Caledonian Environmental Services plc

Report and Financial Statements

31 March 2012

Registered Number SC156608



Directors
S Hazon
J H J King
N Rutherford

Secretary
M Beveridge

Auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle Upon Tyne
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Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2012.

Results and dividends

The company's loss after taxation for the year amounted to £3,751,000 (2011: loss of £2,660,000). The directors do not recommend the payment of a final dividend (2011: £nil).

Principal activity and review of the business

The company's principal activity during the year continued to be carrying out the contract for the design, construction, financing and operation of the Levenmouth Purification Scheme for Scottish Water.

Although the plant has been operating since 2002, completion of the design and construction phase of the contract was not achieved until June 2006 following modifications and additions to certain elements of the plant, including particularly, the sludge driers and the odour treatment plant. Since then, issues arising from the delay in completion and the additional works have been the subject of negotiations between all parties which were completed on 29 March 2012.

Key performance indicators

The activity of the company involves adhering to the specific operational and financial requirements of the contract documents as agreed with Scottish Water and other parties, including funders. As such, the key performance indicators are predominantly operational in nature and are monitored by the Scottish Environment Protection Agency and Scottish Water. The financial aspects of the contract are primarily a function of the funding provided to carry out the design and construction of the project facilities and are assessed on a periodic basis, principally with reference to the company's performance against its debt service cover ratio (DSCR). The company met its operational contractual obligations and maintained its DSCR for the 12 months to 31 March 2012.

Key performance indicators of a financial nature are operating profit, net cash flow from operating activities and interest cover comprising operating profit divided by net interest payable:

	2012	*2011*
	£000	*£000*
Operating profit	*3,406*	*4,307*
Net cash flow from operating activities	*5,280*	*5,597*
Interest cover	*0.66*	*0.82*

Operating profit has reduced following a review of the depreciation policy during the year. This is explained in note 1.

Future developments

The company will continue to develop within the framework of its contract with Scottish Water which expires on 31 October 2040.

Going concern

The company had net liabilities at 31 March 2012 of £10,024,000 (2011: £6,273,000), which includes £18,459,000 (2011: £18,344,000) of subordinated loan stock payable to the company's intermediate parent company, Northumbrian Services Limited (NSL). The directors have considered the company's detailed budgets and forecasts and confirmation of the ongoing support of the ultimate parent company and have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The operations are expected to be profitable over the term of the contract as interest payments reduce and sufficient cash flows will continue to be generated to repay the debt. Performance to date is in accordance with this expectation.

The directors, having assessed the responses of the directors of the company's intermediate parent company NSL to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of NSL to continue as a going concern or its ability to continue with the current banking arrangements.

Directors' report (continued)

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of NSL, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Principal risks and uncertainties

The company finances its activities with a combination of borrowings and cash. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below.

Liquidity risk

The company aims to mitigate liquidity risk by managing cash generated by its operations. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts. The company has in place shareholder funding in the form of subordinated loan stock and has used long term borrowings over the same period as the income streams of associated assets.

Interest rate risk

The company's policy is to ensure certainty of its costs of borrowing through fixed rate debt. The company invests surplus cash in floating rate interest yielding deposit accounts. Therefore financial assets can be affected by movements in interest rates.

Credit risk

Risk of exposure to external credit risk is concentrated with one party as all sales transactions are with Scottish Water. However, the risk of financial loss as a result of Scottish Water's failure to honour its obligations is considered remote.

Capital management

The directors believe that the company has the capital structure in place to operate the Levenmouth Purification Scheme for the duration of the contract. There have been no changes to the objectives, policies or processes during the years ended 31 March 2011 or 31 March 2012.

Directors

The directors who held office during the year were as follows:

S Hazon
J H J King
N Rutherford

The directors who held office on 31 March 2012 had no interest in the company's shares either during the year or at 31 March 2011.

Supplier payment policy

It is the company's policy in respect of all suppliers to agree payment terms in advance of supply of goods and adhere to those payment terms. Trade creditors at the year end represent 2 days (2011: 2 days) of purchases.

Change of controlling party

On 14 October 2011, Northumbrian Water Group plc (NWG), the company's controlling party at the time, was acquired by UK Water (2011) Limited (UKW). Shares of NWG were delisted from the London Stock Exchange on the same date and it was re-registered as a private limited company under the name Northumbrian Water Group Limited. UKW is indirectly wholly owned by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited and Li Ka Shing Foundation Limited.

Directors' report (continued)

Indemnification of directors

UKW has in place directors' and officers' insurance. On 28 November 2005 NWG entered into a deed of indemnity to grant the directors of NWG and its subsidiaries (together the Group) further protection against liability to third parties.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

Deloitte LLP was appointed auditor in the current year, following the resignation of Ernst & Young LLP. Deloitte LLP has expressed its willingness to continue in office for the ensuing year. A resolution to reappoint Deloitte LLP as auditor will be put to the members at the Annual General Meeting.

By order of the Board

M Beveridge
Secretary
24 September 2012

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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;
- 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 proper 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. 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Caledonian Environmental Services plc

We have audited the financial statements of Caledonian Environmental Services plc for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Caledonian Environmental Services plc

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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.

PFeechan

Paul Feechan (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle Upon Tyne, United Kingdom
25 September 2012

Profit and loss account
for the year ended 31 March 2012

	Note	2012 £000	2011 £000
Continuing operations			
Turnover	2	12,185	12,562
Operating costs	3	(8,779)	(8,255)
Operating profit	3	3,406	4,307
Interest receivable	6	31	44
Interest payable	6	(5,158)	(5,272)
Loss on ordinary activities before taxation		(1,721)	(921)
Tax on loss on ordinary activities	7	(2,030)	(1,739)
Loss on ordinary activities after taxation	18	(3,751)	(2,660)

Statement of total recognised gains and losses
for the year ended 31 March 2012

There are no recognised gains or losses other than the loss attributable to shareholders of the company of £3,751,000 in the year ended 31 March 2012 (2011: £2,660,000).

Balance sheet
at 31 March 2012

	Note	2012 £000	2011 £000
Fixed assets			
Intangible assets	8	4,150	4,296
Tangible assets	9	53,241	55,088
		57,391	59,384
Current assets			
Debtors: due within one year	10	2,569	2,748
Debtors: due after one year	10	11,330	12,030
Cash at bank and in hand	11	4,842	5,217
		18,741	19,995
Creditors: amounts falling due within one year	12	(1,445)	(2,182)
Net current assets		17,296	17,813
Total assets less current liabilities		74,687	77,197
Creditors: amounts falling due after more than one year	13	(76,964)	(76,983)
Accruals and deferred income	14	(1,909)	(1,979)
Deferred tax	15	(5,838)	(4,508)
		(10,024)	(6,273)
Capital and reserves			
Called up share capital	17	50	50
Profit and loss account	18	(10,074)	(6,323)
Shareholders' deficit		(10,024)	(6,273)

The financial statements were approved for issue by the Board of Directors on 24 September 2012 and signed on their behalf by:



J H J King
Director

Notes to the financial statements

1. Accounting policies

Basis of preparation

The financial statements of Caledonian Environmental Services plc were approved for issue by the Board of Directors on 24 September 2012.

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards in the United Kingdom.

A summary of the principal accounting policies is set out below. These have been applied consistently throughout the current and preceding years.

Statement of cash flows

The directors have taken advantage of the exemption in Financial Reporting Standard (FRS) No.1 (revised) from the requirement to include a statement of cash flows in the financial statements on the grounds that the company is wholly owned and its ultimate parent publishes a consolidated statement of cash flows.

Going concern

The company had net liabilities at 31 March 2012 of £10,024,000 (2011: £6,273,000) which includes £18,459,000 (2011: £18,344,000) of subordinated loan stock payable to NSL. The directors have considered the company's detailed budgets and forecasts and confirmation of the ongoing support of the ultimate parent company and have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The operations are expected to be profitable over the term of the contract as interest payments reduce and sufficient cash flows will continue to be generated to repay the debt. Performance to date is in accordance with this expectation.

The directors, having assessed the responses of the directors of the company's intermediate parent company NSL to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of NSL to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the company's financial position and of the enquiries made of the directors of NSL, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Intangible fixed assets

Intangible fixed assets comprise directly attributable bid costs incurred after it is virtually certain that a contract will be obtained, which are capitalised only to the extent that they lead to the creation of an enduring asset which delivers benefits at least as great as the amount capitalised.

Bid development costs are stated at cost, net of amortisation and any provision for impairment. Amortisation is provided on a straight line basis over the 38 year operational phase of the contract.

The directors have rebutted the presumption of a 20 year economic life for intangible assets given by FRS 10 because the economic benefits are expected to be derived from the bid development costs over the entire duration of the operational phase of the contract, being 38 years.

Annual impairment reviews are carried out to ensure that intangible assets are not carried at above their recoverable amounts by reference to the future net cash flows receivable under the terms of the contract.

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets comprise a wastewater treatment scheme and are stated at cost, net of depreciation and any provision for impairment.

Assets that will be replaced or improved by major capital expenditure are depreciated over the period until the capital expenditure is needed in accordance with the company's asset replacement plan. This period ranges from 5 to 38 years. When subsequent capital expenditure takes place it is capitalised as part of the cost of the assets. The remainder of the assets were previously depreciated over the duration of the contract using the annuity method at a rate approximating to the company's cost of capital however during the year a review of this policy was undertaken and the decision was taken to depreciate these assets on a straight line basis with effect from 1 April 2011 as this is considered to be more appropriate. The impact of this is an additional £1,061,000 depreciation for the year.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

The charge for current UK Corporation Tax is based on the profit or loss for the year as adjusted for taxation purposes using the rates of tax enacted or substantively enacted by the balance sheet date.

Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less tax in future periods. Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

As permitted by FRS 19, the company has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post tax yields to maturity that can be obtained on government bonds with similar maturity dates to those of the deferred tax assets and liabilities.

Finance costs

Finance costs relating to the financing of capital expenditure on the wastewater treatment scheme are capitalised at the weighted average cost of the related borrowings up to the date of the commencement of the operational period of the contract.

Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made when there is objective evidence that the company will not be able to recover balances in full.

Turnover

Turnover, which excludes value added tax, represents the fair value of the income receivable in the ordinary course of business for services provided. Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and can be reliably measured based on volumes flowing through the operating plant during the year. Advance payments received under the terms of the company's contract are carried forward as deferred income and released over the performance period of the contract.

1. Accounting policies (continued)

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the profit and loss account.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of the new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

2. Turnover

Turnover, loss after tax and net liabilities are wholly attributable to the continuing principal activity of the company, being the design, construction, financing and operation of the Levenmouth Purification Scheme for Scottish Water, and arise solely within the United Kingdom.

3. Operating profit

This is stated after charging:

	2012 £000	2011 £000
Depreciation of owned assets	2,143	1,022
Amortisation of bid development costs	146	146
Fees payable to the company's auditor for the audit of the company's annual accounts	8	8
Other external charges	5,837	6,045
Other operating costs	573	965
Loss on disposal of tangible fixed assets	72	69
	8,779	8,255

Other external charges represent costs associated with the running of the project, and relate to the costs charged by Caledonian Environmental Treatment Services Limited, the treatment works operator.

4. Directors' emoluments

The directors of the company are remunerated in full by other Group companies. The directors were paid an aggregate amount of £9,000 (2011: £6,000) by these companies in respect of their qualifying services provided to the company.

5. Staff costs

The company did not employ any staff during the year (2011: none).

6. Interest

	2012 £000	2011 £000
Bank deposit interest	31	44
Total interest receivable	31	44
Interest payable to Group undertakings on subordinated loan stock	964	1,065
Interest payable on loans and similar charges	4,068	4,081
Amortisation of issue costs on Eurobond	126	126
Total interest payable	5,158	5,272

7. Taxation

(a) Tax charge on loss on ordinary activities

	2012 £000	2011 £000
Current tax:		
UK corporation tax on profits for the year at 26% (2011: 28%)	-	799
Group relief receivable on losses for the year at 26% (2011: 28%)	(210)	-
Adjustments in respect of prior years:		
-UK corporation tax	(798)	-
-Group relief	1,708	913
Total current tax	700	1,712
Deferred tax:		
Reduction due to opening rate change	(675)	(663)
Decrease in discount arising from above rate change	310	259
Net reduction in opening deferred tax (note 15)	(365)	(404)
Movement in the year at 24% (2011: 26%)		
Origination and reversal of timing differences in the year	(95)	157
Adjustments in respect of prior years	1	6
Undiscounted deferred tax	(94)	163
Decrease in discount arising from current year movements	1,789	268
Movement in the year (note 15)	1,695	431
Total deferred tax	1,330	27
Tax on loss on ordinary activities	2,030	1,739

The prior year group relief charge includes a restatement of amounts receivable from NSL in accordance with the project Tax Relief Agreement following the reduction in the corporation tax rate.

The rate of UK corporation tax was reduced from 26% to 24% on the passing of a resolution under the Provisional Collection of Taxes Act 1968 on 26 March 2012 at which point the new rate was substantively enacted. As a result, deferred tax was restated at 1 April 2011 at the rate at which timing differences are expected to reverse.

7. Taxation (continued)

Finance Act 2012, which was enacted with effect from 17 July 2012, set the main rate of corporation tax for the financial year to March 2013 at 23%. If this rate had been enacted or substantively enacted by the year end, the closing deferred tax liability would have been reduced by £272,000.

Discount has decreased due to a fall in the post tax yields on UK government gilts during the year and the revision to the company's depreciation policy.

(b) Reconciliation of the total tax charge

	2012 £000	2011 £000
Loss on ordinary activities before tax	(1,721)	(921)
Loss on ordinary activities multiplied by standard rate of corporation tax of 26% (2011: 28%)	(447)	(258)
Effects at 26% (2011: 28%) of:		
Expenses not deductible for tax purposes	4	6
Depreciation in respect of non-qualifying items	170	94
(Deduction)/net charge arising from transfer of loan stock	(40)	1,181
Industrial buildings allowances claimed in year	-	(54)
Capital allowances less than/(in excess of) depreciation	103	(168)
Trading losses carried forward	-	(2)
Adjustments in respect of prior years	910	913
Total current tax charge (note 7a)	700	1,712

c) Factors that may affect future tax charges

The government has stated its intention to reduce the UK rate of corporation tax by a further 1% per annum until it reaches 22% on 1 April 2014. Had that rate applied in 2011/12 the closing deferred tax liability would have been reduced by £542,000.

Deferred tax is provided on a discounted basis using post tax yields on UK government gilts. The charge for deferred tax will therefore be influenced by future fluctuations in gilt rates.

8. Intangible assets

	Bid development costs Total £000
Cost:	
At 1 April 2011 and 31 March 2012	5,474
Amortization:	
At 1 April 2011	1,178
Provided during the year	146
At 31 March 2012	1,324
Net book value:	
At 31 March 2012	4,150
At 1 April 2011	4,296

9. Tangible fixed assets

	Wastewater treatment scheme £000
Cost:	
At 1 April 2011	61,632
Additions	368
Disposals	(224)
At 31 March 2012	61,776
Depreciation:	
At 1 April 2011	6,544
Provided during the year	2,143
Disposals	(152)
At 31 March 2012	8,535
Net book value at 31 March 2012	53,241
Net book value at 1 April 2011	55,088

Cumulative net interest capitalised in the cost of tangible assets amounts to £8,423,000 (2011: £8,423,000). No interest was capitalised during the year (2011: nil).

10. Debtors

	2012 £000	2011 £000
Amounts due within one year:		
Amounts owed by other Group undertakings	756	366
Prepayments and accrued income	1,813	2,382
	2,569	2,748

Amounts owed by other Group undertakings includes £nil (2011: £366,000) in respect of tax losses provisionally surrendered by the company.

	2012 £000	2011 £000
Amounts falling due after one year:		
Amounts owed by other Group undertakings	11,330	12,030
	11,330	12,030

Amounts owed by other Group undertakings include £11,330,000 (2011: £12,030,000) in respect of tax losses provisionally surrendered by this company. Payment for group relief is on deferred terms and therefore falls due for payment after one year.

11. Cash at bank

	2012 £000	2011 £000
Cash at bank	4,842	5,217
	4,842	5,217

11. Cash at bank (continued)

Included in cash at bank is £4,576,000 (2011: £4,629,000) for specific purposes stipulated in the company's financing agreements to meet debt and interest repayments and future asset maintenance requirements.

12. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Eurobond	134	226
Amounts owed to other Group undertakings	712	1,206
Trade creditors	9	39
Other taxes and social security costs	225	237
Corporation tax payable	-	366
Accruals and deferred income	365	108
	1,445	2,182

13. Creditors: amounts falling due after one year

	2012 £000	2011 £000
Eurobond	58,505	58,639
Subordinated loan stock due to other Group undertakings	18,459	18,344
	76,964	76,983

During the year, the company issued £964,000 (2011: £527,000) of subordinated loan stock at par. Consideration was by conversion of subordinated loan stock interest falling due within the year. A repayment of subordinated debt was made during the year of £849,000 (2011: £2,200,000). The subordinated loan stock bears a fixed interest rate of 5.25% (2011: 5.25%).

Eurobond

The Eurobond is repayable by instalments. The first repayment date was 30 September 2008 and the remaining repayment dates are half yearly until 31 March 2037.

The Eurobond is secured by fixed and floating charges over the assets of the company.

The Eurobond is net of unamortised issue costs of £2,361,000 (2011: £2,487,000).

The Eurobond bears an interest rate of 6.627% (2011: 6.627%), fixed until maturity.

Subordinated loan stock

The subordinated loan stock shall be repaid at par in instalments or in one lump sum at the option of the lenders subject to there being sufficient monies available. The subordinated loan stock has been issued to NSL in order to provide the company with long term finance and as such the directors consider it appropriate to disclose the subordinated loan stock as falling due after more than one year on the balance sheet.

14. Accruals and deferred income

	Deferred income £000
At 1 April 2011	1,979
Credited to the profit and loss account	(70)
At 31 March 2012	1,909

Deferred income represents advanced payments received for the operation of the plant until 2040.

15. Deferred tax

The deferred tax liability provided in the financial statements comprises:

	2012 £000	2011 £000
Accelerated capital allowances	8,011	8,780
Discount	(2,173)	(4,272)
Discounted provision for deferred tax	5,838	4,508

The movements in deferred taxation during the year are as follows:

	£000
At 1 April 2011	4,508
Reduction due to opening rate change (note 7a)	(365)
	4,143
Movement in year (note 7a)	1,695
At 31 March 2012	5,838

16. Financial instruments

The company's principal financial instruments comprise cash and deposits and loans. The main purpose of these financial instruments is to provide finance for the company's operations. The company's policy is to use financial instruments to manage risk and not for speculative purposes. It seeks to manage risk by fixing a major proportion of interest rates, and by setting terms of debt and deposits to match cash flow requirements. The risks arising from the company's financial instruments are described below:

The principal risks arising from the company's use of financial instruments are interest rate risk and liquidity risk.

The company manages the cash flow impact of interest rate risk by using fixed rate financial instruments.

The company has addressed liquidity risk by ensuring that it has in place shareholder funding in the form of subordinated loan stock and seeks to raise long term borrowings which match the income stream of associated assets. The directors expect the company to generate sufficient operating cash flows to meet the cost of borrowing from completion onwards.

Risk of exposure to external credit risk is concentrated with one party as all sales transactions are with Scottish Water. The maximum credit risk exposure relating to financial assets is represented by the carrying value at the balance sheet date.

17. Issued share capital

		2012 £000	2011 £000
Authorised:			
Allotted, called up and fully paid:	*No.*		
Ordinary shares of £1 each	*50,000*	50	50

18. Reconciliation of shareholders' deficit and movement on reserves

	Share capital £000	*Profit and loss account* £000	*Total share-holders' deficit* £000
At 1 April 2010	50	(3,663)	(3,613)
Loss for the year	-	(2,660)	(2,660)
At 1 April 2011	50	(6,323)	(6,273)
Loss for the year	-	(3,751)	(3,751)
At 31 March 2012	50	(10,074)	(10,024)

19. Related parties

The company is ultimately a wholly owned subsidiary of UKW which produces publicly available consolidated financial statements which include the company. Accordingly, the company is exempt under the terms of Financial Reporting Standard Number 8 "Related Party Disclosures" from the requirement to disclose transactions with other members of the group headed by UKW.

20. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Caledonian Environmental Services Holdings Limited, which is a direct subsidiary of NSL.

In the directors' opinion, the Company's ultimate parent undertaking and controlling party is UKW, which is incorporated in England and Wales. UKW acquired NWG, the previous controlling party, on 14 October 2011.

Copies of UKW's group financial statements, which includes the company, will be available in due course from Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.