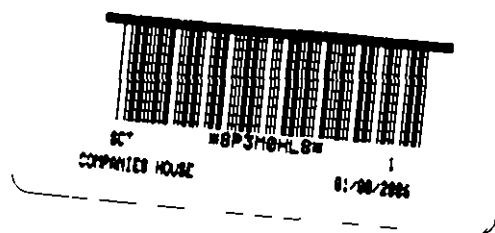


Catchment Highland Limited

**Directors' report and financial
statements**

Registered number SC ~~206325~~ 163036
31 December 2005



Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	2
Independent auditors' report to the members of Catchment Highland Limited	3
Profit and loss account	5
Balance sheet	6
Reconciliation of movements in shareholders' funds	7
Notes	8

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2005

Principal activities

The principal activity of the company is the intra group leasing of plant equipment and related land

Business review

The directors consider the financial position of the company at the year end to be satisfactory

Proposed dividend

The directors do not recommend the payment of a dividend

Directors and directors' interests

J Clark
D Kilgour
N Jones
N Scott Barrett

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of group companies

According to the register of directors' interests no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year

Political and charitable contributions

The Group made no political contributions or charitable donations during the year

Auditors

Pursuant to section 386 of the Companies Act 1985 a resolution is to be put to the forthcoming Annual General Meeting which if passed would result in the Company not being required to reappoint its auditors annually KPMG LLP would then continue as the Company's auditors

By order of the board



Jonathan Clark
Director

Morrison House
12 Atholl Crescent
Edinburgh
EH3 8HA

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility 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.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.



KPMG LLP

St James Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Catchment Highland Limited

We have audited the financial statements of Catchment Highland Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movement in Shareholders' Deficit and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK 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).

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 other 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 judgments 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.

Independent auditors' report to the members of Catchment Highland Limited *(continued)*

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985

KING LLP

11 July 2006

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	2005 £	2004 £
Finance lease charges receivable from parent undertaking	2	919,782	846,909
Finance lease charges payable		(901,747)	(830,303)
Operating profit from continuing operations	3	18,035	16,606
Other interest receivable and similar income			
Profit on ordinary activities before taxation	2, 5	18,035	16,606
Tax on profit on ordinary activities	6	(3,467)	(2,205)
Profit on ordinary activities after taxation and for the financial year	12	14,568	14,401

All recognised gains and losses in the current year are included in the profit and loss account

Balance sheet
at 31 December 2005

	Note	2005 £	2004 £
Current assets			
Debtors			
Amounts falling due after within one year	7	669,703	576,560
Amounts falling due after more than one year	8	14,038,827	14,708,530
Cash at bank and in hand			115
		<u>14,708,530</u>	<u>15,285,205</u>
Creditors: amounts falling due within one year	9	(672,571)	(585,015)
Net current assets		14,035,959	15,285,205
Creditors: amounts falling due after more than one year	10	(14,243,696)	(14,977,495)
Net assets		(207,737)	(227,305)
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account	12	(207,739)	(227,307)
Shareholders' deficit		(207,737)	(227,305)

These financial statements were approved by the board of directors on 12 June 2006 and were signed on its behalf by

Jonathan Clark
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2005

	2005	2004
	£	£
Profit for the financial year	14,568	14,401
Dividends on shares classified in shareholders' funds		
Retained profit and Net reduction in shareholders' deficit	14,568	14,401
Opening shareholders' deficit	(222,305)	(236,706)
Closing shareholders' deficit	(207,737)	(222,305)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements except as noted below

In these financial statements the following new standards have been adopted for the first time

- FRS 21 'Events after the balance sheet date'
- FRS 28 'Corresponding amounts'

FRS 21 'Events after the balance sheet date' has not had any effect since there were no dividends proposed included within the balance sheet at 31 December 2004. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

Basis of preparation

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

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As the Company is a wholly owned subsidiary of Catchment Highland Holdings Limited the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Catchment Highland Holdings Limited within which this Company is included can be obtained from the address given in note 14.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax to the extent that the income relates to the current period

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Notes (continued)

1 Accounting policies (continued)

Leases

The company and its parent, Catchment Limited, have entered into a series of legal agreements to finance the Fort William and Inverness wastewater and sewage treatment plants

- Catchment Highland Limited purchases certain assets as agent for Catchment Limited
- Catchment Highland Limited leases certain assets from Catchment Limited for a nominal sum and
- Catchment Limited leases back the same assets from Catchment Highland Limited for operational use in the business

The directors have concluded that the substance of the arrangements is such that the risks and rewards of the projects lie with Catchment Limited. As such, all assets, liabilities and transactions relating to the business are shown within Catchment Limited, irrespective of the legal ownership

Catchment Highland Limited remains as a leasing business which rents assets to Catchment Limited. Accordingly, these accounts show the lease liabilities and lease debtors. The capital element of future rentals receivable is treated as an asset and the interest element is credited to the profit and loss account over the period of the lease in proportion to the debtor outstanding. Similarly the capital element of future rentals payable is treated as a liability and the interest element is charged to the profit and loss account over the period of the lease in proportion to the obligation outstanding

2 Analysis of turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are derived from the company's principal activity and arises solely within the UK

3 Notes to the profit and loss account

Auditors' remuneration

	2005 £	2004 £
Audit		
Other services – fees receivable by the auditors and their associates		

4 Remuneration of directors

The directors received no emoluments as directors of the company during the year (2004: £nil)

The following directors benefited from qualifying third party indemnity provisions

- J Clark
- D Kilgour
- N Jones
- N Scott Barrett

Notes (continued)

5 Interest payable and similar charges

	2005 £	2004 £
Finance charges payable in respect of finance leases and hire purchase contracts	901,747	830,303

6 Taxation

Analysis of charge in period

	2005 £	2004 £
<i>UK corporation tax</i>		
Current tax on income for the period and tax on profit on ordinary activities	3,096	2,205
Adjustments in respect of prior period	551	
	<u>3,647</u>	<u>2,205</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2004 lower) than the standard rate of corporation tax in the UK (30%, 2004 30 %). The differences are explained below

	2005 £	2004 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	18,035	16,606
Current tax at 30% (2004 30 %)	5,411	4,982
<i>Effects of</i>		
Small companies relief	(2,316)	(2,777)
Adjustments in respect of prior periods	551	
Total current tax charge (see above)	<u>3,647</u>	<u>2,205</u>

7 Debtors, amounts falling due within one year

	2005 £	2004 £
Obligations under finance leases owned by parent undertaking	669,703	576,560

8 Debtors, amounts falling due after more than one year

	2005 £	2004 £
Obligations under finance leases owned by parent undertaking	14,038,827	14,708,530

Notes (continued)

9 Creditors' amounts falling due within one year

	2005 £	2004 £
Obligations under finance leases and hire purchase contracts (see note 10)	669,703	576,560
Other creditors	2,868	8,455
	<u>672,571</u>	<u>585,015</u>

10 Creditors' amounts falling due after more than one year

	2005 £	2004 £
Obligations under finance leases and hire purchase contracts	14,038,827	14,708,530
Amounts owed to group undertakings	204,869	213,965
	<u>14,243,696</u>	<u>14,922,495</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2005 £	2004 £
Within one year	768,797	669,703
In the second to fifth years	2,966,835	2,627,572
Over five years	10,303,195	11,411,255
	<u>14,038,827</u>	<u>14,708,530</u>

11 Called up share capital

	2005 £	2004 £
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	2	2
	<u>2</u>	<u>2</u>
Shares classified in shareholders' funds	<u>2</u>	<u>2</u>

Notes (continued)

12 Reserves

	Profit and loss account £
At beginning of year	(227,307)
Profit for the year	14,568
	<hr/>
At end of year	(207,739)
	<hr/>

13 Contingent liabilities

There is a cross guarantee in place in respect of monies advanced by Société Générale to Catchment Highland Holdings Limited and Catchment Limited.

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

14 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a wholly owned subsidiary of Catchment Limited which is a wholly owned subsidiary of Catchment Highland Holdings Limited. The smallest group in which the results of the company are consolidated is that headed by Catchment Highland Holdings Limited, a company registered in Scotland. The consolidated accounts of this group are available to the public and may be obtained from 152 Bath Street, Glasgow G2 4TB.

Catchment Highland Holdings Limited is a joint venture with equal immediate parent ownership of United Utilities (Highland) Limited, a company registered in England and Wales (with ultimate parent ownership of United Utilities Plc), and Infrastructure Investors General Partner LLP, an English limited liability partnership (as General Partner of Infrastructure Investors LP, an English limited partnership).

The consolidated financial statements of United Utilities Plc are available to the public and may be obtained from Companies House.

The consolidated financial statements of Infrastructure Investors LP are not available to the public.