

SEVERN WASTE SERVICES LIMITED

Annual report and financial statements

For the year ended 31 December 2002

**Deloitte & Touche
Manchester**



SEVERN WASTE SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2002

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SEVERN WASTE SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

FOCSA Services (UK) Limited
Urbaser Limited

SECRETARY

Clifford Chance Secretaries Limited

REGISTERED OFFICE

106 High Street
Evesham
Worcestershire
WR11 4EL

BANKERS

HSBC Bank plc
32 Bridge Street
Evesham
Worcestershire
WR11 4RV

SOLICITORS

Rickerby's
Ellenborough House
Wellington Street
Cheltenham
Gloucestershire
GL50 1YD

AUDITORS

Deloitte & Touche
Chartered Accountants
Manchester

SEVERN WASTE SERVICES LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

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 and compost plants.

REVIEW OF DEVELOPMENTS

The company has continued to successfully operate new facilities constructed for Mercia. Whilst dealing with an increased tonnage of waste the company has increased the percentage recycled.

DIVIDENDS AND TRANSFERS TO RESERVES

The audited financial statements for the year ended 31 December 2002 are set out on pages 5 to 14. The profit for the year after taxation was £76,046 (2001 - loss of £65,868).

The directors do not recommend the payment of a dividend (2001 - £nil).

FUTURE PROSPECTS

The directors expect an increased level of activity arising from the recycling targets imposed on the Local Authorities, which the company serves.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

FOCSA Services (UK) Limited
Urbaser Limited

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


AUDITORS

On 31 July 2002 Arthur Andersen resigned as auditors of the company and the directors appointed Deloitte & Touche to fill the casual vacancy.

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.

Deloitte & Touche have informed the directors that they are intending to transfer their business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, to be known as Deloitte & Touche LLP. It is the current intention of the directors to use the Company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time.

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

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

12 June 2003

SEVERN WASTE SERVICES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SEVERN WASTE SERVICES LIMITED**

We have audited the financial statements of Severn Waste Services Limited for the year ended 31 December 2002, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the reconciliation of movements in equity shareholders' funds and the related notes numbered 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 or material inconsistencies with the financial statements.

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 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 affairs of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Manchester

24 June 2003

SEVERN WASTE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Note	2002 £	2001 £
TURNOVER	2	10,132,202	8,759,684
Cost of sales		(9,058,826)	(7,846,116)
Gross profit		<u>1,073,376</u>	<u>913,568</u>
Administrative expenses		(980,462)	(983,650)
OPERATING PROFIT/(LOSS)	4	<u>92,914</u>	<u>(70,082)</u>
Interest receivable and similar income		-	4,714
Interest payable and similar charges	5	(3,926)	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>88,988</u>	<u>(65,368)</u>
Tax on profit/(loss) on ordinary activities	6	(12,942)	(500)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		<u>76,046</u>	<u>(65,868)</u>
Retained (loss)/profit brought forward		(40,085)	25,783
Retained profit/(loss) carried forward		<u>35,961</u>	<u>(40,085)</u>

There are no recognised gains or losses in either year other than the profit (loss) for that year.

All activity arose from continuing operations.

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

SEVERN WASTE SERVICES LIMITED

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Year ended 31 December 2002

	2002 £	2001 £
Profit/(loss) for the financial year	76,046	(65,868)
Opening equity shareholders' funds	209,915	275,783
Closing equity shareholders' funds	<u>285,961</u>	<u>209,915</u>

SEVERN WASTE SERVICES LIMITED

BALANCE SHEET 31 December 2002

	Note	2002 £	2001 £
CURRENT ASSETS			
Stocks	7	7,062	6,294
Debtors	8	1,056,337	1,107,986
Cash at bank and in hand		543,998	71,763
		<u>1,607,397</u>	<u>1,186,043</u>
CREDITORS: amounts falling due within one year	9	<u>(1,321,436)</u>	<u>(976,128)</u>
		<u>285,961</u>	<u>209,915</u>
CAPITAL AND RESERVES			
Called up share capital	10	250,000	250,000
Profit and loss account		35,961	(40,085)
EQUITY SHAREHOLDERS' FUNDS		<u>285,961</u>	<u>209,915</u>

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

These financial statements were approved by the Board of Directors on 12 June 2003.

Signed on behalf of the Board of Directors



L. De La Parte

For and on behalf of Urbaser Limited

Director

12 June 2003

SEVERN WASTE SERVICES LIMITED

CASH FLOW STATEMENT Year ended 31 December 2002

	Note	2002 £	2001 £
Net cash inflow/(outflow) from operating activities	14	473,054	(207,054)
Returns on investments and servicing of finance			
Interest received	15	-	5,589
Interest paid	15	(4,113)	-
Net cash (outflow)/inflow from returns on investments and servicing of finance	15	(4,113)	5,589
Taxation			
Corporation tax received/(paid)		3,294	(18,437)
Tax received/(paid)		3,294	(18,437)
Net cash inflow/(outflow) before financing	16	472,235	(219,902)
Increase/(decrease) in cash	16	472,235	(219,902)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. They have all been applied consistently throughout the current and preceding year, except for the implementation of FRS 19, which had no significant effect on the financial statements for the current or prior year.

Accounting convention

The financial statements are prepared under the historical cost convention.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension costs

The expected cost of providing pensions, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the scheme in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

2. TURNOVER

All turnover was derived within the UK from sales to the company's fellow associated undertaking, Mercia Waste Management Limited (see note 17).

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	2002 No.	2001 No.
Average number of persons employed		
Technical and administrative	21	23
Operational	104	100
	<u>125</u>	<u>123</u>
	£	£
Staff costs during the year		
Wages and salaries	2,158,834	2,045,448
Social security costs	179,113	180,782
Pension costs (note 12)	70,391	73,492
	<u>2,408,338</u>	<u>2,299,722</u>

4. OPERATING PROFIT/(LOSS)

	2002 £	2001 £
Operating profit/(loss) is after charging		
Rentals under operating leases		
Hire of plant and machinery	145,189	167,205
Other operating leases	36,013	34,357
Auditors' remuneration for audit services	<u>6,200</u>	<u>6,000</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Bank loans and overdrafts	<u>3,926</u>	<u>-</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The tax charge comprises:

	2002 £	2001 £
United Kingdom corporation tax at 19.25% (2001 – 20%) based on the profit/loss for the period	(17,219)	(500)
Adjustment in respect of prior periods	4,277	-
	<u>(12,942)</u>	<u>(500)</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

	2002 £	2001 £
Profit/(loss) on ordinary activities before tax	<u>88,988</u>	<u>(65,368)</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 19.25% (2001 – 20%)	17,130	(13,074)
Effects of:		
Expenses not deductible for tax purposes	214	13,740
Capital allowances in excess of depreciation	(125)	(166)
Adjustment in respect of prior periods	(4,277)	-
Current tax charge for the year	<u>12,942</u>	<u>500</u>

7. STOCKS

	2002 £	2001 £
Raw materials and consumables	<u>7,062</u>	<u>6,294</u>

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

8. DEBTORS

	2002 £	2001 £
Amounts owed by fellow associated company	871,751	823,238
Corporation tax recoverable	-	8,477
Other debtors	26,585	81,785
Prepayments and accrued income	158,001	194,486
	<u>1,056,337</u>	<u>1,107,986</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Trade creditors	667,447	312,624
Amounts owed to joint venture shareholders	856	34,734
Other taxes and social security	60,920	57,389
UK corporation tax	17,219	-
VAT payable	29,176	76,332
Other creditors	92,716	98,371
Accruals and deferred income	453,102	396,678
	<u>1,321,436</u>	<u>976,128</u>

10. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised 250,000 ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>
Called up, allotted and fully paid 250,000 ordinary shares of £1 each	<u>250,000</u>	<u>250,000</u>

11. FINANCIAL COMMITMENTS

Operating lease commitments

	2002 Land and buildings £	Other £	2001 Land and buildings £	Other £
Leases which expire:				
Within one year	10,125	-	22,760	4,248
Within two to five years	9,260	-	-	-
After five years	7,850	-	7,822	-
	<u>27,235</u>	<u>-</u>	<u>30,582</u>	<u>4,248</u>

12. PENSION COMMITMENTS

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 and the only participating employer of the scheme is Severn Waste Services Limited. The cost of the scheme was £38,607 (2001 - £32,578). In accordance with FRS 17, the company accounts for its contributions to the scheme as if it were a defined contribution scheme because at present the company's share of the assets and liabilities in the scheme have not been identified on a consistent and reasonable basis. The latest FRS 17 actuarial valuation of the scheme, as at 31 December 2002, shows a deficit of £553,000 (2001 - £335,000).

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 £31,784 (2001 - £40,914).

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

13. CONTROLLING PARTY

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

14. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO OPERATING CASH FLOWS

	2002 £	2001 £
Operating profit (loss)	92,914	(70,082)
(Increase)/decrease in stock	(768)	840
Decrease/(increase) in debtors	43,359	(83,564)
Increase/(decrease) in creditors	337,549	(54,248)
Net cash inflow/(outflow) from operating activities	473,054	(207,054)

15. ANALYSIS OF CASH FLOWS

Returns on investments and servicing of finance

	2002 £	2001 £
Interest received	-	5,589
Interest paid	(4,113)	-
Net cash (outflow)/inflow	(4,113)	5,589

16. ANALYSIS AND RECONCILIATION OF NET FUNDS

	2001 £	Cash flow £	2002 £
Cash in hand, at bank	71,763	472,235	543,998
Net funds	71,763	472,235	543,998

	2002 £	2001 £
Increase/(decrease) in cash in the year	472,235	(219,902)
Movement in net funds in the year	472,235	(219,092)
Net funds at beginning of the year	71,763	291,665
Net funds at end of the year	543,998	71,763

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

17. 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 £9,842,832 for this in the year (2001 - £8,437,682).

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 £285,973 from this source in the year (2001 - £287,339).

The company also recharged other operating expenses totalling £3,397 (2001 - £34,663) to Mercia.

The trading balance due from Mercia was £871,751 (2001 - £823,238).

The company was charged management fees by FOCSA Services (UK) Limited of £489,803 (2001 - £488,685), made purchases from that company of £856 (2001 - £4,395) and made sales to that company of £nil (2001 - £nil). The amount owed by the company to FOCSA Services (UK) Limited was £856 (2001 - £17,367).

The company was charged management fees by Urbaser Limited of £489,803 (2001 - £488,685), made sales to that company of £nil (2001 - £nil). The balance outstanding was £nil (2001 - £17,367).

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.