Catchment Highland Limited

Directors' report and financial statements

Registered number SC163036

31 December 2001

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Principal activities

The principal activity of the company is the intra-group leasing of plant, equipment and related land.

Business review

The directors consider the financial position of the company at the year end to be satisfactory.

Proposed dividend

The directors do not recommend the payment of a dividend. The directors propose that the profit for the year of £20,800 *(2000: £666,211)* is transferred to reserves.

Directors and directors' interests

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

S DeAtley	
D Kilgour	
P Jeantet	(appointed 22 March 2001)
L A Bell	(appointed 1 November 2001)
D Quint	(resigned 22 March 2001)
G A I Waters	(resigned 1 November 2001)
J F McFadzean	(resigned 11 February 2002)
R S Fullerton	(resigned 11 February 2002)

None of the directors who held office during the financial year had any disclosable interests in, or rights to subscribe for, the shares of the company or any other group company.

A directors' and officers' liability insurance was in force during the year.

Political and charitable contributions

The company made no political contributions or charitable donations during the year.

Auditors

Our auditors, KPMG, have transferred their business to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 13 May 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising.

Pursuant to S386 of CA1985 an elective resolution has been made dispensing with the requirement to re-appoint auditors annually. Therefore KPMG LLP is deemed to continue as auditor of the company.

By order of the board

L A Bell

L Bell
Director

152 Bath Street
Glasgow
G2 4TB

Statement of directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

St James' Square
Manchester M2 6DS
United Kingdom

Independent auditor's report to the members of Catchment Highland Limited

We have audited the financial statements on pages 4 to 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP 23/1/03
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2001

	Note	**2001**	2000
		£	£
Finance lease charges receivable from parent undertaking		**1,348,000**	668,000
Finance lease charges payable		**(1,322,000)**	(655,000)
Operating profit		**26,000**	13,000
Interest repayable and similar charges	*3*	**-**	653,211
Profit on ordinary activities before taxation	*2-3*	**26,000**	666,211
Tax on profit on ordinary activities	*4*	**(5,200)**	-
Retained profit for the year		**20,800**	666,211

The company has no recognised gains or losses for the current or prior year other than those shown above.

All of the results shown above relate to continuing operations within the UK.

The notes on pages 7 to 11 form part of these financial statements.

Balance sheet
at 31 December 2001

	Note	2001 £	£	2000 £	£
Current assets					
Debtors	*5*	**334,000**		-	
Creditors: amounts falling due within One year	*7*	**(334,000)**		-	
Net current assets			**-**		-
Debtors due after more than one year	*6*		**16,163,000**		15,918,000
Total assets less current liabilities			**16,163,000**		15,918,000
Creditors: amounts falling due after more than one year	*8*		**(16,426,424)**		(16,202,224)
Net liabilities			**(263,424)**		(284,224)
Capital and reserves					
Called up share capital	*12*		**2**		2
Profit and loss account	*13*		**(263,426)**		(284,226)
Equity shareholders' funds			**(263,424)**		(284,224)

The notes on pages 7 to 11 form part of these financial statements.

These financial statements were approved by the board of directors on 5th December 02 and were signed on its behalf by:

L.A. Bell

L Bell
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2001

	2001 £	2000 £
Profit for the financial year	**20,800**	666,211
Net addition to shareholders' funds	**20,800**	666,211
Opening shareholders' funds	**(284,224)**	(950,435)
Closing shareholders' funds	**(263,424)**	(284,224)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The accounts have been prepared on a going concern basis. The company has negative net assets due to a long term loan from its parent, Catchment Limited, which will provide the company with sufficient funds to fulfil its obligations as they fall due.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company qualifies as a small company under sections 246 and 249 of the Companies Act 1985.

Leases

The company and its parent, Catchment Limited, have entered into a series of legal agreements to finance the Fort William and Inverness plants:

- Catchment Highland Limited purchases certain assets as agent for Catchment Limited;
- Catchment Highland Limited leases certain assets from Catchment Limited for a nominal sum, and;
- Catchment Limited leases back the same assets from Catchment Highland Limited for operational use in the business.

The directors have concluded that the substance of the arrangements is such that the risks and rewards of the projects lie with Catchment Limited. As such, all assets, liabilities and transactions relating to the business are shown within Catchment Limited, irrespective of the legal ownership.

Catchment Highland Limited remains as a leasing business which rents assets to Catchment Limited. Accordingly, these accounts show the lease liabilities and lease debtors. The capital element of future rentals receivable is treated as an asset and the interest element is credited to the profit and loss account over the period of the lease in proportion to the debtor outstanding. Similarly, the capital element of future rentals payable is treated as a liability and the interest element is charged to the profit and loss account over the period of the lease in proportion to the obligation outstanding.

Related party transactions

As the company is a wholly owned subsidiary of Catchment Limited which is a wholly owned subsidiary of Catchment Highland Holdings Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Notes *(continued)*

2 Remuneration of directors

The directors received no emoluments as directors of the company during the year *(2000: £nil)*.

3 Interest repayable and similar charges

	2001	2000
	£	£
Interest repayable from group undertakings	-	653,211
	-	653,211

4 Taxation

	2001	2000
	£	£
UK corporation tax at 30% *(2000: 30%)*	**5,200**	-
	5,200	-

5 Debtors: amounts falling due within one year

	2001	2000
	£	£
Obligations under finance leases owed by parent undertaking:	**334,000**	-
	334,000	-

6 *Debtors: amounts falling due after more than one year*

	2001	2000
	£	£
Obligations under finance leases owed by parent undertaking:	***16,163,000***	*15,918,000*
	16,163,000	15,918,000

Notes *(continued)*

7 Creditors: amounts falling due within one year

	2001	2000
	£	£
Obligations under finance leases	**334,000**	-
	334,000	-

8 Creditors: amounts falling due after more than one year

	2001	2000
	£	£
Obligations under finance leases	**16,163,000**	15,918,000
Amounts owed to parent undertaking	**258,224**	284,224
Other creditors including taxation and social security	**5,200**	-
	16,426,424	16,202,224

9 Analysis of debt

	2001	2000
	£	£
Debt can be analysed as falling due:		
In one year or less, or on demand	**334,000**	-
Between one and two years	**413,000**	314,000
Between two and five years	**1,800,000**	1,446,000
In five years or more	**14,208,224**	14,442,224
	16,755,224	16,202,224

There is a cross guarantee in place in respect of monies advanced by Société Générale to Catchment Highland Holdings Limited and Catchment Limited.

The assets of the company are secured to Société Générale by way of a fixed and floating charge.

10 Amounts repayable in more than five years

	2001	2000
	£	£
Obligations under finance leases	**13,950,000**	14,158,000
Amounts owed to parent undertaking	**258,224**	284,224
	14,208,224	14,442,224

Notes *(continued)*

11 Obligations under finance leases

	2001 £	2000 £
Within one year	**1,676,000**	1,076,000
In the second to fifth years	**7,221,000**	7,011,000
Over five years	**20,556,000**	22,285,000
	29,453,000	30,372,000
Less future finance charges	**(12,956,000)**	(14,454,000)
	16,497,000	15,918,000

12 Called up share capital

	2001 £	2000 £
Authorised		
Equity: Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	**2**	2

13 Reserves

	Profit and loss account £
At beginning of year	(284,226)
Retained profit for the year	20,800
At end of year	(263,426)

Notes *(continued)*

14 Ultimate parent company

The company is a wholly owned subsidiary of Catchment Limited which is a wholly owned subsidiary of Catchment Highland Holdings Limited. The smallest group in which the results of the company are consolidated is that headed by Catchment Highland Holdings Limited, a company registered in Scotland. The consolidated accounts of this group are available to the public and may be obtained from 152 Bath Street, Glasgow G2 4TB.

Catchment Highland Holdings Limited is a joint venture with equal immediate parent ownership of North West Water (Scotland) Limited, a company registered in England and Wales, International Water (Highlands) Limited, a company registered in England and Wales, and International Water UU (Highland) Limited, a company registered in Scotland, and ultimate parent ownership of United Utilities Plc, a company registered in England and Wales, Bechtel Group Inc., a company registered in the United States of America, and Edison SpA, a company registered in Italy.