Aberdeen Environmental Services Limited

Annual report and financial statements
Registered number SC202555
Year ended 31 March 2017

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Contents

Directors and advisers

Directors

P J Doherty
G M Cawthra
I C Washer

Company secretary

A W M White

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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29 Wellington Street
Leeds
LS1 4DL

Registered office

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Nigg
Aberdeen
AB12 3LT

Bankers

Royal Bank of Scotland
Corporate & Institutional Banking
8th floor, 135 Bishopsgate
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Strategic report

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

Principal activities and review of business

On 4 May 2000 Aberdeen Environmental Services Limited (AES) entered into a Public Private Partnership ("PPP") concession agreement with a water authority that is now subsumed within Scottish Water to design, build and finance wastewater treatment schemes in and around Aberdeen and to operate and maintain these schemes over a 30 year period. In accordance with the concession agreement the company is responsible for operating the wastewater treatment schemes together with carrying out all of the routine and major life cycle maintenance for the life of the concession.

On 28 June 2007 AES entered into an amendment agreement to the concession agreement with Scottish Water to design, build and finance an additional wastewater treatment scheme near Aberdeen and to operate and maintain this scheme over a period of 23 years. Construction of the scheme was completed in July 2008.

Principal risks and uncertainties

Strategic, financial, commercial, operational, social, environmental and ethical risks are all considered as part of the company's controls, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. Therefore they can only provide reasonable, not absolute, assurance against material misstatement or loss.

On a regular basis throughout the year ended 31 March 2017, the directors of the company were provided with an updated assessment of any risks that might impact on the business. A business risk register is in place and is regularly reviewed and updated. Risks are evaluated both in financial terms and in relation to their impact and likelihood and appropriate mitigation actions are assigned following a board review.

Operational activities at the Aberdeen site were reviewed following issues arising in relation to contractual non-compliance in a previously reported period. The operating contractor has addressed the issues at no cost to the company under the terms of its operations and maintenance agreement. Both contractual and regulatory performance has significantly improved.

At present there are no immediate risks considered likely to have a significant impact on the short or long term value of the company, however the principal risks identified are as follows:

Financial instruments

The financial risk management objectives of the company are to ensure that financial risks are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions.

Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2000 and 2027 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

Credit and cash flow risks to the company arise from its client, Scottish Water. The credit and cash flow risks are not considered significant as the client is a quasi-governmental organisation.

The company's liquidity risk is principally managed through financing by means of long-term borrowings with an amortisation profile that matches the expected availability of funds from the group's operating activities. In addition the company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements.

Contractual relationships

The company operates within a contractual relationship with its primary customer, Scottish Water. A significant impairment of this relationship could have a direct and detrimental effect on the company's results and could ultimately result in termination of the concession. To manage this risk the company has regular meetings with Scottish Water including discussions on performance, recovery plan progress, asset investment progress, future plans and customer requirements.

The relationship with Scottish Water is very positive; bi-monthly performance meetings are well established. AES also attends the odour liaison meetings to review the performance of the Nigg WwTW facility with respect to any recorded odour contacts. The relationship with both the regulator (SEPA) and Aberdeen City Council is very positive.

Strategic report *(continued)*

Health & safety

Health and safety of employees and contractors is of the highest importance to the company, with regular reporting and review of safety statistics and practices at board level. The relevant key performance indicator is the number of reportable accidents. There were no reportable accidents in the year, and no minor accidents in the year (2016: no reportable accidents and no minor accidents).

Key performance indicators

The company has set specific business objectives, which are monitored using a number of key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below:

	2017	2016
	£000	£000
Profit for the financial year	**3,909**	5,547
Net assets/(liabilities)	**469**	(4,802)

Profit for the financial year has fallen during the year ended 31 March 2017 despite an increase in turnover. This is mainly due to an increase in depreciation resulting from increased capital expenditure.

Future developments

There have been no changes to the company's activities in the year under review and none are currently contemplated.

During the year, a strategic decision was taken by the company's parent company to seek to sell the company as part of a wider plan to dispose of the non-regulated businesses owned by Kelda Water Services. A competitive sales process remains in progress at the year-end. All stakeholders, including client, lenders and colleagues have been kept informed of this process, which has not impacted on the normal operations of the company.

A key focus for the coming year is to maintain safe and stable operations, ensuring that continued investment is provided to maintain the assets, which will reduce the risk of compliance failures and so avoid incurring compensation penalties from Scottish Water.

On behalf of the board

I C Washer
Director

29 JUNE 2017

Directors' report

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

Results and dividends

The profit for the financial year amounts to £3,909,000 (2016: profit £5,547,000).

The directors do not propose payment of a dividend (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:

P J Doherty
G M Cawthra
I C Washer

Directors' statement as to disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors.

Independent auditors

Deloitte LLP will be appointed the auditors of the ultimate Parent undertaking, Kelda Holdings Limited for the year ending 31 March 2018, and, pursuant to section 487 of the Companies Act 2006, will be appointed auditors of the Company with respect to the year ending 31 March 2018.

Future developments and financial risk management commentary are included within the Strategic Report.

Directors' report *(continued)*

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.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director 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 a director 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

Paul Wat

I C Washer
Director

29 JUNE 2017

Independent auditors' report to the members of Aberdeen Environmental Services Limited

Report on the financial statements

Our opinion

In our opinion, Aberdeen Environmental Services 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 its 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.

What we have audited

The financial statements, included within the Annual Report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 March 2017;
- the Profit and loss Account and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then 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 Companies Act 2006

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

- the information given in the Strategic Report and the 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 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 Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Aberdeen Environmental Services Limited *(continued)*

Directors' remuneration

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

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, 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 Companies 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.

Arif Ahmad

Arif Ahmad (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

29 June 2017

Profit and loss account
for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Turnover	2	**21,834**	21,310
Operating costs		**(13,341)**	(12,450)
Operating profit	3	**8,493**	8,860
Interest receivable and similar income	5	**38**	49
Interest payable and similar expense	6	**(3,967)**	(4,205)
Profit on ordinary activities before taxation		**4,564**	4,704
Tax on profit on ordinary activities	7	**(655)**	843
Profit for the financial year		**3,909**	5,547

Statement of comprehensive income
for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Profit for the financial year		**3,909**	5,547
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		**1,852**	1,283
Income tax on other comprehensive income	7	**(490)**	(607)
Other comprehensive income for the year, net of income tax		**1,362**	676
Total comprehensive income for the year		**5,271**	6,223

Balance sheet
as at 31 March 2017

	Note	**2017** **£000**	2016 £000
Fixed assets			
Tangible assets	*8*	**45,040**	47,892
Current assets			
Debtors	*9*	**12,100**	13,618
Cash at bank and in hand		**17,538**	11,295
		29,638	24,913
Creditors: amounts falling due within one year	*10*	**(7,601)**	(5,412)
Net current assets		**22,037**	19,501
Total assets less current liabilities		**67,077**	67,393
Creditors: amounts falling due after more than one year	*11*	**(65,222)**	(70,744)
Provisions for liabilities			
Deferred tax liability	*12*	**(1,386)**	(1,451)
Net assets/(liabilities)		**469**	(4,802)
Capital and reserves			
Called up share capital	*13*	**8**	8
Share premium account		**69**	69
Cash flow hedge reserve		**(13,002)**	(14,364)
Profit and loss account		**13,394**	9,485
Total shareholders' funds/(deficit)		**469**	(4,802)

The financial statements on pages 8 to 20 have been approved by the board of directors and are signed on its behalf by:

I C Washer
Director

29 JUNE 2017

Company registered number: SC202555

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

	Called up share capital £000	Share premium account £000	Cash flow hedge reserve £000	Profit and loss account £000	Total Shareholder deficit £000
Balance at 1 April 2015	8	69	(15,040)	3,938	**(11,025)**
Total comprehensive income for the year					
Profit for the financial year	-	-	-	5,547	**5,547**
Effective portion of changes in fair value of cash flow hedges	-	-	1,283	-	**1,283**
Income tax expense on other comprehensive expense	-	-	(607)	-	**(607)**
Total comprehensive income for the year	-	-	676	5,547	**6,223**
Balance at 31 March 2016	8	69	(14,364)	9,485	**(4,802)**

	Called up share capital £000	Share premium account £000	Cash flow hedge reserve £000	Profit and loss account £000	Total Shareholder (deficit) / funds £000
Balance at 1 April 2016	8	69	(14,364)	9,485	**(4,802)**
Total comprehensive income for the year					
Profit for the financial year	-	-	-	3,909	**3,909**
Effective portion of changes in fair value of cash flow hedges	-	-	1,852	-	**1,852**
Income tax expense on other comprehensive income	-	-	(490)	-	**(490)**
Total comprehensive income for the year	-	-	1,362	3,909	**5,271**
Balance at 31 March 2017	8	69	(13,002)	13,394	**469**

The company did not pay any dividends in the year (2016 :£nil).

Notes to the financial statements

1 Accounting policies

Aberdeen Environmental Services Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The Registered address is Nigg WWTP, Coast Road, Nigg, Aberdeen, AB12 3LT.

These financial statements were prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the Companies Act 2006. The presentation currency of these financial statements is sterling.

Kelda Eurobond Co Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Kelda Eurobond Co Limited are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.
- Transactions between wholly-owned subsidiaries, or with their parent.

As the consolidated financial statements of Kelda Eurobond Co Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. These financial statements have been prepared on a going concern basis.

Going concern

The company's business activities, together with the likely factors likely to affect its future development, performance and position, are set out in the Strategic and Directors' reports on pages 2 to 5.

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore they continue in adopting the going concern basis of accounting in preparing the financial statements.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Other financial instruments

Financial instruments not considered to be basic financial instruments (other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. However, where derivatives qualify for cash flow hedge accounting:

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Cash flow hedges

Where the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost the company recognises the effective part of any gain or loss on the derivative financial instrument in other comprehensive income (OCI). Any ineffective portion of the hedge is recognised immediately in profit or loss.

The hedging gain or loss recognised in OCI is reclassified to profit or loss when the hedged item is recognised in profit or loss or when the hedging relationship ends.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

The company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives or the lifetime of the concession agreement if shorter from service commencement onwards. The estimated useful lives are as follows:

Plant and equipment	3 - 13 years
Fixtures and fittings	3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Impairment

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Turnover

Turnover is recognised as it is earned and represents amounts due, exclusive of value added tax, in respect of the treatment and disposal of wastewater and sludge.

Expenses

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, associates, branch, joint ventures to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Turnover

Turnover represents the value of service fees for the operation of wastewater sites under a contractual arrangement with Scottish Water. Turnover is attributable to this one continuing activity in a single geographic location.

Notes to the financial statements *(continued)*

3 Operating profit

Operating profit is stated after charging:

	2017 £000	2016 £000
Depreciation on owned tangible assets	**4,631**	3,940

Auditors' remuneration:

	2017 £000	2016 £000
Audit of these financial statements	**8**	10

4 Staff costs and directors' emoluments

The company does not have any employees (2016: none) and none of the directors received any remuneration from the company (2016: £nil).

5 Interest receivable and similar income

	2017 £000	2016 £000
Interest receivable on financial assets at amortised cost	**38**	49
Total interest receivable and similar income	**38**	49

Notes to the financial statements *(continued)*

6 Interest payable and similar expenses

	2017 £000	2016 £000
Interest payable on financial liabilities at amortised cost	**3,967**	4,205
Total other interest payable and similar charges	**3,967**	4,205

Interest payable and similar charges includes interest payable and similar on bank loans and overdrafts of £3,967,000 (2016: £4,205,000).

7 Tax on profit on ordinary activities

Total tax charge/(credit) recognised in the profit and loss account

	2017 £000	2016 £000
Current tax		
Current tax on income for the year	**1,210**	-
Total current tax	**1,210**	-
Deferred tax (see note 12)		
Origination and reversal of timing differences	**(370)**	(331)
Change in tax rate	**(201)**	(512)
Adjustments in respect of prior periods	**16**	-
Total deferred tax	**(555)**	(843)
Total tax charge/ (credit)	**655**	(843)

	2017 £000 Current tax	2017 £000 Deferred tax	2017 £000 Total tax	2016 £000 Current tax	2016 £000 Deferred tax	2016 £000 Total tax
Recognised in profit and loss account	**1,210**	**(555)**	**655**	-	(843)	(843)
Recognised in other comprehensive income	-	**490**	**490**	-	607	607
Total tax charge/ (credit)	**1,210**	**(65)**	**1,145**	-	(236)	(236)

Notes to the financial statements *(continued)*

7 Tax on profit on ordinary activities (continued)

Reconciliation of effective tax rate

	2017	2016
	£000	£000
Profit on ordinary activities before taxation	3,909	5,547
Total tax charge/ (credit) included in profit and loss	655	(843)
Profit excluding taxation	4,564	4,704
Tax using the UK corporation tax rate of 20% (2016: 20%)	913	941
Non-deductible expenses	229	193
Adjustments in respect of previous periods	16	-
Transfer pricing adjustment	23	-
Income not taxable for tax purposes	-	26
Group relief received for no charge	(325)	(1,491)
Tax rate changes	(201)	(512)
Total tax charge / (credit) included in profit or loss	655	(843)

The corporation tax rate of 20%, enacted in the Finance Act 2013 and applicable from 1 April 2015, has been used in preparing these financial statements.

The Finance (No 2) Act 2015 will reduce the corporation tax rate to 19% from 1 April 2017 and the Finance Act 2016 will reduce the rate further to 17% from 1 April 2020. These reductions to the corporation tax rate were substantively enacted on 25 October 2015 and 6 September 2016 respectively and accordingly the deferred tax liability at 31 March 2017 has been calculated using these rates.

Notes to the financial statements *(continued)*

8 Tangible assets

	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost			
Balance at 1 April 2016	98,449	29	98,478
Additions	1,779	-	1,779
Disposals	(1,874)	-	(1,874)
Balance at 31 March 2017	98,354	29	98,383
Accumulated depreciation			
Balance at 1 April 2016	50,557	29	50,586
Depreciation charge for the year	4,631	-	4,631
Disposals	(1,874)	-	(1,874)
Balance at 31 March 2017	53,314	29	53,343
Net book value			
At 31 March 2017	**45,040**	-	**45,040**
At 31 March 2016	47,892	-	47,892

9 Debtors

	2017 £000	2016 £000
Trade debtors	**1,830**	4,984
Amounts owed by group undertakings	**8,645**	8,603
Other debtors	**16**	16
Prepayments and accrued income	**1,609**	15
	12,100	13,618
Due within one year	**12,100**	13,618
	12,100	13,618

Amounts owed by other group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements *(continued)*

10 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Bank loans and overdrafts (see note 11)	**3,574**	3,222
Trade creditors	**2,078**	710
Amounts owed to group undertakings	**1,190**	1,275
Taxation and social security	**647**	80
Accruals and deferred income	**112**	125
	7,601	5,412

Amounts owed to other group undertakings are unsecured, interest free and repayable on demand.

11 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Bank loans and overdrafts	**48,407**	51,981
Other creditors	**1,150**	1,245
Other financial liabilities - interest rate swap	**15,665**	17,518
	65,222	70,744

Included above are amounts repayable after five years by instalments of £30,832,000 (2016: £35,770,000).

Bank loans, included above and in note 10, represent amounts borrowed by the company under a facility agreement with a consortium of banks. The bank loans bear interest at a margin over LIBOR and are repayable in instalments over a period of 24 years which commenced on 30 September 2003. The loans are secured by fixed and floating charges over the undertaking, property, assets and rights of the company and the company's parent company, and over the parent company's shares in the company. The bank loans have certain covenants attached.

The other financial liabilities relate to the fair value of interest rate swaps taken out to manage interest rate volatility on firm future commitments. The fair values of these derivatives at the balance sheet date are determined by reference to their market values, which are provided by a third party.

Notes to the financial statements *(continued)*

12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**4,049**	4,604	**4,049**	4,604
Other	**(2,663)**	(3,153)	**-**	-	**(2,663)**	(3,153)
Tax (assets) / liabilities	**(2,663)**	(3,153)	**4,049**	4,604	**1,386**	1,451

The other timing differences are expected to be fully recoverable after 12 months. Of the accelerated capital allowances £nil (2016: £371,251) are payable within 12 months.

13 Called up share capital

	2017	2016
	£000	£000
Allotted, called up and fully paid		
76,403 ordinary shares (2016:76,403) of 10p each (2016: 10p each)	**8**	8

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

14 Ultimate parent company and parent company of larger group

The Company's immediate parent undertaking is Aberdeen Environmental Services (Holdings) Limited. The ultimate controlling party is Kelda Holdings Limited.

The largest group in which the results of the Company are consolidated and made publicly available is that headed by Kelda Eurobond Co Limited, incorporated in England and Wales. The smallest group in which they are consolidated and made publicly available is that headed by Kelda Water Services Limited, incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available from the Company Secretary, Western House, Halifax Road, Bradford, BD6 2SZ.