Welbeck Waste Management Limited

Directors' report and financial statements

Registered number 2736095

31 December 2003

Contents

Statutory information

Directors

JR Meredith
LJD Cassells
SN Hardman

Company secretary

A Waterhouse

Registered office

3 Sidings Court
White Rose Way
Doncaster
DN4 5NU

Auditors

KPMG LLP
1 Puddle Dock
London
EC4V 3PD

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of the company during the year were the disposal of domestic and commercial waste.

Review of business and future developments

Both the level of business and the year-end financial position were satisfactory, and the directors expect that the company will continue to trade profitably in the forthcoming financial year.

Developments in the year

On 29 July 2003, the company's ultimate parent company and controlling party changed as a result of the acquisition of the entire issued share capital of Waste Recycling Group plc by Cholet acquisitions Limited. The directors now consider that Terra Firma Capital Partners Holdings Limited is the company's ultimate controlling party and ultimate parent entity.

Dividends and transfers to reserves

The profit after taxation for the year amounted to £20,000 *(2002: £142,000)*. The directors do not propose the payment of a dividend *(2002: £nil)* and thus £20,000 *(2002: £142,000)* has been transferred to reserves.

Directors and their interests

The directors who held office during the year and since the year end were as follows:

KA Bird	(resigned 31 July 2003)
HC Etheridge	(resigned 31 July 2003)
NDA Sandy	(resigned 31 July 2003)
PA Tomes	(resigned 31 July 2003)
RS Tomlinson	(resigned 31 July 2003)
PW Burns	(appointed 31 July 2003, resigned 30 September 2003)
QR Stewart	(appointed 31 July 2003, resigned 30 September 2003)
R Prior	(appointed 8 September 2003, resigned 15 January 2004)
JR Meredith	(appointed 8 September 2003)
LJD Cassells	(appointed 15 January 2004)
SN Hardman	(appointed 16 August 2004)

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

Charitable and political donations

The company did not make any charitable or political donations in either the current or previous financial year.

During the year the company has contributed £1,006,000 *(2002: £1,134,000)* of its landfill tax liability to approved environmental bodies, as permitted by government regulations.

Auditors

On 31 July 2003, Deloitte & Touche resigned as auditor to the company. On 31 July 2003 KPMG LLP were appointed by the directors in their place to fill the casual vacancy.

By order of the board

A Waterhouse
Company Secretary

25 October 2004

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

kpmg

KPMG LLP
1 Puddle Dock
London
EC4V 3PD
United Kingdom

Report of the independent auditors to the members of Welbeck Waste Management Limited

We have audited the financial statements on pages 5 to 15.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3., the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

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 the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

26 October 2004

Profit and loss account

year ended 31 December 2003

	Note	2003 £000	2002 £000
Turnover	2	**11,139**	12,017
Cost of sales		**(9,737)**	(10,344)
Gross profit		**1,402**	1,673
Administrative expenses		**(774)**	(530)
Operating Profit		**628**	1,143
Loss on disposal of tangible fixed assets		**(1,390)**	-
Interest payable and similar charges	5	**(90)**	(129)
(Loss)/Profit on ordinary activities before taxation	3	**(852)**	1,014
Tax on (loss)/profit on ordinary activities	6	**872**	(872)
Retained profit for the financial year		**20**	142
Retained profit brought forward		**1,178**	1,036
Retained profit carried forward		**1,198**	1,178

All results are derived from continuing operations.

There are no recognised gains and losses in either the current or previous financial year other than as stated in the profit and loss account. Therefore, no separate statement of total recognised gains and losses has been presented.

There are no movements in shareholders' funds in either the current or previous financial year other than the retained profit shown above. Accordingly, no reconciliation of movements in shareholders' funds is presented.

Balance sheet
at 31 December 2003

	Note	2003 £000	2002 £000
Fixed assets			
Tangible assets	7	9,131	12,432
Current assets			
Debtors: amounts due within one year	8	826	-
Debtors: amounts due after more than one year	9	385	2,420
		1,211	2,420
Creditors: amounts falling due within one year	10	(5,895)	(7,251)
Net current liabilities		(4,684)	(4,831)
Total assets less current liabilities		4,447	7,601
Creditors: amounts falling due after more than one year	11	(2,430)	(2,430)
Provisions for liabilities and charges	12	(819)	(3,993)
Net assets		1,198	1,178
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account		1,198	1,178
Total shareholders' funds		1,198	1,178
Analysed as:			
Equity shareholders' funds		1,198	1,178
Non-equity shareholders' funds		-	-
		1,198	1,178

These financial statements were approved by the board of directors on 25 October 2004 and were signed on its behalf by:

LJD Cassells
Director

Notes

(forming part of the financial statements)

1 Accounting policies

These financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies applied consistently in relation to items which are considered material to the company's financial statements are described below. The company has followed the transitional arrangements of FRS17 'Retirement Benefits' in these financial statements.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

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 has prepared a consolidated cash flow statement.

Related party transactions

As the company is a wholly owned subsidiary of Cholet Holdings Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities that form part of the group. The consolidated financial statements of Cholet Holdings Limited, within which this company is included, can be obtained from the address given in note 18.

Turnover

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

Goodwill

Purchased goodwill, representing the excess of purchase price over the fair value of the assets acquired, is capitalised and is being written off on a straight-line basis over its estimated useful life up to a maximum of 20 years. The Directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill.

As a matter of accounting policy, goodwill arising on acquisitions prior to the implementation of FRS10 'Goodwill and Intangible Assets' has been eliminated against reserves. Amounts will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates.

Tangible fixed assets

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

Freehold buildings	- over 25 to 50 years
Landfill sites	- based on the void used in the period as a proportion of total void
Leasehold properties and licence agreements	- over the expected life
Leased assets	- over the term of the lease
Plant and equipment	- over 3 to 20 years
Motor vehicles	- over 4 years

No depreciation is provided for on freehold land.

Expenditure on freehold landfill sites and leasehold properties includes engineering costs. Elements of these costs are classified according to their expected economic life and depreciated accordingly in proportion to the rate that waste is deposited. All other assets are depreciated on a straight-line basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Post Retirement Benefits

The company participates in two pension schemes providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Restoration and after-care costs

Full provision has been made for the net present value (NPV) of the company's minimum unavoidable costs, in respect of restoration liabilities at the company's landfill sites, which has been capitalised in fixed assets. The company continues to provide for all aftercare costs over the life of its landfill sites, based on the volumes of waste deposited in the year, since liabilities in relation to these costs increase as waste is deposited.

All long term provisions for restoration and aftercare costs are calculated based on the NPV of estimated future costs. Current cost estimates are inflated at 2.5 per cent and discounted at 5 per cent to calculate the NPV. The effects of the unwinding of the discount element on existing provisions are reflected as a financial item.

Leases

Operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised with discounting in respect of all timing differences between the treatment of certain items of taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

2 Turnover

All turnover was generated in the United Kingdom principally from receiving, treating, recycling and disposing of waste materials which the directors consider to be a single business segment.

Notes *(continued)*

3 Operating profit

	2003 £000	2002 £000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting) exceptional items:		
Included in cost of sales		
- Decrease in restoration and aftercare provisions on revision of estimation basis	(2,396)	-
- Impairment of tangible fixed assets	2,077	-

	2003 £000	2002 £000
(Loss)/profit on ordinary activities is stated after charging:		
Depreciation – owned assets	1,524	1,127
Impairment of tangible fixed assets	2,077	-
Operating lease rentals – hired plant and machinery	169	114

Auditors' remuneration in respect of audit fees has been met by the company's parent undertaking.

4 Information regarding directors and employees

None of the directors received any remuneration or benefits from the company during the year. They are remunerated as directors or employees of the company's parent company, Waste Recycling Group Limited.

	2003 £000	2002 £000
Wages and salaries	276	292
Social security costs	26	24
Other pension costs	12	13
	314	329
	No.	No.
The average weekly number of employees (excluding directors) during the year was:	13	12

5 Interest payable and similar charges

	2003 £000	2002 £000
Unwinding of discount (note 12)	90	129

Notes *(continued)*

6 Taxation

	2003 £000	2002 £000
UK Corporation tax		
United Kingdom corporation tax at 30% *(2002: 30%)* based on (loss)/profits for the year	-	400
Adjustments relating to prior years	(400)	-
Total current tax (credit)/charge	(400)	400
Deferred tax (note 12)		
Timing differences, origination and reversal	(472)	472
Tax on profit on ordinary activities	(872)	872

The total current tax charge for the current year is greater than *(2002: greater than)* the standard rate of 30% for the reasons set out in the following reconciliation:

	2003 £000	2002 £000
(Loss)/profit on ordinary activities before tax	(852)	1,014
Tax on (loss)/profit on ordinary activities at standard rate	(256)	304
Factors affecting charge:		
Expenses not deductible for tax purposes	1,388	282
Group loss relief claimed/surrendered	(929)	-
Capital allowances in excess of depreciation	112	16
Utilisation of general provisions	(7)	7
Site preparation relief	(308)	(209)
Adjustments relating to prior years	(400)	-
	(400)	400

Notes *(continued)*

7 Tangible fixed assets

	Landfill Sites £000	Other Freehold properties £000	Plant and machinery £000	Motor Vehicles £000	Total £000
Cost					
At 1 January 2003	15,187	-	829	-	16,016
Additions	1,694	-	92	-	1,786
Disposals	(1,645)	-	-	-	(1,645)
Transfers between group companies/reclassification	(2,573)	2,572	2	6	7
At 31 December 2003	12,663	2,572	923	6	16,164
Depreciation					
At 1 January 2003	3,215	-	369	-	3,584
Charge for the year	1,149	91	284	-	1,524
Impairment	-	2,077	-	-	2,077
Disposals	(255)	-	(2)	2	(255)
Transfers between group companies/reclassification	-	-	99	4	103
At 31 December 2003	4,109	2,168	750	6	7,033
Net book value					
At 31 December 2003	8,554	404	173	-	9,131
At 31 December 2002	11,972	-	460	-	12,432

8 Debtors: amounts due within one year

	2003 £000	2002 £000
Amounts due from group companies	**826**	-
	826	-

9 Debtors: amounts due after more than one year

	2003 £000	2002 £000
Prepayments and accrued income	**385**	2,420

Notes *(continued)*

10 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Amounts owed to parent undertaking	**353**	353
Amounts owed to fellow subsidiary undertakings	**5,542**	6,498
Corporation tax	**-**	400
	5,895	7,251

11 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Maturities		
Repayable and maturing after five years:		
Unsecured 'C' Loan notes (2006/2009)	**1,930**	1,930
Unsecured 'D' Loan notes (2009)	**500**	500
	2,430	2,430

The loan notes above were created upon acquisition of the company on 18 November 1998.

The 'C' loan notes represent "Index Linked Unsecured Loan Notes 2006/2009" and the 'D' loan notes represent "Offsetable Index Linked Unsecured Loan Notes 2009".

The loan notes bear interest at a combination of rates related to the Retail Price Index and other indices.

12 Provisions for liabilities and charges

	Deferred taxation £000	Other £000	Landfill restoration £000	Landfill aftercare £000	Total £000
Landfill and other provisions					
At 1 January 2003	472	764	2,443	314	**3,993**
(Credited)/charged to profit and loss account following a revision of estimation basis	-	(755)	(2,131)	(265)	**(3,151)**
(Credited)/charged in profit and loss account	(472)	22	-	54	**(396)**
Provided in year	-	322	-	-	**322**
Unwinding of discount (note 5)	-	-	79	11	**90**
Expenditure in the year	-	(31)	(8)	-	**(39)**
At 31 December 2003	**-**	**322**	**383**	**114**	**819**

Notes *(continued)*

12 Provisions for liabilities and charges *(continued)*

The company provides for the estimated cost of restoring its landfill sites at the end of their operational life and for their subsequent after-care. The after-care period is generally expected to be 30 years. All provisions are discounted from the date on which the expenditure is expected to occur.

Deferred taxation

	Provided		Unprovided	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Capital allowances in excess of depreciation	**(85)**	(36)	**(14)**	-
Short term timing differences	**85**	508	**(97)**	(229)
	-	472	**(111)**	(229)

The company had unprovided deferred tax assets in the previous financial year as there was insufficient certainty as to whether events would materialise to crystallise the deferred tax.

13 Called up share capital

	2003	2002
	£	£
Authorised		
19 'A' ordinary shares of £0.01 each	**-**	-
81 'B' ordinary shares of £0.01 each	**1**	1
1,001 'C' ordinary shares of £1 each	**1,102**	1,102
	1,103	1,103
Called up, allotted and fully paid		
19 'A' ordinary shares of £0.01 each	**-**	-
81 'B' ordinary shares of £0.01 each	**1**	1
102 'C' ordinary shares of £1 each	**102**	102
	103	103
Analysed as:		
Equity shares	**102**	102
Non-equity shares	**1**	1
	103	103

Notes *(continued)*

13 Called up share capital *(continued)*

The various rights attaching to the different classifications of shares are as follows:

Voting rights

The 'A' ordinary and 'B' ordinary shares carry 100% of the voting rights including the right to appoint directors. There are no voting rights attached to the 'C' ordinary shares in any circumstances.

Rights to receive distributions

Neither the 'A' nor 'B' ordinary shares confer any right to receive any dividend or any other distribution from the company. These shares are therefore classified as non-equity shares. The 'C' shares confer all rights to receive dividends and other distributions and are therefore classified as equity shares.

Rights in the event of a winding up

In the event of a winding up of the company, the 'A' and 'B' shareholders have priority over the other shareholders up to the nominal amounts paid up on their shares. The 'C' shareholders are then entitled to receive an amount equal to their proportion of the nominal amounts paid up from the remaining assets of the company.

14 Pension contributions

The company participates in the defined contribution schemes operated by Waste Recycling Group Limited on behalf of its eligible employees. The assets of these schemes are held separately from those of the company in independently administered funds.

Certain employees of the company are members of the LAWDC's Pension Scheme in which Waste Recycling Group Limited is a participating employer. This is a defined benefit multi-employer scheme, the assets of which are held independently of the group. The company is unable to identify its share of the underlying assets and liabilities of the scheme. Further details regarding the scheme are provided in the financial statements of Waste Recycling Group Limited.

Contributions to the scheme for the period are stated below and the agreed contribution rate commencing from 1 January 2003 is 16%.

An actuarial valuation of the scheme at 31 March 2000 indicated that the scheme was 106% funded based upon the minimum funding requirement basis. At 31 December 2003 the deficit on the group section of the scheme, calculated on an FRS 17 basis, was £4,946,000 *(2002: £5,620,000)*. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The contributions made by the company under the different schemes during the year were as follows:

	2003	2002
	£000	£000
Defined contribution schemes	**1**	1
LAWDC pension scheme	**11**	12
	12	13

15 Capital commitments

	2003	2002
	£000	£000
Commitments on capital contracts placed at 31 December	**-**	13

Notes *(continued)*

16 Contingent liabilities

a) The company has entered into unlimited cross-guarantees with its bankers relating to the borrowings of other group companies.

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.

17 Related party transactions

During the year the company provided waste disposal services to Wakefield Metropolitan District Council, which is a related party by virtue of its 19% holding of the 'C' ordinary non-equity voting shares. Details of the transactions are as follows:

	2003	2002
	£000	£000
Waste disposal services included in turnover	-	4,083
Amounts due from related party at end of year	-	349

No amounts were written off in the year in respect of debts due from related parties and there are no provisions for doubtful debts in respect of the amounts due at the year-end.

In the ordinary course of business, the company has also traded with fellow subsidiaries of Cholet Holdings Limited. The company has taken advantage of the exemption conferred by FRS8 from disclosing details of these transactions.

18 Ultimate parent company

The company's immediate parent company is Waste Recycling Group Limited, a company which is registered in England and Wales.

The directors regard Terra Firma Capital Partners Holdings Limited, a company registered in Guernsey, as the ultimate controlling party and the ultimate parent entity.

Cholet Holdings Limited is the parent company of the largest group of which the company is a member and for which group accounts are drawn up. Copies of Cholet Holdings Limited financial statements are available from 3 Sidings Court, White Rose Way, Doncaster, DN4 5NU.