SCOTTISH WATER

ANNUAL RETURN INFORMATION REQUIREMENTS

Section N : Transfer Pricing

Table N1 : Transfer Pricing Summary (Capex)

ľ					Rep	oort Year 2007-08				
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ı	1 2	3	4	5	6	7	8	9	10	11

Block A: Market Testing

Core Activity	Associate Activity	Value of Contract £	Period of Contract	Description	Type of Market Testing	Spend in Year £	Turnover of Assoc £	Core spend (Col 8) : Turnover(Col 9) %
Wholesale	Scottish Water Solutions Ltd	QS2 & QS3 contract period substantially 1,800,000,000 delivered to March 2010 Delivery of the capital programme Competitive tender. QS2 contract with solutions extended to cover the delivery of part of QS3 (a) program		310,894,141	322,120,310	96.51%		
Wholesale	Scottish Water Solutions Ltd	12,166,470		Services. Design and		12,166,470	322,120,310	3.78%
	Wholesale	Wholesale Scottish Water Solutions Ltd	Wholesale Scottish Water Solutions Ltd 1,800,000,000	Wholesale Scottish Water Solutions Ltd QS2 & QS3 contract period substantially delivered to March 2010	Wholesale Scottish Water Solutions Ltd Scottish Water Solutions Ltd 1,800,000,000 Request for Additional Services. Design and	Activity Activity Contract £ Contract Contract Contract E Contract Fermiod substantially delivered to March 2010 Delivery of the capital programme Request for Additional Services. Design and Formal tendering for services agreement at SWS	Activity Activity Contract £ Contract Contract Contract Contract E Contract Contract Contract Competitive tender. QS2 contract with solutions extended to cover the delivery of part of QS3 (a) program Program Scottish Water Solutions Ltd Request for Additional Services. Design and Review of the capital programme Formal tendering for services agreement at SWS	Activity Activity Contract £ Contract Contract £ Contract £ Contract £ Contract Ferming Competitive tender. QS2 contract with solutions extended to cover the delivery of part of QS3 (a) program Program Request for Additional Services. Design and Request for Additional Services agreement at SWS

Block B: Cost Allocation. Recharges to Associate from Core

Activity	Associate Activity	Total Value £	Turnover of Associate £	Core spend (Col 4) :Turnover (Col 5) %
Wholesale	Spottich Water Solutions Ltd			
Wildlesale				
		E 649 702	222 120 210	1.75%
	allocated capital projects	5,046,792	322,120,310	1.73%
Wholesale - SWC	Scottish Water Solutions Ltd			
	Rehabilitation Costs	255,181	322,120,310	0.08%
		255.181	322.120.310	0.08%
			, ,,	
Wholesale	Scottish Water Business Stream Ltd			
	Fixed Asset Transfer	249,908	351,060,745	0.07%
Wholesale	Scottish Water Business Stream Holdings Ltd			
	Transfer of cash to SWBSH	25.000.000		
	Loan to SWBSH	58,500,000		
Wholesale - SWC	Scottish Water (Non Regulated)			
TITIOIOGUIO GITO	Transfer of Non Regulated Mainlaving and Tie-in work for			
	Customer Connetctions	187,794.25	30,717,441	0.61%
OW Danielated	Marta And Tarress Deferred Unions	0.000.754	00.747.444	44 000/
Sw Regulated	Masts And Towers Deterred Income	3,396,754	30,717,441	11.06%
	Wholesale - SWC Wholesale Wholesale Wholesale SWC SW Regulated	- project costs, including overhead, incurred on 'allocated' capital projects Wholesale - SWC Scottish Water Solutions Ltd Rehabilitation Costs Wholesale Scottish Water Business Stream Ltd Fixed Asset Transfer Wholesale Scottish Water Business Stream Holdings Ltd Transfer of cash to SWBSH Loan to SWBSH Wholesale - SWC Scottish Water (Non Regulated) Transfer of Non Regulated Mainlaying and Tie-in work for Customer Connetctions	Wholesale Scottish Water Solutions Ltd - project costs, including overhead, incurred on 'allocated' capital projects Scottish Water Solutions Ltd Rehabilitation Costs Scottish Water Solutions Ltd Rehabilitation Costs 255,181 Wholesale Scottish Water Business Stream Ltd Fixed Asset Transfer 249,908 Wholesale Scottish Water Business Stream Holdings Ltd Transfer of cash to SWBSH 25,000,000 Loan to SWBSH 58,500,000 Wholesale - SWC Scottish Water (Non Regulated) Transfer of Non Regulated Mainlaying and Tie-in work for Customer Connectcions	Wholesale Scottish Water Solutions Ltd - project costs, including overhead, incurred on 'allocated' capital projects 5,648,792 322,120,310 Wholesale - SWC Scottish Water Solutions Ltd 255,181 322,120,310 Rehabilitation Costs 255,181 322,120,310 Wholesale Scottish Water Business Stream Ltd 255,181 322,120,310 Wholesale Scottish Water Business Stream Ltd 249,908 351,060,745 Wholesale Scottish Water Business Stream Holdings Ltd 25,000,000 25,000,000 Loan to SWBSH 25,000,000 25,000,000 25,000,000 Wholesale - SWC Scottish Water (Non Regulated) 187,794.25 30,717,441

Block C: Cost Allocation. Recharges to Core from Associate

Associate Activity	Core Activity	Total Value £	Turnover of Associate £	Core spend (Col 9) : Turnover (Col 10) %
Scottish Water Solutions Ltd	Wholesale			
Accounts Payable Service		70,000	322,120,310	0.02%
Delivery of the capital programme		310,894,141	322,120,310	96.51%
Request for Additional Services. Design and				
construction work		12,166,470	322,120,310	3.78%
		323,130,611		
Scottish Water Business Stream Holdings Ltd				
Issue Of Shares From SWBSH to SW		34,600,000	351,060,745	9.86%

SCOTTISH WATER ANNUAL RETURN INFORMATION REQUIREMENTS

Section N : Transfer Pricing
Table N.2: Transfer Pricing Summary (P&L)

Report Year 2007-08

1 2	3	4	5	6	7	8	9	10	11

Block A: Market Testing

Line		Associate	Value of	Period of	Description	Type of	Spend in	Turnover	Core spend (Col 8)
Ref	Activity	Activity	Contract	Contract		Market	Year	of Assoc	: Turnover(Col 9)
			£			Testing	£	£	%

ne	Core	Associate	Total	Turnover of	Core spend (Col 4)
ef	Activity	Activity	Value £	Associate £	:Turnover (Col 5) %
			2	2	76
١	Wholesale	Scottish Water Solutions Ltd	7.040.504	204 204 242	0.05
\dashv		- secondment of staff from SW to SWS - support services IT	7,312,534 2,187,606	324,801,212 324,801,212	2.25 0.67
\dashv		- support services Property	1,773,189	324,801,212	0.55
		- support services Fleet	443,603	324,801,212	0.14
		- support services Internal Audit	86,400	324,801,212	0.03
_		- support services Customer Service Contact Centre	24,000	324,801,212	0.01
\dashv		- support services Payroll - support services Financial Systems	23,079 63,760	324,801,212 324,801,212	0.01 0.02
\dashv		- support services Financial Systems	03,700	324,001,212	0.02
7			11,914,171	324,801,212	3.67
_ '	Wholesale	Scottish Water Business Stream Ltd			
\dashv		- Metering services - Trade Effluent Billing services	622,423 148,079	351,060,745 351,060,745	0.18 0.04
\dashv		- Customer Operational Contact services	85,812	351,060,745	0.04
7		- Customer Connections	26,108	351,060,745	0.01
7		- support services IT Employee Costs	1,151,740	351,060,745	0.33
		- support services IT Contractor Costs	616,703	351,060,745	0.18
_		- support services IT Extras	591,432	351,060,745	0.17
4		- support services Property	493,233	351,060,745	0.14
\dashv		- support services Payroll - support services Financial Systems	3,779 47,398	351,060,745 351,060,745	0.00 0.01
\dashv		- support services Financial Systems - support services Fleet	47,398 17,523	351,060,745	0.00
7		- support services HR	723	351,060,745	0.00
		- support services Corporate Affairs	10,514	351,060,745	0.00
		- support services Accounts Payable	7,030	351,060,745	0.00
П		- support services Legal	339	351,060,745	0.00
_		- support services Treasury, Tax & Insurance	34,912	351,060,745	0.01
\dashv		- support services Internal Audit - support services Imiscellaneous Costs Billed to SWBS	67,877	351,060,745	0.02
\dashv		- support services imiscellaneous Costs Billed to SWBS	42,899	351,060,745	0.01
7			3,968,524	351,060,745	1.13
			.,,	,,,,,	
١	Wholesale	Scottish Water Business Stream Ltd			
_		- Wholesale Water & Wastewater Charge	305,234,080	351,060,745	86.95
+		- Non Prime Meter Installations - Non Prime Meter Services	16,624 51,891	351,060,745	0.00
\dashv		- Non Prime Neter Services - Non Prime Supply Shut Off and Disconnections	231,664	351,060,745 351,060,745	0.01
+		Interest received from SWBS	1,784,558	351,060,745	0.51
7		THE COST TO CONTROL TO THE CONTROL TO THE COST TO COST	1,704,000	001,000,140	0.01
			307,318,818	351,060,745	87.54
	Wholesale	Scottish Water Business Stream Holdings Ltd			
4		Interest received from SWBSH	1,600,488	0	
\dashv			1,600,488	0	
7			1,000,400	•	
١	Wholesale	Non Core			
	SWC	External Customer Infrastructure Work	4,763,372	30,717,441	15.51
	SWC	Scottish Water Solutions - Cost of capital work in N1	98,523	30,717,441	0.32
	SWC	Contracting Indirect and Support Staff ABM - Charge to Non Reg	1,974,957	30,717,441	6.43
	SWC	Business Development - External mainlaying work	510,005 2,180,704	30,717,441 30,717,441	1.60 7.10
Ť	3110	Business Development External mainlaying work	2,100,104	50,717,441	7.11
			9,527,560	30,717,441	31.0
		ABM Support Charge for Business Development	249,284	30,717,441	0.8
		ABM Support Charge for Waste Services	177,921	30,717,441	0.5
-	214/ 14/I I I	ABM Support Charge for Property Services	8,800 77,821	30,717,441	0.0
		ABM Support Charge for Property Services ABM Support Charge for Shipping Water	157,646	30,717,441	0.2
		ABM Support Charge for Scientific Services	73,275	30,717,441	0.2
		ABM Support Charge for Other Customer Ops & Retail	609,652	30,717,441	1.9
_			1,354,399	30,717,441	4.4
-1.	210/ 10/6-1	Recharged Support Activities for Business Development	108,991	20.747.414	0.3
		Recharged Support Activities for Business Development Recharged Support Activities for Waste Services	108,991	30,717,441 30,717,441	0.3
		Recharged Support Activities for Property Services	41,205	30,717,441	0.1
	SW Wholesale	Recharged Support Activities for Rechargeable Works	11,687	30,717,441	0.0
		Recharged Support Activities for Legal & Estates	8,117	30,717,441	0.0
,	SW Wholesale	Recharged Support Activities for Human Resources	6,501	30,717,441	0.0
4			252.254		
+			259,674	30,717,441	0.8
	SW Wholesale	Lab Plant & Veh Cross Charge for Business Development	761,743	30,717,441	2.4
		Lab, Plant, Veh & Waste & Sludge Processing charge for Waste Services	257,315	30,717,441	0.8
,	SW Wholesale	Lab Plant & Veh Cross Charge for Property Services	179	30,717,441	0.0
,	SW Wholesale	Lab Plant & Veh Cross Charge for Rechargeable Works	939,522	30,717,441	3.0
		Material & Contractor Charge for Rechargeable Works	217,860	30,717,441	0.7
		Lab Plant & Veh Cross Charge for Shipping Water	395,001	30,717,441	1.2
		Lab Plant & Veh Cross Charge for Other Customer Ops & Retail Test & Sample processing charge for Scientific Services	102,030	30,717,441 30,717,441	0.3
- 1	JVV VVIIOIESAIG	Test & Sample processing charge for Scientific Services	399,116	30,717,441	1.3
			3,072,765	30,717,441	10.0
\dashv				., ,	
1					
]	Total SW (Re	Total SW (Non Regulated)	14,214,399	30,717,441	46.2
	Total SW (Re	Total SW (Non Regulated)	14,214,399	30,717,441	46.2

Block C: Cost Allocation. Recharges to Core from Associate

Sundry and Househ Interest Paid to SWI Data Cleansing and 2006-2007 SWBS S	Core Activity	Total Value £	Turnover of Associate £	Core spend (Col 9) : Turnover (Col 10) %
Interest Paid to SWI Data Cleansing and	Wholesale		1	
Sundry and Househ Interest Paid to SWI Data Cleansing and 2006-2007 SWBS S	Wholesale			
Interest Paid to SWI Data Cleansing and 2006-2007 SWBS S		25,272	351,060,745	0.01%
Data Cleansing and 2006-2007 SWBS S	old Billing Service (Billing Costs Billed by SWBS) BS	1,235,550	351,060,745	0.01%
2006-2007 SWBS S	Migration	380,668	351,060,745	0.11%
Miscellaneous Rech	Staff Bonus attributable to SW	54,414	351,060,745	0.02%
	arges	23,698	351,060,745	0.01%
		1,719,603	351,060,745	0.49%