

FINAL

CATCHMENT HIGHLAND LIMITED

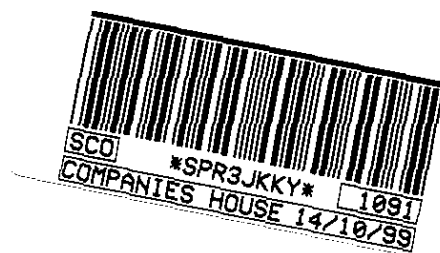
DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1998



IAM

COMPANY NUMBER: 163036

CATCHMENT HIGHLAND LIMITED

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CATCHMENT HIGHLAND LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The directors do not recommend the payment of a dividend. The directors propose that the profit for the year of £1,585 be transferred to reserves.

DIRECTORS

The directors of the company during the year ended 31 December 1998 are set out below.

H R Croft	resigned 14 January 1998
R G Bradbury	resigned 14 January 1998
J M Martin	
J F McFadzean	
J M Geary	
A D Mawdsley	
M F Bradbury	resigned 14 January 1998
G J M Tregaskis	appointed 14 January 1998
G A I Waters	appointed 14 January 1998

None of the directors have a shareholding in the company or of the ultimate holding company Catchment Highland Holdings Limited.

During the year a directors' and officers' liability insurance was in force.

Year 2000

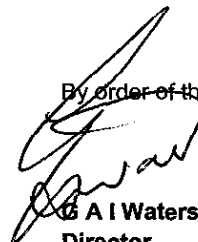
The company recognises the problem of Year 2000 and the associated risks and uncertainties. The company is monitoring progress towards Year 2000 compliance and the identification of associated risks.

Costs of achieving Year 2000 compliance are being charged to the profit and loss account as incurred.

AUDITORS

A resolution to re-appoint KPMG as auditors to the company will be proposed at the Annual General Meeting.

Registered Office
12 Atholl Crescent
Edinburgh
Lothian
Scotland EH3 8HA
Registered in Scotland No. 163035

By order of the board

G A I Waters
Director
7 September 1999

CATCHMENT HIGHLAND LIMITED

DIRECTORS' RESPONSIBILITIES

In respect of the preparation of financial statements

The directors are required by the Companies Act 1985 to prepare the 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 a going concern basis unless it is inappropriate to presume that the company will continue in business

The directors' responsibility includes the maintenance of adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also have a general responsibility at law 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.

AUDITORS' REPORT

to the members of Catchment Highland Limited

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of directors and auditors

As described above under the "Directors' responsibilities", the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 explanation we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 December 1998 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditor
Manchester

1/10/99

CATCHMENT HIGHLAND LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1998

	Notes	1998	1997
		£	£
Turnover		-	-
Gross Profit		-	-
Other income		2,000	-
Interest receivable		6	182
Profit on ordinary activities before taxation		2,006	182
Tax on profit on ordinary activities	4	(421)	-
Profit for the financial year		1,585	182

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

The notes on pages 8 to 11 form part of these financial statements.

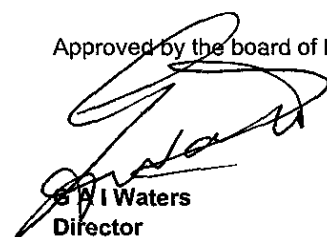
CATCHMENT HIGHLAND LIMITED

BALANCE SHEET

As at 31 December 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	5	25,621,464	5,830,074
CURRENT ASSETS			
Debtors	6	145,154	89,679
Cash at bank and in hand		71	182
Total Current Assets		145,225	89,861
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	7	(2,493,426)	(115,411)
Net Current assets / (liabilities)		(2,348,201)	(25,550)
Total assets less current liabilities		23,273,263	5,804,524
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	8	(23,271,494)	(5,804,340)
Net Assets		1,769	184
CAPITAL AND RESERVES			
Equity share capital	10	2	2
Profit and loss account	11	1,767	182
Equity Shareholders' Funds		1,769	184

Approved by the board of Directors on 7 September 1999 and signed on its behalf by


B. I. Waters
Director

The notes on pages 8 to 11 form part of these financial statements.

CATCHMENT HIGHLAND LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31st December 1998

	Notes	1998	1997
		£	£
Profit for the financial year	11	1,585	182
Opening shareholders' funds		184	2
Shareholders' funds as at 31 December 1998		<u>1,769</u>	<u>184</u>

CATCHMENT HIGHLAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

1a FINANCIAL STATEMENTS

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

1b GOING CONCERN

The accounts have been prepared on a going concern basis as the joint venture has adequate facilities in place to enable the company to continue trading for the foreseeable future.

1c TURNOVER

Turnover represents income receivable in the ordinary course of business for the goods and services provided and excludes VAT.

1d CAPITALISATION OF INTEREST

Interest on borrowings by the company has been capitalised as part of the cost of construction of the asset and will be depreciated over the useful life of the assets.

1e DEPRECIATION

Depreciation will be charged over the useful life of the assets on all costs incurred in construction commencing when the plants become fully operational.

1f CASH FLOW STATEMENT

The company is exempt from the requirement to prepare a cash flow statement under the provision of Financial Reporting Statement 1 (FRS 1), being the wholly owned subsidiary of a UK company.

2 DIRECTORS

The directors received no emoluments as directors of the company.

3 INTEREST RECEIVABLE

	1998	1997
	£	£
Interest received	6	182
Interest paid	665,157	65,132
Interest paid to group companies	1,699,708	-
Interest capitalised	(2,364,865)	(65,132)
	<u>6</u>	<u>182</u>

4 TAXATION ON PROFITS ON ORDINARY ACTIVITIES

	1998	1997
	£	£
UK Corporation Tax at 21%	<u>421</u>	<u>-</u>

CATCHMENT HIGHLAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	FIXED ASSETS	Assets in the course of construction	Total
		£	£
	<u>COST</u>		
	As at 1 January 1998	5,830,074	5,830,074
	Additions	19,791,390	19,791,390
	As at 31 December 1998	25,621,464	25,621,464
	<u>NET BOOK VALUE</u>		
	As at 1 January 1998	5,830,074	5,830,074
	As at 31 December 1998	25,621,464	25,621,464
6	DEBTORS	1998	1997
		£	£
	<u>Amounts falling due within one year</u>		
	Other debtors	145,154	89,679
		145,154	89,679
7	CREDITORS	1998	1997
		£	£
	<u>Amounts falling due within one year</u>		
	Trade creditors	154,592	98,842
	Amounts owed to parent undertakings	1,699,708	-
	Accruals	639,126	16,569
		2,493,426	115,411
8	CREDITORS	1998	1997
		£	£
	<u>Amounts falling due after more than one year</u>		
	Bank loans	11,135,000	2,273,000
	Amount due to parent undertaking	12,136,494	3,531,340
		23,271,494	5,804,340

CATCHMENT HIGHLAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

9	BORROWINGS	1998 £	1997 £
	Within one year	-	-
	Between one and two years	-	-
	Between two and five years-parent undertaking	12,136,494	3,531,340
	After more than five years	11,135,000	2,273,000
		<u>23,271,494</u>	<u>5,804,340</u>

There is a cross guarantee in place in respect of monies advanced by Societe Generale to Catchment Highland Holdings Limited and Catchment Limited. This amount is a sub-debt loan from the parent company as part of the Group financial arrangements and the loan greater than five years is a lease facility as part of the contractual arrangements in force.

CONTINGENT LIABILITY

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

10 **CALLED UP SHARE CAPITAL**

The company's authorised share capital is £100 divided into 100 shares of £1 each.

The allotted and fully paid share capital of the company as at 31 December was :

	1998 £	1997 £
Ordinary shares of £1	<u>2</u>	<u>2</u>

11 **PROFIT AND LOSS ACCOUNT**

	1998 £	1997 £
As at 1 January 1998	182	-
Profit for the year	1,585	182
As at 31 December 1998	<u>1,767</u>	<u>182</u>

12 **COMMITMENTS**

Fixed asset commitments are :

	1998 £	1997 £
Approved expenditure contracted	<u>28,545,683</u>	<u>28,263,000</u>
Approved expenditure not contracted	<u>-</u>	<u>-</u>

CATCHMENT HIGHLAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 RELATED PARTY TRANSACTION

During the year the company incurred costs of £17,263,717 (1997 £5,134,001) to the joint venture established between Bechtel Limited and Morrison Construction Limited for the construction of the treatment plants and at the year end £154,592 (1997 £89,075) was outstanding.

Also , during the year the company incurred costs of £ NIL (1997 £15,625) to Morrison Construction Limited a joint venture company which owns an interest in the company. Of these costs £ NIL (1997 £9,767) was outstanding at the year end.

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. This holding company is a joint venture with equal ultimate parent ownership of United Utilities PLC a company registered in England and Wales, Morrison Construction Group PLC, a company registered in Scotland and Bechtel Group Inc., a company registered in the United States of America.