

SEVERN WASTE SERVICES LIMITED

Report and financial statements

For the year ended 31 December 2004



SEVERN WASTE SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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SEVERN WASTE SERVICES LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

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

Rickerbys
Ellenborough House
Wellington Street
Cheltenham
Gloucestershire
GL50 1YD

AUDITORS

Deloitte & Touche LLP
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 2004.

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 for a management fee. In addition, reimbursable operating costs are received from Mercia.

In addition, via a Construction Management Agreement, the company co-ordinates the design and construction of new facilities as may be agreed between Mercia and The Councils of Herefordshire and Worcestershire.

REVIEW OF DEVELOPMENTS

The results for the year are set out on page 5. The company has been successful in reducing the amount of waste going to the landfill and is increasing both the recycling and composting.

FUTURE PROSPECTS

The directors expect the increased level of activity experienced in recent years to continue as local District recycling schemes continue to grow.

DIVIDENDS AND TRANSFERS TO RESERVES

The retained profit for the year of £3,802 (2003 - £6,440) has been transferred to reserves.

The directors do not recommend the payment of a dividend (2003 - £nil).

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

Deloitte & Touche LLP have expressed their willingness to continue as the Company's auditors and a resolution to re-appoint them as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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



V Orts
For and on behalf of FOCSA Services (UK) Limited - Director

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; 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.

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 2004, which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds, the balance sheet, the cash flow statement, and the related notes 1 to 18. 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 as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

4 May 2005

SEVERN WASTE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Note	2004 £	2003 £
TURNOVER	2	13,253,804	12,564,412
Cost of sales		(10,864,134)	(10,262,258)
Gross profit		2,389,670	2,302,154
Administrative expenses		(2,392,304)	(2,300,561)
OPERATING (LOSS)/PROFIT	4	(2,634)	1,593
Interest receivable and similar income	5	14,020	6,383
Interest payable and similar charges	6	(704)	(537)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		10,682	7,439
Tax on profit on ordinary activities	7	(6,880)	(999)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		3,802	6,440
Retained profit brought forward		42,401	35,961
Retained profit carried forward		46,203	42,401

There are no recognised gains or losses in either year other than the profit for that year. Accordingly no statement of total recognised gains and losses has been prepared.

All activity arose from continuing operations.

SEVERN WASTE SERVICES LIMITED

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

Year ended 31 December 2004

	2004	2003
	£	£
Profit for the financial year	3,802	6,440
Opening equity shareholders' funds	292,401	285,961
	<hr/>	<hr/>
Closing equity shareholders' funds	296,203	292,401
	<hr/>	<hr/>

SEVERN WASTE SERVICES LIMITED

BALANCE SHEET 31 December 2004

	Note	2004 £	2003 £
CURRENT ASSETS			
Stocks	8	5,052	27,580
Debtors	9	2,818,578	2,328,248
Cash at bank and in hand		1,346,755	461,196
		<u>4,170,385</u>	<u>2,817,024</u>
CREDITORS: amounts falling due within one year	10	<u>(3,874,182)</u>	<u>(2,524,623)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>296,203</u>	<u>292,401</u>
CAPITAL AND RESERVES			
Called up share capital	11	250,000	250,000
Profit and loss account		<u>46,203</u>	<u>42,401</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>296,203</u>	<u>292,401</u>

These financial statements were approved by the Board of Directors on 28 April 2005

Signed on behalf of the Board of Directors



V Orts

For and on behalf of FOCSA Services (UK) Limited

Director

SEVERN WASTE SERVICES LIMITED

CASH FLOW STATEMENT Year ended 31 December 2004

	Note	2004 £	2003 £
Net cash inflow/(outflow) from operating activities	15	<u>874,444</u>	<u>(72,079)</u>
Returns on investments and servicing of finance	16	<u>12,912</u>	<u>5,698</u>
Taxation			
Corporation tax paid		<u>(1,797)</u>	<u>(16,421)</u>
Tax paid		<u>(1,797)</u>	<u>(16,421)</u>
Net cash inflow/(outflow) before financing	17	<u>885,559</u>	<u>(82,802)</u>
Increase/(decrease) in cash	17	<u><u>885,559</u></u>	<u><u>(82,802)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

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.

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

For defined benefit schemes 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.

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.

2. TURNOVER

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

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received remuneration by way of management fees from the company for their services during the current or preceding year. Full disclosure is detailed in note 18.

	2004 No.	2003 No.
Average number of persons employed		
Technical and administrative	20	20
Operational	137	114
	<u>157</u>	<u>134</u>
	£	£
Staff costs during the year		
Wages and salaries	2,697,523	2,244,975
Social security costs	224,458	200,973
Pension costs (note 13)	72,675	75,385
	<u>2,994,656</u>	<u>2,521,333</u>

4. OPERATING (LOSS)/PROFIT

	2004 £	2003 £
Operating (loss)/profit is after charging		
Rentals under operating leases		
Hire of plant and machinery	267,897	114,989
Other operating leases	42,039	45,363
Auditors' remuneration for audit services	7,500	7,500
	<u>267,897</u>	<u>167,852</u>

5. INTEREST RECEIVABLE

	2004 £	2003 £
Bank interest	14,020	6,383
	<u>14,020</u>	<u>6,383</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Bank overdrafts	704	537
	<u>704</u>	<u>537</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2004 £	2003 £
United Kingdom corporation tax at 19% (2003 - 19%) based on the profit for the year	6,880	1,797
Adjustment in respect of prior periods	-	(798)
	<u>6,880</u>	<u>999</u>

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

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

	2004 £	2003 £
Profit on ordinary activities before tax	10,682	7,439
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2003 - 19%)	2,030	1,414
Effects of:		
Expenses not deductible for tax purposes	4,236	98
Capital allowances in excess of depreciation	(66)	(89)
Differences in taxation rates	-	(274)
Movement in short term timing differences	680	648
Adjustment in respect of prior periods	-	(798)
	6,880	999

8. STOCKS

	2004 £	2003 £
Raw materials and consumables	5,052	27,580

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

9. DEBTORS

	2004 £	2003 £
Amounts owed by fellow associated company (note 18)	2,573,082	2,164,284
Other debtors	5,562	4,037
Prepayments and accrued income	239,934	159,927
	2,818,578	2,328,248

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Trade creditors	410,392	349,412
Amounts owed to joint venture shareholders (note 18)	1,658,362	1,116,074
Other taxes and social security	70,947	56,547
UK corporation tax	6,880	1,797
VAT payable	153,509	61,060
Other creditors	161,144	129,012
Accruals and deferred income	1,412,948	810,721
	3,874,182	2,524,623

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

11. CALLED UP SHARE CAPITAL

	2004 £	2003 £
Authorised 250,000 ordinary shares of £1 each	250,000	250,000
Called up, allotted and fully paid 250,000 ordinary shares of £1 each	250,000	250,000

12. FINANCIAL COMMITMENTS

Operating lease commitments

	2004 Land and buildings £	2003 Land and buildings £
Leases which expire:		
Within one year	24,012	22,848
Within two to five years	7,850	7,850
After five years	31,862	30,698

13. 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 company has been unable to identify its share of the assets and liabilities in the scheme on a consistent basis. Accordingly, the company has taken advantage of the exemption in FRS17 and has accounted for its contribution to the scheme as if it were a defined contribution scheme. The contribution made in the year was £45,985 (2003 £48,165). The latest FRS 17 actuarial valuation of the FOCSA Services (UK) Limited scheme, as at 31 December 2004, shows a deficit of £733,000 (2003 - £718,000).

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 £26,690 (2003 - £27,220).

14. CONTROLLING PARTY

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

SEVERN WASTE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

15. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2004 £	2003 £
Operating (loss)/profit	(2,634)	1,593
Decrease/(increase) in stock	22,528	(20,518)
Increase in debtors	(489,926)	(1,271,763)
Increase in creditors	1,344,476	1,218,609
Net cash inflow/(outflow) from operating activities	874,444	(72,079)

16. ANALYSIS OF CASH FLOWS

Returns on investments and servicing of finance

	2004 £	2003 £
Interest received	13,616	6,235
Interest paid	(704)	(537)
Net cash inflow	12,912	5,698

17. ANALYSIS AND RECONCILIATION OF NET FUNDS

	2003 £	Cash flow £	2004 £
Cash in hand, at bank	461,196	885,559	1,346,755
Net funds	461,196	885,559	1,346,755
		2004 £	2003 £
Increase/(decrease) in cash in the year		885,559	(82,802)
Movement in net funds in the year		885,559	(82,802)
Net funds at beginning of the year		461,196	543,998
Net funds at end of the year		1,346,755	461,196

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

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 £13,253,804 for this in the year (2003 - £12,564,412).

The company also recharged other operating expenses totalling £2,897 (2003 - £5,207) to Mercia.

The trading balance due from Mercia at 31 December 2004 was £2,573,082 (2003 - £2,164,284).

FOCSA (UK) Limited and Urbaser Limited are the joint venture shareholders of Severn Waste Services Limited.

The company was charged management and advisory fees by FOCSA Services (UK) Limited of £1,202,139 (2003 - £1,152,880). The amount owed by the company to FOCSA Services (UK) Limited at 31 December 2004 was £836,216 (2003 - £561,092).

The company was charged management and advisory fees by Urbaser Limited of £1,190,164 (2003 - £1,147,681). The amounts owed by the company to Urbaser Limited at 31 December 2004 was £822,146 (2003 - £554,982).

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.