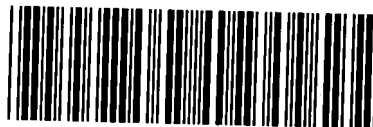


SEVERN WASTE SERVICES LIMITED

Annual Report and financial statements

For the year ended 31 December 2017

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SEVERN WASTE SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS For the year ended 31 December 2017

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SEVERN WASTE SERVICES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

FCC Environment Services (UK) Limited
Urbaser Limited
J Peiro
A Serrano

REGISTERED OFFICE

The Marina
Kings Road
Evesham
Worcestershire
England
WR11 3XZ

BANKERS

HSBC Bank plc
PO Box 4
6 Broad Street
Worcester
WR1 2EJ

SOLICITORS

Harrison Clark Rickerbys LLP
5 Deansway
Worcester
WR1 2JG

AUDITOR

Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom

SEVERN WASTE SERVICES LIMITED

STRATEGIC REPORT

The directors present their strategic report on the affairs of the company, together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The company operates all of the waste management facilities of Mercia Waste Management Limited ("Mercia"), a fellow company under common control, under the terms of an Operating and Maintenance Agreement ("OMA"). The company is responsible for performing the obligations of the agreement for a management fee. In addition, reimbursable operating costs are received from Mercia.

On 21 May 2014, the company signed a Restatement of the 1998 Construction Management Agreement (CMA) with Mercia, acting as the construction manager. Under the terms of this agreement, the company co-ordinates the design and construction of new facilities as required for the Councils of Herefordshire and Worcestershire ("the Councils"). Payments in respect of the construction of the Energy from Waste (EfW) Plant at Hartlebury ceased after take-over of the Plant in March 2017. The CMA remains in place but all relevant Construction are activities are currently complete and no payments have accrued after March 2017.

REVIEW OF THE BUSINESS AND KEY PERFORMANCE INDICATORS

As shown in the company's Profit and loss account on page 9, the company's sales have decreased by 15% (-£5.5 million) from the prior year (2016 – increase of 1%, +£0.5m). The decrease in 2017 is mainly due to the impact of the new EfW plant entering full operation in March 2017. As a result of this substantially less waste is going to landfill and therefore the landfill tax payable in the year has reduced significantly, via the OMA described above, this leads directly to a fall in income.

The Balance sheet on page 10 of the financial statements shows the company's financial position at the year end. The increase in net assets is attributed to the post-tax profit for the year of £3,843 (2016 – £10,067).

The company's cash balances decreased to £1,113,493 in 2017 from £1,248,983 in 2016. The decrease is due to timing differences on payments for insurances and maintenance costs at the EfW Plant.

The Company has important relationships with external regulatory and licencing bodies such as the Environment Agency. A robust system of internal review and monitoring by external auditors to maintain high levels of performance and compliance with Health, Safety and Environmental targets is in place.

The Company maintained certification with ISO 9001 (Quality Management Systems), 14001 (Environmental Management Systems and BS 18001 (Occupational Health and Safety Management systems) during the period and will seek to transition from BS 18001 to ISO 45001 during 2018.

The directors confirm that there are no significant events arising since the balance sheet date.

RESULTS AND DIVIDENDS

The profit for the year is set out on page 9. The directors do not recommend payment of a dividend (2016 – £nil) and the profit of £4,835 (2016 – £10,067) has been transferred to reserves.


PRINCIPAL RISKS AND UNCERTAINTIES

Management consider that Principal risks faced by the company are mitigated by the OMA contract held with Mercia. Operational risks are managed via rigorous Quality, Health, Safety and Environmental management. The Company will work with Mercia Waste Management toward securing an Extension to the current Contract which Mercia enjoys with the Councils of Herefordshire and Worcestershire which is due to end in January 2024.

FUTURE DEVELOPMENTS

During 2017 the company commenced full operation of Mercia's new EfW Plant. In 2018 the costs and income will reflect a full 12 months operation of the EfW Plant, rather than 10 months in 2017.

Approved by the Board of Directors and signed on behalf of the Board


J Peiro
Director
29 June 2018

SEVERN WASTE SERVICES LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2017. The company's results and dividends and future developments and events after the balance sheet date are presented in the Strategic Report and form part of this report by cross reference. There were no material events after the balance sheet date.

DIRECTORS

The directors who served during the year and thereafter were as follows:

FCC Environment Services (UK) Limited
Urbaser Limited
A Serrano
J Peiro

DONATIONS

The company made no political donations in the year (2016 - £nil).

Charitable contributions of £ 526,805 (2016 - £935,715) were made by the company via the Landfill Communities Fund. The net cost to the company of these payments was £52,680 (2016 - £93,571).

DISABLED EMPLOYEES

The company recognises its responsibilities towards disabled persons and therefore, where applicable, applications for employment are considered bearing in mind the respective aptitudes and abilities of the candidate. Where an applicant is judged, for reasons related to their disability, to have failed to meet the requirements of a job description, consideration will be given to whether an adjustment can be made to the role, to counteract any disability related disadvantage. In the event of existing employees becoming disabled, every effort is made to ensure that their employment can continue. It is the policy of the company that the training and development of a disabled employee should as far as possible be the same as that of an able bodied person.

EMPLOYEE CONSULTATION

The company continues its policy of involving employees in its affairs where possible and creating the opportunity for management to communicate to employees matters which affect the company's performance. This is achieved through meetings, memoranda and briefings.

GOING CONCERN

The company has sufficient financial resources to meet its day to day requirements, and as a consequence the directors believe that the company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Cash flow and credit risk

The company's principal financial assets are bank balances and receivables. The only significant receivable at the end of the period is that owed by the related party, Mercia Waste Management via the OMA which gives the company various contractual rights relating to payment. Mercia's credit rating is good and therefore the risk to Severn Waste Services is viewed as being minimal.

Liquidity risk

The Company manages the majority of its liquidity risk via cash. The cash is received via a contractual relationship with Mercia Waste Management a related Company which as noted above has a good credit rating.

SEVERN WASTE SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED)

AUDITOR


Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue as the company's auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



J Peiro
Director
29 June 2018

SEVERN WASTE SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SEVERN WASTE SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN WASTE SERVICES LIMITED

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Severn Waste Services Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

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

SEVERN WASTE SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN WASTE SERVICES LIMITED

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

SEVERN WASTE SERVICES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SEVERN WASTE SERVICES LIMITED

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.



William Smith MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom
29 June 2018

SEVERN WASTE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2017

	Note	2017 £	2016 £
TURNOVER	3	31,466,861	37,048,727
Cost of sales		(29,352,907)	(34,676,303)
GROSS PROFIT		2,113,954	2,372,424
Administrative expenses		(2,113,954)	(2,372,424)
OPERATING RESULT	5	-	-
Finance income (net)	6	5,606	10,880
PROFIT BEFORE TAXATION		5,606	10,880
Tax charge	7	(1,763)	(813)
PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS OF THE COMPANY		3,843	10,067

All results arose from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £	2016 £
Profit for the financial year		3,843	10,067
Actuarial losses relating to the pension scheme	16	-	(2,000)
UK deferred tax attributable to actuarial losses relating to the pension scheme	11	-	255
		-	(1,745)
Total comprehensive income attributable to equity shareholders of the company		3,843	8,322

SEVERN WASTE SERVICES LIMITED

BALANCE SHEET

As at 31 December 2017

	Note	2017 £	2016 £
CURRENT ASSETS			
Stock	8	191,014	127,420
Debtors	9	4,344,244	3,722,756
Cash at bank and in hand		1,113,493	1,248,983
		<u>5,648,751</u>	<u>5,099,159</u>
CREDITORS: amounts falling due within one year	10	<u>(5,339,778)</u>	<u>(4,794,029)</u>
NET ASSETS		<u>308,973</u>	<u>305,130</u>
CAPITAL AND RESERVES			
Called-up share capital	12	250,000	250,000
Profit and loss account		58,973	55,130
TOTAL SHAREHOLDERS' FUNDS		<u>308,973</u>	<u>305,130</u>

These financial statements of Severn Waste Services Limited, registered number 03618688, were approved by the Board of Directors and authorised for issue on 29 June 2018.

Signed on behalf of the Board of Directors



J Peiro

Director

SEVERN WASTE SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2017

	Called-up share capital £	Profit and loss account £	Total £
At 1 January 2016	250,000	46,808	296,808
Profit for the financial year	-	10,067	10,067
Actuarial losses relating to pension scheme	-	(2,000)	(2,000)
Tax adjustment relating to pension scheme	-	255	255
	<hr/>	<hr/>	<hr/>
Total comprehensive income	-	8,322	8,322
	<hr/>	<hr/>	<hr/>
At 31 December 2016	<u>250,000</u>	<u>55,130</u>	<u>305,130</u>
	<hr/>	<hr/>	<hr/>
Profit and total comprehensive income for the financial year	-	3,843	3,843
	<hr/>	<hr/>	<hr/>
At 31 December 2017	<u>250,000</u>	<u>58,973</u>	<u>308,973</u>

SEVERN WASTE SERVICES LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	2017 £	2016 £
Net cash outflow from operating activities	14	(141,097)	(950,872)
Cash flows from investing activities			
Interest received		5,606	10,880
Net cash flows from investing activities		5,606	10,880
Net decrease in cash and cash equivalents		(135,490)	(939,992)
Cash and cash equivalents at beginning of year		1,248,983	2,188,975
Cash and cash equivalents at end of year		1,113,493	1,248,983

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

a) General information and basis of accounting

Severn Waste Services Limited is a private company limited by shares and registered in England and Wales and incorporated in the United Kingdom under Companies Act 2006. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 2.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Severn Waste Services Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

b) Going concern

The company has sufficient financial resources to meet its day to day working capital requirements, and as a consequence the directors believe that the company is well-placed to manage its business risks successfully.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

c) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Landfill Tax is incurred at the company's Hill and Moor Site. The liability is paid quarterly to HMRC. The monthly cost is invoiced to Mercia Waste Management.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as 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 using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2017

1. ACCOUNTING POLICIES (continued)

d) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

e) Turnover

Turnover represents amounts receivable for services provided in the normal course of business, net of trade discounts and VAT. Turnover from the supply of services represents the value of services provided under contracts to the extent there is a right to consideration and is recorded at the value of the consideration due, and is recognised at the point at which the services are performed.

f) Employee benefits

Pensions

The Company has defined contribution schemes, where amounts charged to the profit and loss account in respect of pension costs and other retirement benefits are the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

g) Stocks

Stock consists wholly of consumables and is stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. The cost formula used is simply the purchase price paid for the stock. Provision is made for obsolete, slow moving or defective items where appropriate.

h) Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs).

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Debt instruments are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements and key sources of estimation in applying the company's accounting policies

The following relates to the critical judgement and estimations that the directors have made in the process of applying the company's accounting policies and that has the most significant effect on the amounts recognised in the financial statements:

Leachate accrual

The company operates, via a permit with the Environment Agency, the landfill operations owned by Mercia Waste Management Limited and pays for the processing of leachate (a liquid emanating from the site which requires treatment), whether on site or via treatment at third party facilities. The company monitors the volume of leachate in the landfill cells via regular readings taken at various points from within the site. An estimate is then made from these values of the total leachate held within the site for which the company needs to provide. Key to this calculation is the level of saturation (the amount of liquid within a cubic metre of waste) the estimate of which is based on industry standards and is reviewed periodically and the split between the cost of on - site or third party treatment of the liquid.

Recoverability of debtors

The debtor balance outstanding with the related party, Mercia Waste Management Limited, is the trading balance due on the ongoing Operation and Maintenance Agreement and the Construction Management Agreement. The directors have reviewed this matter and satisfied themselves that the amount receivable is appropriate and that no impairment of the balance is warranted.

3. TURNOVER

All turnover was derived within the UK from sales to the company's fellow associated undertaking, Mercia Waste Management Limited (see note 15).

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2017

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' remuneration

Directors A Serrano and J Peiro are not employees of the company and received no remuneration during the year (2016 – nil).

Directors FCC Environment Services (UK) Limited and Urbaser Limited received remuneration by way of management fees from the company for their services during the current and preceding year. Full disclosure is detailed in note 15.

	2017 No.	2016 No.
Average number of persons employed		
Technical and administrative	25	22
Operational	295	270
	<u>320</u>	<u>292</u>
	2017 £	2016 £
Staff costs during the year		
Wages and salaries	7,525,422	6,380,863
Social security costs	702,496	553,734
Pension costs	121,268	322,091
	<u>8,349,185</u>	<u>7,256,688</u>

Pension costs include only those defined benefit scheme costs and defined contribution scheme costs included within operating costs.

5. OPERATING RESULT

	2017 £	2016 £
Operating result is stated after charging:		
Rentals under operating leases		
Hire of plant and machinery	66,705	49,480
Other operating leases	108,000	106,289
Cost of stock recognised as an expense	<u>2,218,347</u>	<u>1,506,764</u>

The analysis of auditor's remuneration is as follows:

	2017 £	2016 £
Fees payable to the company's auditor for the audit of the company's annual financial statements	<u>21,000</u>	<u>21,750</u>
Total audit fees	<u>21,750</u>	<u>21,750</u>
Taxation services – compliance	-	4,000
Other taxation services	-	2,900
Total non-audit fees	<u>-</u>	<u>6,900</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2017

6. FINANCE INCOME (NET)

	2017 £	2016 £
Bank interest received	5,606	10,880
	<u>5,606</u>	<u>10,880</u>

7. TAX ON PROFIT

The tax charge comprises:

	2017 £	2016 £
<i>Current tax</i>		
United Kingdom corporation tax at 19.25% (2016 – 20%) based on the profit for the year	-	2,576
	<u>-</u>	<u>2,576</u>
<i>Deferred tax</i>		
Short term timing differences	-	(1,763)
Adjustments in respect of prior periods	1,763	-
	<u>1,763</u>	<u>(1,763)</u>
Total tax charge	<u>1,763</u>	<u>813</u>

The standard rate of tax applied to profit on ordinary activities is 19% (2016 – 20%). Finance Act 2016 enacted further reductions resulting in a main rate of corporation tax of 19% for financial years 2017 to 2019 and a rate of 18% with effect from 1 April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 18% in these accounts.

The difference between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2017 £	2016 £
Profit on ordinary activities before tax	<u>5,606</u>	<u>10,880</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 19.25% (2016 – 20%)	1,079	2,176
Effects of:		
Expenses not deductible for tax purposes	42	683
Adjustments to tax charge in respect of previous periods – deferred tax	1,763	-
Deferred tax not recognised	(1,121)	-
Losses carried forward/(utilisation of losses)	-	(2,046)
Total tax charge/(credit)	<u>1,763</u>	<u>813</u>

8. STOCK

	2017 £	2016 £
Consumables	<u>191,014</u>	<u>127,420</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) For the year ended 31 December 2017

9. DEBTORS

	2017 £	2016 £
Amounts owed by related parties (note 15)	3,254,227	3,332,406
Other debtors	234,066	25,621
Prepayments and accrued income	855,951	362,966
Deferred tax (note 11)	-	1,763
	<u>4,344,244</u>	<u>3,722,756</u>

All amounts are due within one year. Amounts owed by related parties are non-interest bearing and repayable on demand.

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2017 £	2016 £
Trade creditors	1,533,581	1,073,814
Amounts owed to joint venture shareholders (note 15)	642,276	747,814
Landfill tax payable	544,710	962,874
Other taxes and social security	459,956	522,632
Corporation tax	-	2,176
Other creditors	476,196	439,006
Accruals and deferred income	1,683,059	1,045,713
	<u>5,339,778</u>	<u>4,794,029</u>

Amounts owed to joint venture shareholders are non-interest bearing and repayable on demand.

11. DEFERRED TAX

	Deferred tax asset £	Pension related liability £	Total (note 9) £
At 1 January 2017	1,763	-	1,763
(Charged)/credited to the profit and loss account	(1,763)	-	(1,763)
At 31 December 2017	<u>-</u>	<u>-</u>	<u>-</u>

The deferred tax asset is provided as follows:

	2017 £	2016 £
Deferred tax assets and liabilities		
Asset recoverable after one year	-	1,763
Liability payable after one year	<u>-</u>	<u>-</u>

12. CALLED-UP SHARE CAPITAL

	2017 £	2016 £
Called-up, allotted and fully paid 250,000 ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

13. FINANCIAL COMMITMENTS

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2017 Land and buildings £	2016 Land and buildings £
Amounts falling due		
- within one year	116,695	115,218
- between two and five years	328,095	386,928
- after five years	354,361	412,223
	<u>799,151</u>	<u>914,369</u>

14. RECONCILIATION OF OPERATING RESULT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2017 £	2016 £
Operating result	-	-
Decrease in debtors	(623,251)	(186,050)
Increase in stocks	(63,594)	(15,243)
Decrease/ (increase) in creditors	547,924	(522,834)
Adjustment for pension funding	-	(226,345)
Corporation tax paid	(2,176)	(400)
Net cash outflow from operating activities	<u>(141,097)</u>	<u>(950,872)</u>

15. RELATED PARTY TRANSACTIONS

Mercia Waste Management Limited

In 1999, Mercia Waste Management Limited ("Mercia"), a fellow associated undertaking of the company, appointed the company to operate all of Mercia's planned and existing waste management installations under the terms of an Operating and Maintenance Agreement. The company is responsible for performing the obligations of Mercia within the operating budget agreed by Mercia and received a fee of £30,679,291 for this in the year (2016 - £34,604,574).

On 21 May 2014, Mercia, as contractor, signed a Construction Management Agreement with the company acting as the construction manager. Fees charged during the year were £94,282 (2016 - £423,528) and amounts invoiced to recharge commissioning costs were £641,226 (2016 - £2,020,625).

The trading balance due from Mercia at 31 December 2017 was £3,247,004 (2016 - £3,332,406).

Joint venture shareholder entities

FCC Environment Services (UK) Limited and Urbaser Limited are the joint venture shareholders of Severn Waste Services Limited.

The company was charged management and advisory fees by FCC Environment Services (UK) Limited of £1,056,977 (2016 - £1,186,212). The amount owed by the company to FCC Environment Services (UK) Limited at 31 December 2017 was £321,138 (2016 - £373,907).

The company was charged management and advisory fees by Urbaser Limited of £1,056,977 (2016 - £1,186,212). The amount owed by the company to Urbaser Limited at 31 December 2017 was £321,138 (2016 - £373,907).

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2017

15. RELATED PARTY TRANSACTION (continued)

All of the above management fees were recharged to Mercia as part of the Operating and Maintenance Agreement and are included in the fee received in the current and prior year.

Other related party transactions

The total remuneration for key management personnel for the year totalled £84,415 (2016 - £160,345).

16. EMPLOYEE BENEFITS

Defined contribution schemes

The Company operates two defined contribution pension schemes for its staff.

The cost of the scheme with Prudential Assurance was £82,463 (2016 - £46,651) of which 7,932 (2016 - £7,451) was due to be paid at the Year End.

The cost of the scheme with Legal & General was £38,805 (2016 - £29,394) of which £2,447 (2016 - £2,916) was due to be paid at the Year End.

17. FINANCIAL INSTRUMENTS

The carrying values of the company's financial assets and liabilities are summarised by category below:

	2017 £	2016 £
Financial assets		
Measured at undiscounted amount receivable		
• Other debtors (see note 9)	234,066	25,621
• Amounts due from related parties (see note 9)	3,254,227	3,332,406
	<u>3,488,293</u>	<u>3,358,027</u>
	2017 £	2016 £
Financial liabilities		
Measured at undiscounted amount payable		
• Trade and other creditors (see note 10)	2,078,291	2,035,452
• Amounts owed to joint venture shareholders (see note 10)	642,276	747,814
	<u>2,720,567</u>	<u>2,783,266</u>

18. CONTROLLING PARTY

There is no ultimate controlling party as the company is jointly owned by FCC Environment Services (UK) Limited of Ground Floor West, 900 Pavillion Drive, Northampton Business Park, Northampton, NN4 7RG and Urbaser Limited of First Floor Westmoreland House, 80 – 86 Bath Road, Cheltenham, GL53 7JT.