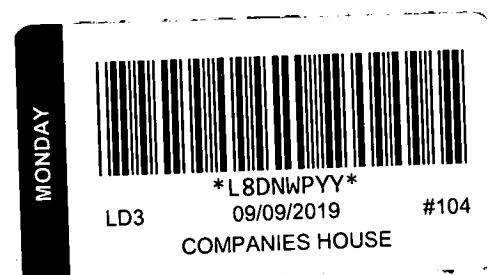


**Northumberland Energy Recovery Limited**

**Annual report and financial statements**

Registered number 05934106

Year ended 31 March 2019



**Company Information**

<b>Directors</b>	I Sexton G McKenna-Mayes F Duval P Would G Jackson A Peacock B Millsom N Wakefield (appointed 18 May 2018) K O'Brien (resigned 18 May 2018)
<b>Company secretary</b>	SUEZ Recycling & Recovery UK Limited
<b>Company number</b>	05934106 - incorporated in England & Wales
<b>Registered office</b>	SUEZ House Grenfell Road Maidenhead Berkshire SL6 1ES
<b>Auditor</b>	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

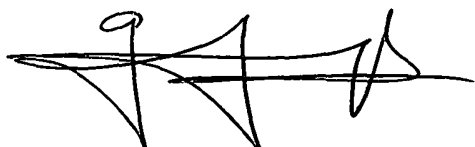
The company's key financial and other performance indicators during the year were as follows:

	31 March 2019 £000	31 March 2018 £000	Variance %
Turnover	20,046	16,224	24%
Operating Loss	(348)	(313)	11%
Profit after tax	1,030	1,432	(28)%
Shareholders funds	1,425	1,750	(18)%
Current assets as % of current liabilities	270%	305%	
Total assets	108,225	110,215	

The company continues to operate in line with expectations with the overall volume of waste treated being in line with the previous year. Increased turnover in the year is as a result of adopting IFRS 15 with third party waste revenue now recognised as turnover and not netted off costs, as it was in the prior year.

A dividend of £1.6m paid in the year has resulted in a decrease in shareholder's funds although this has been offset by the profit in the year.

This report was approved by the board and signed on its behalf on 13 August 2019 by



G McKenna-Mayes – Director

## **Directors' report**

The directors present their directors' report and financial statements for the year ended 31 March 2019.

### **Results and dividends**

For the year ended 31 March 2019 the company made a profit after tax of £1,030,000 (2018 - £1,432,000).

Interim dividends of £1,607,000 were paid in the year ended 31 March 2019 (2018 - £Nil).

### **Future Developments**

The Company's principal customer, Northumberland County Council, continues to explore opportunities to reduce costs in the current difficult financial climate for local authorities. The Company is working with the Authority to evaluate and implement proposals that may help them with their objectives.

### **Directors**

The directors who held office during the year and up to the approval date of the financial statements were as follows:

I Sexton (Chairman)  
F Duval  
G Jackson  
G McKenna-Mayes  
P Would  
A Peacock  
B Millsom  
N Wakefield (appointed 18 May 2018)  
K O'Brien (resigned 18 May 2018)

No director who held office on 31 March 2019 had an interest in the Company's shares either during the financial year or at 31 March 2019.

### **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 2019 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.

### **Impact of Brexit**

The potential impact of Brexit has been considered and the directors are of the opinion that no significant impact is expected to be felt.

### **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.

## **Directors' report** *(continued)*

### *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. 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.

## **Directors' report** *(continued)*

### *Financial instrument risks(continued)*

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.

### **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 2019, the Company had an average of 0 days purchases outstanding in trade creditors (2018 – 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.

**Directors' report** *(continued)*

**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



**G McKenna-Mayes – Director**  
**13 August 2019**



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

### **Opinion**

We have audited the financial statements of Northumberland Energy Recovery Limited for the year ended 31 March 2019 which comprise the Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 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.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **The impact of uncertainties due to Britain exiting the European Union on our audit**

The Directors' view on the impact of Brexit is disclosed on page 5.

The terms on which the United Kingdom may withdraw from the European Union, currently due to occur on 31 October 2019, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the company's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Company and this is particularly the case in relation to Brexit.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Independent auditor's report to the member of Northumberland Energy Recovery Limited (continued)**

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## **Independent auditor's report to the member of Northumberland Energy Recovery Limited (continued)**

### **Responsibilities of Directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of the audit report**

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.



**Jonathan Seaman (Senior Statutory Auditor)  
for and on behalf of Mazars LPP**

*Chartered Accountants and Statutory Auditor*

Tower Bridge House

St Katharine's Way

London

EW1 1DD

21 August 2019

## Income Statement

for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Revenue	3	20,046	16,224
Operating expenses	4	(20,394)	(16,537)
<b>Operating Loss</b>		<b>(348)</b>	<b>(313)</b>
Financial income	7	7,694	7,718
Financial expense	7	(5,671)	(5,747)
Operating Gains	7	5	70
<b>Net financing income</b>		<b>2,028</b>	<b>2,041</b>
<b>Profit on ordinary activities before tax</b>		<b>1,680</b>	<b>1,728</b>
Taxation	8	(650)	(296)
<b>Profit for the year</b>		<b>1,030</b>	<b>1,432</b>

## Statement of Comprehensive Income

for the year ended 31 March 2019

		£000	£000
<b>Profit for the year</b>		<b>1,030</b>	<b>1,432</b>
<b>Other comprehensive income – items that will be reclassified to profit and loss</b>			
Effective portion of changes in fair value of cash flow hedges		304	4,613
Deferred tax on other comprehensive income	12	(52)	(784)
<b>Other comprehensive income for the year, net of deferred tax</b>		<b>252</b>	<b>3,829</b>
<b>Total comprehensive profit for the year</b>		<b>1,282</b>	<b>5,261</b>

All amounts are attributable to continuing operations.

The notes on pages 16-33 form part of the financial statements.

## Balance Sheet

at 31 March 2019

	Note	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Non-current assets</b>			
Financial assets	9	91,886	93,801
		<u>91,886</u>	<u>93,801</u>
<b>Current assets</b>			
Financial assets	9	1,915	1,868
Trade and other receivables	13	3,050	3,043
Cash and cash equivalents	14	11,375	11,503
		<u>16,340</u>	<u>16,414</u>
<b>Total assets</b>		<u>108,226</u>	<u>110,215</u>
<b>Current liabilities</b>			
Trade and other payables	16	(2,256)	(1,808)
Interest bearing loans and borrowings	15	(3,794)	(3,577)
		<u>(6,050)</u>	<u>(5,385)</u>
<b>Non-current liabilities</b>			
Net deferred tax assets	12	(706)	(4)
Interest-bearing loans and borrowings	15	(76,028)	(79,796)
Other financial liabilities	10	(19,513)	(19,821)
Provisions for liabilities	11	(4,504)	(3,459)
		<u>(100,751)</u>	<u>(103,080)</u>
<b>Total liabilities</b>		<u>(106,801)</u>	<u>(108,465)</u>
<b>Net Assets</b>		<u>1,425</u>	<u>1,750</u>
<b>Equity</b>			
Share capital	18	10	10
Hedging Reserves	17	(15,962)	(16,214)
Retained earnings	17	17,377	17,954
<b>Total Shareholders funds - Equity</b>		<u>1,425</u>	<u>1,750</u>

These financial statements were approved and authorised for issue by the board of directors on 13 August 2019 and were signed on its behalf by:

  
G McKenna-Mayes – Director

Company registered number: 05934106

The notes on pages 16-33 form part of the financial statements.

**Statement of Changes in Equity**  
*for the year ended 31 March 2019*

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2018	10	(16,214)	17,954	1,750
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	1,030	1,030
Dividends paid	-	-	(1,607)	(1,607)
Other comprehensive income	-	252	-	252
<b>Balance at 31 March 2019</b>	<b>10</b>	<b>(15,962)</b>	<b>17,377</b>	<b>1,425</b>

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 April 2017	10	(20,043)	16,522	(3,511)
<b>Total comprehensive income for the year</b>				
Profit for the year	-	-	1,432	1,432
Other comprehensive income	-	3,829	-	3,829
<b>Balance at 31 March 2018</b>	<b>10</b>	<b>(16,214)</b>	<b>17,954</b>	<b>1,750</b>

The notes on pages 16-33 form part of the financial statements.

## Cash Flow Statement

for the year ended 31 March 2019

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<b>Cash flows from operating activities</b>		
Profit for the year	1,030	1,432
Adjustments for:		
Financial income	(7,694)	(7,718)
Financial expense	5,671	5,747
Ineffective portion of foreign exchange hedges	(5)	(70)
Taxation	650	296
	<u>(348)</u>	<u>(313)</u>
(Increase) in trade and other receivables	(7)	(198)
Increase/(decrease) in trade and other payables	448	(3,278)
Decrease in lifecycle provision	923	216
Amortisation of loan and arrangement fees	119	123
	<u>1,483</u>	<u>(3,137)</u>
<b>Net cash from/(used in) operating activities</b>	<u>1,135</u>	<u>(3,450)</u>
<b>Cash flows from investing activities</b>		
Repayment of concession debtor	9,417	8,234
Interest received	27	8
	<u>9,444</u>	<u>8,242</u>
<b>Net cash from investing activities</b>	<u>9,444</u>	<u>8,242</u>
<b>Cash flows from financing activities</b>		
Repayment of loan	(3,576)	(2,544)
Repayment of subordinated loan	-	-
Dividends paid	(1,607)	-
Interest paid	(5,524)	(4,794)
	<u>(10,707)</u>	<u>(7,338)</u>
<b>Net cash used in financing activities</b>	<u>(10,707)</u>	<u>(7,338)</u>
Net (decrease) in cash and cash equivalents	(128)	(2,546)
Cash and cash equivalents at 1 April	11,503	14,049
<b>Cash and cash equivalents at 31 March</b>	<u>11,375</u>	<u>11,503</u>
Represented by:		
Cash	<u>11,375</u>	<u>11,503</u>

The notes on pages 16-33 form part of the financial statements.

## Notes (forming part of the financial statements)

### 1 Accounting policies

#### 1.1 General information

Northumberland Energy Recovery Limited (the “Company”) is a private company limited by shares incorporated and domiciled in England and Wales. 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.

The company’s parent company is Northumberland Energy Recovery Holdings Limited, a limited company incorporated and registered in England and Wales, 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.

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 1.8 and 2.

#### 1.3 Going concern

The Company currently has £79,822,000 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 analysis; 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. For trade receivables the simplified approach is used, and the loss allowance is measured at the estimate of the lifetime expected credit losses. The amount of any loss allowance is recognised in profit or loss.

##### *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:

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.8 Service concession financial asset (continued)

##### *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.

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

Service Concession Revenue is measured by a contractual fixed and variable fee less element of guaranteed revenue. Differences between the amounts recognised in the income statement and amount invoiced at the period end are shown in the statement of financial position as a contract asset or contract liability.

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.

Electricity Revenue is recognised at contractual price per Megawatt recognised as the electricity is produced and imported by the plant.

#### 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. The net position of deferred tax assets and liabilities are recognised in the balance sheet.

#### 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 1.73% (2018 – 1.73%). The discounting cost is included in finance expense.

#### 1.13 IFRSs adopted in these financial statements

The adoption of the following mentioned standards, amendments and interpretations in the current year have not had a material impact on the Company's financial statements for the year ended 31 March 2019 with the exception of IFRS 15 'Revenue from Contracts with Customers' whose impact is disclosed below:

- IFRS 9 'Financial Instruments' (mandatory from period beginning on or after 1 January 2018).  
The company has no past record of recognising impairment losses on trade receivables. Based on all information available (including current and forward-looking information), the Company envisages a nil probability of any default occurring during the next 12 months. Therefore, there is no impact from IFRS 9.
- IFRS 15 'Revenue from Contracts with Customers' (mandatory from period beginning on or after 1 January 2018).

The simplified transition method has been adopted by the Company, no restatement of comparatives and third balance sheet has been prepared. There is no impact to the net profit therefore no adjustment required to retained earnings.

Revenue from third party waste is now recognised as revenue and not netted off service concession costs.

Had a full retrospective method been applied, the impact of the adoption would have been an increase in 2018 reported revenue of £3,506,000 and increase to reported operating expenses of £3,506,000.

The adoption of the following mentioned standards, amendments and interpretations in future years are not expected to have a material impact on the Company's financial statements:

• 'Annual Improvements to IFRS Standards 2015–2017 Cycle,'	1 January 2019.
• 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)'	1 January 2019.
• 'Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)'	1 January 2019.
• 'Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)'	1 January 2019.
• IFRIC 23 'Uncertainty over Income Tax Treatments'	1 January 2019
• IFRS 16 'Leases'	1 January 2019
• 'Definition of a Business (Amendments to IFRS 3)'	1 January 2020.
• 'Definition of Material (Amendments to IAS 1 and IAS 8)'	1 January 2020.
• IFRS 17 'Insurance Contracts'	1 January 2021.

## Notes (continued)

### 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 and judgements used by the Company in preparing the Financial Statements relate mainly to:

- **Taxation** – management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.
- **Service concession arrangements** – Consideration from contract with public sector entities for waste management service concessions is treated as either as contract receivables or an intangible asset or a mixture of both based on the right to receive cash from the arrangement. Management have used judgement to determine the fair value of the services provided when splitting the contractual receivables between the construction of assets, the operating of the facilities and the provision of financing. Further details of these arrangements is found in note 1.8.

### 3 Revenue

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Service Concession Revenue	14,970	11,315
Sales of goods	1,702	2,002
Electricity Revenue	3,374	2,907
	<hr/>	<hr/>
Total revenues	20,046	16,224
	<hr/>	<hr/>

In the case of Service Concession Revenue the customer pays a fixed plus variable amount based on the contractual terms. The performance obligation to operate and maintain the facilities is satisfied over time as the plant is operated and maintained. If the services rendered by the company exceed the payment, a contract asset is recognised, if the payments exceed the services rendered a contract liability is recognised.

### 4 Expenses and auditors' remuneration

Included in the profit for the year are the following:

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Service concession costs	20,379	16,506
	<hr/>	<hr/>
	20,379	16,506
<i>Auditors' remuneration:</i>		
Audit of these financial statements	15	15
Non-audit assurance services	-	16
	<hr/>	<hr/>
Total expenses	20,394	16,537
	<hr/>	<hr/>

## Notes (continued)

### 5 Staff numbers and costs

No staff are directly employed by the Company (2018: 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 (2018: £nil). During the year ended 31 March 2019 and the prior year, SUEZ Recycling and Recovery UK Limited, Equitix Capital Eurobond 3 Limited and PPD1 AssetCo 2 Limited each charged the Company £10,000 for director services provided.

### 7 Finance income and expense

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<i>Finance income</i>		
Interest income on financial assets at amortised cost	7,667	7,710
Bank interest	27	8
	<hr/>	<hr/>
Total finance income	<b>7,694</b>	<b>7,718</b>
	<hr/>	<hr/>
	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
<i>Finance expense on financial liabilities at amortised cost</i>		
Interest expense on financial liabilities– term loans and associated interest swaps	4,631	4,794
Interest expense on financial liabilities– subordinated loan	918	846
Unwinding of discount on lifecycle provision	122	107
	<hr/>	<hr/>
Total finance expense	<b>5,671</b>	<b>5,747</b>
	<hr/>	<hr/>
<i>Other Gains</i>		
Ineffective portion of interest rate swaps	5	70
	<hr/>	<hr/>

## Notes (continued)

### 8 Taxation

#### Recognised in the income statement

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Current tax charge		
Current year	-	-
	<hr/>	<hr/>
Current tax charge	-	-
	<hr/>	<hr/>
Deferred tax charge		
Origination and reversal of temporary differences – current year	648	316
Origination and reversal of temporary differences – prior year	2	(20)
	<hr/>	<hr/>
Deferred tax charge	650	296
	<hr/>	<hr/>
Total tax charge	650	296
	<hr/>	<hr/>

#### Factors affecting the tax charge for the year

The tax assessed for the year is lower than (2018 – lower than) the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Profit for the year	1,030	1,432
Total tax charge	650	296
	<hr/>	<hr/>
Profit excluding taxation	1,680	1,728
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 19% (2018: 19%)	319	328
Adjustments in respect of prior year	2	(20)
Costs not allowable for tax	404	24
Reduction in rate on deferred tax balances	(75)	(36)
	<hr/>	<hr/>
Total tax charge	650	296
	<hr/>	<hr/>

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 17% from 1 April 2020 had been enacted at the balance sheet date and the deferred tax balance has been adjusted to reflect this change.

## Notes (continued)

### 9 Financial assets

	2019 £000	2018 £000
<b>Non-current</b>		
Service concession financial asset	91,109	92,911
Other non-current financial assets	777	890
	<u>91,886</u>	<u>93,801</u>
<b>Current</b>		
Service concession financial asset	1,802	1,750
Other financial assets	113	118
	<u>1,915</u>	<u>1,868</u>

### 10 Other financial liabilities

	2019 £000	2018 £000
<b>Non-current</b>		
Derivative financial instruments (see note 19)	19,513	19,821
	<u>19,513</u>	<u>19,821</u>

### 11 Provisions

	2019 £000	2018 £000
<b>Non-current</b>		
Provision for lifecycle maintenance	4,504	3,459
	<u>4,504</u>	<u>3,459</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 17 years.

Movements in the provision are analysed as follows:

	2019 £000	2018 £000
Provision brought forward	3,459	3,136
Additions	923	1,121
Utilised	-	(905)
Unwinding of discount	122	107
Change in discount rate	-	-
	<u>4,504</u>	<u>3,459</u>
Provision carried forward	4,504	3,459

## 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	Liabilities	Total liability	Assets	Liabilities	Total liability
	2019	2019	2019	2018	2018	2018
	£000	£000	£000	£000	£000	£000
Financial assets	-	(3,976)	(3,976)	-	(3,326)	(3,326)
On fair value of cash flow hedges	3,270	-	3,270	3,322	-	3,322
	<u>3,270</u>	<u>(3,976)</u>	<u>(706)</u>	<u>3,322</u>	<u>(3,326)</u>	<u>(4)</u>
Net tax (liabilities)/assets	<u>3,270</u>	<u>(3,976)</u>	<u>(706)</u>	<u>3,322</u>	<u>(3,326)</u>	<u>(4)</u>

The net position of deferred tax assets and liabilities as shown above are recognised in the balance sheet.

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 ended 31 March 2019

	1 April 2018	Recognised in income	Recognised in equity	31 March 2019
	£000	£000	£000	£000
Financial assets	(3,326)	(650)	-	(3,976)
On fair value of cash flow hedges	3,322	-	(52)	3,270
	<u>(4)</u>	<u>(650)</u>	<u>(52)</u>	<u>(706)</u>

#### Movement in deferred tax during the year ended 31 March 2018

	1 April 2017	Recognised in income	Recognised in equity	31 March 2018
	£000	£000	£000	£000
Financial assets	(3,030)	(296)	-	(3,326)
On fair value of cash flow hedges	4,106	-	(784)	3,322
	<u>1,076</u>	<u>(296)</u>	<u>(784)</u>	<u>(4)</u>



## Notes (continued)

### 13 Trade and other receivables

	2019 £000	2018 £000
Trade receivables	-	537
Contract asset	2,706	2,325
Other receivables	344	181
	<u>3,050</u>	<u>3,043</u>

There are no unimpaired trade receivables that are past due as at the reporting date.

No receivables have been written off as uncollectible during the year (2018: £NIL) and it has not been necessary to recognise any impairment loss under the expected lifetime loss model.

### 14 Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents per balance sheet	11,375	11,503
Cash and cash equivalents per cash flow statements	<u>11,375</u>	<u>11,503</u>

Cash and cash equivalents of £9,482,000 (2018: £8,764,000) are held in accounts restricted for the use in debt servicing and the maintenance requirements relating to the facilities operated by the company.

### 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.

	2019 £000	2018 £000
<b>Current liabilities</b>		
Secured bank loans	3,794	3,577
<b>Non-current liabilities</b>		
Subordinated loan	8,358	8,333
Secured bank loans	67,670	71,463
	<u>76,028</u>	<u>79,796</u>

## Notes (continued)

### 15 Interest-bearing loans and borrowings (continued)

#### Terms and debt repayment schedule

	Currency	Nominal interest rate	Facility	Year of maturity	Face value 2019 £000	Carrying amount 2019 £000	Face value 2018 £000	Carrying amount 2018 £000
Term Loan	GBP	LIBOR + 1.2%	£88,086,704	2033	71,464	71,464	75,040	75,040
Subordinated loan	GBP	11.2%	£9,801,000	2035	8,358	8,358	8,333	8,333
					<u>79,822</u>	<u>79,822</u>	<u>83,373</u>	<u>83,373</u>

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 loan is secured by a fixed charge over the assets of the Company.

### 16 Trade and other payables

	2019 £000	2018 £000
<b>Current</b>		
Accruals & other creditors	2,256	1,808
	<u>2,256</u>	<u>1,808</u>

Included within trade and other payables is £nil expected to be paid in more than 12 months (2018 - £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.

## Notes (continued)

### 18 Share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	10	10
	<hr/>	<hr/>
Shares classified as liabilities	-	-
Shares classified in shareholders' funds	10	10
	<hr/>	<hr/>
	10	10
	<hr/>	<hr/>

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*

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.

##### *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.

##### *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.

## Notes (continued)

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

#### 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 2019 £000	Fair value 2019 £000	Carrying amount 2018 £000	Fair Value 2018 £000
<b>Financial assets at amortised cost</b>				
Service concession financial asset	92,911	92,911	94,661	94,661
Other financial assets	890	890	1,008	1,008
Cash and cash equivalents	11,375	11,375	11,503	11,503
Trade and other receivables	3,050	3,050	3,043	3,043
	<u>108,226</u>	<u>108,226</u>	<u>110,215</u>	<u>110,215</u>
Total financial assets				
	<u>108,226</u>	<u>108,226</u>	<u>110,215</u>	<u>110,215</u>
Non financial assets – net deferred tax	-	-	-	-
Total assets	<u>108,226</u>	<u>108,226</u>	<u>110,215</u>	<u>110,215</u>
	Carrying amount 2019 £000	Fair value 2019 £000	Carrying amount 2018 £000	Fair value 2018 £000
<b>Financial liabilities</b>				
Other interest-bearing loans	79,822	79,822	83,373	83,373
Trade and other payables	2,256	2,256	1,808	1,808
	<u>82,078</u>	<u>82,078</u>	<u>85,181</u>	<u>85,181</u>
Total financial liabilities				
	<u>82,078</u>	<u>82,078</u>	<u>85,181</u>	<u>85,181</u>
Derivatives designated as hedging instruments – interest rate swaps	19,513	19,513	19,821	19,821
	<u>19,513</u>	<u>19,513</u>	<u>19,821</u>	<u>19,821</u>
Non financial liabilities – deferred tax	706	706	4	4
Non financial liabilities – provisions	4,504	4,504	3,459	3,459
Total liabilities	<u>106,801</u>	<u>106,801</u>	<u>108,465</u>	<u>108,465</u>

## Notes (continued)

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

#### 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).

2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial liabilities classified as cash flow hedges</b>		<b>19,513</b>		<b>19,513</b>
2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial liabilities classified as cash flow hedges	-	19,821	-	19,821

### 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.

#### 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 £108,226,000 (2018: £110,215,000) 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.

**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:

	2019						2018					
	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 £000	5years and over £000
<b>Non-derivative financial liabilities</b>												
Secured bank loans	71,464	71,464	3,794	4,028	10,704	52,938	75,040	75,040	3,577	3,794	10,365	57,304
Subordinated loans	8,358	8,358	-	-	-	8,358	8,333	8,333	-	-	-	8,333
Trade and other payables	2,256	2,256	2,256	-	-	-	1,808	1,808	1,808	-	-	-
<b>Derivative financial liabilities</b>												
Interest rate swaps used for hedging	19,513	26,102	3,306	3,126	8,398	11,272	19,821	29,579	3,477	3,306	8,890	13,906
	<b>101,591</b>	<b>108,180</b>	<b>9,356</b>	<b>7,154</b>	<b>19,102</b>	<b>72,568</b>	<b>105,002</b>	<b>114,760</b>	<b>8,862</b>	<b>7,100</b>	<b>19,255</b>	<b>79,543</b>

**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:

	2019						2018					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5years and over £000	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5years and over £000
<b>Interest rate swaps:</b>												
Liabilities	19,513	26,102	3,306	3,126	8,398	11,272	19,821	29,579	3,477	3,306	8,890	13,906
	<u>19,513</u>	<u>26,102</u>	<u>3,306</u>	<u>3,126</u>	<u>8,398</u>	<u>11,272</u>	<u>19,821</u>	<u>29,579</u>	<u>3,477</u>	<u>3,306</u>	<u>8,890</u>	<u>13,906</u>

During the year ended 31 March 2019 £4,613,000 of the reduction in fair value of cash flow hedges (2018 - £4,613,000) has been deemed to be effective and recognised in other comprehensive income. During the year £70,000 (2018 - £70,000) 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

	2019 £000	2018 £000
<b>Fixed rate instruments</b>		
Financial assets	92,911	94,661
Financial liabilities – subordinated loan	(8,358)	(8,333)
	<u>84,553</u>	<u>86,328</u>
<b>Variable rate instruments</b>		
Financial liabilities – term loan	(79,822)	(75,040)
	<u>(79,822)</u>	<u>(75,040)</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.

### 20 Commitments

#### Capital commitments

The Company has no capital commitments at 31 March 2019 (2018 - £Nil).



## Notes (continued)

### 21 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	Outstanding at 31 March	Transactions	Outstanding at 31 March
	2019	2019	2018	2018
	£000	£000	£000	£000
Waste management services	17,875	1,351	13,532	1,033
Administration services	212	-	205	-
Other recharges including directors fees	43	15	25	15

During the year ended 31 March 2019, the Company was charged £10,000 in directors fees by both Equitix Capital Eurobond 3 Limited (100% shareholder of Equitix Concessions 3 Limited) and PPDI AssetCo 2 Limited. Equitix Concessions 3 Limited and PPDI AssetCo 2 Limited both 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 £918,000 by its parent company Northumberland Energy Recovery Holdings Limited during the year ended 31 March 2019 (2018 - £846,000). At the year end, the balance on this loan is £8,358,000 (2018 - £8,333,000).

The company was charged £74,000 by director I Sexton for services provided under a consultancy agreement (2018 - £79,000). Mr Sexton receives no fees for acting as a director of the company.

### 22 Post balance sheet events

Following the year end the Directors have proposed and paid interim dividends of £341,000.

### 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 2019, 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 2 Limited (28.75%).

In the opinion of the Directors there is no ultimate controlling party.