

Northumberland Energy Recovery Limited
(formerly SITA Northumberland Limited)

Annual report and financial statements

Registered number 05934106

Year ended 31 March 2016



Company Information

Directors

I Sexton
G McKenna-Mayes
F Duval (appointed 1 March 2016)
K O'Brien
P Would
S Prior (appointed 19 May 2016)
G Jackson (appointed 19 May 2016)

Company secretary

SUEZ Recycling & Recovery UK Limited

Company number

05934106 - incorporated in England & Wales

Registered office

SUEZ House
Grenfell Road
Maidenhead
Berkshire
SL6 1ES

Auditor

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD

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Strategic report

Principal activities

The company has signed a twenty-eight year PFI contract with Northumberland County Council to cover the provision of a waste treatment infrastructure. The contract commenced in December 2006.

The principal activities of the company are to operate the waste treatment infrastructure on behalf of the Council. The infrastructure comprises an Energy from Waste plant (EfW) which the company constructed, together with a number of Household Waste Recycling Centres, Transfer Stations and a Materials Recovery Facility.

Business review

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

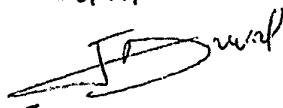
	March 2016 £000	March 2015 £000	Variance £000
Turnover	16,766	15,870	+896 (5.6%)
Operating profit/ (loss)	614	(1,080)	+1,694
Profit after tax	2,297	309	+1,988
Shareholders deficit	(6,064)	(7,769)	+1,705
Current assets as % of current liabilities	367%	449%	
Total assets	113,512	112,044	+1,468 (1.3%)

The company had a satisfactory year of operation with the overall volume of waste treated being in line with the previous year which has resulted in a further improvement in the balance sheet with total assets increasing and a reduction in the shareholders deficit.

The Energy from Waste plant had a planned major maintenance shutdown in March 2016 to carry out a full service of the turbine. The turbine maintenance revealed some damage to the rotor and corrective maintenance was carried out to help avoid future problems with turbine performance. The Energy from Waste plant had also experienced lower than usual availability during 2015, so the Company decided to make some structural changes to the superheater during this shutdown. The superheater upgrade was carried out as planned and the availability of the plant has improved significantly.

The relationship with Northumberland County Council is very good and the Company is actively working with the Council to help them reduce costs in the current difficult financial climate for local authorities.

29/11/2016


Florence Duval

Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2016.

During the year the company changed its name from SITA Northumberland Limited to Northumberland Energy Recovery Limited.

Results and dividends

For the year ended 31 March 2016 the company made a profit after tax of £2,297,000 (2015 - £309,000).

The directors do not recommend the payment of a dividend for the year ended 31 March 2016 (2015 - £Nil).

Future Developments

At the very end of the financial year the company commenced a shutdown of the EfW to facilitate a major maintenance exercise. During the shutdown some components will be replaced by those of a revised design that are expected to improve the performance of the plant in the longer term.

Directors

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

I Sexton
G McKenna-Mayes
K O'Brien
P Would
J McDonagh (resigned 19 May 2016)
A Peacock (resigned 19 May 2016)
C Chapron (resigned 1 March 2016)

No director who held office on 31 March 2016 had an interest in the Company's shares either during the financial year or at 31 March 2016.

Directors' indemnity

The Company has granted indemnity to one or more of its directors against liabilities in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Going Concern

The directors have reviewed the Company's financial position at 31 March 2016 and believe that the Company has adequate financial resources to meet its obligations for the foreseeable future. Long term loans are in place and cash flow is sufficient to meet the Company's operational cash commitments. Accordingly, they have prepared the accounts on a going concern basis.

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.

Directors' report (continued)

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. A proportion of the company's revenue is derived from the sale of recycled materials and this is subject to normal market pressures of supply and demand.

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 SUEZ Recycling & Recovery UK Limited, 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 risks 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 set up 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.

Interest rate risk – The Company's principal financial instrument is a term loan. This loan is exposed to interest rate risk. The Company has entered into a fixed rate swap agreement to avoid volatility in interest charges on its floating rate loan. The Company has applied hedge accounting requirements to account for the derivative swap agreement and the associated loan; their relationships being accounted for as a cash flow hedge – see note 19 to the accounts.

The Company's exposure to credit risk and liquidity risk and the procedures in place to manage these risks are explained in note 19 to the accounts.

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities.

Directors' report (continued)

Employee Involvement

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

Company policy for payment of creditors

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 March 2016, the Company had an average of 0 days purchases outstanding in trade creditors (2015 – 0).

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, 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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union 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 IFRS as adopted by the European Union has been followed subject to any material departures disclosed and explained in the financial statements;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; 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. 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.

Disclosure of information to auditor

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

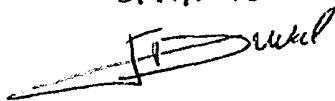
- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditor in connection with preparing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

Auditor

The re-appointment of auditors will be considered at the Company's AGM.

By order of the board

23/11/2016


Florian Dura

Independent auditor's report to the member of Northumberland Energy Recovery Limited

We have audited the financial statements of Northumberland Energy Recovery Limited (for the financial year ended 31 March 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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. This report is made solely to the company's member, 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 member 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 member as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website www.frc.org.uk/auditscopeukprivate.

Opinion

In our opinion 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 profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters 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.

Independent auditor's report to the members of Northumberland Energy Recovery Limited (continued)

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 by the company, 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.



Jonathan Seaman (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
EW1 1DD

30 November 2016

Income Statement
for the year ended 31 March 2016

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Revenue	3	16,766	15,870
Operating expenses	4	(16,152)	(16,950)
Operating profit/ (loss)		614	(1,080)
Financial income	7	7,793	8,024
Financial expense	7	(5,926)	(6,380)
Other losses	7	(1)	(144)
Net financing income		1,866	1,500
Profit before tax		2,480	420
Taxation	8	(183)	(111)
Profit for the year		2,297	309

Statement of Comprehensive Income
for the year ended 31 March 2016


		£000	£000
Profit for the year		2,297	309
Other comprehensive loss – items that will be reclassified to profit and loss			
Effective portion of changes in fair value of cash flow hedges		(97)	(9,518)
Deferred tax on other comprehensive loss	12	(495)	1,904
Other comprehensive loss for the year, net of deferred tax		(592)	(7,614)
Total comprehensive profit/ (loss) for the year		1,705	(7,305)

Balance Sheet
at 31 March 2016

	Note	2016 £000	2015 £000	2014 £000
Non-current assets				
Financial assets	9	96,862	96,889	97,379
Net deferred tax assets	12	1,750	2,428	635
		<u>98,612</u>	<u>99,317</u>	<u>98,014</u>
Current assets				
Trade and other receivables	13	2,941	2,685	5,140
Cash and cash equivalents	14	11,959	10,042	7,734
		<u>14,900</u>	<u>12,727</u>	<u>12,874</u>
Total assets		<u>113,512</u>	<u>112,044</u>	<u>110,888</u>
Current liabilities				
Trade and other payables	16	(1,651)	(1,938)	(2,243)
Interest bearing loans and borrowings	15	(2,405)	(895)	(1,007)
		<u>(4,056)</u>	<u>(2,833)</u>	<u>(3,250)</u>
Non-current liabilities				
Interest-bearing loans and borrowings	15	(84,309)	(86,977)	(89,408)
Other financial liabilities	10	(26,110)	(26,012)	(16,350)
Provisions for liabilities	11	(5,101)	(3,991)	(2,344)
		<u>(115,520)</u>	<u>(116,980)</u>	<u>(108,102)</u>
Total liabilities		<u>(119,576)</u>	<u>(119,813)</u>	<u>(111,352)</u>
Net Liabilities		<u>(6,064)</u>	<u>(7,769)</u>	<u>(464)</u>
Equity				
Share capital	18	10	10	10
Hedging Reserves		(21,098)	(20,506)	(12,892)
Retained earnings		15,024	12,727	12,418
Total Shareholders Deficit - Equity		<u>(6,064)</u>	<u>(7,769)</u>	<u>(464)</u>

These financial statements were approved by the board of directors on 29/11/2016 and were signed on its behalf by:

Director


Florent Duval

Company registered number: 05934106

Statement of Changes in Equity

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2015	10	(20,506)	12,727	(7,769)
Total comprehensive gain for the year				
Profit	-	-	2,297	2,297
Other comprehensive loss	-	(592)	-	(592)
Balance at 31 March 2016	10	(21,098)	15,024	(6,064)

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2014	10	(12,892)	12,418	(464)
Total comprehensive loss for the year				
Profit	-	-	309	309
Other comprehensive loss	-	(7,614)	-	(7,614)
Balance at 31 March 2015	10	(20,506)	12,727	(7,769)

Cash Flow Statement
for the year ended 31 March 2016

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Cash flows from operating activities		
Profit for the year	2,297	309
Adjustments for:		
Financial income	(7,793)	(8,024)
Financial expense	5,926	6,380
Ineffective portion of foreign exchange hedges	1	144
Taxation	183	111
	<hr/> 614	<hr/> (1,080)
(Increase)/decrease in trade and other receivables	(256)	2,455
Decrease in trade and other payables	(287)	(305)
Increase in lifecycle provision	988	1,510
Amortisation of loan and arrangement fees	128	130
	<hr/>	<hr/>
Tax received/ (paid)	-	-
	<hr/>	<hr/>
Net cash outflow from operating activities	1,187	2,710
	<hr/>	<hr/>
Cash flows from investing activities		
Repayment of concession debtor	7,634	8,125
Interest received	58	259
	<hr/>	<hr/>
Net cash from investing activities	7,692	8,384
	<hr/>	<hr/>
Cash flows from financing activities		
Repayment of loan	(895)	(1,007)
Repayment of subordinated loan	(1,000)	(2,500)
Interest paid	(5,067)	(5,279)
	<hr/>	<hr/>
Net cash from financing activities	(6,962)	(8,786)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,917	2,308
Cash and cash equivalents at 1 April	10,042	7,734
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	11,959	10,042
	<hr/>	<hr/>
Cash and cash equivalents represent		
Cash	11,959	10,042

Notes (forming part of the financial statements)

1 Accounting policies

1.1 General information

Northumberland Energy Recovery Limited (the "Company") is a limited company incorporated and domiciled in the UK. These financial statements cover the individual entity only. The address of its registered office is SUEZ House, Grenfell Road, Maidenhead, SL6 1ES.

The company's principal activity is the operation of waste treatment infrastructure.

With effect from 24 March 2016, the name of the Company was changed from SITA Northumberland Limited to Northumberland Energy Recovery Limited.

The company's parent company is Northumberland Energy Recovery Holdings Limited, a limited company incorporated and registered in the UK, which owns 100% of the company's ordinary share capital. The smallest and largest group in which the company is incorporated into is Northumberland Energy Recovery Holdings Limited. The consolidated financial statements of Northumberland Energy Recovery Holdings Limited may be obtained from SUEZ House, Grenfell Road, Maidenhead, SL6 1ES.

The financial statements have been presented in Pounds Sterling as this is the functional currency of the Company and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

1.2 Basis of preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the Companies Act 2006 and The Large and Medium sized Companies and Groups Regulations 2008/410 ("Regulations").

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

In the current year the company has adopted IFRS. In previous years the financial statements were prepared in accordance with applicable UK GAAP. This change in the basis of preparation has materially altered the recognition and measurement requirements previously applied in accordance with UK GAAP. An explanation of the impact of the adoption of IFRS for the first time is include in note 20.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes 1.6 and 1.8.

1.3 Going concern

The Company currently has £86,714,000 of total debt. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it will be able to operate within the level of its current facilities. Long term loans are in place and cash flow is sufficient to meet the Company's operational cash commitments.

Having taken account of all available information, in particular forecasts for the next 12 months from the date of approval of the financial statements, and having performed the appropriate sensitivity analyses; the directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis.

1.4 Classification of financial instruments issued by the Company

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.

Notes (continued)

1 Accounting policies (continued)

1.5 Non-derivative financial instruments, excluding the service concession financial asset

Non-derivative financial instruments comprise trade and other receivables, a service concession financial asset, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances.

Interest-bearing borrowings

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.

1.6 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

The associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

1.7 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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.

1.8 Service concession financial asset

In accordance with IFRIC 12 and the various provisions of IFRS, the Company has determined the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Results of all service concessions which fall within the scope of IFRIC 12 conform to the following policies depending on the rights to consideration under the service concessions:

Service concessions treated as financial assets

The Company recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction or upgrade services provided.

Notes (continued)

1 Accounting policies (continued)

1.8 Service concession financial asset (continued)

Revenue is recognised by allocating a proportion of total cash receivable to construction income and service income. The consideration received will be allocated by reference to the relative fair value of the services delivered, when the amounts are separately identifiable.

During the operational stage, cash received in respect of the service concessions is allocated to service and maintenance revenue based on its fair value, with the remainder being allocated between capital repayment and interest income using the effective interest method.

The financial assets are held as loans or receivables in accordance with IAS39: 'Financial instruments: Recognition and measurement'. Financial Assets are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method less any impairment losses.

The Company has entered into a contract to provide waste management services on behalf of Northumberland County Council. The Company is contractually obliged to design, build and operate waste facilities, including household waste recycling centres, materials recycling centres, civic amenity sites, transfer stations and an Energy from Waste plant on behalf of Northumberland County Council, and has the right to use these facilities to provide waste management services. The grantor (Northumberland County Council) has agreed to provide a minimum guaranteed tonnage of waste to the facility and will pay a fixed price per tonne for this level of waste, with any further tonnage being subject to a different rate. The Company in return, will remove and treat the waste and is obliged to maintain the facilities under lifecycle clauses within the contract.

The Company has the right to both accept and process third party waste, and to generate electricity revenues at the waste facilities.

The contract specifies that the waste management facilities are maintained in an appropriate condition for the length of the contract period.

There are provisions in the contract for termination (and related compensation) in the event of default or voluntary termination by the operator or grantor. There is also provision in the contract for an extension of the contract period.

The service arrangement has been classified as a financial asset under IFRIC 12 due to the highly guaranteed nature of the expected revenues from the contract, which are expected to cover the fair value of the construction services.

1.9 Revenue

Turnover comprises revenue recognised by the Company in respect of goods and services supplied. Revenue is measured at fair value of the consideration received including landfill tax where appropriate, and exclusive of trade discounts, rebates, Value Added Tax and other sales taxes or duty.

Revenue arising from the handling and disposal of waste is recognised on receipt of the waste by the Company.

Revenue from the sale of materials is recognised, based on contractually agreed prices, when the risks and rewards have passed to the buyer, can be reliably measured and the recovery of the consideration is probable.

Revenue arising on generation of electricity and gas is recognised as the energy is generated.

1.10 Financing income and expenses

Financing expenses comprise interest payable using the effective interest method. Financing income comprises interest on the service concession debtor and interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported within finance income or finance expenses as appropriate.

Notes (continued)

1 Accounting policies (continued)

1.11 Taxation

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

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 temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.12 Provisions

Provision has been made for the costs of maintaining and replacing assets as required under the terms of contracts in place with the Council. The Group expects for these costs to be incurred over the contract life. The expected costs are discounted at 2.19% (2015 – 2.14%). The discounting cost is included in finance expense.

1.13 IFRSs issued but unadopted in these financial statements

The following Adopted IFRSs which are relevant to the Company have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 9 'Financial Instruments' (mandatory effective date removed at present).

IFRS 15 'Revenue from Contracts with Customers' (mandatory from period beginning on or after 1 January 2018).

2 Judgments in applying accounting policies and key sources of estimation uncertainty

Due to uncertainties inherent in the estimation process, the Company regularly revises its estimates in light of currently available information. Final outcomes could differ from those estimates.

The key estimates used by the Company in preparing the Financial Statements relate mainly to:

- the measurement of provisions
- the measurement of financial instruments

As well as relying on estimates, the Company management also makes judgments to define the appropriate accounting treatment to apply to certain activities and transactions, when the effective IFRS standards and interpretations do not specifically deal with the related accounting issue.

This particularly applies in relation to the recognition of concession arrangements.

Notes (continued)

3 Revenue

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Rendering of services	12,835	11,523
Sales of goods	1,271	1,574
Generation of electricity	2,660	2,773
Total revenues	<u>16,766</u>	<u>15,870</u>

4 Expenses and auditors' remuneration

Included in the profit for the year are the following:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Service concession costs	16,137	16,935
Auditors' remuneration:		
Audit of these financial statements	15	15
Total expenses	<u>16,152</u>	<u>16,950</u>

5 Staff numbers and costs

No staff are directly employed by the Company (2015: none). Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractor's service charges.

6 Directors' remuneration

The directors received no emoluments directly from the Company (2015: £nil). During the year ended 31 March 2016 and the prior year, SUEZ Recycling and Recovery UK Limited, Equitix Concessions 3 Limited and PPDI AssetCo Limited each charged the Company £10,000 for director services provided.

7 Finance income and expense

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Finance income		
Interest income on financial assets at amortised cost	7,735	7,765
Bank interest	58	54
Other interest	-	205
Total finance income	<u>7,793</u>	<u>8,024</u>

Notes (continued)

7 Finance income and expense (continued)

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
<i>Finance expense on financial liabilities at amortised cost</i>		
Interest expense on financial liabilities– term loans and associated interest swaps	5,067	5,279
Interest expense on financial liabilities– subordinated loan	737	964
Unwinding of discount on lifecycle provision	122	137
	<hr/>	<hr/>
Total finance expense	5,926	6,380
	<hr/>	<hr/>
<i>Other losses</i>		
Ineffective portion of interest rate swaps	1	144
	<hr/>	<hr/>

8 Taxation

Recognised in the income statement

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
<i>Current tax charge</i>		
Current year	-	-
Previous years	-	-
	<hr/>	<hr/>
Current tax charge	-	-
	<hr/>	<hr/>
<i>Deferred tax charge</i>		
Origination and reversal of temporary differences – current year	183	111
Origination and reversal of temporary differences – prior year	-	-
	<hr/>	<hr/>
Deferred tax charge	183	111
	<hr/>	<hr/>
Total tax charge	183	111
	<hr/>	<hr/>

Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2015 – higher than) the standard rate of corporation tax in the UK of 20% (2015 – 21%). The differences are explained below:

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Profit for the year	2,297	309
Total tax charge	183	111
	<hr/>	<hr/>
Profit excluding taxation	2,480	420
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 20% (2015: 21%)	496	88
Costs not allowable for tax	8	29
Reduction in rate on deferred tax balances	(321)	(6)
	<hr/>	<hr/>
Total tax charge	183	111
	<hr/>	<hr/>

Notes (continued)

8 Taxation (continued)

The UK corporation tax rate decreased from 21% to 20% from 1 April 2015. The impact on the current year's tax charge is shown above.

Further reductions to the UK corporation tax rate have been announced that will have an effect on future tax charges. The change in the corporation tax rate to 19% from 1 April 2017 and 18% from 1 April 2020 had been enacted at the balance sheet date and the deferred tax balance has been adjusted to reflect this change.

Further reductions in the rate to 17% from 1 April 2020 have now been announced but not substantively enacted at the balance sheet date, and are therefore not recognised in these financial statements.

9 Financial assets

	2016 £000	2015 £000
Non-current		
Service concession financial asset	95,604	95,503
Other non-current financial assets	1,258	1,386
	<u>96,862</u>	<u>96,889</u>

10 Other financial liabilities

	2016 £000	2015 £000
Non-current		
Derivative financial instruments (see note 19)	26,110	26,012
	<u>26,110</u>	<u>26,012</u>

11 Provisions

	2016 £000	2015 £000
Non-current		
Provision for lifecycle maintenance	5,101	3,991
	<u>5,101</u>	<u>3,991</u>

Provision has been made for the costs of maintaining and replacing assets as required under the terms of the contract with Northumberland County Council. The directors expect that this provision will be utilised over the next 18 years.

Movements in the provision are analysed as follows:

	2016 £000	2015 £000
Provision brought forward	3,991	2,344
Additions	961	960
Unwinding of discount	122	137
Change in discount rate	27	550
Provision carried forward	<u>5,101</u>	<u>3,991</u>

Notes (continued)

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2016 £000	Liabilities 2016 £000	Total assets 2016 £000	Assets 2015 £000	Liabilities 2015 £000	Total assets 2015 £000
Financial assets	-	(2,882)	(2,882)	-	(2,699)	(2,699)
On fair value of cash flow hedges	4,632	-	4,632	5,127	-	5,127
Tax assets/ (liabilities)	4,632	(2,882)	1,750	5,127	(2,699)	2,428
Net tax assets/ (liabilities)	4,632	(2,882)	1,750	5,127	(2,699)	2,428

The deferred tax asset recognised at the end of the year relates to the financial instruments designated as cash flow hedges and timing differences on the recognition of the financial asset for tax purposes.

Movement in deferred tax during the year

	1 April 2015 £000	Recognised in income £000	Recognised in equity £000	31 March 2016 £000
Financial assets	(2,699)	(183)	-	(2,882)
On fair value of cash flow hedges	5,127	-	(495)	4,632
	2,428	(183)	(495)	1,750

Movement in deferred tax during the year ended 31 March 2015

	1 April 2014 £000	Recognised in income £000	Recognised in equity £000	31 March 2015 £000
Financial assets	(2,588)	(111)	-	(2,699)
On fair value of cash flow hedges	3,223	-	1,904	5,127
	635	(111)	1,904	2,428

13 Trade and other receivables

	2016 £000	2015 £000
Other receivables	2,941	2,685
	2,941	2,685

The trade and other receivables above are all current receivables. No financial assets are past due and not impaired at the year end and no financial assets have been impaired at the year end

Notes (continued)

14 Cash and cash equivalents

	2016 £000	2015 £000
Cash and cash equivalents per balance sheet	11,959	10,042
Cash and cash equivalents per cash flow statements	11,959	10,042

15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 19.

	2016 £000	2015 £000
Current liabilities		
Secured bank loans	2,405	895
Non-current liabilities		
Subordinated loan	6,727	6,990
Secured bank loans	77,582	79,987

Terms and debt repayment schedule

	Currency	Nominal interest rate	Facility	Year of maturity	Face value 2016 £000	Carrying amount 2016 £000	Face value 2015 £000	Carrying amount 2015 £000
Term Loan	GBP	LIBOR + 1.2%	£88,086,704	2033	79,987	79,987	80,882	80,882
Subordinated loan	GBP	11%	£9,801,000	2035	6,727	6,727	6,990	6,990
					86,714	86,714	87,872	87,872

The Company entered into swap arrangements in the year ended 31 March 2007 to hedge the Company's exposure to LIBOR fluctuations. The fixed interest rate inherent in the swap contracts is 4.9375%.

The RBS Term loan is due to be repaid by in full by 30 September 2033.

The subordinated loan is a loan from the immediate parent company, Northumberland Energy Recovery Holdings Limited.

The term loans is secured by a fixed charge over the assets of the Company.

Notes (continued)

16 Trade and other payables

	2016 £000	2015 £000
Current		
Other trade payables	-	6
Accruals & other creditors	1,651	1,932
	<u>1,651</u>	<u>1,938</u>

Included within trade and other payables is £nil expected to be paid in more than 12 months (2015 - £Nil).

17 Reserves

Hedging Reserve

Hedging reserves relate to the use of Hedge Accounting as detailed in accounting policy 1.6.

Retained earnings

Retained earnings are distributable reserves made up of accumulated profit and loss.

18 Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
Ordinary shares of £1 each	10	10
	<u>10</u>	<u>10</u>
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	10	10
	<u>10</u>	<u>10</u>

The authorised share capital of the Company is 10,000 £1 ordinary shares. These shares carry voting rights but no rights to fixed income from the Company.

19 Financial instruments

19 (a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables, excluding the service concession financial asset, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Notes (continued)

19 (a) Fair values of financial instruments (continued)

Service concession financial asset

The fair value of service concession financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments

The Company has entered into interest rate swaps to hedge against volatility of movements in interest rates. These have been designated as cash flow hedges.

The fair value of the interest rate swap is based on a mark-to-market valuation. This quote is tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The interest rates used to discount estimated cash flows, where applicable, are based on one month and six month LIBOR yield curves at the balance sheet date.

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2016 £000	Fair value 2016 £000	Carrying amount 2015 £000	Fair value 2015 £000
Financial assets at amortised cost				
Service concession financial asset	95,604	95,604	95,503	95,503
Other non current financial assets	1,258	1,258	1,386	1,386
Cash and cash equivalents	11,959	11,959	10,042	10,042
Trade and other receivables	2,941	2,941	2,685	2,685
Total financial assets	111,762	111,762	109,616	109,616
Non financial assets – net deferred tax	1,750	1,750	2,428	2,428
Total assets	113,512	113,512	112,044	112,044

Notes (continued)

19 (a) Fair values of financial instruments (continued)

	Carrying amount 2016 £000	Fair value 2016 £000	Carrying amount 2015 £000	Fair value 2015 £000
Financial liabilities				
Other interest-bearing loans	86,714	86,714	87,872	87,872
Trade and other payables	1,651	1,651	1,938	1,938
Total financial liabilities	88,365	88,365	89,810	89,810
Derivatives designated as hedging instruments – interest rate swaps	26,110	26,110	26,012	26,012
Non financial liabilities – provisions	5,101	5,101	3,991	3,991
Total liabilities	119,576	119,576	119,813	119,813

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities classified as cash flow hedges	-	26,110	-	26,110
2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities classified as cash flow hedges	-	26,012	-	26,012

19 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company will receive its revenue from a government body and therefore is not considered to be exposed to significant credit risk. The Company holds bank accounts and enters into interest rate swap agreements with financial institutions. The quality of these is reviewed on a regular basis.

Notes (continued)

19 (b) Credit risk (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore the maximum exposure to credit risk at the balance sheet date was £111,762,000 being the total of the carrying amount of financial assets and trade and other receivables shown in the table shown in 19 (a). This exposure is all in the UK.

19 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company has adopted a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet obligations as they fall due.

The directors have reviewed the Company's cashflow forecasts. These forecasts demonstrate that the Company expects to meet its liabilities as they fall due.

Repayment of the loans is not required until the waste facilities are fully operational and revenue is receivable under the terms of the Concession Agreement.

Notes (continued)

19 Financial instruments (continued)

19 (c) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2016						2015					
	Carrying amount £000	Contract- ual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5years and over £000	Carrying amount £000	Contract- ual cash flows £000	1 year or less £000	1 to <2years £000	2 to 5years <5years over £000	
Non-derivative financial liabilities												
Secured bank loans	79,987	79,987	2,405	2,543	11,398	63,641	80,882	80,882	895	2,405	9,914	
Subordinated loans	6,727	6,727	-	-	-	6,727	6,990	6,990	-	-	6,990	
Trade and other payables	1,651	1,651	1,651	-	-	-	1,938	1,938	1,938	-	-	
Derivative financial liabilities												
Interest rate swaps used for hedging	26,110	34,939	3,523	3,415	9,380	18,621	26,012	38,519	3,580	3,523	9,835	
	114,475	123,304	7,579	5,958	20,778	88,989	115,822	128,329	6,413	5,928	19,749	
											96,239	

Notes (continued)

19 Financial instruments (continued)

19 (d) Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur and are also expected to affect profit or loss:

	2016						2015					
	Carrying amount	Expected cash flows	1 year or less	1 to <2years	2 to <5years	5years and over	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2years £000	2 to 5years £000	and over £000
Interest rate swaps:												
Liabilities	26,110	34,939	3,523	3,415	9,380	18,621	26,012	38,519	3,580	3,523	9,835	21,581
	<u>26,110</u>	<u>34,939</u>	<u>3,523</u>	<u>3,415</u>	<u>9,380</u>	<u>18,621</u>	<u>26,012</u>	<u>38,519</u>	<u>3,580</u>	<u>3,523</u>	<u>9,835</u>	<u>21,581</u>

During the year ended 31 March 2016 £97,000 of the reduction in fair value of cash flow hedges (2015 - £9,518,000) has been deemed to be effective and recognised in other comprehensive income. During the year £1,000 (2015 - £144,000) has been deemed to be ineffective and therefore has been recognised in profit or loss.

Notes (continued)

19 Financial instruments (continued)

19(e) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The Company manages interest rate risk by having swapped its variable rate debt into a fixed rate agreement at the start of the project and manages foreign exchange risk by entering into certain foreign exchange forward contracts.

Interest rate risk

The term and bridging loans are exposed to interest rate risk.

The Company has entered into a fixed interest swap agreements to avoid volatility in debt service costs on its floating rate term loan. It is considered that this agreement constitutes a cash flow hedge.

Market risk – Interest rate risk

Profile

At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments was

	2016 £000	2015 £000
Fixed rate instruments		
Financial assets	95,604	95,503
Financial liabilities – subordinated loan	(6,727)	(6,990)
	<u>88,877</u>	<u>88,513</u>
Variable rate instruments		
Financial assets	-	-
Financial liabilities – term loan	(79,987)	(80,882)
	<u>(79,987)</u>	<u>(80,882)</u>

Sensitivity analysis

No sensitivity analysis is presented as the majority of the variable rate interest costs have been fixed by means of interest rate swap contracts.

19 (f) Capital management

The Company manages its cash, bank loans and equity as capital. The Company's principal objective is to ensure that the Company has sufficient capital to fund its operations and maintenance obligations. Capital requirements and timings are reviewed regularly based on the requirement to make payments to subcontractors and lenders; and forecasts and models are used to monitor the management of cash resources. Loans are in place for the duration of the contract with Northumberland County Council.

Notes (continued)

20 First time adoption of IFRS

The date of transition to IFRS is 1 April 2014. The Company has applied IFRS 1 'First-time Adoption of International Financial Reporting Standards' (IFRS1) in preparing these first IFRS financial statements.

Upon transition, IFRS 1 permits certain exemptions from full retrospective application of IFRS. The Company has applied the mandatory exemptions as set out below:

- Financial assets and liabilities that had been de-recognised before the date of transition to IFRS under previous GAAP have not been recognised under IFRS.
- Hedge accounting has only been applied in the opening statement of financial position where all the requirements in IAS39 were met at the date of transition.
- The Company has used estimates under IFRS that are consistent with those applies under previous GAAP (with adjustment where necessary for accounting policy differences).

The company has not taken advantage of any optional exemptions provided under IFRS1.

Equity at the date of transition and at 31 March 2014 can be reconciled to the amounts reported under previous GAAP as follows:

	1 April 2014			31 March 2015		
	UK GAAP	Effect of	IFRS	UK GAAP	Effect of	IFRS
	£000	Transition	£000	£000	Transition	£000
Assets						
Non Current						
Pre contract costs	2,761	(2,761)	-	2,627	(2,627)	-
Property, plant & equipment	72,436	(72,436)	-	68,679	(68,679)	-
Service concession Financial asset	-	95,863	95,863	-	95,503	95,503
Other non current assets	-	1,516	1,516	-	1,386	1,386
	75,197	22,182	97,379	71,306	25,583	96,889
Current						
Trade and other receivables	5,140	-	5,140	2,685	-	2,685
Deferred tax assets	195	440	635	296	2,132	2,428
Cash & cash equivalents	7,734	-	7,734	10,042	-	10,042
	13,069	440	13,509	13,023	2,132	15,155
Total Assets	88,266	22,622	110,888	84,329	27,715	112,044
Equity						
Share capital	10	-	10	10	-	10
Other reserves	-	(12,892)	(12,892)	-	(20,506)	(20,506)
Retained earnings	(3,552)	15,970	12,418	(4,686)	17,413	12,727
Total Equity	(3,542)	3,078	(464)	(4,676)	(3,093)	(7,769)
Liabilities						
Non Current						
Borrowings	88,558	850	89,408	86,172	805	86,977
Financial liabilities	-	16,350	16,350	-	26,012	26,012
Other non current liabilities	-	2,344	2,344	-	3,991	3,991
Deferred tax	-	-	-	-	-	-
	88,558	19,544	108,102	86,172	30,808	116,980
Current						
Borrowings	1,007	-	1,007	895	-	895
Trade and other payables	2,243	-	2,243	1,938	-	1,938
	3,250	-	3,250	2,833	-	2,833
Total Liabilities	91,808	19,544	111,352	89,005	30,808	119,813
Total Equity and Liabilities	88,266	22,622	110,888	84,329	27,715	112,044

Notes (continued)

20 First time adoption of IFRS (continued)

The total effect on retained earnings and equity is further analysed as follows:

	1 April 2014	31 March 2015	
	£000	£000	
Adjustments to pre contract costs	(2,761)	(2,627)	a
Adjustments to property, plant and equipment	(72,436)	(68,679)	b
Recognition of service concession financial asset	95,863	95,503	c
Recognition of other non-current assets	1,516	1,386	d
Fair value of financial liabilities	(16,350)	(26,012)	e
Adjustments to non current borrowings	(850)	(805)	d
Recognition of non current provisions	(2,344)	(3,991)	f
Adjustments to tax treatment	440	2,132	
Effect of transition to IFRS on retained earnings and equity	3,078	(3,093)	

Total comprehensive income for the reporting period ended 31 March 2015 can be reconciled to the amounts reported under the previous GAAP as follows:

	y/e 31 March 2015 under UK GAAP	Effect of transition to IFRS	y/e 31 March 2015 under IFRS	
	£000	£000	£000	
Revenue	23,995	(8,125)	15,870	c
Depreciation and amortisation	(3,891)	3,891	-	a, b
Cost of sales & admin expenses	(15,485)	(1,465)	(16,950)	c
Operating profit/ (loss)	4,619	(5,699)	(1,080)	
Finance costs	(6,113)	(267)	(6,380)	b, c
Finance income	259	7,765	8,024	c
Other gains and losses	-	(144)	(144)	
Profit/ (loss) before tax	(1,235)	1,655	420	
Tax expense	101	(212)	(111)	
Profit/ (loss) for the year	(1,134)	1,443	309	
Other comprehensive loss for the year	-	(9,518)	(9,518)	
Deferred tax on other comprehensive loss for the year	-	1,904	1,904	
Total comprehensive loss for the year	(1,134)	(6,171)	(7,305)	

Notes (continued)

20 First time adoption of IFRS (continued)

Notes to the reconciliations

a) Pre contract costs

Under IFRS, the Company no longer recognises Pre Contract Costs as an intangible asset, rather includes such items as a movement within the service concession financial asset (see note c). Consequently, the pre contract costs capitalised under UK GAAP at 1 April 2014 of £2,761,000 are not shown within intangible assets under IFRS. Amortisation previously charged on these assets under previous GAAP is no longer charged directly to the income statement under IFRIC 12. This has led to an increase in profits before tax for the year ended 31 March 2015 of £134,000.

b) Property, plant and equipment

The adoption of IFRIC 12 leads to items previously capitalised as property, plant and equipment (tangible fixed assets) under UK GAAP, now being reflected as a movement within the service concession financial asset (see note c). Consequently, the tangible fixed assets capitalised under UK GAAP at 1 April 2014 of £68,895,000 are not shown within property, plant and equipment under IFRS. Depreciation previously charged on these assets under previous GAAP is no longer charged under IFRIC 12. This has led to an increase in profits before tax for the year ended 31 March 2015 of £3,582,000.

Previous GAAP permitted the capitalisation of interest incurred to finance the construction of tangible fixed assets. Following the adoption of IFRS, capitalisation of such interest is not permitted when using the service concession financial asset approach under IFRIC12. Therefore at 1 April 2014, interest capitalised under UK GAAP of £3,541,000 has been expensed against opening reserves. For the year ended 31 March 2015, depreciation previously charged on this capitalised interest of £175,000 is no longer expensed, leading to an equivalent increase in profit before tax.

c) Service concession financial asset

Under IFRIC 12, the Company recognises a non current financial asset arising out of its concession arrangement with Northumberland County Council. The Company has a contractual right to receive cash from the Council for the construction and operational services provided. A service concession financial asset of £95,863,000 is recognised under IFRIC12 at 1 April 2014. Cash received from the Council is allocated between operational income, capital repayments and interest income. The effects of this on the profit before tax for the year ended 31 March 2015 are as follows:

	£000
Cash receipts treated as capital repayments	(8,125)
Interest income earned on financial asset	7,765
Decrease in profit before tax	(360)

d) Recognition of non current assets

Under previous GAAP, loan commitment fees were expensed as incurred. Under IFRS, the expenses form part of the effective interest rate calculation and are released to the profit and loss as part of the loan interest expense over the life of the term loan. Commitment fees of £678,000 have therefore been recognised as a non current asset at 1 April 2014. During the year ended 31 March 2015, commitment fees of £58,000 have been amortised, leading to an equivalent decrease in profit before tax for the year.

Loan arrangement fees under previous GAAP were netted against the outstanding loan liability. Under IFRS, these are disclosed separately as other non current assets. At 1 April 2014, loan arrangement fees of £850,000 have been reclassified from non current borrowings to non current assets.

Under IFRS, loan arrangement fees are amortised using the effective interest rate method. Under previous GAAP, these were amortised on a straight line basis. The cumulative impact of this at 1 April 2014 is a charge to the profit and loss reserve of £12,000.

Notes (continued)

20 First time adoption of IFRS (continued)

e) Fair value of financial liabilities

Following the adoption of IFRS, derivative financial instruments are recognised at fair value. There was no such requirement under previous GAAP. Consequently, the IFRS financial statements recognise an asset or liability for the fair value of interest rate swaps.

At 1 April 2014, the fair value of the interest rate swap was £ (16,350,000). This has been recognised in other non current liabilities. At 1 April 2014, £235,000 has been recognised as a charge through the profit and loss account in relation to the ineffective portion of the interest rate swaps. For the year ended 31 March 2015, losses arising on interest rate swaps of £9,518,000 have been recognised through reserves, whilst the ineffective element of £144,000 has been reflected as an expense - leading to a decrease in profit before tax.

f) Lifecycle maintenance costs

Under IFRS, provision is made for lifecycle maintenance costs associated with the service concession asset. Such provision is not required under previous GAAP. At 1 April 2014, a lifecycle maintenance provision of £2,344,000 has been recognised upon adoption of IFRS. For the year ended 31 March 2015, a further provision of £1,647,000 has been made, resulting in an equivalent expense and decrease to the profit before tax.

21 Commitments

Capital commitments

The Company has no capital commitments at 31 March 2016 (2015 - £Nil).

22 Related parties

During the year, the following transactions took place between the Company and SUEZ Recycling & Recovery UK Limited, a 42.5% shareholder in Northumberland Energy Recovery Holdings Limited:

	Transactions 2016 £000	Outstanding at 31 March 2016 £000	Transactions 2015 £000	Outstanding at 31 March 2015 £000
Waste management services	13,759	1,480	13,627	1,348
Administration services	195	-	199	-
Other recharges including directors fees	25	25	279	-
	<u>13,979</u>	<u>1,505</u>	<u>14,105</u>	<u>1,348</u>

During the year ended 31 March 2016, the Company was charged £10,000 in directors fees by both Equitix Concessions 3 Limited and PPDI AssetCo Limited. Both of these companies own a 28.75% share of Northumberland Energy Recovery Holdings Limited, the parent company of Northumberland Energy Recovery Limited.

The company was charged interest of £737,000 by its parent company Northumberland Energy Recovery Holdings Limited during the year ended 31 March 2016 (2015 - £964,000). At the year end, the balance on this loan is £6,727,000 (2015 - £6,990,000).

The company was charged £71,000 by director I Sexton for directors fees (2015 - £75,000).

Notes (continued)

23 Ultimate parent company and parent company of larger group

The company's immediate parent undertaking is Northumberland Energy Recovery Holdings Limited, a company registered in England & Wales.

At 31 March 2016, Northumberland Energy Recovery Holdings Limited is owned and controlled by SUEZ Recycling and Recovery UK Limited (42.5%), Equitix Concessions 3 Limited (28.75%) and PPDI AssetCo Limited (28.75%).