charges, resulting in a 24% increase in profit after tax to £21.9 million.

Exceptional profits relating to discontinued activities have been lower this year than last at £1.1 million compared to £4.8 million in 2001. In 2002, the group made an exceptional profit of £2 million on the disposal of its associated undertaking to a fellow subsidiary undertaking. This has been offset by some £0.9 million of provisions relating to the closure of a significant part of the facilities management business when the related contracts terminate in March 2004.

Capital expenditure has also increased to £42.6 million, compared to £27 million in 2001. £41.8 million (2001: £26 million) of this relates to the group's water activities, demonstrating our ongoing commitment to improving water quality and ensuring continuous supply.

Business Review

2002 was a successful year for the SAUR UK group as it continued to follow its strategic plan to refocus activities on the profitable core businesses.

The year saw several changes to the SAUR UK board: the appointment of Pascal Agostini and Pascal Grangé in March was followed by the appointment of Hervé Le Bouc in September. Yves Gabriel resigned from the board in September due to his increased responsibilities within the Bouygues group.

The group in the UK continues to rationalise and consolidate its operations in order to achieve the most efficient structure for its varied businesses. In January 2002, Optimum Information Systems Limited, a wholly owned subsidiary of SAUR UK, was established to manage the group's IT requirements and streamline the IT services provided.

Optimum Information Systems has seen great success during its first year of business. Whilst continuing to provide key infrastructure support, this year's emphasis has been on developing management systems: excellent progress has been made on the Saphir project, leading to the delivery of a new customer information system for South East Water in 2003. A new financial reporting system will be implemented in the coming year and preliminary work has been undertaken in preparation for this project. The use of project management software has been extended throughout the group, allowing efficiency improvements to be made. Further collaboration with our parent company will ensure continued success into the future.

WATER AND WASTE WATER SERVICES

SAUR Water Services continues to build on its success, seeking efficiencies and reducing costs, whilst delivering value to shareholders and excellent customer service.

For South East Water, the group's water operating subsidiary, a number of key projects came to fruition during 2002, when capital investment was a high priority with close to £42 million expenditure on mains rehabilitation, new trunk mains and refurbishment work on pumping stations and treatment plants. The risk based approach to capital maintenance introduced in 2001 has led to greater understanding of the most effective way to target capital maintenance expenditure and South East Water is recognised as one of the leading companies in the industry with this approach.

It has long been accepted that the south east of England is a water deficient area and continuing property development will increase demand. There were no significant resource issues in 2002, however South East Water's forecasting shows that over the long term, there will indeed be a resource deficit. This is being addressed through a 25 year plan for sustainable water resources and includes such measures as record leakage reduction, new boreholes, coastal protection work, joint projects with neighbouring water companies and continuing customer education.

Customer service continues to be a priority, recognised during 2002 by OFWAT when South East Water achieved the highest ranking in all measured categories of customer service. New services introduced for commercial customers during 2002 include leakage detection and water efficiency audits. E-metering will be further developed during 2003, along with an e-billing facility via the website. Working in conjunction with SAUR France and Optimum Information Systems, a new customer information system will be implemented this autumn, providing staff with comprehensive and easily accessible information to enhance customer service.

South East Water's commitment to sustainable development has been strengthened by the appointment of a sustainable development manager, to build upon the successful foundations already laid by the Company. A number of ongoing environment projects were implemented during 2002 including work with the Butterfly Conservation Organisation, Sussex Otters and Rivers Partnership and the charity Global Action Plan. The company was a finalist in the South East England Development Agency Sustainable Development Awards and won a top award in the Green Apple Environment Awards. Other projects include investigating the reuse of materials excavated during road openings and the development of a sludge reprocessing plant which will treat the waste created during the water treatment process, to enable use on agricultural land. Barcombe Treatment Works in East Sussex was accredited to the environmental standard ISO14001, consolidating two years of environmental reviews and initiatives at the site, a major success for the company.

South East Water is working closely with its staff to ensure their maximum potential is achieved and effort is rewarded, continuing to invest in a wide range of training programmes. The completion of a staff survey at the end of the year has provided valuable information for the future.

During 2002 South East Water was involved in the first National Drink Water Day, used to promote the health benefits, quality and reliability of drinking water. Educational visits continued throughout the year to schools and community groups, along with local sponsorship and fund raising and use of the company's reservoir sites by the public for leisure activities.

Towards the end of 2002, work began on the Draft Business Plan for submission to the Regulator in the summer of 2003. The plan, which will be submitted as part of the OFWAT 2004 Periodic Review of prices in the water industry, will be produced to ensure a profitable and sustainable future for South East Water.

Dynamco, the engineering and consultancy company of SAUR Water Services, has continued to grow in 2002. A number of projects have been undertaken for South East Water, together with technical audits of private supply and waste water treatment facilities in the UK.

The laboratories had a successful year, with chemical and microbiological testing work increasing by 19% over the previous year. The laboratory works closely with other water companies and provides analysis services to several. Work on Legionella risk assessment services and swimming pool analysis is growing steadily and will be further developed during 2003.

SAUR Services Glasgow operates and maintains the Dalmuir Water Treatment Works in Glasgow on behalf of Scottish Water. The £50 million plant treats waste water from a population of 600,000, with a capacity of 900,000 cubic metres a day of waste water.

FACILITIES MANAGEMENT AND ENVIRONMENTAL SERVICES

2002 was a year of change for the Ecovert Group, following the sale of its 40% share interest in Ecovert FM Limited, created in collaboration with Bouygues Construction in 2001 to direct the facilities management business related to private finance initiative projects. Facing challenging financial targets, the Ecovert Group achieved a profit before tax, reflecting the group's strategic decisions and continued consolidation.

The Ecovert Group approached Brighton & Hove City Council in order to negotiate the extension of the grounds maintenance contract until 2004 and the conclusion of building maintenance, disabled adaptations, markets and print and sign contracts. The remaining contracts covering leisure, catering and grounds maintenance activities were novated from Ecovert South Limited to Ecovert Management Limited, which has managed consultancy service activities for the facilities

management sector of the group operations for a number of years. These contracts will be managed by Ecovert Management Limited until 31st March 2004, their termination date.

Ecovert Group continued to consolidate and rationalise its operations in line with the wider group strategy to re-focus on the core business, the operation of water and waste water services. In November a new managing director was appointed to Ecovert Management Limited to manage the conclusion of these operations.

CONTRACTING

The contracting market experienced a challenging trading environment in 2002, largely due to the reduction in mains renovation programmes by the UK water companies and the subsequent competition for available work, placing pressure on margins. To meet these changing circumstances, Pipeway terminated its non-viable maintenance contracts, reduced its turnover in contracting activities and restructured to reduce overheads and costs.

Throughout 2002, the company continued to promote its existing and new pipelining technologies within the water industry, from both a contracting viewpoint and also as a supplier of process equipment to industry. The rapid setting spray lining systems have continued to forefront Pipeway's activities. The company's expertise and capabilities in this respect have been recognised by a contract award from Yorkshire Water Services for the supply of lining rigs.

Pipeway has also sought to adapt their existing pipelining technologies to meet the needs and requirements of other pipeline owners and operators. As a result, Pipeway will continue to seek and develop its activities in the water industry and in the oil industry sector, which has been recognised as a potentially large market.

Pipeway is now in a good position, with a solid base of profitable work, to expand its operations over the coming period.

Directors, Secretary and Advisors

J-F Talbot, Chairman

P Agostini (appointed 28 March 2002)

H Le Bouc (appointed 26 September 2002)

P Grangé (appointed 28 March 2002)

Y Gabriel (resigned 26 November 2002)

G M Hoskins

D Scherrer

E A Snaith

Jean-François Talbot (55) is a chemical engineer who began his career with the SAUR group in 1973. In 1978 he was appointed deputy managing director of SODECI in the Ivory Coast before moving to SAUR Water Services in 1989 as managing director. He became managing director of SAUR UK in 1993, and chairman in 1998. He is also chairman and CEO of SAUR International.

Pascal Agostini (53) joined the Bouygues group in 1987. In 1992 he was appointed chief financial officer of the Bouygues property subsidiary, Bouygues Immobilier. He became chief financial officer for ETDE and then joined SAUR International in 2001. He became a member of the SAUR UK board on 26 March 2002.

Hervé Le Bouc (50) is a civil engineer who began his career with the Bouygues group's roadworks subsidiary Screg in 1977. In 1989 he joined Bouygues Offshore and managed projects in Europe, the French Caribbean and Australia. In 1994 he became deputy managing director of Bouygues Offshore, progressing to managing director in 1996 and chairman in 1999. He joined SAUR as managing director in September 2002 and was appointed to the board of SAUR UK on 26 September 2002.

Pascal Grangé (41) joined the Bouygues group in 1986, working in various financial positions for Bouygues and Screg, a Bouygues roadworks construction subsidiary. He joined the SAUR group in February 1997 as secretary general of Stereau and then later SAUR France. He was appointed chief financial officer for the group on 1 June 2001 and became a member of the SAUR UK board in September 2002.

Geoffrey Hoskins (72) is a chartered accountant. He joined Eastbourne Water in 1973 as managing director and was subsequently elected executive chairman. He became deputy managing director of SAUR UK in 1993 until his retirement as an executive in 1995.

Denis Scherrer (55) is an engineer who began his career with the group in 1991, becoming managing director of Stereau in 1997 and chief executive officer in 1999. He moved to his current role as managing director of the European division of SAUR International at the end of 2000.

Liz Snaith (42) joined SAUR UK as financial controller in October 1996 and was promoted to group head of finance and then director of finance during the following year. Liz qualified as an accountant in 1984 and worked in the engineering and pharmaceutical sectors before becoming finance director of a packing company in 1989, with responsibilities for the European manufacturing and distribution division.

Director of Finance

E A Snaith

Company Secretary

M Pedro (Solicitor)

Group Bankers

The Royal Bank of Scotland

HSBC Bank plc

Barclays Bank plc

De Nationale Investerings Bank NV

Group Auditors

Mazars

Solicitors

Manches & Co

Financial Advisors

European Capital

Registered Office

22 – 30 Sturt Road

Frimley Green

Camberley

Surrey

GU16 6HY

Registered No. 1990891

Directors' Report

The directors of SAUR (UK) Limited have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activities of the group are the supply and distribution of water, engineering and professional services consultancy, facilities management and contracting, together with the development of business in related areas.

Business Review

Consolidated profit on ordinary activities after minority interests, taxation and dividends for the year was £17 million (year ended 31 December 2001: £18 million: this figure has been restated in accordance with the requirements of FRS19, as described in note 1). The financial position at 31 December 2002 is shown in the consolidated balance sheet on page 16 and in the company's balance sheet on page 17.

Prior Year Adjustment

FRS 19 – Deferred tax – was implemented for the first time this year. As this represents a change in accounting policy prior year figures have been restated, as described in note 1.

Dividends

Interim dividends of £4,000,000 (12.6p per share) and £1,100,000 (3.5p per share) were paid on 30 April 2002 and 28 June 2002 respectively. (2001: £nil). No final dividend has been proposed (2001: £nil).

Directors and interests in shares

The directors who served during the year and at the date of this report are set out on page 7. None of the directors held any beneficial interests in the company or in other group companies required to be disclosed under the Companies Act 1995, during the period. Changes in directors during the year and to the date of approval of the accounts are set out below:

	<u>Appointed</u>	<u>Resigned</u>
H Le Bouc	26 September 2002	
Y Gabriel		26 September 2002
P Agostini	28 March 2002	
P Grange	28 March 2002	

Treasury management and financial risk

The group's financial instruments comprise cash, borrowings and various items, such as trade debtors and creditors, which arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group's treasury operations are managed centrally, within parameters defined by the board and the company's parent undertaking. It is the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate and liquidity risk. It is the group's policy to minimise liquidity risk within an acceptable range of interest rates. The group in the UK does not use foreign currency financial instruments.

• Interest rate risk

The group finances its activities through a mixture of cash generated from operations, bank borrowings, debenture loans and finance leases. Debenture loans are long term fixed rate liabilities, while bank borrowings are mainly short term fixed rate drawings under long term committed facilities. As at 31 December 2002 drawings under bank facilities were nil, as the group was in receipt of a short term, fixed rate loan from its parent undertaking. Finance leases are primarily variable rate instruments. The group's policy is to manage short term interest rate risk by using short term fixed rate draw downs, while it is the view of the group that long term fluctuations in interest rates will be within the parameters that are considered acceptable by the group and its parent undertaking.

Directors' Report (continued)

• Liquidity risk

The group aims to maintain a balance between continuity of funding and flexibility. Continuity of funding has been guaranteed throughout the year by the existence of long term syndicated funding facilities. Short term flexibility is achieved by varying the amounts drawn down under this facility. Further details are given in note 18.

Research and Development and WRc plc

The group contributes to the Foundation for Water Research and WRc plc which undertakes research in all aspects of water industry operations. The international research resources of SAUR are available to the SAUR UK group.

Employment policies

Great importance is attached to employee representation on consultative committees and there are regular liaison meetings and in-house journals. The group offers equal opportunities to all applicants for employment, and for career development which includes training.

The group's policy on training, career development and promotion of disabled people is, as far as possible, identical to that for other employees, and if employees become disabled every effort is made to ensure their continued employment, with appropriate training where necessary.

A high priority is given to safety regulations and other matters affecting health and safety at work with provision for meetings and training courses as appropriate.

Donations

Charitable donations during the year amounted to £1,000 (year ended 31 December 2001: £2,000). These were small amounts donated to local charities. There were no political donations made by the group in either year.

Auditors

During the year Arthur Andersen resigned as auditors of the Company and Mazars were appointed to fill the casual vacancy arising.

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of Mazars as auditors of the company is to be proposed at the forthcoming Annual General Meeting.



EA Snaith

Director

For and on behalf of the board

27 February 2003

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 group and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of SAUR (UK) Limited

We have audited the financial statements of SAUR (UK) Limited for the year ended 31 December 2002 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Financial Highlights and Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 of 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 of the group at 31 December 2002 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Nagers

Mazars

Chartered Accountants and Registered Auditors

24 Bevis Marks

LONDON

EC3A 7NR

7 March 2003

Consolidated Profit and Loss Account

for the year ended 31 December 2002

	Note	2002 £000	2002 £000	restated 2001 £000	2001 £000
Turnover: group and share of joint ventures		111,560		139,431	
Less: share of joint ventures' turnover		(1,190)		(295)	
Group turnover	2				
Continuing operations			104,681		112,809
Discontinued operations			5,689		26,327
			110,370		139,136
Cost of sales	3		(81,814)		(116,564)
Gross profit			28,556		22,572
Other operating income	4		3,511		3,398
Group operating profit					
Continuing operations		33,446		26,847	
Discontinued operations		(1,379)		(877)	
			32,067		25,970
Share of operating profit/(loss) in joint ventures (continuing operations)			276		(76)
Share of operating loss in associates (discontinued operations)			(340)		(398)
Exceptional items relating to discontinued operations	8		1,099		4,757
Profit on ordinary activities before finance charges			33,102		30,253
Interest receivable and similar income:	5				
Group		137		163	
Associates		2		1	
Joint Ventures		12		5	
			151		169
Interest payable and similar charges:	6				
Group		(6,717)		(9,192)	
Associates		(22)		(8)	
Joint Ventures		(402)		-	
			(7,141)		(9,200)
Profit on ordinary activities before taxation	7		26,112		21,222
Tax on profit on ordinary activities	11		(4,258)		(3,654)
Profit on ordinary activities after taxation			21,854		17,568

Consolidated Profit and Loss Account (continued)

for the year ended 31 December 2002

	Note	2002 £000	2002 £000	restated 2001 £000	2001 £000
Minority interests	24		21		915
<hr/>					
Profit for the year			21,875		18,483
Equity Dividends			(5,100)		-
<hr/>					
Retained profit for the group including its share of associates and joint ventures	22		16,775		18,483
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A statement of the movement on reserves is set out in note 23.

The accompanying notes are an integral part of the consolidated profit and loss account.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2002

	Note	2002 £000	restated 2001 £000
Profit for the financial year		16,775	18,483
Total recognised gains and losses relating to the year		16,775	18,483
Prior year adjustment	1	(19,238)	
Total gains and losses recognised since last annual report		(2,463)	

Consolidated Balance Sheet

as at 31 December 2002

	Note	2002 £000	2002 £000	Restated 2001 £000	2001 £000
Fixed assets					
Intangible assets:					
Development costs		-		669	
Positive goodwill		-		4,235	
Negative goodwill		(1,722)		(4,740)	
Intangible assets	12		(1,722)		164
Tangible assets	13		532,692		509,046
Investments:					
Investments in joint ventures:					
Share of gross assets		6,694		6,556	
Share of gross liabilities		(6,987)		(6,735)	
Investments in associates		-		(378)	
Other investments		874		874	
Total investments	14		581		317
			531,551		509,527
Current assets					
Stocks	15	581		1,190	
Debtors	16	26,322		29,913	
Cash at bank and in hand		2,895		5,566	
		29,798		36,669	
Debtors: amounts falling due after more than one year	16	667		667	
Creditors: amounts falling due within one year	17	(117,130)		(117,874)	
Net current liabilities			(86,665)		(80,538)
Total assets less current liabilities			444,886		428,989
Creditors: amounts falling due after more than one year	18		(42,667)		(45,536)
Provisions for liabilities and charges:					
Provision for deferred tax		(21,104)		(19,238)	
Other provisions		(3,068)		(2,175)	
Total provisions for liabilities and charges	19		(24,172)		(21,413)
Deferred income	20		(9,757)		(10,504)
Net assets			368,290		351,536
Capital and reserves					
Called up share capital	21		31,800		31,800
Profit and loss account	22		336,789		320,014
Equity shareholders' funds	23		368,589		351,814
Equity minority interests	24		(299)		(278)
Total capital employed			368,290		351,536

Approved by the board of directors on 27 February 2003 and signed on its behalf by:


EA Snaith
Director

Company Balance Sheet

as at 31 December 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Tangible assets	13	14		493	
Investments	14	129,822		117,370	
			129,836		117,863
Current assets					
Debtors	16	6,972		6,910	
Cash at bank and in hand		7,279		9,734	
		14,251		16,644	
Debtors: amounts falling due after more than one year	16	667		667	
Creditors: amounts falling due within one year	17	(99,449)		(93,003)	
Net current liabilities			(84,531)		(75,692)
Total assets less current liabilities			45,305		42,171
Creditors: amounts falling due after more than one year	18		(5,005)		(6,007)
Provisions for liabilities and charges	19		(165)		(61)
Net assets			40,135		36,103
Capital and reserves					
Called up share capital	21		31,800		31,800
Profit and loss account	22		8,335		4,303
Equity shareholders' funds			40,135		36,103

Approved by the board of directors on 27 February 2003 and were signed on its behalf by:



EA Snaith
Director
27 February 2003

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Net cash inflow from operating activities	29	51,450	45,973
Returns on investments and servicing of finance	30	(6,495)	(9,313)
Taxation	30	(4,489)	(1,182)
Capital expenditure and financial investment	30	(37,492)	(21,863)
Acquisitions and disposals	30	1,277	6,127
Equity dividends paid		(5,100)	-
Net cash (outflow)/inflow before management of liquid resources and financing		(849)	19,742
Net cash (outflow) from financing	30	(1,778)	(15,094)
(Decrease)/increase in cash in the year	31	(2,627)	4,648

Notes to the Financial Statements

for the year ended 31 December 2002

1. Accounting policies

The principle accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements comprise the accounts of the parent company and of all its material subsidiary undertakings up to the end of the financial year. The results of new subsidiary undertakings are included from their effective dates of acquisition. Acquisitions are accounted for under the acquisition method. All subsidiaries have a coterminous year end, and their results and cash flows are included for the year ended 31 December 2002.

Associates and Joint Ventures

In the group financial statements investments in associates and joint ventures are accounted for using the equity method or gross equity method respectively. The consolidated profit and loss account includes the group's share of associates' and joint ventures' profits less losses while the group's share of net assets of the associates and joint ventures is shown in the consolidated balance sheet.

Under the gross equity method, the group's share of assets and liabilities in joint ventures are presented separately in the consolidated balance sheet and the group's share of joint venture's turnover is presented with group turnover in the consolidated profit and loss account. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out below. Any unamortised balance of goodwill is included in the carrying value of investments in associates and joint ventures.

Intangible assets - goodwill

Goodwill represents the net excess of the cost of the shares in subsidiary companies over the fair value of their separable net assets at the date of acquisition and is capitalised in the balance sheet as an intangible fixed asset. Negative goodwill which arises in those cases where the fair value of the separable net assets at the date of acquisition exceeds the cost of shares in subsidiary companies is included as a credit balance within intangible fixed assets.

The assets of the water company subsidiaries principally comprise specialised operational assets for which there is no generally available open market value. Accordingly, the fair value of these assets as at the date of acquisition was determined by reference to their depreciated current replacement cost, as adjusted by an impairment review in December 1999.

Turnover

Turnover represents income from the supply of water and other chargeable services to external customers during the year. Turnover excludes VAT and is stated before any deduction for bad and doubtful debts.

Investment income and interest

Dividends from subsidiary companies are recognised in the accounts of the parent undertakings on an accruals basis.

Dividend income in respect of shares held in other companies is recognised when declared. Interest on loans and short term deposits is dealt with on an accruals basis. Income from investments includes income tax deducted, or where applicable, the imputed tax credits.

Notes to the Financial Statements (continued)

1. Accounting policies (*continued*)

Research and development expenditure

Development expenditure is charged to the profit and loss account as incurred, except where the outcome of the project is reasonably certain to result in the full recovery of the expenditure. In this situation, the development expenditure is capitalised and the cost amortised once production has commenced on a straight line basis so as to write off the cost over the expected economic life of the product. Research expenditure and contributions to WRc plc are charged to the profit and loss account as incurred.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation

Full provision has been made for timing differences that had originated but not reversed by the balance sheet date, in accordance with the requirements of FRS19. This is a change of policy since last year, in order to comply with FRS19, so prior year figures have been restated to reflect the new treatment. The deferred tax provision at 31 December 2002 is £21,104,000 (2001: £19,238,000) as shown in note 19. This has reduced the profit and loss account as at 31 December 2001 by £951,000 to £18,483,000, and reduced profit in the current year by £1,854,000 to £16,775,000.

Foreign currencies

Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. All differences are taken to the profit and loss account.

Investments

Investments are stated at the historical cost to the group less provisions for impairment.

Infrastructure renewals accounting

Infrastructure assets comprise a network of systems relating to water distribution, such as water mains and surface reservoirs. Expenditure on infrastructure assets relating to enhancements of the network is treated as additions which are included at cost. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

The depreciation charge for infrastructure assets is the estimated level of average annual expenditure required to maintain the operating capability of the network, based upon the company's independently certified asset management plans. No other depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Grants and contributions in respect of infrastructure assets

In certain circumstances third parties make non-returnable contributions towards the cost of specific infrastructure assets. Capital contributions towards infrastructure assets are deducted from the cost of these assets. This is not in accordance with Schedule 4 to the Companies Act 1985 under which infrastructure assets should be stated at their purchase price or production cost and capital contributions treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets.

The directors are of the opinion that, as infrastructure assets have no finite economic lives for the reason set out above and the capital contributions would therefore remain in the balance sheet in perpetuity, the treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the group's effective investment in infrastructure assets. Contributions received in the year are shown in note 13, which shows the effect of this policy for this financial year.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Grants and contributions in respect of non-infrastructure assets

Grants and contributions received in respect of non-infrastructure assets are treated as deferred income and released to the profit and loss account over the estimated useful lives of the relevant assets.

Depreciation

Freehold land is not depreciated. Infrastructure assets are depreciated using infrastructure renewals accounting as set out above. Other fixed assets are depreciated on a straight line basis over their estimated useful lives which are principally as follows:

	Years
Freehold buildings	80
Operational structures	60-80
Plant and machinery including telemetry	10-35
Vehicles, mobile plant, office equipment and computers	3-7

Capitalisation of employee and overhead costs

Employee and overhead costs directly attributable to capital projects are capitalised in the accounts as part of the costs of the assets to which they relate.

Amortisation

Positive goodwill arising on consolidation in respect of acquisitions is capitalised and included within fixed assets on the balance sheet and is amortised by equal annual instalments over its estimated useful life.

Negative goodwill has also been capitalised in accordance with FRS 10. This is released to the profit and loss account over the estimated useful lives of the relevant assets.

Leased assets

Assets acquired under finance leases are included in tangible fixed assets and are depreciated over their estimated useful economic lives on a straight line basis or period of the lease if shorter. The related obligations, representing the capital element of future rentals, are included in creditors. The interest element of rentals is charged to the profit and loss account as incurred.

Payments in respect of assets held under operating leases are charged to the profit and loss account as incurred.

Stocks and work in progress

Stocks are valued at the lower of average cost or net realisable value. No value is placed upon stocks of treated water in accordance with usual practice in the water industry. Work in progress for chargeable services is valued at the lower of cost and net realisable value.

Long term contracts

Long term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account as contract activity progresses. Full provision for foreseeable future losses is made as future losses are foreseen.

Pension costs

The assets of the principal pension schemes, which provide for membership on both a defined benefit and a defined contribution basis (note 27), are held separately from those of the group. The cost of contributions to the schemes is charged to the profit and loss account on a systematic basis over the average service lives of the employees concerned. All defined benefit contributions are determined by an independent qualified actuary at periodic intervals using the projected unit method.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Financial instruments

The group has not included short term debtors and creditors in the disclosures required under FRS13, "Derivatives and Other Financial Instruments: Disclosures".

The group does not enter into derivative instrument transactions. Accounting for foreign exchange transactions is described in the foreign currencies accounting policy note above.

2. Analysis of sales, profit before tax and operating net assets

	Water supply 2002 £000	Water supply 2001 £000	Other 2002 £000	Other 2001 £000	Total 2002 £000	Total 2001 £000
Turnover						
Measured water sales	33,945	34,780	-	-	33,945	34,780
Unmeasured water sales	51,112	50,734	-	-	51,112	50,734
Rechargeable sales	3,058	3,308	-	-	3,058	3,308
Other sales	2,530	1,448	36,980	59,922	39,510	61,370
Total sales	90,645	90,270	36,980	59,922	127,625	150,192
Intersegment sales	(205)	(391)	(17,050)	(10,665)	(17,255)	(11,056)
Sales to third parties	90,440	89,879	19,930	49,257	110,370	139,136
Attributable profit/(loss) before interest	41,483	42,370	(9,416)	(16,400)	32,067	25,970
Exceptional items	-	-	1,099	4,757	1,099	4,757
Share of operating profit/(loss) in joint ventures and associates	276	(76)	(340)	(398)	(64)	(474)
Net interest payable					(6,990)	(9,031)
Profit on ordinary activities before tax and minority interests					26,112	21,222
Non interest bearing net assets -restated	490,818	468,819	896	9,257	491,714	478,076
Interest bearing net assets/(liabilities)	(129,057)	(116,252)	5,633	(10,288)	(123,424)	(126,540)
Consolidated net assets/(liabilities) restated	361,761	352,567	6,529	(1,031)	368,290	351,536

All material turnover arises within the UK.

Notes to the Financial Statements (continued)

3. Cost of Sales

	Continuing Operations 2002 £000	Discontinued Operations 2002 £000	Total 2002 £000	Continuing Operations 2001 £000	Discontinued Operations 2001 £000	Total 2001 £000
Cost of Sales	(74,627)	(7,187)	(81,814)	(89,230)	(27,334)	(116,564)

4. Other operating income

	Continuing Operations 2002 £000	Discontinued Operations 2002 £000	Total 2002 £000	Continuing Operations 2001 £000	Discontinued Operations 2001 £000	Total 2001 £000
Profit/(loss) on sale of fixed assets	631	60	691	570	4	574
Rents receivable from land	482	-	482	497	48	545
Sundry income	2,279	59	2,338	2,201	78	2,279
	3,392	119	3,511	3,268	130	3,398

5. Interest receivable and similar income

	2002 £000	2001 £000
Group:		
Interest receivable on bank deposits	105	121
Income from fixed asset investment	30	42
Other income	2	-
	137	163
Associates:		
Interest receivable on bank deposits	2	1
Joint Ventures:		
Interest receivable on bank deposits	12	5
	151	169

Notes to the Financial Statements (continued)

6. Interest payable and similar charges

	2002 £000	2001 £000
Group:		
Interest payable on bank loans and overdrafts	1,641	4,701
Interest on other borrowings	1,734	1,732
Interest payable on loans from ultimate parent undertaking	2,042	426
Interest payable on finance leases	1,300	1,677
Other charges	-	656
	6,717	9,192
Associates:		
Other charges	22	8
Joint Ventures:		
Interest payable on bank loans and overdrafts	402	-
	7,141	9,200

7. Profit on ordinary activities before taxation

	2002 £000	2002 £000	2001 £000	2001 £000
Profit on ordinary activities before taxation is arrived at after charging/(crediting):				
Depreciation:				
Owned assets	16,409		15,184	
Leased assets	816		1,360	
		17,225		16,544
Rates and abstraction charges		7,877		7,577
Hire charges		3,933		5,048
Operating lease rentals:				
Plant and machinery	339		631	
Other assets	671		984	
		1,010		1,615
Profit on disposal of fixed assets		(691)		(574)
Auditors' remuneration:				
Statutory audit		179		185
Non audit work		27		22
Research and development – current cost		19		99
Amortisation of goodwill (net)		56		113
Impairment		1,762		1,925
Goodwill written off on closure of businesses		-		391

Notes to the Financial Statements (continued)

8. Exceptional items relating to discontinued operations

	2002 £000	2001 £000
Net profit on disposal of contracts to associated undertaking	-	4,746
Net profit on disposal of subsidiary undertakings and operating contracts	15	11
Net profit on disposal of associated undertakings	2,000	-
Provisions	(916)	-
	1,099	4,757

During the year the group disposed of its 40% holding in Ecovert FM Ltd. There is no tax chargeable on these exceptional items. The provisions have been included in the calculation of deferred tax (note 11).

9. Profit and loss account of the company

No profit and loss account is presented for the company as permitted under section 230 of the Companies Act 1985. The result for the year is set out in note 22.

10. Directors and employees

The average number of persons employed by the group (including executive directors) during the year was:

	2002 No.	2001 No.
Operations	701	1,085
Engineering	203	290
Management and administration	245	290
	1,149	1,665

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	22,399	32,467
Social security costs	2,090	3,047
Pension costs	1,908	2,510
	26,397	38,024

Notes to the Financial Statements (continued)**10. Directors and employees (continued)****Remuneration of directors**

	2002 £000	2001 £000
Aggregate emoluments	218	363
Compensation for loss of office	-	79

Retirement benefits were accruing to one director under a defined benefit scheme at the end of the year.

Emoluments of the highest paid director were as follows:

Aggregate emoluments	116	83
Accrued pension at end of year	6	13
Accrued lump sum at end of year	19	40
Compensation for loss of office	-	79

11. Taxation**a) Analysis of tax charge in period**

	2002 £000	Restated 2001 £000
Current tax		
Group:		
UK Corporation tax on profits at 30%	2,627	2,847
Over provisions in prior years	(234)	(131)
	2,393	2,716
Associates:		
UK Corporation tax credit on loss at 30%	-	(27)
Total current tax	2,393	2,689
Deferred Tax		
Origination and reversal of timing differences	5,902	4,098
Increase in discount	(4,037)	(3,133)
Total deferred tax (note 19)	1,865	965
Tax on profits on ordinary activities	4,258	3,654

Notes to the Financial Statements (continued)**11. Taxation (continued)****b) Factors affecting tax for the period**

	2002 £000	2001 £000
Profit on ordinary activities before tax	26,112	21,222
Profit on ordinary activities multiplied by standard rate of tax of 30%	7,834	6,367
Effects of:		
Expenses not deductible for tax purposes	2,311	8,481
Capital allowances exceeding depreciation	(6,133)	(2,912)
Other timing differences	51	52
Profits not chargeable to corporation tax	(1,436)	(9,168)
Adjustment to tax charge in respect of previous periods	(234)	(131)
Current tax charge for period	2,393	2,689

c) Factors that may affect future tax charges

Based on current capital investment plans, the group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

Notes to the Financial Statements (continued)**12. Intangible fixed assets**

	Development costs £000	Positive goodwill £000	Negative goodwill £000	Total £000
Cost				
At 1 January 2002	669	4,721	(5,202)	188
Additions	38	-	-	38
At 31 December 2002	707	4,721	(5,202)	226
Amortisation				
At 1 January 2002	-	486	(462)	24
Charge/(credit) for the year	106	242	(186)	162
Impairment	601	3,993	(2,832)	1,762
At 31 December 2002	707	4,721	(3,480)	1,948
Net book value at 31 December 2002	-	-	(1,722)	(1,722)
Net book value at 1 January 2002	669	4,235	(4,740)	164

The positive goodwill is being amortised from the date of acquisition in equal instalments over its estimated useful life.

The negative goodwill is being amortised from the date of acquisition in equal instalments, in line with the estimated useful lives of the related assets.

Following a review of the value of goodwill at 31 December 2002 an impairment provision has been made against both positive and negative goodwill.

Following a review of its value at 31 December 2002, an impairment provision has been made against the development costs.

Notes to the Financial Statements (continued)

13. Tangible fixed assets

Group

	Land, wells, reservoirs and buildings £000	Infrastructure assets £000	Plant, equipment and vehicles £000	Total £000
Cost				
At 1 January 2002	252,547	595,408	148,515	996,470
Additions	2,714	25,252	14,647	42,613
Reclassifications	230	78	(308)	-
Disposals	(458)	-	(1,392)	(1,850)
Grants and contributions	-	(1,229)	-	(1,229)
At 31 December 2002	255,033	619,509	161,462	1,036,004
Depreciation				
At 1 January 2002	125,977	269,172	92,275	487,424
Charge for the year	3,177	7,473	6,575	17,225
Disposals	(150)	-	(1,187)	(1,337)
Reclassifications	61	-	(61)	-
At 31 December 2002	129,065	276,645	97,602	503,312
Net book value at 31 December 2002	125,968	342,864	63,860	532,692
Including				
- leased assets	8,475	5,803	12,881	27,159
- assets under construction	4,826	408	19,514	24,748
Net book value at 1 January 2002	126,570	326,236	56,240	509,046
Including				
- leased assets	8,586	5,803	14,048	28,437
- assets under construction	2,144	152	9,361	11,657

During the year a review of fixed assets identified the need to reclassify some assets.

Notes to the Financial Statements (continued)**13. Tangible fixed assets (continued)**

The net book value of land, wells, reservoirs and buildings includes:

	2002 £000	2001 £000
Freehold	88,013	89,463
Long leaseholds	3,215	3,264
Short leaseholds	70	6,190

The net book value of infrastructure assets at 31 December 2002 is stated after the deduction of grants and contributions amounting to £32.7 million (2001: £31.5 million) in order to give a true and fair view.

Company	Office equipment £000
Cost	
At 1 January 2002	948
Additions	3
Disposals	(47)
Transfer to group company	(790)
At 31 December 2002	114
Depreciation	
At 1 January 2002	455
Charge for the year	31
Disposals	(46)
Transfer to group company	(340)
At 31 December 2002	100
Net book value at 31 December 2002	14
Net book value at 1 January 2002	493

Notes to the Financial Statements (continued)

14. Investments

Group

	Listed investments shares £000	Share of net liabilities in joint venture £000	Shares of net liabilities in associate £000	Total £000
At 1 January 2002	874	(179)	(378)	317
Share of net (loss) in year	-	(114)	(360)	(474)
Disposals	-	-	738	738
At 31 December 2002	874	(293)	-	581

The market value of listed investments at 31 December 2002 was £1,398,000 (2001: £964,000).

Company

	Listed investments shares £000	Investment in subsidiary undertakings:		Total £000
		Shares £000	Loans £000	
Cost				
At 1 January 2002	874	67,294	88,214	156,382
Additions	-	-	18,755	18,755
Disposals	-	-	(814)	(814)
At 31 December 2002	874	67,294	106,155	174,323
Provisions				
At 1 January 2002	-	18,948	20,064	39,012
Charged to the profit and loss account during year	-	3,680	1,809	5,489
At 31 December 2002	-	22,628	21,873	44,501
Net book value at 31 December 2002	874	44,666	84,282	129,822
Net book value at 1 January 2002	874	48,346	68,150	117,370

Notes to the Financial Statements (continued)

14. Investments (*continued*)

Principal subsidiary undertakings

Company name	Type of shares	Proportion of shares held	Nature of business
SAUR Water Services plc*	Ordinary	100%	Investment company
South East Water plc**	Ordinary	100%	Supply and distribution of water
Dynamco Limited**	Ordinary	100%	Engineering consultancy
Ecovert Group Limited*	Ordinary	100%	Investment company
Ecovert Management Limited*	Ordinary	100%	Facilities management
Pipeway Limited*	Ordinary	100%	Engineering contracting

Principal joint venture

Company name	Type of shares	Proportion of shares held	Nature of business
Joint venture undertakings:			
Scotia Water Dalmuir (Holdings) Limited*	Ordinary	14.9%	Investment company
Scotia Water Dalmuir Limited **	Ordinary	14.9%	Construction and operation of sewerage treatment works.

All principal subsidiary companies and joint venture undertakings are incorporated in Great Britain and registered in England and Wales.

*Held directly by SAUR (UK) Limited.

**Held via a subsidiary or joint venture undertaking.

The group's share in the associated undertaking, Ecovert FM Limited, was disposed of in the year (note 8).

15. Stocks

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Raw materials and consumables	418	991	-	-
Work in progress	163	199	-	-
	581	1,190	-	-

Notes to the Financial Statements (continued)

16. Debtors

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	20,572	20,747	-	14
Other debtors	2,746	3,440	231	327
Prepayments and accrued income	2,640	4,471	18	154
Amounts due from group undertakings	364	1,255	6,536	6,415
Deferred tax asset	-	-	187	-
	26,322	29,913	6,972	6,910
Amounts falling due after one year:				
Loan note	667	667	667	667
	26,989	30,580	7,639	7,577

The deferred tax asset in the company all relates to provisions. It is considered recoverable against profits within the group.

17. Creditors: amounts falling due within one year

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Bank loans and overdrafts	1,000	1,044	1,000	1,000
Trade creditors	2,294	2,120	27	191
Redeemable loan notes	165	240	-	-
Obligations under finance leases	1,707	1,616	3	3
Corporation tax	2,544	4,641	919	2,338
Other taxes and social security	1,846	1,683	207	59
Other creditors	1,132	491	21	173
Accruals and deferred income	25,662	26,749	1,514	1,380
Amounts owed to parent and fellow subsidiary undertakings	80,780	79,290	80,451	78,362
Amounts owed to subsidiary undertakings	-	-	15,307	9,497
	117,130	117,874	99,449	93,003

Amounts owed to parent and fellow subsidiary undertakings

The group repaid its drawings under its £119.8 million revolving loan agreement on 6 December 2002 and on the same date established a short term loan of £80 million from its ultimate parent company Bouygues SA.

Notes to the Financial Statements (continued)

18. Creditors: amounts falling due after more than one year

	Group 2002 £000	2001 £000	Company 2002 £000	2001 £000
Irredeemable debenture stock	608	645	-	-
Redeemable debenture stock	14,900	14,900	-	-
Other term loans and creditors repayable:				
Between one and two years	2,952	2,744	1,000	1,000
Between two and five years	3,000	3,000	3,000	3,000
After five years	1,000	2,000	1,000	2,000
Obligations under finance leases:				
Between one and two years	1,873	2,127	3	7
Between two and five years	6,057	5,887	2	-
After five years	12,277	14,233	-	-
	42,667	45,536	5,005	6,007

	2002 £000	2001 £000
Irredeemable debenture stock		
3.5% perpetual stock	308	310
4% perpetual stock	74	74
5% perpetual stock	181	198
5.5% perpetual stock	3	3
6% perpetual stock	42	60
	608	645

	2002 £000	2001 £000
Redeemable debenture stock		
Between one and two years:		
12.5% debenture stock 2004	3,800	-
Between two and five years:		
12.5% debenture stock 2004	-	3,800
11.2% debenture stock 2005/2009	1,600	1,600
After five years:		
12% debenture stock 2010	3,500	3,500
11% debenture stock 2012/2016	3,000	3,000
10% debenture stock 2013/2017	3,000	3,000
	14,900	14,900

All debenture stocks apart from the irredeemable stocks are redeemable at par in the year stated. Where more than one redemption year is quoted it is at the group's option to redeem the stock at any time between the dates stated. Interest on debenture stock is payable six monthly at the rates stated.

Notes to the Financial Statements (continued)

18. Creditors: amounts falling due after more than one year (continued)

	Group 2002 £000	2001 £000	Company 2002 £000	2001 £000
Other term loans and creditors				
Mains deposits	1,952	1,744	-	-
Term loans	5,000	6,000	5,000	6,000
	6,952	7,744	5,000	6,000

Term loans include the following facilities:

A £27.3 million variable rate syndicated revolving loan facility expiring in April 2003. Drawings at 31 December 2002 were £nil: (31 December 2001: £nil).

A £92.5 million variable rate syndicated revolving loan facility expiring in April 2004. Drawings at 31 December 2002 were £nil (31 December 2001: £nil).

A £6 million term loan facility expiring in October 2008. Drawings at 31 December 2002 were £6 million (31 December 2001: £7 million drawings from a £7 million facility).

Financial instruments

Short term debtors and creditors have been excluded from the disclosure requirements of FRS 13. Further narrative disclosures have been made in the Directors' report.

Interest rate risk profile of financial liabilities

The interest rate profile of the group's financial liabilities at 31 December was :

	Total £000	Floating rate £000	Fixed rate £000
2002:	45,539	25,208	20,331
2001:	49,441	28,183	21,258

Fixed rate financial liabilities

	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
2002:	10.74	6.52
2001:	10.63	7.40

Irredeemable debenture stocks are excluded from the above calculation of the weighted average period for which the rate is fixed because they have an infinite life.

Notes to the Financial Statements (continued)**18. Creditors: amounts falling due after more than one year (continued)**

The floating rate financial liabilities comprise:

Redeemable loan notes, overdraft balances, mains deposits, finance leases and borrowing facility.

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December was as follows:

	2002 £000	2001 £000
In one year or less, or on demand	2,872	3,331
Between one and two years	6,673	1,342
Between two and five years	10,657	10,702
In more than five years	25,337	34,066
Total	45,539	49,441

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December were as follows:

	2002 £000	2001 £000
Expiring in one year or less	28,300	33,500
Expiring between one and two years	92,500	-
Expiring in more than two years	-	92,500
Total	120,800	126,000

Fair values of financial liabilities

Set out below is a comparison by category of book values and fair values of the group's financial liabilities as at 31 December 2002:

	2002 Book value £000	2002 Fair value £000	2001 Book value £000	2001 Fair value £000
Short term financial liabilities	2,872	2,872	3,331	3,331
Irredeemable debentures	608	476	645	512
Redeemable debentures	14,900	19,414	14,900	20,017
Long term borrowings and other long term financial liabilities	27,159	27,159	30,565	30,565
	45,539	49,921	49,441	54,425

Notes to the Financial Statements (continued)

18. Creditors: amounts falling due after more than one year (continued)

The fair value of long term fixed rate debentures has been calculated using discounted cash flow methods at prevailing interest rates. For all other financial liabilities, the book value is considered to equate to the fair value.

19. Provisions for liabilities and charges

a) Deferred tax provision

	2002 £000	restated 2001 £000
Accelerated capital allowances	72,704	66,359
Other timing differences	(731)	(289)
Undiscounted provision for deferred tax	71,973	66,070
Discount	(50,869)	(46,832)
Discounted provision for deferred tax	21,104	19,238
	2002 £000	2001 £000
Provision on 1 January (2001 restated)	19,238	18,273
Deferred tax charge in profit and loss account for period	1,866	965
Provision at end of period	21,104	19,238

There are no unprovided amounts at 31 December 2002 (2001: £nil).

b) Provisions for other liabilities and charges

	Provision for onerous leases £000	Provision for discontinued activities £000	Provision for onerous contracts £000	Provision for landfill reinstatement £000	Provision for unfunded pension obligations £000	Total £000
At 1 January 2002	196	-	432	1,008	539	2,175
Utilised during the year	(113)	-	(339)	(1)	(260)	(713)
Charge to profit and loss account during year	60	916	175	-	455	1,606
At 31 December 2002	143	916	268	1,007	734	3,068

The provision for onerous leases and discontinued activities relates to contracts which expire in March 2004, and will be utilised during the period to March 2004.

The provision for onerous contracts relates to contracts which expired during 2002 and to contract warranties on completed contracts. It is expected that these will be utilised in the next financial year.

The provision for landfill reinstatement relates to the estimated cost of final capping and covering of a landfill site. It is expected that these costs will be incurred in the next three years.

The provision for unfunded pension obligations is described in note 27. It is expected that this will be utilised during 2004.

Notes to the Financial Statements (continued)**19 Provisions for liabilities and charges (continued)****Company**

The company has a provision for deferred taxation of £nil (31 December 2001: £22,000) and a provision of £165,000 in respect of pension cost liabilities (31 December 2001: £39,000).

20. Deferred income

Group	Non-infrastructure asset grants and contributions £000
At 1 January 2002	10,504
Amortised during the year	(747)
At 31 December 2002	9,757

21. Called up share capital	2002 £000	2001 £000
Authorised, called up, allotted and fully paid Ordinary shares of £1 each	31,800	31,800

22. Profit and loss account	Group £000	Company £000
At 1 January 2002 as previously stated	339,303	4,303
Prior year adjustment - deferred tax	(19,238)	-
- minority interests	(51)	-
At 1 January 2002 restated	320,014	4,303
Retained profit for the year	16,775	4,032
At 31 December 2002	336,789	8,335

Notes to the Financial Statements (continued)

23. Reconciliation of movements in shareholders' funds

Group	2002 £000	restated 2001 £000
Opening shareholders' funds as previously stated	371,103	351,557
Prior year adjustment - deferred tax	(19,238)	(18,273)
- minority interests	(51)	(65)
Opening shareholders' funds restated	351,814	333,219
Profit for the year (2001 restated)	16,775	18,483
Goodwill written back	-	176
Translation differences	-	(64)
Closing shareholders' funds	368,589	351,814

24. Equity minority interests

	£000
At 1 January 2002 as previously stated	(329)
Prior year adjustment - effect of deferred tax	51
At 1 January 2002 restated	(278)
Share of loss before dividends	(21)
At 31 December 2002	(299)

25. Commitments

Capital Commitments

At 31 December 2002 the group had the following authorised commitments:

	£000
Contracted	6,102
Non-contracted	661
	6,763

These all relate to capital projects.

The company has no capital commitments at the year end (31 December 2001: £nil).

Notes to the Financial Statements (continued)

26. Operating leases

At 31 December 2002 the group was committed to making the following payments under non-cancellable operating leases in the year to 31 December 2003.

	2002	2001	2002	2001	2002	2001
	Land and	Land and	Other	Other	Total	Total
	buildings	buildings	Other	Other	Total	Total
	£000	£000	£000	£000	£000	£000
Amounts due in the following year on leases expiring:						
Within one year	-	80	133	250	133	330
Between two and five years	251	154	1,419	1,638	1,670	1,792
After five years	-	52	-	72	-	124
	251	286	1,552	1,960	1,803	2,246

27. Pensions

The total pensions cost of the group for the year was £1,453,000 (2001: £1,971,000), being the sum of the costs of the two pension schemes available for group employees, namely the SAUR Water Services plc Pension Scheme for water services employees and the Ecovert Pension Scheme for employees of the Ecovert Group. The pension cost of the defined benefit arrangements is determined using the same methods and bases that are used for funding purposes and both schemes are funded in advance. In respect of both types of arrangement the pension cost is charged to the profit and loss account and in the case of defined benefit arrangements is such as to spread the cost of pensions over employees' working lives with the company as a constant percentage of pensionable payroll. In the case of the defined contribution arrangements the pension cost charge represents the contributions payable by the company under the rules of the scheme.

The SAUR Water Services plc Pension Scheme

The SAUR Water Services plc Pension Scheme (SWSPS) provides benefits on either a defined benefits basis or a defined contributions basis depending on the category of membership. The scheme was originally contracted-out under the Guaranteed Minimum Pension Test. However, after taking independent actuarial advice, at 6 April 1997 the companies chose to contract-out the scheme under the Protected Rights Test.

The latest actuarial valuation of the defined benefit arrangement was carried out as at 31 March 2002 by independent actuaries. As a result of this valuation, company contributions have increased to 13.8% of pensionable remuneration from 1 January 2003. The companies contributed at 10.8% of pensionable remuneration for the calendar year ended 31 December 2002. There was no material prepayment or accrual at 31 December 2002 (2001: £nil).

Date of latest actuarial valuation	31 March 2002
Actuarial method	Projected unit credit
Pre-retirement rate of return for past service	6.75% p.a. compound
Pre-retirement rate of return for future service	7% p.a. compound
Post retirement rate of return for past and future service	5.5% p.a. compound
Rate of general increase in salaries	4% p.a. compound
Rate of increase in pensions	2.5% p.a. compound
Market value of assets at 31 March 2002	£92.2 million
Level of funding at 31 March 2002	100%

Notes to the Financial Statements (continued)

27. Pensions (*continued*)

The defined benefit plan of the scheme was closed to new entrants with effect from July 2002 and consequently the future cost will be expected to increase as a percentage of pensionable remuneration reflecting the increasing average age of the active membership.

The market value of assets at 31 December 2002 was £75.8 million (31 December 2001: £91 million).

The Ecovert Pension Scheme

The Ecovert Pension Scheme (EPS) provides benefits on a defined contributions basis to employees of the Ecovert Group companies and on a defined benefits basis (the Final Salary Plan) for certain employees in the facilities management sector. The scheme has recently been sectionalised into a FM and non FM section, which are currently being run as two separate schemes. This note relates only to the non FM section of the scheme, as there are no employees in the SAUR (UK) group who are members of the FM scheme. Employees may switch from defined contribution to defined benefit after 10 years of company service.

The latest actuarial valuation of the scheme was carried out as at 5 April 2002 by independent actuaries and contribution rates were set inclusive of scheme expenses. The company has contributed at the rate of 13.2% p.a. of pensionable pay for the defined benefit sections of the EPS for the calendar year ending 31 December 2002, rising to 13.7% from 1 January 2003. This contribution rate includes an additional 0.9% p.a. of pensionable pay which is expected to remove the deficit revealed in the valuation over members' working lives with the company.

In respect of the defined contribution section, the companies contribute at rates to match the members' permitted contributions plus 1.7% of pensionable pay for life assurance and scheme expenses.

Money Purchase Plan and Final Salary Plan

Date of latest actuarial valuation	5 April 2002
Actuarial method	Projected unit credit
Rate of return on investment pre retirement	7% p.a. compound
Rate of return on investment post retirement	5.5% p.a. compound
Rate of general increase in salaries	4% p.a. compound
Rate of increase in pensions increasing in line with Pensions Increase Orders	2.5% p.a. compound
Market value of assets at 5 April 2002	£5.6 million (excluding defined contribution assets)
Level of funding at 5 April 2002	84%
Comments on material surplus or deficit	The deficit of assets over accrued liabilities has arisen largely because the ill-health experience has been worse than originally assumed.

Members leaving are assumed to be replaced by new entrants so that the average age of the membership remains constant. Due to a significant reduction in the number of serving employees in the scheme, provision of £455,000 has been made in the year (2001: £539,000) to reflect a proportion of the cost of making up the deficit. This has been included in the pension cost in note 10, and in provisions in note 19.

The market value of assets of the final salary plan at 31 December 2002 was £4.7 million (31 December 2001: £5.5 million).

Notes to the Financial Statements (continued)

27. Pensions (continued)

FRS 17: Retirement benefits

Additional disclosures regarding the group's defined benefit pension scheme are required under the transitional provisions of FRS 17 'Retirement benefits' and these are set out below. The disclosures relate to the second year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in the year ending 31 December 2005.

The actuarial valuations described above have been updated at 31 December 2002 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

The SAUR Water Services plc Pension Scheme:

The major assumptions used for the actuarial valuation were:

	2002	2001
Rate of increase in salaries	3.9%	4.0%
Rate of increase in pensions in payment	2.4%	2.5%
Rate of increase in deferred pensions	2.4%	2.5%
Discount rate	5.8%	5.9%
Inflation assumption	2.4%	2.5%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Long term rate of return expected at 31 December		Value at 31 December	
	2002 %	2001 %	2002 £m	2001 £m
Equities	7.75	7.75	62.9	76.0
Bonds	5.80	5.90	4.8	7.2
Index linked gilts	5.00	5.00	6.5	6.8
Other	4.00	2.50	1.6	1.0
Total fair value of assets			75.8	91.0
Present value of scheme liabilities			(94.8)	86.2
Asset in the scheme			(19.0)	4.8
Related deferred tax asset/(liability)			5.7	(1.4)
Net pension (liability)/asset			(13.3)	3.4

The contribution rate for 2002 was 10.8% of pensionable earnings. The agreed contribution rate for the year beginning 1 January 2003 is 13.8% of pensionable payroll.

Notes to the Financial Statements (continued)**27. Pensions (continued)**

The following disclosures show the effect of FRS17 had it been implemented this year

Analysis of amount which would be charged to operating profit under FRS17

	2002 £000
Current service cost	1,117
Past service cost	-
Gains and losses on any curtailments	-
Total operating charge	1,117

Analysis of amount which would be credited to other finance income under FRS17

	2002 £000
Expected return on pension scheme assets	6,604
Interest on pension scheme liabilities	(4,946)
Net Return	1,658

Analysis of amount which would be recognised in statement of total recognised gains and losses (STRGL) under FRS17

	2002 £000
Actual return less expected return on pension scheme assets	(20,067)
Experience gains and losses arising on the scheme liabilities	1,515
Changes in financial assumptions underlying the scheme liabilities	(6,621)
Actuarial (loss) recognised in STRGL	(25,173)

Movements in deficit during the year under FRS17

	2002 £000
Surplus in scheme at beginning of the year	4,800
Movements in year:	
Current service cost	(1,117)
Contributions	908
Past service costs	-
Other finance income	1,658
Actuarial (loss)	(25,173)
Deficit in scheme at the end of the year	(18,924)

Notes to the Financial Statements (continued)

27. Pensions (continued)

History of Experience Gains and Losses

	2002 £000	2002 %
Difference between the expected and actual return on scheme assets:		
Amount	(20,067)	
Percentage of scheme assets		(26)
Experience gains and losses on scheme liabilities:		
Amount	1,515	
Percentage of the present value of the scheme liabilities		2
Total amount recognised in statement of total recognised gains and losses:		
Amount	(25,173)	
Percentage of the present value of the scheme liabilities		(27)

The Ecovert Pension Scheme

The major assumptions used for the actuarial valuation were:

	2002	2001
Rate of increase in salaries	3.9%	4.0%
Rate of increase in pensions in payment	2.4%	2.5%
Rate of increase of deferred payments	2.4%	2.5%
Discount rate	5.8%	5.9%
Inflation assumption	2.4%	2.5%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	Long term rate of return expected at 31 December		Value at 31 December	
	2002 %	2001 %	2002 £000	2001 £000
Equities	7.75	7.75	3,737	4,281
Bonds	5.80	5.90	593	584
Other	4.00	2.5	382	584
Total fair value of assets			4,712	5,449
Present value of scheme liabilities			(7,573)	(6,957)
Deficit in the scheme			(2,861)	(1,508)
Related deferred tax asset			858	452
Net pension liability			(2,003)	(1,056)

The contribution rate for 2002 was 13.2% of pensionable earnings. The agreed company contribution rate for the year beginning 1 January 2003 is 13.7% of pensionable payroll.

Notes to the Financial Statements (continued)**27. Pensions (continued)**

The following disclosures show the effect of FRS17 had it been implemented this year:

Analysis of amount which would be charged to operating profit under FRS17

	2002 £000
Current service cost	365
Past Service cost	-
Gains and losses on any curtailments	-
Total operating charge	365

Analysis of amount which would be credited to other finance income under FRS17

	2002 £000
Expected return on pension scheme assets	396
Interest of pension scheme liabilities	(411)
Net return	(15)

Analysis of amount which would be recognised in statement of total recognised gains and losses (STRGL) under FRS17

	2002 £000
Actual return less expected return on pension scheme assets	(1,576)
Experience gains and losses arising on the scheme liabilities	84
Changes in financial assumptions underlying the scheme liabilities	(124)
Actuarial (loss) recognised in STRGL	(1,616)

Movements in deficit during the year under FRS17

	2002 £000
Deficit in scheme at beginning of the year	(1,508)
Movements in year:	
Current Service cost	(365)
Contributions	643
Past service costs	-
Other finance income	(15)
Actuarial (loss)	(1,616)
Deficit in scheme at the end of the year	(2,861)

Notes to the Financial Statements (continued)

27. Pensions (continued)

History of Experience Gains and Losses

	2002 £000	2002 %
Difference between the expected and actual return on scheme assets:		
Amount	(1,576)	
Percentage of scheme assets		(33)
Experience gains and losses on scheme liabilities:		
Amount	84	
Percentage of the present value of the scheme liabilities		1
Total amount recognised in statement of total recognised gains and losses:		
Amount	(1,616)	
Percentage of the present value of the scheme liabilities		(21)

28. Contingent liabilities

Group

There are contingent liabilities arising from performance bonds in respect of group undertakings' contracts and other claims amounting to £339,000 (at 31 December 2001: £657,000).

Company

The company has entered into cross guarantees with subsidiaries in relation to a composite bank facility. There were borrowings of £nil from this facility at 31 December 2002 (at 31 December 2001: £nil).

In addition, the company has guaranteed commitments in relation to subsidiary undertakings as follows:

	2002 £000	2001 £000
Performance bonds	339	407
Lease commitments	235	616
	574	1,023

In respect of SAUR (UK) Limited's obligations arising from its banking facility with The Royal Bank of Scotland, there exists a charge over certain items including the issued share capital of SAUR Water Services plc.

In addition, there exists a second charge over the shares of SAUR Water Services plc in respect of the facility between SAUR (UK) Limited and De Nationale Investeringsbank N.V.

Notes to the Financial Statements (continued)**29. Reconciliation of operating profit to net cash inflow from operating activities**

	2002	2001
	£000	£000
Operating profit	32,067	25,970
Profit on disposal of fixed assets	(691)	(574)
Cost of goodwill written off	-	176
Depreciation	17,225	16,544
Impairment	1,762	1,925
Amortisation of negative goodwill	(186)	(246)
Amortisation of positive goodwill	242	359
Amortisation of development costs	106	-
Movement in provision	(23)	253
Amortisation of deferred income	(747)	(747)
(Decrease) in trade creditors	(2,505)	(1,687)
Decrease in trade debtors	3,591	3,438
Decrease in stocks	609	665
Other non-cash movement	-	(103)
Net cash inflow from operating activities	51,450	45,973

Notes to the Financial Statements (continued)

30. Analysis of cash flows

	2002 £000	2001 £000
Returns on investments and servicing of finance		
Interest paid	(5,264)	(7,718)
Interest received	107	121
Dividends received	30	42
Interest element of finance leases	(1,368)	(1,758)
Net cash outflow	(6,495)	(9,313)
Taxation		
UK corporation tax paid	(4,489)	(1,182)
Net cash outflow	(4,489)	(1,182)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(39,812)	(27,843)
Capitalised development costs	(38)	(669)
Capital contributions received	1,229	1,405
Sale of tangible fixed assets	1,204	5,292
Redemption of loan notes	(75)	(48)
Net cash outflow	(37,492)	(21,863)
Acquisitions and disposals		
Disposal of subsidiary undertakings and operating contracts	15	7,016
Disposal of associated undertakings	1,262	-
Acquisition of minority share of subsidiary undertaking	-	(5)
Revised consideration for subsidiary undertaking	-	(884)
Net cash inflow	1,277	6,127
Financing		
Increase/(decrease) in loan from parent company	1,000	(8,210)
Capital element of finance lease repayments	(1,949)	(4,817)
Repayment of short term loans	(792)	(1,998)
Redemption of debentures	(37)	(69)
Net cash outflow	(1,778)	(15,094)

Notes to the Financial Statements (continued)

31. Analysis and reconciliation of net debt

	At 1 January 2002 £000	Cashflow £000	Non cash changes £000	At 31 December 2002 £000
Cash at bank and in hand	5,566	(2,671)	-	2,895
Overdrafts	(1,044)	44	-	(1,000)
	4,522	(2,627)	-	1,895
Loans	(102,579)	(119)	-	(102,698)
Finance leases	(23,863)	1,838	111	(21,914)
Net group debt	(121,920)	(908)	111	(122,717)
	2002 £000	2002 £000	2001 £000	2001 £000
(Decrease)/increase in cash in the year	(2,627)		4,648	
Cash inflow from decrease in debt and lease financing	1,719		15,094	
Change in net debt resulting from cash flows		(908)		19,742
New finance leases		-		(118)
Disposal of subsidiary		-		1,260
Rate change on finance leases		111		1,242
Movement in net debt in the year		(797)		22,126
Net debt at 1 January		(121,920)		(144,046)
Net debt at 31 December		(122,717)		(121,920)

Notes to the Financial Statements (continued)

32. Related party transactions

The related parties outside the Bouygues SA group, as defined by FRS 8, nature of relationship and extent of transactions with those parties during the year are summarised below:

	2002 £000	2001 £000
Sale of services to Scotia Water Dalmuir Limited	47	47

There were no amounts owed to related parties.

Amounts owed by related parties were as follows:

	2002 £000	2001 £000
Scotia Water Dalmuir Limited	678	702

SAUR (UK) Limited is controlled by SAUR International SA, and ultimately controlled by Bouygues SA. SAUR International SA owns 100% of the issued share capital of SAUR (UK) Limited.

SAUR (UK) Limited owns 14.9% of the issued share capital of Scotia Water Dalmuir (Holdings) Limited, which owns 100% of Scotia Water Dalmuir Limited. SAUR (UK) exercises joint control over the entity.

33. Parent company and ultimate controlling party

The smallest group of companies into which the results of the company are consolidated is that headed by SAUR International SA. The largest group of companies into which the results of the company are consolidated is that headed by Bouygues SA, which is also the company's ultimate parent undertaking and controlling party. Both parent undertakings are incorporated in France. The financial statements of Bouygues SA may be obtained from 1 avenue Eugène Freyssinet, 78064 St Quentin en Yvelines, Cedex, France.