

SAUR (UK) Limited

Annual Report and Accounts

For the year ended 31 December 2001

Registered number: 1990891



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 Group and Pipeway and employs over 1,500 people.

Through its subsidiary South East Water, SAUR Water Services provides water to 1.5 million people in Berkshire, Hampshire, Kent, Surrey and Sussex in the south of England as well as providing scientific services through its state of the art laboratory. It also carries out engineering consultancy through its subsidiary, Dynamco. The company is located in Haywards Heath, West Sussex.

Ecovert Group provides a range of facilities management and environmental services to local authorities, the public sector and industry. The group operates from a number of locations throughout the UK in central London, Wales, central and southern England. Ecovert Group has its headquarters in Brighton, East Sussex.

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 25,600 people and serves 55 million people worldwide across Europe, the Americas, Asia and Africa. SAUR is part of the Bouygues Group.

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Chairman's statement

I am pleased to announce the financial results for the SAUR UK group for the 12 months ending December 2001. Turnover for the period was £139 million and pre-tax profits were £21 million.

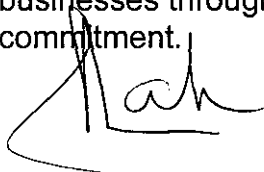
SAUR Water Services continued to account for a significant part of the SAUR UK group's activities in 2001. Capital investment at £26 million was a major feature of South East Water's activities during the year and included schemes for mains and borehole renovation and source upgrading. As part of Scotia Water Dalmuir, SAUR UK has been involved with the construction of a new sewage treatment works at Dalmuir, near Glasgow, Scotland which began operating in July 2001 through SAUR Services (Glasgow).

Together with Bouygues, SAUR have become a major player in the UK PFI market and, to develop this partnership further, Ecovert FM Limited was established during the year, a company owned both by Bouygues Construction and by Ecovert Group. Ecovert FM will direct the facilities management business related to PFI projects. These facilities management activities have had a successful year and have been shortlisted as preferred bidder on a number of important PFI contracts, including a prestigious contract with the Cabinet Office to manage sites in central London.

For Pipeway, successes in contract renewals were tempered by difficulties arising during the foot & mouth disease outbreak. The company was able to concentrate on increasing opportunities for new technologies in the water industry, resulting in the award of several new contracts.

Our commitment to quality, customer service, our communities and staff continued throughout 2001 with the development of new initiatives and training.

The directors and staff made an outstanding contribution to the success of our businesses throughout 2001 and I would like to thank them for their continued commitment.



Jean-François Talbot
Chairman

Financial highlights

The SAUR UK group's consolidated turnover was £139.1 million. The reduction of £15.7 million over last year mainly reflects the group's policy to move away from the environmental business and non-profitable contracts to concentrate on the core businesses. Turnover in the water business remained almost constant at £89.9 million. The establishment of Ecovert FM Limited also reduced group turnover in the year by £6.5 million due to the accounting treatment of associate companies.

The move away from less profitable business is reflected in the 14% increase in gross profit to £22.6 million from £19.7 million.

The group made lower profits on disposals of fixed assets this year but made an exceptional profit on the disposal of subsidiaries and contracts of £5 million.

Capital expenditure by the group amounted to £27 million (2000: £28 million) of which £26 million (2000: £25 million) related to the group's water activities, demonstrating our ongoing commitment to improving water quality and ensuring continuous supply.

The group has reduced debt by £22.4 million in the year, which has been reflected in lower interest costs of £9.2 million, compared to £11 million last year.

Overall, retained profit has increased 12.4% to £19.4 million and the group is in a strong financial position for the future.

Business review

2001 was a successful year and a year of change for SAUR UK as the group implemented its strategic plan to refocus its activities on the profitable core businesses.

In July, Liz Snaith was appointed to the board following Jane Miller's resignation as Executive Director in June. In November, Philippe Denery resigned due to his increased responsibilities with the Bouygues Group and Louis Peterschmitt retired from both the Group and the board.

The group in the UK continues to rationalise and consolidate its operations in order to achieve the most efficient structure for its varied businesses. During 2001, the decision was taken to establish a separate company for the IT function within SAUR UK and, on 1 January 2002, Optimum Information Systems was established. The new company will continue to provide equivalent IT services for the group and is a wholly owned subsidiary of SAUR (UK) Limited.

Several significant events have complemented the setting up of Optimum Information Systems. Major systems developments have been made in the remote working environment, with ebilling and etracking, the group intranet, laboratory and geographical information systems. A new datacentre has been constructed in Haywards Heath where the majority of IT staff and equipment are now based.

WATER AND WASTEWATER SERVICES

Water accounts for a major proportion of the SAUR UK group's activities and South East Water remains committed to providing excellent customer service.

Improving levels of services delivery in all areas whilst at the same time giving customers a price reduction of 1% below inflation remains the top priority. Toward this end, the first phase of an on-going customer survey process has been initiated. The company has also put in place on-line bill payment and account management facilities via the internet on its new website, launched in February 2002. Customer care initiatives continue, with the promotion of free meter options and services to vulnerable groups, such as the elderly.

South East Water responded to the needs of its commercial and industrial customers by becoming the first company in the industry to gain OFWAT approval on a new commercial tariff structure, creating a balance between commercial and domestic customers.

2001 has seen a continuing drive to achieve increased efficiencies across the whole business. New technology has been utilised in key areas to great effect and innovative ways of working have been implemented. The remote working project, giving the ability to respond rapidly, also allows the company to reduce its impact on the environment, eliminating unnecessary journeys and the use of paper based systems.

South East Water has been at the forefront of industry thinking in the development of a model covering all the company's above and below ground assets. This model is a tool to prioritise spending, translating risk into reality, and other water companies have already approached the company to share development experiences.

The south east of England is an acknowledged water deficient area and the demand management practised by South East Water has taken a three strand approach: reduction of leakage, encouragement of metering and promoting the efficient use of water. South East Water continues to advocate metering, not only as the fairest way to charge for water but as a key demand management tool, particularly in areas of high consumption. A variety of ways are used to promote water efficiency including educational visits, static and mobile displays, sponsorship of community projects and a new water efficiency section on the company's website.

Whilst demand management plays a significant role, existing sources must be fully utilised and ultimately new resources will be needed. The company's long term strategy for investment addresses these requirements.

Some £26m was invested in capital schemes throughout the year. Mains rehabilitation to improve and maintain water quality formed a major part of this expenditure, with 111km scraped and relined at a cost of £5.2 million, whilst £3 million was spent on new main laying.

South East Water believes it is important to integrate both business and environmental needs and is committed to becoming an environmentally efficient organisation. The first steps have been taken towards an environmental management strategy, with the ultimate aim of achieving the environmental standard ISO 14001 across the whole business.

Remote working is already reducing the company's environmental impacts through the related reduction in mileage, use of fossil fuels, tyres and paper usage. A waste minimisation campaign to reduce the amount of waste paper by 25% is being undertaken and this will continue throughout the year, eventually encompassing power and water. Arlington Reservoir has been awarded a major commendation in the BCE (Business Commitment to the Environment) Awards for outstanding environmental achievement. Work continues with The Sussex Wildlife Trust, together with the Environment Agency, Holyhill Trust, the Hawk and Owls Trust and the Otters and Rivers Partnership.

South East Water has also supported a variety of community projects during the year including Age Concern, Children in Need, Arthritis Care, local schools and a myriad of smaller projects throughout the supply area, as well as environmental projects.

Communication of the company's Vision and Values and keeping staff fully aware of all the elements of future strategy has taken a high priority. The importance of training is recognised and levels were increased in 2001, with a specific TechEd programme

devoted to ensuring all staff had the level of skill and confidence necessary to cope with the increasing use of technology.

2001 was a successful year for Dynamco, with the company continuing to grow and develop further expertise in new areas. Project management and technical assistance has been provided for a number of key South East Water projects, including the Beenham's pesticide plant, Blackhill Tower refurbishment, Barcombe bank stabilisation and network modelling. Dynamco also continued to contribute to South East Water's mains rehabilitation strategy, helping to ensure water quality is maintained and improved.

Projects outside SAUR Water Services have included an industrial waste water treatment plant and technical assistance during the construction and commissioning of a water filtration plant.

During the year, the commercial services of the South East Water laboratory were integrated with Dynamco and marketed as Dynamco Laboratories. This area is continuing to build on its commercial success, doubling its income, maintaining its contracts with other water companies and expanding into new areas such as cryptosporidium testing in swimming pools.

FACILITIES MANAGEMENT AND ENVIRONMENTAL SERVICES

2001 was a very significant year for the Ecovert Group, when two strategic decisions were taken in order to improve the efficiency of the company within the facilities management business.

The first was the creation, together with Bouygues Construction, of a new company, Ecovert FM Limited, to direct the facilities management business related to PFI (Private Finance Initiative) projects. Over the last few years, Ecovert Group's development has been focused on the PFI facilities management business sector. Since 1999, the company has achieved several commercial successes and is now managing FM contracts at Kings College, Barnet General Hospital and West Middlesex Hospital.

In 2001, the company was short listed as preferred bidder on a number of important PFI contracts, including a prestigious contract with the Cabinet Office to manage sites in central London. Many of the successes have been achieved through joint venture arrangements with Bouygues UK (construction services) as together the Bouygues/SAUR Group can provide a comprehensive design, build and manage service to potential clients. It was for this reason that, in 2001, the Bouygues Group decided to re-organise these activities to allow this partnership to fully develop and consequently the new entity of Ecovert FM Limited was created in which the Ecovert Group has a 40% shareholding.

Secondly, to rationalise the commercial portfolio of the Ecovert Group, the company has concentrated on consolidating and developing partnerships with existing and potential new clients in the field of traditional facilities management. As part of this reorganisation, the company has successfully brought to a close some of its waste management businesses. Three subsidiary companies were sold on 30 November 2001 and two main operating contracts were also sold during the year. In addition, several less profitable contracts have come to an end. This leaves the group in a strong position for the future.

CONTRACTING

The contracting market experienced a challenging year in 2001, impacted in particular by the foot and mouth disease outbreak, which resulted in the cancellation or deferral of a number of contracts throughout the UK. To meet these changing circumstances, Pipeway reduced its turnover in contracting activities and restructured to reduce overheads and costs.

Pipeway was successful in renewing both its period repair and maintenance mainlaying and water mains rehabilitation contracts with South East Water, both for contract durations of four years. These contracts provide a stability and base workload to underpin the company's operations over the coming period.

Throughout 2001, the company has concentrated on increasing opportunities for new rapid setting spray lining systems within the water industry. The company's expertise and capability in this respect has been recognised by a contract award from Yorkshire Water Services for the supply of lining rigs and associated maintenance services for their 2002-2005 mains renovation programme. Use of, and demand for, the process has grown significantly throughout the year with this business now representing approximately 75% of Pipeway's mains lining activities and this is expected to grow further during 2002.

Pipeway have also sought to adapt their existing pipe lining technologies to meet the needs and requirements of other pipeline owners and operators. The industrial and oil industry sectors are seen as potentially large markets for the internal coating protection of pipelines and, in this regard, the company have undertaken an important reference contract on a waste oil ballast pipeline at Milford Haven. Further contracts of a similar nature will be sought in 2002.

Directors, Secretary and Advisers

J-F Talbot, Chairman

P Denery, Director (resigned 12 November 2001)

Y Gabriel, Director

G M Hoskins, Director

J M Miller, Executive Director (resigned 29 June 2001)

L Peterschmitt, Director (resigned 12 November 2001)

D Scherrer, Director

E A Snaith, Director (appointed 26 July 2001)

Jean-François Talbot (54) 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.

Yves Gabriel (51) joined the Bouygues Group's roadworks subsidiary Screg in 1975 as a site engineer. In 1989 he was responsible for the Industrial Construction division at Bouygues Batiment and in 1992 he was appointed deputy managing director of Screg, becoming managing director in 1994. He joined SAUR as deputy managing director in 1996 and became managing director in 2000. He was appointed to the board of SAUR UK on 1 January 2001.

Geoffrey Hoskins (71) 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 (54) 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 (41) 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

Arthur Andersen

Solicitors

Manches & Co

Financial Advisors

European Capital

Registered Office

22 –30 Sturt Road

Frimley Green

Camberley

Surrey

GU16 6HZ

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 2001.

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.

Fixed Assets

Capital expenditure on tangible fixed assets during the year totalled £27 million (year ended 31 December 2000: £28 million). Details of changes in tangible fixed assets are summarised in note 13.

Business Review

Consolidated profit on ordinary activities after minority interests and taxation for the year was £19.4 million (year ended 31 December 2000: £17.3 million). The financial position at 31 December 2001 is shown in the consolidated balance sheet on page 15 and in the company's balance sheet on page 16.

Dividends

No dividends have been paid or proposed for the year ended 31 December 2001. (2000: £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>
J M Miller	Executive Director		29 June 2001
E A Snaith	Director	26 July 2001	
P Denery	Director		12 November 2001
L Peterschmitt	Director		12 November 2001

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 2001 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 £2,000 (year ended 31 December 2000: £3,000). These were small amounts to local charities. There were no political donations made by the group in either year.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of Arthur Andersen 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

7 March 2002

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 accounts, 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 accounts 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 accounts 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 shareholders of SAUR (UK) Limited:

We have audited the financial statements of SAUR (UK) Limited for the year ended 31 December 2001 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes set out on pages 18 to 44. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the Statement of Directors' Responsibilities. 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 2001 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

180 Strand
London
WC2R 1BL

7 March 2002

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Turnover: group and share of joint ventures		122,292		127,972	
Less: share of joint ventures' turnover		(295)		(27)	
Group turnover	2				
Continuing operations			121,997		127,945
Discontinued operations			17,139		26,867
			139,136		154,812
Cost of sales	3		(116,564)		(135,064)
Gross profit			22,572		19,748
Other operating income	4		3,398		9,516
Group operating profit					
Continuing operations		25,390		31,383	
Discontinued operations		580		(2,119)	
			25,970		29,264
Share of operating loss in joint ventures			(76)		(69)
Share of operating loss in associates			(398)		-
Profit on disposal of discontinued operations	8		4,757		-
Profit on ordinary activities before finance charges			30,253		29,195
Interest receivable and similar income:	5				
Group		163		209	
Associates		1		-	
Joint Ventures		5		-	
			169		209
Interest payable and similar charges:	6				
Group		(9,192)		(11,000)	
Associates		(8)		-	
Joint Ventures		-		-	
			(9,200)		(11,000)
Profit on ordinary activities before taxation	7		21,222		18,404
Tax on profit on ordinary activities	11		(2,689)		(1,467)
Profit on ordinary activities after taxation			18,533		16,937

Consolidated Profit and Loss Account (continued)

Minority interests	24	901	358
<hr/>			
Profit for the year		19,434	17,295
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Retained profit for the group including its share of associates and joint ventures	22	19,434	17,295
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The group has no material recognised gains or losses other than the profits shown above and, therefore, no separate consolidated statement of total recognised gains and losses has been presented.

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 Balance Sheet

as at 31 December 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Development costs		669		-	
Positive goodwill		4,235		3,007	
Negative goodwill		(4,740)		(1,938)	
Intangible assets	12		164		1,069
Tangible assets	13		509,046		511,325
Investments:					
Investments in joint ventures:					
Share of gross assets		6,556		5,252	
Share of gross liabilities		(6,735)		(5,360)	
Investments in associates		(378)		-	
Other investments		874		900	
Total investments	14		317		792
			509,527		513,186
Current assets					
Stocks	15	1,190		2,092	
Debtors	16	29,913		37,164	
Cash at bank and in hand		5,566		1,019	
		36,669		40,275	
Debtors: amounts falling due after more than one year	16	667		-	
Creditors: amounts falling due within one year	17	(117,874)		(132,523)	
Net current liabilities			(80,538)		(92,248)
Total assets less current liabilities			428,989		420,938
Creditors: amounts falling due after more than one year	18		(45,536)		(53,557)
Provisions for liabilities and charges	19		(2,175)		(1,948)
Deferred income	20		(10,504)		(11,251)
Net assets			370,774		354,182
Capital and reserves					
Called up share capital	21		31,800		31,800
Profit and loss account	22		339,303		319,757
Equity shareholders' funds	23		371,103		351,557
Minority interests	24		(329)		2,625
Total capital employed			370,774		354,182

The accompanying notes are an integral part of this consolidated balance sheet.

The accounts on pages 13 to 44 were approved by the board of directors on 7 March 2002 and were signed on its behalf by:


EA Snaith
Director
7 March 2002

Company Balance Sheet

as at 31 December 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Tangible assets	13	493		427	
Investments	14	117,370		117,248	
			117,863		117,675
Current assets					
Debtors	16	6,910		7,977	
Cash at bank and in hand		9,734		9,369	
		16,644		17,346	
Debtors: amounts falling due after more than one year	16	667			
Creditors: amounts falling due within one year	17	(93,003)		(97,810)	
Net current liabilities			(75,692)		(80,464)
Total assets less current liabilities			42,171		37,211
Creditors: amounts falling due after more than one year	18		(6,007)		(8,011)
Provisions for liabilities and charges	19		(61)		(22)
Net assets			36,103		29,178
Capital and reserves					
Called up share capital	21		31,800		31,800
Profit and loss account	22		4,303		(2,622)
Equity shareholders' funds			36,103		29,178

The accompanying notes are an integral part of this company only balance sheet.

The accounts on pages 13 to 44 were approved by the board of directors on 7 March 2002 and were signed on its behalf by:



EA Snaith
Director
7 March 2002

Consolidated Cash Flow Statement

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Net cash inflow from operating activities	29	45,973	37,617
Returns on investments and servicing of finance	30	(9,313)	(10,464)
Taxation	30	(1,182)	(947)
Capital expenditure and financial investment	30	(21,863)	(11,396)
Acquisitions and disposals	30	6,127	(316)
Net cash inflow before management of liquid resources and financing		19,742	14,494
Net cash (outflow) from financing	30	(15,094)	(17,236)
Increase/(decrease) in cash in the year	31	4,648	(2,742)

The accompanying notes are an integral part of this consolidated cash flow statement

Notes to the Financial Statements

for the year ended 31 December 2001

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.

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

Provision is made for deferred taxation in respect of liabilities which are anticipated to crystallise in the foreseeable future. No provision is made for the potential tax on capital gains which could arise in the event of disposal of investments or properties at their market values.

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. Movements in capital contributions and the net book value of infrastructure assets before and after the contributions are set out in note 13 which therefore shows the effect of the group's policy.

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.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

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.

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.

Notes to the Financial Statements (continued)

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

	Water supply 2001 £000	Water supply 2000 £000	Other 2001 £000	Other 2000 £000	Total 2001 £000	Total 2000 £000
Turnover						
Measured water sales	34,780	33,972	-	-	34,780	33,972
Unmeasured water sales	50,734	53,100	-	-	50,734	53,100
Rechargeable sales	3,308	2,715	-	-	3,308	2,715
Other sales	1,448	1,250	59,922	83,839	61,370	85,089
Total sales	90,270	91,037	59,922	83,839	150,192	174,876
Intersegment sales	(391)	(737)	(10,665)	(19,327)	(11,056)	(20,064)
Sales to third parties	89,879	90,300	49,257	64,512	139,136	154,812
Attributable profit/(loss) before interest	42,370	43,931	(16,400)	(14,667)	25,970	29,264
Exceptional items	-	-	4,757	-	4,757	-
Share of operating loss in joint ventures and associates	(76)	(69)	(398)	-	(474)	(69)
Net interest payable					(9,031)	(10,791)
Profit on ordinary activities before tax and minority interests					21,222	18,404
Non interest bearing net assets	488,598	477,766	8,716	20,250	497,314	498,016
Interest bearing net liabilities	(116,252)	(116,493)	(10,288)	(27,341)	(126,540)	(143,834)
Consolidated net assets/(liabilities)	372,346	361,273	(1,572)	(7,091)	370,774	354,182

All material turnover arises within the UK.

Notes to the Financial Statements (continued)

3. Cost of Sales

	Continuing Operations 2001 £000	Discontinued Operations 2001 £000	Total 2001 £000	Continuing Operations 2000 £000	Discontinued Operations 2000 £000	Total 2000 £000
Cost of Sales	(99,975)	(16,589)	(116,564)	(106,023)	(29,041)	(135,064)

4. Other operating income

	Continuing Operations 2001 £000	Discontinued Operations 2001 £000	Total 2001 £000	Continuing Operations 2000 £000	Discontinued Operations 2000 £000	Total 2000 £000
Profit/(loss) on sale of fixed assets	592	(18)	574	6,630	10	6,640
Rents receivable from land	497	48	545	480	45	525
Sundry income	2,279	-	2,279	2,351	-	2,351
	3,368	30	3,398	9,461	55	9,516

5. Interest receivable and similar income

	2001 £000	2000 £000
Group:		
Interest receivable on bank deposits	121	165
Income from fixed asset investment	42	28
Other income	-	16
	163	209
Associates:		
Interest receivable on bank deposits	1	-
Joint Ventures:		
Interest receivable on bank deposits	5	-
	169	209

Notes to the Financial Statements (continued)

6. Interest payable and similar charges

	2001 £000	2000 £000
Group:		
Interest payable on bank loans and overdrafts	4,701	5,722
Interest on other borrowings	1,732	1,734
Interest payable on loans from immediate parent undertaking	426	1,042
Interest payable on finance leases	1,677	1,912
Other charges	656	590
	9,192	11,000
Associates:		
Interest payable on bank loans and overdrafts	-	-
Other charges	8	-
	9,200	11,000

7. Profit on ordinary activities before taxation

	2001 £000	2001 £000	2000 £000	2000 £000
Profit on ordinary activities before taxation is arrived at after charging/(crediting):				
Depreciation:				
Owned assets	15,184		17,277	
Leased assets	1,360		2,028	
		16,544		19,305
Rates and abstraction charges		7,577		6,841
Hire charges		24		4
Operating lease rentals:				
Plant and machinery	631		1,229	
Other assets	984		435	
		1,615		1,664
Profit on disposal of fixed assets		(574)		(6,640)
Auditors' remuneration :				
Statutory audit		185		221
Non audit work		22		28
Research and development		99		111
Amortisation of goodwill (net)		113		57
Impairment		1,925		-
Goodwill written off on closure of businesses		391		-

Notes to the Financial Statements (continued)

8. Profit on disposal of discontinued operations

	2001 £000	2000 £000
Net profit on disposal of contracts to associated undertaking	4,746	-
Net profit on disposal of subsidiary undertakings and operating contracts	11	-
	4,757	-

The exceptional profit on disposal of contracts to associated undertaking relates to the disposal of certain contracts and assets to Ecovert FM Limited for £9,500,000, which the directors consider represents fair market value. In accordance with FRS 9 "Associates and Joint Ventures" the exceptional profit relating to the 40% effective interest retained is not yet recognised.

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:

	2001	2000
Operations	1,085	1,357
Engineering	290	326
Management and administration	290	458
	1,665	2,141

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	32,467	40,111
Social security costs	3,047	3,872
Pension costs	2,510	2,057
	38,024	46,040

Notes to the Financial Statements (continued)

10. Directors and employees (continued)

Remuneration of directors

	2001 £000	2000 £000
Aggregate emoluments	363	378
Compensation for loss of office	79	95

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	83	114
Accrued pension at end of year	13	-
Accrued lump sum at end of year	40	-
Compensation for loss of office	79	95

11. Taxation

	2001 £000	2000 £000
Group		
UK Corporation tax on profits at 30% (2000: 30%)	2,847	2,670
Advance corporation tax reinstated	-	(1,873)
Under/(over) provisions in prior years	(131)	670
	2,716	1,467
Associates:		
UK Corporation tax credit on loss at 30% (2000: 30%)	(27)	-
	2,689	1,467

There is no tax charge relating to joint venture undertakings (2000: £nil).

The effective tax rate applicable to the group is below the normal corporation tax rate of 30% because of the utilisation of advance corporation tax balances and accelerated capital allowances.

No provision is required for deferred tax as no material liabilities are anticipated to crystallise in the foreseeable future. The full potential tax liability, calculated on the liability method, is set out below:

	2001 £000	restated 2000 £000
Corporation tax at 30% (2000: 30%) deferred by reason of:		
Capital allowances exceeding depreciation	66,259	62,319
Advance corporation tax available for set-off	-	(991)
	66,259	61,328

Amounts for capital allowances exceeding depreciation include deferred tax relating to infrastructure assets on the basis that these assets are now being depreciated and therefore represent timing differences.

Notes to the Financial Statements (continued)

12. Intangible fixed assets

On 6 December 1999, SAUR (UK) Limited acquired a 51% share in Pipeway Limited from SAUR International SA, a Bouygues group company. Provisional consideration of £5,761,000 was paid in December 1999. During 2001, the consideration in respect of this transaction was finalised. The aggregate book value of assets and liabilities acquired were as follows:

	£000
Net Assets acquired, after minority interests	3,797
Revised consideration: Cash	8,518
Revised goodwill on 51% acquisition	4,721

On 1 August 2001 SAUR (UK) Limited acquired the remaining 49% of Pipeway Limited from Stereau (UK) Limited, a Bouygues group company. The aggregate book and fair values of assets and liabilities acquired were as follows:

	Book and Fair Values £000
Tangible fixed assets	2,331
Stocks	406
Debtors	7,155
Cash at bank and in hand	62
Creditors	(3,637)
Provisions	(86)
	6,231
Interests previously acquired	(3,178)
Net Assets acquired	3,053
Consideration: Cash	5
Negative Goodwill on 49% acquisition	(3,048)
Total cost of goodwill relating to Pipeway Limited	1,673

Notes to the Financial Statements (continued)

12. Intangible fixed assets (continued)

	Development costs £000	Positive goodwill £000	Negative goodwill £000	Total £000
Cost				
At 1 January 2001	-	3,172	(2,154)	1,018
Additions following revision to goodwill	-	1,802	-	1,802
Additions	669	-	(3,048)	(2,379)
Disposals	-	(253)	-	(253)
At 31 December 2001	669	4,721	(5,202)	188
Amortisation				
At 1 January 2001	-	165	(216)	(51)
Charge/(credit) for the year	-	359	(246)	113
Disposals	-	(38)	-	(38)
At 31 December 2001	-	486	(462)	24
Net book value at 31 December 2001	669	4,235	(4,740)	164
Net book value at 1 January 2001	-	3,007	(1,938)	1,069

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.

Additions to development costs includes £431,000, which was classified within stocks, work in progress in 2000.

Notes to the Financial Statements (continued)

13. Tangible fixed assets

Group

	Land, wells, reservoirs and buildings	Infrastructure assets	Plant, equipment and vehicles	Total
	£000	£000	£000	£000
Cost				
At 1 January 2001	256,535	580,662	152,393	989,590
Additions	4,318	16,151	6,397	26,866
Reclassifications	(499)	-	499	-
Disposals	(7,807)	-	(10,774)	(18,581)
Grants and contributions	-	(1,405)	-	(1,405)
At 31 December 2001	252,547	595,408	148,515	996,470
Depreciation				
At 1 January 2001	122,904	262,972	92,389	478,265
Charge for the year	3,405	6,200	6,939	16,544
Disposals	(1,758)	-	(7,552)	(9,310)
Reclassifications	(499)	-	499	-
Impairment	1,925	-	-	1,925
At 31 December 2001	125,977	269,172	92,275	487,424
Net book value at 31 December 2001	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
Net book value at 1 January 2001	133,631	317,690	60,004	511,325
Including				
- leased assets	8,701	5,803	17,504	32,008
- assets under construction	2,627	9,193	8,208	20,028

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:

	2001 £000	2000 £000
Freehold	89,463	89,680
Long leaseholds	3,264	3,313
Short leaseholds	6,190	6,110

The net book value of infrastructure assets at 31 December 2001 is stated after the deduction of grants and contributions amounting to £31.5 million (2000: £30.1 million) in order to give a true and fair view.

Company

	Office equipment and vehicles £000
Cost	
At 1 January 2001	777
Additions	321
Disposals	(150)
At 31 December 2001	948
Depreciation	
At 1 January 2001	350
Charge for the year	237
Disposals	(132)
At 31 December 2001	455
Net book value at 31 December 2001	493
Net book value at 1 January 2001	427

Notes to the Financial Statements (continued)

14. Investments

Group	Listed investments shares £000	Other Investments shares £000	Share of net liabilities in joint venture £000	Shares of net liabilities in associate £000	Total £000
At 1 January 2001	874	26	(108)	-	792
Additions	-	-	(71)	(378)	(449)
Disposals	-	(26)	-	-	(26)
At 31 December 2001	874	-	(179)	(378)	317

The market value of listed investments at 31 December 2001 was £964,000 (2000: £995,000).

Company	Listed investments shares £000	Investment in subsidiary undertakings:		Total £000
		Shares £000	Loans £000	
Cost				
At 1 January 2001	874	65,032	84,652	150,558
Additions	-	2,762	3,790	6,552
Disposals	-	(500)	(228)	(728)
At 31 December 2001	874	67,294	88,214	156,382
Provisions				
At 1 January 2001	-	15,925	17,385	33,310
Charged to the profit and loss account during year	-	3,023	2,679	5,702
At 31 December 2001	-	18,948	20,064	39,012
Net book value at 31 December 2001	874	48,346	68,150	117,370
Net book value at 1 January 2001	874	49,107	67,267	117,248

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 South Limited**	Ordinary	100%	Facilities management
Pipeway Limited*	Ordinary	100%	Engineering contracting

Principal joint venture and associated undertakings

Company name	Type of shares	Proportion of shares held	Nature of business
Joint Venture undertakings:			
Scotia Water Dalmeir (Holdings) Limited *	Ordinary	14.9%	Investment company
Scotia Water Dalmeir Limited **	Ordinary	14.9%	Construction and operation of sewerage treatment works.
Associated undertakings:			
Ecovert FM Limited**	Ordinary	40.00%	Facilities Management

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.

15. Stocks

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Raw materials and consumables	991	1,566	-	-
Work in progress	199	526	-	-
	1,190	2,092	-	-

Notes to the Financial Statements (continued)

16. Debtors

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	20,747	23,707	14	27
Other debtors	3,440	2,351	327	49
Prepayments and accrued income	4,471	8,894	154	122
Amounts due from group undertakings	1,255	2,212	6,415	7,779
	29,913	37,164	6,910	7,977
Amounts falling due after one year:				
Loan note	667	-	667	-
	30,580	37,164	7,577	7,977

17. Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Bank loans and overdrafts	1,044	1,145	1,000	-
Trade creditors	2,120	2,279	191	178
Redeemable loan notes	240	288	-	-
Obligations under finance leases	1,616	2,863	3	2
Corporation tax	4,641	3,107	2,338	1,950
Other taxes and social security	1,683	1,646	59	72
Other creditors	491	856	173	146
Accruals and deferred income	26,749	31,647	1,380	1,367
Water guarantee deposits	-	41	-	-
Amounts owed to parent and fellow subsidiary undertakings	79,290	88,651	78,362	87,129
Amounts owed to subsidiary undertakings	-	-	9,497	6,966
	117,874	132,523	93,003	97,810

Amounts owed to parent and fellow subsidiary undertakings

The group repaid its drawings under its £125 million revolving loan agreement on 20 December 2001 and on the same date established a short term loan of £78 million from its ultimate parent company Bouygues SA. This loan was repaid on 18 January 2002 by an equivalent drawing under the £125 million facility.

Notes to the Financial Statements (continued)

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

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Irredeemable debenture stock	645	714	-	-
Redeemable debenture stock	14,900	14,900	-	-
Other term loans and creditors repayable:				
Between one and two years	2,744	1,742	1,000	-
Between two and five years	3,000	-	3,000	-
After five years	2,000	8,000	2,000	8,000
Obligations under finance leases:				
Between one and two years	2,127	2,670	7	3
Between two and five years	5,887	7,205	-	8
After five years	14,233	18,326	-	-
	45,536	53,557	6,007	8,011
	2001	2000		
	£000	£000		
Irredeemable debenture stock				
3.5% perpetual stock	310	360		
4% perpetual stock	74	87		
5% perpetual stock	198	202		
5.5% perpetual stock	3	4		
6% perpetual stock	60	61		
	645	714		
	2001	2000		
	£000	£000		
Redeemable debenture stock				
Between two and five years:				
12.5% debenture stock 2004	3,800	3,800		
11.2% debenture stock	1,600	1,600		
2005/2009				
After five years:				
12% debenture stock 2010	3,500	3,500		
11% debenture stock	3,000	3,000		
2012/2016				
10% debenture stock	3,000	3,000		
2013/2017				
	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		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Other term loans and creditors				
Mains deposits	1,744	1,694	-	-
Term loans	6,000	8,048	6,000	8,000
Other	-	-	-	-
	7,744	9,742	6,000	8,000

Term loans include the following facilities:

A £32.5 million variable rate syndicated revolving loan facility expiring in April 2002. Drawings at 31 December 2001 were £nil: (31 December 2000: £nil).

A £92.5 million variable rate syndicated revolving loan facility expiring in April 2004. Drawings at 31 December 2001 were £nil (31 December 2000: £nil).

A £7 million term loan facility expiring in October 2008. Drawings at 31 December 2001 were £7 million (31 December 2000: £8 million drawings from an £8 million facility).

Financial instruments

Short term debtors and creditors have been excluded from the disclosure requirements of FRS 13.

Interest rate risk profile of financial liabilities

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

	Total £000	Floating rate £000	Fixed rate £000
2001:	49,441	28,183	21,258
2000:	54,269	30,242	24,027

	Fixed rate financial liabilities	
	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
2001:	10.63	7.40
2000:	10.26	7.88

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:

	2001 £000	2000 £000
In one year or less, or on demand	3,331	3,972
Between one and two years	1,342	2,353
Between two and five years	10,702	10,051
In more than five years	34,066	37,893
Total	49,441	54,269

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 2001 were as follows:

	2001 £000	2000 £000
Expiring in one year or less	33,500	36,927
Expiring between one and two years	-	-
Expiring in more than two years	92,500	92,500
Total	126,000	129,427

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 2001:

	Book value £000	Fair value £000
Short term financial liabilities	3,331	3,331
Irredeemable debentures	645	512
Redeemable debentures	14,900	20,017
Long term borrowings and other long term financial liabilities	30,565	30,565
	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

Group	Provision for onerous leases £000	Provision for losses on long term contracts £000	Provision for landfill reinstatement £000	Provision for unfunded pension obligations £000	Total £000
At 1 January 2001	-	688	1,260	-	1,948
Expended during the year	-	(485)	(33)	-	(518)
Charge to profit and loss account during year	196	229	61	539	1,025
Decrease in year	-	-	(280)	-	(280)
At 31 December 2001	196	432	1,008	539	2,175

Company

The company has a provision for deferred taxation of £22,000 (31 December 2000: £22,000) and a provision of £39,000 in respect of pension cost liabilities (31 December 2000: nil).

20. Deferred income

Group	Non-infrastructure asset grants and contributions £000
At 1 January 2001	11,251
Amortised during the year	(747)
At 31 December 2001	10,504

21. Called up share capital	2001 £000	2000 £000
Authorised, called up, allotted and fully paid Ordinary shares of £1 each	31,800	31,800

Notes to the Financial Statements (continued)

22. Profit and loss account

	Group £000	Company £000
At 1 January 2001	319,757	(2,622)
Retained profit for the year	19,434	6,925
Translation differences	(64)	-
Goodwill written back	176	-
At 31 December 2001	339,303	4,303

23. Reconciliation of movements in shareholders' funds

Group	2001 £000	2000 £000
Profit for the year	19,434	17,295
Goodwill written back	176	-
Translation differences	(64)	(42)
Net addition to equity shareholders' funds	19,546	17,253
Opening shareholders' funds	351,557	334,304
Closing shareholders' funds	371,103	351,557

24. Equity minority interests

	£000
At 1 January 2001	2,625
Share of loss before dividends	(901)
Translation differences	(39)
Disposal of minority interest	121
Acquisition of minority interest	(2,135)
At 31 December 2001	(329)

25. Commitments

Capital Commitments

At 31 December 2001 the group had the following authorised commitments:

	£000
Contracted	2,915
Non-contracted	987
	3,902

The company has no capital commitments at the year end (at 31 December 2000: £11,540).

Notes to the Financial Statements (continued)

26. Operating leases

The group's commitments in respect of operating leases are as follows:

	2001 Land and buildings £000	2000 Land and buildings £000	2001 Other £000	2000 Other £000	2001 Total £000	2000 Total £000
Amounts due in the following year on leases expiring:						
Within one year	80	258	250	148	330	406
Between one and five years	154	243	1,638	1,914	1,792	2,157
After five years	52	392	72	-	124	392
	286	893	1,960	2,062	2,246	2,955

27. Pensions

The total pensions cost of the group for the year was £1,971,000 (2000: £2,057,000), 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 2001. This showed that the companies' contribution rate of 10.8% p.a. of pensionable remuneration set following the previous formal valuation as at 1 April 1999, remained appropriate. The companies contributed at this rate for the calendar year ended 31 December 2001.

Date of latest actuarial valuation	31 March 2001
Actuarial method	Projected unit credit
Rate of return on investment	8% p.a. compound
Dividend growth	4% p.a. compound
Rate of general increase in salaries	6% p.a. compound
Rate of increase in pensions	4% p.a. compound
Market value of assets at 31 March 2001	£96 million
Level of funding at 31 March 2001	102%

Members leaving are assumed to be replaced by new entrants so that the average age of the membership remains constant.

The market value of assets at 31 December 2001 was £91 million (31 December 2000: £104 million).

Notes to the Financial Statements (continued)

27. Pensions (continued)

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. 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 6 April 1999 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 2001. 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	6 April 1999
Actuarial method	Projected unit credit
Rate of return on investment	8% p.a. compound
Dividend growth	4% p.a. compound
Rate of general increase in salaries	6% p.a. compound
Rate of increase in pensions increasing in line with Pensions Increase Orders	4% p.a. compound
Market value of assets at 6 April 1999	£5 million
Level of funding at 6 April 1999	85%
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 year in the number of serving employees in the scheme, a provision of £539,000 (note 19) has been recorded to reflect a proportion of the cost of making up the deficit. This has been included in the pension cost in note 10.

The market value of assets at 31 December 2001 was £7.5 million (31 December 2000: £7.3 million).

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 first year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in the year ending 31 December 2003.

The actuarial valuations described above has been updated at 31 December 2001 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:

	2001
Rate of increase in salaries	4%
Rate of increase in pensions in payment	2.5%
Discount rate	5.9%
Inflation assumption	2.5%

Notes to the Financial Statements (continued)

27. Pensions (continued)

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 2001 %	Value at 31 December 2001 £ million
Equities and Property	7.75	76.0
Fixed interest bonds and gilts	5.9	7.2
Index linked bonds	5.0	6.8
Cash	2.5	1.0
Total fair value of assets		91.0
Present value of scheme liabilities		(86.2)
Surplus in the scheme		4.8
Related deferred tax liability		(1.4)
Net pension asset		3.4

The contribution rate for 2001 was 10.8% of pensionable earnings. This will be reviewed at the next actuarial valuation.

The Ecovert Pension Scheme

The major assumptions used for the actuarial valuation were:

	2001
Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	2.5%
Discount rate	5.9%
Inflation assumption	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 2001 %	Value at 31 December 2001 £ million
Equities	7.75	6.1
Fixed interest bonds and gilts	5.9	0.7
Cash	2.5	0.7
Total fair value of assets		7.5
Present value of scheme liabilities		(9.1)
Deficit in the scheme		(1.6)
Related deferred tax asset		0.5
Net pension liability		(1.1)

The contribution rate for 2001 was 13.2% of pensionable earnings. This will be reviewed at the next actuarial valuation.

Notes to the Financial Statements (continued)

28. Contingent liabilities

Group

There are contingent liabilities arising from performance bonds in respect of group undertakings' contracts and other claims amounting to £657,000 (at 31 December 2000: £3,840,000).

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 2001 (at 31 December 2000: £994,000).

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

	2001 £000	2000 £000
Performance bonds	407	3,590
Lease commitments	616	2,960
	1,023	6,550

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.

29. Reconciliation of operating profit to net cash inflow from operating activities

	2001 £000	2000 £000
Operating profit	25,970	29,264
Profit on disposal of fixed assets	(574)	(6,640)
Cost of goodwill written off	176	-
Depreciation	16,544	19,305
Impairment	1,925	-
Amortisation of negative goodwill	(246)	(108)
Amortisation of positive goodwill	359	165
Movement in provision	253	1,471
Amortisation of deferred income	(747)	(749)
(Decrease) in trade creditors	(1,687)	(7,332)
Decrease in trade debtors	3,438	2,245
Decrease in stocks	665	65
Other non-cash movement	(103)	(69)
Net cash inflow from operating activities	45,973	37,617

Notes to the Financial Statements (continued)

30 Analysis of cash flows

	2001 £000	2000 £000
Returns on investments and servicing of finance		
Interest paid	(7,718)	(8,765)
Interest received	121	181
Dividends received	42	28
Interest element of finance leases	(1,758)	(1,908)
Net cash outflow	(9,313)	(10,464)
Taxation		
UK corporation tax paid	(1,182)	(947)
Net cash outflow	(1,182)	(947)
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(27,843)	(26,859)
Capitalised development costs	(669)	-
Capital contributions received	1,405	948
Sale of tangible fixed assets	5,292	14,573
Redemption of loan notes	(48)	(58)
Net cash outflow	(21,863)	(11,396)
Acquisitions and disposals		
Disposal of subsidiary undertakings and operating contracts	7,016	(316)
Acquisition of minority share of subsidiary undertaking	(5)	-
Revised consideration for subsidiary undertaking	(884)	-
Net cash outflow	6,127	(316)
Financing		
Decrease in loan from parent company	(8,210)	(13,500)
Capital element of finance lease repayments	(4,817)	(3,695)
Repayment of short term loans	(1,998)	(41)
Redemption of debentures	(69)	-
Net cash outflow	(15,094)	(17,236)

Notes to the Financial Statements (continued)

31. Analysis and reconciliation of net debt

	At 1 January 2001 £000	Cashflow £000	Non cash changes £000	At 31 December 2001 £000
Cash at bank and in hand	1,019	4,547	-	5,566
Overdrafts	(1,145)	101	-	(1,044)
	(126)	4,648	-	4,522
Loans	(112,856)	10,277	-	(102,579)
Finance leases	(31,064)	4,817	2,384	(23,863)
Net group debt	(144,046)	19,742	2,384	(121,920)
	2001 £000	2001 £000	2000 £000	2000 £000
Increase/(decrease) in cash in the year	4,648		(2,742)	
Cash inflow from decrease in debt and lease financing	15,094		17,236	
Change in net debt resulting from cash flows		19,742		14,494
New finance leases		(118)		(87)
Disposal of subsidiary		1,260		-
Rate change on finance leases		1,242		-
Movement in net debt in the year		22,126		14,407
Net debt at 1 January		(144,046)		(158,453)
Net debt at 31 December		(121,920)		(144,046)

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:

	2001 £000	2000 £000
Sale of services to Scotia Water Dalmuir Limited	47	47
Recharge of expenses to Redelfor SA	-	415

There were no amounts owed to related parties.

Amounts owed by related parties were as follows:

	2001 £000	2000 £000
Scotia Water Dalmuir Limited	702	56

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 International SA owns 55% of the issued share capital of Redelfor SA.

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.

33. Ultimate parent company

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. 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.