

**MERCIA WASTE MANAGEMENT  
LIMITED**

**Report and Financial Statements  
For the year ended 31 December 2002**



# MERCIA WASTE MANAGEMENT LIMITED

## REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2002

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# MERCIA WASTE MANAGEMENT LIMITED

## REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2002

### OFFICERS AND PROFESSIONAL ADVISERS

#### DIRECTORS

FOCSA Services (UK) Limited  
Urbaser Limited

#### SECRETARY

*Clifford Chance Secretaries*

#### REGISTERED OFFICE

Brook House  
Oldham Road  
Middleton  
Manchester  
M24 1AY

#### BANKERS

HSBC  
PO Box 4  
6 Broad Street  
Worcester  
WR1 2EJ

Banco Bilbao Vizcaya Argentaria  
108 Cannon Street  
London  
EC4N 6EU

#### SOLICITORS

Clifford Chance LLP  
10 Upper Bank Street  
London  
E14 5JJ

Rickerbys Solicitors  
Ellenborough House  
Wellington Street  
Cheltenham  
GL50 1YD

#### AUDITORS

*Deloitte & Touche LLP*  
Chartered Accountants  
Manchester

## **DIRECTORS' REPORT**

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

### **PRINCIPAL ACTIVITIES AND REVIEW OF DEVELOPMENTS**

The group's principal activities are:

- the transport and disposal, mainly at the group's Hill and Moor landfill site, of domestic and commercial waste;
- the operation of household waste sites in Herefordshire and Worcestershire;
- the recovery and sale of recyclable material;
- the production and sale of compost; and
- the production and sale of electricity.

The company has a 25-year contract with Herefordshire and Worcestershire County Councils for the management and development of an integrated solution for the waste disposal of the area, including the operation of a landfill site at Hill and Moor and recycling facilities.

Severn Waste Services Limited ("Severn"), a fellow associated undertaking, operates all of the group's waste management installations under the terms of an Operating and Maintenance Agreement. Severn is responsible for performing the obligations of the group for which it receives reimbursements of operating costs and a management fee.

During the year the company's application for planning permission to construct an integrated waste management facility was refused. Negotiations are taking place with the County Councils to find a suitable alternative solution for the management of the waste stream in the two counties. As a consequence of the failure to obtain such a significant consent, the company's facilities with the Bank of Scotland were repaid. The conclusion of the relationship was by the mutual consent of the company, the bank and the County Councils. Suitable alternative arrangements have been made.

A total of £6,076,027 of costs associated with the failure of the planning application and the termination of bank facilities continues to be capitalised as at the balance sheet date. It is the view of the Directors that their value will be recovered when the current negotiations with the councils are concluded.

### **DIVIDENDS AND TRANSFERS TO RESERVES**

The audited financial statements for the year ended 31 December 2002 are set out on pages 6 to 19. The group's loss for the year after taxation was £416,780 (2001 - profit of £230,416).

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

### **FUTURE PROSPECTS**

Despite the planning setback referred to above, the company has managed to enhance its performance in several areas. The directors are satisfied with the current trading performance and are fully engaged in seeking a mutually beneficial outcome to the current negotiations with the councils.

### **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.

## DIRECTORS' REPORT

### DONATIONS

The company and group made no political or charitable donations during the year.

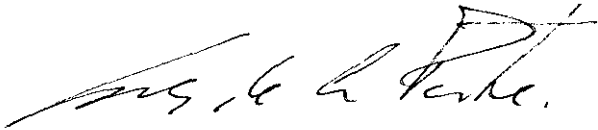
Contributions of £888,495 (2001 - £750,000) were made by the group under the Landfill Tax Credit Scheme. The net cost to the group of these payments was £88,849 (2001 - £75,000).

### AUDITORS

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

On 1 August 2003 Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

**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 group and enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for the system of internal control, 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 MERCIA WASTE MANAGEMENT LIMITED

We have audited the financial statements of Mercia Waste Management Limited for the year ended 31 December 2002, which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes 1 to 19. 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 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 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 and group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section 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 and the group 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.

### Qualified opinion arising from disagreement about accounting treatment

Included in tangible fixed assets shown in the group and company balance sheet is £1,934,902 in relation to costs incurred in respect of the proposed development of an Integrated Waste Management Facility at Kidderminster. Included in debtors is £4,141,125 in relation to the creation and maintenance of the company's loan facilities with the Bank of Scotland, for the financing of this proposed development and associated interest rate swap losses. As stated on page 2, planning permission for this plant was refused during the year and the banking facilities terminated.

In our opinion, these costs do not therefore provide any future economic benefit to the group and should be written off to the profit and loss account, which would increase the group's loss before tax by £6,076,027 to £6,292,665 and reduce consolidated net assets to a consolidated net liabilities position of £3,503,384. This would also increase the company's loss before tax by the same amount from £503,920 to £6,579,947 and reduce the company's net assets to net liabilities of £4,856,844.

Except for the failure to account for the above write off, in our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Manchester

*Deloitte & Touche LLP*  
*19 December 2003* 5

# MERCIA WASTE MANAGEMENT LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Note	2002 £	2001 £
<b>TURNOVER</b>	1	17,672,663	15,592,032
Cost of sales		(16,824,571)	(14,373,766)
<b>GROSS PROFIT</b>		848,092	1,218,266
Administrative expenses		227,725	(134,604)
Other operating income		-	65,535
<b>OPERATING PROFIT</b>	3	1,075,817	1,149,197
Interest receivable and similar income		216,913	54,706
Interest payable and similar charges	4	(1,509,368)	(787,216)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(216,638)	416,687
Tax on (loss)/profit on ordinary activities	5	(200,142)	(186,271)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR</b>		(416,780)	230,416
<b>Retained profit brought forward</b>		2,889,423	2,659,007
<b>Retained profit carried forward</b>		2,472,643	2,889,423

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

All activity arose from continuing operations.

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



# MERCIA WASTE MANAGEMENT LIMITED

## RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

Year ended 31 December 2002

	2002 £	2001 £
(Loss)/profit for the financial year	(416,780)	230,416
Opening shareholders' funds	<u>2,989,423</u>	<u>2,759,007</u>
Closing shareholders' funds	<u><u>2,572,643</u></u>	<u><u>2,989,423</u></u>

# MERCIA WASTE MANAGEMENT LIMITED

## CONSOLIDATED BALANCE SHEET 31 December 2002

	Note	2002 £	2001 £
<b>FIXED ASSETS</b>			
Negative goodwill	6	(1,441,995)	(1,273,630)
Tangible assets	7	20,028,539	13,874,072
Investments	8	-	500
		<u>18,586,544</u>	<u>12,600,942</u>
<b>CURRENT ASSETS</b>			
Debtors			
- amounts falling due within one year	9	4,817,609	3,853,754
- amounts falling due after more than one year	9	4,141,125	3,081,541
Cash at bank and in hand		551,900	181,489
		<u>9,510,634</u>	<u>7,116,784</u>
<b>CREDITORS: amounts falling due within one year</b>	10	(21,721,342)	(5,427,594)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(12,210,708)</u>	<u>1,689,190</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,375,836	14,290,132
<b>CREDITORS: amounts falling due after more than one year</b>	11	-	(8,871,957)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12	(3,803,193)	(2,428,752)
<b>NET ASSETS</b>		<u>2,572,643</u>	<u>2,989,423</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	100,000	100,000
Profit and loss account	16	2,472,643	2,889,423
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>2,572,643</u>	<u>2,989,423</u>

The financial statements were approved by the board of directors on 16 December 2003 and signed on its behalf by:



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

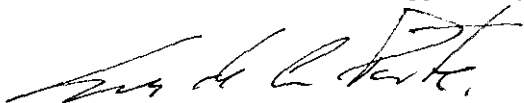
The accompanying notes are an integral part of this consolidated balance sheet.

**MERCIA WASTE MANAGEMENT LIMITED**

**COMPANY BALANCE SHEET**  
**31 December 2002**

	Note	2002 £	2001 £
<b>FIXED ASSETS</b>			
Tangible assets	7	20,028,539	13,874,072
Investments	8	641,320	1,050,017
		<u>20,669,859</u>	<u>14,924,089</u>
<b>CURRENT ASSETS</b>			
Debtors			
- amounts falling due within one year	9	5,901,627	4,620,714
- amounts falling due after more than one year	9	4,141,125	3,081,541
Cash at bank and in hand		256,798	85,389
		<u>10,299,550</u>	<u>7,787,644</u>
<b>CREDITORS: amounts falling due within one year</b>	10	(25,947,033)	(9,491,499)
<b>NET CURRENT LIABILITIES</b>		<u>(15,647,483)</u>	<u>(1,703,855)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		5,022,376	13,220,234
<b>CREDITORS: amounts falling due after more than one year</b>	11	-	(8,871,957)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12	(3,803,193)	(2,428,752)
<b>NET ASSETS</b>		<u>1,219,183</u>	<u>1,919,525</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	100,000	100,000
Profit and loss account	16	1,119,183	1,819,525
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>1,219,183</u>	<u>1,919,525</u>

The financial statements were approved by the board of directors on 16 December 2003 and signed on its behalf by:



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

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

# MERCIA WASTE MANAGEMENT LIMITED

## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

	Note	2002		2001	
		£	£	£	£
Net cash inflow from operating activities	13		797,638		1,451,989
<b>Returns on investments and servicing of finance</b>					
Interest received		217,047		54,487	
Interest paid		<u>(1,652,743)</u>		<u>(363,368)</u>	
Net cash outflow from returns on investments and servicing of finance			(1,435,696)		(308,881)
Taxation received/(paid)			317,518		(235,839)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(7,088,089)		(4,179,284)	
Sale of tangible fixed assets		<u>114,604</u>		<u>26,495</u>	
Net cash outflow from capital expenditure and financial investment			(6,973,485)		(4,152,789)
Net cash outflow before financing			(7,294,025)		(3,245,520)
<b>Financing</b>					
New loans		10,000,000		2,000,000	
Repayment of loans		<u>(8,871,957)</u>		<u>-</u>	
Net cash inflow from financing			1,128,043		2,000,000
Decrease in cash in the year	14		<u>(6,165,982)</u>		<u>(1,245,520)</u>

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

## STATEMENT OF ACCOUNTING POLICIES

Year ended 31 December 2002

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year, apart from the policy for deferred tax which has been updated for FRS 19 and had no impact on the results for each year.

### Basis of accounting

The consolidated financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

### Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertaking drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

The company has taken advantage of the exemption in FRS 8 not to disclose details of transactions with group undertakings where 90% or more of the voting rights are controlled within the group. Other related party transactions are set out in note 19.

The loss for the financial year dealt with in the financial statements of the parent company, Mercia Waste Management Limited was £700,342 (2001 - £29,446). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

### Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit, which is 10 years.

### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on other tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over their expected useful lives as follows:

Freehold - buildings	22 years
Short leasehold land and buildings	5 - 10 years
Long leasehold land and buildings	25 - 50 years
Plant and machinery	1 - 10 years
Vehicles	1 - 5 years
Fixtures, fittings and equipment	1 - 7 years

No depreciation is provided on freehold land and assets in the course of construction.

Residual value is calculated on prices prevailing at the date of acquisition.

The landfill site is depreciated over its useful life by reference to the volume of waste deposited during the period and the directors' assessment of the total capacity of the site.

**STATEMENT OF ACCOUNTING POLICIES (continued)**

**Year ended 31 December 2002**

**Cell preparation, restoration and aftercare**

During the year, the basis on which cell preparation assets and liabilities are calculated was changed, in order to more fairly reflect the appropriate allocation of costs.

**Cell preparation**

Cell preparation costs are capitalised and depreciated on the basis of waste deposited as a proportion of the total capacity of the site as a whole.

**Restoration**

Provision is made for anticipated future costs of restoring the landfill site, based on the quantity of waste deposited in the period, since the liabilities in relation to these costs increase as waste is deposited. Anticipated future costs have been discounted at an appropriate rate and the unwinding of the discount is disclosed within interest payable and similar charges.

Where site activities that have taken place generate assets for use in future restoration activities, these amounts are included within the restoration prepayment.

**Aftercare**

Provision is made over the life of the landfill site for the anticipated future costs of managing the landfill site after closure, based on the quantity of waste deposited in the period, since the liabilities in relation to these costs increase as waste is deposited.

**Fixed asset investments**

Fixed asset investments are shown at cost less provision for impairment.

**Finance costs**

Finance costs of debt are recognised over the term of such instruments at a constant rate on the carrying amount in fixed assets during the construction period, where the debt is financing construction of fixed assets, or otherwise in the profit and loss account.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of these assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

**Debt**

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Issue costs incurred in advance of debt being drawn down are shown in prepayments and accrued income.

**Deferred taxation**

FRS 19 has been adopted in the year. Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date, to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax and liabilities are not discounted.

**Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts and VAT.

# MERCIA WASTE MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2002

### 1. TURNOVER

Turnover relates to the principal activity and arose entirely within the UK.

### 2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no remuneration for their services from the group during either year.

The company has no employees.

### 3. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2002 £	2001 £
Depreciation on tangible fixed assets – owned	1,056,906	1,255,718
Amortisation of negative goodwill	(240,332)	(181,946)
Profit on disposal of fixed assets	(3,257)	(23,409)
Loss on disposal of fixed asset investment	500	-
Auditors' remuneration – audit services	27,500	17,000
Exceptional items	1,258,983	-

The amount relating to exceptional items is made up as follows:

1. provision for losses arising from a Contractual Review	787,108	-
2. provision for non-utilisation of assets already purchased	471,875	-

Point (1) relates to potential adjustments arising from the contractual review currently being undertaken by the Company and the Councils, following the Councils' decision not to proceed with the development of an Integrated Waste Management Facility at Kidderminster, Worcestershire.

Point (2) refers to Plant and Machinery that the company has a commitment to purchase but which cannot currently be employed.

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Bank loans and overdrafts	535,834	652,835
Interest payable on loans owed to joint venture shareholders	347,736	94,328
Unwinding of discounted aftercare provision	28,150	39,709
Exchange losses	26,040	24,794
Other finance charges	714,983	156,986
	<u>1,652,743</u>	<u>968,652</u>
Interest capitalised	(143,375)	(181,436)
	<u>1,509,368</u>	<u>787,216</u>

# MERCIA WASTE MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

### 5. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2002 £	2001 £
United Kingdom corporation tax at 30% (2001 – 30%) based on the (loss)/profit for the year	-	(88,774)
Adjustments to prior years' tax provisions	(39,338)	(294,542)
Group relief	-	-
	<hr/>	<hr/>
Total current tax	(39,338)	(383,316)
Deferred tax	105,812	189,552
Adjustments to prior years' tax provisions		
Deferred taxation	133,668	380,035
	<hr/>	<hr/>
	200,142	186,271
	<hr/>	<hr/>

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

	2002 £	2001 £
(Loss)/profit on ordinary activities before tax	(216,638)	416,687
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2001 – 30%)	(64,991)	125,006
Expenses not deductible for tax purposes	165,201	(30,333)
Capital allowances in excess of depreciation	(111,024)	(9,806)
Losses carried forward	-	62,215
Movement in short-term timing differences	26,323	(235,856)
Other deferred tax movements	(21,111)	-
Notional capital allowances	5,602	-
Prior period adjustment	(39,338)	(294,542)
	<hr/>	<hr/>
	(39,338)	(383,316)
	<hr/>	<hr/>

### 6. INTANGIBLE FIXED ASSETS

Group	Negative goodwill
Cost	£
At 1 January 2002	1,819,468
Refund of purchase consideration	408,697
	<hr/>
At 31 December 2002	2,228,165
	<hr/>
Amortisation	
At 1 January 2002	545,838
Credit for the year	240,332
	<hr/>
At 31 December 2002	786,170
	<hr/>
Net book value	
At 31 December 2002	1,441,995
	<hr/>
At 1 January 2002	1,273,630
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**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended 31 December 2002**

**6. INTANGIBLE FIXED ASSETS (continued)**

Negative goodwill is being written back on a straight line basis over a period of 10 years, which is equal to the period over which the related non-monetary assets of the acquired business are being depreciated.

The additions during the year of £408,697 (2001: £nil) relate to a reduction in the original acquisition cost of Beacon Waste Limited. In accordance with FRS 10 this has been reflected as an adjustment to the original cost of the investment.

**MERCIA WASTE MANAGEMENT LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended 31 December 2002

**7. TANGIBLE FIXED ASSETS**

**Group and Company**

	Freehold Land				Plant, machinery, vehicles, fixtures, fittings and equipment £	Assets under construction £	Total £
	Freehold land and buildings £	Site £	Cell preparation £	Short leasehold land and buildings £			
<b>Cost</b>							
At 1 January 2002	144,654	2,892,134	1,567,299	3,389,215	4,793,842	2,947,367	16,579,334
Additions	1,237,174	-	131,335	243,817	1,043,553	4,675,052	7,330,931
Transfers	-	-	37,980	3,002,941	-	(3,040,921)	-
Reclassification	-	(212,413)	112,946	-	-	-	(99,467)
Disposals	-	-	-	-	(31,844)	(104,832)	(136,676)
At 31 December 2002	1,381,828	2,679,721	1,849,560	6,635,973	5,805,551	4,476,666	23,674,122
<b>Depreciation</b>							
At 1 January 2002	61,662	458,007	864,836	118,454	1,121,408	-	2,705,262
Charge for year	363	53,955	276,082	221,933	483,112	-	1,056,906
Disposals	-	-	-	-	(25,329)	-	(25,329)
Reclassification	-	(91,256)	-	-	-	-	(91,256)
At 31 December 2002	62,025	420,706	1,140,918	340,387	1,579,191	-	3,645,583
<b>Net book value</b>							
At 31 December 2002	1,319,803	2,259,015	708,642	6,295,586	4,226,360	4,476,666	20,028,539
At 1 January 2002	82,992	2,434,127	702,463	3,270,761	3,672,434	2,947,367	13,874,072

Assets under construction includes £397,841 (2001 - £254,466) of capitalised interest.

Included in freehold land and buildings is land of £1,312,478 (2001 - £75,304) which has not been depreciated.

The reclassification of site assets reflects the transfer of certain site assets to be accounted for as restoration costs (see statement of accounting policies).

# MERCIA WASTE MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2002

### 8. INVESTMENTS HELD AS FIXED ASSETS

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Subsidiary undertaking	-	-	641,320	1,050,017
Associated undertaking	-	500	-	-
At 31 December 2002	-	500	641,320	1,050,017

The above amounts represent cost and net book value.

The movement in the year of £408,697 (2001: £nil) relates to a refund in respect of the acquisition cost of Beacon Waste Limited and is explained in note 6.

#### Principal group investments

The parent company and the group have the following investment, which principally affected the results or net assets of the group.

Name	Country of registration	Principal activity	Class and percentage of shares held
Beacon Waste Limited	England and Wales	Waste management	100% ordinary shares

During the year, the group disposed of its holding in The Composting Company Limited for nil consideration.

### 9. DEBTORS

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	3,944,821	3,059,331	3,902,725	2,740,332
Amounts owed by subsidiary undertakings	-	-	1,130,966	1,130,966
Amounts owed by joint venture shareholders	-	134	-	134
Corporation tax recoverable	102,530	356,854	102,530	356,854
VAT recoverable	4,154	-	-	-
Other debtors	43,840	-	43,142	-
Prepayments and accrued income	10,342	45,873	10,342	866
Restoration prepayment	711,922	391,562	711,922	391,562
	4,817,609	3,853,754	5,901,627	4,620,714
Amounts falling due after more than one year:				
Prepayments and accrued income	4,141,125	3,081,541	4,141,125	3,081,541
	8,958,734	6,935,295	10,042,752	7,702,255

Prepayments and accrued income due after more than one year include issue costs and other finance costs associated with a loan facility. The facility was never drawn down and was cancelled during the current year.

# MERCIA WASTE MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2002

### 10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Bank loans and overdrafts	7,224,776	688,383	7,224,776	688,383
Trade creditors	528,314	674,005	375,781	393,138
Landfill tax payable	619,320	613,535	619,320	613,535
VAT payable	168,513	74,295	168,513	55,805
Amounts owed to group undertakings	-	-	4,427,782	4,299,921
Group relief payable	-	-	-	89,679
Loans owed to joint venture shareholders (note 19)	12,000,000	2,000,000	12,000,000	2,000,000
Amounts owed to fellow associated undertaking	871,789	823,238	871,789	823,238
Amounts owed to joint venture shareholders	-	74,913	-	74,913
Corporation tax payable	43,057	19,201	-	-
Other creditors	112,211	105,542	112,211	105,505
Accruals and deferred income	153,362	354,482	146,861	347,382
	<u>21,721,342</u>	<u>5,427,594</u>	<u>25,947,033</u>	<u>9,491,499</u>

The bank overdraft is secured by guarantees given by the joint venture shareholders.

### 11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Borrowings are repayable as follows:

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Bank loan				
Between one and two years	-	8,871,957	-	8,871,957

The bank loan was repaid during the year. Interest was previously charged at a variable rate and was secured by the provider of finance having a fixed and floating charge over the company's assets.

### 12. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation	Cell preparation provision	Restoration provision	Aftercare provision	Other provisions	Total
	£	£	£	£	£	£
Group and company						
At 1 January 2002	713,326	307,905	-	1,407,521	-	2,428,752
Charged to profit and loss account	239,480	-	170,497	86,282	884,013	1,380,272
Adjustments	-	(307,905)	419,076	-	-	111,171
Utilised in the year	-	-	(117,002)	-	-	(117,002)
At 31 December 2002	<u>952,806</u>	<u>-</u>	<u>472,571</u>	<u>1,493,803</u>	<u>884,013</u>	<u>3,803,193</u>

'Adjustments' relates to the change in accounting basis for cell preparation and restoration as noted in the statement of accounting policies.

Other provisions are provisions for non-utilisation of assets already purchased and other immaterial items.

#### Deferred taxation

Deferred taxation is provided as follows:

	2002	2001
	£	£
Group and company		
Accelerated capital allowances	905,561	658,072
Other timing differences	80,988	117,469
Tax losses available	(33,743)	(62,215)
	<u>952,806</u>	<u>713,326</u>

# MERCIA WASTE MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

### 13. RECONCILIATION OF OPERATING PROFIT NET CASH FLOWS FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	1,075,817	1,149,197
Depreciation charges	965,650	1,255,718
Loss on disposal of fixed asset investment	500	-
Profit on disposal of fixed assets	(3,257)	(23,409)
Amortisation of negative goodwill	(240,332)	(181,946)
Increase in debtors	(1,869,200)	(218,954)
Decrease in creditors	(266,501)	(516,318)
Increase/(decrease) in provisions	1,134,961	(12,299)
Net cash inflow from operating activities	<u>797,638</u>	<u>1,451,989</u>

### 14. ANALYSIS AND RECONCILIATION OF NET DEBT

	1 January 2002 £	Cash flow £	31 December 2002 £
Cash in hand, at bank	181,489	370,411	551,900
Bank overdraft	(688,383)	(6,536,393)	(7,224,776)
	(506,894)	(6,165,982)	(6,672,876)
Debt due in less than one year	(2,000,000)	(10,000,000)	(12,000,000)
Debt due in more than one year	(8,871,957)	8,871,957	-
Net debt	<u>(11,378,851)</u>	<u>(7,294,025)</u>	<u>(18,672,876)</u>
		2002 £	2001 £
Decrease in cash in the year		(6,165,982)	(1,245,520)
Net cash outflow from increase in debt financing		(1,128,043)	(2,000,000)
Non-cash outflow		-	(565,574)
Movement in net debt in year		(7,294,025)	(3,811,094)
Net debt at beginning of year		(11,378,851)	(7,567,757)
Net debt at end of year		<u>(18,672,876)</u>	<u>(11,378,851)</u>

The non-cash outflow represents interest rolled up on the bank loan plus amortisation of debt issue costs.

### 15. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Called up, allotted and fully paid		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

# MERCIA WASTE MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

### 16. RESERVES

Group	Profit and loss account £
At 1 January 2001	2,889,423
Retained loss for the year	(416,780)
	<hr/>
At 31 December 2002	2,472,643
	<hr/>
<b>Company</b>	
At 1 January 2001	1,819,525
Retained loss for the year	(700,342)
	<hr/>
At 1 January 2002	1,119,183
	<hr/>

### 17. FINANCIAL COMMITMENTS

At 31 December 2002 contracted capital commitments in the group and in the company amounted to £1,342,257 (2001 - £7,792,707).

### 18. ULTIMATE CONTROLLING PARTY

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

### 19. RELATED PARTY TRANSACTIONS

#### Trading transactions

The company and the group previously appointed Severn Waste Services Limited ("Severn"), a fellow associated undertaking of the company, to operate all of the company's and group's planned and existing waste management installations under the terms of an Operating and Maintenance Agreement. Severn is responsible for performing the obligations of the company and the group and received a fee of £9,842,832 for this in the year (2001 - £8,437,682).

The company and the group also previously appointed Severn, via a Construction Management Agreement, to co-ordinate the development (including the design, construction or refurbishment) and operation of the company's and the group's waste management facilities. The company and the group paid Severn £285,973 in the year (2001 - £287,339).

The company was also charged other operating expenses totalling £3,397 (2001 - £34,663) by Severn.

The trading balance due to Severn by the company and the group at 31 December 2002 was £871,789 (2001 - £823,238).

Of the above amounts payable to Severn, the company and the group have capitalised £3,397 (2001 - £34,663) in fixed assets.

During the previous year, FOCSA Services (UK) Limited used the company's and the group's landfill site generating turnover for the company and group of £nil (2001 - £134). The amount outstanding at 31 December 2002 was £nil (2001 - £134).

#### Non-trading transactions

During the year, the company received a £5,000,000 (2001 - £1,000,000) loan from each of the joint venture shareholders. Interest is charged at bank base rate plus 1.5% - 2%.