

REPORT TO SHAREHOLDERS

Corporate Profile

Belize Water Services Limited (BWS) started operations on March 23, 2001 and is the main provider of water and sewerage services in Belize. The average number of customers which BWS serves is 36,930, with a total average water demand of 110 million gallons per month. The Company administrates all operations via nine district offices throughout the country, dealing with both technical and commercial customer related issues. Over 60% of the water supplied is produced using conventional water treatment processes, with rivers as the sources. Satellite water wells are used throughout the majority of the Company's district operations. On San Pedro, BWS distributes water, which has been treated by the process of Reverse Osmosis, the conversion of seawater to drinking water.

Due to the completion of the Double Run Water Treatment Plant in February 2002, BWS currently has the treatment capacity to meet water demand in Belize City up to 90 Million Gallons per month. At current growth rates this expansion will take the Company forward until the year 2012 and beyond.

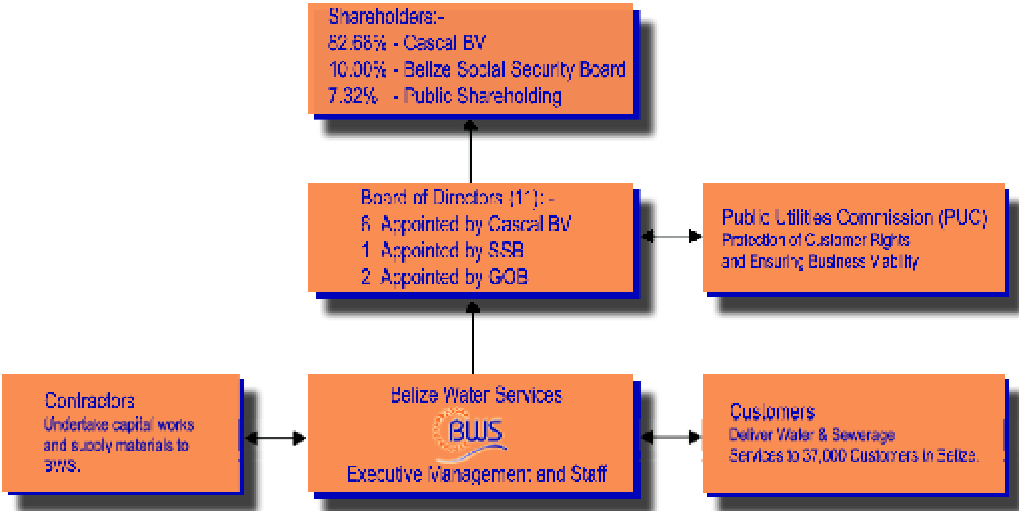


Gilbert Raymond Lightburn J.P.

**Gilbert Raymond Lightburn
Chairman**

In completing projects such as Double Run, and continuing to invest in refurbishment and new infrastructure, BWS continues to respond to the growing aspirations of our stakeholders, namely our Customers, Employees and Shareholders. Fundamental to meeting these objectives, both in the short and long term, has been the initiation of a holistic approach towards improving the Company's performance. This broad-based strategy, oriented towards our customers, has provided the Company with a firm platform from which yet further goals will be achieved in the coming years.

Diagram of Corporate Structure



Overview of Our First Year

Following commencement of operations on March 23, 2001, BWS and its management team have faced and met many challenges, which have affected the business and its operations. During this period, the business has been very dynamic and much has been asked of both the management team and staff during the transition from public to private sector. Despite these dynamics, we have maintained our focus on the main targets for the first year of operation, these being initial improvement in standards of service, asset growth through careful investment, and operational cost reductions. This has at times necessitated difficult decisions to be taken in order to provide a stable business from which BWS can move forward into the future.

During this first year of operation, the Company and its management team have made many changes within the organisation, all of which are geared to improved performance and efficiency in the coming years.

All of the activities undertaken in Year 2001/02 have been focused on providing improved standards of service to our customers, while at the same time maintaining commitments to shareholders for future returns on investment. Whilst there are of course many aspects to our operation, which require further improvement, the staff and the management of BWS have made significant progress towards achieving these goals in only one year.

Operational Challenges in Early Days

The first half of the year saw a period during which the business was plagued by outages in water supply, necessitating frequent water rationing and interruptions to services, particularly within Belize City. Whilst this



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Martin Greenhalgh
Chief Executive Officer

situation was inherited, this regretfully did have a negative impact during the early months of operation, in terms of the Company's public image and our customers' satisfaction.

In response to the service interruptions, BWS management and staff delivered the Double Run Water Treatment Plant, which was commissioned in February 2002. The completion of this new production facility and distribution assets doubled our capacity and provided the residents of Belize City with a reliable 24-hour supply of potable water.

**"Water Pressures
increased by
100% in
Belize City"**

The additional water production capacity of this \$26.2 million investment has also brought significantly improved standards of service to our customers, with water pressures being increased by 100% in Belize City.

In addition to the investment in the Belize City Water Expansion Project, BWS has also invested significantly in refurbishment of Dangriga Water Treatment Plant and the renovation of lagoons and sewerage lift stations.

During the next two years this refurbishment and expansion of assets will continue in order to ensure that efficiency and performance of the water and sewerage system is optimised. This necessary work is required to ensure long-term benefits to our customers. However this work will mean that at times there will be temporary interruptions in service. While these are regrettable, they are necessary for the long term benefit of our customers, and as much notice as possible will be given.

Cost Reductions Required

In addition to the strategic and operational aspects of the business, a great deal of management time has been invested in the development of a stable and affordable cost structure within the business. Indeed, ensuring adequate cashflows within the business, simply to maintain operations has been a major challenge and priority.

A large number of the operating expenses within the Company were too high relative to the income stream, and as a result efficiency savings in all aspects of the cost structure have been implemented.

**'Management
reduced direct
operating
expense
by 41%'**

In making these cost reductions, the management team has reduced the average direct operating expense (i.e. before depreciation and financial expense) by 41% from \$8.13 per 1,000 gallons (Kgal) to \$4.77 per Kgal.

Despite the significant gains made in reducing the operating expense of the Company, it has still been necessary for BWS to secure a \$4 million overdraft facility. This facility was secured in August 2001 with Belize Bank and is necessary to ensure adequate cashflows for working capital requirements.

Regulatory Issues

The Company has been working closely with the Public Utilities Commission (PUC) to establish the details of the regulatory framework. This will control the economic basis on which the Company will operate after the end of the initial transition period.

These activities are ongoing and include the finalisation of a "Developer Model", which will enable transparent analysis of specific capital works projects. This model enables developers and the Company to analyse the cost and benefits to each party for these related projects.

The most fundamental activity, which is currently ongoing, is the development of the Water and Sewerage Bylaws and Customer Codes of Practice. These documents are being designed to define the operating and commercial parameters between the regulator, the Company and its customers.

Dialogue with Government

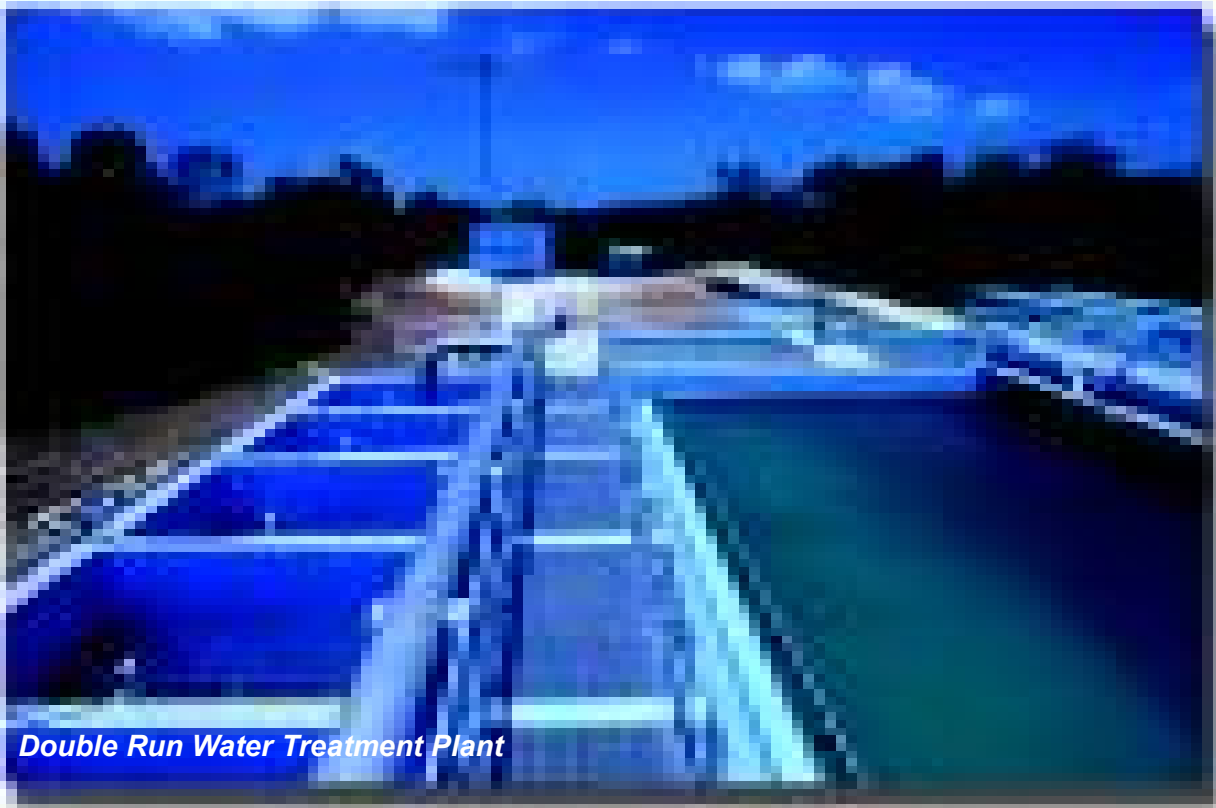
During this past year, the strategic investor in the Company, Cascal, has been in dialogue with the Government over issues relating to Cascal's initial investment in the Company. We are pleased to report that these issues have been resolved amicably and on a mutually acceptable basis.

Future of BWS

This first and necessary stage of the transitional business plan has been successfully achieved, providing a "spring board" from which BWS can move forward. The next 12 months will see a further consolidation of these achievements, as the Company moves forward into the next phase of the business strategy. That being one of

careful and commercially justified investment in new infrastructure, combined with focus on improving customer services and staff efficiency. Over the next 12 months BWS will be investing in and implementing new computerised systems covering asset management, accounting and customer services software. These systems are essential in order that we maintain and build on the operational improvements made to date. In order to assist in the financing of these new investments we are pleased to report that the Company has secured a significant new loan facility from the Alliance Bank.

With the completion of Double Run Water Treatment Plant, the Company operations are now stabilising. Customers have seen significant improvement in water pressures,



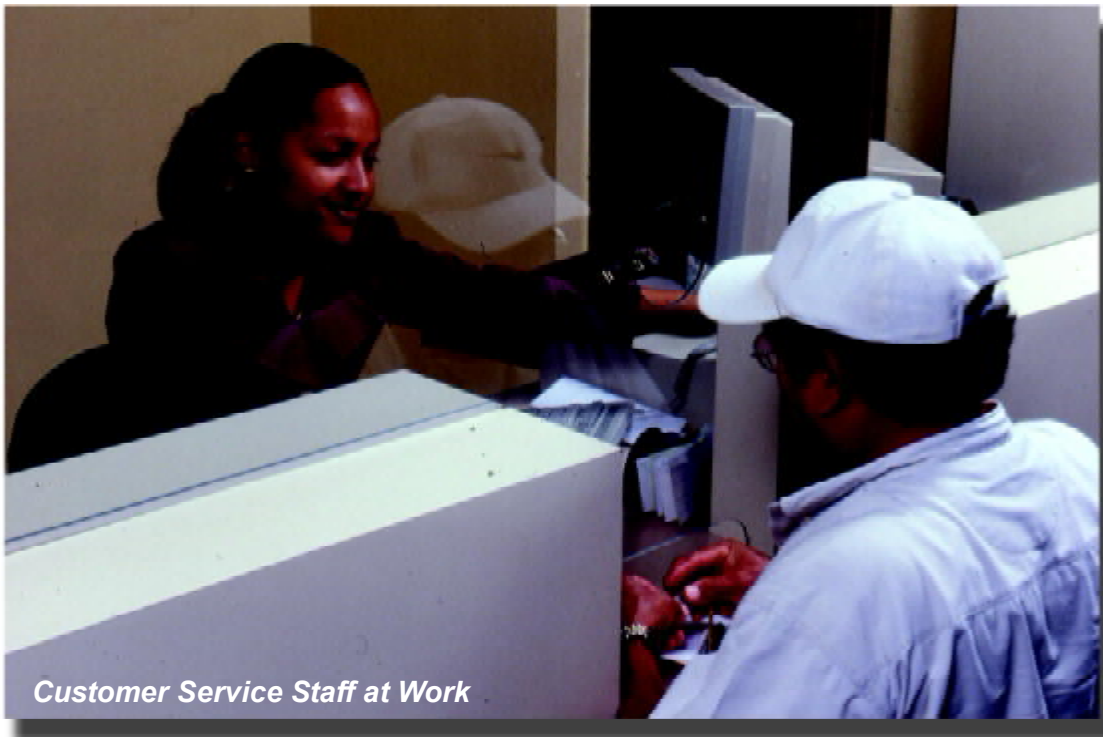
Double Run Water Treatment Plant

which is indeed positive. However, increasing pressures does increase distribution losses, due to the higher number of leaks. Therefore significant resources will be expended during the next 18 months in order to reduce Non-Revenue Water (NRW) and water losses. To this end specialist consultants will be appointed and targeted investment in specific equipment and systems will be undertaken to control and monitor water supply pressures. This activity and investment will reduce the company's operating costs and improve operational efficiency yet further.

During the first year of operations it has been necessary to reduce staff significantly. Whilst this was a necessary process, the Board of Directors also recognise that we must now

invest in our people, providing them with the necessary skills and motivation to perform even more efficiently and conscientiously. As well as investing in new computerised systems, the Company must continue to enhance staff training and motivation to ensure they use these new tools and systems effectively.

It should be stressed to all Shareholders that BWS remains in a transitional phase, which will continue for a further 2 years. During this time the performance of the Company will improve, both in financial and operational terms. However much work is still necessary in order to provide a business under which returns to investors can become a reality.



Customer Service Staff at Work

OPERATIONS REPORT

Customer Service and Satisfaction

BWS has placed great emphasis on meeting the expectations of its customers during Year 2001/02. To this end, we have connected more than 3,000 new households, ensured 24 hours supply countrywide and significantly improved the supply pressure, all of which has been achieved in our first year of operation. Instrumental to our early achievements as a new Company has been the integration of the wealth of knowledge and experience collectively held by our workforce with the managerial expertise of the new Directors.

Of course, as with any new company, there are still many aspects of our customer service which require yet further improvement. BWS and our staff are committed to improving the level of customer service and a number of initiatives will be undertaken during the next 12 months to ensure this important objective is met.



A handwritten signature in black ink, appearing to read 'R Pope'.

Richard Pope
Chief Operations Officer

Supply of Water

Improving the supply of good quality drinking water in all urban areas countrywide, in sufficient quantity and at adequate pressure, has been our main operational focus.



Double Run Water Treatment Plant

However, when we first took over the Company its operational performance in Belize City was unsatisfactory, with key assets in a state of disrepair. During our first year, BWS has tackled the main issues of night time shut downs, rationing and the resulting low pressures.

In order to meet our first year targets, a number of capital investment projects in Belize City and the surrounding districts have been undertaken. The most fundamental of these has been the completion of the Belize City Water Expansion Project. This Project doubled the water production and distribution capacity in an effective and efficient manner. All of us in BWS were focused on this important endeavour and in a well coordinated final push, the Project was successfully commissioned in February 2002. The result is that Belize City will have sufficient high quality potable water for over a decade to come.

Other facets of the \$26.2 million investment include:

- The new 24" water transmission main to Belize City
- The 14" water distribution main from the BWS Head Office and Pumping Station

on Central American Boulevard to Mile 9 of the Western Highway

- The upgrade and automation of the two main Pumping Stations in Belize City

The result has been extremely positive in terms of the improvements in the standards of service to our customers. Water pressure has more than doubled from an average of 8 psi to 20 psi, and the customary night-time shutdowns and water rationing are a thing of the past.

'Night time shutdowns and rationing are a thing of the past'

The whole Project has been a great example of teamwork and provides Belize City with a state-of-the-art water system of which we can all be proud - secure in the knowledge that future generations will benefit greatly from this investment.

Water Quality

In addition to improving pressures and the distribution of water, a new fully equipped analytical laboratory was constructed. It



Staff Operating Newly Constructed Laboratory at Double Run

facilitates the control of water quality within our production and distribution systems and ensures efficient chemical dosing.

Our Staff

The management of BWS has been pleased with the responsiveness of all the staff in the face of the many challenges that accompanied privatisation. We are conscious that the changes to the organisation have been rapid and far reaching, and that this may have been somewhat alien to the majority of the work force. Nonetheless, staff at every level in the organisation have responded positively to the change in corporate culture, which has been necessary in order that we meet, and in the future, exceed customer expectations. We have been particularly impressed by the dedication shown by many individuals, who have excelled in terms of personal commitment to ensure the security of water and sewerage services to the population of Belize.

'Staff at every level have responded positively to the change in Corporate Culture'

The BWS management team seeks to build on the changes made, by investing in new systems and providing the training for our staff. This will ensure that BWS, over the long term, is able to maintain and exceed the operational efficiencies achieved to date.

In changing the organisational structure, the average number of staff per 1000 customers is now approaching 6.5. This represents a 20% improvement in efficiency compared to the previous year. The reorganisation of the work force has and will continue to make BWS more effective and has given a number of staff new opportunities.



Staff Efficiency has Continued to Improve Throughout the Year

Capital Investment

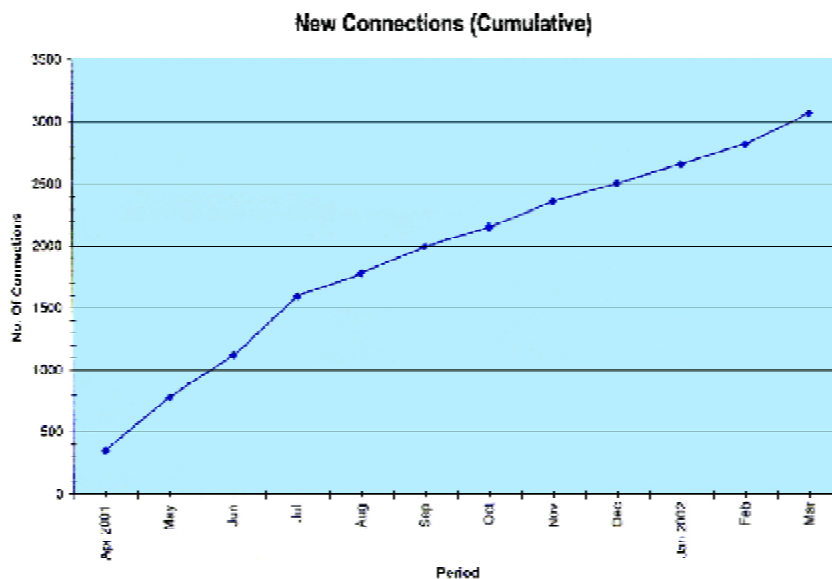
BWS has invested in excess of \$12.5 million during the fiscal year. In addition to the benefits of the Belize City Expansion Project, other districts have also seen very tangible evidence of this increased expenditure.

During the year, we also focused on the backlog of customer requests for water supply. As a result a significant programme of capital investment has been undertaken in order to satisfy a pent up customer



The town of Progresso has at long last been provided with good quality drinking water. This project was the culmination of the development of a close working relationship between BWS and the local community.

requirement for new water connections to their homes. In total 3,038 new services have been laid, half of which were in the first four months following privatisation.



New Connections have been Increasing Month on Month

Countrywide, BWS has and continues to invest significantly in improving the much-neglected water supply network, and in only one year we have increased the length of mains by a massive 155,450 ft (29.4 miles).



New Distribution Mains being Installed at Mile 8 on Western Highway

In addition to distribution pipeline expansions, over \$3 million was invested by BWS in order to repair the damage caused by Hurricane Keith and to better prepare for future hurricanes. The most significant projects included the repair and enhancement of the facultative lagoons in Belize City and San Pedro, the construction of a new elevated water storage tank in San Pedro and the upgrading of the wastewater pumping stations.

Non-Revenue Water (NRW)

The reduction and control of NRW is a long term and indeed a never-ending objective for any water company. Our initial NRW strategy has been to tackle with equal vigour both technical losses such as leaks and commercial losses such as illegal connections. During the past year, BWS has repaired well over 6,000 service line leaks and 900 major bursts, which illustrates the extent of the challenge of reducing distribution losses. During the latter part of the year BWS carried out a survey of over 20% of our customers that indicated that a significant number of connections may be illegal. A further and more comprehensive survey is planned for the whole country next year, which again is essential in order for BWS to control and manage the losses within the distribution system.



BWS Staff Utilising Newly Purchased Equipment to Detect Leaks

Despite the many successes in repairing leaks and discovering illegal connections, the increased pressure in the main urban areas means that we still have much work to do to reduce NRW. This requires a clear strategy moving forward encompassing the following activities:

- Undertake a complete Customer Audit in order to detect illegal connections and meter tampering. The position of meters will be recorded using a Global Position System (GPS). Meter co-ordinates and audit data will be used to update customer information.
- Replace our customer service and billing system with a more modern computerised system that operates countrywide.
- Further train our meter readers and leak detection teams. In addition, we have given the district supervisors more responsibility than they previously had for the measurement and control of NRW in their respective areas.
- Complete the installation of the new bulk meters and boundary valves for the district meter zones.
- Further installation of data loggers and use of portable non-intrusive flow measurement devices.

Never before in Belize has so much new technology been introduced for the management and control of water leakage.

Operational Maintenance

An initial survey of the Company's assets showed that the pipelines, pumping stations and treatment works were in a poor state of

repair. Some, such as the sewerage lift stations, needed complete refurbishment and replacement.

It has therefore been necessary for the Company to carry out a huge amount of maintenance work in order to get this equipment back to a fully functional status. A complete schedule of routine maintenance has been planned for the current year and a new Planned Maintenance System will be implemented during the next 18 months.

A Firm Footing for Further Operational Improvement

BWS has made rapid progress in only one year. We have improved our operational efficiency through the introduction of new technology and water management expertise. Consequently, the customer has benefited from improved water quality control, pressure and reliability of service. The management and staff intend to build on these improvements, by the introduction of computerised systems and enhanced procedures.

The training provided and the new systems being implemented will give our staff the tools to enhance their performance and increase their satisfaction as employees of BWS. The previous and continued investment and improved efficiencies will result in better returns in the longer term for our shareholders. Thus, BWS has now positioned itself to implement continuous improvements for all its stakeholders.

COMMUNITY OUTREACH

Within its first year of operation BWS has only just started to better understand the community and culture in which it operates. In doing so the Company strives to build close relationships with communities in its nine urban areas. In this regard, the future holds many mutual benefits both to the communities we serve and the Company.

Hurricane Iris

Hurricane Iris had a devastating impact on a number of areas in Belize and BWS responded where possible to assist those communities affected.

In the village of Placencia, the Company responded positively and replaced over 3,000 ft of the submarine water pipeline that crosses the Placencia Lagoon from Malacate Beach in Mango Creek to the village of Placencia. BWS donated its staff and equipment, working on a 24-hour basis, to reconnect the

community with water. The entire project only took two weeks to complete, due to the efforts made by both the community and BWS staff.

To assist with the immediate needs of the local people, BWS also dispatched a truck loaded with donations of food and portable lighting. The Company also responded to the appeal of the Red Cross with financial donations.

Helping other Water Boards

In addition to helping with emergencies, BWS has on many occasions assisted rural Water Boards around the country in providing spare parts and technical advice/assistance. A number of the smaller Water Boards are unable to maintain some of the stock items and components that are necessary to maintain reliable water services to people. We feel that it is important that everyone has water wherever they may be, and outages must be kept to the bare minimum. Therefore, BWS will maintain this important link with rural communities.



BWS at Work in Placencia

**'BWS responded
...to assist those
communities
affected by
Hurricane Iris'**

Progresso Village

The community of Progresso has had a long wait for a reliable source of water to meet the needs of the people. Over the last decade and beyond, a number of attempts have been made, each one unfortunately resulting in failure. However, in partnership with the local community, district leaders and the Government, BWS became involved in trying to find a solution.

Company feels it has developed a special relationship with the people of Progresso.

The successful completion of this project is a very strong symbol and serves to demonstrate what can be achieved when private sector, Government and local communities come together. The community of Progresso will be able to run their own water system, one that is simple to maintain and affordable.



Progresso Children Using New Water Supply

It was of great relief to the community and all parties involved when we were successful in finding a suitable well location. The community itself also played a key role in controlling their own destiny, by providing the necessary labour and resources for the construction of the distribution network. In carrying out and assisting with this project, the

BWS is immensely pleased to have worked so closely and so successfully with the people of Progresso. In addition, we were glad of the opportunity to generate employment in the village both during the construction and also now that the project is operational.

Education

BWS believes that education is a key driver for improved understanding and development of firm relationships with any community. Water is a very precious commodity and one that should be preserved and not wasted. Through education BWS seeks to inform children and communities of the need to conserve water, and to this end the Company has organised many school visits to our facilities during the last twelve months. We have shown many school children around our various water treatment plants, so that they can begin to appreciate the “water cycle” and it’s importance to everyone’s life.

World Water Day

Being the major supplier of water and sewerage services in Belize, BWS played a leading part in World Water Day, which was held on October 5, 2001. The objective of this day around the world is to inform people of the importance of properly treated potable water and sewerage services. This programme was an extremely positive event and many people showed interest in understanding more about how their water is provided.



School Children Tour Dangriga Plant

FINANCIAL REPORT

Earnings and Major Influences

Throughout the fiscal year, BWS incurred a significant loss of earnings, despite making progressive reductions in direct operating costs (not including depreciation and financing costs). This loss was primarily due to high one-off expenses, and the cost of servicing existing debt.

Towards the end of the fiscal year, it became apparent that BWS had inherited a significant amount of redundant and overvalued stock items. It was therefore necessary to reduce the carrying value of these items to reflect realistic current values, and in some cases write-off the entire stock value.

The overall net loss for the company during the fiscal Year 2001/02 was \$3.652 million or \$0.09 per share based on the 40 million issued shares.

Sales and Income

The income stream was consistent throughout the year and annual sales were generally in line with forecasts. Water Sales by volume equated to 1,320 million gallons.

**'Water Sales
increased
by 15%
Year on Year'**

At the end of the year, water consumption per customer increased by 15% year on year. This was largely due to the higher water pressures in Belize City and the completion of the Double Run Water Treatment Plant in February 2002. Whilst this improvement in sales did not have a significant impact on the



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**Alvan Haynes
Chief Financial Officer**

entire fiscal year, it does indicate that we will see improved sales during the coming twelve months.

The water sales during the year resulted in \$16.8 million in income, with additional fixed income of \$500 k from water related sales. The average tariff was \$12.73 per Kgal, which is a 2% increase year on year.

Major Costs and Expenses

Direct operating expenses including consumables, cost of the bulk water supply contract in San Pedro, staff costs and other operating costs totalled \$13.3 million. Depreciation of assets within the fiscal year equated to \$1.9 million. Other expenses, including financial expenses and business tax,

totalled \$5.8 million, giving total fixed and variable expenses for the fiscal year of \$21.0 million.

Whilst this total also included one-off costs such as the \$1.87 million stock write-off, the total direct operating expenses were reduced substantially, due to the actions of management during the year. This action provides a positive cost structure within the Company moving forward.

Existing Loans and Debt Servicing

Debt Servicing was a significant cost for the Company during the last fiscal year. BWS inherited existing long-term debt equating to \$44.0 million with one loan (CDB-10-SFR-OR/BZE) still being actively drawn down. By March 31, 2002, the total long-term debt principal equated to \$52.1 million.

The Company initiated an overdraft facility of \$4.0M in August 2001. Though absolutely necessary for cash flow purposes, this resulted in additional interest and bank charges.

The summary of debt servicing in terms of interest and principal repayment made in fiscal Year 2001/02 is as follows:

Loan Capital Repaid:	\$ 3.3M
Interest Paid:	\$ 3.9M
Total Debt Servicing	<u><u>\$ 7.2M</u></u>

**'Debt Servicing
was a
significant
cost'**

Capital Expenditure and Asset Growth

The Belize City Water Expansion Project, with a total value of \$26.2 million was completed in February 2002, incorporating the new water treatment plant at Double Run and the new 24" Main pipeline from Double Run to Belize City. In order to complete this project, BWS has invested \$12.5 million during the fiscal year.

As a result of the Company's investment activities during the fiscal year, our overall assets, including depreciation, grew by 8.2% from \$130.8 million to \$141.4 million.