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# **SCOTTISH WATER SOLUTIONS 2 LIMITED REPORT AND FINANCIAL STATEMENTS**

**For the year ended  
31 March 2016**

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## Directors and Advisers

### Directors

Geoff Aitkenhead	(Chair)
Brian Strathie	
Martin Bradbury	(resigned 13 July 2015)
Andrew Dun-Flores	(resigned 13 July 2015)
Stephen Jennings	(resigned 13 July 2015)
John Rae	(resigned 5 August 2015)

### Company Secretary

Ramsay Milne

### Independent Auditors

PricewaterhouseCoopers LLP  
Chartered accountants and statutory auditors  
141 Bothwell Street  
Glasgow  
G2 7EQ

### Registered Office

Castle House  
6 Castle Drive  
Dunfermline  
KY11 8GG

Registered Company Number: SC365084

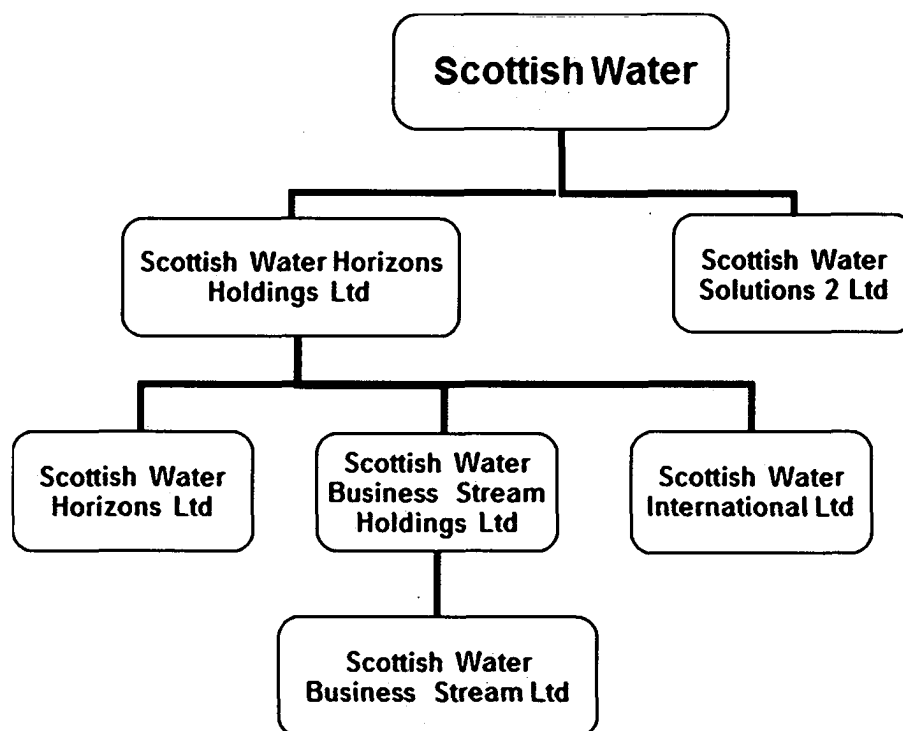
## Strategic report

The Directors present their report together with the audited financial statements for the year ended 31 March 2016.

### Business model

Scottish Water Solutions 2 Limited (Solutions 2) was incorporated on 4th September 2009 by Scottish Water in anticipation of awarding a contract for the management and delivery of a programme of projects under its Quality & Standards 3b (Q&S 3b) Capital Investment Programme. This programme was aimed at improving Scotland's water quality and wastewater treatment processes during the 2010 to 2015 period. Solutions 2 was awarded an investment programme of some £450m for commencement during April 2010.

As at 31 March 2016 the completion costs for the remaining allocated programme is approximately £23m. The programme comprises capital maintenance and enhancement capital projects in waste and clean water assets. Reflecting the relatively low remaining value of investment, the business model of a joint venture was simplified with Solutions 2 becoming a wholly owned subsidiary of Scottish Water in June 2015.



### Performance Review

The original Solutions 2 programme consisted of 369 projects covering more than 1,600 sites across Scotland. Through formal change control with Scottish Water, the number of projects within the programme changed to 374. As at 31 March 2016, 24 projects out of the total revised portfolio remain to be completed. The majority of these projects are in the final stages of construction and commissioning and are planned for completion in the 2016/17 financial year. To date, 269 projects from the revised portfolio have been fully handed over to Scottish Water, 81 are being managed through their two year defect liability.

Health and Safety Performance over the period April 2015 to March 2016 was strong with zero injuries (2014/15:0).

## Strategic report continued

With the exception of the tax liability arising, all expenditure incurred in relation to delivery of the investment programme is charged to Scottish Water as part of turnover. Total investment in the year to 31 March 2016 was £32.7m (2015: £73.8m).

Turnover in 2015/16 was £34.6m (2015: £73.2m). The year has mainly involved undertaking design, construction activities and managing projects through to handover to Scottish Water. The gross profit shown on the profit and loss account represents the level of administrative overheads incurred by the business. Total expenditure of £34.6m therefore includes direct costs from both related and third parties, management fees and allocations of production overheads.

The results for Solutions 2 for the year show a profit before taxation of £Nil (2015: £Nil). The directors recommend that no dividend be paid (2015: £nil).

### Principal risks and uncertainties

The management of the business and execution of the company's strategy are subject to a number of risks. Risks are formally reviewed by the Board and the appropriate processes put in place to monitor and mitigate them. The key business risks are set out below:

Escalation in the costs-to-go on remaining projects is the principal reputational and financial risk for Solutions 2 and our client Scottish Water. Cost control is being managed through enhanced project management, risk management and commercial control processes through to project completion and handover.

The company's operations, with Scottish Water as the sole customer and with all work in progress sold to the customer on a monthly basis, are such that it does not carry credit, liquidity or interest rate cash flow risks.

Signed on behalf of the Board by



Geoff Aitkenhead

Chair

25 May 2016

## 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 accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of the financial statements; 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 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 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.

### Going concern

The Directors have a reasonable expectation that the company will continue as a going concern for a period of at least 12 months from the date of approval of the financial statements. Therefore the financial statements have been prepared on the going concern basis.

### Disclosure of information to Auditors

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 auditors are 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 auditors are 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' report** continued

### **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 Auditors**

In accordance with Section 485 of the Companies Act 2006, a resolution for the appointment of PricewaterhouseCoopers LLP, chartered accountants and statutory auditors, as auditors of the company to 31 March 2016 was passed by the board on 28 April 2011.

Signed on behalf of the Board by



Geoff Aitkenhead  
Chair  
25 May 2016

## **Independent auditors' report to the members of Scottish Water Solutions 2 Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, Scottish Water Solutions 2 Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its result 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 Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 March 2016;
- the 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 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Other matters on which we are required to report by exception**

#### **Adequacy of accounting records and information and explanations received**

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

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

#### **Directors' remuneration**

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



## Independent auditors' report continued

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, 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 parent 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

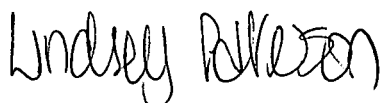
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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



Lindsey Paterson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
25 May 2016

## Statement of total comprehensive income

For the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Revenue		34,562	73,249
Cost of sales		<u>(32,703)</u>	<u>(70,581)</u>
Gross profit		1,859	2,668
Administrative expenses		<u>(1,859)</u>	<u>(2,668)</u>
<b>Profit on ordinary activities before taxation</b>		-	-
Taxation		<u>-</u>	<u>-</u>
<b>Profit for the financial year</b>		<u><u>-</u></u>	<u><u>-</u></u>

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

# Balance sheet

As at 31 March 2016

	Notes	2016 £000	2015 £000
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables	5	13,358	18,648
Cash and cash equivalents	6	25	396
		<u>13,383</u>	<u>19,044</u>
<b>Total assets</b>		<b>13,383</b>	<b>19,044</b>
<b>Current liabilities</b>			
Trade and other payables	7	(13,382)	(19,043)
Current tax liabilities		-	-
		<u>(13,382)</u>	<u>(19,043)</u>
<b>Total liabilities</b>		<b>(13,382)</b>	<b>(19,043)</b>
<b>Net assets</b>		<u><b>1</b></u>	<u><b>1</b></u>
<b>Capital and reserves</b>			
Share capital	8	1	1
Retained earnings		(5)	(5)
Capital Contribution		<u>5</u>	<u>5</u>
<b>Total equity</b>		<u><b>1</b></u>	<u><b>1</b></u>

The financial statements on pages 9 to 15 were approved by the board of directors on 25 May 2016 and were signed on its behalf by:

  
 Geoff Aitkenhead  
 Chair

## Statement of changes in equity

For the year ended 31 March 2016

	Share capital £000	Retained earnings £000	Capital Contribution £000	Total equity £000
Balance as at 31 March 2014	1	(5)	5	1
Profit for the financial year	-	-	-	-
Balance as at 31 March 2015	1	(5)	5	1
Profit for the financial year	-	-	-	-
Balance as at 31 March 2016	1	(5)	5	1

# Notes to the financial statements

For the year ended 31 March 2016

## 1 Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Solutions 2 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.

These are the first financial statements of the company prepared in accordance with FRS 101. The company's date of transition to FRS 101 was 1 April 2014 (opening balance sheet date) and the comparative financial information in these financial statements reflects the company's adoption of FRS 101. The adoption of FRS 101 had no impact on the results or net assets of Solutions 2. Consequently, as there were no transition adjustments between the previous UK accounting standards and FRS 101, no reconciliation statements are presented in these financial statements.

The company notified its shareholders about, and they do not object to, the disclosure exemptions used by the company in these financial statements. 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'.

This change in the basis of preparation has not altered the recognition and measurement requirements previously applied in accordance with applicable accounting standards. 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 thousand (£000) except when otherwise indicated.

## Notes to the financial statements continued

For the year ended 31 March 2016

### 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 Revenue recognition

Revenue comprises charges made to Scottish Water in relation to work undertaken by Scottish Water Solutions 2 Limited on the capital investment programme exclusive of value added tax. Turnover includes management fees earned by the company on work performed in delivering Scottish Water's capital investment programme. All turnover is from continuing, project-based activities.

#### 2.2 Cost of Sales

Cost of sales comprises expenditure incurred on projects and includes charges from related parties, other third parties and allocations of production related overhead costs. Cost of sales expenditure is based on the value of measured work performed and is inclusive of any construction materials procured which are attributable to projects.

#### 2.3 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.

#### 2.4 Financial instruments

Financial assets and liabilities are recognised in the balance sheet when an obligation is identified and released as that obligation is fulfilled. Solutions 2's financial instruments comprise cash and cash equivalents, trade and other receivables, as well as trade and other payables that arise directly from operations.

##### *a. Cash and cash equivalents*

Cash and cash equivalents include cash in hand and deposits with banks, which have a maturity of 3 months or less from the date of acquisition and which are subject to an insignificant risk of change in value.

##### *b. Trade and other payables*

Trade and other payables are stated at cost.

#### 2.5 Segmental reporting

The company's activities consist solely of one class of business, supporting Scottish Water deliver its Capital Investment Programme in the United Kingdom.

## Notes to the financial statements continued

For the year ended 31 March 2016

### 3 Operating profit

Operating profit is arrived at after charging:

	2016 £000	2015 £000
Audit fees payable to the company's auditors	10	44

### 4 Directors and employees

There are no directors' emoluments for the year to 31 March 2016 (2015: £nil).

All staff used by Solutions 2 are seconded from Scottish Water to Solutions 2. Staff secondment costs and associated services such as office accommodation and support services are charged to the company at cost.

The expenditure incurred by Solutions 2 on seconded and agency workers in the financial year amounted to £4.4m (2015: £9.2m)

### 5 Trade and other receivables

	2016 £000	2015 £000
Amounts due from parent	13,355	-
Other receivables	-	18,642
Prepayments and accrued income	3	6
	<u>13,358</u>	<u>18,648</u>

### 6 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	25	396
	<u>25</u>	<u>396</u>

## Notes to the financial statements continued

For the year ended 31 March 2016

### 7 Trade and other payables

	2016 £000	2015 £000
<b>Current</b>		
Trade payables	258	181
Amounts due to parent	-	4,987
Accruals	12,376	12,876
Other payables	748	999
	<b>13,382</b>	<b>19,043</b>

### 8 Share capital

The value of issued ordinary share capital at 31 March 2016 was £1k (2015: £1k), being 1,000 ordinary shares of £1 each.

### 9 Related party disclosures

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

### 10 Commitments

Solutions 2 enters into contracts for the delivery of each of its capital investment projects. The value of unfulfilled contracts awarded at 31 March 2016 amounted to £23.0m (2015: £25.0m).

### 11 Ultimate controlling body

Solutions 2 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 Financial risk management

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