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About us

The Water Services etc. (Scotland) Act 2005 set in statute the arrangements for opening the non household retail market for water and sewerage services in Scotland. The act provides for the Water Industry Commission for Scotland to issue licences to retailers with conditions attached and requires every non household customer to switch its supplier from Scottish Water to a licensee.

Scottish Water Business Stream was created as the sole licensee until the market opens on 01 April 2008 and was granted the appropriate provisional operating licences on 31 October 2006. Scottish Water Business Stream Limited is a wholly owned subsidiary of Scottish Water, but as required by the licence conditions applied by the Commission, is governed, managed and operated on an entirely independent basis. Scottish Water Business Stream's charges are also regulated through the licence conditions applied by the Commission until at least March 2008. In the event that the Commission concludes that the market is not effectively contested after 1 April 2008, it will continue to regulate Business Stream's charges.

Scottish Water Business Stream Limited commenced trading on 1 November 2006. All Scottish Water's non household customers were transferred to Scottish Water Business Stream at this date.

Scottish Water Business Stream is a 100% owned subsidiary of Scottish Water Limited and as such the results of Scottish Water Business Stream are consolidated into the Scottish Water Group Accounts. Copies of consolidated Accounts are available from: Scottish Water, Castle House, Castle Drive, Dunfermline, KY11 8GG.

Directors and Advisers

Directors

Nigel Bibby	Resigned 15 February 2007
John Hargreaves	Resigned 15 February 2007
Ronnie Mercer	Appointed 01 November 2006
Ronald Hewitt	Appointed 15 February 2007
Andrew Taylor	Appointed 15 February 2007
Mark Powles	Appointed 05 March 2007
Johanna Dow	Appointed 30 March 2007

Secretary

Tom Axford	Resigned 01 November 2006
Lorna McGregor	Resigned 30 March 2007
Charles Smtih	Appointed 25 April 2007

Registered office

Scottish Water Business Stream Limited
Fairmilehead
55 Buckstone Terrace
Edinburgh
EH10 6XH

Registered in Scotland No. SC294924

Auditors

Pricewaterhouse & Coopers 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

Managing Directors' report

Since starting trading in November 2006 Business Stream has made significant progress establishing itself as a stand alone Company and working closely with stakeholders to prepare the business market for retail competition in April 2008.

I joined the Company as Managing Director in March 2007 and the results outlined in this report were achieved under the stewardship of the management team prior to my arrival and demonstrate a solid performance at a time of significant change. Key highlights include Profit Before Tax which for the five months to 31 March 2007 was £2.5m higher than budgeted at £6.1m and gross trade debt which was at its lowest ever level at £32.1m.

The next twelve months create many challenges and opportunities as we move towards a competitive market place. We have started the work to separate our business processes from the wholesale organisation and to assist the Central Marketing Authority (CMA) to deliver a successful market opening.

Our goal over the next year is to create a strong retail brand that is customer centric, performance driven and where marketing promises are matched by strong operational delivery.

Key to delivering a strong customer service ethic is the performance of our staff and we will continue to work towards creating an organisation where people feel valued, have the tools to do a great job and understand the part they play in the success of Business Stream.

We have a lot to achieve in a relatively short space of time but I am confident that we have the skills and resources in place to ensure that our business customers have a partner that is focused on sustainable and consistent service quality and value for money.



Mark Powles
Managing Director

Edinburgh
16 May 2007

Directors' report

The Directors present their annual report together with the audited financial statements for the period ended 31 March 2007.

Principal Activities

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

Financial Results for the Year

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 £4.2m. Details of the financial results and associated accounting policies are set out on pages 10 to 20. 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.

With effect from May 2007, the risk register was 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.

Directors Interests

The Directors who were in office throughout the year are noted on page 2. 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 6.

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 was passed by the board on the 15 February 2007.



Mark Powles
Managing Director

Edinburgh
16 May 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 five months ending 31 March 2007 is set out below:

	Date appointed	Salary £000	Bonus £000	Benefits £000	Total £000
Executive Directors					
Nigel Bibby	2 August 2006	33.8	22.0	0.0	55.8
Mark Powles	5 March 2007	9.4	0.0	0.4	9.8
Non-Executive Directors					
Ronald Hewitt	5 March 2007	4.8	0.0	0.0	4.8
Andrew Taylor	5 March 2007	4.8	0.0	0.0	4.8
Total Directors' Remuneration		52.8	22.0	0.4	75.2

Notes:

- (i) Jon Hargreaves served as a Non-Executive Director until his resignation on 15 February 2007, but did not receive a salary.
- (ii) Nigel Bibby was employed as a contractor in the post of Managing Director until his resignation on 15 February 2007.
- (iii) Ronnie Mercer's remuneration was paid by Scottish Water. Scottish Water Business Stream paid Scottish Water £10.4k for his service.
- (iv) The remuneration paid to Johanna Dow is not included in this report as she was only appointed as a Director on 30 March 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 8 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 a 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.

Independent Auditors' report

to the directors of Scottish Water Business Stream

We have audited the financial statements of Scottish Water Business Stream Limited for the period ended 31 March 2007 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.

Respective responsibilities of Directors and auditors

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

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 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its profit and cash flows for the period 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.

Notes:

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

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PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors

Edinburgh
24 May 2007

Profit and loss account

For the period 1st November 2006 to 31 March 2007

	Notes	2007 £m
Turnover	2	140.9
Cost of sales		126.8
Gross Profit		14.1
Administrative expenses		7.3
Operating profit before exceptional items	2, 3	6.8
Exceptional items	4	-
Operating profit on ordinary activities before interest		6.8
Net interest payable	6	0.7
Profit on ordinary activities before taxation		6.1
Taxation	7	1.9
Retained profit for the financial year		4.2

Statement of total recognised gains and losses

There are no gains and losses other than the profit for the year.

Balance Sheet

As at 31 March 2007

	Notes	2007 £m
Fixed assets		
Tangible fixed assets	8	1.3
Current assets		
Debtors	9	90.8
Cash at bank and in hand		11.3
		102.1
Creditors: amounts falling due within one year	10	75.1
Net current assets		27.0
Total assets less current liabilities		28.3
Creditors: amounts falling due after more than one year	10	-
Provisions for liabilities and charges	12	24.1
Net assets excluding pension liability		4.2
Pension liability		-
Net assets		4.2
Capital and reserves		
Ordinary share capital	13	-
Profit and loss account reserve	14	4.2
		4.2

These financial statements were approved by the Board of Directors on 16th of May 2007 and signed on their behalf by



Mark Powles
Managing Director

Cash flow statement

For the Period Ended 31 March 2007

	Notes	2007 £m
Net cash outflow from operating activities	(i)	(26.7)
Net cash outflow from returns on investment and servicing of finance	(ii)	(0.4)
		(27.1)
Purchase of tangible fixed assets		-
Net cash inflow before management of liquid resources and financing		(27.1)
Net cash inflow from financing	(iii)	29.5
Increase in cash		2.4

Reconciliation of net cash flow to movement in net debt

Increase in cash	2.4
Cash inflow from increase in debt financing	(29.5)
Movement in net debt	(27.1)
Net debt at 1 November 2006	(26.1)
Net debt at 31 March 2007	(53.2)

Analysis of net debt

	As at 1 November 2006 £m	Increase in cash £m	(Increase) in debt £m	As at 31 March 2007 £m
Cash at bank and in hand	8.9	2.4	-	11.3
Debt due within one year	(35.0)	-	(29.5)	(64.5)
Net borrowings due within one year	(26.1)	2.4	(29.5)	(53.2)
Net borrowings due after more than one year	-	-	-	-
Net debt	(26.1)	2.4	(29.5)	(53.2)

Notes to the cash flow statement

For the Period Ended 31 March 2007

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

	2007 £m
Operating profit	6.8
Depreciation charges	0.3
Increase in debtors	(7.7)
Decrease in creditors	(26.1)
Net cash inflow from operating activities	(26.7)

(ii) Returns on investment and servicing of finance

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

(iii) Financing

	2007 £m
Borrowings due within one year	(10.0)
- repayment of loans	
- increase in loans	39.5
Net cash inflow from financing	29.5

Notes to the financial statements

1. Principal 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 wastewater 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

All loans were borrowed from Scottish Water during the year. 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.

Pensions

Scottish Water Business Stream had no pension scheme in existence at 31 March 2007. Employees seconded from Scottish Water participated in Scottish Water Local Government Pension Schemes.

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 11. Fair values were independently appraised using valuation techniques based on prevailing market rates at 31 March 2007.

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 from Scottish Water, 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 Scottish Waters credit note provision.

Related party disclosures

Related party transactions are detailed in note 15 to the financial statements.

Notes to the financial statements

2. Turnover and segmental analysis

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

	Turnover	Operating Profit	Net Assets
	2007 £m	2007 £m	2007 £m
Primary income	129.1	6.2	4.1
Trade effluent income	11.0	0.3	1.1
Sundry income	0.8	0.3	(1.0)
	140.9	6.8	4.2

3. Operating profit

Operating profit is arrived at after charging:	2007 £m
Depreciation of tangible fixed assets	0.33
Auditors remuneration – audit services	0.03

4. Exceptional items

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

5. Staff costs

All employees were seconded from Scottish Water at 31 March 2007. The total cost associated with these employees was £1.8m. As the employees were all seconded from Scottish Water, the FRS17 costs were incurred by Scottish Water and are therefore reported in Scottish Waters Annual Report and Accounts.

Scottish Water Business Stream's Directors at 31 March 2007 were seconded from Scottish Water. Information concerning Directors' remuneration, benefits and pensions is detailed in the Remuneration Report on page 6. 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) seconded from Scottish Water to Scottish Water Business Stream during the year was 145.

The number of people seconded from Scottish Water at 31 March 2007 was 132 FTE .

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.

Notes to the financial statements

6. Net Interest Payable

	2007 £m
Interest receivable	
Interest from short-term deposits	0.3
Interest from Scottish Water on the advance payment of wholesale charges	0.4
	0.7
Interest payable	
Government loans	-
Loans from Scottish Water	1.4
	1.4
Net interest payable	0.7

7. Taxation

Analysis of tax charge in the year

	2007 £m
Current tax: UK corporation tax on surplus for the year	1.9
Deferred tax: origination and reversal of timing differences	-
Tax on surplus on ordinary activities	1.9

Factors affecting current tax charge

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

Tax on surplus on ordinary activities at the standard UK corporation tax rate of 30%	1.8
Expenses not deductible for tax purposes	-
Increase/(decrease) in general provisions not deductible for tax purposes	-
Capital allowances lower than depreciation	0.1
Current tax charge for the year	1.9

Notes to the financial statements

8. Fixed assets

	IT £m	Total £m
Cost		
At 1 November 2006	1.59	1.59
Additions	0.06	0.06
Disposals	-	-
At 31 March 2007	1.65	1.65
Depreciation		
At 1 November 2006	-	-
Charge for the year	0.33	0.33
Disposals	-	-
At 31 March 2007	0.33	0.33
Net book value		
At 31 March 2007	1.32	1.32

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. Debtors

	2007 £m
Amounts falling due within one year	
Gross Trade debtors	32.1
Less Bad Debt Provision	-8.6
Net Trade Debtors	23.5
Prepayments	25.5
Accrued income	38.7
Amounts due from Scottish Water	Note 15 3.1
	90.8
Amounts falling due within one year	
Other debtors	-
	90.8

Notes to the financial statements

10. Creditors

		2007 £m
Amounts falling due within one year		
Short-term loans	Note 11	64.5
Trade and capital creditors		-
Payments received in advance		0.1
Other taxes, pension costs and social security		0.1
Other creditors		6.1
Accruals	-	1.0
Amounts due to Scottish Water	Note 15	1.0
Tax payable		1.9
VAT Payable	-	0.4
		75.1

11. Loans

At 31 March 2007 Scottish Water Business Stream had outstanding debt on borrowings from Scottish Water of £64.5m. This consisted of £35.0m of loans transferred to Scottish Water Business Stream on 1 November 2007 and £29.5m of other loans borrowed from Scottish Water on or after that date.

Scottish Water Business Stream had no overdraft facility at 31 March 2007.

Loans from Scottish Water are recorded on the Balance Sheet under creditors in accordance with the Companies Act.

Analysis of borrowings by type and maturity

All loans are scheduled to be repaid by 31 March 2008.

Interest rate profile

The interest rate profile of total borrowings was as follows:

	Total £m	Fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Months
At 31 March 2007	64.5	64.5	4.63%	8
At 1 November 2006	35.0	35.0	4.46%	10

Notes to the financial statements

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 2007	64.5	64.3

12. Provisions for liabilities and charges

	2007 £m
Credit note provision	
Opening balance at 1 November 2006	24.1
Net utilisation	-
Closing balance at 31 March 2007	24.1

13. Ordinary share capital

The value of ordinary share capital was £1 at 31 March 2007.

14. Reserves

	Profit & Loss Account reserve £m
At 1 November 2006	-
Retained profit for the year	4.2
At 31 March 2007	4.2

Notes to the financial statements

15. Related Party Transactions

In the course of normal operations, Scottish Water Business Stream contracted on an arms-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 SW (note 9) 2007 £m	Transactions in the year (SW to SWBS) 2007 £m
Amounts due from Scottish Water		
Wholesale charge	(2.0)	-
Service Level Agreement services provided to Scottish Water	(0.1)	-
Other balances	(0.9)	-
Loans received from Scottish Water	-	64.5
Interest on wholesale charge received from Scottish Water	(0.1)	(0.3)
	(3.1)	64.2

	Amounts due to SW (note 10) 2007 £m	Transactions in the year (SWBS to SW) 2007 £m
Amounts due to Scottish Water		
Wholesale charge	0.2	128.6
Service Level Agreement services provided by Scottish Water	0.4	1.2
Interest on loans paid to Scottish Water	0.4	0.9
	1.0	130.7

16. Regulatory information

The Water Industry Commission (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 Streams' customers or the manner in which it conducts its relationship with customers. The Commission approves Scottish Water Business Stream's annual charges scheme.

17. Ultimate controlling body

Scottish Water Business Stream is a wholly owned subsidiary of Scottish Water Limited. 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.