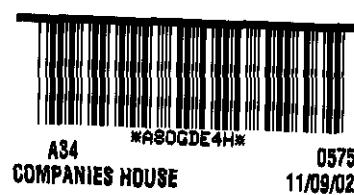


ERM HOLDINGS LIMITED

Report and Accounts

31 March 2002



# ERM Holdings Limited

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Registered No. 4067993

## **DIRECTORS**

Robin Bidwell (Chairman)  
Peter Regan  
Philip Keller  
Dan Sevic  
Mike Hauck  
James Kelly  
Gordon Sage

## **SECRETARY**

Svend Littauer

## **AUDITORS**

Ernst & Young LLP  
Rolls House  
7 Rolls Buildings  
Fetter Lane  
London EC4A 1NH

## **BANKERS**

Bank of Scotland plc  
Broad Street House  
55 Old Broad Street  
London EC2P 2HL

Barclays Bank PLC  
PO Box 544  
54 Lombard Street  
London EC3V 9EX

## **SOLICITORS**

S J Berwin  
222 Grays Inn Road  
London WC1X 8HB

## **REGISTERED OFFICE**

8 Cavendish Square  
London W1G 0ER

## CHAIRMAN'S STATEMENT

ERM Group's primary business goal is to be the environmental consultancy of choice worldwide. We interpret this as being able to meet our clients environmental, social and risk management requirements wherever in the world they operate. Accordingly, in April 2001 we restructured the management and transitioned the group from a number of individual partnerships to a group structure with a single global board and a global management team. The primary business objective was to create an organisation that could work more effectively around the world for our multinational clients. We have seen a significant increase in the number of our clients who look to us to provide them with consistent, worldwide support; to help them understand the environmental liabilities associated with a multi-country acquisition, or to implement management systems around the world, or to apply the same standards of site investigation and cleanup wherever they operate. This means that we have strived to build a truly global culture with shared goals and objectives for all our staff and we have invested in training and quality systems to ensure the transfer of our specialist skills around the globe.

### FINANCIAL PERFORMANCE

Our global restructuring was accompanied by a financial reorganisation for the Group. This was supported by 3i, the London-based venture capital institution. This, therefore, is the first report and accounts to present a full set of global financial statements for the new ERM holding company that was established at the end of March 2001.

Earnings (before interest and tax) grew almost 11%; the sixth consecutive year of double digit earnings growth. It was a turbulent year around the world and this did have an impact on our business in the different regions. As was to be expected, Latin America had a particularly difficult year. Although the region maintained its revenues, the currency crisis and our need to re-deploy staff impacted our earnings. In North America, the September 11<sup>th</sup> tragedy had a noticeable impact on revenues in the subsequent months, but effective management action enabled us to maintain and even increase margins. Overall, earnings before interest, tax and amortisation were up to US\$28.8m from US\$26.0m and net revenues grew to US\$214m from US\$202m (see page 5).

### MARKET STRENGTH

Our market has remained strong, notwithstanding the weakening of the global economy. Strong environmental and social performance is widely recognised by our clients as important in sustaining a company's reputation. Pressures from environmental lobby groups, employees, investors and consumers have brought this issue up the agenda for many of the major multinationals. Global concerns about the state of the environment continue to be an important driver, particularly for our strategy practices that are assisting major companies understand how future agendas will affect business; and for our international development practice helping the developing world deal with the more fundamental problems of environmental degradation, poverty, water and other resource management issues. In all of these areas ERM can contribute positively to its clients reputation and performance. At the same time we provide cost effective solutions for managing the impact of regulations and the potential for financial liability associated with environmental damage.

### MEETING CLIENT NEEDS

As already stated, ERM's primary business goal is to be the environmental consultancy of choice worldwide. We aim to meet our clients' environmental, social and risk management requirements wherever in the world they operate. The services we provide are very much dependent on local market needs and priorities. For example, while we were helping one oil and gas client during the year to clean up polluted sites in the United States, we were also working on new acquisitions in Europe, looking at environmental and social impacts of new oil and gas developments in Central Asia and working on a major pipeline in China and advising on their climate change strategy. We have around 30 clients to whom we have assigned the status 'key client' where we are developing ways to partner with them globally.

## CHAIRMAN'S STATEMENT

A central element of this program has been to ensure that all our offices around the world understand the requirements of those major clients and to ensure that, as a group, we deliver consistent quality to match our clients' expectations.

While nearly all sectors of our market remain strong, we can see particular growth in US and Europe associated with the need to clean up and obtain value from contaminated sites. In many areas, demand for urban land or for environmental restoration and improvement mean that companies and the authorities are looking to improve their value through cleanup and reuse.

In the less developed countries we have seen a greater focus by the multinationals on heightened environmental and social performance. This is driven as much by a recognition that success depends on being a well-respected member of the local community as by any regulatory or wider reputational concerns.

Regulatory pressures remain strong in Europe and the US. We see an increased need for air permitting work across the US. In Europe, the proliferation of European Union directives continues to drive environmental performance improvement at the facility level. Looking further ahead, we can see the growth in the need for our Climate Change team and for strong environmental management systems (increasingly IT based) and the associated verification services that provide assurance that the companies' environmental and social policies are being complied with.

### GROWTH STRATEGY

In recent years our growth strategy has been focused on establishing offices in key global markets outside of Europe and the US. Our priority has been those markets with a strong multinational presence. This strategy is beginning to contribute to the earnings of the overall group. For example, over this past year, we have seen a good performance in China (where we now have 50 professionals), Japan and Korea. We have also established offices in some countries where there is a specific shorter term demand (such as Vietnam and Azerbaijan). We will continue to grow in our global presence as these offices provide an essential element in our ability to support our multinational clients around the world. We anticipate entering one or two new markets in the near term (Russia is of increasing importance for a number of our clients – particularly those in the manufacturing and extractive industries) but our growth focus is increasingly on building our services and widening and deepening our relationships with our major clients.

### OUR PEOPLE

We are truly fortunate that we have been able to attract and retain an enthusiastic and talented group of professionals around the world. We are in an exciting, vibrant and interesting business and we recognise that it is our continued success as one of the world's leading environmental consultancy brands that helps us to continue to attract the best global professionals.

We also believe that ownership is important: around half of our shares are in the hands of the employees (the balance is with 3i). Over this past year we have offered shares to around 100 new shareholders so that by the end of the year around one in seven of our employees were shareholders.

During this past year we have placed considerable emphasis on creating a more consistent approach to people management and career development. We have appointed a Director of Organisational Development who has been implementing a series of initiatives aimed at providing the tools across the group to support the development of a more global management approach.

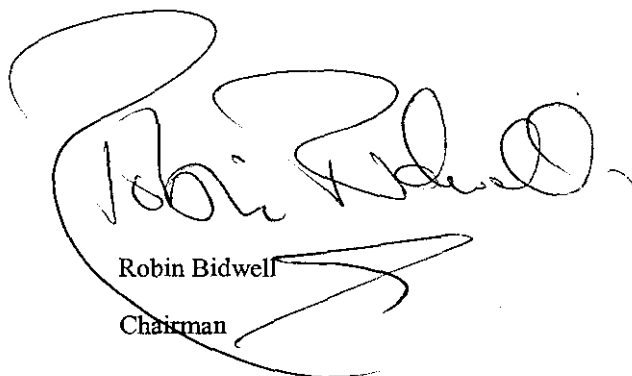
CHAIRMAN'S STATEMENT

**FUTURE CHALLENGES**

We have no doubt that environmental and social issues will remain high on the agenda of our multinational clients and governments. In every market in which we operate our people can see increasing demand for our services. We have developed a robust global platform, strong management and a well-motivated team of professionals. This combination of global scale and local focus has served us well in understanding the local business and regulatory needs as well as being able to bring to bear global technical expertise. Our main strategy is to develop stronger links with our key multinational clients and to continue to build our resources in the right places to meet their needs. Our main challenge is to find and train the people to support our growth and to continue to strengthen our client-focused culture.

We must remain innovative as requirements are forever changing. A key part of our strategy is to build niche specialist teams able to provide advice on emerging issues. Over this past year we have brought on more specialists to support our work in such areas as brownfields, technology-enabled management information systems, social impact assessment and corporate social responsibility services, climate change and risk and liability management.

We would like to thank our clients, our employees and our investors for their support over this past year and we look forward to another year of progress and success.



Robin Bidwell  
Chairman

# ERM Holdings Limited

## DIRECTORS' REPORT

The directors present their report and accounts for the 12 month period to 31 March 2002.

### RESULTS AND DIVIDENDS

As the ERM Group has formed as a result of a transaction that took place on 30 March 2001 there were no operating activities or profit during the prior period in comparing the results for the year. The Chairman's Statement refers to the operating performance of the companies that were acquired by ERM Holdings Limited during the year to 31 March 2001 using pro forma prior year figures. Set out below is a comparison of the current year profit before interest, tax and amortisation of goodwill with corresponding pro forma financial information:

	<i>Year ended 31 March 2002 \$000</i>	<i>Pro forma year ended 31 March 2001 \$000</i>
Turnover	299,620	286,978
Net revenue	214,292	202,317
Operating costs	(185,505)	(176,277)
Profit before interest, tax and amortisation of goodwill	28,787	26,040

The pro forma financial information has been prepared by combining the consolidated results of ERM Limited and ERM NA Holdings Corp., the trading groups purchased by the Company on 30 March 2001, adding back non-recurring costs (including those incurred in the restructuring of the Group) and adjusting for items outlined in note 10 which had an impact on the prior year operating results.

During the year the Group's reporting currency, the US Dollar, strengthened against many of the Group's other trading currencies. The net revenue and operating profit for the year ended 2002 using March 2001 exchange rates (ie. constant currency) were \$217,861,000 and \$29,200,000 respectively.

Net revenue is the main measure of operating activity used by management, and represents sales from the Group's principal activities, net of project costs (including sub-contractor costs) and movements in work in progress. We refer you to note 2 for a more detailed analysis.

The directors do not recommend a dividend for the year.

### PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the Group are the provision of environmental, risk and health and safety consulting services.

### FUTURE DEVELOPMENTS

Our marketplace continues to grow and offer the group considerable opportunities. Our strategy is to continue to grow and build our presence in major markets, mainly through organic growth, using acquisitions where appropriate to broaden our service offerings. Our global expansion focuses on building stronger relationships with our largest clients and servicing their needs in more regions and across more practice areas.

# ERM Holdings Limited

## DIRECTORS' REPORT

### EVENTS SINCE THE BALANCE SHEET DATE

On 1 April 2002 the company acquired 60% of Enverdant Inc, a US company that specialises in environmental management information systems. Enverdant Inc was acquired for \$592,000 satisfied by loan notes.

### DIRECTORS AND THEIR INTERESTS

The directors at 31 March 2002, and their interests in the shares of the company, were as follows:

		<i>Ordinary 'A' shares</i>	
		<i>At</i>	<i>At</i>
		<i>31 March</i>	<i>31 March</i>
		<i>2002</i>	<i>2001</i>
Robin Bidwell	(Executive Chairman)	43,862	43,862
Peter Regan	(Chief Executive Officer)	54,148	51,734
Philip Keller	(Finance Director)	29,596	7,295
Dan Sevick	(Commercial Director)	13,500	12,502
Mike Hauck	(Non-executive)	1,500	-
James Kelly	(Non-executive)	1,500	-
Gordon Sage	(Non-executive, Deputy Chairman)	1,500	-
Paul Woodruff	(Non-executive, resigned 3 May 2002)	-	-

### CREDITOR PAYMENT POLICY AND PRACTICE

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 March 2002, the Group had an average of 47 days purchases outstanding in trade creditors.

### ANNUAL GENERAL MEETING RESOLUTIONS

The resolutions to be proposed at the annual general meeting to be held on 10 December 2002 in London, together with explanatory notes, will appear in the separate Notice of Annual General Meeting to be sent to all shareholders.

### ACQUISITIONS

During the year the Company acquired a further 10% of ERM Brazil Ltda for \$1,200,000, taking its total holding to 60%.

### CHARITABLE AND POLITICAL DONATIONS

ERM made donations of \$73,532 to charities, including the ERM Foundation, in the year to 31 March 2002. The ERM Foundation is an independent charity registered in the United States that awards grants to specific environmental projects around the world. No political donations were made.

### EMPLOYEES

The Group is committed to involving all employees in the performance and development of the Group. Strong regional and company communication lines ensure that employees are kept up to date on corporate activities. Our intranet allows us to inform employees of the Group's success in the marketplace and information on vacancies.

It is the Group's policy to give full consideration to suitable applications for employment of disabled persons. Disabled employees are eligible to participate in all career development opportunities available to staff.

## DIRECTORS' REPORT

### CLOSE COMPANY STATUS

The Company is a close company within the meaning of the Income and Corporation Taxes Act 1988.

### CONTINGENT LIABILITIES

Due to the nature of the group's operations it is periodically exposed to contingent liabilities due to its contracting arrangements or litigation. The group has processes in place to identify contingent liabilities when they arise and to understand the potential exposure. The directors believe that the Group has adequate insurance to cover known potential legal claims and takes a prudent view on providing for any potential liabilities for which insurance cover may not be available.

### CORPORATE GOVERNANCE

Management has focused on building a platform for strong and sustainable growth in both revenues and earnings. In order to achieve this objective, the Company is committed to the highest standards of corporate governance and stewardship. Since its consolidation as a single global entity, the Company is undertaking an active programme to meet all the requirements of the UK Combined Code addressing all areas of corporate governance within its own organisation and its subsidiaries. The main platforms for this initiative are:

- Strong regional management based close to operations
- Global management team with close links to regional and company management
- Strong and consistently applied financial controls
- Corporate stewardship reinforced through employee ownership
- Well qualified external directors
- Establishment of Remuneration and Audit Committees.
- Regional and Global Financial and Treasury management structure with close links to operations.

It is the Group's policy to encourage its associate companies to adopt similar corporate governance policies as its subsidiaries. However, the Group's ability to achieve full compliance is limited by the control that the Group can exercise as a minority investor.

### THE WORKINGS OF THE BOARD AND ITS COMMITTEES

The Board of Directors meets on a regular basis. The Board is currently composed of seven people, three of whom are Non-Executive Directors, whose over-riding duty is to ensure the procedures followed and the operations conducted by the Company reflect the best interests of the Company's shareholders. The Company is in the process of recruiting a further non-executive director. The experience of the non-executive directors brings independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group.

Since the formation of the Group on 30 March 2001, the Board has been responsible either directly, or through its committees, for the review of the effectiveness of the system of management control.



DIRECTORS' REPORT

**THE WORKINGS OF THE BOARD AND ITS COMMITTEES (continued)**

This includes:

- Comprehensive budgeting system, with plans and budgets annually approved by the Board
- The reporting of business performance by regional and operating company executives
- Monthly financial reporting comparing actual performance against budget and against the prior year's results on a monthly and year-to-date basis
- Regular consideration by the Board of actual performance against budgets and business plans
- Regular discussion by the Board of the companies' forecasts and business prospects
- Discussions and review of the issues arising from the external audit
- The review of significant Group risks
- A review of the financial controls across the Group
- Regular reporting of legal and accounting developments to the Board
- The definition of lines of responsibility and delegation of authority

Given the Group's size, the Board does not consider that it would be appropriate to have its own internal audit function at present. Instead, the Regional Finance Directors ensure that adequate controls are in place.

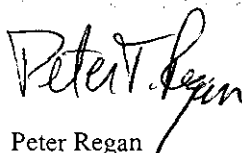
**RELATIONS WITH SHAREHOLDERS**

Communications with shareholders are given high priority. There is regular dialogue with the institutional shareholder as well as with employee shareholders.

**AUDITORS**

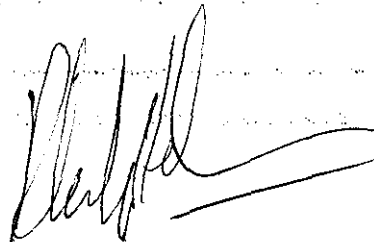
A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board



Peter Regan

Chief Executive Officer



Philip Keller

Finance Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
FINANCIAL STATEMENTS

Company law requires the Directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Company and Group and of the profit and loss of the Group for that period.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the Directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE INDEPENDENT AUDITORS**  
**to the members of ERM Holdings Limited**

We have audited the group's financial statements for the year ended 31 March 2002, which comprise the group profit and loss account, the group statement of total recognised gains and losses, the group balance sheet, the company balance sheet, the group statement of cash flows and the related notes 1 to 25. These financial statements have been prepared on the basis of the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Report and Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the Report and Accounts and consider whether it is consistent with the audited financial statements. This other information comprises the directors' report and chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

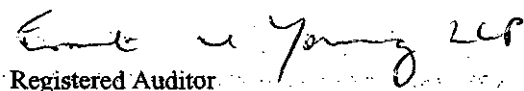
**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 March 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Registered Auditor  
London

25 July 2002

# ERM Holdings Limited

## GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2002

	Notes	Year ended 31 March 2002 \$000
<b>TURNOVER</b>	2	299,620
Change in work in progress		2,464
Project costs		(88,500)
Other operating income		708
Net revenue		214,292
Staff costs	5	(144,836)
Depreciation (excluding amortisation of goodwill)		(3,713)
Other operating charges		(36,956)
<b>OPERATING PROFIT BEFORE AMORTISATION OF GOODWILL</b>		28,787
Amortisation of goodwill	8	(10,434)
<b>OPERATING PROFIT</b>	3	18,353
Net interest payable	6	(17,095)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,258
Taxation	7	(6,382)
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		(5,124)
Minority interests		40
<b>RETAINED LOSS FOR THE FINANCIAL YEAR</b>		(5,084)

No comparative profit and loss account is presented for the Group for the previous period as there was no trading activity in that period.

# ERM Holdings Limited

## GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 March 2002

	<i>Year ended 31 March 2002 \$000</i>
Loss for the year	(5,084)
Exchange difference on retranslation of net assets of subsidiary undertakings	(1,008)
<b>TOTAL RECOGNISED LOSSES FOR THE YEAR</b>	<b>(6,092)</b>

# ERM Holdings Limited

## GROUP BALANCE SHEET at 31 March 2002

			(restated)
		2002	2001
	Notes	\$000	\$000
<b>FIXED ASSETS</b>			
Intangible assets	8	196,288	202,886
Tangible assets	9	7,616	8,491
Investments in associates	10	1,333	887
		<u>205,237</u>	<u>212,264</u>
<b>CURRENT ASSETS</b>			
Work in progress		12,669	10,313
Debtors	11	87,018	90,613
Cash at bank and in hand		20,629	31,197
		<u>120,316</u>	<u>132,123</u>
<b>CREDITORS: amounts falling due within one year</b>	12	72,979	84,395
		<u>47,337</u>	<u>47,228</u>
<b>NET CURRENT ASSETS</b>			
		<u>252,574</u>	<u>259,992</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>CREDITORS: amounts falling due after more than one year</b>	13	255,635	256,843
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	189	275
		<u>(3,250)</u>	<u>2,874</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	82	71
Share premium account	19	1,780	1,783
Profit and loss account	19	(6,092)	-
		<u>(4,230)</u>	<u>1,854</u>
<b>EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS</b>	19	980	1,020
Minority interests - equity		<u>(3,250)</u>	<u>2,874</u>

Director

Peter T. Ryan

*[Signature]*

# ERM Holdings Limited

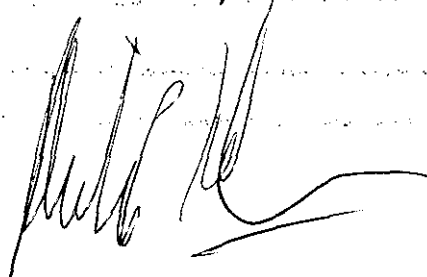
## BALANCE SHEET

at 31 March 2002

	Notes	2002 \$000	2001 \$000
<b>FIXED ASSETS</b>			
Investments	10	110,395	110,248
<b>CURRENT ASSETS</b>			
Debtors	11	148,840	135,201
Cash at bank and in hand		2,198	18,996
		151,038	154,197
<b>CREDITORS: amounts falling due within one year</b>	12	19,057	18,386
<b>NET CURRENT ASSETS</b>		131,981	135,811
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		242,376	246,059
<b>CREDITORS: amounts falling due after more than one year</b>	13	242,590	244,205
		(214)	1,854
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	82	71
Share premium account	19	1,780	1,783
Profit and loss account	19	(2,076)	-
<b>EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS</b>	19	(214)	1,854

Director

Peter T. Legan



# ERM Holdings Limited

## GROUP STATEMENT OF CASH FLOWS for the year ended 31 March 2002

		Year ended 31 March 2002 \$000	Period ended 31 March 2001 \$000
	Notes		
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	3(b)	39,599	-
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		504	-
Bank interest paid		(5,877)	-
Interest element of finance lease rental payments		(101)	-
Dividends paid to minority interests		(29)	-
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(5,503)	-
<b>TAXATION</b>			
Corporation tax paid		(514)	-
Overseas tax paid		(8,706)	-
<b>TAX PAID</b>		(9,220)	-
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire tangible fixed assets		(2,761)	-
Proceeds from sale of tangible fixed assets		198	-
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE</b>		(2,563)	-
<b>ACQUISITIONS AND DISPOSALS</b>			
Payments to acquire subsidiaries		(1,695)	(150,912)
Proceeds from disposal of subsidiaries		403	-
Payment of acquisition costs		(16,535)	(1,180)
Net cash acquired with subsidiary undertakings		-	2,722
<b>NET CASH OUTFLOW FROM ACQUISITIONS AND DISPOSALS</b>		(17,827)	(149,370)
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING</b>		4,486	(149,370)
<b>FINANCING</b>			
Repayments of capital element of finance lease rentals		(998)	-
Loan repayments		(9,215)	(26,133)
New bank loans		1,788	199,721
Issue of ordinary shares	18	116	1,123
Share issue costs paid		(109)	-
Payments to former shareholders		(1,820)	-
Loans advanced to shareholders		(2,857)	-
Increase in loan stock		3,627	-
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING</b>		(9,468)	174,711
<b>(DECREASE)/INCREASE IN CASH</b>	20	(4,982)	25,341



# ERM Holdings Limited

## GROUP STATEMENT OF CASH FLOWS for the year ended 31 March 2002

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2002	2001
	Note	\$000	\$000
(DECREASE)/INCREASE IN CASH	20	(4,982)	25,341
Lease financing repayments		998	-
Loan repayments		9,215	26,133
Cash inflow from increase in loans		(5,415)	(199,721)
Issue costs of new long term loans		-	5,073
Change in net debt resulting from cash flows		(184)	(143,174)
Issue of management loan stock		-	(51,513)
Finance leases assumed on acquisition of subsidiary undertaking		-	(2,299)
Loan assumed on acquisition of subsidiary undertaking		-	(30,515)
Exchange differences		42	-
Amortisation of issue costs		(1,043)	-
Loan interest capitalised		(3,290)	-
Other movements		(15)	-
MOVEMENT IN NET DEBT IN THE YEAR		(4,490)	(227,501)
NET DEBT AT 1 APRIL		(227,501)	-
NET DEBT AT 31 MARCH	20	(231,991)	(227,501)

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 1. ACCOUNTING POLICIES

#### *Basis of preparation and changes in accounting policy*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards, in US Dollars.

In preparing the financial statements for the current year, the Group has adopted FRS 19 'Deferred Tax', which has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement. This change in accounting policy has resulted in a prior period adjustment for the Group. Goodwill at 31 March 2001 has been reduced by \$724,000 through the creation of a new deferred tax asset at that date. There has been no impact on opening shareholders' funds, nor on the results of the previous period, as there was no trading activity for that period.

During the current year the Group has also changed the way in which amounts recoverable on contracts are disclosed in the accounts. These were previously included within work in progress, representing the value of work carried out to date net of amounts invoiced to customers, and have now been reclassified to debtors. Similarly, in the profit and loss account, the movement on these balances, previously included in 'change in work in progress', has now been included within turnover (refer to the accounting policy described below). The prior period balances for work in progress and debtors have been restated for consistency. There has been no impact on opening shareholders' funds, nor on the current year results.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### *Basis of consolidation*

The Group accounts consolidate those of ERM Holdings Limited and its subsidiary undertakings, drawn up to 31 March each year. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. All accounts are for the year to 31 March 2002 with the exception of Environmental Resources Management (Lanka) (Private) Ltd, the Enviroclean companies in the USA and the United Environmental Insurance Company Inc whose accounts are for the year to 31 December 2001.

Entities, other than subsidiary undertakings, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence are treated as associates. In the group accounts, associates are accounted for using the equity method.

#### *Revenue recognition and work in progress*

##### *a) Turnover*

Turnover represents amounts recoverable from clients in respect of the Group's continuing activity as stated in the directors' report. Turnover includes costs incurred on behalf of clients and excludes sales taxes. Invoicing is based on time worked, or on a stage of completion of an assignment agreed previously with clients.

##### *b) Attributable profit*

Attributable profit is recognised for that part of the work performed on each contract at the accounting date when the outcome can be assessed with reasonable certainty.

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 1. ACCOUNTING POLICIES (continued)

#### *c) Work in progress*

Work in progress represents the amount of activity on contracts where no attributable profit has yet been recognised. It is stated at the lower of cost and net realisable value. Cost comprises staff salary costs and direct expenses together with an appropriate proportion of overheads. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion.

#### *d) Contract losses*

Contracts are reviewed regularly and full provision is made for any losses on contracts in the period in which they are first identified.

#### *e) Amounts recoverable on contracts and bills in advance*

The amount by which turnover exceeds invoiced amounts is disclosed as 'amounts recoverable on contracts' within debtors on the balance sheet. Advance payments are included as 'bills in advance' within creditors to the extent that they exceed the related work done.

#### **Goodwill**

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities. Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### **Depreciation**

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold property	-	over the lease term
Fixtures, fittings, plant and machinery	-	20% to 33% per annum
Motor vehicles	-	25% per annum
Computer equipment and software	-	20% - 33% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Fixed asset investment**

Fixed asset investments are held on a long-term basis and are stated at cost less any permanent diminution in value.

The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 1. ACCOUNTING POLICIES (continued)

#### *Deferred taxation*

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred taxation that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Foreign currencies*

##### *Company*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

##### *Group*

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the translation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 1. ACCOUNTING POLICIES (continued)

#### *Leasing and hire purchase agreements*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged to the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

#### *Pensions*

The Group operates a number of defined contribution pension schemes and makes contributions to employees' personal pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

### 2. SEGMENTAL ANALYSIS

An analysis by geographical market for the year ended 31 March 2002 is given below:

	<i>Net revenue by origin \$000</i>	<i>Turnover by origin \$000</i>
North America	125,823	172,174
Europe	52,561	80,244
Asia Pacific	25,983	32,529
Latin America	9,925	14,673
	<u>214,292</u>	<u>299,620</u>

The analysis of turnover by destination is not materially different.

No other segmental analysis has been given as the directors believe that it would be seriously prejudicial to the interests of the Group.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 3. OPERATING PROFIT

(a) This is stated after charging/(crediting):

	<i>Year ended 31 March 2002 \$000</i>
Depreciation of owned fixed assets	3,596
Depreciation of assets held under finance leases and hire purchase contracts	117
Amortisation of goodwill	10,434
Depreciation and other amounts written off tangible and intangible fixed assets	14,147
Auditors' remuneration	193
- audit services - UK	676
- audit services - overseas	176
- non-audit services	9,607
Operating lease rentals - land and buildings	905
Operating lease rentals - plant and machinery	(151)
Foreign exchange gains	(17)
Profit on sale of tangible fixed assets	(202)
Share of operating profit in associates	(270)
Profit on sale of fixed asset investments	

The loss dealt with in the financial statements of the parent company is \$2,076,000.

(b) Reconciliation of operating profit to net cash inflow from operating activities:

	<i>Year ended 31 March 2002 \$000</i>
Operating profit	18,353
Amortisation	10,434
Depreciation	3,713
Gains on disposal of assets	(489)
Increase in work in progress	(2,356)
Decrease in operating debtors and prepayments	9,213
Increase in operating creditors and accruals	580
Foreign exchange	151
	39,599

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 4. DIRECTORS' REMUNERATION

Emoluments received by directors for their services to the company and its subsidiary undertakings are detailed below. The comparative information shows emoluments paid to the directors of the Company for their services to the Company and its acquired entities for the period from 8 September 2000 (incorporation of the Company) to 31 March 2001.

	<i>Year ended 31 March 2002 \$000</i>	<i>Period ended 31 March 2001 \$000</i>
Emoluments	2,774	1,118
Payments of a non-recurring nature including those relating to the restructuring of the group	-	4,000
	<u>2,774</u>	<u>5,118</u>
Group contributions paid to defined contribution pension schemes	<u>70</u>	<u>32</u>

	<i>Year ended 31 March 2002 No.</i>	<i>Period ended 31 March 2001 No.</i>
Members of defined contribution pension schemes	4	3

The amounts in respect of the highest paid director are as follows:

	<i>Year ended 31 March 2002 \$000</i>	<i>Period ended 31 March 2001 \$000</i>
Emoluments	988	20
Payments of a non recurring nature including those relating to the restructuring of the group	-	1,846
	<u>988</u>	<u>1,866</u>
Group contributions paid to defined contribution pension schemes	<u>1</u>	<u>2</u>

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 5. STAFF COSTS

	<i>Year ended 31 March 2002 \$000</i>
Wages and salaries	121,182
Social security costs	9,016
Other staff costs (including pension contributions)	14,638
	<u>144,836</u>

The average monthly number of employees during the year was 2,218.

### 6. INTEREST PAYABLE

	<i>Year ended 31 March 2002 \$000</i>
<b>Interest receivable:</b>	
Bank interest	487
Other interest	111
	<u>598</u>
<b>Interest payable:</b>	
Interest on bank loans and overdrafts	8,524
Interest on other loans	7,897
Finance charges payable under finance leases and hire purchase contracts	106
Amortisation of debt issue costs	1,043
Other <sup>£</sup>	123
	<u>17,693</u>
	<u>17,095</u>



# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 7. TAXATION

#### (a) Analysis of charge in period:

	2002 \$000
<i>Current tax</i>	
UK corporation tax on the profit for the period	793
	<u>793</u>
Foreign tax	6,316
	<u>7,109</u>
Total current tax (note 7(b))	
Deferred tax (note 17)	(727)
	<u>6,382</u>

#### (b) Factors affecting tax charge for the period:

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 \$000
Profit on ordinary activities before taxation	1,258
	<u>1,258</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 - 30%)	377
<i>Effects of:</i>	
Expenses not deductible for tax purposes (primarily goodwill amortisation)	4,000
Depreciation for period in excess of capital allowances	28
General provisions	450
Higher tax rates on overseas earnings	2,044
Tax losses arising not available for utilisation in current year	210
	<u>7,109</u>
Current tax for the period (note 7 (a))	

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 8. INTANGIBLE FIXED ASSETS

<i>Group</i>	<i>Goodwill \$000</i>
Cost:	
At 1 April 2001 (as previously reported)	203,610
Prior period adjustment (note 1)	(724)
At 1 April 2001 (restated)	202,886
Fair value adjustments	2,211
Further acquisition costs	147
ERM Limited (note 10)	59,220
ERM NA Holdings Corp. (note 10)	146,024
Acquired	205,244
	1,478
At 31 March 2002	206,722
Amortisation:	
At 1 April 2001	-
Provided during the year	10,434
At 31 March 2002	10,434
Net book value:	
At 31 March 2002	196,288
At 1 April 2001 (restated)	202,886

Goodwill is being amortised in equal annual instalments over its estimated economic life of 20 years.

In October 2001 the group purchased an additional 10% of ERM Brazil for \$1,256,000 including costs; net assets acquired amounted to \$135,378. The group also purchased 10% of ERM Scandinavia for \$175,000.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 9. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Leasehold property \$000</i>	<i>Fixtures, fittings, plant and machinery \$000</i>	<i>Motor vehicles \$000</i>	<i>Computer equipment and software \$000</i>	<i>Total \$000</i>
Cost:					
At 1 April 2001	1,088	1,547	942	4,914	8,491
Additions	204	540	263	2,089	3,096
Disposals	-	(45)	(90)	(64)	(199)
Exchange differences	(35)	(9)	(39)	24	(59)
At 31 March 2002	1,257	2,033	1,076	6,963	11,329
Depreciation:					
At 1 April 2001	-	-	-	-	-
Provided during the year	404	701	299	2,309	3,713
At 31 March 2002	404	701	299	2,309	3,713
Net book value:					
At 31 March 2002	853	1,332	777	4,654	7,616
At 1 April 2001	1,088	1,547	942	4,914	8,491

The net book value of fixtures, fittings, plant and machinery and motor vehicles above includes an amount of \$736,000 (2001 - \$536,000) in respect of assets held under finance leases and hire purchase contracts.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 10. FIXED ASSET INVESTMENTS

#### Group - Associates

	Share of net tangible assets \$000	Goodwill \$000	Total \$000
Cost:			
At 1 April 2001	762	125	887
Share of profit	247	-	247
Additions	205	-	205
Amortisation of goodwill	-	(6)	(6)
At 31 March 2001	1,214	119	1,333

On 30 March 2001, ERM Holdings Limited purchased the whole of the issued share capital of ERM Limited (formerly ERM Plc) and ERM NA Holdings Corp. for a total consideration of \$212,912,000, as indicated in the 2001 financial statements. The determination of fair values in relation to both acquisitions has been finalised during the year, resulting in adjustments to goodwill as outlined below:

#### Acquisition of ERM Limited

Analysis of the acquisition of ERM Limited:

	Provisional fair value \$000	Prior period adjustment (note 1) \$000	Fair value adjustment \$000	Note	Restated fair value \$000
Intangible fixed assets	4,705	-	-		4,705
Tangible fixed assets	3,972	-	-		3,972
Investments	11	-	-		11
Work in progress	10,313	-	-		10,313
Debtors	31,370	168	(133)	(a)	31,405
Cash	1,417	-	(15)	(a)	1,402
Creditors due within one year	(39,297)	-	(172)	(a)	(39,469)
Creditors due after one year	(1,420)	-	19	(b)	(1,401)
Provisions	(275)	-	-		(275)
Net assets	10,796	168	(301)		10,663
Goodwill arising on acquisition (restated)					59,220
Consideration (including further acquisition costs)					69,883

(a) Final adjustments to opening balance sheet of ERM Certification and Verification Services Limited.

(b) Tax effect of (a).

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 10. FIXED ASSET INVESTMENTS (continued)

#### *Acquisition of ERM NA Holdings Corp.*

Analysis of the acquisition of ERM NA Holdings Corp.:

	<i>Provisional fair value</i>	<i>Prior period adjustment (note 1)</i>	<i>Fair value adjustment</i>		<i>Restated fair value</i>
	\$000	\$000	\$000	Note	\$000
Intangible fixed assets	352	-	-		352
Tangible fixed assets	4,519	-	-		4,519
Investments	1,418	-	-		1,418
Work in progress	17,225	-	-		17,225
Debtors	51,175	556	301	(a)	52,032
Cash	1,305	-	-		1,305
Creditors due within one year	(66,275)	-	(3,306)	(b)	(69,581)
Creditors due after one year	(11,213)	-	1,095	(c)	(10,118)
Net liabilities	(1,494)	556	(1,910)		(2,848)
Goodwill arising on acquisition (restated)					146,024
Consideration					143,176

(a) Under accrual of legal claim payable to ERM.

(b) Additional information arose during 2002 relating to legal claims and employee benefits provisions as at 31 March 2001 resulting in additional accruals during 2002.

(c) Tax effect of (a) and (b) above.

<i>Company</i>	<i>Investment in subsidiaries</i>
	£
Cost:	
At 1 April 2001	110,248
Additions	147
At 31 March 2002	110,395

The additions represent further costs on the acquisition of ERM Limited and ERM NA Holdings Corp.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 11. DEBTORS

	<i>Group</i> <i>(restated)</i>		<i>Company</i>	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Trade debtors	56,548	61,363	-	-
Amounts owed by group undertakings	-	-	148,189	135,201
Amounts due from related parties	-	339	-	-
Amounts recoverable on contracts	16,773	17,225	-	-
Other debtors	8,429	5,737	651	-
Prepayments	2,811	5,225	-	-
Deferred taxation	2,457	724	-	-
	<u>87,018</u>	<u>90,613</u>	<u>148,840</u>	<u>135,201</u>

### 12. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Current instalment on loans (note 14)	4,830	5,104	4,572	1,956
Bank overdraft	284	5,856	-	-
Obligations under finance leases and hire purchase contracts (note 15)	641	1,130	-	-
Amounts due to group undertakings	-	-	4,287	61
Amounts due to related parties	-	234	-	-
Trade creditors	15,951	18,536	-	-
Corporation tax	3,614	3,552	(56)	-
Other taxes and social security costs	2,259	3,632	-	-
Bills in advance	7,059	5,188	-	-
Accruals and other creditors	38,341	41,163	6,964	16,369
	<u>72,979</u>	<u>84,395</u>	<u>15,767</u>	<u>18,386</u>

There are \$2.2 million uncommitted bank facilities held by subsidiary undertakings as at 31 March 2002. \$2 million is secured by bank guarantees drawn under the Group's \$25m committed revolving facility.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 13. CREDITORS: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Bank loans (note 14)	107,884	113,806	107,832	113,614
Other loans (note 14)	138,364	131,633	138,048	130,591
	<u>246,248</u>	<u>245,439</u>	<u>245,880</u>	<u>244,205</u>
Obligations under finance leases and hire purchase contracts (note 15)	618	1,169	-	-
Deferred income	-	114	-	-
Corporation tax	7,946	10,121	-	-
Other creditors	823	-	-	-
	<u>255,635</u>	<u>256,843</u>	<u>245,880</u>	<u>244,205</u>

### 14. LOANS

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	\$000	\$000	\$000	\$000
Amounts falling due:				
In one year or less or on demand (note 12)	5,759	6,148	5,500	3,000
In more than one year but not more than two years	7,011	5,508	7,000	5,500
In more than two years but not more than five years	40,645	32,726	40,289	31,500
In more than five years	201,692	211,234	201,692	211,234
	<u>255,107</u>	<u>255,616</u>	<u>254,481</u>	<u>251,234</u>
Less: unamortised debt issue costs	(4,029)	(5,073)	(4,029)	(5,073)
Less: included in creditors: amounts falling due within one year (note 12)	(4,830)	(5,104)	(4,572)	(1,956)
	<u>246,248</u>	<u>245,439</u>	<u>245,880</u>	<u>244,205</u>

Details of loans not wholly repayable within five years are as follows:

		<i>Group</i>	
		2002	2001
	Notes	\$000	\$000
Senior bank loans:			
- due in instalments by 31 March 2008	(a)	67,432	68,643
- due in instalments by 31 March 2009	(a)	20,000	20,000
Revolving loan repayable in full on 31 March 2008	(b)	4,000	7,000
Mezzanine bank loan – repayable in full on 31 March 2009	(a)	25,000	25,000
Loan stock	(c)	138,049	130,591
Loans not wholly repayable within five years (all in Company)		<u>254,481</u>	<u>251,234</u>
Loans wholly repayable within five years (all in subsidiaries)		626	4,382
		<u>255,107</u>	<u>255,616</u>

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 14. LOANS (continued)

- (a) The bank loans carry a rate of interest which is based on 2.25% to 3.5% above LIBOR. The bank loans are secured by fixed and floating charges over the assets of the Group.
- (b) The revolving bank loan has been drawn down under a seven year revolving facility. The loan is repayable within twelve months of the balance sheet date but has been classified as long-term because under the revolver, replacement funding is available through to 31 March 2008. The rate of interest payable on the loan is 2% above LIBOR. The loan is secured by fixed and floating charges over the assets of the Group.
- (c) The rate of interest payable on the loan stock is 6%. The loan stock is unsecured. The stock is to be redeemed by ERM Holdings Limited on 30 March 2011, subject to satisfaction of certain conditions set out in the Loan Stock Instruments including conditions relating to the solvency and future financial performance of ERM Holdings Limited.

The Group entered into an interest rate swap to fix the interest rate on two thirds of its senior debt for a period of two years at a rate of 4.76%. The interest rate swap expires on 30 April 2003.

### *Treasury and Financial Policy*

Financing activities including debt, interest costs and foreign exchange matters are managed by the Group in accordance with policies approved by the Board. The Group uses financial instruments to manage its interest rate and foreign exchange exposures. As a matter of policy the Group does not undertake speculative financial transactions.

### 15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

<i>Group</i>	<i>2002</i>	<i>2001</i>
	<i>\$000</i>	<i>\$000</i>
Amounts payable under finance leases	1,382	2,350
Less: finance charges allocated to future periods	(123)	(51)
	<u>1,259</u>	<u>2,299</u>
Net obligations under finance leases are payable as follows:		
within one year (note 12)	641	1,130
in two to five years	609	1,145
in more than five years	9	24
	<u>1,259</u>	<u>2,299</u>

### 16. OTHER FINANCIAL COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

<i>Group</i>	<i>Land and buildings</i>		<i>Other</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Operating leases which expire:				
within one year	1,221	1,491	273	161
between two and five years	5,161	5,758	374	776
over five years	3,404	2,448	-	100
	<u>9,786</u>	<u>9,697</u>	<u>647</u>	<u>1,037</u>



# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 17. PROVISIONS FOR LIABILITIES AND CHARGES

The deferred tax movement has been set out below:

Group	2002 \$000
At 1 April 2001 (as previously reported)	275
Prior period adjustment (note 1) – included in debtors (note 11)	(724)
At 1 April 2001 (restated)	(449)
Fair value adjustments	(1,092)
	(1,541)
Charge in year (note 7(a))	(727)
At 31 March 2002	(2,268)
Included in debtors (note 11)	2,457
	189
Deferred taxation provided in the financial statements is as follows:	
	\$000
Fixed asset timing differences	(191)
Short term timing differences	(2,077)
	(2,268)

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS at 31 March 2002

### 18. SHARE CAPITAL

	Exchange rate	2002 No.	Authorised 2001 No.	Allotted, called up and fully paid	
				2002 \$000	2001 \$000
"A" ordinary shares of 10 cents each	1.00	926,978	919,978	71	60
"B" ordinary shares of 1 cent each	1.00	1,138,237	1,138,237	11	11
"C" ordinary shares of 1 cent each	1.00	100,000	100,000	-	-
"A" deferred shares of 1 cent each	1.00	1,000,000	1,000,000	-	-
"B" deferred shares of 1 penny each	1.47	100,000	100,000	-	-
Ordinary shares of 1 cent each	1.00	74,650	74,650	-	-
		<u>3,339,865</u>	<u>3,332,865</u>	<u>82</u>	<u>71</u>

During the year the authorised share capital was increased by US\$700 by the creation of 7,000 "A" ordinary shares of US\$0.10 each.

During the year, 114,380 "A" ordinary shares of 10 cents each, with an aggregate nominal value of \$11,438, were issued for consideration amounting to \$116,199. New loan stock, amounting to \$4,167,936 was also issued at the same time as some of the shares.

Each "B" ordinary share shall be treated as having a nominal value equal to that of each ordinary share and any premium paid on the issue of the "B" ordinary shares shall be treated to the extent necessary as paying up the B ordinary shares to their deemed nominal value.

The Company has issued warrants to the mezzanine loan provider to subscribe at the time of an exit transaction for a fixed number of "A" ordinary shares of ERM Holdings Limited equal to 3.75% of the entire issued share capital of ERM Holdings Limited on a fully diluted basis on the exercise date.

### 19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

Group	Share capital \$000	Share premium account \$000	Profit and loss account \$000	Total \$000
Shares issued	71	1,783	-	1,854
At 31 March 2001	71	1,783	-	1,854
Loss for the year	-	-	(5,084)	(5,084)
Shares issued	11	105	-	116
Share issue costs	-	(108)	-	(108)
Exchange difference on retranslation of net assets of subsidiary undertakings	-	-	(1,008)	(1,008)
At 31 March 2002	<u>82</u>	<u>1,780</u>	<u>(6,092)</u>	<u>(4,230)</u>

NOTES TO THE ACCOUNTS  
at 31 March 2002

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

(continued)

<i>Company</i>	<i>Share capital \$000</i>	<i>Share premium account \$000</i>	<i>Profit and loss account \$000</i>	<i>Total \$000</i>
Shares issued	71	1,783	-	1,854
At 31 March 2001	71	1,783	-	1,854
Loss for the year	-	-	(2,076)	(2,076)
Shares issued	11	105	-	116
Share issue costs	-	(108)	-	(108)
At 31 March 2002	82	1,780	(2,076)	(214)

20. ANALYSIS OF NET DEBT

	<i>At 1 April 2001 \$000</i>	<i>Cash flow \$000</i>	<i>Exchange difference \$000</i>	<i>Other movements \$000</i>	<i>At 31 March 2002 \$000</i>
Cash at bank and in hand	31,197	(10,553)	-	(15)	20,629
Overdraft	(5,856)	5,572	-	-	(284)
	25,341	(4,981)	-	(15)	20,345
Debt due within one year	(5,104)	389	-	(115)	(4,830)
Debt due after one year	(245,439)	3,410	-	(4,218)	(246,247)
Finance leases	(2,299)	998	42	-	(1,259)
	(227,501)	(184)	42	(4,348)	(231,991)

21. PENSION COMMITMENTS

The Group operates various defined contribution pension schemes in countries around the world, including Australia, Hong Kong, the United Kingdom and the United States. The schemes are funded by the payment of contributions to separately administered funds.

At the balance sheet date, an accrual of \$1,719,000 (2001 - \$1,866,000) relating to pension contributions is included within the accounts. The amount charged to the profit and loss account during the year was \$2,740,000.

NOTES TO THE ACCOUNTS

at 31 March 2002

**22. CONTINGENT LIABILITIES**

Bank guarantees totalling \$2 million in support of subsidiary undertakings' uncommitted bank facilities and \$3.5 million in support of subsidiary undertakings' trade finance facilities have been issued. These guarantees are drawn under the Group's \$25 million committed revolving facility.

Bank guarantees totalling \$1.1 million in support of subsidiary undertakings' fixed term loans have been issued. The Group is also guaranteeing working capital facilities of its associate undertakings to the value of \$800,000 at the year end.

The Company and the UK subsidiary undertakings are part of a cash pooling arrangement. The structure is supported by a cross-guarantee agreement to which all parties in the pool participate. The bank overdraft facility relating to this arrangement is £1 million at 31 March 2002. The overdraft is designated an ancillary facility within the Group's \$25 million committed revolving facility.

Surety bonds totalling \$11 million in support of US subsidiary undertakings contractual obligations have been issued. These bonds are supported by a general indemnity from ERM NA Holdings Corp, the US holding company and a Letter of Credit for \$0.5 million issued under the Group's \$25 million committed revolving facility.

**23. TRANSACTIONS WITH DIRECTORS**

Included in 'other debtors' (note 11) is a loan to a director, Philip Keller. This represents a loan made to finance Mr Keller's purchase of shares in the Company in December 2000, on which interest is payable at 7%. The loan is repayable in instalments. The initial monies advanced totalled \$232,000, of which \$200,000 (2001 - \$219,350) remains outstanding at the balance sheet date.

Also included in 'other debtors' are loans to two directors, Peter Regan and Dan Sevvick. These represent loans made to finance tax liabilities arising from the 3i transaction. These loans were made in January 2002 and are repayable upon redemption of the loan notes held by Mr Regan and Mr Sevvick. The total monies advanced are \$149,540 to Mr Sevvick and \$742,335 to Mr Regan, all of which was outstanding at the year end.

All the loans to directors were arranged at the time of the restructuring when legal advice was taken as to the legality of the loans. The company has since reconfirmed that all the loans are legal.

A director, Dan Sevvick, has an interest in ERM Bensalem Associates, one of the Group's associates, through his 1.25% shareholding of that company.

**24. RELATED PARTY TRANSACTIONS**

On 30 March 2001, the Company borrowed \$79,077,200 from 3i Group plc, 3i Europartners IIIA LP, 3i Europartners IIIB LP and 3i Parallel Ventures LP in connection with the acquisition of ERM Limited and ERM NA Holdings Corp. The unpaid interest, calculated at 6% of the nominal value of the loan stock, is capitalised each quarter. At 31 March 2002, the loan balance outstanding is \$82,137,000.

Of the equity shares, 42% are held by 3i Nominees Limited, 9% by 3i Europartners IIIA LP, 3% by 3i Europartners IIIB LP and 10% by 3i Parallel Ventures LP. 3i Europartners IIIA LP, 3i Europartners IIIB LP and by 3i Parallel Ventures LP are limited partnerships comprising non 3i partners, and are managed by 3i Investments plc, itself a wholly owned subsidiary of the 3i Group. The directors consider that the investments in ERM Holdings Limited are held in the normal course of the 3i Group's business of providing finance.

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 25. LIST OF INVESTMENTS

Details of the investments in which the Group and the Company (where indicated) holds 20% of more of the nominal value of any class of share capital are shown below. All companies carry out the principal activities of the Group, namely the provision of environmental, risk and health and safety consulting services, except United Environmental Insurance Company Inc which provides captive insurance services to the Group, ERM Bensalem Associates which participates in the remediation of a 'brownfield' site in readiness for its residential development, and Greyhawk NA LLC which provides consulting services on industrial infrastructure and construction management on building projects.

<i>Principal subsidiaries</i>	<i>% Holding</i>	<i>Country of incorporation</i>
<i>North America</i>		
ERM NA Holdings Corp.	100	USA
ERM South West Inc	*	USA
ERM Inc	*	USA
ERM South East Inc	*	USA
ERM West Inc	*	USA
ERM Rocky Mountain Inc	*	USA
ERM New England Inc	*	USA
ERM BRS Inc	*	USA
ERM Group Inc	*	USA
Fusion Staffing Services LLC	*	USA
ERM Enviroclean South East Inc	*	USA
ERM Enviroclean Rocky Mountains Inc	*	USA
ERM Enviroclean South West Inc	*	USA
ERM Enviroclean West Inc	*	USA
United Environmental Insurance Company Inc	*	USA
ERM Mexico SA	*	Mexico
Panzardi ERM Inc	*	Puerto Rico
<i>United Kingdom</i>		
ERM Limited	100	UK
ERM International Services Limited	*	UK
Environmental Resources Management Limited	*	UK
ERM Certification and Verification Services Limited	*	UK
<i>Europe</i>		
Environmental Resource Management Ireland Limited	*	Ireland
ERM Italia Srl	*	Italy
ERM Brs Srl	*	Italy
ERM Austria GmbH	*	Austria
ERM Lahmeyer Int GmbH	*	Germany
ERL Deutschland GmbH	*	Germany
ERM France SA	*	France
ERM NV	*	Belgium
ERM Nederland BV	*	Netherlands
ERM Hungaria Kft	*	Hungary
ERM Polska Spzoo	*	Poland
ERM Espana SA	*	Spain
Impacto 2000 - Gabinete de Engenharia e Planeamento Industrial LDA	86	Portugal
ERM Portugal - Consultores em Engenharia do Ambiente LDA	*	Portugal
ERM Scandinavia AB	*	Sweden
ERM Dynamo Futura AB	*	Sweden

# ERM Holdings Limited

## NOTES TO THE ACCOUNTS

at 31 March 2002

### 25. LIST OF INVESTMENTS (continued)

<i>Principal subsidiaries</i>	<i>% Holding</i>	<i>Country of incorporation</i>
<i>Asia Pacific</i>		
ERM Australia (Pty) Ltd	* 100	Australia
ERM Hong Kong Ltd	* 100	Hong Kong
ERM Japan KK	* 80	Japan
ERM Korea Ltd	* 80	Korea
ERM Technical Services (M) SDN BHD	* 80	Malaysia
ERM Taiwan	* 100	Taiwan
Environmental Resources Management (S) PTE Ltd	* 100	Singapore
ERM Siam Co Ltd	* 80	Thailand
Environmental Resources Management (Lanka) (Private) Ltd	* 100	Sri Lanka
ERM Indonesia	* 100	Indonesia
Beijing Environomics Environmental Resources Management* Consulting Company Ltd	* 80	China
ERM China Ltd	* 80	Hong Kong
ERM India Private Ltd	* 74	India
<i>South America</i>		
ERM Argentina SA	* 100	Argentina
ERM Chile SA	* 100	Chile
ERM Brazil (CI)	* 100	Brazil
ERM Brazil Ltda	* 60	Brazil
ERM Venezuela SA	* 70	Venezuela
<i>Associates and investments</i>		
Greyhawk NA LLC	* 33	USA
ERM Bensalem Associates	* 45	USA
Scully Capital Services	* 25	USA
Private Power LLC	* 2	USA

\* Held by a subsidiary undertaking

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