NORTHUMBRIAN SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2022

Registered number 03114615

Registered office
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ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2022

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STRATEGIC REPORT

The Directors of Northumbrian Services Limited (NSL or the Company) are pleased to present their Strategic Report on the affairs of the Company and its direct and indirect subsidiaries (together the 'Group'), along with their Directors' Report, the Independent auditor's report and the audited financial statements for the year ended 31 March 2022.

Principal activities

Northumbrian Services Limited
The Company's principal activity is that of a holding company. Its trading subsidiaries account for a significant proportion of the Group's results. The main trading companies within the Group are Ayr Environmental Services Limited and Caledonian Environmental Services plc.

Ayr Environmental Services Limited (AyrES)
AyrES' principal activity is the operation and maintenance of the wastewater treatment works at Meadowhead, Stevenston and Inverclyde and a sludge treatment centre at Meadowhead under its contract with Scottish Water for the design, construction, financing and operation of the treatment works.

Caledonian Environmental Services plc (CES)
CES' principal activity is the operation and maintenance of the wastewater treatment works at Levenmouth under its contract with Scottish Water for the design, construction, financing and operation of the Levenmouth Purification Scheme.

Business overview
NSL is a holding company with direct investments in Wastewater Management Holdings Limited (WMH) and Caledonian Environmental Services Holdings Limited (CESH) which in turn hold the two main trading companies, AyrES and CES respectively.

The Group made a profit for the year ended 31 March 2022 of £909k (2021: £2,213k). As at 31 March 2022 the Group had net liabilities of £9,148k (2021: £10,057k). The Group had substantial cash and short-term deposits of £41,432k available as at 31 March 2022 (2021: £37,768k) and net current assets as at 31 March 2022 were £21,623k (2021: £17,663k). As a result, the Directors are satisfied with the going concern status of the Group.

Future developments
NSL will continue in its role as a holding company with AyrES and CES continuing to develop within the framework of their contracts with Scottish Water expiring on 29 September 2032 and 29 October 2040 respectively.

Key performance indicators
The activity of both AyrES and CES involves adhering to specific financial requirements of the contract documents as agreed with Scottish Water and other parties, including funders. The financial aspects of the contract are primarily a function of the funding provided to carry out the design and construction of the project facilities and are assessed on a periodic basis, principally with reference to performance against the debt service cover ratio (DSCR). AyrES and CES met their operational contractual obligations and maintained their debt service cover ratio for the 12 months to 31 March 2022.

Key performance indicators of a financial nature are operating profit and interest cover:

	AyrES		CES	
	Year ended 31 March 2022	*Year ended 31 March 2021*	*Year ended 31 March 2022*	*Year ended 31 March 2021*
Operating profit	£4.8m	£4.7m	£6.9m	£4.5m
Net cash flow from operating activities	£7.6m	£7.7m	£9.2m	£6.2m
Interest cover	1.46	1.47	1.46	0.92

Section 172 statement

The Directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, as set out in section 172 of the Companies Act 2006. In doing so, the Directors must have regard to the needs of, and impact on, our many stakeholders and other matters described in the section. This Section 172(1) Statement has been prepared in accordance with the requirement established by the Companies (Miscellaneous Reporting) Regulations 2018 to describe how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing this duty.

How the Board has operated

The Board has:
- taken full responsibility for all aspects of the business over the long-term;
- demonstrates leadership and an approach to transparency and governance which engenders trust and ensures accountability for its actions; and
- has a range of skills and experience enabling it to make decisions that address diverse customer and stakeholder needs.

The Company's trading subsidiaries, AyrEs and CES (the 'Trading Subsidiaries'), account for the vast majority of the Group's business and have regard to the factors, where specifically mentioned below, as part of their decision-making, thereby contributing to the success of the Company and the Group as a whole.

Long-term planning horizon
The financial position of the business is closely monitored through a rolling five year budget and consideration is given to the long-term funding needs of the subsidiaries within the Group.

Stakeholder engagement
The Group has a wide range of stakeholders. Much of the stakeholder engagement takes place at an operational level within the Trading Subsidiaries. The Boards of the Trading Subsidiaries have regard to, and receive regular reports in respect of customer service, operational performance, health and safety and key risks as part of their quarterly meetings.

Customers
Understanding customer needs is critical to delivering unrivalled customer service and this underpins the decision making of the Group's Trading Subsidiaries. The respective Board's pay particular attention to how the trading companies engaged with customers through the COVID-19 pandemic and maintained customer service when parts of the business worked from home.

Environment
The Group is conscious of the environmental responsibilities of its businesses and the importance of maintaining the highest standards of compliance.

Employees
The health and safety of employees is the first matter considered at the Board meetings of the Trading Subsidiaries, including considering any lost time accidents or high risk incidents and the learning points taken from, as well as performance against, leading and lagging indicators.

Community
The Trading Subsidiaries consider sustainability matters and the impacts on the local community when approving projects and contracts at board level, and when the progress of any major capital investment projects is considered.

Suppliers
The Group's supply chain is vital in enabling it to deliver its services, and makes a significant contribution to the economies of the regions served. The Group is encouraged at board level to work collaboratively and ethically with suppliers.

Shareholders
The Company has three shareholders, and all are represented on its Board. This ensures that that the Company treats its members fairly and that their views are heard when making key decisions.

S172 Duty
The directors of the Company consider, both individually and together, that they have acted to promote the long term success of the Company and the Group for the benefit of its members as a whole during the year ended 31 March 2022, in accordance with their duties under S172 of the Companies Act.

STRATEGIC REPORT (continued)

Group structure

Along with the entities stated within the business overview section above, directly below NSL sit two dormant entities, Northumbrian Overseas Investments Limited and Waterco Six Limited.

Principal risks and uncertainties

The Group finances its activity with a combination of borrowings and cash. The treasury department of Northumbrian Water Group Limited (NWGL), a related company, carries out treasury operations on behalf of the Group. Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy. Derivatives may be used as part of this process, but the treasury policies prohibit their use for speculation. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Group's operating activities.

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generated by its operations. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts.

Credit risk

The Group's risk of exposure to external credit risk is concentrated with one party as the majority of sales transactions are with Scottish Water. The risk of financial loss as a result of Scottish Water's failure to honour its obligations is considered remote.

Interest rate risk

The Group finances its operations through a mixture of retained profits and borrowings. It borrows at a fixed rate of interest to ensure certainty of costs. The Group invests surplus cash in floating rate interest yielding deposit accounts. Financial assets can therefore be affected by movements in interest rates.

R. Somerville

Approved for issue by the Board of Directors
R Somerville
Company Secretary
25 November 2022

DIRECTORS' REPORT

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2022.

Directors

The Directors who served during the year and up to the date of signing were as follows:

K T Chow	Alternate Director (alternate to Dr E W L Ho) (appointed 05/07/2022)
Dr E W L Ho	Director (appointed 28/04/22)
A J Hunter	Director
H L Kam	Director
D N Macrae	Alternate Director (alternate to A J Hunter)
S K K Man	Director (appointed 28/04/22)
H Mottram	Director
M Porter	Alternate Director (alternate to H Mottram)

Information about Directors' remuneration is contained in note 3 to the financial statements.

Results and dividends

The Group's profit after taxation for the year ended 31 March 2022 was £909k (2021: £2,213k). The Directors do not recommend the payment of a final dividend (2021: £nil) and no dividends have been paid after the year end. The Group's net liabilities at 31 March 2022 were £9,148k (2021: £10,057k) and cash and short-term deposits totalled £41,432k (2021: £37,768k).

Principal risks and uncertainties

The Directors have chosen to disclose information regarding the Group's principal risks and uncertainties, including liquidity risk, credit risk, interest rate risk and future developments in the Strategic Report.

Directors' assessment of going concern

The Directors have considered the detailed budgets and forecasts of the Company's trading subsidiaries AyrES and CES and expect them to be profit making over the term of their contracts with Scottish Water. The Group has a strong cash position and net current assets as at 31 March 2022 were £21,623k (2021: £17,663k). Overall, the Group is in a net liabilities position, however due to the profitable nature of the trading subsidiaries and the strong cash position the Directors believe the Group will continue to be a going concern. On the basis of their assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the financial statements. Due to the net liabilities position the Company will also receive a letter of support from NWGL.

Indemnification of Directors

Directors and Officers liability insurance was in place for the Group for the year. On 21 March 2017, NSL entered into a deed of indemnity to grant its Directors and those of its subsidiaries further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006, and this remains in place.

Disclosure of information to the auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Group's auditor, the Directors have taken all the steps that they are obliged to take as Directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Political donations

The Group does not support any political party and there have been no donations made to any political party or other political organisation during the year.

Subsequent events

There have been no subsequent events since the year end and to the date of signing this report.

DIRECTORS' REPORT (continued)

Auditor

The Group had expressed its intention to undertake a selection process to appoint an auditor for the year ending 31 March 2022. However, in order to allow and enable an effective and competitive tender process to take place, the Group appointed Deloitte LLP as the Company's auditor for the year ended 31 March 2022. Following a competitive tender process, Deloitte LLP were re-appointed as the Group's auditor for the year ended 31 March 2023.

Business relationships

The Companies (Miscellaneous Reporting) Regulations 2018, effective for years beginning on or after 1 January 2019, set out revised requirements for reporting on engagement with employees, suppliers, customers and others in a business relationship with the Company. The Company's approach to stakeholder engagement is summarised in the s172 statement in the Strategic report.

Energy and carbon

The Company has taken the exemption from reporting due to NSL consuming less than 40,000kwh during the period and therefore not required to be disclosed.

R. Somerville

Approved for issue by the Board of Directors
R Somerville
Company Secretary
25 November 2022

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with the International Financial Reporting Standards (IFRSs) as issued by the IASB. The Directors have chosen to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are 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 the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN SERVICES LIMITED

Opinion
In our opinion:

- the financial statements of Northumbrian Services Limited (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated and parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the related consolidated notes 1 to 18; and
- the related parent Company notes 1 to 8.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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
In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN SERVICES LIMITED (continued)

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, 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 Group's and the parent 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 Group or the parent 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.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

- **Revenue recognition**: Revenue is earned through the fulfillment of the contract for the operation and maintenance of the wastewater treatment works at Meadowhead, Stevenston and Inverclyde as well as the sludge treatment centre at Meadowhead. Revenue is calculated using budgeted flow of waste through the sites on a quarterly basis which could be subject to management bias and therefore has been identified as a fraud risk. Furthermore, an additional contract is held for the operation of the Levenmouth Purification Scheme for Scottish Water. The billing model for the whole of revenue involves inputs such as rainfall data and indexation amounts which if misstated, could result in a material adjustment to revenue. In order to respond to this risk, we have:

    - Obtained an understanding of management's relevant controls over the calculation of revenue;
    - Tested the integrity of the revenue data and calculation by agreeing terms into the signed contract with Scottish Water where possible.
    - Challenged management's judgements regarding the appropriateness of the inputs by benchmarking inputs against readily available market data indices where possible and discussed with management if these benchmarks differed from their inputs in order to reach our conclusion.
    - Confirmed revenue to subsequent payments received from Scottish Water.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN SERVICES LIMITED (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

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 the Directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements 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.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the parent 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.

David Johnson FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
25 November 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2022

	Note	**Year to 31 March 2022 £'000**	Year to 31 March 2021 £'000
Revenue		**36,668**	28,794
Operating costs	2	**(25,657)**	(19,497)
Profit before interest		**11,011**	9,297
Net finance costs	5	**(5,997)**	(6,505)
Profit before taxation		**5,014**	2,792
Current taxation	6	**(1,696)**	(1,300)
Deferred taxation	6	**(2,409)**	721
Profit for the year		**909**	2,213
Attributable to:			
Equity shareholders of the parent Company		**981**	1,887
Non-controlling interests		**(72)**	326
		909	2,213

Revenue and operating profit are all derived from continued operations.

CONSOLIDATED BALANCE SHEET
As at 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
Non-current assets			
Goodwill	7	**3,600**	3,600
Intangible assets	7	**4,763**	5,091
Property, plant and equipment	8	**54,731**	58,669
Amounts receivable from related parties	9	**751**	925
		63,845	68,285
Current assets			
Trade and other receivables	9	**6,054**	6,400
Short term cash deposits	10	**6,000**	14,000
Cash and cash equivalents	10	**35,432**	23,768
		47,486	44,168
Total assets		**111,331**	112,453
Non-current liabilities			
Interest bearing loans and borrowings	12	**(78,162)**	(81,893)
Provisions	13	**(2,176)**	(2,173)
Deferred tax	6	**(13,063)**	(10,654)
Deferred income	14	**(1,215)**	(1,285)
		(94,616)	(96,005)
Current liabilities			
Interest bearing loans and borrowings	12	**(19,658)**	(20,790)
Trade and other payables	11	**(5,935)**	(5,494)
Income tax payable	11	**(270)**	(221)
		(25,863)	(26,505)
Total liabilities		**(120,479)**	(122,510)
Net liabilities		**(9,148)**	(10,057)
Capital and reserves			
Called up share capital	16	**4,813**	4,813
Accumulated deficit		**(13,234)**	(14,215)
Equity shareholders' deficit		**(8,421)**	(9,402)
Non-controlling interests		**(727)**	(655)
Total capital and reserves		**(9,148)**	(10,057)

Approved by the Board of Directors and authorised for issue on 25 November 2022 and signed on its behalf by:

H Mottram
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2022

	Equity share capital £'000	Accumulated deficit £'000	Non-controlling interests £'000	Total £'000
At 1 April 2020	4,813	(16,102)	(981)	(12,270)
Profit for the year and total comprehensive income	-	1,887	326	2,213
At 31 March 2021	4,813	(14,215)	(655)	(10,057)
Profit for the year and total comprehensive income	-	981	(72)	909
At 31 March 2022	4,813	(13,234)	(727)	(9,148)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2022

	Note	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Operating activities			
Reconciliation of profit before interest to net cash flows			
Profit before interest		**11,011**	9,297
Depreciation, amortisation and impairment losses		**4,525**	4,529
Other non-cash charges and credits		**(73)**	(29)
Net charge for provisions, less payments		**3**	411
Loss on disposal of property, plant and equipment		**147**	113
Decrease/(increase) in trade and other receivables		**346**	(690)
Increase in trade and other payables		**533**	951
Cash generated from operations		**16,492**	14,582
Income taxes paid		**(1,473)**	(983)
Net cash flows from operating activities		**15,019**	13,599
Investing activities			
Interest received		**178**	97
Purchase of property, plant and equipment		**(406)**	(707)
Net cash flows from investing activities		**(228)**	(610)
Financing activities			
New borrowings		**226**	33
Interest paid		**(6,230)**	(6,261)
Repayment of borrowings		**(5,123)**	(4,844)
Net cash flows from financing activities		**(11,127)**	(11,072)
Increase in cash and cash equivalents		**3,664**	1,917
Cash and cash equivalents at start of year	10	**37,768**	35,851
Cash and cash equivalents at end of year	10	**41,432**	37,768
Cash and cash equivalents at end of year	10	**35,432**	23,768
Short term cash deposits	10	**6,000**	14,000
Total cash, cash equivalents and short-term cash deposits		**41,432**	37,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. ACCOUNTING POLICIES

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and with International Financial Reporting Standards as issued by the IASB.

(b) Going concern
The Directors have considered the detailed budgets and forecasts of the Group's trading subsidiaries AyrES and CES and expect them to be profit making over the term of their contracts with Scottish Water. The Group has a strong cash position and net current assets as at 31 March 2022 of £21,623k (2021: £17,663k). Overall, the Group is in a net liabilities position, although due to the profitable nature of the trading subsidiaries and the strong cash position the Directors believe the Group will continue to be a going concern. On the basis of their assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future and therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements. The financial statements of the Group for the year ended 31 March 2022 were authorised for issue by the Board of Directors on 25 November 2022 and the balance sheet was signed on the Board's behalf by H Mottram.

NSL is a private company, limited by shares and is registered, incorporated and domiciled in England and Wales. The address of the Company's registered office is shown on the cover sheet. The principal activities of the Group and the nature of the Group's operations are set out on page 3.

The Group's financial statements are presented in sterling because that is the currency of the primary economic environment in which the trading subsidiaries operate. All values are rounded to the nearest thousand pound except where otherwise indicated.

(c) Basis of consolidation
The consolidated financial statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value. The consolidated financial statements include the Company and its subsidiary undertakings. The results of subsidiaries acquired during the period are included from the date of their acquisition. The results of subsidiaries disposed of during the period are included to the date of their disposal. Inter-segment revenue and profits are eliminated fully on consolidation.

Where necessary, adjustments are made to bring the accounting policies used under relevant local GAAP in the individual financial statements of the Company and its subsidiaries into line with those used by the Group under IFRS.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from parent company's equity.

(d) Goodwill
Goodwill arising on the acquisition of subsidiary undertakings represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of impairment testing, goodwill is allocated to the related cash-generating units and tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the statement of comprehensive income. The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

1. ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment
Property, plant and equipment and depreciation
Property, plant and equipment comprises two wastewater treatment schemes.

Property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment. Cost comprises the aggregate amount incurred and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Infrastructure assets are depreciated over the course of the life of the wastewater treatment scheme contracts. Operational structures, plant & machinery assets that may be replaced or improved by major capital expenditure are depreciated over the period until the capital expenditure is needed in accordance with the Group's asset replacement plan, this period ranges from 5 to 38 years. When subsequent capital expenditure takes place, it is capitalised as part of the cost of the asset. The remaining assets, fixtures and fittings, are depreciated on a straight-line basis to operating costs over the same life range as the operational assets.

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount.

(f) Intangible fixed assets
Intangible fixed assets comprise directly attributable bid costs incurred after it is virtually certain that a contract will be obtained, which are capitalised only to the extent that they lead to the creation of an enduring asset which delivers benefits at least as great as the amount capitalised.

Bid development costs are stated at cost, net of amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over the operational phase of the contract and is charged to operating costs. The estimated useful life and amortisation is reviewed at the end of each period, with the effect of any changes in estimate being accounted for on a prospective basis.

Annual reviews are carried out to ensure that the amortisation profile of intangible assets is still relevant.

(g) Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(h) Revenues
Revenue, which excludes value added tax, represents the fair value of the income receivable in the ordinary course of business for services provided to Scottish Water through the Group's wastewater treatment plants. In accordance with IFRS 15, revenue is recognised as performance obligations to the customer are satisfied. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured based on volumes flowing through the operating plants during the year. Advance payments received under the terms of the contracts are carried forward as deferred income and released over the performance period of the contract.

(i) Taxation
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

1. ACCOUNTING POLICIES (continued)

(i) Taxation (continued)
Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(j) Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the statement of comprehensive income.

(k) Borrowing costs
Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial time to prepare for its intended use are capitalised while the asset is being constructed as part of the cost of that asset.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. When construction occurs piecemeal, and use of each part ceases upon substantial completion of that part, a weighted average cost of borrowings is used.

(l) Cash and cash equivalents and short-term cash deposits
Cash and cash equivalents disclosed in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity on acquisition of three months or less, which are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

(m) Trade and other receivables
Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired, it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

(n) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required, and a reliable estimate can be made of the amount of the obligation.

(o) Impairment of assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

1. ACCOUNTING POLICIES (continued)

(p) Accounting standards
As at the date of signing these financial statements, there are no standards or interpretations in issue but not yet adopted which the Directors anticipate would have a material impact on the Group.

(q) Significant accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimates) that have a significant impact on the amount recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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. There were no critical accounting judgements made in the current or prior years.

The following are the key estimates that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Revenue recognition
Revenue is recognised in line with the contracts with Scottish Water which uses complex inputs that refer to market indices and, thus, variations to the indices may cause material adjustment to revenue billed. As at 31 March 2022 there is accrued income of £5.1m (2021: £4.6m) due from Scottish Water.

Tendon provision
The Directors consider that the remaining £1,648k AyrES and £528k CES tendon provision are sufficient to cover the costs related to mitigating the future failure of tendons through an enhanced maintenance programme and replacement where necessary. However, due to the uncertainty associated with such variables, there is a possibility that ultimately the final outcome may differ from this expectation.

2. OPERATING COSTS

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Depreciation	**4,525**	4,529
Loss on sale of fixed assets	**147**	113
Other operating expenses	**20,985**	14,855
Operating costs	**25,657**	19,497

Auditor's remuneration for auditing the financial statements of the Group was £45,075 (2021: £23,330) of which remuneration for the Company only was £18,435 (2021: £3,420). There was no remuneration to the auditor for non-audit services relating to the Group in the current or prior year.

3. DIRECTORS' EMOLUMENTS

The Directors are remunerated in full by a related company, namely NWGL, and as such no emoluments were provided in the current or prior year by the Group. The proportion of their time relating to the Group is considered to be so small that any apportionment of salary costs would be immaterial and therefore have not been calculated or disclosed.

4. STAFF COSTS

The Group did not employ any staff during the year (2021: none).

5. NET FINANCE COSTS

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Interest receivable and other income:		
Interest receivable on related company loans (Note 17)	**(178)**	(97)
Interest receivable on bank deposits	**(22)**	(49)
Finance income	**(200)**	(146)
Interest payable and other similar charges:		
Interest payable on bank loans and similar charges	**6,171**	6,518
Interest payable on related company loans (Note 17)	**26**	133
Net finance costs	**5,997**	6,505

6. TAXATION

(a) Tax on profit

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Current tax:		
- UK corporation tax on profits of the year at 19% (2021 : 19%)	**1,696**	1,300
	1,696	1,300
Deferred tax:		
Increase due to rate change	**3,364**	-
Movement in the period at 19% (2021 : 19%)		
- Origination and reversal of timing differences in the period	**(955)**	(721)
	2,409	(721)
Total tax charge	**4,105**	579

The rate of UK corporation tax for the current year is 19%. However, deferred tax has been provided at 25% to reflect the change to the rate of tax enacted by the Finance Act 2021.

b) Reconciliation of total tax charge

	Year to 31 March 2022 £'000	Year to 31 March 2021 £'000
Profit before taxation	**5,014**	2,792
Profit before tax multiplied by standard rate of corporation tax of 19% (2021 : 19%)	**953**	530
Effects of :		
- Deferred tax movement not at average rate for year	**(212)**	-
- Impact of rate increase on deferred tax	**3,364**	-
- Adjustments in respect of prior years	**-**	49
Total tax charge	**4,105**	579

(c) Factors affecting future tax charges

The temporary increase in the rate of capital allowances included in Finance Act 2021 applies to qualifying expenditure incurred in the two years ended 31 March 2023 under contracts entered into on or after 3 March 2021. Such expenditure attracts allowances of 130% (compared to the normal 18%) in the case of assets with an economic life of less than 25 years, and 50% (compared to the normal 6%) in the case of assets with an economic life of 25 years or more. Future tax charges will also be impacted by the rate change referred to above, effective from 1 April 2023.

(d) Deferred tax

The movements in the deferred tax liability during the current and prior reporting periods, by category;

	Accelerated tax depreciation £'000
At 1 April 2020	11,375
Credit in statement of comprehensive income	(721)
At 31 March 2021	10,654
Charge in statement of comprehensive income	2,409
At 31 March 2022	**13,063**

7. INTANGIBLE ASSETS

	Bid development costs £'000	Goodwill £'000	Total £'000
Cost:			
At 1 April 2020	10,999	3,600	14,599
Additions	-	-	-
Disposals	-	-	-
At 31 March 2021	10,999	3,600	14,599
Additions	-	-	-
Disposals	-	-	-
At 31 March 2022	**10,999**	**3,600**	**14,599**
Amortisation:			
At 1 April 2020	5,580	-	5,580
Provided during the year	328	-	328
At 31 March 2021	5,908	-	5,908
Provided during the year	328	-	328
At 31 March 2022	**6,236**	**-**	**6,236**
Net book value at 31 March 2022	**4,763**	**3,600**	**8,363**
Net book value at 31 March 2021	5,091	3,600	8,691

Goodwill arose upon the acquisition of a further 25% share in WMH in 2005, taking the total stake in WMH to c.75%.

8. PROPERTY, PLANT AND EQUIPMENT

	Infrastructure assets £'000	Operational structures, plant & machinery £'000	Fixtures, fittings, tools & equipment £'000	Total £'000
Cost:				
At 1 April 2020	23,700	69,058	26,100	118,858
Additions	-	707	-	707
Disposals	-	(301)	-	(301)
At 31 March 2021	23,700	69,464	26,100	119,264
Additions	-	406	-	406
Disposals	-	(375)	-	(375)
At 31 March 2022	**23,700**	**69,495**	**26,100**	**119,295**
Depreciation:				
At 1 April 2020	10,100	31,782	14,700	56,582
Charge for the year	700	2,501	1,000	4,201
Disposals	-	(188)	-	(188)
At 31 March 2021	10,800	34,095	15,700	60,595
Charge for the year	705	2,547	945	4,197
Disposals	-	(228)	-	(228)
At 31 March 2022	**11,505**	**36,414**	**16,645**	**64,564**
Net book value at 31 March 2022	**12,195**	**33,081**	**9,455**	**54,731**
Net book value at 31 March 2021	12,900	35,369	10,400	58,669

Cumulative net interest capitalised in the cost of tangible assets amounts to £15,518k (2021: £15,518k). No interest was capitalised during the year (2021: £nil).

9. TRADE AND OTHER RECEIVABLES

Due within one year	31 March 2022 £'000	31 March 2021 £'000
Trade receivables	**230**	-
Amounts owed by related parties (Note 17)	**355**	334
Prepayments and accrued income	**5,449**	5,917
Other receivables	**20**	149
	6,054	6,400

Due after one year	31 March 2022 £'000	31 March 2021 £'000
Amounts owed by related parties (Note 17)	**751**	925

The amounts owed by related parties relates to interest accrued. The amounts outstanding are repayable on demand and do not attract any interest charge.

10. CASH AND CASH EQUIVALENTS AND SHORT-TERM DEPOSITS

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	31 March 2022 £'000	31 March 2021 £'000
Cash at bank and in hand	**35,432**	23,768
Cash equivalent deposits	**6,000**	14,000
Cash and cash equivalents	**41,432**	37,768

11. TRADE AND OTHER PAYABLES

	31 March 2022 £'000	31 March 2021 £'000
Trade payables	**29**	15
Other payables	**1,172**	656
Amounts payable to related parties (Note 17)	**3,857**	4,291
Accruals	**862**	458
Interest accruals	**15**	74
Income tax payable	**270**	221
	6,205	5,715

Amounts payable to related parties represents amounts generated through general trading and operations. Amounts are all due within one year and no interest is charged. Other payables predominately represents amounts owing in relation to VAT.

12. INTEREST BEARING LOANS AND BORROWINGS

	31 March 2022 £'000	31 March 2021 £'000
Loans are repayable as follows:		
In one year or less	**19,658**	20,790
In more than one year but not more than two years	**4,199**	3,425
In more than two years but not more than five years	**16,746**	14,524
In more than five years	**57,217**	63,944
	97,820	102,683

Disclosed as due:		
Within one year:		
Bank loan	**3,052**	3,260
Eurobond	**358**	1,338
Related parties (Note 17)	**16,233**	16,173
Subordinated loan stock (Note 17)	**15**	19
	19,658	20,790

After one year:		
Bank loan	**23,154**	26,222
Eurobond	**53,342**	53,700
Subordinated loan stock (Note 17)	**1,666**	1,971
	78,162	81,893

Bank loan
The bank loan is repayable in half yearly instalments ending on 30 September 2029 and bears an interest rate of 7.1%.

The bank loan is secured by a fixed charge over the assigned accounts and investments and a floating charge over the remaining assets of AyrES.

Eurobond
The Eurobond is listed on the London Stock Exchange's market for listed securities. The first repayment date was 30 September 2008 and the remaining repayment dates are half yearly until 31 March 2037.

The Eurobond is secured by fixed and floating charges over the assets of CES, bears an interest rate of 6.627%, fixed until maturity and is repayable by instalments.

Subordinated loan stock
The subordinated loan stock, payable to Semperian PPP Holdings Limited (Semperian), shall be repaid at par in instalments or in one lump sum at the option of the lenders subject to there being sufficient monies available and subject covenants of the senior loan agreement. The subordinated loan stock bears fixed interest at 11% per annum payable six monthly.

13. PROVISIONS

	Tendon provision £'000
At 1 April 2020	1,762
Provided during the year	737
Credited to the Statement of comprehensive income	(326)
At 1 April 2021	2,173
Provided during the year	3
At 31 March 2022	**2,176**

There was a tendon failure at an AyrES site in 2015. As a result, a claim for construction defects was raised, this resulted in a settlement in 2018. This provision is intended to cover costs relating to potential future tendon failures on the AyrES site. The AyrES provision will be fully utilised by 29 September 2032. Followings legal action and settlement of a claim for construction defects a further tendon provision was recognised in the prior year relating to CES to cover the cost of any future tendon failures on its site or other related costs. The CES provision will be fully utilised by 29 October 2040. However, due to the uncertainty associated with such variables, there is a possibility that ultimately the final outcome may differ from this expectation.

14. DEFERRED INCOME

	Total £'000
At 1 April 2021	1,285
Credited to the Statement of comprehensive income	(70)
At 31 March 2022	**1,215**

Deferred income represents advance payments received for the operation of the CES plant until 2040.

15. FINANCIAL INSTRUMENTS

(a) Group strategy and funding risk

The capital expenditure within the Group was predominately funded by obtaining long term debt with a fixed rate of interest. Any current or future capital expenditure will mainly be the costs to repair and maintain the current assets and as such will be mainly funded by available cash reserves, providing there is sufficient liquidity available. If required the Group would look to obtain further debt at a fixed interest rate in line with its current policy.

(b) Treasury operations

The main purpose of the Group's treasury function is to assess the Group's ongoing capital requirement and to ensure sufficient liquidity is available when require. It also invests any surplus funds the Group may have, based upon its forecast requirements and in accordance with the Group's treasury policy.

(c) Risks arising from the Group's financial instruments

The main risks arising from the Group's financial instruments are liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. All treasury activities are conducted in accordance with these policies.

(d) Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generated by its operations. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts and investing in short term external interest yielding deposit accounts.

(e) Interest rate risk

The Group finances its operations through a mixture of retained profits and borrowings. It borrows at a fixed rate of interest to ensure certainty of costs. The Group's investments in external yielding deposit accounts are affected by movements in interest rates. Interest rate rises are therefore beneficial to the Group generating further interest income whilst being protected from an interest expense perspective.

(f) Foreign currency risk

There is no foreign currency exposure within the Group and as such the Group determines this to be or minimal risk.

(g) Counterparty risk

The Group treasury strategy requires that investments are limited to certain money market and treasury instruments, and that the Group's exposure to any single bank, building society or market is controlled, with maximum deposits allowed with any single counterparty. The investment criteria cover credit rating and asset size, including sovereign and political risk.

(h) Maturity profile of financial liabilities

The Group is exposed to financial liabilities by way of external borrowings. The maturity profile of these borrowings have been disclosed as part of note 12.

16. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£'000
Authorised, issued and fully paid:		
Ordinary shares of £0.01 each		
At 31 March 2021 and 31 March 2022	**481,266,400**	**4,813**

17. RELATED PARTIES

The following entities are considered to be related parties of the Group under the definition of IAS 24 Related Party Disclosures:

Ayr Environmental Services Operations Limited (AESOps), Caledonian Environmental Levenmouth Treatment Services Limited (CELTS), NWG Commercial Solutions Limited (NWGCSL), Essex and Suffolk Water Limited (ESW), Northumbrian Water Limited (NWL) and NWGL as companies within the NWG group.

Semperian as a minority shareholder of WMH.

During the year, the Group carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The transactions are summarised below:

Trading transactions

	Charges in respect of services £'000	Interest income/ (charge) £'000	Amounts payable to related parties £'000	Amounts receivable from related parties £'000
Related party:				
Year ended 31 March 2022				
AESOps	(8,509)	32	(2,463)	16
CELTS	(10,256)	-	(1,315)	-
NWGCSL	(297)	13	(55)	-
Semperian	-	-	(1,681)	751
NWGL	-	133	-	-
NWL	-	-	(24)	-
ESW	-	(26)	(16,233)	339
Year ended 31 March 2021				
AESOps	(8,015)	47	(2,676)	48
CELTS	(5,076)	-	(1,514)	-
NWGCSL	(294)	15	(44)	-
Semperian	-	-	(1,990)	925
NWGL	-	35	-	-
NWL	-	-	(24)	-
ESW	-	(133)	(16,206)	286

18. ULTIMATE PARENT COMPANY

At the balance sheet date, the Company had no ultimate controlling party. On 21 May 2021, CK Asset Holdings Limited, a company incorporated in the Cayman Islands and listed on The Stock Exchange of Hong Kong Limited, acquired Li Ka Shing Foundation Limited's indirect interest in the Company. The Company continues to have no ultimate controlling party.

On 14 July 2022, Nimbus UK Bidco Limited (a company incorporated in England and Wales and indirectly owned by Kohlberg Kravis Roberts & Co. L.P.) entered into an agreement to purchase 25 per cent of the entire issued share capital of each of the Company and NWGL, on a pro rata basis from the current shareholders, subject to the receipt of certain anti-trust and regulatory approvals.

COMPANY BALANCE SHEET
As at 31 March 2022

	Notes	31 March 2022 £'000	31 March 2021 £'000
Non-current assets			
Investments in subsidiary undertakings	2	**1,598**	1,598
Trade and other receivables	3	**20,810**	22,750
		22,408	24,348
Current assets			
Trade and other receivables	3	**394**	349
Cash and cash equivalents		**25,649**	23,668
		26,043	24,017
Total assets		**48,451**	48,365
Current liabilities			
Trade and other payables	4	**(16,806)**	(16,707)
Total assets less current liabilities		**31,645**	31,658
Non-current liabilities	5	**(15,760)**	(14,429)
Total liabilities		**(32,566)**	(31,136)
Net assets		**15,885**	17,229
Equity			
Called up share capital	6	**4,813**	4,813
Retained earnings		**11,072**	12,416
Equity attributable to owners of the Company		**15,885**	17,229

The loss dealt with in the financial statements of the parent company is £1,344.0k (profit 2021: £1,442.0k).

Approved by the Board on 25 November 2022 and signed on its behalf by:

H Mott

H Mottram
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2022

	Called up share capital £'000	Retained earnings £'000	Total £'000
At 1 April 2020	4,813	10,974	15,787
Profit for the year and total comprehensive income	-	1,442	1,442
31 March 2021	4,813	12,416	17,229
Loss for the year and total comprehensive income	-	(1,344)	(1,344)
At 31 March 2022	**4,813**	**11,072**	**15,885**

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2022

1. ACCOUNTING POLICIES

(a) Basis of accounting
The Company meets the definition of a qualifying entity under FRS 101 issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 "Reduced Disclosure Framework" as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, standards not yet effective and remuneration of key management personnel. As permitted by s408 of the Companies Act 2006, no profit and loss account has been presented for the parent company.

Where relevant, equivalent disclosures have been given in the group financial statements of NSL.

The financial statements have been prepared under the historical cost convention. The Company is a private company, limited by shares and is registered, incorporated and domiciled in England and Wales.

The principal accounting policies adopted are set out below.

The financial statements have been prepared on a going concern basis which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2022, the Company had net current assets of £9,237.0k (2021: £7,310.0k). The Directors have also reviewed the Company's cash flow requirements and available resources and believe it is appropriate to prepare the financial statements on a going concern basis.

No new material accounting standards were implemented during the year.

(b) Fixed asset investments
Fixed asset investments are stated at their purchase cost, less any provision for impairment.

(c) Loan receivables
Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through the statement of comprehensive income or available for sale. Gains and losses are recognised in income when the investments are de-recognised or impaired, as well as through the amortisation process.

(d) Cash and bank balances
Cash and bank balances disclosed on the balance sheet comprise cash at bank and short-term deposits with a remaining maturity of up to three months, which are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

(e) Interest bearing loans and borrowings
All loans and borrowings are initially stated at the amount of the net proceeds, being fair value of the consideration received net of issue costs associated with the borrowing. Finance costs (including issue costs) are taken to the statement of comprehensive income over the term of the debt at a constant rate on the balance sheet carrying amount. The carrying amount is increased by the finance charges amortised and reduced by payments made in respect of the accounting period.

(f) Deferred gain
The Company holds a loan receivable with CES, part of which was originally acquired from a previous 25% shareholder at a price lower than its expected value. The deferred gain, being the difference between the acquisition price and its expected value will be released on a straight line basis over the life of the CES project.

(g) Employees
The Directors are remunerated in full by a related company, NWGL, and as such no emoluments were provided in the current or prior year by the Company. The proportion of their time relating to the Company is considered to be so small that any apportionment of salary costs would be immaterial and therefore have not been calculated or disclosed. There are no employees employed within the Company.

1. ACCOUNTING POLICIES (continued)

(h) Taxation
Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(i) Significant accounting judgements and key sources of estimation uncertainty
Based on the nature of the Company's operations the Directors consider that there are no critical accounting judgements and key sources of estimation uncertainty that are required to be disclosed.

2. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£'000
At 31 March 2021 and 31 March 2022	1,598

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by the Company (%)	Business activity
Caledonian Environmental Services Holdings Limited[1]	England and Wales	Ordinary shares of £1	100	Holding company
Caledonian Environmental Services plc[2]	Scotland	Ordinary shares of £1	100	Wastewater services
Wastewater Management Holdings Limited[3]	Scotland	Ordinary A shares of £1	75	Holding company
Ayr Environmental Services Limited[3]	Scotland	Ordinary shares of £1	75	Wastewater services
Northumbrian Overseas Investments Limited[1]	England and Wales	Ordinary shares of £1	100	Dormant
Waterco Six Limited[1]	England and Wales	Ordinary shares of £1	100	Dormant

1. Registered office: Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.
2. Registered office: C/O Celts Ltd, Elm Park, Methilhaven Road, Methil, Leven, Fife, KY8 3WA.
3. Registered office: Meadowhead Wastewater Treatment Works & Sludge Treatment Centre, Meadowhead Road, Irvine, Ayrshire, KA11 5AY.

Caledonian Environmental Services Holdings Limited, Wastewater Management Holdings Limited, Northumbrian Overseas Investments Limited and Waterco Six Limited are all directly held. All other subsidiaries listed above are indirectly held.

3. TRADE AND OTHER RECEIVABLES

	31 March 2022 £'000	31 March 2021 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings (Note 7)	**47**	55
Amounts owed by related parties (Note 7)	**339**	286
Deferred tax	**1**	1
Prepayments and accrued income	**7**	7
	394	349
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings (Note 7)	**20,810**	22,750
	20,810	22,750

The amounts owed by related parties are repayable on demand. No interest is charged on the outstanding amount.

Included in amounts owed by other subsidiary undertakings within and after one year are subordinated loans and associated interest with group companies, as detailed below:

Wastewater Management Holdings Limited
Loan value of £4,996k, with fixed interest of 11% per annum, payable six monthly. Loan principal repayable at par in instalments or in one lump sum at the option of the lenders, subject to there being sufficient monies available and subject to the borrower meeting the covenants of the senior loan agreement.

Caledonian Environmental Services plc
Loan value of £15,814k, with fixed interest of 5.25% per annum, payable six monthly. Loan principal repayable at par in instalments or in one lump sum at the option of the lenders, subject to there being sufficient monies available.

4. TRADE AND OTHER PAYABLES

	31 March 2022 £'000	31 March 2021 £'000
Trade creditors	**19**	13
Amounts owed to related parties (Note 7)	**16,233**	16,207
Amounts owed to parent undertakings	**1**	2
Income tax payable	**290**	235
Accruals and deferred income	**263**	250
	16,806	16,707

The amounts owed to related parties represents a loan amount outstanding. The loan is repayable on demand and is therefore recognised as current. The loan attracts interest of 12-month LIBOR as at 31 March and is updated annually.

Included in amounts owed to related parties is £13,685k (2021: £12,280k) in respect of group relief.

5. NON-CURRENT LIABILITIES

	31 March 2022 £'000	31 March 2021 £'000
Amounts owed to subsidiary undertakings (Note 7)	**13,640**	12,189
Deferred income	**2,120**	2,240
Amounts owed to subsidiary undertakings	**15,760**	14,429

The deferred income balance relates to the deferred gain on the acquisition of CES loan stock which was previously owned by a non-controlling party. The acquisition value was below the fair value of the loan debtor and as such a gain is expected to be recognised. The gain is being released on a straight line basis over the life of the CES project.

6. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£'000
Authorised, issued and fully paid:		
Ordinary shares £0.01 each		
At 31 March 2021 and 31 March 2022	**481,266,400**	**4,813**

7. RELATED PARTIES

The following entities are considered to be related parties under the definition of IAS 24 "Related Party Disclosures" for which the Company is not exempt from disclosing:

NWGL and ESW as companies within the NWG group.

During the year, the Company entered into transactions, in the ordinary course of business, and on an arm's length basis, with these related parties. Transactions entered into and trading balances outstanding at the balance sheet date between the Company and its related parties are as follows:

Trading transactions

	Charges in respect of services £'000	Interest on cash balances £'000	Loan interest £'000	Amounts owed by related party £'000	Amounts owed to related party £'000
Year ended 31 March 2022					
AyrES	-	-	-	-	(2,565)
WMH	-	-	(592)	5,043	-
CES	-	-	(979)	15,814	(11,075)
ESW	-	-	26	339	(16,233)
NWGL	3	(133)	-	-	-
NWL	-	(14)	-	-	-
Year ended 31 March 2021					
AyrES	-	-	-	-	(3,124)
WMH	-	-	(662)	5,967	-
CES	-	-	(1,169)	16,838	(9,065)
ESW	-	-	133	286	(16,207)
NWGL	7	(35)	-	-	-
NWL	-	(15)	-	-	-

8. ULTIMATE PARENT COMPANY

At the balance sheet date, the Company had no ultimate parent. On 21 May 2021, CK Asset Holdings Limited, a company incorporated in the Cayman Islands and listed on The Stock Exchange of Hong Kong Limited, acquired Li Ka Shing Foundation Limited's indirect interest in the Company. The Company continues to have no ultimate controlling party.

On 14 July 2022, Nimbus UK Bidco Limited (a company incorporated in England and Wales and indirectly owned by Kohlberg Kravis Roberts & Co. L.P.) entered into an agreement to purchase 25 per cent of the entire issued share capital of each of the Company and NWGL, on a pro rata basis from the current shareholders, subject to the receipt of certain anti-trust and regulatory approvals.