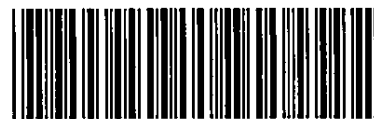


STIRLING WATER SEAFIELD FINANCE PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

(Registered Number SC190621)

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Stirling Water Seafield Finance Plc

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Stirling Water Seafield Finance Plc

Directors and advisers

Directors

D J L Bates (Resigned 25 May 2012)
A Dench (Appointed 25 May 2012)
O M Bret (Resigned 28 November 2011)
F Devos (Resigned 28 November 2011)
N Earnshaw (Resigned 30 November 2011)
N Paterson
M Saunders

Company secretary

P Braid (Resigned 21 June 2011)
N Craig (Appointed 1 June 2011)

Registered office

Princes Exchange
1 Earl Grey Street
Edinburgh
EH3 9AQ

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered number

SC190621

Stirling Water Seafield Finance Plc

Directors' report for the year ended 31 March 2012

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2012.

Business review and principal activities

The company is a wholly owned subsidiary of Stirling Water Seafield Limited. 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 (2011: £nil). The directors have not recommended the payment of a dividend (2011: £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 (the company's parent entity) to meet re-payments as they fall due.

Key performance indicators ("KPIs")

Key performance indicators ("KPIs") for the UK group are undertaken by the parent, Veolia Water UK Plc. The directors have therefore taken the decision not to disclose KPI's in individual subsidiary accounts of Veolia Water UK Plc.

Directors

The directors of the company who held office during the year are disclosed on page 2.

Donations

No donations were made to charities or political parties during the year (2011: £nil).

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This assessment is based on the consideration of the company's budgeted cash flows and long term forecasts, and related assumptions, available debt facilities. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Stirling Water Seafield Finance Plc

Directors' report for the year ended 31 March 2012 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they 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.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint the auditors, Ernst & Young LLP, will be proposed at the annual general meeting.

By order of the Board



Director
Andrew Dench
18 September 2012

Independent auditor's 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 2012 which comprise the Profit and loss account, the Balance sheet, and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

ERNST & YOUNG LLP

Matthew Seal (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 September 2012

Stirling Water Seafield Finance Plc

Profit and loss account for the year ended 31 March 2012 (Registered Number SC190621)

	Notes	2012 £'000	2011 £'000
Interest receivable	2	5,250	5,459
Interest payable	3	(5,250)	(5,459)
Result from ordinary activities before taxation	4	-	-
Taxation	5	-	-
Result for the financial year	12	-	-

The result for the years above derive wholly from continuing activities.

The company has no recognised gains or losses other than the results above, therefore no separate statement of total 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.

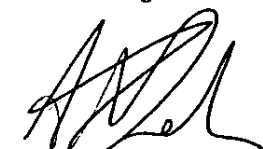
Stirling Water Seafield Finance Plc

Balance sheet at 31 March 2012

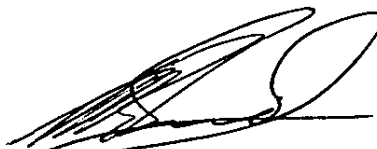
(Registered Number SC190621)

	Notes	2012 £'000	2011 £'000
Current assets			
Debtors: amounts falling due within one year	6	3,284	3,063
Debtors: amounts falling due after more than one year	7	73,384	76,618
		76,668	79,681
Creditors: amounts falling due within one year	8	(3,234)	(3,013)
Net current assets		73,434	76,668
Creditors: amounts falling due after more than one year	9	(73,384)	(76,618)
Net assets		50	50
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account	12	-	-
Equity shareholder's funds	13	50	50

The financial statements on pages 6 to 13 were approved by the Board of Directors on 18 September 2012 and were signed on its behalf by:



Name
A Dench



Name
M Saunders

Stirling Water Seafield Finance Plc

Notes to the financial statements for the year ended 31 March 2012

1 Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

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'.

Interest received and paid

Interest is recognised in the income statement as it accrues. Interest income is included in interest receivable in the income statement. Interest payments are included in the interest payable on the income statement.

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 (26%).

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. Interest income from another company in the group is recognised to the extent that interest is payable on the company's external bonds.

The funding policy and objective of the company and group is 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 FRS 4 'Capital instruments'.

2 Interest receivable

	2012	2011
	£'000	£'000
From group companies	5,250	5,459

Stirling Water Seafield Finance Plc

Notes to the financial statements for the year ended 31 March 2012 (continued)

3 Interest payable

	2012	2011
	£'000	£'000
Interest payable on bonds	4,819	5,011
Amortisation of bond issue costs	431	448
	5,250	5,459

4 Result from ordinary activities before taxation

No remuneration or pension contributions were paid to directors for services to the company (2011: £nil). These costs were paid by and charged in the accounts of other group companies. Of the total remuneration, a total amount of £16,480 can be attributed to the Stirling Water Seafield Holdings Limited group of companies for the qualifying services performed.

The company has no employees.

The auditor's remuneration and non-audit fees have been borne by the company's immediate parent, Stirling Water Seafield Limited. Total audit fees for the Stirling Water Seafield Holdings Limited group of companies amount to £24,500.

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 (26%).

6 Debtors: amounts falling due within one year

	2012	2011
	£'000	£'000
Amounts owed by parent undertaking	3,284	3,063

7 Debtors: amounts falling due after more than one year

	2012	2011
	£'000	£'000
Amounts owed by parent undertaking	73,384	76,618

The net proceeds of the bond issues have been lent to another company within the Stirling Water Seafield Holdings Limited group of companies 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.

Stirling Water Seafield Finance Plc

Notes to the financial statements for the year ended 31 March 2012 (continued)

8 Creditors: amounts falling due within one year

	2012	2011
	£'000	£'000
Guaranteed secured bonds (Note 9)	3,234	3,013

9 Creditors: amounts falling due after more than one year

	2012	2011
	£'000	£'000
Guaranteed secured bonds	73,384	76,618

Guaranteed secured bonds with a total value of £102,900,000 (2011: £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 guaranteed secured bonds are guaranteed by a financial guarantee insurance policy issued by MBIA Assurance S.A.

The bonds have been stated in the balance sheet net of bond issue costs amounting to £3,548,000 (2011: £3,979,000) that are being amortised over the life of the bonds.

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

	2012	2011
	£'000	£'000
Maturity of bonds		
In one year or less	3,647	3,444
In more than one year, but not more than two years	3,863	3,647
In more than two years, but not more than five years	13,013	12,287
In more than five years	59,643	64,232
Debt issue costs	(3,548)	(3,979)
	76,618	79,631

10 Financial instruments

The funding policy of the Stirling Water Seafield Holdings Limited group of companies is to fund capital expenditure using fixed rate sterling denominated bonds to protect profits against risks arising from adverse movement in interest rates. 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.

Stirling Water Seafield Finance Plc

Notes to the financial statements for the year ended 31 March 2012 (continued)

10 Financial instruments (continued)

Financial assets and liabilities

	2012			2011		
	Total at floating rates £'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	-	76,618	76,618	-	79,631	79,631
Guaranteed secured bonds						
- £ sterling	-	(80,166)	(80,166)	-	(83,610)	(83,610)

Guaranteed secured bonds have been shown gross of issue costs amounting to £3,548,000 (2011: £3,979,000) that have been offset against the amount included in the balance sheet in accordance with FRS 4 (Note 9).

Fixed rate assets and liabilities

	2012		2011	
	Weighted average interest rate %	Weighted average period until maturity Years	Weighted average interest rate %	Weighted average period until maturity Years
Current asset investments				
- £ sterling	6	7	6	7
Guaranteed secured bonds				
- £ sterling	6	7	6	7

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.

Stirling Water Seafield Finance Plc

Notes to the financial statements for the year ended 31 March 2012 (continued)

10 Financial instruments (continued)

Primary financial instruments	2012		2011	
	Total book value	Total fair value	Total book value	Total fair Value
	£'000	£'000	£'000	£'000
Financial assets	76,618	88,255	79,631	77,623
Financial liabilities	(80,166)	(88,255)	(83,610)	(77,623)

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 (2011: £6,000,000). This has not been put to the market.

11 Called up share capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50	50

12 Profit and loss account

	£'000
1 April 2011	-
Result for the financial year	-
31 March 2012	-

13 Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Result attributable to shareholders	-	-
Opening shareholder's funds	50	50
Closing shareholder's funds	50	50

Stirling Water Seafield Finance Plc

Notes to the financial statements for the year ended 31 March 2012 (continued)

14 Related party transactions

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8: Related Party Transactions not to disclose transactions with other group companies which meet the criteria that all subsidiary undertakings which are party to the transactions are wholly owned by the ultimate controlling parent.

15 Immediate and ultimate parent company and controlling party

The immediate parent undertaking of the company is Stirling Water Seafield Limited and Stirling Water Seafield Holdings Limited as the ultimate parent company and controlling party. Stirling Water Seafield Holdings Limited, a company incorporated in the United Kingdom, is also the parent undertaking of the smallest group to consolidate the financial statements of the company. Copies of the group financial statements of Stirling Water Seafield Holdings Limited may be obtained from the Company Secretary, Stirling Water Seafield Holdings Limited, Princes Exchange, 1 Earl Grey Street, Edinburgh, EH3 9AQ.

Veolia Environnement SA, a company incorporated in France, is the parent undertaking of the largest group to consolidate these financial statements and is the ultimate parent company and controlling party. Copies of the group financial statements of Veolia Environnement SA may be obtained from the Head Office at 36-38 Avenue Kléber, 75116 Paris, France.