ANDERSEN

Severn Waste Services Limited

Annual report and financial statements
for the year ended 31 December 2001

Registered number: 3618688

Directors' report

For the year ended 31 December 2001

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2001.

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 year. 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; and
- 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 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.

Business review and principal activities

The company operates all of the planned and existing waste management installations of Mercia Waste Management Limited ("Mercia"), a fellow associated undertaking of the company, 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.

The company, via a Construction Management Agreement, co-ordinates 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.

Results and dividends

The audited financial statements for the year ended 31 December 2001 are set out on pages 5 to 13. The loss for the year after taxation was £65,868 (2000 - profit of £11,186).

No dividend can be paid (2000 - £nil).

Directors and their interests

The directors who served during the year were as follows:

FOCSA Services (UK) Limited	
Urbaser S.A. (Spain)	(resigned 26 July 2001)
Urbaser Limited	(appointed 26 July 2001)

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

On 26 July 2001, Urbaser S.A. transferred its interest in the ordinary share capital of the company to Urbaser Limited, a company incorporated in England and Wales.

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,

L. De La Parte
For and on behalf of Urbaser Limited
Director

106 High Street
Evesham
Worcestershire
WR11 4EL

29 April 2002

ANDERSEN

To the shareholders of Severn Waste Services Limited:

We have audited the financial statements of Severn Waste Services Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes numbered 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom 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.

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.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 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 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 December 2001 and of the company's loss for the year 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

29 April 2002

Profit and loss account

For the year ended 31 December 2001

	Notes	2001 £	2000 £
Turnover	1	8,759,684	8,433,667
Cost of sales		(7,846,116)	(7,572,004)
Gross profit		913,568	861,663
Administrative expenses		(983,650)	(861,663)
Operating loss		(70,082)	-
Interest receivable and similar income		4,714	20,794
Interest payable and similar charges	2	-	(148)
(Loss) profit on ordinary activities before taxation	3	(65,368)	20,646
Tax on (loss) profit on ordinary activities	5	(500)	(9,460)
Retained (loss) profit for the financial year	10	(65,868)	11,186

All activity has arisen from continuing operations.

The company has no recognised gains or losses in either year other than the (loss) profit for that year.

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

Balance sheet

31 December 2001

	Notes	2001 £	2000 £
Current assets			
Stocks	6	6,294	7,134
Debtors	7	1,107,986	1,016,820
Cash at bank and in hand		71,763	291,665
		1,186,043	1,315,619
Creditors: Amounts falling due within one year	8	(976,128)	(1,039,836)
Net assets		209,915	275,783
Capital and reserves			
Called-up share capital	9	250,000	250,000
Profit and loss account	10	(40,085)	25,783
Equity shareholders' funds	11	209,915	275,783

The financial statements on pages 5 to 13 were approved by the board on 29 April 2002 and signed on its behalf by:

L. De La Parte
For and on behalf of Urbaser Limited
Director

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

Cash flow statement

For the year ended 31 December 2001

	Notes	2001 £	2000 £
Net cash outflow from operating activities	12	(207,054)	(143,503)
Returns on investments and servicing of finance	13	5,589	20,646
Taxation paid		(18,437)	(6,765)
Cash outflow before financing		(219,902)	(129,622)
Financing	13	-	(500,000)
Decrease in cash in the year	14	(219,902)	(629,622)

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

Statement of accounting policies

31 December 2001

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year and preceding year.

Basis of accounting

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

Stocks

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

Turnover

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

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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.

Pension costs and other post-retirement benefits

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.

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 a 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.

1 Turnover

All turnover was derived within the UK to the company's fellow associated undertaking, Mercia Waste Management Limited (see note 18).

2 Interest payable and similar charges

	2001 £	2000 £
Bank loans and overdrafts	-	148

3 (Loss) profit on ordinary activities before taxation

(Loss) profit on ordinary activities before taxation is stated after charging:

	2001 £	2000 £
Auditors' remuneration for audit services	6,000	6,000
Operating lease rentals		
- plant and machinery	167,205	444,964
- other	34,357	26,481

4 Staff costs and directors' remuneration

The average monthly number of employees was as follows:

	2001 Number	2000 Number
Technical and administrative	23	23
Operational	100	86
	123	109

	2001 £	2000 £
Their aggregate remuneration comprised:		
Wages and salaries	2,045,448	1,726,093
Social security costs	180,782	163,140
Pension costs (note 16)	73,492	65,862
	2,299,722	1,955,095

The directors received no remuneration from the company for their services during the current or preceding year.

5 Tax on (loss) profit on ordinary activities

The tax charge comprises:

	2001 £	2000 £
UK corporation tax	500	9,460

The tax charge arises because of certain non-tax deductible expenses.

6 Stocks

	2001 £	2000 £
Raw materials and consumables	6,294	7,134

There is no material difference between the replacement cost and balance sheet value.

7 Debtors

	2001 £	2000 £
Amounts falling due within one year:		
Amounts owed by fellow associated company	823,238	760,482
Corporation tax recoverable	8,477	-
Other debtors	81,785	20,146
Prepayments and accrued income	194,486	236,192
	1,107,986	1,016,820

8 Creditors: Amounts falling due within one year

	2001 £	2000 £
Trade creditors	312,624	488,406
Amounts owed to joint venture shareholders	34,734	1,271
Corporation tax	-	9,460
Taxation and social security	57,389	129,396
VAT payable	76,332	-
Other creditors	98,371	67,137
Accruals and deferred income	396,678	344,166
	976,128	1,039,836

9 Called-up share capital

	2001	2000
	£	£
Authorised		
250,000 ordinary shares of £1 each	250,000	250,000
Allotted, called-up and fully paid		
250,000 ordinary shares of £1 each	250,000	250,000

10 Reserves

	Profit and loss account
	£
At 1 January 2001	25,783
Loss for the financial year	(65,868)
At 31 December 2001	(40,085)

11 Reconciliation of movements in shareholders' funds

	2001	2000
	£	£
(Loss) profit for the financial year	(65,868)	11,186
Opening shareholders' funds	275,783	264,597
Closing shareholders' funds	209,915	275,783

12 Reconciliation of operating loss to operating cash flows

	2001	2000
	£	£
Operating loss	(70,082)	-
Decrease in stocks	840	2,615
(Increase) decrease in debtors	(83,564)	320,103
Decrease in creditors	(54,248)	(466,221)
Net cash outflow from operating activities	(207,054)	(143,503)

13 Analysis of cash flows

Returns on investments and servicing of finance

	2001 £	2000 £
Interest received	5,589	20,794
Interest paid	-	(148)
Net cash inflow	5,589	20,646

Financing

	2001 £	2000 £
Repayment of joint venture shareholders' loans	-	(500,000)

14 Analysis and reconciliation of net funds

	2000 £	Cash flow £	2001 £
Cash in hand, at bank	291,665	(219,902)	71,763
Net funds	291,665	(219,902)	71,763

	2001 £	2000 £
Decrease in cash in the year	(219,902)	(629,622)
Cash outflow from decrease in debt and lease financing	-	500,000
Movement in net funds in the year	(219,902)	(129,622)
Net funds at beginning of the year	291,665	421,287
Net funds at end of the year	71,763	291,665

15 Financial commitments

Commitments under non-cancellable operating leases are as follows:

	2001		2000	
	Land and buildings £	Other £	Land and buildings £	Other £
In less than one year	-	4,695	22,760	4,248
Within one to two years	13,500	-	-	-
Within two to five years	9,260	-	-	-
More than five years	7,850	-	7,822	-
	30,610	4,695	30,582	4,248

16 Pension arrangements

The company provides the following pension arrangements:

A defined benefit scheme which is closed to new members of the company. The principal employer of the scheme is FOCSA Services (UK) Limited. The cost of the scheme was £32,578 (2000 - £31,535). The contributions have been accounted for as for a defined contribution scheme.

A grouped personal pension scheme arrangement where the company makes contributions to certain employees' personal pension plans held with Prudential Assurance. The cost of the scheme was £40,914 (2000 - £34,327).

Details of the defined benefit scheme are found in the financial statements of FOCSA Services (UK) Limited.

17 Ultimate controlling party

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

18 Related party transactions

Trading transactions

In 1999, 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 £8,437,682 for this in the year (2000 - £8,092,156).

Mercia also previously 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 £287,339 from this source in the year (2000 - £156,000).

The company also recharged other operating expenses totalling £34,663 (2000 - £185,511) to Mercia.

The trading balance due from Mercia was £823,238 (2000 - £760,482).

The company was charged management fees by FOCSA Services (UK) Limited of £488,685 (2000 - £255,096), made purchases from that company of £4,395 (2000 - £3,627) and made sales to that company of £nil (2000 - £1,422). The amount owed by the company to FOCSA Services (UK) Limited was £17,367 (2000 - £nil).

The company was charged management fees by Urbaser Limited of £488,685 (2000 - £255,096), made sales to that company of £nil (2000 - £1,262). The balance outstanding was £17,367 (2000 - £1,271).

Both of the above management fees were recharged to Mercia as part of the Operating and Maintenance Agreement and are included in the fee received in the current and prior year.

On 26 July 2001, Urbaser S.A. transferred its interest in the ordinary share capital of the company to Urbaser Limited, a company incorporated in England and Wales.