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Stirling Water Seafield Finance Plc
Annual report
for the year ended 31 March 2004



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Directors and advisers

Directors

A Collins
K A Farrer
P R Harding
G Mallett
J Mitchell
M J S Ramsay

Registered auditors

PricewaterhouseCoopers LLP
9 Greyfriars Road
Reading
RG1 1JG

Secretary and registered office

P Braid
Princes Exchange
1 Earl Grey Street
Edinburgh
EH3 9AQ

Directors' report for the year ended 31 March 2004

The directors present their report and the audited financial statements of the company for the year ended 31 March 2004.

Principal activities

The company is part of a joint venture between the Thames Water, M J Gleeson and MWH groups of companies. It raises funds to enable the group to upgrade and operate waste water treatment services and provide services relating to the treatment and disposal of sewage sludge in relation to Almond Valley and Seafield.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory.

Directors believe that the Company's activities will continue at the same level in the future.

Results and dividends

The company's result for the financial year was £ nil (2003: £nil)

The directors do not recommend the payment of a dividend (2003: £nil).

Directors and their interests

The directors of the company who held office during the year are given below:

C A Boyle	(resigned 30 th August 2003)
G W Edwards	(resigned 7 th April 2003)
K A Farrer	
P Harding	(appointed 5 th January 2004)
G Mallett	(appointed 7 th April 2003)
J Mitchell	
M J S Ramsay	
J M Ravenscroft	(resigned 12 th August 2003)
S D Skelton	(resigned 5 th January 2004)
A Collins	(appointed 26 th May 2004)
D A Eyre	(resigned 26 th May 2004)

None of the directors held any interests in the company or other group companies during the year.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the board



Peter Harding
Director

Independent auditors' report to the members of Stirling Water Seafield Finance Plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the 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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

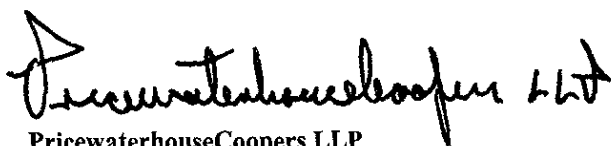
Basis of audit opinion

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 31 March 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

22 September 2004

Profit and loss account for the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Interest receivable	2	6,624	6,626
Interest payable	3	(6,624)	(6,626)
Result from ordinary activities before taxation	4	-	-
Taxation	5	-	-
Result for the financial year	12	-	-

The results for the year derive wholly from continuing activities.

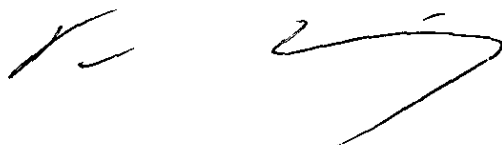
There are no recognised gains and losses other than the results above and therefore no separate statement of recognised gains and losses has been presented.

There is no difference between the result from ordinary activities before taxation and the result for the financial year stated above, and their historical cost equivalents.

Balance sheet at 31 March 2004

	Notes	2004 £'000	2003 £'000
Current assets			
Debtors - amounts falling due within one year	6	2,437	148
Debtors - amounts falling due after more than one year	7	93,165	94,934
		95,602	95,082
Creditors - amounts falling due within one year	8	(2,387)	(98)
Net current assets		93,215	94,984
Creditors - amounts falling due after more than one year	9	(93,165)	(94,934)
Net assets		50	50
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account	12	-	-
Equity shareholders' funds	13	50	50

The financial statements on pages 5 to 11 were approved by the board of directors on 16 September 2004 and were signed on its behalf by:



Peter Harding
Director

Notes to the financial statements for the year ended 31 March 2004

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

Taxation

The charge or credit for taxation is based on the result for the period as adjusted for disallowable and non taxable items.

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the profit and loss account.

Tax deferred or accelerated is accounted for in accordance with the requirements of Financial Reporting Standard (FRS) 19 'Deferred taxation'. Under FRS19, the policy on deferred taxation is to make provision for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. Deferred tax liabilities are recognised in full as they arise. Deferred tax assets are recognised to the extent that the directors can foresee recovery with reasonable certainty. Provision is made at the rate which is expected to apply when the liability or asset is expected to crystallise.

Cash flow statement

The company is a wholly owned member of the Stirling Water Seafield Holdings Limited group of companies and its results are included in that company's consolidated accounts. The company has therefore taken advantage of the exemption from presenting a cash flow statement provided by FRS 1 (Revised 1996) 'Cash Flow Statements'.

Financial instruments

The company's financial instruments include fixed rate sterling denominated bonds and debtors. Interest is charged to the profit and loss account as it becomes payable.

The funding policy and objective of the company and group are set out in note 10.

Issue costs on capital instruments are allocated to accounting periods over the term of the debt as a consistent proportion of the outstanding amount of the related debit in accordance with the requirements of FRS4 'Capital instruments'.

2 Interest receivable

	2004	2003
	£'000	£'000
From group companies	6,624	6,626

3 Interest payable

	2004	2003
	£'000	£'000
Interest payable on bonds	6,088	6,090
Amortisation of bond issue costs	536	536
	6,624	6,626

4 Result from ordinary activities before taxation

The directors received no emoluments in respect of their services to the company.

The company has no employees.

The auditors' remuneration and non audit fees have been borne by the company's immediate parent, Stirling Water Seafield Limited.

5 Taxation

No charge to taxation arises on the result for the year. There are no items on which a deferred tax asset or liability arises.

There is no difference between the tax assessed for the year and the result from ordinary activities at the standard rate of corporation tax in the UK (30%).

6 Debtors - Amount falling due within one year

	2004	2003
	£'000	£'000
Amounts owed by parent undertaking	2,437	148

7 Debtors - Amount falling due after more than one year

	2004	2002
	£'000	£'000
Amounts owed by parent undertaking	93,165	94,934

The net proceeds of the bond issues have been lent to another company within the Stirling Water group at an interest rate of 5.822% plus an agreed arrangement fee to cover the amortisation of bond issue costs and interest thereon. The loan is repayable on the same terms as the bonds, which, from September 2004, are to be repaid in bi-annual instalments and will be repaid in full by September 2026.

8 Creditors - Amounts falling due within one year

	2004	2003
	£'000	£'000
Accruals and deferred income	82	98
Guaranteed secured bonds	2,305	-
	2,387	98

9 Creditors - Amounts falling due after more than one year

	2004	2003
	£'000	£'000
Guaranteed secured bonds	93,165	94,934

Guaranteed secured bonds with a total value of £102,900,000 (2003: £102,900,000) have been issued by the company at an interest rate of 5.822%. The bonds are secured on all sums due or to become due.

The bonds have been stated in the balance sheet net of the bond issue costs that are being amortised over the life of the bonds.

From September 2004 the bonds are to be repaid in bi-annual instalments, and the bonds will be repaid in full by September 2026.

	2004	2003
	£'000	£'000
Maturity of bonds		
In one year or less	2,305	-
In more than one year, but not more than two years	2,441	2,305
In more than two years, but not more than five years	8,222	7,765
In more than five years	89,932	92,830
	102,900	102,900
Less future amortisation costs	(7,430)	(7,966)
	95,470	94,934

10 Financial instruments

The funding policy of the Stirling Water Seafield Holdings Limited group is to fund capital expenditure using fixed rate sterling denominated bonds to protect profits against risks arising from adverse movement in interest rates and currency exposures. These bonds have been issued by the company. The net proceeds of the bonds have been lent to Stirling Water Seafield Limited, to fund the group's capital expenditure. The group does not make use of derivative financial instruments.

The objective of group treasury operations is to ensure the availability of a timely flow of funds at a cost which reflects the creditworthiness of the group. They are managed as a cost, not a profit centre. No material open or speculative positions are taken.

The financial assets and liabilities analysed below exclude short term debtors and creditors, other than amounts relating to the guaranteed secured bond.

Financial assets and liabilities

	2004			2003		
	Total at floating rate £'000	Total at fixed rates £'000	Total book value £'000	Total at floating rates £'000	Total at fixed rates £'000	Total book value £'000
Current asset investments -						
£ sterling	-	95,470	95,470	-	94,934	94,934
Guaranteed secured bonds -						
£ sterling	-	(102,900)	(102,900)	-	(102,900)	(102,900)

Guaranteed secured bonds have been shown gross of issue costs that have been offset against the amount included in the balance sheet in accordance with FRS4. (See note 9).

Fixed rate assets and liabilities

	2004		2003	
	Weighted average interest rate %	Weighted average period to maturity Years	Weighted Average interest rate %	Weighted average period to maturity Years
Current asset investments -				
£ sterling	6.4	14	6.4	15
Guaranteed secured bonds -				
£ sterling	5.822	14	5.822	15

Currency risk

The company has no exposure to currency risks as all of its assets and liabilities are in sterling.

Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arms length transaction between informed and willing parties, other than a forced or liquidation sale. The table sets out a comparison of the book and fair values of the company's financial instruments.

	2004		2003	
	Total book value £'000	Total fair value £'000	Total book value £'000	Total fair value £'000
Primary Financial Instruments				
Financial assets	95,470	107,472	94,934	110,267
Financial liabilities	(102,900)	(107,472)	(102,900)	(110,267)

Primary financial liabilities are bonds that are not actively traded on a public market.

The maturity of the company's borrowings is disclosed in note 9.

Borrowing facilities

An amount of £6,000,000 (2003: £6,000,000) relating to the variation bond issued in the year ended 31 March 2000 has not been put to the market.

11 Called up share capital

	2004 £'000	2003 £'000
Authorised		
100,000 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

12 Profit and loss account

	£'000
At 1 April 2003	-
Result for the financial year	-
At 31 March 2004	-

13 Reconciliation of movements in shareholders' funds

	2004 £'000	2003 £'000
Profit attributable to shareholders	-	-
Opening shareholders' funds	50	50
Closing shareholders' funds	50	50

14 Related party transactions

The company is a wholly owned member of the Stirling Water Seafield Holdings Limited group of companies. As the company's results are included in the consolidated financial statements of its ultimate parent, the company has taken advantage of the exemption provided by Financial Reporting Standard 8 'Related Party Disclosures' from disclosing details of transactions with other Stirling Water Seafield Group companies.

15 Immediate and ultimate parent company and controlling party

The directors regard Stirling Water Seafield Limited, a company registered in Scotland, as the immediate parent company and Stirling Water Seafield Holdings Limited, a company registered in Scotland, as the ultimate parent company and controlling party. Stirling Water Seafield Holdings Limited prepares consolidated financial statements and copies of these may be obtained from the Company Secretary, Stirling Water Seafield Holdings Limited, Princes Exchange, 1 Earl Grey Street, Edinburgh, EH3 9AQ.