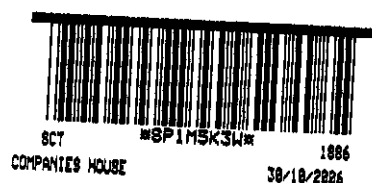


Registered no SC190621

Stirling Water Seafield Finance Plc
Annual report
for the year ended 31 March 2006



Stirling Water Seafield Finance Plc

Annual report for the year ended 31 March 2006

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Directors and advisers

Directors

A Collins
K A Farrer
P R Harding
N Paterson
J Mitchell
M J S Ramsay

Registered auditors

PricewaterhouseCoopers LLP
Erskine House
68 73 Queen Street
Edinburgh
EH2 4NH

Secretary and registered office

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

Directors' report for the year ended 31 March 2006

The directors present their report and the audited financial statements of the company for the year ended 31 March 2006

Business review and principal activities

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

The company's result for the financial year was £ nil (2005 £nil). The directors do not recommend the payment of a dividend (2005 £nil).

The directors consider that the level of business and the year end financial position were satisfactory.

Future outlook

The directors believe that the Company's current activities will continue at the same level in the future.

Principal risks and uncertainties

The directors consider that the key risk affecting the company is the ability of Stirling Water Seafield Limited (a fellow group company) to meet re payments as they fall due.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Directors and their interests

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

K A Farrer
P R Harding
J Mitchell
M J S Ramsay
A Collins
N Paterson

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 2006 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 and disclosure of information to auditors

So far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware.

Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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 of Stirling Water Seafield Finance Plc for the year ended 31 March 2006 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). The 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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statement. We also report to you if, in our opinion, 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

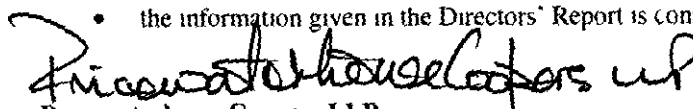
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act and
- the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh

30 October 2006

Profit and loss account for the year ended 31 March 2006

	Notes	2006 £'000	2005 £'000
Interest receivable	2	6,341	6,395
Interest payable	3	(6,341)	(6,395)
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 2006

	Notes	2006 £'000	2005 £'000
Current assets			
Debtors amounts falling due within one year	6	2,127	1,970
Debtors amounts falling due after more than one year	7	89,702	91,779
		91,829	93,749
Creditors amounts falling due within one year	8	(2,077)	(1,920)
Net current assets		89,752	91,829
Creditors - amounts falling due after more than one year	9	(89,702)	(91,779)
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 25 October 2006 and were signed on its behalf by



Peter Harding
Director

Notes to the financial statements for the year ended 31 March 2006

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 debt in accordance with the requirements of FRS4 'Capital instruments'.

2 Interest receivable

	2006	2005
	£'000	£'000
From group companies	6,341	6,395

3 Interest payable

	2006	2005
	£'000	£'000
Interest payable on bonds	5,820	5,862
Amortisation of bond issue costs	521	533
	6,341	6,395

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

	2006	2005
	£'000	£'000
Amounts owed by parent undertaking	2,127	1,970

7 Debtors - Amount falling due after more than one year

	2006	2005
	£'000	£'000
Amounts owed by parent undertaking	89,702	91,779

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

	2006	2005
	£'000	£'000
Guaranteed secured bonds	2,077	1,920

9 Creditors – Amounts falling due after more than one year

	2006	2005
	£'000	£'000
Guaranteed secured bonds	89,702	91,779

Guaranteed secured bonds with a total value of £98,154,561 (2005 £100,595,349) 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.

	2006	2005
	£'000	£'000
Maturity of bonds		
In one year or less	2,585	2,441
In more than one year, but not more than two years	2,738	2,585
In more than two years, but not more than five years	9,222	8,708
In more than five years	83,610	86,861
	98,155	100,595

10 Financial instrument

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

	2006		2005	
	Total at floating rate £'000	Total at fixed rates £'000	Total at floating rates £'000	Total at fixed rates £'000
Current asset investments				
£ sterling		91,779		93,699
Guaranteed secured bonds				
£ sterling		(98,155)		(100,596)

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 FRS 4 (See note 9)

Fixed rate assets and liabilities

	2006		2005	
	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	12	6.4	13
Guaranteed secured bonds				
£ sterling	5.822	12	5.822	13

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

	2006		2005	
Primary Financial Instruments	Total book value £'000	Total fair value £'000	Total book value £'000	Total fair value £'000
Financial assets	91,779	105,428	93,699	106,342
Financial liabilities	(98,155)	(105,428)	(100,596)	(106,342)

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

As part of the existing finance arrangements relating to the variation bond issued in the year ended 31 March 2000, the company has the ability to raise a further £6,000,000 (2005 £6,000,000). This has not been put to the market.

11 Called up share capital

	2006 £'000	2005 £'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 2005	
Result for the financial year	
At 31 March 2006	

13 Reconciliation of movements in shareholders' funds

	2006 £'000	2005 £'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.