

Company Registration No. SC245928 (Scotland)

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017



SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

COMPANY INFORMATION

Directors	J Linney A Richford C J Tanner M A Cowan (Appointed 28 July 2016)
Secretary	P Griffin-Smith
Company number	SC245928
Registered office	16 Charlotte Square Edinburgh Scotland EH2 4DF
Auditor	Deloitte LLP Statutory Auditor London United Kingdom EC4A 3BZ
Bankers	NIBC Bank NV 7 Bishopsgate London EC2N 3BX

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

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SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The Directors present the Strategic Report for the year ended 31 March 2017.

Business review

The Company is a holding company for its subsidiary, Shanks Dumfries And Galloway Limited. On 26 November 2004 the Group entered into a 25 year Private Finance Initiative (PFI) contract with Dumfries and Galloway Council for the provision of waste management services. As part of this contract the Group was committed to building new waste management facilities, which it will operate until the end of the contract, when the facilities will revert to council ownership. Shanks Waste Management Limited holds sub-contracts for operation of the facilities and for the disposal of waste.

Principal risks and uncertainties

The Group's activities expose it to a number of financial risks including liquidity risk, interest rate risk and credit risk. These risks are further explained in the Directors' Report.

Future Developments

The Directors are not aware, at the date of this report, of any major changes in the Group's activities in the next year.

Key performance indicators

The principal key performance indicator for the Group is the volume of waste processed during the year and subsequent diversion of waste from landfill disposal. For the year ended 31 March 2017, the Group processed 87,058 tonnes (2016: 86,242 tonnes) and diverted 52,202 tonnes or 60% from landfill disposal (2016: 58,035 tonnes or 67% from landfill disposal).

On behalf of the board



J Linney
Director

28 September 2017

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The Directors present their annual report and audited financial statements for the year ended 31 March 2017.

Principal activities

The principal activity of the Group continued to be the provision of waste management services, as part of the PFI contract with Dumfries and Galloway Council.

Directors

The Directors who held office during the year and up to the date of signature of the financial statements was as follows:

J Linney

A Brookes

(Resigned 27 July 2016)

C J Tanner

A Richford

J Griffiths

(Resigned 29 July 2016)

M A Cowan

(Appointed 28 July 2016)

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid. The Directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions

The Group has made qualifying third party indemnity provisions for the benefit of its Directors during the year. These provisions remain in force at the reporting date.

Financial risk management objectives and policies

Liquidity risk

The Group manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the Group has sufficient liquid resources to meet the operating needs of the business. At the start of the PFI contract, the Group negotiated debt facilities with an external party to ensure that the Group has sufficient funds over the life of the PFI concession.

Interest rate risk

The Group's borrowings expose it to cash flow risk primarily due to the financial risks of changes in interest rates. The Group uses interest rate derivatives to manage the risk and reduce its exposure to changes in interest rates.

Credit risk

The Group's principal financial assets are cash, financial assets and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables which are with one counterparty, although in the opinion of the board of directors this risk is limited as the receivables are with a local government authority.

Future developments

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 1 and form part of this report by cross-reference.

Auditor

The auditor, Deloitte LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

DIRECTOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

Statement of disclosure to auditor

Each of the Directors in office at the date of approval of this annual report confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and
- the Director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board



J Linney

Director

28 September 2017

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

DIRECTOR'S RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 Group and Company, and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

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

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

We have audited the financial statements of Shanks Dumfries and Galloway Holdings Limited for the year ended 31 March 2017 which comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes on pages 13 - 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Respective responsibilities of directors and auditor

As explained more fully in the Director's Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 Group's and the parent 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. 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 and of the group's profit 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.

Opinion on other matter prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Director's Report.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

Matters on which we are required to report by exception

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

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



28 September 2017

William Brooks FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London

United Kingdom

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Turnover	3	10,726	10,709
Cost of sales		(9,784)	(9,720)
Gross profit		942	989
Administrative expenses		(544)	(544)
Operating profit		398	445
Interest receivable and similar income	7	1,716	1,735
Interest payable and similar charges	8	(1,671)	(1,745)
Profit before taxation		443	435
Taxation	9	(6)	44
Profit for the financial year		437	479
Other comprehensive income			
Fair value gain arising on cash flow hedges in the year		486	284
Deferred tax relating to other comprehensive income	9	(122)	(135)
Total comprehensive income for the year		801	628

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

GROUP BALANCE SHEET

AS AT 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Current assets			
Debtors falling due after one year	13	22,848	23,872
Debtors falling due within one year	13	3,635	2,073
Cash at bank and in hand		2,855	3,055
		<u>29,338</u>	<u>29,000</u>
Creditors: amounts falling due within one year	14	(4,442)	(3,083)
Net current assets		24,896	25,917
Creditors: amounts falling due after more than one year	15	(23,349)	(25,374)
Provisions for liabilities	17	(1,592)	(1,389)
Net liabilities		<u>(45)</u>	<u>(846)</u>
Capital and reserves			
Called up share capital	18	1	1
Hedging reserve	18	(2,859)	(3,223)
Profit and loss reserves	18	2,813	2,376
Total deficit		<u>(45)</u>	<u>(846)</u>

The financial statements were approved and signed by the directors and authorised for issue on 28 September 2017


J Linney
Director

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 31 MARCH 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Investments	10	1	1
Current assets			
Debtors falling due after one year	13	3,413	3,413
Debtors falling due within one year	13	205	205
		3,618	3,618
Creditors: amounts falling due within one year	14	(205)	(205)
Net current assets		3,413	3,413
Total assets less current liabilities		3,414	3,414
Creditors: amounts falling due after more than one year	15	(3,413)	(3,413)
Net assets		1	1
Capital and reserves			
Called up share capital	18	1	1
Total equity		1	1

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £0 (2016: £0).

The financial statements were approved and signed by the directors and authorised for issue on 28 September 2017


J Linney
Director

Company Registration No. SC245928

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Share capital	Hedging reserve	Profit and loss reserves	Total
	£'000	£'000	£'000	£'000
Balance at 1 April 2015	1	(3,372)	1,897	(1,474)
Year ended 31 March 2016:				
Profit for the year	-	-	479	479
Other comprehensive income:				
Cash flow hedge gains arising in the year	-	284	-	284
Tax relating to other comprehensive loss	-	(135)	-	(135)
Total comprehensive income for the year	-	149	479	628
Balance at 31 March 2016	1	(3,223)	2,376	(846)
Year ended 31 March 2017:				
Profit for the year	-	-	437	437
Other comprehensive income:				
Cash flow hedge gains arising in the year	-	486	-	486
Tax relating to other comprehensive income	-	(122)	-	(122)
Total comprehensive income for the year	-	364	437	801
Balance at 31 March 2017	1	(2,859)	2,813	(45)

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 April 2015	1	-	1
Period ended 31 March 2016:			
Profit and total comprehensive income for the year	-	-	-
Balance at 31 March 2016	1	-	1
Period ended 31 March 2017:			
Profit and total comprehensive income for the year	-	-	-
Balance at 31 March 2017	1	-	1

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

		2017		2016	
	Notes	£'000	£'000	£'000	£'000
Cash flows from operating activities					
Cash generated from operations	22		1,074		544
Income taxes (paid)/refunded			(2)		135
Net cash inflow from operating activities			1,072		679
Investing activities					
Interest received		8		13	
Interest received on financial asset		1,708		1,722	
Net cash generated from investing activities			1,716		1,735
Financing activities					
Interest paid		(1,593)		(1,666)	
Repayment of bank loans		(1,395)		(1,142)	
Net cash used in financing activities			(2,988)		(2,808)
Net decrease in cash and cash equivalents			(200)		(394)
Cash and cash equivalents at beginning of year			3,055		3,449
Cash and cash equivalents at end of year			2,855		3,055

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

Company information

Shanks Dumfries And Galloway Holdings Limited ("the Company") is a limited company domiciled and incorporated in Scotland. The registered office is 16 Charlotte Square, Edinburgh, Scotland, EH2 4DF.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in pound sterling, which is the functional currency of the Group. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

As permitted by s408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £0 (2016: £0).

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 March each year.

1.2 Going concern

The Company exists to hold investments in its subsidiary that provides services under a private finance agreement. The subsidiary is set up as a SPV under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made.

The Group is in a net liabilities position as at 31 March 2017 due to the fair value of the interest rate swaps. The Directors have reviewed the Group's forecasts and projections, taking into account future cash requirements and forecast receipts, which show that the Group can continue to meet its debts as they fall due.

The Directors therefore, at the time of approving the financial statements, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Income received in respect of the service concession is allocated between revenue and capital repayment of, and interest income on, the PFI financial asset using the effective interest rate method. Service revenue is recognised as a margin on non-pass-through operating costs solely, with a zero margin being recognised on lifecycle and other SPV costs.

Pass-through revenue relates to costs incurred by the operator in carrying out its obligations under the service contract, which are charged to Dumfries and Galloway Council with no margin applied by the SPV.

1.4 Fixed asset investments

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

(Continued)

Entities in which the group has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

1.5 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1.6 Financial instruments

The Group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

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 recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method 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. Financial assets classified as receivable within one year are not amortised.

Loans and receivables

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Service Concession

The Group has a subsidiary which is a special purpose entity that has been established to provide services under a private finance agreement with Dumfries and Galloway Council (the Council). Under the terms of this agreement, the Council (as grantor) controls the services to be provided by the Company over the contract term. Based on the contractual arrangements the Company has classified the project as a service concession arrangement, and has accounted for the principal assets of, and income streams from, the project in accordance with FRS 102, Section 34.12 Service Concession Arrangements.

Under the terms of the arrangement, the Group has the right to receive a baseline contractual payment stream for the provision of the services from or at the direction of the grantor (the Council), and as such the asset is accounted for as a financial asset. The financial asset has initially been recognised at the fair value of the consideration received, based on the fair value of the construction (or upgrade) services, plus any directly attributable transaction costs, provided in line with FRS 102.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

(Continued)

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. 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 a 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.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Finance liabilities

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, 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. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts 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 creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps, 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 hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

(Continued)

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

1.7 Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Group.

1.8 Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

The Group does not hold or issue derivative financial instruments for speculative purposes.

Hedge accounting

The Group designates certain hedging instruments, including derivatives, embedded derivatives and non-derivatives, as either fair value hedges or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item along with risk management objectives and strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income.

The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line in this item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in the profit or loss in the same line as the recognised hedged item. However when the forecast transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability concerned.

1.9 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

1 Accounting policies

(Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.10 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Hedge accounting

The Directors consider the Group to have met the criteria for hedge accounting and the Group has therefore recognised fair value movements on derivatives in effective hedging relationships through other comprehensive income as well as the deferred tax thereon.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Service concession arrangement

As disclosed in Note 1, the Group accounts for the project as a service concession arrangement. The Directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The Directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the Group's forecasts. The Directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

Valuation of derivative financial instruments

The Directors use their judgement in selecting a suitable valuation technique for derivative financial instruments. All derivative financial instruments are valued at the mark to market valuation provided by the derivative counterparty. In these cases, the Group uses valuation techniques to assess the reasonableness of the valuation provided by the derivative counterparty. These techniques use a discounted cash flow analysis based on market observable inputs derived from similar instruments in similar and active markets. The fair value of derivative financial instruments at the balance sheet date was a liability of £3,445,000 (2016: £3,931,000 liability). The Directors do not consider the impact of own credit risk to be material.

Aftercare provision

The Group has an aftercare provision resulting from its obligation at the end of the concession with regard to post closure costs of landfill sites, including such items as monitoring, gas and leachate management and licensing. Amounts are estimated by management based on current best practice and technology available.

Details of the provision are set out in Note 17.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

3 Turnover and other revenue

An analysis of the Group's turnover is as follows:

	2017 £'000	2016 £'000
Turnover		
Service fee income	7,307	7,480
Pass-through income	3,419	3,229
	<u>10,726</u>	<u>10,709</u>

Other significant revenue

Interest income	<u>1,716</u>	<u>1,735</u>
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Turnover analysed by geographical market

	2017 £'000	2016 £'000
United Kingdom	<u>10,726</u>	<u>10,709</u>

4 Auditor's remuneration

	2017 £'000	2016 £'000
Fees payable to the Company's auditor and associates:		

For audit services

Audit of the financial statements of the Group and Company	<u>19</u>	<u>23</u>
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5 Employees

The Group had no employees during the current or prior year.

6 Director's remuneration

No Directors received any remuneration for services to the Group during the current or prior year.

7 Interest receivable and similar income

	2017 £'000	2016 £'000
Interest income		
Interest on bank deposits	8	13
Other interest income	1,708	1,722
	<u>1,716</u>	<u>1,735</u>
Total interest income		

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

8 Interest payable and similar charges

	2017 £'000	2016 £'000
Interest on financial liabilities measured at amortised cost:		
Interest on bank overdrafts and loans	1,183	1,255
Interest payable to group undertakings	410	411
Total interest expense	1,593	1,666
Other finance costs:		
Unwinding of discount on provisions	78	79
Total finance costs	1,671	1,745

9 Taxation

	2017 £'000	2016 £'000
Current tax		
Adjustments in respect of prior periods	2	2
Total current tax	2	2
Origination and reversal of timing differences	92	84
Changes in tax rates	(88)	(167)
Adjustment in respect of prior periods	-	37
Total deferred tax	4	(46)
Total tax charge/ (credit)	6	(44)

For the year ended 31 March 2017, the UK rate of 20% is applied.

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective 1 April 2017 and to 18% effective 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provided a further reduction in the main rate of corporation tax to 17% effective 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

9 Taxation

(Continued)

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

	2017 £'000	2016 £'000
Profit before taxation	443	435
Expected tax charge based on a corporation tax rate of 20.00% (2016: 20%)	89	87
Tax effect of expenses that are not deductible in determining taxable profit	3	(3)
Adjustments in respect of prior years	2	2
Effect of change in corporation tax rate	(88)	(167)
Deferred tax adjustments in respect of prior years	-	37
Tax income/(expense) for the year	6	(44)

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2017 £'000	2016 £'000
Deferred tax arising on:		
Deferred tax on interest rate swap fair value	40	51
Effect of change in tax rate on opening liability	82	84
Total tax recognised in other comprehensive income	122	135

10 Fixed asset investments

	Notes	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Investments in subsidiaries	11	-	-	1	1

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

11 Subsidiaries

Details of the Company's subsidiary at 31 March 2017 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct
Shanks Dumfries and Galloway Limited	16 Charlotte Square, Edinburgh, Scotland, EH2 4DF	Provision of waste management services in Scotland	Ordinary Shares	100.00

12 Financial instruments

	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Carrying amount of financial assets				
Debt instruments measured at amortised cost	23,826	27,461	3,618	3,618
Measured at undiscounted amount receivable	1,150	1,331	-	-
Equity instruments measured at cost less impairment	-	-	1	1
Carrying amount of financial liabilities				
Measured at fair value and designated in an effective hedging relationship	3,445	3,931	-	-
Measured at amortised cost	21,442	19,495	3,618	3,618
Measured at undiscounted amount payable	2,091	1,054	-	-

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

13 Debtors

	Group 2017	2016	Company 2017	2016
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	1,100	1,331	-	-
Amounts due from subsidiary undertakings	-	-	205	205
Financial asset	978	534	-	-
Other debtors	50	-	-	-
Prepayments and accrued income	1,507	208	-	-
	<u>3,635</u>	<u>2,073</u>	<u>205</u>	<u>205</u>
Amounts falling due after more than one year:				
Amounts due from subsidiary undertakings	-	-	3,413	3,413
Financial asset	22,848	23,872	-	-
	<u>22,848</u>	<u>23,872</u>	<u>-</u>	<u>-</u>
Total debtors	<u>26,483</u>	<u>25,945</u>	<u>3,618</u>	<u>3,618</u>

Amounts due from subsidiary undertakings

At the year end, the Company was owed £3,412,500 (2016: £3,412,500) in subordinated debt loans from its subsidiary, Shanks Dumfries And Galloway Limited. The subordinated debt is unsecured and is subject to interest at 12.00%. The principal amount will be repayable at the end of the concession in 2028.

14 Creditors: amounts falling due within one year

		Group 2017	2016	Company 2017	2016
	Notes	£'000	£'000	£'000	£'000
Bank loans and overdrafts	16	1,539	1,395	-	-
Trade creditors		2,091	1,010	-	-
Amounts due to parent undertakings	16	205	205	205	205
Corporation tax payable		-	2	-	-
Other taxation		-	44	-	-
Accruals and deferred income		607	427	-	-
		<u>4,442</u>	<u>3,083</u>	<u>205</u>	<u>205</u>

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

15 Creditors: amounts falling due after more than one year

	Notes	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Bank loans and overdrafts	16	16,491	18,030	-	-
Amounts due to parent undertakings	16	3,413	3,413	3,413	3,413
Derivative financial instruments		3,445	3,931	-	-
		<u>23,349</u>	<u>25,374</u>	<u>3,413</u>	<u>3,413</u>

Derivative financial instruments

In accordance with the terms of its credit agreement and as part of its interest rate management, the Group entered into an interest rate swap maturing in March 2025. Under the interest rate swap, the Group receives interest on a variable basis and pays interest at a fixed rate of 5.05%.

The fair value of the derivative financial instrument comprises the fair value of the interest rate swap designated in an effective hedging relationship. The interest rate swap contract was designated as a cash flow hedge of variable interest rate risk of the Group's floating rate borrowings. The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swap. The hedge was highly effective in the current and prior period and 100% of the change in fair value of the interest rate swap of £486,000 (2016 – £284,000) was recognised in other comprehensive income in the period.

Amounts included above which fall due after five years are as follows:

Payable by instalments	7,908	10,784	-	-
Payable other than by instalments	3,413	3,413	3,413	3,413
	<u>11,321</u>	<u>14,197</u>	<u>3,413</u>	<u>3,413</u>

16 Loans and overdrafts

	Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Bank loans	18,030	19,425	-	-
Loans from parent undertakings	3,413	3,413	3,413	3,413
	<u>21,443</u>	<u>22,838</u>	<u>3,413</u>	<u>3,413</u>
Payable within one year	1,539	1,395	-	-
Payable after one year	19,904	21,443	3,413	3,413

The loans are secured by a fixed and floating charge over all the assets of the Group and a charge over the shares of the Group.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

16 Loans and overdrafts

(Continued)

Bank Loans

At the year end the Group had facilities provided by NIBC Bank N.V and NordDeutsche Landesbank in order to finance the construction of the project. The loan is repayable in installments based on an agreed percentage amount of the total facilities per annum until March 2025.

Interest on the facilities is charged at rates linked to LIBOR. The Group has entered into a fixed interest rate swap to mitigate its interest rate exposure. The fixed interest rate on the facilities, including all margins, is 5.05%.

Subordinated debt loan

At the year end the Group owed £3,412,500 in loans to the immediate parent company, Shanks Dumfries And Galloway Holdings Limited. The subordinated debt is unsecured and is subject to interest at 12% per annum. The debt is repayable by 2028.

The outstanding interest at year end in relation to the subordinated debt loan was £205,000.

17 Provisions for liabilities

		Group 2017 £'000	2016 £'000	Company 2017 £'000	2016 £'000
Aftercare provision		675	597	-	-
Deferred tax liabilities	19	917	792	-	-
		<u>1,592</u>	<u>1,389</u>	<u>-</u>	<u>-</u>

Movements on provisions apart from deferred tax liabilities:

Group	£'000
At 1 April 2016	597
Unwinding of discount	78
At 31 March 2017	<u>675</u>

The aftercare provision represents post closure costs of landfill sites, including such items as monitoring, gas and leachate management and licensing. Amounts are estimated by management based on current best practice and technology available. These costs may be impacted by a number of factors including changes in legislation and improvements in technology. The dates of payments of these aftercare costs are uncertain but are anticipated to be over a period of approximately 30 years from closure of the relevant landfill site. The Group is required to provide for aftercare costs as part of the 25 year integrated waste management contract with Dumfries and Galloway Council.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

18 Share capital and other reserves

	Group and company	
	2017	2016
	£	£
Ordinary share capital		
Issued and fully paid		
200 A Ordinary shares of £1 each	200	200
800 B Ordinary shares of £1 each	800	800
	<u>1,000</u>	<u>1,000</u>

Other Reserves

The Group's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses.

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

19 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Liabilities 2017 £'000	Liabilities 2016 £'000
Group		
Accelerated capital allowances	3,320	3,547
Tax losses	(1,817)	(2,047)
Derivative financial instruments	(586)	(708)
	<u>917</u>	<u>792</u>

	Group 2017 £'000	Company 2017 £'000
Movements in the year:		
Liability at 1 April 2016	792	-
Charge to profit or loss	87	-
Charge to other comprehensive income	40	-
Effect of change in tax rate - profit or loss	(84)	-
Effect of change in tax rate - other comprehensive income	82	-
	<u>917</u>	<u>-</u>
Liability at 31 March 2017		

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

19 Deferred taxation

(Continued)

The deferred tax asset in relation to the interest rate swap liability is expected to affect profit or loss over the period to maturity of the interest rate swap.

20 Related party transactions

Transactions with related parties

During the year the Group entered into the following transactions with related parties:

	2017 £'000	2016 £'000
Group		
John Laing Environmental Assets Group (UK) Limited		
Interest payable on sub-debt	410	411
 Shanks Waste Management Limited		
Unitary gate fees and lifecycle	9,246	9,301
Management fees	75	74
	<u>9,731</u>	<u>9,786</u>

The following amounts were outstanding at the reporting end date:

	Amounts owed to related parties	
	2017 £'000	2016 £'000
Group		
John Laing Environmental Assets Group (UK) Limited	3,618	3,618
Shanks Waste Management Limited	1,325	94
	<u>4,943</u>	<u>3,712</u>

John Laing Environmental Assets Group (UK) Limited holds 80% of Shanks Dumfries And Galloway Holdings Limited. Shanks Waste Management Limited is a fellow group undertaking of Shanks PFI Investments Limited, which holds 20% of Shanks Dumfries And Galloway Holdings Limited. Shanks Waste Management Limited holds the sub-contract to operate the waste management services.

No guarantees have been given or received.

SHANKS DUMFRIES AND GALLOWAY HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

21 Controlling party

The Company is a joint venture between John Laing Environmental Assets Group (UK) Limited (80%) and Shanks PFI Investments Limited (20%) and is jointly controlled by both entities. John Laing Environmental Assets Group (UK) Limited is incorporated in England and Wales. Shanks PFI Investments Limited is incorporated and registered in England and Wales. The directors consider there to be no ultimate controlling entity.

22 Cash generated from operations	2017 £'000	2016 £'000
Profit for the year	437	479
Adjustments for:		
Income tax income / (expense) recognised in profit or loss	6	(44)
Finance costs recognised in profit or loss	1,593	1,666
Investment income recognised in profit or loss	(1,716)	(1,735)
Increase in provisions	78	79
Movements in working capital:		
(Increase)/decrease in debtors	(488)	686
Increase/(decrease) in creditors	1,164	(587)
Cash generated from operations	1,074	544