



Wessex Waste Management Limited

Accounts 31 December 1997

together with directors' and auditors' reports

Registered number: 2536345



Directors' report

For the year ended 31 December 1997

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1997.

Principal activity and business review

The principal activity of the company is the searching for and development of business opportunities in the waste management industry in the United Kingdom.

The company does not generate revenues. The profit of the company attributable to ordinary shareholders was £94,000 (1996 - profit of £21,000).

The directors do not recommend the payment of a dividend for the year (1996 - £nil).

Directors and their interests

The directors who served during the year were:

P.B. Dessing (appointed 18 March 1997)
E.G. Falkman
B.G.A. Gabrielson
J. Holsten (resigned 18 March 1997)
W.N. Hood
C.F. Skellett
N.A. Wheatley

The directors do not have any interests required to be disclosed under Schedule 7 (2) of the Companies Act 1985 other than those described below, comprising interests in the ordinary shares ("shares") and options to subscribe for ordinary shares ("options") of WMI plc.

	Number of shares	
	as at 1 January 1997	as at 31 December 1997
P.B. Dessing	-	4,000
E.G. Falkman	5,000	5,000
B.G.A. Gabrielson	300	7,100
J.M. Holsten	2,000	2,000

Shares held by Messrs Dessing, Falkman and Holsten are held in the form of American Depositary Shares.

Directors' report (continued)

or the year ended 31 December 1997

Directors and their interests (continued)

Directors' options in the shares of WMI plc.

	Date of grant	As at 1 January 1997	Granted during the year	Exercised during the year	As at 31 December 1997	Exercise price (pence)	Exercise period
P.B. Dessing	March 1997	-	100,000	-	100,000	234.0	March 1998 - March 2004
E.G. Falkman	March 1992	300,000	-	-	300,000	526.5	March 1993 - March 1999
	April 1993	143,397	-	-	143,397	588.4	April 1994 - April 2000
	April 1994	140,625	-	-	140,625	536.6	April 1995 - April 2001
	April 1995	155,000	-	-	155,000	261.8	April 1996 - April 2002
	May 1996	160,000	-	-	160,000	365.0	May 1997 - May 2003
	March 1997	-	200,000	-	200,000	234.0	March 1998 - March 2004
B.G.A. Gabrielson	March 1992	25,000	-	-	25,000	526.5	March 1993 - March 1999
	April 1993	28,042	-	-	28,042	588.4	April 1994 - April 2000
	April 1994	42,188	-	-	42,188	536.6	April 1995 - April 2001
	April 1995	46,500	-	-	46,500	261.8	April 1996 - April 2002
	July 1995	15,000	-	-	15,000	296.0	July 1996 - July 2002
	May 1996	80,000	-	-	80,000	365.0	May 1997 - May 2003
	March 1997	-	200,000	-	200,000	234.0	March 1998 - March 2004
J.M. Holsten	March 1992	100,000	-	-	100,000	526.5	March 1993 - March 1999
	April 1993	60,000	-	-	60,000	588.4	April 1994 - April 2000
	July 1995	140,000	-	-	140,000	296.0	July 1996 - July 2002
	May 1996	-	160,000	-	160,000	365.0	May 1997 - May 2003

Directors' report (continued)

Directors and their interests (continued)

Other options in WMI plc held by P.B. Dessing:

Date of grant	Options granted	Exercise period	Exercise price (pence)
31 March 1992	25,000	Tranche 1: Mar 1993 – Mar 1998	630.6
		Tranche 2: Mar 1994 – Mar 1999	539.0
		Tranche 3: Mar 1995 – Mar 2000	262.4
27 April 1993	20,000	Tranche 1: Apr 1994 – Apr 1999	538.0
		Tranche 2: Apr 1995 – Apr 2000	260.4
		Tranche 3: Apr 1996 – Apr 2001	359.2
26 April 1994	20,000	Tranche 1: Apr 1995 – Apr 2000	261.8
		Tranche 2: Apr 1996 – Apr 2001	356.0
		Tranche 3: Apr 1997 – Apr 2002	240.2
25 April 1995	20,000	Tranche 1: Apr 1996 – Apr 2001	350.6
		Tranche 2: Apr 1997 – Apr 2002	237.7
		Tranche 3: Apr 1998 – Apr 2003	(*)
1 May 1996	25,000	Tranche 1: May 1997 – May 2002	244.7
		Tranche 2: May 1998 – May 2003	(*)
		Tranche 3: May 1999 – May 2004	(*)

(*) Each grant vests in increments of one-third upon the anniversary of the grant date. The exercise price per ordinary share for each tranche of each grant is fixed at the date of vesting, by determining the middle market price of an ordinary share for the five dealing days immediately preceding the vesting date.

Details of the share option schemes are disclosed in the accounts of WMI plc.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period 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 accounts, 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 accounts; and
- prepare the accounts 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 accounts 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.

Auditors

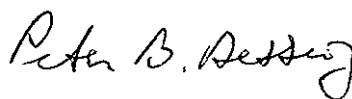
The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Liability insurance for company officers

As permitted by the Companies Act 1985 (as amended), the company has maintained insurance cover for the directors against liabilities in relation to the company.

Gate House
Turnpike Road
High Wycombe
Bucks
HP12 3NR

By order of the Board,



31 October 1998

Auditors' report

London

To the shareholders of Wessex Waste Management Limited:

We have audited the accounts on pages 6 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

31 October 1998

Profit and loss account

For the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Other operating expenses		(17)	-
Operating loss - continuing activities		(17)	-
Profit on sale of fixed asset investment		-	20
Investment income	2	111	1
Profit on ordinary activities before tax, retained for the year	3	94	21
Accumulated deficit at beginning of year		(2,003)	(2,024)
Accumulated deficit at end of year		(1,909)	(2,003)

There are no recognised gains or losses in either year other than the profit or loss for each year.

The accompanying notes are an integral part of this profit and loss account.

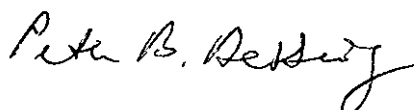
Balance sheet

31 December 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Investments	4	241,321	240,854
Current assets			
Debtors	5	75,734	92,605
Cash at bank and in hand		10,644	42
		86,378	92,647
Creditors: Amounts falling due within one year	6	(3,348)	(5,348)
Net current assets		83,030	87,299
Total assets less current liabilities		324,351	328,153
Creditors: Amounts falling due after more than one year	7	-	(3,896)
Net assets		324,351	324,257
Capital and reserves			
Called-up equity share capital	8	326,260	278,303
Other capital reserves	9	-	47,957
Profit and loss account		(1,909)	(2,003)
Total equity shareholders' funds	10	324,351	324,257

The financial statements on pages 6 to 12 were approved by the board of directors on 31 October 1998 and signed on its behalf by:

Director



The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1997

1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) *Basis of accounting*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) *Investments*

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent diminutions in value.

As permitted by Section 228 of the Companies Act 1985, the company has not prepared group accounts.

c) *Deferred costs*

Expenditure incurred on specific projects relating to prospective acquisitions and joint venture opportunities is carried forward when success can be foreseen with reasonable assurance.

d) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

e) *Cash flow statements*

The company is exempt from the obligation to present a cash flow statement in accordance with Financial Reporting Standard No. 1, "Cash Flow Statements", since it is entitled to the exemptions available in sections 246 to 249 of the Companies Act 1985 for small companies.

2 Investment income

	1997 £'000	1996 £'000
Interest receivable and similar income	<u>111</u>	<u>1</u>

3 Profit on ordinary activities before tax

The average weekly number of persons employed by the company during the year was nil (1996 - nil).

No remuneration was paid to any director in connection with the management of the company during the year (1996 - £nil).

Auditors' remuneration was borne by other group undertakings.

Notes to accounts (continued)

4 Fixed asset investments

	1997 £'000	1996 £'000
Subsidiary undertakings	<u>241,321</u>	<u>240,854</u>

Principal investments

The company has investments in the following principal subsidiary undertakings, all of which are registered in England and Wales unless otherwise stated:

Subsidiary undertaking	Principal activity	Proportion of all types of Shares held
UK Waste Management Limited	Waste collection and disposal	100%
Waste Management Limited	Waste collection and disposal	100%
SCS Contractors Limited	Municipal services	100%
R.A. Johnson (Haulage) Limited	Non-trading	100%
Clarfield Recycling Limited	Non-trading	100%
Waterblast Limited	Industrial cleaning	100%
Tyneside Waste Paper Limited	Non-trading	100%
Interport Paper Company Limited	Non-trading	100%
Megastock Limited	Non-trading	100%
B. Holmes (Graded Paper) Limited	Non-trading	100%
W.R. Pollard & Sons Limited	Non-trading	100%
First Waste Limited	Non-trading	100%
Fibre Fuel Limited	Re-cycling	50% plus 1 share

Notes to accounts (continued)

4 Fixed asset investments (continued)

Principal investments (continued)

The movement in subsidiary undertakings in the year is as follows:

	£'000
Cost	
At 31 December 1996	240,854
Additions	467
At 31 December 1997	<u>241,321</u>

No amounts have been written off the carrying values of the investments in subsidiary undertakings. In the directors' opinion the aggregate value of the shares in and amounts receivable from the subsidiary undertakings is not less than the aggregate amount included in the balance sheet.

5 Debtors

Amounts falling due within one year:

	1997 £'000	1996 £'000
Amounts owed by subsidiary undertakings	75,693	92,605
Other debtors	41	-
	<u>75,734</u>	<u>92,605</u>

6 Creditors: Amounts falling due within one year

	1997 £'000	1996 £'000
Amounts owed to shareholders	-	4,800
Deferred consideration	3,348	547
Accruals	-	1
	<u>3,348</u>	<u>5,348</u>

Notes to accounts (continued)

7 Creditors: Amounts falling due after more than one year

	1997 £'000	1996 £'000
Deferred consideration	-	3,896

8 Called-up equity share capital

	1997 £'000	1996 £'000
<i>Authorised</i>		
Equity: 250,000,002 ordinary 'A' shares of £1 each	250,000	250,000
Equity: 250,000,000 ordinary 'B' shares of £1 each	250,000	250,000
	<u>500,000</u>	<u>500,000</u>
<i>Allotted, called-up and fully-paid</i>		
Equity: 163,129,733 (1996 - 139,151,733) ordinary 'A' shares of £1 each	163,130	139,152
Equity: 163,129,731 (1996 - 139,151,731) ordinary 'B' shares of £1 each	163,130	139,151
	<u>326,260</u>	<u>278,303</u>

23,978,000 'A' shares and 23,978,000 'B' shares were issued during 1997.

9 Other capital reserves

	1997 £'000	1996 £'000
Beginning of year	47,957	47,957
Subscriptions for new ordinary shares	(47,957)	-
End of year	<u>-</u>	<u>47,957</u>

The amounts previously shown in other capital reserves represent amounts paid over by way of subscription for new ordinary shares that were issued during 1997 (note 8).

10 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Profit for the financial year	94	21
Net addition to shareholders' funds	<u>94</u>	<u>21</u>
Opening shareholders' funds	324,257	324,236
Closing shareholders' funds	<u>324,351</u>	<u>324,257</u>

Notes to accounts (continued)

11 Financial commitments

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the group and failure by other members of the group would give rise to additional liabilities for the company. The directors are of the opinion that the failure of these companies is not likely to arise.

12 Ultimate parent company

The ultimate parent company is Waste Management, Inc., incorporated in Delaware, USA.

The largest group in which the results of Wessex Waste Management Limited and subsidiary undertakings are consolidated is that headed by the ultimate parent company. The smallest group in which they are consolidated is that headed by Waste Management International plc, registered in England and Wales. The consolidated accounts of these groups are available to the public and may be obtained from 3003 Butterfield Road, Oak Brook, Illinois 60521, USA and 3 Shortlands, London W6 8RX, respectively.