

WRG (Northern) Limited

Directors' report and financial
statements

Registered number SC98678

31 December 2007

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Statutory information

Directors

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LJD Cassells
SN Hardman
S N Jennings

Company secretary

JM Bolton

Joint company secretary

C Favier Tilston

Registered office

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Directors' report and Business Review

The directors (the "Directors") of WRG (Northern) Limited (the "Company") present their annual report and the audited financial statements for the year ended 31 December 2007. References in this Directors' report to "the Group" cover the operations of Waste Recycling Group Limited and its subsidiaries, including the Company.

Overview

2007 heralded the start of an exciting future for Waste Recycling Group Limited ("WRG") under the ownership of Fomento de Construcciones y Contratas, S A ("FCC"), which acquired the Group in September 2006. FCC is a large multi national business listed on the Spanish stock exchange, with operations in Europe, South America and the United States of America. FCC's principal operations cover public services management, construction, cement manufacture and real estate.

Following the acquisition of the Group, FCC is now a leading player in the UK waste management sector and the Board look forward to the opportunities that are presented to WRG and all of our employees by FCC's plans to expand their operations in the UK.

The Board see the development of major waste infrastructure and strategic long term partnerships as key to our business development and we expect further considerable activity and deployment of Group resources into major Public Finance Initiative ("PFI") and Public Private Partnership ("PPP") schemes and provision of regional facilities such as the Allington Energy from Waste ("EfW") plant.

The Group remains of the view that EfW will be a key component of some regional waste strategies and in combination with recycling and recovery operations, backed up by landfill disposal for residues, represents a long term sustainable solution for meeting its clients diversion targets.

Principal activity and business review

The principal activity of the Company is the handling, recycling and disposal of waste materials.

The activities, strategy and risks affecting the Company are inextricably similar to, and dependent on, those of the Group and consequently the following narrative relates to the Group including the Company.

Waste Recycling Group Limited is one of the leading waste management services companies in the UK. The Group and its subsidiary undertakings provide a range of cost effective and environmentally sustainable waste processing, recycling, disposal and energy recovery services for local authority and private commercial customers. Each year the Group receives, recycles and disposes of nearly 12 million tonnes of household, commercial and industrial waste. Through innovation, service and expertise WRG is committed to working with our local authority partners and industrial and commercial customers to respond to often complex and far reaching waste management strategies, and to react to the challenge of meeting demanding waste management targets.

WRG comprises five main divisions:

- North Division – is responsible for all WRG's landfill, transfer, recycling, civic amenity, composting and recycling operations in the North of England, East Midlands, North Wales and Scotland, for the Waste Treatment Division which treats hazardous solid and liquid wastes and for Alco, the Cumbrian collection, treatment and healthcare waste collection business.
- South Division – is responsible for all of WRG's landfill, transfer, recycling, civic amenity, composting and recycling operations in East Anglia, the South East, Lincolnshire, the West Midlands and South Wales and for the servicing of recycling banks in the eastern part of England.
- The Green Energy+ Division – manages Energy from Waste plants at Eastcote in Nottingham (producing steam) and at Allington in Kent (producing electricity for export). The division also seeks to develop new opportunities in EfW through incineration and energy from alternative fuels and other renewable sources.
- Quarries Division – operates several quarries in Yorkshire.
- Municipal Infrastructure Development Division – created in February 2007 it has responsibility for delivering the Group's PFI, PPP and large capital bids for the local authority market.

Directors' report and business review *(continued)*

The Group is a key player within the municipal waste management sector, with over 110 contracts with around 60 local authorities for the provision of a wide range of waste treatment, recycling and disposal services

The RE3 Waste Partnership was the first PFI for WRG and its sister company, RE3 Limited, signed in October 2006 and commencing operations and construction works in December 2006. This £600 million, 25 year contract with Reading Borough Council, Bracknell Forest Borough Council and Wokingham Borough Council, is highly successful and is proving an excellent demonstration of WRG's exceptional capabilities in the PFI arena.

During 2007, a new £330 million, 25 year PFI waste contract aimed at further reducing reliance on landfill while boosting recycling rates, has been signed by Wrexham County Borough Council with WRG and another sister company of WRG, WRG Wrexham PFI Limited. The project aims to deliver a long term sustainable solution for the Council's waste and to enable it to meet its targets in relation to waste recycling, composting and landfill diversion, set by central Government. The majority of waste disposal and handling activities for these PFI contracts will be met by the Group.

In October 2007, the Group secured from the Environment Agency ("EA") the release of £34 million from an Escrow Account that had been established for the purposes of financial provisioning under the performance and observance of the provisions of the Group's Waste Management Licences ("WML") and Pollution Prevention Control ("PPC") Permits (including aftercare provisions). In its place, the Group has provided the EA with a three year renewable umbrella bond, capped at £93 million, in favour of the EA.

Objectives, strategy and risk

The Group's overall strategy is to become one of the leading integrated waste management companies in the UK through the continued creation of value in our business by maximisation of the opportunities presented by new legislation affecting the waste sector.

WRG aims to become the partner of choice for all of our local authority, industrial and commercial customers. Our objective is to achieve sustainable business growth through the retention of existing customers and seeking and winning new and replacement business on an ongoing basis. In addition, we are developing into a key player in the PFI and PPP market in line with the Group's strategy and have two major PFI and one PPP partnership under our management.

WRG continues to expand its network and range of treatment and recycling services in addition to our landfill sites. It is this business platform which will enable us to continue to meet the needs of our customers as they transition to long term PFI based solutions.

In the UK waste materials are now being viewed as an increasingly important resource. WRG is taking advantage of the range of opportunities available to use waste for power generation and to provide recycled materials.

The Group's other areas of strategic development and performance of the business include

- **Services** New waste management solutions continue to be developed for both new and existing customers. We pride ourselves on working with our customers to find the best value integrated solutions that put recycling, composting and other diversion at the heart of our clients' waste management strategies.
- **Stakeholders** The Group is working to strengthen relationships with our customers, suppliers, employees, contractors and other stakeholders including the local communities in the areas within which we operate.
- **Environment** The Group strives to achieve environmental best practice across its operations. To achieve this, policies, procedures and performance are kept under continuous review by the Directors and we also maintain an ongoing close relationship with the relevant regulatory bodies including the Environment Agency and the Scottish Environment Protection Agency.

Directors' report and business review *(continued)*

- **Community Waste Recycling Environmental Limited (WREN)** is the independent distributive environmental body that administers the tax credits generated by the landfill disposal activities of the Group. The Landfill Communities Fund, established by the Government in 1996, allows landfill operators to claim a proportion of the tax that is charged on waste disposed to landfill, and commit it to qualifying projects under the Fund via registered bodies such as WREN. Approximately £15 million a year is allocated by WREN and other registered environmental bodies to numerous community and environmental projects.
- **Employees** The Group aims to enhance the overall quality of our workforce, by providing good working conditions, including training and development opportunities and by careful recruitment processes.

The Group's particular focus areas for 2007 align with the objectives published by the EA in its Sector Plan for the waste management industry.

- **Improve health and safety, reduce accidents** The Group treats health and safety as a priority and is continually seeking improvements to ensure a safe environment for all employees and stakeholders. In 2007, the Group repeated, for the third year running, its target of a 10% reduction in the number of reportable injuries ("RIDDOR"s). These are major injuries reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 and resulting in more than three days absence. WRG's target is in line with the EA's Key Performance Indicator ("KPI") of a 10% improvement in RIDDORs year on year, as published in the EA Waste Sector Plan.
- **Mitigate impacts on climate change** The Group is committed to reducing its greenhouse gas emissions and will continue to report on the reduction of its methane and carbon dioxide emissions in its Corporate Social Responsibility Report. At the end of 2007, the Group had a total installed power generation capacity of 253MW on its landfill sites, managed by outside contractors.
- **Improve the level of compliance within the regulated community and reduce the frequency and level of illegal activity** The Group understands the responsibilities of operating in the UK's highly controlled waste management industry. The Board takes these responsibilities very seriously and as a corporate body is committed to acting as a fit and proper person at all times, in accordance with the terminology in its operating licence and permit conditions. During 2007 one Group company was prosecuted for breach of duty of care for the escape of litter from landfill. As a consequence, the Group company has put in place a detailed post conviction plan. In addition, six non compliance notices were received. There were no Health and Safety improvement notices in the year.

Operating in the highly regulated waste management market contains numerous risks and uncertainties for the Company. In response, the Board has appointed a Risk Committee that actively monitors the key risks that impact the business including the compilation of a comprehensive risk register. The Directors regard the following to be the principal risks and uncertainties affecting the Group and their approach to managing these risks and uncertainties is considered below.

- **Health and Safety** Health and safety is a key issue for the Group due to the nature of operations including the use of heavy plant and equipment and difficult working conditions. The Group is continually seeking, in consultation with the appropriate authorities, opportunities to enhance performance in this area, implementing expeditiously any improvements identified as necessary. Rigorous health and safety training for all employees is undertaken and is underpinned by detailed policies and procedures. The Directors receive regular reports on health and safety performance affecting the Group's operations and it employs a dedicated team, headed by the Group Health and Safety Manager to monitor and promote high standards. All employees are expected to recognise their role for achieving high performance on health and safety matters and exhibit this through their approach and attitude at work.

Directors' report and business review (*continued*)

- **Environmental risks** The Group's operations are tightly controlled under environmental legislation principally by the Environment Agency in England and Wales and the Scottish Environment Protection Agency in Scotland. Compliance with all environmental legislation pertinent to the Group's activities is a minimum requirement. The Directors receive regular reports on environmental compliance at the Group's sites and environmental compliance is monitored and controlled by a dedicated WRG team. The Group has adopted a formal environmental policy, which was reviewed and revised in 2007 and there are detailed environmental procedures to enable compliance with environmental legislation.
- **Major disruption/disaster** The Group, as part of its risk management programme, has developed business continuity planning for its operations. As part of this planning the Group has developed plans to accommodate the diversion of waste from single or multiple sites in the event of major disruption or disaster affecting a site or region. WRG's IT systems are managed by a specialist IT services company to ensure full business continuity.
- **The effect of new legislation or other regulatory activities** The Group monitors forthcoming and current legislation regularly to ensure full compliance and to anticipate and assess the impact upon its operations. Some municipal contracts include provisions which allow the Group to pass through certain increased costs arising as a result of legislative changes which occur during the life of the contracts.
- **Litigation** The Group is subject to litigation from time to time. The outcome of legal action is always uncertain and there is a risk that it may prove more costly and time consuming than expected. There is a risk that litigation could be instigated in the future which could materially impact the Group. In some liability cases legal expenses are covered by insurance. This risk is managed through constant monitoring and having a full time Director on the board with legal responsibility.
- **Competitive risk** The Group operates in highly competitive markets. Competitors may offer services at rates below that of the Group. To mitigate this risk the Group ensures that its cost base is appropriately structured. In addition the Group endeavours to enter into medium and long term waste disposal contracts to guarantee revenues over the longer term, particularly with its municipal customers.
- **Employees** The loss of key employees or the inability to hire experienced management personnel could have a material adverse effect on the business. To manage this risk succession planning for senior positions within the Group is undertaken. In addition the acquisition of the Group by FCC enables the Group to draw on wider resources from within the FCC group.

Future trends and developments

The Directors consider that the business of the Group is sound for the immediate future. The development of the business will be subject to numerous factors. However the impact of the European Union Landfill Directive and the diversion of waste away from landfill sites to alternative disposal methods or recycling initiatives will fundamentally shape the development of the business going forward. Furthermore, the Group plans to work ever more closely with its municipal and trade customers and to become their partner of choice in developing long term sustainable methodologies for waste treatment and disposal. The need for significant amounts of capital to support this transition is most likely to lead to consolidation within the waste management industry thereby presenting both opportunity and risk to the Group.

Directors' report and business review *(continued)*

Results and Dividends

The results of the Company for the year ended 31 December 2007 are set out on page 12. The profit for the year ended 31 December 2007 amounted to £941,000 (2006 £29,785,000). The Company did not pay an interim dividend during the year (2006 £24,000,000) and furthermore the directors do not propose payment of a final dividend (2006 nil). The retained profit of £941,000 (2006 £5,785,000) has therefore been transferred to reserves.

Other Financial and Non Financial Key Performance Indicators (KPIs)

To help deliver the strategy and to assist in managing operational performance of the business, the following KPIs form part of the tools used by management to monitor business performance.

- EBITDAP – earnings before interest, tax, depreciation, amortisation, provisions and exceptional items. This is used as a management tool on a site by site basis as it is a measure of performance including revenues and costs which can be directly controlled by site. It is also used for the business as a whole as a measure of cash flow.

	2007 £000	2006 £000
EBITDAP	1,725	1,492
EBITDAP from continuing operations	1,725	585

- Return on capital employed (ROCE) – defined as profit before tax divided by net assets. This is used as a measure of performance across the Group and in similar businesses where there is a requirement for regular and high levels of capital investment.

	2007 %	2006 %
ROCE	14.6	537.0

- Both the Company's EBITDAP and ROCE are in line with Directors' expectations.
- Total ROCE reduced in 2007, principally because 2006 included the profit on sale of the renewable energy business.
- WRG's main safety KPI over recent years has been the Reportable Incidence Rate ("RIR") per 100,000 employees for RIDDOR reportable incidents. This includes both major incidents and incidents leading to over three days absence from work. This is a common KPI in the industry. In 2007, WRG achieved a 14% improvement in RIR over the prior year (1,450 versus 1,687 in 2006). WRG also achieved its target of a 10% reduction in the number of RIDDORs. Major incident causation factors are the focus for improvement going forward via a campaign of toolbox talks, posters and e-learning.

Directors' report and business review (*continued*)

- WRG operates an Environmental Management System ("EMS") that conforms to the ISO 14001 standard. The key environmental aspects of our activities are identified in the EMS as landfill gas and leachate emissions to the surrounding receptors. The KPIs for each of these activities are set at every landfill site and reported on a monthly basis, both individually and in aggregate. The KPI for landfill gas relates to the proportion of gas migration monitoring points sampled that are compliant within given limits. The KPI for leachate, relates to the proportion of leachate level monitoring points that are compliant.
- For landfill gas migration, the average KPI compliance in 2007 was 92.8% (2006 93.2%). We continue to monitor performance in this area and have a program of capping in 2008 to improve this measure.
- Leachate monitoring continues in accordance with our permits, although it should be noted that re issued permits have varied the compliance levels at some sites. The re issue of permits at some sites is outstanding, and therefore the reliability of the leachate compliance KPI needs to reflect this uncertainty. Based on the consolidation of monitoring data, the comparison between December 2006 and December 2007 shows a 10.1% improvement in the average compliance of the Group's sites (51.3% in 2007 versus 41.2% in 2006). Taking into consideration the high levels of rainfall in 2007 this result is encouraging. It is anticipated that the progression of the Group leachate strategy, and our continuation of capping (and catch up capping) works should further improve the overall leachate picture in 2008.
- During 2007, WRG commenced the development of an Integrated Management System ("IMS") that included registration to ISO9001 for Quality Management and ISO18001 for Health and Safety management system procedures. The implementation of an integrated approach to WRG's management systems accommodates our growing needs and demands for the governance of organisational risk and will define the specification of common management standards. The benefits of such an integrated approach often include improved business focus including less conflict between systems, a reduction in duplication and bureaucracy and improved internal and external audit efficiency.

Directors

The Directors who served as directors of the Company during the year ended 31 December 2007 and up to the date of this report were as follows:

JR Meredith
LJD Cassells
SN Hardman
S N Jennings

Employees

The professionalism and commitment shown by our employees over the last year, during which time many structural and organisational changes have taken place, has been a major contribution to the successful integration of WRG into the FCC Group. The Board would like to thank all employees for their hard work and commitment during what has been another challenging and eventful year.

In 2007 there was an average workforce of 1,157 staff. The Group's employee turnover of 14.1% for 2007 (2006 16.7%) is less than the national average of 22.9% reported for the private sector in 2007.

The Group is committed to ensuring that our policies and practices reflect HR best practices for the whole life cycle of our employment relationship and our policy of equal opportunity gives all employees the same opportunity to succeed, irrespective of age, race, nationality, ethnic origin, disability, membership of a trade union, sex or marital status. The Group has a structured training and development programme and is fully committed to ensuring that all employees have the necessary skills and knowledge to do their jobs effectively. Subject to the nature of its businesses in the waste management industry, the policy of the Group is to ensure that there are fair opportunities for the employment and training of disabled persons.

Directors' report and business review (*continued*)

The Board are committed to maintaining the highest standards of honesty, openness and accountability and recognise that employees have an important part to play in achieving this goal. All employees are encouraged to report any concerns they may have over wrongdoing at work via the internal reporting system. Alternatively, WRG has engaged an independent confidential reporting (whistleblowing) service, should employees have concerns that they do not feel comfortable disclosing directly to management.

WRG conducts an annual independent and confidential employee survey through an external partner. The survey is used to obtain feedback from employees about working for the Group and the findings are used to respond to areas identified for improvement. The results of the last survey were very positive and told us that 76% of employees were proud to work for WRG and 75% said that their work gives them a feeling of personal accomplishment.

The Directors recognise the importance of communication with employees and members of the Executive management team regularly visit sites and discuss with staff, matters of current interest and concern to the business. In addition, there is a monthly Team Brief, whereby the Executive report on the month's successes and performance to the entire Group and all employees are given the opportunity to ask questions to the Executive management team. An in house magazine is also published on a regular basis.

Elective Regime

On 9 May 2006 the Company passed elective resolutions in accordance with section 379A of the Companies Act 1985 as amended (the "Act") to dispense with the formalities of

- the laying of accounts and reports before the Company in general meeting (section 252 of the Act),
- the holding of annual general meetings (section 366A of the Act), and
- the obligation to appoint auditors annually (section 386 of the Act)

Section 253(2) gives members the right to require the laying of accounts before the Company in general meeting. To exercise such right, a member must give notice in writing to that effect deposited at the registered office of the Company within 28 days of the day on which the report and financial statements are sent out in accordance with section 238(1) of the Act.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to a shareholders' elective resolution passed on 9 May 2006, the Company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office.

By order of the board



JM Bolton
Company Secretary

10 March 2008

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities



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Independent auditors' report to the members of WRG (Northern) Limited

We have audited the financial statements of WRG (Northern) Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 auditor's 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 9.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of WRG (Northern) Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31 March 2008

Profit and loss account
year ended 31 December 2007

	<i>Note</i>	Total 2007 £000	Continuing operations 2006 £000	Discontinued operations 2006 £000	Total 2006 £000
Turnover	2	16,329	17,888	1,507	19,395
Cost of sales		(14,460)	(20,318)	(948)	(21,266)
		<hr/>	<hr/>	<hr/>	<hr/>
Gross profit/(loss)		1,869	(2,430)	559	(1,871)
Administrative expenses		(613)	(1,223)		(1,223)
		<hr/>	<hr/>	<hr/>	<hr/>
Operating profit/(loss)		1,256	(3,653)	559	(3,094)
Profit on disposal of discontinued operations	3			32,199	32,199
		<hr/>	<hr/>	<hr/>	<hr/>
Profit/(loss) on ordinary activities before interest		1,256	(3,653)	32,758	29,105
Net interest (payable)/receivable	5	(315)			518
		<hr/>			<hr/>
Profit on ordinary activities before taxation	3	941			29,623
Tax on profit on ordinary activities	6				162
		<hr/>			<hr/>
Profit for the financial year	15	941			29,785
		<hr/>			<hr/>

All results in the year ended 31 December 2007 relate to continuing operations

There are no recognised gains and losses in either the financial year ended 31 December 2007 or previous financial year other than as stated in the profit and loss account. Therefore, no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on a historical cost basis and that shown in the profit and loss account.

Balance sheet
at 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Fixed assets			
Tangible assets	8	7,475	7,969
Investments	9	133	133
		<hr/> 7,608	<hr/> 8,102
Current assets			
Debtors amounts due within one year	10	42,083	42,731
Debtors amounts due after more than one year	11	586	1,552
		<hr/> 42,669	<hr/> 44,283
Total debtors		42,669	44,283
Creditors amounts falling due within one year	12	(38,085)	(38,744)
		<hr/> 4,584	<hr/> 5,539
Net current assets		4,584	5,539
Total assets less current liabilities		12,192	13,641
Provisions for liabilities and charges	13	(5,735)	(8,125)
		<hr/> 6,457	<hr/> 5,516
Net assets		6,457	5,516
Capital and reserves			
Called up share capital	14	3,500	3,500
Capital contribution reserve	15	2,000	2,000
Profit and loss account	15	957	16
		<hr/> 6,457	<hr/> 5,516
Equity shareholders' funds	16	6,457	5,516

These financial statements were approved by the board of Directors on 10 March 2008 and were signed on its behalf by


JJD Cassells
Director

Notes

(forming part of the financial statements)

1 Accounting policies

These financial statements are prepared in accordance with applicable United Kingdom accounting standards

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Accounting convention

The financial statements are prepared under the historical cost convention

Cash flow statement

The Company has taken advantage of the exemption, conferred by Financial Reporting Standard 1 (Revised) from presenting a cash flow statement as it is an indirectly wholly owned subsidiary of a group which has prepared a consolidated cash flow statement

Consolidation

The Company has claimed exemption from the preparation of consolidated financial statements under section 228 of the Companies Act 1985 as it is a subsidiary of a larger group which has prepared consolidated financial statements Accordingly, these financial statements present information about the Company only and not the group

Investment

Investments are stated at cost less provision for any impairment in value

Fixed assets and depreciation

Tangible fixed assets are shown at cost Depreciation is provided on tangible fixed assets in use at rates calculated to write off the cost less residual value of assets as follows

Freehold buildings	25 to 50 years
Freehold landfill sites	based on the void used in the year as a proportion of total void
Plant and machinery	3 to 10 years
Motor vehicles	4 years

Expenditure on freehold landfill sites and leasehold properties includes engineering costs Elements of these costs are classified according to their expected economic life and depreciated accordingly in proportion to the rate that waste is deposited All other assets are depreciated on a straight line basis

Decommissioning and after care costs

Full provision has been made for the net present value (NPV) of the Company's minimum unavoidable costs, in respect of decommissioning liabilities at the Company's landfill sites, which has been capitalised in fixed assets The Company continues to provide for all after care costs over the life of its landfill sites, based on the volumes of waste deposited in the year, since liabilities in relation to these costs increase as waste is deposited

All long term provisions for decommissioning and aftercare costs are calculated based on the NPV of estimated future costs Current cost estimates are inflated at 2.5 per cent and discounted at 5 per cent to calculate the NPV The effects of the unwinding of the discount element on existing provisions are reflected as a financial item

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents invoiced sales of goods and services including landfill tax, but excluding value added tax and discounts allowed

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised with discounting in respect of all timing differences between the treatment of certain items of taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Post retirement benefits

The Company participates in a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

2 Turnover

All turnover was generated in the United Kingdom principally from the handling, recycling and disposal of waste materials

3 Profit on ordinary activities before taxation

	2007 £000	2006 £000
Profit on ordinary activities before taxation is stated after crediting exceptional items		
Included in cost of sales		
(Decrease) / increase in decommissioning and after care provisions on revision of estimate of future costs (note a)	(2,834)	585
Increase in other provisions (note a)		286
	<u>(2,834)</u>	<u>871</u>
Profit on disposal of discontinued operations (note b)		<u>(32,199)</u>
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets owned	1,917	2,386
Operating lease rentals – plant and machinery	133	307
Loss on disposal of fixed assets	20	
	<u>2,070</u>	<u>3,000</u>

- (a) Reassessment of the Company's obligation for decommissioning and after care costs in respect of landfill sites and the recognition of other specific liabilities

Notes (continued)

3 Profit on ordinary activities before taxation (continued)

- b) On 16 May 2006 the Company sold the trade and net assets of its entire Waste to Energy division to Infinis Operations 2 Limited (formerly WRG Operations 2 Limited) for £39,300,000. Consideration was settled through the intercompany account on which interest was received until 27 September 2006 (note 5)

Auditors' remuneration in respect of audit fees has been met by Waste Recycling Limited, a fellow subsidiary undertaking of Waste Recycling Group Limited

4 Information regarding Directors and employees

None of the Directors received any remuneration or benefits from the Company during the year (2006 £nil). They are all remunerated as Directors or employees of Waste Recycling Group Limited, the indirect parent company of the Company

	2007 £000	2006 £000
Staff costs including Directors' emoluments		
Wages and salaries	669	688
Social security costs	76	71
Other pension costs	10	9
	<u>755</u>	<u>768</u>
Average number employed (including Directors) during the year was	<u>No</u> <u>30</u>	<u>No</u> <u>30</u>

5 Interest payable and similar charges

	2007 £000	2006 £000
Interest receivable and similar income		
Other interest receivable (note 3)		817
		<u>817</u>
Interest payable and similar charges		
Unwinding of discount (note 13)	(315)	(299)
	<u>(315)</u>	<u>(299)</u>
Net interest (payable)/receivable	<u>(315)</u>	<u>518</u>

Notes (continued)

6 Taxation

	2007 £000	2006 £000
UK Corporation tax		
United Kingdom corporation tax at 30% (2006 30%) based on profits for the year	<u> </u>	<u> </u>
Total current tax charge		
Deferred tax		
Timing differences, origination and reversal		(162)
	<u> </u>	<u> </u>
Tax on profit on ordinary activities		(162)
	<u> </u>	<u> </u>

The total current tax charge for both the current and previous year is less than the standard rate of 30% (2006 30%) for the reasons set out in the following reconciliation

	2007 £000	2006 £000
Profit on ordinary activities before tax	<u>941</u>	<u>29,623</u>
Tax on profit on ordinary activities at standard rate	282	8,887
Factors affecting charge		
Exempt loss on asset sales		(9,660)
Group loss relief surrendered	185	624
Depreciation in excess of capital allowances	490	459
Decrease in general provisions	(279)	(118)
Site preparation relief	(678)	(192)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

7 Dividends

	2007 £000	2006 £000
Interim dividend paid of £nil (2006 £6.86) per ordinary share		24,000
	<u> </u>	<u> </u>

Notes (continued)

8 Tangible fixed assets

	Landfill sites £000	Other freehold property £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2007	22,895	2,462	3,186	68	28,611
Additions	1,288	138	32		1,458
Disposals		(353)	(698)	(9)	(1,060)
At 31 December 2007	24,183	2,247	2,520	59	29,009
Depreciation					
At 1 January 2007	16,234	1,910	2,442	56	20,642
Charge for the year	1,607	159	148	3	1,917
Disposals		(318)	(698)	(9)	(1,025)
At 31 December 2007	17,841	1,751	1,892	50	21,534
Net book value					
At 31 December 2007	6,342	496	628	9	7,475
At 31 December 2006	6,661	552	744	12	7,969

9 Investments

Cost and net book value	£000
At 1 January 2007 and 31 December 2007	133

Details of the Company's subsidiary undertaking is set out below

Name of company	Incorporated	Nature of business	Proportion of voting rights and shares held
Airdriehill Quarries Limited	Scotland	Dormant	100%

10 Debtors: amounts due within one year

	2007 £000	2006 £000
Amounts due from fellow subsidiary undertakings	41,882	42,731
Other debtors	12	
Prepayments	189	
	<u>42,083</u>	<u>42,731</u>

Notes (continued)

11 Debtors: amounts due after more than one year

	2007 £000	2006 £000
Amounts prepaid to fellow group undertaking	586	1,552

12 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	301	
Amounts owed to fellow subsidiary undertakings	37,565	38,744
Accruals	219	
	<u>38,085</u>	<u>38,744</u>

13 Provisions for liabilities and charges

	Other provisions £000	Decomm issioning £000	Landfill aftercare £000	Total £000
At 1 January 2007	1,756	1,552	4,817	8,125
Charged/(credited) to profit and loss account	748	(886)	(1,331)	(1,469)
New provisions capitalised in tangible fixed assets	926			926
Unwinding of discount (note 5)	9	64	242	315
Utilised in year	(1,831)	(144)	(187)	(2,162)
	<u>1,608</u>	<u>586</u>	<u>3,541</u>	<u>5,735</u>
At 31 December 2007	1,608	586	3,541	5,735

The Company provides for the estimated cost of decommissioning its landfill sites at the end of their operational life and for their subsequent after care. The after care period is generally expected to be 60 years. All provisions are discounted from the date on which the expenditure is expected to occur.

Other provisions include the estimated cost of discharging environmental liabilities, including current capping of open landfill areas and the disposal of leachate, which arise during the operational phase of its landfill sites.

Deferred taxation

	2007 £000	Provided 2006 £000	Unprovided 2007 £000	2006 £000
Capital allowances in excess of depreciation	(8)			(260)
Short term timing differences	8		(1,018)	(1,100)
	<u>—</u>	<u>—</u>	<u>(1,018)</u>	<u>(1,360)</u>

The Company has unprovided deferred tax assets as there is insufficient certainty as to whether events will materialise to crystallise the deferred tax.

Notes (continued)

14 Called up share capital

	2007 £000	2006 £000
<i>Authorised, called up, allotted and fully paid</i>		
3,500,000 ordinary shares of £1 each	3,500	3,500

15 Reserves

	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2007	2,000	16	2,016
Profit for the financial year		941	941
At 31 December 2007	2,000	957	2,957

16 Reconciliation of movement in shareholders' funds

	2007 £000	2006 £000
Profit for the financial year	941	29,785
Dividends		(24,000)
Net additions to shareholders' funds	941	5,785
Opening shareholders' funds/(deficit)	5,516	(269)
Closing shareholders' funds	6,457	5,516

17 Contingent liabilities

- a) The Company is a member of a group VAT registration and as such has contingent liabilities for VAT in respect of other members of the Group
- b) On 25 September 2006, the Company together with several other Group companies, entered into a Letter of Credit Facility for £50 million with The Royal Bank of Scotland plc, allowing it to have performance bonds and letters of credit issued on its behalf necessary for the business of the Company
- c) On 21 December 2006, the Company was a party to the refinancing of Azincourt Investment SL "Azincourt" and its subsidiary companies. Azincourt was the company used by Fomento de Construcciones y Contratas, S A for the acquisition of Waste Recycling Group Limited and its subsidiary undertakings, including the Company. The Company agreed to advance funds to Azincourt under the group's cash pooling arrangements for the purposes of, among other things, the repayment of principal, interest or other amounts under the Facility Agreement, or the payment of any other costs or expenses incurred by Azincourt directly or indirectly in connection with its acquisition of Waste Recycling Group Limited. The Company also entered in to a floating charge over all its present and future rights, title and interest to the cash pooling account and all amounts credited to it in its favour. The Facility Agreement was amended on 27 March 2007 principally reducing the level of the Facility and on 22 June 2007 primarily to extend a deadline for the release of an escrow account fund from the EA.

Notes (continued)

18 Capital commitments

	2007 £000	2006 £000
Contracted for but not provided	<u> </u>	<u> </u>

19 Operating lease commitments

At 31 December 2007, the Company had annual commitments under non cancellable operating leases as follows

	Land and buildings 2007 £000	2006 £000	Plant and machinery 2007 £000	2006 £000
Which expire				
Within one year			2	
In two to five years	20	20		4
In over five years				
	<u>20</u>	<u>20</u>	<u>2</u>	<u>4</u>

20 Pension contributions

The Company participates in the defined contribution schemes operated by Waste Recycling Group Limited on behalf of its eligible employees. The assets of these schemes are held separately from those of the Company in independently administered funds.

The contributions made by the Company under the different schemes during the year were as follows

	2007 £000	2006 £000
Defined contribution schemes	<u>10</u>	<u>9</u>

21 Related party transactions

In the ordinary course of business, the Company also traded with fellow subsidiaries of Waste Recycling Group Limited.

The Company's Directors have, through historical association, an economic interest in Infinis Capital Limited, an indirect parent of Infinis Limited. Infinis provides gas management services to the Company and the WRG Group on certain of its' sites in accordance with the terms of a Service Level Agreement dated 11 July 2006.

In the period prior to the change in the Company's ultimate parent undertaking on 27 September 2006, the company also traded with fellow subsidiaries of WRG Holdings Limited (now Infinis Holdings Limited).

The Company has taken advantage of the exemption conferred by FRS 8 from disclosing details of these transactions.

Notes *(continued)*

22 Ultimate parent company

The Directors regard Fomento de Construcciones y Contratas, S A , a company registered in Spain, as the ultimate controlling party and the ultimate parent entity

Fomento de Construcciones y Contratas, S A is the parent company of the largest group of which the Company is a member and for which group accounts are drawn up Waste Recycling Group Limited is the parent company of the smallest group of which the Company is a member and for which group accounts are drawn up Copies of the financial statements of both Waste Recycling Group Limited and Fomento de Construcciones y Contratas, S A are available from the Company Secretary, Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG