USF Surface Preparation Limited

Directors' report and financial statements

Registered number 33672

31 December 2001

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2001.

Principal activities

The principal activities of the company are the manufacture and supply of surface preparation machinery and associated spare parts and servicing.

Business review

Turnover was £35,027,000 in the year ended 31 December 2001 compared to £35,112,000 for the year ended 31 December 2000. Operating losses for the year ended 31 December 2001 were £575,000 compared to £1,219,000 profit for the year ended 31 December 2000.

Results and dividends

The audited accounts for the year ended 31 December 2001 are set out on pages 5 to 21. The loss for the year after taxation was £1,255,000 *(31 December 2000 – profit £122,000).*

The directors do not recommend payment of a dividend *(2000: £nil).*

Directors and directors' interests

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

A T Carmichael

S A Cole

H A Rodder

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them during the financial year.

Market value of land and buildings

In the opinion of the directors there is no material difference between the book and the current open market value of interests in land and buildings.

Directors' report *(continued)*

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The directors are responsible for communicating relevant information to all employees and for developing their involvement in company affairs as appropriate.

Company's policy on payment of creditors

The group agrees terms and conditions which include payment details with its suppliers. Payment is made in accordance with those terms and conditions, provided that the supplier has also complied with them. At 31 December 2001 the average number of days trade creditors was 44 *(2000: 50)*.

Auditors

Andersens resigned as auditors on 8 July 2002. KPMG LLP were appointed during the year to fill a casual vacancy.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A T Carmichael
Director

PO Box 60
Craven Road
Broadheath
Altrincham
Cheshire
WA14 5EP

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 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 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.

KPMG

St James' Square
Manchester M2 6DS
United Kingdom

Report of the independent auditors to the members of USF Surface Preparation Limited

We have audited the financial statements on pages 5 to 21.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

31 January 2003

Profit and loss account

for the year ended 31 December 2001

	Note	**2001 £000**	2000 £000
Turnover – continuing operations	*2*	**35,027**	35,112
Cost of sales		**(26,247)**	(27,424)
Gross profit		**8,780**	7,688
Other operating expenses		**(9,355)**	(6,469)
Operating (loss)/profit from continuing operations		**(575)**	1,219
Interest payable and similar charges	*4*	**(677)**	(1,134)
(Loss)/profit on ordinary activities before taxation		**(1,252)**	85
Tax on (loss)/profit on ordinary activities	*7*	**(3)**	37
(Loss)/profit on ordinary activities after taxation and retained for the year		**(1,255)**	122

The company has no recognised gains or losses other than those reported above, and therefore no statement of total recognised gains and losses has been presented.

Balance sheet
at 31 December 2001

	Note	2001 £000	2000 £000
Fixed assets			
Intangible assets	*8*	**1,266**	1,368
Tangible assets	*9*	**4,778**	5,206
Investments	*10*	**4,571**	5,231
		10,615	11,805
Current assets			
Stocks	*11*	**5,073**	5,216
Debtors	*12*	**20,884**	19,633
Cash at bank and in hand		**855**	1,782
		26,812	26,631
Creditors: amounts falling due within one year	*13*	**(15,489)**	(14,225)
Net current assets		**11,323**	12,406
Total assets less current liabilities		**21,938**	24,211
Creditors: amounts falling due after more than one year	*14*	**(15,577)**	(16,666)
Provisions for liabilities and charges	*15*	**(296)**	(225)
Net assets		**6,065**	7,320
Capital and reserves			
Called up share capital	*16*	**1,336**	1,336
Share premium account	*17*	**314**	314
Other reserve	*17*	**169**	169
Profit and loss account	*17*	**4,246**	5,501
Shareholders' funds		**6,065**	7,320
Shareholders' funds may be analysed as:			
Equity interests		**4,745**	6,000
Non-equity interests		**1,320**	1,320
		6,065	7,320

These financial statements were approved by the board of directors on 27/11/03 and were signed on its behalf by:

A T Carmichael

A T Carmichael
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2001

	2001	2000
	£000	£000
(Loss)/profit for the financial year	**(1,255)**	122
Net (reduction in)/addition to shareholders' funds	**(1,255)**	122
Opening shareholders' funds	**7,320**	7,198
Closing shareholders' funds	**6,065**	7,320

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about the group.

The company is exempt from the requirement of FRS 1 to present a cash flow statement as its ultimate parent company, Vivendi Environnement SA prepares consolidated accounts including a cash flow statement which are publicly available.

As the company is a wholly owned subsidiary of Wheelabrator Technologies (UK) Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements within which this company is included, can be obtained from the address given in note 21.

Intangible fixed assets and amortisation

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, which is twenty years. Provision is made for any impairment.

Patents and trade marks are included at cost and depreciated in equal, annual instalments over a period of eight years which is their estimated useful economic life. Provision is made for any impairment.

Fixed assets and depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	2% to 2.5% per annum
Short leasehold land and buildings	Term of lease
Plant and equipment	10% to 25% per annum
Motor vehicles, computers, office equipment fixtures and fittings	25% per annum

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

Investments

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

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials (on a first in first out basis), direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pension costs and other post retirement benefits

The company offers pensions to substantially all employees through a defined benefit scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular costs are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Finance costs

Finance costs of debt and non-equity shares are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for non-equity shares are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss account as an appropriation of profits.

Turnover

Turnover represents the accounts (excluding value added tax) derived from the provision of goods and services to customers.

Notes *(continued)*

2 Turnover and profit on ordinary activities before taxation

An analysis of turnover by geographical market is given below:

	2001 £000	2000 £000
United Kingdom	**17,604**	20,104
Rest of World	**17,423**	15,008
	35,027	35,112

All turnover arises from the principal activity of the company.

3 (Loss)/profit on ordinary activities before taxation

	2001 £000	2000 £000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and amounts written off tangible assets:		
Owned	**610**	835
Held under finance leases and hire purchase contracts	**47**	43
Amortisation of patents and trademarks	**12**	12
Amortisation of goodwill	**90**	89
Loss/(profit) on sale of fixed assets	**63**	(8)
Operating lease rentals – plant and machinery	**613**	487
Operating lease rentals - Land and buildings	**701**	701
Auditors' remuneration - audit	**45**	48

4 Interest payable and similar charges

	2001 £000	2000 £000
Finance charges payable in respect of finance leases and hire purchase contracts	**22**	24
On all other loans	**240**	283
On bank loans and overdrafts	**206**	307
Exchange loss on foreign currency borrowings	**209**	520
	677	1,134

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year (analysed by category) was as follows:

	2001	2000
Production	**221**	284
Sales	**94**	79
Administration	**44**	38
	359	401

The aggregate payroll costs of these persons were as follows:

	2001	2000
	£000	£000
Wages and salaries	**8,451**	8,649
Social security costs	**701**	754
Other pension costs (see note 19)	**509**	408
	9,661	9,811

6 Directors' remuneration and transactions

	2001	2000
	£000	£000
Directors' emoluments	**373**	213
Company contributions to money purchase pension schemes	**14**	3
	387	216
Compensation for loss of office	**-**	8
	387	224

Notes *(continued)*

6 Directors' remuneration and transactions *(continued)*

The emoluments, excluding pension contributions, of the highest paid director were £131,000 *(2000:£114,000),* and pension contributions of £1,500 *(2000:£12,000)* were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to the following numbers of directors under:

	2001	2000
	£000	£000
Money purchase schemes	**2**	1
Defined benefit schemes	**1**	2
	3	3

7 Tax on profit on ordinary activities

Analysis of charge for year:

	2001	2000
	£000	£000
UK corporation tax		
Current tax on income for the year	**3**	(37)

The company has tax losses to carry forward at 31 December 2001 of approximately £727,000 *(2000: £170,000).*

Notes *(continued)*

8 Intangible fixed assets

	Patents and trade marks £000	Goodwill £000	Total £000
Cost			
At beginning and end of year	96	1,802	1,898
Amortisation			
At beginning of year	52	478	530
Charge for the year	12	90	102
At end of year	64	568	632
Net book value			
At 31 December 2001	**32**	**1,234**	**1,266**
At 31 December 2000	44	1,324	1,368

The directors consider each acquisition separately for the purposes of determining the amortisation period of any goodwill that arises. The directors consider the useful economic life of these acquisitions is 20 years, and therefore goodwill is amortised over this period.

Notes *(continued)*

9 Tangible fixed assets

	Freehold property £000	Short leasehold £000	Plant and machinery £000	Total £000
Cost				
At beginning of year	3,302	112	7,697	11,111
Additions	5	-	356	361
Disposals	-	-	(760)	(760)
At end of year	3,307	112	7,293	10,712
Depreciation				
At beginning of year	534	112	5,259	5,905
Charge for year	10	-	647	657
Disposals	-	-	(628)	(628)
At end of year	544	112	5,278	5,934
Net book value				
At 31 December 2001	**2,763**	**-**	**2,015**	**4,778**
At 31 December 2000	2,768	-	2,438	5,206

Included in the total net book value of plant and machinery is £323,384 *(2000:£330,000)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £47,000 *(2000: £43,000)*

Included within freehold property is £336,000 *(2000: £336,000)* of land which has not been depreciated.

Notes *(continued)*

10 Fixed asset investments

	Shares in group undertakings £000	Other investments £000	Total £000
Cost			
At beginning of year	5,108	123	5,231
Disposals	(660)	-	(660)
At end of year	4,448	123	4,571

The companies in which the company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class of share	%
Tilghman Wheelabrator Blasrac Limited	England	Dormant	Ordinary	100
Vacu-Blast Europe Limited	England	Dormant	Ordinary	100
Vacu-Blast Limited	England	Dormant	Ordinary	100
Metaref Limited	England	Dormant	Ordinary	100
Matrasur Composites SA	France	Holding	Ordinary	100

11 Stocks

	2001 £000	2000 £000
Raw materials and consumables	966	774
Work in progress	510	610
Finished goods and goods for resale	3,597	3,832
	5,073	5,216

12 Debtors

	2001 £000	2000 £000
Trade debtors	6,572	6,643
Amounts owed by group undertakings	13,231	12,212
Other debtors	341	62
Prepayments	740	716
	20,884	19,633

All debtors fall due within one year.

Notes *(continued)*

13 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Obligations under finance leases and hire purchase contracts	**98**	97
Bank loans and overdrafts	**3,394**	3,647
Trade creditors	**3,953**	3,925
Amounts owed to group undertakings	**6,397**	5,287
Other taxation and social security	**239**	439
Other creditors	**188**	25
Accruals	**1,220**	805
	15,489	14,225

14 Creditors: amounts falling due after more than one year

	2001 £000	2000 £000
Obligations under finance leases and hire purchase contracts	**88**	140
Bank loans and overdrafts	**-**	37
Amounts owed to group undertakings	**15,489**	16,489
	15,577	16,666

Analysis of debt:

	£000	£000
Debt can be analysed as falling due:		
On demand or within one year	**3,394**	3,647
Between one and two years	**-**	37
	3,394	3,684

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2001 £000	2000 £000
On demand or within one year	**98**	97
Between one and two years	**68**	77
Between two and five years	**20**	63
	186	237

Notes *(continued)*

15 Provisions for liabilities and charges

	Product warranties £000
At 1 January 2001	**225**
Charged to profit and loss account	**296**
Utilised in year	**(225)**
At 31 December 2001	**296**

The provision for product warranties relates to expected warranty claims on products sold generally in the last twelve months. It is expected that most of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

Deferred taxation provided and deferred taxation not provided are as follows:

	2001 Provided £000	**2001 Unprovided £000**	2000 Provided £000	2000 Unprovided £000
Accelerated capital allowances	**-**	**(281)**	-	(59)
Other timing differences	**-**	**(617)**	-	(367)
	-	**(898)**	-	(426)

The directors have not recognised the deferred tax asset on the grounds of prudence.

Notes *(continued)*

16 Called up share capital

	2001	2000
	£000	£000
Authorised, allotted, called up and fully paid		
16,201 ordinary shares of £1 each	**16**	16
1,320,000 deferred shares of £1 each (non equity)	**1,320**	1,320
	1,336	1,336

Voting and dividend rights

The deferred shares do not have any voting rights and are not entitled to receive distributions.

Priority on a winding up

In the event of a winding up, the assets of the company will be distributed as follows:

- firstly, the holders of the ordinary shares receive £10 per share.
- secondly, the holders of the deferred shares receive the amount paid up on those shares.
- finally, the balance of such assets is distributed to the holders of the ordinary shares.

17 Share premium and reserves

	Share premium account	**Other reserve**	**Profit and loss account**	**Total**
	£000	£000	£000	£000
At 1 January 2001	314	169	5,501	5,984
Retained loss for the year	-	-	(1,255)	(1,255)
At 31 December 2001	**314**	**169**	**4,246**	**4,729**

Notes *(continued)*

18 Financial commitments

a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2001	2000
	£000	£000
Contracted for but not provided for	**5**	-

b)Annual commitments under non-cancellable operating leases are as follows:

	2001		2000	
	Land and Buildings	**Other**	Land and Buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**24**	**82**	-	41
Between two and five years	**554**	**270**	597	324
After five years	**129**	**-**	105	-
	707	**352**	702	365

19 Pension scheme

The company operates a funded defined benefit scheme for its employees. The assets of the schemes are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account and are determined by a qualified Actuary on the basis of triennial valuations using the Attained Age Normal method. The most recent valuation was at 6 April 2001 and the assumptions that have the most significant effect on the results of the valuation are the rate of return on investments and the rates of increase in salaries and pensions.

It was assumed that investment returns would be 8% p.a salary increases would average 6% p.a and pensions coming into payment in respect of pension in excess of the GMP element would increase at the rate of 4% p.a (being our assumption for pension increasing at 5% p.a or in line with RPI if less, with a minimum of 3% p.a in most cases). The GMP element of pensions coming in to payment was assumed to increase at 3% p.a in accordance with the scheme rules.

The market value of the scheme assets at the valuation date was £14,029,000. The actuarial value of these assets represented 101% of the benefits that had accrued to members after allowing for expected increases in earnings. The company is paying reduced contributions to the scheme, calculated so that the surplus is expected to be removed over the future working lifetime of the active membership as at the valuation date.

The pension cost charge for the year for defined benefit schemes was £427,000 *(2000: £325,000).*

The company also operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £82,000 *(2000: £74,000).*

Contributions outstanding at the year end in respect of this scheme were £14,000 *(2000:£11,000).*

Notes *(continued)*

19 Pension arrangements *(continued)*

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation at 6 April 2001 has been updated by the actuary on an FRS 17 basis as at 31 December 2001.

The major assumptions used in this valuation were:

	2001
Rate of increase in salaries	2.75%
Rate of increase in pensions in payment – (no minimum applies)	2.75%
Rate of increase in pensions in payment – (where 3% min applies)	3.00%
Discount rate	6.00%
Inflation assumption	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2001 £000
Equities	7,005
Bonds	6,790
Other	16
Present value of scheme liabilities	(15,492)
Deficit in the Scheme – Pension liability	(1,681)
Related deferred tax asset	504
Net pension liability	(1,177)

The amount of this net pension liability would have a consequential effect on reserves.

20 Contingent liabilities

The company has given bank guarantees to customers in respect of advance payments and the performance of goods sold, amounting to £536,000.

Notes *(continued)*

21 Ultimate controlling party

The directors regard Vivendi Environnement SA a company incorporated in France, as the ultimate parent company and the ultimate controlling party.

The smallest group in which the results of the company are consolidated is that headed by Wheelabrator Technologies UK Limited, a company incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Vivendi Environnement SA, a company incorporated in France. The consolidated accounts of the group are available from 42 Avenue de Frieland, 75389-Paris, Cedex 08, France.