

annual report and accounts

31 March

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To find out how we can help you, get in touch

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introduction

Scottish Water Business Stream Limited trading as Business Stream is the leading provider of water and waste water services to business customers in Scotland. We put the customer at the heart of our business to ensure that we deliver the best customer service at all times. We offer a wide range of services, from new connections, trade effluent billing and smart metering to meter reading and timely, accurate bills.

We work hard to be the water and waste water services supplier of choice for businesses across Scotland, by helping our customers find the solution that's right for them. To find out more about us and the services we offer visit www.business-stream.co.uk

Business Stream is governed, managed and operated on an entirely independent basis from Scottish Water as required by the Water Services etc (Scotland) Act 2005.

Business Stream is a 100% owned subsidiary of Scottish Water Business Stream Holdings Limited which was created on 19 November 2007. Scottish Water Business Stream Holdings Limited is a wholly owned subsidiary of Scottish Water. As such, the results of Scottish Water Business Stream are consolidated into the Scottish Water Group accounts. Copies of consolidated accounts are available: Scottish Water, Castle House, Castle Drive, KY11 8GG."

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chairman's statement

I am pleased to introduce Business Stream's first annual report, and to reflect on an astonishingly busy and successful year.

Much of 2007/8 was taken up with the company's preparation to compete in Scotland's new water market. Mark Powles and his team enabled Business Stream to pass all of the tests set by Scotland's Water Industry Regulator required to satisfy Business Stream's fitness to operate. How this was achieved will be explained later in the report; I would only note that, contrary to what others might expect, it was far tougher for Business Stream as the incumbent company to gain its licence than for any new operator.

One of the key things we were required to demonstrate was that Business Stream had genuinely become a separate entity from Scottish Water. As the only person who straddles both organisations, I am in a good position to confirm that this is so. Business Stream looks and feels different from its parent company. It has quickly grasped its own purpose and created a culture to match. Critically, customers have noticed the difference too – as some of them testify in this report.

What drove this transformation was the combined effort of all the employees, which now includes an injection of talented people with a retail background. Scottish Water is good at what it does, but it never had or needed retail skills. Led by this new expertise, Business Stream has created new service packages that mirror what customers want.

Demanding as all this activity has been, it in some ways resembles the trial laps in advance of the big race. Business Stream now welcomes the challenge that the growing market will bring. And further exciting prospects are opening up too. I was delighted to see Ofwat's consultation document for introducing effective competition to the England and Wales water industry, which makes reference to the success of the Scottish model. We will watch this new development with interest.

R B Mercer

Ronnie Mercer
chairman



managing director's report

Since I was appointed to lead Business Stream, the pace of work has been unrelenting.

Over the last 12 months, we've prepared our business for the opening of competition in the non-household retail market. During this period, we've successfully separated ourselves from the Scottish Water wholesale business, obtained our trading licenses, and put in place a range of products and services to help businesses understand and manage water and waste water more effectively.

At the same time, we've continued to serve the current market across the length and breadth of Scotland with a range of billing, specialist advice, and water and waste water management services, and steadily improved customer satisfaction while simultaneously driving transformation through every part of our business.

We've created a business where the customer sits at the heart of everything we do, and our strategy has been to deliver a set of tailored solutions that reflect the differing needs of a diverse and geographically dispersed customer base.

Key to our future success will be our people. We've been successful in merging new talent with experienced and knowledgeable employees to create an engaged and performance-driven organisation motivated to succeed. Our achievements to date would not have been possible without their contribution and support.

I'm pleased with the progress we've made over the last year, both in terms of financial performance and the creation of a dedicated, customer-focused, commercial business with the capability to be successful in a competitive arena.

Our goal is to be the supplier of choice in this market and retain business on merit, because we're good at what we do and are valued by our customers.

We entered the market on 1 April 2008, independently financed, governed, managed and operated, and we are more than ready for the ongoing challenge of competition.

Mark Powles

Mark Powles
managing director



transforming a business

During the change programme we:

achieved over **100** requirements laid down by the Water Industry Commission for Scotland

we ran over **300** courses to equip employees for fresh roles in the new market

delivered around **170** essential work programmes



In April 2008, Scotland became the first country in the world to fully open up its non-domestic water and waste water market. To be ready for this change, Business Stream had to separate from Scottish Water and earn its licences to compete.

This was no foregone conclusion. The new company needed to meet the regulator's stringent requirements – proving it was governed, financed and managed independently from Scottish Water.

Nor was this merely a paper exercise. If we were to compete successfully, there had to be a fundamental shift in the organisation's culture. Employees had to take on new roles and make the leap to a commercial, customer-focused environment.

The business led on this transformation, bringing in external specialists as needed. Managers took a candid and open stance with staff – setting out the scale of the challenge, and seeking genuine input from all in building a new brand.

Meanwhile, we set about devising new products and a more responsive approach, in line with customers' expectations.

By April 2008, Business Stream was poised for competition. All the regulatory targets were met. At the same time, internal surveys revealed universal understanding of the market and a dynamic commercial culture.

This transformation, which would normally take years to cultivate, was achieved over just ten months – while our core business of serving customers went on apace.

putting customers first

Competition has been the spur for Business Stream to really make water work for its customers.

Scotland's 100,000 non-residential water and waste water customers are wildly diverse. They range from corner shops to corporations, from schools to industrial giants.

For some, water plays a central role in business processes; others simply rely on it for tea-making and sanitation.

Recognising that customer needs differ hugely, we spent much of the year seeking their views. We carried out interviews and ran focus groups with organisations in each sector.

For major customers, we have put in place a team of relationship managers. It's their job to understand each customer's business in detail, and respond to their one-off queries and long-term needs alike.

We place equal weight on the needs of small and medium-sized customers. They told us their biggest concern was to be able to interact easily and efficiently with their provider.

In response, we have introduced a new online payment service as well as online meter reading and change contact details. E-billing is being introduced later in the year.

dependable

knowledgeable

responsive

effortless

progressive

Business Stream's work is built on five key values. We strive to be:

dependable – we keep our promises

knowledgeable – we're the water industry experts

responsive – we respond to customers' needs promptly

effortless – we're easy to do business with

progressive – we're forward thinking and innovative.

tailored solutions



Individual organisations have unique water needs – and that’s where our Business Solutions team comes in.

In 2007/8 we helped thousands of businesses with practical ways to save water – and money.

Our Business Solutions team spend their time visiting customer sites. They work closely with our relationship managers, who take the lead on services for each of our major customers.

A large part of their role is to help business people understand how and when they use water. Depending on the customer, a range of data management tools can be used, including smart metering and tariff optimisation.

Some customers take advantage of a benchmarking exercise to find out how their consumption compares with other similar organisations. For companies with multiple sites, the team can measure and compare efficiency across each base, pinpointing areas where action is needed.

We can detect and repair leaks, and help customers plan for emergencies. In some cases it’s even possible to identify an alternative water supply – for example, through harvesting rainwater – that can achieve real savings.

We offer a similar range of solutions to help treat waste water more efficiently and minimise environmental impact.

Whatever size and form a business takes, we can find a way to make water work for it.

“Our Business Solutions experts visit customer sites – helping business people understand how, when and why they use water”

performance on key targets

Business Stream achieved strong results in each of the key performance areas identified as priorities for 2007/8.

Our key customer-facing targets were to:

Our financial targets were to:

achieve high satisfaction ratings from customers

improve first-time resolution of customer enquiries

reduce net interest payable

increase the lifetime value of our contracts

reduce aged debt

In each case, we exceeded our target. Furthermore we delivered operating costs and profit before tax in line with targets.

Performance on customer queries was well over target, with 90% of enquiries resolved first time. We know our customers really value this and we believe we can exceed this in 2008/9.

We achieved a high level of customer satisfaction, above the UK average for utility companies. When dissatisfaction over pricing was excluded – an aspect over which Business Stream had no control in 2007/08 – satisfaction levels reached 81%.

“Performance on customer queries was well over target – we know our customers really value this and we believe we can do even better”

meet the team

Business Stream has assembled a team with a winning combination of industry know-how and commercial acumen.

The majority of Business Stream staff transferred to the business from roles in Scottish Water. They brought an unrivalled depth of knowledge and experience in the industry.

This resource had to be complemented with commercial expertise, if the company was to meet the demands of the new market. In particular, there was a clear need for skills in areas such as IT, finance and sales and marketing.

We were successful in recruiting talented people from companies such as Logica, CapGemini, Barclays, British Energy and Scottish and Southern Energy.

Staff from Scottish Water transferred on existing terms and conditions under TUPE. However we have been able to change these conditions to reflect the commercial aspirations of Business Stream.

To help build a performance culture, we also introduced a reward system linked to achievement of individual and team objectives.

Inevitably, not everyone who moved from Scottish Water wished to stay, and those few employees who ultimately decided to return to the parent company were supported throughout. Given the scale of the cultural change, however, attrition was remarkably low at under 2%.

In fact during this year of change, independent research showed that employee engagement was 51%, above the UK average of 44%.



Denise Denholm, new start of the year winner

In April 2008, Business Stream held its inaugural employee awards night. The awards celebrated success and rewarded those who really lived the brand day-to-day.



IT TEAM

Left to right:
Kevin Anderson, team of the year finalist
John Williamson, outstanding achiever finalist
Charles Summer, customer service winner
Stephen MacFarlane, team of the year finalist
Cindy Rennie, outstanding achiever winner



CREDIT MANAGEMENT TEAM

Left to right:
Kirsty Chambers, leader of the year winner
Chris Mothersole, team of the year winner
Jacob Cowan, team of the year winner
Alison Barr, team of the year winner
Patsy Thompson, team of the year winner
Julie Donnelly, team of the year winner



focus on service

The creativity of Business Stream is channelled towards one goal: great customer service.

When customers call Business Stream, they know they'll be talking to people in our Scottish call centre – people who know water.

They can also be sure their call will be picked up quickly, and handled efficiently. While our customer contact teams are grouped into functions, we have been at pains not to create artificial barriers between them.

Employees are motivated to get the job done, even if this means going beyond their usual role. Indeed, many of our customer response centre staff have already progressed into more senior roles in the business.

Our informal but dynamic working culture means all employees are able to take responsibility for resolving enquiries to the customer's satisfaction.



At April 2008:

over **98%** of calls were answered within 30 seconds, and on average customers waited no more than four seconds

90% of enquiries to our customer response team were resolved first time



Business Stream helps Tesco become first UK retailer to install smart meters.



Business Stream has enabled the UK's largest supermarket chain to radically overhaul its approach to water management and introduce new technology, which will play an important role in improving the company's water efficiency.

Tesco is committed to reducing its carbon footprint and as part of its 'every little helps' campaign, Tesco have conducted a review of their water usage. In 2006, with the assistance of Business Stream, Tesco became the first major retailer in the UK to roll out smart metering.

Business requirements

With over 250,000 employees and 1,779 stores, Tesco is the biggest private sector employer in the UK and the company has a commitment to reduce its carbon footprint. Recognising that climate change will have an effect on the availability of water resources in the future, Tesco is committed to reducing water consumption in all of its stores and finding economically sound ways of achieving this. By 2006, Tesco had already

achieved its target of reducing its water consumption by 7.6% per m² of sales space. The company is now focusing on cutting its water consumption in the UK by 15% by 2008.

In 2006, Tesco approached Business Stream to conduct a review of all of its Scottish-based stores. Tesco hoped to identify ways in which it could reduce and effectively manage water consumption and over the course of the past year it has been working closely with Business Stream on numerous aspects of its water usage.

Solution

Business Stream introduced Tesco to smart meters and suggested that the company install them in their Scottish-based stores.

Smart meters have been available for a number of years, but they are only now becoming an affordable option for businesses. By attaching an electronic logger to a conventional water meter, it is possible to record meter readings and flow rates remotely without the need for anyone to visit the site.

There are a number of other advantages, including the ability to control and monitor water usage in real-time. The electronic loggers gather and record water readings every 15 minutes, allowing the customer to identify by site, when and where water is being used. The customer can also quantify the amount of water that has been used and then identify any potential leaks.

Business benefits

Since the introduction of the smart meters, Tesco has been able to gain a better

understanding of its water usage, which has in turn allowed the company to continue to reduce its carbon footprint.

The accurate readings provided by the smart meters mean that the number of estimated bills is reduced, and over time the aim is to completely remove estimated reads from the billing process.

There has also been a reduction in the number of site visits by meter readers and technicians, and the ability to detect leaks has helped Tesco to save time and money when it comes to repairs.

James Summerbell, senior buying manager of Tesco, added:

"The introduction of smart metering technology has been a resounding success. It has played a significant role in helping us to meet our water consumption targets, as well as improving the efficiency of our stores.

"We fully intend to continue working with Business Stream and roll-out this technology to all of our stores throughout the UK."



Prison authorities have lucky escape thanks to Business Stream.



Castle Huntly prison calls on Business Stream after springing major leak.

The Scottish Prison Service (SPS) manages 13 prisons across Scotland, each of which has been appointed a dedicated relationship manager from Business Stream to manage all issues relating to the prison's water supply.

One prison in particular was able to reap the rewards of having a relationship manager when it was presented with a crisis scenario. Authorities at HM Prison Open Estate, Castle Huntly, near Dundee, faced having to relocate more than 280 prison inmates after a leak on their network disrupted the water supply for the entire prison.

After contacting Business Stream, the leak was fixed in a matter of hours, the water supply was restored and the authorities averted what would have been a 'logistical nightmare' – the relocation of the inmates.

Business requirements

Situated three miles west of Dundee, HM Prison Open Estate, Castle Huntly is one of Scotland's two open prisons. It provides low-security accommodation for up to 280 'Category D' adult, male prisoners who are serving sentences ranging from two years up to and including life.

As a matter of human rights, the inmates must have access to constant running water. Therefore, the prison and Business Stream devised a number of contingency plans that could be implemented in the event of a major disruption to Castle Huntly's water supply.

As the wholesaler, Scottish Water has the responsibility for the maintenance and repair of water pipes/networks that run up to the boundary of a business' site. Beyond that boundary, it's the Prison's responsibility to carry out any repairs.

On 1 August 2007, Rick Brown, head of estates at Castle Huntly, identified a leak within the prison boundary but required assistance with detection and repair. Not only

did the leak cut-off the prison's water supply, it also caused the prison's water storage tanks, which provide an auxiliary water supply, to run dry.

Unable to repair the leak Mr Brown contacted Business Stream who immediately got to work on resolving the potentially disastrous problem.

Solution

Mr Brown contacted Business Stream at 1pm and by 1.30pm, three pallets of water and four bowlers had been dispatched to the prison as well as a leak repair squad.

By 6pm that evening the pallets of water, bowlers and repair squad were all on site at Castle Huntly and the leak was repaired within the hour. Business Stream was on stand-by throughout the night in the event of further problems.

Business benefits

Although the prison authorities at Castle Huntly initially feared the worst, they were able to have their water supply restored without causing the prison to adopt the last resort option of redeploying prisoners.

Rick Brown, estates manager at Castle Huntly, said:

"The prospect of being without both our main and auxiliary water supplies was a real concern for everyone at Castle Huntly. Having to relocate the inmates would have been a logistical nightmare but luckily, thanks to the intervention of Business Stream, this course of action was avoided.

"I noticed a marked difference in service when Business Stream became involved and I was thankful that we have our own dedicated relationship manager. It's reassuring to know that all I have to do if we ever experience a similar scenario is lift the phone and things will be sorted."



in the
community

“We support
Scottish employment,
and strive to source
local suppliers
where possible”

Although a relatively new company, Business Stream is acutely aware of its wider role in Scottish society.

As a water company, we are especially alert to environmental impact. During the year, we brought in house a team of specialists to strengthen our ability to help customers minimise water waste.

This has big knock-on benefits – reducing the energy customers use to import water to their site and the chemicals used to pump and clean the water at treatment works.


We are committed to containing the impact of our own operations too. We encourage our employees to use sustainable transport. Cycling is promoted through a loan scheme for bike purchase, together with bike stands, showers and lockers.

Promoting the use of smart meters has squeezed carbon emissions by reducing the number of meter reader visits required. And our imminent e-billing system has the potential to slash paper use.

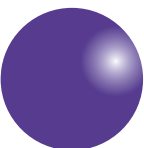
We support Scottish employment, and not just through our commitment to preserving all our customer response centre operations in Scotland. While operating within the legislative framework and complying with EU procurement law, we also strive to source local suppliers where possible.

Each year we support a different charity. In 2008/9 our chosen charity is Reforesting Scotland, which works to promote a sustainable forest culture and economy. Business Stream will be sponsoring staff in activities to support the charity – as it supports employees’ efforts towards their own favourite causes.

Over the next year, we will set ambitious but realistic goals for these and other activities. We will record our performance on social responsibility in future annual reports.



“Promoting
smart meters has
squeezed carbon
emissions”





leadership team

Our leadership team has a strong background in the services industry. At Business Stream, they work together to ensure we provide all of our customers with the best and most cost-effective service and support.



Mark Powles
managing director

Mark Powles joined us as managing director in March 2007.

He brings relevant senior management experience operating in highly regulated, competitive retail services markets with companies such as Sealink Stena Line, National Express Group and AEGON UK.

His focus is to create a strong, sustainable brand where the customer is at the heart of all activities and all customers are retained on the merit and strength of the products, services and value for money we provide.



Johanna Dow
finance director

Jo Dow joined our Board in 2007 from her former position as financial controller.

She was group finance manager with Scottish Water from 2001, and in previous positions at Scottish and Southern Energy was closely involved in the opening of the electricity market to retail competition.

Jo's early career was as a chartered accountant in private practice. She combines experience of operating in a commercial environment and in the water industry, with strong financial acumen.



Ronnie Mercer
chairman

Ronnie was previously on the executive team of ScottishPower and completed his career as executive vice president of Pacificorp in the USA.

Before that he was managing director of Southern Water and, up to 1994, worked in British Steel, latterly at managing director level.

His extensive experience and knowledge of the retail and utility industries is a key strength for us.



Ronald Hewitt
non-executive director

Ron is currently chief executive of the Edinburgh Chamber of Commerce, and has previously run his own property company.

From 1996 to 2002, he was managing director of two Kwik Fit companies, and CEO for Vibroplant 1994 to 1996. Before this, he held various senior positions in the RAC.

Ron is a customer service champion, winning major industry awards for customer satisfaction while at Kwik Fit.



Andrew Taylor
non-executive director

Andrew is currently chief executive officer of Intec Telecom Systems PLC, a global telecom solutions provider. Before this, he was managing director for Lucent Technologies.

Between 1996 and 2004, he served in various senior roles for BT and O2, including vice president of business markets for O2 Germany. He was senior account manager for National Provident Institution in the early 90s.

Andrew has extensive operational and Board management experience, having led and managed businesses through market growth, prosperity and organisational change.

directors and advisors

Directors

Ronnie Mercer
Ronald Hewitt
Andrew Taylor
Mark Powles
Johanna Dow

Secretary

Charles Smith



Registered office

Business Stream
55 Buckstone Terrace
Edinburgh
EH10 6XH



Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen St
Edinburgh
EH2 4NH



Bankers

Bank of Scotland
The Mound
Edinburgh
EH1 1YZ



Solicitors

Brodies LLP Solicitors
15 Atholl Crescent
Edinburgh
EH3 8HA

directors' report

principal activities

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2008.

financial results for the year

Scottish Water Business Stream's principal activity during the period was the retail of water and waste water services to businesses across Scotland.

The results for the year are set out in the attached financial statements. The profit after taxation in the period from continuing operations amounted to £10.6m. Details of the financial results and associated accounting policies are set out on pages 25 to 43. The Directors recommend that no dividend be paid.

risk management

The Directors recognise their responsibility for establishing, maintaining and reviewing the systems of internal control and risk management from a financial and operational perspective. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business and operational objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

Scottish Water Business Stream has developed a Risk Policy that sets out a consistent approach to the management of risk. Key risks are identified at corporate and functional levels. Risks are evaluated by considering their consequences, in terms of impact and likelihood, on the achievement of service delivery and business objectives. Existing arrangements for managing the risks are considered and, where these are not perceived to be effective, action plans are drawn up which aim to achieve the right balance between risk and control.

Key risks in relation to funding, business separation, competition and IT delivery are being managed in a reasonable and prudent manner having regard to the current regulatory framework and available resources.

The risk register is reviewed on a monthly basis by the Board.

derivatives and financial instruments

Scottish Water Business Stream's financial instruments comprise borrowing, cash and liquid resources and various items such as debtors and creditors that arise directly from operations.

Scottish Water Business Stream's policy is not to trade or speculate in financial instruments. Exposure to risks associated with financial instruments is monitored through daily treasury and working capital management.

going concern

The accounts have been prepared on a going concern basis.

directors

The appointment of Directors is approved by Scottish Water Business Stream Holdings Limited.

directors interests

The Directors who were in office throughout the year are noted on page 18. The Directors who held office at the end of the financial year had no material interests in any contract awarded during the year by Scottish Water Business Stream.

The remuneration for Directors is detailed on the Directors' remuneration report on page 20.

auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the appointment of PricewaterhouseCoopers LLP chartered accountants and registered auditors, as auditors of the company for 3 years was passed by the board on the 15 February 2007.

directors' remuneration report

1. service contracts

Details of Executive Directors' contracts are as follows:

Executive Director	Name	Date of Contract	Unexpired Term
Managing Director	Mark Powles	5 March 2007	All Executive Directors
Finance Director	Johanna Dow	30 March 2007	have permanent contracts

Notice Period: Executive Directors are required to give six months' notice of resignation to Scottish Water Business Stream. Scottish Water Business Stream is required to give Executive Directors nine months' notice of termination.

2. non-executive directors appointments

The Non-Executive Directors are expected to work 4 days per month for Scottish Water Business Stream. The expiry date of Non-Executive appointments are as follows:

Name	Expiry Date
Ronnie Mercer	No Expiry Date
Ronald Hewitt	31 December 2009
Andrew Taylor	31 December 2009

3. directors' remuneration

Details of Directors' Remuneration for the year ending 31 March 2007 is set out below:

	Date Appointed	Salary £000	Bonus £000	Benefits £000	Total £000
Executive Directors					
Mark Powles	5 March 2007	130.0	52.0	16.2	198.2
Johanna Dow	30 March 2007	61.9	24.8	4.9	91.6
Non-Executive Directors					
Ronald Hewitt	5 March 2007	19.4	0.0	0.0	19.4
Andrew Taylor	5 March 2007	19.4	0.0	0.0	19.4
Total Directors' Remunerations		230.7	76.8	21.1	328.6

Notes:

- (i) Ronnie Mercer's remuneration is paid directly by Scottish Water.
- (ii) Johanna Dow's remuneration excludes statutory Maternity Pay.
- (iii) Benefits include car allowance for both executive directors, and relocation expenses for Mark Powles.

The executive members participate in the Strathclyde Pension Fund – a defined benefit scheme. Details of their benefits under this scheme are set out below.

	Increase in accrued benefits during the year net of inflation		Accumulated total accrued benefits at 31st March 2008			
	Years in scheme	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000	At 31 March 2008 £000
Mark Powles	1	2	5	9	2	18
Johanna Dow	5.5	5	14	24	5	47

Notes:

- (1) Members of the pension scheme have the option to pay additional voluntary contributions; neither the contributions or the resulting benefits are included in the above table.
- (2) The normal retirement age of executive members is 65.
- (3) The pension entitlement shown is that which would be paid annually on retirement along with the lump sum, based on service to the end of the year.
- (4) On death a spouse's pension is payable equal to one half of the member's pension and children's pensions may also be payable.
- (5) There are no comparatives for year ending 31 March 2007 as both directors transferred to Scottish Water Business Stream's pension fund on 1 April 2007.



statement of directors' responsibilities

The following statement which should be read in conjunction with the statements of auditors' responsibilities included in the auditors report on page 23 is made with a view to distinguishing the respective responsibilities of the Directors and auditors in relation to the financial statements.

The Directors are required under company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of Scottish Water Business Stream and of its profit or loss for the period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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; 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, which disclose with reasonable accuracy, at any time, the financial position of Scottish Water Business Stream and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware. The Directors have taken all the steps that ought to have been taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.



independent auditors' report

Independent auditors' report to the Directors of Scottish Water Business Stream Limited

We have audited the financial statements of Scottish Water Business Stream Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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). 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 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.

respective responsibilities of directors and auditors

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.

profit and loss account

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 23 May 2008 and of its results and cash flows for the year then ended,
- The financial statements have been properly prepared in accordance with the Companies Act 1985,
- The information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
May 2008

Notes:

(a) The maintenance and integrity of the Scottish Water Business Stream website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

for the year to 31 March 2008

	Notes	2008 £m	2007 £m
Turnover	2	351.0	140.9
Cost of sales		316.9	126.8
Gross profit		34.1	14.1
Administrative expenses		19.4	7.3
Operating profit before exceptional items	2, 3	14.7	6.8
Exceptional items	4	–	–
Operating profit on ordinary activities before interest		14.7	6.8
Net interest payable	6	1.0	0.7
Other finance costs	20	–	–
Profit on ordinary activities before taxation		13.7	6.1
Taxation	7	3.1	1.9
Retained profit for the financial year		10.6	4.2

As Scottish Water Business Stream Limited started trading on 1 November 2006, the comparatives for 2007 above relate to 5 months of trading.

The profit and loss has been prepared on the basis that all operations are continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

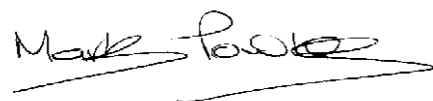
statement of total recognised gains and losses

	Notes	2008 £m	2007 £m
Retained profit for the financial year		10.6	4.2
Actuarial gain/(loss) recognised in respect of pension funds	20	0.6	–
Total recognised gains and losses relating to the financial year		11.2	4.2
Prior year adjustment for the implementation of FRS17 'Retirement Benefits'	20	(0.5)	–
Total gains and losses recognised since last Annual Report		10.7	4.2

as at 31 March 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Tangible fixed assets	8	0.8	1.3
Current assets			
Debtors	10	92.2	90.8
Deferred Tax	18	1.0	–
Cash at bank and in hand		21.6	11.3
		114.8	102.1
Creditors: amounts falling due within one year	11	67.0	75.1
Net current assets		47.8	27.0
Total assets less current liabilities		48.6	28.3
Creditors: amounts falling due after more than one year	12	8.2	–
Provisions for liabilities and charges	14	23.6	24.1
Net assets excluding pension liability		16.8	4.2
Pension asset	20	0.1	–
Net assets		16.9	4.2
Capital and reserves			
Ordinary share capital	15	11.5	–
Profit and loss account reserve	16	5.3	4.2
Other reserves	16	0.1	–
		16.9	4.2

These financial statements were approved by the Board of Directors on the 15th of May 2008 and signed on their behalf by



Mark Powles, managing director

cash flow statement

for the year to 31 March 2008

	Notes	2008 £m	2007 £m
Net cash inflow from operating activities	(i)	24.3	(26.7)
Net cash outflow from returns on investment and servicing of finance	(ii)	(0.8)	(0.4)
		23.5	(27.1)
Purchase of tangible fixed assets		(0.4)	–
Taxation payable		(3.7)	–
Net cash inflow before management of liquid resources and financing		19.4	(27.1)
Net cash outflow from financing	(iii)	(11.0)	29.5
Equity investment from Scottish Water		1.9	–
Increase in cash		10.3	2.4

reconciliation of net cash flow to movement in net debt

Increase in cash	10.3	2.4
Cash outflow from increase in debt financing	11.0	(29.5)
Movement in net debt	21.3	(27.1)
Net debt at 1 April 2007	(53.2)	(26.1)
Net debt at 31 March 2008	(31.9)	(53.2)

analysis of net debt

	As at 1 April 2007 £m	Increase in cash £m	Decrease/ (increase) in debt £m	As at 31 March 2008 £m	As at 31 March 2007 £m
Cash at bank and in hand	11.3	10.3	–	21.6	11.3
Debt due within one year	(64.5)	–	19.2	(45.3)	(64.5)
Net borrowings due within one year	(53.2)	10.3	19.2	(23.7)	(53.2)
Net borrowings due after more than one year	–	–	(8.2)	(8.2)	–
Net debt	(53.2)	10.3	11.0	(31.9)	(53.2)

notes to the cash flow statement

for the year to 31 March 2008

(i) reconciliation of operating profit to net cash inflow from operating activities

	2008 £m	2007 £m
Operating profit	14.7	6.8
Depreciation charges	0.9	0.3
Increase in debtors	(1.4)	(7.7)
Increase/decrease in creditors	10.5	(26.1)
Decrease in provisions	(0.4)	–
Net cash inflow from operating activities	24.3	(26.7)

(ii) returns on investment and servicing of finance

	2008 £m	2007 £m
Interest received	2.9	0.6
Interest paid	(3.7)	(1.0)
Net cash outflow from returns on investment and servicing of finance	(0.8)	(0.4)

(iii) financing

	2008 £m	2007 £m
Borrowings due within one year – repayment of loans	(200.5)	(10.0)
– increase in loans	189.7	39.5
Less: non cash increase to loans	(0.2)	–
Net cash outflow from financing	(11.0)	29.5

notes to the financial statements

1. principle accounting policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention. The financial statements comply with all applicable United Kingdom accounting and reporting standards and the Companies Act 1985. The principal accounting policies are summarised below and have been consistently applied.

Turnover

Turnover comprises charges to customers for water and waste water services, excluding value added tax. For measured customers, turnover includes an estimate of the value of water and wastewater services supplied to customers between the date of the last meter reading and the year-end. For unmeasured customers billed in advance, income is deferred and released to the profit and loss account throughout the year.

Cost of Sales

Cost of sales represents the wholesale charge levied by Scottish Water for the provision of water and waste water services.

Depreciation

Expenditure on tangible fixed assets is capitalised. Depreciation is provided on tangible fixed assets to write-off cost, less residual values, on a straight-line basis over the estimated lives of the asset from the date of beneficial use, as follows:

	Years
Assets transferred from Scottish Water	2
IT equipment	3

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be justified. The resulting impairment charge is included within depreciation.

Loans and Overdrafts

Loans outstanding from Scottish Water at 1 April 2007 were repaid during the year. All new loans were borrowed from Business Stream Holdings Limited. These loans are included under creditors, in accordance with the Companies Act. Scottish Water Business Stream has no bank overdraft facility.

Taxation

The charge for taxation is based on the taxable profit for the year after adjusting for disallowable items. Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the Balance Sheet date, subject to certain exceptions. Deferred tax assets are recognised to the extent that they are recoverable. Full provision has been made without discounting.

Financial Instruments

Financial instruments are recognised in the Balance Sheet when an obligation is identified and released as the obligation is fulfilled. Cash, debtors and creditors are held at cost. Loans are held in the Balance Sheet at cost, but disclosed at fair value in note 13. Fair values were independently appraised using valuation techniques based on prevailing market rates at 31 March 2008. Interest is recognised and reported in the period in which it becomes payable or receivable.

Bad debt provision

The bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile.

Credit note provision

The credit note provision is calculated based on an analysis of historic data on the utilisation of credits.

Creditor payment policy

All creditors are paid in line with Scottish Water Business Stream's standard terms and conditions.

Subsidiary companies

Scottish Water Business Stream Limited purchased Business Stream Ltd and CAMVO 175 Ltd in the period. These companies are both wholly owned subsidiaries and neither company has traded in the year.

Related party disclosures

Related party transactions are detailed in note 17 to the financial statements.

Pensions

At 31 March 2007, employees were seconded from Scottish Water and participated in the Scottish Water pension scheme, as such their FRS17 costs were incurred by Scottish Water.

All employees seconded from Scottish Water were formally transferred to Scottish Water Business Stream under the Transfer of Undertakings (protection of Employment) TUPE on 1 April 2007 so any FRS17 costs are now incurred directly by Scottish Water Business Stream.

Employees participate in the Strathclyde Pension Fund, a defined benefit scheme, which is part of the Local Government Pension Scheme administered by Glasgow City Council.

Scottish Water Business Stream has voluntarily adopted the Accounting Standards Board amendments to FRS17 and Reporting statement.

Pension scheme assets are measured using the bid values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of liabilities within the defined benefit schemes expected to rise from employee service in the period is charged to operating profit. The expected return in the scheme's assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Pension scheme deficits and surpluses, to the extent that the surplus is considered recoverable, are recognised in full and presented on the face of the balance sheet net of related deferred tax.

Approximately 90 Scottish Water employees transferred their accrued rights under the Scottish Water pension schemes administered by Aberdeen, Edinburgh and Glasgow City Councils respectively when they transferred to Scottish Water Business Stream. The bulk transfer terms from Scottish Water to Scottish Water Business Stream were designed to minimise the ongoing funding shortfall within the Strathclyde Pension fund as at 1 April 2007 and the assets notionally allocated at that point should have closely mirrored the value placed on the liabilities at the same date.

However since the assumptions adopted for FRS17 at 1 April 2007 were more conservative than the funding assumptions, the value placed on the liabilities for the purpose of FRS17 is higher. This produced a shortfall between the assets notionally allocated and the value of the FRS17 liabilities. The impact on the profit and loss account and the balance sheet as at 31 March 2007 is summarised below:

		2007 Restated £m
Retained profit for the year ending 31 March 2007		
As previously reported		4.2
Impact of FRS17		
Creation of pension liability	Note 20	(0.5)
Net decrease in profit on ordinary activities		(0.5)
As restated		3.7

		2007 Restated £m
Net assets at 31 March 2005		
As previously reported		4.2
Impact of FRS 17		
Creation of pension liability	Note 20	(0.5)
Net decrease in net assets		(0.5)
As restated		3.7

1. (a) accounting policy change

2. turnover and segmental analysis

All turnover and profit before taxation arises from continuing operations within the United Kingdom.

	Turnover 2008 £m	Operating Profit 2008 £m	Net Assets 2008 £m
Primary income	320.8	13.1	12.7
Trade effluent income	25.9	1.5	4.9
Sundry income	4.3	0.1	(0.7)
	351.0	14.7	16.9

3. operating profit

	2008 £m	2007 £m
Operating surplus is arrived at after charging		
Depreciation of tangible fixed assets	0.95	0.33
Auditors remuneration – audit services	0.04	0.03
Auditors remuneration – non audit services	0.04	0.00

4. exceptional items

There were no exceptional costs charged to the profit and loss account in this period.

5. staff costs

	2008 £m	2007 £m
Wages and salaries	2.8	1.5
Social security costs	0.2	0.1
FRS 17 Pension costs	0.3	0.2
	3.3	1.8

All employees seconded from Scottish Water were formally transferred to Scottish Water Business Stream under Transfer of Undertakings (Protection of Employment) TUPE on 1 April 2007.

Information concerning Directors' remuneration, benefits and pensions is detailed in the Remuneration Report on page 20. No director had, during the year or at the end of the year, any material interest in any contract of significance in relation to Scottish Water Business Stream's business.

The monthly average number of people (including executive and non-executive Directors) employed during the year was 126 FTE.

The number of people employed at 31 March 2008 was 144 FTE.

6. net interest payable

	2008 £m	2007 £m
Interest receivable		
Interest from short-term deposits	1.7	0.3
Interest from Scottish Water on the advance payment of wholesale charge	1.2	0.4
	2.9	0.7
Interest payable		
Government loans	–	–
Loans from Scottish Water	1.8	1.4
Loans from Scottish Water Business Stream Holdings	2.1	–
	3.9	1.4
Net interest payable	1.0	0.7

7. taxation

analysis of tax charge in the year

	2008 £m	2007 £m
Current tax: UK corporation tax on surplus for the year	4.1	1.9
Deferred tax: origination and reversal of timing differences	(1.0)	–
Tax on surplus on ordinary activities	3.1	1.9

factors affecting current tax charge

The total current tax charge for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

	2008 £m	2007 £m
Profit on ordinary activities before taxation	13.7	6.1
Tax on surplus on ordinary activities at standard UK corporation tax rate of 30%	4.1	1.8
Expenses not deductible for tax purposes	–	–
Increase/(decrease) in provisions not taxable	(1.0)	–
Increase/(decrease) in general provisions not deductible for tax purposes	0.9	–
Capital allowance lower than depreciation	0.1	0.1
Current tax charge for the year	4.1	1.9

During the year, as a result of the change in the UK corporation Tax rate from 30% to 28%, that will be effective from 1 April 2008, deferred tax balances expected to reverse in the future have been measured using the effective rate of 28%.

8. fixed assets

	IT £m	Total £m
Cost		
At 1 April 2007	1.7	1.7
Additions	0.4	0.4
Disposals	–	–
At 31 March 2008	2.1	2.1
Depreciation		
At 1 April 2007	0.3	0.3
Charge for the year	1.0	1.0
Disposals	–	–
At 31 March 2008	1.3	1.3
Net book value		
At 31 March 2008	0.8	0.8
Net book value		
At 1 April 2007	1.3	1.3

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be justified.

9. investments

Investments of £1,001 in two non trading subsidiary companies were made in the year.

10. debtors

		2008 £m	2007 £m
Amounts falling due within one year			
Gross Trade debtors		38.3	32.1
Less Bad Debt Provision		(10.6)	(8.6)
Net Trade Debtors		27.7	23.5
Other debtors		–	–
Prepayments		25.3	25.5
Accrued income		38.3	38.7
Amounts due from Scottish Water	Note 17	0.9	3.1
		92.2	90.8
Amounts falling due after more than one year			
Other debtors		–	–
		92.2	90.8

11. creditors

		2008 £m	2007 £m
Amounts falling due within one year			
Short term loans	Note 13	45.5	64.5
Trade and capital creditors		0.2	–
Payments received in advance		0.7	0.1
Other taxes, pension costs and social security		0.2	0.1
Other creditors		7.8	6.1
Accruals		2.6	1.0
Amounts due to Scottish Water	Note 17	7.3	1.0
Tax Payable		2.3	1.9
Vat Payable		0.4	0.4
		67.0	75.1

12. creditors greater than one year

		2008 £m	2007 £m
Amounts falling due after more than one year			
Long term loans	Note 13	8.2	–
		8.2	0.0

13. loans

Scottish Water Business Stream Holdings was formed on 19 November 2007. Scottish Water Business Stream repaid all outstanding loans that it had borrowed directly from Scottish Water on this date. All loans are now borrowed directly from Scottish Water Business Stream Holdings.

At 31 March 2008 Scottish Water Business Stream had outstanding debt on borrowings from Scottish Water Business Stream Holdings of £53.7m. This consisted of £45.5m of short term loans and £8.2m of long term subordinated loans.

Loans from Scottish Water Business Stream Holdings, are recorded on the balance sheet under short and long-term creditors in accordance with the Companies Act.

analysis of borrowings by type and maturity

The £45.5m of short term loans are due for repayment on 30 May 2008. The long term subordinated loans are due for repayment on 19 November 2017.

Additional funding will be provided by Scottish Water Business Stream Holdings throughout the year to cover short term funding requirements.

interest rate profile

The interest rate profile of total borrowings was as follows:

	Total borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Weighted average period of which rate is fixed Months
At 31 March 2008	53.7	53.7	8.20	20
At 1 April 2007	64.5	64.5	4.63	8

fair values

The table below sets out a comparison of the fair values of the loan debt:

	Book value £m	Fair value £m
At 31 March 2008	53.7	60.4
At 1 April 2007	64.5	64.3

14. provisions for liabilities and charges

	2008 £m	2007 £m
Credit note provision		
Opening balance at 1 April 2007	24.1	24.1
Net utilisation	(0.5)	0.0
Closing balance at 31 March	23.6	24.1

A reorganisation provision of £0.02m was also included within provisions held at 31 March 2008.

15. ordinary share capital

£11.5m of ordinary shares were issued in the year. All of the issued ordinary shares were issued to Scottish Water Business Stream Holdings Limited and fully paid.

	Profit & Loss Account reserve excluding Pension reserve £m	Pension reserve £m	Profit & Loss Account reserve including pension reserve £m
Restated at April 2007	4.2	–	4.2
Retained profit for the year	10.6	–	10.6
Conversion of retained profit to equity	(9.5)	–	(9.5)
Actuarial gain net of deferred tax	–	0.1	0.1
At 31 March 2008	5.3	0.1	5.4

16. reserves

17. related party transactions

In the course of normal operations, Scottish Water Business Stream contracted on an arm's length basis with Scottish Water. The aggregate transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

amounts due from Scottish Water

	Amount due from SW (note 10) 2008 £m	Transactions in the year (SW to SWBS) 2008 £m	Amount due from SW (note 10) 2007 £m	Transactions in the year (SW to SWBS) 2007 £m
Wholesale charge	–	(3.5)	2.0	–
Service Level Agreement services provided to Scottish Water	0.1	(1.4)	0.1	–
Other balances	0.6	–	0.9	–
Loans Received from SW	–	20.0	–	64.5
Interest on wholesale charge received from SW	0.2	1.1	0.1	0.3
	0.9	16.2	3.1	64.8

amounts due to Scottish Water

	Amount due to SW (note 11) 2008 £m	Transactions in the year (SWBS to SW) 2008 £m	Amount due to SW (note 11) 2007 £m	Transactions in the year (SWBS to SW) 2007 £m
Wholesale charge	6.7	316.3	0.2	128.6
Service Level Agreement services provided by Scottish Water	0.6	4.6	0.4	1.2
Interest on loans paid to SW	–	1.7	0.4	0.9
Loans repaid to SW	–	84.5	–	–
Interest on wholesale charge paid to SW	–	0.0	–	–
	7.3	407.2	1.0	130.7

Scottish Water Business Stream borrowed directly from Scottish Water Business Stream Holdings Limited during the year. Relevant related party transactions are disclosed under Notes 13 and 15 to the accounts.

18. deferred taxation

	2008 £m	2007 £m
Deferred taxation comprises:		
Accelerated capital allowances on fixed assets	(0.1)	–
Other timing differences	(0.9)	–
Provision for deferred taxation	(1.0)	–
The movement in deferred taxation can be analysed as follows:		
At 1 April 2007	–	–
Deferred tax credited to the income and expenditure account	(1.0)	–
At 31 March 2008	(1.0)	–

19. other finance costs

	2008 £m
Expected return on pension scheme assets	0.2
Interest on pension scheme liabilities	(0.2)
Other finance costs	–

20. pensions

Employees of Scottish Water Business Stream participate in the Strathclyde Pension Fund, which is part of the Local Government Pension Scheme administered by Glasgow City Council.

Total FRS 17 pension costs for Scottish Water Business Stream were £0.3m. The unpaid contributions outstanding at the year end included in other creditors (note 11) was £0.05m. It is estimated that the Employer will make contributions of £0.3m to the pension fund in 2008/9.

A full actuarial valuation was carried out at 31 March 2005 for Strathclyde Pension Fund. Bulk transfer terms were agreed by Lothian and Aberdeen pension funds at 1 April 2007 following the transfer of members from Scottish Water to Business Stream. This has been updated at 31 March 2008 by a qualified actuary to take account of the requirements of FRS17.

the major
assumptions used by
the actuaries were:

	2008 %
Rate of increase in pensionable salaries	5.1
Rate of increase in pensions payment	3.6
Discount rate	6.9
Inflation rate	3.6

longevity
assumptions on
retiring at age 65
adopted for the fund

	Years
Retiring at 31 March 2008	
Male staff	19.4
Male operatives	16.8
Female staff	22.3
Female operatives	20.6
Retiring at 31 March 2028	
Male staff	20.3
Male operatives	17.7
Female staff	23.3
Female operatives	21.5

Scottish Water
Business Stream's
share of the assets
in the schemes and
the expected rate of
return were:

	Long term rate of return %	Value 2008 £m
Equities	7.7	2.10
Bonds	5.7	0.40
Property	5.7	0.30
Other	4.8	0.01
Total market value of assets		2.81
Present value of scheme liabilities		(2.70)
Gross pension liability/asset		0.11
Related deferred tax asset		0.04
Net pension liability/asset		0.15

Scheme assets are stated at their bid values in line with revised FRS17 disclosure requirements.

reconciliation
of opening and
closing retirement
benefit liabilities
and assets

	2008 £m
Movement in liabilities during the year	
Opening value of total liabilities	(3.0)
Current service cost	(0.3)
Interest on pension scheme liabilities (note 8)	(0.2)
Contributions by members	(0.1)
Actuarial gain/(loss)	0.9
Past service costs	–
Impact of settlements and curtailments	–
Benefits paid	–
Closing value of total liabilities	(2.7)

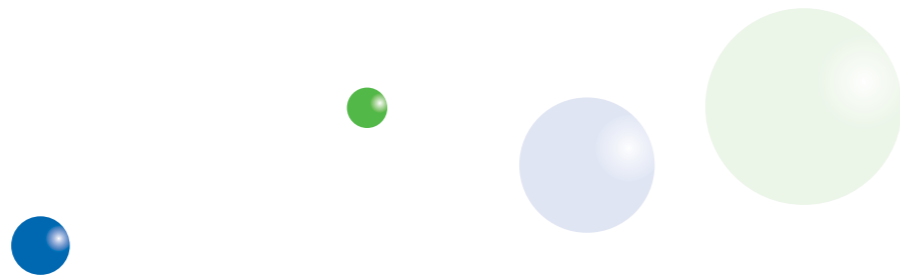
	2008 £m
Movement in assets during the year	
Opening fair value of total liabilities	2.5
Expected return on pension scheme assets (note 8)	0.2
Contributions by members	0.1
Contributions by the Employer	0.3
Actuarial gain/(loss)	(0.3)
Impact of settlements and curtailments	–
Benefits paid	–
Closing fair value of assets	2.8
Gross Surplus in Scheme at 31 March	0.1

analysis of the amounts
included within the
financial statements

	2008 £m
Actuarial gain/(loss) in the statement of total recognised gains and losses (STRGL)	
Variance between pension fund actuarial assumptions and actual experience	0.6
Impact of settlements and curtailments	–
Prior year adjustment for set up of SWBS fund	(0.5)
Gross actuarial gain/(loss) recognised in the pension fund	0.1
Deferred tax movement	–
Net actuarial gain/(loss) recognised in the STRGL	0.1

history of experience
gains and losses

	2008 £m
Difference between the expected and actual return on scheme assets	
Amount	(0.3)
Value of assets	2.8
Percentage of scheme assets	(10.7)%
Experienced gains/(losses) on scheme liabilities	
Amount	–
Present value of liabilities	2.7
Percentage of the present value of scheme liabilities	0.0%
Changes in assumptions underlying the present value of scheme liabilities	
Amount	0.9
Percentage of the present value of scheme liabilities	0.1%
Total variance between pension fund actuarial assumptions and actual experience	0.6
Gross Surplus/(deficit) in the Scheme at 31 March	0.1



21. obligations under leases

At 31 March 2008, Scottish Water Business Stream had annual commitments under non cancellable operating leases within one year of £4,675 and between two and five years of £3,130. All operating leases relate to vehicles.

22. regulatory information

The Water Industry Commission for Scotland (the 'Commission') has the general function of promoting interests for customers in relation to the provision of core services. The Commission also advises Scottish Ministers on any matter that relates to the standard of service provided to Scottish Water Business Stream's customers or the manner in which it conducts its relationship with customers. The Commission approves Scottish Water Business Stream's annual charges scheme.

23. ultimate controlling body

Scottish Water Business Stream Limited is a wholly owned subsidiary of Scottish Water Business Stream Holdings Limited which is a wholly owned subsidiary of Scottish Water. Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.