Carbolite Furnaces Limited

Directors' report and financial statements

Registered number 1371507

31 December 1999

Contents

Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 1999.

Change of control

On 30 April 1999, United States Filter Corporation was acquired by Vivendi, a company registered in France. The acquisition was by a cash offer to United States Filter Corporation common stock.

Principal activities

The principal activities of the company are the manufacture of laboratory and heat treatment furnaces and ovens and the supply of temperature control and recording equipment.

Business review

The directors are satisfied with the results for the year.

Research and development

The company is committed to the improvement of its existing products and the development of new products.

Proposed dividend

The directors do not recommend the payment of a dividend (31 March 1999 £nil).

Year 2000

Following the critical date transition to 1 January 2000, no failures to business critical systems have been identified. There has been no indication from third parties with whom the company engages, that they have been adversely affected by the Year 2000 problem, which may impact on our liability to operate.

The Director's, however, continue to recognise that there still remain critical dates which may lead to failures. In response to this possibility resource continues to be dedicated to the problem until the potential remaining for Year 2000 problems to arise is significantly mitigated.

Directors' report *(continued)*

Market value of land and buildings

The land and buildings of the company are being used for the purposes of its trading activities. The directors do not consider that there is any material difference between the market value and the amount at which these assets are stated in the financial statements.

Directors and directors' interests

The directors who held office during the period were as follows:

DJ Partridge *(Chairman)*
C Garbutt
BJ Baxter
WL Thomson
SJ Boyd
JN Wicks

None of the directors who held office at the end of the financial period had any disclosable interest in the shares or share options of the company or other group companies.

Political and charitable contributions

The company made no political contributions during the period. Donations to UK charities amounted to £450 *(31 March 1999: £190).*

Payment policy

It is the company's policy to settle terms of payment with their suppliers when agreeing the terms of each transaction; to ensure that suppliers are aware of the terms; and abide by the agreed terms of payments.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

B Baxter
Secretary

Aston Lane
HOPE
Nr Sheffield
S30 2RR

25 October 2000

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have 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.

KPMG

KPMG Audit Plc
The Fountain Precinct
1 Balm Green
Sheffield
S1 3AF

Report of the auditors to the members of Carbolite Furnaces Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 the company's affairs as at 31 December 1999 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 October 2000

Profit and loss account

for the 9 months ended 31 December 1999

	Note	9 months ended 31 December 1999 £	12 months ended 31 March 1999 £
Turnover	2	**5,131,285**	7,130,852
Operating costs	3	**(4,252,748)**	(6,148,356)
Operating profit		**878,537**	982,496
Other interest receivable and similar income	6	**59,005**	7,351
Profit on ordinary activities before taxation		**937,542**	989,847
Tax on profit on ordinary activities	7	**(264,212)**	(293,360)
Retained profit for the financial year	15	**673,330**	696,487

All of the above turnover and profit on ordinary activities before taxation is derived from continuing operations and there were no acquisitions or discontinued activities during the period.

All of the recognised gains and losses of the company during the period have passed through the profit and loss account.

There is no difference between the result disclosed in the profit and loss account and the result on an historical cost basis.

Balance sheet
at 31 December 1999

	Note	**31 December 1999**		31 March 1999	
		£	**£**	£	£
Fixed assets					
Tangible assets	*8*		**1,482,527**		1,473,227
Current assets					
Stocks	*9*	**1,022,892**		980,195	
Debtors	*10*	**1,670,022**		1,657,068	
Cash at bank and in hand		**1,478,027**		1,296,078	
		4,170,941		3,933,341	
Creditors: amounts falling due within one year	*11*	**(1,738,522)**		(2,116,938)	
Net current assets			**2,432,419**		1,816,403
Total assets less current liabilities			**3,914,946**		3,289,630
Provisions for liabilities and charges	*12*		**(195,780)**		(243,794)
Net assets			**3,719,166**		3,045,836
Capital and reserves					
Called up share capital	*13*		**200,000**		200,000
Profit and loss account	*14*		**3,519,166**		2,845,836
Equity shareholders' funds			**3,719,166**		3,045,836

These financial statements were approved by the board of directors on 25 October 2000 and were signed on its behalf by:

BJ Baxter
Director

DJ Partridge
Director

Reconciliation of movements in shareholders' funds
for the 9 months ended 31 December 1999

	9 months ended 31 December 1999 £	12 months ended 31 March 1999 £
Profit for the financial year	**673,330**	696,487
Opening shareholders' funds	**3,045,836**	2,349,349
Closing shareholders' funds	**3,719,166**	3,045,836

Notes

(forming part of the financial statements)

1 Accounting policies

The principal accounting policies that have been adopted in the preparation of these financial statements are given below:

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of USF (UK) Holdings Limited and its cash flows are included within the consolidated cashflow statement of that company.

Turnover

Turnover comprises amounts charged by the company for goods and services provided to customers and the value of work carried out during the period, excluding sales taxes.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset less the estimated residual value over its expected useful life on a straight line basis. Leased assets are depreciated over the shorter of their useful life and the term of the lease. The principal rates used are:

Freehold and long leasehold buildings	-	4%
Fixtures, fittings and equipment	-	10%
Plant and machinery	-	10%
Computer equipment	-	25%
Motor vehicles	-	25%

No depreciation is provided on freehold land.

Leases

Tangible fixed assets acquired under finance leases, where the company has substantially all the risks and rewards of ownership of the asset, are capitalised and the outstanding lease obligations are shown in creditors. The finance element of lease payments is charged to the profit and loss account over the term of the lease.

All other leases are treated as operating leases and payments are charged to the profit and loss account as they are incurred.

Stocks

Stocks have been valued at the lower of cost and net realisable value. Cost includes the costs of material and labour and an appropriate proportion of production overhead expenses.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision is made for deferred taxation only to the extent that the directors consider that a liability will become payable in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Pension costs

The majority of employees are members of the Carbolite Retirement Plan, under which contributions by eligible employees and the employing companies are administered in funds independent from the companies' assets. The regular cost of providing benefits is charged to profit so as to spread the cost over the employees' working lives on a systematic basis. Variations from regular costs are spread over the remaining service lives of the current employees.

2 Turnover

Turnover and profit before taxation are attributable to one activity, the manufacture of laboratory and heat treatment furnaces and ovens and supply of temperature control and recording equipment.

The geographical analysis of turnover is as follows:

	9 months ended 31 December 1999	12 months ended 31 March 1999
	£	£
By geographical area		
United Kingdom	**2,362,328**	3,303,681
Other Western Europe	**1,143,383**	1,919,968
Asia and Far East	**706,811**	552,371
Others	**918,763**	1,354,832
	5,131,285	7,130,852

Notes *(continued)*

3 Operating costs

	9 months ended 31 December 1999 £	12 months ended 31 March 1999 £
Change in stocks of finished goods and work in progress	**(28,942)**	(211,993)
Other operating income	**(1,585)**	(8,200)
Raw materials and consumables	**1,727,747**	2,380,507
Other external charges	**378,477**	1,024,358
Staff costs (see note 4)	**1,842,381**	2,372,241
Depreciation:		
Owned assets	**113,947**	146,698
Auditors' remuneration:		
Audit	**9,750**	10,200
Hire of motor vehicles - rentals payable under operating leases	**39,691**	43,738
Management charges	**171,282**	154,566
Redundancy costs	**-**	236,241
	4,252,748	6,148,356

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows:

	9 months ended 31 December 1999	12 months ended 31 March 1999
Production and service	**60**	64
Sales and administration	**64**	64
	124	128

Staff (including directors) costs during the period comprised:

	9 months ended 31 December 1999 £	12 months ended 31 March 1999 £
Wages and salaries	**1,565,301**	2,000,760
Social security costs	**132,250**	181,344
Other pension costs (see note 18)	**144,830**	190,137
	1,842,381	2,372,241

Notes *(continued)*

5 Remuneration of directors

	9 months ended 31 December 1999	12 months ended 31 March 1999
	£000	£000
Directors' emoluments	**185**	256

The directors also received £12,346 during the year relating to cancellation of share options. These costs were borne by another group company.

Included within directors' emoluments, is an amount of £9,890 (31 March 1999: £nil) relating to David Partridge which was met by the parent company, Protean plc.

The aggregate emoluments of the highest paid director were £76,664 *(31 March 1999: £77,206).* He is a member of a defined benefit scheme, under which his accrued pension at the year end was £3,072 *(31 March 1999: £2,320).*

	Number of directors	
	9 months ended 31 December 1999	12 months ended 31 March 1999
Retirement benefits, charged to these accounts, are accruing to the following number of directors under:		
Defined benefit schemes	**3**	3

6 Other interest receivable and similar income

	9 months ended 31 December 1999	12 months ended 31 March 1999
	£	£
Other external interest received	**59,005**	7,351

Notes *(continued)*

7 Tax on profit on ordinary activities

	9 months ended 31 December 1999	12 months ended 31 March 1999
	£	£
UK corporation tax at 30% *(1999:31%)*	**290,637**	309,242
Under/(over) provision in prior year charges	**-**	44,023
Deferred taxation	**(26,425)**	(59,905)
	264,212	293,360

8 Tangible fixed assets

	Freehold land and buildings	**Plant and machinery**	**Fixtures, fittings and equipment**	**Total**
	£	£	£	£
Cost				
1 April 1999	1,388,140	431,440	409,862	2,229,442
Additions	-	79,054	44,193	123,247
31 December 1999	1,388,140	510,494	454,055	2,352,689
Depreciation				
1 April 1999	282,590	229,438	244,187	756,215
Charge for period	38,701	36,077	39,169	113,947
31 December 1999	321,291	265,515	283,356	870,162
Net book value				
31 December 1999	**1,066,849**	**244,979**	**170,699**	**1,482,527**
31 March 1999	1,105,550	202,002	165,675	1,473,227

The gross book value of freehold land and buildings includes £1,295,273 *(31 March 1999:£1,295,273)* of depreciable assets.

Notes *(continued)*

9 Stocks

	31 December 1999 £	31 March 1999 £
Raw materials and consumables	**424,143**	410,388
Work in progress	**546,212**	488,088
Finished goods and goods for resale	**52,537**	81,719
	1,022,892	980,195

10 Debtors

	31 December 1999 £	31 March 1999 £
Trade debtors	**1,339,512**	1,383,829
Amounts owed by parent and fellow subsidiary undertakings	**121,405**	106,504
Other debtors	**34,099**	9,154
Prepayments and accrued income	**74,190**	56,765
Corporation tax recoverable	**100,816**	100,816
	1,670,022	1,657,068

Debtors are all due within one year.

11 Creditors: Amounts falling due within one year

	31 December 1999 £	31 March 1999 £
Trade creditors	**634,212**	852,576
Payments received on account	**134,814**	246,132
Amounts owed to parent and fellow subsidiary undertakings	**270,392**	272,015
UK corporation tax	**446,172**	309,242
Other taxes and social security	**75,138**	122,397
Other creditors	**65,720**	69,557
Accruals and deferred income	**112,074**	245,019
	1,738,522	2,116,938

Notes *(continued)*

12 Provisions for liabilities and charges

	Pension provision	Warranty provision	Deferred taxation	Total
	£	£	£	£
1 April 1999	21,589	117,780	104,425	243,794
Utilised in the year	-	(44,758)	-	(44,758)
Debit/(credit) for the year in the profit and loss account	(21,589)	44,758	(26,425)	(3,256)
31 December 1999	-	117,780	78,000	195,780

The warranty provision reflects the expected claims on products sold during the last financial year. It is expected that most of this expenditure will be incurred in the next financial year, and all will be incurred within two years of the balance sheet date.

Deferred taxation is made up as follows:

	Provided		**Full potential liability**	
	31 December 1999	31 March 1999	**31 December 1999**	31 March 1999
	£	£	**£**	£
Accelerated capital allowances	**100,910**	120,016	**100,910**	120,016
Other short term timing differences	**(22,910)**	(15,591)	**(22,910)**	(15,591)
	78,000	104,425	**78,000**	104,425

13 Called up share capital

	31 December 1999	31 March 1999
	£	£
Authorised		
Ordinary shares of £1 each	**500,000**	500,000
Issued and fully paid		
Ordinary shares of £1 each	**200,000**	200,000

Notes *(continued)*

14 Reserves

	Profit and loss account £
1 April 1999	2,845,836
Retained profit for the period	673,330
31 December 1999	**3,519,166**

15 Contingent liabilities

The company has issued guarantees as follows:

(i) Cross guarantees which provide security over the bank overdrafts of other companies in the Protean plc group.

(ii) Bank guarantees and indemnities given in the normal course of business amounting to £53,440 *(31 March 1999:20,000)*.

16 Commitments

There were no contracted capital commitments as at 31 December 1999 *(31 March 1999: £nil)*.

17 Operating leases

Payments under operating leases due to be made in the next year, analysed over the periods when the leases expire, are as follows:

	31 December 1999 £	31 March 1999 £
Within one year	**20,304**	7,060
Between two and five years	**27,347**	44,633
	47,651	51,693

Notes *(continued)*

18 Pension commitments

The majority of employees are members of the Carbolite Retirement Plan which is a funded, defined benefit scheme. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within all the companies in the former Carbolite plc group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 6 April 1998. The projected unit method of valuation was used and the main assumptions adopted were that long term investment return would be 9.0% per annum, that pensionable salary increases would be 6.5% per annum and equity dividend growth would be 5% per annum.

The pension charge for the year was £144,830 *(31 March 1999:£190,137).*

The most recent actuarial valuation showed that the market value of the scheme's assets was £2,099,500 and that the actuarial value of those assets represented 96% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees were 8.2% and 4% of earnings respectively. The contributions of the company are to be increased to 14.2% of earnings from 6 April 1999.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

19 Related party transactions

The company is a wholly owned subsidiary of USF (UK) Holdings Limited. In accordance with paragraph 3(c) of Financial Reporting Standard No 8 "Related Party Transactions" the company is exempt from disclosing details of arrangements with other companies in the group. There are no other related party transactions.

20 Ultimate parent company and parent undertaking of larger group of which the company is a member

The largest group in which the results of the company are consolidated is that headed by Vivendi SA, incorporated in France.

The immediate holding company is Protean (UK) Holdings Limited which is incorporated in Great Britain and registered in England and Wales. The smallest group in which the company's results are consolidated is USF (UK) Holdings Limited.