



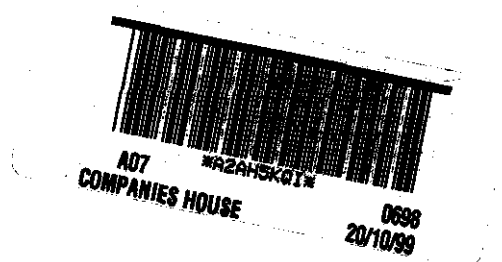
LINCWASTE LIMITED

Report and Financial Statements

31 December 1998

**Deloitte & Touche
Leda House
Station Road
Cambridge CB1 2RN**

**(- 27/09/99)
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REPORT AND FINANCIAL STATEMENTS 1998

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T C Walsh
S R Stuteley
C A Carr

SECRETARY

S R Stuteley

REGISTERED OFFICE

Tritton House
Matilda Road
Lincoln
LN6 7BN

BANKERS

Lloyds TSB Bank plc
Corporate & Institutional Banking
PO Box 787
6-8 Eastcheap
London EC3M 1LL

SOLICITORS

Rowe & Maw
20 Blackfriars Lane
London EC4V 6HD

Cunningham, John & Co
Fairstead House
7 Bury Road
Thetford
Norfolk IP24 3PL

AUDITORS

Deloitte & Touche
Chartered Accountants
Leda House
Station Road
Cambridge CB1 2RN

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITY

The principal activity of the company is the handling, recycling and disposal of waste materials.

REVIEW OF DEVELOPMENTS

The results of the company for the year are set out on page 5. In the opinion of the directors the company has traded satisfactorily during the year and profitability is expected to continue in the current year.

DIVIDENDS

A dividend payment of £2,000,000 for has been made during the year (1997 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

T C Walsh

S R Stuteley (resigned 6 April 1998, appointed 28 November 1998)

D R A Sheppard (resigned 2 December 1998)

R Adams (resigned 30 September 1998)

A Armitage (appointed 25 March 1998, resigned 30 September 1998)

C A Carr (appointed 5 October 1998)

None of the directors held an interest in the share capital of the company during the year.

The interests of the directors in the share capital of the parent company are disclosed in the accounts of that company.

CHARITABLE AND POLITICAL DONATIONS

During the year the company made donations to charities of £50 (1997 - £nil). The company has also contributed £686,855 (1997 - £nil) of its landfill tax liability to ENTRUST registered environmental bodies, as permitted by government regulations.

YEAR 2000 ISSUES

Year 2000 issues have been addressed at group level. The group is continuing to address the Year 2000 problem in accordance with its Compliance and Contingency Plan. This Plan assumes the major risk to the group to be failure of third party utility services. The group has already renewed or upgraded a substantial proportion of its business critical computer systems and other equipment, and is in the process of obtaining representations from the vendors of its key software that their systems are Year 2000 compliant.

Although the group expects its systems to be Year 2000 compliant by the required date, it cannot guarantee the compliance of any third party systems.

The total cost of the Year 2000 compliance issue is not considered to be material.

**DIRECTORS' REPORT****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 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:

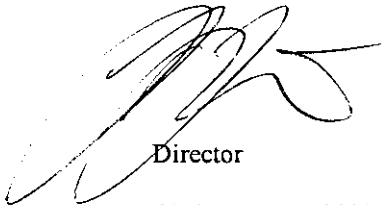
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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. 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

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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


Director

28 September 1999



LINCWASTE LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 13 which have been prepared under the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and
Registered Auditors

15 October 1999


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	1998 £'000	1997 £'000
TURNOVER	2	9,795	10,462
Cost of sales		(5,641)	(6,635)
GROSS PROFIT		4,154	3,827
Administrative expenses		(1,510)	(1,372)
OPERATING PROFIT	3	2,644	2,455
Interest payable and similar charges	5	(19)	(24)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,625	2,431
Tax on profit on ordinary activities	6	(1,340)	(1,117)
PROFIT FOR THE FINANCIAL YEAR		1,285	1,314
Dividends	7	(2,000)	-
RETAINED (LOSS) PROFIT FOR THE FINANCIAL YEAR		(715)	1,314
Retained profit (loss) brought forward		1,167	(147)
Retained profit carried forward		452	1,167

All results derive from continuing operations.


There are no recognised gains and losses for the current financial year or the preceding financial year other than as stated in the profit and loss account.

BALANCE SHEET
31 December 1998

	Note	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	8	9,664	6,867
Investments	9	-	-
		<u>9,664</u>	<u>6,867</u>
CURRENT ASSETS			
Debtors	10	3,527	4,500
Cash at bank and in hand		-	1,172
		<u>3,527</u>	<u>5,672</u>
CREDITORS: amounts falling due within one year	11	(6,054)	(4,109)
NET CURRENT (LIABILITIES) ASSETS		<u>(2,527)</u>	<u>1,563</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,137	8,430
CREDITORS: amounts falling due after more than one year	12	(16)	(77)
PROVISIONS FOR LIABILITIES AND CHARGES	13	(1,579)	(2,096)
		<u>5,542</u>	<u>6,257</u>
CAPITAL AND RESERVES			
Called up share capital	14	5,090	5,090
Profit and loss account		452	1,167
EQUITY SHAREHOLDERS' FUNDS		<u>5,542</u>	<u>6,257</u>

These financial statements were approved by the Board of Directors on 28 September 1999.

Signed on behalf of the Board of Directors


Director

**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 31 December 1998**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow exemption

The company has taken advantage of the exemption, conferred by Financial Reporting Standard 1 (Revised), from presenting a cash flow statement as it is a wholly owned subsidiary of a group which prepares a consolidated cash flow statement.

Turnover

Turnover represents invoiced sales of goods and services including landfill tax but excluding value added tax.

Fixed assets and depreciation

Tangible fixed assets are shown at cost.

Depreciation is provided on tangible fixed assets in use at rates calculated to write off the cost less residual value of assets as follows:

Freehold and leasehold landfill sites	- over the expected life of each site
Plant and machinery	- 3 to 10 years
Motor vehicles	- 4 years

Freehold landfill sites and leasehold properties include site engineering costs which are depreciated over the expected life of each site in proportion to the rate of landfill.

Investments

Investments are stated at cost less provision for any permanent diminution in value.

Finance leases

In respect of each finance lease the cost of the asset is capitalised and the cost, less residual value of the asset, is depreciated over the term of the lease. Rentals payable are apportioned between finance charge and leasing commitment. The total finance charge is allocated to accounting periods over the term of the lease at a constant periodic rate of charge on the remaining leasing commitments for each accounting period.

All other leases are 'operating leases' and the relevant annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

Certain employees of the company are members of the Local Authority Waste Disposal (LAWDC's) Pension Scheme in which Lincwaste Limited is a participating employer. This scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.



NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 1998**

1. ACCOUNTING POLICIES (continued)

Restoration costs and post closure monitoring

The anticipated cost of final site restoration and post closure monitoring is charged to the profit and loss account over the expected useful life of the site in proportion to the rate of landfill.

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the foreseeable future, calculated at the rate at which it is estimated that tax will be payable.

2. TURNOVER

All turnover was generated in the United Kingdom from the handling, recycling and disposal of waste materials.

3. OPERATING PROFIT

	1998 £'000	1997 £'000
Operating profit is after charging:		
Auditors' remuneration:		
Audit	10	12
Other services	-	15
Depreciation and other amounts written off tangible fixed assets:		
Owned	697	633
Leased	156	102
Operating leases - land and buildings	18	20
	<u> </u>	<u> </u>

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £'000	1997 £'000
Directors' emoluments		
Remuneration	109	95
Pension contributions	38	-
Compensation for loss of office	60	-
	<u> </u>	<u> </u>
	207	95
	<u> </u>	<u> </u>

The emoluments relate solely to the qualifying services of R Adams. No other directors have received remuneration or other benefits through Lincwaste Limited during the year.

Average number of persons employed by the company in the year:

	1998 No	1997 No
Site operatives	24	22
Administration	5	5
Directors	4	4
	<u> </u>	<u> </u>
	33	31
	<u> </u>	<u> </u>


NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 1998
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

	1998 £'000	1997 £'000
Staff costs incurred during the year in respect of these employees were:		
Wages and salaries	658	620
Social security costs	46	48
Other pension costs	16	35
	<u>720</u>	<u>703</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £'000	1997 £'000
Finance charges payable in respect of finance leases and hire purchase contracts	<u>19</u>	<u>24</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £'000	1997 £'000
UK corporation tax at 31% (1997 - 31.5%) on the profit for the year on ordinary activities	1,116	1,142
Deferred taxation	(69)	1
	<u>1,047</u>	<u>1,143</u>
Under (over) provision in prior year - corporation tax	293	(26)
	<u>1,340</u>	<u>1,117</u>

The tax charge is in excess of the standard rate of 31%. A significant proportion of this excess is due to depreciation of landfill sites which is not deductible for tax purposes.

7. DIVIDENDS

	1998 £'000	1997 £'000
On equity shares		
Dividend paid of 39.3p per share (1997 - nil)	<u>2,000</u>	<u>-</u>


NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 1998
8. TANGIBLE FIXED ASSETS

	Freehold and leasehold landfill sites £'000	Plant and machinery £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 1998	8,076	1,437	82	9,595
Additions	3,424	131	95	3,650
At 31 December 1998	11,500	1,568	177	13,245
Depreciation				
At 1 January 1998	1,630	1,062	36	2,728
Charge for year	588	239	26	853
At 31 December 1998	2,218	1,301	62	3,581
Net book value				
At 31 December 1998	9,282	267	115	9,664
At 31 December 1997	6,446	375	46	6,867

Included in the total net book value of plant and machinery is £50,934 (1997 - £132,658) in respect of assets held under finance leases.

9. INVESTMENTS

The company holds a £1 share (constituting a 50% shareholding) in Energyline Limited, a dormant subsidiary company registered in England and Wales. The company has claimed exemption from preparing group accounts on the grounds that it is a subsidiary of a larger group company that prepares consolidated accounts.

10. DEBTORS

	1998 £'000	1997 £'000
Trade debtors	1,565	2,155
Amounts owed by group undertakings	1,805	2,187
Prepayments and accrued income	157	158
	3,527	4,500



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 1998

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Bank overdraft	1,575	-
Obligations under finance leases	74	113
Trade creditors	712	222
Amounts owed to parent undertaking	-	340
Amounts owed to other group undertakings	909	756
Corporation tax	1,557	956
Other taxes and social security	400	830
Other creditors	39	154
Accruals and deferred income	788	738
	<u>6,054</u>	<u>4,109</u>

The bank overdraft is secured by an unlimited debenture over all the assets of the company, the parent company and fellow subsidiaries.

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1998 £'000	1997 £'000
Obligations under finance leases	<u>16</u>	<u>77</u>

The obligations under finance leases are repayable in instalments as follows:

	1998 £'000	1997 £'000
Within one year	74	113
Between one and two years	16	72
Between two and five years	-	5
	<u>90</u>	<u>190</u>


NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 1998
13. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Post closure and monitoring provision £'000	Total £'000
At 1 January 1998	-	2,096	2,096
Transfer from profit and loss account	(69)	(448)	(517)
At 31 December 1998	(69)	1,648	1,579

As holder of the Waste Management licences the company has an obligation to restore and monitor its landfill sites post closure.

The amounts provided for deferred taxation, which represent the full potential liability, are set out below:

	1998 £'000	1997 £'000
Difference between accumulated depreciation and capital allowances	-	18
Other timing differences	(69)	(18)
	(69)	-

14. CALLED UP SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised: 6,000,000 ordinary shares of £1 each	6,000	6,000
Allotted, called up and fully paid: 5,089,900 ordinary shares of £1 each	5,090	5,090

15. CONTINGENT LIABILITIES

- a) The company has entered into unlimited cross-guarantees with its bankers relating to the borrowings of other group companies, amounting to £1,458,000 (1997 - £8,921,000) at 31 December 1998.
- b) The company is a member of a group VAT registration and as such has contingent liabilities for VAT in respect of other members of the group.

16. CAPITAL COMMITMENTS

	1998 £'000	1997 £'000
Authorised and contracted	559	209



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 1998

17. OPERATING LEASE COMMITMENTS

At 31 December 1998 the company was committed to making the following payments during the next year in respect of operating leases.

	1998		1997	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire: In the second to fifth years inclusive	<u>18</u>	<u>-</u>	<u>18</u>	<u>-</u>

18. PENSION SCHEME

Certain employees of the company are members of the LAWDC's Pension Scheme in which the company is a participating employer. The company contributes to this scheme which provides benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent actuarial report was prepared to 31 March 1997. This set out recommended contribution rates based on certain assumptions, the most significant of which related to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the differential of investment returns over salary increases would be 1.75% per annum and that present and future pensions would increase at the rate of 4.5% to 5% per annum. The market value of the scheme's assets at 31 March 1997 was £13,500,000 (£163,000 being attributable to the company), representing a funding level of 86 per cent. Contributions have been paid in accordance with the recommendations.

As recommended by the actuary, the company will make future contributions at a rate of 12.3 per cent of salaries.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The contributions under this scheme amounted to £16,000 (1997 - £35,000) during the year.

19. ULTIMATE PARENT COMPANY

The ultimate parent company of Lincwaste Limited is Waste Recycling Group plc, a company incorporated in England and Wales. Copies of group accounts of Waste Recycling Group plc are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ. The immediate controlling party is Herrington Limited.

20. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the company has traded with its ultimate parent company, Waste Recycling Group plc together with its subsidiaries. The company is exempt from disclosing details of these transactions because copies of Waste Recycling Group plc group financial statements are publicly available.