ARTHUR ANDERSEN

Severn Waste Services Limited

Accounts 31 December 2000
together with directors' and auditors' report

Registered number: 3618688

Directors' report

For the year ended 31 December 2000

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 December 2000.

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 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.

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.

After invoicing its operating costs to Mercia under the agreement above, the company's net interest receivable of £20,646 (1999 - £21,362) represented its profit before taxation.

Results and dividends

The directors do not propose a dividend and consequently the profit for the financial year of £11,186 (1999 - £14,597) has been transferred to reserves.

Directors and their interests

The directors who served during the year were as follows:

FOCSA Services (UK) Limited
Urbaser S.A. (Spain)

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

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

30 March 2001

ARTHUR ANDERSEN

To the Shareholders of Severn Waste Services Limited:

We have audited the accounts on pages 4 to 14 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 2000 and of the company's profit and cash flows 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

30 March 2001

Profit and loss account

For the year ended 31 December 2000

	Notes	2000 £	Period ended 31 December 1999 £
Turnover	2	8,433,667	8,488,587
Cost of sales		(7,572,004)	(7,697,611)
Gross profit		861,663	790,976
Administrative expenses		(861,663)	(790,976)
Operating result		-	-
Interest receivable and similar income		20,794	21,597
Interest payable and similar charges	3	(148)	(235)
Profit on ordinary activities before taxation	4	20,646	21,362
Tax on profit on ordinary activities	6	(9,460)	(6,765)
Retained profit for the period	11	11,186	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.

The comparative period covers the point from incorporation, 20 August 1998, to 31 December 1999.

Balance sheet

31 December 2000

	Notes	2000 £	1999 £
Current assets			
Stock	7	7,134	9,749
Debtors	8	1,016,820	1,336,923
Cash at bank and in hand		291,665	921,287
		1,315,619	2,267,959
Creditors: Amounts falling due within one year	9	(1,039,836)	(2,003,362)
Net current assets and net assets		275,783	264,597
Capital and reserves			
Called-up share capital	10	250,000	250,000
Profit and loss account	11	25,783	14,597
Equity shareholders' funds		275,783	264,597

Signed on behalf of the Board of Directors by:

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

30 March 2001

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

Cash flow statement

For the year ended 31 December 2000

	Notes	2000 £	Period ended 31 December 1999 £
Net cash (outflow) inflow from operating activities	13	(143,503)	149,925
Returns on investments and servicing of finance	14	20,646	21,362
Taxation paid		(6,765)	-
Cash (outflow) inflow before financing		(129,622)	171,287
Financing	14	(500,000)	750,000
(Decrease) increase in cash in the period	15	(629,622)	921,287

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

The comparative period covers the point from incorporation, 20 August 1998, to 31 December 1999.

1 Accounting policies

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

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

	2000 £	Period ended 31 December 1999 £
Bank loans and overdrafts	148	235

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2000 £	Period ended 31 December 1999 £
Auditors' remuneration		
- audit fees	6,000	6,000
- other	3,000	485
Operating lease rentals		
- land and buildings	26,481	15,774
- plant and machinery	444,964	568,849

5 Staff costs and directors' remuneration

The average monthly number of employees was as follows:

	2000 Number	Period ended 31 December 1999 Number
Technical and administrative	23	23
Operational	86	83
	109	106

5 Staff costs and directors' remuneration (continued)

	2000 £	Period ended 31 December 1999 £
Their aggregate remuneration comprised:		
Wages and salaries	1,726,093	1,689,497
Social security costs	163,140	141,808
Pension costs	65,862	62,952
	1,955,095	1,894,257

The directors received no remuneration from the company during the current year or preceding period.

6 Tax on profit on ordinary activities

The tax charge comprises:

	2000 £	Period ended 31 December 1999 £
Corporation tax at 30% (1999 - 31%)	9,460	6,765

7 Stock

	2000 £	1999 £
Raw materials and consumables	7,134	9,749

8 Debtors

	2000 £	1999 £
Amounts falling due within one year:		
Amounts owed by fellow associated company	760,482	893,167
Other debtors	20,146	31,824
Prepayments and accrued income	236,192	411,932
	1,016,820	1,336,923

9 Creditors: Amounts falling due within one year

	2000 £	1999 £
Trade creditors	488,406	985,458
Loans owed to joint venture shareholders	-	500,000
Amounts owed to joint venture shareholders	-	61,310
Amounts owed to fellow associated undertakings	1,271	-
Taxation and social security	129,396	137,443
Corporation tax	9,460	6,765
Other creditors	67,137	65,396
Accruals and deferred income	344,166	246,990
	1,039,836	2,003,362

10 Called-up share capital

	2000 £	1999 £
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

11 Profit and loss account

	£
At 31 December 1999	14,597
Retained profit for the year	11,186
At 31 December 2000	25,783

12 Reconciliation of movements in shareholders' funds

	2000 £	Period ended 31 December 1999 £
Opening shareholders' funds	264,597	-
Profit for the financial year/period	11,186	14,597
New shares issued	-	250,000
Closing shareholders' funds	275,783	264,597

13 Reconciliation of operating result to operating cash flows

	2000 £	Period ended 31 December 1999 £
Operating result	-	-
Decrease (increase) in stocks	2,615	(9,749)
Decrease (increase) in debtors	320,103	(1,336,923)
(Decrease) increase in creditors	(466,221)	1,496,597
Net cash (outflow) inflow from operating activities	(143,503)	149,925

14 Analysis of cash flows

Returns on investments and servicing of finance

	2000 £	Period ended 31 December 1999 £
Interest received	20,794	21,597
Interest paid	(148)	(235)
Net cash inflow	20,646	21,362

Financing

	2000 £	Period ended 31 December 1999 £
Issue of ordinary share capital	-	250,000
New joint venture shareholders' loans	-	749,950
Repayment of joint venture shareholders' loans	(500,000)	(249,950)
Net cash (outflow) inflow	(500,000)	750,000

15 Analysis and reconciliation of net funds

	1999 £	Cash flow £	2000 £
Cash in hand, at bank	921,287	(629,622)	291,665
Debt due within one year	(500,000)	500,000	-
Net funds	421,287	(129,622)	291,665

	2000 £	Period ended 31 December 1999 £
(Decrease) increase in cash in the year	(629,622)	921,287
Cash outflow (inflow) from decrease (increase) in debt and lease financing	500,000	(500,000)
Movement in net funds in period	(129,622)	421,287
Net funds at beginning of period	421,287	-
Net funds at end of period	291,665	421,287

16 Financial commitments

Commitments under non-cancellable operating leases are as follows:

	Land and buildings 2000 £	Other 2000 £	Land and buildings 1999 £	Other 1999 £
In less than one year	22,760	4,248	15,769	29,465
Within one to two years	-	-	-	29,346
Within two to five years	-	-	-	134
More than five years	7,822	-	50	-
	30,582	4,248	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 year was £31,535 (period ended 31 December 1999 - £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 year was £34,327 (period ended 31 December 1999 - £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 preceding 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 £8,092,156 for this in the year (period ended 31 December 1999 - £8,372,005).

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 £156,000 from this source in the year (period ended 31 December 1999 - £116,582).

The company also recharged other operating expenses totalling £185,509 (period ended 31 December 1999 - £nil) to Mercia.

The trading balance due from Mercia was £760,482 (1999 - £893,167).

The company was charged management fees by FOCSA Services (UK) Limited of £255,096 (period ended 31 December 1999 - £235,391) and made purchases from that company of £3,627 (period ended 31 December 1999 - £6,301) and made sales to that company of £1,422 (period ended 31 December 1999 - £nil). The amount outstanding was £nil (period ended 31 December 1999 - £316).

The company was charged management fees by Urbaser S.A. of £255,096 (period ended 31 December 1999 - £235,391) and made sales to that company of £1,262 (period ended 31 December 1999 - £nil). The balance outstanding was £nil (1999 - £60,944).

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 period.

19 Related party transactions (continued)

Financing transactions

During the prior 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	749,950
Repayments	(125,000)	(124,950)	(249,950)
Balance at 31 December 1999	250,000	250,000	500,000
Advances	-	-	-
Repayments	(250,000)	(250,000)	(500,000)
Balance at 31 December 2000	-	-	-
Interest rate	LIBOR plus 1% p.a.	LIBOR plus 1% p.a.	

The joint venture shareholders waived their rights to receive interest for the year ended 31 December 2000 and for the period ended 31 December 1999.