

**Durham County Waste Management
Company Limited**

Annual report

for the year ended 31 March 2006

Registered Number 2651168

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Durham County Waste Management Company Limited

Annual report for the year ended 31 March 2006

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Durham County Waste Management Company Limited

Chairman's Statement

The Company has experienced another good year with continuing growth in turnover, a strengthened trading position and a continuing development in its technological capability.

With four years of experience in the successful operation of its first advanced bio-processing plant, the Company has constructed and commissioned a second tower and combined the two to operate successfully together. The plant now processes 10% of Durham County's waste, diverting over 60% of input from landfill. During the year it processed over 28,000 tons of waste.

The Company won a competitive DEFRA research and development tender worth £2.9m for the construction and operation of a third bio-processing tower at Thornley. Looking forward to further bio-processing development, the Company has applied and received planning permission to develop a 90,000 tonne input bio-processing site at Tursdale.

Despite some scare-mongering by competitors about uncertainties concerning the use of products from bio-processing plant, the Company has successfully developed secure markets for these products. The material is recognised by government agencies and local authorities as an ideal material for use in the reclamation of brown field sites. We are now demonstrating the benefits of this approach on six derelict brown-field sites in Durham. Under this programme, which is approved and partially funded by DEFRA, the sites are remediated and then developed as productive sites for the growth and short rotation coppicing of willow for an assured market as a replacement to fossil fuel.

The North East has no shortage of sites on which similar initiatives will be appropriate and popular with the public. Negotiations are underway for extending the process to a further range of locations.

A crucial factor in the Company's well established bio-processing system is that it substantially reduces the levels of carbon emissions into the atmosphere. In effect we capture the bulk of carbon present in the waste stream, both in terms of the biogenic carbon in the soil products produced by the plant and in terms of the plastics streams that are recycled by the plant. The short rotation coppicing program generates a sustainable fuel on a truly carbon-neutral basis; the only carbon released on combustion in a bio-fuel power plant is that captured from atmosphere by the trees during photosynthesis.

With the link between carbon emission and global warming now high on every government agenda, adverse attention will inevitably turn to waste disposal systems, such as incineration, that release carbon into the atmosphere. These systems are clearly vulnerable to inevitable tightening regulation and legislation, with a prohibitive cost to the local authorities locked into them through long term contracts.

The Company's well tested and commercially successful technology is carbon neutral, it provides landfill diversion credits with a capital cost that allows relatively short term contracts. Local authorities and other commercial customers are therefore able to benefit from the current technology whilst having the freedom to construct medium term strategies that allow for the emergence of any new and developing technology.

The long standing Company policy has been to recover any material from the waste stream that can be processed and reused. Light plastics have been a problem, but we now have in place a novel light plastics initiative which is recovering plastic film and bags from the bio-processing plant outputs and selling them on for recycling.

Durham County Waste Management Company Limited

In the past year the Company has achieved significant growth and improved profitability in its collection division. In that part of its operation the Company is now the regional market leader. The recycling division has achieved a substantial growth driven by the tonnage achieved by its kerbside collection division.

The Company's strategy on behalf of its shareholders has been to achieve steady and sustainable growth, provide real value for money and develop carbon friendly waste management solutions to benefit the community. The Company continues to provide direct employment to over 300 employees over a range of disciplines and indirectly to many others through its use of local services. We have also seen it as our responsibility to provide our financially significant landfill credits to the County Durham Environmental Trust, so that it can continue the regional environmental improvement it has achieved with our assistance over the past decade. Through our Kerb-it charity scheme we have pledged to donate £1 to a local good cause for every one tonne of waste placed out for recycling by residents. By the end of the year we had raised over £79,000 for distribution to local good causes. We made large donations to The Great North Air Ambulance Service – helping them to keep the regions helicopter ambulances in the air; the NSPCC, who received funding to help support their rehabilitation work in the North East; and the Salvation Army to support their work helping the region's homeless.

I am pleased to report that the Company has achieved ISO:14001 Environmental Management accreditation for its activities. This is a major achievement, reflecting the continuing development of our business and our commitment to the highest level of environmental performance.

Peter D Carr

Durham County Waste Management Company Limited

Directors' report for the year ended 31 March 2006

Principal activities and business review

The Group is involved in the collection, disposal and recycling of trade and municipal waste, through its trade collection operation and a number of landfill sites, transfer stations and processing centres in the North East of England. A review of the business is contained in the Chairman's statement on page 1.

Results and dividends

The results of the Group for the year are set out in the consolidated profit and loss account on page 9. No dividend has been paid and none is proposed (2005 - £125,000) for the year. Profits of £1,274,771 (2005 - £1,190,433) have been added to reserves.

Charitable donations

The Group made donations of £522,596 (2005 - £521,740) during the year to the following organisations;

	2006 £	2005 £
Environmental Trusts	490,900	497,701
Charities and local clubs	31,695	24,039
	522,596	521,740

Donations to Environmental Trusts include landfill tax recovered under the landfill tax credit scheme.

The Company made no donations during the year (2005 - £nil).

Directors

The directors of the Company during the year were as follows:

PD Carr CBE DL (*non-executive chairman*)

Dr LG Grant

SM Scott ACA

J Jeffery CBE (*non-executive director*)

NDP Ross (*non-executive director, deceased 20 March 2006*)

K Smith (*non-executive director, appointed 22 July 2005*)

None of the directors were beneficially interested in the share capital of the Company at any time during the year.

Fixed assets

Details of movements in tangible fixed assets during the year are given in note 9 to the accounts. The directors are of the opinion that the market value of the Company's interests in land does not differ substantially from the amounts at which they are shown in the balance sheet.

Durham County Waste Management Company Limited

Insurance

The Company has taken out insurance for its directors under the provisions of Section 310 (3a) of the Companies Act 1985 against liabilities arising in relation to the Company.

Employment

Consultation -

The Company undertakes consultation with employees or their representatives at all levels with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees occurs through the in-house newsletter, briefing groups and a formally constituted Works Council which includes employee representatives from all levels within the Group.

Equal opportunities -

Company policy is that decisions on recruitment, training, promotion and other employment related issues are made solely on the grounds of an individual's ability. These principles are adhered to regardless of sex, ethnic origin, age or religion.

Employment of disabled persons -

The Company gives fair consideration to applications for employment from disabled persons. A disabled employee will have the same career prospects and promotion opportunities as other employees.

Corporate governance

The Board of Directors have adopted several of the recommendations incorporated within the Code of Best Practice which resulted from the report of the Cadbury Committee. The main areas that have been adopted include:

Remuneration Committee -

The committee meets at least once a year to discuss the level of remuneration payable to executive directors.

Members of the committee comprise:

PD Carr CBE DL (*non-executive director*)

J Jeffery CBE (*non-executive director*)

Audit committee -

The committee meets at least once a year and the external auditors attend the whole of each meeting. The committee examines matters relating to the financial affairs of the Group, including review of the annual results, internal control procedures and accounting policies.

Durham County Waste Management Company Limited

Members of the committee comprise:

PD Carr CBE DL (*non-executive director*)

J Jeffery CBE (*non-executive director*)

NDP Ross (*non-executive director, deceased 20 March 2006*)

K Smith (*non-executive director, appointed 22 July 2005*)

Dr LG Grant

SM Scott ACA

In addition the Board has established an Environmental Audit Committee, which meets on a quarterly basis to review the Group's environmental strategies, advise on improvements and provide a forum for considering environmental reports on behalf of the Board. The committee issues an annual Environmental Report, copies of which can be obtained from the Company's registered office.

Members of the committee comprise:

J Jeffery CBE (*non-executive director*)

NDP Ross (*non-executive director, deceased 20 March 2006*)

Dr LG Grant

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

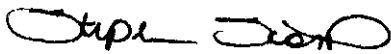
Durham County Waste Management Company Limited

Auditors and disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the next Annual General Meeting of the Company.

On behalf of the Board



SM Scott
Director
30 November 2006

Durham County Waste Management Company Limited

Independent auditors' report to the members of County Durham Waste Management Company Limited

We have audited the group and parent company financial statements of Durham County Waste Management Company Limited for the year ended 31 March 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and 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.

Durham County Waste Management Company Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March and of the group's profit and cash flows 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
30 November 2006

Durham County Waste Management Company Limited

Consolidated profit and loss account for the year ended 31 March 2006

	Note	2006 £	2005 as restated £
Group turnover – continuing operations	1	36,399,216	33,271,848
Cost of sales		(29,419,720)	(26,327,053)
Gross profit		6,979,496	6,944,795
Administrative expenses	2	(4,559,455)	(4,618,304)
Operating profit - continuing operations		2,383,046	2,525,761
- acquisitions	2	-	(199,270)
Exceptional items – on continuing operations	4	36,995	-
Operating profit	3	2,420,041	2,326,491
Interest payable and similar charges (net)	5	(553,126)	(524,493)
Other finance costs	5	(83,000)	(87,000)
Profit on ordinary activities before taxation		1,783,915	1,714,998
Taxation on profit on ordinary activities	6	(509,144)	(399,565)
Profit on ordinary activities after taxation		1,274,771	1,315,433
Dividends payable	7	-	(125,000)
Retained profit for the financial year	18	1,274,771	1,190,433

There was no material difference between the reported results and their historical cost equivalents.

Durham County Waste Management Company Limited

Consolidated statement of total recognised gains and losses for the year ended 31 March 2006

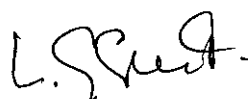
	Note	2006 £	2005 as restated £
Profit for the financial year		1,274,771	1,190,433
Actuarial (loss)/gain recognised in the pension scheme	22	(351,000)	101,000
Movement on deferred tax relating to the pension liability		105,600	(30,300)
Total recognised gains for the year		1,029,371	1,261,133
Prior year adjustment	22	(2,115,000)	
Total gains/(losses) recognised since last annual report		(1,085,629)	
Opening group equity shareholders' funds		4,683,486	
Closing group equity shareholders' funds		3,597,857	

Durham County Waste Management Company Limited

Consolidated balance sheet as at 31 March 2006

	Note	2006 £	2006 £	2005 as restated £	2005 as restated £
Fixed assets					
Intangible assets	8		1,165,530		1,261,710
Tangible assets	9		13,562,359		14,198,581
			<u>14,727,889</u>		<u>15,460,291</u>
Current assets					
Stocks and work in progress	11	86,386		47,254	
Debtors	12	8,138,771		7,872,409	
Cash at bank and in hand		3,914,292		2,992,605	
		<u>12,139,449</u>		<u>10,912,268</u>	
Creditors: amounts falling due within one year	13	(6,444,990)		(6,796,752)	
Net current assets			<u>5,694,459</u>		<u>4,115,516</u>
Total assets less current liabilities			<u>20,422,348</u>		<u>19,575,807</u>
Creditors: amounts falling due after one year	14		(1,497,116)		(1,636,383)
Provisions for liabilities and charges	16		(13,050,975)		(13,255,938)
Net assets excluding pension liability			<u>5,874,257</u>		<u>4,683,486</u>
Pension liability	22		(2,276,400)		(2,115,000)
Net assets including pension liability			<u>3,597,857</u>		<u>2,568,486</u>
Capital and reserves					
Called up equity share capital	17		1,378,002		1,378,002
Profit and loss account	18		2,219,855		1,190,484
Total equity shareholders' funds			<u>3,597,857</u>		<u>2,568,486</u>

The financial statements on pages 9 to 32 were approved by the board of directors on 30 November 2006 and were signed on its behalf by:



Dr LG Grant
Director

Durham County Waste Management Company Limited

Company balance sheet as at 31 March 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Intangible assets	8		98,745		112,851
Tangible assets	9		7,442,645		9,798,611
Investments	10		3,545,579		3,545,579
			<u>11,086,969</u>		<u>13,457,041</u>
Current assets					
Debtors	12	7,366,432		5,987,281	
Creditors: amounts falling due within one year	13	(362,559)		(1,105,467)	
Net current assets			<u>7,003,873</u>		<u>4,881,814</u>
Total assets less current liabilities			<u>18,090,842</u>		<u>18,338,855</u>
Creditors: amounts falling due after one year	14		(1,497,116)		(1,636,383)
Provisions for liabilities and charges	16		(13,050,975)		(13,255,938)
Net assets			<u>3,542,751</u>		<u>3,446,534</u>
Capital and reserves					
Called up equity share capital	17		1,378,002		1,378,002
Profit and loss account	18		2,164,749		2,068,532
Total equity shareholders' funds			<u>3,542,751</u>		<u>3,446,534</u>

The financial statements on pages 9 to 32 were approved by the board of directors on 30 November 2006 and were signed on its behalf by:



Dr LG Grant
Director

Durham County Waste Management Company Limited

Consolidated cash flow statement for the year ended 31 March 2006

	Note	2006 £	2006 £	2005 as restated £	2005 as restated £
Net cash inflow from operating activities	19		3,580,847		2,837,156
Returns on investments and servicing of finance					
Interest received		152,679		132,223	
Interest paid		(99,793)		(42,349)	
Net cash flow from returns on investments and servicing of finance			52,886		89,874
Taxation			(662,915)		(586,931)
Dividends paid			-		(125,000)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,957,949)		(2,956,128)	
Proceeds from sale of tangible fixed assets		48,085		11,395	
Net cash outflow from capital expenditure and financial investments			(1,909,864)		(2,944,733)
Acquisitions					
Purchase of County Durham Aerobic Digester Limited (CDAD)		-		(197,670)	
Overdraft acquired with CDAD		-		1,280	
Net cash outflow from acquisitions			-		(196,390)
Financing					
Long term loan from ultimate parent undertaking		-		1,566,750	
Repayment of long term loan		(139,267)		-	
Cash inflow from financing			(139,267)		1,566,750
Increase in cash			921,687		640,726

Durham County Waste Management Company Limited

Consolidated cash flow statement for the year ended 31 March 2006 (continued)

Reconciliation of net funds:		2006 £	2005 £
Increase in cash		921,687	640,726
Cash outflow from repayment of debt	19b	139,267	-
Cash inflow from increase in debt	19b	-	(1,566,750)
Movement in net debt in the period	19b	1,060,954	(926,024)
Net funds at 1 April 2005	19	1,216,955	2,142,979
Net funds at 31 March 2006	19	2,277,909	1,216,955

Durham County Waste Management Company Limited

Statement of accounting policies

Accounting standards

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

Changes in accounting policies

The group has adopted FRS17, "Retirement benefits", in these financial statements. The adoption of this accounting standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the change in policy are given in note 22.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings.

Intangible assets

Goodwill arising up to 31 December 1997 has been eliminated against reserves in accordance with SSAP 22 "Accounting for Goodwill". From that date on goodwill has been capitalised and is amortised so as to write off the cost to the profit and loss account in equal annual instalments over a period of 20 years.

Purchased goodwill, being the difference between the consideration given for the assets and liabilities transferred across to the Company on vesting and their fair value, is amortised over a 20 year period on a straight line basis.

Tangible fixed assets

Depreciation of tangible fixed assets is calculated so as to write off the cost, in equal annual instalments over their estimated useful lives (or in the case of leasehold land and buildings over the remaining period of the lease) and otherwise using the following rates

Freehold property	5%	per annum
Plant and machinery	10%-33%	per annum
Fixtures and fittings	20%	per annum

Site development costs are written off over the expected useful life of the site or, in the case of landfill sites, in proportion to the void space used.

Investments

Investments held as fixed assets are carried at cost less any provision for impairment.

Durham County Waste Management Company Limited

Site restoration and aftercare

Provision has been made in accordance with FRS 12 for site restoration and aftercare costs likely to be incurred in the foreseeable future on sites filled or partially filled at the year end. Full provision is made for the costs, discounted at an appropriate cost of capital. The unwinding of the discount is charged on an annual basis to interest payable in the profit and loss account. The asset arising, representing part of the cost of the sites has been included in fixed assets and is being amortised as the site volumes are depleted.

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value.

Deferred taxation

In accordance with FRS 19 deferred tax is provided on an incremental liability approach. It is provided on timing differences where the Group has an obligation to pay more or less tax in the future as a result of the reversal of those timing differences. Deferred tax assets are provided to the extent they are regarded as more likely than not to be recoverable.

Turnover

Turnover comprises waste disposal receipts, collection fees, and sales value of recyclable products, including landfill tax but exclusive of value added tax. Turnover is recognised at the point of a sale or service provided.

Operating leases

Operating lease rentals are charged to the profit and loss account as incurred.

Pensions

The operating cost of providing pensions, as calculated periodically by independent actuaries, is charged to the Group's operating profit and loss in the period that those benefits are earned by employees. The financial return expected on the scheme's assets is recognised in the period in which they arise as part of finance income and the effect of the unwinding of the discounted value of the scheme's liabilities is treated as part of finance costs. The changes in value of the schemes' assets and liabilities are reported as actuarial gains or losses as they arise in the statement of total recognised gains and losses. The pension scheme's surplus, to the extent it is considered recoverable, or deficit is recognised in full and presented in the balance sheet net of any related deferred tax.

Financial instruments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those with maturities greater than twelve months after the balance sheet date, which are classified as debtors falling due after more than one year.

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Notes to the financial statements for the year ended 31 March 2006

1 Segmental reporting

For the purposes of segmental reporting, turnover, profit on ordinary activities before taxation and net assets arise from one class of business and are all attributable to the United Kingdom.

2 Administrative expenses

	Group	
	2006	2005
	£	£
Administrative expenses – continuing operations	4,596,450	4,419,034
Administrative expenses – acquisitions	-	199,270
Administrative expenses – exceptional (note 4)	(36,995)	-
Administrative expenses	4,559,455	4,618,304

3 Operating profit

	Group	
	2006	2005
	£	£
Operating profit before exceptional items is stated after charging (crediting):		
Depreciation	1,893,378	1,542,173
Amortisation of goodwill	96,180	96,174
Profit on disposal of fixed assets	(2,818)	(8,508)
Operating lease rentals payable in respect of:		
- land	550,156	870,150
- plant and machinery	1,928,060	2,101,459
Auditors' remuneration		
- audit	29,000	26,750
- non audit	22,950	13,215

Durham County Waste Management Company Limited

	Group	
	2006	2005
		As restated
	£	£
Staff costs including directors' emoluments		
Wages and salaries	6,775,972	6,482,443
Social security costs	613,938	588,955
Pension costs (note 22)	540,555	556,083
	7,930,465	7,627,481

	Group	
	2006	2005
	Number	Number
Average number employed during the year	321	320

	Group	
	2006	2005
	£	£
Directors' emoluments		
The emoluments, including pension contributions, of the directors were as follows:		
Other emoluments	335,586	309,826
Pension contributions	24,097	23,457
	359,683	333,283

The company paid pension contributions of £24,097 (2005 - £23,457) to a defined contribution scheme on behalf of two directors (2005 – two) during the period.

Total emoluments paid to the highest paid director during the year were £149,854 (2005 - £141,230). In addition the company paid £14,601 (2005 - £14,148) to a defined contribution scheme on behalf of the highest paid director.

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4 Exceptional items

	Group	
	2006 £	2005 £
Closure of wood pelleting facility	(399,884)	-
Recovery of foot and mouth costs	436,879	-
	<u>36,995</u>	<u>-</u>

The closure of the wood pelleting facility includes £356,948 relating to the write down of associated fixed assets to their net recoverable value. The facility was closed in November 2005.

Recovery of foot and mouth costs comprises recovery of costs incurred by the Group as a result of the disposal by DEFRA of carcasses at Chapmans Well during March 2001. As set out in the chairman's statement, the recovery of these costs has been the basis of an ongoing dispute between DEFRA and the Group, which was settled during the year.

5 Interest and other finance costs

a. Interest

	Group	
	2006 £	2005 £
Bank interest receivable	152,079	130,055
Other interest receivable	600	2,168
Unwinding of discount on provision for restoration and aftercare costs (note 16)	(606,012)	(614,367)
Other interest payable	(99,793)	(42,349)
	<u>(553,126)</u>	<u>(524,493)</u>

b. Other finance costs

	Group	
	2006 £	2005 £
Other finance costs (note 22)	83,000	87,000

Durham County Waste Management Company Limited

6 Taxation

a. Analysis of charge in period

	Group 2006 £	2005 £
Current tax		
UK corporation tax at 30% (2005:30%) on profits of the year	553,093	782,085
Over provision in respect of prior years	(2,493)	(208,195)
Total current tax	550,600	573,890
Deferred tax		
Origination and reversal of timing differences	(30,277)	(174,325)
Over provision in respect of prior years	(11,179)	-
Total deferred tax	(41,456)	(174,325)
Tax on profit on ordinary activities	509,144	399,565

b. Factors affecting tax charge for the period

The tax assessed for the year is higher (2005 – higher) than the standard rate of corporation tax in the UK of 30% (2005 - 30%). The differences are explained below:

	Group 2006 £	2005 As restated £
Profit on ordinary activities before tax	1,783,915	1,714,998
Profit on ordinary activities multiplied by standard rate in the UK 30%	535,175	514,499
Effects of :		
Expenses not deductible for tax purposes	194,595	206,710
Accelerated capital allowances/ other timing differences	(176,677)	60,893
Tax at marginal rates	-	(17)
Over provision in respect of prior years	(2,493)	(208,195)
Current tax charge for the year	550,600	573,890

Durham County Waste Management Company Limited

7 Dividends payable

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Interim dividends paid	-	125,000	-	125,000

8 Intangible fixed assets

Intangible fixed assets comprise goodwill.

	Group £	Company £
Cost at 1 April 2005 and 31 March 2006	2,059,243	418,000
Amortisation		
At 1 April 2005	797,533	305,149
Amortisation for the year	96,180	14,106
At 31 March 2006	893,713	319,255
Net book amount - at 31 March 2006	1,165,530	98,745
Net book amount - at 31 March 2005	1,261,710	112,851

The goodwill arising on the acquisition of Premier Waste Management and Joint Stock landfill site is being amortised on a straight-line basis over 20 years. These periods are the periods over which the directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

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9 Tangible fixed assets

Group

	Freehold property £	Site development £	Restoration & aftercare costs £	Plant and machinery £	Total £
Cost					
At 1 April 2005	2,618,512	3,935,404	15,110,171	6,913,157	28,577,244
Additions	-	1,376,046	-	581,903	1,957,949
Disposals	-	-	(298,577)	(682,182)	(980,759)
At 31 March 2006	2,618,512	5,311,450	14,811,594	6,812,878	29,554,434
Depreciation					
At 1 April 2005	1,874,254	1,633,108	7,974,600	2,896,701	14,378,663
Charge for the year	211,302	815,111	285,523	581,442	1,893,378
Disposals	-	-	-	(279,966)	(279,966)
At 31 March 2006	2,085,556	2,448,219	8,260,123	3,198,177	15,992,075
Net book amount					
At 31 March 2006	532,956	2,863,231	6,551,471	3,614,701	13,562,359
At 31 March 2005	744,258	2,302,296	7,135,571	4,016,456	14,198,581

Company

	Freehold property £	Site development £	Restoration & aftercare costs £	Total £
Cost				
At 1 April 2005	2,618,512	3,237,990	15,110,171	20,966,673
Transfer to subsidiary	-	(1,853,186)	-	(1,853,186)
Additions	-	532,428	-	532,428
Disposals	-	-	(298,577)	(298,577)
At 31 March 2006	2,618,512	1,917,232	14,811,594	19,347,338
Depreciation				
At 1 April 2005	1,874,254	1,319,208	7,974,600	11,168,062
Transfer to subsidiary	-	(252,538)	-	(252,538)
Charge for the year	211,302	492,344	285,523	989,169
At 31 March 2006	2,085,556	1,559,014	8,260,123	11,904,693
Net book amount				
At 31 March 2006	532,956	358,218	6,551,471	7,442,645
At 31 March 2005	744,258	1,918,782	7,135,571	9,798,611

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10 Fixed asset investments

Group

The group holds no fixed asset investments.

Company

	2006 £	2005 £
Subsidiary undertakings	3,545,579	3,349,189
Additions	-	196,390
	<u>3,545,579</u>	<u>3,545,579</u>

The company had the following shares in subsidiary undertakings, all of which were consolidated:

	Nature of business	Country of incorporation and operation	Interest
Premier Waste Management Limited	Collection, disposal and recycling of waste	England	100%
Capitol Waste Management Limited	Dormant	England	100%
Premier Landfill Contractors Limited	Landfill restoration services	England	100%
County Durham Aerobic Digester Limited	Operation of in-vessel waste treatment	England	100%

11 Stocks and work in progress

	Group 2006 £	2005 £
Consumables	<u>86,386</u>	<u>47,254</u>

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12 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	6,727,439	6,587,972	-	-
Other debtors	394,050	448,139	-	-
Prepayments and accrued income	765,501	661,973	626,152	720,452
Amounts owed by group undertaking	-	-	6,740,280	5,266,829
Deferred tax asset (Note 16)	251,781	174,325	-	-
	8,138,771	7,872,409	7,366,432	5,987,281

13 Creditors – Amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	846,075	904,715	-	-
Other creditors	839,921	1,090,691	-	-
Taxation and social security	2,368,946	2,416,773	-	-
Accruals and deferred income	1,478,898	1,361,108	-	-
Amounts owed to group undertaking	-	-	-	474,741
Shareholder loan (see note 14)	139,267	139,267	139,267	139,267
Corporation tax	771,883	884,198	223,292	491,459
	6,444,990	6,796,752	362,559	1,105,467

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14 Creditors – Amounts falling due after one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Borrowing are repayable as follows:				
Between one and two years	139,267	139,267	139,267	139,267
Between two and five years	417,800	417,800	417,800	417,800
After more than five years	940,049	1,079,316	940,049	1,079,316
	1,497,116	1,636,383	1,497,116	1,636,383

The borrowings represent a loan from the ultimate parent undertaking. The loan facility is £2,080,000 which is available on a draw down basis and is repayable in quarterly instalments over a fifteen year period. The loan attributes interest at a rate of 1% over the 3 month LIBOR.

15 Financial instruments

The Group and Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used. All financial assets are held in sterling, hence there is no foreign currency exchange rate exposure. Fixed asset investments are valued at cost. There is little exposure to interest rate risk and the Group does not have any financial liabilities other than short term creditors and shareholder loans (see note 14). The company mitigates credit risk by the implementation of credit checks on potential customers before sales commence.

At 31 March 2006 the Group's financial assets by value, excluding short term trade debtors and creditors as permitted by Financial Reporting Standard 13 "Financial Instruments and Derivatives", comprised cash of £3,914,292 (2005: £2,992,605).

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16 Provisions for liabilities and charges

Group

	Deferred taxation (asset) £	Restoration & aftercare £
At 1 April 2005	(174,325)	13,255,938
Decrease in future expenditure	-	(298,577)
Expenditure charged against provision	(77,456)	(512,398)
Unwinding of discounted provision	-	606,012
At 31 March 2006	(251,781)	13,050,975

The deferred taxation asset is included within debtors (see note 12).

	2006		2005	
	Potential liability (asset) £	Provision (asset) £	Potential liability (asset) £	Provision (asset) £
Deferred taxation				
Accelerated capital allowances	(151,366)	(151,366)	(258,931)	(81,565)
Other timing differences	(906,574)	(100,415)	(956,990)	(92,760)
	(1,057,940)	(251,781)	(1,215,921)	(174,325)

The deferred tax asset primarily relates to the timing of actual restoration expenditure incurred compared to restoration provisions charged in the profit and loss account. In accordance with the accounting policy, provision has been made for the deferred tax asset. Relief would be available in future periods if the restoration expenditure exceeds the annual charge in the profit and loss account.

Company

	Deferred taxation £	Restoration & aftercare £
At 1 April 2005	-	13,255,938
Decrease in future expenditure	-	(298,577)
Expenditure charged against provision	-	(512,398)
Unwinding of discounted provision	-	606,012
At 31 March 2006	-	13,050,975

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	2006		2005	
	Potential liability (asset)	Provision (asset)	Potential liability (asset)	Provision (asset)
	£	£	£	£
Deferred taxation				
Accelerated capital allowances	70,256	70,256	66,889	66,889
Other timing differences	(876,415)	(70,256)	(712,591)	(66,889)
	(806,159)	-	(645,702)	-

The deferred tax asset primarily relates to the timing of actual restoration expenditure incurred compared to restoration provisions charged in the profit and loss account. In accordance with the accounting policy, no provision has been made for the deferred tax asset. Relief would be available in future periods if the restoration expenditure exceeds the annual charge in the profit and loss account.

17 Called up equity share capital

	Group and Company	
	2006	2005
	£	£
Authorised		
20,000,000 ordinary shares of £1 each	20,000,000	20,000,000
Allotted, called up and fully paid		
1,378,002 ordinary shares of £1 each	1,378,002	1,378,002

18 Reserves

	Profit and loss account	
	Group	Company
	£	£
At 1 April 2005, as previously reported	3,305,484	2,068,532
Prior year adjustment	(2,115,000)	-
At 1 April 2005, as restated	1,190,484	2,068,532
Retained profit for the financial year	1,274,771	96,217
Actuarial loss recognised in the pension scheme, net of tax	(245,400)	-
At 31 March 2006	2,219,855	2,164,749

As permitted by Section 230(1) of the Companies Act 1985 the parent company has not presented its own profit and loss account. The amount of profit before tax dealt with in the accounts of the parent company is £103,727.

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19 Cash flow

a. Reconciliation of operating profit to net cash inflow from operating activities

	2006 £	2005 £
Operating profit	2,420,041	2,326,491
Depreciation and amortisation charges	1,989,558	1,638,347
Profit on disposal of fixed assets	(2,818)	(8,508)
Write down of fixed assets	356,948	-
Cash movement on provisions for liabilities and charges	(512,398)	(956,924)
(Increase) / decrease in stock	(39,132)	414
Increase in debtors	(188,905)	(168,511)
(Decrease) / increase in creditors	(239,447)	201,847
Difference between pension charge and cash contribution	(203,000)	(196,000)
Net cash inflow from operating activities	3,580,847	2,837,156

b. Analysis of movement in net debt

	2005 £	Cashflow £	2006 £
Cash:			
Cash at bank and in hand	2,992,605	921,687	3,914,292
Debt:			
Debts falling due within one year	(139,267)	-	(139,267)
Debts falling due after one year	(1,636,383)	139,267	(1,497,116)
	(1,775,650)	139,267	(1,636,383)
Net debt	1,216,955	1,060,954	2,277,909

20 Contingent liabilities

The Co-operative Bank has provided bonds to customers of the Company in order to guarantee ongoing work on a number of contracts. At 31 March 2006 the bonds totalled £1,592,431 (2005 - £942,341). In consideration for these bonds the Company has taken out a mortgage debenture in favour of the Co-operative Bank. The debenture provides for a fixed and floating charge over the assets of the Group.

Durham County Waste Management Company Limited

21 Operating lease commitments

The annual rental commitments at 31 March 2006 in respect of non-cancellable operating leases were as follows:

	2006			2005		
	Land and buildings £	Other £	Total £	Land and buildings £	Other £	Total £
Group						
Operating leases which expire:						
Within one year	-	138,690	138,690	-	171,968	171,968
Between one and five years	16,200	1,643,040	1,659,240	40,578	1,332,552	1,373,130
After more than five years	545,173	109,290	654,463	829,646	262,244	1,091,890
	561,373	1,891,020	2,452,393	870,224	1,766,764	2,636,988

	2006			2005		
	Land and buildings £	Other £	Total £	Land and buildings £	Other £	Total £
Company						
Operating leases which expire:						
Between one and five years	-	18,107	18,107	-	18,107	18,107
After more than five years	377,598	-	377,598	723,558	-	723,558
	377,598	18,107	395,705	723,558	18,107	741,665

22 Pensions

The Group operates a funded defined benefit scheme, as part of the LAWDC pension scheme, to which contributions are made by the Group and employees. The scheme is closed to new entrants. In addition there are a number of money purchase arrangements to which the Group and employees contribute. The total pension cost for the Group for the year was £540,555 (2005 - £556,083). Pension costs are assessed in accordance with the advice of qualified independent actuaries.

The group has adopted FRS 17, "Retirement benefits", in these financial statements. The adoption of this accounting standard represents a change in accounting policy and the comparative figures have been restated accordingly.

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A full actuarial valuation was carried out at 31 March 2003 and updated to take account of the requirements of FRS17 and to assess the liabilities of the scheme at 31 March 2006 by a qualified independent actuary. The next full actuarial valuation of the scheme is due on 31 March 2006 and triennially thereafter. From 1 April 2005 the recommended contribution rate set by the scheme actuary is 16% of pensionable earnings. In addition the Company has agreed to contribute a further sum of £282,000 per annum, payable in monthly instalments, until further notice.

The principal assumptions used in valuing the pension liabilities were –

	2006 %	2005 %	2004 %	2003 %
Valuation method	Projected unit	Projected unit	Projected unit	Projected unit
Rate of increase in salaries	4.10	3.90	3.90	3.50
Rate of increase of pensions in payment	3.10	2.90	2.90	2.50
Discount rate	4.90	5.40	5.50	5.40
Inflation rate	3.10	2.90	2.90	2.50

The assets in the scheme and the expected rate of return were:

	2006 £		2005 £		2004 £		2003 £	
	Expected rate of return %	Market value £	Expected rate of return %	Market value £	Expected rate of return %	Market value £	Expected rate of return %	Market value £
Equities	6.70	7,317,000	7.75	5,551,000	7.75	4,801,000	7.50	3,674,000
Government bonds	4.20	1,514,000	4.70	1,358,000	4.75	957,000	4.50	1,575,000
Corporate bonds	4.90	962,000	5.40	834,000	5.50	681,000	-	-
Cash	4.50	230,000	4.75	198,000	4.00	303,000	3.75	25,000
		10,023,000		7,941,000		6,742,000		5,274,000

The deficit of the scheme is made up as follows:

	2006 £	2005 £	2004 £	2003 £
Total market value of assets	10,023,000	7,940,000	6,742,000	5,274,000
Present value of fund liabilities	(13,275,000)	(10,961,000)	(9,973,000)	(8,429,000)
Deficit in the scheme	(3,252,000)	(3,021,000)	(3,231,000)	(3,155,000)
Related deferred tax asset	975,600	906,000	969,300	946,500
Net pension liability	(2,276,400)	(2,115,000)	(2,261,700)	(2,208,500)

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Analysis of the amount charged to operating profit:

	2006 £	2005 £	2004 £	2003 £
Current service cost	332,000	358,000	280,000	281,000
Past service cost	-	-	-	-
Total operating charge	332,000	358,000	280,000	281,000

Analysis of the amount charged to other financial costs:

	2006 £	2005 £	2004 £	2003 £
Expected return on pension scheme assets	510,000	468,000	350,000	399,000
Interest on pension scheme liabilities	(593,000)	(555,000)	(461,000)	(447,000)
Net return	(83,000)	(87,000)	(111,000)	(48,000)

Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL):

	2006 £	2005 £	2004 £	2003 £
Actual return less expected return on pension scheme assets	1,307,000	318,000	693,000	(1,461,000)
Experience gains and losses arising on the scheme liabilities	3,000	(12,000)	(212,000)	79,000
Changes in assumptions underlying the present value of the scheme's liabilities	(1,661,000)	(205,000)	(645,000)	(500,000)
Actuarial (loss)/gain recognised in STRGL	(351,000)	101,000	(164,000)	(1,882,000)

Movement in deficit during the year:

	2006 £	2005 £	2004 £	2003 £
Deficit in scheme at beginning of the year	(3,021,000)	(3,231,000)	(3,155,000)	(1,205,000)
Current service cost	(332,000)	(358,000)	(280,000)	(281,000)
Employer contributions	564,000	580,000	479,000	310,000
Other outgoings	(29,000)	(26,000)	-	(49,000)
Net return	(83,000)	(87,000)	(111,000)	(48,000)
Actuarial (losses)/gains	(351,000)	101,000	(164,000)	(1,882,000)
Deficit in scheme at end of year	(3,252,000)	(3,021,000)	(3,231,000)	(3,155,000)

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History of experience gains and losses:

	2006	2005	2004	2003
Difference between the expected return and actual on scheme assets:				
Amount (£)	1,307,000	318,000	693,000	1,461,000
percentage of scheme assets at end of year	13.0%	4.0%	10.3%	27.7%
Experience gains and losses on scheme liabilities:				
Amount (£)	3,000	(12,000)	(212,000)	79,000
percentage of scheme liabilities at end of year	0.0%	(0.1)%	(2.1)%	0.9%
Total amount recognised in statement of total recognised gains and losses:				
Amount (£)	(351,000)	101,000	(164,000)	(1,882,000)
percentage of scheme liabilities at end of year	(2.6)%	0.9%	(1.6)%	22.3%

Effect of full adoption of FRS 17

The adoption of FRS 17 has resulted in a decrease in staff costs of £203,000 (2005: £196,000), an increase in other finance costs of £83,000 (2005: £87,000), an increase in the tax charge of £36,000 (2005: £32,700) and an increase in the profit for the year of £84,000 (2005: £76,300). The adoption has also resulted in a decrease in net assets of £2,276,400 (2005: £2,115,000).

23 Ultimate parent undertaking

The ultimate parent undertaking and controlling party is Durham County Council. A Copy of Durham County Council's accounts can be obtained from the Treasurer, County Hall, Durham DH1 5UL.

24 Related party transactions

The Group entered into the following related party transactions during the year:

Ultimate Parent Undertaking

	2006 £	2005 £
Sales	10,434,934	10,197,159
Services purchased	527,350	890,923

At the year end the Group was owed £2,486,210 (2005 - £2,305,274) by the ultimate parent undertaking.

All transactions are at an arms length basis.