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SAUR UK

A REPORT
ON OUR
ACTIVITIES
1998



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COMPANIES HOUSE 28/05/99

AT THE HEART OF THE COMMUNITY

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, Ecover Group and SAUR Services and employs 2,000 people.

SAUR Water Services provides water to 1.4 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 work through its subsidiary Dynamico. This company is headquartered in Eastbourne, East Sussex.

Ecover 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, Brighton, Cardiff, Camberley, Cardiff, Central London, Gosport, Isle of Wight, Stratford Upon Avon, Test Valley and Wycombe. Ecover Group operates through subsidiaries Ecover South, Ecover and Ecover 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 Southern African branch which is actively pursuing developmental opportunities in the region.

SAUR UK is part of the international operations of the international SAUR Group, one of the world's leaders in the private management of public utilities. The group employs 22,000 people and serves nearly 34 million people worldwide in Europe, the Americas, Asia and Africa.

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chairman's statement

It gives me great pleasure to announce the financial results for the SAUR UK group for the 12 months ending December 1998. Turnover for the period was £142.5 million and pre-tax profits were £21 million.

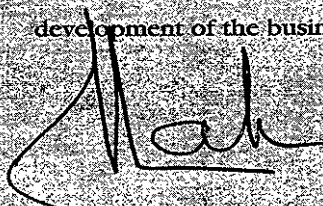
Capital investment in the water business through SAUR Water Services remained a significant feature of our activities during the period, which included bringing on stream a new pesticide removal plant. Investment continued in water metering, leakage control programmes and mains rehabilitation.

Our environmental services and facilities management companies, under Ecovert Group, had a successful year, gaining important new contracts in the facilities management sector. The group also won a significant refuse collection and recycling contract for Test Valley, as well as extending existing environmental services contracts.

During the period, the SAUR UK group's business development activities took on greater importance with the creation of a new function to identify and pursue development opportunities in the UK and overseas.

Our commitments to quality, customer service, our communities and staff continued throughout 1998 with the creation of new initiatives and training.

Throughout the year, the directors and staff made outstanding contributions to support our businesses, working in a highly professional, flexible and efficient manner to meet our customers' needs. Thanks are due to our directors and staff for their continued commitment to the growth and development of the businesses within the SAUR UK group.



Jean-Marc Talbot
Chairman

financial

The 1998 results reflect the group's continuing success, returning a profit before tax of £21 million on a turnover of £142.5 million.

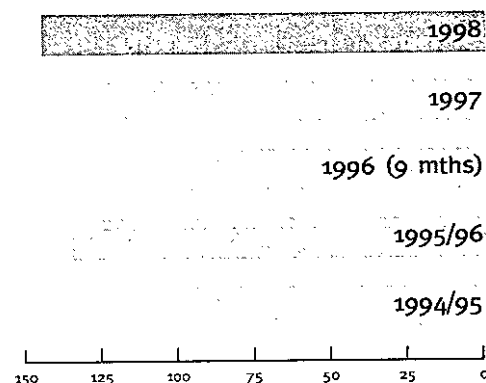
Expansion of the environmental business accounts for much of the increase in turnover, as several new contracts were won in the year. Metered water sales increased by 6% as more customers transferred to meters under the free meter option scheme. This increase was offset by a decline in unmetered water sales and the continuing impact of price increases of 1% less than inflation.

Improvements in operating efficiency have resulted in the costs associated with the group's expanding developmental activities being met without impact on the operating profit of the group which stands at £33.9 million for the year.

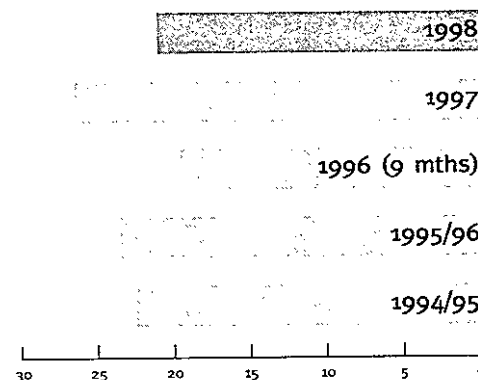
Higher interest rates in the year, and the absence of the exceptional profits of £5.7 million experienced in 1997 (resulting from the profit on sale of investments, and release of unfunded pension obligation provisions), produced a profit before tax of £21 million, £5.8 million lower than last year.

About £27 million of capital investment related to the water business. Expenditure focused on the mains rehabilitation, metering and leakage control programmes. Increased activity on leakage detection and water efficiency programmes resulted in a higher proportion of infrastructure maintenance costs.

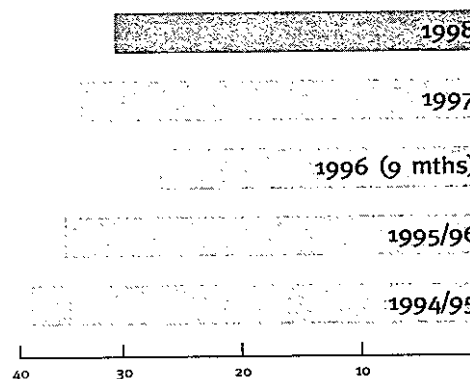
TURNOVER £M



PROFIT BEFORE TAXATION £M



CAPITAL INVESTMENT £M



business

1998 was a successful year for the SAUR UK group that witnessed the diversification into new areas of activity with the award of significant new contracts.

Across the group, our commitment to quality customer services, conservation, our communities and staff continued throughout the year.

Our water subsidiaries' individual registrations to ISO 9002 were consolidated into one registration for SAUR Water Services during the year. Other group companies are now on target to meet our objectives of obtaining ISO 9000 certification for our operations by the end of 2000.

Customer services continued to be given a high priority across all companies with continued staff training and awareness. In particular, our water companies built upon their Quality Plus initiative and were recognised by OFWAT as having well above average levels of customer service in many areas of their activities.

Many conservation projects were undertaken by the SAUR UK group during the period, including the opening of Pamber Woodland Walks near Timbridge Wells and a donation of land at Greywell to the Hampshire Wildlife Trust to enable the conservation of rare orchids.

1998 was a year of heightened community involvement across the group with the organisation of many open days and visits to our facilities, visits by us to schools and other local organisations, community competitions and charitable donations. Notable charitable support given during the year included sponsoring an element of the Brighton Festival and our continued sponsorship of the Brighton & Hove Philharmonic Society.

review

Staff training continued at a high level and subsidiary SAUR Water Services became the first in its industry to sign up to the National Traineeship Programme designed to provide fast-track training to 16 and 17 year olds within UK water companies. Four youngsters have been taken on under the scheme and have begun a two year training programme. A group wide employee attitude survey was also conducted for the first time to better understand our employees' attitudes and expectations.

WATER

Water supply accounts for a significant proportion of the SAUR UK group's activities. Subsidiary SAUR Water Services commenced a major restructuring programme during the year to prepare for the operation of its subsidiaries Mid Southern Water and South East Water as a single company under a single licence in early 1999. This included the relocation of the company's head office operations to Eastbourne, East Sussex. Since 1 January 1999, Mid Southern Water plc and South East Water Limited have operated as South East Water plc.

Towards the end of 1998, the group also purchased the minority shareholdings in its subsidiaries West Kent Water, Eastbourne Water, Mid-Sussex Water and Mid Southern Water.

SAUR UK - A REPORT ON OUR ACTIVITIES

SAUR Water Services has long been recognised as a leader in high standards of customer service. However, we are continuously working to improve our standards wherever we can. Our priorities for customer service continued throughout 1998 and were given even greater focus.

Three separate in-depth customer surveys were undertaken by MORI on behalf of the company throughout the year to understand customers' priorities, issues and needs.

The results of these surveys were very positive and have given us the assurance that we are providing the services our customers demand in many areas, while also highlighting areas for development and improvement. One such area was our communication with customers and as a

result, we have implemented Customer Forums made up of customer representatives from our communities. These Customer Forums give us an opportunity to share plans and test new initiatives with customers face to face as well as creating a forum for open discussion.

Our customer surveys also gave us valuable information on attitudes to water pricing, which will be important as we work with our industry regulator, OFWAT, on the water industry pricing review for 2000-2005.

In 1998, SAUR Water Services undertook a number of important projects, including the commissioning, on time and under budget, of our Hazards Green Pesticide Removal Plant (\$2 million) and the refurbishment of the roof over Paradise Reservoir. The latter project was short-listed in this year's Contract Journal Construction Industry Awards.

SAUR Water Services, together with its subsidiary Dynamco, also carried out a major project to lay a new trunk main adjacent to the Meadows retail park in Camberley, preserving a site of special scientific interest and minimising disturbance to two of the largest superstores in the country.

Work continued on leakage reduction





and water efficiency programmes throughout the year in partnership with our customers and we continued to offer optional free meters, together with a free supply pipe repair scheme.

The SAUR UK group was selected as preferred bidder for its first wastewater contract in the UK as part of a consortium called Scotia Water. West of Scotland Water Authority will award the contract for the design, construction, operation and financing of Dalmuir sewage treatment works near Glasgow to the consortium whose main partners are SAUR UK, Stereau UK (also a SAUR group company) and Taylor Woodrow. The contract is for 25 years and is worth £2.5 million to SAUR UK.

ENVIRONMENTAL SERVICES AND FACILITIES MANAGEMENT

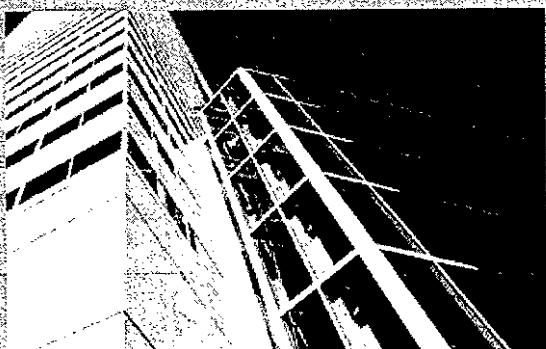
1998 was a very encouraging year for Ecovert Group, our environmental services and facilities management group. We continued our development activities in 1998, especially in the facilities management sector, and gained significant new contracts, including Barnet Hospital and Test Valley.

We were delighted to be awarded a contract for Barnet Hospital – a PFI (private finance initiative) facilities management contract worth £4.5 million per year. The contract is for a 30 year period and is one of the first such contracts to be awarded in the UK. Operations will commence in March 1999.

Test Valley Borough Council awarded their refuse collection and recycling contract to us for a five year period with a potential five year extension. The contract value is £1.5 million per year and operations started in the summer. Test Valley is a leading authority in recycling and has introduced the first split refuse collection system in the UK. Part of our contract is to increase this collection method from 50% of households currently to 100% in two years. This contract gives us an excellent reference in recycling and was gained thanks to our technical approach and understanding of the project.

Ecovert Group also won important catering contracts during the year, further expanding its successes in the facilities management sector. The contracts were for

SAUR UK - A REPORT ON OUR ACTIVITIES



Sussex County Cricket Club and Brighton Racecourse.

In the environmental services sector of our business, we gained three important new contracts during the period for Waverley Borough Council, Brighton & Hove Borough Council and Mid Sussex Housing Association. Together these contracts are valued at £1 million per year.

As well as gaining important new business in 1998, Ecover Group successfully extended or renewed seven existing contracts for a value of £2.5 million per year until 2001.

To ensure Ecover Group is best positioned to develop its activities and take advantage of new business opportunities, two experienced and professional development teams have been established. These teams will mainly be focusing on PEI project opportunities in environmental services and facilities management and hope to be preparing tenders for a number of key contracts in the coming year.

ENGINEERING CONSULTANCY

Dynamco, SAUR UK's engineering consultancy, was restructured during the year to create a more streamlined company to offer creative, engineering solutions to customers worldwide and to support the SAUR UK group's development activities in the UK and overseas.

As well as supporting the group's development activities and providing engineering, technical support and research and development activities for SAUR Water Services, Dynamco gained a number of important external contracts.

Having established its credibility in Latvia and completed treatment studies for disinfection and iron removal for the town of Liepaja, we won another contract worth just under £100,000. This contract is to provide consultancy services to identify the most economic process to treat ground water and remove iron from the water supply for the town of Ventspils - Latvia's wealthiest town with a population of 70,000.



BUSINESS DEVELOPMENT

In 1998, the SAUR UK group gave greater focus to its developmental activities in the UK and overseas. Towards the end of the year a new business development department was created to identify and take advantage of new business opportunities in the UK, Canada, the United States and southern Africa.

In 1997, the SAUR UK group took over responsibility for developmental activities in southern Africa from its parent company. These activities bore fruit in 1998 with our selection, as part of a consortium, as preferred bidder for a contract in southern Africa – marking a significant step forward for our international development activities. Under the contract – signed in January 1999 – we will provide water and wastewater services to the Borough of Dolphin Coast in South Africa. Services will be provided for approximately 34,000 people living in the area and will start in April 1999.

The SAUR UK group also took over formal responsibility from its international parent for development activities in the United States and Canada in 1998. At the same time, SAUR UK's parent, SAUR International transferred the day to day management of its Canadian subsidiary, SAUR Canada, to the UK. Through its subsidiaries Aquatech and Dynatech, SAUR Canada provides management, operations and maintenance services for water and wastewater treatment plants and waste to energy plants as well as facilities management services in the province of Quebec.

directors, secretary and advisers



Jean-François Tuboi
Chairman



Derek Benjamin
Managing Director



Geoffrey Hoskins
Director



Louis Peterschmitt
Director



Pierre Rimeon
Director



Jacques Senequin
Director

Jean-François Tuboi (51) 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 deputy managing director of SAUR International. **Derek Benjamin** (52) was educated as an analytical chemist in Holland and worked in the UK as a consultant chemist before joining Eastbourne Water in 1973. There he held many positions and in 1990 moved from his position of managing director to set up the engineering consultancy, Dynamco. In 1993, he became chairman of SAUR Water Services and in 1995, managing director of SAUR UK. He is also a director of SAUR International. **Geoffrey Hoskins** (68) 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** (60) has over 30 years service with the company, 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 and has continued with the development and reorganisation of the group's activities in Africa. He has been managing director of SAUR International since 1996. **Pierre Rimeon** (52) 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 Senequin** (62) is a qualified engineer who joined the SAUR group in 1986 and has led the group's expansion internationally. He is chairman of SAUR International, of STEREAU and managing director of the SAUR group.

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J-F Talbot
(Chairman)

HT Barnhoorn
(Managing Director)

GM Hoskins

L Peterschmitt (appointed 27 April 1998)

PC Rancon

JP Sennepin

B Devalan (resigned 27 April 1998)

CJ Gaboreau (resigned 31 October 1998)

Director of Finance
EA Snaith

Company Secretary
M Pedro (Solicitor)

Group Bankers

National Westminster Bank plc
Banque Nationale de Paris
Midland Bank plc
Barclays Bank plc
De Nationale Investeringsbank NV

Group Auditors

KPMG
PricewaterhouseCoopers

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 1998.

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.

Business Review

Consolidated profit on ordinary activities after minority interests and taxation for the year was £19.7 million (year ended 31 December 1997: £25.6 million). The financial position at 31 December 1998 is shown in the consolidated balance sheet on page 16 and in the company's balance sheet on page 17.

Dividends

An interim dividend of £1,500,000 (4.7p per share) was paid on ordinary shares on 26 June 1998 (year ended 31 December 1997: £1,500,000). A final dividend of £4,500,000 (14.2p per share) has been declared (year ended 31 December 1997: £nil), of which £3,500,000 (11p per share) was paid on 18 December 1998.

Fixed assets

Capital expenditure on tangible fixed assets during the year totalled £30.4 million (year ended 31 December 1997: £33.6 million). Details of changes in tangible fixed assets are summarised in note 12.

Directors and interests in shares

The directors who served during the year and at the date of this report are set out on page 10. None of the directors held any beneficial interests in the shares in the company during the period.

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

A project has been underway since 1996 to assess and address the risks associated with the potential failure of IT systems and related equipment in the year 2000. This has 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 estimated cost to the group of this project, over and above routine replacement and maintenance budgets, is in the region of £1 million, of which £383,000 has already been incurred. 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 £9,292 (year ended 31 December 1997: £4,429). No political donations were made by the group.

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.

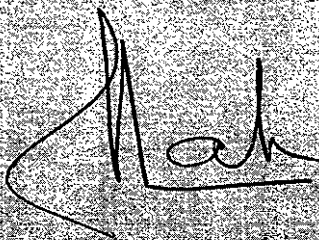
M. Pedro
Company Secretary
For and on behalf of the board
25 February 1999.

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 of the group for that period. In preparing those financial statements, the directors are required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
4. 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 company and to prevent and detect fraud and other irregularities.



Jean-Francois Talbot
Chairman
25 February 1999

auditors'

report

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

We have audited the financial statements on pages 15 to 46.

Respective Responsibilities of Directors and Auditors

As described on page 13 the group's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 of the group as at 31 December 1998 and of the profit and cash flows 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
25 February 1999

SAUR UK - A REPORT ON OUR ACTIVITIES

consolidated for the year ended 31 December 1998

	Note	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Turnover	2	142,500	137,324
Cost of sales		(112,923)	(105,920)
Other operating income	3	4,372	3,127
Operating profit		33,949	34,531
Profit on sale of investment		—	3,991
Interest receivable and similar income	4	207	644
Amounts written off investments	5	—	(84)
Interest payable and similar charges	6	(13,136)	(12,294)
Profit on ordinary activities before taxation	7	21,020	26,788
Tax on profit on ordinary activities	10	(1,065)	(916)
Profit on ordinary activities after taxation		19,955	25,872
Minority interests:	24		
Voting		(266)	(257)
Non-voting		(19)	(36)
Profit for the year		19,670	25,579
Dividends:			
Equity		(6,000)	(1,500)
Retained profit	22	13,670	24,079

The income and expenditure all relate to continuing operations, none of which were acquired in the year.

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 23.

consolidated

as at 31 December 1998

	Note	31 Dec 1998 £000	31 Dec 1998 £000	31 Dec 1997 £000	31 Dec 1997 £000
Intangible fixed assets					
Negative goodwill	11	(2,154)		-	
Fixed assets					
Tangible assets	12	825,165		810,387	
Investments	13	874		158	
Current assets					
Stocks	14	1,797	823,885	1,502	810,545
Debtors	15	32,291		30,947	
Cash at bank and in hand		512		4,847	
		34,600		37,296	
Creditors: amounts falling due within one year	16	(49,225)		(54,871)	
Net current liabilities			(14,625)		(17,575)
Total assets less current liabilities			809,260		792,970
Creditors: amounts falling due after more than one year	17		(151,757)		(143,392)
Provisions for liabilities and charges	18		(409)		(432)
Deferred income	19		(12,748)		(13,496)
Net assets			644,346		635,650
Capital and reserves					
Called up share capital	20		31,800		31,800
Capital reserves	21		-		494,963
Profit and loss account	22		612,514		103,577
Equity shareholders' funds	23		644,314		630,340
Equity minority interests	24		32		5,310
			644,346		635,650

These financial statements were approved by the board of directors on 25 February 1999 and were signed on its behalf by:

P C Rancon
Director



SAUR UK - A REPORT ON OUR ACTIVITIES

company

As at 31 December 1998

	Note	31 Dec 1998 £000	31 Dec 1998 £000	31 Dec 1997 £000	31 Dec 1997 £000
Fixed assets					
Tangible assets	12	153		153	
Investments	13	58,920		104,553	
			59,073		104,706
Current assets					
Stocks	14	78		-	
Debtors	15	5,811		2,342	
Cash at bank and in hand		5,769		11,701	
		11,658		14,043	
Creditors: amounts falling due within one year	16	(7,795)		(7,502)	
Net current liabilities			3,863		6,541
Total assets less current liabilities			62,936		111,247
Creditors: amounts falling due after more than one year	17		(23,092)		(72,724)
Provisions for liabilities and charges	18		(310)		(367)
Net assets			39,534		38,156
Capital and reserves					
Called up share capital	20		31,800		31,800
Profit and loss account	22		7,734		6,356
Equity shareholders' funds			39,534		38,156

These financial statements were approved by the board of directors on 25 February 1999 and were signed on its behalf by:

P C Rancon
Director

consolidated

for the year ended 31 December 1998

CASH FLOW STATEMENT

		12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000	12 months ended 31 Dec 1997 £000
Note					
Net cash inflow from operating activities	29		38,261		44,776
Returns on investments and servicing of finance					
Interest paid		(11,077)		(10,170)	
Interest received		207		506	
Dividends to minorities		(117)		-	
Dividends received		-		435	
Interest element of finance leases		(2,063)		(2,101)	
Net cash outflow from returns on investments and servicing of finance			(13,050)		(11,330)
Taxation					
UK corporation tax paid			(1,289)		(1,988)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(27,823)		(32,628)	
Loan to fellow subsidiary		(450)		(150)	
Repayment by fellow subsidiary		600		-	
Purchase of investment		(874)		-	
Capital contributions received		1,610		1,414	
Sale of tangible fixed assets		2,680		1,033	
Sale of investment		8		14,897	
Net cash outflow from capital expenditure and financial investment			(24,249)		(15,434)
Acquisitions and disposals					
Payments to acquire contracts and other businesses		-		(38)	
Purchase of minority interests		(2,535)		-	
Net cash outflow from acquisitions and disposals			(2,535)		(38)
Equity dividends paid			(5,000)		(1,602)
Net cash inflow/(outflow) before management of liquid resources and financing			(7,862)		14,384
Net cash inflow/(outflow) from financing	30		4,195		(8,934)
Increase/(decrease) in cash in the year			(3,667)		5,450
Reconciliation of net cash flow to movement in net debt					
Increase/(decrease) in cash in the year		(3,667)		5,450	
Cash (inflow)/outflow from decrease in debt and lease financing		(4,195)		8,934	
Change in net debt resulting from cash flows			(7,862)		14,384
New finance leases			(2,608)		(1,378)
Movement in net debt in the year			(10,470)		13,006
Net debt at 1 January 1998 and 1 January 1997	31		(144,255)		(157,261)
Net debt at 31 December 1998 and 31 December 1997	31		(154,725)		(144,255)

notes

for the year ended 31 December 1998

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 made 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 businesses, contracts or the shares in subsidiary undertakings 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.

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 new 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 has been 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.

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Investment income and interest

Dividends from subsidiary undertakings 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 that 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 provision 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.

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With effect from 1 April 1989 the charge for infrastructure renewals expenditure also takes account of the planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the companies' Asset Management Plans.

The timing of the investment programme results in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account therefore comprise, in accordance with common practice in the water industry, actual expenditure together with accruals/prepayments which recognise the average planned expenditure identified in the Asset Management Plans.

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 12 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

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Amortisation

The negative goodwill arising from the purchase of the minority interests of the SAUR Water Services group has been capitalised in accordance with FRS 10. Negative goodwill would normally be released to the profit and loss account with the depreciation of the non-monetary assets acquired. However, the majority of the assets acquired are infrastructure in nature and have no finite life, therefore the negative goodwill will be carried in the balance sheet without amortisation. This is a departure from the specific requirement of companies legislation in order to give a true and fair view.

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. Their 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 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 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 scheme 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. Further details are given in note 27.

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

	Water supply 12 months ended 31 Dec 1998 £000	Water supply 12 months ended 31 Dec 1997 £000	Other 12 months ended 31 Dec 1998 £000	Other 12 months ended 31 Dec 1997 £000	Total 12 months ended 31 Dec 1998 £000	Total 12 months ended 31 Dec 1997 £000
Turnover						
Measured water sales	32,681	30,736	-	-	32,681	30,736
Unmeasured water sales	62,109	62,526	-	-	62,109	62,826
Rechargeable sales	3,277	1,616	-	-	3,277	1,616
Other sales	719	1,896	48,608	54,683	49,327	56,579
Total sales	98,786	97,074	48,608	54,683	147,394	151,757
Intersegment sales	(488)	(8)	(4,406)	(14,425)	(4,894)	(14,433)
Sales to third parties	98,298	97,066	44,202	40,258	142,500	137,324
Attributable profit/(loss) before interest	41,425	42,283	(7,476)	(7,752)	33,949	34,531
Net interest payable and net profit on sale of investment					(12,929)	(7,743)
Profit before tax and minority interests					21,020	26,788
Non interest bearing net assets	790,390	727,040	9,495	52,516	799,885	779,556
Interest bearing net liabilities	(131,976)	(77,828)	(23,563)	(66,078)	(155,539)	(143,906)
Consolidated net assets/ (net liabilities)	658,414	649,212	(14,068)	(13,562)	644,346	635,650

99% of turnover arose within the United Kingdom.

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3. Other operating income

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Profit on sale of fixed assets	486	406
Rents receivable from land	275	71
Sundry income	3,611	2,650
	4,372	3,127

4. Interest receivable and similar income

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Interest receivable on bank deposits	179	506
Income from fixed asset investment	—	138
Other income	2	—
Interest receivable from fellow subsidiary undertakings	26	—
	207	644

5. Amounts written off investments

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Provision against investment	—	10
Negative minority interest written off on acquisition of minority	—	74
	—	84

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6. Interest payable and similar charges

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Interest payable on bank loans	6,636	6,354
Interest on other borrowings	1,835	1,734
Interest payable on loans from immediate parent undertaking	1,571	1,409
Interest payable on finance leases which expire:		
Within 5 years	317	459
After 5 years	2,222	1,817
Other charges	555	521
	13,136	12,294

7. Profit on ordinary activities before taxation

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000	12 months ended 31 Dec 1997 £000
Profit before taxation is arrived at after charging/(crediting):				
Depreciation:				
Owned assets	9,322		9,700	
Leased assets	2,509		2,657	
		11,831		12,357
Rates and abstraction charges		5,761		6,194
Hire charges		227		968
Operating lease rentals:				
Plant and machinery	947		533	
Other assets	793		658	
		1,740		1,191
Profit on disposal of fixed assets		(486)		(406)
Loss on disposal of goodwill		304		-
Auditors' remuneration:				
Statutory audit				
- company		41		38
- subsidiaries		172		199
Non audit work		232		157

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8. 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 to the financial statements.

9. Directors and employees

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

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Operations	1,299	1,511
Engineering	42	53
Management and administration	525	297
	1,866	1,861

The aggregate payroll costs of these persons were as follows:

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Wages and salaries	33,434	32,250
Social security costs	3,160	3,043
Pension costs	1,703	1,752
	38,297	37,045

Remuneration of directors

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Aggregate emoluments	460	427

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £202,804 (1997: £188,831).

He is a member of a defined benefit scheme, under which his accrued pension at the year end was £46,347, and his accrued lump sum was £139,042.

Retirement benefits are accruing to one director under a defined benefit scheme.

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Transactions with directors

On 14 December 1998 South East Water Limited, a subsidiary of SAUR UK Limited, acquired all the minority interests of the SAUR Water Services group. Patrice Rancon, Jean-François Talbot and Jacques Sennepin, who are all directors of SAUR UK Limited, held some of these minority shares and each received £45,873 (after deduction of basic rate tax) under the terms of the acquisition. Geoffrey Hoskins received £4,313 and Bernard Devalan, who resigned as a director of SAUR UK Limited in April 1998, received £9,481 under the terms of the acquisition.

10. Taxation Group

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
UK Corporation tax on profits at 31% for the period	3,939	1,924
Advance corporation tax reinstated	(2,541)	(1,177)
Advance corporation tax written off	32	33
Tax attributable to franked investment income	-	28
Under/(over) provisions in prior years	(365)	108
	1,065	916

The effective tax rate applicable to the group is below the normal corporation tax rate of 31% 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:

	31 Dec 1998 £000	31 Dec 1997 £000
Corporation tax at 31% deferred by reason of:		
Capital allowances exceeding depreciation	23,365	26,113
Short term timing differences	(285)	(176)
Excess of fair value over book value of fixed assets on subsidiaries acquired	161,061	166,430
	184,141	192,367
Advance corporation tax available for set-off	(4,094)	(7,492)
	180,047	184,875

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11. Intangible fixed assets

On 14 December 1998, the minority interests of the SAUR Water Services group were acquired. The aggregate book value of assets and liabilities of these minority interests are as follows:

	Book and Fair Value
Tangible fixed assets	2,640
Debtors	59
Cash at bank and in hand	1
Creditors	(1,231)
Deferred income	(87)
Net assets	1,382
Fair value adjustment	4,121
Total fair value net assets	5,503
Consideration:	
Cash	2,535
Loan notes	814
Total consideration	3,349
Negative goodwill	(2,154)
Cost and carrying value of negative goodwill at 31 December 1998	(2,154)

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12. Tangible fixed assets Group

	Land, wells, reservoirs and buildings £000	Mains £000	Plant, equipment, and vehicles £000	Total £000
Cost				
At 1 January 1998	260,468	499,609	145,114	905,191
Reclassification	(775)	(6,449)	7,224	-
Additions	2,667	15,699	12,047	30,413
Disposals	(1,148)	-	(2,513)	(3,661)
At 31 December 1998	261,212	508,859	161,872	931,943
Depreciation				
At 1 January 1998	25,720	-	43,217	68,937
Reclassification	73	-	(73)	-
Charge for the year	3,087	-	8,744	11,831
Disposals	(141)	-	(1,326)	(1,467)
At 31 December 1998	28,739	-	50,562	79,301
Net book value at 31 December 1998	232,473	508,859	111,310	852,642
Less capital contributions	-	(27,477)	-	(27,477)
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
Net book value after third party contributions are deducted at 31 December 1997	234,748	473,742	101,897	810,387
Including - leased assets	6,524	8,004	24,109	38,637
- assets under construction	3,819	21,740	15,697	41,256
Capital contributions				
At 1 January 1998				25,867
Received during the year				1,610
At 31 December 1998				27,477

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12. 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 fixed assets at acquisition exceeded the historical cost by £564 million.

The net book value of land, wells, reservoirs and buildings includes £135 million in respect of depreciable assets. Freehold land and buildings held by the group at 31 December 1998 amount to £110 million. Short leasehold land and buildings held by the group at 31 December 1998 amount to £1.7 million. The related depreciation charge in the year was £185,000.

The depreciation charge for the year for assets held under finance leases was £2.5 million.

Company	Office equipment and vehicles £000
Cost	
At 1 January 1998	260
Additions	78
At 31 December 1998	338
Depreciation	
At 1 January 1998	107
Charge for the year	78
At 31 December 1998	185
Net book value at 31 December 1998	153
At 31 December 1997	153

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13. Investments Group

	Listed investments shares £000	Other investments shares £000	Loans to fellow subsidiaries £000	Total £000
At 1 January 1998	-	8	150	158
Additions	874	-	641	1,515
Repayment by fellow subsidiary	-	-	(600)	(600)
Disposals	-	(8)	-	(8)
Provision	-	-	(191)	(191)
At 31 December 1998	874	-	-	874

The market value of listed investments at 31 December 1998 was £876,933.

Company	Listed investments Shares £000	Investment in subsidiary undertakings:		Total £000
		Shares £000	Loans £000	
Cost				
At 1 January 1998	-	58,871	48,960	107,831
Additions	874	-	841	1,715
Disposals/repayments	-	(100)	(47,057)	(47,157)
At 31 December 1998	874	58,771	2,744	62,389
Provisions				
At 1 January 1998	-	925	2,353	3,278
Charged to the profit and loss account during year	-	-	191	191
At 31 December 1998	-	925	2,544	3,469
Net book value				
At 31 December 1998	874	57,846	200	58,920
At 31 December 1997	-	57,946	46,607	104,553

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13. 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 Limited**	Ordinary	100.00%	Waste collection & disposal
ECOVERT South Limited**	Ordinary	100.00%	Facilities management
Ecovert Group Limited*	Ordinary	100.00%	Environmental services
Ecovert Services Limited**	Ordinary	100.00%	Transport services

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

* Held directly by SAUR (UK) Limited.

** Held via a subsidiary undertaking.

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14. Stocks

	Group		Company	
	31 Dec 1998	31 Dec 1997	31 Dec 1998	31 Dec 1997
	£000	£000	£000	£000
Raw materials and consumables	859	1,335	-	-
Work in progress	938	167	78	-
	1,797	1,502	78	-

15. Debtors

	Group		Company	
	31 Dec 1998	31 Dec 1997	31 Dec 1998	31 Dec 1997
	£000	£000	£000	£000
Trade debtors	26,200	21,791	-	33
Other debtors	2,209	3,814	160	43
Prepayments	3,371	4,878	6	70
Amounts due from group undertakings	511	464	5,645	2,196
	32,291	30,947	5,811	2,342

Other group debtors include £nil (at 31 December 1997: £38,000) due after more than one year.

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16. Creditors: amounts falling due within one year

	Group		Company	
	31 Dec 1998 £000	31 Dec 1997 £000	31 Dec 1998 £000	31 Dec 1997 £000
Bank loans and overdrafts	2,485	3,153	-	-
Trade creditors	5,409	3,306	265	143
Redeemable loan notes	814	-	-	-
Net obligations under finance leases	2,613	2,554	-	-
Dividends payable to minorities	-	57	-	-
Corporation tax	2,999	3,223	1,500	1,500
Other taxes and social security	1,574	3,918	16	14
Other creditors	1,575	967	162	71
Accruals and deferred income	23,934	26,420	157	289
Water guarantee deposits	-	1,540	-	-
Amounts owed to parent and fellow subsidiary undertakings	7,822	9,733	5,485	4,909
Amounts owed to subsidiary undertakings	-	-	210	576
	49,225	54,871	7,795	7,502

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.

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

	Group		Company	
	31 Dec 1998	31 Dec 1997	31 Dec 1998	31 Dec 1997
	£000	£000	£000	£000
Irredeemable debenture stock	716	717	—	—
Redeemable debenture stock	14,900	14,900	—	—
Other term loans and creditors repayable:				
Between one and two years	81,500	49,724	(55)	49,724
Between two and five years	—	32,496	—	—
After five years	8,048	—	8,000	8,000
Obligations under finance leases:				
Between one and five years	9,582	8,491	—	—
After five years	20,246	22,064	—	—
Mains deposits	1,618	—	—	—
Amounts owed to parent undertaking	15,147	15,000	15,147	15,000
	151,757	143,392	23,092	72,724

	31 Dec 1998	31 Dec 1997
	£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	5	5
6% perpetual stock	62	63
	716	717

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

	Group	
	31 Dec 1998 £000	31 Dec 1997 £000
Redeemable debenture stock maturing after more than one year		
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.

	Group		Company	
	31 Dec 1998 £000	31 Dec 1997 £000	31 Dec 1998 £000	31 Dec 1997 £000
Mains deposits	—	346	—	—
Term loans	89,548	81,874	7,945	57,724
	89,548	82,220	7,945	57,724

Term loans include the following facilities:

A £50 million revolving loan facility expiring in March 1999, net of issue costs which are amortised over the life of the facility. Drawings at 31 December 1998 were £nil: (31 December 1997: £50 million).

A £92 million variable rate syndicated revolving loan facility expiring in April 2000. Drawings at 31 December 1998 were £81.5 million (31 December 1997: £24 million). A new facility is being negotiated.

A £15 million term loan facility expiring in October 2008. Drawings at 31 December 1998 were £8 million (31 December 1997: £8 million).

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18. Provisions for liabilities and charges

Group	Provision for losses on long term contracts £000
At 1 January 1998	432
Expended during the year	(43)
Charged to profit and loss account during year	20
At 31 December 1998	409

Company

The company has a provision for deferred taxation of £31,000 (31 December 1997: £88,000) and a provision for losses on long term contracts of £279,000 (31 December 1997: £279,000)

19. Deferred income

Group	Infrastructure charges £000
At 1 January 1998	13,496
Amortised	(748)
At 31 December 1998	12,748

20. Called up share capital

	31 Dec 1998 £000	31 Dec 1997 £000
Authorised, called up, allotted and fully paid Ordinary shares of £1 each	31,800	31,800

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21. Capital reserves

Group	£000
At 1 January 1998	494,963
Disposal of goodwill	304
Transfer to the profit and loss account	(495,267)
At 31 December 1998	—

22. Profit and loss account

	Group £000	Company £000
At 1 January 1998	103,577	6,356
Retained profit for the year	13,670	1,378
Transfer from capital reserves	495,267	—
At 31 December 1998	612,514	7,734

23. Reconciliation of movements in shareholders' funds

Group	31 Dec 1998 £000	31 Dec 1997 £000
Profit for the year	19,670	25,579
Dividends	(6,000)	(1,500)
Disposal of goodwill	304	—
Goodwill written off	—	(38)
Net addition to shareholders' funds	13,974	24,041
Opening shareholder's fund	630,340	606,299
Closing shareholders' funds	644,314	630,340

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24. Equity minority interests

	Non voting shares £000	Voting shares £000	Total £000
At 1 January 1998	74	5,236	5,310
Share of profit before dividends	-	266	266
Minority share of dividends	-	(41)	(41)
Disposals (note 11)	(74)	(5,429)	(5,503)
At 31 December 1998	-	32	32

Dividends of £19,000 (12 months ended 31 December 1997: £36,000) are payable in respect of non-voting shares.

25. Commitments

Capital Commitments

At 31 December 1998 the group had the following authorised commitments:	£000
Contracted	3,943
Non-contracted	152
	4,095

The company had capital commitments of £8,000 (at 31 December 1997: £40,000).

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26. Operating leases

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

	31 Dec 1998	31 Dec 1997	31 Dec 1998	31 Dec 1997	31 Dec 1998	31 Dec 1997
	Land and buildings £000	Land and buildings £000	Other £000	Other £000	Total £000	Total £000
Amounts due in the following year on leases expiring:						
Within one year	—	3	35	205	35	208
Within two to five years	19	177	1,429	583	1,448	760
After five years	335	597	—	—	335	597
	354	777	1,464	788	1,818	1,565

27. Pensions

The total pensions cost of the group for the year was £1,703,000 (12 months ended 31 December 1997: £1,752,000), 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.

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27. Pensions (*continued*)

The latest actuarial valuation of the scheme was carried out as at 1 April 1996 by independent actuaries and contribution rates were set for group undertakings inclusive of Scheme expenses at 7.2% of pensionable remuneration for the scheme year of 1996/97 and 7.4% of pensionable remuneration thereafter. The companies contributed to the SWSPS at 8% of pensionable remuneration until 5 April 1997. After this date, after taking independent actuarial advice, the companies reduced their contribution rate to 6.75% of Pensionable Remuneration to allow for the additional National Insurance rebate which will be paid to the Scheme as a result of the change in the contracted-out status of the Scheme.

Date of latest actuarial valuation	1 April 1996
Actuarial method	Projected unit credit
Rate of return on investment	9% p.a. compound
Rate of general increase in salaries	6% p.a. compound
Rate of increase in pensions	4.5% p.a. compound
Market value of assets at 1 April 1996	£68.7 million
Level of funding at 1 April 1996	113%
Comments on material surplus or deficit	The excess of assets over accrued liabilities has arisen largely because past performance has been better than originally assumed.

The market value of assets at 31 December 1998 is £92 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.

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27. 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 contributions to defined benefit after 10 years' 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.

An actuarial valuation was completed as at 6 April 1996 and contributions were set in accordance with the advice of the actuary as contained in the letter of 1 April 1997. The current company contribution rates in respect of the defined benefit sections are 16.7% of Pensionable Pay (less employees' contributions of 5% or 6% of Pensionable Pay) for the Final Salary (LGSS) Plan and 11.7% for the Final Salary Plan.

In respect of the defined contribution section, the companies contribute at rates to match the members' permitted contributions plus 1.6% of Pensionable Pay for Life Assurance and Scheme expenses.

Money Purchase Plan and Final Salary Plan

Date of latest actuarial valuation	6 April 1996
Actuarial method	Projected unit credit
Rate of return on investment	9% p.a. compound
Rate of general increase in salaries	6.5% p.a. compound
Rate of increase in pensions	4.5% p.a. compound
Market value of assets at 1 April 1996	£1.4 million
Level of funding at 1 April 1996	95%
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 1998 is £4.3 million.

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

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28. Contingent liabilities

Group

There are contingent liabilities arising from performance bonds in respect of group undertakings' contracts amounting to £1,288,000 (at 31 December 1997: £2,196,000).

Company

The company has entered into cross guarantees with subsidiaries in relation to a composite bank accounting facility. There were borrowings of £1,448,000 from this facility at 31 December 1998 (at 31 December 1997 £nil).

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

	31 Dec 1998 £000	31 Dec 1997 £000
Performance bonds	1,288	2,196
Lease commitments	5,516	4,470
	6,804	6,666

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.

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

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Operating profit	33,949	34,531
Profit on disposal of fixed assets	(486)	(406)
Cost of goodwill written off	304	-
Depreciation	11,831	12,357
Movement in provision for infrastructure renewals	-	(147)
Movement in provision for pensions	-	(1,726)
Movement in provision for losses on contracts	(23)	(355)
Amortisation of deferred income	(748)	(749)
Increase/(decrease) in trade creditors	(4,570)	3,242
(Increase)/decrease in trade debtors	(1,701)	(2,467)
Decrease/(increase) in stocks	(295)	496
Net cash inflow from operating activities	38,261	44,776

30. Net cash inflow/(outflow) from financing

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Increase in loan from parent undertaking	147	-
Refund/(receipt) of deposits	(345)	141
Capital element of finance lease repayments	(3,276)	(3,264)
Repayment of short term loans	(3)	-
Drawdown of term loans	173	189
Redemption under syndicated loan facility	7,500	(6,000)
Redemption of debentures	(1)	-
Net cash inflow/(outflow) from financing	4,195	(8,934)

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31. Analysis of net debt

	At 1 January 1998 £000	Cashflow £000	At 31 December 1998 £000
Cash at bank and in hand	4,847	(4,335)	512
Overdrafts	(3,153)	668	(2,485)
	1,694	(3,667)	(1,973)
Loans	(112,840)	(7,471)	(120,311)
Finance leases	(33,109)	668	(32,441)
Net group debt	(144,255)	(10,470)	(154,725)

32. Related party transactions

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

	12 months ended 31 Dec 1998 £000	12 months ended 31 Dec 1997 £000
Management charges from SAUR International SA	4,268	4,749
Recharge of expenses from SAUR International SA	986	575
Interest charges from SAUR International SA	1,572	638
Interest charges from SAUR SA	—	771
Management charges to Pipeway Limited	661	—
Purchase of services from Pipeway Limited	15,714	13,134
Sale of services to Pipeway Limited	155	66
Management charges to Stereau (UK) Limited	—	140
Purchase of services from Stereau (UK) Limited	35	884
Sale of services to Stereau (UK) Limited	8	18
Interest charges to Stereau (UK) Limited	26	—

Transactions between companies in the SAUR UK group and directors of SAUR UK are described in note 9 - Directors and employees.

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32. Related party transactions *(continued)*

Amounts owed to related parties were as follows:

	31 Dec 1998 £000	31 Dec 1997 £000
SAUR International SA	5,656	4,908
Pipeway Limited	1,683	3,319
Stereau (UK) Limited	84	1,065

Amounts owed by related parties were as follows:

	31 Dec 1998 £000	31 Dec 1997 £000
Intrafor SA	5	-
Bouygues UK	48	-
Quille SA	57	22
SAUR (Ireland) Limited	-	1
SAUR International SA	2	-

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.

Stereau (UK) Limited and Pipeway Limited are fellow subsidiaries, controlled by SAUR SA and ultimately controlled by Bouygues SA.

Quille SA and Intrafor SA are subsidiaries of Bouygues SA.

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

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