

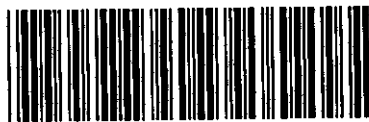
Catchment Highland Limited

**Directors' report and financial
statements**

Registered number SC 163036

31 December 2006

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Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	3
Independent auditors' report to the members of Catchment Highland Limited	4
Profit and loss account	6
Balance sheet	7
Reconciliation of movements in shareholders' funds	8
Notes	9

Directors' report

The directors present their directors' report and the audited 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

Enhanced business review

Performance of the business

The directors consider the financial position of the company at the year end to be satisfactory and that the delivery of operational services is running well

Principal risks and uncertainties

As the project has now been operational for a number of years the risks associated with the building phase have largely receded. As the company's turnover has a variable element based on chargeable flows the weather will have a bearing on income which is the principal uncertainty faced by the project

Key performance indicators

The key performance indicators centre largely on monitoring carried out by Scottish Environmental Protection Agency and Scottish Water. These bodies have separate monitoring regimes which assess the quality of water once treated at the plant. The performance of the company from a cash perspective is assessed on a six monthly basis by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The company has been performing well with no instances of failure on either water quality or bank covenant testing

Dividends

The directors do not recommend the payment of a dividend

Directors

J Clark (resigned 14 September 2006)
D Kilgour
N Jones
N Scott Barrett
DL Fuller (appointed 14 September 2006, resigned 12 April 2007)
MR Wright (appointed 12 April 2007, resigned 29 June 2007)
C Brook (appointed 29 June 2007)

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report

Political and charitable contributions

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

Disclosure of information to auditors

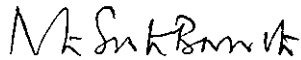
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Directors' report *(continued)*

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



Nicholas Scott Barrett
Director

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 and applicable law (UK Generally Accepted Accounting Practice).

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 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movement in Shareholders' Funds 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



KPMG LLP 18/8/07
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2006

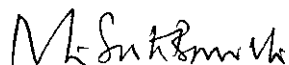
	<i>Note</i>	2006 £	2005 £
Finance lease charges receivable from parent undertaking	2	794,719	919,782
Finance lease charges payable		(779,136)	(901,747)
Operating profit from continuing operations	3	15,583	18,035
Other interest receivable and similar income			
Profit on ordinary activities before taxation	2 5	15,583	18,035
Tax on profit on ordinary activities	6	(3,413)	(3,467)
Profit on ordinary activities after taxation and for the financial year	12	12,170	14,568

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

Balance sheet
at 31 December 2006

	Note	2006 £	£	2005 £	£
Current assets					
Debtors					
Amounts falling due after within one year	7	768,797		669,703	
Amounts falling due after more than one year	8	13,270,029		14,038,827	
Cash at bank and in hand					
		<u>14,038,826</u>		<u>14,708,530</u>	
Creditors amounts falling due within one year	9	(774,762)		(672,571)	
Net current assets			13,264,064		14,035,959
Creditors amounts falling due after more than one year	10		(13,459,635)		(14,243,696)
Net assets			<u>(195,567)</u>		<u>(207,737)</u>
Capital and reserves					
Called up share capital	11		2		2
Profit and loss account	12		(195,569)		(207,739)
Shareholders' deficit			<u>(195,567)</u>		<u>(207,737)</u>

These financial statements were approved by the board of directors on 6 August 2007 and were signed on its behalf by



Nicholas Scott Barrett
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2006

	2006 £	2005 £
Profit for the financial year	12,170	14,568
Dividends on shares classified in shareholders' funds		
Retained profit and Net reduction in shareholders' deficit	12,170	14,568
Opening shareholders' deficit	(207,737)	(222,305)
Closing shareholders' deficit	(195,567)	(207,737)

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

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

	2006 £	2005 £
Auditors' remuneration		
Audit of these financial statements		
Other services relating to taxation		
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4 Remuneration of directors

The directors received no emoluments as directors of the company during the year (2005 £nil)

The following directors benefited from qualifying third party indemnity provisions

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

Notes (continued)

5 Interest payable and similar charges

	2006 £	2005 £
Finance charges payable in respect of finance leases and hire purchase contracts	779,136	901,747

6 Taxation

Analysis of charge in period

	2006 £	2005 £
<i>UK corporation tax</i>		
Current tax on income for the period and tax on profit on ordinary activities	2,850	3,096
Adjustments in respect of prior period	563	551
	3,413	3,647

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK (30%, 2005 30 %). The differences are explained below

	2006 £	2005 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	15,583	18,035
Current tax at 30% (2005 30 %)	4,675	5,411
<i>Effects of</i>		
Small companies relief	(1,825)	(2,316)
Adjustments in respect of prior periods	563	551
Total current tax charge (see above)	3,413	3,647

7 Debtors, amounts falling due within one year

	2006 £	2005 £
Obligations under finance leases owned by parent undertaking	768,797	669,703

8 Debtors, amounts falling due after more than one year

	2006 £	2005 £
Obligations under finance leases owned by parent undertaking	13,270,029	14,038,827

Notes (continued)

9 Creditors amounts falling due within one year

	2006 £	2005 £
Obligations under finance leases and hire purchase contracts (see note 10)	768,797	669,703
Corporation tax payable	3,413	
Other creditors	2,552	2,868
	<u>774,762</u>	<u>672,571</u>

10 Creditors amounts falling due after more than one year

	2006 £	2005 £
Obligations under finance leases and hire purchase contracts	13,270,029	14,038,827
Amounts owed to group undertakings	189,606	204,869
	<u>13,459,635</u>	<u>14,243,696</u>

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

	2006 £	2005 £
Within one year	871,545	768,797
In the second to fifth years	3,332,743	2,966,835
Over five years	9,065,741	10,303,195
	<u>13,270,029</u>	<u>14,038,827</u>

11 Called up share capital

	2006 £	2005 £
<i>Authorised</i>		
Ordinary shares of £1 each	100	100
	<u></u>	<u></u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	2	2
	<u></u>	<u></u>
Shares classified in shareholders' funds	2	2
	<u></u>	<u></u>

Notes (continued)

12 Reserves

	Profit and loss account £
At beginning of year	(207,739)
Profit for the year	12,170
	<hr/>
At end of year	(195,569)
	<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 North West Water (Scotland) 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.

15 Post balance sheet event

On 21st March 2007, it was announced that the standard rate of corporation tax was to be changed from 30% to 28% and capital allowance legislation impacting on the calculation of the deferred tax provision of the company will be introduced for taxable periods arising on or after 1 April 2008. For the purpose of calculating the financial impact of these changes, the standard rate of corporation tax and capital allowance legislation expected to be applicable from 1 April 2008 has been applied on the basis that these changes were enacted as at 31 December 2006, the net effect of this would be a reduction in the deferred tax liability of approximately £350,000.