

Registered number: 05934106

SITA Northumberland Limited

Directors' report and financial statements

for the period ended 31 March 2008

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SITA Northumberland Limited

Company information

Directors	I Sexton J Morton-Smith G McKenna-Mayes J Scanlon A Peacock S Santoro
Company secretary	SITA UK Limited
Company number	05934106
Registered office	SITA House Grenfell Road Maidenhead Berkshire SL6 1ES
Auditors	Ernst & Young LLP One Bridewell Street Bristol BS1 2AA

SITA Northumberland Limited

Contents

	Page
Directors' report	1 - 4
Auditors' report	5 - 6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9 - 15

SITA Northumberland Limited

Directors' report for the period ended 31 March 2008

The directors present their report and the financial statements for the period ended 31 March 2008.

Principal activities and review of business

The company was incorporated on 13 September 2006. On 1 April 2007 it commenced a contract with Northumberland County Council to provide waste management services for the recycling and disposal of the County's waste for a period of 30 years.

The company's key financial and other performance indicators during the year were as follows:

	2007/8 £'000	2006/7 £'000
Turnover	13,044	-
Operating profit	1,078	(144)
Profit after tax	783	(158)
Shareholder's funds	635	(148)

There were three main priorities for the business during the first full year of operations:

i) The development of Line 3 Energy from Waste (EfW) facility on Teeside and the Materials Recycling Facility (MRF) at West Sleekburn.

The new EfW facility will form the backbone of this long term contract and hence its development is critical to the long term success of the Company. Development started as soon as the contract was signed with Northumberland County Council (the Authority) in December 2006. The contractor responsible for managing construction confirms that the project is ahead of schedule and completion can be expected in mid-2009.

The only major problem to date on the EfW plant has been the connection to the electricity grid for export of electricity produced. The connection was delayed and the cost will be somewhat higher than had been envisaged. This also necessitated the creation of a backup electricity connection to an adjacent site for commissioning of Line 3. The cost overrun is well within the total contingency budget and the delay will not impact on the overall project timetable.

Although the new MRF and transfer station at West Sleekburn was delayed by planning considerations, the construction programme recovered all of these delays and it was completed early. Normal operations commenced in February 2009.

ii) The development of other waste handling facilities in Northumberland, being waste transfer stations and household waste recycling centres.

The construction of a new HWRC at Cramlington has been delayed due to delays in purchasing an appropriate site for the facility. The upgrade of the HWRC at Morpeth was also delayed, but this was due to a change in the Authority's requirements. All other capital works have been completed within the contractual timetable.

The Company now has a network of high quality waste reception facilities which will make Northumberland one of the very best counties in the UK for waste management.

Whilst we will be aiming to complete the final facilities as soon as possible to maximise recycling in the county, neither delay poses any significant threat to the success of this contract.

iii) Operation of the 28 year waste management contract with Northumberland County Council.

The relationship with the Authority will be very important in such a long term contract and we have focussed a significant amount of time on ensuring that proper communications are maintained between the parties. The Authority has reacted in a very professional manner whenever difficulties have been encountered and the relationship with them is very good. This has clearly been a major contributor to the early success of this project.

SITA Northumberland Limited

Directors' report for the period ended 31 March 2008

Principal activities and review of business (continued)

It is pleasing to show a profit in the first full year of operations, which was ahead of expectations. The volume of waste was lower than expected, but this shortfall was more than offset by higher income from the sale of recycled materials (due to a good recycling performance at the HWRC sites) and other cost savings.

In summary, 2007/08 has been a very successful first full year of trading for the Company and we can look to the long term future of this business with confidence.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as operational risks, competitive risks, legislative risks, health & safety risks and financial risks.

Operational risks

The Company's primary operations involve a major public sector contract of 28 years, where default on the contract may result in substantial compensation payments to the client.

The long term contract also exposes the Company to the risk that the contract's revenue profile over the life of the contract may be insufficient to compensate the Company for unforeseen cost increases and hence losses may result. The Company has put in place rigorous tender approval procedures to ensure all material risks are properly considered. The Company's management and review procedures are aimed at ensuring any problems are identified at an early stage and steps are taken to mitigate any losses arising.

Competitive risks

Most of the Company's revenue is derived from long term fixed price contracts and as such is not vulnerable to competitor activity.

Legislative risks

The waste management business is subject to strict legislation and regulation. These standards are subject to continuous revision. Compliance with new standards can impose additional costs on the Company and failure to comply could result in heavy penalties.

The Company has entered into a long term operating subcontract with SITA UK Ltd, an experienced waste operator, to manage day to day operation of the Company's facilities. A non-compliance with legislation caused by the negligence of the operator would result in any associated penalties being recharged to the subcontractor. The Company has the right to terminate the operator subcontract in the event of any material persistent non-compliance with legislation on the part of the operator.

Health & safety risks

Whilst the Company has no direct employees, it acknowledges that subcontractors' employees working within the waste management industry face significant potential hazards in their everyday work. In addition, sites managed by the Company are open to the public and require constant monitoring to ensure that members of the public are not also exposed to significant risks.

The Company encourages subcontractors to meet the highest standards so that the risk to both employees and others visiting Company sites are minimised. Subcontractors are required to report accidents and near misses on a regular basis and these reports are reviewed at Board meetings. Subcontractors are encouraged to take pre-emptive action where risks to employees or members of the public have been identified.

Financial instrument risks

The Company was created as part of a Project Finance structure to manage the provision of waste services for the County of Northumberland over a 28 year period. Financial instruments were used to minimise the long term financial risks associated with such a major project.

Use of derivatives

The Company uses long term interest rate swaps in respect of related borrowings to reduce exposure to interest rate fluctuations.

SITA Northumberland Limited

Directors' report for the period ended 31 March 2008

Principal risks and uncertainties (continued)

The Company uses foreign exchange swaps in respect of related capital expenditure to reduce the exposure to currency fluctuations.

Exposure to liquidity and cash flow risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Cash flow risk is the risk of exposure to variability of cash flows relating to a recognised asset or liability such as interest payments on a variable rate debt.

Funding facilities have been put in place to meet the projected long term cash requirements of the Company and the Company has used interest rate swaps to minimise the level of variable rate debt.

The Company produces long term cash forecasts and monitors cash flows against these on a regular basis to ensure all financial obligations may be met as they fall due.

Results and dividends

The profit for the period, after taxation, amounted to £783,000 (2007 - loss £ 158,000).

The directors do not recommend the payment of a dividend.

Directors

The directors who served during the period were:

I Sexton
C Exford (resigned 28 January 2009)
P Hall (resigned 28 January 2009)
J Morton-Smith
G McKenna-Mayes
C Dupont (resigned 1st October 2008)
J Scanlon (appointed 1 October 2008)
A Peacock (appointed 28 January 2009)
S Santoro (appointed 28 January 2009)

No director who held office on 31 March 2008 had an interest in the company's shares either during the financial year or at 31 March 2008.

Employee involvement

The Company has no direct employees, all provision of services having been subcontracted to third parties.

SITA Northumberland Limited

Directors' report for the period ended 31 March 2008

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). The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- 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 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 1985. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in Annual reports may differ from legislation in other jurisdictions.

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Auditors

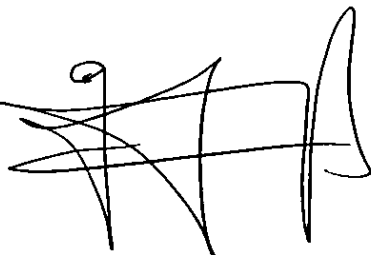
The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

01 MAY 2009

and signed on its behalf.

Director

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, positioned over the word 'Director'.

SITA Northumberland Limited

Independent auditors' report to the shareholders of SITA Northumberland Limited

We have audited the financial statements of SITA Northumberland Limited for the period ended 31 March 2008, which comprise the Profit and loss account, the Balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.


SITA Northumberland Limited

Independent auditors' report to the shareholders of SITA Northumberland Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.


Ernst & Young LLP
Registered auditor
Bristol

Date: 01 MAY 2009

SITA Northumberland Limited

**Profit and loss account
for the period ended 31 March 2008**

	Note	2008 £000	2007 £000
Turnover	1,2	13,044	-
Cost of sales		(9,852)	-
		<hr/>	<hr/>
Gross profit		3,192	-
Administrative expenses		(2,114)	(144)
		<hr/>	<hr/>
Operating profit/(loss)	3	1,078	(144)
Interest receivable		407	-
Interest payable	5	(477)	(14)
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		1,008	(158)
Tax on profit/(loss) on ordinary activities	6	(225)	-
		<hr/>	<hr/>
Profit/(loss) on ordinary activities after taxation	14	783	(158)
		<hr/>	<hr/>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2008 or 2007 other than those included in the Profit and loss account.

The notes on pages 9 to 15 form part of these financial statements.

SITA Northumberland Limited

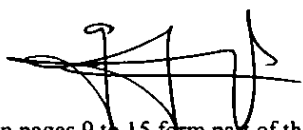
**Balance sheet
as at 31 March 2008**

	Note	£000	2008 £000	£000	2007 £000
Fixed assets					
Intangible fixed assets	7		3,560		3,645
Tangible fixed assets	8		36,516		6,360
			<u>40,076</u>		<u>10,005</u>
Current assets					
Debtors	9	2,493		2,262	
Cash at bank		1,458		-	
		<u>3,951</u>		<u>2,262</u>	
Creditors: amounts falling due within one year	10	<u>(1,712)</u>		<u>(587)</u>	
Net current assets			<u>2,239</u>		<u>1,675</u>
Total assets less current liabilities			<u>42,315</u>		<u>11,680</u>
Creditors: amounts falling due after more than one year	11		(41,455)		(11,828)
Provisions for liabilities					
Deferred tax	12		(225)		-
Net assets/(liabilities)			<u>635</u>		<u>(148)</u>
Capital and Reserves					
Called up share capital	13		10		10
Profit and loss account	14		625		(158)
Shareholders' funds/(deficit)	15		<u>635</u>		<u>(148)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

01 MAY 2009

Director



The notes on pages 9 to 15 form part of these financial statements.

**Notes to the financial statements
for the period ended 31 March 2008**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

1.2 Cash flow

The company has taken advantage of the exemption in Financial Reporting Standard No.1 from the requirement to produce a cash flow statement on the grounds that it qualified as a small company, under section 247 of the Companies Act 1985, in the prior year.

1.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts.

1.4 Pre-contract costs

The company accounts for all pre-contract costs in accordance with UITF Abstract 34 'Pre-contract costs'. Costs incurred before it becomes probable that the contract will be obtained are charged to expenses. Directly attributable costs incurred after that point are recognised in the balance sheet and charged to the income statement over the duration of the contract or, in the case of PFI concessions, over the same period as the Group's interest in any Special Purpose Company ("SPC") charges the equivalent capitalised amounts to its income statement.

Bid recovery fees are deferred and credited to the income statement over the duration of the contract or, in the case of PFI concessions, over the same period as the Group's interest in any SPC charges the equivalent capitalised amounts to its income statement.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Short Leasehold Property	-	Lease term, straight line
Construction in progress	-	Depreciation commences upon completion of the asset

**Notes to the financial statements
for the period ended 31 March 2008**

1. Accounting policies (continued)

1.6 Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding arrangement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- 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 future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Turnover

The whole of the turnover is attributable to the one principal activity of the company being the provision of waste management services to municipal, industrial and commercial customers.

All turnover arose within the United Kingdom.

3. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2008 £000	2007 £000
Depreciation of tangible fixed assets:		
- owned by the company	36	-
Amortisation of pre-contract costs	133	-
Operating lease rentals - plant and machinery	8	8
Operating lease rentals - land and buildings	1,353	1,323
	<u>1,527</u>	<u>1,331</u>

4. Directors' remuneration

	2008 £000	2007 £000
Directors' fees	83	-
	<u>83</u>	<u>-</u>

SITA Northumberland Limited

**Notes to the financial statements
for the period ended 31 March 2008**

5. Interest payable

	2008	2007
	£000	£000
On bank loans and overdrafts	477	14

6. Taxation

	2008	2007
	£000	£000
Analysis of tax charge in the period		
Current tax (see note below)		
UK corporation tax charge on profit/loss for the period	-	-
Deferred tax		
Origination and reversal of timing differences	269	-
Adjustments in respect of prior periods	(44)	-
Total deferred tax (see note 12)	225	-
Tax on profit/loss on ordinary activities	225	-

Factors affecting tax charge for the period

The tax assessed for the period is lower than (2007 - *higher than*) the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2008	2007
	£000	£000
Profit/loss on ordinary activities before tax	1,008	(158)
Profit/loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007 - 30%)	302	(47)
Effects of:		
Expenses not deductible for tax purposes	(14)	-
Capital allowances for period in excess of depreciation	(325)	(56)
Losses carried forward	37	103
Current tax charge for the period (see note above)	-	-

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

SITA Northumberland Limited

**Notes to the financial statements
for the period ended 31 March 2008**

7. Intangible fixed assets

	Pre-contract costs £000
Cost	
At 1 April 2007	3,645
Additions	48
At 31 March 2008	<u>3,693</u>
Amortisation	
At 1 April 2007	-
Charge for the year	133
At 31 March 2008	<u>133</u>
Net book value	
At 31 March 2008	<u>3,560</u>
At 31 March 2007	<u>3,645</u>

8. Tangible fixed assets

	Land and buildings £000	Construction in progress £000	Total £000
Cost			
At 1 April 2007	-	6,360	6,360
Additions	-	30,192	30,192
Transfer between classes	4,076	(4,076)	-
At 31 March 2008	<u>4,076</u>	<u>32,476</u>	<u>36,552</u>
Depreciation			
At 1 April 2007	-	-	-
Charge for the period	36	-	36
At 31 March 2008	<u>36</u>	<u>-</u>	<u>36</u>
Net book value			
At 31 March 2008	<u>4,040</u>	<u>32,476</u>	<u>36,516</u>
At 31 March 2007	<u>-</u>	<u>6,360</u>	<u>6,360</u>

The net book value of tangible fixed assets includes £920,000 (2007: £187,000) relating to capitalised interest. During the year ended 31 March 2008, the amount of interest capitalised was £733,000 (2007: £187,000).

SITA Northumberland Limited

**Notes to the financial statements
for the period ended 31 March 2008**

9. Debtors

	2008	2007
	£000	£000
Other debtors	1,308	1,722
Prepayments and accrued income	1,185	540
	<u>2,493</u>	<u>2,262</u>

**10. Creditors:
Amounts falling due within one year**

	2008	2007
	£000	£000
Bank loans and overdrafts	-	54
Trade creditors	427	-
Accruals and deferred income	1,285	533
	<u>1,712</u>	<u>587</u>

**11. Creditors:
Amounts falling due after more than one year**

	2008	2007
	£000	£000
Bank loans	<u>41,455</u>	<u>11,828</u>

The bank loan comprises: an Equity Bridge Loan which is repayable on the earlier of six months after completion of the company's Energy-from-Waste facility or 1 July 2010; and a Term Loan, which is repayable by six-monthly instalments between 30 September 2010 and 31 March 2033. Interest is payable at a margin above LIBOR. The loan is secured by a fixed and floating charge over the company's present and future assets.

The bank loan balance is shown net of loan arrangement fees of £1,260,000 (2007: £1,345,000). These fees are being amortised to the profit and loss account over the period of the loan. The charge for the year ended 31 March 2008 was £85,000 (2007: £14,000).

12. Deferred taxation

	2008	2007
	£000	£000
At 1 April 2007	-	-
Charge for the period	<u>225</u>	<u>-</u>

SITA Northumberland Limited

**Notes to the financial statements
for the period ended 31 March 2008**

12. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2008 £000	2007 £000
Accelerated capital allowances	356	-
Tax losses carried forward	(131)	-
	<u>225</u>	<u>-</u>

In the prior year there was an unrecognised deferred tax asset of £47,000.

13. Share capital

	2008 £000	2007 £000
Authorised, allotted, called up and fully paid		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

14. Reserves

	Profit and loss account £000
At 1 April 2007	(158)
Profit for the period	783
	<u>625</u>
At 31 March 2008	<u>625</u>

15. Reconciliation of movement in shareholders' funds

	2008 £000	2007 £000
Opening shareholders' deficit	(148)	-
Profit/(loss) for the period	783	(158)
Shares issued during the period	-	10
	<u>635</u>	<u>(148)</u>
Closing shareholders' funds/(deficit)	<u>635</u>	<u>(148)</u>

SITA Northumberland Limited

Notes to the financial statements for the period ended 31 March 2008

16. Related party transactions

During the period the company has capitalised £nil (2007 - £2,700,000) in bid costs recharged by SITA UK Limited. SITA UK Limited also charged the company £10,579,170 (2007 - £798,447) in respect of project management, planning fees and construction costs, which have been capitalised as part of 'Construction in progress'.

The company was charged £9,764,246 (2007 - £nil) by SITA UK Limited for waste management services under an Operation and Maintenance contract between the two companies. The company was also charged £150,000 (2007 - £nil) during the period in respect of administration services provided by SITA UK Limited. At the year end £1,596,281 (2007 - £374,876) is included in creditors relating to amounts owed by the company to SITA UK Limited.

The company also capitalised £nil (2007 - £1,858,541) of investment, financing arrangement and structuring fees charged by Royal Bank of Scotland. The company received interest on bank deposits with Royal Bank of Scotland of £42,669 (2007 - £7,660). At the year end the balance on the company's bank account with Royal Bank of Scotland was £1,458,388 (2007 - overdraft of £54,118).

The company was charged £1,377,435 (2007 - £194,204) in interest charges and £1,675 (2007 - £247) in bank charges by Royal Bank of Scotland at normal market rates. An amount of £424,766 (2007 - £143,403) was also charged in respect of commitment fees on unused loan facilities. At the year end, the loan balance with Royal Bank of Scotland was £42,715,054 (2007 - £13,172,964).

17. Post balance sheet events

There have been no significant events requiring disclosure since the balance sheet date.

18. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is SITA Northumberland Holdings Limited, a company registered in England & Wales. The immediate parent entity is not required to prepare consolidated accounts by virtue of section 248 of the Companies Act 1985.

SITA Northumberland Holdings Limited is owned and controlled by SITA UK Limited (42.5%), Royal Bank Project Investments Limited (42.5%) and AXA Infrastructure Investissement SAS (15%).