

SHANKS MIDLANDS LIMITED

Registered Number SC43286

REPORT AND ACCOUNTS

YEAR ENDED 31 MARCH 2001



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SHANKS MIDLANDS LIMITED

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SHANKS MIDLANDS LIMITED DIRECTORS' REPORT

The Directors present their Annual Report and financial statements for the year ended 31 March 2001.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE PROSPECTS

The principal activity of the Company continues to be the operation of waste collection and disposal services for industry and local authorities.

The Company plans to continue to increase its market share in the waste management sector and will invest in additional landfill void at economic cost and in new geographical areas with growth potential.

TRADING RESULTS AND DIVIDEND

The profit on ordinary activities before taxation for the year ended 31 March 2001 was £2,301,000 (2000: £4,356,000). The Directors recommended that a dividend of £5,204,000 be paid in respect of the year ended 31 March 2001 (2000: £2,495,000). The loss transferred to the reserves for the year was £3,917,000 (2000: £142,000 loss).

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who held office during the year were as follows:

M C E Averill
D J Downes
J R Meredith
M J Clarke

None of the Directors had a direct interest in the share capital of the Company. Messrs Averill, Downes and Meredith are also Directors of Shanks Group plc and accordingly their interests in the share capital of that company are disclosed in its accounts. The interests of Mr M J Clarke in the share capital of Shanks Group plc are disclosed in the accounts of Shanks Waste Services Limited. The Directors had no interests in the shares of any other Company in the Group.

EMPLOYMENT POLICIES

There is a continuing commitment in the Company to provide employees with information and undertake consultation on matters of concern to them with a view to ensuring an awareness of the financial and economic factors affecting the performance of the Company. The procedures adopted involve both formal and informal meetings with employees or their representatives.

Options have been granted under the Shanks Savings-Related Share Option and Executive Share Options Schemes.

SHANKS MIDLANDS LIMITED
DIRECTORS' REPORT - continued

EMPLOYMENT POLICIES - continued

It is the continuing policy of the Company to provide employment for disabled people and employees who become disabled provided it is practical to offer suitable work. *The training, career development and promotion of disabled employees are undertaken whenever possible, in accordance with the needs of the individuals concerned.*

STATEMENT OF 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 period. In preparing those financial statements, the Directors are required to:

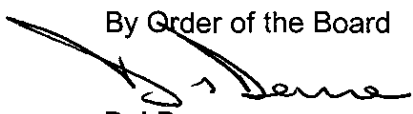
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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 to 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.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers as auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



D J Downes
DIRECTOR
30 May 2001

Registered Office:
A8 Edinburgh Road
Coatbridge
ML5 4UG

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHANKS MIDLANDS LIMITED

We have audited the financial statements on pages 4 to 14 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and 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 issued by the Auditing Practices Board.

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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

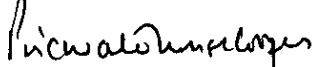
Basis of Audit Opinion

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 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 the Company's affairs at 31 March 2001 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
30 May 2001

SHANKS MIDLANDS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2001

	Note	<u>2001</u> £'000	<u>2000</u> £'000
TURNOVER	2	16,021	15,710
Cost of sales		(13,513)	(11,124)
		<hr/>	<hr/>
GROSS PROFIT		2,508	4,586
Administrative expenses		-	-
		<hr/>	<hr/>
OPERATING PROFIT ON CONTINUING ACTIVITIES		2,508	4,586
Finance charges:			
Unwinding of discount	6	(207)	(230)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	2,301	4,356
Taxation	7	(1,014)	(2,003)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,287	2,353
Dividends	8	(5,204)	(2,495)
		<hr/>	<hr/>
RETAINED LOSS FOR THE FINANCIAL YEAR	15	(3,917)	(142)
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2001

The Company has no recognised gains or losses other than the profit for the year.

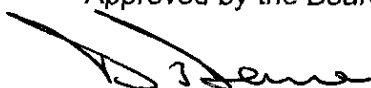
NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2001

There is no material difference between the reported profits for the year and those that would be reported under the historical cost convention.

SHANKS MIDLANDS LIMITED
BALANCE SHEET
AS AT 31 MARCH 2001

	Note	31 March 2001 £'000	4 April 2000 £'000
FIXED ASSETS			
Tangible fixed assets	9	8,717	9,423
Investments	10	-	4
		<hr/>	<hr/>
		8,717	9,427
		<hr/>	<hr/>
CURRENT ASSETS			
Debtors	11	3,104	4,003
CREDITORS: amounts falling due within one year			
	12	(5,396)	(3,759)
		<hr/>	<hr/>
NET CURRENT (LIABILITIES)/ASSETS		(2,292)	244
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,425	9,671
PROVISIONS FOR LIABILITIES AND CHARGES	13	(5,586)	(4,915)
		<hr/>	<hr/>
TOTAL NET ASSETS		839	4,756
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Share capital	14	100	100
Revaluation reserve	15	37	37
Profit and loss account	15	702	4,619
		<hr/>	<hr/>
TOTAL EQUITY SHAREHOLDERS' FUNDS	16	839	4,756
		<hr/>	<hr/>

Approved by the Board on 30 May 2001.



D J Downes
Director

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. As the Company is a wholly owned subsidiary of Shanks Group plc, group financial statements have not been prepared as permitted by s228 of the Companies Act 1985 and the financial statements contain information about the Company as an individual undertaking.

(b) Turnover

Turnover represents the invoiced value of waste streams, power generated, and other services provided including landfill tax but excluding value added tax. Turnover is recognised when processing occurs or the service is provided.

(c) Goodwill

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Goodwill is written off its useful life in accordance with FRS 10. The useful life of goodwill is not expected to exceed 20 years. Prior to 28 March 1998, goodwill was written off to reserves. This goodwill has not been reinstated in the balance sheet as permitted by FRS 10. The profit or loss on disposal or closure of a business is calculated after taking into account any goodwill previously written off to reserves.

(d) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation, except for freehold land which is not depreciated, and less any provision for impairment.

(i) Land & Buildings and Plant & Machinery

Depreciation is provided on assets other than land to write off their cost by equal annual instalments over their estimated useful economic lives. The expected lives are:

Buildings	50 years
Plant & machinery	3 to 10 years

(ii) Landfill

Acquisition, the discounted cost of final site restoration and commissioning costs are capitalised and written off over the operational life of each site based on the amount of void space consumed.

(e) Research and development

Expenditure is written off in the year in which it is incurred.

(f) Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the expected working lives of the pension scheme members currently in service. Any differences between the actuarial valuation of the scheme and the value of assets in the scheme are also charged or credited to the profit and loss account over the expected working lives of the scheme members. Differences and payments to the schemes are treated as assets or liabilities in the balance sheet.

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

1 ACCOUNTING POLICIES - continued

(g) Leased assets

Where the Company has substantially all the risks and rewards of ownership of a leased asset, it is treated as a finance lease. Leased assets are included in tangible fixed assets at the total of the capital elements of payments during the lease term and the corresponding obligation is included in creditors. Depreciation is provided to write off the assets over the shorter of the lease term or expected useful life.

Rentals paid under operating leases are charged to the profit and loss account as incurred over the term of the lease.

(h) Site restoration provision

Full provision is made for the net present value (NPV) of the Company's unavoidable costs in relation to restoration liabilities at its landfill sites and this value is capitalised as a fixed asset. The Company continues to provide for the NPV of intermediate restoration costs over the life of its landfill sites, based on the quantity of waste deposited in the year.

(i) Aftercare provision

Provision is made for the NPV of post closure costs based on the quantity of waste deposited in the year. Similar costs incurred during the operational life of the sites are written off directly and not charged against the provision.

(j) Discounting

All long term provisions for restoration and aftercare are calculated based on the NPV of the estimated future costs. The effects of inflation and unwinding of the discount element on existing provisions are reflected within the financial statements as a finance charge.

(k) Government grants

Capital grants are released to profit evenly over the estimated useful lives of the assets concerned.

(l) Stocks

Stocks are stated at the lower of cost (on a first in first out basis) and net realisable value.

(m) Deferred taxation

Provision is made for deferred taxation arising from timing differences between profits as computed for taxation purposes and profits as stated in the financial statements to the extent it is thought reasonably probable that a liability will crystallise in the foreseeable future.

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

2 SEGMENTAL INFORMATION

The turnover and operating profit are wholly attributable to the Company's business of waste management in the United Kingdom. All of the Company's business, turnover and operating profit relates to continuing operations.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit is stated after charging/(crediting):

	<u>2001</u> £'000	<u>2000</u> £'000
Depreciation of tangible fixed assets:		
- owned	1,162	1,271
Gain on disposal of fixed assets	(5)	-
	<u> </u>	<u> </u>

The auditors' remuneration for the period has been borne by a fellow group subsidiary.

4 DIRECTORS' EMOLUMENTS

The Directors were not remunerated for their services to the Company. The salaries of the Directors were paid by other Shanks Group undertakings and no remuneration is payable by Shanks Midlands Limited for the current year.

5 EMPLOYEES

The average number of employees employed by the Company in waste management during the year was 116 (2000: 114). The total remuneration of employees comprised:

	<u>2001</u> £'000	<u>2000</u> £'000
Wages and salaries	2,287	2,049
Social security costs	229	176
Other pension costs	39	55
	<u> </u>	<u> </u>
	<u>2,555</u>	<u>2,280</u>

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

6 UNWINDING OF DISCOUNT

The unwinding of discount of £207,000 (2000: £230,000) relating to long term landfill liabilities (see note 13) is separately disclosed on the face of the profit and loss account, as required by FRS 12.

7 TAXATION

Taxation charge based on the profits of the year is made up as follows:

	<u>2001</u> £'000	<u>2000</u> £'000
Corporation tax at 30% (2000: 30%)	1,014	2,003
	<u> </u>	<u> </u>

8 DIVIDENDS

	<u>2001</u> £'000	<u>2000</u> £'000
Interim dividend paid	822	1,000
Final dividend proposed	4,382	1,495
	<u> </u>	<u> </u>
	5,204	2,495
	<u> </u>	<u> </u>

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

9 TANGIBLE FIXED ASSETS

	<u>Land and buildings</u> £'000	<u>Landfill sites</u> £'000	<u>Plant and machinery</u> £'000	<u>Total</u> £'000
Cost:				
At 5 April 2000	477	11,665	6,713	18,855
Additions	-	104	1,064	1,168
Disposals	-	-	(115)	(115)
Transfers with fellow group companies	-	101	654	755
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	477	11,870	8,316	20,663
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:				
At 5 April 2000	100	5,091	4,241	9,432
Charge for the year	14	479	669	1,162
Disposals	-	-	(91)	(91)
Transfers with fellow group companies	-	240	1,203	1,443
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	114	5,810	6,022	11,946
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:				
At 31 March 2001	363	6,060	2,294	8,717
	<hr/>	<hr/>	<hr/>	<hr/>
At 4 April 2000	377	6,574	2,472	9,423
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of land and buildings comprises:

	<u>2001</u> £'000	<u>2000</u> £'000
Freehold	341	347
Short leasehold	22	30
	<hr/>	<hr/>
	363	377
	<hr/>	<hr/>

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

10 INVESTMENTS

	Shares in subsidiary undertakings £'000
Cost:	
As at 4 April 2000	4
Disposal	(4)
	<hr/>
As at 31 March 2001	-
	<hr/> <hr/>

11 DEBTORS

	<u>2001</u> £'000	<u>2000</u> £'000
Amounts owed by group undertakings	3,104	4,003
	<hr/>	<hr/>

12 CREDITORS: Amounts falling due within one year

	<u>2001</u> £'000	<u>2000</u> £'000
Amounts owed to group undertakings	-	78
Corporation tax payable	1,014	1,925
Proposed dividend	4,382	1,495
Accruals	-	261
	<hr/>	<hr/>
	5,396	3,759
	<hr/> <hr/>	<hr/> <hr/>

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred <u>taxation</u> £'000	Site <u>restoration</u> £'000	<u>Aftercare</u> £'000	<u>Total</u> £'000
At 4 April 2000	-	1,989	2,926	4,915
Provided in the year	-	270	401	671
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	-	2,259	3,327	5,586
	<hr/>	<hr/>	<hr/>	<hr/>

Site Restoration

Site Restoration provision relates to the cost of final capping and covering of the landfill sites. These costs are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

Aftercare

The total post closure costs, including such items as monitoring, gas and leachate management and licensing, have been estimated by management based on current best practice and technology available. These costs may be impacted by a number of factors including changes in legislation and improvements in technology. The dates of payments of these aftercare costs are uncertain but are anticipated to be over a period of approximately thirty years from closure of the relevant landfill site.

Deferred taxation

The deferred taxation provision together with the full potential liability for all timing differences is made up as follows:

	Amount <u>provided</u> £'000	2001 Full potential <u>liability/(asset)</u> £'000	Amount <u>provided</u> £'000	2000 Full potential <u>liability/(asset)</u> £'000
Accelerated capital allowances	-	254	-	(36)
Other timing differences	-	(477)	-	(1,281)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(223)	-	(1,317)
	<hr/>	<hr/>	<hr/>	<hr/>

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

14 SHARE CAPITAL

	<u>2001</u> £'000	<u>2000</u> £'000
Authorised, allotted, called up and fully paid: 100,000 Ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>

15 RESERVES

	<u>Revaluation</u> <u>reserve</u> £'000	<u>Profit and</u> <u>loss account</u> £'000
At 5 April 2000	37	4,619
Retained loss for the year	-	(3,917)
	<u> </u>	<u> </u>
At 31 March 2001	37	702
	<u> </u>	<u> </u>

The cumulative goodwill written off reserves from continuing businesses is £1,529,000 (2000: £1,529,000).

16 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2001</u> £'000	<u>2000</u> £'000
Profit for the financial year	1,287	2,353
Dividends	(5,204)	(2,495)
	<u> </u>	<u> </u>
Net reduction to shareholders' funds	(3,917)	(142)
Opening shareholders' funds	4,756	4,898
	<u> </u>	<u> </u>
Closing shareholders' funds	839	4,756
	<u> </u>	<u> </u>

SHANKS MIDLANDS LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2001 - continued

17 PENSION COMMITMENTS

The Company along with other companies in the Shanks Group, participates in funded pension arrangements providing benefits based on final salary. The assets are held separately from those of the group companies and are invested by professional investment managers. The contributions are determined by a qualified actuary on the basis of a triennial valuation using the Projected Unit Method. The pension charge for the year was £39,000 (2000: £55,000). Details of the latest actuarial value of the scheme on 5 April 2000 are given in the accounts of Shanks Group plc.

18 CONTINGENT LIABILITIES

The Company has granted to its bankers an unlimited guarantee and a right of set off against accounts outstanding on advances to its parent and fellow subsidiary undertakings. The Company has in normal course of business given guarantees and performance bonds relating to the Company's own contracts.

19 RELATED PARTY TRANSACTIONS

As permitted by FRS8, the Company, being a wholly owned subsidiary of another company which prepares a statement of related party transactions including that of this Company, has not prepared such a statement itself.

20 CASH FLOW STATEMENT

As permitted by paragraph 8(c) of FRS1 (revised 1996), the Company, being a wholly owned subsidiary of another company which prepares a cash flow statement including that of this Company, has not prepared such a statement itself.

21 IMMEDIATE & ULTIMATE PARENT COMPANY

The immediate holding company is Shanks & McEwan (Waste Services) Limited. The ultimate parent company is Shanks Group plc, a company registered in Scotland. Copies of the group accounts may be obtained from the Company Secretary, Shanks Group plc, Astor House, Station Road, Bourne End, Buckinghamshire, SL8 5YP.