Company Registration No. 07984024

UBB Waste (Essex) Limited

Annual Report and Financial Statements

For the year ended 31 December 2019

UBB Waste (Essex) Limited

Annual report and financial statements 2019

Contents

UBB Waste (Essex) Limited

Officers and professional advisers

Directors

S Worthy
S Rooke
C S McCarthy
J Peiro

Secretary

C S McCarthy

Registered Office

Ashford House
Grenadier Road
Exeter
Devon
England
EX1 3LH

Auditor

Deloitte LLP
Statutory Auditor
Birmingham
United Kingdom

UBB Waste (Essex) Limited

Strategic report

Principal activity and business review

On 31 May 2012 the Company entered into a Private Finance Initiative (PFI) concession contract with Essex County Council to design, construct, operate and maintain a waste facility on the Courtauld Road site in Basildon over a 28 - year period.

On 3 December 2011, the Urbaser/Balfour Beatty consortium was named Preferred Bidder for Essex County Council's municipal residual waste treatment contract, proposing a Mechanical and Biological Treatment (MBT) facility to treat kerbside collected residual trade waste collected by local Essex authorities, street sweepings, and all non-recyclable waste from household recycling centres across Essex and Southend for the next 25 years.

The facility will be capable of treating up to 417,000 tonnes of municipal waste per year. The facility will also incorporate a visitor and education centre for the benefit of the wider community.

The planning application was submitted in March 2012 and subsequently granted in July 2012. An Environmental Permit required to operate the facility was submitted in March 2012, and this was granted in first quarter of 2014.

The project obtained the Readiness Test Certificate on 25 November 2015 and started the Hot Testing and commissioning period. The project is currently in the commissioning phase and its end is currently unknown as the Project is involved in litigation with Essex County Council. In April 2017, Essex County Council issued litigation proceedings in the High Court against UBB Waste (Essex) Limited, following a series of adjudications between the parties. Each such adjudication (and a number of subsequent adjudications) have been included in the court proceedings for final determination.

The litigation is related to a range of issues affecting the commissioning of the facility, including the composition of the waste, the operation and performance of the facility and compensating UBB Waste (Essex) Limited for delay to the project. Statements of case have been exchanged and following a case management conference in October 2017, further directions were given, leading up to a trial date which took place in 2019.

The parties exchanged disclosure on 27 July 2018. This was followed by a mediation on 18-19 October 2018. The parties exchanged witness statements of fact on 16 November 2018 and exchanged reply witness statements on 14 December 2018. The parties also engaged in a contested application for further disclosure which was heard on 3-4 December 2018. The parties exchanged expert reports on 25 January 2019 for pre-trial review.

The parties separately participated in a pre-trial review on 22 February 2019. On 19 and 22 February 2019, the parties also participated in a hearing concerning proposed amendments to UBB's statements of case. Certain amendments were approved by the trial judge on 4 March 2019. Essex County Council has since served amended Statements of Case on 22 March 2019 and 5 April 2019 that are intended to be consequential to UBB's amendments to its Statements of Case.

The trial took place between 2 May 2019 and 13 June 2019. Closing submissions were subsequently filed by the parties on 2 August 2019 and 13 September 2019. A further hearing for oral Closing submissions was also held from 2 to 4 October 2019. The parties are currently awaiting the decision in the Proceedings due in 2020.

The outcome of the High Court case is currently unknown and its complexity means that there is a wide range of possible outcomes. Given the material uncertainty about the outcome of the ongoing dispute, the directors have not recognised any possible income related to the future resolution of the dispute. As a result of the uncertainty it is not possible to rule out the risk that following the litigation, the project is liquidated and the assets are not recovered. The assets recognised in the year ended 31 December 2019 are £172,630,000 (2018: £161,243,000). If the Company is liquidated and no compensation is received in the litigation or otherwise the maximum losses for UBB Waste (Essex) Limited shareholders are equivalent to the subordinated debt balance (£36,570,000) (2018: £32,354,000).

During the financial year there were no further construction works performed although the assets of the Company have increased mainly as a result of the notional interest capitalised into the financial asset.

Strategic report (continued)

Key performance indicators

The Company has set specific business objectives, which are monitored using key performance indicators ("KPIs"). The relevant KPIs for this report are detailed below:

	31 December 2019	31 December 2018
	£'000	£'000
Loss after taxation	(2,416)	(4,756)
Net liabilities	(34,689)	(29,234)

The Directors consider these KPIs to be in line with expectations given the current situation of the project. The net liabilities are expected to rise as a result of the additional costs that the Company is incurring as a result of the delay and the fact that the loan interest and principal are being deferred.

Best and Worst Case Scenarios

The worst-case scenario for the Company is if UBB Waste (Essex) Limited loses the legal case against Essex County Council and termination of the contract subsequently occurs. In this situation, the Company would be liquidated and will need to transfer its assets to the Funders, who will take the cash available in the Company's bank accounts. Assuming a worst-case scenario for compensation upon termination of the contract, the Company will not have the funds to repay the Subordinated Debt and its Shareholders would not be repaid for the loan provided or any interest tied to it. At 31 December 2019 the balance of the Subordinated Debt (including deferred interests) is £37m (2018: £32m). The providers of the Subordinated Debt are the Project Shareholders: Urbaser Investment Limited (70% - £25,599,000) and Balfour Beatty Investment Holding Limited (30% - £10,971,000).

The best-case scenario is if either the legal case is won or if an agreement is reached with Essex County Council:

a) If the case is won, the assets will not be impaired and the Company expects to receive compensation for the legal costs and profits not generated as a result of the delay in commencing operations.
b) If an agreement is reached with the Client and the contract is re-negotiated, Company expects to recover all the delay costs in order to get the same level of profitability as per the original agreement.

Principal risks and uncertainties

The Company recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the Private Finance Initiative ("PFI") contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to enable the business to improve performance and fulfil its contractual obligations.

Financial instruments

The financial risk management objectives of the Company are to ensure that financial risks (i.e. interest risk) are mitigated by the use of financial instruments where they cannot be addressed by means of contractual provisions. Financial instruments are not used for speculative purposes. Interest rate swaps are in place between 2012 and 2038 for notional principal amounts equating to the full value of the expected bank debt that is at a variable rate of interest to give an effective fixed interest rate payable on this debt.

Other risks

Credit and cash flow risks to the Company arise from its client, Essex County Council. As a result of the litigation, there is a material risk that the cash flows during the operations are not received and the assets are impaired.

The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings with an amortisation profile that matches the expected availability of funds from the Company's operating activities. In addition the Company maintains reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements. The suppliers payment are funded with the cash the Company holds.

UBB Waste (Essex) Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

Amendments to IFRS 9, IAS 39 and IAS 7 interest rate benchmark reform

The Company is exposed to debt nominated in British Pounds and referenced to LIBOR in its hedging relationships, which are subject to interest rate reform. The entire debt referenced to GBP LIBOR is hedged by interest rate SWAPS with notional amounts of £112,904,916.

The Company has closely monitored the market and the work of the various industry groups that manage the transition to the new reference interest rates. This includes announcements made by LIBOR regulatory bodies (including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition from LIBOR (including GBP LIBOR, USD LIBOR and JPY LIBOR) to Sterling Overnight Index Average Rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Tokyo Overnight Average Rate (TONA), respectively.

In response to these announcements, the Company is working on a plan which will define the areas of the business where there is exposure to LIBOR, and to prepare and present an action plan to enable a smooth transition to alternative reference rates. The Company aims to have its transition and alternative plans in place by the end of 2020.

None of the Company's current contracts referenced to GBP LIBOR include provisions for an interruption in the referenced interest rates. Certain financial institutions that are creditors of the debt and interest rate swaps have contacted the Company in this situation in order to initiate negotiations for the transition of the financial instruments and debt to the new reference rates, and these negotiations are in progress at the date of preparation of these financial statements.

Contractual relationships

The Company operates within a contractual relationship with its primary customer, Essex County Council. A significant impairment of this relationship could have a direct and detrimental effect on the Company's results and could ultimately result in termination of the concession. The Company is undergoing legal proceedings with Essex County Council which could have the potential to harm a good working relationship. The Company is attempting to resolve the High Court proceedings amicably, including through mediation.

To manage this risk the Company has regular meetings with Essex County Council including discussions on performance, project progress, future plans and customer requirements.

This report was approved by the Board on 5 May 2020 and signed on its behalf by

J Peiro
Director

UBB Waste (Essex) Limited

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2019.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for a minimum of 12 months from the date of signing. The financial position of the company reflects the current position of the long term contract and management expect the contract to generate positive cash flows over the term of the contract.

However, the Essex contract has experienced a significant contractual delay with the proposed operations, which has led to a dispute with Essex County Council with regards to the delivery of the contract. The outcome of this dispute is currently materially uncertain. A court decision is expected to occur in 2020 based on which an outcome is expected, however, it cannot be anticipated if it will be in favour of the entity or against. If the dispute is not resolved, then it casts significant doubt as to the company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the contract cease, the company would be liquidated.

Further details relating to the going concern assumption are disclosed in note 1 to the financial statements.

At present management has prepared the accounts on a going concern basis as they are of the opinion that the matter will be resolved in the Company's favour.

Results and dividends

The Company recorded a loss of £2,416,000 for the year after taxation (2018: loss of £4,756,000).

The Directors are unable to declare a dividend in respect of the period ended 31 December 2019 (2018: £nil).

Directors

The following persons were Directors of the Company during the year and up to the date of this report, unless otherwise stated.

S Worthy
C S McCarthy
J Peiro
S Rooke

No Director had any interest in the issued share capital of the Company or the Company's parent undertaking.

Future developments

Details of all future developments can be found in the Strategic report.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors, which remain in force at the date of this report.

Financial instruments

The financial instruments are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs. The use of financial instruments has been discussed in more detail in the strategic report.

Company secretary and registered office

The Company Secretary is Mr C S McCarthy. His registered address is First Floor, Westmoreland House, 80 – 86 Bath Road, Cheltenham, GL53 7JT.

UBB Waste (Essex) Limited

Directors' report (continued)

Events after the reporting period

The emergence of Coronavirus COVID-19 in 2020 and its recent global expansion to a large number of countries has led to the outbreak being described as a pandemic by the World Health Organisation since 11 March 2020. The consequences for the Company's operations will depend to a large extent on the evolution and extent of the pandemic in the coming months, as well as on the responsiveness and adaptation of all the economic agents impacted. Therefore, at the date these Financial Statements are prepared it is premature to make a detailed assessment or quantification of the possible impacts that COVID-19 will have on the Company, due to the uncertainty surrounding its short- or medium-term consequences.

However, the Company's Management has carried out a preliminary assessment of the current situation according to the best available information, which, as per the considerations mentioned above, could be incomplete to a certain extent. This analysis has mainly been aimed at assessing the impacts that an extension of the current state could have on the Company's main risks, understood as liquidity or financial risks, operational or continuity risks, and asset valuation. The conclusions reached, considering the degree of uncertainty that exists regarding the future evolution of the pandemic, allow us to conclude that the Company maintains its position of liquidity in order to continue its operations and to face its current obligations under scenarios of a prolonged pandemic, and consequently significant impacts on the development of the Company's operations or on the valuation and recoverability of its assets have not been identified.

In addition, specific procedures have been established to monitor and manage the evolution of the pandemic at all times and to minimise any financial or non-financial impacts it may have on operations.

Auditor

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

i) so far as the Director is aware there is no relevant audit information of which the Company's auditor is unaware; and

ii) the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself 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 in office as auditor. In accordance with Section 487 of the Companies Act 2006 Deloitte LLP shall be deemed to be re-appointed as auditor 28 days after the accounts are sent to members.

This report was approved by the Board and signed on its behalf by:

J Peiro
Director

Date 5 May 2020

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 101 "Reduced Disclosure Framework". 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.

UBB Waste (Essex) Limited

Independent auditor's report to the member of UBB Waste (Essex) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of UBB Waste (Essex) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of the company which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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.

Emphasis of matter – carrying amount of intangible assets, financial assets and deferred income tax asset

We draw attention to the notes 2, 8, 9 and 10 of the financial statements, which indicates that there are significant contractual delays which have led to a legal dispute with Essex County Council. The outcome of this dispute is currently materially uncertain. If it is were not resolved in the company's favour, the deferred income tax asset of £7.1m, the intangible asset of £17.1m and the financial asset of £142.3m in note 8, note 9 and note 10 respectively to the financial statements, would not be recoverable. The complexity of the legal disputes means that there is a wide range of possible outcomes that increases judgement over assessing the recoverability of these assets. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements, which indicates that there are significant contractual delays which have led to a legal dispute with Essex County Council. The outcome of this dispute is currently uncertain. A court decision is expected to occur in 2020 based on which an outcome is expected, however, it cannot be anticipated if it will be in favour of the entity or against. These events or conditions, along with the other matters explained in note 2 to the financial statements, indicate that there is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent auditor's report to the member of UBB Waste (Essex) Limited (continued)

Other information

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

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

We have nothing to report in 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.

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 have 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 strategic report and the directors' report.

UBB Waste (Essex) Limited

Independent auditor's report to the member of UBB Waste (Essex) Limited (continued)

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.

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.

William Smith MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
6 May 2020

UBB Waste (Essex) Limited
Income statement
Year ended 31 December 2019

	Note	2019	2018
		£'000	**£'000**
Revenue	3	2,365	1,170
Cost of sales		(2,232)	(1,035)
Gross profit		133	135
Administrative expenses		(2,242)	(3,012)
Operating loss		(2,109)	(2,877)
Investment income	4	12,542	10,829
Finance costs	5	(13,344)	(13,637)
Loss before taxation		(2,911)	(5,685)
Tax credit	8	495	929
Loss for the financial year		(2,416)	(4,756)

All activities are from continuing operations in the United Kingdom.

UBB Waste (Essex) Limited

Statement of comprehensive income

Year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Loss for the year		(2,416)	(4,756)
Fair value revaluation — cash flow hedges		(3,662)	5,125
Deferred tax on cash flow hedges	8	623	(871)
Other comprehensive (expense) / income for the year (items that may be reclassified to profit and loss)		(3,039)	4,254
Total comprehensive (expense) for the year		(5,455)	(502)

UBB Waste (Essex) Limited

Balance sheet

As at 31 December 2019

	Note	2019	2018
Fixed assets		**£'000**	**£'000**
Deferred tax asset	8	7,061	5,944
Intangible assets	9	17,059	16,692
Financial assets	10	142,342	127,802
		166,462	**150,438**
Current assets			
Trade and other receivables	11	1,389	323
Cash and cash equivalents		4,779	10,482
		6,168	**10,805**
Creditors: amounts falling due within one year	12	(57,940)	(43,396)
Net current liabilities		**(51,722)**	**(32,591)**
Total assets less current liabilities		**114,690**	**117,847**
Creditors: amounts falling due after more than one year	13	(149,379)	(147,081)
Net liabilities		**(34,689)**	**(29,234)**
Capital and reserves			
Called-up share capital	14	1	1
Retained earnings		(34,690)	(29,235)
Total shareholder's deficit		**(34,689)**	**(29,234)**

The financial statements of UBB Waste (Essex) Limited, Company registration number 07984024, were approved by the Board of Directors and authorised for issue on 5 May 2020 and signed on its behalf by

J Peiro
Director

UBB Waste (Essex) Limited
Statement of changes in equity
As at 31 December 2019

	Note	Called-up share capital	Retained earnings	Total
		£'000	£'000	£'000
At 1 January 2018	14	1	(28,733)	(28,732)
Loss after taxation		-	(4,756)	(4,756)
Other comprehensive income for the year		-	4,254	4,254
Total comprehensive loss		-	(502)	(502)
At 31 December 2018		**1**	**(29,235)**	**(29,234)**
Loss after taxation		-	(2,416)	(2,416)
Other comprehensive expense for the year		-	(3,039)	(3,039)
Total comprehensive loss		-	(5,455)	(5,455)
At 31 December 2019		**1**	**(34,690)**	**(34,689)**

1. General information

UBB Waste (Essex) Limited is a private company limited by shares incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the business review.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework'.

These financial statements are separate financial statements. The group accounts of Firion Investment SLU are available to the public and can be obtained as set out in note 16.

As permitted by FRS 101,IAS 1,IAS 24 and IFRS 13 the Company has taken advantage of the disclosure exemptions available under that standard in relation to non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions, information relating to the entities objectives, policies and processes for managing capital, certain information relating to business combinations completed during the reporting period, details of any business combination required by B64 in relation to any business combination that occurred after the end of the reporting period, but before the financial statements were authorised for issue, all the disclosure requirements of IFRS 7 Financial Instruments, details of the valuation techniques and inputs used to develop measurements of assets and liabilities measured at fair value and impairment of assets.

Significant accounting policies basis of accounting

Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments recognised at fair value.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for a minimum of 12 months from the date of signing. The financial position of the company reflects the current position of the long term contract and management expect the contract to generate positive cash flows over the term of the contract.

However, the Essex contract has experienced a significant contractual delay with the proposed operations, which has led to a dispute with Essex County Council with regards to the delivery of the contract. The outcome of this dispute is currently materially uncertain. A court decision is expected to occur in 2020 based on which an outcome is expected, however, it cannot be anticipated if it will be in favour of the entity or against. If the dispute is not resolved, then it casts significant doubt as to the company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the contract cease, the company would be liquidated.

Further details relating to the going concern assumption are disclosed in the current note.

At present management has prepared the accounts on a going concern basis as they are of the opinion that the matter will be resolved in the Company's favour.

Financial asset, intangible asset, and revenue recognition

Under the requirements of FRS 101, the Company has adopted the recognition and measurement requirements of IFRIC 12 – Service Concession Arrangements, whereby the client Essex County Council has contracted with the Company to construct, operate and maintain a waste facility for 28 years. IFRIC 12 draws a distinction between two types of concession arrangement, financial asset and intangible asset, which are both relevant to this contract.

2. Significant accounting policies (continued)

Financial asset

In accordance with IFRIC 12 and IFRS 15 the Company has an unconditional right to receive specified or determinable amounts of cash from the client in return for constructing and then operating and maintaining the waste facility. In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on these costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method giving rise to interest income. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty.

Investment income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the Public Private Partnership (PPP) financial asset to that asset's net carrying amount on initial recognition.

During 2017 the Company decided not to capitalise the legal costs related to the adjudications as there is no certainty that the costs will be recovered.

The carrying value of the asset is £142,342,000 (2018: £127,802,000) and all the change in its value has been included in the balance sheet.

Intangible asset

The intangible asset is recognised in accordance with IFRIC 12. The contract shows that there is an element of a right to charge which is a conditional right to receive cash from the client because the amounts are contingent on the extent to which the service is used.

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Once the waste facility is constructed, amortisation is charged on a straight-line basis over the remaining life of the concession.

The carrying value of the asset is £17,059,000 (2018: £16,692,000) and all the change in its value has been included in the balance sheet.

2. Significant accounting policies (continued)

Non-current financial assets and other financial assets

Except in the case of financial assets at fair value through income statement, financial assets are initially recognised at fair value, plus any directly attributable transaction costs.

The Company has complied with the recognition and measurement requirements of IFRS 9 and IFRS 15.

Noteworthy is the change that affects the classification and measurement of financial assets, whereby the measurement method is determined on the basis of two concepts: the contractual cash flow characteristics of the financial asset and the entity's business model for managing it. The three new categories are amortised cost, fair value with changes in other comprehensive income and fair value with changes in income statement.

This classification depends on how an entity manages its financial instruments (equity instruments, loans, debt instruments, etc.), its business model, and whether or not there are contractual cash flows from specifically defined financial assets:

- If the objective of the business model is to hold a financial asset for the purpose of collecting contractual cash flows and, under the terms of the contract, cash flows are received on specified dates that constitute payments of principal plus interest on principal only, the financial asset is measured at amortised cost. As indicated above, the Company's financial assets are mainly held-to-maturity assets where cash flows are only principal and interest payments, and therefore, according to these characteristics, financial assets are measured at amortised cost.

  The effective interest rate consists of the rate that equals the initial cost to the total of its estimated cash flows for all concepts through the residual life of the investment.

  The Company's trade receivables are recorded at their nominal value adjusted by the expected credit losses over their useful lives.

- If the objective of the business model is both to obtain contractual cash flows and to sell them and, under the terms of the contract, cash flows are received on specific dates that constitute payments of principal plus interest on principal only, the assets will be measured at fair value with changes in other comprehensive income. Interest, impairment and translation differences are recognised in profit or loss as in the amortised cost model. Other changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

- Apart from the above scenarios, the general rule is that all other assets are measured at fair value with changes in the Income Statement. Equity instruments are mainly classified using this method, unless they are initially classified at fair value with changes in other comprehensive income.

In the Balance Sheet, financial assets maturing within no more than twelve months are classified as current assets and those maturing within more than twelve months as non-current assets.

In addition, the management of the Company has carried out an exercise in order to analyse the need to consider a provision for expected loss in accordance with IFRS 9. The company has used a methodology that applies percentages to the balances of financial assets that reflect the expected credit losses based on the credit profile of the counterparty. These percentages reflect the probability of a default on payment obligations and the percentage of loss which, once the default has occurred is ultimately uncollectible. If a significant increase in risk is identified with respect to that initially recognised, the expected loss is calculated taking into account the probability of default over the life of the asset. No material impact has been identified as a result of this analysis and for instance, no provision has been considered.

Accounts receivable from concessions classified as a financial asset are recognised at the fair value of the construction or upgrade services provided.

2. Significant accounting policies (continued)

Financial derivatives

The Company's activities are exposed to financial risks, mainly of changes in interest rates. The Company does not use derivative financial instruments for speculative purposes.

Hedges are accounted as cash flow hedges. In this type of hedge, changes in the value of the hedging instrument are recognised temporarily in equity and recognised in the income statement when the hedged item materialises.

In accordance with IFRS 9 "Financial Instruments", an effectiveness test must be performed which consists of a qualitative evaluation of the financial derivative in order to determine whether it can be considered a hedging instrument and therefore effective.

The qualitative requirements needs to confirm there is an economic relationship between the hedged item and the hedging instrument:

- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

According to the qualitative effectiveness test, the hedge will be considered to be fully effective provided that it meets these criteria. If this were not the case, the hedge would no longer be treated as such, the hedging relationship would cease and the derivative would be carried at fair value with changes in the income statement.

Once the effectiveness of the instruments has been assessed, the quantitative analysis is used to determine how they are to be accounted for. This quantitative analysis is mainly a prospective evaluation with the aim of analysing possible future deviations in the hedging relationship. This is described further below in the cash flow hedges section below.

For the effectiveness test, the analysis is adapted to the type of hedge and the nature of the instruments used, all the financial derivatives arranged by the Company being cash flow hedges.

Classes and categories of financial instruments and their fair values

The following table provides information about fair value hierarchy levels of the Company derivatives for which fair value was disclosed.

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2. Significant accounting policies (continued)

Financial derivatives (continued)

Classes and categories of financial instruments and their fair values (continued)

31 December 2019

	Note	Level 1	Level 2	Level 3	Total
Derivative - more than one year	13	-	(22,455)	-	(22,455)
		-	(22,455)	-	(22,455)

31 December 2018

	Note	Level 1	Level 2	Level 3	Total
Derivative - less than one year	12	-	(2,647)	-	(2,647)
Derivative - more than one year	13	-	(16,147)	-	(16,147)
		-	(18,794)	-	(18,794)

Amendments to IFRS 9, IAS 39 and IAS 7 interest rate benchmark reform

In preparing of financial statements, the Company has opted to apply in advance the amendments to IFRS 9/IAS 39/IAS 7 for the year ended 31 December 2019.

The reform of the interest rate benchmark (interbank offered rates –IBORs) carried out by the Financial Stability Board (FSB) with the objective of promoting the use of more reliable alternative rates in the financial system, based on transactions of underlying liquid markets and not relying on presentations based on expert judgement, has created a situation of uncertainty about the long-term viability of some existing reference interest rates and the impacts that their disappearance could have on the contracted hedging instruments by the entities related to these disappearing interest rates.

In this context, in September 2019, the IASB published the Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments, which will come into force in 2020 but whose early application is allowed for the year 2019, change the specific requirements of hedge accounting to allow it to continue to apply to the hedges affected during the uncertainty period before the items hedged or the hedging instruments affected by the current reference interest rates are modified by other alternative rates as a result of the ongoing reform.

2. Significant accounting policies (continued)

Financial derivatives (continued)

Amendments to IFRS 9, IAS 39 and IAS 7 interest rate benchmark reform (continued)

The application of the amendments affects the Company's accounting as follows:

- The Company has debt referenced to GBP LIBOR, whose cash flows are hedged using interest rate swaps (SWAPS), which cover the aforementioned debt. These derivative instruments have an averaged outstanding notional of £112,904,916. The aforementioned modifications allow the continuous application of hedge accounting, even if there is uncertainty regarding the calendar and the amount of cash flows covered due to the reform of the reference interest rates mentioned.
- The Company will not interrupt the hedge accounting if the hedge accounting requirements established by the standard are no longer met and the hedging relationship is subject to the reform of the reference rates. On the other hand, for hedging relationships that are not subject to such reform, the Company will interrupt the hedge accounting if the hedge accounting requirements established by the standard are no longer met.
- Finally, the Company will maintain the accumulated gain or loss in reserves for the hedges of designated cash flows that are subject to the reform, even if there is uncertainty as a result of such reforms in relation to the calendar and the amount of cash flow of the covered items. In the event that the Company considers that it is not reasonably expected for future covered cash flows due to reasons other than the reform of the reference interest rate, the accumulated profit or loss will be immediately reclassified into results.

The Company has chosen to apply in advance the amendments to IFRS 9/IAS 39 for the year ended December 31, 2019. The early application of these measures enables the Company to continue to apply hedge accounting during the period of uncertainty that arises as a result of the reform of reference interest rates.

Cash flow hedges

For cash flow hedges, in the case of interest rate swaps ("IRS"), in which the Company receives a floating rate equivalent to that of the hedged financing and pays a fixed rate, since the objective is to reduce the variability of financing costs, the estimation of effectiveness is made by means of a test that compares the changes in the fair value of the IRS cash flows with the changes in the fair value of the hedged risk.

In accounting terms, the Company uses both the hypothetical derivative methodology and regression analysis for the quantitative effectiveness test, which establishes in the first case that the Company will recognise in equity the lower of the absolute values between the change in value of the hypothetical derivative (hedged position) and the change in value of the derivative arranged. The difference between the value of the change recognised in equity and the fair value of the derivative at the date on which the effectiveness test is being carried out is considered to be an ineffective part and is recognised directly in the income statement. In the case of the quantitative measurement of effectiveness through regression analysis, the correlation coefficient and the slope of the regression line between the changes in value of the financial instrument are compared against a hypothetical derivative that represents the perfect hedge.

Changes in the fair value of financial derivatives that do not meet the criteria for hedge accounting are recognised in the income statement as they occur.

Finally, the same analysis will be carried out using a forward-looking approach by simulating different scenarios under the hypothesis of an increase and decrease in rates at year-end in different scenarios of variation thereof.

If a hedging relationship no longer meets the effectiveness requirement of the hedge relating to the hedging ratio but the risk management objective for that designated hedging relationship remains unchanged, the Company will adjust the hedging ratio of the hedging relationship so that it again meets the required criteria, rebalancing the hedging relationship.

2. Significant accounting policies (continued)

Cash flow hedges (continued)

If the requirements to continue the hedging relationship are not met, the Company must discontinue the hedging relationship by recognising the amounts accumulated in the cash flow reserve in other comprehensive income in accordance with the occurrence of the hedged cash flows in the event that the transaction is estimated to still occur, or by reclassifying the total of the cash flow reserve to other comprehensive income if it is estimated that such cash flows will cease to occur.

Valuation is calculated using methods and techniques defined from observable inputs in the market. In the case of Interest rate swaps, those have been valued discounting all the flows foreseen in the contract in accordance with their characteristics, such as the notional amount and the collections and payments schedule. For this valuation, the zero-coupon rate curve is used, determined from the deposits and swaps traded at any given time through a "bootstrapping" process. Through this zero-coupon rate curve, the discount factors used in the valuations carried out under the absence of arbitrage opportunities (AAO) assumption are obtained.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, IFRS 15 establishes a five-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the obligations of the contract..
- Step 3: Determine the transaction price.
- Step 4: Distribute the transaction price among the obligations of the contract.
- Step 5: Recognise income when (or as) the entity meets each of the obligations.

In this sense, revenues are recognised as the obligations are satisfied, i.e. when the "control" of the goods or services underlying the obligation in question is transferred to the customer.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Following is a disclosure of specific revenue recognition criteria for certain activities carried out by the Company:

<u>Construction business</u>

In the construction business, revenue is recognised by reference to the stage of completion, determined by measuring the construction work performed.

The construction activity carried out by the company is capitalised to the non-current assets in question.

In the construction industry, the estimated revenue and costs of construction projects are susceptible to changes during contract performance which cannot be readily foreseen or objectively quantified. In this connection, output each year is measured at the amounts billed or to be billed for the units completed in the period that, since they are covered by the contract entered into with the owners, or by approved addenda or amendments thereto, do not give rise to any doubts regarding their billing. In addition, output includes the progress billings for other project units that have already been completed for which management of the consolidated companies consider it is highly likely that they will be collected.

Should the amount of output from inception, measured at the amount to be billed, of each project be greater than the amount billed up to the end of the reporting period, the difference between the two amounts is recognised under "Trade and other receivables" on the asset side of the balance sheet. Should the amount of output from inception be lower than the amount of the progress billings, the difference is recognised under "Creditors: amounts falling due within one year" in liabilities in the balance sheet.

2. Significant accounting policies (continued)

Entry into force of new accounting standards

In 2019 the following mandatory standards and interpretations already adopted by the European Union came into force, which, where applicable, were used by the Company in preparing the financial statements:

New standards, amendments and interpretations mandatorily applicable in the year beginning 01 January 2019

Approved for use in the European Union		Obligatory application in annual reporting periods beginning on or after:
IFRS 16, Leases	Replaces IAS 17 and associated interpretations. The novelty centres around a unique accounting model for lessees, which will include all leases in the balance sheet (with some limited exceptions) with an impact similar to that of the current financial leases (there will be amortisation of the asset by the right of use and a finance expense for the amortised cost of the liability on leases).	01 January 2019
Annual Improvements to, IFRS Standards 2015–2017 Cycle Amendments - IAS 12 Income Taxes	Clarifying that all tax consequences of dividends are recognised consistently with the transactions that generate the distributable profits.	01 January 2019

After analysing the implications of the new standards, the Directors of the Company considers that, given the nature of the activities carried out by the Company and the lack of lease contracts within the Company, there is no impact in the financial statements as a result of the implementation of the new IFRS 16 standard. As the company has not yet distributed or received dividends there is no impact in the financial statements as a result of cycle amendment within IAS 12.

New standards, amendments and interpretations mandatorily applicable after the year beginning 01 January 2019 (applicable in 2020 and onwards):

At the date of preparation of these financial statements, the following are the most significant standards and which could have an impact in the financial statements of the Company and which interpretations that have been published by the IASB but have not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union.

2. Significant accounting policies (continued)

Entry into force of new accounting standards (continued)

Approved for use in the European Union		Obligatory application in annual reporting periods beginning on or after:
Amendments to IAS 1 and IAS 8 Definition of "materiality" (issued in October 2018)	Amendments to IAS 1 and IAS 8 to align the definition of "materiality" with that contained in the conceptual framework.	01 January 2020

Not yet approved for use in the European Union		Obligatory application in annual reporting periods beginning on or after:
IFRS 17 - Insurance contracts (Issued in May 2017)	Replaces IFRS 4. Incorporates principles of recognising, measuring, reporting and detailing insurance contracts so that the entity provides relevant and reliable financial information in order for the users of such information to determine the effect that the contracts have on the financial statements.	01 January 2022
Amendments to IFRS 3 - Business definition (issued in October 2018)	Clarification on business definition.	01 January 2020

No standards pending adoption by the European Union have been applied in advance in the preparation of the financial statements.

Possible effects for the business of Brexit

With the UK having left the EU in January 2020 the Company has assessed the possible effects this may have on its businesses. The company perceive the risk of Brexit to the business to be low. The Company does not have any kind of trading with the European Union which could have impact on its Accounts and does not have any European workers within its workforce. Though a portion of the company's financing is supplied by an EU based parent, the terms of this agreement are not expected to have any impact due to Brexit. Therefore, though the nature of what effect Brexit will have is still uncertain, the Company currently believe the risks they are open to, are very low.

The Company does not anticipate any change in the Financial Statements as a result of the impacts of the Brexit.

Climate related risk and opportunities

The Company and its Directors have and continue to make constant considerations towards the effect it had on the climate and any potential risks that climate change could have on the business itself. The Company looks to be a part of new technologies within the industry that can help towards reducing the Company's effect on climate change. The Company cares for the environment and fight against climate change, seeking out the highest level of environmental efficiency. Likewise, the Company work to raise awareness among the employees on the importance of incorporating this concept of sustainability into our day-to-day work. Energy efficiency and reducing emissions are key aspects of the Company environmental policy. The Company is committed to protect the environment, which includes preventing pollution and using sustainable resources, as well as complying with current environmental regulations.

As the situation develops the Company is aware of that there may be pressure towards change in methods of working and as such it will look to try and stay ahead of the curve.

2. Significant accounting policies (continued)

Loans and receivables

Trade receivables and other receivables are measured at initial recognition at their fair value and are subsequently measured at their amortised cost and reduced by appropriate allowances for any impairment. Provisions for impairment are made where there is a risk of non-payment, taking into account ageing, previous experience and general economic conditions. Where a trade debtor is determined to be uncollectable it is written off, firstly against any provision available and then to the income statement.

Borrowing costs

Borrowing costs are allocated to the financial asset and intangible asset. The amounts allocated to the financial asset are expensed in the statement of profit and loss. Borrowing costs attributable to the intangible asset during construction are added to the cost of the intangible asset until such time as the intangible asset is substantially ready for its intended use.

Loan arrangement fees are amortised over the term of the loan, being defined to be the time elapsing between the first draw-down made on the facility, and the last repayment made on the facility. Loan arrangement fees are amortised using the effective interest rate method.

Investment income

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Taxation

Current tax

Corporation 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.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of the deferred tax asset has been reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and all bank deposits.

2. Significant accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The discussions below do not use estimates. The more significant judgments are:

Essex contract

The outcome of the dispute between Essex County Council and the construction subcontractor of the project is currently unknown. Given the uncertainty about the outcome of the ongoing dispute, the directors have not recognised any possible income or cost relating to the future resolution of the dispute.

Going Concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for a minimum of 12 months from the date of signing. The financial position of the company reflects the current position of the long term contract and management expect the contract to generate positive cash flows over the term of the contract.

However, the Essex contract has experienced a significant contractual delay with the proposed operations, which has led to a dispute with Essex County Council with regards to the delivery of the contract. The outcome of this dispute is currently materially uncertain. A court decision is expected to occur in 2020 based on which an outcome is expected, however, it cannot be anticipated if it will be in favour of the entity or against. If the dispute is not resolved, then it casts significant doubt as to the company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Should the contract cease, the company would be liquidated.

At present management has prepared the accounts on a going concern basis as they are of the opinion that the matter will be resolved in the Company's favour.

Revenue recognition

Management has considered the criteria for the recognition of revenue as set out in IFRIC12 – Service Concessions and, in particular, the existence of an unconditional right to receive specified or determinable amounts of cash from the client in return for constructing and then operating and maintaining the waste facility, or the existence of a conditional right to receive cash from the client because the amounts are contingent on the extent to which the service is used.

Revenue is quantified on the basis of the fair value of the service concession contract, and is recognised in line with the stage of completion of the construction contract of the relevant waste facility.

Carrying amount of assets

Given the uncertainty in the outcome of the dispute with Essex County Council there is a risk in the recovery of the assets of the Company. The carrying value of the financial assets at the end of 2019 is £142,342,000 (2018: £127,802,000), and the carrying value of deferred income tax asset at the end of 2019 is £7,061,000 (2018: £5,944,000), while the intangible asset balance at the end of 2019 is £17,059,000 (2018: £16,692,000).

Taxation

As set out earlier deferred tax is accounted for on temporary differences using the balance sheet liability method, with deferred tax liabilities generally being provided for in full and deferred tax assets being recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised and is recognised.

Management believes that the whole deferred tax asset will be recoverable with profits generated during the operational phase.

2. Significant accounting policies (continued)

Derivative financial instruments

The Company uses derivative financial instruments which are principally swaps to manage the interest rate risks to which the Company is exposed by its long-term contractual agreements. These derivatives are initially recognised as assets and liabilities at their fair value and subsequently remeasured at each reporting date at their fair value. The fair value of the derivatives constantly changes in response to prevailing market conditions.

Events after the reporting period

These have been disclosed in the Directors' report which can be found on page 6.

3. Revenue

During 2019, contractual costs (mainly insurance costs) were capitalised into the assets. Those revenues have been allocated into the operational revenue category. During 2019 there was no construction activity and hence no construction revenues. Revenues recognised in the financial year ended 31 December 2019 are £2,365,000 (2018: £1,170,000).

4. Investment income

	2019 £'000	2018 £'000
Finance income on financial asset	12,542	10,829

The total amount of interest capitalised into the financial asset at 31 December 2019 was £66,268,000 (2018: £53,726,000).

5. Finance costs

	2019 £'000	2018 £'000
Interest payable on bank loans and similar charges	9,128	9,707
Interest payable to group undertakings	4,216	3,930
Total finance costs	13,344	13,637

The cumulative amount of interest capitalised into the intangible asset at 31 December 2019 is £3,092,000 (2018: £3,092,000). The average annual interest rate that the Company is paying related to the bank loans is 6.14% (2018: 6.75%). The average annual interest rate that the Company is paying related to group undertakings is 12.64% (2018: 13.38%).

6. Information regarding Directors, auditor and employees

The Company had no employees during the current or preceding year.

The Directors have not performed any qualifying services for this entity during the year.

7. Information regarding Directors, auditor and employees

All staff costs are borne by the shareholder who second's employees to UBB Waste (Essex) Limited and charges related costs.

Fees payable to Deloitte LLP and their associates for the audit of the Company's annual accounts were £30,900 (2018: £30,000). There were no fees paid for services other than the statutory audit of the Company to the Company's auditor Deloitte LLP and its associates.

8. Taxation

	2019 £'000	2018 £'000
Current tax		
Current tax on profits for the year	-	-
Total current tax	-	-
Deferred tax:		
Current year	(553)	(1,080)
Adjustment in respect of previous periods	-	37
Effect of changes in tax rates	58	114
Other timing differences	-	-
Total deferred tax	(495)	(929)
Tax per Income Statement	(495)	(929)

Factor affecting the tax charge for the current period	2019 £'000	2018 £'000
Loss before taxation	(2,911)	(5,685)
Tax on profit at standard UK Tax rate of 19% (2018: 19.00%)	(553)	(1,080)
Effects of:		
Adjustment in respect of prior years	-	37
Tax rate changes	58	114
Total tax (credit) in income statement	(495)	(929)

8. Taxation (continued)

Deferred tax (assets)	2019 £'000	2018 £'000
Fixed Assets	1,585	1,585
Temporary differences	506	506
Losses	(5,861)	(5,366)
Cash flow hedges	(3,817)	(3,195)
Capitalised interests	526	526
	(7,061)	(5,944)

Factors that may affect future tax charges

The Finance Act 2016 included a reduction in the main rate of UK corporation tax from 19% to 17% from 1 April 2020. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will now not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at 17%. The estimated impact of the rate change is an increase in the carry value of the deferred tax asset of £830,000.

As a result of these changes, the deferred tax balance at 31 December 2019 has been measured at 17%.

The Company anticipates that the company will generate enough profits during the operational stage and that all tax credits will be utilised.

As further disclosed in the strategic report and note 2, there are significant contractual delays which have led to a legal dispute with Essex County Council. The outcome of this dispute is currently materially uncertain. The complexity of the legal disputes means that there is a wide range of possible outcomes that increases judgement over assessing the recoverability of the deferred tax assets.

9. Intangible assets

Cost and carrying amount	2019 £'000	2018 £'000
At 1 January	16,692	16,510
Additions	367	182
At 31 December	17,059	16,692

The amortisation period for the intangible asset of the Company will start once operations begins until the end of the concession.

The carrying amount of the intangible asset in the year comprised an increase of £367,000, which relates to contractual costs which have been capitalised into the intangible costs.

As further disclosed in the strategic report and note 2, there are significant contractual delays which have led to a legal dispute with Essex County Council. The outcome of this dispute is currently materially uncertain. The complexity of the legal disputes means that there is a wide range of possible outcomes that increases judgement over assessing the recoverability of the intangible assets.

10. Financial assets

Cost and carrying amount	2019 £'000	2018 £'000
At 1 January	127,802	115,985
Additions	14,450	11,817
At 31 December	142,342	127,802

The financial asset relates to the contractual right to receive compensation from Essex County Council in relation to the facility which is in the commissioning phase of construction.

The carrying amount of the financial asset in the year considered an addition of £14,450,000 which relates to contractual costs and notional interest capitalised into the financial asset.

As further disclosed in the strategic report and note 2, there are significant contractual delays which have led to a legal dispute with Essex County Council. The outcome of this dispute is currently materially uncertain. The complexity of the legal disputes means that there is a wide range of possible outcomes that increases judgement over assessing the recoverability of the financial assets.

11. Trade and other receivables

Current	2019 £'000	2018 £'000
Trade receivables from group undertakings	15	89
Trade receivables from other clients	21	-
Prepayments and accrued income	1,323	219
VAT receivable	30	15
	1,389	323

The bank loans represent amounts borrowed by the Company under a facility agreement with a consortium of banks. The bank loans bear interest at a margin over LIBOR and are repayable in instalments between 2015 and 2038. The loans are secured by fixed and floating charges over the undertaking, assets and rights of the Company and have certain covenants attached.

12. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade payables to group undertakings	1,116	1,129
Trade payables to third party suppliers	141	96
Accruals and other creditors	171	297
Bank loans	38,207	25,978
Loan due to group undertakings	18,305	13,249
Interest rate swap – less than one year	-	2,647
	57,940	43,396

The fair values of interest rate swaps that were measured subsequent to initial recognition at fair value were based upon observable inputs other than quoted prices for identical instruments. The fair value of the interest rate swaps is calculated as the present value of the estimated future cash flows. The discount rate is based upon the application of yield curves derived from quoted interest rates.

The bank loans represent amounts borrowed by the Company under a facility agreement with a consortium of banks. The bank loans bear interest at a margin over LIBOR. The loans are secured by fixed and floating charges over the undertaking, assets and rights of the Company and have certain covenants attached.

The loan due to group undertakings represents amounts borrowed by the Company under a Subordinated Debt agreement with the shareholders. The Subordinated Debt loans bear interest at an interest rate of 12.4% per annum and are repayable in instalments between the start of operations and 2038

13. Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Loans - payable between one and two years	3,479	4,092
Loans - payable between two and five years	12,688	15,238
Loans - payable more than five years	110,757	111,604
Interest rate swap – more than one year	22,455	16,147
	149,379	147,081

The bank loans represent amounts borrowed by the Company under a facility agreement with a consortium of banks. The bank loans bear interest at a margin over LIBOR and are repayable in instalments between 2015 and 2038. The loans are secured by fixed and floating charges over the undertaking, assets and rights of the Company and have certain covenants attached.

14. Called-up share capital

	2019 £'000	2018 £'000
Allotted, authorised, called-up and fully paid 1,000 ordinary shares of £1 each	1	1

15. Related party disclosures

During the year the Company entered into the following transactions with related parties. Transactions and amounts owed at year-end are as follows:

Company	Description	Costs Incurred	Outstanding Balance	Outstanding Balance
		2019	2019	2018
		£	£	£
UBB (Essex) Construction JV	Trade debtor	-	-	62,051
UBB (Essex) Construction JV	Trade creditor	-	(1,112,089)	(930,916)
UBB Waste (Essex) Intermediate Ltd	Interest Payable	(4,215,827)	(15,354,185)	(11,138,358)
UBB Waste (Essex) Intermediate Ltd	Short term loan payable	-	(2,951,148)	(2,110,993)
UBB Waste (Essex) Intermediate Ltd	Long term loan payable	-	(18,264,866)	(19,105,021)
Urbaser Limited	Management service agreement	(23,802)	(2,614)	(2,551)
UBB (Essex) Construction JV	Management service agreement	(12,990)	(1,307)	(1,276)
Balfour Beatty Infrastructure projects Investments Limited	Cost contribution	15,000	15,000	-

The nature of the costs incurred during the year are as follows;

UBB Waste (Essex) Intermediate Limited – this is related to the subordinated debt interests accrued for the year. Interests accrued in the previous year were £3,930,226. The Subordinated Debt loans bear interest at an interest rate of 12.4% per annum and are repayable in instalments between the start of operations and 2038.

Urbaser Limited – this is related to the management service agreement costs payable to Urbaser Limited. The costs for the previous year were £25,288.

UBB (Essex) Construction JV – this is related to the management service agreement costs payable to UBB (Essex) Construction JV. The costs for the previous year were £12,644.

Balfour Beatty Infrastructure projects Investments Limited – this is related to a contribution due from the shareholders in relation to insurance costs incurred in the year.

16. Ultimate parent company and controlling party

In the opinion of the directors, the Company's ultimate parent Company and ultimate controlling party is China Tianying Inc. a company incorporated in China and whose principal place of business and registered office is Building 2, No. 268, Huanghai Avenue (West), Hai'an, Nantong City, Jiangsu Province. The parent undertaking of the largest group, which includes the Company and for which group accounts are prepared, is Firion Investment SLU which is incorporated in Spain and whose principal place of business and registered office is Calle Claudio Coello 124, 28006, Madrid, Spain. The consolidated accounts of this group will be available, during the year, to the public from Registro Mercantil de Madrid, Paseo de la Castellana 44, 28046, Madrid, Spain.

The parent undertaking of the smallest and immediate parent of such group is Urbaser S.A.U, a company incorporated in Spain and whose principal place of business and registered office is Camino de las Hormigueras, 171, 28031, Madrid.