Annual report 1997

SGE
GROUPE

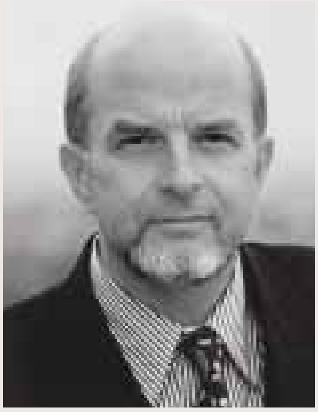
Contents

COB

This reference document, in the form of an annual report for 1997, was registered with the COB (Commission des Opérations de Bourse – Paris Stock Exchange Transactions Commission) on 30 March 1998 under the number R.98-089. It may not be used in support of a financial transaction unless accompanied by an information note approved by the COB.

Annual report 1997

Editorial



The European markets where SGE does most of its business were, as forecast, once again hit by a recession in 1997. Recovery could therefore not come from prevailing economic conditions but from within SGE itself.

The decision by Compagnie Générale des Eaux to place under SGE's control all of its construction activities resulted in the absorption at the beginning of the year of CBC, for building, and GTIE and Santerne, for electrical engineering and works. In the process, SGE's business portfolio has been fundamentally altered, and now revolves around five lines of business of equal importance: building, civil engineering, electrical engineering and works, roadworks, and thermal and mechanical activities, following different business cycles and offering complementary performances.

SGE has continued to implement its policy of refocusing on its core businesses, with divestment, in particular, of its service activities. It has reinforced its selective approach to undertaking projects, giving the priority to profit margins rather than volume, seeking business with a recurrent customer base and re-deploying in response to market developments. SGE can consequently boast the best balanced portfolio of activities in the construction industry.

The far-reaching reorganisation of Groupe SGE has had, as we have announced, its impact on earnings, which show marked improvement. Improvement in operating profit, up by FF 375 million, and also improved financial income.

SGE has thus returned to making a profit, and can resume dividend payment to its shareholders, not only those of long standing but also the new shareholders, both French and foreign, who acquired an interest in our company subsequent to the offering in October 1997, and whose presence accentuates the requirements of efficiency and transparency.

1997 was a year in which the period of far-reaching reorganisation and adaptation of structures was brought to an end. SGE has fulfilled its commitments announced in 1996. It now moves onwards to a more offensive strategy, which will enable it to, whilst maintaining firm control and selectivity, enter new market segments and win new customers.

ANTOINE ZACHARIAS
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

SGE Group

Board of Directors

Chairman of the Board

Antoine Zacharias

Directors

Dominique Bazy
Daniel Caille
Alain Dinin
Patrick Faure
Roland Genin
Philippe Germond
Guillaume Hannezo
Pascal Lamy
Jean-Marie Messier
Serge Michel
Henri Proglio
Pierre Trotot
Compagnie Générale des Eaux
(represented by Guy Dejounay)

Executive Committee

Chairman and Chief Executive Officer

Antoine Zacharias

General Managers

Bernard Huvelin
Gérard Mohr

Deputy General Managers

Alain Leclerc
Roger Martin
Henri Stouff

Manager

Xavier Huillard

Statutory Auditors

Deloitte Touche Tohmatsu - BMA
Salustro Reydel

From left to right, Xavier Huillard, Alain Leclerc, Antoine Zacharias, Henri Stouff, Roger Martin, Gérard Mohr and Bernard Huvelin.

Structure

Société Générale d'Entreprises

Concessions

Cofiroute	31%
Stade de France	33%
Tagus River Bridge	25%
Prado Carénage Tunnel	26%

Building and civil engineering

- Campenon Bernard SGE
- Sogea
- Freyssinet
- Norwest Holst

Electrical engineering and works

- Groupe GTIE
- SDEL
- Santerne
- Garczynski Traploir
- Fournié Grospaud

Roadworks

- Eurovia
- SGE VBU

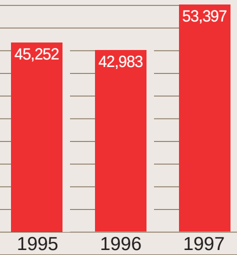
Thermal and mechanical activities

- G+H Montage
- Tunzini
- Wanner
- Nickel
- Lefort Francheteau

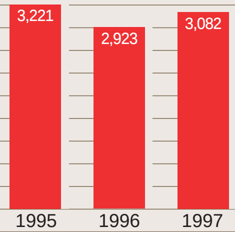
The above-mentioned companies, with the exception of the concessions operators, are wholly-owned SGE subsidiaries.

Key figures

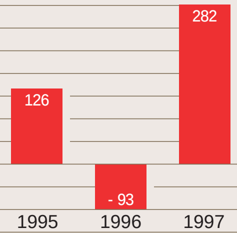
Net sales
in millions of French Francs



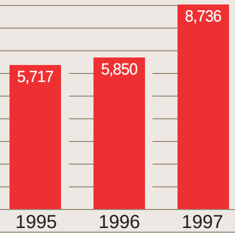
Shareholders' equity and minority interest
in millions of French Francs



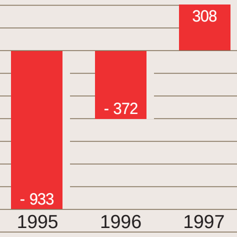
Operating income
in millions of French Francs



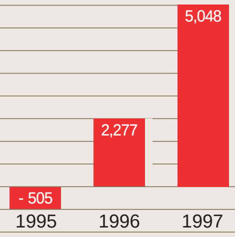
Provisions for liabilities and charges
in millions of French Francs



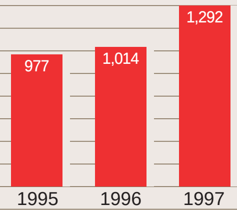
Net income
in millions of French Francs



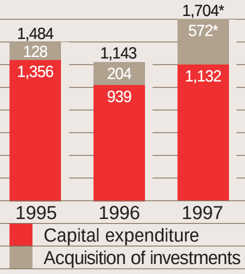
Net financial surplus (debt)
in millions of French Francs



Cash flow from operations
in millions of French Francs

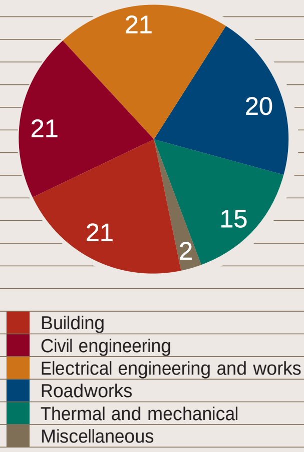


Capital expenditures and acquisition of investments
in millions of French Francs



* Excluding the contribution of GTIE and Santerne shares, paid for by a capital increase of FF 1,519 million.

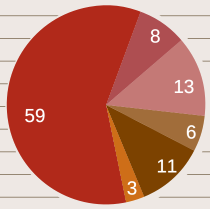
A well balanced portfolio of business activities
Breakdown in percentage



in 1997

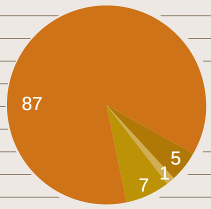
1997 Net sales* by geographic area

Building and civil engineering
as percentage and in millions of FF



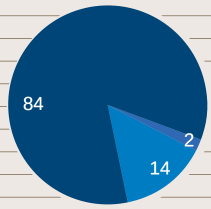
	France	14,790
	Great Britain	3,184
	Germany	2,038
	Europe (other)	2,604
	Africa	1,616
	International (other)	754
	Total	24,986

Electrical engineering and works
as percentage and in millions of FF



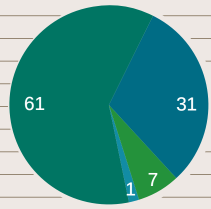
	France	9,706
	Germany	509
	Europe (other)	813
	International (other)	71
	Total	11,099

Roadworks
as percentage and in millions of FF



	France	8,539
	Germany	1,376
	International (other)	220
	Total	10,135

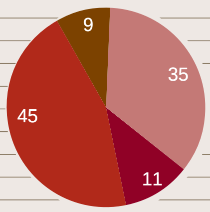
Thermal and mechanical activities
as percentage and in millions of FF



	Germany	4,371
	France	2,253
	Europe (other)	475
	International (other)	78
	Total	7,177

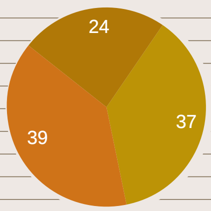
1997 Net sales* by line of business

Building and civil engineering
as percentage and in millions of FF



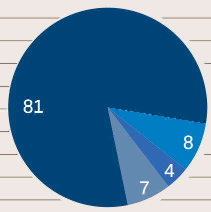
	Building	11,293
	Civil engineering	8,647
	Hydraulic engineering	2,318
	Miscellaneous	2,728
	Total	24,986

Electrical engineering and works
as percentage and in millions of FF



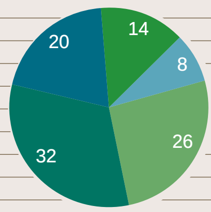
	Industry	4,329
	Infrastructure	4,106
	Services	2,664
	Total	11,099

Roadworks
as percentage and in millions of FF



	Road works (excl. motorways)	8,205
	Quarries and other industries	791
	Motorways	399
	Demolition and miscellaneous	740
	Total	10,135

Thermal and mechanical activities
as percentage and in millions of FF



	Industrial insulation	2,327
	Architectural finishings and facades	1,385
	Tertiary climate control	1,000
	Industrial HVAC	577
	Fire protection and miscellaneous	1,888
	Total	7,177

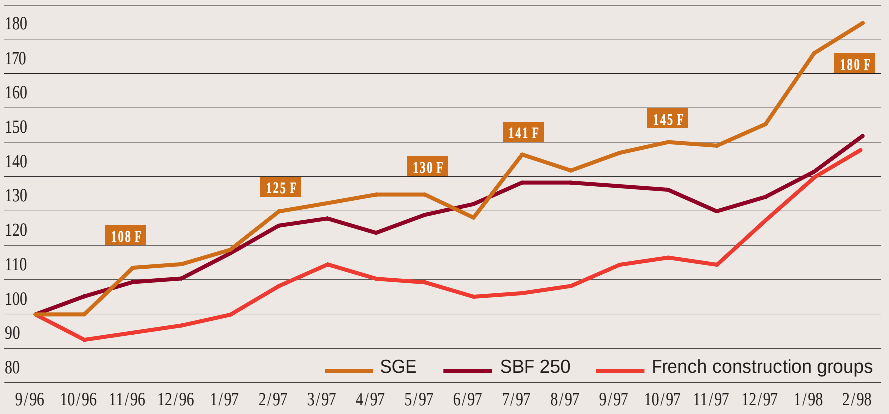
** After internal double-counts*

Stock exch

TRADING OF THE SGE SHARE

The SGE shares are listed on the monthly settlement market of the Paris Stock Exchange, and are included in the SBF 250 index, which groups the 250 main securities of the Exchange.

Average monthly SGE share price, in FF, compared with the SBF 250 index and the index made up of the five major French construction groups

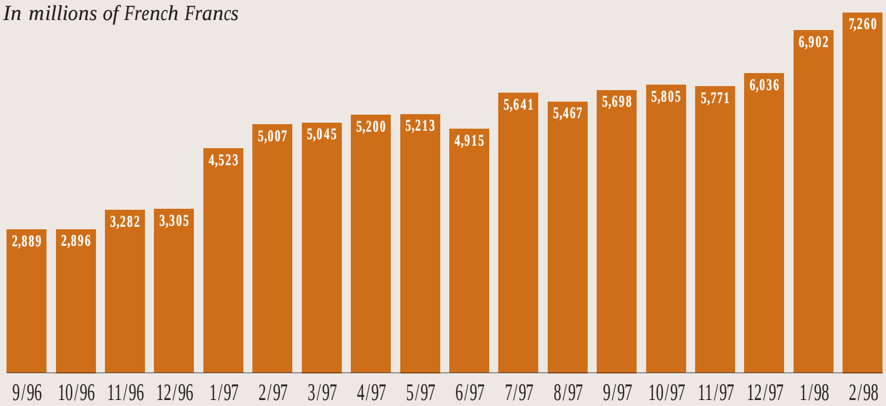


Between 1 January 1997 and 27 February 1998, the SGE share price gained 70%, while the SBF 250 index rose by 42% and the five leading French construction groups listed on the monthly market by 57%. The strategy consisting of eliminating loss-making operations was appreciated by the market.

CAPITALIZATION

On 27 February 1998, SGE's capitalization was FF 7.5 billion (FF 185 per share), compared with FF 2.8 million eighteen months earlier.

SGE average monthly stock market capitalization
In millions of French Francs



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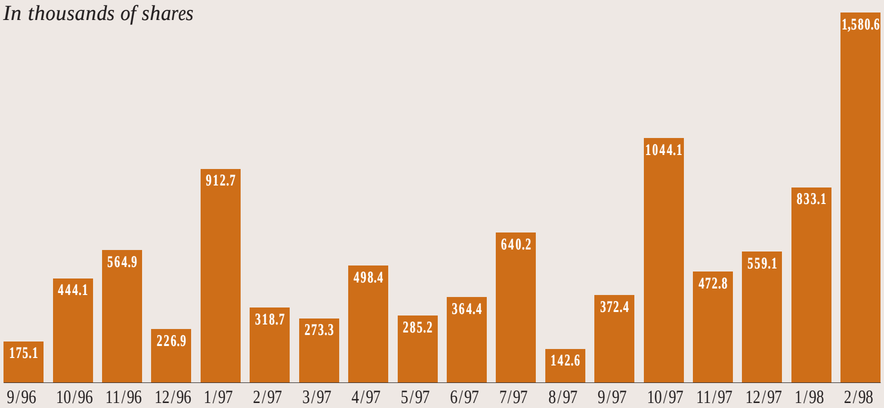
VOLUMES TRADED

The increase of the free float in October 1997 following the offering had a major impact on SGE share's liquidity. In the four months after this operation (November 1997 to February 1998), the average monthly trading volume was 856,400 shares, compared with 420,000 in the twelve months prior to the offering procedure.

Monthly trading volumes

In thousands of shares

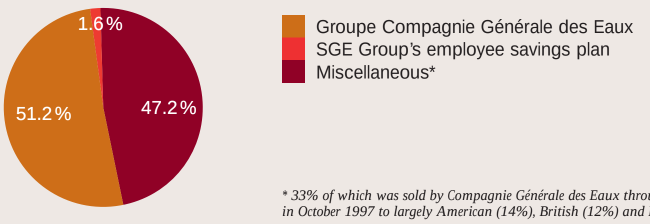


N.B: the 1997 October figures do not include the offering of 13,225,000 SGE shares.

DIVIDENDS

	Number of shares	Net dividend (in FF)	Tax credit (in FF)	Total dividend (in FF)	Net amount distributed (in FF)
1992	23,974,657	5.00	2.50	7.50	119,873,285
1993	24,543,375	5.00	2.50	7.50	122,716,875
1994	29,197,859	5.00	2.50	7.50	145,989,295
1995		–	–	–	–
1996		–	–	–	–
1997 *(proposed)*	40,323,352	4.00	2.00	6.00	161,293,408

OWNERSHIP STRUCTURE ON 31 DECEMBER 1997



** 33% of which was sold by Compagnie Générale des Eaux through an offering procedure in October 1997 to largely American (14%), British (12%) and French (4%) investors.*

Locations


Building and civil engineering
Electrical engineering and works
Roadworks
Thermal and mechanical activities

Report of the

The prevalent features in 1997 for Groupe SGE were the substantial extension of its business scope, and the opening of its capital to a large number of investors, for the most part foreign.

These operations, along with the far-reaching restructuring already implemented in the preceding years, are a necessary part of preparing for a future which will require streamlined and renovated structures, a clear and open strategy and a high degree of responsiveness to outside events.

The markets your company operates on were still very much marked in 1997 by the ongoing trends identified in the course of the previous few years, that is to say, a fall in business volume, and a simultaneous stepping-up of competitive pressure, often exceeding acceptable limits. It is unlikely that the fundamentals of this situation will change over the next few years; it was essential to prepare for it under the best possible conditions.

BUSINESS IN 1997

With major changes in consolidation scope - integration of GTIE, Santerne and CBC – business grew by 24.2% in 1997 in absolute terms, with a net sales figure of FF 53.4 billion. It should be made quite clear, that if our scope had remained the same, net sales would have been down on 1996 by 4.7%, and by close to 10% on 1995: this drop, in line with forecasts, illustrates SGE's determination to scale down its business in real terms, in response to market developments.

Operations outside of France accounted for FF 18.1 billion in 1997, against FF 17.5 billion in 1996, though comparing like with like the year-to-year variation is a decline of 11.3%.

Breakdown of net sales between divisions, on the basis of the reorganised structure introduced at the beginning of 1997, with the arrival of GTIE and Santerne in electrical engineering and works and CBC in building, is as follows:

(in millions of French Francs)	1996	1997	Outside France
Building and civil engineering	22,280	24,986	10,196
Electrical engineering and works	3,007	11,099	1,393
Roadworks	9,848	10,135	1,596
Thermal and mechanical activities	7,848	7,177	4,925
	42,983	53,397	18,110

Board of Directors

The breakdown by geographical area evolved slightly, with 66% in France, compared with 59% in 1996, 16% in Germany, compared with 21% in 1996, and net sales in Great Britain remaining stable at 7%. Outside of Europe, the sales figure for South East Asia fell below 1%.

1997 FINANCIAL STATEMENTS

The consolidated statement of income for 1997 shows a net income of FF 308 million, compared with a loss of FF 372 million in 1996.

Any analysis of this overall year-on-year improvement by FF 680 million has to address separately on the one hand the operating and financial performance and on the other the various positions under exceptional items.

Once corrected for the capital gains from the disposal of Saint-Gobain shares in 1996 (FF 520 million), operating income plus financial income is up FF 541 million over the previous year. This in itself accounts for 80% of the variation in the net income. The operating profit can be attributed to not only the extremely positive impact of the new electrical work subsidiaries, but also to the recovery of both the building and civil engineering and the roadworks subsidiaries. Thermal and mechanical activities' operating profit was, however, adversely affected by the serious deterioration of G+H Montage where reorganisation did not begin until early 1997.

That financial earnings have bounced back is a consequence of the continued improvement of SGE's financial health, with the Group benefiting at the same time from new integrations in the consolidation scope, the proceeds from divestment in 1996 and 1997 and better cash flow from operations.

Exceptional charges include more than a billion Francs in restructuring charges and other exceptional losses, above the level of previous years. It reflects the costs relating to various closures and redeployments in the building sector in France and Germany, and at G+H Montage.

These exceptional charges are almost completely offset by the proceeds from divestments in 1997, which were part of the reorganisation of Compagnie Générale des Eaux and the re-allocation in other subsidiaries of business deemed non-strategic for SGE (household waste processing and water distribution). Moreover, the statements of income no longer carry any charges for the Berlin property operations, which were totally removed on 1 January 1997.

Several important features of the financial structure should be mentioned. Consolidated shareholders' equity and minority interest amount to FF 3.1 billion in 1997, compared with FF 2.9 billion in 1996. This figure takes account of the capital increase registered on the contribution of GTIE and Santerne, the net income of the year, and conversely, the levying of FF 1 billion to supplement the provisions for pension obligations. This amount has been drawn off to cover the pension obligations for existing staff, under a change in method in accordance with current accounting principles.

The financial surplus net of all debt was FF 5.05 billion on 31 December 1997, against FF 2.3 billion on 31 December 1996, showing the impact both of changes in scope, divestment during the year and continuing tight management control over working capital requirements.

The result of the SGE parent company is a deficit of FF 119,085,522.55, as a result to a large extent of the significant additional provisions required for business in Germany.

Nonetheless, as a result of the improved consolidated net income and the outlook this offers for the future, it is proposed, after charging the loss of the parent company against the previous retained earnings for FF 55,151 thousand and the remainder against the line for "additional paid-in capital", to draw from this same line "additional paid-in capital", the sum of FF 161,293,408 for the distribution of a dividend of FF 4 per share, plus FF 2 per share in tax credit. Payment of the dividend is expected to start on 6 July 1998.

Pursuant to French legislation, we remind you that no dividend was distributed in 1995 and 1996, and that pay-outs in previous years were as follows:

Dividends

	Number of shares	Net dividend (in FF)	Tax credit (in FF)	Total dividend (in FF)	Net amount distributed (in FF)
1992	23,974,657	5.00	2.50	7.50	119,873,285
1993	24,543,375	5.00	2.50	7.50	122,716,875
1994	29,197,859	5.00	2.50	7.50	145,989,295
1995		–	–	–	–
1996		–	–	–	–
1997 *(proposed)*	40,323,352	4.00	2.00	6.00	161,293,408

Finally, the charges referred to in Article 39.4 of the French General Tax Code amounted to FF 165,496 in 1997.

RECENT DEVELOPMENTS AND OUTLOOK

Faced with markets that offer no reliable prospects for recovery, Groupe SGE was able in 1997 to complete most of the necessary restructuring and reorganisation so as to move forward into the future with the strongest chances for long-term success.

After reorganisation into lines of business revolving around its five operating divisions and with leaner structures, SGE enters 1998 with the intention of pursuing its deliberate policy of reducing its involvement in the most highly competitive sectors of building and civil engineering, and using its financial clout to re-deploy into the areas of technology and commerce offering the most promising prospects. This policy should result in a 5% shrinkage of sales comparing with the same structure, with a more marked reduction in building and civil engineering in France and Germany and for G+H Montage. In 1998 we should see a further strengthening of operating profit, but also, to a lesser extent of financial earnings. Moreover, under exceptional items there should be a significant drop in the charges for restructuring, and conversely, in income from asset disposal, as SGE has basically completed its process of refocusing on its core businesses.

Groupe SGE should thus have the necessary extra elbow room to take its development forward. These objectives have been set for a market environment which gives no hope for improvement in the near future. They are however achievable thanks to the fundamental reorganisation of the company over recent years.

OWNERSHIP STRUCTURE - TRADING ACTIVITY

As of 31 December 1997, the capital stock of your company was made up of 40,323,352 shares with a par value of FF 85 (representing total capital stock of FF 3,427,484,920), the main variation being the increase due to the contribution of the electrical works companies GTIE and Santerne, on the occasion of the Extraordinary Shareholders' Meeting on 30 January 1997.

As was announced last October, Groupe Compagnie Générale des Eaux, which at that time held approximately 84.2% of SGE capital, sold 13,225,000 SGE shares, through a private placement procedure, for the most part to American and British investors.

At the time of the Board Meeting, the capital stock of your company was owned 51.2% by Compagnie Générale des Eaux, 5.3% by the American investment fund Warburg Pincus, 1.6% under the Group's employee savings plan, and 41.9% by other investors. It should be mentioned that SGPF, a wholly-owned SGE subsidiary, holds 83 so-called "self-controlling" shares.

On the Paris Stock Exchange, the share price fluctuated in 1997 between a low of FF 104.9 and a high of FF 159.9, closing the year at FF 156, up 34.3% on the last price quoted in 1996. It should be pointed out that since the acquisition of shares by private investors, as referred to above, the SGE share has, as expected, attracted considerably more interest, with steady price increases in the first few weeks of 1998, and substantial volumes traded.

HUMAN RESOURCES

The average workforce of Groupe SGE in 1997 was 68,251, compared with 57,289 in 1996. This substantial increase (19%) is entirely attributable to the change in consolidated scope, specifically the integration of 13,000 employees from GTIE and Santerne. Comparing like with like, there has been a reduction of about 10% in SGE staff, in line with the reduction in business volume.

This trend has not however stood in the way of a policy already implemented during previous years, of hiring young people, in particular young university graduates. Out of the 5,000 new staff members hired in 1997 more than 2,000 came under the framework contract for the integration of young people under 26 signed in 1995 by Compagnie Générale des Eaux with the French Ministry of Labour.

Average consolidated workforce

	1997	1996	1995
BY LINE OF BUSINESS			
Building and civil engineering	28,844	27,958	29,965
Eletrical engineering and works	18,363	5,403	5,088
Roadworks	11,820	13,120	14,378
Thermal and mechanical activities	9,016	10,713	11,311
Holdings and other	208	95	156
TOTAL	68,251	57,289	60,898
BY GEOGRAPHIC AREA			
France	44,778	32,271	33,143
Germany	9,333	11,016	12,904
Great Britain	3,847	3,185	3,049
Rest of Europe	3,307	2,513	2,698
Europe	61,265	48,985	51,794
Africa	5,622	7,384	8,037
Asia	635	751	878
Middle East	602	42	–
America	127	127	189
Rest of world	6,986	8,304	9,104
TOTAL	68,251	57,289	60,898
BY SOCIO-PROFESSIONAL CATEGORY			
Managerial	7,176	4,992	5,153
Supervisory, Clerical and Technical	19,108	14,802	15,152
Workers	41,967	37,495	40,593
TOTAL	68,251	57,289	60,898

And finally, special efforts have been made in the training of site workers to improve the standard of accident prevention and raise quality-awareness. In this respect SGE subsidiaries have sought to create more opportunities for exchanging expertise, by developing training schemes open to all affiliates.

QUALITY

Many SGE subsidiaries have embarked upon quality programmes that provide full quality control from design through to completion of construction. They are based on stimulating staff awareness and motivation, primarily of supervisory staff at the work-site. These schemes have been extended to the main suppliers and sub-contractors of SGE companies too, as they are also vital links in the quality chain. In practice they involve meticulous preparation of all the different phases of a project, followed by the definition and implementation of an organisational structure and a system of internal supervision (by managerial staff in charge of works), backed up on major projects by external control.

The policies that SGE companies have been implementing for several years now - in conjunction with the competent bodies - have continued to produce results in 1997. More than 30 entities have seen their efforts culminate in ISO 9001 or Qualibat certification. In several areas, Groupe SGE companies are pioneering the field and obtaining, or even renewing, their certificates well ahead of their rivals.

RESEARCH AND TECHNICAL INNOVATION

Within Groupe SGE, significant advances in innovation come on the one hand from the major research programmes organised by the operating companies either individually, as part of national research programmes or in partnerships, and on the other, from the day-in day-out efforts in the field to improve quality, completion deadlines and cost control or develop distinctive product and service offerings. This involves research into materials, construction technology and many new IT developments.

In materials, Campenon Bernard SGE has continued its work under national projects BHP2000 on high performance concrete, and Calibe on the inspection and use of concrete. Eurovia has pursued its research efforts into wearing courses, resulting in the development of a wearing course that combines excellent resistance to rut formation and thermal cracking with high stiffness bituminous concrete. Research into cold dense macadam has continued and the transfer of anti-rutting bituminous mix technology to Germany has been organised.

Locating construction machines has made great advances with the use of GPS - Global Positioning System. The aim is to identify the position of a machine at all times, so as to be able to assign it an objective - e.g. number of passes, height measurement.

The Brite-Euram European research project - also known as CIRC (Computer Integrated Road Construction) has given rise to experimental use of a grader on a real motorway building site.

Research has also continued into the processing of household waste incineration clinker, incineration ash from purification plant sludge (with OTV) as well as work on the recycling of recovered material.

This year saw the completion of the European Eureka research project on the Management of Urban Stormwater overflows and Treatment, (MUST). This project involved several Compagnie Générale des Eaux subsidiaries, including OTV, Anjou Recherche and Eurovia, who developed a design method for water-storage pavements.

In construction technology, Campenon Bernard SGE took part in the Forever national research project into independent or interconnected micro-piles, and in the national project called Microtunnel. It also pushed on with its very advanced research into tunnel arch liners, into adaptations of the CAP guidance system to double-jointed small diameter tunnelling machines as well as to other new types of tunnelling machine and into the use of gyroscopes for machine guidance. In building, both Sogea and Campenon Bernard SGE experimented in many areas, with a special focus on building systems and new materials, but also involving site productivity and organisation. In civil engineering there was the development of a system for pivoting the beams into position on the Ventabren viaduct.

GTIE worked on a large number of innovative projects not only in the field of electrical equipment but also in engineering and information technology, with the development of a number of software packages, in particular Micromat for materials flow management, Superoxydose for automatic control of small purification plants and X-air, used for monitoring air quality in major French cities. Another noteworthy innovation was the urban traffic management system developed for the Hauts-de-Seine departement, just outside Paris.

BOARD OF DIRECTORS

You are asked to endorse the members co-opted last June - Messrs. Daniel Caille, Alain Dinin, Philippe Germond and Henri Proglio.

CORPORATE GOVERNANCE

Since 1990 SGE has had a compensation committee, currently consisting of Messrs. Jean-Marie Messier, Serge Michel and Patrick Faure, who make a proposal to the Board concerning compensation of the Chairman. These same members plus the Chairman approve the compensation awarded to general managers and deputy general managers.

In 1997 two other committees were formed: the accounts committee and the transactions committee. Membership of the former consists of Messrs. Dominique Bazy, Jean-Marie Messier and Guillaume Hannezo, and it has the following remit:

- to examine the parent company accounts and the consolidated annual and half-yearly accounts before they are reported to the Board;
- to examine consistency of Groupe SGE's internal audit methods;
- to examine the work programme of the external and internal auditors and the findings in their reports;
- to examine accounting methods and principles;
- to express an opinion concerning the appointment or replacement of the statutory auditors;
- to examine any operation that might have a significant impact on SGE's accounts.

The transactions committee, whose members are Messrs. Pascal Lamy, Roland Génin and Serge Michel, is tasked with considering and giving a view concerning any joint operations between SGE and Compagnie Générale des Eaux, whether they be recurrent, ordinary or exceptional.

SPECIAL OPERATIONS

On the occasion of this meeting you are requested to renew certain authorisations to issue:

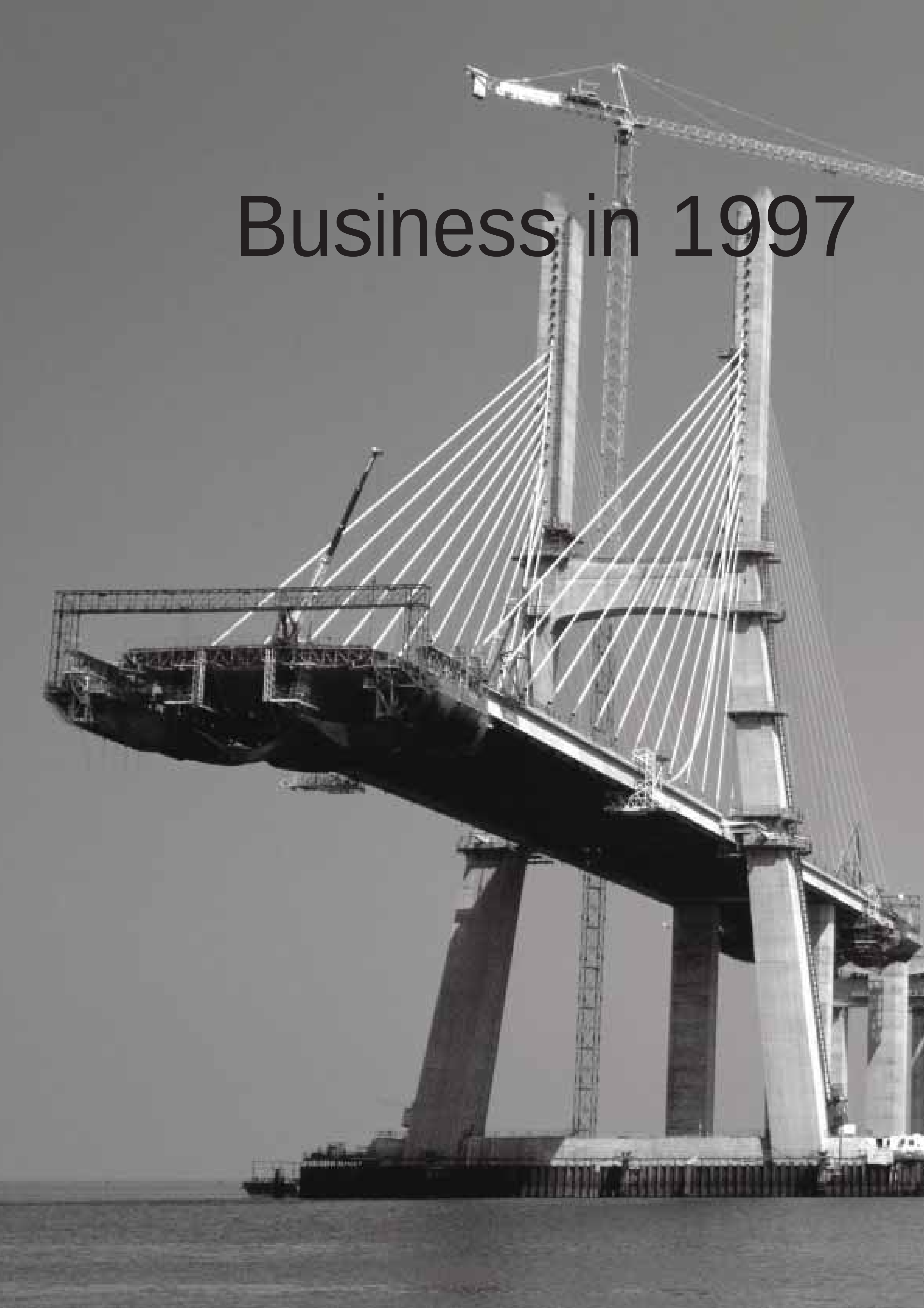
- ordinary bonds or securities;
- new shares without loss of pre-emptive rights;
- convertible bonds with or without warrants;
- bonds with warrants;
- composite securities;

and to decide on any capital increases reserved for SGE employees, under the savings plan or stock option schemes.

Apart from the authorisation to issue ordinary bonds or securities, the resolutions are subject to the quorum and voting rules of an extraordinary shareholders' meeting. In addition, you are asked to authorise SGE to purchase its own shares in accordance with to existing legislation and regulations. And finally, you are asked to authorise the company to trade in its own shares at the Paris stock market for the purpose of market corrections, when appropriate: as you know, this type of intervention is relatively common for companies like yours.

NB.: Given the extensive changes in consolidation scope in 1997,
no pro forma financial statements were produced for 1995 and 1996:
only actual data is presented in the following Business Report.
The consolidated financial statements (pages 61 to 86) and the sections on general information (starting at page 125) provide more details.

Business in 1997



The Vasco da Gama Bridge, whose deck was keyed in November 1997, was opened to traffic in March 1998.

Building and civil engineering

SGE'S BUILDING AND CIVIL ENGINEERING DIVISION, MADE UP OF GENERAL BUILDING AND CIVIL ENGINEERING CONTRACTORS OPERATING AROUND THE WORLD, PRODUCED NET SALES OF FF 24.6 BILLION IN 1997, ACCOUNTING FOR 46% OF TOTAL NET SALES. ■ CAMPENON BERNARD SGE TOGETHER WITH FREYSSINET, PLUS SOGEA TOGETHER WITH NORWEST HOLST, ARE THE MAIN OPERATING COMPANIES IN THIS DIVISION. ■ ITS SALES PERFORMANCE IMPROVED IN 1997 BY 11.7% DRIVEN BY THE INTEGRATION OF CBC (COMPAGNIE GENERALE DE BATIMENT ET DE CONSTRUCTION) INTO SGE. ■ EXCLUDING EFFECTS DUE TO THE CHANGE IN SCOPE, THIS WAS DOWN BY 3%, BECAUSE OF THE RECESSION AFFECTING THE SECTOR AND A MORE SELECTIVE APPROACH TO TAKING ON PROJECTS. ■ IN THE PROCESS OF REFOCUSING ON ITS CORE BUSINESSES, THE DIVISION HAS TRANSFERRED TO COMPAGNIE GENERALE DES EAUX ITS HOUSEHOLD REFUSE TREATMENT OPERATIONS, AND CONTINUED DIVESTING SOGEA'S DRINKING WATER DISTRIBUTION ACTIVITIES. ■ DESPITE THE PROBLEMS IN BUILDING, OPERATING PROFIT IMPROVED THANKS TO A RALLY FROM SOGEA'S INTERNATIONAL OPERATIONS, THE CONTINUING HIGH CONTRIBUTION BY CAMPENON BERNARD SGE'S CIVIL ENGINEERING WORK, AND THE CONFIRMATION OF RECOVERY FROM NORWEST HOLST AND FREYSSINET. ■

The Georges Pompidou European Hospital in Paris will open in October 1998 (architect: A. Zublena)

Consolidated figures*

in millions of French Francs

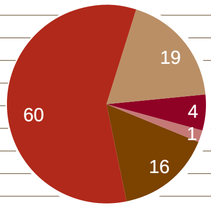
	1995	1996	1997
Net sales	21,999	22,006	24,575
Operating profit	50	(190)	40
Cash flow from operations	775	523	514
Capital expenditure	852	636	614
Average workforce	29,965	28,946	28,844

**After internal double-counts*


SOGEA

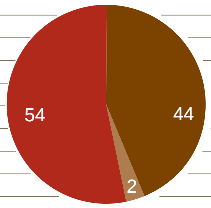
Campenon Bernard SGE

Campenon Bernard SGE net sales* by geographic area
as percentage and in millions of French Francs



France	6,391
Germany	1,983
Europe (other)	1,778
Asia	156
International (other)	383
Total	10,691

Campenon Bernard SGE net sales* by line of business
as percentage and in millions of French Francs



Building	5,733
Civil engineering	4,738
Other	220
Total	10,691

**Before internal double-counts*

Campenon Bernard SGE underwent a fundamental change in configuration at the beginning of the year with the addition of CBC that brought with it its major international projects, subsidiaries in Europe and building subsidiaries in Ile-de-France, Rhône-Alpes and Provence-Alpes-Côte d'Azur. Campenon Bernard SGE's net sales of FF 10,691 million, which with the same scope would have meant a drop of 15.6% compared with last year, were up 21.9%. Company structure has been redesigned based on lines of business, in keeping with the new business mix, involving equal proportions of building and civil engineering, major projects and subsidiary operations, works in France and abroad.

In 1997 the European building and civil engineering subsidiaries were badly hit by the scarcity of investments brought about by the enduring crisis of public funding everywhere, and at the same time major international projects hit a low, not only because they have become rarer in themselves but also because of increased competition and the company's more selective approach.

1997 ended at break-even in operating terms despite the poor performance of building in general, more especially in Germany.

MAJOR PROJECTS

The Saturn office complex in Warsaw was handed over in October 1997 by Warbud, Campenon Bernard SGE's Polish subsidiary. (architect: JEMS).

With net sales of FF 3,567 million, down 5.1%, Campenon Bernard SGE's major projects business suffered a further decline in 1997, and also changed in nature. There has been a substantial reduction of major international projects, whilst in France there was fairly brisk business in large scale earthmoving and major infrastructure projects took a turn for the better.

Outside of France, 1997 saw the completion of a number of operations: the dam and tunnels in Lesotho, the silos in Agadir, the shell construction for the Hanoi Hilton (architect: Cabinet Art'ur) and most of the structural work on the 88 storeys of the Jin Mao tower in Shanghai (architect: Skidmore, Owings and Merrill) scheduled to be handed over in August 1998. Work on the Vasco da Gama cable-stay bridge in Lisbon forged ahead at an impressive pace, with the 12 km crossing of the Tagus made complete in November when the deck was keyed. After fittings and finishings were completed the bridge was officially opened on 29 March 1998.

In Athens, the tunnels for line 2 have been bored as far as Syntagma station, with the tunnelling machine setting new

Line 2 of the Cairo underground is being extended towards Gizeh. The last section of the tunnel was bored under the two arms of the Nile.

speed records. Work on line 3 however was stopped on instructions from the client. Conditions governing project completion are still under negotiation with the Greek authorities.

The extension of line 2 of the Cairo underground towards Gizeh progressed according to schedule and successfully negotiated the technically very difficult task of tunnelling under the two arms of the Nile. The group of contractors led by Campenon Bernard SGE has been awarded a contract extension for viaduct construction on this same line.

In the Middle East, Campenon Bernard SGE continued work, in partnership with a Japanese contractor, on the building of two 140,000 cu. metre liquefied gas storage tanks in Qatar, and kicked off construction of a third at the beginning of the year.

In Denmark the Storebælt rail link began commercial operations in the spring as planned. In Frankfurt, the 350-room Hilton hotel (architect: J. Seifert) project is moving ahead satisfactorily towards handover in November 1998. In Prague, near the end of the year, Campenon Bernard SGE handed over the Myslbek office and shopping complex (architect: C. Parent and Architect Hölzel Kerel), which includes, in particular, Marks and Spencer, Crédit Lyonnais and the Czech National Bank. Throughout Eastern Europe, and especially in Poland, Campenon Bernard SGE's building subsidiaries have succeeded in increasing their turnover by focusing on those projects offering the greatest rewards for their expertise in design and build operations.

On a market that has been badly hit across the board by a dearth of funding and projects, ever tougher competition and unreliable financial and contractual conditions, Campenon Bernard SGE has remained extremely selective in accepting business, and has focused its commercial efforts on the all-inclusive projects that offer it the most potential for capitalising on its experience in design and build, financing and operating, in conjunction with its technical skills in building and civil engineering

Among the many projects under study in 1997, special mention should be made of the Emirates, where the group was commissioned for civil engineering and inland waterway works in Abu Dhabi; the Istanbul Olympic Stadium (architects: M. Macary and A. Zublena), whose foundation stone was laid in December 1997; and the extension of line 2 of the Cairo underground. It is expected that a number of all-inclusive projects, either as concessions or sell and build contracts, in Eastern Europe or the Middle East, will be finalised and boost the order book and the sales figures in 1998.

In France, the completion of the Stade de France (architects: M. Macary, A. Zublena, C. Constantini and M. Regembal) by the very tight deadline mobilised group full range of expertise and skills. It was handed over to the operating consortium on 30 November 1997, to allow for the facilities to be tested before the official opening ceremony on 28 January 1998, which was attended by 80,000 people, and was a resounding success. Business elsewhere remained steady with the Mediterranean TGV operations (the Marseille tunnel and the Ventabren viaduct), major motorway projects (the Orelle tunnel or viaducts at Amiens), as well as large scale earthworks for motorway construction for Deschiron and Valerian. By the end of the year, work on the Colombes purification plant was completed and the VAL project in Rennes had got underway. Preparatory operations for the A86 western ring road that Cofiroute is to operate, continued on the Rueil-Malmaison interchange, and on installing the tunnelling machine. Subsequent to the ruling handed down on 20 February 1998 by the highest judiciary authority in France, the Conseil d'Etat, work was suspended. The major projects order book, covering activities essentially in France and other European countries, amounted to a total of FF 4,723 million at the end of the year (down 1.5% on 1996).

The Ventabren viaduct that will carry the Mediterranean TGV line : the second beam, that was pre-fabricated parallel to the motorway without disrupting traffic, is rotated through 30°.

AGENCIES AND SUBSIDIARIES

Total sales for agencies and subsidiaries in 1997 came to FF 7,124 million, essentially generated in France and Germany, but also in Belgium and Portugal.
The dominant feature of the year was the addition of the CBC subsidiaries in Ile-de-France, Rhône-Alpes, and Franche-Comté, the south-east, Belgium and Germany. These additions and the recession on building markets led to considerable restructuring.

In the Ile-de-France region around Paris, CBC Ile-de-France, Campenon Bernard Bâtiment and EDIF merged to form Campenon Bernard Construction.
Main features of the year were the handover of the GEC Alsthom head office in Saint-Ouen (architect: J-P. Viguier), the completion of the Renault Technocentre in Guyancourt (architects: Valode et Pistre) and the building of the T4 tower and the Colisée building in the Danton section at La Défense, soon to be followed by the T2 tower (architects: Conceptua,

The Prisma tower in Courbevoie has 25 storeys of office space (architect: B. Willerval).

M. Andrault and N. Ayoub), which was ordered towards the end of the year. Several other projects currently on the order books, such as the Bel Air urban complex at Saint-Germain-en-Laye (architect: E. Daniel-Lacombe), or the UGC cinema complex at Bercy (architects: Valode et Pistre) indicate that activity will remain steady here.

BATEG's net sales figure (FF 589 million), which also comes from building operations in the Paris region, was up by close to 30% in 1997, mainly as a result of a concerted effort to reorganise and diversify its customer base. Among its more notable completions was the Prisma tower in Coubevoie and the 115 housing units in the Le Grand Parc residential complex (architect: O. Cacoub) in the 15th *arrondissement* in Paris. Its order book has been satisfactorily replenished for 1998.

In the Rhône-Alpes, Burgundy, Auvergne and Franche-Comté regions, the restructuring pursuant to the addition to Campenon Bernard Régions of the CBC and Sogea subsidiaries, was seen through to completion and kept business volumes steady. In the South East, with MCB and Campenon Bernard Sud coming closer together, more efficient and effective sales operations were possible, which sustained activity at a satisfactory level given the general downturn on the market.

In civil engineering, business remained steady for the subsidiaries, with bridge and tunnel work on the Mediterranean TGV line, the Crozet viaduct on the A51 motorway, various structures as part of the Avignon by-pass project, and the renovation of the air shaft in the Fréjus tunnel at Modane. Works continued at the Aix-les-Bains purification plant, whilst the Cap Sicié near Toulon facility was handed over (architect: Nothhelfer). Tough conditions prevalent on the market adversely affected the booking of new civil engineering orders. Both the housing sector and school building were especially badly hit by the low level of investments. Despite this Campenon Bernard SGE carried out a number of experimental projects in the area of subsidised housing, in partnership with the 'Plan Construction Architecture' in Mâcon, Lyons and Beaune.

Orders for the Hilton hotel in the Cité Internationale in Lyons (architects: R. Piano and Curtelin, Picard and Bergeret), the Monaco Cultural and Exhibition Centre (architects: F. Notari and F. Genin), and the SGS Thomson facility at Rousset near Aix-en-Provence (architect: M. Miranda) were nonetheless booked during 1997.

In the field of maritime and inland waterway operations, EMCC's net sales amounted to FF 287 million, up by more than 10%, thanks to its work on structures taking the Mediterranean TGV over the Rhône, and to its efforts to diversify into other parts of the country, particularly eastern France. Botte BTP, the foundation work specialist, increased net sales by 20%

In Belgium, Campenon Bernard SGE realised net sales of FF 492 million through BPC and its subsidiary ABEB in Flanders. The highlight of the year was the handing over of a 270,000 sq. metre office building for the Members and administrative staff of the European Parliament. The current recession on the building market should lead to reduced net sales in 1998, without affecting the profit margin.

The European Parliament in Brussels, one of the largest office complexes ever built in Belgium (architects: Atelier d'Architecture of Genval, Cerau M. Vanden Bossghe and CRV).

In Germany, with the exception of the large Hilton hotel project in Frankfurt that Campenon Bernard SGE is building under a sell and build contract, Group's general building contractor work is done by Klee in Mannheim, Brüggeman (contributed by CBC) in Duisburg, OBAG in Bautzen and UBG in Schwedt.
Group decided to close SGE Hoch- und Ingenieurbau and OBG because of the continuing difficulties on Berlin markets, which offered no viable prospects. By the same token, Urban BTP Bau, which had been set up in order to develop cross-border business from Alsace, was closed after taking heavy losses.
The German market as a whole remains fraught by ruthless competition and volumes that have been curtailed by strict control over public finances and investment budgets, a far cry from the high hopes raised by reunification in 1989 and the analysis of infrastructure requirements.
This situation has led the Group to combine a selective approach to order-taking with drastic restructuring of its affiliates, the result being a 5% drop in net sales for German subsidiaries as a whole at FF 1,852 million.
In Berlin, OBG and SGE Hoch- und Ingenieurbau completed the Parkstrasse project (architect: Stocker) and the first part of the Reinhardt Strasse operation (architects: Bellmann and Böhm), the next section of which, including offices, housing and rehearsal facilities for the Deutsche Theater, will be handed over at the end of 1998. OBAG continued the renovation and new construction work for the Bautzen savings bank (architect: A. Hoffman and K. Ekslich), but the subsidiary based in Saxony, whilst it achieved virtual operation break-even, was not able to sustain its business volumes.
Klee was not able to offset the downturn on the traditional building market by its property maintenance and renovation operations, which nonetheless made a positive contribution to its performance.

Freyssinet

Freyssinet's areas of operation - pre-stressing, cable-staying, bridge and tunnel repairs and specialised engineering - prospered well in 1997. Consolidated net sales, two-thirds of which are generated abroad, amount to FF 1.4 billion, up 20%. Operating profit for 1997 was FF 64 million, compared with FF 45 million in 1996. This improvement reflects Freyssinet's growth in all of its locations world-wide, more especially in Latin America and South East Asia. Orders, which had risen spectacularly in 1996, stabilised at FF 1 billion in 1997. The main highlights of these operations will be such contracts as the Ling Ao and Quinshan nuclear power plants in China, the Puerto Rico underground, the My Thuan viaduct in Vietnam, or the bridges at Val Benoît in Belgium, Roquemaure and Beaucaire in France and Santarém in Portugal.

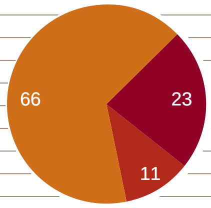
The market for pre-stressing work in France remained buoyant, with such projects as the Vernègues and Ventabren viaducts on the Mediterranean TGV line. Various other bridge projects continued to make headway - Jamuna in Bangladesh, Barelang in Indonesia, and Seohae in Korea. In Australia, Freyssinet Austress has a share in the Melbourne "Inner City Link" project.

Cable-stay bridge operations were quite substantial with the Tagus River project in Lisbon, the Ting Kau bridge in Hong Kong, the Oresund viaduct in Denmark, the River Dee bridge in Great Britain, and the cable-stay bridges at Aswan in Egypt and Cape Girardeau in Mississippi. In addition one should mention the special operations in Argentina - complete replacement of the cable-stays on the General Belgrano bridge, and partial replacement on the Zarate and Brazo Largo cable-stay bridges. The highlight of the year's repair works were the refurbishment of the Channel tunnel after a train caught fire, and the reinforcement of the abutments under the CNIT complex at La Défense. Innovations in the chemical treatment of concrete and repairs to wood-built structures will offer new development prospects. Similarly, following on from the research into the renovation of bridge suspension, after the contract in 1996 on the Lorois bridge in Brittany, Freyssinet performed the renovation of the Mas-d'Agenais and Manosque suspension bridges, thus confirming its expertise in this specialised area.

The Ting Kau cable-stay bridge in Hong Kong comprises three pylons respectively 167, 194 and 162 metres in height, and two central spans 475 and 448 metres long.

Freyssinet's consolidated net sales* by geographic area

as percentage and in millions of French Francs

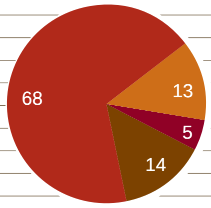


Europe	937
Asia	331
International (other)	162
Total	1,430

**Before internal double-counts*

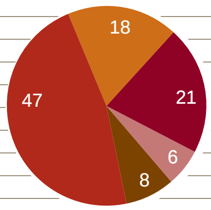
Sogea

Sogea net sales*
by geographic area
as percentage and in millions of French Francs



France	6,590
Africa	1,359
French overseas territories	1,202
Rest of Europe	493
Total	9,644

Sogea net sales*
by line of business
as percentage and in millions of French Francs



Building	4,522
Hydraulic engineering	2,059
Civil engineering	1,709
Environment and services	763
Roadworks	591
Total	9,644

**Before internal double-counts*

In 1997 Sogea completed the major business reorganisation process decided at the end of the previous year aimed at refocusing the company on its core businesses - building, civil and hydraulic engineering - and on its traditional geographic regions: mainland France, French overseas territories, Africa, and Belgium along with the United Kingdom, with the oversee-ing of Norwest Holst's operations. In building and civil engineering, Sogea absorbed most of CBC's business outside of Paris, and the Campenon Bernard SGE subsidiaries in the west and south-west of France. In parallel it transferred its construction operations in Auvergne and the Rhône-Alpes region to Campenon Bernard SGE. In the area of environment and services, Sogea's business was re-allocated, with household waste collection and processing going to CGEA and some water treatment and distribution activities to Compagnie Générale des Eaux. Conversely, the engineering business from the waste processing sector was transferred to SGE Environnement, a new entity which now has all of SGE's business in this field. These changes were made against the background of a sharply declining building market, both in the Paris area and the rest of the country, which justified the swift and thorough reorganisation that resulted in agencies being merged and operating areas being-redrawn.
With net sales of FF 9.6 billion, Sogea's operating profit came close to break-even in 1997, after taking heavy losses in its East African operations in 1996. This recovery should continue into 1998, further pushing up operating profits.

Renovation of the Quatre-Tours housing estate at Blanc-Mesnil. The works, carried out without displacement of the occupants, were part of an experimental operation with the ministry for housing (architect: Gilbert).

The Smart production plant in Hambach was built in 14 months. It comprises 23 buildings and 150 kilometres of piping (architect: Sexer-Loyrette).

MAINLAND FRANCE

Sogea's net sales both in the Paris area and the rest of the country were adversely affected by yet another year of shrinking business opportunities following on from what is now a five year slump. This continued downturn on the building and civil engineering markets is due to a cut-back of investment in infrastructure because of a reduction of public spending and to slow economic growth. As a result Sogea has had to continually move towards more buoyant sectors such as car-park renovation, maintenance and operation, which enjoyed considerable growth in 1997, with the number of parking spaces managed increasing from 27,000 to 33,000.

In building, the largest project was the shell construction of the Georges Pompidou European Hospital (architect: A. Zublena) for Assistance Publique de Paris. Among other new works, Sogea also delivered various school buildings, such as the extension of the Saint-Nicolas secondary school at Issy-les-Moulineaux (architect: Fernier et Associés), or a gymnasium at Nanterre (architect: Bernard Simonet). In eastern France Sogea handed over the hemicycle of the European Parliament in Strasbourg (architect: Architecture Studio Europe) and 23 buildings and 150 kilometres of piping at the MCC (Micro Compact Car) plant that will manufacture the Smart at Hambach (architect: Sexer-Loyrette). In the north, Sogea completed the courts of justice in the town of Béthune (architect: Maillard Villette Associés), the football stadium in Lens (architect: Martic), as well as a secondary school at Orleans in central France (architect: Créature - SCP Brun Giquelle). Notable projects in the west of the country were a school for managerial staff of the French education ministry (architect: Cabinet Dubus et Lott) built near the Futuroscope at Poitiers, and the pneumo-cardiology centre of the hospital at Rennes (architects: NMS Architecture-Malivel, Seraqui and Delteil). In the south-west Sogea began work building a catering school in Toulouse (architects: Alet, Pagès, Sassus, Galavielle). In the south-east, Sogea is finishing construction of the courts of justice in Grasse (architect: C. de Portzamparc) and was awarded the contract for the Lenval hospital in Nice (architect: C-J. Schmelz).
The scarcity of publicly-funded orders for new construction was partly offset by private customer orders. One should also record the completion at La Défense of the T4 tower and

Colisée building, as well as a number of private housing development programmes in the Paris area, in particular for CGIS. In the industrial sector there were also a number of factories built for customers as varied as SGS Thomson, Coflexip, Total and Agram.
The orders for hyper-markets that Sogea has won at Mérignac in the south-east (architects: M. Boutin, P. Carle), and Rezé in the west (architect: Cabinet Brunerie), plus others for offices, such as for the Ava insurance company in Rouen (architect: ACAU), Rhône-Poulenc in Le Mans and the Hilton hotel in the Cité Internationale in Lyons (architect: R. Piano Building Workshop), all point to the company's commercial vitality.
And lastly in the telecom sector, Sogea designed and built 50 radio-telephone relays for SFR.
In housing, where Sogea is one of the leading contractors in France, the innovative building methods developed by the company, its experimental projects and its efforts to shift towards renovation operations have enabled it to maintain acceptable volumes of business, despite the decreased demand for new works. Notable features here were the renovation of 769 housing units at Blanc-Mesnil by Sicra (architect: Gilbert), the renovation of 304 units at the Cité des Oiseaux estate in Nancy (architect: J.-J. Guyot), and the construction of 82 new units in Beauvais (architects: Gallois, Dreuzy and Indzik) as part of an LQCM (low cost quality housing) project.

In civil engineering, the most prominent operations were the continuation of work on the Monaco underground railway station, and the Condorcet station in Paris (linking the Eole line to the SNCF/RATP network) on which a major compensation claim has been settled. Work on the extension of the south-east TGV connection, in particular the Vernègues viaduct, forged ahead at a good pace.
Sogea started the building of the Bergères viaduct on the A85 motorway, and several structures for the Montpellier tramway. Dodin Sud continued construction of the Tanus viaduct over the Viaur as well as a number of structures on the Mediterranean TGV link and on the A89 motorway between Bordeaux and Clermont-Ferrand, in particular the Ussel by-pass. Dodin Nord, which in 1997 completed a marina at L'Ile-d'Yeu, is currently building the Sillonière dam in the west of France, and has been awarded the contract for upkeep of the embankments of both the Seine and Marne rivers.

The Tanus viaduct, carrying the RN88 over the Viaur, has set a new record - a central pier 130 metres in height and a deck spanning 190 metres.

The Beaurade purification plant near Rennes has a capacity of 350,000 population equivalent. It was opened in June 1997.

In hydraulic engineering, a field in which Sogea is one of the leading French contractors, the company continued to do brisk business, in the design and management of drinking water supply networks, waste and rain-water treatment systems, laying, renovation and maintenance of pipes and the building and operation of drinking water or waste water purification plants. During the year, Sogea handed over the main sewer link for the Orleans urban area to its purification plant; it was also given the job of laying the large diameter drinking water supply pipes for the city of Toulon, and chosen for maintenance operations of water mains in Le Havre, Mulhouse and La Wantzenau in Alsace.
In the area of waste water treatment, Sogea handed over a number of purification plants, in particular Beauvais, Belfort, Cavaillon, Gérardmer, Rennes and Montmélian. It continued construction of purification plants in Rouen, Rezé and Richemont in eastern France, that has a capacity of 700,000 population equivalent.

FRENCH OVERSEAS TERRITORIES

Sogea's volume of business in the French overseas territories amounted to FF 1,075 million, a level roughly equivalent to that of 1996.
In the French Antilles, most of Dodin Guadeloupe's and Sogea Martinique's activity was in subsidised housing programmes.
The start-up of the Fort-de-France purification plant and the completion of the La Trinité plant consolidated the company's intention to grow in the area of environmental protection facilities. In Guadeloupe, Sogea continued its drinking water distribution and sanitation activities for over 100,000 of the archipelago's inhabitants. Plans to transfer this activity to Compagnie Générale des Eaux were implemented at the end of the year.
In the Indian Ocean, SBTPC and Sogea derive most of their building sales from subsidised housing and school building programmes, and have built up their business in civil engineering with structures and facilities linked with environmental protection. In Mayotte, Sogea completed a sea-water desalination plant at Petite-Terre in 1997.

EUROPE AND MIDDLE EAST

In Portugal, work continued on the Frielas purification plant in partnership with OTV. At the same time Sogea concluded a contract for a new purification plant at Freixo, near Porto.
In Belgium, Denys recorded net sales of FF 400 million, down by 13% on 1996. This company lost 17% of its business volume compared with 1996 (FF 405 million), as a result of the general downturn on the Belgian market which badly hit contractors, but also, to a lesser extent, concrete tube production. Nonetheless there was the 14 km gas pipeline project for Gaz de France, with sections laid using micro-tunnelling, plus a major water supply operation in the Netherlands.

A number of substantial orders were booked in 1997, in particular a pipeline for Distrigaz that will pass under the River Meuse. These fresh orders should get the company off to a good start in 1998, and put it back on the road to improved sales and profitability.
In Palestine, the Sogea subsidiary WMI kicked off its third government-backed contract for improvements to the drinking water supply systems in Jericho and Bethlehem.

AFRICA

Sogea's consolidated net sales on the African continent amounted to FF 1.4 billion in 1997, the same as in 1996. This was generated mainly by business in hydraulic engineering, earthworks and road works, areas in which Sogea has a leadership position, and to a lesser extent in building and civil engineering.
In the course of the year, the progress on the road project linking Mille in Ethiopia to Assab in Eritrea went beyond the 60% mark. The difficulties encountered early in the project and the heavy losses that had to be provisioned led Sogea to initiate the arbitration procedure provided for by the contract. In the area of road works, by the end of the year, Sogea had completed 255 kilometres of road in Mauritania, pushed ahead with major road projects in Gabon and begun building a road in the Central African Republic.

In the Central African Republic, Satom, Sogea's subsidiary in Africa began building in 1997 the 173 kilometres of road linking Bangui, Damara and Sibut.

In the spring, Sogea started earthmoving operations at the Mikouloungou open cast uranium mine in Gabon for COMUF.
In hydraulic engineering, towards the end of the year Sogea Maroc was awarded a major irrigation contract by the Doukkala agricultural development office that will double the production capacity of its pipe manufacturing plant.
Other features include handing over the Kampala water supply project in Uganda and further work in Kenya on the Kitui and Baricho water supply projects. In Mali Sogea continued to operate in its traditional area of irrigation schemes, and in Chad and Senegal its hydraulic engineering activities picked up.
In building, Sogea completed secondary schools in N'Toum and Mouila in Gabon, and the Parakou market in Benin. Rounding off Group's lines of business there was commercial success for Sogea in Morocco with the contract to build a bridge at the mouth of the Moulouya river on the border with Algeria.
With the award to Sogea at the end of the year of a major contract for the construction in Central Africa of infrastructure for a large international oil consortium, there are good prospects for increased sales in Africa in 1998.

Norwest Holst

The English construction market, after stabilising in 1996 following a prolonged recession, recovered growth of close to 4% in 1997. This growth was helped by privatisation and initiatives taken by investment funds. In this more favourable environment Norwest Holst had no difficulty in achieving the objectives in its recovery plan, with a return to profit for the first time in six years. Excluding exchange variations and taking comparable structures, net sales remained stable at FF 3.1 billion. Operating profits posted a loss of FF 22 million, to be compared with the FF 133 million loss in 1996.

The cable-stay bridge over the River Dee in North Wales, measuring 3.8 km in length, is part of a major road project linking England and Wales.

Business volume in civil engineering in 1997 was comparable with the level in 1996. The works on the River Dee cable-stay bridge were completed towards the end of the year, whilst the tunnel and road work continued on the urban motorway to the east of London. The civil engineering for the large purification plant at Davyhulme near Manchester was finished before the contract deadline and handed over to OTV Birwelco. Severn Trent Water at Minworth, near Birmingham, has placed an order with Norwest Holst for the refurbishment of 104 kilometres of water pipes in the Midlands and a new purification plant.

Norwest Holst was also awarded contracts for the renovation of railwail stations and track at Chester, Rhyl, Llandudno, Oxford/Didcot and Watford.

In the field of electrical equipment, Rosser & Russell continued work on the large projects started in 1996: building the future European head office of the Japanese bank Daïwa (consultant engineer: Ove Arup and Partners); the SmithKline Beecham pharmaceutics complex at Harlow (consultant engineer: Amec Design and Build).

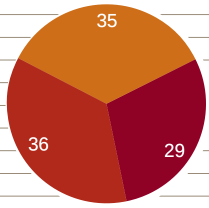
Conren, a subsidiary specialising in polymerised coatings, received the Queen's Award for export achievement in April 1997, one of the most coveted export awards; company sales abroad increased by 80% and total sales by 50% in 1997. In building, Norwest Holst opened a new agency in the Midlands. It continued its renovation works at Harrods, the famous London store (architects: Lee Reading Harbinson) and at the Royal Bank of Scotland in the City (architect: EPR Design Limited), as well as several stores and shopping centres.

The company is building the Courts of Justice in Southampton, and offices for the University of Manchester (architect: Cruickshank Seward). And lastly, in subsidised housing programmes, a number of contracts have been won for a total of 600 units, in addition to new private housing construction.

Norwest Holst took over G + H (UK) Ltd, previously controlled by G +H Montage. The company, which has been drastically reorganised, fitted out the Ekofisk and Britannia drillingrigs, and put in the insulation on several vessels refitted by the Ministry of Defence.

Norwest Holst net sales* by line of business

as percentage and in millions of French Francs



Building	1,106
Civil engineering	1,103
Thermal and mechanical	891
Total	3,100

*Before internal double-counts

Electrical engineering and works

THE ELECTRICAL ENGINEERING AND WORKS DIVISION WAS FORGED ON 1 JANUARY 1997, OUT OF THE MERGER, WITHIN SGE, OF GTIE, SDEL AND SANTERNE. ■ DRAWING ON FF 11 BILLION OF BUSINESS A YEAR AND A STAFF OF MORE THAN 18,000 AND SUBSTANTIAL POSITIONS ABROAD, ESPECIALLY IN GERMANY, GREAT BRITAIN AND THE NETHERLANDS, THIS DIVISION, WHICH HAS ADOPTED THE NAME OF "GROUPE GTIE", HAS ASSERTED ITSELF AS THE LEADING CONTRACTOR IN FRANCE FOR ELECTRICAL ENGINEERING AND WORKS, INFORMATION PROCESSING AND COMMUNICATIONS. ■ 1997 WAS A YEAR SPENT FOCUSING ON PUTTING THE RIGHT STRUCTURES IN PLACE FOR THIS NEW CONFIGURATION, THAT IS TAILORED TO MARKET PATTERNS AND EXPECTATIONS, INVOLVING 450 INDEPENDENT, CUSTOMER-RESPONSIVE COMPANIES, WITH A CLEAR-CUT IDENTITY AND CORPORATE PROJECT, ORGANISED AROUND FOUR MANAGEMENT HUBS: SDEL FOR THE PARIS AREA AND OTHER COUNTRIES, SANTERNE FOR THE NORTH AND EAST, GARCZYNSKI TRAPLOIR FOR THE WEST AND OVERSEAS TERRITORIES AND FOURNIÉ GROSPAUD FOR MOST OF SOUTHERN FRANCE. ■

Roissy Charles de Gaulle airport: high and low voltage operations at terminal 2F, and beacon installation on runway 4.

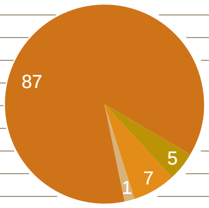
Consolidated data*

in millions of French Francs

	1995	1996	1997
Net sales	3,029	3,007	11,099
Operating profit	65	49	369
Cash flow from operations	103	105	562
Capital expenditure	57	57	248
Average workforce	5,088	5,403	18,363

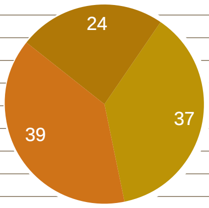
**After internal double-counts*

Groupe GTIE net sales* (including SDEL and Santerne) **by geographic area**
as percentage and in millions of French Francs



France	9,706
Germany	509
Europe (other)	813
International (other)	71
Total	11,099

Groupe GTIE net sales* (including SDEL and Santerne) **by line of business**
as percentage and in millions of French Francs



Industrial	4,329
Infrastructure	4,106
Services	2,664
Total	11,099

**After internal double-counts*

Groupe GTIE

Despite this being the year of its thorough reorganisation, GTIE managed to increase both net sales, FF 11,099 million, and its contribution to Groupe SGE profits (FF 369 million), thus vindicating the intention behind its creation of giving SGE greater recurrence both in terms of business volume and profits.

The restructuring came at a difficult period economically, the main drivers of which were well known to Groupe GTIE businesses: sluggish growth of French electricity consumption, in the context of the upcoming liberalisation of this market, public authorities keeping a spending and choice of investment under tight control and an intensely tough competitive attitude from the private sector companies, with the effects being passed on to their suppliers.

Over and above these very general trends, developments in France have not been the same in infrastructure, industrial process equipment and the tertiary sector (37%, 39% and 24% respectively of GTIE's total business volume in 1997).

The field of infrastructure encompasses the design and construction of high and very high voltage electricity lines and sub-stations for French utility EDF Transport, plus the control facilities for medium and low voltage lines - now mostly underground - for local authorities and EDF Distribution, and finally installation, maintenance and sometimes operation of public lighting and traffic signalling systems.

In transportation, capital investment programmes have been radically cut back, especially for VHV lines, on a market that is being increasingly opened to competition. In response to

Installing electronic information board, video surveillance systems, and replacing transmission cables on the Paris ring-road.

Automation of hardware fitting lines at the Renault plant in Maubeuge which produces the Kangoo.

these developments, GTIE companies have stepped up their efforts for greater productivity, and aimed for competitive edge through innovation in such areas as VHV underground lines, or environment-friendly electricity sub-stations, based on the Atoll concept.

In the area of rural electrification and public lighting, whilst the needs, in terms of volume, but especially quality, linked to environmental protection and living standards, remain significant, budgetary, financial and tax constraints are holding back work programmes. In the face of ferocious competition, the policy of GTIE companies is still to look for the best offers. This priority given to quality is reflected in a substantial number of AFAQ certifications obtained in this line of business in 1997 - modernisation of undertakings, innovation, lighting of heritage sites and digital mapping.

Infrastructure linked with new uses of electricity and IT developments offer attractive prospects: for example, several GTIE companies have taken part in the self-service electric-powered vehicle experiment at Saint-Quentin-en-Yvelines, known as Praxitèle. Similarly, with Sirius, Coraly, Migrazur, and more recently Siter, as references, GTIE holds a strong position in traffic management and urban signing systems. And lastly it is closely involved in the development of telecommunication infrastructures: location selection, installation and maintenance of radio telephone relay stations, engineering and installation of the main transmission cables and local networks for the main operators - these being areas where, on the eve of the liberalisation of telecommunication markets, GTIE net sales in 1997 were in excess of FF 650 million.

Automation of three Sigma grain silos at Saint-Jean-de-Losnes, near Orleans.

In industrial operations, the proportion of GTIE's net sales coming from services in the IT and communications networks areas has increased constantly. Nonetheless, underlying the Group's overall industrial business performance in 1997 there were considerable variations between regions and sectors. By and large though, the efforts that have been made for some time now to specialise the companies in different processes, thus making them able to offer distinctive services, have enabled them to come through unscathed, at a time when industrial investment in France, still well down on its level at the beginning of the decade, is sensitive to the slightest movement on the markets.

In building and services, despite a number of programmes currently in train, such as renovation operations for the Education Ministry, or upgrading of buildings to the latest safety standards, business remains dependant upon the cyclical nature of major projects at a time of deep recession. GTIE companies will consequently persevere in their efforts to move towards distinctive offerings in smart building technology, IT networks or maintenance. They have in particular staked their claim in the area of corporate communications, with their focus on voice and data network integration, active components and systems operation.

Operations outside France contributed 13% to GTIE's consolidated sales in 1997. While the situation remained relatively satisfactory in Great Britain and the Netherlands, the downturn on the German market had an adverse effect all year on Controlmatic's sales and profits, severely hampering the recovery that had started in 1996.

SDEL

SDEL comprises the contractors working in the Paris region, VHV line installation activities as well as all GTIE's foreign subsidiaries. Its net sales exceeded FF 4 billion. Special efforts have been devoted to creating a coherent network of companies working in the service sector, all of which, apart from Santerne Ile-de-France, have performed creditably on a still depressed market. The companies operating in the field of telecommunications and corporate communications systems achieved some very good results, despite ever greater pressure in prices. Outside of France, Lee Besley Deritend in Great Britain and the Dutch subsidiaries performed very well. The successful completion by SDEL-DIC, together with Controlmatic, of the control system for the Leuna refinery near Leipzig was followed by the award of a maintenance contract for the new refinery's electrical and instrument systems lasting several years. The installation of electrical equipment on the Vasco da Gama Bridge over the Tagus in Lisbon met the very tight contract schedule, enabling the bridge to be handed over on 29 March 1998.

Santerne

The companies in the Santerne group, operating mainly in the north and east of France, generated net sales of FF 2.1 billion. The Santerne contractors around Amiens were badly hit by the termination of the Channel Tunnel and Northern TGV investment programmes, and the associated ancillary works, and were forced to reorganise. This restructuring, on top of a number of claim disputes, has placed a heavy burden on the exceptional expenditure item. A refocus of corporate projects, based on detailed market segmentation and a refusal of volume for its own sake, was begun with the preparation of the 1998 budgets and should produce results in coming years.

Garczynski Traploir

The Garczynski Traploir management hub, operating in most of western France and French overseas territories, recorded net sales of FF 2.7 billion in 1997. In the environment already mentioned, with in particular industry in the Loire estuary in severe recession, most of the companies returned quite satisfactory performances. In some regions with a large population of GTIE companies, outstanding results were achieved, thanks to strong networking between very well established companies.

The lighting system of Reims cathedral is made up of 771 different lights controlled by a memory bank keyboard located in the vestry.

Fournié Grospaud

In its new configuration, the Fournié Grospaud hub, covering the southern half of France, posted net sales of close to FF 2.1 billion. The very difficult situation on markets in the south of France has taken its toll on many of the affiliated companies, resulting in the need for restructuring in 1997. The process will continue in 1998. The necessary steps towards reorganisation and more closely co-ordinated management control have been taken, but this will mean very high exceptional expenditure and it will be some time before the benefits are reaped. In the meanwhile, positive contributions, however, are coming from some companies such as Roiret, Degreanne, or industrial cable operations.

Roadworks

THE DOMINANT FEATURE OF 1997 WAS THE SETTING UP OF OPERATING STRUCTURES WITHIN EUROVIA, THE ENTITY RESULTING FROM VIAFRANCE'S JOINING FORCES WITH COCHERY BOURDIN CHAUSSE, AS DECIDED AT THE END OF 1996. ■ THE TWO COMPANIES' HEAD OFFICES HAVE BEEN MERGED, AND THEIR GEOGRAPHIC ORGANISATION RATIONALISED AND SIMPLIFIED, WHILE AN ADMINISTRATIVE AND FINANCIAL SYSTEM HAS BEEN INTRODUCED BASED ON FIVE FINANCIALLY INDEPENDENT MANAGEMENT CENTRES. ■ THIS MOVE MAKES EUROVIA THE SECOND LARGEST ROADWORKS CONTRACTOR IN EUROPE IN TERMS OF SALES. ■ BY CONTROLLING ALL THE STAGES IN INDUSTRIAL PRODUCTION IT HAS CONSOLIDATED ITS LEADING POSITION ON THE FRENCH MARKET. ■ ITS 130 COATING PLANTS, 35 BINDER PLANTS AND 45 QUARRIES SUPPLY VITAL LOGISTICAL SUPPORT TO THE WORK SITES. ■ THROUGH ITS REGIONAL SUBSIDIARIES, LOCAL AGENCIES AND WORK SITES IT HAS ITS FINGER ON THE PULSE OF BUSINESS AND INDUSTRY ACROSS THE COUNTRY. ■ WITH ITS BELGIAN AND SPANISH SUBSIDIARIES, AND SGE VERKEHRSBAU UNION IN GERMANY, EUROVIA HAS AN ESTABLISHED PRESENCE IN EUROPE AND HAS STARTED ITS DEVELOPMENT INTO EASTERN EUROPE. ■ EUROVIA AND SGE VBU, EMPLOYING A STAFF OF 12,000, POSTED NET SALES OF FF 10.1 BILLION IN 1997. ■

Building the A20 motorway between Paris and Toulouse. Works started in 1997 and will continue with two new sections in early 1998.

Consolidated data*

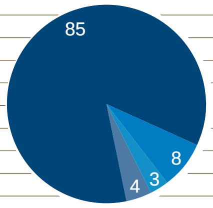
in millions of French Francs

	1995	1996	1997
Net sales	11,461	9,848	10,135
Operating profit	(66)	(15)	86
Cash flow from operations	294	168	336
Capital expenditure	361	202	221
Average workforce	14,378	13,120	11,820

*After internal double-counts

Eurovia net sales* by line of business

as percentage and in millions of French Francs



Roadworks (excluding motorways)	7,489
Quarries and other industries	695
Motorway operations	265
Miscellaneous	390
Total	8,839

**Before internal double-counts*

Eurovia

The French roadworks market, which contracted by 5% and 10% in 1995 and 1996 respectively, grew, contrary to all expectations, by 4% in 1997. This improvement was due to the combined effects of the clement weather that enabled work booked at the end of 1996 to go ahead, and a pick-up in both private and public orders.
With scope on a comparable basis with last year, Eurovia recorded sales of FF 8,839 million, representing an increase of 3.3% against 1996, which shows that the coming together of Cochery Bourdin Chaussé and Viafrance did not have a negative influence on either market share or business volume. Underlying this overall trend there are quite varied situations in the different regions: the Paris area and eastern France enjoyed a strong recovery and, the north, the west and the south improved slightly, while the south-west market's recession persisted. Net sales in France of FF 8.6 billion, were up 4%. At the end of a year marked by far-reaching restructuring, Eurovia posted operating profits of FF 130 million, up 30% over 1996.

In France, most of Eurovia's activity was in maintenance of existing roads and municipal roadworks, though there were several major motorway operations: the Rhodes to La Croisière, Montauban to Caussade and Donzenac to Puy-de-Grâce sections of the A20 motorway, commissioned by the French authorities and Autoroutes du Sud de la France. Other operations include the Châteauroux by-pass, the resurfacing of the A7 between Vienne and Auberives, the surfacing of the A84 on the Ille-et-Vilaine to Avranches section, and a share of the extension work at Roissy airport.

The RD91 road to the west of Paris was widened where it crosses Versailles. Work was carried out at night to reduce disruption to traffic.

The 2,100 metres long main runway at Rennes airport was refurbished in August 1997. One hundred people worked day and night for a week on the operation.

Stade de France chose the conglomerate for major works on access roads and facilities, and the specialised subsidiaries Interdesco and Eurorésine for painting the floors of the underground car-parks.

In the French Antilles, Moter Martinique, in addition to its traditional marine operations, has had a share of the works involved in converting the Fort-de-France expressway to a dual carriageway.

Whilst public orders still account for the bulk of Eurovia's business, the private sector and industrial customers are the development priority for the company, that has already this year built the track for BMW's European test centre at Miramas. In parallel, Eurovia is orienting its sales policy towards maintenance markets.

Although in the spring of 1997, the consortium made up of Cochery Bourdin Chaussé, Campenon Bernard SGE and SGE had been selected, after the call for tender in September 1996, as the concession operator short-listed for the upgrade to motorway standards of the Bordeaux to Bayonne section of the RN 10 highway, the authorities decided in the end to opt for public funding of this project, that was officially declared in the public interest in April 1997.

In the more particular area of road equipment, TSS, the Eurovia subsidiary specialised in concrete barriers, metal railings, signing and safety equipment, performed work on the enlargement to three lanes of the A51 between Septèmes-les-Vallons and Les Chabauds. The company also installed 16 kilometres of mobile traffic barrier at Saint-Denis de la Réunion.

TSS has also developed, in partnership with a Dutch company, a new method for removing road markings, called "Zoab-clean". Ultra high pressure water (up to 2,800 bars) sprayed from a pump mounted on a trailer behind a truck removes the markings from the ground.

Zoab-clean, the new road marking removal technique, was developed by a Eurovia subsidiary specialising in road signing.

The water is immediately recovered and the surface dried ready for new marking to be laid. More effective, quicker and less polluting than the conventional sand- and shot-blasting techniques normally used, this method has been tried out by TSS on a number of work sites in France - the widening of the A86 near Paris, the Paris ring road and the A6 and A11 motorways.

Eurovia's research and technical development work has led to the development of a high stiffness bituminous concrete and a method for designing water-storage pavements. Eurovia has tested a computer assisted pavement construction programme, using the GPS satellite system, and has continued its investigations into the processing of clinker from household waste incineration and into waste recycling in general.

Outside France, Eurovia has contributed assistance and expertise in some SGE road projects in Africa, and took part in the design work for a motorway project in Israel, the management concession for which was awarded early in 1998 to a consortium in which SGE is a member.

Eurovia posted net sales of FF 225 million abroad - up 2% on 1996 - with its various subsidiaries: in Belgium, with Hydrocar and Cornez Delacre, two binder and road product subsidiaries located in Wallonia, plus Grizaco, located in the Limbourg region, and finally in Spain, with two subsidiaries Vialex and Roldan.

SGE VBU

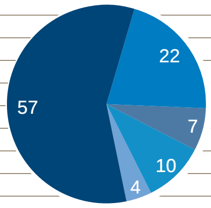
Operating on a German market still suffering from vast oversupply and very tough competition, SGE VBU has continued its recovery by concentrating on re-scaling of its structures, staff training and improving its standards of roadwork execution. It should be stressed that SGE VBU has refocused its business on traditional road and motorway operations, given that the decline on the demolition works market was confirmed in 1997. SGE VBU posted operating losses of FF 44 million in 1997, a considerable improvement on the FF 114 million loss of 1996, thanks to productivity gains and more favourable margins.

With weather conditions more works-friendly, net sales reached DM 411 million, which was better than forecast, but less than the DM 428 million in 1996, as a result of the more selective policy adopted towards taking orders.

SGE VBU was involved in a large number of motorway projects, be it for earthworks

SGE VBU net sales* by line of business

as percentage and in millions of French Francs



Road works	784
Demolition	301
Motorway operations	134
Quarries and other industries	97
Miscellaneous	60
Total	1,376

**Before internal double-counts*

(A9, Leipzig to Nuremberg), concrete pavements (A10, Berlin ring road, and A13, Berlin to Dresden), or laying bituminous mixture (A24, Berlin to Hamburg, and A4, Dresden to the Polish border). The company also performed various operations on the dykes of the River Oder during the serious flooding in the summer.

SGE VBU obtained the now official and mandatory certification for working in Germany in the area of demolition rubble processing and recycling. Last but not least, mine clearance holds out the prospect of new development opportunities for SGE VBU.

Despite the continuing difficulties on the German market, SGE VBU has thus confirmed its ability to stay on track on the way back to profits. Combined with the brighter outlook on the French market, this trend will help SGE's geographical diversification efforts, aimed, in particular, at bolstering its presence on the Eastern European market, which offers genuine opportunities for capitalising on its expertise. As of 1998, Eurovia will encompass new businesses in Switzerland and Slovakia, whilst a number of other projects mature in Eastern Europe.

Demolition of one of the cooling towers of the Lippendorf power station near Leipzig in Germany.

Thermal and Mechanical Activities

The Kronospan plant in Luxembourg: thermal insulation of the chipboard manufacturing facility and the boiler house.

MADE UP OF FRENCH AND GERMAN COMPANIES OPERATING IN THE FIELD OF DYNAMIC THERMAL ENGINEERING, ESSENTIALLY AIR CONDITIONING (TUNZINI, LEFORT FRANCHETEAU AND NICKEL) AND STATIC THERMAL ENGINEERING, ESSENTIALLY THERMAL AND ACOUSTIC INSULATION (G+H MONTAGE AND WANNER), SGE'S THERMAL AND MECHNICAL ACTIVITIES DIVISION IS EUROPE'S LEADING GROUP OF CONTRACTORS IN THESE FIELDS. ■ THIS DIVISION DOES TWO THIRDS OF ITS BUSINESS IN GERMANY AND ONE THIRD IN FRANCE, OF WHICH 70% IS FOR AN INDUSTRIAL CUSTOMER BASE. ■ THE WIDE RANGE OF SKILLS THAT IT CAN CALL UPON ALLOWS THE THERMAL AND MECHANICAL ACTIVITIES DIVISION TO OFFER TURNKEY SOLUTIONS IN TECHNICAL FINISHINGS, AND DELIVER A COMPLETE INDUSTRIAL OR TERTIARY FACILITY WITH THE EXCEPTION OF STRUCTURAL WORKS AND ELECTRICAL EQUIPMENT. ■ THE UNFAVOURABLE ECONOMIC CONTEXT THAT ITS SUBSIDIARIES HAVE TO COPE WITH AND THE REFOCUSING OF G+H MONTAGE ON ITS INDUSTRIAL ACTIVITIES HAVE LED TO A LOSS OF BUSINESS FOR THE THERMAL AND MECHANICAL ACTIVITIES DIVISION, THAT POSTED SALES OF FF 7,177 MILLION, DOWN 8.5% ON 1996, OR 6.8% TAKING COMPARABLE SCOPE. ■

Consolidated data*

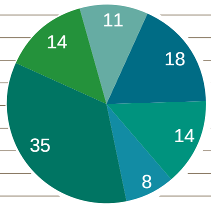
in millions of French Francs

	1995	1996	1997
Net sales	8,328	7,848	7,177
Operating profit	17	40	(207)
Cash flow from operations	(46)	67	(100)
Capital expenditure	78	43	46
Average workforce	11,311	9,725	9,016

*After internal double-counts

G+H Montage

G+H Montage net sales* by line of business
as percentage and in millions of French Francs



Industrial thermal activities	1,481
Architectural finishings	779
Facades	614
Marine and miscellaneous	576
Refrigerated facilities	467
Acoustic engineering	341
Total	4,258

**Before internal double-counts*

G+H Montage was very badly hit in 1997 by the worsening of the German economy, with industrial and public construction falling by more than 3% for the third consecutive year. This recession along with the drastic reorganisation steps implemented in 1997 impacted both the sales figure, down 9% at FF 4,258 million, and profits, which were negative by FF 216 million.

In industrial thermal engineering, which represents one third of the Thermal and Mechanical Division's sales, G+H Montage has concentrated on industrial business in general, and on thermal and nuclear power plants, and the chemicals and petrochemicals industries in particular. Investments in these sectors fell in 1997, bringing a dip in price levels, partly offset by adjustments to wage costs. The prominent features of the year's activity were the Philippsburg nuclear power station project and the Schwarze Pumpe thermal power station project near Dresden.

The Berlin television tower has been renovated. G+H Montage provided architectural finishings and fire protection in the belvedere restaurant area.

In refrigerated facilities construction, G+H Montage suffered from problems in the meat industry, the concentration of retail outlets and the low level of investment by SMUs. Despite some substantial operations in the course of the year, such as the meat plant for Houdek at Arzberg or the refrigerated warehouse for Schöller Eiskrem at Uelzen, net sales in this sector fell, and the company recorded an operating loss.

G+H Montage's architectural finishing business was down again as a result of the very unfavourable conditions on the building market and the measures taken to adjust to this difficult situation. The largest operations included fitting out the Banque Générale in Luxembourg or the Neven Dumont administrative buildings in Cologne. A number of heavy loss-making projects in Berlin had a major negative impact on operating profits in this field. Downsizing, both staff and business volume, focusing on a core customer base, and staff training should allow losses to be reduced in 1998. Facade operations, an area in which the highlight of the year was the contract for the Skopau power station, were also badly hit by the building slump in Germany. 1997 was a year of restructuring, with a number of agencies and subsidiaries being closed.

At the Porsche factory in Stuttgart, G+H Montage installed nine sound-proofed test-stands that will be used for brake and exhaust gas testing.

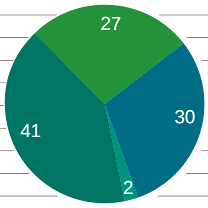
In interior fittings for ships, after the exceptionally bad performance of 1996, the company has shifted its focus back to its core business with its traditional customer base. Thus G+H Montage was able to fit out the liner Mercury and the 2,000 cabins of the liners Star Leo and Star Virgo. Somewhat further from home, G+H Montage built a liquid gas terminal in Shanghai. This policy has come very close to restoring break-even in 1997.

In acoustic insulation, even if there continue to be losses and problems here, G+H Montage booked some attractive orders during the year, and in particular completed a gas turbine insulation project in Marmara, near Istanbul, and at Poolbeg in Ireland. There were also notable contracts for the supply of insulating material to the aeronautical and automotive industries. A return to profitability is expected for this entity, which has managed to reposition itself on the power generation equipment market (gas turbines).

Felix Schuh suffered substantial losses in the field of asbestos removal, where demand has slumped in Germany. The company will henceforth be focusing on its insulation and marine businesses.

Tunzini net sales* by line of business

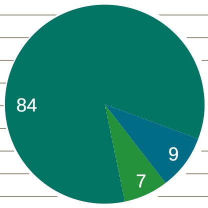
as percentage and in millions of French Francs



	Tertiary climate control	445
	Industrial HVAC	327
	Fire protection	285
	Miscellaneous	21
	Total	1,078

Wanner net sales* by line of business

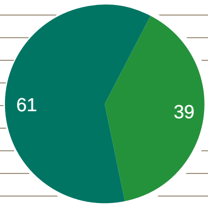
as percentage and in millions of French Francs



	Industrial insulation	515
	Pre-insulated pipe	59
	Asbestos removal	41
	Total	615

Nickel net sales* by line of business

as percentage and in millions of French Francs



	Tertiary climate control	401
	Industrial HVAC	254
	Total	655

**Before internal double-counts*

Tunzini

Focusing on its core businesses in dynamic thermal engineering after the transfer of its environmental thermal activities, Tunzini had a satisfactory year in 1997, market by a 4% drop in net sales (FF 1,078 million) and substantial operating profit. Fire protection activities suffered from the tougher conditions prevailing on the French market, which impacted both profit margins and volume. Tertiary climate control confirmed its recovery by posting operating profits very close to break-even. A number of significant projects, such as the Salpêtrière hospital in Paris or the SGS Thomson factory at Rousset are illustrations of an encouraging order book. Finally in the area of industrial and nuclear HVAC, both volume and profits remained stable on very competitive markets. All in all, Tunzini has maintained a high contribution to consolidated operating profits.

Wanner

The overall trend on the markets where Wanner operates was towards contraction. Combined with the company's withdrawal from recession-stricken locations such as Lacq and Berre, this decline has led to a 24% drop in sales. The hopes placed in the growth of the asbestos removal market have not yet been confirmed, due to the highly unstable nature of this expanding market. The demand for new works hardly increased, even if towards the end of the year there were by and large more tender actions being issued. On the maintenance market, however, the imposition of more demanding business conditions, combined with competitive pressure to complicate negotiations and contract re-appraisals and push prices down. Overall, thanks to its policy of cost control, technical innovation and redeployment towards market segments with greater opportunities, Wanner posted net sales of FF 615 million and positive operating profits.

In the new Bordeaux courthouse Tunzini installed the air-conditioning system. The complex comprises five office levels and seven court rooms (architect: R.Rogers).

The Sachsen-Anhalt Parliament building in Magdeburg, where Nickel installed cold ceilings in 1997.

Nickel

The effects of the far-reaching restructuring undertaken in the Nickel group in the last two years were felt in 1997, despite unfavourable economic conditions in most of the group's areas of business. The company posted net sales 17% down on 1996 at FF 665 million, with the completion of three major design and build projects, but the group's operating profits have climbed back to break-even. Significant orders booked by Nickel in 1997 were those for the Berlin Reichstag and Düsseldorf airport, but also several in the Czech Republic, thanks to partnerships with Tunzini in the area of fire protection. In addition facility management has grown on the strength of fresh orders in Germany and the Czech Republic.

Lefort Francheteau

Operating mainly in and around Paris, Lefort-Francheteau and its subsidiary Saga maintained net sales in the region of FF 475 million in 1997 in air-conditioning, heating and renovation. In response to market developments, in particular the scarcity of large scale new works, the company has shifted its focus to operations that are smaller in size but still require a high level of technical expertise.

SGE Environnement

Set up at the end of 1996 by combining Tunzini's, Sogea's and OTVD's activities in the fields of household and industrial waste, processing facility design and construction, in 1997 SGE Environnement posted net sales of FF 130 million. The company kicked off construction of a fourth line in the household waste processing plant at Toulouse and the Menemen project in Turkey. Despite intense commercial activity in France and abroad, the company was not able to fill its order book to its satisfaction, for although there are European regulations concerning waste to be implemented, and a considerable need for investment exists, the problem is the availability of funding at local level and a lack of any clear French or European policy for waste management. Nonetheless SGE Environnement was able to take an order for the household waste processing plant in Annecy, and tendered for a large number of projects both in France and other countries.

Concessions

PRADO CARÉNAGE TUNNEL

With a 26% interest, SGE is the largest shareholder in Société marseillaise du tunnel du Prado Carénage , the company operating the thirty year concession for the tunnel that goes under the centre of Marseilles, and that was opened to traffic in September 1993. Traffic has grown in line with forecasts, and now exceeds 11 million crossings a year, with an average of 30,248 vehicles per day. Net income was up 8.2% on 1996, and sales net of VAT reached FF 133.7 million. Net earnings are now close to break-even, as forecast. The cash flow generated in 1997 will make it possible to pay off all the interest arrears from subordinated convertible bonds.

The successful and profitable operation of the Prado Carénage tunnel is a great encouragement for the development of toll-paying urban transportation infrastructure.

The second section of the A 85 motorway, linking Angers and Tours, added a new extension to the Cofiroute network when it was opened to traffic in October 1997.

COFIROUTE

SGE holds 31% of Cofiroute, the leading private motorway concession operator, which manages a network of some 800 kilometres on the main links between Paris and Orleans on towards Tours and Bourges, and between Paris and Le Mans. The new section of the A85 between Corzé and Vivy was opened to traffic in January 1997, and Vivy to Bourgueil in October.

Design, site preparation and initial tunnel work on the A86 to the west of Paris began with the building of the Rueil-Malmaison interchange. The ruling handed down by on 20 February 1998 the highest judiciary authority in the country, the Conseil d'Etat, annulling the award of the concession to Cofiroute, brought works at the site to a halt. The increased operating income of FF 4,447 million is the combined result of an increase in traffic (2.3%) and the rise in toll prices

Stade de France, the largest Olympic standard variable capacity stadium in the world, was officially opened on 28 January 1998. The project was completed in a record 31 months.

(on 1 February). Financial debt climbed from FF 7.9 billion at end 1996 to FF 9.1 billion at end 1997 and Cofiroute issued FF 2.3 billion in debt to finance new works. Net profits for the year amount to FF 790 million, of which SGE's share comes to FF 244 million, against 215 million in 1996.

STADE DE FRANCE

The concession for the Stade de France at Saint-Denis was awarded on 25 April 1995 to the Consortium Stade de France (in which SGE holds a 33.33% share) for the design, construction, financing and operation of this unique facility for 30 years.

After completion of the concrete structures in 1996, most of the work involved finishings and the installation of the spectacular elliptical roof, suspended by bracing cables from 18 tapered pylons. Meeting the deadline of the very demanding works schedule, the stadium was handed over on 30 November 1997, and was officially opened on 28 January 1998, for the France v. Spain football match, attended by a crowd of 80,000.

The consortium holding the concession put in place the stadium operating structures, concluded the main sub-contracting arrangements, began marketing activities and started planning a programme of major events with considerable success. The football and rugby internationals early in 1998 have provided valuable experience in using the facilities in preparation for the France ‘98 World Cup. The huge success of these events demonstrates how outstanding this unique facility is.

TAGUS RIVER BRIDGE

The concession contract signed on 24 March 1995, between the Government of Portugal and the concession-holder, Lusoponte (in which SGE has a 24.8% share) for a maximum duration of 33 years, includes operation of the 25 April Bridge, opened in 1966, and the design, contruction and operation of a new bridge, the Vasco da Gama Bridge, 17 kilometres in length and located upstream from the first.

Operation of the 25 April Bridge, transferred to Lusoponte since January 1996, has been satisfactory, with traffic up 1% in 1997, despite being congested to saturation point and the disruption caused by the rail link being built under the existing deck that will enter service in 1998. Traffic volume is almost 51 million vehicles a year, and increased toll-revenue has boosted sales to FF 152 million, an increase of 1.1%.

Construction of the Vasco da Gama Bridge progressed at an outstanding pace, as required by the very tight works schedule. The last third of the work was completed in the course of the year, and with all the project teams rallying round it was possible to keep the schedule impact of the tragic accident on the cable-stay bridge in the spring within reasonable bounds. Towards the end of the year, finishing operations and the access roads had been almost completed. The bridge was inaugurated on 29 March 1998, before the opening of the Lisbon World Fair.

DEVELOPMENT

The consortium set up by SGE in the autumn of 1996 with its subsidiaries Cochery Bourdin Chaussé and Campenon Bernard SGE, was short-listed in April 1997 by the Ministère de l'Equipement (Public Works) for the concession contact for the upgrade to motorway standard of the RN10 between Bordeaux and Bayonne. By the end of the year, however, the authorities had changed their minds and decided to use public funds for the project. Negotiations continued between Lorys, short-listed for the concession of the Lyons western ring-road, in which SGE has a 50% interest, and the authorities of the Rhone département, to finalise the small-print of the concession contract. Early in 1998, however, a decision by the regional council was taken to postpone further discussions.

At the beginning of 1998, a consortium set up by SGE was announced the winner of the competitive tender for the design, construction, financing and operation of a motorway under a 30 year concession in Israel. The project concerns the 86 kilometre long central section of the highway that will, when finished, link Haifa and Eilat. Its total cost is estimated to be $1.1 billion. In addition, SGE has begun appraisal of a number of concessions proposals both in France and abroad.

The Vasco da Gama Bridge was inaugurated on 29 March 1998, two months before the opening of the Lisbon World0 Fair.

Financial report

Consolidated financial statements

THE LAST THREE YEARS

(in millions of French Francs)	1997	1996	1995
Net sales	53,397	42,983	45,252
Of which foreign net sales	18,110	17,530	18,497
Gross operating income	1,758	1,327	1,562
Operating income (loss)	282	(93)	126
Operating income less net financial expense	469	448 [3]	36
Net income before amortisation of goodwill	448	(272)	(844)
Net income	308	(372)	(933)
Shareholders' equity and minority interest	3,082 [1]	2,923	3,221
Provisions for liabilities and charges	8,736 [1]	5,850	5,717
Fixed assets	8,696	8,710	10,542
Net financial surplus (debt)	5,048	2,277	(505)
Cash flow from operations	1,292	1,014	977
Capital expenditure and acquisition of investments	3,222 [2]	1,142	1,484
Proceeds from disposals and sales	1,728	1,381	345
Average number of employees	68,251	57,289	60,898

(1) Including the impact on 1 January 1997 of the change in the method of accounting for pension commitments: 1,136 million French Francs (of which the Group's share was 1,126 million French Francs).

(2) Including the acquisition of GTIE and Santerne for 1,519 million French Francs through a contribution in kind.

(3) Including capital gains from the disposal of Saint-Gobain shares for 520 million French Francs.

CONSOLIDATED STATEMENT OF INCOME

(in millions of French Francs)	Notes	1997	1996	1995
NET SALES	19	53,397	42,983	45,252
Other revenue	20	2,577	2,020	1,872
TOTAL REVENUES		55,974	45,003	47,124
Operating expenses	21	(54,216)	(43,676)	(45,562)
GROSS OPERATING INCOME		1,758	1,327	1,562
Depreciation and provisions	21	(1,476)	(1,420)	(1,436)
OPERATING INCOME		282	(93)	126
Net financial expense before financial provisions		166	552	(44)
Financial provisions		21	(11)	(46)
NET FINANCIAL INCOME/(EXPENSE)	22	187	541	(90)
OPERATING AND FINANCIAL INCOME (NET) LESS NET FINANCIAL EXPENSE		469	448	36
Exceptional items		331	(825)	(666)
Depreciation and provisions		(384)	(29)	(271)
NET EXCEPTIONAL EXPENSE	23	(53)	(855)	(937)
Employee profit-sharing		(75)	(32)	(73)
Income taxes	24	(121)	(56)	(65)
Amortisation of goodwill	4	(140)	(100)	(89)
NET INCOME (LOSS) BEFORE EQUITY INTEREST AND MINORITY INTEREST		80	(594)	(1,128)
Equity in net earnings of affiliated companies	7	244	233	189
Minority interest	13	(16)	(11)	7
NET INCOME (LOSS)		308	(372)	(933)
Average weighted number of shares		40,057,959	30,304,652	29,593,009
Income per share		7,68	(12,27)	(31,53)

CONSOLIDATED BALANCE SHEET

ASSETS

(in millions of French Francs)	Notes	1997	1996	1995
Intangible assets other than goodwill	3	311	304	301
Goodwill	4	1,488	1,207	1,152
Tangible assets	5	4,495	5,126	5,901
Financial assets				
Unconsolidated investments	6	689	514	1,564
Investments accounted for by the equity method	7	1,089	970	855
Other financial assets	8	465	442	552
		2,243	1,926	2,971
Deferred charges	9	159	148	217
TOTAL FIXED ASSETS		8,696	8,710	10,542
Inventories	10-18	10,737	3,964	4,411
Accounts and trade notes receivable	18	23,115	16,666	18,487
Marketable securities and short-term financial receivables	11-16	8,367	7,530	3,610
Cash	16	2,277	1,003	1,076
TOTAL CURRENT ASSETS		44,496	29,163	27,585
TOTAL ASSETS		53,192	37,872	38,126

SHAREHOLDERS' EQUITY AND LIABILITIES

(in millions of French Francs)	Notes	1997	1996	1995
Shareholders' equity	12			
Capital stock		3,428	2,585	2,567
Retained earnings, before net income for the year		(804)	633	1,521
Net income for the year		308	(372)	(933)
		2,932	2,846	3,155
Minority interest	13	149	77	66
Investment grants and deferred revenues	14	5	655	4
Provisions for liabilities and charges	15	8,736	5,850	5,717
Long-term financial debt	16			
Subordinated debt, bonds and debentures		332	314	347
Other long-term debt		845	1,605	2,002
		1,177	1,919	2,349
Current liabilities				
Accounts and trade notes payable	18	36,777	23,199	23,993
Short-term financial debt	16	3,416	3,326	2,842
		40,193	26,525	26,835
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		53,192	37,872	38,126

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in millions of French Francs)	Notes	1997	1996	1995
SOURCES				
Cash flow from operations	17	1,292	1,014	977
Proceeds from disposals and sales				
Disposals and sales of fixed assets		291	187	166
Sales of securities		1,437	1,194	179
		1,728	1,381	345
Issuance of parent company stock	12	1,557	19	159
Minority interest in capital stock increases of subsidiaries	13	66	–	3
Increases in other long-term debt	14	–	651	–
I - TOTAL SOURCES		4,643	3,066	1,484
USES				
Capital expenditure and acquisition of investments				
Capital expenditure for plant and equipment		1,131	939	1,356
Financial investments		2,091 (1)	204	128
		3,222 (1)	1,142	1,484
Acquisitions (disposals) of property assets		–	(614)	1,023
Net changes in long-term debt		1,432	789	201
Net changes in other financial assets		48	5	126
Dividends paid by the parent company or its subsidiaries		11	-	158
II - TOTAL USES		4,713	1,322	2,993
Sources in excess of uses (uses in excess of sources) (I - II)		(70)	1,743	(1,509)
IIII - Effects of changes in the scope of consolidation, of exchange rate fluctuations and of other adjustments		1,735	144	(533)
Increase (decrease) in working capital (I - II + III)		1,665	1,887	(2,042)
Decrease in working capital requirement	18	(356)	(1,475)	(868)
Increase (decrease) in cash		2,021	3,362	(1,174)

(1) Including the contributions in kind of GTIE and Santerne shares, paid for by a capital stock increase of 1,519 million French Francs.

NOTES TO THE CONSOLIDATED ACCOUNTS

1 • ACCOUNTING POLICIES

The consolidated financial statements of SGE, included in the consolidated financial statements of Compagnie Générale des Eaux as a fully consolidated subsidiary, have been drawn up in accordance with French accounting regulations as defined by the general accounting guidelines, the Act of 3 January 1985, and the Decree of 17 February 1986.

1.1. Consolidation principles

The consolidated financial statements include all subsidiaries with net sales of more than 10 million French Francs, as well as those subsidiaries with net sales below this figure, but that make a significant contribution to consolidated income.

Companies over which SGE exercises majority control are fully consolidated. Companies over which SGE exercises significant influence are accounted for by the equity method. Jointly controlled entities and joint ventures which make a significant contribution to Group net sales are consolidated using the proportional method.

1.2. Conversion of financial statements of foreign companies

For consolidation purposes, the financial statements of foreign companies are converted using exchange rates prevailing at year end. Gains and losses resulting from such conversions are reported in consolidated reserves.

1.3. Foreign currency payables and receivables

Balance-sheet payables and receivables in foreign currencies are converted using the exchange rate prevailing at year end or, where applicable, the rate under a corresponding hedging instrument. For unrealised foreign-exchange losses only, provisions are set up and charged to income for the year.

1.4. Goodwill

Any excess of acquisition cost over corresponding shareholders' equity in the subsidiary on the date of acquisition is allocated, at the first consolidation, to the appropriate assets and liabilities items of the balance sheet of the acquired subsidiary.

The remaining unallocated balance is reported as goodwill on the asset side of the consolidated balance sheet, and is amortised over a period not exceeding twenty years. Goodwill arising from the acquisition of companies that operate quarries is amortised over the expected operating life of the quarry, up to a maximum of forty years. Under certain circumstances, accelerated amortisation of goodwill may be considered justified and applied.

1.5. Tangible assets

Land, buildings and equipment are generally carried at acquisition or production cost. For buildings held as real-estate investments, interest charges during construction are capitalised.

Depreciation is calculated using the straight-line or declining-balance method over operating lifetimes that are normal in the trade.

These lifetimes are as follows:

Buildings held as investments	50 years
Buildings used in operations	from 15 to 30 years
Equipment for public works	from 2 to 10 years
Vehicles	from 3 to 5 years
Fixtures and furnishings	from 8 to 10 years
Office furniture and equipment	from 3 to 10 years

The Group has not elected to capitalise property, plant and equipment financed through long-term leases.

1.6. Unconsolidated investments

The gross book value of unconsolidated investments is equal to the acquisition cost. If this value is greater than fair value, a depreciation provision equal to the difference is constituted.

The fair value is determined from the share in the company's equity, adjusted as appropriate to reflect the market value of the securities, their significance for the Group, and the company's growth and earnings prospects.

Any disposals agreed to as of the year end, and whose provisional conditions are met as at the date on which the accounts are approved, are entered as of the date of signature of the agreement.

1.7. Pension obligations

Pension obligations, relating to both end-of-career benefits and supplementary pension schemes, are covered by balance-sheet provisions, in the case of both active employees and retired staff (see Note 2.1).

These obligations are evaluated by a projected benefit valuation method, known as the projected credit unit method.

1.8. Income recognition

Revenues from long-term contracts signed by companies in the Building and Civil Engineering and Roadwork Divisions are determined using the percentage-of-completion method.

On the other hand, the companies of the Engineering and Electrical Work and Thermal and Mechanical Activities Divisions use the completed contract method. In this case, probable losses attributable to work completed at year end are charged against work in progress.

If the contract is projected to end in deficit, a provision is made for the anticipated loss upon completion, whatever the method of accounting. This provision takes into account, if appropriate, a prudent estimate of amounts the Group may reasonably expect to recover through supplementary payments or claims.

1.9. Income taxes

The income tax charge for the year corresponds to taxes payable by consolidated companies, adjusted for changes over the year in deferred taxes.

Deferred taxes arise primarily from timing differences between taxable income and income for financial reporting purposes of the consolidated companies, and are calculated by the variable deferral method. No deferred tax is recorded for items for which due dates are not known at the end of the year. The same applies to deferred tax credits for losses carried forward.

Deferred tax credits are only reported up to the amount of deferred tax liabilities.

2 • NOTABLE DEVELOPMENTS IN THE GROUP

2.1. Change in the method of accounting for pensions

In 1997, the Group set aside balance-sheet provisions to cover pension obligations to active employees, in addition to the previously constituted provisions for retired staff.

These obligations include end-of-career lump-sum benefits and certain supplementary pension schemes covering Group employees in France and Germany. The latter were valued by the projected actuarial method recommended in international rules (projected credit unit method).

In accordance with prevailing principles, the impact of this change in method was determined retroactively, on the basis of obligations outstanding at the beginning of the year. The sum appropriated from equity at the beginning of the financial period amounts to 1,126 million French Francs, which is augmented by an appropriation of 10 million French Francs from minority interests.

For practical reasons, the impact of the change in method on the year's earnings could not be determined.

Application of the new method resulted in a net allocation for the year to the provision for pension obligations of 26 million French Francs.

2.2. Changes in the Group's asset structure

The Group substantially re-organised its businesses in 1997, which had a profound impact on its financial structure.

The transactions with the greatest impact were the following:

• Contribution in kind of GTIE and Santerne

The Compagnie Générale des Eaux Group made a contribution in kind to SGE, with 1 January 1997 as the effective date, of its fully owned subsidiaries GTIE and Santerne, two electrical works companies.

To pay for this contribution, SGE issued 9,491,440 new shares, amounting to 1,519 million French Francs.

This contribution resulted in overall goodwill of 678 million French Francs, which was fully applied against the contribution premium reported on this occasion (711 million French Francs).

• Acquisition of CBC

After having taken up an initial 40% of CBC, a subsidiary of Compagnie Générale des Eaux, in December 1996, SGE acquired another 50% stake in June 1997, for a total sale price of 111.6 million French Francs (31 million of which relate to the 1997 financial year).

This operation was accompanied by the payment of a grant, amounting to 108 million French Francs, by Compagnie Générale des Eaux to balance out the net worth of CBC as of 1 January 1997.

In addition, Compagnie Générale des Eaux extended an assets and liabilities guarantee to SGE, to cover operating losses, restructuring costs, various exceptional charges and the impact of the transfer to CGIS of realestate promotion business.

The amount of this guarantee taken up at 31 December 1997 stood at 700 million French Francs, which is the ceiling of the guarantee for the items mentioned above. The effect of the guarantee continues to run until 2003, in particular, in the event of application of the return to best fortune clause.

In addition, Compagnie Générale des Eaux will continue to bear any residual charges associated with the construction of Friedrichstadt Passagen in Berlin.

In operational terms, the integration of CBC into the SGE Group has involved, after the take-over by CGIS of the property promotion business, the transfer of the building business to Campenon Bernard SGE and Sogea; the real-estate financing subsidiaries Sorinvest and Sorif have been brought under SGE's direct control.

• Sale of German property commitments to CGIS

As of 1 January 1997, SGE transferred to CGIS, a property management subsidiary of Compagnie Générale des Eaux, all of the real-estate commitments and assets it held in Germany through its fully owned subsidiary SGE Immobilien GmbH (long-term lease commitments relating to the Lindencorso, Anthropolis and Friedrichstadt Passagen projects in Berlin, and shares in several real-estate companies).

The company SGE Immobilien was sold for one German mark, after having first been re-capitalised for 190 million French Francs, an amount corresponding to the provision set aside at the end of 1996 by SGE, to cover its lease commitments. This sale has no impact on the consolidated income for 1997.

• Other asset disposals

With a view to continued streamlining of its business activities, the Group sold off various non-strategic assets in 1997 to Compagnie Générale des Eaux, or to its subsidiaries, for the total amount of approximately one billion Francs:

- Transfer by Sogea of its waste management business, and of its holdings in the water utilities Avignonnaise des Eaux and Sogea Guadeloupe. The total amount of net capital gains received by Sogea from these disposals comes to 541 million French Francs.
- Sale by Viafrance of its 20% holding in REP, a company that operates waste landfill sites, which generated capital gains of 216 million French Francs.
- Sale by Tunzini of its 40% holding in Sedibex, a company that operates a household waste incineration plant near Le Havre, for a capital gain of 80 million French Francs.

2.3. Scope of consolidation

As a result of these changes, the scope of consolidation broadened to encompass 593 companies at 31 December 1997 (against 456 companies at 31 December 1996). By method of consolidation, it breaks down as follows:

	1997		1996	
	France	Foreign	France	Foreign
Full consolidation	365	152	205	189
Proportional consolidation	28	33	18	29
Equity method of accounting	7	8	6	9
	400	193	229	227
OVERALL TOTALS	593		456	

3 • INTANGIBLE ASSETS OTHER THAN GOODWILL

The changes during the year were as follows:

(in millions of French Francs)	Gross book value on 31 Dec. 97	Amortisation on 31 Dec. 97	Net book value on 31 Dec. 97	Net book value on 31 Dec. 96
Investments related to concessions operations	182	(23)	159	210
Other intangible assets	610	(458)	152	94
	792	(481)	311	304

The investments related to concessions operations correspond to the acquisition of intangible rights associated with concession management contracts, and come under Sogea's Services business. These investments are depreciated over the lifetimes of the corresponding contracts.

The other intangible assets at year end primarily involve going-concern values.

4 • GOODWILL

The position changed in the course of the year as follows:

(in millions of French Francs)	Gross book value	Amortisation	Net book value
Values at 31 December 1995	1,974	(822)	1,152
Goodwill acquired during the year	91	–	91
Depreciation charges	–	(100)	(100)
Conversion adjustments and miscellaneous	108	(44)	64
Values at 31 December 1996	2,173	(966)	1,207
Goodwill acquired during the year	765	–	765
Less GTIE and Santerne goodwill charged against contribution premiums	(678)	–	(678)
Depreciation charges	–	(140)	(140)
Changes in scope of consolidation[1]	526	(248)	278
Conversion adjustments and miscellaneous	60	(4)	56
Values at 31 December 1997	2,846	(1,358)	1,488

(1) Goodwill on the balance sheets of companies consolidated during the year (mainly GTIE).

The goodwill acquired during the year includes goodwill generated on the occasion of the contribution in kind, on 1 January 1997, of GTIE and Santerne (GTIE: 533 million French Francs; Santerne: 145 million French Francs). In accordance with the provisions in force, these amounts were charged against the contribution premiums generated on the occasion of the corresponding capital increase.

Other goodwill acquired during the year relates to the acquiring of a 90% controlling holding in CBC for 31 million French Francs (see Note 2.2.). As of the end of 1997, the CBC goodwill represented a total net amount of 105 million French Francs.

The British subsidiaries (500 million French Francs, that is, 50 million pounds sterling) and the Moter group of companies (121 million French Francs) constitute the other significant contributors to this item on 31 December 1997.

5 • TANGIBLE ASSETS

5.1. Changes in the course of the year

(in millions of French Francs)	Gross book value	Amortissation	Net book value
Values at 31 December 1996	11,357	(6,231)	5,126
Acquisitions	995	–	995
Disposals	(1,446)	1,260	(186)
Depreciation in the year	–	(1,137)	(1,137)
Added to the scope of consolidation	4,272	(2,769)	1,503
Removed from the scope of consolidation	(3,197)	1,335	(1,862)
Conversion adjustments and miscellaneous	97	(41)	56
Values at 31 December 1997	12,078	(7,583)	4,495

The additions to the scope of consolidation in the year are essentially accounted for by GTIE and Santerne. The removals from the scope of consolidation are accounted for by the asset disposals mentioned in Note 2.2., including the real-estate property in Berlin for approximately one billion French Francs.

5.2. Breakdown by type of asset

(in millions of French Francs)	Gross book value on 31 Dec. 97	Amortisation on 31 Dec. 97	Net book value on 31 Dec. 97	Net book value on 31 Dec. 96
Land	900	(94)	806	1,441
Buildings	1,986	(927)	1,059	1,077
Plant and equipment	5,217	(4,013)	1,204	1,231
Fixtures and other	3,281	(2,523)	758	750
Concession operations	556	(26)	530	558
Construction work in progress	138	–	138	69
	12,078	(7,583)	4,495	5,126

5.3. Breakdown by business sector

(in millions of French Francs)		1997			1996	
	Gross book value	Amortisation revaluation	Net book value	Gross book value	Amortisation revaluation	Net book value
Building and Civil Engineering	5,423	(3,100)	2,323	5,279	(2,974)	2,304
Electrical Works	2,287	(1,533)	754	351	(219)	132
Roadwork	3,451	(2,290)	1,161	3,570	(2,281)	1,289
Thermal and Mechanical Activities	917	(660)	257	1,054	(747)	306
German property assets	–	–	–	1,104	(9)	1,094
	12,078	(7,583)	4,495	11,357	(6,231)	5,126

6 • UNCONSOLIDATED INVESTMENTS

On 31 December 1997, this item included unconsolidated shares of infrastructure concessions companies with assets under construction (Stade de France, Pont sur le Tage), as well as shares in companies below the consolidation threshold.

7 • INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Changes over the year:

(in millions of French Francs)	1997	1996	1995
Value at beginning of year	970	855	796
Group share of year's net earnings	244	233	189
Dividends paid out and miscellaneous	(125)	(118)	(130)
Value at year end	1,089	970	855

The dividend paid out by Cofiroute amounted to 116 million French Francs in 1997 (against 115 million French Francs in 1996).

The following table provides basic financial information about companies accounted for by the equity method:

(in millions of French Francs)		1997		1996
	Total	of which Cofiroute	Total	of which Cofiroute
Net sales [1] (100 %)	4,679	4,248	4,377	4,000
Group share of shareholders' equity	1,089	1,050	970	922
Net income (100 %)	792	790	747	695
Group share of net income	244	244	233	215

(1) Not included in the Group's consolidated net sales.

8 • OTHER FINANCIAL ASSETS

This item breaks down as follows:

(in millions of French Francs)	1997	1996	1995
Long-term financial receivables	418	396	505
Other net long-term financial items	47	46	47
	465	442	552

The financial receivables consist mainly of loans to unconsolidated affiliates, and of deposits and guarantees.

9 • DEFERRED CHARGES

Charges deferred to future financial years mainly consist of:

- costs of site preparation work, whose amortisation is spread over the duration of the works,
- rental pre-payments connected with the long-term lease financing of the headquarters at Rueil 2000, which are amortised over the duration of the lease.

10 • INVENTORIES AND WORK IN PROGRESS

This item mostly consists of work in progress in the Electrical Engineering and Works and Thermal and Mechanical Activities segments.

Breakdown by business segment:

(in millions of French Francs)	1997	1996	1995
Electrical Engineering and Works	7,075	1,175	998
Thermal and Mechanical Activities	2,086	2,101	2,377
Property	628	33	38
Other	948	655	998
	10,737	3,964	4,411

The work in progress of GTIE and Santerne, brought into the Electrical Engineering and Works Division as of 1 January 1997, had a value of 4.9 billion French Francs at the beginning of the year.
The outstanding property amounts are due to the Sorif-Sorinvest group of companies, and to a few individual international projects.

11 • MARKETABLE SECURITIES AND OTHER SHORT-TERM FINANCIAL ASSETS

Marketable securities and other short-term financial assets can be broken down as follows:

(in millions of French Francs)	1997	1996	1995
Marketable securities	3,425	3,576	2,662
Other short-term financial receivables	4,942	3,954	948
	8,367	7,530	3,610

This item consists of financial assets that are an integral part of the Group's net financial indebtedness.
Marketable securities consist primarily of negotiable debt securities and cash instruments (mutual fund shares). There is no significant difference between their market value at 31 December 1997 and their net book value on the same date.
Short-term financial receivables include the current financial accounts of several unconsolidated companies, as well as current cash accounts with Compagnie Générale des Eaux (3.3 billion French Francs at 31 December 1997).

12 • CHANGES IN SHAREHOLDERS' EQUITY

(in millions of French Francs)

Shareholders' equity	Capital	Reserves	Earnings	Total
At 31 December 1995	2,567	1,521	(933)	3,155
Capital increases	18	1	–	19
Allocation of earnings and dividends paid out	–	(933)	933	–
Currency conversion and other adjustments	–	44	–	44
Group share in earnings for the period	–	–	(372)	(372)
At 31 December 1996	2,585	633	(372)	2,846
Capital increases	843	714	–	1,557
Goodwill charged against contribution premiums(1)	–	(678)	–	(678)
Allocation of earnings and dividends paid outs	–	(372)	372	–
Impact of change in pension accounting method	–	(1,126)	–	(1,126)
Currency conversion and other adjustments	–	25	–	25
Group share in earnings for the period	–	–	308	308
At 31 December 1997	3,428	(804)	308	2,932

(1) See Note 4.

The increase in the company's capital, carried out following the contributions by Compagnie Générale des Eaux of the companies GTIE and Santerne, amounted to 1,519 million French Francs, of which 712 million French Francs in the form of contribution premiums. The other increases in the year correspond to shares issued under the company's stock savings plans or against exercised options.

At the end of 1997, the capital stock was made up 40,323,352 shares of 85 French Francs each.

The number of shares that could be subscribed by options being exercised amounted, at the end of 1997, to 1,125,831.

In accordance with accounting provisions presently in force, the impact at the beginning of the year of the change in the method of accounting for pension obligations was charged against consolidated shareholders' equity, amounting to 1,126 million French Francs (see Note 2.1.).

Currency conversion adjustments appear in consolidated reserves, amounting to –28 million French Francs at the end of December 1997.

13 • MINORITY INTERESTS

Minority interests changed during the year as follows:

(in millions of French Francs)	1997	1996	1995
Value at the beginning of the year	77	66	80
Capital increases subscribed by third parties	66	–	3
Minority interests' share in the year's earnings	16	11	(7)
Impact of the change in accounting method	(10)	–	–
Changes in scope of consolidation	6	(8)	–
Dividends paid out and miscellaneous	(6)	8	(10)
Value at the end of the year	149	77	66

For affiliated companies whose shareholders' equities, including the current year's earnings, were negative at year end, the Group assumes the minority interests' share of negative net worth.

14 • INVESTMENT GRANTS AND DEFERRED REVENUE

At the end of 1996, this item consisted mainly of the advance payment of 651 million French Francs received from the purchaser of the Lindencorso project in Berlin, under the long lease extended to that purchaser for a period of fifty years. The Lindencorso company was sold to CGIS on 1 January 1997 (see Note 2.2.).

15 • CONTINGENT LIABILITIES AND LOSS PROVISIONS

Changes over the year in contingent liabilities and loss provisions were as follows:

(in millions of French Francs)	31 Dec. 96	Accruals	Recoveries	Method change [1]	Scope and other changes	31 Dec. 97
Operating risks	4,209	2,237	(1,999)	1,136	681	6,264
Financial risks	159	49	(82)	–	134	260
Exceptional risks	1,482	1,411	(1,037)	–	356	2,212
	5,850	3,697	(3,118)	1,136	1,171	8,736

(1) Impact at the beginning of the year of accounting for pension obligations to active employees (see Note 2.1.).

Breakdown by business segment:

(in millions of French Francs)	Operating	Financial	Exceptional	Total
Building and Civil Engineering	3,429	151	732	4,312
Electrical Engineering and Works	400	55	306	761
Roadworks	737	14	314	1,065
Thermal and Mechanical Activities	1,544	5	318	1,867
Holding and miscellaneous	154	35	542	731
	6,264	260	2,212	8,736

Operating risk provisions break down as follows:

(in millions of French Francs)	1997	1996	1995
Write-downs due to obsolescence	94	89	75
Renewal, full guarantee	140	175	156
Pension obligations	1,836	673	627
After-sales service	802	578	543
Anticipated losses on contracts	1,059	708	583
Other construction project risks	2,333	1,986	2,032
	6,264	4,209	4,016

The pension obligations, as provisioned at 31 December 1997, are detailed in Note 27.

The «provisions for exceptional risks» item includes provisions set up to cover risks of a non-recurrent nature, especially restructuring charges (635 million French Francs, of which 243 million French Francs for the Building and Civil Engineering segment, and 173 million French Francs for Electrical Engineering and Works) and exceptional litigation.

16 • NET FINANCIAL SURPLUS (DEBT)

The SGE Group ended the financial year with a cash surplus of 6,052 million French Francs (against 3,288 million French Francs at the end of 1996), which breaks down as follows:

(in millions of French Francs)	1997	1996	1995
Subordinated debt long-term portion	(300)	(300)	(300)
Bonds and debentures long-term portion	(32)	(14)	(47)
Other long-term debt	(845)	(1,605)	(2,002)
Total long-term debt	(1,177)	(1,919)	(2,349)
Short-term portion of long-term debt	(498)	(1,281)	(951)
I - Gross financial debt	(1,675)	(3,200)	(3,300)
Bank overdrafts and other short-term borrowings	(2,918)	(2,045)	(1,891)
Marketable securities and other short-term receivables	8,367 (1)	7,530 (1)	3,610
Cash and equivalents	2,277	1,003	1,076
II - Net cash	7,727	6,488	2,795
Net financial surplus (debt) (II - I)	6,052 (1)	3,288 (1)	(505)

(1) Including the impact of sales of trade notes receivable in the amount of about one billion French Francs.

Changes in scope of consolidation and disposals of assets (see Note 2.2.) had a positive net impact of approximately 1.6 billion French Francs on the Group's net cash in 1997.

Gross financial debt was reduced by half in the course of the year. At an average interest rate of 5.54%, it splits up into 50% at a fixed rate and 50% at a floating rate (against 30% at a fixed rate and 70% at a floating rate in 1996), with the reduction in the floating rate share being a consequence of the above-mentioned reduction in overall financial debt. The average rate of the floating rate debt amounted to 4.21%, against 4.22% in 1996, and that of the fixed rate debt to 6.83%, against 7.01% in 1996.

The item «bank overdrafts and other short-term borrowings» includes term notes issued by the parent company SGE, amounting to 533 million French Francs at 31 December 1997 (against 170 million French Francs at the end of 1996), 90% of which are denominated in foreign currencies (103 million German marks and 23 million US dollars).

In addition, certain subsidiaries found it appropriate for their cash flow management to sell off trade notes receivable, for about one billion Francs, or about the same as in the previous year. Correcting for this effect, the net financial surplus of the SGE Group stood at 5,048 million French Francs at the end of 1997, against 2,277 million French Francs at the end of 1996.

Foreign-currency debt

At 31 December 1997, the debt in foreign currencies stood at 900 million French Francs, of which 662 million French Francs in German marks at an average interest of 4.1%, and 211 million French Francs in pounds sterling at an average rate of 7.7%.

Maturity structure of long-term debt

(in millions of French Francs)	
Between one and two years	166
Between two and five years	404
More than five years	548
Indeterminate maturity	59
Total debt maturing in more than one year	1,177

Secured debt

At 31 December 1997, borrowing secured by assets breaks down as follows:

(in millions of French Francs)	1997	1996	1995
Bonded debt	–	4	31
Borrowings from credit institutions	84	632	940
Other borrowings	7	8	12
	91	644	983

Borrowing secured by assets at the end of 1996 consisted mainly of the financing of the Lindencorso building in Berlin.

17 • CASH FLOW FROM OPERATIONS

This item breaks down as follows:

(in millions of French Francs)	1997	1996	1995
Net income before equity and minority interests	80	(594)	(1,128)
Dividends from equity investments	119	125	129
Net amortisation charges	1,362	1,360	1,432
Net changes in provisions	626	137	613
Cash flow	2,187	1,029	1,045
Net capital gains from asset disposals	(895)	(14)	(67)
Cash flow from operations	1,292	1,014	977

Breakdown by business segment

(in millions of French Francs)	1997	1996	1995
Building and Civil Engineering	514	523	775
Electrical Engineering and Works	562 (1)	105	103
Roadworks	336	168	294
Thermal and Mechanical Activities	(100)	67	(46)
Berlin properties	–	(432)	(15)
Holding and other	(20)	583 (2)	(134)
	1,292	1,014	977

(1) Including GTIE and Santerne for 472 million French Francs.

(2) Including 520 million French Francs in capital gains from the sale of Saint-Gobain stock.

18 • WORKING CAPITAL REQUIREMENT

(in millions of French Francs)	1997	1996	Consolidation changes	Other changes
Inventories and work in progress (net value)	10,737	3,964	5,736	1,037
Trade notes and accounts receivable	24,082	17,544	6,163	375
Provision for accounts receivable	(967)	(878)	(136)	47
Inventories and work in progress (I)	33,852	20,630	11,763	1,459
Trade notes and accounts payable (II)	36,777	23,199	11,716	1,862
Working capital requirement (I - II)	(2,925)	(2,569)	47	(403)

Breakdown by business segment

(in millions of French Francs)	1997	1996	Consolidation changes	Other changes
Building and Civil Engineering	68	(1,188)	116	1,140
Electrical Engineering and Works	(1,262)	(198)	(723)	(341)
Roadworks	(1,255)	(873)	5	(387)
Thermal and Mechanical Activities	(446)	(9)	26	(463)
Berlin properties	101	(457)	668	(110)
Holding and other	(131)	156	(45)	(242)
	(2,925)	(2,569)	47	(403)

19 • NET SALES

Consolidated net sales exclude incidental goods and services, as well as services to unconsolidated joint ventures, which are reclassified as other revenue (see Note 20.).

Taking into consideration the impact of consolidation and exchange-rate variations, the net sales figure has changed as follows:

(in millions of French Francs)	1997	1996
Net sales for the year	53,397	42,983
Of which: - net sales of newly consolidated companies	(12,677)	–
- net sales of companies no longer consolidated	–	(490)
- impact of exchange-rate changes	–	240
Net sales at constant consolidation and exchange rates	40,720	42,733

At constant consolidation structure and exchange rates, the net sales figure is down by 4.7% compared to 1996.

Breakdown of net sales by business segment and geographical area

(in millions of French Francs)	France	Europe	International	Total	%
Building and Civil Engineering	14,789	7,827	2,370	24,986	46.8 %
Electrical Engineering and Works	9,706	1,322	71	11,099	20.8 %
Roadworks	8,539	1,595	1	10,135	19.0 %
Thermal and Mechanical Activities	2,253	4,846	78	7,177	13.4 %
	35,287	15,590	2,520	53,397	
%	66.1 %	29.2 %	4.7 %		100.0 %

Breakdown of net sales by business segment over three years

	1997	1996	1995	Variation (1997/1996)	
(in millions of French Francs)				actual consolidation	constant consolidation
Building and Civil Engineering	24,986	22,280	22,434	12.1 %	- 6.4 %
Electrical Engineering and Works	11,099	3,007	3,029	ns	- 10.4 %
Roadworks	10,135	9,848	11,461	2.9 %	2.6 %
Thermal and Mechanical Activities	7,177	7,848	8,328	- 8.5 %	- 6.8 %
	53,397	42,983	45,252	24.2 %	-4.7 %

Breakdown of net sales by geographical area

(in millions of French Francs)	1997	% net sales	1996	1995
France	35,287	66.1 %	25,452	26,755
Germany	8,294	15.5 %	8,938	10,094
Great Britain	3,572	6.7 %	2,841	2,693
Benelux countries	1,658	3.1 %	902	911
Portugal	871	1.6 %	709	–
Eastern Europe	645	1.2 %	248	155
Spain	84	0.2 %	119	133
Other European countries	465	0.9 %	500	1,229
Europe excluding France	15,590	29.2 %	14,259	15,216
EUROPE	50,877	95.3 %	39,711	41,971
Africa	1,667	3.1 %	1,796	1,957
Asia	535	1.0 %	1,283	1,168
Middle East	175	0.3 %	118	74
Americas	129	0.2 %	66	71
South Sea Islands	14	0.0 %	8	11
INTERNATIONAL	2,520	4.7 %	3,271	3,281
	53,397	100.0 %	42,983	45,252

20 • OTHER REVENUE

(in millions of French Francs)	1997	1996	1995
Share in net earnings of unconsolidated joint ventures	126	79	79
Transfers of operating expenses	59	62	122
Miscellaneous services	2,315	1,817	1,618
Income from property management	77	63	53
	2,577	2,020	1,872

The «miscellaneous services» item refers to revenue not directly related to the business, such as: equipment rental, merchandise sales, engineering and design services, project management fees, etc.
The operating expenses transferred are all costs incurred during the year, but treated as deferred charges (see Note 9.).

21 • OPERATING INCOME

21.1. Breakdown by business segment

(in millions of French Francs)	1997	1996	1995
Building and Civil Engineering	40	(190)	50
Electrical Engineering and Works	369 (1)	49	65
Roadworks	86	(16)	(66)
Thermal and Mechanical Activities	(207)	40	17
Holding and other	(6)	24	59
	282	(93)	125

(1) The changes in the scope of consolidation during the year had an overall positive impact of 274 million French Francs on the operating income compared to 1996, in which GTIE and Santerne accounted for 308 million French Francs.

21.2. Breakdown of operating expenses by type

Operating expenses

(in millions of French Francs)	1997	1996	1995
Purchases	14,912	12,365	12,806
Outside services	21,333	16,697	17,289
Wages, salaries and benefits	15,675	12,466	13,217
Other expenses	2,296	2,148	2,250
	54,216	43,676	45,562

Allowance for depreciation, amortisation and provisions

(in millions of French Francs)	1997	1996	1995
Allowance for depreciation and amortisation			
Intangible assets	47	29	29
Tangible assets	1,112	1,057	1,092
Deferred charges	50	133	210
	1,209	1,219	1,331
Allowance for provisions			
Asset write-down	12	23	(33)
Operating liabilities and charges	255	178	138
	267	201	105
Total depreciation, amortisation and provisions	1,476	1,420	1,436

The year's allocation to provisions for operating liabilities and charges relate mainly to probable end of contract losses, whose net provision allowance in 1997 amounted to 160 million French Francs.

22 • FINANCIAL INCOME AND EXPENSES

(in millions of French Francs)	1997	1996	1995
Net interest income (expense)	78	(62)	(106)
Dividends received	69	22	84
Capital gains from disposals of portfolio assets	–	555	–
Change in financial provisions	21	(11)	(55)
Net foreign-exchange gains (losses) and other	19	37	(13)
	187	541	(90)

The sale of Saint-Gobain shares for 520 million French Francs accounts for the greater part of disposals of portfolio assets in 1996.

23 • EXCEPTIONAL ITEMS

Exceptional income (expenses) includes all items of a non-recurrent nature, such as restructuring costs, costs associated with disposals, the impact of non-operational asset disposals, costs resulting from company or plant closures, writing off receivables, and the impact of guarantees when they are called in.

(in millions of French Francs)	1997	1996	1995
Net gain on asset disposals	895	79	34
Net restructuring costs	(593)	(435)	(484)
Other exceptional gains or losses (net of provisions)	(355)	(499)	(487)
	(53)	(855)	(937)

Capital gains received, due mainly to the disposals of assets described in Note 2.2., were partly compensated for by restructuring costs incurred during the year.

The operational restructuring carried out by the Group resulted in substantial additional exceptional losses, some of which, related to the take over of CBC by SGE, were covered by the guarantee extended by Compagnie Générale des Eaux (see Note 2.2.).

The other exceptional gains or losses also include a gain of 211 million French Francs (against 56 million French Francs in 1996) from the tax consolidation scheme implemented in Great Britain by Compagnie Générale des Eaux, as well as charges and provisions related to the Urban Bau company in Germany, amounting to 116 million French Francs, which led to the closure of this subsidiary during the year.

24 • INCOME TAX

(in millions of French Francs)	1997	1996	1995
Current taxes	(122)	(56)	(60)
Deferred taxes	1	–	(5)
	(121)	(56)	(65)

The «current taxes» item relates mainly to subsidiaries and branch offices not consolidated for tax purposes, including certain subsidiaries of the GTIE Group, which account for most of the increase in this charge in 1997. Given the tax loss carried forward by the Group, no impact of deferred taxes has been accounted for in the year. Deferred tax liabilities and credits appearing in the balance sheet remain insignificant.

25 • OFF-BALANCE-SHEET COMMITMENTS

Commitments given:

(in millions of French Francs)	1997	1996	1995
Performance bonds and guarantees	15,450	13,735	14,549
End-of-career benefits(1)	–	234	275
Supplementary pension schemes(1)	–	530	637
Joint and several guarantees in unconsolidated partnerships	1,556	948	1,022
Other commitments	323	299	176
	17,329	15,746	16,659

(1) Pension obligations are described in Note 27.

Guarantees extended on the occasion of major contracts, which represent the greater part of the «performance bonds and guarantees» item, and which essentially cover advances received and works completion performance guarantees, explain the high amount of commitments given.

In connection with the transfer of Sogea Guadeloupe to Compagnie Générale des Eaux (see Note 2.2.), an assets and liabilities guarantee was extended to a maxinum amount of 100 million French Francs, of which 30 million French Francs were provisioned in the 1997 accounts.

Commitments received

Commitments received, consisting essentially of personal sureties (performance bonds, guarantees), stood at 2,254 million French Francs on 31 December 1997 (against 1,388 million French Francs on 31 December 1996).

In connection with its 90% control of CBC, SGE received an assets and liabilities guarantee from Compagnie Générale des Eaux running to 31 December 2003 (see Note 2.2.).

26 • FINANCIAL LEASING COMMITMENTS

At 31 December 1997, the assets financed by leasing arrangements represent a cumulative net amount of 802 million French Francs, after 350 million French Francs of theoretical amortisation.

These assets include, in particular, the SGE Head Office in Rueil-Malmaison, for a net amount, after theoretical amortisation, of 595 million French Francs.

Payments still due under the various leasing contracts stand at 961 million French Francs (not including leasing payments for assets with a value below one million French Francs), of which 810 million French Francs represents principal.

Following various interest-rate risk management transactions, the average rate on leases at 31 December 1997 came to 5.2% for the 80% at a floating rate, and to 7.4% for the fixed rate balance.

The payment schedule is as follows:

(in millions of French Francs)

Payments due	- in less than one year	107
	- between two and five years	358
	- in more than five years	496
		961

Lease payments made in the year amounted to 137 million French Francs (against 132 million French Francs in 1996).

27 • OBLIGATIONS WITH RESPECT TO RETIREMENT

(in millions of French Francs)		1997	1996 (1)
Obligations undertaken in France			
End-of-career benefits		435	441
Supplementary pension schemes		186	177
Of which	- for active employees	87	85
	- for retired staff	99	92
Total		621	618
Of which	- covered by insurance schemes	11	11
	- covered by provisions	610	117
	- included in off-balance-sheet commitments	–	490
Obligations undertaken outside France			
Supplementary pension schemes		1,910	1,763
Of which	- for active employees	1,003	922
	- for retired staff	907	841
Total		1,910	1,763
Of which	- covered by provisions	1,226	557
	- covered by pension funds	684	561
	- included in off-balance-sheet commitments	–	645
Total obligations		2,531	2,381

(1) Obligations with respect to staff retirement were reconstituted for both years on the basis of the scope of consolidation at the end of 1997, and of the changed actuarial method used for this item, as described in Note 2.1. (data for 1995 not available).

Obligations covered by pension funds pertain to the British subsidiary Norwest Holst.

28 • MANAGEMENT OF DEBT AND OUTSTANDING LEASE OBLIGATIONS

In order to take advantage of the general decline in interest rates in Europe, the Group indexed the greater part of its debt against floating rates.

The financial instruments used by the Group to further its interest-rate risk management policy consisted mainly of swap contracts (88%) and interest-rate insurance instruments (12%).

At year end, the hedging instruments to cover financial debt and lease obligations represented a total outstanding amount of about 355 million French Francs, with maturity dates ranging between one and four years for the debt (290 million French Francs) and between one and nine years for the leases (65 million French Francs).

29 • NUMBER OF EMPLOYEES

The average workforce of the consolidated companies breaks down as follows:

	1997	1996	1995
Managerial	7,176	5,015	5,153
Supervisory	7,329	4,512	5,542
Clerical and technical	11,779	10,267	9,610
Workers	41,967	37,495	40,593
	68,251	57,289	60,898

Corresponding wages, salaries and benefits amounted to 15.7 billion French Francs in 1997 (against 12.5 billion French Francs in 1996).

The registered payroll at the end of the year included 66,452 persons (against 54,838 at the end of December 1996). The increase (+17,000 persons) is mainly due to the changes in scope of consolidation during the year. With an unchanged structure, the number of employees would have declined over the year by about 5,000.

30 • COMPENSATION OF CORPORATE OFFICERS AND DIRECTORS

The total remuneration of management committee members of the SGE Group amounted to 16 million French Francs in 1997, to which fees paid to directors, amounting to 0.8 million French Francs, must be added.

Stock options held by management committee members and not taken up as of the end of 1997 represented 92,635 shares at an average exercise price of 176 French Francs.

Stock options held by management committee members

Option plan	1991	1992	1993	1994	Total
Option open as of	1 Jan. 93	1 Jan. 94	1 Jan. 95	1 Jan. 96	
Exercise price (in French Francs)	172.92	112.10	206.56	167.00	
Options open as of 1 Jan. 97	21,786	21,786	29,049	33,500	106,121
Options exercised in 1997	–	13,486	–	–	13,486
Options open as of 1 Jan. 98	21,786	8,300	29,049	33,500	92,635
Options open as % of capital stock	0.054 %	0.021 %	0.072 %	0.083 %	0.230 %

THE GROUP'S MAIN CONSOLIDATED COMPANIES AT 31 DECEMBER 1997

	Consolidation Method	% owned by Group
1. BUILDING AND CIVIL ENGINEERING		
Sogea	FC	100.00
Sicra	FC	100.00
Sogea Nord-Ouest	FC	100.00
Sogea Sud-Est	FC	100.00
Sogea Sud-Ouest	FC	100.00
Sogea Est	FC	100.00
Sogea Atlantique	FC	100.00
Caroni Construction	FC	100.00
Sobea Ile-de-France	FC	100.00
Dodin Sud	FC	100.00
Chanzy-Pardoux	FC	100.00
TPI Ile-de-France	FC	100.00
Sogea Rhône-Alpes	FC	100.00
Sogea Bretagne	FC	100.00
Campenon Bernard Ouest	FC	100.00
Satom and its subsidiaries	FC	100.00
SBTPC (Reunion)	FC	86.65
Sogea Guadeloupe	FC	100.00
Sogea Réunion	FC	100.00
Sogea Martinique	FC	100.00
Denys and its subsidiaries (Belgium)	FC	100.00
Norwest Holst and its subsidiaries (Great Britain)	FC	100.00
Rosser & Russell and its subsidiaries	FC	100.00
Campenon Bernard SGE	FC	100.00
Bateg	FC	100.00
Valerian	FC	100.00
Deschiron	FC	100.00
Campenon Bernard Construction	FC	99.99
Brüggemann (Germany)	FC	89.99
Bâtiments et Ponts Construction	FC	94.99
Campenon Bernard SGE Bau and its subsidiaries (Germany)	FC	100.00
Klee and its subsidiaries (Germany)	FC	63.92
Socaso	PC	66.67
Hagen (Portugal)	FC	99.95
Campenon Bernard Régions	FC	100.00

	Consolidation Method	% owned by Group
Entreprises Morillon Corvol Courbot	FC	100.00
Méridionale Construction et Bâtiment	FC	100.00
Warbud (Poland)	FC	70.02
Campenon Bernard Sud	FC	100.00
Algemeen Bouw En Betonbedrijf (Netherlands)	FC	94.73
First Czech Construction Company (Czech Republic)	FC	100.00
Lamy	FC	100.00
C3B	FC	100.00
Compagnie Générale de Bâtiment et de Construction	FC	90.00
Freyssinet	FC	100.00
Freyssinet France Nord	FC	100.00
Armol Freyssinet (Portugal)	FC	60.00
PSC Freyssinet (Great Britain)	FC	100.00
Freyssinet France Sud	FC	100.00
Freyssinet Total Technology (Indonesia)	FC	100.00
Freyssinet Espagne (Spain)	FC	60.00
2. ELECTRICAL ENGINEERING AND WORKS		
Compagnie Générale de Travaux & d'Ingénierie Électriques (GTIE)	FC	96.24
Saunier Duval Électricité	FC	96.24
Santerne	FC	96.23
Garczynski Traploir	FC	96.24
Controlmatic (Germany)	FC	97.37
Lee Beesley Deritend (Great Britain)	FC	96.24
Graniou	FC	96.06
Fournié Grospaud	FC	95.60
Masselin	FC	77.02
Lesens Électricité	FC	96.03
SDEL Réseaux	FC	96.24
Starren (Nertherlands)	FC	96.24
SDEL Travaux Extérieurs	FC	96.24
Getelec Guadeloupe	FC	95.36
Entreprise Demouselle	FC	93.32
3. ROADWORKS		
Eurovia		
Cochery Bourdin Chaussé	FC	100.00
Viafrance	FC	100.00
Eurovia Champagne-Ardenne Lorraine	FC	100.00
Eurovia Alsace Franche-Comté	FC	100.00
Gercif-Emulithe	FC	100.00
Rol Lister	IFC	100.00
Moter	FC	99.46

	Consolidation Method	% owned by Group
Valentin	FC	100.00
TSS	FC	100.00
Eurovia Provence	FC	100.00
Eurovia Languedoc-Roussillon	FC	100.00
Carrières de Chailloué	FC	100.00
Les Paveurs de Montrouge	FC	100.00
SGE Verkehrsbau Union (Germany)	FC	100.00
4. THERMAL AND MECHANICAL ACTIVITIES		
Tunzini	FC	100.00
Wanner Industrie	FC	100.00
Tunzini Protection Incendie	FC	100.00
Tunzini Génie Climatique	FC	100.00
SBGC (Reunion)	FC	95.50
Nickel (Germany)	FC	100.00
G+H Montage (Germany)	FC	100.00
G+H Montage Energie und Umweltschutz	FC	100.00
G+H Montage Innenausbau	FC	100.00
G+H Montage Fassadentechnik	FC	100.00
G+H Montage Kühllagertechnik, Industrie und Gewerbebau	FC	100.00
G+H Montage Schallschutz	FC	100.00
Schuh	FC	100.00
Isolierungen Leipzig	FC	100.00
L & V Isolatie (Netherlands)	FC	100.00
Wrede & Niedecken	FC	100.00
Lefort Francheteau	FC	100.00
Saga entreprise	FC	100.00
Cofiroute	EM	30.88

FC: full consolidation

PC: proportional consolidation

EM: equity method

Financial statements of the parent company

BALANCE SHEET

ASSETS

(in thousands of French Francs)	Notes	1997	1996	1995
Intangible fixed assets	3	40,852	41,008	41,069
Tangible fixed assets	3	46,284	72,705	79,158
Financial assets	4/9/10	7,950,700	7,008,241	8,045,274
Deferred charges	5	21,384	23,577	25,771
TOTAL FIXED ASSETS		8,059,220	7,145,531	8,191,272
Trade notes receivable	9/10	21,488	23,765	34,509
Other accounts receivable	9/10	357,774	440,758	200,067
Marketable securities	8	2,618,998	2,930,886	1,466,414
Cash at bank	8	4,257,443	1,048,998	88,368
Expenses accrued in advance	9	5,819	3,346	4,103
TOTAL CURRENT ASSETS		7,261,522	4,447,753	1,793,461
Exchange adjustments to assets		45,325	39,738	9,940
TOTAL ASSETS		15,366,067	11,633,022	9,994,673

LIABILITIES

(in thousands of French Francs)	Notes	1997	1996	1995
Capital stock		3,427,485	2,585,205	2,566,752
Additional paid-in capital		1,063,594	348,880	882,069
Legal reserve		174,957	172,054	172,054
Statutory reserves		202,607	202,607	202,607
Retained earnings		55,151	–	317,828
Net income for the year		(119,086)	58,054	(851,995)
Depreciation expenses		6,102	4,939	3,777
SHAREHOLDERS' EQUITY	6	4,810,810	3,371,739	3,293,092
PROVISIONS FOR LIABILITIES AND CHARGES	7	271,929	440,681	1,312,909
Financial debt	8/9/10	9,905,445	7,602,062	5,083,764
Other debts	9/10	336,981	183,630	290,360
Income accrued in advance	9	405	2,234	8,176
TOTAL DEBTS		10,242,831	7,787,926	5,382,300
Exchange adjustments to liabilities		40,497	32,676	6,372
TOTAL LIABILITIES		15,366,067	11,633,022	9,994,673

STATEMENT OF INCOME

(in thousands of French Francs)	Notes	1997	1996	1995
Operating revenue				
Net sales	13	115,849	119,214	132,575
Prior period adjustments and transfers of expenses		17,807	8,365	19,140
Other operating revenue		136,045	185,379	194,148
		269,701	312,958	345,863
Operating expenses				
Other outside purchases and expenses		(120,561)	(120,024)	(138,750)
Taxes		(10,572)	(10,469)	(10,760)
Salaries, wages, benefits		(72,513)	(63,689)	(67,782)
Depreciation expenses		(9,037)	(11,005)	(11,702)
Changes in provisions		(4,278)	(874)	(10,511)
Other operating expenses		(53,340)	(65,862)	(69,236)
		(270,301)	(271,923)	(308,741)
Share in net earnings of joint ventures		(11,370)	(4,030)	(2,276)
OPERATING INCOME		(11,970)	37,005	34,846

(in thousands of French Francs)	Notes	1997	1996	1995
Financial revenue				
Investment revenue		507,255	323,683	255,378
Net proceeds from disposals of long-term portfolio investments		–	342,897	–
Proceeds from other long-term marketable securities and receivables		22,483	24,863	92,952
Other interest and similar revenue		150,243	62,396	69,179
Net proceeds from disposals of marketable securities		53,369	31,924	46,883
Positive exchange adjustments		2,342	9,637	4,958
Prior period adjustments and transfers of expenses		2,794	38,828	59,247
		738,486	834,228	528,597
Financial charges				
Investment related expenses		(222,623)	(16,231)	(94,286)
Interest and similar charges		(291,811)	(194,558)	(326,374)
Net cost of disposals of marketable securities		–	(214)	(5,819)
Negative exchange adjustments		(2,916)	(1,763)	(920)
Depreciation expenses and changes in provisions		(17,691)	(46,790)	(78,816)
		(535,041)	(259,556)	(506,215)
FINANCIAL INCOME	14	203,445	574,672	22,382
OPERATING AND FINANCIAL INCOME		191,475	611,677	57,228
Exceptional revenue				
From management operations		876	11,570	16,681
From capital operations		793,332	9,302	1,308,144
Prior period adjustments and transfers of expenses		209,449	1,052,800	140,584
		1,003,657	1,073,672	1,465,409
Exceptional charges				
On management operations		(96,678)	(1,191,838)	(134,752)
On capital operations		(908,170)	(5,326)	(1,247,952)
Depreciation expenses and changes in provisions		(445,260)	(498,681)	(991,878)
		(1,450,108)	(1,695,845)	(2,374,582)
EXCEPTIONAL INCOME	15	(446,451)	(622,173)	(909,173)
Income tax	16	135,890	68,550	(50)
NET INCOME		(119,086)	58,054	(851,995)

STATEMENT OF CHANGES IN FINANCIAL POSITION

(in thousands of French Francs)	1997	1996	1995
SOURCES			
Net income	(119,086)	58,054	(851,995)
Net depreciation	6,845	8,811	9,466,466
Net changes in provisions	241,117	(547,431)	891,395
Cash flow	128,876	(480,566)	48,866
Income from disposals of assets	114,839	(346,872)	(60,192)
Cash flow from operations	243,715	(827,438)	(11,326)
Proceeds from disposals	793,332	1,571,954	1,308,144
Capital increases	1,556,993	19,430	155,080
Increases in long-term debt	764,266	521,658	17
I - Total	3,358,306	1,285,604	1,451,915
USES			
Investments			
Acquisition of tangible and intangible fixed assets	1,977	5,237	3,013
Financial investments	3,028,328	234,990	1,257,206
	3,030,305	240,227	1,260,219
Other uses			
Reduction of long-term debt	639,425	327,779	18,188
Variations in other financial assets	29,404	(607,367)	(14,252)
Dividends paid out	–	–	145,988
	668,829	(279,588)	149,924
II - Total	3,699,134	(39,361)	1,410,143
Net variation in the working capital (I - II)	(340,828)	1,324,965	41,772
Increase (decrease) in the working capital requirement	(227,020)	339,000	(236,654)
Increase (decrease) in cash	(113,808)	985,965	278,426

NOTES TO THE ACCOUNTS

1 • ACCOUNTING POLICIES

The financial statements have been drawn up in accordance with French legal and regulatory requirements.

1.1 Intangible fixed assets

The computer software included under the heading «Franchises, patents, licenses» is amortised over 2 years, except for special cases. The intangible benefits relating to the property leasing contract for SGE's Head Office at Rueil 2000 are amortised over 30 years starting on 1 October 1992, in so far as the share pertaining to structures is concerned. The corresponding depreciation, which is derogatory in nature, appears in shareholders' equity under the heading «depreciation expenses».

1. 2 Tangible fixed assets

Tangible fixed assets are carried at their acquisition cost.

Depreciation is calculated using the straight-line or declining balance method over the depreciable life, as estimated for each category of assets:

Structures	30 years
Other tangible assets	3 to 10 years

1.3 Equity shares

Equity shares are entered on the balance sheet at their cost of acquisition. If this cost is greater than their customary value, then a depreciation provision is set aside to cover the difference.

The customary value is determined from the proportion of shareholders' equity that these shares represent, with corrections as appropriate, in order to take into consideration the growth prospects and the incomes of the companies concerned, or their strategic interest to the Group.

1.4 Joint ventures

SGE, the Group's holding company, is the administrator of several joint ventures, for which it fully consolidates all balance sheet and statement of income items. The share of income due to associates is entered under the heading «share in net earnings of joint ventures».

1.5. Trade notes and other accounts receivable

Customer accounts receivable are entered on the balance sheet at their nominal value. If there is any risk of non-recovery of such receivables, a depreciation provision is set aside.

1.6. Receivables and debts in foreign currencies

Debts and receivables denominated in foreign currencies are valued at the financial year's closing exchange rate, or at the rate of the hedge allocated to them. Any differences resulting from this conversion are entered on the balance sheet under one of the «exchange adjustments» headings. Latent losses are covered by liability provisions, with the exception of special cases whose treatment is set out in the accounting guidelines.

1.7. Marketable securities

These are entered at their cost of acquisition, and depreciated, if necessary, as a function of their last net asset value at the end of the financial year.

1.8. Provisions for liabilities and charges

SGE sets aside provisions to cover risks of an exceptional nature, especially affiliate risks and property risks.

1.9. Pension commitments

The company's commitments to pay supplementary pension benefits to certain members of its staff are covered by a provision on the balance sheet, in so far as these commitments pertain to retired beneficiaries.
The amount of future end of career benefits due to active employees, determined by the rules of the public works collective agreement, appears under «commitments given off the balance sheet».

2 • KEY EVENTS IN THE YEAR

2.1. Contribution of GTIE and Santerne

With a view to constituting an Engineering and Electrical Work Division within the SGE Group, Compagnie Générale des Eaux and its subsidiaries, Compagnie Générale de Chauffe and Sahide, contributed the companies GTIE and Santerne, which they owned fully, to SGE as of 1 January 1997.
To pay for this contribution, SGE issued 9,491,440 shares representing a capital amount of 1,519 million French Francs. Following this operation, the holding of Compagnie Générale des Eaux and its subsidiaries in SGE rose to almost 85%.
SGE then sold to GTIE its Santerne stock (for its contribution value of 331 million French Francs) and its SDEL stock (for 373 million French Francs), thereby posting capital gains of 69 million French Francs. Finally, SGE acquired 11% of the capital stock of Garczynski Traploir from Compagnie Générale des Eaux. This holding was subsequently transferred to GTIE.

2.2. Acquisition of CBC

After having taken up, in December 1996, an initial 40% share in the capital stock of CBC, a subsidiary of Compagnie Générale des Eaux, SGE acquired 50% more in June 1997, at a total purchase price of 111.6 million French Francs (of which 31 million French Francs were paid in 1997).
As part of this operation, Compagnie Générale des Eaux extended to SGE an assets and liabilities guarantee to cover operating losses, restructuring costs, various exceptional charges, and the impact of the transfer to CGIS of the property promotion business.
In operational terms, the integration of CBC into the SGE Group has involved, after the take-over by CGIS of the real-estate promotion business, the transfer of the building business to Campenon Bernard SGE and Sogea; the real-estate financial engineering subsidiaries Sorinvest and Sorif have been brought under SGE's direct control.

2.3. Disposal of German property commitments to CGIS

With effect from 1 January 1997, SGE transferred to SNC Babelsberg, a subsidiary of CGIS and Compagnie Générale des Eaux, all of the property commitments it held in Berlin through SGE Immobilien GmbH, a fully owned subsidiary of SGE (long-term rental commitments relating to the Lindencorso, Anthropolis and Friedrichstadt Passagen projects, and shares in several real-estate companies).
SGE sold the SGE Immobilien company for one German mark, after having first re-capitalised it for 190 million French Francs, thereby realising a capital loss of 190 million French Francs, fully compensated for by a recovery of provisions set aside at the end of 1996 by SGE to cover its rental commitments.

2.4. Re-capitalisation of SGE Deutsche Holding (a fully owned subsidiary of SGE)

At the end of the financial year, SGE re-capitalised SGE Deutsche Holding amounting to 401 million French Francs, in order to compensate for losses suffered by its subsidiaries in Germany. These equity investment holdings were then depreciated by 390 million French Francs.

3 • INTANGIBLE AND TANGIBLE FIXED ASSETS

Gross values

(in millions of French Francs)	1996	Acquisitions	Disposals	1997
Intangible fixed assets				
Franchises, patents, licences	1	–	–	1
Intangible benefits	41	–	–	41
	42	–	–	42
Tangible fixed assets				
Land	23	–	(4)	19
Buildings	53	–	(23)	30
Other tangible assets and construction work in progress	46	1	(9)	38
	122	1	(36)	87

The intangible benefits result from the 1991 buyback from Sogea of the leasing contract taken out to finance SGE's Head Office.

Depreciation

(in millions of French Francs)	1996	Allowances	Recoveries	1997
Intangible fixed assets				
Franchises, patents, licences	1	–	–	1
	1	–	–	1
Tangible fixed assets				
Land	2	–	–	2
Buildings	26	2	(11)	17
Other tangible fixed assets	21	5	(4)	22
	49	7	(15)	41

4 • FINANCIAL ASSETS

Gross values

(in millions of French Francs)	1996	Increases	Decreases	1997
Equity investments	5,362	3,029	(887)	7,504
Receivables associated with equity holdings	2,062	713	(1,502)	1,273
Other long-term investments	63	–	–	63
Loans and other financial assets	34	1	(6)	29
	7,521	3,743	(2,395)	8,869

The changes reported under «equity investments» relate to:
- the acquisition by a contribution in kind of GTIE and Santerne (1,519 million French Francs), followed by the contribution by SGE to GTIE of Santerne stock (see Note 2.1.);
- the 90% controlling stake in CBC's capital stock for the additional amount of 31 million French Francs (see Note 2.2.);
- the acquisition, followed by the capital stock increase of SGE Immobilien GmbH, followed by its sale to the German subsidiary of CGIS (see Note 2.3.);
- the 401 million French Franc increase in the capital stock of SGE Deutsche Holding (see Note 2.4.).
Under the same heading, attention is also drawn to the 17 million French Francs increase in the capital stock of Consortium Stade de France.

The «receivables associated with equity holdings» heading includes advances transformable into equity, and loans extended by SGE to its subsidiaries.

Provisions

(in millions of French Francs)	1996	Allowances	Recoveries	1997
Equity investments	241	396	–	637
Receivables associated with equity holdings	210	12	(1)	221
Other long-term investments	61	–	–	61
Loans and other financial assets	1	–	–	1
	513	408	(1)	920

The equity investments depreciation provision in 1997 mainly relates to SGE Deutsche Holding (see Note 2.4.), whose total cumulative capital stock depreciation amounted to 491 million French Francs at the end of 1997.

5 • DEFERRED CHARGES

The charges to be spread over several financial years mostly correspond to rental pre-payments under the leasing contract for the Head Office, which payments are amortised over the building's depreciable life. These rental pre-payments relate to advance financing of the operation, prior to occupation of the building in 1992.

6 • SHAREHOLDERS' EQUITY

(in millions of French Francs)

	31 Dec. 1996	Capital and premium increases depreciation allowances	1996 net income allocation	1997 net income	31 Dec. 1997
Capital stock	2,585	842	–	–	3,427
Additional paid-in capital	349	715	–	–	1,064
Legal reserve	172	–	3	–	175
Statutory reserves	203	–	–	–	203
Retained earnings	–	–	55	–	55
Net income for the year	58	–	(58)	(119)	(119)
Regulated provisions	5	1	–	–	6
	3,372	1,558	-	(119)	4,811

To pay for the contributions of GTIE and Santerne, 9,491,440 shares were issued in the amount of 806,772,400 French Francs, with additional paid-in capital of 711,858,000 French Francs.

Capital increases subscribed in cash, through the options and savings plans of the SGE Group, represented a total amount of 35,507,050 French Francs for 417,730 shares, with an additional share premium of 3,781,075 French Francs.

At 31 December 1997, the capital stock consisted of 40,323,352 shares of 85 French Francs each.

The special reserve for long-term capital gains is split up between the following two headings:

- the legal reserve, with part of its allocations identified as allocations to the special reserve for long-term capital gains, in the following amounts at 31 December 1997, broken down by tax rate:

	(in millions of French Francs)
Tax rate of 15%	89
Tax rate of 18%	36
Tax rate of 19%	16
Tax rate of 25%	1
	142

- the statutory reserves, whose balance at 31 December 1997 breaks down, by tax rate, as follows:

	(in millions of French Francs)
Tax rate of 10%	23
Tax rate of 15%	22
Tax rate of 18%	113
Tax rate of 19%	41
Tax rate of 25%	4
	203

7 • PROVISIONS FOR LIABILITIES AND CHARGES

(in millions of French Francs)	1996	Allowances	Recoveries	1997
Pension commitments	28	–	–	28
Affiliate risks	112	14	(15)	111
Other risks and charges	301	33	(201)	133
	441	47	(216)	272

Recoveries from provisions under the heading «other risks and charges» relate mainly to property liabilities in Germany (see Note 2.3.).

At 31 December 1997, the provisions for other risks and charges mainly covered risks associated with the British subsidiaries, in the amount of 80 million French Francs.

8 • NET FINANCIAL INDEBTEDNESS

(in millions of French Francs)	1997	1996	1995
Long-term loans	(60)	–	(235)
Long-term subordinated debt	300	300	300
Long-term bonds and debentures	–	4	8
Long-term borrowing from credit institutions	433	698	482
Long-term financial debt	673	1,002	555
Short-term loans	(860)	(1,683)	(605)
Marketable securities	(2,619)	(2,931)	(1,466)
Quick assets	(4,210)	(1,018)	(249)
Short-term bonds and debentures	4	4	4
Short-term borrowing from credit institutions	415	319	98
Bank overdrafts and promissory notes	730	547	317
Current cash accounts with subsidiaries	7,520	5,627	3,753
Net cash position	980	865	1,852
Net financial indebtedness	1,653	1,867	2,407

The reduction in SGE's net indebtedness is mainly the result of inflows from subsidiaries of dividends and earnings.

At 31 December 1997, promissory notes issued by SGE stood at 533 million French Francs, against 170 million French Francs at 31 December 1996, and 300 million French Francs at 31 December 1995.

The «quick assets» item includes SGE's current financial account with Compagnie Générale des Eaux, in the amount of 3,255 million French Francs at the end of 1997, against 1,004 million French Francs at the end of 1996.

Marketable securities are essentially made up of mutual fund investments, deposit certificates and investment pools. Their market value at year-end closing was close to the cost price.

9 • STATEMENT OF RECEIVABLES AND PAYABLES

(in millions of French Francs)

		of which	
RECEIVABLES	Gross amount	short-term	long-term
Fixed assets			
Receivables associated with equity holdings	1,273	892	381
Loans and other financial assets	29	1	28
Current assets			
Trade notes receivable	23	23	-
Other accounts receivable	397	353	44
Expenses accrued in advance	6	6	-
	1,728	1,275	453

Receivables associated with equity holdings consist mainly of advances extended to British subsidiaries, in the amount of 377 million French Francs, and to Consortium Stade de France, in the amount of 305 million French Francs.

Provisions for receivables

Changes in fixed asset provisions are detailed in Note 4.

Provisions for current asset items have changed as follows:

(in millions of French Francs)	1996	Allowances	Recoveries	1997
Trade notes receivable	2	–	–	2
Other accounts receivable	38	2	(1)	39
	40	2	(1)	41

(in millions of French Francs)

		of which	
DEBT	Gross amount	short-term	long-term
Financial debt			
Subordinated debt [1]	300	–	300
Other bonds and debentures	4	4	–
Borrowing from credit institutions	1,044	611	433
Miscellaneous financial debt	8,558	8,071	487
Other payables			
Suppliers and trade notes payable	9,369	9,369	–
Taxes and social security payable	18,066	18,066	–
Debt on equity holdings and associated accounts	1,192	1,192	–
Other debt	308,354	308,354	–
Income accrued in advance	405	405	–
	347,292	346,072	1,220

(1) Subordinated loan from the Saint-Gobain Group maturing in 2003, bearing a fixed interest rate of 5% and redeemable in advance, under certain conditions, at the request of the lender.

10 • AFFILIATED ENTERPRISES

(in millions of French Francs)	Consolidated companies	Other Group companies
ASSETS		
Fixed assets		
Equity investments	7,283	221
Receivables associated with equity holdings	529	744
Current assets		
Customers and trade notes receivable	14	5
Other accounts receivable	271	30
LIABILITIES		
Miscellaneous financial borrowing and debt	7,512	25
Other debt associated with equity holdings	487	
Operating debt		
Debt on equity holdings and associated accounts	–	1
Supplier and trade notes payable	3	1
Other accounts payable	233	3

11 • OFF BALANCE SHEET COMMITMENTS

(in millions of French Francs)	1997	1996
Endorsements and guarantees	3,958	5,276
End of career benefits	6	5
Commitments of shareholders of non limited liability subsidiaries	3,619	4,593
	7,583	9,874

The «endorsements and guarantees» item essentially consists of guarantees extended by SGE to financial institutions or to customers, for the account of its subsidiaries.

12 • COMMITMENTS WITH RESPECT TO LEASING

At 31 December 1997, investments financed by leasing contracts represent a residual amount of 597 million French Francs (after 95 million French Francs of amortisation, of which 19 million French Francs with respect to the financial year). They mainly relate to the Head Office of SGE.

The payments still due under these various contracts amount to 707 million French Francs, of which 523 million for the principal.

Following interest rate risk management operations, the average financing cost of leasing contracts stands, at 31 December 1997, at a floating rate of 5%.

These payments will be made in accordance with the following calendar:

(in millions of French Francs)	
Payments due	
- in less than one year	58
– between two and five years	252
– in more than five years	397
Total to be paid	707
Residual purchase price	70

The payments made in the course of the year amounted to 54 million French Francs *(against 57 million French Francs in 1996 and 69 million French Francs in 1995).*

Commitments associated with the use of financial instruments

Under its centralised management of interest rate risk, SGE uses mostly swap contracts and interest rate insurance instruments.

At the close of the financial year, swap agreements represented a total outstanding amount, covering both financial debt and leasing contracts, of approximately 200 million French Francs, with maturity dates between one and two years..

13 • NET SALES

Net sales came to 116 million French Francs in 1997, a decline of 2.8% compared to the previous year. This figure includes the re-invoicing of services rendered to the Group's subsidiaries.

14 • FINANCIAL INCOME

(in millions of French Francs)	1997	1996	1995
Portfolio income	368	182	164
Income/ (loss) of the Group companies	(84)	125	24
Net financial charges	(65)	(75)	(150)
Net exchange income	(1)	8	4
Financial provisions	(15)	(8)	(20)
Income from disposal of securities	–	343	–
Financial income	203	575	22

Portfolio income includes dividends received from the following companies:

– Cofiroute in the amount of 116 million French Francs *(against 115 million French Francs in 1996)*,

– Socofreg in the amount of 104 million French Francs *(against 0 French Francs in 1996)*,

– Sogea in the amount of 85 million French Francs *(against 65 million French Francs in 1996)*,

– GTIE in the amount of 59 million French Francs *(against 0 French Francs in 1996).*

The share in income of Group companies includes a 1997 loss by Campenon Bernard SGE of 218 million French Francs *(against a profit in 1996 of 73 million French Francs).*

The capital gains on securities posted in 1996 came from the sale of the portfolio of Saint-Gobain shares.

15 • EXCEPTIONAL INCOME

(in millions of French Francs)	1997	1996	1995
Income/(loss) from capital operations			
- Disposal of tangible and intangible fixed assets	5	3	5
- Disposal of financial assets	(120)	1	55
Income from management operations	(95)	(1,180)	(118)
Exceptional provisions	(236)	554	(851)
Exceptional income	(446)	(622)	(909)

For 1997

The income from disposals includes both the capital loss of 190 million French Francs from the sale of SGE Immobilien to CGIS (see Note 2.3.), and the capital gain of 69 million French Francs from the contribution to GTIE of SDEL shares (see Note 2.1.).

Income from management operations mainly covers the subsidies given by SGE to Santerne (60 million French Francs) and SGE Environnement (15 million French Francs).

Changes in exceptional provisions are largely explained by the 390 million French Francs depreciation of SGE Deutsche Holding stock (see Note 2.4.), and, in the opposite direction, by the recovery of provisions set aside to cover property commitments, in the amount of 190 million French Francs (see Note 2.3.).

For 1996

The management operations income included the writing off of SGE Deutsche Holding receivables in the amount of 1,155 million French Francs.

The «exceptional provisions» item included recoveries of risk provisions related to SGE Deutsche Holding and Amery BV, in the amount of 989 million French Francs.

16 • INCOME TAX

As of 31 December 1997, SGE has a tax carry forward, representing an ordinary deficit and deferred amortisation, in a total amount of the order of one billion French Francs.
The tax credit reported in the 1997 statement of income represents tax paid under the consolidation regime by subsidiaries to the parent company, and applied against the latter's deficit.

17 • COMPENSATION AND NUMBER OF EMPLOYEES

Compensation of officers and directors

Of the compensation paid in the year to members of the SGE Group management committee, the amount borne by the parent company amounted to 6 million French Francs, in addition to the fees paid to directors, in the amount of 0.8 million French Francs.

Average number of employees of the company

The average number of employees of the company increased from 74 (including 51 engineers and managers) in 1996 to 80 (including 56 engineers and managers) in 1997.

18 • COMPANY THAT CONSOLIDATES THE FINANCIAL STATEMENTS OF SGE

COMPAGNIE GENERALE DES EAUX
Public limited company with a capital stock of 13,404,517,600 French Francs
Head Office: 52, rue d'Anjou – 75984 Paris Cedex 08
Company Register Paris 780 129 961
Consolidation by the method of full consolidation
(percentage of stock held at 31 December 1997: 51.2%).

19 • INFORMATION ABOUT SUBSIDIARIES AND EQUITY HOLDINGS AT 31 DECEMBER 1997

The information in this table is drawn exclusively from the subsidiaries' corporate accounts

(in thousands of French Francs)

	Capital stock	Reserves and retained income before income distribution	Share of capital stock held as %	Gross book value of shares held	Net book value of shares held	Loans and advances extended by SGE	Amount of endorse-ments and guarantees given by SGE	Pre-tax net sales in the last financial year	Profit or loss in the last financial year	Dividends received by SGE
A. Detailed information by entity										
1. Subsidiaries (at least 50% of capital stock held)										
a. French holdings										
Campenon Bernard SGE	505,750	39,349	87.99	444,990	444,990	–	–	3,059,240	(247,826)	–
CBC	273,552	(381,229)	90.00	111,600	111,600	104,871	–	518,961	144,562	–
Freyssinet International	22,000	45,375	99.98	56,143	56,143	–	–	31,548	(1,599)	–
GTIE	621,944	(49,837)	95.44	1,938,633	1,938,633	–	–	1,180,391	132,466	59,357
Lefort Francheteau	62,939	–	100.00	67,418	67,418	22,441	–	175,497	19,506	–
Ornem	21,390	(5,651)	100.00	93,289	12,321	184,873	–	–	(3,419)	–
Socofreg	1,913,265	318,112	95.01	2,131,045	2,131,045	–	–	–	69,222	103,875
Sogea	1,633,141	3,691	56.90	1,145,209	1,145,209	–	–	1,217,314	374,022	85,344
Tunzini	149,000	2,112	100.00	149,000	149,000	18,909	–	16,183	115,052	–
b. Foreign holdings										
Amery International	594	(163,259)	100.00	54,322	–	–	–	–	(7,995)	–
SGE Deutsche Holding	105,390	(91,795)	100.00	810,696	319, 563	–	–	24,918	(390,853)	–
2. Equity holdings (10% to 50% of capital stock held)										
Consortium Stade de France	150,000	(1,830)	33.33	50,000	50,000	305,439	–	13,593	3,277	–
Cofiroute	1,014,629	1 870,424	30.88	376,851	376,851	–	–	4,247,498	790,564	115,561
Wanner Industrie	100,000	(6,000)	30.63	30,625	30,625	–	–	586,374	(435)	–
B. Information not detailed by entity										
1. Subsidiaries not listed in paragraph A (at least 50% of capital stock held)										
a- Total French subsidiaries	–	–	–	13,757	13,014	–	–	–	–	–
b- Total foreign subsidiaries	–	–	–	6,283	–	–	–	–	–	–
2. Equity holdings not listed in paragraph A (10% to 50% of capital stock held)										
a- Total in French companies	–	–	–	86,536	23,404	–	–	–	–	–
b- Total in foreign companies	–	–	–	1,214	–	–	–	–	–	–

FIVE YEAR FINANCIAL SUMMARY

	1993	1994	1995	1996	1997
I. Capital stock at year end					
a. Capital stock *(in thousands of French Francs)*	2,086,187	2,481,818	2,566,752	2,585,205	3,427,485
b. Number of common shares outstanding (1)	24,543,375	29,197,859	30,197,084	30,414,182	40,323,352
c. Maximum number of future shares to be created by bond conversion (2)	–	–	–	–	–
II. Operations and earnings for the year *(in thousands of French Francs)*					
a. Net sales before taxes	129,890	128,644	132,575	119,214	115,850
b. Earnings before taxes, employee profit sharing, depreciation and provisions	(141,266)	157,092	41,102	(544,814)	(26,682)
c. Income tax	19,838	118	50	(68,550)	(135,890)
d. Earnings after taxes, employee profit sharing, depreciation and provisions	172,780	315,035	(851,995)	58,054	(119,086)
e. Earnings paid out (3)	122,717	145,989	–	–	161,293
III. Earnings per share *(in French Francs)*					
a. Earnings after taxes and profit sharing, but before depreciation and provisions	(6.56)	5.38	1.36	(15.66)	2.71
b. Earnings after taxes, profit sharing, depreciation and provisions	7.04	10.79	(28.21)	1.91	(2.95)
c. Net dividend per share	5	5	–	–	4
IV. Staffing					
a. Average number of employees in the year	72	74	89	74	80
b. Wages, salaries and benefits for the year *(in thousands of French Francs)*	37,898	37,411	42,780	41,623	45,315
c. Fringe benefits paid out in the year *(in thousands of French Francs)*	13,203	13,621	16,361	15,786	17,144

(1) There were no preferred shares during the period in question.

(2) Of the stock options granted under the share subscription plans authorised by the Extraordinary Shareholders' Meeting of 30 June 1988 and the Joint Shareholders' Meeting of 18 June 1993, and implemented by the Board of Directors Meetings of 5 December 1991, of 6 November 1992, of 4 November 1993, and of 4 November 1994, those not yet exercised as of 31 December 1997 correspond to a total of 1,125,831 shares.

(3) Calculated on the basis of the number of shares outstanding at the end of the year.

INVENTORY OF SECURITIES HELD IN PORTFOLIO AT 31 DECEMBER 1997

Companies	Number of shares or units	Net book value *(in millions of French Francs)*
Socofreg	17,312,444	2,131.0
GTIE	5,935,725	1,938.6
Sogea	1,896,524	1,145.2
Campenon Bernard SGE	4,449,900	445.0
Cofiroute	1,253,377	376.9
SGE Deutsche Holding	1	319.6
Tunzini	1,489,999	149.0
CBC	6,154,920	111.6
Lefort Francheteau	629,385	67.4
Freyssinet International STUP	137,470	56.1
Consortium Stade de France	499,998	50.0
Wanner Industrie	306,250	30.6
SNEL	689,794	18.0
Ornem	356,494	12.3
Ascop	15,000	8.2
Thinet Sud	67,999	2.0
Selt	20,250	2.0
Tunzini Thermique Environnement	8,000	0.8
Parking Place Vendôme	1,114	0.6
Other securities (not itemised)	–	4.9
Total of unconsolidated investments and other equity holdings (net of provisions)		6,869.8

Reports of the statutory auditors

REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS year ended 31 december 1997

In accordance with our appointment as auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Société Générale d'Entreprises for the year ended 31 December 1997. The consolidated financial statements have been approved by the Board of Directors. Our responsability is to express an opinion on these financial statements, based on our audit.

We have conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform this audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position and the assets and liabilities of the Group at 31December 1997 and the result of its operations for the year then ended.

Without qualifying the above opinion, we draw your attention to Note 2.1 to the consolidated financial statements which sets out a change in the method used to account for retirement obligations.

We have also carried out the verification of the information given on the management of the Group. We have no comment to make as to its fair presentation and conformity with the consolidated financial statements.

Paris-Neuilly, 4 March 1998

The Statutory Auditors

Deloitte Touche Tohmatsu - BMA
Michel Bousquet — Dominique Descours

Salustro Reydel
Bernard Cattenoz — Bertrand Vialatte

REPORT OF THE STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS OF THE PARENT COMPANY year ended 31 december 1997

In accordance with our appointment as auditors by your Annual General Meeting, we hereby report to you for the year ended 31 December 1997 on:

- the audit of the accompanying financial statements of Société Générale d"Ebtreprises;
- the specfic procedures and disclosures required by law.

These financial statements have been approved by the Board of Directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

1 • OPINION ON THE FINANCIAL STATEMENTS

We have conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform this audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by managemnt, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
In our opinion, the financial statements give a true and fair view of the financial position and the assets and liabilities of the company at 31 December 1997 and the results of its operations for the year then ended.

2 • SPECIFIC PROCEDURES AND DISCLOSURES

We have also performed the other procedures required by law, in accordance with professional standards applicable in France.
We have no comment to make as to the fair presentation and consistency with the financial statements of the information given in the report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.
Pursuant to the law, we have verified that the report of the report of the Board of Directors contains the appropriate disclosures as to the acquisition of participating and controlling interests held by shareholders.

Paris-Neuilly, 4 March 1998

The Statutory Auditors

Deloitte Touche Tohmatsu - BMA
Michel Bousquet   Dominique Descours

Salustro Reydel
Bernard Cattenoz   Bertrand Vialatte

SPECIAL REPORT OF THE STATUTORY AUDITORS ON REGULATED AGREEMENTS

In application of Article 103 of the Act dated 24 July 1966, we hereby inform you of the transactions to which Article 101 would be applicable, and which should be authorised prior to implementation by your Board of Directors.

1 • AGREEMENTS WITH COMPAGNIE GENERALE DES EAUX (CGE)

Officers concerned: Messrs. Jean-Marie Messier and Guy Dejouany

Acquisition of shares in Compagnie Générale de Bâtiment et de Construction (CBC) from Compagnie Générale des Eaux (CGE).

By a rider dated 30 June 1997, to the agreement dated 20 December 1996 and providing for the acquisition by your company of 40% of the capital stock of Compagnie Générale de Bâtiment et de Construction (CBC) from Compagnie Générale des Eaux, your company has acquired from Compagnie Générale des Eaux an additional block of 3,419,400 shares in the company CBC, representing 50% of its capital stock, with the total amount of the transaction set at 112 million French Francs.

Under this same rider, your company has received from Compagnie Générale des Eaux a grant of 808 million French Francs, by way of a guarantee extended by Compagnie Générale des Eaux.

2 • AGREEMENTS WITH CGE AND GTIE

Officers concerned between SGE and CGE: Messrs. Jean-Marie Messier and Guy Dejouany

Officers concerned between SGE and GTIE: Messrs. Antoine Zacharias, Bernard Huvelin and Gérard Mohr

Acquisition and sale of shares in the company Garczynski Traploir

Your company has acquired 26,081 shares in the company Garczynski Traploir, representing 11.07% of its capital stock, from Compagnie Générale des Eaux for 46 million French Francs. These shares were sold to the company GTIE on the same day and at the same price.

3 • SALE TO COMPAGNIE GENERALE D'IMMOBILIER ET DE SERVICES (CGIS) OF PROPERTY HOLDINGS IN GERMANY

Officers concerned: Messrs. Jean-Marie Messier and Alain Dinin

By an agreement entered into on 4 September 1997 among Compagnie Générale des Eaux, SNC Babelsberg, a subsidiary of Compagnie Générale d'Immobilier et de Services (CGIS), and your company:

– your company has sold the entire capital stock of SGE Immobilien to SNC Babelsberg for the amount of one French Franc;

– your company has made a commitment to SNC Babelsberg, that CBC will sell its entire indirectly held investment in EPE, this sale to be accompanied by the transfer to SNC Babelsberg of the corresponding guarantees extended by Compagnie Générale des Eaux to SGE;

– SNC Babelsberg has assumed all of the commitments made by SGE and the companies of its Group with respect to these projects;

– all of the corresponding funding made available by SGE was assumed by SNC Babelsberg or by any other company of the CGIS Group, on 31 December 1997 at the latest;

– SGE has contributed to covering the losses of SGE Immobilien as of 1 January 1997, in the amount of 190 million French Francs.

4 • SALE TO GTIE OF SHARES IN THE COMPANY SANTERNE

Officers concerned: Messrs. Antoine Zacharias, Bernard Huvelin and Gérard Mohr

As part of its establishment of an Engineering and Electrical Work Division, your company has re-assigned its 80% Santerne holding to GTIE as of 30 June 1997.
This sale involved 827,902 shares in Santerne, and was made at the price of 400 French Francs per share, that is, a total of 331,160,800 French Francs, with the price conditional on SGE's commitment to restore the net worth of Santerne to a level equal to what it had been on 1 January 1997, on the basis of financial statements closed on 30 June 1997. This sale was also accompanied by a guarantee of liabilities by your company in the amount of 60 million French Francs, an amount fully paid out in the course of the year.

5 • SALE TO SOCOFREG OF SHARES IN THE COMPANY SGE ENVIRONNEMENT

Officers concerned: Messrs. Antoine Zacharias and Bernard Huvelin

Your company has sold its holding in the company SGE Environnement to your subsidiary Socofreg, as of 24 November 1997. This sale involved 149,993 shares at the price of 100 French Francs per share, for a total of 14,999,300 French Francs, and was accompanied by a guarantee of liabilities of 15 million French Francs, fully taken up in the course of the year.

6 • MOVE BY SOGEA

Officers concerned: Messrs. Antoine Zacharias, Serge Michel and Michel Cambournac

In connection with the acquisition by your company of CBC, the concentration at the Rueil 2000 Head Office of CBC management has made it necessary for Sogea to move into a different building on the same site.
As this decision comes under the authority of Group management, it was decided to have your company pay the cost of Sogea's move, in the lump-sum amount of one million French Francs.

Paris-Neuilly, 4 March 1998

The Statutory Auditors

Deloitte Touche Tohmatsu - BMA

Michel Bousquet | Dominique Descours

Salustro Reydel

Bernard Cattenoz | Bertrand Vialatte

SPECIAL REPORT OF THE STATUTORY AUDITORS REGARDING AUTHORITY TO ISSUE SECURITIES (joint meeting of shareholders of 25 May 1998)

In our capacity of Statutory Auditors, and in accordance with the provisions of Articles 180-1, 194-1, 195, 339-2, 208-1 and 208-10 of the Act dated 24 July 1966, we hereby submit our report on the renewal of certain delegations of authority, requested by your Board of Directors, to issue, on one or several occasions,

– for a maximum nominal capital increase of 1,500 million French Francs, without loss of pre-emptive rights:
  • new shares (thirteenth resolution);

– for a maximum nominal capital increase of 1,500 million French Francs, without loss or with elimination, at the discretion of your Board of Directors, of pre-emptive rights:
  • convertible bonds with or without stock purchase warrants attached and bonds with stock purchase warrants attached (fourteenth resolution);
  • composite securities giving the right, through conversion, exchange, redemption, presentation of a warrant or any other means, to allocation of shares (fifteenth resolution);

– reserved for or for the benefit of staff:
  • shares reserved for salaried employees of the SGE Group, within the framework of savings plans, for a maximum nominal capital increase of 5% (sixteenth resolution);
  • stock subscription or purchase options for the benefit of corporate representatives, managers, and, on an exceptional basis, non-managerial salaried employees of the SGE Group, for a maximum nominal capital increase of 10%, including options extended previously (seventeenth resolution).

The conditions of issuance of these securities are described in the appendix to this report.

Your Board of Directors proposes that you delegate to it the responsibility for determining the implementation details of these operations, and requests that, for some of them, you waive your pre-emptive rights.

This proposed renunciation applies primarily to the right to apply for the securities as they are issued. It could be the result of the fourteenth and fifteenth resolutions submitted for your approval, if your Board of Directors chooses to eliminate pre-emptive rights, as permitted under these resolutions. In the event of your renunciation and on the strength of the aforementioned resolutions, your Board of Directors still has the possibility of granting you a subscription priority deadline, whose duration and other practical aspects would be determined by the Board. This renunciation also pertains to the right to subscribe shares to be created subsequently:

– upon exercise of stock purchase warrants attached to shares or bonds (fourteenth and fifteenth resolutions);
– upon conversion of convertible bonds (fourteenth resolution);
– upon allocation of shares to bearers of composite securities (fifteenth resolution).

In the case of the sixteenth and seventeenth resolutions, this renunciation applies to the subscription right reserved for corporate representatives, managers, and, on an exceptional basis, non-managerial salaried employees of the SGE Group benefiting from stock options (subscription of new shares or purchase of existing shares), and for salaried employees of SGE or its subsidiaries, within the framework of the Group savings plan.

CONCLUSIONS

We have examined the operations proposed, applying those procedures we dremed necessary, in the light of the accounting profession's generally accepted standards.

As the implementation details of these operations have not been determined, we are not presently in a position to express an opinion either on the calculation method used to set the issue and subscription prices, or on the requests to you to waive your pre-emptive rights, although the principle of this waiver is consistent with the operations being submitted to you for your approval.

Similarly, the impact of the proposed issues on your position as shareholder, in particular, insofar as the market value of your shares and your holding in the shareholders' equity of SGE are concerned, cannot be specified at the date of the present report.

When the specific issue conditions will have been determined, we will draw up supplemental reports covering these operations, in accordance with prevailing regulatory provisions.

Paris-Neuilly, 19 March 1998

The Statutory Auditors

Deloitte Touche Tohmatsu - BMA

Michel Bousquet   Dominique Descours

Salustro Reydel

Bernard Cattenoz   Bertrand Vialatte

SUMMARY OF FINANCIAL OPERATIONS SUBMITTED TO THE JOINT MEETING OF SHAREHOLDERS OF 25 MAY 1998

1. Without loss of pre-emptive rights

(in millions of French Francs)

Type of operation	Resolution	Duration of the authority	Maximum nominal capital increase amount to be used	Minimum issue price of the shares
Issue of new shares	13	5 years	1,500	To be determined by the Board of Directors

2. Without loss or with elimination, at the choice of the Board of Directors, of pre-emptive rights on the occasion of the initial issue

(in millions of French Francs)

Type of operation	Resolution	Duration of the authority	Maximum initial issue amount to be used	Maximum nominal capital increase amount to be used	Minimum issue price of the shares
Issue of convertible bonds with or without stock purchase warrants and of bonds with stock purchase warrants	14	2 years	2,000	1,500	In accordance with prevailing legislation and regulations
Issue of composite securities	15	1 year	-	1,500	In accordance with prevailing legislation and regulations

3. Issues reserved for or for the benefit of staff

Type of operation	Resolution	Duration of the authority	Maximum nominal capital increase amount to be used	Minimum issue price of the shares
Issue of shares reserved for salaried employees of the company and its subsidiaries, under savings plans	16	5 years	5% of shareholders' equity	80% of the average of opening quoted market prices in the twenty sessions preceding the date of the Board's decision
Stock purchase or subscription options reversed for corporate representatives, managers and, on an exceptional basis, non-managers of the SGE Group	17	5 years	10% of shareholders' equity, including options extended previously	a) Purchase options: 80% of the greater of the following two values: - average purchase price of shares held by SGE under Article 217-2 of the Act dated 24 July 1996; - average of opening quoted market prices in the twenty days preceding the date when the option is granted. b) Subscription options: 80% of the average of the opening quoted market prices in the twenty days preceding the date when the option is granted.

Draft resolutions

(joint meeting of shareholders 25 May 1998)

ORDINARY PART

FIRST RESOLUTION

Approval of the financial statements for the 1997 financial year

The Meeting of Shareholders, after having examined the report of the Board of Directors and the general report of the Statutory Auditors, approves the operations and the financial statements for the year closed on 31 December 1997, as submitted to it. In particular, it approves the amount of non-deductible charges (Article 39.4 of the General Tax Code) mentioned in the report of the Board of Directors.

SECOND RESOLUTION

Allocation of the net income from the 1997 financial year

The Meeting of Shareholders, noting that the loss in the 1997 financial year amounts to 119,085,522.55 French Francs, decides to apply it against the «retained earnings» heading in the amount of 55,151,432.18 French Francs, and against the «premiums linked to the capital stock» heading in the remaining amount of 63,934,090.37 French Francs.

It is recalled, in application of the law, that no dividends were distributed for the financial years 1995 and 1996, and that the dividend distributed for the financial year 1994 broke down as follows:

Financial year	1994
Number of eligible shares	29,197,859
Net dividend	5.00 French Francs
Tax credit	2.50 French Francs
Total earnings per share	7.50 French Francs

THIRD RESOLUTION

Distribution of a dividend

The Meeting of Shareholders, on the proposal of the Board of Directors, decides to allocate the sum of 161,293,408 French Francs from the «premiums linked to the capital stock» heading for distribution among the shareholders. Consequently, the net dividend paid for each of the 40,323,352 shares constituting the capital stock at 31 December 1997 will be 4.00 French Francs. This dividend will be supplemented by a tax credit of 2.00 French Francs, corresponding to taxes paid to the State Treasury, to provide total earnings per share of 6.00 French Francs.

The payment of this dividend will be initiated as of 6 July 1998.

FOURTH RESOLUTION

Approval of the special report of the Statutory Auditors on agreements covered by Articles 101 and following of the Act dated 24 July 1966

The Meeting of Shareholders, after having heard the reading of the special report of the Statutory Auditors on agreements covered by Articles 101 and following of the Act dated 24 July 1966, takes note of the report and approves the agreements mentioned therein.

FIFTH RESOLUTION

Final discharge to the Board of Directors

Following its approval of the financial statements for the year ended 31 December 1997, the Meeting of Shareholders gives final discharge to the Board of Directors for its management, up to the closing date of the financial year in question.

SIXTH RESOLUTION

Ratification of the co-opting of a Director

In accordance with the provisions of Article 94 Paragraph 4 of the Act dated 24 July 1996, the Meeting of Shareholders ratifies the co-opting, decided by the Board of Directors in the course of its meeting of 18 June 1997, of Mr. Daniel Caille to replace Mr. Michel Cambournac, who resigned from his directorship, for the remaining duration of his predecessor's term of office, that is, until the Meeting of Shareholders called upon to pronounce on the financial statements for the financial year 2001.

SEVENTH RESOLUTION

Ratification of the co-opting of a Director

In accordance with the provisions of Article 94 Paragraph 4 of the Act dated 24 July 1996, the Meeting of Shareholders ratifies the co-opting, decided by the Board of Directors in the course of its meeting of 18 June 1997, of Mr. Alain Dinin to replace Mr. Pierre Giraudet, who resigned from his directorship, for the remaining duration of his predecessor's term of office, that is, until the Meeting of Shareholders called upon to pronounce on the financial statements for the financial year 2001.

EIGHTH RESOLUTION

Ratification of the co-opting of a Director

In accordance with the provisions of Article 94 Paragraph 4 of the Act dated 24 July 1996, the Meeting of Shareholders ratifies the co-opting, decided by the Board of Directors in the course of its meeting of 18 June 1997, of Mr. Philippe Germond to replace Mr. Raymond Guitonneau, who resigned from his directorship, for the remaining duration of his predecessor's term of office, that is, until the Meeting of Shareholders called upon to pronounce on the financial statements for the financial year 2001.

NINTH RESOLUTION

Ratification of the co-opting of a Director

In accordance with the provisions of Article 94 Paragraph 4 of the Act dated 24 July 1996, the Meeting of Shareholders ratifies the co-opting, decided by the Board of Directors in the course of its meeting of 18 June 1997, of Mr. Henri Proglio to replace Mr. Guy Richard, who resigned from his directorship, for the remaining duration of his predecessor's term of office, that is, until the Meeting of Shareholders called upon to pronounce on the financial statements for the financial year 2001.

TENTH RESOLUTION

Renewal of the authority delegated to the Board of Directors to issue ordinary bonds and equivalent certificates, redeemable subordinated certificates or subordinated certificates of indeterminate duration

After having examined the report of the Board of Directors, the Meeting of Shareholders renews the authority delegated to the Board of Directors to issue, on one or several occasions, whenever considered opportune by the Board, for a maximum nominal amount of one billion French Francs or the equivalent of that amount in any other currency quoted on the day of the issue, either in France or abroad, borrowing by means of conventional bonds or equivalent certificates, in particular, redeemable subordinated certificates or subordinated certificates of indeterminate duration, with respect to which the Board shall determine, within the limitations of legal restrictions, the characteristics, conditions and issue and amortisation implementation details, and in particular, the nominal amount, the interest to be paid, the dates of interest payments and the dates of capital redemption, with or without a premium.

The amount of the redemption premium, if any, will be added to the maximum nominal total amount of bonds that may be issued on the strength of the present authority.

All necessary powers are granted to the Board of Directors to implement all measures and to fulfil all formalities required in connection with this or these issues.

This authority is valid for a period of five years from the date of the present Meeting of Shareholders.

ELEVENTH RESOLUTION

Authority delegated to the company to trade in its own shares on the stock exchange with a view to smoothing out the market

The Meeting of Shareholders authorises the company, for a period of eighteen months as of today, and subject to all prevailing legal and regulatory provisions, to trade on the stock exchange in its own shares, as listed with monthly settlement quotes, with a view to smoothing out the market, in accordance with the provisions of Article 217-2 of the Commercial Companies Act.

During this period, the company may:

acquire its own shares up to the level of 10% of the number of shares making up the capital stock, at a maximum price of 300 French Francs per share;

sell on the stock exchange, dispose of or transfer by any other means, all or part of the shares acquired as above, at a minimum price of 100 French Francs per share, or cancel such shares by reducing the capital stock, on the decision of a Special Meeting of Shareholders.

The above prices will be adjusted in the event of a dividend or share subscription right having been clipped.

Any shares acquired under the above conditions must be held in registered form and must be fully paid. They will not confer the right to receive a dividend, and, in the event of a capital increase by shares issued for cash, the company will not be able to exercise any pre-emptive rights. The shares will not confer any voting rights. The company will have to set aside reserves, other than the legal reserve, in an amount at least equal to the value of all shares held under this authority.

Records of all purchases and sales made in application of the above provisions will be kept by the bookkeeper Cicotitres.

In its report to the Annual Ordinary Meeting of Shareholders, the Board of Directors will provide shareholders with the information required by Article 217-4 of the Commercial Companies Act.

Moreover, the company will fulfil the requirements of Article 217-5 of the same Act vis-‡-vis the Commission des opérations de Bourse (Paris Stock Exchange Transactions Commission).

TWELFTH RESOLUTION

Authority given for the purpose of redemption by the company of its own shares

The Meeting of Shareholders, deliberating under the quorum and majority conditions required for Ordinary Meetings of Shareholders, having examined the report of the Board of Directors, authorises the Board, for a period of eighteen months as of today, to buy its own shares up to the level of 10% of its capital stock, and subject to new legal or regulatory provisions in force.

During this period, the company may:

dispose of or transfer such shares by any means,

cancel, if it sees fit, such shares up to the limit of 10% of the capital stock, in the manner defined in Articles 215 and 216 of the Commercial Companies Act, provided acquisitions followed by cancellations do not have the effect of reducing shareholders' equity to a level below that of capital stock together with reserves not subject to distribution.

The company shall inform the Financial Markets Council every month of any such disposals, transfers and cancellations of shares.

Any shares acquired under the above conditions must be held in registered form and must be fully paid. They will not confer the right to receive a dividend, and, in the event of a capital increase by shares issued for cash, the company will not be able to exercise any pre-emptive rights. The shares will not confer any voting rights.

In its report to the Annual Ordinary Meeting of Shareholders, the Board of Directors will provide shareholders with complete information about share redemptions.

EXTRAORDINARY PART

THIRTEENTH RESOLUTION

Renewal of the authority delegated to the Board of Directors to issue new shares in the company by any means, without loss of pre-emptive rights

The Meeting of Shareholders, deliberating under the quorum and majority conditions required for Extraordinary Meetings of Shareholders, after having examined the report of the Board of Directors, renews the authority given to the Board of Directors to increase the capital stock, on its own decision with no further consultation, on one or several occasions, by a maximum nominal amount of 1.5 billion French Francs, or the equivalent of that amount in euros:

– either by issuing new shares for cash subscription, or by set-off of receivables, whose subscription will be preferentially reserved for owners of old shares; the Board of Directors may also, if it sees fit, institute the right for such owners to a reducible subscription proportional to the number of shares they hold, and in any event, up to the number they apply for;

– or by incorporation into the capital stock of all or part of reserves, of profits or of share premiums existing at the time, to be done by the creation and free-of-charge distribution of shares, or by increasing the par value of existing shares;

– or by successive or simultaneous implementation of several of the above procedures.

The Meeting of Shareholders grants all necessary powers to the Board of Directors to carry out this or these capital increases, within the limit set out above, on dates, within terms, according to modalities and under conditions set by the Board, in conformity with the by-laws and legal provisions, and in particular:

– to determine the number of new shares to be issued and their date of creation, or the amount by which the par value of existing shares is to be increased, and in the latter case, to proclaim the date on which this increase in the par value is to take effect;

– to determine, in the event of issuing new shares for cash, the issue price, as well as all dates, terms and conditions connected with the implementation of the capital increase;

– to have the facility to limit the capital increase to the amount of subscriptions received, provided this amount is at least three quarters of the capital increase that had been decided;

– to distribute without restriction and/or to offer to the public all or part of the shares not subscribed ;

– to enter into any agreements with any bank or credit institution in connection with the issuing of new shares, and to take all measures designed to ensure the success of the operation or operations;

– to make all amendments to the by-laws resulting from such operations;

– in a general way, to decide and to carry out, either or its own or through mandated representatives, all operations and formalities required for the success of this or these capital increases, and in particular with a view to quotation of the new shares and to their inclusion in secondary market transactions.

This authority is valid for a period of five years from the date of the present Meeting of Shareholders.

FOURTEENTH RESOLUTION

Renewal of the authority delegated to the Board of Directors to issue convertible bonds with or without stock purchase warrants and bonds with stock purchase warrants

The Meeting of Shareholders, deliberating under the quorum and majority conditions required for Extraordinary Meetings of Shareholders, after having examined the report of the Board of Directors and the special report of the Statutory Auditors, renews the authority delegated to the Board of Directors to issue, on one or several occasions, in France or abroad, in French Francs, in euros, in foreign currencies or in monetary units defined with reference to several foreign currencies, in the maximal amount of 2 billion French Francs or its equivalent, bonds convertible to shares, with or without stock purchase warrants, and bonds with stock purchase warrants.

The Meeting of Shareholders decides that it will be up to the Board of Directors to keep in place or to eliminate the pre-emptive rights of existing shareholders to the above securities.

In the latter case, the present decision amounts to a conscious and deliberate renunciation by shareholders of their pre-emptive rights.

In the event of elimination of pre-emptive rights, the Board of Directors will still have the possibility of giving shareholders, for a duration and according to modalities determined by the Board, a priority period for subscribing to these securities, in proportion to the number of shares owned by each shareholder, without giving rise to the creation of tradable rights. Securities not subscribed by shareholders will be offered to the public.

Should the pre-emptive subscription right be left intact, the Meeting of Shareholders gives all necessary powers to the Board of Directors to institute, for the benefit of shareholders, a reducible subscription right, to be exercised in proportion to their rights and within the limitation of their applications.

The allocations of shares in the company's capital stock, issued in consequence of the above operations may not, under any circumstances, but not taking into consideration cases of adjustments that may be made in accordance with the law, have the effect of increasing the nominal capital by an amount greater than 1.5 billion French Francs or the equivalent in euros, it being understood that this maximal amount will be charged against the capital increase or increases that may be implemented by virtue of the renewed authority delegated to the Board of Directors by the present Joint Meeting of Shareholders, in its thirteenth resolution, to issue new shares in the company by any means.

The present decision amounts to a conscious and deliberate renunciation, to the benefit of holders of obligations, warrants or securities that may be issued, by shareholders of their pre-emptive rights to the shares to which such warrants give the right.

The issue price of the shares will be set in accordance with prevailing laws and regulations.

In the case of a capital increase, a merger or a share split, as in the case of other financial transactions involving pre-emptive subscription rights, or the reservation of a priority subscription period for shareholders, the Board of Directors may suspend the exercise of subscription and conversion rights for at most three months.

The Meeting of Shareholders gives full power to the Board of Directors, with the option of sub-delegating such power to its Chairman, to set the issue dates and amounts, to determine issue implementation details, and, in a general way, to take all measures and to enter into all agreements necessary to ensure the success of the planned issues, within the limitations imposed by prevailing regulations. It also entrusts the Board with full power in connection with the quotation of the new shares and their inclusion in secondary market trading.

It also gives the Board full power to make whatever amendments to the by-laws that are rendered necessary by the use of the above powers.

The present authority is valid for a period of two years from the date of the present Meeting of Shareholders.

FIFTEENTH RESOLUTION

Renewal of the authority delegated to the Board of Directors to issue composite securities

The Meeting of Shareholders, deliberating under the quorum and majority conditions required for Extraordinary Meetings of Shareholders, after having examined the report of the Board of Directors and the special report of the Statutory Auditors, renews the authority delegated to the Board of Directors to issue, on one or several occasions, in France or abroad, in French Francs, in euros or in foreign currencies, composite securities giving the right, by conversion, exchange, redemption, presentation of a warrant or any other means, to the allocation, at any time or on fixed dates, of shares to be issued for this purpose. The Meeting of Shareholders further decides that the issuing of these securities may be associated, in ways and means to be determined by the Board of Directors, with the issuing of bonds, within the limitations of the authority available to the Board to issue borrowing by means of bonds.

The Meeting of Shareholders decides that it will be up to the Board of Directors to keep in place or to eliminate pre-emptive subscription rights of shareholders to the above securities.

In the latter case, the present decision amounts to a conscious and deliberate renunciation by shareholders of their pre-emptive subscription rights.

In the event of elimination of pre-emptive rights, the Meeting of Shareholders decides that the Board of Directors may grant shareholders the possibility of subscribing on a priority basis during the first fifteen days following issuance of the composite securities. The Board of Directors will determine the other implementation details and conditions of exercising this non-tradable priority right, which will be exercised in proportion to the number of shares owned by each shareholder. Subordinated shares or securities not subscribed by shareholders will be offered to the public.

In the event of pre-emptive subscription rights being kept in place, the Meeting of Shareholders gives all power to the Board of Directors to institute, for the benefit of shareholders, a reducible share subscription right, to be exercised in proportion to their rights and within the limit of their applications.

The allocation of shares in the company's capital stock, following the operations provided for by the present resolution, may not, under any circumstances but not taking into consideration adjustments that may be applied, have the effect of increasing the nominal capital by an amount greater than 1.5 billion French Francs, or its equivalent in euros, it being understood that this amount will be counted against the capital increase or increases that may be carried out on the strength of the renewed authority delegated to the Board of Directors by the present Joint Meeting of Shareholders, in its thirteenth resolution, to issue new shares in the company by any means.

If the Board of Directors decides to issue securities giving the right to allocation of shares in the capital stock, it will have full power to determine under what conditions the company will be able to but the stock purchase warrants on the Stock Exchange, at any time during set periods, with a view to cancelling them.

The present authority amounts to a conscious and deliberate renunciation, to the benefit of the bearers of any securities that may be issued, by shareholders of their preferential subscription rights to the associated shares.

The Meeting of Shareholders decides that, if the Board of Directors avails itself of the authority delegated to it under the present resolution, the issue price of any shares that may be created will be set in accordance with prevailing laws and regulations.

In the case of a capital increase, a merger or a share split, as in the case of other financial transactions involving pre-emptive subscription rights, or the reservation of a priority subscription period for shareholders, the Board of Directors may suspend the exercise of subscription and conversion rights for at most three months.

The Meeting of Shareholders gives full power to the Board of Directors, with the option of sub-delegating such power to its Chairman, to set the issue dates and amounts, to determine issue implementation details, as well as the type of securities to be created, the conditions of their redemption, to carry out any necessary adjustments in conformity with legal provisions, and, in a general way, to take all measures and to enter into all agreements necessary to ensure the success of the planned issues, within the limitations imposed by prevailing regulations.

It also entrusts the Board with full power in connection with the quotation of the new shares and their inclusion in secondary market trading.

It also gives the Board full power to make whatever amendments to the by-laws that are rendered necessary by the use of the above powers.

Any issues decided on the strength of the present authority will have to be implemented by the Board of Directors within one year of the date of the present Meeting of Shareholders.

SIXTEENTH RESOLUTION

Renewal of the authority delegated to the Board of Directors to effect capital increases reserved for salaried employees of the company and of subsidiaries of the SGE Group under its savings plans

The Meeting of Shareholders, deliberating under the quorum and majority conditions required for extraordinary Meeting of Shareholders, after having examined the report of the Board of Directors and the special report of the Statutory Auditors:

– Renews the authority delegated to the Board of Directors by the Joint Meeting of Shareholders of 7 March 1994, in its sixth resolution, to increase the capital stock of the company, on its own decision, on one or several occasions, by issuing shares to be subscribed exclusively by salaried employees of SGE and/or its subsidiaries, either individually or through investment pools under the Enterprise savings plan or the Group savings plan, which will be instituted on the initiative of the company. The capital increases covered by the present resolution will be carried out in such a way as to ensure that the salaried employees of SGE and/or its subsidiaries, acting individually or through investment pools under the Enterprise savings plan or the Group savings plan, which will be instituted on the initiative of the company, never hold more than 5% of the company's capital stock.

– Decides to eliminate, to the benefit of these same salaried employees, the pre-emptive subscription rights of existing shareholders to the shares issued under this resolution.

– Gives full power to the Board of Directors to:

• determine the subscription price of these new shares, it being understood that this price must be neither greater than the average of the opening quoted market prices in the twenty Stock Exchange sessions preceding the date of the Board of Directors decision setting the opening subscription date, nor less than the same average by more than 20%;

• determine the seniority conditions that will be required of salaried employees to participate in the issue, and the period of time within which subscribers will have to pay for their shares;

• determine the implementation details and all other conditions of the operation or operations;

• carry out or have carried out all actions and formalities connected with any capital increase or increases under the present authority;

• make any amendments to the by-laws that may be necessary because of application of the present authority, and, in a general way, to do whatever is necessary.

The present authority is valid for a period of five years from the date of the present Meeting of Shareholders.

SEVENTEENTH RESOLUTION

Renewal of the authority to establish stock subscription or purchase options for salaried employees, in accordance with the provisions of Articles 208-1 and following of the Act dated 24 July 1966

The Extraordinary Meeting of Shareholders, at the suggestion of the Board of Directors and after having heard the special report of the Statutory Auditors, decides to renew the authority delegated to the Board of Directors by the Joint Meeting of Shareholders of 18 June 1993, in its ninth resolution, under Articles 208-1 and following of the Act dated 24 July 1966 on commercial companies, to make available, on one or several occasions, over a period of five years from today's date, to corporate representatives in accordance with what is permitted by law, to managing directors, to senior managers, to managers, or, on an exceptional basis, to non-managerial salaried employees of the SGE Group, option plans to subscribe new shares in SGE, to be issued as an increase in capital, or option plans giving the right to purchase shares bought up by SGE itself prior to the opening of the options, under the conditions and limitations set by law.

The total number of options made available in this manner by the Board of Directors will be determined so as to ensure that the corresponding capital increases, when added to those corresponding to options granted previously, do not ever make it possible to create a number of shares greater than 10% of the capital stock. The price set for the subscription or purchase of shares by beneficiaries will be determined on the day when the options are granted by the Board of Directors. This price may not be less than 80% of:

– the greater of the following two figures, in the case of stock purchase options:
  • the average purchase price of shares held by SGE under Article 217-2 of the Act dated 24 July 1966;
  • the average of the opening quoted monthly settlement market prices in the twenty Stock Exchange sessions preceding the day when the option is opened;
– the latter figure, in the case of stock subscription options.

In so far as stock subscription options are concerned, the present authority amounts to a conscious and deliberate renunciation by shareholders of their pre-emptive subscription rights to shares issued as the options are exercised.

Options will have to exercised within ten years of the date when they are granted.

The price set for the subscription or purchase of shares by beneficiaries will not be changed throughout this period, with the exception of adjustments defined by law.

In accordance with the law, no option may be granted less than twenty Stock Exchange sessions after the clipping from shares of a coupon giving the right to receive a dividend, or to subscribe shares as part of a capital increase.

Any shares acquired under the above provisions shall be registered.

The Extraordinary Meeting of Shareholders gives full power to the Board of Directors to determine the beneficiaries, the conditions and the practical implementation details of the allocation of stock subscription or purchase option plans, to carry out all necessary operations, and in particular to carry out all actions and formalities required to finalise any capital increases decided under the authority set out in the present resolution, and to amend the by-laws accordingly.

The Board of Directors shall inform the Ordinary Meeting of Shareholders every year about any operations implemented under the present resolution.

EIGHTEENTH RESOLUTION

Power to carry out formalities

Full power is given to the bearer of a copy or an extract of the present minutes to carry out all registrations and formal publications required by law.

General information

GENERAL INFORMATION ABOUT THE COMPANY

1 • GENERAL INFORMATION ABOUT THE COMPANY

1.1. Name and Head Office

Société Générale d'Entreprises (SGE) – 1, cours Ferdinand-de-Lesseps – 92851 Rueil-Malmaison Cedex – France.

1.2. Presentation of the company and the Group

SGE is the holding company of a group consolidating almost 600 subsidiaries, active in five main business segments, each representing about 20% of net sales: building, civil engineering, electrical engineering and works, roadworks and thermal and mechanical activities (climate control engineering, industrial heating and ventilation, fire protection, insulation). The SGE Group also has a presence in infrastructure concessions (motorways, civil engineering works, parking garages).

With consolidated net sales in 1997 of 53.4 billion French Francs and more than 66,000 salaried employees, the SGE Group is the number one European construction group.

In 1997, 95.3% of its net sales were in Europe, of which 66.1% in France, 15.5% in Germany and 6.7% in Great Britain.

A brief history of the company

The recent past of Société Générale d'Entreprises has been marked by substantial external growth operations, the most significant of which have been associated with changes in the company's shareholders. These operations, in conjunction with the internal growth of the Group's companies, have driven strong business expansion, with net sales jumping from 13 billion French Francs in 1984 to 53 billion French Francs in 1997. In 1983, SGE, then a subsidiary of Compagnie Générale d'Electricité (since 1966), saw Compagnie de Saint-Gobain become a shareholder. This holding became a majority holding as of 1984, following, in particular, the gradual integration into SGE of the main entities making up Saint-Gobain's enterprise branch: Sobea, Entreprise Saunier Duval, Tunzini, Wanner Isofi. In the general enterprise sector, this coming together was given concrete form by the merger in 1985 of Sobea and SGE-BTP to give rise to Sogea, which has become the Group's largest subsidiary. SGE's entry into the Compagnie Générale des Eaux Group in 1988 further contributed to the expansion of the SGE Group, with:

– the purchase from Compagnie de Saint-Gobain of the German company G+H Montage, which specialises in insulation, and, through its subsidiary Nickel, in climate control engineering;

– the contribution by Compagnie Générale des Eaux of its construction subsidiaries: Campenon Bernard, Viafrance and Freyssinet.

In subsequent years, several additional external growth operations contributed to giving the SGE Group a truly European dimension.

The most significant were the following:

– acquisition of a 55% holding in 1989, increased to 100% in 1991, in the capital stock of the British company Norwest Holst, whose scope of consolidation broadened in 1990 with the acquisition of Rosser & Russell, a company specialising in climate control, electrical works and technical maintenance;

– taking control in 1990 and 1991 of the groups OBG (building) and VBU (roadwork) in the former German Democratic Republic, as part of the privatisation programme set up in the wake of German re-unification. This operation was supplemented in 1992 by the acquisition of the companies MLTU (piping and ducts) and OBAG (building in Saxony);

– the 1992 acquisition by Cochery Bourdin Chaussé of the roadworks company Moter, which operates mainly in the south-east of France;
– the 1994 acquisition by SDEL (formerly Entreprise Saunier Duval) of the German company Controlmatic, specialising in electrical engineering and automation, and the taking of a 64% controlling holding in the building company Klee, based in the south-west of the Federal Republic of Germany.
Finally, last year was marked by a significant number of bilateral operations between SGE and its majority shareholder: they are part of the re-focussing of SGE on its core businesses, and the creation within the Compagnie Générale des Eaux Group of concentrated businesses. For instance SGE, which concentrates on construction, last year sold off:
– all of its operational business in the waste management field;
– two large water distribution subsidiaries, Sogea Guadeloupe and Avignonnaise des Eaux;
– most of its property promotion business in France and Germany (SGE has only kept the Sorif-Sorinvest grouping, which specialises in the financial engineering of real-estate operations).
In the opposite direction, the shares of two electrical works companies, GTIE and Santerne, were contributed to SGE by Compagnie Générale des Eaux and its two subsidiaries Sahide and CGC. Moreover, SGE acquired 90% of the capital stock of CBC, whose building subsidiaries in France and elsewhere in Europe were integrated, under a wider re-organisation of the building and civil engineering segment, into Sogea and Campenon Bernard SGE.

1.3. Legal status

SGE is a public limited company ("société anonyme") with a Board of Directors, subject to the Act N° 66-537 of 24 July 1966 and the decree N° 67-236 of 25 March 1967 on commercial companies.

1.4. Legislation applicable to the company

French legislation.

1.5. Duration of the company - dates of its constitution and expiry

Constituted on 30 June 1910, the company's duration was initially fixed at 99 years. This duration was extended by the Extraordinary Meeting of Shareholders of 21 December 1979, and now expires on 21 December 2078, unless a further extension or premature dissolution is decided.

1.6. Corporate purpose (Article 2 of the "statuts")

The company has the purpose of:
– undertaking all forms of public and private civil works; in particular, development of the goodwill originally contributed by the company Sainrapt-et-Brice, and continuation of the business of that enterprise, specialising in all types of underground works, foundations, hydraulics and reinforced concrete;
– and more generally, all industrial, commercial, financial, security and property operations directly or indirectly associated with the purposes specified above.
The company may carry out these operations in continental France, in French departments and territories overseas, and in foreign countries, either alone, or in partnership, on a trading basis or in any other form whatsoever, either directly, on assignment, under leasing arrangements or under licence, either on a brokerage basis or on commission.
Moreover, it may implement any measures, either alone or by any other means with no exceptions, create any partnerships or companies, make any contributions in kind to existing companies, merge or enter into alliances with them, subscribe, purchase and re-sell any shares or other corporate rights, take all orders and extend any loans, credits and advances

1.7. Register of Companies

RCS: 552 037 806 Nanterre
APE Code: 451A

1.8. Locations where legal documents can be consulted

Legal documents pertaining to the company can be consulted at its Head Office and at the greffe du tribunal de commerce de Nanterre.

1.9. Financial period

The financial period lasts one year, from 1 January to 31 December of each year.

1.10. Statutory distribution of profits (Article 19 of the by-laws)

From any profits for the financial year, reduced by any previous losses, at least 5% is set aside to constitute the legally required reserve fund. This ceases to be obligatory once the reserve fund reaches an amount equal to one tenth of the capital stock, becoming obligatory once again whenever the reserve falls below this one tenth. The income to be distributed consists of the profits for the year, reduced by previous losses as well as any amounts set aside in reserves in application of the law or of the by-laws, and increased by retained earnings. From this income to be distributed, the Meeting of Shareholders successively draws down:
– any amounts considered useful by the Board of Directors for the constitution or supplementing of any ordinary or extraordinary reserves, or for carrying over to the next year as retained earnings;
– the amount necessary to pay out to shareholders, by way of a first dividend, 5% of the amounts of their fully paid and acquired shares, without it being possible for shareholders to claim this dividend against the profit of subsequent years, should the net income of a given year not allow for its payment;
the balance available after these draw-downs is distributed among all the shares, in proportion to the amount of the capital stock they respectively represent.
At the proposal of the Board of Directors, the Meeting of Shareholders may decide to distribute amounts drawn from available reserves; in such cases the corresponding decision expressly indicates from which reserve headings the amounts are drawn. Except in the case of a capital decrease, no distribution to shareholders may be decided if shareholders' equity is, or would be following implementation of the decision, less than the amount of the capital stock plus any reserves whose distribution is not permitted under the law or the by-laws. The implementation of the payment of dividends is determined by the Meeting of Shareholders, or otherwise by the Board of Directors. Payment of dividends must occur at most within nine months of year-end, unless this deadline is extended by a court decision.
The Meeting of Shareholders has the possibility of offering each shareholder, for all or for part of the distributed dividend or advance on the dividend, the choice between payment in cash or in shares.

1.11. Meetings of Shareholders (Articles 8 and 17 of the by-laws)

Meetings of Shareholders are called and deliberate under conditions set out in prevailing legislation and regulations. The meetings are held either at the Head Office, or at another location specified in the notice of the meeting. Each shareholder may, whatever the number of shares he holds, participate in meetings personally or through a representative, upon providing evidence of his identity and of his shareholding, in the form:
– either of personal registration of the shares in his own name,
– or of an authorised intermediary certificate, as provided for in the Decree N° 83-359 of 2 May 1983, declaring the unavailability of shares registered on account before the date of the meeting.
These formalities must be completed at least five days before the meeting. However, the Board of Directors may shorten or do away with this deadline, on condition that such a decision applies to all shareholders. Votes by correspondence are held in accordance with terms and conditions set out in legislative and regulatory provisions.
Each share gives the right to one vote. Apart from the voting right allocated to it by law, each share also gives the right to a part, in proportion to the number and par value of outstanding shares, of the company's assets, its profits and any liquidation remainder. The by-laws do not provide for any double voting rights. The voting right associated with each share belongs, if appropriate, to the bare owner in any ordinary or extraordinary Meeting of Shareholders.

1.12. Threshold provisions in the by-laws (Article 10 bis of the by-laws, amendment decided by the fourth resolution of the Extraordinary Meeting of Shareholders of 23 June 1989)

In addition to the obligations set out in Paragraph 1 of Article 356-1 of the Act on Commercial Companies, any physical person or legal entity that accumulates a proportion of the capital stock equal to or greater than 2% must inform the company, within at most fifteen days of having exceeded this holding threshold, of the total number of shares it possesses. Otherwise, and at the express request of one or several shareholders with at least 5% of the capital stock, the shares exceeding the proportion that should have been declared are deprived of voting rights at any Meeting of Shareholders held before the expiry of a three-month period following the date of due notification.

2 • GENERAL INFORMATION ABOUT THE CAPITAL STOCK OF SGE

Under the by-laws, neither changes in the capital stock nor rights associated with shares are subject to conditions more restrictive than those provided by law.

2.1. Subscribed capital

At 31 December 1997, the capital stock of SGE, in the amount of 3,427,484,920 French Francs, was made up of 40,323,352 shares, all of the same category, with a par value of 85 French Francs, all fully paid and listed on the monthly settlement market of the Paris Stock Exchange. At 4 March 1998, the capital stock of SGE, consisting of 40,347,107 shares, amounted to 3,429,504,095 French Francs.
The shares are nominative or held by the bearer, and are freely tradable. On the occasion of the next Meeting of Shareholders, planned for May 1998, shareholders will be asked to delegate authority to smooth out the Stock Exchange price for a period of eighteen months, and authority to redeem shares, subject to prevailing legal or regulatory provisions.

2.2. Capital authorised but not issued

The Joint Meeting of Shareholders of 7 March 1994 authorised the Board of Directors to implement, over a five-year period running from 7 March 1994, capital increases by issuing new shares without loss of pre-emptive subscription rights, or by incorporation of reserves into the capital stock, up to a maximal nominal amount of 1.5 billion French Francs.

The Extraordinary Meeting of Shareholders of 30 January 1997
1. renewed for three years the following authorities delegated to the Board of Directors by the Joint Meeting of Shareholders of 7 March 1994:
– authority to implement capital increases by issuing new shares with elimination of pre-emptive subscription rights, up to a maximal nominal amount of 1.5 billion French Francs, the nominal amount of such capital increases to be counted against this maximal amount of 1.5 billion French Francs;
– authority to issue share with stock subscription warrants, with or without loss of pre-emptive subscription rights, up to a maximal nominal amount of 1.5 billion French Francs. The nominal amount of capital increases resulting from the exercise of subscription warrants is to be counted against this maximal amount of 1.5 billion French Francs.
2. authorised the Board of Directors:
- to issue, during a two-year period starting on 30 January 1997, convertible bonds, with or without stock subscription warrants, and bonds with stock subscription warrants, with or without loss of pre-emptive subscription rights, up to a maximal amount of 2 billion French Francs. The nominal amount of capital increases resulting from the exercise of subscription warrants is to be charged against the maximal nominal amount of 1.5 billion French Francs;
– to issue, during a one-year period, composite securities giving the right, within a maximal nominal amount of 1.5 billion French Francs, to the allocation of shares in the company.

Stock subscription options

From 1991 to 1994, SGE stock subscription options were granted to company representatives and to senior managers of the company and the SGE Group. These plans have a ten-year duration.

Option plans	1991 Plan	1992 Plan	1993 Plan	1994 Plan	Total
Date of Meeting of Shareholders	30 Jun. 88	30 Jun. 88	18 Jun. 93	18 Jun. 93	
Date of Board of Directors' meeting	5 Dec. 91	6 Nov. 92	4 Nov. 93	4 Nov. 94	
Number of beneficiaries	87	116	117	119	186 (1)
Total number of shares that could be subscribed	278,975	346,376	292,561	305,000	1,222,912
Starting date for exercise of the options	1 Jan. 93	1 Jan. 94	1 Jan. 95	1 Jan. 96	
Expiry date	5 Dec. 01	6 Nov. 02	4 Nov. 03	4 Nov. 04	
Subscription price (in French Francs)	172.92	112.10	206.56	167.00	
Number of shares subscribed at 31 Dec. 97	20,650	76,431	–	–	97,081
Number of shares subscribed between 1 Jan. 98 and 4 Mar. 98	–	23,755	–	–	23,755
Number of shares that could be subscribed as of 5 Mar. 98	258,325	246,190	292,561	305,000	1,102,076
Number of shares that could be subscribed (as a proportion of the capital stock)	0.64 %	0.61 %	0.73 %	0.76 %	2.73 %

(1) The total number of beneficiaries is less than the sum of the beneficiaries of all the plans, as some persons are involved in several plans.

2.3. Existence of shares not representative of the capital stock, and of bonds convertible, exchangeable or redeemable for securities giving access to the capital stock, through warrants or other means

None.

2.4. Table of changes in the capital stock

Characteristics of the operation	Date of Board of Directors' decision	Additional paid-in capital *(in FF)*	Number of shares created	Number of shares in capital stock	Amount of the capital stock *(in FF)*
Position at 31 Dec. 92				23,974,657	2,037,845,845
Payment of 1992 dividend in shares and stock options exercised	6 Sep. 93	63,609,234	565,218	24,539,875	2,085,889,375
Stock options exercised	28 Jan. 94	109,550	3,500	24,543,375	2,086,186,875
Stock options exercised	7 Mar. 94	561,520	12,900	24,556,275	2,087,283,375
Increase for cash	3 May 94	511,589,000	4,092,712	28,648,987	2,435,163,895
Payment of 1993 dividend in shares and stock options exercised	4 Nov. 94	64,322,330	548,875	29,197,859	2,481,818,015
Group savings plan and stock options exercised	29 May 95	7,601,052	94,085	29,291,944	2,489,815,240
Payment of 1994 dividend in shares	11 Aug. 95	56,602,125	754,695	30,046,639	2,553,964,315
Group savings plan	27 Sep. 95	4,615,272	100,332	30,146,971	2,562,492,535
Group savings plan	26 Jan. 96	1,327,994	50,113	30,197,084	2,566,752,140
Group savings plan	28 May 96	311,300	141,500	30,338,584	2,578,779,640
Group savings plan	25 Sep. 96	665,570	35,592	30,374,176	2,581,804,960
Capital increase following contribution of GTIE and Santerne shares	30 Jan. 97	711,858,000	9,491,440	39,865,616	3,388,577,360
Group savings plan	3 Feb. 97	-	40,006	39,905,622	3,391,977,870
Group savings plan	27 May 97	-	200,941	40,106,563	3,409,057,855
Group savings plan and stock options exercised	24 Sep. 97	713,855	42,669	40,149,232	3,412,684,720
Group savings plan and stock options exercised	27 Jan. 98	3,067,220	174,120	40,323,352	3,427,484,920
Position at 31 Dec. 97				40,323,352	3,427,484,920
Stock options exercised	-	643,760	23,755	40,347,107	3,429,504,095
Position at 4 Mar. 98				40,347,107	3,429,504,095

3 • OWNERSHIP STRUCTURE AND VOTING RIGHTS

3.1. Voting rights

There are no shares with double voting rights. At 31 December 1997, the total number of voting rights amounted to 40,323,269 for a total number of 40,323,352 shares, as 83 «self-controlling» shares are deprived of the right to vote. At 31 December 1997, there were 958 registered shareholders. The number of shareholders with bearer shares is not known to the company. At 31 December 1997 and to the knowledge of the Board of Directors, the main shareholders of SGE were as follows:

	31 Dec. 97 Number of shares	31 Dec. 97 in %	30 Sep. 97 in %	31 Dec. 96 in %	31 Dec. 95 in %
Compagnie Générale des Eaux (CGE)	19,103,590	47.4	75.2	80.2	80.8
Sahide	-	-	5.1	-	-
Compagnie Générale de Chauffe (CGC)	1,552,305	3.8	3.9	-	-
CGE Group	20,655,895	51.2	84.2	80.2	80.8
FCP SGE (Group savings plan)	662,684	1.6	1.5	1.2	0.6
SGPF (SGE fully owned subsidiary)	83	-	-	0.7	0.4
Warburg Pincus Asset Management	2,350,000	5.8	-	-	-
Other shareholders (1)	16,654,690	41.4	14.3	17.9	18.2
TOTAL	40,323,352	100.0	100.0	100.0	100.0

(1) At 31 December 1997, the six main minority shareholders (including Warburg Pincus) of SGE together held 23% of the company's capital stock.

Nota bene: the above holdings have not changed since 31 December 1997, with the exception of that of Warburg Pincus, which only held 5.3% of SGE's stock as of 4 March 1998.

To the company's knowledge, no other shareholder has a direct or indirect stake of 5% or more of the capital stock.

With the exception of the 83 shares mentioned above, held by SGPF, one of its subsidiaries, SGE does not hold any of its own shares in portfolio, and the directors do not own a significant proportion of the capital stock.

Moreover, to the knowledge of the Board of Directors, there is no shareholders' pact.

3.2. Changes in the ownership structure over the last three years

1995: the investment fund that manages SGE shares held by the Group's salaried employees, and that was established as of 1 January 1995 under the Group's employee savings plan, held, as of 31 December 1997, a proportion of the capital stock equal to 1.6%.

1997: in January 1997, Compagnie Générale des Eaux and its subsidiaries Sahide and Compagnie Générale de Chauffe contributed to SGE their shares in GTIE and Santerne. The SGE capital stock holding of the Compagnie Générale des Eaux Group rose on this occasion from 80.2% to 84.9%.

In October 1997, through a so called «private placement» procedure, Compagnie Générale des Eaux sold 13,225,000 SGE shares to various French and foreign (mostly British and American) investors. Following this operation, the shareholding of Compagnie Générale des Eaux fell to 42.3%, and that of the Compagnie Générale des Eaux Group to 51.2%.

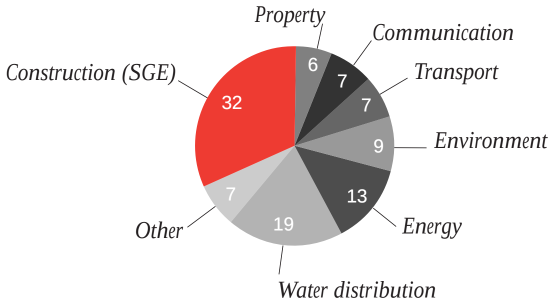
In December 1997, Compagnie Générale des Eaux increased its stake to 47.4% by buying up the 2,040,255 shares held by its subsidiary Sahide.

3.3. Control exercised over SGE

At 31 December 1997, the Compagnie Générale des Eaux Group held 51.2% of the capital stock and voting rights of SGE.

3.4. Position occupied by SGE within Compagnie Générale des Eaux

The following pie-chart shows the breakdown in percentages of the business of Compagnie Générale des Eaux in 1997.



3.5. Market in SGE shares

SGE shares are listed in the monthly settlement market of the Paris Stock Exchange and are included in the SBF 250 index, which groups the 250 main securities of the Exchange.

Stock Exchange price of the SGE share over the last eighteen months

		Average [1] *(in FF)*	High *(in FF)*	Low *(in FF)*	Transactions in number of shares	Transactions in value *(in thous. FF)*
1996	September	95.12	97.50	84.00	175,102	16,196
	October	95.36	103.80	86.00	444,145	42,491
	November	108.04	117.50	100.00	564,851	61,020
	December	108.68	117.00	102.00	226,915	24,742
1997	January	113.35	136.00	104.90	912,683	106,874
	February	125.46	133.90	120.10	318,663	40,182
	March	126.42	133.00	116.00	273,328	34,934
	April	129.66	142.50	118.00	498,488	65,212
	May	129.99	135.80	117.00	285,235	36,291
	June	122.55	131.00	112.00	364,443	44,610
	July	140.65	149.90	123.10	640,158	90,345
	August	136.18	144.50	130.00	142,559	19,397
	September	141.92	149.50	130.10	372,421	53,226
	October	144.58	157.00	129.00	1,044,097 [2]	151,319 [2]
	November	143.70	149.00	135.00	472,826	67,679
	December	149.70	159.90	143.20	539,115	81,013
1998	January	171.16	196.00	155.00	833,059	145,988
	February	179.94	188.00	171.00	1,580,614	282,588

(1) Arithmetic average of the closing prices. Source: SBF-Bourse de Paris.

(2) These figures do not include the impact of the «private placement» operation, whereby CGE sold off 13,225,000 shares at 137 French Francs each on 16 October 1997.

See also the «stock exchange information» section on pages 8 and 9.

4 • POSSIBLE DEPENDENCE OF THE COMPANY ON PATENTS AND LICENCES

None.

5 • LITIGATION AND ARBITRATION

To the knowledge of the company, there is no exceptional fact or litigation that might have a substantial impact on the business, the earnings, the net worth or the financial position of the Group or the company.
Some of the officers of subsidiaries are presently being investigated, on a personal basis, by the judiciary with a view to determining whether they have inappropriately used the assets of their companies to provide direct or indirect benefit to eminent personalities or to political parties.
Moreover, a claim of 130 million French Francs was lodged in 1992 against SGE and other construction enterprises, following an accident that occurred on a work-site for which SGE was a technical advisor. The company believes that the claim is without merit and therefore has made no specific provision in its respect.
In addition, the SNCF (the French National Railways company) has entered a claim of 200 million French Francs against all the companies that contributed to the building of the Northern TGV line, including the SGE Group, for violation of anti-trust law. SGE is currently contesting the basis for the claims and consequently, has not made any specific provision in respect of this matter.
Finally, some of the Group's subsidiaries are being audited under anti-trust legislation.
All in all, SGE does not expect any of these investigations or procedures, even if they end with decisions against the company, to have a substantially negative impact on its financial position.

6 • AVERAGE CONSOLIDATED NUMBER OF EMPLOYEES

See the Report of the Board of Directors. (page 16).

7 • INVESTMENT POLICY

7.1. Research

See the Report of the Board of Directors at pages 17 and 18.

7.2. Expenditures

Expenditures stood at 1.7 billion French Francs in 1997 (to which one should add the 1.5 billion French Francs capital increase tied to the contribution of GTIE and Santerne shares), against 1.1 billion French Francs in 1996. These expenditures are analysed in Notes N° 5. (capital expenditure) and N° 6. (acquisition of investments) to the consolidated financial statements. Apart from the contributed assets, the Group's expenditures are essentially self-financed.

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

1 • BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

1.1. Board of Directors of SGE

Director's name	Date of first Appointment	Date of renewal	Date of term expiry	Principal occupation and Directorships as at 4 March 1998
Antoine Zacharias (CEO from 18 Jun. 97)	17 Dec. 90	25 Jun. 96	2002	Deputy General Manager of CGE. CEO of CBC, Socofreg. Chairman of the Supervisory Board of SGE Deutsche Holding. Member of the Supervisory Board of G+H Montage. Director of Sogea, General Utilities Holdings, Norwest Holst, Tunzini G+H Industrie, Awatech Entsorg. Holding, OEWA Wasser und Abwasser, Prodith, SECR, SLEC, Société Martiniquaise des Eaux, Raab Karcher.
Dominique Bazy	25 Jun. 96		2002	CEO of Allianz Holding France, Allianz Holding France II, AVA Holding, RHIMO Holding, Rhin et Moselle Assurances Françaises, Allianz Assurances, Allianz Vie, Elvia Assurances, Les Assurances Fédérales. Member of the Supervisory Board of ATOS. Director of Allianz Retraite, AVIBERCY Holding, La Rurale, GrandVision.
Daniel Caille	18 Jun. 97		2002	Executive Manager of CGE, CEO of Compagnie Générale de Services Gabon. Director of Sahide, Société d'Energie et d'Eau du Gabon, General Utilities Holding, Société Monégasque des Eaux, Anjou Recherche, Compagnie du Guano de Poisson-Angibaud.
Guy Dejouany representing CGE	25 Jun. 96		2002	Honorary Chairman of CGE, Compagnie des Eaux et de l'Ozone. Managing Director of Société Monégasque des Eaux. Member of the Supervisory Board of AXA. Director of CGE, Compagnie de Saint-Gobain, Alcatel Alsthom, Société Générale, Canal +, Havas, Electrafina, Petrofina.
Alain Dinin	18 Jun. 97		2002	General Manager of CGIS. Manager of Compagnie Générale d'Immobilier George V, Anjou Services. Vice-Chairman of the Supervisory Board of COPRIM. Director of CGIS, SA Penez, Constructa, CGIS Entreprises, Féréal, George V Habitat, George V Industries, George V Gestion, Groupe SEERI, Crédit Financier Lillois.
Patrick Faure	18 Jun. 93		1999	Deputy General Manager of Renault. Chairman of the Board of Renault Sport. Director of Renault France Automobiles, Renault Sport, Mack Trucks, Compagnie Financière Renault, Compagnie d'Affrètement et de Transport, Renault Crédit International, Deutsche Renault, Renault España Comercial, Société Immobilière pour l'Automobile et la Mécanique, SI Epone, Sicofram, Institut Renault de la Qualité, Elf Antar France.

Roland Genin	16 Jun. 95		2001	Former Vice-President of Schlumberger.
Philippe Germond	18 Jun. 97		2002	Deputy Executive Manager of CGE. CEO of SFR and TDR. General Manager of Cegetel, Compagnie Financière pour le Radiotéléphone (Cofira). Director of Cegetel, Cofira, Cegetel Entreprises, C2 GSM Distribution, SIG 8, TransTel, Havas Edition Electronique, Havas Image, Cellcorp.
Guillaume Hannezo	1 Apr. 97		2002	Chief Financial Officer of CGE. Director of Havas, CGEA Transport, Compagnie Générale de Chauffe, SIG 8, General Utilities Holding.
Pascal Lamy	25 Jun. 96		2002	Member of the Executive Committee of Crédit Lyonnais. Chairman of CL Capital Markets. Member of the Supervisory Board of ATOS. Director of Crédit du Maroc, Moulinex.
Jean-Marie Messier	4 Nov. 94	25 Jun. 96	2002	CEO of CGE and Cegetel. Former CEO of SGE. Director of Havas, Canal +, Compagnie de Saint-Gobain, LVMH Moët Hennessy Louis Vuitton, Strafor Facom, UGC, and of subsidiaries controlled by the CGE Group.
Serge Michel	17 Dec. 90	25 Jun. 96	2002	CEO of Segex, Soficot, Sofiru, Ciam. Member of the Supervisory Board of G+H Montage, Compagnie des Eaux de Paris. Director of Sogea, Eiffage, Sahide, Argyra, Société des Eaux de Deauville.
Henri Proglio	18 Jun. 97		2002	Deputy General Manager of CGE and CEO of CGEA, CGEA Transport, SAFISE. Member of the Supervisory Board of SARP, TRU, Union de Service Public. Director of CBC, Compagnie Générale de Chauffe, Compagnie Fermière de Services Publics, SARP Industries, Société des Eaux de Melun, Compagnie de Transport et de Service Public.
Pierre Trotot	16 Jun. 95		2001	Deputy General Manager of Cegetel. CEO of Argyra, Compagnie Européenne de Développement. Director of Cegetel Services, Cegetel Entreprises, Compagnie Internationale pour le Radiotéléphone, Compagnie Transatlantique de Télécommunications, Esys-Montenay, La Financière de Rungis, Omnium de Traitements et de Valorisations, Société Centrale des Entreprises, Société Réunionnaise du Radiotéléphone, SFR 2, Havas Edition Electronique, SIG 8, Compagnie du Pari Mutuel.

1.2. Executive Committee

Antoine Zacharias	Chairman and Chief Executive Officer of SGE.
Bernard Huvelin	General Manager of SGE and Company Secretary.
Gérard Mohr	General Manager of SGE and Chairman and Chief Executive Officer of GTIE.
Alain Leclerc	Deputy General Manager of SGE, Manager of Tunzini and Chairman of the Supervisory Boards of G+H Montage and of Nickel.
Roger Martin	Deputy General Manager of SGE, Manager of Cochery Bourdin Chaussé and of Viafrance, and Chairman of the Supervisory Board of SGE VBU.
Henri Stouff	Deputy General Manager of SGE and Manager of Campenon Bernard SGE.
Xavier Huillard	Manager of SGE and Chairman and Chief Executive Officer of Sogea.

1.3. Committees of directors

See the «corporate governance» paragraph in the Report of the Board of Directors (page 18).

2 • INTERESTS HELD BY OFFICERS IN THE CAPITAL STOCK OF THE COMPANY, IN THAT OF A COMPANY WITH A CONTROLLING INTEREST IN THE COMPANY, IN THAT OF A SUBSIDIARY OF THE ENTERPRISE OR WITH A MAJOR CUSTOMER OR SUPPLIER OF THE COMPANY

2.1. Compensation paid to the Board of Directors and the Executive Committee, and stock option plans for members of the Executive Committee

See Note 30 to the consolidated financial statements (page 83).

2.2. Transactions concluded with members of the Board of Directors or of the Executive Committee, which are not in the nature of ordinary operations concluded under normal conditions

See information provided in the Special Report of the Statutory Auditors.

2.3. Loans and guarantees extended to members of the Board of Directors or the Executive Committee

None.

3 • DESCRIPTION OF EMPLOYEE PROFIT-SHARING PLANS

Employee savings plan

The SGE Group's employee savings plan, established as of 1 January 1995, is designed to make it possible for salaried employees of the Group to participate in the constitution of a collective portfolio of SGE shares, by subscribing reserved capital increases and through the intermediary of an investment fund.

The savings plan is built up from voluntary contributions by salaried employees, supplemented by a contribution from the company of a maximum 5,000 French Francs per year.

Shares in the investment fund acquired by individual participants can be traded:

– either after a period of five years from the date of subscription;

– or, before this period has elapsed, upon the occurrence of one of the events set out in the law (ceasing to work for the enterprise, marriage, birth of a third child, etc.).

Salaried employees of the SGE Group may also participate in the employee savings plan of Compagnie Générale des Eaux.

The contribution amounts (net of CSG, the French social security surtax) paid over the last five years by the SGE Group, under the two savings plans, are as follows:

(in millions of French Francs)	1993	1994	1995	1996	1997	Total
SGE Group savings plan	-	-	5.7	3.0	3.9	12.6
CGE Group savings plan	-	-	-	3.4	6.3	9.7
Total	-	-	5.7	6.4	10.2	22.3

INDIVIDUALS RESPONSIBLE FOR THE REFERENCE DOCUMENT AND FOR AUDITING THE FINANCIAL STATEMENTS

1 • OFFICER RESPONSIBLE FOR THE REFERENCE DOCUMENT

Antoine Zacharias, Chairman and Chief Executive Officer of SGE.

2 • ATTESTATION BY THE OFFICER

"To our knowledge, the information contained in the annual financial report gives a true and fair view of the Group. It includes all the statements necessary for investors to form an opinion on the assets, business, financial situation, financial performance and prospects of Société Générale d'Entreprise. There are no omissions liable to alter the significance of those statements."

The Chairman and Chief Executive Officer, Antoine Zacharias

3 • STATUTORY AUDITORS

2.1. Statutory Auditors

Salustro Reydel
8, avenue Delcassé – 75008 Paris - France
represented by Bernard Cattenoz and Bertrand Vialatte.
Starting date of first term of office: 23 June 1989.
Duration of present term: six years.
Present term expires: at the end of the Meeting of Shareholders that will pronounce on the financial statements for the financial year 2000.

Deloitte Touche Tohmatsu – BMA
183, avenue Charles-de-Gaulle – 92200 Neuilly-sur-Seine - France
represented by Michel Bousquet and Dominique Descours.
Starting date of first term of office: 23 June 1989.
Duration of present term: six years.
Present term expires: at the end of the Meeting of Shareholders that will pronounce on the financial statements for the financial year 2000.

2.2. Alternate Auditors

François Pavard
8, avenue Delcassé – 75008 Paris - France.
Starting date of first term of office: 16 June 1995.
Duration of present term: six years.
Present term expires: at the end of the Meeting of Shareholders that will pronounce on the financial statements for the financial year 2000.

Jacques Convert
183, avenue Charles-de-Gaulle – 92200 Neuilly-sur-Seine - France.
Starting date of first term of office: 16 June 1995.
Duration of present term: six years.
Present term expires: at the end of the Meeting of Shareholders that will pronounce on the financial statements for the financial year 2000.

4 • ATTESTATION BY THE STATUTORY AUDITORS

We have audited the financial information reported in this document in accordance with generally accepted auditing standards by applying such auditing procedures as we considered necessary in the circumstances.
We have also audited the parent company and the group consolidated financial statements for the years 1995 to 1997. They were certified without reserve.
We have the following observations to make about the financial and accounting information as presented. Our report on the consolidated financial statements for 1995 draws attention to the following point, set out in Note 2.1. pertaining to notable events: «the deterioration of business operations in Germany has led management substantially to increase provisions covering property projects and restructuring costs. With respect to the real-estate sector, these provisions were determined on the basis of assumptions about risks associated with the present situation, in a market whose short- and medium-term development remains uncertain».
Our report on the consolidated financial statements of 31 December 1996 stresses the following point, set out in Note 2.1. pertaining to notable events: «The increase in risk related to the rent guarantees made to the purchasers of the Berlin properties caused the Group to set up provisions. These were determined on the basis of assumptions defined by property experts, related to a real-estate market whose future developments are uncertain».
Our report on the consolidated financial statements of 31 December 1997 draws attention to Note 2.1., which sets out a change in the method of accounting for pension commitments.
We have no other comment on the accuracy of the financial information provided in the present report.

The Statutory Auditors

Deloitte Touche Tohmatsu - BMA		Salustro Reydel	
Michel Bousquet	Dominique Descours	Bernard Cattenoz	Bertrand Vialatte

5 • OFFICERS RESPONSIBLE FOR THE FINANCIAL INFORMATION

Bernard Huvelin, General Manager (telephone: + 33 1 47 16 35 43).
Christian Labeyrie, Deputy Director of Finance (telephone: + 33 1 47 16 48 65).
Pierre Coppey, Public Relations Officer (telephone: + 33 1 47 16 35 41).

CROSS - REFERENCING TABLE

To make it easier to read the annual report, which has been registered as a document of reference, the following table identifies the main headings required to be covered by regulation 91-02 of the Commission des Opérations de Bourse (Paris Stocking Exchange Commission).

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This reference document, in the form of an annual report for 1997, was registered with the COB (Commission des Opérations de Bourse – Paris Stock Exchange Transactions Commission) on 30 March 1998 under the number R.98-089. It may not be used in support of a financial transaction unless accompanied by an information note approved by the COB.

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