

**Viking Consortium Finance Limited**  
**Report and Financial Statements**

31 December 2010

Registered No: 6067517

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COMPANIES HOUSE

# Viking Consortium Finance Limited

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Registered No 6067517

## **Directors**

J Grima Terre

H Meissner

R Milnes-James

V Nicoli

A Santos

M Guerreiro

C Doussinague

P Gerstorm

## **Secretary**

S V Dixon

## **Independent Auditors**

Ernst & Young LLP

1 More London Place

London SE1 2AF

## **Registered Office**

2 Coldbath Square

London EC1R 5HL

## **Bankers**

Barclays Commercial Bank

Level 28

1 Churchill Place

London EC14 2AF

## Directors' report

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2010

### Results and dividends

The consolidated results for the year and financial position of the group and company are as shown in the financial statements. The directors do not propose any dividend for the year ended 31 December 2010 (2009 – £nil)

### Principal activity

The principal activity of the group continued to be the provision of waste management services

In the opinion of the directors the financial statements give a fair view of the development of the business during the year and of its position at the end of the year

### Review of the business

The group, branded Cory Environmental (Cory), operates throughout England and Wales offering integrated waste management solutions to its customers. Cory is a leading provider of waste management and treatment services, including collection and disposal services for commercial and household waste, dry recyclables sorting and power generation using methane gas captured at its landfill sites

### Highlights

On 14 November 2011, the Company's Shareholders (the "Shareholders") reached agreement with the lenders of the Senior and Junior bank facilities to Viking Consortium Acquisitions Limited and Viking Consortium Borrower Limited respectively to revise certain terms of the existing Senior and Junior facilities. The agreement extends the maturity and resets the financial covenants for the Senior and Junior facilities and includes a commitment from the Shareholders to provide additional funding which will be used in part to pay down existing Senior debt with the balance available to finance new projects. Further detail is included in the section below on Going Concern and within Note 1.

The waste industry has been affected by the slow down in the economy and the impact of landfill tax on volumes of waste to landfill. As a result of revising downwards the long term projections, the group has written down the value of the Goodwill at 31 December 2010. However, having reached agreement with the Senior and Junior lenders, secured the support of the Shareholders and recently been awarded preferred bidder status on the Norfolk Waste PFI and the Cornwall Collections contract, the group is well positioned to develop these and other opportunities in its pipeline, and so diversify the group away from its historic dependency on landfill.

In the context of a challenging economic climate and rising landfill taxation the group performed well and continued to deliver strong operating cash flows. There have been a number of encouraging developments both within the year and since the year end that will deliver sustainable growth for the future, and will further progress the group's transition away from more traditional waste disposal solutions to more progressive processes that treat and recover value and energy from the waste.

Key highlights are as follows

- Awarded preferred bidder status on the united Cornwall waste collection and cleansing contract in November 2011 – a contract that is worth £125 million over eight years, and will enable Cory to build on its strategic strength within the region
- Take over of the Riverside Energy from Waste plant in Bexley from the contractor in October 2011 – the plant is permitted to process and extract electrical energy from 670,000 tonnes of waste per annum
- Awarded preferred bidder status on the Norfolk Waste PFI in October 2010 – the Norfolk plant will be capable of processing and extracting electrical energy from 268,000 tonnes of waste annually

## Directors' report

### Review of the business (continued)

- Completion of construction and the commencement of commissioning of the co-mingled Materials Recycling Facility at the Smugglers' Way transfer station, Battersea. The plant is permitted to treat 84,000 of co-mingled dry recyclables, and will give the group access to significant revenues from the sale of recycled commodities, the prices for which increased after the year end
- Achieving increased waste inputs on the previous year to landfill in spite of a well documented downturn in the commercial and industrial markets that have affected all of the waste industry
- The installation of additional landfill gas engine capacity added both within the year and after year end, which will enable the group to increase its revenues from renewable energy

### Landfill services

Inputs to landfill remained strong and a total of 3.3Mt was taken to landfill in the year compared with 2.9Mt in 2009. This gain was achieved in spite of the well documented decline in arisings from Commercial and Industrial sources, which have been felt by the whole of the waste industry. This decline is thought to be due to economic slowdown, and increased diversion from landfill encouraged by the planned increase in landfill tax to £48 per tonne from April 2010.

The weighted average landfill gate fee fell in the year due to a change in the mix of waste received with a greater percentage of inputs from soils and a reduction in waste from Commercial and Industrial sources. This reduction in average gate fee was offset by an increase in total volumes taken to landfill across the portfolio.

Landfill gas production increased on the prior year due to a full year contribution from additional equipment installed during financial year 2009. An additional 4MW of engine capacity was installed in the year. There was a decrease in average "brown" electricity prices on the prior year as several favourable power contracts that were secured at the top of the market expired during the year. After the year end Renewable Obligation Certificate (ROC) accreditation was obtained for two additional landfill locations, which will result in increased revenues in the year to 31 December 2011.

The group's landfill at Mucking closed to active waste on 31 December 2010 and with that the focus at that site now shifts to its restoration and the delivery of the country park.

### Waste management services

The commissioning of the Materials Recycling Facility (MRF) at Smugglers' Way, Wandsworth commenced towards the end of 2010 and will complete later than originally expected. The group continues to work with the contractor to bring the commissioning to completion. During the year the group made its first sales of recycled material processed through the plant. Recycled prices continued to improve throughout the year and have held up post year end.

The collections contracts experienced a challenging year due to the significant increases in fuel prices throughout the year the costs of which were not fully covered by increases in revenue due to the timing of indexation reference dates.

### Recycling and Brokerage business

The recycling and brokerage arm of the business benefitted from the purchase of certain assets of Skips at Home UK, which was completed and successfully integrated during the financial year into existing group operations. In addition to a new customer base the acquisition gives the group greater online presence in the skip brokerage market and access to a management system that will be used to grow the business in future years. Nevertheless the market for skips during the year was depressed by low levels of activity in retail and construction, which have historically been key markets. This meant that turnover and profits from the brokerage business declined on 2009.

## Directors' report

### Riverside Energy from Waste

Construction of Riverside in the group subsidiary entity Riverside Resource Recovery Limited is the group's first Energy from Waste (EfW plant) at Belvedere and progressed well during 2010. Responsibility for the operation of the plant has passed to the company in October 2011 with the expectation that commissioning will complete towards the end of 2012.

### Future developments

On 27 October 2010 Norfolk County Council (NCC) approved the award of the Norfolk Waste PFI contract to Cory Wheelabrator, a joint venture between Viking Consortium Holdings Limited and Wheelabrator Technologies Inc. The EfW plant planned for Norfolk will use the same process technology as Riverside but on a smaller scale - the Norfolk plant will process 268,000 tonnes of waste per year compared to the plant capacity at Riverside of 783,000 tonnes per year. The construction of the Norfolk plant remains subject to finalisation of commercial and financial terms, and planning consent but is expected to commence in 2012 with completion of the plant forecast for 2015.

Cory was awarded preferred bidder status on the united Cornwall waste collection and cleansing contract in 31 October 2011, which will commence from April 2012. The contract is worth £125 million over eight years, and will enable Cory to build on its strategic strength within the region.

The successful progress of the Riverside project and the award of the Norfolk PFI project, positions the group well to capitalise on the opportunities created by the Landfill Directive and the requirement to divert greater volumes of waste away from landfill. Cory continues to review opportunities to develop cost effective smaller scale, next generation waste treatment solutions that offer additional recycling, recovery of resources, renewable energy generation and reduced CO<sub>2</sub> emissions.

### Key financial and other performance indicators

	12 months ended 31/12/2010	12 months ended 31/12/2009
Group turnover - £million	201.1	184.7
Operating (loss)/ profit - £million	(188.3)	5.6
Average number of employees	1,057	1,020

Group turnover includes the increase of landfill tax for active waste by £8 on 1 April 2010 to £48 per tonne. Landfill tax on inactive waste remained at £2.50 per tonne. Landfill tax accounted for £85.1m of the turnover in 2010 (2009: £67.1m).

Group EBITDAP decreased on the prior year reflecting the reduction in net turnover offset by a one off rates rebate relating to the landfill portfolio.

The average number of employees increased on the prior year predominantly relating to the staff employed to work at the Riverside EfW plant.

## **Directors' report**

### **Going concern**

As noted above, on 14 November 2011, the Company's Shareholders (the "Shareholders") reached agreement with the lenders of the Senior and Junior bank facilities to Viking Consortium Acquisitions Limited and Viking Consortium Borrower Limited respectively to revise certain terms of the existing Senior and Junior facilities. The agreement with the Senior and Junior lenders includes an extension to the existing maturity of the facilities and a commitment from the Shareholders to provide additional funding which will be used to in part to pay down existing Senior debt with the balance available to finance new projects.

As at 21 November 2011 there are a number of conditions precedent that need to be completed before the amendments to the bank facilities can take effect - most importantly that the Shareholders make available the additional funding that they have committed. These conditions are outlined in more detail in Note 1. Crucially these conditions are all within the control of the Shareholders. The Shareholders have provided the directors' with sufficient assurances that the outstanding conditions will be satisfied. Therefore the directors' are satisfied there are no material uncertainties with respect to the conditions precedent.

As commented on in more detail in Note 1 to the financial statements, the Company's subsidiary, Riverside Resource Recovery Limited was in default under the terms of its separate Senior Term Facility as at 31 December 2010 due to the insolvency of the guarantor of the lead contractor for the construction of its Energy from Waste ('EfW') facility. This default was remedied on 31 May 2011 after the Company's lenders accepted a replacement contractor guarantor. With the exception of the events noted above, there have been no significant events outside the normal course of business since the balance sheet date.

After making enquiries and having undertaken a detailed forward projection the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future and continue to be compliant with its covenants. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **Employee matters**

The group is aware of the importance of good communication in relationships with its staff. Through training and regular meetings with senior management the group seeks to maintain a common appreciation of the group's performance and encourage an open dialogue as to how to continue to improve operational performance and service delivery to its customers.

During 2010 we ran a number of internal and external training courses to ensure that our staffs were equipped with the skills and knowledge to meet the demands of the changing work environment.

### **Employment of disabled persons**

The group continues its policy regarding the employment of disabled persons and of giving full and fair consideration to applications for employment made by disabled persons having regard to their aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

### **Environmental matters**

The group is dedicated to providing its customers with efficient waste management services while at the same time minimising the impact of its operations on its neighbours and the environment.

Companies across the group have been externally verified for compliance with the international recognised standard ISO 14001, Environmental Management Systems (EMS) continuously since 2002.

## Directors' report

The underlying premise of ISO 14001 is the continuous improvement of environmental performance through self-monitoring and regulation. By implementing ISO 14001 the group can effectively manage its operations to achieve compliance, and minimise resource use.

During 2010 the group used its previous experience with ISO 14001 and ISO 9001 Quality Management Systems (QMS) to enhance its operating practices and procedures into a holistic Integrated Management System (IMS) which ensures that continuously improving performance in Environmental, Quality and Health and Safety Management underpin all of the group's activities.

In December 2009 the IMS was externally verified and certificated, group wide, in compliance with ISO 14001 EMS, ISO 9001 QMS and OHSAS 18001 Health and Safety Management Systems.

Cory is one of the first of London's top 500 companies to sign up to a new initiative by the Mayor of London, called The Green500 scheme, to encourage businesses to reduce their carbon emissions. The Green500 scheme is helping 500 of London's leading organisations to collectively cut their carbon emissions by 1.5 million tonnes over two and half years. During the first year in the Green500 Scheme the group's two sites which participate in the scheme achieved silver and gold awards.

### **Social and community matters**

The group has a policy to support local communities. This support is through direct involvement with the people who live near our major operational sites via community liaison groups. We also support 13 environmental trusts around the country which are funded through the Landfill Tax Credit Scheme. Further details of the trusts are available on the group's website.

### **Health and safety matters**

It is the policy of the group to seek to prevent all personal injuries, dangerous occurrences and damage to property by meeting the standards set by regulations and guidance, and as opportunity permits, setting its own, more stringent standards.

It is the group's policy to ensure that all employees are aware that they have a legal and moral responsibility, for their own safety, for the safety of those who might be affected by their actions, and to co-operate with their employer in Health and Safety matters. Employee consultation and involvement in safety related activities is ensured through safety committees, joint consultative committees and other similar bodies to which all employees have access.

The group operates a 'whistle blowing' system so that safety concerns might be raised by any person without fear of adverse reaction in the knowledge that they will be investigated by person independent of the operational management.

Cory operates a unique system of site visits and meetings known as the Directors' Compliance Review (DCR). The review team consists of at least two members of the Operating Board, plus managers from unrelated parts of the business operations, supported by a Safety Health Environment professional visiting operating locations undertaking a program of meetings and inspections. Every operating location is subject to a DCR review every second year.

In 2003 the group committed itself to the Environmental Services Association (ESA) Accident Reduction Charter as part of which it undertook to reduce the most severe accidents (those reported under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)) by 10% year-on-year for five years. In 2009 the group recommitted itself to a renewed ESA Reduction Charter to achieve a further 10% year-on-year reductions from 2009 to 2014.

## Directors' report

### Significant contractual and other relationships

The group has a number of important relationships with its customers, suppliers and bankers. These relationships are managed by key managers and directors of the individual businesses. The group has arranged its debt finance through a syndicate of banks to access the level of funding required for its leveraged structure individually for the Viking Consortium Holdings Limited group of companies and for Cory Riverside Holdings Limited group of companies. For details of the finance accessed by the group see Note 18 of the financial statements.

### Principal risks and uncertainties

The group's principal risks and uncertainties can broadly be defined as competitive and market, legislative and planning and financial.

#### Competitive and market

The waste market operates on a local level rather than national level due to cost of transportation and political pressures to dispose of waste close to its source. In Cory's local markets significant barriers to entry exist for competitors due to the need for strategically located assets, industry experience and operational track record, knowledge of the compliance and regulatory framework and customer relationships.

Legislation, public and political pressure is requiring the UK waste industry to adapt, become less dependent on landfill for the disposal of its waste and to develop alternative waste treatment solutions. This requirement is generating new business opportunities within the UK waste market for the incumbent waste companies as well as a number of specialist new entrants.

The absolute volume of waste sent to landfill is expected to decline in the medium to long term as waste recycling rates improve and credible, economically and environmentally viable alternatives to landfill are developed. The combination of the anticipated reduction in the number of new sites receiving consent for landfill and the closure of existing sites as they reach the end of their licensed period or available void, is expected to ameliorate the impact of the diversion of waste from landfill that is being incentivized by the landfill tax scheme.

Cory's has invested, and will continue to invest, in waste treatment facilities that provide an alternative to landfill such as the Energy from Waste plant at Belvedere, the Material Recycling Facility in Wandsworth, and the planned EfW plant in Norfolk. Such facilities will ensure that Cory's waste management portfolio is well diversified against the drive to divert waste away from landfill in the longer term. Such treatment facilities are exposed to their own commercial and market risks including long term trends in waste gatefees, long term electricity prices, and recycled commodity markets. These risks are similar to those that Cory is already exposed to through its landfill assets and other commercial waste operations, and have a proven track record in managing.

Although the sector has seen some consolidation and the entrance of some of the larger facilities management companies, the municipal waste collection market in England continues to be fragmented with a relatively large number of small private contractors. Cory works closely with its customers to provide additional services such as kerb-side collection of mixed recyclables and green waste collection to enable Local Authorities to achieve their recycling targets. As an incumbent contractor and through its Best Value approach Cory is often best placed to undertake these services.

#### Legislative and planning

To encourage recycling and diversion from landfill a number of fiscal instruments have been introduced, namely:

- (a) Landfill Tax, £48 per tonne for the tax year 2010/11 will increase by £8 per annum rising to £80 per tonne in 2014. No further increases have been announced for the period from 2014. The lower rate for inactive or inert waste remains at £2.50 per tonne. The definitions of wastes that should qualify for the lower rate of tax are under constant review. It is likely that these definitions will be further restricted in future resulting in more waste being charged at the standard rate.



## Directors' report

(b) Landfill Allowance Trading Scheme (LATS), granted Local Authorities an allowance of Biodegradable Municipal Waste (BMW) to be taken to landfill. Local Authorities that fail to operate within their allowance will be charged a penalty of £150 per tonne. The Department for Environment Food and Rural Affairs (defra) announced in June 2011 that this scheme will be withdrawn in 2013 due to the progress being made in meeting the EU Landfill Diversion Targets, in part a success attributed to the effectiveness of Landfill Tax in delivering reductions in the amount of waste being sent to landfill.

(c) Legislative risks will always exist in areas of environmental compliance as increasing controls are introduced to control emissions and reduce the burden on the environment. The recent introduction of the Pollution Prevention and Control (PPC) permitting regime has, and will continue to, result in more onerous operating standards. Although none has come forward to date, the potential for changes and developments in industry best practice to require Cory to review its accounting and measurement of long term aftercare provisions will remain in the coming years.

There will always exist risks associated with increasingly stringent Health, Safety and Welfare requirements resulting from the implementation of European Directives, developments in industry best practice, the advancement in scientific knowledge and further research work on the occupational health impacts of work in refuse sorting activities (MRF's) is underway.

Personnel from the group are active on key Government-industry committees through which such legislation and practices will emerge providing both advanced warning of, and the ability to influence, emerging risks.

Planning risks exist and the criteria that planning applications have to meet continue to evolve. Cory has a highly competent in-house planning team and in consultation with this team the group will continue to adapt to the changes in planning legislation and update its short to medium term strategy accordingly.

### Financial

The group has established financial management control processes whose objective is to monitor the group's financial performance and risks at a business unit level and to ensure sufficient working capital exists.

#### (a) Risk relating to leverage debt position

As at 31 December 2010 the group had external debt of £727.5m (2009 £596.5 million) (excluding shareholder loan notes). This represents a gearing ratio of 96% (excluding shareholder loan notes) (2009 69%). The increase is due to the drawdown to fund the construction of the Riverside facility. As a result of this leveraged structure the group is exposed to interest rate risk, liquidity risk and cash flow risk and covenant compliance risk.

##### (i) Interest rate risk –

The group is exposed to interest rate risk on its debt which bears interest at variable rates. Increases in these rates result in increased interest expense and increased interest payment. The group controls these interest rate risks through the use of derivatives, specifically interest rate and inflation rate swaps. The application of these derivatives economically converts the hedged portions of variable-interest debt from variable to fixed interest. As at 31 December 2010 100% (2009 100%) of the Riverside EfW borrowings and 68% (2009 77%) of the corporate borrowings were hedged, resulting in an effective rate of 6.9% (2009 6.8%).

##### (ii) Liquidity risk –

Liquidity risk is the risk that an entity may encounter difficulties in meeting obligations associated with meeting its financial liabilities as they fall due. The group aims to mitigate liquidity risk by having a strong positive operating cash flow. The group has a revolving credit facility of £40 million to manage liquidity risk and finance short term working capital. At the year end this facility was undrawn.

## Directors' report

### (iii) Cash flow risk –

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability such as future interest payments. The group manages this risk through regular cash flow forecasts, monitoring and strict management of its working capital and planning for known future significant cash flow movements.

### (iv) Covenant compliance risk

The group are required per the terms of the Senior Finance facilities to comply with certain financial covenant measures. The group manages the risk of covenant compliance through regular review of financial performance and long term cash flow forecast.

### **(b) Use of derivatives**

The group uses forward foreign exchange contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The group also uses interest rate swaps to adjust interest rate exposures in order to guarantee fixed interest payments where payments are variable and hence exposed to interest rate movements. The group also uses inflation swaps for a percentage of revenues that are exposed to annual contract indexation increases (or decreases) based on the Retail Price Index (RPI). The inflation swap minimises the exposure to movements in the RPI index and effectively ensures a percentage of the revenues indexed are fixed.

### **(c) Exposure to price risk**

Exposure to contracted inflation linked price increases are mitigated through the use of an inflation swap. Localised competition for waste volumes may result in some downward price pressure. Management continuously review market and competitor behaviour and before responding to price pressure will assess whether lower competitor prices are a short term strategy to gain short term volume or whether their behaviour is symptomatic of a longer term commitment to grow market share at the expense of margins. The group are not subject to collateralisation risk of any its external debts.

### **(d) Exposure to credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Group policies are aimed at minimising such a risk by conducting credit checks where appropriate and by other established credit control procedures. Details of the group's debtors are shown in note 15.

### **(e) Other risk**

The group places all its insurance with leading insurance companies. Obligatory insurances are placed as necessary at competitive rates. All other risks are assessed and identified and where appropriate, insurance cover is purchased, where available, to mitigate these risks. Insurances are reviewed, assessed and renewed on an annual basis capital resource.

Group debt increased by £144.6 million (2009: £190.2 million) in the year predominantly as a result of additional debt facilities drawn to fund the construction and related interest costs of the Riverside plan. As at 31 December 2010 Riverside EfW project debt drawn was £378.2 million (2009: £287.5 million). During the year the group did not utilise its revolver facility and as at 31 December 2010 this facility was not utilised.

### **Future developments**

The directors aim to pursue policies conducive to the well being of the company, its employees and shareholders. Opportunities to expand existing businesses and to branch out into new areas are kept under constant review, evaluated and implemented if financially and operationally feasible.

### **Development Costs**

The development costs incurred relate to third party costs incurred in preparing tenders for new business projects.

## Directors' report

### Political and charitable contributions

The group has been a strong supporter of the Landfill Tax and the associated Credit Scheme since its inception more than ten years ago. The group predominantly makes its charitable contributions through two mechanisms, first, through locally functioning trusts, specifically set up for the purpose, and secondly, more 'strategic' projects funded through regional or national organisations whose aims and objectives fit with those of the group.

The group made charitable contributions through the trusts of more than £4.2 million during the year 2010. The group did not make any political contributions.

### Corporate governance

The Board comprises a non-executive Chairman, six non-executive investor directors (where each shareholder's interest is represented by two non-executive investor directors), seven alternate non-executive investor directors and two executive directors from the company, being the Chief Executive Officer and Chief Finance Officer. During the year the company's previous non-executive Chairman, John Roberts, resigned to pursue other interests and opportunities. The Chairman role is now fulfilled by Hans Meissner. The Chief Executive Officer is responsible for the operations of the group and for the development of strategic plans and initiatives for consideration by the Board.

The Board meets regularly, normally eleven times a year, and in addition, separate strategic discussions take place. Matters of significance are reserved for confirmation by the full Board. Matters not reserved for the Board may be delegated to senior management within clearly defined financial parameters.

The company has an Audit Committee which comprises one non-executive director from each shareholder and the non-executive Chairman, one of whom is appointed as Chairman. The Committee normally meets three times a year. External auditors and executive directors are regularly invited to attend meetings. The Committee has the authority to examine any matters relating to the financial affairs and internal controls of the group.

Group internal controls are monitored at regular Director Compliance Reviews which cover all operational and health and safety aspects of the company, independent audits, quarterly business reviews, monthly reporting with performance measured against budgets and a comprehensive annual budget process which requires Board approval. In addition to the annual budget, a long term plan is continuously updated to reflect current performance and strategic aspirations.

The Remuneration Committee comprises one non-executive director from each shareholder and the non-executive Chairman. This Committee determines the specific package for each of the executive directors and for senior employees earning over a predetermined sum. The Committee has access to professional advice, both internally and externally, and may consult the Chief Executive Officer on proposals.

The Investment Committee was formed in 2009 to review and analyse the company's investment opportunities. The Investment Committee comprises a permanent member of each of the shareholders, the Chief Executive Officer, the Chief Finance Officer and the company's Development Director. The authority to make the final investment decision remains with the Board but the Investment Committee has been formed to review the opportunities in detail and make recommendations to the Board as to whether it should or should not proceed with the investment opportunity. The Investment Committee meets as and when required but no less frequently than quarterly.

In November 2007 the Walker Report was published, following a request by the British Venture Capital Association and certain major private equity firms. This report provided 'best practice' disclosure guidelines in the annual report and financial statements for those companies defined as UK portfolio companies and private equity firms. For this purpose the company is defined as a UK portfolio company. The directors have welcomed this report and have adopted many of the disclosure recommendations.

## Directors' report

### Directors

The directors who served the company during the year are as listed below

L Abraira <sup>2</sup> (resigned 21 July 2010)	H Meissner <sup>1</sup>
N Arenas <sup>2</sup> (appointed 6 July 2010)	D Mora <sup>2</sup> (appointed 28 January 2010)
S G Batey <sup>1</sup> (resigned 13 May 2010)	R L Milnes-James
J Cano <sup>2</sup> (resigned 16 June 2010)	V K Nicoli <sup>1</sup>
C Doussinague <sup>1</sup> (appointed 28 January 2010)	J E Roberts (resigned 31 October 2010)
C Fernandes <sup>2</sup>	A F C Santos <sup>1</sup>
P A Gerstrom (appointed 28 July 2010)	S Springett <sup>2</sup>
P Gomez <sup>2</sup> (resigned 1 April 2010)	J Grima Terre <sup>1</sup>
C Guerreiro <sup>1</sup>	M J Ward (resigned 23 July 2010)
C M Lloyd <sup>2</sup>	

<sup>1</sup> Investor Directors

<sup>2</sup> Alternate Investor Directors

All the directors who are eligible offer themselves for re-election

Appropriate directors' and officers' liability insurance cover is in place in respect of all the company's directors

### Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards

### Disclosure of information to the auditors

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

### Post balance sheet events

On 14 November 2011 the Company's Shareholders concluded negotiations with the lenders to Viking Consortium Acquisition Limited and Viking Consortium Borrower Limited on the extension to the maturity of the current term loans and hedging arrangements and certain other revisions to the terms of the current facilities. The Company's Shareholders have agreed to invest additional funds into the Company which will be used to pay down £41.0m of the Senior Acquisition Facility and to provide additional funding to assist the Company in the financing of new projects. The lenders have agreed to extend the maturity of the additional term loans and hedging arrangements by 18 months and to revise the terms of the financial covenants.

The Company's subsidiary, Riverside Resource Recovery Limited, was in default under its Senior Term Facility at 31 December 2010. The default was remedied on 31 May 2011 following the acceptance by the Senior Term lenders of a replacement guarantor for the primary contractor for the construction of the Energy from Waste plant.

## Directors' report

### Post balance sheet events (continued)

On 11 October 2011, the Group's Technical Advisor, Fichtner certified that the group's Energy from Waste plant at Riverside had achieved its next significant milestone and had successfully passed its Operability tests. The responsibility for the management of the plant now passes to the company as the plant now begins a 15 month period of trials and commissioning.

Cory Environmental Municipal Services was awarded preferred bidder status on the united Cornwall waste collection and cleansing contract in 31 October 2011. The eight year contract commences on 1<sup>st</sup> April 2012.

### Auditors

In accordance with s 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting to reappoint Ernst & Young LLP as auditors of the group.

On behalf of the board



Mr R L Milnes-James  
Director

22 November 2011

Date

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.<sup>3</sup>

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.

## **Independent auditor's report**

### **to the members of Viking Consortium Finance Limited**

We have audited the financial statements of Viking Consortium Finance Limited for the year ended 31 December 2010 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and accompanying cash flow notes and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement on page 13 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 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 (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

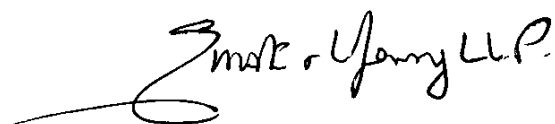
## **Independent auditor's report**

### **to the members of Viking Consortium Finance Limited**

#### **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 parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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

A handwritten signature in black ink, appearing to read 'Eamonn McGrath', with a large, stylized flourish extending from the bottom left.

Eamonn McGrath (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

London

22 November 2011



## Group profit and loss account

for the year ended 31 December 2010

		Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
	Notes		
<b>Turnover</b>	2	201,103	184,666
Cost of sales		(145,892)	(137,662)
<b>Gross profit</b>		55,211	47,004
Administrative expenses			
Before exceptional items		(55,977)	(41,384)
Impairment of goodwill	6	(188,534)	-
<b>Group operating (loss)/profit</b>	3	(189,300)	5,620
Profit on sale of tangible fixed assets		317	344
Interest receivable and similar income	7	434	608
Interest payable and similar charges	8	(37,299)	(30,353)
<b>Group loss on ordinary activities before taxation</b>		(225,848)	(23,781)
Tax on loss on ordinary activities	9	540	(4,442)
<b>Group Loss for the financial year</b>		(224,308)	(28,223)

## Group statement of total recognised gains and losses

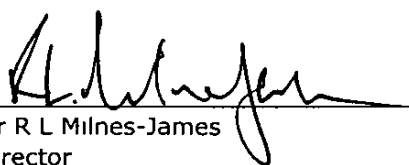
for the year ended 31 December 2010

		Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
	Notes		
<b>Loss for the financial year</b>		(224,308)	(28,223)
Actual return less expected return on pension scheme assets	24	107	87
Changes in assumptions underlying the present value of pension scheme liabilities	24	(23)	(392)
Experience gains arising on pension scheme liabilities	24	-	108
<b>Total recognised losses relating to the year</b>		(224,224)	(28,420)

## Group balance sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Intangible assets	11	262,749	479,827
Tangible assets	12	464,044	358,474
		<u>726,793</u>	<u>838,301</u>
<b>Current assets</b>			
Stocks	14	655	524
Debtors	15	32,240	37,885
Cash at bank and in hand		102,345	77,947
		<u>135,240</u>	<u>116,356</u>
<b>Creditors:</b> amounts falling due within one year	16	(465,405)	(99,683)
		<u>(330,165)</u>	<u>16,673</u>
<b>Net current asset/(liabilities)</b>		<u>396,628</u>	<u>854,974</u>
<b>Total assets less current liabilities</b>		<u>396,628</u>	<u>854,974</u>
<b>Creditors:</b> amounts falling due after more than one year	17	(428,268)	(655,986)
<b>Provisions for liabilities</b>	20	(30,638)	(36,867)
Defined benefit pension liability	24	(145)	(236)
		<u>(62,423)</u>	<u>161,885</u>
<b>Net assets</b>		<u>(62,423)</u>	<u>161,885</u>
<b>Capital and reserves</b>			
Called up share capital	21	257,321	257,321
Profit and loss account	22	(319,744)	(95,436)
		<u>(62,423)</u>	<u>161,885</u>
<b>Shareholders' funds</b>	23	<u>(62,423)</u>	<u>161,885</u>

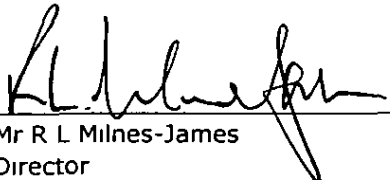
  
Mr R L Milnes-James  
Director

22 November 2011  
Date

## Parent's company balance sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments	13	-	-
<b>Current assets</b>			
Debtors	15	421,395	410,614
Cash at bank and in hand		-	-
		<u>421,395</u>	<u>410,614</u>
<b>Creditors:</b> amounts falling due within one year	16	(36,351)	(32,988)
		<u>385,044</u>	<u>377,626</u>
<b>Net current assets</b>			
		385,044	377,626
<b>Total assets less current liabilities</b>			
		385,044	377,626
<b>Creditors:</b> amounts falling due after more than one year	17	(83,960)	(76,380)
		<u>301,084</u>	<u>301,246</u>
<b>Net assets</b>			
		301,084	301,246
<b>Capital and reserves</b>			
Called up share capital	21	257,321	257,321
Profit and loss account	22	43,763	43,925
		<u>301,084</u>	<u>301,246</u>
<b>Shareholders' funds</b>	23		
		<u>301,084</u>	<u>301,246</u>

  
 Mr R L Milnes-James  
 Director

22 November 2011  
 Date

## Group cash flow

for the year ended 31 December 2010

	Notes	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Net cash inflow from operating activities	A	41,730	43,941
Returns on investment and servicing of finance	B	(19,618)	(23,582)
Taxation		-	(689)
Capital expenditure and financial investment	B	(118,306)	(167,207)
Acquisitions and disposals	B	-	(15)
Net cash outflow before financing		(96,196)	(147,552)
Financing	B	120,592	187,081
Increase in cash in the year	C	24,398	39,529

### Reconciliation of net cash flow to movement in net debt

Increase in cash in the year	C	24,398	39,529
Cash inflow from increase in loans		(137,839)	(194,120)
Change in net debt resulting from cash flows		(113,441)	(154,591)
Amortisation of issue costs		(2,156)	(2,155)
Movement in net debt in the year		(115,597)	(156,746)
Net debt at 1 January 2010	C	(581,261)	(424,515)
Net debt at 31 December 2010	C	(696,858)	(581,261)

## Notes to the group cash flow

at 31 December 2010

### A. Reconciliation of operating profit to net cash inflow from operating activities

	31 December 2010 £'000	31 December 2009 £'000
Operating (loss)/profit	(188,300)	5,620
Depreciation charges	13,053	13,141
Amortisation charges	217,078	26,890
(Decrease)/Increase in provisions	(6,320)	6,093
Decrease in stocks	(131)	(56)
Increase in debtors	5,645	(2,024)
Increase in creditors	705	(3,131)
	<u>41,730</u>	<u>46,533</u>
Movement in inter-group balances	-	(2,592)
Net cash inflow from operating activities	<u>41,730</u>	<u>43,941</u>

### B. Analysis of cash flows for headings netted in the statement of cash flows

	31 December 2010 £'000	31 December 2009 £'000
<b>Returns on investments and servicing of finance</b>		
Interest received	434	487
Interest paid	(20,052)	(20,469)
Dividend paid	-	(3,600)
Net cash outflow for returns on investments and servicing of finance	<u>(19,618)</u>	<u>(23,582)</u>
<b>Capital expenditure and financial investments</b>		
Purchase of tangible fixed assets	(118,623)	(168,622)
Sale of tangible fixed assets	317	587
Amortisation of finance costs capitalised	-	828
Net cash outflow for capital expenditure and financial investment	<u>(118,306)</u>	<u>(167,207)</u>
<b>Acquisitions and disposals</b>		
Acquisitions of new businesses	-	(15)
	<u>-</u>	<u>(15)</u>
Net cash outflow for acquisitions and disposals	<u>-</u>	<u>(15)</u>

## Notes to the group cash flow

at 31 December 2010

### B. Analysis of cash flow for headings netted in the statement of cash flow (continued)

	31 December 2010 £'000	31 December 2009 £'000
<b>Financing</b>		
New long term loans	120,592	187,081
Net cash inflow from financing	<u>120,592</u>	<u>187,081</u>

### C. Analysis of net debt

	1 January 2010 £'000	Cash flow £'000	Non-cash items £'000s	31 December 2010 £'000
Net cash				
Cash at bank and in hand	77,947	24,398	-	102,345
Debt falling due within one year	(3,721)	-	(367,714)	(371,435)
Debt falling due after one year	(672,434)	-	229,863	(442,571)
Issue costs of new long term loans	21,740	-	-	21,740
Amortisation of issue costs	(4,793)	-	(2,144)	(6,937)
	<u>(659,208)</u>	<u>-</u>	<u>(139,995)</u>	<u>(799,203)</u>
Total	<u>(581,261)</u>	<u>24,398</u>	<u>(139,995)</u>	<u>(696,858)</u>

## Notes to the financial statements

at 31 December 2010

### 1. Accounting policies

#### ***Basis of preparation***

The financial statements of Viking Consortium Holdings Limited were approved for issue by the Board of Directors on 21 November 2011. The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

#### ***Basis of consolidation***

The group financial statements consolidate the financial statements of Viking Consortium Holdings Limited and its subsidiary undertakings which are drawn up to 31 December each year. No profit and loss account is presented for the company as permitted by section 408 of the Companies Act 2006.

#### ***Exceptional items***

The Group presents as exceptional items on the face of the profit and loss statement those material items of income and expense which, because of the nature and expected infrequency of events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

#### ***Going concern***

As at 31 December 2010, the group had two external financing arrangements in place, being firstly Senior and Junior facilities raised at the time of the acquisition of Cory Environmental Holdings Limited (CEHL) by Viking Consortium Acquisition Limited which are due to mature in 2014, and secondly a separate Senior loan facility for Riverside Resource Recovery Limited which does not mature until after 2030.

On 14 November 2011, the Company's Shareholders (the "Shareholders") reached agreement with the lenders of the Senior and Junior bank facilities to Viking Consortium Acquisition Limited and Viking Consortium Borrower Limited respectively to revise certain terms of the existing Senior and Junior facilities. The agreement with the Senior and Junior lenders includes an extension to the existing maturity of the facilities and a commitment from the Shareholders to provide additional funding which will be used in part to pay down existing Senior debt with the balance available to finance new projects.

As at 21 November 2011 there are a number of conditions precedent that need to be completed before the amendments to the bank facilities can take effect - most importantly that the Shareholders make available the additional funding that they have committed. These conditions are:

- Injection of cash into the group headed by Viking Consortium Holdings Limited, which will be used to repay Senior bank debt held by Viking Consortium Acquisition Limited
- Provision of a Letter of Credit from a suitably credit worthy institution, which will be drawn upon to repay the Senior bank debt held by Viking Consortium Acquisition Limited at the earlier of the refinancing of the Senior debt or the maturity of the facilities in September 2015. Should it not be possible to procure the issuance of a letter of credit on the agreed terms, the letter of credit will be replaced by an injection of cash of an equivalent value from a shareholder
- Formal documentation of the variation to the current terms of the bank debt held by Viking Consortium Acquisition Limited and Viking Consortium Borrower Limited

Crucially these conditions are all within the control of the Shareholders. The Shareholders have provided the directors with sufficient assurances that the outstanding conditions will be completed. Therefore the directors are satisfied there are no material uncertainties with respect to the conditions precedent.

At this stage the directors do not expect to enter renewal or replacement discussions of the group's facilities until after the Riverside plant has passed its final commissioning trials in late 2012, is operationally proven and has completed a period of trading sufficient to support the plant's longer term prospects. However, having reviewed the group's cash flow prospects, the directors have a reasonable expectation that the group's operating cash flows will support

## Notes to the financial statements

at 31 December 2010

renewal or replacement facilities. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

As at 31 December 2010, the construction of the Energy from Waste plant in London was substantially complete. The plant's technical advisor certified that the plant achieved Takeover on 11 October 2011 when operational control of the plant passed to the group but the facility remains subject to further commissioning tests and trials which are expected to be completed in 2012.

At 31 December 2010, the Company's balance sheet classified the bank debt in place to finance the construction of Riverside as current, with the amounts outstanding shown as repayable within one year. This is due to Riverside Resource Recovery Limited being in default of its Senior Term Facility at 31 December 2010 as a result of the insolvency of the guarantor for the plant's primary contractor. The default was remedied on 31 May 2011 following the acceptance of a replacement guarantor by the Senior Term Facility lender syndicate which has been fully disclosed as an Event after the Balance Sheet Date.

The directors note that the group has considerable existing liquid cash resources together with long-term contracts with a number of customers and suppliers across different geographic areas within the UK. After making enquiries and having undertaken a detailed forward projection the directors have a reasonable expectation that the company and the group will be compliant with the covenant levels as amended in the recent negotiations with the Viking lenders and have adequate resources to continue in operational existence for the foreseeable future in order to meet its obligations and liabilities as they fall due. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

### **Turnover**

Turnover represents the income receivable (including landfill tax and excluding value added tax, inter-company sales and trade discounts) in the ordinary course of business for services provided.

Revenue is recognised at the point when the services have been performed. For municipal contracts this will be at the point of waste collection, and for landfill services this will be upon receipt of waste. Revenue is not recognised until full performance of the service is rendered to the customer.

### **Intangible assets and goodwill**

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial period following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is amortised on a straight line basis over their useful estimated life of up to a maximum of 20 years.

Intangible assets, including licences acquired separately as part of an acquisition, are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition.

Intangible assets are amortised on a straight line basis over their useful estimated life of 3 years. Goodwill and intangible assets are tested for impairment where there is an indicator of impairment within the identified income generating unit.



## Notes to the financial statements

at 31 December 2010

### 1. Accounting policies (continued)

#### **Tangible assets**

Tangible assets are initially recorded at cost. The landfill void is filled in sections or "cells". Site costs incurred during the year in preparing a cell are capitalised and depreciated over the life of that cell once usage of it commences. The provision for the group's minimum unavoidable costs in relation to the final landfill site restoration is capitalised as a fixed asset.

Depreciation is not normally charged in respect of freehold land except in the case of landfill sites where depreciation is charged over the operational life of the site.

Depreciation is provided on all other tangible assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold property	Over the life of the associated site
Long leasehold property	Over the life of the respective contract
Short leasehold property	Over the life of the lease
Plant and machinery	3 to 33 years
Landfill site restoration	Over life of cell(s)
Cell preparation costs	Over life of cell(s)

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

#### **Fixed asset investments**

Investments are held at the lower of cost or net realisable value. The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### **Assets in the course of construction**

Assets in the course of construction are held as tangible fixed assets. Costs that are directly attributable to bringing the asset into working condition for its intended use are capitalised into the carrying value of the asset. Depreciation is charged in respect of the components of the asset once it is in a working condition for use.

Finance costs relating to the construction of the Energy for Waste plant have been capitalised.

#### **Stocks**

Stock, principally raw materials and consumables, is stated at the lower of cost and net realisable value. Cost includes, where appropriate, relevant overheads and is purchased on a first in, first-out basis.

#### **Pre-contract costs**

Internally and externally incurred pre-contract costs are written off to the profit and loss account as incurred except where an asset has been created that justifies the carrying value of the expenditure. Pre-contract costs are treated in line with UITF34 "Pre-Contract Costs", whereby directly attributable costs incurred after the group's appointment as Sole Preferred Bidder are capitalised and written off over the life of the contract. Costs incurred prior to that point are written off immediately.

All internal pre-contract costs are written off to profit and loss account as incurred, except where costs can be clearly identified as attributable to a specific development project and that project is likely to materialise, then those costs will be capitalised.

## Notes to the financial statements

at 31 December 2010

### 1. Accounting policies (continued)

#### **Deferred taxation**

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

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

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

#### **Pensions**

The group participates in a defined benefit pension scheme, this being the Federated Pension Plan. The cost of providing benefits under the defined benefit plans is determined separately for the plan using the [projected unit method], which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised in the profit and loss on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement or curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account.

For this particular scheme, any increase in the present value of the liabilities expected to arise from employee service during the period is charged against the operating profit and included as part of the staff costs. The interest received and the expected returns on assets are shown as interest received. Actuarial gains and losses are recognised immediately in the Statement of Total Recognised Gains and Losses. Pension scheme assets are measured using market values and liabilities on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after net assets excluding pension liabilities on the face of the balance sheet.

The group participates in the Registered Dock Workers Pension Fund in respect of certain employees. This is a defined benefit scheme in which companies across the industry participate. As it is not possible to analyse the assets and liabilities of the scheme between the participating companies, this scheme is treated as a defined contribution scheme.

The group operates the following defined contribution pension schemes:

- The Cory Environmental Voyager Replacement Pension,
- The Cory Environmental Odyssey Replacement Pension,
- The Cory Environmental Nestor Replacement Pension, and
- The Cory Environmental Pension Scheme

These are run on behalf of the employees and operated by Cory Environmental Management Limited in the United Kingdom. Contributions to the schemes are charged to the profit and loss account when payable.

Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

## Notes to the financial statements

at 31 December 2010

### 1. *Accounting policies (continued)*

#### ***Operating leases***

Rentals paid under operating leases are charged to the profit and loss on a straight line basis over the lease term

#### ***Provisions for liabilities***

A provision is recognised when the group has legal or constructive obligations as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

#### ***Landfill restoration***

Full provision is made for the future value of the group's minimum unavoidable costs in relation to restoration liabilities at its landfill sites for each cell as usage commences for that cell. This is capitalised as a fixed asset and depreciated over the life time of the cell(s)

#### ***Aftercare provision***

A provision is maintained against commitments in respect of the future maintenance of landfill sites, which will crystallise over a period estimated to be in the order of 30 years following closure, based on discounted forecast cash flows. An assessment of these future costs is made periodically, and the rate of provision adjusted to reflect current estimates regarding remaining site lives and annual post-closure costs. Provision for all such costs is charged to the profit and loss account on the basis of usage of void space. The unwinding of the discount is charged to the profit and loss account as a finance charge

#### ***Insurance provisions***

The group maintains insurance policies with significant excesses, below which claims are borne by the group. Full provision is made for the estimated costs of claims or losses arising from past events falling outside the limits of these policies

#### ***Other provisions including liabilities, damages and other claims***

Full provision is made for onerous contracts and salvage or repair costs of damage to barges and containers. If in the opinion of the directors, there is a likelihood of claims arising from third parties, these are provided for in the financial statements

#### ***Forward foreign currency contracts***

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The group also uses interest rate swaps to adjust interest rate exposures. The group considers its derivative instruments qualify for hedge accounting when certain criteria are met. The criteria for forward foreign currency contracts are

- the instrument must be related to a firm foreign currency commitment,
- it must involve the same currency as the hedged item, and
- it must reduce the risk of foreign currency exchange movements on the group's operations

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs. Forward foreign currency swaps are not re-valued to fair value or shown on the group balance sheet at the year end

## Notes to the financial statements

at 31 December 2010

### 1. Accounting policies (continued)

#### **Interest rate swaps**

The group's criteria for interest rate swaps are

- the instrument must be related to an asset or a liability, and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not re-valued to fair value or shown on the group balance sheet at the year end. If they are terminated early, the gain/loss is spread over the remaining maturity of the original instrument.

#### **Inflation rate swaps**

The group's criteria for inflation rate swaps are

- the instrument must be either related to an asset or a liability, or a forecast revenue or cost profile, and,
- it must either change the character of the real interest rate by converting a variable rate to a fixed rate or vice versa, or it must exchange a variable inflation rate to a fixed inflation rate.

Inflation differentials are recognised by accruing the net amounts payable or receivable. Interest rate swaps are not re-valued to fair value or shown on the group balance sheet at the year end. If they are terminated early, the gain/loss is spread over the remaining maturity of the original instrument.

#### **Interest-bearing loans and borrowings**

All interest bearing loans and borrowings are initially recognised at net proceeds. After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period.

Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount.

### 2. Turnover

Turnover, which is stated net of value added tax, relates to the group's principal continuing activity, which the directors consider constitutes a single class of business. The geographical origin of turnover was the United Kingdom.

### 3. Operating (loss)/profit

	<i>Year ended 31 December 2010 £'000</i>	<i>Year ended 31 December 2009 £'000</i>
This is stated after charging		
Operating lease rentals – vehicles, plant and equipment	224	423
Operating lease rentals – land and buildings	359	269
Depreciation – owned assets	8,991	9,065
Depreciation – leased assets	4,062	4,076
Goodwill amortisation	28,775	26,890
Auditor's remuneration	275	307

## Notes to the financial statements

at 31 December 2010

### 3. Operating (loss)/profit (continued)

The auditors' remuneration can be analysed as follows

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Audit of the financial statements	186	178
Other fees paid to auditor		
- Taxation services	89	105
- Other assurance services	-	24
	<u>275</u>	<u>307</u>

### 4. Directors' emoluments

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Aggregate emoluments in respect of qualifying services	859,842	772,834
Compensation for loss of office	454,000	245,000
Aggregate contributions to money purchase pension schemes	18,904	14,266
	<u>          </u>	<u>          </u>
	2010 No	2009 No
Number of directors accruing benefits under money purchase scheme	3	2
	<u>          </u>	<u>          </u>

Other information regarding the highest paid director is as follows

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Aggregate emoluments	<u>337,105</u>	<u>385,966</u>

## Notes to the financial statements

at 31 December 2010

### 5. Staff costs

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Wages and salaries	25,039	24,405
Social security costs	2,667	2,521
Other pension costs	827	805
	<u>28,533</u>	<u>27,731</u>

The average monthly number of employees during the year was as follows:

	Year ended 31 December 2010 No	Year ended 31 December 2009 No
Operations	836 5	824 0
Administration	220 5	196 0
	<u>1,057 0</u>	<u>1,020 0</u>

### 6. Exceptional items

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Recognised in arriving at operating profit		
Impairment of goodwill	188,534	-

During the year, the group identified an indicator of impairment as a result of the group not being able to meet the business plan that was put in place at the time of the Viking acquisition in 2007. The original business plan was put in place when active waste landfill tax was only £21/tonne, and a rise to the current 2014 ceiling of £80/tonne was not envisaged.

At the time that the business plan was written it was expected that the vast majority of waste arising would continue to be sent to landfill, and that landfill void would be a scarce asset that could command a price premium. However, the dramatic increase in landfill tax has driven significant volumes of waste away from landfill, and has incentivised the investment in alternative waste treatment and disposal technologies that operate in direct competition with landfill.

While the group has taken steps to diversify its business away from landfill a forecast decline in the prices and volumes of the waste management services, principally those associated with landfill services, relative to those that were previously envisaged highlighted that the group's carrying value of goodwill may not be recovered. As a result of the assessment of the carrying value of goodwill, the group recorded a charge of £188,534,000 during the year.

The tax effect in the profit and loss relating to the exceptional item recorded during the year is £nil.

## Notes to the financial statements

at 31 December 2010

### 7. Interest receivable and similar income

	<i>Year ended 31 December 2010 £'000</i>	<i>Year ended 31 December 2009 £'000</i>
Interest receivable on current bank accounts and deposits	434	608
	<u>434</u>	<u>608</u>

### 8. Interest payable and similar charges

	<i>Year ended 31 December 2010 £'000</i>	<i>Year ended 31 December 2009 £'000</i>
Interest payable on bank loans, and on interest rate and inflation hedges	27,857	19,911
Interest payable on other loans	7,597	7,597
Group interest payable	-	850
Amortisation of deferred finance costs	1,327	1,327
Net finance cost in respect of defined benefit pension schemes (note 23)	5	4
Unwinding of discount on aftercare and restoration provision	513	664
	<u>37,299</u>	<u>30,353</u>

The group recorded a catch-up accrual of £4 35m in relation to the inflation hedge charge.

## Notes to the financial statements

at 31 December 2010

### 9. Tax

#### (a) Tax on loss on ordinary activities

The tax charge is made up as follows

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Current tax		
UK corporation tax on losses in the year	80	452
Adjustments in respect of prior years	(160)	(123)
UK corporation tax (note 8b)	(80)	329
Deferred tax charge (note 8c)	(460)	4,113
Tax on loss on ordinary activities	(540)	4,442

#### (b) Factors affecting current tax charge for the year

The tax assessed for the year is higher (2009 – same) than the standard rate of corporation tax in the UK. The difference is explained below

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Loss on ordinary activities before tax	(224,848)	(23,781)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	(62,957)	(6,658)
Effects of		
Expenses not deductible for tax purposes		
• Goodwill amortisation	8,057	7,529
• Other	3,388	2,641
Impairment of goodwill	52,790	-
Depreciation in advance of capital allowances	1,517	1,511
Tax losses	6,370	-
Other timing differences	(9,085)	(4,571)
Adjustments in respect of prior years	(160)	(123)
Current tax charge	(80)	329



## Notes to the financial statements

at 31 December 2010

### 9. Tax (continued)

#### (c) Deferred tax

Deferred taxation recognised in the financial statements is as follows

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Capital allowances in advance of depreciation	3,311	1,182
Timing differences arising from landfill provisioning	6,703	6,739
Tax losses	7,561	-
Other timing differences*	(16,777)	(7,583)
Deferred tax asset (note 14)	798	338

\*Other timing differences mainly on timing differences arising from capitalised interest in Riverside Resource Recovery Limited

The net deferred tax asset has been recognised on the basis that it is likely that the group will have suitable taxable profits in near future against which the underlying assets will reverse

The deferred tax asset includes an amount of £6,703,000 (2009 £6,739,000) in respect of timing differences arising from landfill provisions (namely, aftercare, restoration, site preparation and cell preparation provisions) Timing differences arise as a tax deduction for aftercare and restoration provision is given on a paid basis and for cell and site preparation provision in respect of the proportion of the cell / site capacity filled during the period

	Year ended 31 December 2010 £'000	Year ended 31 December 2009 £'000
Deferred tax asset at beginning of year	338	4,451
(Charged)/credited to profit and loss account	460	(4,113)
Deferred tax asset at end of year	798	338

#### (d) Corporate tax rate change

During the period, the Finance (No 2) Act 2010 was enacted and included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011 As this change was substantively enacted at the balance sheet date, deferred tax is recognised at 27% in the current period

Further legislation was substantially enacted on 29 March 2011 to reduce the main rate of corporation tax to 26% with effect from 1 April 2011 The Chancellor announced in Budget statements on 22 June and 23 March 2011 that the main rate of corporation tax will reduce by a further 1% each 1 April until reaching 23% with effect from 1 April 2014 The actual impact would be dependent on the deferred tax position at that time

## Notes to the financial statements

at 31 December 2010

### 10. Parent company's result for the year

The parent company's loss for the financial year was £162,530 (2009 profit of £18,068,000)

### 11. Intangible assets

Group	Licenses £'000	Goodwill £'000	Total £'000
<b>Cost or valuation:</b>			
At 31 December 2009	-	555,374	555,374
Additions	91	140	231
At 31 December 2010	91	555,514	555,605
<b>Amortisation:</b>			
At 31 December 2009	-	75,547	75,547
Charge for the period	-	28,775	28,775
	-	188,534	188,534
At 31 December 2010	-	292,856	292,856
<b>Net book value:</b>			
At 31 December 2009	-	479,827	479,827
At 31 December 2010	91	262,658	262,749

Goodwill arising on the acquisition of Cory Environmental Holdings Limited and its subsidiaries is being amortised over the directors' estimate of its useful economic life of 20 years

Intangible asset additions in the year relate to the purchase of a licence for IT system related to a brokerage business

An impairment review has been undertaken to ascertain whether consolidation goodwill arising on the acquisition of Cory Environmental Holdings Limited has been impaired in accordance with FRS 11 Impairment of fixed assets and goodwill. For the purposes of the impairment review, the goodwill has not been allocated between income generating units as it is considered by the directors to relate to the business as a whole. During the year, the group identified an indicator of impairment as a result of a decline in the prices and volumes of the waste management services which highlighted that the group's carrying value of goodwill may not be recovered

## Notes to the financial statements

at 31 December 2010

### 11. Intangible assets (continued)

The review used the company's latest strategic plan which projects forward cash flows for the next twenty-five years to determine the 'value in use' of this business. Key assumptions include, existing contracts are renewed at the end of their existing terms, landfills continue to operate until site closure and thereafter earn landfill gas income for a set number of years, Riverside Energy-from-Waste is fully operational from 2011 and is operational over the plan period. Using discounted pre-financing, post tax cash flows to determine the value of the business the directors have concluded that the carrying value of goodwill has not been impaired.

As a result of the assessment of the carrying value of goodwill, the group recorded a charge of £188,534,000 during the year.

### 12. Tangible assets

Group

	Freehold property £'000	Long leasehold £'000	Short leasehold £'000	Plant and machinery £'000	Assets in course of construction £'000	Totals £'000
<b>Cost:</b>						
At 31 December 2009	86,950	24,709	16,605	62,022	278,960	469,246
Additions	2,107	4,340	23	9,782	102,516	118,768
Transfers <sup>1</sup>	1,005	(4,042)	3,054	8,546	(10,968)	(2,405)
At 31 December 2010	90,062	25,007	19,682	80,350	370,508	585,609
<b>Depreciation:</b>						
At 31 December 2009	37,080	18,636	11,926	43,126	-	110,768
Charge for the period	4,212	2,090	461	6,290	-	13,053
Transfers <sup>1</sup>	5,003	(8,495)	3,591	(2,355)	-	(2,256)
At 31 December 2010	46,295	12,231	15,978	47,061	-	121,565
<b>Net book value:</b>						
At 31 December 2009	49,870	6,073	4,679	18,896	278,960	358,478
At 31 December 2010	43,767	12,776	3,704	33,289	370,508	464,044

Assets in the course of construction comprise an Energy-from-Waste (EfW) plant and Multi-use Recycling Facility (MRF) which are expected to be completed in 2011.

In accordance with FRS 11 'impairment of Fixed Assets and Goodwill' the carrying values of the fixed assets have been considered and are represented by value in use to the group.

The cost of assets in the course of construction includes capitalised interest payable and similar charges of £58,089,000 (2009 £25,046,000). Of this capitalised interest payable and similar charges, £nil (2009 £nil) was recorded in the profit and loss during the year.

<sup>1</sup>These assets were incorrectly classified as long leasehold and plant and machinery assets and have now been reclassified as freehold and shorthold property.

## Notes to the financial statements

at 31 December 2010

### 13. Investments

	2010 £	2009 £
Cost	<u>1</u>	<u>1</u>
Net book value	<u>1</u>	<u>1</u>

In the opinion of the directors, the carrying value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet

The company holds 100% of the equity share capital of the following subsidiary companies  
All entities are incorporated in the UK

#### **Company**

#### **Nature of business**

#### **Held Directly**

Viking Consortium Borrower Limited

Investment holding company

#### **Held Indirectly**

Viking Consortium Acquisitions Limited  
Cory Environmental Holdings Limited  
Cory Environmental Finance Limited  
Cory Environmental Acquisition Limited  
Cory Environmental Management Limited  
Cory Environmental Municipal Services Limited  
Cory Environmental Limited  
Cory Environmental (Gloucestershire) Limited  
Cory Environmental Energy Limited  
Cory Environmental (Central Holdings) Limited  
Cory Environmental (Central) Limited  
Cory Environmental Recycling Services Limited  
Waste Hire Services Limited  
U K Nationwide Skip Hire Limited  
William Roberts (Haulage) Limited  
Skips@Home Limited  
Cory Riverside (Holdings) Limited  
Riverside Resource Recovery Limited  
Riverside (Thames) Limited  
Cory (Thames) Limited  
Cory Environmental (London Operations) Limited  
Lyme & Wood Developments Limited  
Parkhill Waste Management Limited

Investment holding company  
Investment holding company  
Investment holding company  
Investment holding company  
Waste management services  
Refuse and waste collection  
Waste management services  
Waste management services  
Waste management services  
Holding company  
Waste management services  
Waste management services  
Waste management services  
Waste management services  
Waste management services  
Waste management services  
Waste management services  
Waste management services  
Holding company  
Waste management services  
Dormant  
Dormant  
Dormant  
Dormant  
Dormant

The results of these companies have been consolidated in the group financial statements

## Notes to the financial statements

at 31 December 2010

### 13. Investments (continued)

The company indirectly has a 50% interest in the following joint venture entities which have no assets or liabilities at present

<i>Company</i>	<i>Nature of business</i>
Kinderton Limited Liability Partnership	Dormant
Thorpe Marsh Limited Liability Partnership	Dormant
Stretton Limited Liability Partnership	Dormant
Sandyforth Limited Liability Partnership	Dormant
Rossemor Limited Liability Partnership	Dormant

### 14. Stocks

	<i>Group 2010 £'000</i>	<i>Group 2009 £'000</i>
Raw materials	582	409
Work in progress	54	79
Finished goods	19	40
	<u>655</u>	<u>524</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

### 15. Debtors

	<i>Group 2010 £'000</i>	<i>Company 2010 £'000</i>	<i>Group 2009 £'000</i>	<i>Company 2009 £'000</i>
Trade debtors	19,042	-	20,106	-
Amounts owed by group undertakings	-	421,395	-	410,614
Other debtors	1,192	-	5,740	-
Deferred tax asset (note 9c)	798	-	338	-
Prepayments and accrued income	11,208	-	11,701	-
	<u>32,240</u>	<u>421,395</u>	<u>37,885</u>	<u>410,614</u>

Amounts owed to group undertakings are unsecured with no fixed date of repayment  
Interest is charged on outstanding balances at rates in the range of 2.5% to 3.1% during the year (2009 2.5% to 6.0%)

## Notes to the financial statements

at 31 December 2010

### 16. Creditors: amount falling due within one year

	<i>Group 2010 £'000</i>	<i>Company 2010 £'000</i>	<i>Group 2009 £'000</i>	<i>Company 2009 £'000</i>
Other loans (note 18)	371,435	2,403	3,721	2,328
Trade creditors	9,892	-	10,749	-
Amounts owed to group undertakings	28,288	31,431	30,217	29,046
Corporation tax	1,952	2,517	851	1,614
Social security and other taxes	24,850	-	22,782	-
Other creditors	15,393	-	4,688	-
Accruals and deferred income	13,569	-	25,675	-
Deferred consideration*	1,000	-	1,000	-
	<u>465,405</u>	<u>36,351</u>	<u>99,683</u>	<u>32,988</u>

At 31 December 2010, the external bank debt for the Company's subsidiary Riverside Resource Recovery Limited (RRRL) was classified as current, with the amounts outstanding shown as repayable within one year. This is due to RRRL being in default of its Senior Term Facility at 31 December 2010 as a result of the insolvency of the guarantor for the plant's primary contractor. The default was remedied on 31 May 2011 following the acceptance of a replacement guarantor by the Senior Term Facility lender syndicate which has been fully disclosed as an Event after the Balance Sheet Date.

Amounts owed to group undertakings are unsecured with no fixed date of repayment. Interest is charged on outstanding balances at rates in the range of 2.5% to 3.1% during the year (2009: 2.5% to 6.0%).

\* Deferred consideration payable relates to future payments relating to the purchase of a transfer station in December 2009 which become payable should certain trading criteria be met.

### 17. Creditors: amounts falling due after more than one year

	<i>Group 2010 £'000</i>	<i>Company 2010 £'000</i>	<i>Group 2009 £'000</i>	<i>Company 2009 £'000</i>
Other loans (note 18)	427,768	83,960	655,486	76,380
Deferred consideration (note 16)	500	-	500	-
	<u>428,268</u>	<u>83,960</u>	<u>655,986</u>	<u>76,380</u>

## Notes to the financial statements

at 31 December 2010

### 18. Loans

#### Group

An analysis of the maturity of loans is given below

	2010 £'000	2009 £'000
Amounts falling due within one year or on demand		
Other loans	371,435	3,721
Amounts falling due in more one and five years		
Repayable otherwise than by instalments	343,808	302,539
Amounts falling due in more than five years		
Repayable otherwise than by instalments	83,960	352,948
No loans are repayable by instalments		
Not wholly repayable within five years		
	2010 £'000	2009 £'000
Senior facilities – acquisition loan <sup>1</sup>	238,905	239,431
Senior facilities – efw facility <sup>1</sup>	40,100	-
Senior facilities - capital expenditure facility <sup>1</sup>	30,080	30,068
Riverside senior term facility <sup>2</sup>	378,196	287,545
Junior facility loan <sup>3</sup>	40,171	40,165
Series A Unsubordinated Loan Notes <sup>4</sup>	86,554	78,958
	814,006	676,167
Less included in creditors amounts falling due within one year	(371,435)	(3,721)
	442,571	672,446
Deferred finance costs on issue of loan	(21,740)	(21,751)
Accumulated amortisation of deferred finance costs	6,937	4,791
Net loans and finance costs included in creditors amounts falling due after more than one year	427,768	655,486

## Notes to the financial statements

at 31 December 2010

### 18. Loans (continued)

#### Company

An analysis of the maturity of loans is given below

	2010 £'000	2009 £'000
Amounts falling due within one year or on demand		
Other loans	2,403	2,327
Amounts falling due in more than five years		
Repayable otherwise than by instalments	83,960	76,380
No loans are repayable by instalments		
Not wholly repayable within five years		
	2010 £'000	2009 £'000
Series A Unsubordinated Loan Notes <sup>4</sup>	86,554	78,957
Deferred finance costs on issue of loan	(411)	(411)
Accumulated amortisation of deferred finance costs	220	161
Net loans and finance costs included in creditors amounts falling due after more than one year	86,363	78,707

<sup>1</sup> Interest charged at LIBOR plus margin where the margin is determined by the senior adjusted leverage multiple. The margin that was applicable during 2010 was 2.00%. This facility is repayable March 2014.

<sup>2</sup> Interest for the Riverside term facility was charged at LIBOR + 2.75%. This facility is forecast to be repaid by March 2023 but the facility does not expire until October 2031.

<sup>3</sup> Interest charged at LIBOR plus margin and in 2010 the margin was 4.00%. This facility is repayable September 2014.

<sup>4</sup> Interest on the Series A Unsubordinated Loan Notes is LIBOR + 8.5% of which 4.5% is paid by payment-in-kind (PIK) through the issuance of further loan notes every six months. These loan notes are listed on the Channel Islands Stock Exchange and mature in March 2017.



## Notes to the financial statements

at 31 December 2010

### 18. Loans (continued)

All loan notes are unsecured, 55% (2009 60%) of the Senior Facilities loan by nominal value is subject to a hedging agreement, providing an effective fixed rate of interest of 5.196%, and 23% (2009 25%) of Senior Facilities loan by nominal value is subject to an inflation hedge. The fair value based on a mark-to-market valuation of the interest rate hedge at 31 December 2010 is a liability of £28,455,910 (2009 liability of £18,247,379) and the fair value based on a mark-to-market valuation of the inflation hedge at 31 December 2010 is a liability of £27,318,754 (2009 liability of £20,094,000).

The Senior and Junior loans are secured by fixed and floating charges on certain assets and future receivables of Viking Consortium Finance Limited group. Viking Consortium Finance Limited and its subsidiaries are guarantors in respect of the obligations contained within the finance documents of Viking Consortium Acquisitions Limited and cross guarantee the performance and obligations of other companies within the Viking group.

As disclosed in note 1, the external bank debt in relation to Riverside Senior term facility has been classified as current due to the Event of Default as at 31 December 2010. 100% of the Riverside Resource Recovery Limited Senior Term Facilities loan is subject to hedging facilities providing an effective fixed rate of interest of 5.19%. The fair value based on a mark to market valuation of the interest hedge at 31 December 2010 is a liability of £62,791,383 (2009 liability of £40,340,865). A proportion of future revenues will be subject to an inflation hedge from 2011. The fair value based on a mark to market valuation of the inflation hedge at 31 December 2010 is an asset of £15,966,250 (2009 asset of £9,522,720).

At the year end the group had £34,196,404 Euro foreign exchange contracts (2009 - £88,304,872). The fair value based on the mark to market valuation of these contracts at 31 December 2010 is an asset of £2,801,534.

### 19. Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

Group	Land and buildings		Plant and equipment	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Expiring				
Within one year	88	125	138	88
Between one and five years	792	555	227	202
In more than five years	1,178	129	38	31
	<u>2,058</u>	<u>809</u>	<u>403</u>	<u>321</u>

The parent company does not have any commitments under operating leases

## Notes to the financial statements

at 31 December 2010

### 20. Provisions for liabilities

<i>Group</i>	<i>Landfill Restoration £000</i>	<i>Aftercare £'000</i>	<i>Insurance £'000</i>	<i>Liabilities and Damages £'000</i>	<i>Totals £'000</i>
At 31 December 2009	14,555	13,059	142	9,111	36,867
Charged for the period	-	(199)	31	567	339
Unwinding of discount	-	513	-	-	513
Capitalised	2,014	-	-	-	2,014
Utilised	(732)	-	-	(2,540)	(3,272)
Released	(563)	(70)	(1)	(5,249)	(5,883)
At 31 December 2010	15,274	13,303	172	1,889	30,638

The landfill restoration provision is the future value of the minimum incremental costs to restore land after a specific cell's capacity is fully utilised and the cell is sealed. These are estimated for a period of two years following sealing of the cell. Full provision is made when the cell is brought into use.

The aftercare provision is the estimated cost of future maintenance of landfill sites following closure. The costs are estimated for a period of thirty years following closure. The aftercare provision is based on a number of assumptions, including a forecast of costs based on current legislative requirements, an inflation rate and a rate of discount to calculate a net present value of the provision. Any changes to these assumptions as a result of factors such as a change in the regulatory environment or economic developments, will impact the level of provision required. Consequently, the provision is kept under review and adjustments made when necessary.

The insurance provision is in respect of the costs of claims which are not insured externally, or fall below the excess threshold of the group's insurance policies. Claims can take several years to be settled.

Other provisions include liabilities on onerous lease contracts and salvage or repair costs of damage to certain barges and containers. The potential claims and associated legal costs which were recorded in prior years have crystallised and those in the current year are expected to crystallise in the short term.

## Notes to the financial statements

at 31 December 2010

### 21. Authorised and issued share capital

<i>Group and Company</i>		<i>2010 £'000</i>		<i>2009 £'000</i>
<i>Authorised</i>				
400,000,000 ordinary shares of £1 each		<u>400,000</u>		<u>400,000</u>
	<i>No</i>	<i>2010 £'000</i>	<i>No</i>	<i>2009 £'000</i>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	257,320,914	<u>257,321</u>	257,320,914	<u>257,321</u>

### 22. Reserves

<i>Group</i>		<i>Group profit and loss account £'000</i>
At 31 December 2009		(95,436)
Loss for the year		<u>(224,308)</u>
At 31 December 2010		<u>(319,744)</u>
<i>Company</i>		<i>Company profit and loss account £'000</i>
At 31 December 2009		43,925
Loss for the year		<u>(162)</u>
At 31 December 2010		<u>43,763</u>

## Notes to the financial statements

at 31 December 2010

### 23. Reconciliation of shareholders' funds and movements on reserves

<i>Group</i>	<i>2010</i> <i>£'000</i>	<i>2009</i> <i>£'000</i>
Loss for the financial year	(224,308)	(28,223)
Other recognised gain and losses relating to the year	-	(197)
Dividend paid	-	(3,600)
Net (reduction) / addition to shareholders' funds	(224,308)	(32,020)
Opening shareholders' funds	161,885	193,905
Closing shareholders' funds	(62,423)	161,885

<i>Company</i>	<i>2010</i> <i>£'000</i>	<i>2009</i> <i>£'000</i>
Loss/profit for the financial year	(162)	18,068
Dividends paid	-	(3,600)
Net (reduction) / addition to shareholders' funds	(162)	14,468
Opening shareholders' funds	301,246	286,778
Closing shareholders' funds	301,084	301,246

### 24. Pension commitments

The group's pension costs are analysed as follows:

	<i>2010</i> <i>£'000</i>	<i>2009</i> <i>£'000</i>
Defined contribution schemes	767	762
Defined benefit scheme – current service cost	24	43
	<u>791</u>	<u>805</u>

## Notes to the financial statements

at 31 December 2010

### 24. Pension commitments (continued)

#### **Defined contribution schemes**

The group operates the following defined contribution pension schemes

- The Cory Environmental Voyager Replacement Pension,
- The Cory Environmental Odyssey Replacement Pension,
- The Cory Environmental Nestor Replacement Pension, and
- The Cory Environmental Pension Scheme

These are run on behalf of the employees and operated by Cory Environmental Management Limited in the United Kingdom

The assets of the schemes are held separately from those of the group in independently administered funds

The total pension cost charge includes contributions payable by the group to the funds and amounted to £759,250 (2009 – £715,200)

The group also participates in certain other pension schemes

#### **Registered Dock Workers Pension Fund**

The group also contributes to the former Registered Dock Workers Pension Fund in respect of certain employees. This is a defined benefit scheme in which companies across the industry participate. The last actuarial valuation was carried out on 5 April 2010 by a qualified actuary using the aggregate method. The principal assumptions adopted in the valuation were that, price inflation would be 3.82% per annum, rate of salary increase would be 4.82% per annum, the rate of pension increase would be 3.80% per annum, the discount rate applied 4.69% and management expenses would be 3.00% of liabilities. As at 5 April 2010 the net assets of the scheme were £661.9 million and the actuarial value of the assets was sufficient to cover the level of benefits that had accrued to members, after allowing for expected future increases in earnings.

The assets and liabilities of this scheme cannot be allocated to the group and therefore it has been accounted for as a defined contribution scheme under FRS 17.

The total pension cost charge reflects contributions payable by the group to the funds and amounted to £15,761 (2009 – £13,282)

#### **Waste Hire Personal Pension Scheme**

Additionally, some of the group subsidiaries also participate in the Waste Hire Personal Pension Scheme, which is a defined contribution pension scheme. This is run on behalf of employees that are not in any of the other mentioned schemes and is operated by the immediate parent undertaking, Waste Hire Services Limited, in the United Kingdom.

The assets of all of the schemes are held separately from those of the group in independently administered funds.

The total pension cost charge includes contributions payable by the group to the funds and amounted to £7,103 (2009 – £8,503)

## Notes to the financial statements

at 31 December 2010

### 24. Pension commitments (continued)

#### **The Federated Pension Plan for Staff Transferred from Public Service Schemes: Cory Environmental Holdings Limited**

The group sponsors the Federated Pension Plan for Staff Transferred from Public Service Schemes Cory Environmental Holdings Limited, which is a defined benefit scheme

The contributions made by the employer over the financial period have been £8,508 (2009 £68,000) The group no longer has any active members in the Federated Pension Plan for Staff Transferred from Public Service Schemes, however it pays £2,000 per month towards the deficit in the scheme

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 6 April 2007 and updated on an approximate basis to 31 December 2010 to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme Scheme assets are stated at their market value The major assumptions used by the actuary were

	2010 %	2009 %
Rate of salary increases	3.50	3.70
Rate of increase in pensions payment	3.50	3.70
Discount rate	5.40	5.70
Inflation assumptions	3.50	3.70

The mortality assumptions adopted at 31 December 2010 imply the following life expectancies at age 60

- Male currently age 60 26.9
- Female currently age 60 29.8

The assets and liabilities of the schemes at 31 December are.

	Long-term rate of return expected 2010 %	Value 2010 £'000	Long-term rate of return expected 2009 %	Value 2009 £'000
Equities	7.5	793	5.7	684
Bonds	4.5	396	5.7	341
Cash	0.5	28		-
Fair value of scheme assets		1,217		1,025
Present value of scheme liabilities		(1,362)		(1,261)
Net liability in the balance sheet		(145)		(236)

## Notes to the financial statements

at 31 December 2010

### 24. Pension commitments (continued)

An analysis of the amount charged to operating profit is as follows:

	2010 £'000	2009 £'000
Expected return on pension scheme assets	67	57
Interest on pension scheme liabilities	(72)	(61)
Net (charge)/income	(5)	(4)

An analysis of the amount recognised in the Statement of Total Recognised Gains and Losses is as follows

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	107	87
Experience gains arising on scheme liabilities	-	108
(Losses)/Gains arising from changes in assumptions underlying the present value of scheme liabilities	(23)	(392)
Amount of loss	84	(197)

Changes in the fair value of plan assets are analysed as follows

	2010 £'000	2009 £'000
At 1 January 2010	1,025	829
Expected return on plan assets	67	57
Employer contributions	26	68
Scheme participants contributions	3	10
Benefits paid	(11)	(26)
Actuarial gains and losses	107	87
At 31 December 2010	1,217	1,025

## Notes to the financial statements

at 31 December 2010

### 24. Pension commitments (continued)

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Fair value of scheme assets					
• amount	1,217	1,025	829	976	874
Present value of defined benefit obligations					
• amount	(1,362)	(1,261)	(890)	(937)	(903)
(Deficit)/Surplus in the scheme	(145)	(236)	(61)	39	(29)
Experience adjustments arising on plan liabilities					
• amount	-	108	24	(10)	(70)
• %	-	8.6	2.7	(1.1)	(7.8)
Experience adjustments arising on plan assets					
• amount	107	87	(228)	(16)	37
• %	8.7	8.5	(27.5)	(1.6)	4.2

The surplus at 31 December 2007 was not recognised as an asset in the financial statements as the recognition criteria of FRS17 had not been met

The best estimate of contributions to be paid by the employer to the scheme for the year ending 31 December 2010 is £19,200

### 25. Contingent liabilities

The nature of the group's business and the extent of its operations are such that it is from time to time involved in legal proceedings, as plaintiff or defendant. No such current proceedings are expected to have a material effect on the group.

One of the conditions to obtaining a landfill permit is to satisfy the Environment Agency that adequate financial provision is made to satisfy the potential aftercare and closure liabilities once a site has closed. In order to satisfy this condition the group secures a Letter of Credit or similar financial instrument. Under certain contracts it is a requirement to provide a performance bond or a similar financial instrument to underpin the group's performance in those contracts. To satisfy this requirement the group would normally secure a bond or similar financial instrument for the duration of that contract.

The group operates in a regulated industry. The requirements of the Environment Agency may change in the future as a result of changes in legislation or its application. This may result in an adjustment to the cost, both in terms of bonding and also for any infrastructure changes, especially with respect to the landfill sites.



## Notes to the financial statements

at 31 December 2010

### 25. Contingent liabilities (continued)

The group has contingent liabilities as follows

	2010 £'000	2009 £'000
Letters of credit held in favour of the Environmental Agency and local authorities	25,015	22,210
Letters of credit for Riverside	17,500	57,500
Other letters of credit	1,626	1,626
Parent company guarantees	64,487	64,487
Performance guarantees/bonds held in favour of local authorities	18,029	17,414

### 26. Related party transactions

The company has taken advantage of the exemption available under FRS 8 from disclosing related party transactions with members of the group headed by Viking Consortium Holdings Limited on the grounds that at least 90% of the voting rights are controlled within that group and the company is included in consolidated financial statements

### 27. Dividends

During the year, the company and group did not pay an interim dividend to its parent company Viking Consortium Holdings Limited

### 28. Ultimate parent undertaking and controlling party

The company's ultimate parent undertaking and controlling party is Viking Consortium Holdings Limited, which is the parent undertaking of the largest and smallest group of which the company is a member for which group financial statements are prepared. Copies of the financial statements of Viking Consortium Holdings Limited can be obtained from 2 Coldbath Square, London, EC1R 5HL

## Notes to the financial statements

at 31 December 2010

### 29. Post Balance Sheet Events

As noted in note 1,

On 14 November 2011 the Company's Ultimate Shareholders concluded negotiations with the lenders to Viking Consortium Acquisition Limited and Viking Consortium Borrower Limited on the extension to the maturity of the current term loans and hedging arrangements and certain other revisions to the terms of the current facilities. The Company's Shareholders have agreed to invest additional funds into the Company which will be used to pay down £41.0m of the Senior Acquisition Facility and to provide additional funding to assist the Company in the financing of new projects. The lenders have agreed to extend the maturity of the additional term loans and hedging arrangements by 18 months and to revise the terms of the financial covenants.

The Company's subsidiary, Riverside Resource Recovery Limited, was in default under its Senior Term Facility at 31 December 2010. The default was remedied on 31 May 2011 following the acceptance by the Senior Term lenders of a replacement guarantor for the primary contractor for the construction of the Energy from Waste plant.

On 11 October 2011, the Group's Technical Advisor, Fichtner, certified that the group's Energy from Waste plant at Riverside had achieved its next significant milestone and had successfully passed its Operability tests. The responsibility for the management of the plant now passes to the company as the plant now begins a 15 month period of trials and commissioning.

On 31 October 2011, Cory Environmental Municipal Services Limited was appointed preferred bidder on the eight year contract to deliver waste and recycling collections and beach and street cleaning services throughout Cornwall. The new contract commences on 1 April 2012 and ends 31 March 2020.