

Biwater Treatment Limited**Report of the directors**

The directors submit their report and the audited financial statements for the year ended 31 March 2002

Activities

The principal activities of the company consist of the design and installation of water and sewage treatment plants, asset management and leakage detection.

Review of the year's activities and future developments.

The Directors consider that a satisfactory level of turnover and profit was achieved in the year, and forecast a continuance of profit in the coming year.

Results and dividends

The result for the year was a profit transferred to reserves of £866,000 (2001-£709,000) The profit and loss account is shown on page 5.

The directors recommend the payment of a final dividend of £370,000 (2001-£300,000).

Employee involvement

The Biwater Group publishes an in-house newspaper, which is used for informing employees of matters that are of interest to them. A review of the Group's financial position is included annually and there are regular features on different aspects of the Group to help to develop employees' awareness of the market realities of the business. Biwater Treatment's employees also have access to the company's own Intranet site that provides information daily as to the latest news involving the company. Good employee communication has been given a high priority in order to involve employees in the affairs of the business.

Policy on employment of disabled persons

The company gives every consideration to applications for employment from disabled persons where a handicapped or disabled person may adequately cover the requirements of the job. Employees who become disabled during employment are given continued employment where possible and opportunities for training and career development are provided for all disabled employees.

Payments to suppliers

The company's normal payment terms are to pay approved invoices in accordance with terms agreed with suppliers. Outstanding creditor days at 31st March 2002 were 48 (71 days at 31st March 2001)

Charitable donations

The company made charitable donations of £11,829 (2001-£31,997) in the year.

Research and development.

The company maintained its policy of investing in research and development projects, the cost of which are disclosed in note 2 to the financial statements.

Biwater Treatment Limited

Report of the directors (continued)

Directors and interests in shares

The present directors are: -

B J Armstrong
M Studholme
J P Abraham
P J P Jarema
A V Williams

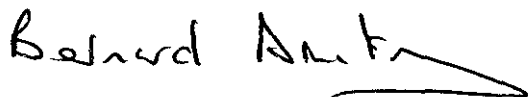
Roger Ingham resigned as a director on 18 December 2001. John Abraham was appointed as a director on 18 December 2001. Neil Green was appointed as a director on 2 April 2002 and resigned on 30 August 2002.

None of the directors has, or has had, discloseable shareholding interests in any group company.

Auditors

A resolution to re-appoint the existing auditors PricewaterhouseCoopers will be proposed at the forthcoming annual general meeting.

By order of the board



Bernard Armstrong
Director

Registered office:
Gregge Street
Heywood
Lancashire OL10 2DX

Registered number: 1535477

September 5 2002

Statement of directors' responsibilities

It is the responsibility of the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company and of its profit or loss for the year. In preparing those financial statements, the directors are required to:

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

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

The directors are responsible for the maintenance and integrity of the Company's website. Information published on the Internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Biwater Treatment Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors.
Manchester
5 September 2002

Biwater Treatment Limited

Profit and loss account Year ended 31st March 2002

	Note	Year ended 31/3/02 £000	Year ended 31/3/01 £000
Turnover – Continuing Operations	1	60,008	49,915
Operating profit – Continuing Operations	2	1,054	497
Net interest receivable	4	812	1,021
Profit on ordinary activities before taxation		1,866	1,518
Taxation	5	(630)	(509)
Profit for the financial year	17	1,236	1,009
Dividends	6	(370)	(300)
Retained profit for the financial year		866	709

Statement of total recognised gains and losses

The company had no recognised gains or losses other than the profit for the year

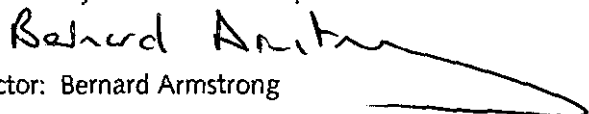
The notes on pages 9 to 15 form part of these financial statements.

Biwater Treatment Limited

Balance sheet Year ended 31st March 2002

	Note	31/3/02 £000	31/3/01 £000
Fixed assets			
Tangible assets	7	948	835
Investments	8	<u>48</u>	<u>28</u>
		996	863
Current assets			
Stocks	9	52	63
Debtors: amounts falling due after more than one year	10	5,150	4,851
Debtors: amounts falling due within one year	11	17,917	16,142
Cash at bank and in hand		<u>10,227</u>	<u>5,097</u>
		33,346	26,153
Creditors: amounts falling due within one year	12	<u>28,477</u>	<u>22,000</u>
Net current assets		<u>4,869</u>	<u>4,153</u>
Total assets less current liabilities		<u>5,865</u>	<u>5,016</u>
Creditors: amounts falling due after more than one year	13	7	24
Provisions for liabilities and charges	15	-	-
Net assets		<u><u>5,858</u></u>	<u><u>4,992</u></u>
Capital and reserves			
Called up share capital	16	3,500	3,500
Profit and loss account	17	<u>2,358</u>	<u>1,492</u>
Total shareholders' funds		<u><u>5,858</u></u>	<u><u>4,992</u></u>

Approved by the board on September 5 2002

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Director: Bernard Armstrong

The notes on pages 9 to 15 form part of these financial statements.

Biwater Treatment Limited

Accounting policies

Basis of accounting

The financial statements are prepared in accordance with the accounting policies set out below and applicable accounting standards.

Accounting convention

The financial statements are prepared under the historical cost convention. The company is a wholly owned subsidiary of Biwater Plc and has taken advantage of the legal dispensations allowing it not to prepare consolidated financial statements and a cash flow statement.

Changes in accounting Policy

The accounting policies have been applied consistently throughout the period. The group has adopted FRS19, Deferred Tax, in these financial statements. FRS18, Accounting Policies, has also been adopted in the current year. The adoption of these policies has had no impact on the 2001/2 results.

The transitional arrangements of FRS17, Retirement Benefits, have also been adopted. This standard requires disclosures in respect of post retirement benefits, as set out in note 21.

Turnover

Turnover comprises the value of contracting work carried out, excluding V.A.T.

Depreciation of fixed assets

Plant and equipment are depreciated on a straight-line basis over their estimated lives from 2 to 12 years to a notional residual value.

Fixtures and fittings are depreciated on a straight-line basis over their estimated lives from 3 to 5 years to a notional residual value.

Leases

Tangible assets purchased under finance lease agreements are capitalised and the net obligations resulting are shown as liabilities. The cost of each asset is depreciated over the shorter of the length of the relevant lease or the estimated life of the asset to a notional residual value where appropriate. The interest element of the rental charges is charged to the profit and loss account so as to produce a constant periodic charge.

Rentals under operating leases are charged to the profit and loss account, as incurred, over the terms of the leases.

Pension costs

The company participates in a defined benefit scheme known as the Biwater Retirement and Security Scheme (BRASS).

The expected cost of pensions in respect of the defined benefit pension scheme is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme. Variations from regular cost are spread over the expected remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of qualified actuaries.

Biwater Treatment Limited

Accounting policies (continued)

Stocks and long term contracts

Stocks of raw materials, consumables, manufacturing work-in-progress and finished goods are valued at the lower of cost and net realisable value.

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit. Long-term contract profit is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year-end. Turnover and related costs are recorded as contract activity progresses. Full provision is made for losses on all contracts in the year in which such losses are first foreseen. This policy is applied irrespective of the length of the contract since, in the opinion of the directors, it is not appropriate to treat short-term contracts separately.

Foreign currencies

Assets, liabilities, profits and losses in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Costs and revenues payable or receivable in foreign currencies and included in forecasts of contract outcome are translated using current exchange rates. Gains and losses from hedging future foreign currency costs and revenues are included in the estimates of contract outcome. Other exchange differences arising in the ordinary course of business are included in the profit and loss account.

Deferred taxation

Deferred tax is provided on a discounted basis, using the liability method in respect of timing differences of a material amount which are expected to result in tax liabilities or assets in the foreseeable future. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

Research and development

Expenditure on research and development is written off in the year of expenditure, except where there is a clearly defined project.

Where the project is clearly defined and on-going, the research and development costs are carried forward, to the extent that their recovery can reasonably be assured, until the project is complete.

Pre-Award Costs

Costs in respect of prospective contracts are not capitalised but are written off to the profit and loss account in the year in which they are incurred, unless they are incurred at a time when it is certain the contract has been won and they are recoverable in the contract.

Joint Arrangements

The Group has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The group includes its share of the assets and liabilities in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Group's interest in the joint arrangement.

Biwater Treatment Limited

Notes to the financial statements

	Year ended 31/3/02 £000	Year ended 31/3/01 £000
1 Turnover		
Turnover arose in the following geographical areas:		
United Kingdom	58,534	48,702
Europe	95	791
Other	1,379	422
	60,008	49,915
2 Operating profit		
Operating profit represents:		
Turnover	60,008	49,915
Changes in stocks of finished goods and work-in-progress	(10)	1
Raw materials and consumables	(18,895)	(12,395)
Other external charges	(3,836)	(3,800)
Staff costs	(12,020)	(10,374)
Sub contractors	(23,858)	(22,560)
Depreciation of tangible assets – owned assets	(329)	(297)
- Leased assets	(7)	(7)
Difference on Exchange	(1)	-
Profit on disposal of tangible assets	2	14
	1,054	497
Included in the above are:		
Pre-award costs	78	70
Research and development costs	27	78
Other external charges include:		
Auditors' remuneration:		
- audit fees	53	43
Hire of plant & equipment	2,010	1,975
Operating leases:		
- plant and equipment	551	492
- other	94	112

Biwater Treatment Limited

Notes to the financial statements (continued)

	Year ended 31/3/02 £000	Year ended 31/3/01 £000
Operating profit continued		
Staff costs comprise:		
Wages and salaries	10,411	8,863
Social security costs	809	760
Pension costs	800	749
Redundancy costs	-	2
	12,020	10,374

The average number of employees during the year was as follows:

	Number	Number
United Kingdom	458	407
	458	407
	£000	£000

3 Directors' emoluments

For services as executives	435	337
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Retirement benefits accrued during the year for the following number of directors:

	Number	Number
Defined benefit schemes	5	5

The emoluments of the highest paid director amounted to £127,076 (2001-£103,972). His accrued pension at 31 March 2002 amounted to £57,660 (2001-£51,625).

There are no excess retirement benefits in respect of directors or past directors.

Biwater Treatment Limited

Notes to the financial statements (continued)

	Year ended 31/3/02 £000	Year ended 31/3/01 £000
4 Net interest receivable		
Interest payable:		
Finance Leases	(2)	(5)
Other Interest	(27)	(40)
	(29)	(45)
Interest receivable:		
Group undertakings	794	1,020
Other Interest	47	46
Net interest receivable	812	1,021
5 Taxation		
Corporation tax charge at 30% (2001 30%) based on the result for the year	630	509
6 Dividends		
Final Dividend of 10.6 p per share (2001 8.6p)	370	370

Biwater Treatment Limited

Notes to the financial statements (continued)

7	Tangible assets	Plant and Equipment	Fixtures and Fittings	Total
		£000	£000	£000
	Cost			
	Balance at 1 April 2001	3,149	887	4,036
	Additions	239	215	454
	Disposals	(126)	-	(126)
	Balance at 31 March 2002	3,262	1,102	4,364
	Accumulated depreciation:			
	Balance at 1 April 2001	2,705	496	3,201
	Current year's charge	173	163	336
	Disposals	(121)	-	(121)
	Balance at 31 March 2002	2,757	659	3,416
	Net book value:			
	31 March 2002	505	443	948
	31 March 2001	444	391	835
	Assets held under finance leases and capitalised in fixtures and fittings	2002 £000		2001 £000
	Cost	72		72
	Accumulated depreciation	(25)		(17)
	Net Book Value	47		55
		31/3/02 £000		31/3/01 £000
8	Fixed asset investments			
	Fixed asset investment at 1 st April 2001	28		28
	Additions during the Year	48		-
	Impairment of new investment	(28)		-
	Fixed asset investment at 31 st March 2002	48		28

Fixed asset investments consist of a one share holding (0.0013%) in Biwater Overseas Limited, a sub holding company registered in England. This share was acquired on the 19 October 1999 in exchange for a 51% holding in Biwater Megadex SP a company registered in Poland. During the course of the year an investment representing 100% of the share capital, was made in Biwater EkO-Activ, a group company incorporated in Bulgaria. In the opinion of the Directors, the values of the investments are not less than the book amount.

Biwater Treatment Limited

Notes to the financial statements (continued)

	31/3/02 £000	31/3/01 £000
9 Stocks		
Raw materials and consumables	52	63
10 Debtors: amounts falling due after more than one year		
Trade debtors	900	601
Amounts owed by group undertakings	4,250	4,250
	5,150	4,851
11 Debtors: amounts falling due within one year		
Trade debtors	4,997	7,039
Amounts owed by group undertakings	4,729	3,569
Amounts recoverable on contracts (see below)	7,980	5,231
Other debtors	24	97
Prepayments	187	206
	17,917	16,142
12 Creditors: amounts falling due within one year		
Finance leases (Note 14)	17	17
Excess progress receipts	3,588	1,968
Trade creditors	9,417	9,029
Amounts owed to group undertakings	2,751	2,672
Contract loss provisions	1,904	970
Other creditors	975	347
Corporation tax (includes group relief)	2,191	1,613
Other taxation and social security	465	379
Accruals	7,169	5,005
	28,477	22,000
13 Creditors: amounts falling due after more than one year.		
Finance lease (Note 14)	7	24
14 Finance leases		
Future obligations under finance leases are as follows:		
Within one year	17	17
In more than one year, but not more than five years	7	24
	24	41

Biwater Treatment Limited

Notes to the financial statements (continued)

15 Provision for liabilities and charges.

There are no deferred tax liabilities.

	31/3/02 £000	31/3/01 £000
16 Called up share capital		
Authorised Ordinary shares of £1 each	3,500	3,500
Allotted and fully paid Ordinary shares of £1 each	3,500	3,500

17 Combined statement of movements in equity shareholders' funds and statement of movements on reserves

	Share capital £000	Profit and loss account £000	Total 2002 £000	Total 2001 £000
Profit for the financial year		1,236	1,236	1,009
Dividends		(370)	(370)	(300)
Net additions to shareholders funds		866	866	709
Opening equity shareholders funds	3,500	1,492	4,992	4,283
Closing equity shareholders funds	3,500	2,358	5,858	4,992

	31/03/02 £000	31/3/01 £000
18 Annual commitment under operating leases		
Operating leases which expire within one year:		
- plant and equipment	55	68
- fixtures and fittings	0	8
Operating leases which expire within one and two years:		
- plant and equipment	243	169
- fixtures and fittings	64	2
Operating leases which expire within two and five years:		
- plant and equipment	605	701
- fixtures and fittings	93	110

19 Capital commitments

Authorised and contracted	0	64
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Biwater Treatment Limited

Notes to the financial statements (continued)

20 Contingent liabilities

As a sub contractor, the company has been enjoined in a legal claim against the main contractor in respect of rectification costs relating to an alleged poorly performing plant. No provision has been made in the financial statements, as the Board believes it is unlikely that any significant liability will accrue to the company from this legislation. The company is involved in-group cross guarantee arrangements in connection with the Biwater PLC group's banking facilities.

21 Pension commitments

The company participates in a funded defined benefit scheme known as the Biwater Retirement and Security Scheme (BRASS), which comprises a "main" section with the bulk of the membership and a separate section for employees of Bournemouth & West Hampshire Water Plc.

The latest actuarial valuation performed by an independent, external actuary of both sections of BRASS was made at 1st January 2000 using the projected unit valuation method. The principal assumption adopted in the valuation was that the return on investment would be two per cent per annum higher than the rate of the annual salary increase in the long term.

On this basis, at the valuation date, the actuarial assets of the main section of BRASS was £49 million which was sufficient to cover 98 per cent of the value of benefits that had accrued to members after allowing for expected future increases in earnings. Group cash contributions to this section of the scheme, net of expenses and cost of death in service lump sum benefits, equated to 11.4 per cent of pensionable salaries.

Other than the assumptions covered above, the significant actuarial assumptions were dividend growth at 5.25 per cent per annum and a valuation of the assets based on discounting the projected flow of investment earnings assumed to arise from the stocks and shares underlying the assets held at valuation date.

The alternative minimum funding requirement (MFR) valuation basis was assessed by the Pensions Act 1995 as part of the triennial valuation. The regulations require the MFR certification to be based on the aggregate assets and liabilities of both sections of BRASS and as such, the Scheme Actuary has certified the MFR ratio as 114%

The BRASS scheme is a defined benefit scheme. However the contributions paid by the company are accounted as if the scheme were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities in the scheme

The cost of the contribution to the group scheme amounts to £800,845 (2000: £748,935) of which £109,273 (2000:£84,428) is accrued in the balance sheet at the year end. Further details of the Group scheme are given in the financial statements of Biwater Plc.

22 Joint Arrangement

The company is currently involved in three joint arrangements with Alfred McAlpine Construction Limited, George Leslie Limited, and Morgan Est Plc respectively. The company's share in the joint arrangements is 50%.

23 Related party transactions

Advantage has been taken of the exemption given in FRS 8 to wholly owned subsidiaries, not to provide details of transactions and balances with other group members of the Biwater Plc group and shareholders of Biwater Plc.

24 Ultimate controlling undertaking

Biwater Treatment Limited is wholly owned by Biwater Plc which is registered in England & Wales. Biwater Plc is the only company that consolidates the results of Biwater Treatment Limited and is the ultimate parent undertaking. The ultimate controlling party of Biwater Plc is Mr A E White.