

No: 1990891

SAUR UK

Report and Accounts 1999

31 December 1999



SAUR UK

A REPORT ON OUR ACTIVITIES 1999

THE PRIVATE MANAGER OF PUBLIC UTILITIES

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

The group operates in the UK through its subsidiaries SAUR Water Services, Ecovert Group and SAUR Services and employs 2,000 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 international engineering consultancy through its subsidiary, Dynamco. The company is located in Haywards Heath, West Sussex.

Ecovert Group provides a range of environmental, municipal and facilities management services to local authorities, the public sector and industry. The group operates from over 20 locations throughout the UK including Anglesey, Barnet, Brighton, Caerphilly, Camberley, Cardiff, Central London, Gosport, Isle of Wight, Stratford upon Avon, Test Valley and Wycombe. Ecovert Group operates through its subsidiaries Ecovert South, Ecovert and Ecovert Services and is headquartered in Brighton, East Sussex.

SAUR Services provides business and functional support services to the SAUR UK group including information technology, procurement, health, safety and environmental control from its headquarters in Frimley Green, Surrey. It also operates overseas through its South African subsidiary, Siza Water and in Scotland through its subsidiary Saur Services Glasgow.

SAUR UK is part of the international operations of the SAUR Group, a world leader in the private management of public utilities. The group employs 23,000 people and serves 46 million people worldwide across Europe, the Americas, Asia and Africa. SAUR is part of the Bouygues Group.

SAUR UK – A REPORT ON OUR ACTIVITIES

CONTENTS

Chairman's statement	1
Financial highlights	2
Business review	3
Directors, secretary and advisers	7
Directors' report	8
Statement of directors' responsibilities	11
Auditors' report	12
Consolidated profit and loss account	13
Consolidated balance sheet	15
Company balance sheet	17
Consolidated cash flow statement	18
Notes to the financial statements	20

SAUR UK – A REPORT ON OUR ACTIVITIES

Chairman's statement

I am pleased to announce the financial results for the SAUR UK group for the 12 months ending December 1999. Turnover for the period was £149.9 million and pre-tax profits before the exceptional impairment provision described in the directors' report were £16.9 million.

SAUR Water Services continued to account for a major part of the SAUR UK group's activities in 1999. At the start of the year, South East Water and Mid Southern Water became one company (South East Water), operating under a single licence. During the year, South East Water welcomed a new managing director and embarked upon a major restructuring programme to meet the future challenges facing the UK water industry. Capital investment was also a significant feature of South East Water's activities during the year, which included £9.3 million invested in mains rehabilitation and £1 million spent on mains renewals.

Through Siza Water, the SAUR UK group also started operating its first overseas water and wastewater concession in 1999. The concession is for the Borough of Dolphin Coast, South Africa and has a term of 30 years.

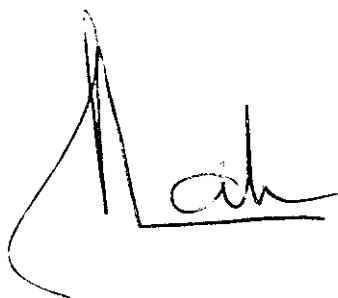
Our facilities management and environmental services activities under Ecovert Group had a challenging year which included the start up of facilities management contracts at King's College in London and Barnet Hospital in Hertfordshire. In addition new environmental services contracts were gained and existing contracts extended.

1999 was another excellent year for Pipeway, which exceeded its budget in both sales and operating profit, and received government approval for two innovative new pipeline rehabilitation technologies. Towards the end of the year, SAUR UK acquired 51% of Pipeway which was previously held elsewhere within the SAUR group.

Our commitments to quality, customer service, our communities and staff continued throughout 1999 with the development of new initiatives and training.

The directors and staff made an outstanding contribution to the growth and development of our businesses throughout 1999 and I would like to thank them for their continued commitment.

Jean-François Talbot
Chairman

A handwritten signature in black ink, appearing to read 'J. Talbot', with a large, stylized initial 'J' and a horizontal line extending from the end of the signature.

SAUR UK – A REPORT ON OUR ACTIVITIES

Financial highlights

The SAUR UK group's turnover increased by £7.4 million to reach £149.9 million during 1999, reflecting the group's continuing success and commitment to growth. The increase in turnover is mainly attributable to that generated by the operation of the new Ecovert Group facilities management contracts and our first overseas water and waste water concession in South Africa. The acquisition of a 51% share in Pipeway towards the end of the year has contributed £1.6 million to the total turnover.

Under the requirements of FRS11, an impairment provision of £328 million has been made in the year as described in the directors' report. This is an exceptional item in the profit and loss account.

The group operates a policy of charging development costs and start-up expenses associated with new contracts to the profit and loss account in the year during which they are incurred. Consequently, the implementation of these new contracts together with our increasing development activities throughout the group has reduced our operating profit during 1999 by comparison with the previous year.

Total costs associated with preparation for the potential impact of the millennium bug were in the region of £1 million, of which approximately £600,000 was spent in 1999. Costs of restructuring within South East Water were fully absorbed during the year.

Under the requirements of FRS10, goodwill of £979,000 associated with two dormant subsidiaries Channel and Stalwart which was previously written off against reserves, has been charged to the profit and loss account in 1999 and credited to reserves, as its recoverable amount is considered to be nil. There is no net impact on the balance sheet of the group.

The group also incurred costs relating to the early termination of the Brighton street cleansing and refuse collection contracts, contracts which the Ecovert Group had operated for a number of years under terms which were uneconomic and not contributing to the long term financial success of the group. The focus is now to grow the more profitable facilities management business such as the contracts at King's College and Barnet Hospital which started operating during the year. Other new contracts won during 1999 included one awarded by Brighton and Hove Council to manage a premises move for Brighton and Hove Albion football club.

Capital expenditure by the group increased to £33 million (1998 : £30 million) of which £30 million related to the group's water activities, demonstrating our ongoing commitment to improving water quality and continuous supply.

SAUR UK A REPORT ON OUR ACTIVITIES

Business review

1999 was a successful year and a year of change for the SAUR UK group.

Its UK water business faced many challenges presented by new legislation, increased competition and a review of price limits, while its facilities management business started providing services for two significant new contracts. The SAUR UK group also started operating a new water and wastewater services concession in South Africa and signed a contract to operate a wastewater treatment facility in Scotland.

Towards the end of 1999, SAUR UK acquired 51% of Pipeway Limited, which was previously held elsewhere in the SAUR Group. Having managed the activities of Pipeway for some time, SAUR UK is pleased to add this important contracting operation to its portfolio. Throughout the year, the group also continued to work with its parent company to pursue international development opportunities.

In addition to operational and business development activities in 1999, the SAUR UK group completed work to prepare for the potential impact of the millennium bug. It carried out inventories of assets containing computer microchips and investigated the compliance of all items in association with suppliers and manufacturers. Where items were identified that were unable to operate adequately through the date change, they were replaced. In addition, the SAUR UK group carried out extensive testing to ensure that no problems remained undetected. Having done all this, it left nothing to chance and put contingency plans into many areas. The group is pleased to report that no millennium bug related problems arose at the start of the new year.

WATER AND WASTEWATER SERVICES

Water supply still accounts for a major proportion of the SAUR UK group's activities. This year, its UK water activities managed by South East Water faced many challenges.

At the start of the year, South East Water and Mid Southern Water became one company, operating under a single licence and during the first quarter of the year welcomed a new managing director, Margaret Devlin.

In 1999, several years of preparatory work for the review of price limits in the English and Welsh water industry were completed and South East Water's price limits for the next five years were determined in November 1999 by the Director General of Water Services. The company's price limit for 2000-01 has been determined as a 16.1% reduction.

In addition to the determination of water price limits for the years 2000-2005, the English and Welsh water industry witnessed the introduction of the Water Industry Act 1999 and faces increased competition with the Competition Act now in force.

It is against the background of these three key issues which will certainly change the face of the water industry, that South East Water embarked upon a major restructuring programme during the year.

The restructuring programme included a comprehensive review of every area of South East Water's activities. It was designed to streamline operations and position the company to operate more effectively and efficiently in the changing UK water sector. It will also equip South East Water to take advantage of new business development activities presented by increased competition and new legislation.

Major changes resulting from the restructuring programme included: the outsourcing of water meter reading to Accuread; the relocation of South East Water's head office from Eastbourne, East Sussex, to a more central location in Haywards Heath, West Sussex and the complete restructuring of operational activities. A thorough review of customer services practices also highlighted that customers' needs have changed significantly over the past few years. One new initiative that resulted from this was the launch of a web site to meet the needs of a growing number of customers who prefer to obtain information or communicate electronically.

To prepare for new business opportunities, South East Water also strengthened its commercial team in 1999 and introduced two new services. In the early part of the year it launched a plumbing and emergency services home insurance scheme for customers. It also invested to extend its laboratory at Frimley Green, Surrey to enable it to offer a cryptosporidium analysis service. The laboratory was one of the first in the country to be granted a licence by the Drinking Water Inspectorate to analyse water samples for cryptosporidium. Water companies have had to comply with strict new cryptosporidium regulations from April 2000 and South East Water now offers a cryptosporidium analysis service to the water sector. Towards the end of 1999, it gained cryptosporidium analysis contracts from two other water companies.

South East Water completed a number of capital projects during the year. £9.3 million was invested in mains rehabilitation, where 220,000 metres of water main were scraped and relined to improve water quality. In addition, £1 million was spent to renew water mains, including a major project in Ticehurst, Kent to solve distribution problems. New boreholes were constructed at Headley Park, Hampshire and at Crowhurst Bridge, Sussex and significant reservoir refurbishment was carried out at reservoirs in Farnham, Surrey; Crowthorne, Berkshire; Blackhill, Surrey and Ewshot, Hampshire. Work was also carried out at South East Water's Ardingly reservoir in East Sussex to improve the dam wall and reservoir banks.

South East Water's sister company, Dynamco, provided technical assistance and project management services for a number of the capital projects detailed above. In addition, Dynamco carried out extensive hydraulic network modelling of South East Water's infrastructure in the Medway, Kent, and Haywards Heath, West Sussex, areas to optimise use of the network as well as investigations into sludge treatment and disposal options.

Dynamco also undertook a number of projects for other clients, including a project in Latvia involving pilot trials and an outline design for a biological iron and manganese removal plant. It continued to provide technical assistance for the SAUR UK group's business development activities. During the year, Dynamco worked in partnership with Pipeway on a design and construction project for a water supply and fire main system for the Ministry of Defence at RAF Benson in Oxfordshire.

South East Water promoted water efficiency actively throughout the year. A mobile exhibition trailer toured its supply region throughout 1999 and was visited by many thousands of customers, at schools, garden centres, community events and shows. Over 6000 water meters were installed for customers free of charge and a water saving project was carried out in conjunction with Basingstoke and Dean Borough Council in Hampshire. Work to reduce water leakage also continued, through South East Water's 30 strong team dedicated to the daily detection and repair of leaks. A 'leak busters' programme was also introduced, which focused on areas of high leakage to identify leaks and raise awareness of and encourage water efficiency.

Conservation and recreation activities at South East Water in 1999 included an innovative project at Arlington Reservoir, East Sussex, where staff worked with volunteers from the Sussex Downs Conservation Trust to create a floating vegetation island to provide a habitat for dragonflies, mayflies and breeding birds. In addition, the roots of the common reed used for the island are being used to trap suspended solids in the water, breaking down nutrients, which makes water treatment easier. Barn owl nesting boxes were installed along the River Ouse (Kent) and the River Cuckmere (East Sussex). South East Water's conservation work was recognised by Wealden Council which awarded the company a top prize in its 1999 Environmental Awards.

In April, the SAUR UK group started operating its first overseas water supply concession for the Borough of Dolphin Coast, South Africa as part of the Siza Water consortium. The 30 year concession is valued at £100 million and covers: the management of water and wastewater services; the takeover, maintenance and replacement of the existing infrastructure and the financing and construction of new infrastructure needed to supply water to the population. The SAUR UK group holds the majority shareholding of Siza Water Company Pty. Other shares are held by South African business partners.

SAUR UK also gained a wastewater contract in Scotland under the Private Finance Initiative. As part of the Scotia Water consortium, SAUR UK will operate a new sewage treatment works for the West of Scotland Water Authority in Glasgow which is currently under construction.

ENVIRONMENTAL SERVICES AND FACILITIES MANAGEMENT

1999 was a challenging year for Ecovert Group, which started operating two significant new facilities management contracts, and also gained new and extended existing environmental services contracts.

In the first quarter of the year, Ecovert Group started operating its 30 year facilities management contract as part of the Metier consortium at Barnet Hospital in Hertfordshire. The contract was awarded under the Private Finance Initiative, is valued at £150 million and was one of the first such contracts to be awarded in the UK. Ecovert Group is responsible for activities including: building and grounds maintenance; asset replacement; cleaning; laundry; catering; portering and transport services.

Ecovert Group also commenced operations for another significant facilities management contract mid-year, at King's College, London. Under the 25 year contract, which is worth £58 million, facilities management services are being provided for two new college buildings in the heart of London. Services being provided include: life cycle fund asset management; building cleaning; window cleaning; security; portering; postal services; help desk; catering; waste management and landscaping.

Another highlight of Ecovert Group's facilities management activities during the year included the award of a contract in Brighton, East Sussex to enable Brighton and Hove Albion football club to move to the Withdean Sports Complex, which is managed by Ecovert Group. Contracted services include: project and health and safety management; stewarding; event staff recruitment and training; grounds maintenance; catering and hospitality. This contract extends to 2001 and is valued at £600,000.

During the year, Ecovert Group successfully renewed many existing environmental services contracts. Its refuse collection contract in Gosport, Hampshire was renewed for a further nine years, valued at £9.2 million, and its Stratford Upon Avon, Warwickshire, street cleaning contract was extended for a further seven years with a value of £4.3 million. Its civic amenity and recycling contract in the Vale of Glamorgan, Wales was extended for a further five years and is valued at £3.5 million. The highways division in Brighton also extended an existing contract until 2003 worth £2.6 million.

A particular milestone mid-year was the successful winding up of Ecovert Group's refuse and street cleansing contracts for Brighton and Hove Borough Council. Ecovert Group is now able to focus on its more profitable and successful facilities management activities in Brighton including leisure management; grounds maintenance; catering; building and highways maintenance.

Other contracts were also won by Ecovert Group 1999. The grounds maintenance division won a contract worth £1.5 million from Broxbourne Borough Council and the building maintenance team secured a contract with English Churches until 2003, worth £920,000. Ecovert Group also gained permission to extend and increase the capacity of its landfill site in Trehir, Wales.

Ecovert Group's commitment to quality continued through the year. In February, 13 of its contracts were collectively awarded ISO 9001. Its fleet management operations also achieved ISO 9002 certification. The group's quality initiatives are continuing as it works towards achieving certification for its new facilities management contracts at Barnet Hospital and King's College. Ecovert Group hopes to gain ISO 9000 certification for all its operations by the end of 2000.

CONTRACTING

1999 was another excellent year for Pipeway whose performance exceeded its budget in both sales and profit, despite the fact that contracting to the UK water industry remained extremely competitive throughout the year.

Pipeway's significant investment in research and development during the past two years has been reflected in governmental approval for two of its pipeline rehabilitation technologies. The first of its new processes is a rapid setting lining system that has been jointly developed with E Wood Ltd, one of the UK's leading coating formulators and manufacturers. As the lining sets in two hours, a pipe can be re-lined and returned to service the same day – something that is not possible using other existing epoxy resin systems. This offers a real benefit to the water industry by reducing shut down times, penalties and traffic management issues.

The second new process is called PipeSaver and is being promoted through Pipeway's subsidiary CemPipe Limited, which has the world rights to the new technology under a licence agreement. PipeSaver is a process for lining both old and new pipelines which uses a tight fit polyethylene liner with Velcro® hooks bonded to cement mortar. It offers a broad range of benefits, including corrosion control, sediment resistance, leak prevention and various strength parameters. Coupled with this, it has low installation, equipment and material costs and is relatively easy to install.

Field trials of Pipeway's new technologies are under way throughout the UK. Results so far indicate that both technologies will prove commercially successful within the next 18-24 months.

Pipeway's position at the forefront of the pipeline rehabilitation industry was also strengthened when it was awarded an International Water Exhibition Award for Innovative Technology.

Although contracting activities account for Pipeway's core business, a move towards licensing its technology is under way. Its marketing strategy for 2000 takes account of the developing North American water market and the transfer of technology into that market where it sees the opportunity.

During the year Pipeway's main activity was pipeline rehabilitation, which it undertook for a number of UK water companies. Additionally the Ministry of Defence awarded Pipeway a contract at RAF Benson for the supply and storage of water, fire mains and associated mechanical and electrical and civils work, valued at £1.2 million.

Pipeway continues to undertake road maintenance works on behalf of a number of local authorities. This is an area of business that Pipeway hopes to develop further.

SAUR UK – A REPORT ON OUR ACTIVITIES

Directors, secretary and advisers

J-F Talbot, Chairman
F Leborgne, Managing Director (appointed 19 June 2000)
H T Barnhoorn, Managing Director (resigned 19 June 2000)
G M Hoskins, Director
L Peterschmitt, Director
P C Rancon, Director
J P Sennepin, Director

Jean-François Talbot (52) 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 Côte d'Ivoire 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 managing director of SAUR International.

Francis Leborgne (56) is an engineer by profession and has 30 years experience with the SAUR group, both in its water operations and environmental services activities. During his career with the group, he has led operations in the Ivory Coast, France and more recently, Poland.

Geoffrey Hoskins (69) is a chartered accountant. He joined Eastbourne Water in 1973 as managing director and was subsequently elected as executive chairman. He became deputy managing director of SAUR UK in 1993 until his retirement as an executive in 1995.

Louis Peterschmitt (61) has over 30 years service with the group, beginning his career in SAUR France. In 1971, he transferred to SODECI (Côte d'Ivoire), becoming managing director in 1978. In 1983 he returned to France to become deputy managing director of SAUR Africa and managing director in 1987. Mr Peterschmitt was promoted to deputy managing director of SAUR International in July 1994, became managing director in 1996, and was made chairman in 1999.

Patrice Rancon (53) joined the SAUR Group in 1981 as deputy director of finance before moving on to become company secretary and group finance director. He was appointed deputy managing director of the SAUR Group in 1995.

Jacques Sennepin (63) is a qualified engineer who joined the SAUR Group in 1986 and has led the group's expansion internationally. He is a director of SAUR International and managing director of the SAUR Group.

Director of Finance
EA Snaith

Company Secretary
M Pedro (Solicitor)

Group Bankers
National Westminster Bank plc
HSBC Bank plc
Barclays Bank plc
De Nationale Investerings Bank NV

Group Auditors
KPMG
Pricewaterhouse Coopers

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 1999.

Principal activities

The principal activities of the group are the supply and distribution of water, engineering consultancy and the collection and disposal of waste together with the development of business in related areas, in the UK and overseas.

Fixed Assets

Capital expenditure on tangible fixed assets during the year totalled £33.3 million (year ended 31 December 1998: £30.4 million). Details of changes in tangible fixed assets are summarised in note 11.

Following the regulatory price review which was concluded in November 1999, the directors have considered in great detail the case for an impairment of tangible fixed assets in accordance with the requirements of FRS11.

This requires the directors to consider the value in use of the group's tangible fixed assets on the basis of a complex set of assumptions, particularly with regard to the outcome of future price reviews.

Whilst considerable work has been carried out by the company to identify the potential impact of future price reviews, given the uncertainty of the future regulatory environment particularly in respect of the return on capital assumptions and assumptions in respect of the future pricing regime, the directors note that, as stated in FRS11, the application of the standard is based on best estimates of unknown future events which are inherently judgmental and subjective. Following lengthy discussions with the auditors, the directors have reluctantly accepted the judgement of the auditors in respect of the underlying assumptions made in the impairment calculation. The directors note that the calculation does not take account of actions which will be taken in the future by the group to enhance profitability through the achievement of operating efficiencies and other income generating measures.

As explained in Note 1 to the financial statements, the impairment calculation is based on the current five year business plan plus a projection in perpetuity on the assumption that the price control formula for future regulatory periods will be similar to that for the regulatory period commencing 1 April 2000. This produces an impairment estimated at £328m which has been charged to the profit and loss account as an exceptional item.

The directors note that the impairment calculation is as a result of the requirements of the accounting standard FRS11 and does not impact on the cash flows of the company. The adjustment does not affect the company's distributable reserves.

The impairment in the group accounts of SAUR (UK) arises as the fair value of the tangible fixed assets in the water companies was determined at acquisition in 1989 being their estimated current cost at that time. The consequential uplift above the original cost of the assets was reflected through reserves in accordance with acquisition accounting.

Business Review

Consolidated loss on ordinary activities after impairment, minority interests and taxation for the year was £310.9 million (year ended 31 December 1998: profit after minority interest and taxation £19.7 million). The financial position at 31 December 1999 is shown in the consolidated balance sheet on page 15 and in the company's balance sheet on page 17.

Dividends

No dividends have been paid or proposed for the year ended 31 December 1999. (1998: interim dividend of £1,500,000, and final dividend of £4,500,000, of which £1,000,000 was paid in April 1999).

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. H.T. Barnhoorn resigned on 19th June 2000 and Francis Leborgne was appointed Managing Director on 19th June 2000. None of the directors held any beneficial interests in the company during the period.

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 1999 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.

- **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 16.

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.

Year 2000 Project

The directors are pleased to report that the group experienced no operational or financial problems in relation to year 2000 compliance. This is a result of an in-depth project carried out since 1996 to assess and address the risks associated with the potential failure of IT systems and related equipment in the year 2000. This involved a dedicated team taking a full inventory of all potentially affected systems and equipment, assessing the impact on the business of their possible failure, and systematically eliminating or reducing this risk. The cost to the group of this project, over and above routine replacement and maintenance budgets, was in the region of £1million. This comprises payroll and related expenses for staff carrying out compliance testing, and the cost of external specialist personnel as required.

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 £5,000 (year ended 31 December 1998: £9,292). There were no political donations made by the group.

Post Balance Sheet Event

Subsequent to the year end South East Water plc received OFWAT's approval for the sale of surplus land at the Boxalls Lane site. South East Water plc received an offer for the land of £9.21 million and completed the transaction in June 2000.

Auditors

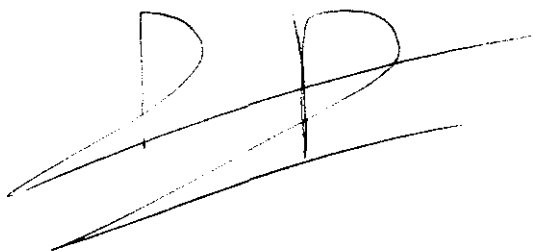
In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

F Leborgne

Managing Director

For and on behalf of the board

13th September 2000

A handwritten signature in black ink, appearing to be 'F Leborgne', written over a horizontal line.

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 of the 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

auditors' report

Report of the Auditors, KPMG, to the members of SAUR (UK) Limited.

We have audited the financial statements on pages 13 to 43

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 11, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the group 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 is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1999 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG

Chartered Accountants
Registered Auditors

London
13th September 2000

consolidated profit and loss account

for the year ended 31 December 1999

	Note	1999 £000	1999 £000	1998 £000	1998 £000
Group turnover	2		149,978		142,500
Cost of sales		(126,847)		(112,923)	
Impairment	11	(328,000)		-	
Cost of sales including impairment			(454,847)		(112,923)
Other operating income	3		4,587		4,372
Group operating (loss)/profit			(300,282)		33,949
Share of operating profit in joint ventures			(39)		-
			(300,321)		33,949
Interest receivable and similar income – group	4		189		207
Interest payable and similar charges - group	5		(10,908)		(13,136)
Profit on ordinary activities before taxation and exceptional items			16,960		21,020
(Loss)/profit on ordinary activities before taxation	6		(311,040)		21,020
Tax on profit on ordinary activities	9		77		(1,065)
(Loss)/profit on ordinary activities after taxation			(310,963)		19,955
Minority interests:	22				
Voting			27		(266)
Non-voting			-		(19)
(Loss)/profit for the year			(310,936)		19,670
Equity dividends			-		(6,000)
Retained (Loss)/profit	20		(310,936)		13,670

The income and expenditure all relate to continuing operations, none of which were acquired in the year, except for Pipeway Limited, which was acquired in December 1999. Amounts relating to Pipeway Limited, included in the consolidated profit and loss account, are turnover of £1.6 million and operating profit of £223,000.

The group has no 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.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year shown above and their historical cost equivalents.

A statement of the movement on reserves is set out in note 20.

consolidated balance sheet

as at 31 December 1999

	Note	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Intangible assets:					
Goodwill		2,919		-	
Negative goodwill		(2,046)		(2,154)	
Net goodwill	10		873		(2,154)
Tangible assets	11		512,106		825,165
Investments:					
Investments in Joint Ventures:					
Share of gross liabilities		(39)		-	
		(39)		-	
Other investments		874		874	
Total investments	12		835		874
			513,814		823,885
Current assets					
Stocks	13	2,157		1,797	
Debtors	14	39,409		32,291	
Cash at bank and in hand		2,773		512	
		44,339		34,600	
Creditors: amounts falling due within one year	15	(151,303)		(49,225)	
Net current liabilities			(106,964)		(14,625)
Total assets less current liabilities			406,850		809,260
Creditors: amounts falling due after more than one year	16		(57,059)		(151,757)
Provisions for liabilities and charges	17		(477)		(409)
Deferred income	18		(12,000)		(12,748)
Net assets			337,314		644,346
Capital and reserves					
Called up share capital	19		31,800		31,800
Profit and loss account	20		302,504		612,514

Equity shareholders' funds	21	334,304	644,314
Equity minority interests	22	3,010	32
		337,314	644,346

These financial statements were approved by the board of directors on 13th September 2000 and were signed on its behalf by:



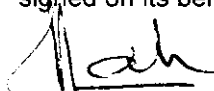
J-F Talbot
Chairman

company balance sheet

as at 31 December 1999

	Note	1999 £000	1999 £000	1998 £000	1998 £000
Fixed assets					
Tangible assets	11	76		153	
Investments	12	124,985		58,920	
			125,061		59,073
Current assets					
Stocks	13	-		78	
Debtors	14	6,928		5,811	
Cash at bank and in hand		7,694		5,769	
		14,622		11,658	
Creditors: amounts falling due within one year	15	(107,747)		(7,795)	
Net current (liabilities)/assets			(93,125)		3,863
Total assets less current liabilities			31,936		62,936
Creditors: amounts falling due after more than one year	16		(8,000)		(23,092)
Provisions for liabilities and charges	17		(2)		(310)
Net assets			23,934		39,534
Capital and reserves					
Called up share capital	19		31,800		31,800
Profit and loss account	20		(7,866)		7,734
Equity shareholders' funds			23,934		39,534

These financial statements were approved by the board of directors on 13th September 2000 and were signed on its behalf by:



J-F Talbot
Chairman

consolidated cash flow statement

for the year ended 31 December 1999

	Note	1999 £000	1999 £000	1998 £000	1998 £000
Net cash inflow from operating activities	27		38,872		38,261
Returns on investments and servicing of finance					
Interest paid		(8,681)		(11,077)	
Interest received		160		207	
Dividends to minorities		-		(117)	
Dividends received		29		-	
Interest element of finance leases		(2,256)		(2,063)	
Net cash outflow from returns on investments and servicing of finance			(10,748)		(13,050)
Taxation					
UK corporation tax paid			(1,477)		(1,289)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(25,858)		(27,823)	
Loan to fellow subsidiary		-		(450)	
Repayment by fellow subsidiary		-		600	
Purchase of investment		-		(874)	
Capital contributions received		1,691		1,610	
Sale of tangible fixed assets		3,447		2,680	
Sale of investment		-		8	
Redemption of loan notes		(468)		-	
Net cash outflow from capital expenditure and financial investment			(21,188)		(24,249)
Acquisitions and disposals					
Purchase of minority interests		-		(2,535)	
Purchase of subsidiary undertakings		(5,761)		-	
Cash acquired with subsidiary undertaking		2,161		-	
Net cash outflow from acquisitions and disposals			(3,600)		(2,535)
Equity dividends paid			(1,000)		(5,000)
Net cash inflow/(outflow) before management of liquid resources and financing			859		(7,862)
Net cash inflow from financing	28		3,730		4,195
Increase/(decrease) in cash in the year			4,589		(3,667)

Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash in the year		4,589	(3,667)	
Cash inflow from decrease in debt and lease financing		(3,730)	(4,195)	
Change in net debt resulting from cash flows			859	(7,862)
New finance leases			(4,862)	(2,608)
Translation differences			53	-
Movement in net debt in the year			(3,950)	(10,470)
Net debt at 1 January 1999 and 1 January 1998	29	(154,725)		(144,255)
Net debt at 31 December 1999 and 31 December 1998	29	(158,675)		(154,725)

The impact on cashflows of the post acquisition trading of Pipeway Limited is not considered material to the group.

notes to the financial statements

for the year ended 31 December 1999

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements:

Basis of preparation

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

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.

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 disclosed 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 has been determined by reference to their depreciated current replacement cost. Deferred taxation has not been provided on the difference between the fair value and the book value of the assets as it is not anticipated that any significant portion of the assets will be disposed of in the foreseeable future.

Under the requirements of FRS 10 goodwill arising prior to 1 January 1998 remains eliminated against capital reserves. The balance on the capital reserve shown in the financial statements for the year ended 31 December 1997 was added to the profit and loss reserve under the transitional arrangements for FRS 10. On any subsequent disposal this goodwill will be written off to the profit and loss account.

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.

Research and development expenditure

Research and development expenditure and contributions to WRc plc are charged to the profit and loss account as incurred.

Taxation

Imputed tax credits on franked investment income and advance corporation tax on dividends paid are treated as part of the taxation charge to the extent they are not considered recoverable.

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 permanent diminution in value.

Infrastructure renewals accounting

Infrastructure assets comprise the network of systems relating to water distribution, such as water mains and surface reservoirs. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No 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 11 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.

Depreciation

Freehold land and infrastructure assets are not depreciated. 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

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 of 20 years.

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 or 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.

Pension costs

The assets of the principal pension schemes 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 contributions are determined by an independent qualified actuary at periodic intervals using the projected unit method.

Financial instruments

The group has adopted FRS 13 (Derivatives and Other Financial Instruments : Disclosures) for the year ended 31 December 1999. This has resulted in additional disclosures included in note 16 to the accounts. The group has not included short term debtors and creditors in these disclosures.

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

Impairment of tangible fixed assets

The impairment is calculated as the difference between the carrying value of tangible fixed assets and an estimate of the value in use at the date the impairment loss is recognised. Value in use represents the present value of expected future cash flows which are required to be discounted on a pre-tax cash flow basis. The future cash flows comprise a five year business plan plus a projection in perpetuity, on the assumption that the price control formula for future regulatory periods will be similar in form to the price control formula for the regulatory period commencing 1 April 2000.

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

	Water supply 1999 £000	Water supply 1998 £000	Other 1999 £000	Other 1998 £000	Total 1999 £000	Total 1998 £000
Turnover						
Measured water sales	35,982	32,681	-	-	35,982	32,681
Unmeasured water sales	61,814	62,109	-	-	61,814	62,109
Rechargeable sales	2,329	3,277	-	-	2,329	3,277
Other sales	863	719	55,651	48,608	56,514	49,327
Total sales	100,988	98,786	55,651	48,608	156,639	147,394
Intersegment sales	(632)	(488)	(6,029)	(4,406)	(6,661)	(4,894)
Sales to third parties	100,356	98,298	49,622	44,202	149,978	142,500
Attributable profit/(loss) before interest and exceptional items	40,260	41,425	(12,542)	(7,476)	27,718	33,949
Exceptional items: impairment of fixed assets	(328,000)				(328,000)	
Share of operating profit/(loss) and profit/(loss) before tax in joint ventures			(39)		(39)	
Net interest payable					(10,719)	(12,929)
(Loss) / profit before tax and minority interests					(311,040)	21,020
Non interest bearing net assets	472,735	790,390	27,378	9,495	500,113	799,885
Interest bearing net liabilities	(126,953)	(131,976)	(35,846)	(23,563)	(162,799)	(155,539)
Consolidated net assets/(net liabilities)	345,782	658,414	(8,468)	(14,068)	337,314	644,346

99% of turnover arose within the United Kingdom. The majority of the remaining 1% of turnover arose from our water supply operations in Southern Africa.

3. Other operating income		
	1999	1998
	£000	£000
Profit on sale of fixed assets	897	486
Rents receivable from land	545	275
Sundry income	3,145	3,611
	4,587	4,372
4. Interest receivable and similar income		
	1999	1998
	£000	£000
Interest receivable on bank deposits	151	179
Income from fixed asset investment	23	-
Other income	15	2
Interest receivable from fellow subsidiary undertakings	-	26
	189	207
5. Interest payable and similar charges		
	1999	1998
	£000	£000
Interest payable on bank loans	5,849	6,636
Interest on other borrowings	1,734	1,835
Interest payable on loans from immediate parent undertaking	657	1,571
Interest payable on finance leases which expire:		
within five years	339	317
after five years	1,827	2,222
Other charges	502	555
	10,908	13,136

6. Profit on ordinary activities before taxation

	1999 £000	1999 £000	1998 £000	1998 £000
Loss/profit before taxation is arrived at after charging/(crediting):				
Depreciation:				
owned assets	14,183		9,322	
leased assets	1,623		2,509	
		15,806		11,831
Rates and abstraction charges		6,512		5,761
Hire charges		5		227
Operating lease rentals:				
plant and machinery	488		947	
other assets	654		793	
		1,142		1,740
Profit on disposal of fixed assets		(897)		(486)
Loss on disposal of goodwill		-		304
Auditors' remuneration:				
Statutory audit				
- company		27		41
- subsidiaries		159		172
Non audit work		61		232
Research and development		217		307
Amortisation of goodwill		(108)		-
Goodwill written off on closure of businesses		979		-

7. 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 20.

8. Directors and employees

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

	1999	1998
Operations	1,394	1,299
Engineering	77	42
Management and administration	602	525
	2,073	1,866

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	37,010	33,434
Social security costs	3,361	3,160
Pension costs	1,793	1,703

	42,164	38,297
Remuneration of directors		
	1999	1998
	£000	£000
Aggregate emoluments	415	460
Retirement benefits are accruing to one director under a defined benefit scheme.		
Emoluments of the highest paid director are as follows:		
Aggregate emoluments	223	203
Accrued pension at end of year	73	46
Accrued lump sum at end of year	180	139

9. Taxation

Group

	1999	1998
	£000	£000
UK Corporation tax on profits at 30.25%	2,212	3,939
Advance corporation tax reinstated	(1,609)	(2,541)
Advance corporation tax written off	-	32
Under/(over) provisions in prior years	(680)	(365)
	(77)	1,065

There is no tax charge relating to joint venture undertakings (1998: £nil).

The effective tax rate applicable to the group is below the normal corporation tax rate of 30.25% 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:

	1999	1998
	£000	£000
Corporation tax at 30% deferred by reason of:		
Capital allowances exceeding depreciation	25,091	23,365
Short term timing differences	6	(285)
Excess of fair value over book value of fixed assets on subsidiaries acquired	57,697	161,061
	82,794	184,141
Advance corporation tax available for set-off	(2,477)	(4,094)
	80,317	180,047

10. Intangible fixed assets

On 6 December 1999, SAUR UK acquired a 51% share in Pipeway Limited. The aggregate book value of assets and liabilities acquired are as follows:

	Book and Fair Value £000
Tangible fixed assets	1,645
Stocks	163
Debtors	7,287
Cash at bank and in hand	2,161
Creditors	(5,684)
Minority interests	(2,730)
Net assets	2,842
Consideration:	
Cash	5,761
Goodwill	2,919

The amount of consideration paid is provisional and may be revised.

	Positive goodwill	Negative goodwill	Total
Cost			
At 1 January 1999	-	(2,154)	(2,154)
Additions	2,919	-	2,919
At 31 December 1999	2,919	(2,154)	765
Amortisation			
At 1 January 1999	-	-	-
Charge/(credit) for the year	-	(108)	(108)
At 31 December 1999	-	(108)	(108)
Net book value at 31 December 1999	2,919	(2,046)	873

The positive goodwill will be amortised from 1 January 2000 in equal instalments over 20 years, which is its estimated useful life.

The negative goodwill is being amortised from 1 January 1999 in equal instalments over 20 years, in line with the estimated useful lives of the assets.

11. Tangible fixed assets
Group

	Land, wells, reservoirs and buildings £000	Mains £000	Plant, equipment and vehicles £000	Total £000
Cost				
At 1 January 1999	261,212	508,859	161,872	931,943
Subsidiary acquired	321	-	1,324	1,645
Additions	7,303	15,704	10,340	33,347
Disposals	(7,503)	(2)	(17,439)	(24,944)
At 31 December 1999	261,333	524,561	156,097	941,991
Depreciation				
At 1 January 1999	28,739	-	50,562	79,301
Reclassification	-	-	2	2
Charge for the year	9,163	(520)	7,163	15,806
Disposals	(6,779)	(2)	(15,611)	(22,392)
At 31 December 1999	31,123	(522)	42,116	72,717
Impairment	90,056	187,006	50,938	328,000
As adjusted at 31 December 1999	121,179	186,484	93,054	400,717
Net book value at 31 December 1999	140,154	338,077	63,043	541,274
Less capital contributions	-	(29,168)	-	(29,168)
Net book value after third party contributions are deducted at 31 December 1999	140,154	308,909	63,043	512,106
Including				
- leased assets	8,131	5,803	19,402	33,336
- assets under construction	2,101	7,294	8,411	17,806
Net book value after third party contributions are deducted at 31 December 1998	232,473	481,382	111,310	825,165
Including				
- leased assets	6,383	7,223	24,003	37,609
- assets under construction	2,311	11,254	23,844	37,409
Capital contributions				
At 1 January 1999				27,477
Received during the year				1,691
At 31 December 1999				29,168

11. Tangible fixed assets (continued)

The recorded cost of fixed assets reflects the fair value of the fixed assets of subsidiary companies at the effective date of acquisition plus subsequent additions at historical cost. The fair value of the fixed assets at acquisition exceeded the historical cost by £564 million. Tangible fixed assets were impaired by £328 million with effect from 31 December 1999 to reflect their estimated value in use at that date. The discount rate applied in calculating value in use is 7.5%.

The net book value of land, wells, reservoirs and buildings includes £120 million in respect of depreciable assets. Freehold land and buildings held by the group at 31 December 1999 amount to £20 million. Long leasehold land and buildings held by the group at 31 December 1999 amount to £3.3 million. Short leasehold land and buildings held by the group at 31 December 1999 amount to £6.3 million. The related depreciation charge in the year was £425,000.

The depreciation charge for the year for assets held under finance leases was £1.5 million.

Company

	Office equipment and vehicles £000
Cost	
At 1 January 1999	338
Additions	27
Disposals	(117)
At 31 December 1999	248
Depreciation	
At 1 January 1999	185
Charge for the year	71
Disposals	(84)
At 31 December 1999	172
Net book value	
At 31 December 1999	76
At 31 December 1998	153

**12. Investments
Group**

	Listed investments shares £000	Share of net liabilities in joint venture £000	Loans to fellow subsidiaries £000	Total £000
At 1 January 1999	874	-	-	874
Additions	-	(39)	43	4
Provision	-	-	(43)	(43)
At 31 December 1999	874	(39)	-	835

The market value of listed investments at 31 December 1999 was £996,000.

Company

	Listed investments shares £000	Investment in subsidiary undertakings:		Total £000
Cost		Shares £000	Loans £000	
At 1 January 1999	874	58,771	2,744	62,389
Additions	-	5,761	84,347	90,108
At 31 December 1999	874	64,532	87,091	152,497
Provisions				
At 1 January 1999	-	925	2,544	3,469
Charged to the profit and loss account during year	-	24,000	43	24,043
At 31 December 1999	-	24,925	2,587	27,512
Net book value				
At 31 December 1999	874	39,607	84,504	124,985
At 31 December 1998	874	57,846	200	58,920

12. Investments (continued)

Principal subsidiary undertakings

Company name	Type of shares	Proportion of shares held	Nature of business
SAUR Water Services plc*	Ordinary	100.00%	Investment company
Mid Southern Water plc**	Ordinary voting	100.00%	Supply and distribution of water
	Ordinary non-voting	100.00%	
South East Water Limited**	Ordinary	100.00%	Supply and distribution of water
Eastbourne Water plc**	Ordinary voting	100.00%	Supply and distribution of water
	Ordinary non-voting	100.00%	Supply and distribution of water
Mid-Sussex Water plc**	Ordinary voting	100.00%	Supply and distribution of water
West Kent Water plc**	Ordinary voting	100.00%	Supply and distribution of water
	Ordinary non-voting	100.00%	
SAUR Services Limited*	Ordinary	100.00%	Facilities management
Dynamco Limited**	Ordinary	100.00%	Engineering services and contracting
Ecovert Group Limited*	Ordinary	100.00%	Environmental services
ECOVERT Limited**	Ordinary	100.00%	Waste collection & disposal
ECOVERT South Limited**	Ordinary	100.00%	Facilities management
Ecovert Services Limited**	Ordinary	100.00%	Transport services
Pipeway Limited*	Ordinary	51.00%	Engineering contracting

Principal joint venture undertakings

Company name	Type of shares	Proportion of shares held	Nature of business
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.

13. Stocks

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Raw materials and consumables	1,472	859	-	-
Work in progress	685	938	-	78
	2,157	1,797	-	78

14. Debtors

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Trade debtors	29,480	26,200	18	-
Other debtors	3,052	2,209	298	160
Prepayments	4,868	3,371	16	6
Amounts due from group companies	2,009	511	6,596	5,645
	39,409	32,291	6,928	5,811

15. Creditors: amounts falling due within one year

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank loans and overdrafts	157	2,485	-	-
Trade creditors	6,300	5,409	217	265
Redeemable loan notes	346	814	-	-
Net obligations under finance leases	3,010	2,613	-	-
Corporation tax	2,587	2,999	1,500	1,500
Other taxes and social security	3,158	1,574	-	16
Other creditors	641	1,575	174	162
Accruals and deferred income	29,260	23,934	296	157
Water guarantee deposits	40	-	-	-
Amounts owed to parent and fellow subsidiary undertakings	105,804	7,822	105,391	5,485
Amounts owed to subsidiary undertakings	-	-	169	210
	151,303	49,225	107,747	7,795

Redeemable loan notes

All loan notes are redeemable at par at the option of the loan note holder. Interest on loan notes is payable six monthly at LIBOR less one half per cent as determined at the commencement of the interest period.

Amounts owed to parent and fellow subsidiary undertakings

The group repaid its drawings under its £125 million revolving loan agreement on 23 December 1999 and on the same date established a short term loan of £101 million from its ultimate parent company Bouygues SA. This loan was repaid on 24 January 2000 by an equivalent drawing under the £125 million facility and hence the loan has been considered as a financing transaction for cashflow purposes.

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

	Group		Company	
	1999	1998	1999	1998
	£000	£000	£000	£000
Irredeemable debenture stock	714	716	-	-
Redeemable debenture stock	14,900	14,900	-	-
Other term loans and creditors repayable:			-	-
Between one and two years	1,783	81,500	-	(55)
Between two and five years	-	-	-	-
After five years	8,000	8,048	8,000	8,000
Obligations under finance leases:				
Between one and five years	10,685	9,582	-	-
After five years	20,977	20,246	-	-
Mains deposits	-	1,618	-	-
Amounts owed to parent undertaking	-	15,147	-	15,147
	57,059	151,757	8,000	23,092

	1999	1998
	£000	£000
Irredeemable debenture stock		
3.5% perpetual stock	360	360
4% perpetual stock	87	87
5% perpetual stock	202	202
5.5% perpetual stock	4	5
6% perpetual stock	61	62
	714	716

	1999	1998
	£000	£000
Redeemable debenture stock		
12.5% debenture stock 2004	3,800	3,800
11.5% debenture stock 2005/2009	1,600	1,600
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.

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

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Other term loans and creditors				
Mains deposits	1,651	-	-	-
Term loans	8,048	89,548	8,000	7,945
Other	84	-	-	-
	9,783	89,548	8,000	7,945

Term loans include the following facilities:

A £32.5 million variable rate syndicated revolving loan facility expiring in March 2000. Drawings at 31 December 1999 were £nil: (31 December 1998: £nil).

A £92.5 million variable rate syndicated revolving loan facility expiring in April 2004. Drawings at 31 December 1999 were £nil (31 December 1998: £81.5 million).

A £8 million term loan facility expiring in October 2008. Drawings at 31 December 1999 were £8 million (31 December 1998: £8 million).

Financial instruments

This is the first accounting period for which the disclosures apply, hence no comparatives are provided as permitted under the standard.

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 1999 was :

Total £000	Floating rate £000	Fixed rate £000	Financial liabilities on which no interest is paid £000
60,612	34,602	25,878	132

Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
10.01	8.25	2.45

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.

The floating rate financial liabilities comprise:

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

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

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December 1999 was as follows:

	£000
In one year or less, or on demand	5,289
Between one and two years	3,031
Between two and five years	11,454
In more than five years	40,838
Total	60,612

Borrowing facilities

The group has various undrawn committed borrowing facilities. The facilities available at 31 December 1999 were as follows:

	£000
Expiring in one year or less	36,988
Expiring between one and two years	-
Expiring in more than two years	92,500
Total	129,488

The carrying value of the group's financial assets and liabilities is considered to equate to their fair value.

17. Provisions for liabilities and charges

Group

Provision for losses on long term contracts £000

At 1 January 1999	409
Expended during the year	(8)
Charge to profit and loss account during year	46
Subsidiary acquired	30
At 31 December 1999	477

Company

The company has a provision for deferred taxation of £2,000 (31 December 1998: £31,000) and a provision for losses on long term contracts of £nil (31 December 1998: £279,000).

18. Deferred income**Group****Infrastructure
charges
£000**

At 1 January 1999	12,748
Amortised during the year	(748)
At 31 December 1999	12,000

19. Called up share capital**1999
£000****1998
£000**

Authorised, called up, allotted and fully paid Ordinary shares of £1 each	31,800	31,800
---	---------------	---------------

20. Profit and loss account**Group
£000****Company
£000**

At 1 January 1999	612,514	7,734
Retained loss for the year	(310,936)	(15,600)
Goodwill written back	979	-
Translation differences	(53)	-
At 31 December 1999	302,504	(7,866)

21. Reconciliation of movements in shareholders' funds

Group	1999 £000	1998 £000
(Loss)/profit for the year	(310,936)	19,670
Dividends	-	(6,000)
Disposal of goodwill	-	304
Goodwill written back	979	-
Translation differences	(53)	-
Net (reduction)/addition to equity shareholders' funds	(310,010)	13,974
Opening shareholders' funds	644,314	630,340
Closing shareholders' funds	334,304	644,314

22. Equity minority interests

	Voting shares £000
At 1 January 1999	32
Share of loss before dividends	(27)
Interest in subsidiaries acquired	3,005
At 31 December 1999	3,010

23. Commitments

Capital Commitments

At 31 December 1999 the group had the following authorised commitments:

	£000
Contracted	2,886
Non-contracted	1,054
	3,940

The company had capital commitments of £2,000 (at 31 December 1998: £8,000).

24. Operating leases

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

	1999 Land and buildings £000	1998 Land and buildings £000	1999 Other £000	1998 Other £000	1999 Total £000	1998 Total £000
Amounts due in the following year on leases expiring:						
Within one year	13	-	120	35	133	35
Within one to five years	422	19	1,108	1,429	1,530	1,448
After five years	245	335	-	-	245	335
	680	354	1,228	1,464	1,908	1,818

25. Pensions

The total pensions cost of the group for the year was £1,793,000 (year ended 31 December 1998: £1,703,000), 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 environmental services employees. In respect of these schemes the pension cost charged to the profit and loss account 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 scheme was carried out as at 1 April 1999 by independent actuaries and contribution rates were set for group undertakings inclusive of Scheme expenses. The companies have contributed to the SWSPS at 6.75% of Pensionable Remuneration for the year ending 31 December 1999. After taking independent actuarial advice, following the result of the 1 April 1999 actuarial valuation, the companies increased their contribution rate to 10.8% of Pensionable Remuneration with effect from 1 January 2000.

Date of latest actuarial valuation	1 April 1999
Actuarial method	Projected unit credit
Rate of return on investment	8% 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 1 April 1999	£96.5 million
Level of funding at 1 April 1999	103%

The market value of assets at 31 December 1999 is £107 million.

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

The surplus shown is being recognised over the average service lives of employees and contributions for participating companies are based on costs across the group as a whole.

25. Pensions (continued)

The ECOVERT Pension Scheme

The ECOVERT Pension Scheme (EPS) is funded and provides benefits on a defined contributions basis to employees of the environmental sector of the group and on a defined benefits basis (the Final Salary Plan) for certain employees transferred from Stalwart Environmental Services Limited. Employees may switch from defined contribution to defined benefit after 10 years of company service. A new defined benefit section of the Final Salary (LGSS) Plan was established in 1995 for individuals whose contract of employment was transferred from a public sector organisation to ECOVERT companies including ECOVERT South Limited. Pension benefits accrued with the previous employer were left frozen in the previous pension arrangements.

A further section, the Pipeway section of the Final Salary Plan, was established with effect from 1 July 1997 to provide benefits for employees of Pipeway Limited. The existing Pipeway Scheme is closed to new members and the accrued benefits of existing members will be transferred to the Ecovert Scheme.

An independent actuarial valuation was completed as at 6 April 1999 and contributions were set in accordance with the advice of the actuary. The company has contributed at the rate of 11.2% of Pensionable Pay for the defined benefit sections of the EPS for the year ending 31 December 1999. After taking independent actuarial advice, following the result of the 6 April 1999 actuarial valuation, the company increased its contribution rate to 13.2% of Pensionable Pay with effect from 1 January 2000.

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
Rate of general increase in salaries	6% p.a. compound
Rate of increase in pensions	4% p.a. compound
Market value of assets at 6 April 1999	£5 million
Level of funding at 6 April 1999	83%
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.

The market value of assets at 31 December 1999 is £6.2 million.

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

26. Contingent liabilities

Group

There are contingent liabilities arising from performance bonds in respect of group undertakings' contracts amounting to £1,829,000 (at 31 December 1998: £1,288,000).

Company

The company has entered into cross guarantees with subsidiaries in relation to a composite bank accounting facility. There were borrowings of £755,000 from this facility at 31 December 1999 (at 31 December 1998: £1,448,000).

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

	1999 £000	1998 £000
Performance bonds	1,711	1,288
Lease commitments	4,490	5,516
	6,201	6,804

In respect of SAUR (UK) Limited's obligations arising from its banking facility with National Westminster Bank plc, 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.

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

	1999 £000	1998 £000
Operating (loss) / profit	(300,282)	33,949
Impairment adjustment	328,000	-
Profit on disposal of fixed assets	(897)	(486)
Cost of goodwill written off	979	304
Depreciation	15,798	11,831
Amortisation of negative goodwill	(108)	-
Other non-cash movement	(53)	-
Movement in provision for losses on contracts	68	(23)
Amortisation of deferred income	(748)	(748)
(Decrease) in trade creditors	(3,577)	(4,570)
(Increase) in trade debtors	(111)	(1,701)
(Increase) in stocks	(197)	(295)
Net cash inflow from operating activities	38,872	38,261

28. Net cash inflow from financing

	1999 £000	1998 £000
Increase in loan from parent company	85,853	147
Refund/(receipt) of deposits	1,735	(345)
Capital element of finance lease repayments	(2,631)	(3,276)
Repayment of short term loans	-	(3)
Drawdown of term loans	-	173
Repayment under syndicated loan facility	(81,500)	7,500
Redemption of debentures	(2)	(1)
Share issue to minorities	275	-
Net cash inflow from financing	3,730	4,195

29. Analysis of net debt

	At 1 January 1999 £000	Cashflow £000	Non cash changes £000	At 31 December 1999 £000
Cash at bank and in hand	512	2,261	-	2,773
Overdrafts	(2,485)	2,328	-	(157)
	(1,973)	4,589	-	2,616
Loans	(120,311)	(6,086)	-	(126,397)
Finance leases	(32,441)	(2,231)	-	(34,672)
Foreign exchanges	-	-	53	53
Share issue to minorities	-	(275)	-	(275)
Net group debt	(154,725)	(4,003)	53	(158,675)

30. Related party transactions

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

	1999 £000	1998 £000
Sale of services to SAUR International SA	44	-
Management charges from SAUR International SA	4,836	4,268
Recharge of expenses from SAUR International SA	666	986
Interest charges from SAUR International SA	412	1,572
Recharge of expenses from SAUR SA	1	-
Management charges to Pipeway Limited	663	661
Purchase of services from Pipeway Limited	13,410	15,714
Sale of services to Pipeway Limited	482	155
Management charges to Stereau (UK) Limited	30	-
Purchase of services from Stereau (UK) Limited	-	35
Sale of services to Stereau (UK) Limited	6	8
Interest charges to Stereau (UK) Limited	-	26
Interest charges from Bouygues SA	146	-
Interest charges from Uniservice SA	95	-
Sale of services to Quille SA	88	-
Sale of services to Bouygues UK	421	-
Purchase of services from Bouygues UK	7	-
Sale of services to Europland	2,224	-
Purchase of services from Barnet Hospital Project	1	-
Sale of services to Aquatech	3	-
Purchase of services from Sodeci	5	-

Amounts owed to related parties were as follows:

	1999 £000	1998 £000
SAUR SA	16	-
SAUR International SA	114	5,656
Pipeway Limited	-	1,683
Stereau (UK) Limited	3,903	84
Bouygues SA	101,405	-
Sodeci	5	-

30. Related party transactions *(continued)*

Amounts owed by related parties were as follows:

	1999 £000	1998 £000
Euroland Limited	1,112	-
Intrafor SA	-	5
Bouygues UK	180	48
Quille SA	100	57
SAUR (Ireland) Limited	32	-
SAUR International SA	-	2
Barnet Hospital Project Limited	221	-
Aquatech	3	-

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 SA owns 100% of the issued share capital of SAUR International SA.

AQUATECH, Water Management Services Inc and Sodeci are fellow subsidiaries, controlled by SAUR International SA and ultimately controlled by Bouygues SA.

Stereau (UK) Limited is a fellow subsidiary, controlled by SAUR SA and ultimately controlled by Bouygues SA.

Pipeway Limited was a fellow subsidiary, controlled by SAUR SA and ultimately controlled by Bouygues SA, until 6 December 1999, when it became a subsidiary of SAUR (UK) Limited.

Euroland Limited and Barnet Hospital Project Limited are controlled by Bouygues UK and are ultimately controlled by Bouygues SA.

Quille SA, Intrafor SA and Uniservice SA are subsidiaries of Bouygues SA.

31. 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 Eugene Freyssinet, 78064 St Quentin en Yvelines, Cedex, France.