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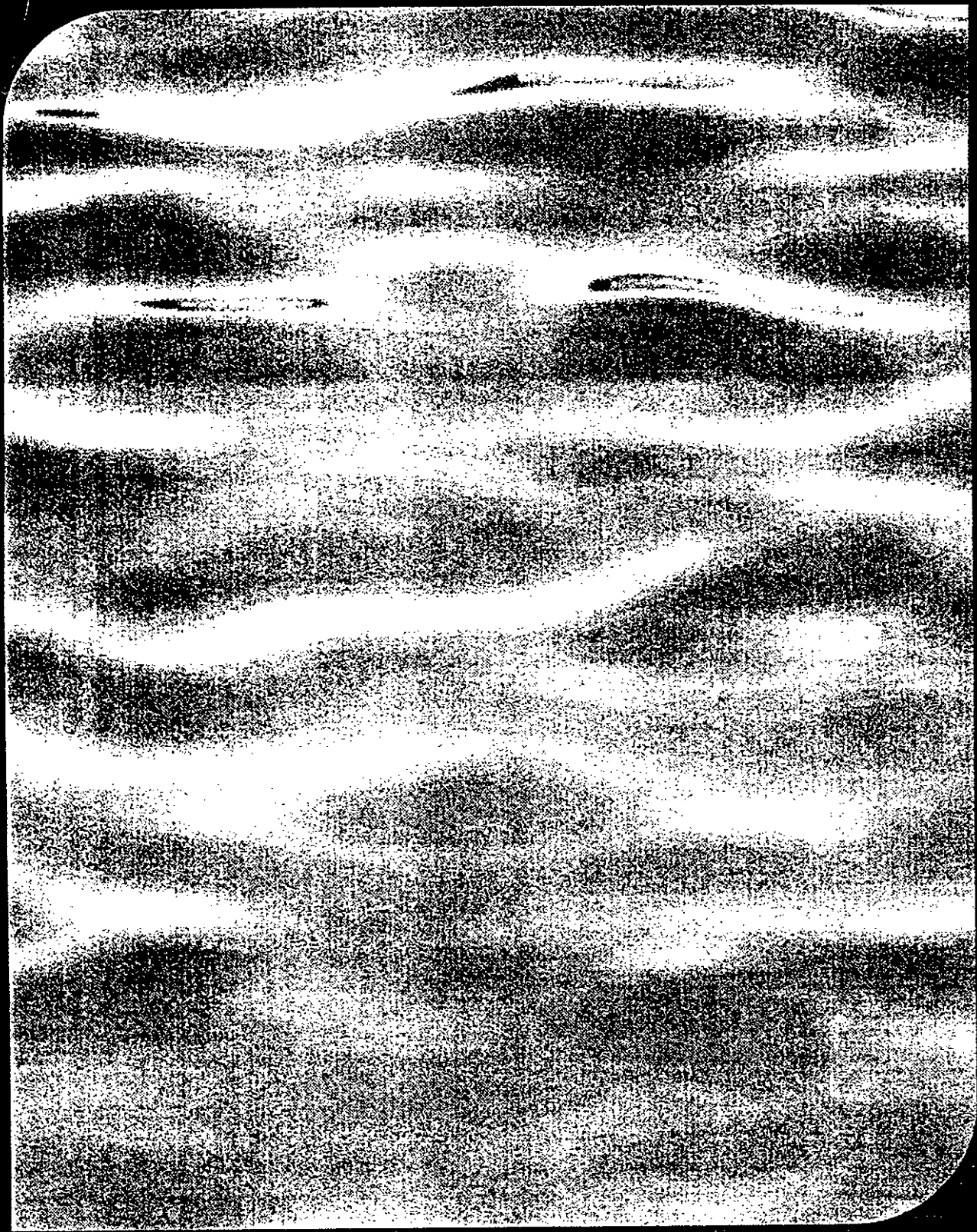
**SAUR UK**

a report on our activities

**1997**



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COMPANIES HOUSE 23/04/98



**SAUR UK is part of the international SAUR group of companies, world leaders in the private management of public utilities, serving over 35 million customers in 35 countries worldwide.**

**The main activity in the UK is the management of water supply to 1.4 million customers through two water companies, South East Water and Mid Southern Water.**

**Through Ecovert Group, the company works in partnership with public and private sector clients to manage a range of environmental services.**

**In addition the group provides design consultancy and project management expertise to the UK and international water industries, together with scientific services and professional building activity.**

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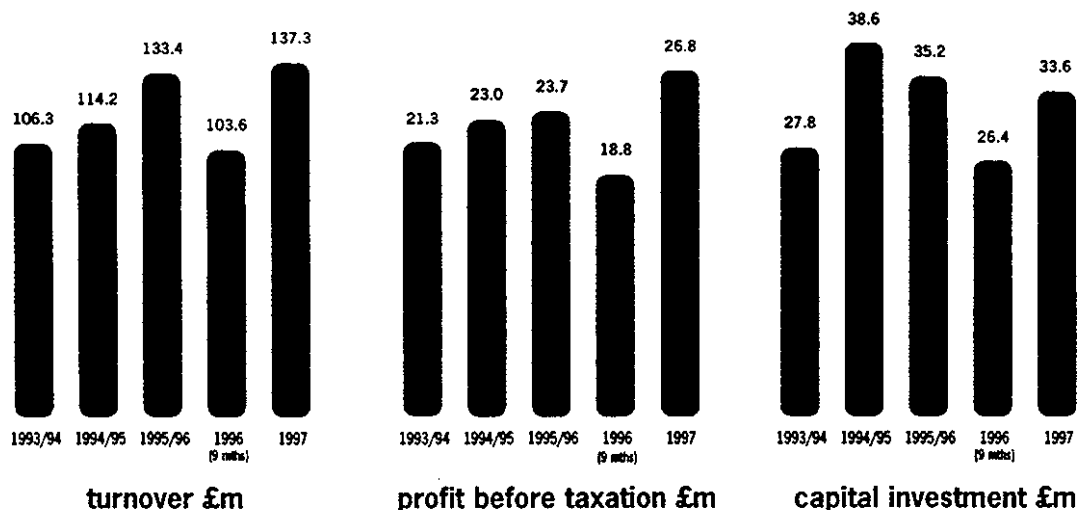
## financial highlights

The 1997 results reflect the group's continuing success, returning a profit before tax of £26.8 million on a turnover of £137.3 million.

Metered water sales increased by around 7% as more customers transferred to meters under the free meter option scheme. The increase was offset by a decline in unmetered water sales and the continuing impact of price increases of 1% less than the rate of inflation.

Capital investment increased to £33.6 million, of which nearly £30 million related to the group's water activities. This supported the extensive mains rehabilitation, metering and leakage control programmes. Rigorous cash management enabled these investments to be funded from operating cash flows.

Net debt reduced by £13 million over the year.



## chairman's statement

# The group works at the heart of every community it serves

### Results

It gives me great pleasure to announce the financial results for the SAUR UK group for the 12 months ending December 1997. Turnover for the period was £137.3 million and pre-tax profits were £26.8 million.

Capital investment in the water business through SAUR Water Services remained a significant feature of our activities during the period. Our investment focused strongly on water metering, leakage control programmes and mains rehabilitation. Some 250km of mains were refurbished during the period.

Our environmental services companies Ecovert and Ecovert South continue to operate in a highly competitive market. Ecovert Group has been established as a holding company for our environmental activities, given greater strength and focus by the addition of a joint management team. Towards the end of the year the Ecovert Group secured a significant contract for King's College, London, marking the successful diversification into the facilities management market.

During the period, the SAUR UK group's overseas activities have broadened significantly in the fields of water treatment and supply, both in conjunction with its parent SAUR International and in the development of opportunities in its own right.

### Customers

The group works at the heart of every community it serves, providing services vital to everyday life. We therefore place great importance upon our commitment to provide customers with the best possible service in all aspects of our business, from water supply to environmental services.

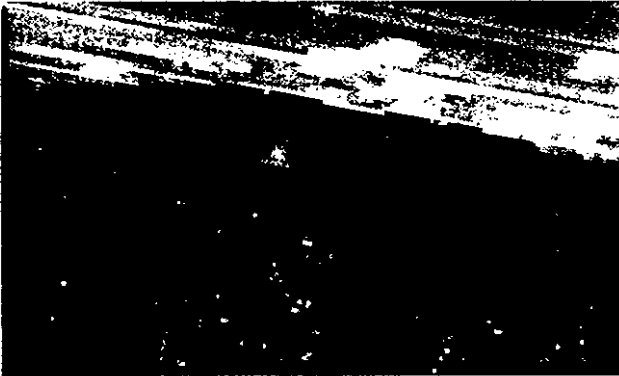
### Directors and staff

Throughout the year, the directors made an outstanding contribution to support our businesses. The staff worked in a highly professional, flexible and efficient manner to meet the challenges presented during the year. Thanks are due to the directors and staff for their continued commitment to the growth and development of the business within the SAUR UK group.

**Bernard Devalan**  
Chairman



## business review



SAUR UK is part of the international SAUR group of companies, world leaders in the private management of public utilities, serving over 35 million customers around the world.

## Water

SAUR UK through SAUR Water Services is the holding company for Mid Southern Water and South East Water. During the year both water companies received Quality Assurance ISO 9002 for all areas of their operations, the first water companies to do so. Water quality also improved, reaching a 99.9% standard of perfection. Despite the driest weather for the past 200 years in the South of England there were no restrictions on water usage this summer. Leakage control and resource management continue to be priorities.

Water continues to be a live regulatory and government issue – Mid Southern Water and South East Water are working closely with the Government on their initiatives and with all three regulators as the industry approaches a new pricing review.

## Resources

No water companies have been more proactive than Mid Southern Water and South East Water in promoting the sensible use of water and in pursuing a resources policy which will ensure there is enough water in the long term to give customers the water they want, of the highest standards and at a reasonable price. We work closely with the Environment Agency on the planning of long term resources and we are addressing leakage control with

equal vigour. We are aiming to reduce leakage by an average of 13% in both companies over the next 18 months. We also work closely with customers to help them use water wisely. This includes the offer of a free water meter and other initiatives. In the summer we promoted the use of hippos – a water efficient cistern device – and our hippo awareness week resulted in 30,000 hippo bags being given away.

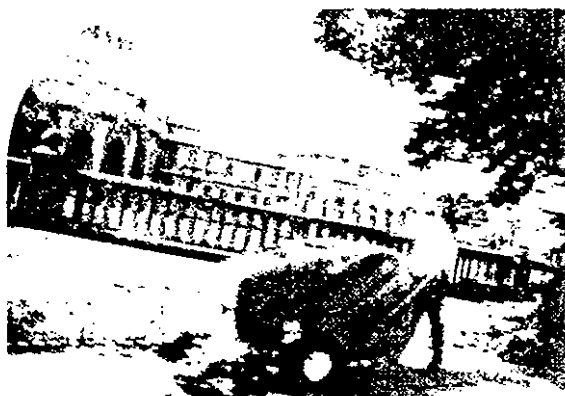
## Customer service

Our customers cannot choose their water company – our objective is to ensure that they would choose us to supply their water if they could.

Both companies were recognised by OFWAT as having achieved "well above average" performances in key areas of customer service last year. A number of new initiatives to continue this good work were introduced, including:

The Quality Plus programme – a water company and customer partnership to provide customers with better communication and to solve their problems in the fastest possible time and where necessary to pay instant compensation. Our challenge is to solve customer problems quickly and in a positive, friendly way. If we fail to deliver the service we promise, we will pay compensation without delay or argument. We are also offering customers a free leak finding and repair service and installing water meters free where the property is suitable.





# with the demand for water increasing, we are focused on improving our resources

## Quality

This year both companies continued to improve the quality of all water delivered. In the regulatory tests of water quality both companies' water scored 99.9% compliance. Given that the European Union and the UK have the most stringent water quality requirements for drinking water – even more than for some bottled waters – it would be fair to say that Mid Southern Water and South East Water customers are receiving some of the best quality water in the world.

## Investment

Supplying customers with sufficient high quality water regardless of abnormal weather conditions is achievable provided both South East Water and Mid Southern Water maintain significant investment programmes. During the year a number of investment initiatives were announced including the upgrading of the Pembury treatment works, completion of a development programme at our Forest Row treatment works and significant investment in mains to support new housing developments and improve levels of service to existing customers.

## Community Involvement

In addition to giving customers the best possible service, water companies also have a duty to involve customers in their work and to give something back to the local communities in which they operate. During the year we became involved with the Berkshire Education Authority in promoting awareness as part of the National Curriculum, held a number of open days to give customers an insight into the workings of treatment plants, presented a 4 wheel drive truck to the Scouts Association, sponsored a conservation project to preserve rare Kent heathland and raised £5,000 for a hospice in the Weals. We also sponsored The Brighton & Hove Philharmonic Orchestra for the second year and supported performances during "The French Theatre Season".

## Environment

Ecovert Group is an environmental group offering local authorities, commerce and industry a range of services including domestic refuse collection, trade waste services, street cleaning, recycling, ground maintenance and facilities management.

Ecovert Group had an encouraging year, winning a number of important new contracts including the £100 million King's College London maintenance contract for a 25 year period and a multi million pound sludge haulage contract from North West Water. The group continues to manage Brighton's municipal services where it is responsible for the management of leisure facilities, all household and trade refuse collection, street and beach cleaning and park maintenance.

The group also won three contracts in High Wycombe: a two-and-a-half year waste paper collection contract, the construction of a small car park and a roadwork maintenance contract.

We anticipate tendering for a large number of key contracts in the coming year, drawing on our considerable experience in Brighton and other areas of the UK.

## Consultancy

Our UK consultancy division works in conjunction with the international development activities of our parent company SAUR International. The objective is to provide consultancy advice to foreign governments around the world on their water and sewerage infrastructure and also to tender for international water supply contracts. Through its French and UK operations the SAUR consultancy team has direct experience in the most advanced water and sewerage systems around the world. Over the past 12 months we have strengthened all the teams operating in this area which has allowed us to

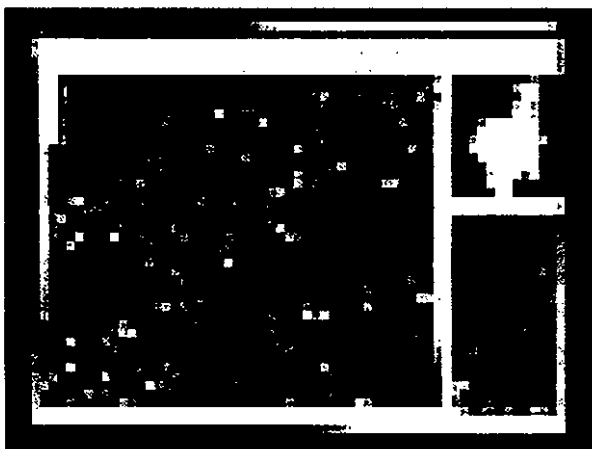


broaden our overseas offer and also enabled us to win some notable overseas contracts. SAUR is now one of the most prominent water groups advising governments overseas and our work in 1997 strengthened our position in this area. During the year, SAUR UK was involved in projects in Poland, Eritrea, Brazil, Georgia, Argentina, Latvia, Ireland and Southern Africa.

SAUR UK won its first significant overseas contract on its own merit, to carry out a pilot study for drinking water disinfection and iron removal in the Latvian City of Lipaja. The work which is being funded by the World Bank will last for six months. In Southern Africa, privatisation of the water industry is at the primary stages and we tendered for water supply and treatment contracts in Nelspruit and Dolphin Coast. In Poland we were the team leader on the reorganisation of the Bielsko-Biala water and sewerage project and were involved in arranging the town's financing for this project. In Brazil we were instrumental in the successful privatisation of the Barra de Tisuca water and sewerage company and in Argentina we reorganised, restaffed and refinanced the Provincia de Mendoza water company ahead of privatisation.

In the year ahead we intend to extend our expertise to other areas around the world and we are currently tendering for a number of new contracts. Our advances in technology and IT at our French and UK operations will continue to strengthen our overseas development.

we are world  
leaders in  
the private  
management  
of public  
utilities



## directors, secretary and advisers



**Bernard Devalan**  
Chairman

A professional engineer, he has spent the last 31 years with the Bouygues Group where he has been responsible for major international construction projects, technical works and studies. He has held many senior director posts in the group, including SAUR, and is currently chairman of COVED.

Age 69



**Jean-François Talbot**  
Deputy Chairman

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 in the same year was appointed deputy managing director of SAUR International, responsible for group business in the UK and Spain.

Age 50

### Directors

B Devalan  
(Chairman)

J-F Talbot  
(Deputy Chairman)

HT Barnhoorn  
(Managing Director)

CJ Gaboreau

GM Hoskins

PC Rancon

JP Sennepin



**Dick Barnhoorn**  
Managing Director

Educated as an analytical chemist in Holland, Mr Barnhoorn 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 managing director of SAUR Water Services and in 1995, managing director of SAUR UK. He is also a director of SAUR International.

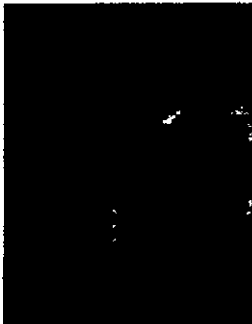
Age 51



**Claude Gaboreau**  
Director

Joined SAUR International in 1994 as deputy director for the UK and Spain. Previously with Electricité de France for 23 years, most recently as head of the International Division executive committee and head of the press office and corporate relations. Appointed a director of SAUR UK in 1996.

Age 52



**Geoffrey Hoskins**

Director

A chartered accountant, he joined Eastbourne Water in 1973 as managing director and was subsequently elected as executive chairman. Became deputy managing director of SAUR UK in 1993 until his retirement as an executive in 1995.

Age 67

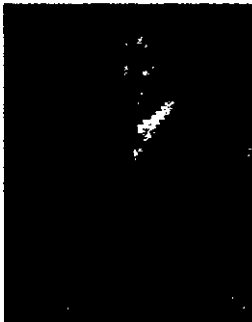


**Patrice Rancon**

Director

Joined the SAUR group in 1981 as deputy director of finance before moving on to become company secretary and group finance director. Appointed deputy managing director of the SAUR group in 1995.

Age 51



**Jacques Sennepin**

Director

A qualified engineer, he 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 SAUR.

Age 61

**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  
Coopers & Lybrand

**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 1997.

### 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.

### Business Review

Consolidated profit on ordinary activities after minority interests and taxation for the year was £25.6 million (9 months ended 31 December 1996: £17.4 million). The financial position at 31 December 1997 is shown in the consolidated balance sheet on page 14 and in the company's balance sheet on page 15.

### Dividends

An interim dividend of £1,500,000 (4.7p per share) was paid on ordinary shares on 2 September 1997, in respect of the year ended 31 December 1997 (9 months ended 31 December 1996: £nil). No final dividend is proposed.

### Fixed assets

Capital expenditure on tangible fixed assets during the year totalled £33.6 million (9 months ended 31 December 1996: £26.4 million). Details of changes in tangible fixed assets are summarised in note 11.

### Directors and interests in shares

The directors at the date of this report are set out on page 8. 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.

### 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 £4,429 (9 months ended 31 December 1996: £17,512). 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

10 March 1998

## statement of directors' responsibilities

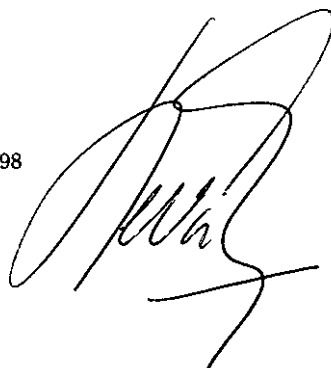
Company law requires the directors to prepare financial statements for each financial period which give a true and a fair view of the state of affairs of the company and of the group, and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- 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 company and to prevent and detect fraud and other irregularities.

**B Devalan**  
Chairman

10 March 1998

A handwritten signature in black ink, appearing to be 'B Devalan', written over a light background.

## auditors' report

### To the members of SAUR (UK) Limited

We have audited the financial statements on pages 13 to 38.

#### Respective Responsibilities of Directors and Auditors

As described on page 11 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.

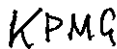
#### Basis of Opinion

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 1997 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

11 March 1998

# consolidated profit and loss account

for the year ended 31 December 1997

	Note	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Turnover	2	137,324	103,656
Cost of sales		(105,920)	(78,890)
Other operating income	3	3,127	1,562
<b>Operating profit</b>		<b>34,531</b>	<b>26,328</b>
Profit on sale of investment		3,991	—
Interest receivable and similar income	4	644	1,219
Amounts written off investments	5	(84)	—
Interest payable and similar charges	6	(12,294)	(8,786)
<b>Profit on ordinary activities before taxation</b>	<b>7</b>	<b>26,788</b>	<b>18,761</b>
Tax on profit on ordinary activities	10	(916)	(1,246)
<b>Profit on ordinary activities after taxation</b>		<b>25,872</b>	<b>17,515</b>
Minority interests:	23		
Voting		(257)	(95)
Non-voting		(36)	(36)
<b>Profit for the year</b>		<b>25,579</b>	<b>17,384</b>
Dividends:			
Equity		(1,500)	—
<b>Retained profit</b>	<b>21</b>	<b>24,079</b>	<b>17,384</b>

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 22.

# consolidated balance sheet

as at 31 December 1997

	Note	31 Dec 1997 £000	31 Dec 1997 £000	31 Dec 1996 £000	31 Dec 1996 £000
<b>Fixed assets</b>					
Tangible assets	11	810,387		787,707	
Investments	12	158		10,924	
			810,545		798,631
<b>Current assets</b>					
Stocks	13	1,502		1,998	
Debtors	14	30,947		28,912	
Cash at bank and in hand		4,847		629	
		37,296		31,539	
Creditors: amounts falling due within one year	15	(54,871)		(54,897)	
<b>Net current liabilities</b>			(17,575)		(23,358)
<b>Total assets less current liabilities</b>			792,970		775,273
Creditors: amounts falling due after more than one year	16		(143,392)		(150,496)
Provisions for liabilities and charges	17		(432)		(2,660)
Deferred income	18		(13,496)		(10,761)
<b>Net assets</b>			635,650		611,356
<b>Capital and reserves</b>					
Called up share capital	19		31,800		31,800
Capital reserves	20		494,963		495,001
Profit and loss account	21		103,577		79,498
<b>Equity shareholders' funds</b>	22		630,340		606,299
<b>Equity minority interests</b>	23		5,310		5,057
			635,650		611,356

These financial statements were approved by the board of directors on 10 March 1998 and were signed on its behalf by:

  
P C Rancon  
Director



# company balance sheet

as at 31 December 1997

	Note	31 Dec 1997 £000	31 Dec 1997 £000	31 Dec 1996 £000	31 Dec 1996 £000
<b>Fixed assets</b>					
Tangible assets	11	153		144	
Investments	12	104,553		102,744	
			<b>104,706</b>		<b>102,888</b>
<b>Current assets</b>					
Debtors	14	2,342		11,520	
Cash at bank and in hand		11,701		130	
		<b>14,043</b>		<b>11,650</b>	
<b>Creditors: amounts falling due within one year</b>	15	<b>(7,502)</b>		<b>(8,468)</b>	
<b>Net current assets</b>			<b>6,541</b>		<b>3,182</b>
<b>Total assets less current liabilities</b>			<b>111,247</b>		<b>106,070</b>
<b>Creditors: amounts falling due after more than one year</b>	16		<b>(72,724)</b>		<b>(72,503)</b>
<b>Provisions for liabilities and charges</b>	17		<b>(367)</b>		<b>(450)</b>
<b>Net assets</b>			<b>38,156</b>		<b>33,117</b>
<b>Capital and reserves</b>					
Called up share capital	19		<b>31,800</b>		<b>31,800</b>
Profit and loss account	21		<b>6,356</b>		<b>1,317</b>
<b>Equity shareholders' funds</b>			<b>38,156</b>		<b>33,117</b>

These financial statements were approved by the board of directors on 10 March 1998 and were signed on its behalf by:

  
P C Rancon  
Director

# consolidated cash flow statement

for the year ended 31 December 1997

	Note	12 months ended 31 Dec 1997 £000	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000	9 months ended 31 Dec 1996 £000
Net cash inflow from operating activities	28		44,776		30,102
Returns on investments and servicing of finance					
Interest paid		(10,170)		(8,408)	
Interest received		506		161	
Dividends received		435		761	
Interest element of finance leases		(2,101)		(2,067)	
Net cash outflow from returns on investments and servicing of finance			(11,330)		(9,553)
Taxation					
UK corporation tax (paid)/repaid			(1,988)		228
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(32,628)		(14,662)	
Loan to fellow subsidiary		(150)		-	
Capital contributions received		1,414		747	
Sale of tangible fixed assets		1,033		1,582	
Sale of investment		14,897		-	
Net cash outflow from capital expenditure and financial investment			(15,434)		(12,333)
Acquisitions and disposals					
Payments to acquire contracts and other businesses		(38)		-	
Net cash outflow from acquisitions and disposals			(38)		-
Equity dividends paid			(1,602)		(308)
Net cash inflow before management of liquid resources and financing			14,384		8,136
Net cash outflow from financing	29		(8,934)		(4,270)
Increase in cash in the year/period			5,450		3,866
Reconciliation of net cash flow to movement in net debt					
Increase in cash in the year/period		5,450		3,866	
Cash outflow from decrease in debt and lease financing		8,934		4,270	
Change in net debt resulting from cash flows			14,384		8,136
New finance leases			(1,378)		(12,347)
Movement in net debt in the year/period			13,006		(4,211)
Net debt at 1 January 1997 and 1 April 1996	30		(157,261)		(152,950)
Net debt at 31 December 1997 and 31 December 1996	30		(144,255)		(157,261)

# notes to the financial statements

for the year ended 31 December 1997

## 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 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. Non-voting share capital in subsidiary undertakings is included in minority interests at its nominal value.

### Goodwill

Goodwill represents the net excess of the cost of unincorporated businesses, contracts or the shares in subsidiary undertakings over the fair value of their separable net assets at the date of acquisition and is written off directly to consolidated reserves in the year of acquisition. Where the net assets acquired exceed the purchase consideration the excess is added to the reserves of the group.

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.

### 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 undertakings are recognised in the accounts of the parent undertaking 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.

# notes to the financial statements

for the year ended 31 December 1997

## 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.

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 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

## notes to the financial statements

for the year ended 31 December 1997

### **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 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 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 26.

# notes to the financial statements

for the year ended 31 December 1997

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

	Water supply 12 months ended 31 Dec 1997 £000	Water supply 9 months ended 31 Dec 1996 £000	Other 12 months ended 31 Dec 1997 £000	Other 9 months ended 31 Dec 1996 £000	Total 12 months ended 31 Dec 1997 £000	Total 9 months ended 31 Dec 1996 £000
<b>Turnover</b>						
Measured water sales	30,736	21,488	-	-	30,736	21,488
Unmeasured water sales	62,526	47,990	-	-	62,826	47,990
Rechargeable water sales	1,616	1,012	-	-	1,616	1,012
Other sales	1,896	1,469	54,683	40,992	56,579	42,461
<b>Total sales</b>	<b>97,074</b>	<b>71,959</b>	<b>54,683</b>	<b>40,992</b>	<b>151,757</b>	<b>112,951</b>
Intersegment sales	(8)	(14)	(14,425)	(9,281)	(14,433)	(9,295)
<b>Sales to third parties</b>	<b>97,066</b>	<b>71,945</b>	<b>40,258</b>	<b>31,711</b>	<b>137,324</b>	<b>103,656</b>
<b>Attributable profit/(loss) before interest</b>	<b>42,283</b>	<b>30,750</b>	<b>(7,752)</b>	<b>(4,422)</b>	<b>34,531</b>	<b>26,328</b>
<b>Net interest payable and net profit on sale of investment</b>					<b>(7,743)</b>	<b>(7,567)</b>
<b>Profit before tax and minority interests</b>					<b>26,788</b>	<b>18,761</b>
<b>Non interest bearing net assets</b>	<b>727,040</b>	<b>702,423</b>	<b>52,516</b>	<b>65,987</b>	<b>779,556</b>	<b>768,410</b>
<b>Interest bearing net liabilities</b>	<b>(77,828)</b>	<b>(77,767)</b>	<b>(66,078)</b>	<b>(79,287)</b>	<b>(143,906)</b>	<b>(157,054)</b>
<b>Consolidated net assets/ (net liabilities)</b>	<b>649,212</b>	<b>624,656</b>	<b>(13,562)</b>	<b>(13,300)</b>	<b>635,650</b>	<b>611,356</b>

All turnover arose within the United Kingdom except for £23,000 (9 months ended 31 December 1996: £nil) which arose in Africa, £68,000 (9 months ended 31 December 1996: £74,000) which arose in the rest of Europe and £33,000 which arose in Asia (9 months ended 31 December 1996: £nil).

# notes to the financial statements

for the year ended 31 December 1997

## 3. Other operating income

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Profit on sale of fixed assets	406	83
Rents receivable from land	71	43
Sundry income	2,650	1,436
	<b>3,127</b>	<b>1,562</b>

## 4. Interest receivable and similar income

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Interest receivable on bank deposits	506	29
Income from fixed asset investment	138	1,058
Other income	-	132
	<b>644</b>	<b>1,219</b>

## 5. Amounts written off investments

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Provision against investment	10	-
Negative minority interest written off on acquisition of minority	74	-
	<b>84</b>	<b>-</b>

# notes to the financial statements

for the year ended 31 December 1997

## 6. Interest payable and similar charges

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Interest payable on bank loans	6,354	4,157
Interest on other borrowings	1,734	1,299
Interest payable on loans from immediate parent undertaking	1,409	1,218
Interest payable on finance leases which expire:		
within five years	459	335
after five years	1,817	1,308
Other	521	469
	12,294	8,786

## 7. Profit on ordinary activities before taxation

	12 months ended 31 Dec 1997 £000	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000	9 months ended 31 Dec 1996 £000
Profit before taxation is arrived at after charging/(crediting):				
Depreciation:				
owned assets	9,700		6,821	
leased assets	2,657		2,060	
		12,357		8,881
Rates and abstraction charges		6,164		4,249
Hire charges		968		362
Operating lease rentals:				
plant and machinery	533		540	
other assets	658		471	
		1,191		1,011
Profit on disposal of fixed assets		(406)		(83)
Auditors' remuneration:				
statutory audit – company		38		22
– subsidiaries		199		194
non audit work		157		155



# notes to the financial statements

for the year ended 31 December 1997

## 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 21 to the financial statements.

## 9. Directors and employees

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

	12 months ended 31 Dec 1997	9 months ended 31 Dec 1996
Operations	1,511	1,462
Engineering	53	135
Management and administration	297	267
	<b>1,861</b>	<b>1,864</b>

The aggregate payroll costs of these persons were as follows:

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Wages and salaries	32,250	24,087
Social security costs	3,043	2,096
Pension costs	1,752	1,492
	<b>37,045</b>	<b>27,675</b>

### Remuneration of directors

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Aggregate emoluments	<b>427</b>	<b>302</b>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £188,831 (1996: £140,049).

He is a member of a defined benefit scheme, under which his accrued pension at the year end was £41,931, and his accrued lump sum was £125,792.

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

# notes to the financial statements

for the year ended 31 December 1997

## 10. Taxation

Group

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
UK corporation tax on profits at 33% for the period 1 January 1997 to 31 March 1997 and 31% for the period 1 April 1997 to 31 December 1997	1,924	4,369
Advance corporation tax reinstated	(1,177)	(2,621)
Advance corporation tax written off	33	75
Tax attributable to franked investment income	28	212
Under/(over) provisions in prior years	108	(789)
	916	1,246

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:

Group	31 Dec 1997 £000	31 Dec 1996 £000
Corporation tax at 31% deferred by reason of:		
Capital allowances exceeding depreciation	26,113	26,576
Short term timing differences	(176)	(685)
Excess of fair value over book value of fixed assets on subsidiaries acquired	166,430	177,167
	192,367	203,058
Advance corporation tax available for set-off	(7,492)	(6,150)
	184,875	196,908

# notes to the financial statements

for the year ended 31 December 1997

## 11. Tangible fixed assets

Group	Land, wells, reservoirs and buildings £000	Mains £000	Plant, equipment and vehicles £000	Total £000
<b>Cost</b>				
At 1 January 1997	249,305	482,991	141,363	873,659
Reclassification	7,954	271	(8,225)	-
Additions	3,209	16,347	14,036	33,592
Disposals	-	-	(2,060)	(2,060)
<b>At 31 December 1997</b>	<b>260,468</b>	<b>499,609</b>	<b>145,114</b>	<b>905,191</b>
<b>Depreciation</b>				
At 1 January 1997	22,487	-	35,528	58,015
Charge for the year	3,233	-	9,124	12,357
Disposals	-	-	(1,435)	(1,435)
<b>At 31 December 1997</b>	<b>25,720</b>	<b>-</b>	<b>43,217</b>	<b>68,937</b>
<b>Net book value</b>				
At 31 December 1997	234,748	499,609	101,897	836,254
Less capital contributions	-	(25,867)	-	(25,867)
<b>Net book value after third party contributions are deducted at 31 December 1997</b>	<b>234,748</b>	<b>473,742</b>	<b>101,897</b>	<b>810,387</b>
Including - leased assets	6,524	8,004	24,109	38,637
- assets under construction	3,819	21,740	15,697	41,256
<b>Net book value after third party contributions are deducted at 31 December 1996</b>	<b>226,818</b>	<b>455,054</b>	<b>105,835</b>	<b>787,707</b>
Including - leased assets	9,983	-	30,660	40,643
- assets under construction	7,669	22,490	15,654	45,813
				<b>£000</b>
<b>Capital contributions</b>				
At 1 January 1997				27,936
Received during the year				1,415
Transfer to deferred income				(3,484)
<b>At 31 December 1997</b>				<b>25,867</b>

# notes to the financial statements

for the year ended 31 December 1997

## 11 Tangible fixed assets (continued)

The recorded cost of fixed assets reflects the fair values 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.

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 1997 amount to £100 million. Short leasehold land and buildings held by the group at 31 December 1997 amount to £1.013 million. The related depreciation charge in the year was £173,000.

In May 1996 subsidiary companies entered into sale and lease back arrangements in respect of plant and machinery at various treatment works. These have been accounted for as finance leases in accordance with Statement of Standard Accounting Practice (SSAP) 21. The leases have a primary period of 15 years. The lease obligations at 31 December 1997 resulting from these transactions amounted to £8.7 million.

Company	Office equipment and vehicles £000
<b>Cost</b>	
At 1 January 1997	218
Additions	75
Disposals	(33)
<b>At 31 December 1997</b>	<b>260</b>
<b>Depreciation</b>	
At 1 January 1997	74
Charge for the year	56
Disposals	(23)
<b>At 31 December 1997</b>	<b>107</b>
<b>Net book value</b>	
At 31 December 1997	153
At 31 December 1996	144

# notes to the financial statements

for the year ended 31 December 1997

## 12. Investments

Group	Listed investments shares £000	Other investments shares £000	Loans to fellow subsidiaries £000	Total £000
At 1 January 1997	10,906	18	–	10,924
Provision	–	(10)	–	(10)
Loan to fellow subsidiary	–	–	150	150
Disposals	(10,906)	–	–	(10,906)
At 31 December 1997	–	8	150	158

In 5 March 1997 2,474,103 ordinary shares in Mid Kent Holdings plc were sold at a price of 520p per share.

Other investments comprise shares in WRc plc.

Company	Shares £000	Loans £000	Total £000
Investment in subsidiary undertakings:			
Cost			
At 1 January 1997	36,897	69,125	106,022
Additions	26,000	6,159	32,159
Disposals/repayments	(4,026)	(26,324)	(30,350)
At 31 December 1997	58,871	48,960	107,831
Provisions			
At 1 January 1997 and 31 December 1997	925	2,353	3,278
Net book value			
At 31 December 1997	57,946	46,607	104,553
At 31 December 1996	35,972	66,772	102,744

Included within the loans to subsidiary undertakings is a £150,000 loan to a fellow subsidiary undertaking.

# notes to the financial statements

for the year ended 31 December 1997

## 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	99.44%	Supply and distribution of water
	Ordinary non-voting	90.98%	
South East Water Limited**	Ordinary	100.00%	Supply and distribution of water
Eastbourne Water plc**	Ordinary voting	99.54%	Supply and distribution of water
	Ordinary non-voting	79.89%	
Mid-Sussex Water plc**	Ordinary voting	98.15%	Supply and distribution of water
West Kent Water plc**	Ordinary voting	98.72%	Supply and distribution of water
	Ordinary non-voting	100.00%	
SAUR Services plc**	Ordinary	100.00%	Facilities management
Dynamco Limited*	Ordinary	100.00%	Engineering services and contracting
DYWM Limited**	Ordinary	100.00%	Building consultancy
ProSis Limited*	Ordinary	100.00%	Information Technology Services
Ecodrive Limited*	Ordinary	100.00%	Dormant
ECOVERT Management Limited**	Ordinary	100.00%	Building maintenance
Deepcut Investments Limited*	Ordinary	100.00%	Investment company
ECOVERT Limited**	Ordinary	100.00%	Waste collection & disposal
Industrial Environmental Services Limited**	Ordinary	100.00%	Waste collection & disposal & related services
The Fosse Group Limited**	Ordinary	100.00%	Waste collection & disposal
Channel Environmental Services plc*	Ordinary	100.00%	Waste collection & disposal
Stalwart Environmental Services Limited*	Ordinary	100.00%	Waste collection & disposal
ECOVERT Wycombe Limited**	Ordinary	100.00%	Waste collection & disposal
ECOVERT DLS Limited**	Ordinary	100.00%	Waste collection & disposal
Trehir Development Company Limited**	Ordinary	81.00%	Waste collection & disposal
ECOVERT South Limited**	Ordinary	100.00%	Management of municipal services
SAUR Environmental Services Ltd* (renamed Ecovert Group Ltd on 9/2/98)	Ordinary	100.00%	Environmental Services

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

\*Held directly by SAUR (UK) Limited

\*\*Held via a subsidiary undertaking

# notes to the financial statements

for the year ended 31 December 1997

## 13. Stocks

Group	31 Dec 1997 £000	31 Dec 1996 £000
Raw materials and consumables	1,335	1,364
Work in progress	167	634
	1,502	1,998

## 14. Debtors

	Group		Company	
	31 Dec 1997 £000	31 Dec 1996 £000	31 Dec 1997 £000	31 Dec 1996 £000
Trade debtors	21,791	21,327	33	—
Other debtors	3,814	2,306	43	190
Prepayments	4,878	4,641	70	31
Dividends receivable from group undertakings	—	—	—	6,700
Amounts due from group undertakings	464	638	2,196	4,599
	30,947	28,912	2,342	11,520

Other group debtors include £38,000 (at 31 December 1996: £41,000) due after more than one year.

## 15. Creditors: amounts falling due within one year

	Group		Company	
	31 Dec 1997 £000	31 Dec 1996 £000	31 Dec 1997 £000	31 Dec 1996 £000
Bank loans and overdrafts	3,153	4,385	—	437
Trade creditors	3,306	5,648	143	308
Net obligations under finance leases	2,554	3,006	—	—
Dividends payable to minorities	57	45	—	—
Corporation tax	3,223	4,285	1,500	—
ACT payable	—	10	—	—
Other taxes and social security	3,918	1,778	14	74
Other creditors	967	429	71	—
Accruals and deferred income	26,420	25,861	289	276
Water guarantee deposits	1,540	1,316	—	—
Amounts owed to parent and fellow subsidiary undertakings	9,733	8,134	4,909	5,238
Amounts owed to subsidiary undertakings	—	—	576	2,135
	54,871	54,897	7,502	8,468

# notes to the financial statements

for the year ended 31 December 1997

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

	Group		Company	
	31 Dec 1997 £000	31 Dec 1996 £000	31 Dec 1997 £000	31 Dec 1996 £000
Irredeemable debenture stock	717	717	-	-
Redeemable debenture stock	14,900	14,900	-	-
Other term loans and creditors repayable				
between one and two years	49,724	49,503	49,724	49,503
between two and five years	32,496	38,387	8,000	8,000
Obligations under finance leases:				
between one and five years	8,491	8,569	-	-
after five years	22,064	23,420	-	-
Amounts owed to parent undertaking	15,000	15,000	15,000	15,000
	<b>143,392</b>	<b>150,496</b>	<b>72,724</b>	<b>72,503</b>

	31 Dec 1997 £000	31 Dec 1996 £000
Irredeemable debenture stock		
3½% perpetual stock	360	360
4% perpetual stock	87	87
5% perpetual stock	202	202
5½% perpetual stock	5	5
6% perpetual stock	63	63
	<b>717</b>	<b>717</b>

	31 Dec 1997 £000	31 Dec 1996 £000
Redeemable debenture stock maturing after more than one year		
12½% debenture stock 2004	3,800	3,800
11½% 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
	<b>14,900</b>	<b>14,900</b>

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



# notes to the financial statements

for the year ended 31 December 1997

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

	Group		Company	
	31 Dec 1997 £000	31 Dec 1996 £000	31 Dec 1997 £000	31 Dec 1996 £000
Mains deposits	346	204	–	–
Term loans	81,874	87,686	57,724	57,503
	82,220	87,890	57,724	57,503

Term loans include a £50 million revolving loan facility due in 1999 net of issue costs which are amortised over the year of the facility.

Term loans also comprise £24 million (at 31 December 1996: £30 million) of drawings under a £92 million variable rate syndicated revolving loan facility.

Term loans also include £8 million of drawings under a £15 million term loan facility, negotiated on 3 October 1996.

## 17. Provisions for liabilities and charges

Group	Provision for losses on long term contracts £000	Provision for infrastructure renewals £000	Provision for unfunded pension obligations £000	Total £000
At 1 January 1997	787	147	1,726	2,660
Expended during the year	(352)	(6,999)	(132)	(7,483)
(Credited)/charged to profit and loss account during year	(3)	6,852	(1,594)	5,255
At 31 December 1997	432	–	–	432

### Company

The company has a provision for deferred taxation of £88,000 (at 31 December 1996: £171,000) and a provision for losses on long term contracts of £279,000 (at 31 December 1996: £279,000).

## 18. Deferred income

Group	Infrastructure Charges £000
At 1 January 1997	10,761
Transfer from fixed assets	3,484
Amortised	(749)
At 31 December 1997	13,496

# notes to the financial statements

for the year ended 31 December 1997

## 19. Called up share capital

	31 Dec 1997 £000	31 Dec 1996 £000
Authorised, called up, allotted and fully paid		
Ordinary shares of £1 each	31,800	31,800

## 20. Capital reserves

Group	£000
At 1 January 1997	495,001
Goodwill on acquisition of contract	(38)
At 31 December 1997	494,963

The capital reserve is primarily attributable to the fair values of the fixed assets of the water company subsidiaries acquired exceeding the book values at the effective dates of acquisition. The fair values of all other assets and liabilities were considered to be equal to the book values.

## 21. Profit and loss account

	Group £000	Company £000
At 1 January 1997	79,498	1,317
Retained profit for the year	24,079	5,039
At 31 December 1997	103,577	6,356

The cumulative goodwill written off in the group amounted to £2,482,000 (at 31 December 1996: £2,444,000).

## 22. Reconciliation of movements in shareholders' funds

Group	31 Dec 1997 £000	31 Dec 1996 £000
Profit for the year	25,579	17,384
Dividends	(1,500)	-
Adjustment to goodwill	-	150
Goodwill written off	(38)	-
Net addition to shareholders' funds	24,041	17,534
Opening shareholders' funds	606,299	588,765
Closing shareholders' funds	630,340	606,299

# notes to the financial statements

for the year ended 31 December 1997

## 23. Equity minority interests

Group	Non-voting shares £000	Voting shares £000	Total £000
At 1 January 1997	74	4,983	5,057
Share of profit before dividends	—	257	257
Minority share of dividends	—	(78)	(78)
Acquisition of minority interest in subsidiary	—	74	74
At 31 December 1997	74	5,236	5,310

Dividends of £36,000 (9 months ended 31 December 1996: £36,000) are payable in respect of non-voting shares.

## 24. Commitments

### Capital commitments

At 31 December 1997 the group had the following authorised commitments:

	£000
Contracted	12,962
Non-contracted	5,320
	18,282

The company had capital commitments of £40,000 (at 31 December 1996: £nil).

## 25. Operating leases

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

	31 Dec 1997 Land and buildings £000	31 Dec 1996 Land and buildings £000	31 Dec 1997 Other £000	31 Dec 1996 Other £000	31 Dec 1997 Total £000	31 Dec 1996 Total £000
Amounts due in the following year on leases expiring:						
within one year	3	37	205	135	208	172
within two to five years	177	273	583	797	760	1,070
after five years	597	844	—	—	597	844
	777	1,154	788	932	1,565	2,086

# notes to the financial statements

for the year ended 31 December 1997

## 26. Pensions

The total pensions cost of the group for the year was £1,752,000 (9 months ended 31 December 1996: £1,492,000), 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 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 1997 is £84.0 million.

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

The trustees, at the request of the company, have agreed to accept liability for the unfunded pensions currently administered by East Sussex County Council on behalf of the Eastbourne and Mid-Sussex Water companies. The value of this liability, as assessed by the Scheme Actuary at 1 April 1997 is £1.869 million.

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.

# notes to the financial statements

for the year ended 31 December 1997

## 26. 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	£1.3 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 1997 is £3.0 million.

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

# notes to the financial statements

for the year ended 31 December 1997

## 27. Contingent liabilities

### Group

There are contingent liabilities arising from performance bonds in respect of group undertakings' contracts amounting to £2,196,000 (at 31 December 1996: £2,249,000).

### Company

The company has entered into cross guarantees with subsidiaries in relation to a composite bank accounting facility. There were no net borrowings from this facility at 31 December 1997.

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

	31 Dec 1997 £000	31 Dec 1996 £000
Performance bonds	2,196	2,249
Lease commitments	4,470	4,985
	6,666	7,234

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.

## 28. Reconciliation of operating profit to net cash inflow from operating activities

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Operating profit	34,531	26,328
Profit on disposal of fixed assets	(406)	(83)
Depreciation	12,357	8,881
Movement in provision for infrastructure renewals	(147)	158
Movement in provision for pensions	(1,726)	(37)
Movement in provision for losses on contracts	(355)	(76)
Amortisation of deferred income	(749)	(157)
Increase/(decrease) in trade creditors	3,242	(822)
(Increase)/decrease in trade debtors	(2,467)	(4,872)
Decrease/(Increase) in stocks	496	782
Net cash inflow from operating activities	44,776	30,102

# notes to the financial statements

for the year ended 31 December 1997

## 29. Net cash outflow from financing

	12 months ended 31 Dec 1997 £000	9 months ended 31 Dec 1996 £000
Refund/(receipt) of deposits	141	(16)
Capital element of finance lease repayments	(3,264)	(3,439)
Repayment of short term loans	—	(4)
Drawdown of term loans	189	189
Redemption under syndicated loan facility	(6,000)	(9,000)
Drawdown under secured term loan	—	8,000
<b>Net cash outflow from financing</b>	<b>(8,934)</b>	<b>(4,270)</b>

## 30. Analysis of net debt

	At 1 January 1997 £000	Cashflow £000	At 31 December 1997 £000
Cash at bank and in hand	629	4,218	4,847
Overdrafts	(4,385)	1,232	(3,153)
	(3,756)	5,450	1,694
Loans	(118,510)	5,670	(112,840)
Finance leases	(34,995)	1,886	(33,109)
<b>Net group debt</b>	<b>(157,261)</b>	<b>13,006</b>	<b>(144,255)</b>

# notes to the financial statements

for the year ended 31 December 1997

## 31. 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 1997 £000
Management charges from SAUR International SA	4,749
Recharge of expenses from SAUR International SA	575
Interest charges from SAUR International SA	638
Interest charges from SAUR SA	771
Purchase of services from Pipeway Limited	13,134
Sale of services to Pipeway Limited	66
Management charges to Stereau (UK) Limited	140
Purchase of services from Stereau (UK) Limited	884
Sale of services to Stereau (UK) Limited	18

Amounts owed to related parties at 31 December 1997 were as follows:

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

Amounts owed by related parties at 31 December 1997 were as follows:

	31 Dec 1997 £000
Quille SA	22
SAUR (Ireland) Limited	1

SAUR (UK) Limited's immediate parent undertaking is SAUR International SA. SAUR International SA owns 100% of the issued share capital of SAUR (UK) Limited.

SAUR SA owns 65% 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 is a subsidiary of Bouygues SA.

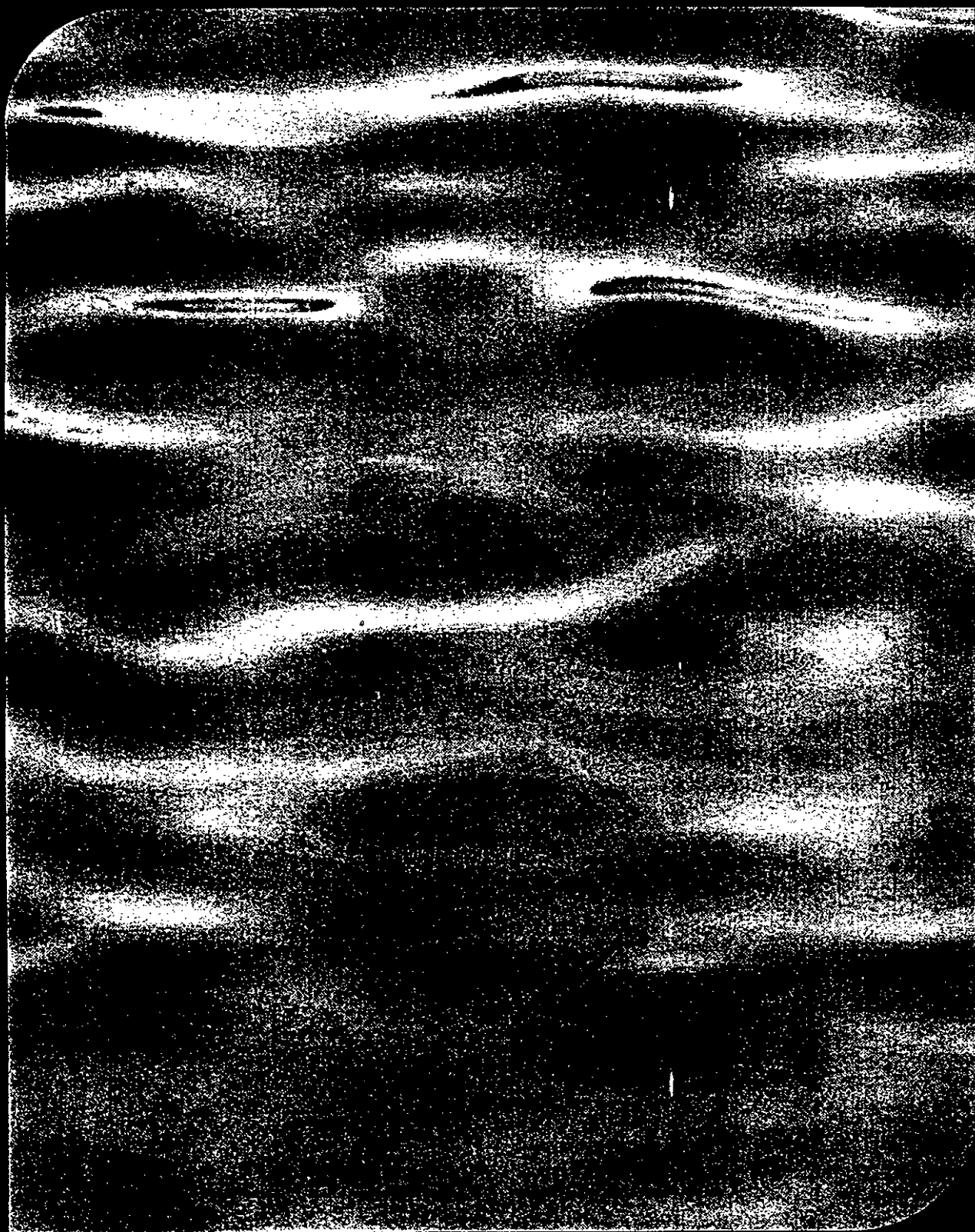
SAUR (Ireland) Limited is a subsidiary of SAUR International SA.

## 32. Ultimate parent undertaking

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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