County Environmental Services Limited

Directors' report and financial statements

Registered number 2619506

28 February 2008

Contents

Directors' report

The directors present their report and the audited financial statements for the year ended 28 February 2008

Principal activities

Until 31 October 2006, the principal activities of the company were the provision of waste disposal facilities by the operation and management of landfill sites, together with related activities including transport With effect from 01 November 2006 work commenced to conduct an orderly transfer of the business activities to Cornwall County Council and its Integrated Waste Management contractor, Sita Cornwall Limited The Directors are now engaged in overseeing an orderly winding up of the affairs of the Company and its remaining dormant subsidiaries

Business review

The trading results were set out in the profit and loss account shown on page 5

The loss before taxation for the year to 28 February 2008 was £(916,053) *2007 (Profit £17,644)*

Proposed dividend

The directors do not recommend the payment of a dividend

Directors and directors' interests

The directors who held office during the period were as follows

Mrs SF Stedwill (resigned 30 November 2007)
J F Jacques
D Teale (appointed 01 December 2007)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware if that information

By order of the board

Joseph F Jacques
Director

County Solicitor's Office
New County Hall
Treyew Road
Truro
Cornwall
TR1 3AY

11 July 2008

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The company and parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and the parent company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,

As explained in note 1 to the financial statements, the directors do not believe the going concern basis to be appropriate and these financial statements have not been prepared on that basis

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG LLP
Plym House
3 Longbridge Road
Marsh Mills
Plymouth
PL6 8LT
United Kingdom

Independent auditors' report to the members of County Environmental Services Limited

We have audited the financial statements of County Environmental Services Limited for the year ended 28 February 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes These financial statements have not been prepared on the going concern basis for the reasons set out in note 1 to the financial statements but under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2

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

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

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

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

Independent auditors' report to the members of County Environmental Services Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 February 2008 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Emphasis of matter – uncertain tax liability

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 10 to the financial statements concerning the uncertainty over the taxation charge for the prior period and consequential tax liability arising on the transfer of the business to Sita Cornwall Limited

The valuation for tax purposes of related landfill and various other assets is inherently very difficult and complex to carry out The directors have used their best estimate of these valuations in calculating the prior year tax charge and tax liabilities recorded in these financial statements, which could be very material to these financial statements The company has filed the corporation tax return for the relevant period based on these valuations HM Revenue & Customs could potentially challenge the valuations and, as a result, the extent of any adjustment to the prior year tax charge and tax liabilities is not certain HM Revenue & Customs will have until after the year ended 28 February 2009 to enquire into the returns

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

17 September 2008

Profit and loss account
for the year ended 28 February 2008

	Note	2008 £	2007 £
Turnover	2	-	13,401 490
Cost of sales		-	(9,564 932)
Gross profit		-	3,836,558
Administrative expenses		**(618,843)**	(1,238,541)
Operating (loss)/ profit		**(618,843)**	2,598,017
Loss on termination of operation	9	-	(3,220,085)
Profit on sale of investment		-	618 947
Interest receivable and similar income	6	**7,548**	76 765
Interest payable and similar charges	7	**(304,758)**	(29,000)
Other finance costs	8	-	(27 000)
(Loss)/profit on ordinary activities before taxation	3	**(916,053)**	17,644
Tax on (loss)/profit on ordinary activities	10	**(54,697)**	327,965
(Loss)/profit for the financial year		**(970,750)**	345,609

A statement of movements on reserves is given in note 17 All operations became discontinued at 31 October 2006

Statement of total recognised gains and losses
for the year ended 28 February 2008

	Note	2008 £	2008
(Loss)/profit for the financial year		**(970,750)**	345,609
Actuarial gain/(loss) recognised on pension scheme	18	-	91 000
Total recognised losses/gains relating to the financial year		**(970,750)**	436,609

Balance sheet
at 28 February 2008

	Note	2008 £	2008 £	2007 £	2007 £
Current assets					
Assets held for resale	*11*	-		221,394	
Debtors	*13*	46,866		790 666	
Investments	*12*	-		1	
Cash at bank and in hand		209,133		776 234	
		255,999		1,788 295	
Creditors amounts falling due within one year	*14*	(3,092,036)		(3,516,840)	
Net current liabilities			(2,836,037)		(1,728,545)
Provisions for liabilities and charges	*15*		-		(136,742)
Net liabilities			(2,836,037)		(1,865,287)
Capital and reserves					
Called up share capital	*16*		3,093,250		3,093,250
Profit and loss account	*17*		(5,929,287)		(4,958,537)
Equity shareholders' deficit			(2,836,037)		(1,865,287)

These financial statements were approved by the board of directors on 11 July 2008 and were signed on its behalf by

Joseph F Jacques
Director

Cash flow statement
for the year ended 28 February 2008

	Note	2008 £	2007 £
Cash flow from operating activities	*(a)*	**474,078**	3 017,121
Returns on investments and servicing of finance	*(b)*	**(167,210)**	70,085
Taxation	*(c)*	**(1,088,969)**	(44 474)
Capital expenditure and financial investment	*(d)*	**215,000**	(3 736,036)
Decrease in cash in the year		**(567,101)**	(693,304)

Notes to cash flow statement

for the year ended 28 February 2008

(a) Reconciliation of operating profit to operating cash flow

	2008 £	2007 £
Operating (loss)/profit	(618,843)	2 598 017
Adjustment for FRS17 pension movement included in staff costs	-	49,000
Loss on sale of fixed assets	6,394	-
Decrease in debtors	743,800	1 430 237
Decrease in creditors	479,468	(1,772,170)
Decrease in investments	1	1 100 008
Decrease in provisions excluding redundancy provision dealt with in loss in termination	(136,742)	(387,971)
Net cash inflow from operating activities	474,078	3,017,121

(b) Returns on investments and servicing of finance

	2008 £	2007 £
Interest received	7,548	76,765
Interest paid	(174,758)	(6 680)
	(167,210)	70,085

(c) Taxation

	2008 £	2007 £
UK Corporation Tax paid	(1,088,969)	(44,474)

(d) Capital expenditure and financial investment

	2008 £	2007 £
Payments to acquire tangible fixed assets	-	(4 361,483)
Receipts from sale of tangible fixed assets	215,000	6,500
Consideration for sale of trade investment	-	618 947
	215,000	(3 736,036)

Notes to cash flow statement *(continued)*
for the year ended 28 February 2008

(e) Analysis of net debt

	Cash at bank and in hand £
At beginning of period	776,234
Cash outflow	(567 101)
At end of period	**209,133**

(f) Reconciliation of net cash flow to movement in net debt

	2008 £	2007 £
Decrease in cash in the year and change in net debt resulting from cash flows	**(567,101)**	(693,304)
Net cash at the start of the year	**776,234**	1,469,538
Net cash at the end of the year	**209,133**	776,234

Reconciliation of movements in equity shareholders' funds
for the year ended 28 February 2008

	2008 £	2007 £
(Loss)/profit for the financial year	**(970,750)**	345,609
Other recognised gains and losses relating to the year	-	91,000
Net (deduction) /increase to equity shareholders' funds	**(970,750)**	436,609
Opening equity shareholders deficit	**(1,865,287)**	(2,301,896)
Closing equity shareholders' deficit	**(2,836,037)**	(1,865 287)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

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

The directors' made a decision prior to 28 February 2006 to cease trading following the termination of the municipal waste disposal contract between the Company's ultimate holding entity, Cornwall County Council and the Company and its subsidiaries on 31 October 2006 As a result the financial statements for the prior period were prepared on a non going concern basis and the current year has also been prepared on a non going concern basis

The impact of adopting a non going concern basis is that fixed assets have been reclassified as assets held for sale within current assets and have been restated to reflect their expected recoverable amounts where this is lower than the carrying amount of assets Provision has been made for any foreseeable losses and costs cessation Gains on cessation are accounted for as they arise

The Company is also reliant on support from its ultimate holding entity, Cornwall County Council, in terms of future funding to meet its liabilities as they fall due and also by not demanding the repayment of amounts due to the Council

The company is exempt from the requirement to prepare group accounts by virtue of its size under the provision of section 248 of the Companies Act 1985 These financial statements present information about the company as an individual undertaking and not about its group

Pensions

The company has three pension schemes which are made available to some of the employees One scheme provides benefits based on final pensionable pay The assets of the scheme are held separately from those of the company in an independently administered fund Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality bond of similar term and currency to the liability

The second scheme is a company personal pension scheme Contributions to the scheme are charged to the profit and loss account

The third option is a stakeholder scheme but the company makes no contributions in respect of this scheme

At the cessation of trade the ultimate holding company, Cornwall County Council, has agreed to assume responsibility for the Final Salary pension scheme and honour all of the company's liabilities in this regard Consequently a settlement gain has been recognised in the year ended 28 February 2007

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease' The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the income and expenditure account, and the capital element which reduces the outstanding obligation for future instalments All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit for the period Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 Deferred tax assets are only recognised to the extent that it is more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recovered in future periods

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period including landfill tax

2 Analysis of turnover and loss on ordinary activities before taxation

All turnover and loss on ordinary activities before taxation arose from the principal activity of providing waste disposal facilities by the operation and management of landfill sites, together with related activities including transport

3 (Loss)/profit on ordinary activities before taxation

	2008	2007
(Loss)/profit on ordinary activities before taxation is stated after charging	**£**	£
Auditors remuneration		
Audit services	**28,630**	23,000
Other services relating to taxation	**75,230**	30 000
Impairment of freehold land and buildings	-	43,385
Hire of plant and machinery – operating leases	-	1 382,878
Hire of motor vehicles (rentals)	-	12,014
Loss on sale of assets held for resale	**6,394**	-

4 Remuneration of directors

	2008	2007
	£	£
Directors' emoluments	-	56,615
Company contributions to pension schemes	-	8,541
Compensation for loss of office	-	32 411
	-	97,567

	Number of directors	
	2008	2007
Retirement benefits are accruing to the following number of directors under a defined benefit scheme	-	-

The remuneration of the highest paid director was £nil *(2007 £56 615)* and company pension contributions of £nil *(2007 £8 541)* were made to a defined benefit contribution scheme on his behalf

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows

	Number of employees 2008	2007
Office and management	1	17
Drivers and site staff	-	33
	1	50

The aggregate payroll costs of these persons were as follows

	2008 £	2007 £
Wages and salaries	10,678	1 479,461
Social security costs	815	133,610
Other pension costs	234	93,294
	11,727	1,706,365

6 Interest receivable and similar income

	2008 £	2007 £
Bank and deposit account interest	7,548	46,176
Amounts receivable on other loans	-	30,589
	7,548	76,765

7 Interest payable and similar charges

	2008 £	2007 £
Interest on loan from holding entity	167,210	29 000
Other interest	137,548	-
	304,758	29 000

8 Other finance costs

	2008 £	2007 £
Net pension finance costs (note 18)	-	27,000

Notes *(continued)*

9 Loss on termination of operation

	2008 £	2007 £
Transfer of pension deficit	-	1,256,000
Impairment	-	(43 385)
Release of provisions	-	-
Redundancy costs	-	(52 411)
Pension costs in respect of early retirement	-	(18,000)
Expenditure on landfill sites	-	(4 362 289)
	-	(3 220 085)

10 Taxation

	2008 £	2007 £
UK Corporation Tax		
Current tax on income for the period	-	105,304
Adjustment in respect of prior periods	54,697	-
	54,697	105,304
Deferred taxation (note 15)		
Origination/reversal of timing differences	-	(247,312)
Adjustment in respect of prior periods	-	(185,687)
Tax on profit for ordinary activities	54,697	(327,965)

Uncertain tax liability

There is uncertainty over the taxation charge for the prior period and consequential tax liability arising on the transfer of the business to Sita Cornwall Limited

The valuation for tax purposes of related landfill and various other assets is inherently very difficult and complex to carry out The directors have used their best estimate of these valuations in calculating the prior year tax charge and tax liabilities recorded in these financial statements, which could be very material to these financial statements The company has filed the corporation tax return for the relevant period based on these valuations HM Revenue & Customs could potentially challenge the valuations and, as a result, the extent of any adjustment to the prior year tax charge and tax liabilities is not certain HM Revenue & Customs will have until after the year ended 28 February 2009 to enquire into the returns

Notes *(continued)*

10 Taxation *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2007 higher)* than the standard rate of corporation tax in the UK (30%, 2007 30%) The differences are explained below

	2008 £	2007 £
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	**(916,053)**	17 644
Current tax at 30% *(2007 30 %)*	**(274,816)**	5 293
Effects of		
Expenses not deductible for tax purposes	**274,816**	1,335,833
Origination and reversal of timing differences – short term timing differences primarily relate to restoration and other provisions	-	247 312
Capital allowances for period in excess of depreciation	-	(1,156,395)
Adjustments to tax charge in respect of previous periods	**54,697**	-
Post cessation losses	-	39 232
Impairment	-	(10,435)
Marginal relief	-	(1 536)
Effect of adoption of FRS 17 recognition and measurement requirements	-	(354,000)
Total current tax charge (see above)	**54,697**	105,304

11 Assets held for resale - Freehold land (including landfill sites)

	£
Cost	
At beginning of period	**264,779**
Disposals	**(264,779)**
At end of period	-
Depreciation	
At beginning of period	**43,385**
Disposals	**(43,385)**
At end of period	-
Net book value	
At 28 February 2008	-
At 28 February 2007	221 394

Notes *(continued)*

12 Current asset investments

	Total
	£
Cost	
At beginning of year	1
Impairment	(1)
At end of year	-

The undertakings in which the company's interest at the period end is more than 20% are as follows

Subsidiary undertakings	Country of incorporation	Principal activity	Class and percentage of shares held
Rag and Bone 2000 Limited	England and Wales	Dormant	£1 ordinary shares 100%

Rag and Bone 2000 Limited was dissolved on 6 May 2008

13 Debtors

	2008	2007
	£	£
Trade debtors	19,468	543 724
Other debtors	26,398	180,362
Prepayments and accrued income	1,000	66,580
	46,866	790,666

14 Creditors: amounts falling due within one year

	2008	2007
	£	£
Trade creditors	47,068	247 862
Amount owed to holding entity	2,200,000	1,911,160
Corporation Tax	228,462	1 204,221
Other taxes and social security	585	6,756
Accruals and deferred income	615,921	146,841
	3,092,036	3 516,840

Notes *(continued)*

15 Provisions for liabilities and charges

	Pollution incident £	Redundancy provision £	Pension provision £	Total £
At beginning of year	17,269	101 473	18,000	**136,742**
Utilisation of provisions	(17,269)	(101 473)	(18 000)	**(136,742)**
At end of year	-	-	-	-

There is an unprovided deferred tax asset of £9,065 *(2007 £18,661)* This asset has not been recognised as it is unlikely that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

16 Called up share capital

	2008 £	2007 £
Authorised		
Ordinary shares of £1 each	**3,093,250**	3 093,250
Allotted, called up and fully paid		
Ordinary shares of £1 each	**3,093,250**	3,093,250

17 Reserves

	Profit and loss account £
At beginning of year	(4 958 537)
Loss for year	(970,750)
At end of year	**(5,929,287)**

Notes *(continued)*

18 Pension scheme

Defined benefit scheme

With effect from 1 November 2006 the company's liabilities in respect of this scheme were passed to Cornwall County Council who have agreed to fully underwrite the scheme and assume full responsibility for any deficit within the scheme

The impact on the prior year results was an increase in staff costs of £49,000 together with an increase in other finance income of £27,000 The pension deficit at 31 October 2006 was £1,256,000 and this was transferred to the ultimate holding company and the credit was recognised in the profit and loss account

A number of employees are members of either a multi company defined benefit pension scheme or a company personal pension scheme

Movement in deficit during the period

	2008 £000	2007 £000
Deficit in scheme at beginning of period	-	(1,271)
Service cost	-	(105)
Contributions paid	-	81
Other finance cost	-	(27)
Other costs	-	(25)
Actuarial gain/(losses)	-	91
Settlement gain - transfer to holding entity	-	1 256
Deficit in the scheme at end of period	-	-

Pension costs for defined benefit schemes

Analysis of other pension costs charged in arriving at operating profit

	2008 £000	2007 £000
Current service cost	-	72
Past service cost	-	33
	-	105

Analysis of amounts included in other finance costs

	2008 £000	2007 £000
Expected return on pension scheme assets	-	109
Interest on pension scheme liabilities	-	(136)
	-	(27)

Notes *(continued)*

18 Pension scheme *(continued)*

Analysis of amount recognised in statement of total recognised gains and losses

	2008 **£000**	2007 £000	2006 £000	2004 £000	2003 £000
Actual return less expected return on scheme assets	-	5	519	(35)	25
Percentage of year end scheme assets	-	0 2%	17 3%	(1 1)%	1 2%
Experience gains and losses arising on scheme liabilities		154	(167)	(7)	(249)
Percentage of present value of year end scheme liabilities	-	3 5%	(3 9)%	(0 2)%	(8 8)%
Changes in assumptions underlying the present value of scheme liabilities	-	(68)	(730)	(60)	(171)
Percentage of present value of year end scheme liabilities	-	2 1%	(8 8)%	(1 9)%	(6 0)%
Actuarial loss recognised in statement of total recognised gains and losses	-	91	(378)	(102)	(395)
Percentage of present value of year end scheme liabilities	-	2 1%	(8 8)%	(3 3)%	(13 9)%

Company personal pension scheme

The company also offered to employees to make contributions (5% of salary) to a company personal pension scheme operated by Norwich Union In return the employee had to make at least a matching contribution

There were no outstanding or prepaid contributions at either the beginning or end of the financial year

19 Related party transactions

Details of subsidiary companies are shown in note 12

20 Ultimate holding entity

The company's ultimate holding entity and ultimate controlling party is Cornwall County Council