ARTHUR ANDERSEN

Severn Waste Services Limited
(formerly Shuttlebeam Limited)

Accounts for the period from incorporation to
31 December 1999
together with directors' and auditors' report

Registered number: 3618688

Directors' report

For the period ended 31 December 1999

The directors present their first annual report on the affairs of the group, together with the accounts and auditors' report, for the period from incorporation to 31 December 1999.

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.

Incorporation and change of name

The company was incorporated on 20 August 1998 and changed its name to Severn Waste Services Limited on 21 October 1998.

Business review and principal activities

During the period, Mercia Waste Management Limited ("Mercia"), a fellow associated undertaking of the company, appointed the company to operate all of Mercia's planned and existing waste management installations under the terms of an Operating and Maintenance Agreement. The company is responsible for performing the obligations of Mercia within the operating budget agreed by Mercia for a management fee. In addition, the agreed operating budget is the basis of the allowable reimbursable operating costs that the company receives from Mercia.

During the period, Mercia also appointed the company, via a Construction Management Agreement, to co-ordinate the development (including the design, construction or refurbishment and operation) of Mercia's pre-sorted materials reclamation facilities, a mixed waste materials reclamation facility, new and existing transfer stations, household waste sites, compost plants and a waste to energy plant.

On 23 December 1998, the employees of Mercia's subsidiary undertaking, Beacon Waste Limited, were transferred to the company.

Business review and principal activities (continued)

After invoicing its operating costs to Mercia under the agreement above, the company's net interest receivable of £21,362 represented its profit before taxation.

Results and dividends

The directors do not propose a dividend and consequently the profit for the financial period of £14,597 has been transferred to reserves.

Directors and their interests

The directors who served during the period were as follows:

FOCSA Services (UK) Limited	(appointed 20 October 1998)
Urbaser S.A. (Spain)	(appointed 13 November 1998)
P.J. Charlton	(appointed 20 August 1998, resigned 20 October 1998)
M.E. Richards	(appointed 20 August 1998, resigned 20 October 1998)

There are no interests required to be disclosed by Schedule 7 of the Companies Act 1985.

Auditors

During the period the directors appointed Arthur Andersen as the company's first auditors. The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

T. Nuñez
For and on behalf of FOCSA Services (UK) Limited
Director

Brook House
Oldham Road
Middleton
Manchester
M24 1AY

2 October 2000

ARTHUR ANDERSEN

To the Shareholders of Severn Waste Services Limited:

We have audited the accounts on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the accounts 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.

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 and the group, 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 1999 and of the company's profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

2 October 2000

Profit and loss account

For the period ended 31 December 1999

	Notes	1999 £
Turnover	2	8,488,587
Cost of sales		(7,697,611)
Gross profit		790,976
Administrative expenses		(790,976)
Operating result		-
Interest receivable and similar income		21,597
Interest payable and similar charges	3	(235)
Profit on ordinary activities before taxation		21,362
Tax on profit on ordinary activities	6	(6,765)
Retained profit for the period	11	14,597

All activity has arisen from continuing operations.

The company has no recognised gains or losses other than the profit for the financial period.

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

Balance sheet

31 December 1999

	Notes	1999 £
Current assets		
Stock	7	9,749
Debtors	8	1,336,923
Cash at bank and in hand		921,287
		2,267,959
Creditors: Amounts falling due within one year	9	(2,003,362)
Net current assets and net assets		264,597
Capital and reserves		
Called-up share capital	10	250,000
Profit and loss account	11	14,597
Equity shareholders' funds		264,597

Signed on behalf of the Board of Directors by:

T. Nuñez
For and on behalf of FOCSA Services (UK) Limited
Director

2 October 2000

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

Cash flow statement

For the period ended 31 December 1999

	Notes	1999 £
Net cash inflow from operating activities	13	149,925
Returns on investments and servicing of finance	14	21,362
Cash inflow before financing		171,287
Financing	14	750,000
Increase in cash in the year	15	921,287

The accompanying notes are an integral part of this cash flow statement.

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

a) Basis of accounting

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

b) Stocks

Stock is valued at the lower of cost and net realisable value.

c) Turnover

Turnover represents amounts receivable for services provided in then normal course of business net of VAT.

d) Taxation

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

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

e) Pension costs and other post-retirement benefits

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

f) Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such as basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

2 Turnover

All turnover was within the UK to the company's fellow associated undertaking, Mercia Waste Management Limited.

3 Interest payable and similar charges

	1999
	£
Bank loans and overdrafts	235

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999
	£
Auditors' remuneration	
- audit fees	6,000
- other	485
Operating lease rentals	
- land and buildings	15,774
- plant and machinery	568,849

5 Staff costs and directors' remuneration

The average monthly number of employees was as follows:

	1999
	Number
Technical and administrative	23
Operational	83
	106

	1999
	£
Their aggregate remuneration comprised:	
Wages and salaries	1,689,497
Social security costs	141,808
Pension costs	62,952
	1,894,257

The directors received no remuneration from the company during the period.

6 Tax on profit on ordinary activities

The tax charge comprises:

	1999 £
Corporation tax at 31%	6,765

7 Stock

	1999 £
Raw materials and consumables	9,749

8 Debtors

	1999 £
Amounts falling due within one year:	
Amounts owed by fellow associated company	893,167
Other debtors	31,824
Prepayments and accrued income	411,932
	1,336,923

9 Creditors: Amounts falling due within one year

	1999 £
Trade creditors	985,458
Loans owed to joint venture shareholders	500,000
Amounts owed to joint venture shareholders	61,310
Taxation and social security	137,443
Corporation tax	6,765
Other creditors	65,396
Accruals and deferred income	246,990
	2,003,362

10 Called-up share capital

	1998 £
Authorised	
250,000 ordinary shares of £1 each	250,000
Allotted, called-up and fully-paid	
250,000 ordinary shares of £1 each	250,000

At incorporation, 2 ordinary shares of £1 each were issued as the company's initial share capital. On 16 December 1998, a further 249,998 ordinary shares of £1 each were issued to provide further working capital.

11 Profit and loss account

	£
At incorporation	-
Retained profit for the period	14,597
At 31 December 1999	14,597

12 Reconciliation of movements in shareholders' funds

	Period ended 31 December 1999 £
Opening shareholders' funds	-
Profit for the financial period	14,597
New shares issued	250,000
Closing shareholders' funds	264,597

13 Reconciliation of operating result to operating cash flows

	Period ended 31 December 1999 £
Operating result	-
Increase in stocks	(9,749)
Decrease in debtors	(1,336,923)
Increase in creditors	1,496,597
Net cash inflow from operating activities	149,925

14 Analysis of cash flows

Returns on investments and servicing of finance

	Period ended 31 December 1999 £
Interest received	21,597
Interest paid	(235)
Net cash inflow	21,362

Financing

Issue of ordinary share capital	250,000
New joint venture shareholders' loans	749,950
Repayment of joint venture shareholders' loans	(249,950)
Net cash inflow	750,000

15 Analysis and reconciliation of net funds

	At incorporation £	Cash flow £	31 December 1999 £
Cash in hand, at bank	-	921,287	921,287
Debt due within one year	-	(500,000)	(500,000)
Net funds	-	421,287	421,287

	Period ended 31 December 1999 £
Increase in cash in the year	921,287
Cash inflow from increase in debt and lease financing	(500,000)
Movement in net funds in year	421,287
Net funds at incorporation	-
Net funds at 31 December 1999	421,287

16 Financial commitments

Commitments under non-cancellable operating leases are as follows:

	Land and buildings 1999 £	Other 1999 £
In less than one year	15,769	29,465
Within one to two years	-	29,346
Within two to five years	-	134
More than five years	50	-
	15,819	58,945

17 Pension arrangements

The company provides pension arrangements to the majority of full-time employees through participating in a defined benefit scheme of which the principal employer is FOCSA Services (UK) Limited, for which the cost for the period was £30,686, and by making contributions to employees' personal pension plans under a grouped personal pension scheme arrangement with Prudential, for which the cost for the period was £32,265. Details of the defined benefit scheme are found in the accounts of FOCSA Services (UK) Limited.

18 Ultimate controlling party

There is no ultimate controlling party as the company is jointly owned by FOCSA Services (UK) Limited and Urbaser SA.

19 Related party transactions

Trading transactions

During the period, Mercia Waste Management Limited ("Mercia"), a fellow associated undertaking of the company, appointed the company to operate all of Mercia's planned and existing waste management installations under the terms of an Operating and Maintenance Agreement. The company is responsible for performing the obligations of Mercia within the operating budget agreed by Mercia and received a fee of £354,200 for this in the period. In addition, the company received reimbursable operating costs of £8,017,805 from Mercia.

During the period, Mercia also appointed the company, via a Construction Management Agreement, to co-ordinate the development (including the design, construction or refurbishment and operation) of Mercia's pre-sorted materials reclamation facilities, a mixed waste material reclamation facility, new and existing transfer stations, household waste sites, compost plants and a waste to energy plant. The company generated turnover of £116,582 from this source in the period. The trading balance due from Mercia at 31 December 1999 was £893,167.

During the period, the company was charged management fees by FOCSA Services (UK) Limited of £235,391 and made purchases from that company of £6,301. The amount outstanding at 31 December 1999 was £316.

19 Related party transactions (continued)

Trading transactions (continued)

During the period, the company was charged management fees by Urbaser SA of £235,391. The balance outstanding at 31 December 1999 was £60,944.

On 23 December 1998, the group's employees were transferred to the company by Mercia's subsidiary undertaking, Beacon Waste Limited.

During the period, Beacon Waste Limited transferred operating leases to the company with an annual commitment of £136,623.

Financing transactions

During the period the company signed loan agreements with each of its joint venture shareholders. The facilities, advances, repayments, interest, related balances, and the applicable interest rates are as follows:

	FOCSA Services (UK) Limited £	Urbaser SA £	Total £
Facility	375,000	375,000	750,000
Balance at incorporation	-	-	-
Advances	375,000	374,950	749,940
Repayments	(125,000)	(124,950)	(249,950)
Balance at 31 December 1999	250,000	250,000	500,000
Interest rate	LIBOR plus 1% p.a.	LIBOR plus 1% p.a.	

The loans are to be repaid on 21 December 2000. The joint venture shareholders waived their rights to receive interest for the period ended 31 December 1999.

20 Comparative figures

This is the company's first set of accounts since incorporation and consequently there are no comparative figures.