

Registered number: **SC190621**

STIRLING WATER SEAFIELD FINANCE PLC
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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STIRLING WATER SEAFIELD FINANCE PLC

COMPANY INFORMATION

DIRECTORS

John Patrick Abraham
Caroline Garrett
Tracy Jayne Knipe
Mark Andrew Wilson

COMPANY SECRETARY

Elaine Margaret Aitken

REGISTRATION NUMBER

SC190621

REGISTERED OFFICE

13 Queens Road
Aberdeen
Scotland
AB15 4YL

INDEPENDENT AUDITOR

Ernst & Young LLP
1 Colmore Square
Birmingham
B4 6HQ

STIRLING WATER SEAFIELD FINANCE PLC

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STIRLING WATER SEAFIELD FINANCE PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

INTRODUCTION

The Directors present their Strategic report for the year ended 31 December 2019.

The principal activity of Stirling Water Seafield Finance Plc ("the Company") is to raise funds to enable other UK&I group companies to upgrade and operate waste water treatment facilities and provide services relating to the treatment and disposal of sewage sludge in relation to the Almond Valley, Seafield and Esk ("AVSE") catchment areas.

The Company is registered and domiciled in the United Kingdom.

The Company is part of the Veolia Group, ("the Group") which is defined as all companies under the control of the ultimate parent company, Veolia Environnement S.A, headquartered in Paris. The Company is also a member of the "UK&I group", a division of the Group, based in the UK and Ireland and involved in the provision of waste, water and energy services and directly or indirectly under the ownership of Veolia UK Limited ("VUK").

BUSINESS REVIEW

The Company continued its core business activities during the year and anticipates that it will continue to do so for the foreseeable future.

Result from ordinary activities after taxation for the year ended 31 December 2019 was £nil (2018: £nil).

The Statement of financial position as at 31 December 2019 shows equity shareholders' funds amounting to £50k (2018: £50k).

SECTION 172 (1)

The Directors have ensured compliance with their duties under s.172(1) in relation to the Company and its various stakeholders, including its indirect workforce, main customer and suppliers, local community, credit providers, bond holders and relevant regulatory authorities. As a wholly-owned subsidiary of the Group (and within that, the UK&I group), the Company has a sole member. Engagement with all of the Company's stakeholders has informed the way in which the Directors have discharged their duties and addressed the principal risks and uncertainties as detailed below. Where individual Directors are not directly involved in the processes described below, regular feedback and discussions are held with the relevant management teams, including UK&I Management Board meetings and operational review meetings. There were no matters brought to the attention of the Directors through the undertaken engagement that were considered to be of strategic importance, other than relating to those matters detailed in the principal decisions section below.

The main purpose of the Company is to raise funds to support the upgrade and operation of wastewater treatment facilities and associated treatment and disposal of sewage sludge in the AVSE catchment area, for the Company's Group fellow subsidiary, Stirling Water Seafield Limited's ("SWSL") main customer, Scottish Water, and indirectly, therefore, the local community. These services are provided by the Operator of the contract, Veolia Water Outsourcing Limited, who is a Group fellow subsidiary, and has regular engagement with the Company's main customer, including through meetings and provision of financial and operational reports.

There is also regular communication with the Company and SWSL's credit providers and their technical advisers on all areas of the contract including safety, contract performance against targets, compliance, asset maintenance, site audit results, forecast cash flows and financial ratios. Meetings are also held with the bond rating agency who annually provide a credit opinion on the bond.

STIRLING WATER SEAFIELD FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

SECTION 172 (1) (continued)

It should be noted that the Company is part of the UK&I group and as such the Directors have ensured that the strategy, values and policies of the UK&I group have been adopted. The Directors have oversight of the running of the Company, including through regular reviews of the contract performance and consideration of potential risks and opportunities.

The UK&I group has a Supply Chain Team who are responsible for sourcing goods and services and managing the associated supply chain risk across the UK&I group. The Directors recognise that the smooth running of the Company relies on adequate, good quality and timely supplies of goods and services to the Operator of the contract. Engagement with key suppliers includes due diligence by the Supply Chain Team and putting in place appropriate terms and conditions.

The Company has no direct employees, however, the Directors recognise that the Company's long term success is predicated on the commitment of the workforce of the Operator. Through the UK&I group, the Operator provides these employees with relevant training using both in-house and external providers. Health and safety of the Operator's workforce is of key importance - refer to the Health and safety, quality and environment section of the Strategic Report of the Operator for further details. Employees are given access to Company and UK&I group information and updates via various channels including newsletters and team meetings and engagement also takes place via employee surveys.

The UK&I group and the Company are dedicated to the circular economy and to enhancing this by working with customers, local communities and the government and promoting all aspects of environmental and wastewater management. This is achieved in part through inviting local schools and members of the local community to open days and tours of SWSL's facilities to promote the various recycling opportunities. Representatives of the Company, SWSL, and the Operator, along with the main customer and local government, are also involved in directly supporting specific initiatives and competitions themed around the 'circular economy' in both local primary and secondary schools.

On a monthly basis there is a liaison meeting involving representatives from Scottish Water, City of Edinburgh Council Environmental Health, Scottish Environment Protection Agency ("SEPA") and the UK&I group to discuss the environmental performance of the operations. A report is produced by the UK&I group and the issues discussed include energy self-sufficiency, odour, community engagement and future planned activities and development of the site. Stakeholder meetings are also held involving the above parties and representatives from a local community council, a local residents association, local councillors and Members of the Scottish Parliament/Members of Parliament to update the stakeholders on the performance of the site and to allow them to raise any questions and concerns.

As regards principal decisions during the year, no dividend was paid during the year, in accordance with the Company's contractual requirements.

STIRLING WATER SEAFIELD FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

PRINCIPAL RISKS AND UNCERTAINTIES

In common with all businesses, the Company recognises certain risk factors that are both external and internal to the Company.

The following highlights some of the particular risks, but is not intended to be an extensive analysis of all risks affecting the business. Some risks may be unknown to the Company and other risks, currently regarded as immaterial, could turn out to be material. All of them have a potential to impact the Company's business adversely. The Board has approved that the Company manages the majority of these risks by utilising the resources and processes developed and operated within the UK&I group as whole. The Board has also considered the impact of COVID-19 on each of the Company's principal risks as set out below:

Financial risks

Financial risk management

The Company finances its operations through bonds. The Group's central treasury department manages liquidity, interest rate and foreign exchange risk centrally within limits set by the Chief Financial Officer of the UK&I group.

- **Credit risk**

The key risk affecting the Company is the ability of SWSL to meet repayments as they fall due.

The Company manages its credit risk by assessing SWSL's budgeted cash flows and long-term forecasts, related assumptions and available debt facilities.

The risk of major financial loss would occur if SWSL's main customer, Scottish Water, a well-established and stable public sector body, failed to honor its obligations under the contract. The likelihood of this is considered low, and is considered to continue to be such in the current environment.

Given the above, the Directors consider the Company's exposure to credit risk to be acceptable.

- **Interest rate risk**

The Company is not exposed to interest rate risk as the interest rates on its guaranteed secured bonds and loans to SWSL are fixed.

- **Liquidity risk**

The Company is not exposed to significant liquidity risk as it performs limited operations. The liabilities it has to meet are in relation to the bonds in issue, which is predicated on SWSL meeting its obligations to the Company. This is mitigated to a large extent by the high level of predictability over contract revenues and the credit worthiness of the main customer, being a large public sector body. Therefore liquidity risk is considered to be minimal.

- **Foreign exchange risk**

The Company is not exposed to foreign currency risk as the Company operates principally in the UK and at each reporting date all financial assets and financial liabilities are denominated in pound sterling.

STIRLING WATER SEAFIELD FINANCE PLC

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

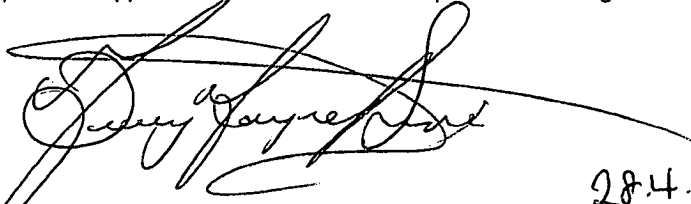
Other risks

Following the 2016 referendum, the UK left the European Union on 31 January 2020 and entered into a transitional phase which is currently due to end on 31 December 2020. Negotiations between the UK government and the European Union on trading and other structures are ongoing.

The UK&I group have analysed the potential impact of the various options following the end of the transitional phase and are confident that there are plans and contingencies in place to avoid the business being unduly affected. The effect on employees has been at the forefront of the UK&I group's plans, with the UK&I group continuing to maintain both formal and informal communication with affected employees. The UK&I group continues to monitor developments.

The Group continues to develop its business in the UK and monitor the effects of the decision in line with the Group statement released in Paris on 24 June 2016: "Veolia will, of course, continue its journey in the UK. That means that we will continue to invest both in terms of financial and human resources to ensure we remain competitive and innovative". Whilst making no formal statements on the subject since, the Group have continued with its plans to manage, develop and support the UK business in line with this statement.

This report was approved by the board on 28 April 2020 and signed on its behalf.



Tracy Jayne Knipe
Director

28.4.20.

STIRLING WATER SEAFIELD FINANCE PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

As permitted, certain information regarding the Company, including a review and analysis of the development and performance of the Company's business during the year, the Company's policies for employee and shareholder engagement and a description of the principal risks and uncertainties facing the Company are contained within the Strategic report.

RESULTS AND DIVIDENDS

The result for the year, after taxation, amounted to £nil (2018: £nil).

There were no dividends paid in the year under review (2018: £nil).

DIRECTORS

The Directors who served during the year and up to the date of this report were:

John Patrick Abraham

Richard John Anderson (Resigned 10 March 2020)

Caroline Garrett

Tracy Jayne Knipe

Nigel John Paterson (Resigned 30 April 2019)

Mark Andrew Wilson

No Director has, or has had, a material interest, directly or indirectly, at any time during the year.

DIRECTORS' INDEMNITIES

The Directors are entitled to be indemnified by the Company to the extent permitted by law in respect of losses arising out of or in connection with the execution of their powers, duties and responsibilities. Veolia Environnement S.A., the Company's ultimate parent company, maintains Directors' and Officers' liability insurance for the Directors in respect of their duties as directors. Such qualifying third party indemnity provision was in place throughout the period and remains in force as at the date of approving the Directors' report. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

GOING CONCERN

The Company is responsible for raising finance for the upgrading and operating of wastewater treatment facilities in relation to the AVSE catchment areas. The contract between the Company's immediate parent company, SWSL and Scottish Water has an end date of 28 March 2029. Funding for this project was primarily obtained through the issue of fixed rate bonds by the Company which were subsequently lent to SWSL, and with fixed rate loans with fellow UK&I group companies. The Contract is managed on a day to day basis by the Operator, on an annual fixed fee basis. The Operator also manages the Mid-term capital expenditure ("MLC") programme on behalf of SWSL and the MLC spend is agreed in advance with representatives of the Company's bond holders.

The Company's ability to make repayments in respect of the bonds issued is solely dependent on SWSL's ability to make repayments to the Company on the associated loan. The Directors have reviewed the cash flow model prepared by SWSL for the life of the contract with Scottish Water. This model is updated regularly and shared with the Company and the insurer of the bonds. The model supports the Directors' opinion that over the life of the contract the cash flows will be sufficient to allow SWSL to continue to make the loan repayments. In assessing both the solvency of SWSL and the Company and the ability to meet their liabilities as they fall due over a period of 12 months from the date of approval of these financial statements, the Directors considered SWSL's budgeted cash flows, long term forecasts, availability of debt facilities and the following key assumptions, including the impact of COVID-19:

STIRLING WATER SEAFIELD FINANCE PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

GOING CONCERN (CONTINUED)

- The variability of wastewater treatment volumes and the impact that fluctuations have on the following annual cycle's revenues. The Directors have a high level of confidence in the forecast revenues due to the maximum revenue cap having been met in most of the past 18 years of the contract
- The customer credit concentration, with Scottish Water being the main customer. The Directors regard the credit risk to be low given that the customer is a public sector body.
- The contract with the customer includes measures such that deferral of invoice payments would be punitive. Following the outbreak of COVID-19, the Government has also published policies on its intention to support suppliers that provide essential services that would be inconsistent with deferral of invoice payments or the levy of significant performance penalties
- The resilience of the Operator, a Group fellow subsidiary, to continue to provide the services under the contract. The Directors consider that the Operator has undertaken appropriate measures to adjust to the changes in working arrangements following the outbreak of COVID-19 and that non-essential maintenance and capex may be deferred in order to manage potential shortages in resources

The Company's financing is dependent upon the ability of the Company and its immediate parent to comply with a number of covenant tests required by the bond holders. The Directors have assessed compliance with the covenants based on the key assumptions above. In the event that the cashflows were to fall below those in the model's base case, the Directors are confident that SWSL would take mitigating action by deferring projects within the MLC programme.

Having taken these matters into consideration, the Directors consider that they have a reasonable basis to conclude that SWSL and therefore the Company will be able to meet their liabilities as they fall due for the foreseeable future and accordingly they continue to adopt the going concern basis of preparation in these financial statements.

CORPORATE GOVERNANCE

As a general guiding principle, the Company falls under the UK&I group which adopts the principles and rules contained in the most widely recognised good governance recommendations.

INTERNAL CONTROL

During the year under review, the Directors of the Company had overall responsibility for establishing and maintaining an adequate system of internal controls within the Company and they participated in the review of internal controls over financial reporting and the certification process which took place on a UK&I group wide basis. The effectiveness of the system at the UK&I group level was kept under review through the work of the UK&I group's Internal Controls department.

The system of internal control is designed to manage rather than eliminate risk. In pursuing these objectives, internal control can provide reasonable assurance against material misstatement or loss.

A risk and control governance framework is in place across the UK&I group and is subject to continuous review and development. The Company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity and to the communication of ethical values and control consciousness to managers and employees. Human Resources policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability, having regard to acceptable levels of risk.

STIRLING WATER SEAFIELD FINANCE PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

INTERNAL CONTROL (CONTINUED)

The UK&I group has fraud and anti-bribery policies and procedures in place to ensure that all incidences of fraud and bribery are appropriately reported and investigated. Further, the UK&I group has adopted a Whistleblower Protection Policy, incorporating a confidential external reporting service operated by an independent provider.

FUTURE DEVELOPMENTS

The Directors have considered the impact of the outbreak of COVID-19 and remain confident that the Company can continue with its core business activity to support the activities of UK&I group companies. No change in its core business activity is anticipated in the foreseeable future.

FINANCIAL INSTRUMENTS

Financial instruments give rise to foreign currency, interest rate, credit, price and liquidity risk. Information on how these risks arise is set out in the Strategic report.

The Company has no exposure to foreign exchange risk as all of its financial assets and liabilities are denominated in pound sterling and has no exposure to interest rate risk as all of its borrowings are at fixed rates of interest.

It is, and has been throughout the period under review, the Company's policy that no trading in speculative derivative financial instruments shall be undertaken.

POST BALANCE SHEET EVENTS

As noted throughout the report and accounts, the outbreak of COVID-19 has had certain impacts on the Company. Further details are included in note 15. Given the unprecedented situation in the UK, there remains significant uncertainty as to the length and extent of the impact on individuals, communities and the economy as a whole. However, due to the nature of the contract and the main customer of the Company's immediate parent, to which it lends, the fact that the treatment of wastewater is designated by the government as an essential service, and based on the Company's current assessment of risks, no material impacts or uncertainties have been identified which require adjustment in the financial statements and it is not at this stage expected to have a material impact on the Company's ongoing business.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are a Director at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

STIRLING WATER SEAFIELD FINANCE PLC

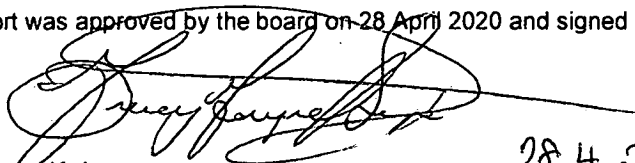
DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2019

AUDITORS

The auditor, Ernst & Young LLP (Statutory Auditor), will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

This report was approved by the board on 28 April 2020 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'Tracy Jayne Knipe', written over a horizontal line.

Tracy Jayne Knipe
Director

28.4.20.

STIRLING WATER SEAFIELD FINANCE PLC

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union. Under Company law the Directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting 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 Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, as at the date of this report, confirms to the best of their knowledge that:

- The financial statements, prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and result of the Company.
- The Strategic Report and the Directors' Report include a fair review of the development and performance and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STIRLING WATER SEAFIELD FINANCE PLC

Opinion

We have audited the financial statements of Stirling Water Seafield Finance PLC (the "Company") for the year ended 31 December 2019 which comprise Statement of the Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2019 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	•	Management's consideration of the potential impact of COVID-19 on Going Concern.
Materiality	•	Overall materiality of £231,000 which represents 0.5% of total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STIRLING WATER SEAFIELD FINANCE PLC (CONTINUED)

Risk	Our response to the risk	Key observations communicated to the management
<p>Management's consideration of the potential impact of COVID-19 on Going Concern</p> <p>The Company's financial statements are prepared on the going concern basis.</p> <p>The Company has long term debt of £46m, including £5m of listed bonds that are repayable within 12 months of the Balance Sheet date (see note 10). The Company has net assets of £50k, and has made neither a profit or loss during the year. The Company's only source of income is from interest on the loan to its parent, dependent upon the recoverability of the loan receivable and interest income from its immediate parent, Stirling Water Seafield Limited.</p> <p>The COVID-19 pandemic is of an unprecedented scale and has severely impacted the UK economy. There is a significant degree of uncertainty about the further spread of the virus and its continuing impact upon the Company and its immediate parent.</p> <p>To assess whether the going concern basis of preparation of the financial statements remains appropriate given this uncertainty, the cash flow forecasts have been stress tested in order to establish that no material uncertainty exists such that the Company might not be able meet its financial obligations when they fall due for a period of at least 12 months from the date of approving these financial statements.</p>	<p>In light of the COVID-19 pandemic the audit partner and the senior manager of the audit team spent a significant amount of time performing the following procedures:</p> <p>Going Concern Basis of preparation</p> <ul style="list-style-type: none"> • We obtained from management their latest financial model and going concern assessment that support the Board's assessment and conclusions with respect to the statement of going concern. We gained an understanding of the process for constructing the model. • We discussed with management the critical estimates applied in their latest financial model so we could understand and challenge the rationale for the factors incorporated into the financial model and the sensitivities applied as a result of COVID-19. • We inspected the base case financial model provided to assess the consistency with our understanding of the operations of the entity. We tested the model to check the arithmetical accuracy. • We agreed key estimates to underlying supporting information and fact patterns where and as appropriate. The key assumptions were: <ul style="list-style-type: none"> - Water treatment volumes; - Recoverability of trade receivables; - Timing of mid-life capex projects. 	<p>We concur with the Board's assessment that the going concern basis of preparation remains appropriate and that no material uncertainty exists. The disclosures in respect of and the impact of COVID-19 relating to the going concern basis and post balance sheet events made in financial statements are appropriate.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STIRLING WATER SEAFIELD FINANCE PLC (CONTINUED)

Risk	Our response to the risk	Key observations communicated to the management
<p>The Company has a loan receivable from its parent company with a value of £46.2m (2018: £51.2m). The directors have assessed whether the expected credit loss is material at the year end, and also whether in the period subsequent to the spread of COVID-19 in 2020, the impact of the virus could have a material adverse impact on the future value of the loan receivable.</p> <p>The disclosures in the financial statements have been reconsidered to reflect the impact of the virus on the principal risks and uncertainties affecting the business, key estimates and judgements, going concern basis of preparation and post balance sheet events. We draw attention to note 2.2 of the financial statements, which describes the COVID-19 impact on the Board's assessment of the going concern basis of preparation, and note 15, which describes the Board's considerations in respect of post balance sheet events.</p>	<ul style="list-style-type: none"> • We subjected the financial model to additional stress testing by analysing the impact of a 5% reduction in cash flows on compliance with bond covenants and liquidity requirements in assessing the potential impact of COVID-19 on the Company. • We considered whether there was evidence of contra indicators by searching publicly available information regarding Scottish Water and Scottish Government policies on response to essential services suppliers. <p>Impairment of loan receivable</p> <ul style="list-style-type: none"> • We assessed the recoverability of intercompany account receivable by analysing past historical payments, and assessing probability of default taking into account historical data and future events. <p>Disclosures</p> <ul style="list-style-type: none"> • We considered the appropriateness of the disclosures made by the entity in respect to the potential impact of COVID-19 on the current and future operations of the entity as a non-adjusting post balance sheet event. 	

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Changes from the prior year

Our audit approach was changed since last year by performing more detailed assessment of the going concern assumption and assessing the COVID-19 impact to the Company's operations.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STIRLING WATER SEAFIELD FINANCE PLC (CONTINUED)

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £231,000 (2018: £256,452), which is 0.5% (2018: 0.5%) of total assets. We believe that total assets provide us with an appropriate threshold for determining misstatements of importance to the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £173,250 (2018: £192,339). We have set performance materiality at this percentage due to an expectation of misstatements of less than 25% of materiality.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We set our reporting threshold at £11,550 (2018: £12,823), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the strategic report and Directors' report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STIRLING WATER SEAFIELD FINANCE PLC (CONTINUED)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are IFRSs as adopted by the European Union, Companies Act 2006 and Income Tax Act 2007.
- We understood how Stirling Water Seafield Finance PLC is complying with those frameworks by considering the potential for override of controls or other influence over the financial reporting process and the culture of honesty and ethical behaviour which may reduce opportunities for fraud to take place.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur but due to the limited transactions within the entity we concluded there was limited opportunity for this to occur.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STIRLING WATER SEAFIELD FINANCE PLC (CONTINUED)

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. We test 100% of the balances within the financial statements and were confident we could identify any such non-compliance.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

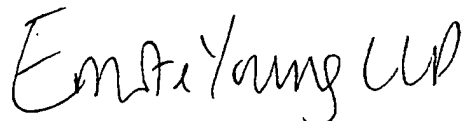
- We were appointed by the Company on 31 March 2009 to audit the financial statements for the year ending 31 March 2009 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 12 years, covering the years ending 31 March 2009 to 31 December 2019 (the financial period changed in 2012 with the addition of a 9 month period to 31 December 2012).

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

Use of our report

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



Christopher Voogd (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
Birmingham

28 April 2020

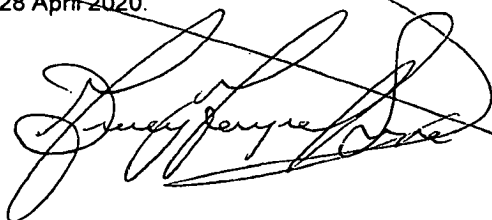
**STIRLING WATER SEAFIELD FINANCE PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	2019 £000	2018 £000
Continuing Operations			
Finance income	7	3,254	3,578
Finance costs	8	(3,254)	(3,578)
		<hr/>	<hr/>
Result Before Tax From Continuing Operations		-	-
Income tax expense		-	-
		<hr/>	<hr/>
Result For The Year		-	-
Other Comprehensive Income		-	-
		<hr/>	<hr/>
Total Comprehensive Income For The Year		-	-
		<hr/>	<hr/>

STIRLING WATER SEAFIELD FINANCE PLC
REGISTRATION NUMBER: SC190621
STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Notes	2019 £000	2018 £000
Assets			
Non-Current Assets			
Debtors	9	40,876	46,232
Current Assets			
Debtors	9	5,405	5,059
Total Assets		46,281	51,291
Current Liabilities			
Borrowings	10	(5,355)	(5,009)
Net Current Assets		50	50
Non-Current Liabilities			
Borrowings	10	(40,876)	(46,232)
Total Liabilities		(46,231)	(51,241)
Net Assets		50	50
Equity			
Share capital	12	50	50
Total Equity		50	50

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 April 2020.



Tracy Jayne Knipe
 Director

**STIRLING WATER SEAFIELD FINANCE PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Share Capital £000
At 1 January 2018	50
Total comprehensive income	-
	<hr/>
At 31 December 2018	50
Total comprehensive income	-
	<hr/>
At 31 December 2019	50
	<hr/>

STIRLING WATER SEAFIELD FINANCE PLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019	2018
		£000	£000
Cash flows from operating activities	13	-	-
Net cash from operating activities (i)		-	-
Cash flows from investing activities			
Interest received		3,337	3,655
Repayments received on loan to Immediate Parent undertaking		4,925	4,607
Net cash flow from investing activities (ii)		8,262	8,262
Cash flows from financing activities			
Interest paid		(3,337)	(3,655)
Repayment made on loan from bondholders		(4,925)	(4,607)
Net cash flow from financing activities (iii)		(8,262)	(8,262)
Increase in cash and cash equivalents (i)+(ii) +(iii)		-	-
Cash and cash equivalents at beginning of year		-	-
Cash and cash equivalents at end of year		-	-

The notes on pages 20 – 31 form part of these financial statements.

**STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. GENERAL INFORMATION

Stirling Water Seafield Finance Plc is a public company limited by shares, incorporated in Scotland.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union and the Companies Act 2006. These financial statements present financial information for the year ended 31 December 2019.

The Company's financial statements are presented in pound sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

On 1 January 2019, the Company adopted IFRS 16 'Leases' on a fully retrospective basis, resulting in the recalculation of the asset and associated debt as if the standard had been applied from the inception of the lease. As the Company has no leases, there has been no impact on the Company's financial statements from adopting this standard.

2.2 Going concern

The Company is responsible for raising finance for the upgrading and operating of wastewater treatment facilities in relation to the AVSE catchment areas. The contract between the Company's immediate parent company, SWSL and Scottish Water has an end date of 28 March 2029. Funding for this project was primarily obtained through the issue of fixed rate bonds by the Company which were subsequently lent to SWSL, and with fixed rate loans with fellow UK&I group companies. The Contract is managed on a day to day basis by the Operator, on an annual fixed fee basis. The Operator also manages the MLC programme on behalf of SWSL and the MLC spend is agreed in advance with representatives of the Company's bond holders.

The Company's ability to make repayments in respect of the bonds issued is solely dependent on SWSL's ability to make repayments to the Company on the associated loan. The Directors have reviewed the cash flow model prepared by SWSL for the life of the contract with Scottish Water. This model is updated regularly and shared with the Company and the insurer of the bonds. The model supports the Directors' opinion that over the life of the contract the cash flows will be sufficient to allow SWSL to continue to make the loan repayments. In assessing both the solvency of SWSL and the Company and the ability to meet their liabilities as they fall due over a period of 12 months from the date of approval of these financial statements, the Directors considered SWSL's budgeted cash flows, long term forecasts, availability of debt facilities and the following key assumptions, including the impact of COVID-19:

- The variability of wastewater treatment volumes and the impact that fluctuations have on the following annual cycle's revenues. The Directors have a high level of confidence in the forecast revenues due to the maximum revenue cap having been met in most of the past 18 years of the contract
- The customer credit concentration, with Scottish Water being the main customer. The Directors regard the credit risk to be low given that the customer is a public sector body.

**STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Going concern (continued)

- The contract with the customer includes measures such that deferral of invoice payments would be punitive. Following the outbreak of COVID-19, the Government has also published policies on its intention to support suppliers that provide essential services that would be inconsistent with deferral of invoice payments or the levy of significant performance penalties
- The resilience of the Operator, a fellow group subsidiary, to continue to provide the services under the contract. The Directors consider that the Operator has undertaken appropriate measures to adjust to the changes in working arrangements following the outbreak of COVID-19 and that non-essential maintenance and capex may be deferred in order to manage potential shortages in resources

The Company's financing is dependent upon the ability of the Company and its immediate parent to comply with a number of covenant tests required by the bond holders. The Directors have assessed compliance with the covenants based on the key assumptions above. In the event that the cashflows were to fall below those in the model's base case, the Directors are confident that SWSL would take mitigating action by deferring projects within the Mid Life Capex programme.

Having taken these matters into consideration, the Directors consider that they have a reasonable basis to conclude that SWSL and therefore the Company will be able to meet their liabilities as they fall due for the foreseeable future and accordingly they continue to adopt the going concern basis of preparation in these financial statements.

2.3 Ultimate controlling party

The Company is consolidated in the consolidated financial statements of its ultimate parent company and controlling entity, Veolia Environnement S.A. (incorporated in France). Copies of the consolidated financial statements of Veolia Environnement S.A. can be obtained from the registered office at 21 rue La Boétie. 75008 Paris, France.

2.4 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. Financial assets and liabilities are initially measured at fair value. Loans receivable or payable on demand are classed as short term and hence are not discounted.

The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as financial assets subsequently measured at amortised cost.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (continued)

Financial assets subsequently measured at amortised cost

These comprise loans and debtors which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade debtors), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

The Company recognises an allowance for expected credit losses ("ECLs") for all financial assets subsequently measured at amortised cost. The Company calculates ECLs by applying a provision matrix that takes into account the expected life of trade debtors and default rates for different customers. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. ECLs are recognised in two stages:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL);
- for those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the contractual rights to the cash flows from the financial asset in a transaction under which nearly all the rights and obligations inherent to ownership of the financial asset are transferred. Any interest created or retained by the Company in a financial asset is recognised separately as an asset or liability.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as an exchange or modification is treated as a derecognition of the original liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

**STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Finance income

Interest receivable consists of income from Group undertakings.

2.6 Finance costs

All borrowing costs are recognised in the Statement of comprehensive income in the year in which they are incurred.

Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimates

The following assumptions involving estimates have had the most significant effect on amounts recognised in the financial statements. The company has considered the impact of COVID-19 on these and any other potential material risks in note 15

• **Impairment of intercompany loans**

The financial statements include loans to the Immediate Parent company, and these have been reviewed for indicators of impairment. Where impairment reviews are required, assumptions have been made, largely around the timing and scale of their future cash flows.

4. STAFF COSTS

The Company has no employees other than the Directors (see note 5).

5. DIRECTORS' REMUNERATION

The Directors are paid by, and perform services for, other companies within the Group alongside their services to this Company. Whilst not being paid by the Company, in 2019, the Directors' costs have been apportioned to the principal companies they serve within the UK&I group. Had the Directors' costs been recharged to all the companies those Directors serve, the Company would have incurred £66k (2018: £80k) of Directors emoluments, including £5k (2018: £5k) of pension contributions to money purchase schemes.

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

6. AUDITOR'S REMUNERATION

The auditor's remuneration and non-audit fees have been borne by the Company's Immediate parent undertaking. Total audit fees for Stirling Water Seafield Holdings Limited ("SWSHL") and its subsidiaries amounted to £21k (2018: £22k).

7. FINANCE INCOME

	2019	2018
	£000	£000
Interest receivable from Immediate Parent undertaking	3,254	3,578
	<hr/>	<hr/>

8. FINANCE COSTS

	2019	2018
	£000	£000
Finance charges	3,254	3,578
	<hr/>	<hr/>

9. DEBTORS

	Notes	2019	2018
		£000	£000
Due within one year:			
Amounts due from Immediate Parent undertaking	14	50	50
Loans to Immediate Parent undertaking	14	5,355	5,009
		<hr/>	<hr/>
		5,405	5,059
		<hr/>	<hr/>
Due after one year:			
Loans to immediate Parent undertaking	14	40,876	46,232
		<hr/>	<hr/>

The net proceeds of the bond issues have been lent to SWSL at an interest rate of 5.822% plus an agreed arrangement fee to cover the amortisation of bond issue costs and interest thereon. The loan is repayable on the same terms as the bonds, which, from September 2004, are being repaid in bi-annual instalments and will be repaid in full by September 2026.

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

10. BORROWINGS

	2019	2018
	£000	£000
Bonds – guaranteed secured notes due 2026	46,231	51,241
	<hr/>	<hr/>
Borrowings are repayable as follows:		
On demand or within one year	5,355	5,009
In the second year	5,726	5,355
In the third to fifth years inclusive	19,667	18,395
After five years	15,483	22,482
Less: Amount due for settlement within 12 months (shown under current liabilities)	(5,355)	(5,009)
	<hr/>	<hr/>
Amount due for settlement after 12 months	40,876	46,232
	<hr/>	<hr/>

Guaranteed secured bonds with a total value of £102,900k were issued by the Company at an interest rate of 5.822% on 26 September 1999. The bonds are secured by a floating charge over the assets and undertakings of the Company, its immediate parent SWSL and SWSL's holding company, SWSHL. The guaranteed secured bonds are guaranteed by a financial guarantee insurance policy issued by Assured Guaranty (Europe) Plc.

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

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

11. FINANCIAL INSTRUMENTS

Categories of financial instruments

All of the Company's financial assets at 31 December 2019 and 31 December 2018 are categorised as financial assets subsequently measured at amortised cost.

All of the Company's financial liabilities at 31 December 2019 and 31 December 2018 are categorised as borrowings and measured at amortised cost.

Fair value

The Company does not hold any financial instruments at fair value. However, set out below is a comparison of the carrying amounts and fair value of the Company's borrowings.

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying Amount	Fair value
	£000	£000	£000	£000
Financial liabilities				
Borrowings	46,231	53,547	51,241	61,934
Financial assets				
Loans to immediate Parent undertaking	(46,281)	(53,597)	(51,291)	(61,984)

Apart from a minor current receivable element of £50k which does not relate to the core financing arrangements, the fair value of the loan receivable is equivalent to the fair value of the loan payable of £53,547k (2018: £61,934k).

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the year ended 31 December 2019 and 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurements.

Under the fair value hierarchy, the financial instrument is considered to be a Level 2 instrument. The fair value at 31 December 2019 of the borrowings and obligations under guaranteed secured bonds is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

11. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date of which the Company can be required to pay. The tables include principal cash flows and interest.

	Weighted average effective interest rate %	Timing of cash flows				Total £000
		Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	
At 31 December 2019						
Guaranteed secured bonds	6.8	8,262	8,262	24,787	16,525	57,836
At 31 December 2018						
Guaranteed secured bonds	6.8	8,262	8,262	24,787	24,787	66,098

The following tables detail the Company's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets. The inclusion of information on financial assets is necessary to understand the Company's liquidity risk management as liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate %	Timing of cash flows				Total £000
		Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	
At 31 December 2019						
Immediate Parent undertaking	6.8	8,312	8,262	24,787	16,525	57,886
At 31 December 2018						
Immediate Parent undertaking	6.8	8,312	8,262	24,787	24,787	66,148

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

11. FINANCIAL INSTRUMENTS (CONTINUED)

The changes in liabilities arising from financing activities are as follows:

	At 1 January 2019 £000	Cash flows £000	Accrued interest £000	Transfer from non-current to current £000	At 31 December 2019 £000
Current interest-bearing loans and borrowings	5,009	(8,262)	-	8,608	5,355
Non-current interest-bearing loans and borrowings	46,232	-	3,252	(8,608)	40,876
Total interest-bearing loans and borrowings	51,241	(8,262)	3,252	-	46,231

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2019 or the year ended 31 December 2018.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments.

- **Interest rate risk**
The Company is not exposed to interest rate risk as the interest rates on its guaranteed secured bonds and loans to SWSL are fixed.
- **Credit Risk**
The key risk affecting the Company is the ability of SWSL to meet repayments as they fall due. The Company manages its credit risk by assessing SWSL's budgeted cash flows and long-term forecasts, related assumptions and available debt facilities.

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

12. SHARE CAPITAL

	2019	2018
	£000	£000
<i>Allotted, called-up and fully paid</i>		
50,000 ordinary shares of £1 each	50	50
	<hr/>	<hr/>

The entire share capital of the Company has been pledged to Prudential Trustee Company as security.

13. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of the result for the year to net cash flows from operating activities:

	2019	2018
	£000	£000
Result for the year	-	-
Interest Receivable	(3,254)	(3,578)
Interest Payable	3,254	3,578
	<hr/>	<hr/>
Net cash flows from operating activities	<hr/>	<hr/>

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

14. RELATED PARTY TRANSACTIONS

During the year the Company entered into transactions, in the ordinary course of business, with related parties. Transactions between related parties are made on an arm's length basis.

Transactions entered into and trading balances outstanding at 31 December 2019 with all related parties, are as follows:

Trading transactions

	2019	2018
	£000	£000
Interest receivable from Immediate Parent undertaking	3,254	3,578
	<hr/>	<hr/>

	2019	2018
	£000	£000
Debtor due from Immediate Parent undertaking	50	50
	<hr/>	<hr/>

	Due within one year £000	Due after one year and within five years £000	Due after five years £000	Total £000
Loans to Immediate Parent undertaking				
As at 31 December 2019	5,355	25,393	15,483	46,231
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2018	5,009	23,750	22,482	51,241
	<hr/>	<hr/>	<hr/>	<hr/>

15. POST BALANCE SHEET EVENTS

The Company has considered the impact of COVID-19 on the Company's financial statements, with an expectation of any adverse impacts to continue for a period of six months, noting that there remains significant uncertainty as to the length and extent of the impact on individuals, communities and the economy as a whole, and therefore it is not possible to accurately estimate the potential impacts at this stage. Due to the nature of the SWSL's contracts and its main customer, the fact that the treatment of wastewater is designated by the government as an essential service, and based on the Company's current assessment of risks, no material impacts or uncertainties have been identified which require adjustment in the financial statements and it is not expected to have a material impact on the Company's ongoing business.

STIRLING WATER SEAFIELD FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

15. POST BALANCE SHEET EVENTS (CONTINUED)

SWSL, to which the Company lends, is working with its main customer to ensure that all required aspects of the contract can continue to be delivered during the COVID-19 outbreak. Given the treatment of wastewater has been designated by the government as an essential service it is expected that all material services within the contract will continue to be delivered.

SWSL is proactively working with its main customer and the regulatory authorities, including SEPA to manage any service changes needed in the current situation to maintain business continuity. In this respect, the Scottish government has issued guidance, which encourages contracting and regulatory authorities to work pragmatically with suppliers (including SWSL), and take a sensible approach to the application of contractual mechanisms, such as performance deductions, to ensure supplier business continuity. As a result we do not expect performance deductions to have a material impact on the business.

The Directors have considered the areas of the accounts that could potentially be impacted by this and note that in respect of the financial statements as at 31 December 2019:

- no adverse material impact is expected on the carrying value of intercompany loans;
- no other estimates or judgements would require reassessment as a result of COVID-19.

The Directors have also considered potential impacts to the future performance of the Company, and note the following potential risks arising as a result of the impacts of COVID-19:

- the ability of the Company to repay its own loans, which is predicated on SWSL being able to repay its intercompany to the Company. The likelihood of SWSL being unable to repay its debt as it becomes due is considered low risk, due to the high level of predictability over contract revenues and the credit worthiness of the main customer, being a large public sector body.

16. IMMEDIATE PARENT AND CONTROLLING PARTY

The immediate parent Company is Stirling Water Seafield Limited, a company incorporated in Scotland.

The ultimate parent company and controlling company is Veolia Environnement S.A., a company incorporated in France. Consolidated financial statements are prepared by Veolia Environnement S.A. Copies of the consolidated financial statements for Veolia Environnement S.A. are available from the registered office at 21 rue La Boétie, 75008 Paris, France.

Veolia Environnement S.A. is the smallest and largest group for which group financial statements, including Stirling Water Seafield Finance Plc, are prepared.