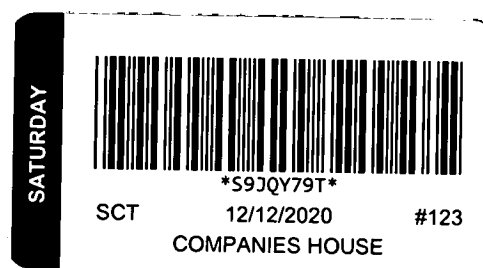


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# **SCOTTISH WATER HORIZONS HOLDINGS LIMITED REPORT AND FINANCIAL STATEMENTS**

**For the year ended  
31 March 2020**



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## Directors and Advisers

### Directors

Dame Susan Rice (Chair)  
Samantha Barber  
James Coyle  
Peter Farrer  
Iain Lanaghan  
Ken Marnoch  
Deirdre Michie OBE  
Douglas Millican  
Alan P Scott  
Matt Smith OBE, DL  
Paul Smith  
Brian Strathie (appointed 29 January 2020) (resigned 27 October 2020)

### Company Secretary

Susan Hill (resigned 4 November 2019)  
Emma Campbell (appointed 4 November 2019)

### Independent Auditor

KPMG LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

### Registered Office

Scottish Water Horizons Holdings Limited  
Castle House  
6 Castle Drive  
Dunfermline  
KY11 8GG

**Registered Company Number:** SC334620

## Strategic report

The Directors present their report together with the audited financial statements for the year ended 31 March 2020.

### Business Model

Scottish Water Horizons Holdings Limited (SWHH) is a 100% owned subsidiary of Scottish Water. The results of SWHH are consolidated into the Scottish Water group financial statements. Copies of the Scottish Water consolidated Annual Report and Accounts are available from: Scottish Water, Castle House, 6 Castle Drive, Dunfermline, KY11 8GG.

In terms of governance, Scottish Water exercises ownership responsibilities of the companies listed in note 8 to the financial statements through SWHH.

On 19 December 2018, SWHH acquired the four companies that operate four waste water treatment works (WWTW) in the North-East of Scotland which were being managed under a Private Finance Initiative (PFI) from the Kelda Group.

SWHH also takes decisions for Scottish Water in relation to appointments to the boards of its subsidiaries.

### Financial Results for the Year

The results for the year are set out in the attached financial statements. The profit after taxation in the year amounted to £5.1m (2019: £1.7m). The prior year results included the fees and other costs related to the acquisition of the companies from the Kelda Group.

Details of the financial results and associated accounting policies are set out on pages 8 to 16. The Directors recommend that no dividend be paid (2019: £nil).

None of the directors received remuneration from the Company during the year to 31 March 2020 (2019: £nil).

### Covid-19 pandemic

The global Covid-19 pandemic has had a sudden and massive impact on society and the economy in an unprecedented way. Lockdown in the UK prevented many businesses from trading and has restricted many others, presenting unprecedented challenges to businesses and the wider economy. Consequently, it is difficult to predict what the medium to long-term impact will be on the company and the wider SW group.

Since March 2020, the SW group has developed a number of financial scenarios to assess the potential range of financial impacts of the pandemic on its businesses, to ensure adequate funding is available where required to meet any shorter-term liquidity impacts. Therefore, it is appropriate for the Board of Scottish Water Horizons Holdings Limited to adopt the going concern basis in preparing these financial statements. The going concern basis confirms there will be adequate resources to remain in operation for at least one year from the date of signing the financial statements.

Signed on behalf of the Board by



Alan P Scott  
Director  
17 November 2020

## Directors' report

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' 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 prepared the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), the effective date of which was 1 January 2015.

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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## Directors' report continued

### Going Concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have performed a going concern assessment for a period of 12 months from the date of approval of these financial statements which indicates that, taking account of reasonably possible downsides, the company will have sufficient funds, to meet its liabilities as they fall due for that period.

The Covid-19 pandemic is having an impact on the Company's subsidiary, Scottish Water Business Stream Holdings Limited and Scottish Water Business Stream Limited, which has been considered as part of the Directors' going concern assessment.

Based on recent trends and the emergency funding put in place, the Directors of the subsidiary believe that the company will continue to trade and be able to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements. The Directors of the company have assessed the conclusions reached by the directors of the subsidiary and agree with their conclusion that the subsidiary continues to be a going concern.

Consequently, the Directors believe that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

### Disclosure of information to Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each 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 Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Directors' Interests

The Directors who were in office during the year and up to the date of signing the financial statements are noted on page 2. None of the Directors had any disclosable interests in the company during the period.

### Independent Auditor

In accordance with Section 485 of the Companies Act 2006, a resolution for the appointment of KPMG LLP, as auditor of the company to 31 March 2021 was passed by the board on 01 June 2016.

Signed on behalf of the Board by



Alan P Scott  
Director  
17 November 2020

## **Independent auditor's report**

### **to the Members of Scottish Water Horizons Holdings Limited**

#### **Opinion**

We have audited the financial statements of Scottish Water Horizons Holdings ("the company") for the year ended 31 March 2020 which comprise the Statement of total comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion

#### **Going Concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

#### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;

## Independent auditor's report continued

- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

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

- 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 financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

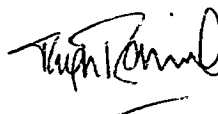
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Hugh Harvie (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Saltire Court, 20 Castle Terrace  
Edinburgh EH1 2EG  
24 November 2020





# Statement of total comprehensive income

For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Administrative expenses	3	(6.9)	(4.8)
Operating loss		(6.9)	(4.8)
Finance income	4	0.2	0.2
Dividend income from subsidiary undertaking	6	11.8	6.0
<b>Profit on ordinary activities before taxation</b>		<b>5.1</b>	<b>1.4</b>
Taxation	7	-	0.3
<b>Profit for the financial year</b>		<b>5.1</b>	<b>1.7</b>

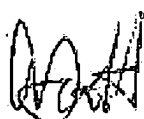
All of the company's activities relate to continuing operations.

## Balance sheet

As at 31 March 2020

	Notes	2020 £m	2019 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments	8	57.8	57.8
Deferred tax asset		0.1	0.3
		<u>57.9</u>	<u>58.1</u>
<b>Current assets</b>			
Other receivables	9	2.0	1.5
Cash and cash equivalents		33.8	28.7
		<u>35.8</u>	<u>30.2</u>
<b>Total assets</b>		<b>93.7</b>	<b>88.3</b>
<b>Current liabilities</b>			
Accruals and other payables		<u>(0.9)</u>	<u>(0.6)</u>
<b>Net assets</b>		<b>92.8</b>	<b>87.7</b>
<b>Capital and reserves</b>			
Share capital	10	37.6	37.6
Retained earnings		<u>55.2</u>	<u>50.1</u>
<b>Total equity</b>		<b>92.8</b>	<b>87.7</b>

The financial statements on pages 8 to 16 were approved by the board of directors on 17 November 2020 and were signed on its behalf by:



Alan P Scott  
Director

## Statement of changes in equity

For the year ended 31 March 2020

	<b>Share capital £m</b>	<b>Retained earnings £m</b>	<b>Total equity £m</b>
Balance as at 31 March 2018	37.6	48.4	86.0
Profit for the financial year	-	1.7	1.7
Balance as at 31 March 2019	37.6	50.1	87.7
Profit for the financial year	-	5.1	5.1
Balance as at 31 March 2020	37.6	55.2	92.8

# Notes to the financial statements

For the year ended 31 March 2020

## 1 Basis of preparation

Scottish Water Horizons Holdings Limited (SWHH) is a holding company. SWHH is a private company, incorporated and domiciled in the UK. The address of its registered office is shown on page 2.

The financial statements have been prepared for the company and do not contain consolidated financial information. The company has taken advantage of the exemption under Section 400 of the Companies Act 2006 not to prepare consolidated financial statements as it is a wholly owned subsidiary of Scottish Water.

The financial statements have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). SWHH is a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The disclosure exemptions adopted by the company in accordance with FRS 101 are as follows:

- the requirements of paragraphs 10(d), 10(f), 16, 38A-38D, 79(a)(iv), 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Policies and Errors';
- the requirements of IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member; and
- the requirements of IFRS 7 'Financial Instruments: Disclosures'.

### Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have performed a going concern assessment for a period of 12 months from the date of approval of these financial statements which indicates that, taking account of reasonably possible downsides, the company will have sufficient funds, to meet its liabilities as they fall due for that period.

The Covid-19 pandemic is having an impact on the Company's subsidiary, Scottish Water Business Stream Holdings Limited and Scottish Water Business Stream Limited, which has been considered as part of the Directors' going concern assessment.

Based on recent trends and the emergency funding put in place, the Directors of the subsidiary believe that the company will continue to trade and be able to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements. The Directors of the company have assessed the conclusions reached by the directors of the subsidiary and agree with their conclusion that the subsidiary continues to be a going concern.

## Notes to the financial statements continued

For the year ended 31 March 2020

### 1 Basis of preparation continued

Consequently, the Directors believe that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The principal accounting policies adopted by the company are set out in note 2.

The company's financial statements are presented in Pounds Sterling, rounded to the nearest million (£m) except when otherwise indicated.

### 2 Accounting policies

The principal accounting policies adopted by the company are set out below. These have been consistently applied throughout the financial years presented.

#### 2.1 Income recognition

##### *a. Finance income*

Finance income comprises interest receivable on short-term deposits and inter-company loans. Interest income is recognised in the income statement as it accrues, on an effective interest rate method.

##### *b. Dividends*

Dividend income is recognised on the date SWHH's right to receive payment is established.

#### 2.2 Taxation

The tax charge or credit for the year comprises current and deferred tax. Tax is recognised in the income statement. Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred income tax is recognised, using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

#### 2.3 Investments

Investments in subsidiaries, held as non-current assets, are stated at cost less any provision for impairment. Any impairment is charged to the statement of comprehensive income as it arises.

#### 2.4 Financial instruments

Financial assets and liabilities are recognised in the balance sheet when an obligation is identified and released as that obligation is fulfilled. SWHH's financial instruments comprise cash and cash equivalents, trade and other receivables, as well as trade and other payables that arise directly from operations.

## Notes to the financial statements continued

For the year ended 31 March 2020

### 3 Administration Expenses

Administration expenses included the following costs:

	2020	2019
Acquisition fees relating to investment in subsidiaries (note 8)	-	£2.1m
Sponsorship and campaign costs	£0.6m	£0.6m
Other transition and set up costs	-	£0.4m
Provision for impairment of receivable balance (note 9)	£5.7m	£1.7m
Auditor's remuneration for audit services	£3,801	£3,708
(There were no other services provided by the auditor.)		

### 4 Finance Income

	2020 £m	2019 £m
Interest from short-term deposits	0.2	0.2
	<u>0.2</u>	<u>0.2</u>

### 5 Directors' remuneration and staff costs

None of the directors who served in the year received any remuneration from the company for their services (2019: nil).

There were no employees in the year (2019: nil).

### 6 Dividend income

Dividends of £11.8m (2019: £6.0m) were received in year to 31 March 2020:

	2020 £m	2019 £m
Scottish Water Business Stream Holdings Limited	6.0	6.0
Aberdeen Environmental Services Limited	5.5	-
Scottish Water International Limited	0.3	-
	<u>11.8</u>	<u>6.0</u>

Within SWHH these are exempt dividends.

## Notes to the financial statements continued

For the year ended 31 March 2020

### 7 Taxation

The total tax credit for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2020 £m	2019 £m
<b>Analysis of tax credit recognised in the statement of comprehensive income</b>		
Current tax: UK corporation tax on profit for the current year	-	-
Current tax: UK corporation tax on profit for the prior year	(0.2)	-
Deferred tax: Origination and reversal of timing differences current year	(0.1)	(0.3)
Deferred tax: Origination and reversal of timing differences prior year	0.3	-
Deferred tax: Impact of change in tax rates	-	-
<b>Total taxation credit</b>	<b>-</b>	<b>(0.3)</b>

The total tax charge for the year can be reconciled to the profit per the statement of comprehensive income as follows:

Profit on ordinary activities before taxation	5.1	1.4
Corporation tax at standard rate of 19% (2019: 19%)	1.0	0.3
Exempt dividends received	(2.2)	(1.1)
Disallowable expenditure	1.2	0.5
Prior Year Adjustment	0.1	-
Effect of Change in Tax Rates	0.0	-
<b>Total tax credit for the year</b>	<b>-</b>	<b>(0.3)</b>

## Notes to the financial statements continued

For the year ended 31 March 2020

### 8 Investment in subsidiaries

	2020 £m	2019 £m
Cost and net book value at 1 April	57.8	41.6
Additions in year	-	16.2
<b>Cost and net book value at 31 March</b>	<b>57.8</b>	<b>57.8</b>

On 19 December 2018, SWHH acquired 100% of the issued share capital of Aberdeen Environmental Services Limited and Scottish Water Services (Grampian) Limited (formerly Kelda Water Services (Grampian) Limited). The companies operate four waste water treatment works in the North-East of Scotland which were being managed under a Private Finance Initiative. At the same time, the two holding companies, Aberdeen Environmental Services Holdings Limited and Aberdeen Holdco Limited were also acquired from the Kelda Group.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the investments are as follows:

	Country of incorporation	% of ordinary shares & votes held	Principal activity
Scottish Water Horizons Limited	Scotland	100	Commercial non-regulated water and waste water services
Scottish Water International Limited <sup>1</sup>	Scotland	100	Non Trading
Scottish Water Business Stream Holdings Limited	Scotland	100	Holding Company
Aberdeen Environmental Services Limited <sup>2</sup>	Scotland	100	PFI concession operator
Scottish Water Services (Grampian) Limited	Scotland	100	Waste water services operator
Aberdeen Environmental Services Holdings Limited <sup>3</sup>	Scotland	100	Holding Company
Aberdeen Holdco Limited	England	100	Holding Company

<sup>1</sup> The trading activities of Scottish Water International Limited were transferred to Scottish Water Horizons Limited on 1 April 2018.

<sup>2</sup> Owned by Aberdeen Environmental Services Holdings Limited.

<sup>3</sup> Owned by Aberdeen Holdco Limited.



# Notes to the financial statements continued

For the year ended 31 March 2020

## 9 Other receivables

	2020 £m	2019 £m
Intercompany receivables	9.5	3.2
Less provision for impairment of receivables	(7.5)	(1.7)
	<u>2.0</u>	<u>1.5</u>

The directors consider the carrying value of other receivables is equal to the fair value.

## 10 Share capital

The issued ordinary share capital at 31 March 2020 was £37.6m (2019: £37.6m), being 37.6 million ordinary shares of £1 each.

## 11 Ultimate controlling body

SWHH is a wholly owned subsidiary of Scottish Water. Scottish Water is a public sector body, classified as a public corporation of a trading nature, and is answerable to the Scottish Parliament through Scottish Ministers.

## 12 Related parties

The company has taken advantage of the exemption in FRS 101 from disclosing transactions with other members of the Scottish Water group of companies. There were no other related party transactions.

## 13 Financial risk management

The company has no exposure to equity securities price risk as it holds no listed or other equity.