

**CASELLA SCIENCE AND
ENVIRONMENT LIMITED**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2004



Company no 106869

CASELLA SCIENCE AND ENVIRONMENT LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2004

Company registration number: 106869

Registered office: Regent House
Wolseley Road
Kempston
Bedfordshire

Directors: W Pope (resigned 16 March 2004)
N Peacock
J R Murphy (appointed 1 April 2004)

Secretary: Shoosmiths Secretaries Limited (to 21 January 2005)
Thomas Eggar (from 21 January 2005)

Auditors: Grant Thornton UK LLP
Registered Auditors
Chartered Accountants

CASELLA SCIENCE AND ENVIRONMENT LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2004

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CASELLA SCIENCE AND ENVIRONMENT LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 30 June 2004.

Principal activities

The company is principally engaged in the provision of specialist services required to investigate, monitor and supervise improvements to the environment.

Business review

There was a profit for the year after taxation amounting to £1,186,267 (2003: £538,675). The directors do not recommend payment of a dividend (2003: £Nil). The profit for the year was transferred to reserves.

During the year certain assets and liabilities of the company were transferred to Winton Environmental Management Limited, a fellow subsidiary in the Casella Group Limited, for a consideration of £454,000.

Directors

The present membership of the Board consists of Mr J R Murphy and Mr N Peacock. All directors served throughout the year, except for Mr J R Murphy, who was appointed on 1 April 2004 and Mr W Pope who resigned on 16 March 2004.

The interest of the directors, who are directors of the holding company, is shown in the accounts of the holding company. Mr N Peacock holds no interest in the company or its parent undertaking.

Directors' responsibilities for the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- *select suitable accounting policies and then apply them consistently*
- *make judgements and estimates that are reasonable and prudent*
- *state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements*
- *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 maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

REPORT OF THE DIRECTORS

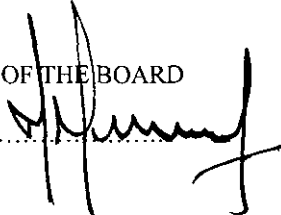
Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

.....
J R Murphy
Director



18 March 2004

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CASELLA SCIENCE AND ENVIRONMENT LIMITED

We have audited the financial statements of Casella Science and Environment Limited for the year ended 30 June 2004 which comprise the principal accounting policies, the profit and loss account, the balance sheet, and notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

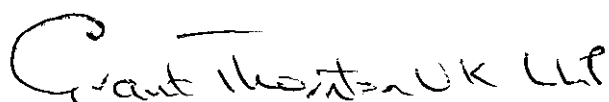
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to *the company's circumstances, consistently applied and adequately disclosed.*

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

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
CASELLA SCIENCE AND ENVIRONMENT LIMITED**

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads "Grant Thornton UK LLP". The signature is written in a cursive, flowing style.

**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

Northampton

A handwritten date in black ink that reads "19 April 2005". The date is written in a cursive, flowing style.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, under the historical cost convention and on a going concern basis.

The principal accounting policies of the company have remained unchanged from the previous year and are set out below. In the case of turnover, the company has amended its accounting policy as set out below. The directors have reviewed the adopted accounting policies and consider them to be appropriate to the activities of the company.

The company is exempt from preparing consolidated financial statements under Section 228 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

The company has amended its accounting policy in respect of turnover following the publication of Application Note G "Revenue Recognition" to FRS 5. As a result, income recognised in advance or arrears is adjusted through deferred income and debtors rather than work in progress. The impact on the current year's results is:

	Turnover	Cost of sales	Stock	Other debtors
Amendment	£182,713	£182,713	£(280,615)	£280,615

There has been no adjustment to profit in the year as a result of the above. No prior year adjustment has been made on the grounds that this is not material.

INVESTMENTS

Investments are included at cost less amounts written off.

INTANGIBLE FIXED ASSETS

Purchased goodwill representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life of 10 years.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives.

The rates generally applicable are:

Plant and equipment	5 - 10 years
Fixtures and fittings	5 years

CASELLA SCIENCE AND ENVIRONMENT LIMITED

PRINCIPAL ACCOUNTING POLICIES

STOCK AND WORK IN PROGRESS

Stocks are stated at the lower of cost and net realisable value. Costs include direct labour and an attributable proportion of overheads based on normal levels of activity.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

RETIREMENT BENEFITS

Defined Contribution Pension Scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2004

	Note	£	2004 £	£	2003 £
Turnover	1				
Continuing operations		5,917,114		4,285,152	
Discontinued operations		<u>584,614</u>		<u>473,346</u>	
			6,501,728		4,758,498
Cost of sales	2		<u>(3,616,344)</u>		<u>(3,655,905)</u>
Gross profit			2,885,384		1,102,593
Administrative expenses	2		<u>(1,974,100)</u>		<u>(333,941)</u>
Operating profit					
Continuing operations		752,057		660,883	
Discontinued operations		<u>159,227</u>		<u>107,769</u>	
			911,284		768,652
Exceptional items	3				
Restructuring of operations			(17,220)		(11,500)
Profit on disposal of business segment			313,314		-
Net interest	4		<u>(3,889)</u>		<u>-</u>
Profit on ordinary activities before taxation	1		1,203,489		757,152
Tax on profit on ordinary activities	6		<u>(17,222)</u>		<u>(218,477)</u>
Profit transferred to reserves	14		<u>1,186,267</u>		<u>538,675</u>

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

BALANCE SHEET AT 30 JUNE 2004

	Note	£	2004 £	£	2003 £
Fixed assets					
Tangible fixed assets	7		6,123		-
Intangible assets	8		390,238		443,938
Investments	9		<u>3,981,806</u>		<u>3,981,806</u>
			4,378,167		4,425,744
Current assets					
Debtors	10	<u>1,871,044</u>		<u>2,312,226</u>	
		1,871,044		2,312,226	
Creditors: amounts falling due within one year	11	<u>(4,067,715)</u>		<u>(339,085)</u>	
Net current (liabilities)/assets			<u>(2,196,671)</u>		<u>1,973,141</u>
Total assets less current liabilities			2,181,496		6,398,885
Creditors: amounts falling due after more than one year	12		-		(5,403,656)
			<u>2,181,496</u>		<u>995,229</u>
Capital and reserves					
Called up share capital	13		300,816		300,816
Profit and loss account	14		1,880,680		694,413
Shareholders' funds	15		<u>2,181,496</u>		<u>995,229</u>
Equity shareholders' funds			2,179,496		993,229
Non-equity shareholders' funds			2,000		2,000
			<u>2,181,496</u>		<u>995,229</u>

These financial statements were approved by the Board of Directors on

18 March 2005

J R Murphy
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and profit on ordinary activities before taxation are attributable to the activities stated in the Report of the Directors.

The profit on ordinary activities before taxation is stated after:

	2004 £	2003 £
Auditors' remuneration:		
Audit services	7,750	7,500
Non-audit services	1,800	1,700
Amortisation:		
Goodwill	53,700	26,843
Depreciation:		
Tangible fixed assets, owned	<u>11,642</u>	<u>-</u>

2 COST OF SALES AND OTHER OPERATING CHARGES

	2004			2003		
	Continuing £	Discontinued £	Total £	Continuing £	Discontinued £	Total £
Cost of sales	<u>3,368,088</u>	<u>248,256</u>	<u>3,616,344</u>	<u>3,320,943</u>	<u>334,962</u>	<u>3,655,905</u>
Other operating charges:						
Administrative expenses	<u>1,885,071</u>	<u>89,029</u>	<u>1,974,100</u>	<u>303,326</u>	<u>30,615</u>	<u>333,941</u>

3 EXCEPTIONAL ITEMS

	2004 £	2003 £
Restructuring of operations	17,220	11,500
Profit on disposal of business segment	<u>(313,314)</u>	<u>-</u>

4 NET INTEREST

	2004 £	2003 £
Finance charges in respect of hire purchase contracts	63	-
Other interest	3,826	-
	<u>3,889</u>	<u>-</u>

CASELLA SCIENCE AND ENVIRONMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

5 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2004 £	2003 £
Wages and salaries	2,942,276	2,367,282
Social security costs	297,725	257,382
Other pension costs	29,995	61,612
	<u>3,269,996</u>	<u>2,686,276</u>

The average number of employees of the company during the year was 137 (2003: 112).

Remuneration in respect of directors was as follows:

	2004 £	2003 £
Emoluments	70,529	69,795
Pension contributions to money purchase pension schemes	4,253	4,200
	<u>74,782</u>	<u>73,995</u>

During the year 1 (2003: 1) director participated in a defined contribution pension scheme.

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents:

	2004 £	2003 £
Group relief	-	238,165
Adjustments in respect of prior year	17,222	(19,688)
	<u>17,222</u>	<u>218,477</u>

Total current tax and tax on profit on ordinary activities

CASELLA SCIENCE AND ENVIRONMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

6 TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting the tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained as follows:

	2004 £	2003 £
Profit on ordinary activities before tax	<u>1,203,489</u>	<u>757,152</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	361,047	227,146
Effect of:		
Expenses not deductible for tax purposes	(75,287)	11,259
Capital allowances for the period in excess of depreciation	(798)	(240)
Group relief	(287,660)	-
Adjustment in respect of prior years	17,222	(19,688)
S343 asset transfers	(592)	-
Other timing differences	3,290	-
Current tax charge for the year	<u>17,222</u>	<u>218,477</u>

7 TANGIBLE FIXED ASSETS

	Plant and equipment £	Fixtures and fittings £	Total £
Cost			
Additions	1,631	170	1,801
Transfers in from group undertakings	59,562	1,339	60,901
Transfers out to group undertakings	(55,507)	-	(55,507)
At 30 June 2004	<u>5,686</u>	<u>1,509</u>	<u>7,195</u>
Depreciation			
Provided in the year	11,410	232	11,642
Transfers out to group undertakings	(10,570)	-	(10,570)
At 30 June 2004	<u>840</u>	<u>232</u>	<u>1,072</u>
Net book value at 30 June 2004	<u>4,846</u>	<u>1,277</u>	<u>6,123</u>
Net book value at 30 June 2003	<u>-</u>	<u>-</u>	<u>-</u>

CASELLA SCIENCE AND ENVIRONMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

8 INTANGIBLE FIXED ASSETS

	£
Cost	
At 1 July 2003 and 30 June 2004	<u>536,857</u>
Amounts written off	
At 1 July 2003	92,919
Charge for the year	53,700
	<u>146,619</u>
At 30 June 2004	
Net book value at 30 June 2004	<u>390,238</u>
Net book value at 30 June 2003	<u>443,938</u>

9 FIXED ASSET INVESTMENTS

	£
Cost	
At 1 July 2003 and 30 June 2004	<u>4,310,443</u>
Amounts written off	
At 1 July 2003 and at 30 June 2004	<u>328,637</u>
Net book amount at 30 June 2004	<u>3,981,806</u>
Net book amount at 30 June 2003	<u>3,981,806</u>

The company is entitled under section 228 of the Companies Act 1985 not to prepare group financial statements since its parent undertaking, The Casella Group Limited, prepares full financial statements which include this company.

At 30 June 2004 the company held 20% or more of the allotted share capital of the following:

Subsidiary undertaking	Class of share capital	Proportion held	Nature of business	Aggregate of capital and reserves		Result for the financial year	
				2004	2003	2004	2003
				£	£	£	£
Winton Holdings Limited	Ordinary	100%	Holding company	<u>3,623,577</u>	<u>307,983</u>	<u>3,315,594</u>	<u>-</u>

Winton Holdings Limited is a dormant company, during the year it disposed of its investment in Winton Environmental Management Limited.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

10 DEBTORS

	2004 £	2003 £
Trade debtors	1,064,582	-
Amounts owed by group undertakings	525,797	2,312,226
Other debtors	280,665	-
	<u>1,871,044</u>	<u>2,312,226</u>

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Trade creditors	113,630	-
Amounts owed to group undertakings	3,501,166	339,085
Social security and other taxes	296,541	-
Corporation tax	21,048	-
Accruals and deferred income	135,330	-
	<u>4,067,715</u>	<u>339,085</u>

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £	2003 £
Amounts owed to group undertakings	<u>-</u>	<u>5,403,656</u>

13 SHARE CAPITAL

	2004 £	2003 £
Authorised		
299,000 ordinary shares of £1 each	299,000	299,000
2,000 4.9% preference shares of £1 each	2,000	2,000
	<u>301,000</u>	<u>301,000</u>
Allotted, called up and fully paid		
298,816 ordinary shares of £1 each	298,816	298,816
2,000 4.9% preference shares of £1 each	2,000	2,000
	<u>300,816</u>	<u>300,816</u>

Preference shares

The 4.9% preference shares of £1 each are non-equity shares which carry an entitlement to a dividend at the rate of 4.9p (net) per share per annum. Holders of preference shares have one vote per share but only on a resolution for the winding-up of the company or on a resolution affecting the rights attached to the shares. Preference shareholders have the right on a winding-up to receive, in priority to any other class of shares, the sum of £1 per share.

CASELLA SCIENCE AND ENVIRONMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

14 RESERVES

	Profit and loss account £
At 1 July 2003	694,413
Retained profit for the year	1,186,267
At 30 June 2004	<u>1,880,680</u>

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year and net increase in shareholders' funds	1,186,267	538,675
Shareholders' funds at 1 July 2003	995,229	456,554
Shareholders' funds at 30 June 2004	<u>2,181,496</u>	<u>995,229</u>

16 CAPITAL COMMITMENTS

The company had no capital commitments at 30 June 2004 or 30 June 2003.

17 CONTINGENT LIABILITIES

The company has a cross-guarantee for bank borrowings with group companies. The potential liability at 30 June 2004 was £5,722,529 (2003: £7,235,005).

18 RETIREMENT BENEFITS

Defined Contribution Pension Scheme

The company operates a defined contribution pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

19 RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group.

20 PARENT UNDERTAKINGS AND CONTROLLING RELATED PARTY

The company's controlling related party is Casella Consulting Limited by virtue of its 100% shareholding. The ultimate controlling related party of the company is The Casella Group Limited. The largest group of undertakings for which group accounts have been drawn up is that headed by The Casella Group Limited.