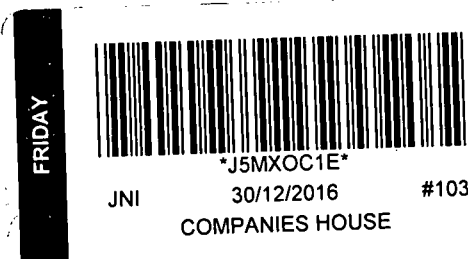


Glen Water Limited
Annual report
for the year ended 31 March 2016



Glen Water Limited

Annual report for the year ended 31 March 2016

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Directors and advisers

Directors

N Paterson
C Garrett
G Whalley
A Travis

Company secretary

C Garrett

Registered office

210 Pentonville Road
London
N1 9JY

Bankers

Bank of Ireland Limited
Bow Bells House
1 Bread Street
London
EC3M 8BA

Solicitors

Pinsent Masons LLP
5 Old Bailey
London
EC4M 7BA

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast
BT1 3LR

Strategic report for the year ended 31 March 2016

The directors present their strategic report on the company for the year ended 31 March 2016.

Principal activity, review of business and future developments

The principal activity of the company is the designing, building, financing and operation, including the provision of wastewater treatment and sludge disposal services, of a series of waste water treatment plants and sludge incinerators in Northern Ireland.

The company has recorded a loss on ordinary activities before taxation in the year of £589,000 (2015: loss of £1,493,000) on turnover of £28,933,000 (2015: £29,646,000).

The company's results for the year and its financial position at the end of the year were considered to be satisfactory by the directors who expect the company to maintain its present level of activity in future periods.

Principal risks and uncertainties

As the company's services are provided to its customer under a Private Finance Initiative contract, the company's risks are limited to those arising from service performance. The risk of failing to meet the required service performance levels is mitigated through the company subcontracting the operation of the water treatment facilities to a company that specialises in managing and operating the water treatment facilities. The board closely monitors the service performance level of its facilities to ensure that the required service performance levels are met.

Key performance indicators

The company's key performance indicator is cash generated, which for the year ended 31 March 2016 was an outflow of £774,000 (2015: inflow of £3,618,000).

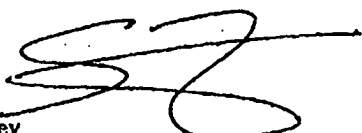
Environment

The company recognises its corporate responsibility to carry out its operations whilst minimising environmental impacts. The directors' continued aim is to comply with all applicable environmental legislation, prevent pollution and reduce waste wherever possible.

Health and safety

The company is committed to achieving the highest practicable standards in health and safety management and strives to make all sites and offices safe environments. The board of directors receives regular reports on compliance with the policies and procedures established by the shareholders and in respect of the company's performance against the standards set out in those policies.

This report was approved by the board on 21 December 2016 and signed on its behalf.



G Whalley
Director

Directors' report for the year ended 31 March 2016

The directors present their report and the audited financial statements of the company for the year ended 31 March 2016. This is the first year the financial statements are prepared in accordance with FRS 102. Details of the transition to FRS 102 and given in note 21 to the financial statements.

Future developments

The section on future developments which is detailed in the Strategic report, is included in this report by cross reference.

Results

The company made a loss of £346,000 during the year (2015: loss of £1,223,000). The directors do not recommend the payment of a final dividend (2015: £nil)

The company has recurring accounting losses and accordingly net liabilities. In view of the structure of the company's Private Finance Initiative contract with its customer, the company is expected to continue to make accounting losses until 2022 and is expected to have negative liabilities until 2028. However; the company is cash generative and is forecast to remain cash positive over that period. The forecast cash generated is adequate to meet the company's liabilities as they fall due over the next 12 months including the scheduled partial repayment of capital and interest on the company's bank loan and unsecured loan notes.

On 19 October 2015, 22 June 2016 and 23 December 2016 the company received correspondence from the Agent to the Senior Lenders regarding potential events of default. The events of default alleged by the Agent to the Senior Lenders in its letters of 19 October 2015, 22 June 2016 and 23 December 2016, relates to breaches by the company of its reporting obligations under the Project Agreement with Northern Ireland Water Limited and under the Private Finance Agreement in respect of the year 2015. The Agent to the Senior Lenders has not issued any notification regarding the acceleration of debt repayments and have previously indicated that they are not proposing to seek repayment of the debt other than in accordance with the facility agreement. Accordingly the company's bank liabilities remain payable in the amounts disclosed in note 15 to these financial statements. In light of the above, and the company's cash balances and the projected cash inflows before financing, the directors have prepared the financial statements on a going concern basis.

Political contributions

The company made no political contributions during the year (2015: £nil).

Directors

The directors of the company who were in office during the year, and up to the date of signing the financial statements, were:

J M Dean (resigned 24 September 2015)
M R Saunders (resigned 27 May 2015)
C Bellynch (resigned 27 May 2015)
R Bailey (appointed 27 May 2015 and resigned 7 November 2016)
N Paterson (appointed 29 June 2015)
C Garrett (appointed 29 June 2015)
G Whalley (appointed 24 September 2015)
C Tuckett (appointed 10 June 2015 and resigned 24 September 2015)
A Travis (appointed 7 November 2016)

Directors' indemnities

The company has made a qualifying third party indemnity provision for the benefit of its directors during the year and it remained in force at the date of this report.

Directors' report for the year ended 31 March 2016 (continued)

Financial risk management

The company's operations expose it to a variety of financial risks that include credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring these risks.

Given the size of the company, the directors have retained the responsibility of monitoring financial risk management and have not delegated this responsibility to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Credit risk

As the company's customer is a government owned company, exposure to credit risk is limited.

Liquidity risk

The company's exposure to liquidity risk is limited as it has sufficient cash reserves to fund short term working capital requirements, whilst its contract with its customer generates sufficient monies to meet the company's obligations under its bank loan and loans from related parties.

Interest rate risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets consist of cash balances which earn interest at variable rates. Interest bearing liabilities consist of bank loans on which the company pays variable rates of interest and loans from related parties which the company pays fixed rates of interest. The company has entered into interest rate swaps in order to hedge the interest rate cash flow risk arising from its variable rate bank debt.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for the company for each financial year. Under that law the directors have prepared the financial statements of the company in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, "The Financial and Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)" and applicable law).

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 and cash flows of the company for that period. In preparing these audited financial statements of the company, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the audited 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 audited financial statements of the company and the company comply with the Company's Act 2006. They are also responsible for safeguarding the assets of the company and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report for the year ended 31 March 2016 (continued)

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board on 21 December 2016

G Whalley
Director

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a horizontal stroke.

Independent auditors' report to the members of Glen Water Limited

Report on the financial statements

Our opinion

In our opinion, Glen Water Limited's financial statements, (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of the company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

What we have audited

The financial statements, included within the annual report, comprise:

- the profit and loss account for the year ended 31 March 2016;
- the statement of comprehensive income for the year ended 31 March 2016;
- the balance sheet as at 31 March 2016;
- the cash flow statement for the year ended 31 March 2016;
- the statement of changes in equity for the year ended 31 March 2016; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- 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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Glen Water Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Company's Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Kevin MacAllister (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Waterfront Plaza
8 Laganbank Road
Belfast

26/12/2016.

Profit and loss account for the year ended 31 March 2016

	Notes	2016 £'000	2015 £'000
Turnover	5	28,933	29,646
Operating expenses	6	(21,108)	(22,559)
Operating profit	7	7,825	7,087
Interest payable and similar charges (net)	8	(8,414)	(8,580)
Loss on ordinary activities before taxation		(589)	(1,493)
Tax credit on loss on ordinary activities	11	243	270
Loss for the financial year		(346)	(1,223)

All amounts above relate to continuing operations of the company.

Consolidated statement of other comprehensive income for the year ended 31 March 2016

	2016 £'000	2015 £'000
Loss for the financial year	(346)	(1,223)
Other comprehensive income		
Fair value gain/(loss) on derivatives	541	(10,504)
Deferred tax (charge)/credit on fair value gain/(loss) on derivatives	(816)	2,101
Other comprehensive income for the year, net of tax	(275)	(8,403)
Total comprehensive income for the year	(621)	(9,626)

The notes on page 12 to 29 form part of the financial statements.

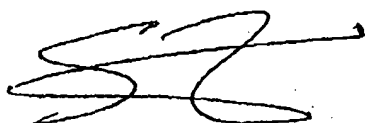
Glen Water Limited

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Balance sheet as at 31 March 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	12	97,568	103,831
Current assets			
Debtors	13	9,566	8,779
Cash at bank and in hand		24,238	25,012
		33,804	33,791
Creditors: amounts falling due within one year	14	(10,453)	(12,350)
Net current assets		23,351	21,441
Total assets less current liabilities		120,919	125,272
Creditors: amounts falling due after more than one year	15	(159,498)	(163,230)
Provisions for liabilities and charges	16	(750)	(750)
Net liabilities		(39,329)	(38,708)
Capital and reserves			
Called up share capital	17	1	1
Cash flow hedge reserve		(28,024)	(27,749)
Profit and loss account		(11,306)	(10,960)
Total shareholders' deficit		(39,329)	(38,708)

The financial statements on pages 8 to 29 were approved by the Board of directors on and were signed on its behalf on 21 December 2016 by:



G Whalley
Director



N Paterson
Director

Statement of changes in equity for the year ended 31 March 2016

	Called-up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Shareholders' deficit £'000
Balance as at 1 April 2014	1	(19,346)	(9,737)	(29,082)
Loss for the financial year	-	-	(1,223)	(1,223)
Other comprehensive income, net of tax	-	(8,403)	-	(8,403)
Total comprehensive expense for the year	-	(8,403)	(1,223)	(9,626)
Balance as at 31 March 2015	1	(27,749)	(10,960)	(38,708)

	Called-up share capital £'000	Cash flow hedge reserve £'000	Profit and loss account £'000	Total Shareholders' deficit £'000
Balance as at 1 April 2015	1	(27,749)	(10,960)	(38,708)
Loss for the financial year	-	-	(346)	(346)
Other comprehensive income, net of tax	-	(275)	-	(275)
Total comprehensive expense for the year	-	(275)	(346)	(621)
Balance as at 31 March 2016	1	(28,024)	(11,306)	(39,329)

Cash flow statement for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Net cash from operation activities	18	12,331	17,032
Tax paid		-	-
Net cash generated from operating activities		12,331	17,032
Cash flow from investing activities			
Purchase of tangible fixed assets		(1,196)	(205)
Net cash used in investing activities		(1,196)	(205)
Cash flow from financing activities			
Repayment of bank loans and subordinated loan notes		(4,789)	(4,607)
Interest received		151	157
Interest paid		(7,271)	(8,759)
Net cash used in financing activities		(11,909)	(13,209)
(Decrease)/increase in cash in the year		(774)	3,618
Cash and cash equivalents at the beginning of the year		25,012	21,394
Cash and cash equivalents at the end of the year		24,238	25,012

Notes to the financial statements for the year ended 31 March 2016

1 General information

Glen Water Limited ('the company') principal activities are the designing, building, financing and operation, including the provision of wastewater treatment and sludge disposal services, of a series of waste water treatment plants and sludge incinerators in Northern Ireland.

The company is a private company limited by shares and is incorporated in the United Kingdom. The address of its registered office is 210 Pentonville Road, London, N1 9JY.

2 Statement of compliance

The company's financial statements of Glen Water Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Company's Act 2006.

3 Accounting policies

These financial statements are prepared under the historical cost convention and in accordance with the Company's Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently throughout the year are set out below.

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 are disclosed in note 21.

Basis of preparation

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Going concern

The company has recurring accounting losses and accordingly net liabilities. In view of the structure of the company's Private Finance Initiative contract with its customer, the company is expected to continue to make accounting losses until 2022 and is expected to have negative liabilities until 2028. However, the company is cash generative and is forecast to remain cash positive over that period. The forecast cash generated is adequate to meet the company's liabilities as they fall due over the next 12 months including the scheduled partial repayment of capital and interest on the company's bank loan and unsecured loan notes.

On 19 October 2015, 22 June 2016 and 23 December 2016 the company received correspondence from the Agent to the Senior Lenders regarding potential events of default. The events of default alleged by the Agent to the Senior Lenders in its letters of 19 October 2015, 22 June 2016 and 23 December 2016, relates to breaches by the company of its reporting obligations under the Project Agreement with Northern Ireland Water Limited and under the Private Finance Agreement in respect of the year 2015. The Agent to the Senior Lenders has not issued any notification regarding the acceleration of debt repayments and have previously indicated that they are not proposing to seek repayment of the debt other than in accordance with the facility agreement. Accordingly the company's bank liabilities remain payable in the amounts disclosed in note 15 to these financial statements. In light of the above, and the company's cash balances and the projected cash inflows before financing, the directors have prepared the financial statements on a going concern basis.

Notes to the financial statements for the year ended 31 March 2016

3 Accounting policies (continued)

Tangible fixed assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

(i) *Infrastructure, building & concrete structures, pumping equipment and other equipment*

Infrastructure, building & concrete structures, pumping equipment and other equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Depreciation and residual values*

Depreciation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over the expected useful economic lives of the assets concerned. The principal annual rates used are as follows:

Infrastructure assets	-	24 years
Building & concrete structures	-	24 years
Pumping equipment	-	20 years
Other equipment	-	7 to 15 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(iii) *Subsequent additions and major components*

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(iv) *Derecognition*

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Administrative expenses'.

Notes to the financial statements for the year ended 31 March 2016

3 Accounting policies (continued)

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

(i) *Current tax*

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) *Deferred tax*

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Notes to the financial statements for the year ended 31 March 2016

3 Accounting policies (continued)

Accounting for Private Finance Initiative contracts (service concession arrangements)

Where it can be demonstrated that the balance of risks and rewards derived from the underlying asset are not borne by the company, the asset created and/or provided under the contract is accounted for as a finance lease receivable or as a financial asset; otherwise, it is classified as a fixed asset.

Provisions and contingencies

(i) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

(ii) Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

Where the consideration receivable in cash at bank and in hand is deferred, and the arrangement constitutes a financing transaction, the fair value of the consideration is measured as the present value of all future receipts using the imputed rate of interest.

The company recognises turnover when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to each of the company's sales channels have been met, as described below:

Turnover in respect of the provision of water and sewerage services is recognised on the basis of daily usage.

Notes to the financial statements for the year ended 31 March 2016**3 Accounting policies (continued)****Financial instruments**

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from related parties, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements for the year ended 31 December 2015**3 Accounting policies (continued)****Financial instruments***(iv) Hedging arrangements*

The company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised directly in equity. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Related party transactions

The company discloses transactions with related parties which are not wholly owned within the same company. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the company financial statements.

Finance costs

Finance costs are charged to the Income statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

4 Critical accounting judgements and estimation uncertainty

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

There were no critical accounting estimates and assumptions.

Critical judgements in applying the company's accounting policies

There were no critical judgements in applying the company's accounting policies

5 Turnover

Turnover relates to the company's main activity which is carried out in the United Kingdom.

Notes to the financial statements for the year ended 31 March 2016

6 Operating expenses

	2016	2015
	£'000	£'000
Cost of sales	21,038	22,509
Administrative expenses	70	50
	21,108	22,559

7 Operating profit

	2016	2015
	£'000	£'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	7,459	7,492
Fees payable to the company's auditors in respect of the audit of the company's financial statements	12	8
Fees payable to the company's auditors in respect of taxation services	23	7

8 Interest payable and similar charges (net)

	2016	2015
	£'000	£'000
Interest payable on bank loans	7,219	7,477
Interest payable on unsecured loan notes	1,253	1,210
Fair value loss on derivatives	42	-
Other finance costs	50	50
Total interest payable	8,564	8,737
Interest receivable on bank deposits	(150)	(157)
Net interest payable	8,414	8,580

9 Employee information

The company did not employ any individuals during the year (2015: None).

10 Directors' emoluments

The directors did not receive any remuneration in respect of their services to the company during the year (2015: £nil).

Notes to the financial statements for the year ended 31 March 2016

11 Tax credit on loss on ordinary activities

	2016 £'000	2015 £'000
Current tax		
UK corporation tax	19	-
Total current tax charge	19	-
Deferred tax:		
Origination and reversal of timing differences	(20)	(157)
Change in tax rates	(242)	(113)
Total deferred tax credit	(262)	(270)
Tax credit on loss on ordinary activities	(243)	(270)

The tax assessed for the year differs from the standard rate of Corporation Tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £'000	2015 £'000
Loss on ordinary activities before tax	(589)	(1,493)
Loss on ordinary activities multiplied by standard rate in the UK 20% (2015: 21%)	(118)	(313)
Effects of:		
Expenses not deductible for tax purposes	117	156
Change in tax rates	(242)	(113)
Tax credit on loss on ordinary activities	(243)	(270)

Tax rate changes

The tax rate for the current period is lower than the prior year due to changes in the UK Corporation Tax rate which decreased from 21% to 20% from 1 April 2015. Further reductions to the UK Corporation Tax rate were substantively enacted as part of the Finance Act 2015 (substantively enacted on 26 October 2015). These reduce the main rate of tax to 19% from 1 April 2017 and to 18% from 1 April 2020.

Notes to the financial statements for the year ended 31 March 2016

12 Tangible assets

	Infrastructure assets £'000	Building & concrete structures £'000	Pumping equipment £'000	Other equipment £'000	Total £'000
Cost					
At 1 April 2015	17,294	50,346	69,602	10,866	148,108
Additions	101	-	1,095	-	1,196
At 31 March 2016	17,395	50,346	70,697	10,866	149,304
Accumulated depreciation					
At 1 April 2015	4,622	13,488	19,530	6,637	44,277
Charge for the year	715	2,191	3,598	955	7,459
At 31 March 2016	5,337	15,679	23,128	7,592	51,736
Net book amount					
At 31 March 2016	12,058	34,667	47,569	3,274	97,568
At 31 March 2015	12,672	36,858	50,072	4,229	103,831

Interest and other finance costs capitalised as at 31 March 2016 amount to £7,400,000 (2015: £7,870,000), which is stated after accumulated depreciation of those capitalised costs of £3,228,000 (2015: £2,758,000).

Tangible assets with a net book amount of £97,568,000 (2015: £103,831,000) is pledged as security against the company's borrowings.

13 Debtors

	2016 £'000	2015 £'000
Trade debtors	4,354	3,773
Amounts owed by related parties	788	40
Deferred tax assets	4,211	4,764
Other debtors	213	202
	9,566	8,779

Amounts owed by related parties are interest free, unsecured and repayable on demand.

Notes to the financial statements for the year ended 31 March 2016

13 Debtors (continued)

	Provision for deferred tax £'000	
At 1 April 2015	4,764	
Credited to the profit and loss account	262	
Charged to other comprehensive income	(815)	
At 31 March 2016	4,211	
	2016	2015
	£'000	£'000
Deferred tax asset is as follows:		
Tax losses	6,596	7,495
Derivative financial instruments	6,371	7,179
Excess of depreciation over capital allowances	(7,424)	(8,336)
Timing differences in respect of capitalised interest	(1,332)	(1,574)
	4,211	4,764

The company has tax losses of approximately £36,130,000 (2015: £37,473,000) available for offset against future trading profits. The company has a deferred tax asset of approximately £6,503,000 (2015: £7,495,000) arising from these tax losses.

The amount of deferred tax assets expected to reverse after more than 12 months is £4,211,000 (2015: £4,764,000).

14 Creditors: amounts falling due within one year

	2016	2015
	£'000	£'000
Bank loan (Note 15)	4,808	4,739
Unsecured loan notes due 2031 (Note 15)	-	353
Trade creditors	465	237
Amounts owed to related parties	2,593	4,314
Other creditors	19	-
Accruals and deferred income	2,568	2,707
	10,453	12,350

The bank loan is secured by a fixed and floating charge over the assets of the company and by way of guarantees given by the parent undertakings of the corporate shareholders.

Amounts owed to related parties are interest free, unsecured and repayable on demand.

Notes to the financial statements for the year ended 31 March 2016

15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Bank loan	109,597	114,405
Unsecured loan notes due 2031	14,506	12,931
Derivative financial instruments	35,395	35,894
	159,498	163,230

The bank loan is secured by a fixed and floating charge over the assets of the company and by way of guarantees given by the parent undertakings of the corporate shareholders and is repayable in varying instalments commencing 31 December 2009 with full repayment due by 31 December 2030. The loan carries interest at a rate of LIBOR plus 0.95% to 1.15%. The unsecured subordinated loan notes are repayable in varying instalments commencing 31 December 2009 with full repayment due by 31 December 2031 and carry interest at a rate of 9% per annum. The maturity of the bank loan and unsecured loan notes is as follows:

	2016 £'000	2015 £'000
Within one year	4,808	5,092
Between one and two years	5,272	5,193
Between two and five years	18,695	18,178
In more than five years	100,136	103,965
	128,911	132,428

The bank loan and unsecured loan notes are stated net of unamortised issue costs of £784,000 (2015: £834,000). All amounts falling due after more than five years are repayable by instalments.

Derivatives

The company has entered into interest rate swap agreements with certain financial institutions in order to swap the variable interest arising on the company's bank loan with fixed interest. As at 31 March 2016 the fair value of the company's interest swap agreements are a liability of £35,395,000 (2015: £35,894,000).

16 Provisions for liabilities and charges

	Decommissioning provision £'000
At 1 April 2015	(750)
Credited to the profit and loss account	-
At 31 March 2016	(750)

Decommissioning provision

The decommissioning provision relates to anticipated costs that are required to be carried out at sludge facilities at the end of their use.

Notes to the financial statements for the year ended 31 March 2016

17 Called up share capital

	2016	2015
	£'000	£'000
Allotted and fully paid		
1,000 (2015: 1,000) ordinary shares of £1 each	1	1

18 Cash flow from operating activities

	2016	2015
	£'000	£'000
Loss for the financial year	(439)	(1,223)
Tax credit on loss on ordinary activities	(150)	(270)
Movement in fair value of hedging instruments	42	-
Interest payable and similar charges (net)	8,372	8,580
Operating profit	7,825	7,087
Depreciation of tangible fixed assets	7,459	7,492
Movement in debtors	(1,340)	375
Movement in creditors	(1,613)	2,078
Cash flow from operating activities	12,331	17,032

Notes to the financial statements for the year ended 31 March 2016

19 Related party transactions and ultimate controlling party

Transactions with related parties were as follows:

Name of related party (relationship)	Nature of transaction	Amount of transaction 2016 £'000	Amount of transaction 2015 £'000
Portfolio Solutions (Northern Ireland) Limited (Shareholder)	Operating charges	(89)	(87)
	Loan notes repayments	611	(162)
	Interest charged	(627)	(605)
Veolia Water Outsourcing Limited (Shareholder)	Costs in respect of assets under the course of construction	(1,195)	(205)
	Operating charges	(10,677)	(9,671)
	Loan notes repayments	-	(162)
	Interest charged	(627)	(605)
Laing O'Rourke/Veolia Water joint venture entity (Common interest)	Cost of sales	(1,910)	(4,650)

Balances with related parties were as follows:

Name of related party		Amount owed by/(to) related party 2016 £'000	Amount owed by/(to) related party 2015 £'000
Portfolio Solutions (Northern Ireland) Limited	Shareholder loans and interest	(7,416)	(6,789)
	Other balances	59	60
Veolia Water Outsourcing Limited	Shareholder loans and interest	(7,416)	(6,789)
	Other balances	(1,864)	(4,334)
Laing O'Rourke/Veolia Water joint venture entity	Retention	-	-

There is no ultimate controlling party.

Notes to the financial statements for the year ended 31 March 2016**20 Contingent liability**

The company has received a number of claims from its operating and construction contractors (both of whom are considered to be related parties by virtue of common shareholders) in respect of the operation and construction of the company's water treatment and sludge facilities. These claims amount to approximately £35.6 million.

The company has delegated the construction and operation of its facilities to related entities. These activities are sub-contracted to a construction contractor (which is a joint venture between the same shareholders as the company) and to an operating contractor (which is a shareholder of the company) and therefore any issues arising are considered by the directors to be the responsibility of one or more of the company's customer, the construction contractor and / or the operating contractor.

In the event that issues arising are assessed to be the responsibility of the company's customer then the company will formally have to make the claim on its customer. Under the agreements with the company's related construction and operating contractors, the company is required to pay across the benefit of any successful claims against its customer to the construction and operating contractors.

In the event that issues arising are assessed not to be the responsibility of the company's customer then under the agreements with and between the company's related construction and operating contractors, the construction and operating contractors will be required to make those claims directly of each other.

Consequently the directors consider that the likelihood of losses arising from these claims to be low.

21 Transition to FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Notes to the financial statements for the year ended 31 March 2016

21 Transition to FRS 102 (continued)

Company balance sheet as at 1 April 2014

	Note	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Fixed assets				
Tangible assets		111,118	-	111,118
		111,118	-	111,118
Current assets				
Debtors	B	4,390	2,393	6,783
Cash at bank and in hand		21,394	-	21,394
		25,784	2,393	28,177
Creditors: amounts falling due within one year		(9,809)	-	(9,809)
Net current assets		15,975	2,393	18,368
Total assets less current liabilities		127,093	2,393	129,486
Creditors: amounts falling due after more than one year	A	(132,428)	(25,390)	(157,818)
Provisions for liabilities and charges	B	(3,435)	2,685	(750)
Net liabilities		(8,770)	(20,312)	(29,082)
Capital and reserves				
Called up share capital		1	-	1
Cash flow hedge reserve	A, B	-	(19,346)	(19,346)
Profit and loss account	A, B	(8,771)	(966)	(9,737)
Total shareholders' deficit		(8,770)	(20,312)	(29,082)

Notes to the financial statements for the year ended 31 March 2016

21 Transition to FRS 102 (continued)

Company balance sheet as at 31 March 2015

	Note	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Fixed assets				
Tangible assets		103,831	-	103,831
Current assets				
Debtors	B	4,015	4,764	8,779
Cash at bank and in hand		25,012	-	25,012
		29,027	4,764	33,791
Creditors: amounts falling due within one year		(12,350)	-	(12,350)
Net current assets		16,677	4,764	21,441
Total assets less current liabilities		120,508	4,764	125,272
Creditors: amounts falling due after more than one year	A	(127,336)	(35,894)	(163,230)
Provisions for liabilities and charges	B	(3,165)	2,415	(750)
Net liabilities		(9,993)	(28,715)	(38,708)
Capital and reserves				
Called up share capital		1	-	1
Cash flow hedge reserve	A, B	-	(27,749)	(27,749)
Profit and loss account	A, B	(9,994)	(966)	(10,960)
Total shareholders' deficit		(9,993)	(28,715)	(38,708)

Notes to the financial statements for the year ended 31 March 2016

21 Transition to FRS 102 (continued)

Profit and loss account for the year ended 31 March 2015

	Note	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Turnover		29,646	-	29,646
Operating expenses		(22,559)	-	(22,559)
Operating profit		7,087	-	7,087
Interest payable and similar charges		(8,580)	-	(8,580)
Loss on ordinary activities before taxation		(1,493)	-	(1,493)
Tax credit on loss on ordinary activities		270	-	270
Loss for the financial year		(1,223)	-	(1,223)

Statement of other comprehensive income for the year ended 31 March 2015

	Note	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Loss for the financial year		(1,223)	-	(1,223)
Other comprehensive income				
Cash flow hedge (change in fair value of hedging instrument)	A, B	-	(8,403)	(8,403)
Other comprehensive income for the year, net of tax		-	(8,403)	(8,403)
Total comprehensive income for the year		(1,223)	(8,403)	(9,626)

A Derivative financial instruments

Under existing UK GAAP the fair value of derivatives are not recognised in the financial statements merely disclosed. Under FRS 102 the fair value of all derivatives are recognised in the financial statements. The company has recognised a fair value liability on its interest rate swaps of £25,390,000 as at 1 April 2014, together with a fair value liability of £35,894,000 as at 31 March 2015.

These derivatives are designated as a hedge against the company's interest borrowings and the movement in the fair value liability of £10,504,000 has been recognised within other comprehensive income as the hedge was 100% effective in the year ended 31 March 2015.

The fair value liability of £25,390,000 and £35,894,000 has been recognised in reserves as follows:

- 1 April 2014 - £1,207,000 as a debit to the profit and loss account, being the inefficient element of the hedge with the balance of £24,183,000, being the effective element of the hedge, in the cash flow hedge reserve; and
- 31 March 2015 - £1,207,000 as a debit to the profit and loss account, being the inefficient element of the hedge with the balance of £34,687,000, being the effective element of the hedge, in the cash flow hedge reserve.

Notes to the financial statements for the year ended 31 March 2016**21 Transition to FRS 102 (continued)****B Deferred taxation**

The company's interest rate swaps give rise to a deferred tax asset of £5,078,000 as at 1 April 2014 and £7,179,000 as at 31 March 2015. The movement in the deferred tax liability of £2,101,000 has been recognised within other comprehensive.

The deferred tax asset of £5,078,000 and £7,179,000 has been recognised in reserves as follows:

- 1 April 2014 - £241,000 as a credit to the profit and loss account, being the deferred tax on the inefficient element of the hedge with the balance of £4,837,000, being the deferred tax on the effective element of the hedge, in the cash flow hedge reserve; and
- 31 March 2015 - £241,000 as a credit to the profit and loss account, being the deferred tax on the inefficient element of the hedge with the balance of £6,937,000, being the deferred tax on the effective element of the hedge, in the cash flow hedge reserve.

As a result of the change in deferred tax, an amount of £2,685,000 as at 1 April 2014 (£2,415,000 as at 31 March 2015) has been reclassified from provisions for liabilities and charges to deferred tax assets.

Optional exemptions

The company has used the option exemption and has therefore not applied paragraphs 34.12I to 34.16A to service concession arrangements that were entered into before the date of transition to this FRS. Such service concession arrangements shall continue to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.