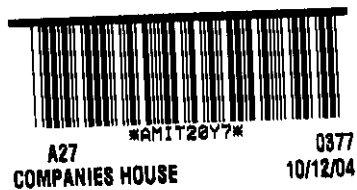


**SHANKS WASTE SERVICES LIMITED**

**Registered Number 988844**

**REPORT AND FINANCIAL ACCOUNTS**

**YEAR ENDED 31 MARCH 2004**



# **SHANKS WASTE SERVICES LIMITED**

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## **SHANKS WASTE SERVICES LIMITED DIRECTORS' REPORT**

The Directors present their Report and financial statements for the year ended 31 March 2004.

### **PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE PROSPECTS**

The principal activity of the Company during the year was the operation of waste collection and disposal services for industry and local authorities. The Company has entered into a reorganisation agreement whereby certain fixed assets, subsidiary company and joint venture investments were disposed of for £52,101,000 to a fellow Group company, Shanks Waste Management Limited, as at 31 March 2004.

The Company plans to continue to increase its market share in the waste management sector and will invest in additional landfill void at economic cost and in new geographical areas with growth potential.

### **POST BALANCE SHEET EVENTS**

On 5 May 2004, the Company sold two landfill sites to its immediate holding company for a total consideration of £11,900,000. An exceptional profit of £663,000 was made on the disposal of these landfill sites. On 9 June 2004, the Company distributed by way of dividend to its immediate holding company a further two landfill sites with a book value of £33,219,000.

On 25 May 2004, Shanks Group plc announced its intention to dispose of this company's immediate holding company, Shanks & McEwan (Waste Services) Limited, to Terra Firma Investments (GP) 2 Limited, subject to shareholders' approval. This approval was received on 23 June 2004 with completion of the disposal expected to take place on 30 June 2004.

### **TRADING RESULTS AND DIVIDEND**

The profit on ordinary activities before taxation for the year ended 31 March 2004 was £11,837,000 (2003: £1,822,000). Included in the 2004 profit is a non-operating exceptional profit of £9,414,000 on the disposal of the collections and recycling business and related subsidiary investments, and the joint venture investments. This profit is stated after charging £6,920,000 in respect of goodwill relating to the disposal business previously written off directly to reserves in prior years. The Directors recommend that a dividend be paid in respect of the year ended 31 March 2004 of £3,816,000 (2003: £8,509,000). The profit transferred to the reserves for the year was £5,291,000 (2003: £9,471,000 loss).

## SHANKS WASTE SERVICES LIMITED DIRECTORS' REPORT - continued

### DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the year and up to the date of this report were as follows:

M C E Averill

D J Downes

M J Clarke

I F Goodfellow (appointed 29 April 2004, resigned 18 June 2004)

D Stockley (appointed 29 April 2004, resigned 18 June 2004)

None of the Directors had a direct interest in the share capital of the Company. Messrs Averill and Downes are also Directors of Shanks Group plc and accordingly their interests in the share capital of that company are disclosed in its report and accounts. The interests of the other Director in the share capital of Shanks Group plc are as follows:

Name of Director	As at 31 March 2003			As at 31 March 2004				
	Granted Price (p)	SAYE Share Save Options	Executive Options	Granted	Exercised/ lapsed	Market price at exercise date (p)	SAYE Share Save Options	Executive Options
M J Clarke	199.0	-	20,000	-	-	-	-	20,000
	233.5	-	20,000	-	-	-	-	20,000
	180.0	-	20,000	-	-	-	-	20,000
	176.5	-	20,000	-	-	-	-	20,000
	145.0	-	30,000	-	-	-	-	30,000
	101.5	-	-	25,000	-	-	-	25,000
	119.0	14,495	-	-	(14,495)	Lapsed	-	-
	84.0	-	-	18,869	-	-	18,869	-

In addition Mr M J Clarke held 5,000 ordinary shares of 10p each in Shanks Group plc (2003: Nil). The Directors had no interest in the shares of any other company in the Group.

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

## **SHANKS WASTE SERVICES LIMITED**

### **DIRECTORS' REPORT - continued**

#### **EMPLOYMENT POLICIES**

There is a continuing commitment in the Company to provide employees with information and undertake consultation on matters of concern to them with a view to ensuring an awareness of the financial and economic factors affecting the performance of the Company. The procedures adopted involve both formal and informal meetings with employees or their representatives.

Options have been granted under the Shanks Savings-Related Share Option and Executive Share Options Schemes.

It is the continuing policy of the Company to provide employment for disabled people and employees who become disabled provided it is practical to offer suitable work. The training, career development and promotion of disabled employees are undertaken whenever possible, in accordance with the needs of the individuals concerned.

#### **PAYMENT OF SUPPLIERS**

It is the Company's payment policy, in respect of all suppliers, to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders. The Company will abide by these terms of payment. The amount owed by the Company to trade creditors at year end in proportion to the amounts invoiced by suppliers during the year expressed by the number of days, was 32 days (2003: 42 days).

#### **AUDITORS**

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

By Order of the Board



D J Downes  
DIRECTOR

28 June 2004

Registered Office:  
Dunedin House  
Auckland Park  
Mount Farm  
Milton Keynes  
Buckinghamshire  
MK1 1BU

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHANKS WASTE SERVICES LIMITED**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes and the accounting policies set out in the statement of accounting policies.

### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

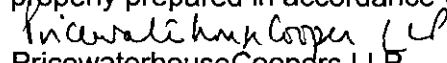
### **Basis of audit opinion**

We conducted our audit in accordance with 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 2004 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
28 June 2004

**SHANKS WASTE SERVICES LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2004**

	Note	<u>2004</u> £'000	<u>2003</u> £'000 <i>Restated*</i>
TURNOVER - CONTINUING ACTIVITIES	2	175,708	163,816
Cost of sales (including in 2003 exceptional leachate treatment costs of £3,207,000)		(149,027)	(139,170)
		<hr/>	<hr/>
GROSS PROFIT		26,681	24,646
Administrative expenses (including in 2003 exceptional redundancy costs of £1,013,000)		(16,304)	(16,870)
Other operating income		180	-
		<hr/>	<hr/>
OPERATING PROFIT ON CONTINUING ACTIVITIES	2	10,557	7,776
Income from fixed asset investments		70	1,057
Exceptional profit on disposal of fixed assets	3	9,414	500
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES AND TAXATION		20,041	9,333
Finance costs:			
Net interest payable	6	(7,157)	(6,587)
Other finance costs - unwinding of discount	7	(1,047)	(924)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	3	11,837	1,822
Tax	8	(2,730)	(2,784)
		<hr/>	<hr/>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAX		9,107	(962)
Dividends	9	(3,816)	(8,509)
		<hr/>	<hr/>
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	19	5,291	(9,471)
		<hr/>	<hr/>

\* 2003 figures have been restated to reflect the reclassification of certain cost of sales to administrative expenses. See Note 1(b) for details.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED 31 MARCH 2004**

The Company has no recognised gains or losses other than the profit for the year.

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**  
**FOR THE YEAR ENDED 31 MARCH 2004**

There is no material difference between the reported loss for the year and that which would be reported under the historical cost convention.

**SHANKS WASTE SERVICES LIMITED**  
**BALANCE SHEET**  
**AS AT 31 MARCH 2004**

	Note	31 March 2004 £'000	31 March 2003 £'000
<b>FIXED ASSETS</b>			
Intangible fixed assets	10	-	4,307
Tangible fixed assets	11	98,438	95,893
Investments	12	-	18,044
		<hr/>	<hr/>
		98,438	118,244
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Stocks	13	1,025	1,295
Debtors	14	39,527	85,075
Cash at bank and in hand		12	-
		<hr/>	<hr/>
		40,564	86,370
		<hr/>	<hr/>
CREDITORS: amounts falling due within one year	15	(43,755)	(59,574)
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(3,191)	26,796
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		95,247	145,040
		<hr/>	<hr/>
CREDITORS: amounts falling due after more than one year	16	(28,153)	(91,056)
		<hr/>	<hr/>
PROVISIONS FOR LIABILITIES AND CHARGES	17	(28,204)	(27,305)
		<hr/>	<hr/>
TOTAL NET ASSETS		38,890	26,679
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Share capital	18	-	-
Profit and loss account	19	38,890	26,679
		<hr/>	<hr/>
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	38,890	26,679
		<hr/>	<hr/>

Approved by the Board of Directors on 28 June 2004.

  
D J Downes  
Director



**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004**

**1 ACCOUNTING POLICIES**

**(a) Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. As the Company is a wholly owned subsidiary of Shanks Group plc, group financial statements have not been prepared as permitted by s228 of the Companies Act 1985 and the financial statements contain information about the Company as an individual undertaking.

**(b) New accounting standards, changes in accounting policies and restatement of comparatives**

There have been no changes in accounting policies in the current year.

FRS 17 - Retirement Benefits is applicable to the Company. The Company has applied the transitional arrangements for adoption of the FRS. Accordingly no change has been made to the accounting policy but included in these financial statements are the additional disclosures required by FRS 17 (see Note 24).

Following review, the classification of certain costs of sales and administrative expenses has been revised. Comparative figures have been restated accordingly. The effect is to reduce cost of sales in 2003 by £2,954,000 and to increase administrative expenses by the same amount. Gross profit for 2003 has increased by £2,954,000 whilst there is no change to the operating profit.

**(c) Turnover**

Turnover represents the invoiced value of waste streams, power generated, and other services provided including landfill tax but excluding value added tax. Turnover is recognised when processing occurs or the service is provided.

**(d) Goodwill**

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Capitalised goodwill is written off over its useful life in accordance with FRS 10. The useful life of goodwill is not expected to exceed 20 years. The profit or loss on disposal or closure of a business is calculated after taking into account any goodwill previously written off to reserves prior to the adoption of FRS10.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**1 ACCOUNTING POLICIES - continued**

**(e) Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation, except for freehold land which is not depreciated, and less any write down for impairment.

**(i) Land & Buildings and Plant & Machinery**

Depreciation is provided on assets other than land to write off their cost by equal annual instalments over their estimated useful economic lives. The expected lives are:

Buildings	50 years
Plant & machinery	3 to 10 years

**(ii) Landfill**

Acquisition costs, commissioning costs and the discounted cost of final site restoration are capitalised and written off over the operational life of each site based on the amount of void space consumed.

**(iii) Capitalisation of finance costs**

Finance costs directly attributable to separately identifiable major capital growth projects have been capitalised as part of the asset cost during the period of construction.

**(f) Research and development**

Expenditure is written off in the year in which it is incurred.

**(g) Pensions**

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the expected working lives of the pension scheme members currently in service. Any differences between the actuarial valuation of the scheme and the value of assets in the scheme are also charged or credited to the profit and loss account over the expected working lives of the scheme members. Differences and payments to the schemes are treated as assets or liabilities in the balance sheet.

**(h) Leased assets**

Where the Company has substantially all the risks and rewards of ownership of a leased asset, it is treated as a finance lease. Leased assets are included in tangible fixed assets at the total of the capital elements of payments during the lease term and the corresponding obligation is included in creditors. Depreciation is provided to write off the assets over the shorter of the lease term or expected useful life.

Rentals paid under operating leases are charged to the profit and loss account as incurred over the term of the lease.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**1 ACCOUNTING POLICIES - continued**

**(i) Site restoration provision**

Full provision is made for the net present value (NPV) of the Company's unavoidable costs in relation to restoration liabilities at its landfill sites and this value is capitalised as a fixed asset. The Company continues to provide for the NPV of intermediate restoration costs over the life of its landfill sites, based on the quantity of waste deposited in the year.

**(j) Aftercare provision**

Provision is made for the NPV of post closure costs based on the quantity of waste deposited in the year. Similar costs incurred during the operational life of the sites are written off directly and not charged against the provision.

**(k) Discounting**

All long term provisions for site restoration and aftercare are calculated based on the NPV of the estimated future costs. The effects of inflation and unwinding of the discount element on existing provisions are reflected within the financial statements as a finance charge. The real discount factor currently applied is 2%.

**(l) Government grants**

Capital grants are released to profit evenly over the estimated useful lives of the assets concerned.

**(m) Stocks**

Stocks are stated at the lower of cost (on a first in first out basis) and net realisable value.

**(n) Deferred taxation**

Deferred taxation is provided in full in respect of timing differences arising between the treatment of certain items for taxation and accounting purposes. Deferred tax assets in respect of trading tax losses are only recognised where the tax losses are expected to be recovered. Deferred taxation provisions have not been discounted.

**2 SEGMENTAL INFORMATION**

The turnover and operating profit are wholly attributable to the Company's business of waste management in the United Kingdom. All of the Company's business, turnover and operating profit relates to continuing operations during the year.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 – continued**

**3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<u>2004</u> £'000	<u>2003</u> £'000
The operating profit is stated after charging/(crediting):		
Depreciation of owned tangible fixed assets	13,819	11,959
Amortisation of goodwill	395	321
Hire of plant and machinery held under operating leases	7,668	5,938
Auditors' remuneration for audit services	105	84
Property rents payable	1,471	1,249
(Profit)/loss on disposal of operating fixed assets	(537)	74
Exceptional leachate treatment costs	-	3,207
Exceptional redundancy costs	-	1,013
	<u>          </u>	<u>          </u>
The profit before tax is stated after charging/(crediting) the following non-operating items:		
Exceptional profit on disposal of fixed assets	(9,414)	(500)
	<u>          </u>	<u>          </u>

The exceptional profit on disposal of fixed assets in 2004 of £9,414,000 relates to the disposal to a fellow Group company of the collections and recycling business and related subsidiary investments and joint venture investments. This profit is stated after charging £6,920,000 in respect of Goodwill previously written off directly to reserves in prior years. There is no tax attributable to this profit.

The exceptional leachate treatment costs in 2003 of £3,207,000 related to the regulatory requirement to reduce historical leachate levels at landfill sites. The exceptional redundancy costs in 2003 of £1,013,000 related to restructuring costs. The exceptional profit on disposal of fixed assets in 2003 of £500,000 arose on the disposal of property. The tax effect of these exceptional costs was to reduce the 2003 current tax charge by £1,266,000.

**4 DIRECTORS' EMOLUMENTS**

	<u>2004</u> £'000	<u>2003</u> £'000
Aggregate emoluments	105	99
	<u>          </u>	<u>          </u>

Retirement benefits are accruing to three (2003: four) Directors under a defined benefit scheme.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**5 EMPLOYEES**

The average number of employees employed by the Company in waste management during the year was 954 (2003: 918). The total remuneration of employees comprised:

	<u>2004</u> £'000	<u>2003</u> £'000
Wages and salaries	22,239	21,974
Social security costs	1,950	1,955
Other pension costs	2,120	1,218
	<hr/>	<hr/>
	26,309	25,147
	<hr/>	<hr/>

**6 NET INTEREST PAYABLE**

	<u>2004</u> £'000	<u>2003</u> £'000
Bank overdrafts	741	1,304
Group interest payable	6,523	5,434
Net other interest receivable	(106)	(151)
	<hr/>	<hr/>
	7,157	6,587
	<hr/>	<hr/>

**7 FINANCE COSTS - OTHER**

Other finance costs relate to the unwinding of discount of £1,047,000 (2003: £924,000) on long term landfill liabilities (see Note 17). It is treated as a finance cost in accordance with FRS12.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**8 TAXATION**

Taxation charge based on the profits of the year is made up as follows:

	<u>2004</u> £'000	<u>2003</u> £'000
Corporation tax at 30% (2003: 30%)		
- current year	2,815	2,814
- prior year	27	130
Deferred taxation (see Note 17)		
- current year	(853)	(1,699)
- prior year	741	1,539
	<hr/>	<hr/>
	2,730	2,784
	<hr/>	<hr/>

The tax assessed for the period is higher than the United Kingdom standard rate of corporation tax of 30% (2003: 30%). The differences are explained below:

	<u>2004</u> £'000	<u>2003</u> £'000
Profit on ordinary activities before tax	11,837	1,822
	<hr/>	<hr/>
Tax charge based on UK tax rate	3,551	547
Tax effect of the following items:		
Expenses not deductible for tax purposes	1,260	1,036
Non-taxable profit from fixed asset investments	-	(317)
Non-taxable profit from disposal of fixed assets to fellow Group companies	(2,824)	-
Other timing differences	280	406
Capital allowances	548	1,292
Utilisation of brought forward capital losses		(150)
Adjustment to tax charge in respect of prior periods	27	130
	<hr/>	<hr/>
Corporation tax charge for the period	2,842	2,944
	<hr/>	<hr/>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**9 DIVIDENDS**

	<u>2004</u> £'000	<u>2003</u> £'000
Interim dividend paid	1,272	2,220
Final dividend proposed	2,544	6,289
	<hr/>	<hr/>
	<u>3,816</u>	<u>8,509</u>

**10 INTANGIBLE FIXED ASSETS**

	<u>Goodwill</u> £'000
Cost:	
At 31 March 2003	5,343
Additions	319
Disposal to a fellow Group company	(5,662)
	<hr/>
At 31 March 2004	-
	<hr/>
Amortisation:	
At 31 March 2003	1,036
Charge for the year	395
Disposal to a fellow Group company	(1,431)
	<hr/>
At 31 March 2004	-
	<hr/>
Net book value:	
At 31 March 2004	-
	<hr/>
At 31 March 2003	<u>4,307</u>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**11 TANGIBLE FIXED ASSETS**

	Freehold landfill £'000	Long leasehold landfill £'000	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost:</b>						
At 31 March 2003	67,870	2,053	9,259	517	93,625	173,324
Additions	16,113	-	-	-	14,367	30,480
Disposals	-	-	(657)	-	(5,171)	(5,828)
Reclassification	7,126	1,586	(130)	3,006	(11,588)	-
Disposal to fellow Group company	(239)	(45)	(2,990)	(814)	(26,500)	(30,588)
At 31 March 2004	90,870	3,594	5,482	2,709	64,733	167,388
<b>Depreciation:</b>						
At 31 March 2003	28,399	1,228	4,203	281	43,320	77,431
Charge for the year	3,621	1,456	484	166	8,092	13,819
Disposals	-	-	(81)	-	(3,901)	(3,982)
Reclassification	-	-	(95)	95	-	-
Disposal to fellow Group company	(131)	(22)	(1,023)	-	(17,142)	(18,318)
At 31 March 2004	31,889	2,662	3,488	542	30,369	68,950
Net book value:						
At 31 March 2004	58,981	932	1,994	2,167	34,364	98,438
At 31 March 2003	39,471	825	5,056	236	50,305	95,893

The reclassification of assets arises following a management review of the categorisation of certain assets during the year to more accurately reflect their usage in the business.

Included in plant and machinery and freehold land and buildings are assets under construction with a value of £3,861,640 (2003: £12,002,285).



**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**12 INVESTMENTS**

	Shares in subsidiary <u>undertakings</u> £'000	Shares in joint <u>ventures</u> £'000	Loans to joint <u>ventures</u> £'000	<u>Total</u> £'000
Cost:				
As at 31 March 2003	15,793	1	2,250	18,044
Disposal to a fellow Group company	(15,793)	(1)	(2,250)	(18,044)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 March 2004	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

**13 STOCK**

	<u>2004</u> £'000	<u>2003</u> £'000
Raw materials and consumables	1,025	1,295
	<hr/>	<hr/>

**14 DEBTORS**

	<u>2004</u> £'000	<u>2003</u> £'000
Trade debtors	27,895	44,927
Amounts owed from group undertaking	10,348	36,907
Prepayments and accrued income	257	2,363
Other debtors	994	238
Corporation tax	33	640
	<hr/>	<hr/>
	39,527	85,075
	<hr/>	<hr/>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**15 CREDITORS: Amounts falling due within one year**

	<u>2004</u> £'000	<u>2003</u> £'000
Bank overdraft	7,000	4,297
Trade creditors	6,823	17,118
Amounts owed to group undertakings	7,206	-
Other taxation and social security	18,262	18,100
Proposed dividend	2,544	6,289
Accruals	1,801	13,209
Other creditors	119	561
	<hr/>	<hr/>
	43,755	59,574
	<hr/>	<hr/>

The Company has granted to its bankers an unlimited guarantee and a right of set off against amounts outstanding on advances to its parent and fellow subsidiary undertakings.

**16 CREDITORS: Amounts falling due after more than one year**

	<u>2004</u> £'000	<u>2003</u> £'000
Amounts owed to group undertakings	19,903	91,056
Other creditors	8,250	-
	<hr/>	<hr/>
	28,153	91,056
	<hr/>	<hr/>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**17 PROVISIONS FOR LIABILITIES AND CHARGES**

	<u>Deferred taxation</u> £'000	<u>Site restoration</u> £'000	<u>Aftercare</u> £'000	<u>Leachate</u> £'000	<u>Total</u> £'000
At 31 March 2003	2,837	7,631	13,630	3,207	27,305
Provided in the year					
- cost of sales	-	1,442	1,642	-	3,084
- finance charges	-	341	706	-	1,047
- taxation	(112)	-	-	-	(112)
Utilised in the year	-	(1,001)	-	(2,046)	(3,047)
Reassessment of costs	-	1,689	-	-	1,689
Transfer and reallocation of provisions between fellow Group companies	-	(1,777)	642	-	(1,135)
Disposal to fellow Group company	(627)	-	-	-	(627)
	<u>2,098</u>	<u>8,325</u>	<u>16,620</u>	<u>1,161</u>	<u>28,204</u>
At 31 March 2004	2,098	8,325	16,620	1,161	28,204

Following a review of the allocation of provisions to landfill sites across all Group companies, £1,777,000 has been transferred to the site restoration provision and £642,000 has been transferred from the aftercare provision.

*Deferred taxation*

The deferred taxation provision is made up as follows:

	<u>2004</u> £'000	<u>2003</u> £'000
Capital allowances	3,293	3,858
Other timing differences	(1,195)	(1,021)
	<u>2,098</u>	<u>2,837</u>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**17 PROVISIONS FOR LIABILITIES AND CHARGES - continued**

*Site Restoration*

Site Restoration provision relates to the cost of both intermediate and final capping and covering of landfill sites. In accordance with FRS 12 – Provisions, the Company's minimum unavoidable costs have been re-assessed at 31 March 2004 and the net present value fully provided for with additional costs of £1,689,000 now capitalised in tangible fixed assets. The costs are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

*Aftercare*

The total post closure costs of landfill sites, including such items as monitoring, gas and leachate management and licensing, have been estimated by management based on current best practice and technology available. These costs may be impacted by a number of factors including changes in legislation and improvements in technology. The dates of payments of these aftercare costs are uncertain but are anticipated to be over a period of approximately thirty years from closure of the relevant landfill site.

*Leachate*

The leachate provision arises on the regulatory requirement to reduce historical leachate levels at landfill sites. This provision will be utilised over the next year.

**18 SHARE CAPITAL**

	<u>2004</u>	<u>2003</u>
	£	£
Authorised, allotted, called up and fully paid		
100 Ordinary Shares of £1 each	100	100
	<u>          </u>	<u>          </u>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**19 RESERVES**

	Profit and loss account £'000
At 1 April 2003	26,679
Retained profit for the year	5,291
Goodwill previously written off to reserves, now resurrected and written off in the profit and loss account for the year	6,920
	<hr/>
At 31 March 2004	38,890
	<hr/> <hr/>

The cumulative goodwill written off reserves from continuing businesses since January 1986, when the Company was acquired by Shanks Group plc, is £Nil (2003: £6,920,000).

**20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>2004</u> £'000	<u>2003</u> £'000
Profit/(loss) for the financial year	9,107	(962)
Dividends	(3,816)	(8,509)
Goodwill previously written off to reserves, now resurrected and written off in the profit and loss account for the year	6,920	-
	<hr/>	<hr/>
Net movement in equity shareholders' funds	12,211	(9,471)
Opening equity shareholders' funds	26,679	36,150
	<hr/>	<hr/>
Closing equity shareholders' funds	38,890	26,679
	<hr/> <hr/>	<hr/> <hr/>

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**21 CAPITAL COMMITMENTS**

The amount of capital expenditure authorised by the Directors for which no provision has been made in the financial statements is:

	<u>2004</u> £'000	<u>2003</u> £'000
Expenditure contracted for	228	9,217
	<u>          </u>	<u>          </u>

**22 COMMITMENTS UNDER OPERATING LEASES**

The annual commitments under operating leases are as follows:-

	<u>2004</u> £'000	<u>2003</u> £'000
Leases expiring:		
Within one year	28	83
Between two and five years	243	736
Over five years	68	828
	<u>          </u>	<u>          </u>
	339	1,647
	<u>          </u>	<u>          </u>

**23 PENSION COMMITMENTS - current SSAP 24 basis**

The Company along with other companies in the Shanks Group, participates in funded pension arrangements providing benefits based on final salary. The assets are held separately from those of the group companies and are invested by professional investment managers. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the Projected Unit Method. The pension charge for the year was £2,120,000 (2003: £1,218,000). Details of the latest actuarial value of the scheme on 5 April 2003 are given in the accounts of Shanks Group plc.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**24 PENSION COMMITMENTS - FRS 17 basis**

Whilst the Company continues to account for pension costs in accordance with SSAP 24 - Accounting for pension costs, under FRS 17 - Retirement Benefits the transitional disclosures set out below are required.

The employees of the Company participate in the Shanks Group Pension Scheme, which is a funded, managed, defined benefit scheme, the costs of which are fully provided in accordance with the regular recommendations of a professionally qualified independent actuary. The Company is unable to identify the share of the underlying assets and liabilities of the Group scheme that relates to its business and is permitted under FRS 17 to treat this scheme as a defined contribution scheme. Full disclosures relating to the Group's pension schemes are contained in the financial statements of Shanks Group plc.

**25 CONTINGENT LIABILITIES**

The Company has granted to its bankers an unlimited guarantee and a right of set off against amounts outstanding on advances to its parent and fellow subsidiary undertakings. The Company has in normal course of business given guarantees and performance bonds relating to the Company's own contracts.

**26 RELATED PARTY TRANSACTIONS**

As permitted by FRS8, the Company, being a wholly owned subsidiary of another company which prepares a statement of related party transactions including that of this Company, has not prepared such a statement itself.

**27 CASH FLOW STATEMENT**

As permitted by paragraph 8(c) of FRS1 (revised 1996), the Company, being a wholly owned subsidiary of another company which prepares a cash flow statement has not prepared such a statement itself.

**SHANKS WASTE SERVICES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2004 - continued**

**28 IMMEDIATE & ULTIMATE PARENT COMPANY**

The immediate holding company is Shanks & McEwan (Waste Services) Limited. The ultimate parent company is Shanks Group plc, a company registered in Scotland. Copies of the group accounts may be obtained from the Company Secretary, Shanks Group plc, Astor House, Station Road, Bourne End, Buckinghamshire, SL8 5YP

**29 POST BALANCE SHEET EVENTS**

On 5 May 2004, the Company sold two landfill sites to its immediate holding company for a total consideration of £11,900,000. An exceptional profit of £663,000 was made on the disposal of these landfill sites. On 9 June 2004, the Company distributed by way of dividend to its immediate holding company a further two landfill sites with a book value of £33,219,000.

On 25 May 2004, Shanks Group plc announced its intention to dispose of this company's immediate holding company, Shanks & McEwan (Waste Services) Limited, to Terra Firma Investments (GP) 2 Limited, subject to shareholders' approval. This approval was received on 23 June 2004 with completion of the disposal expected to take place on 30 June 2004.