

Glen Water Limited
Annual report
for the year ended 31 March 2017



Glen Water Limited

Annual report for the year ended 31 March 2017

Content

| | Pages |
|---|--------------|
| Directors and advisers | 1 |
| Strategic report | 2 |
| Directors' report | 3 - 5 |
| Independent auditors' report to the members of Glen Water Limited | 6 - 7 |
| Profit and loss account | 8 |
| Statement of comprehensive income | 8 |
| Balance sheet | 9 |
| Statement of changes in equity | 10 |
| Cash flow statement | 11 |
| Notes to the financial statements | 12 - 25 |

Directors and advisers

Directors

R Bailey (resigned 7 November 2016 and appointed 11 August 2017)

N Paterson

C Garrett (resigned 1 January 2018)

G Whalley (resigned 11 August 2017)

A Travis (appointed 7 November 2016)

S Patton (appointed 1 January 2018)

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 2017

The directors present their strategic report on the company for the year ended 31 March 2017.

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 before taxation in the year of £1,885,000 (2016: loss of £589,000) on turnover of £26,063,000 (2016: £28,933,000).

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 2017 was an inflow of £90,000 (2016: outflow of £774,000).

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 13 March 2018 and signed on its behalf.



A Travis
Director

Directors' report for the year ended 31 March 2017

The directors present their report and the audited financial statements of the company for the year ended 31 March 2017.

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 £1,492,000 during the year (2016: loss of £346,000). The directors do not recommend the payment of a final dividend (2016: £nil)

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 2027. However, the company is cash generative and is forecast to remain cash positive over that period.

The company rely on funding made available under a facility agreement with a syndicate of lenders. On 19 October 2015, and on 22 June 2016 and 23 December 2016 the company received correspondence from the agent to the lenders (the "Agent") regarding an event of default under this agreement. The event of default alleged by the Agent in its letters, relates to a breach by the company of its reporting obligations and the Project Agreement with Northern Ireland Water Limited. The company disputes the Agent's assertion that there is an event of default and is currently working with the Agent to agree certain limited amendments to the current facilities agreement. The Agent has not issued any notification of acceleration of debt and there is no indication of acceleration, based on discussions with and correspondence from the Agent. The assertion that there is an event of default is a matter of judgement. Based on the discussions with the Agent the company expects the matter to be resolved shortly with a mutually acceptable outcome to both parties and the directors have a reasonable expectation that the company will be able to continue as a going concern. Accordingly, the company financial statements have been prepared on a going concern basis.

An event of default (if proven) gives the Agent the right to accelerate repayment and under FRS 102 this would mean the debt being shown as repayable on demand as the company would not be able to unconditionally defer payment. Whilst the company continues to contest whether an event of default has occurred the directors have taken the view that while this is in dispute, it is appropriate to treat the debt as repayable on demand and have therefore classified it within 'Creditors: amounts falling due within one year'. Were the Agent to demand accelerated repayment, the company would not be able to make this repayment and as such would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

The financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

Political contributions

The company made no political contributions during the year (2016: £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:

R Bailey (appointed 27 September 2017)

N Paterson

C Garrett

G Whalley (resigned 27 November 2017)

A Travis (appointed 7 November 2016)

Directors' report for the year ended 31 March 2017 (continued)

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.

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 in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors 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.

Directors' report for the year ended 31 March 2017 (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 13 March 2018

A handwritten signature in black ink, appearing to be 'A Travis', written over a horizontal line.

A Travis
Director

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 2017 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 Company's Act 2006

Emphasis of matter - Going concern

In forming our opinion on the company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the company's ability to continue as a going concern. The company is currently in discussions following receipt of correspondence from the Bank of Ireland alleging an event of default. This is being disputed, but if proven would mean the bank has a right to accelerate repayment of the debt. Were repayment to be accelerated, the company would not be able to make the repayment and would not be a going concern. These conditions, along with the other matters explained in note 3 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The company financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

What we have audited

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

- the balance sheet as at 31 March 2017;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in equity for the year ended; 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 Company's 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 addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Company's 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.

Independent auditors' report to the members of Glen Water Limited

Directors' remuneration

Under the Company's 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.

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 in respect of these financial statements 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.


Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Belfast

13 March 2018

Profit and loss account for the year ended 31 March 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--|-------|----------------|---------------|
| Turnover | 5 | 26,063 | 28,933 |
| Operating expenses | 6 | (19,708) | (21,108) |
| Operating profit | 7 | 6,355 | 7,825 |
| Interest payable and similar charges (net) | 8 | (8,240) | (8,414) |
| Loss before taxation | | (1,885) | (589) |
| Tax credit on loss | 11 | 393 | 243 |
| Loss for the financial year | | (1,492) | (346) |

All amounts above relate to continuing operations of the company.

Statement of other comprehensive income for the year ended 31 March 2017

| | 2017 £'000 | 2016 £'000 |
|--|----------------|---------------|
| Loss for the financial year | (1,492) | (346) |
| Other comprehensive income | | |
| Fair value gain on derivatives | 1,312 | 541 |
| Deferred tax charge on fair value gain on derivatives | (562) | (816) |
| Other comprehensive income for the year, net of tax | 750 | (275) |
| Total comprehensive income for the year | (742) | (621) |

Glen Water Limited

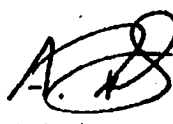
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Balance sheet as at 31 March 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|-------|---------------|---------------|
| Fixed assets | | | |
| Tangible assets | 12 | 93,156 | 97,568 |
| Current assets | | | |
| Debtors | 13 | 8,659 | 9,566 |
| Cash at bank and in hand | | 24,328 | 24,238 |
| | | 32,987 | 33,804 |
| Creditors: amounts falling due within one year | 14 | (115,494) | (10,453) |
| Net current assets | | (82,507) | 23,351 |
| Total assets less current liabilities | | 10,649 | 120,919 |
| Creditors: amounts falling due after more than one year | 15 | (49,970) | (159,498) |
| Provisions for liabilities | 16 | (750) | (750) |
| Net liabilities | | (40,071) | (39,329) |
| Capital and reserves | | | |
| Called up share capital | 17 | 1 | 1 |
| Cash flow hedge reserve | | (27,274) | (28,024) |
| Profit and loss account | | (12,798) | (11,306) |
| Total shareholders' deficit | | (40,071) | (39,329) |

The financial statements on pages 8 to 25 were approved by the Board of directors on and were signed on its behalf on 13 March 2018 by:


S Patton
Director


A Travis
Director

The notes on pages 12 to 25 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 March 2017

| | 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 | | (10,960) | (38,708) |
| | | (27,749) | | |
| 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) |

| | Called-up share capital £'000 | Cash flow hedge reserve £'000 | Profit and loss account £'000 | Total Shareholders' deficit £'000 |
|---|--|--|--|--|
| Balance as at 1 April 2016 | 1 | | (11,306) | (39,329) |
| | | (28,024) | | |
| Loss for the financial year | - | - | (1,492) | (1,492) |
| Other comprehensive income, net of tax | | 750 | - | 750 |
| Total comprehensive expense for the year | - | 750 | (1,492) | (742) |
| Balance as at 31 March 2017 | 1 | (27,274) | (12,798) | (40,071) |

Cash flow statement for the year ended 31 March 2017

| | Note | 2017 £'000 | 2016 £'000 |
|---|------|-----------------|-----------------|
| Net cash from operation activities | 18 | 14,725 | 12,331 |
| Tax paid | | (19) | - |
| Net cash generated from operating activities | | 14,706 | 12,331 |
| Cash flow from investing activities | | | |
| Purchase of tangible fixed assets | | (2,909) | (1,196) |
| Net cash used in investing activities | | (2,909) | (1,196) |
| Cash flow from financing activities | | | |
| Repayment of bank loans and subordinated loan notes | | (4,857) | (4,789) |
| Interest received | | 129 | 151 |
| Interest paid | | (6,979) | (7,271) |
| Net cash used in financing activities | | (11,707) | (11,909) |
| Increase/(decrease) in cash in the year | | 90 | (774) |
| Cash and cash equivalents at the beginning of the year | | 24,238 | 25,012 |
| Cash and cash equivalents at the end of the year | | 24,328 | 24,238 |

Notes to the financial statements for the year ended 31 March 2017

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.

Basis of preparation

These 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 2027. However, the company is cash generative and is forecast to remain cash positive over that period.

The company rely on funding made available under a facility agreement with a syndicate of lenders. On 19 October 2015, and on 22 June 2016 and 23 December 2016 the company received correspondence from the agent to the lenders (the "Agent") regarding an event of default under this agreement. The event of default alleged by the Agent in its letters, relates to a breach by the company of its reporting obligations and the Project Agreement with Northern Ireland Water Limited. The company disputes the Agent's assertion that there is an event of default and is currently working with the Agent to agree certain limited amendments to the current facilities agreement. The Agent has not issued any notification of acceleration of debt and there is no indication of acceleration, based on discussions with and correspondence from the Agent. The assertion that there is an event of default is a matter of judgement. Based on the discussions with the Agent the company expects the matter to be resolved shortly with a mutually acceptable outcome to both parties and the directors have a reasonable expectation that the company will be able to continue as a going concern. Accordingly, the company financial statements have been prepared on a going concern basis.

An event of default (if proven) gives the Agent the right to accelerate repayment and under FRS 102 this would mean the debt being shown as repayable on demand as the company would not be able to unconditionally defer payment. Whilst the company continues to contest whether an event of default has occurred the directors have taken the view that while this is in dispute, it is appropriate to treat the debt as repayable on demand and have therefore classified it within 'Creditors: amounts falling due within one year'. Were the Agent to demand accelerated repayment, the company would not be able to make this repayment and as such would not be a going concern. As such, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

The financial statements do not contain the adjustments that would arise if the company were unable to continue as a going concern.

Notes to the financial statements for the year ended 31 March 2017**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 2017**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 2017**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 2017

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 and 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 March 2017**3 Accounting policies (continued)****Financial instruments (continued)***(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 and 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

The group has adopted the going concern basis in preparing the financial statements as described in note 3.

Critical judgements in applying the company's and the company's accounting policies

There were no critical judgements in applying the company's and 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 2017

6 Operating expenses

| | 2017 | 2016 |
|-------------------------|--------|--------|
| | £'000 | £'000 |
| Cost of sales | 19,640 | 21,038 |
| Administrative expenses | 68 | 70 |
| | 19,708 | 21,108 |

7 Operating profit

| | 2017 | 2016 |
|--|-------|-------|
| | £'000 | £'000 |
| Operating profit is stated after charging: | | |
| Depreciation of tangible fixed assets | 7,551 | 7,459 |
| Fees payable to the company's auditors in respect of the audit of the group's financial statements | 15 | 12 |
| Fees payable to the company's auditors in respect of taxation services | 30 | 23 |

8 Interest payable and similar charges (net)

| | 2017 | 2016 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Interest payable on bank loans | 6,914 | 7,219 |
| Interest payable on unsecured loan notes | 1,364 | 1,253 |
| Fair value loss on derivatives | 41 | 42 |
| Other finance costs | 50 | 50 |
| Total interest payable | 8,369 | 8,564 |
| Interest receivable on bank deposits | (129) | (150) |
| Net interest payable | 8,240 | 8,414 |

9 Employee information

The company did not employ any individuals during the year (2016: None).

10 Directors' emoluments

The directors did not receive any remuneration in respect of their services to the company during the year (2016: £nil).

Notes to the financial statements for the year ended 31 March 2017

11 Tax credit on loss

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Current tax | | |
| UK corporation tax | 26 | 19 |
| Total current tax charge | 26 | 19 |
| Deferred tax: | | |
| Origination and reversal of timing differences | (259) | (20) |
| Change in tax rates | (160) | (242) |
| Total deferred tax credit | (419) | (262) |
| Tax credit on loss | (393) | (243) |

The tax assessed for the year differs from the standard rate of Corporation Tax in the UK of 20% (2016: 20%). The differences are explained below:

| | 2017 £'000 | 2016 £'000 |
|--|----------------|---------------|
| Loss before taxation | (1,885) | (589) |
| Loss before taxation multiplied by standard rate in the UK 20% (2016: 20%) | (377) | (118) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 144 | 117 |
| Change in tax rates | (160) | (242) |
| Tax credit on loss | (393) | (243) |

Notes to the financial statements for the year ended 31 March 2017

12 Tangible assets

| | Infrastructure assets £'000 | Building & concrete structures £'000 | Pumping equipment £'000 | Other equipment £'000 | Total £'000 |
|---------------------------------|-----------------------------------|---|-------------------------------|-----------------------------|----------------|
| Cost | | | | | |
| At 1 April 2016 | 17,395 | 50,346 | 70,697 | 10,866 | 149,304 |
| Additions | - | - | 3,306 | - | 3,306 |
| Disposals | - | - | (397) | - | (397) |
| At 31 March 2017 | 17,395 | 50,346 | 73,606 | 10,866 | 152,213 |
| Accumulated depreciation | | | | | |
| At 1 April 2016 | 5,337 | 15,679 | 23,128 | 7,592 | 51,736 |
| Charge for the year | 717 | 2,191 | 3,740 | 903 | 7,551 |
| Disposals | - | - | (230) | - | (230) |
| At 31 March 2017 | 6,054 | 17,870 | 26,638 | 8,495 | 59,057 |
| Net book amount | | | | | |
| At 31 March 2017 | 11,341 | 32,476 | 46,968 | 2,371 | 93,156 |
| At 31 March 2016 | 12,058 | 34,667 | 47,569 | 3,274 | 97,568 |

Interest and other finance costs capitalised as at 31 March 2017 amount to £6,904,000 (2016: £7,400,000), which is stated after accumulated depreciation of those capitalised costs of £3,724,000 (2016: £3,228,000).

Tangible assets with a net book amount of £93,156,000 (2016: £97,568,000) is pledged as security against the company's borrowings.

13 Debtors

| | 2017 £'000 | 2016 £'000 |
|---------------------------------|---------------|---------------|
| Trade debtors | 4,556 | 4,354 |
| Amounts owed by related parties | - | 788 |
| Deferred tax assets | 4,068 | 4,211 |
| Other debtors | 35 | 213 |
| | 8,659 | 9,566 |

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

Notes to the financial statements for the year ended 31 March 2017

13 Debtors (continued)

| | Provision for deferred tax £'000 |
|---|--|
| At 1 April 2016 | 4,211 |
| Credited to the profit and loss account | 419 |
| Charged to other comprehensive income | (562) |
| At 31 March 2017 | 4,068 |

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Deferred tax asset is as follows: | | |
| Tax losses | 4,355 | 6,596 |
| Derivative financial instruments | 5,801 | 6,371 |
| Excess of depreciation over capital allowances | (4,914) | (7,424) |
| Timing differences in respect of capitalised interest | (1,174) | (1,332) |
| | 4,068 | 4,211 |

The company has tax losses of approximately £25,618,000 (2016: £36,130,000) available for offset against future trading profits. The company has a deferred tax asset of approximately £4,355,000 (2016: £6,596,000) arising from these tax losses.

The amount of deferred tax assets expected to reverse after more than 12 months is £4,068,000 (2016: £4,211,000).

14 Creditors: amounts falling due within one year

| | 2017 £'000 | 2016 £'000 |
|---------------------------------|----------------|---------------|
| Bank loan (note 16) | 109,597 | 4,808 |
| Trade creditors | 58 | 46 |
| Amounts owed to related parties | 3,413 | 2,593 |
| Other creditors | 26 | 9 |
| Accruals and deferred income | 2,400 | 2,568 |
| | 115,494 | 10,453 |

The bank loan is secured by a fixed and floating charge over the assets of the group and by way of guarantees given by the parent undertakings of the corporate shareholders. The loans are shown as repayable on demand (refer to the disclosures in note 3 on going concern). The loan carries interest at a rate of LIBOR plus 0.95% to 1.15%.

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

Notes to the financial statements for the year ended 31 March 2017

15 Creditors: amounts falling due after more than one year

| | 2017 £'000 | 2016 £'000 |
|----------------------------------|---------------|----------------|
| Bank loan | - | 109,597 |
| Unsecured loan notes due 2031 | 15,846 | 14,506 |
| Derivative financial instruments | 34,124 | 35,395 |
| | 49,970 | 159,498 |

The bank loan is secured by a fixed and floating charge over the assets of the group and by way of guarantees given by the parent undertakings of the corporate shareholders. The loans are shown as repayable on demand (refer to the disclosures in note 3 on going concern). 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:

| | 2017 £'000 | 2016 £'000 |
|----------------------------|----------------|----------------|
| Within one year | 109,591 | 4,808 |
| Between one and two years | - | 5,272 |
| Between two and five years | - | 18,695 |
| In more than five years | 15,846 | 100,136 |
| | 125,437 | 128,911 |

The bank loan and unsecured loan notes are stated net of unamortised issue costs of £734,553 (2016: £784,000). 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 2017 the fair value of the company's interest swap agreements are a liability of £34,124,000 (2016: £35,395,000).

16 Provisions for liabilities

| | Decommissioning provision £'000 |
|---|---------------------------------------|
| At 1 April 2016 | (750) |
| Credited to the profit and loss account | - |
| At 31 March 2017 | (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 2017

17 Called up share capital

| | 2017 | 2016 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Allotted and fully paid | | |
| 1,000 (2016: 1,000) ordinary shares of £1 each | 1 | 1 |

18 Cash flow from operating activities

| | 2017 | 2016 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Loss for the financial year | (1,492) | (346) |
| Tax credit on loss on ordinary activities | (393) | (150) |
| Movement in fair value of hedging instruments | 41 | 42 |
| Interest payable and similar charges (net) | 8,199 | 8,372 |
| Operating profit | 6,355 | 7,825 |
| Depreciation of tangible fixed assets | 7,321 | 7,459 |
| Movement in debtors | 764 | (1,340) |
| Movement in creditors | 285 | (1,613) |
| Cash flow from operating activities | 14,725 | 12,331 |

Notes to the financial statements for the year ended 31 March 2017

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 2017 £'000 | Amount of transaction 2016 £'000 |
|--|-----------------------|---|---|
| Portfolio Solutions (Northern Ireland) Limited (Shareholder) | Operating charges | (99) | (89) |
| | Loan notes repayments | 669 | 611 |
| | Interest charged | (682) | (627) |
| Veolia Water Outsourcing Limited (Shareholder) | Capital expenditure | (2,909) | (1,195) |
| | Operating charges | (10,970) | (10,677) |
| | Loan notes repayments | 669 | - |
| | Interest charged | (682) | (627) |
| Laing O'Rourke/Veolia Water joint venture entity (Common interest) | Cost of sales | (500) | (1,910) |

Balances with related parties were as follows:

| Name of related party | Nature of transaction | Amount owed by/(to) related party 2017 £'000 | Amount owed by/(to) related party 2016 £'000 |
|---|-----------------------------------|--|--|
| Portfolio Solutions (Northern Ireland) Limited | Shareholder loans and interest | (8,098) | (7,416) |
| | Other balances | 57 | 59 |
| Veolia Water Outsourcing Limited | Shareholder loans and interest | (8,098) | (7,416) |
| | Other balances | (3,220) | (1,864) |
| Laing O'Rourke/Veolia Water joint venture entity | Other Balances | (250) | - |

There is no ultimate controlling party. Portfolio Solutions (Northern Ireland) Limited and Veolia Water Outsourcing Limited are 50% shareholders in Glen Water (Holdings) Limited.

Notes to the financial statements for the year ended 31 March 2017**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 £27.88 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.