WRG Waste Services Limited

Directors' report and financial statements

Registered number 988844

31 December 2005

Contents

Statutory information

Directors

JR Meredith
LJD Cassells
SN Hardman

Company secretary

J Bolton

Joint company secretary

SJ Calder

Registered office

Ground Floor West
900 Pavilion Drive
Northampton Business Park
Northampton
NN4 7RG

Auditors

KPMG LLP
1 Puddle Dock
London
EC4V 3PD

Directors' report

The directors (the "Directors") of WRG Waste Services Limited (the "Company") present their report and audited financial statements for the year ended 31 December 2005.

Principal activity

The principal activity of the Company during the year ended 31 December 2005 was the handling, recycling and disposal of waste materials.

Results and dividends

The results of the Company for the year ended 31 December 2005 are set out on page 7. The profit for the financial year ended 31 December 2005 amounted to £20,590,000 *(6 months ended 31 December 2004: loss of £4,783,000).* The Directors do not recommend the payment of a dividend (*6 months ended 31 December 2004: £nil)* and thus the profit retained of £20,590,000 has been transferred to *(6 months ended 31 December 2004: loss of £4,783,000 has been withdrawn from)* reserves.

Directors and their interests

The Directors who served as directors of the Company during the year ended 31 December 2005 and up to the date of this report were as follows:

J R Meredith
L J D Cassells
S N Hardman

None of the Directors or connected persons held an interest in the share capital of the Company during the year ended 31 December 2005.

The interests of the Directors and connected persons in the share capital of WRG Investments Limited, an indirect parent company of the Company, as at 31 December 2005 are set out below:

		31 December 2005		1 January 2005	
		Beneficial	**Non-beneficial**	**Beneficial**	**Non-beneficial**
LJD Cassells	'B' Ordinary shares £0.01	500	-	500	-
SN Hardman	'B' Ordinary shares £0.01	300	-	300	-
JR Meredith	'B' Ordinary shares £0.01	2,000	-	2,000	-

Charitable and political donations

The Company made no charitable or political donations in the financial year ended 31 December 2005 *(6 months ended 31 December 2004: £nil).*

Directors' report *(continued)*

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 before the Company in general meeting (section 252 of the Act);
- the holding of annual general meetings (section 366A of the Act);
- 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.

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

J Bolton
Company Secretary

11 May 2006

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.

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.

KPMG

KPMG LLP
1 Puddle Dock
London
EC4V 3PD
United Kingdom

Independent auditors' report to the members of WRG Waste Services Limited

We have audited the financial statements of WRG Waste Services Limited for the year ended 31 December 2005 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

As described in the Statement of Directors' responsibilities on page 4, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 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 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 Waste Services 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 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

15 May 2006

Profit and loss account

year ended 31 December 2005

	Note	**Year ended 31 December 2005**	6 months ended 31 December 2004
		£000	£000
Turnover	*2*	**141,625**	64,633
Cost of sales (including exceptional credits of £1,019,000 *(6 months ended 31 December 2004: exceptional costs of £16,097,000)*) – see note 3		**(112,922)**	(65,341)
Gross profit/(loss)		**28,703**	(708)
Administrative expenses		**(7,191)**	(6,506)
Operating profit/(loss)		**21,512**	(7,214)
Interest payable and other finance costs	*5*	**(922)**	(429)
Profit/(loss) on ordinary activities before taxation	*3*	**20,590**	(7,643)
Tax on profit/(loss) on ordinary activities	*6*	**-**	2,860
Profit/(loss) for the financial year/period	*13*	**20,590**	(4,783)

All results are derived from continuing operations.

There are no recognised gains and losses in either the financial year ended 31 December 2005 or previous financial period 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 2005

	Note	2005 £000	2004 £000
Fixed assets			
Tangible assets	*7*	**65,357**	50,206
Current assets			
Debtors: amounts falling due after more than one year	*8*	**5,496**	5,794
Cash at bank and in hand		**3**	-
		5,499	5,794
Creditors: amounts falling due within one year	*9*	**(8,440)**	(6,648)
Net current liabilities		**(2,941)**	(854)
Total assets less current liabilities		**62,416**	49,352
Creditors: amounts falling due after more than one year	*10*	-	(4,098)
Provisions for liabilities and charges	*11*	**(38,135)**	(41,563)
Net assets		**24,281**	3,691
Capital and reserves			
Called up share capital	*12*	-	-
Profit and loss account	*13*	**24,281**	3,691
Equity shareholders' funds	*14*	**24,281**	3,691

These financial statements were approved by the board of Directors on 10 May 2006 and were signed on its behalf by:

LJD 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, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. The introduction of FRS 21 and FRS 25 has had no material effect on the current year or prior period numbers as the Company has no financial statement items in either year/period that are impacted by the introduction of these two accounting standards. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are in accordance with the new policies.

Going Concern

The ability of the Company to continue trading in the foreseeable future is largely dependent on the continued support of the Company's indirect parent company, Waste Recycling Group Limited, which has indicated that it intends to provide such funds as are necessary for the Company to continue to trade for the foreseeable future and accordingly the Directors consider that the financial statements should be prepared on a going concern basis.

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 held wholly owned subsidiary of a group which has prepared a consolidated cash flow statement.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Restoration 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 restoration 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 restoration and after-care 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.

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 from the handling, recycling and disposal of waste materials.

Notes *(continued)*

3 Profit/(loss) on ordinary activities before taxation

	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000
Profit/(loss) on ordinary activities before taxation is stated after (crediting)/charging exceptional items:		
Included in cost of sales		
- Decrease in restoration and after-care provisions on revision of estimation basis (note a)	-	(8,033)
- Revision of estimation basis on other provisions (note a)	(3,019)	24,130
- Waiver of debt owed by a fellow group subsidiary (note b)	2,000	-
	(1,019)	16,097

(a) Reassessment (following the acquisition of the Company by WRG Acquisitions 2 Limited) of the Company's obligation for restoration and after-care costs in respect of landfill sites and the recognition of other specific liabilities.

(b) On 28th April 2005, the Company waived £2m owed to it by WRG (Northern) Limited, a fellow group subsidiary.

Profit/(loss) on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets - owned	6,880	3,587
Loss on disposal of tangible fixed assets	16	-
Operating lease rentals – plant and machinery	3,071	943
Operating lease rentals – other	36	-

Auditors' remuneration in respect of audit fees has been met by the Company's fellow subsidiary undertaking, Waste Recycling Limited.

4 Information regarding Directors and employees

None of the Directors received any remuneration or benefits from the Company during the year *(6 months ended 31 December 2004: £nil)*. They are all remunerated as directors or employees of Waste Recycling Group Limited, the indirect parent company of the Company.

	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000
Staff costs including Directors' emoluments		
Wages and salaries	4,562	4,653
Social security costs	512	246
Other pension costs	127	168
	5,201	5,067
	No.	No.
Average number employed (including Directors) during the year/period was:	156	279

Notes *(continued)*

5 Interest payable and other finance costs

	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000
Interest payable	-	65
Unwinding of discount (note 11)	**922**	364
	922	429

6 Taxation

	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000
UK Corporation tax		
United Kingdom corporation tax at 30% *(6 months ended 31 December 2004: 30%)* based on profits/(losses) for the year/period	-	-
Adjustments in respect of prior periods	-	(1,095)
Total current tax charge	-	(1,095)
Deferred tax (note 11)		
Timing differences, origination and reversal	-	(1,765)
Tax on profit/(loss) on ordinary activities	-	(2,860)

The total current tax charge for the current year is less than *(6 months ended 31 December 2004: greater than)* the standard rate of 30% for the reasons set out in the following reconciliation:

	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000
Profit/(loss) on ordinary activities before tax	**20,590**	(7,643)
Tax on profit/(loss) on ordinary activities at standard rate	**6,177**	(2,293)
Factors affecting charge:		
Expenses not deductible for tax purposes	-	(27)
Depreciation in excess of capital allowances	**2,017**	1,034
(Decrease)/Increase in general provisions	**(878)**	652
Group loss relief (claimed)/surrendered	**(7,132)**	715
Site preparation relief	**(184)**	(81)
Adjustments in respect of prior years	-	1,095
	-	1,095

Notes *(continued)*

7 Tangible fixed assets

	Land and *buildings* £000	Landfill *sites* £000	Plant and *machinery* £000	Total £000
Cost				
At 1 January 2005	7,604	22,165	65,784	95,553
Additions	411	2,664	17,233	20,308
Disposals	-	-	(336)	(336)
Transfers between group companies/reclassifications	(23)	962	(310)	629
At 31 December 2005	7,992	25,791	82,371	116,154
Depreciation				
At 1 January 2005	3,993	7,852	33,502	45,347
Charge for the year	382	1,638	4,860	6,880
Disposals	-	-	(321)	(321)
Transfers between group companies/reclassifications	(19)	-	(1,090)	(1,109)
At 31 December 2005	4,356	9,490	36,951	50,797
Net book value				
At 31 December 2005	**3,636**	**16,301**	**45,420**	**65,357**
At 31 December 2004	3,611	14,313	32,282	50,206

8 Debtors: amounts due after more than one year

	2005 £000	2004 £000
Amounts prepaid to fellow group undertaking	**5,496**	5,794

9 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Deferred consideration	**4,098**	4,250
Amounts owed to fellow subsidiary undertakings	**4,342**	2,398
	8,440	6,648

On 25 April 2005, the Company waived (the "Waiver") inter-company indebtedness owed to it by WRG (Northern) Limited (a fellow direct subsidiary of WRG (Management) Limited) in the amount of £2,000,000.

Notes *(continued)*

10 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Deferred consideration	-	4,098

11 Provisions for liabilities and charges

	Other provisions £000	Landfill restoration £000	Landfill aftercare £000	Total £000
At 1 January 2005	22,986	6,593	11,984	41,563
Credited to profit and loss account following a revision of estimation basis	(3,019)	-	-	(3,019)
Charged/(credited) to profit and loss account	2,342	(1,385)	70	1,027
New provisions capitalised in tangible fixed assets	1,567	-	-	1,567
Unwinding of discount (note 5)	-	303	619	922
Expended in year	(3,910)	(15)	-	(3,925)
At 31 December 2005	19,966	5,496	12,673	38,135

The Company provides for the estimated cost of restoring the landfill sites for which it holds licences/permits at the end of their operational life and for their subsequent after-care. The after-care period is generally expected to be between 30 and 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 the landfill sites for which the Company holds licences/permits.

Deferred taxation

	Provided		**Unprovided**	
	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000	**Year ended 31 December 2005 £000**	6 months ended 31 December 2004 £000
Capital allowances in excess of depreciation	**3,068**	3,003	**-**	-
Short term timing differences	**(3,068)**	(3,003)	**(1,112)**	-
	-	-	**(1,112)**	-

12 Called up share capital

	2005 £	2004 £
Authorised		
100 ordinary shares of £1 each	**100**	100
Called up, allotted and fully paid		
100 ordinary shares of £1 each	**100**	100

Notes *(continued)*

13 Reserves

Profit and loss account	**£000**
At 1 January 2005	3,691
Profit for the financial year	20,590
At 31 December 2005	24,281

14 Reconciliation of movement in shareholders' funds

	Year ended 31 December 2005 £000	6 months ended 31 December 2004 £000
Profit/(loss) for the financial year/period	**20,590**	(4,783)
Net addition/(deduction) to shareholders' funds	**20,590**	(4,783)
Opening shareholders' funds	**3,691**	8,474
Closing shareholders' funds	**24,281**	3,691

15 Contingent liabilities

a) The Company has entered into unlimited cross-guarantees with its bankers relating to the borrowings of other group companies.

b) 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.

c) On 15 December 2004, the Company was a party to the refinancing (the "Refinancing") of WRG Finance plc and its subsidiary companies under which it granted security by way of fixed and floating charges over its assets and became a borrower and guarantor under an Amended and Restated Facilities Agreement dated 9 December 2004. In addition, the Company became a Subsidiary Guarantor of Second Lien Floating Rate Notes due 2011 issued by WRG Acquisitions plc and also 9% Senior Notes due 2014 issued by WRG Finance plc. On 28 April 2005 the Company re-executed transaction documents associated with the Refinancing.

16 Capital commitments

	2005 £000	2004 £000
Contracted for but not provided:	-	-

Notes *(continued)*

17 Operating lease commitments

At 31 December 2005, the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Plant and machinery	
	2005	2004	**2005**	2004
	£000	£000	**£000**	£000
Which expire:				
Within one year	**-**	-	**11**	45
In two to five years	**-**	-	**119**	84
In over five years	**5**	21	**-**	-
	5	21	**130**	129

18 Pension contributions

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

Certain employees of the Company are members of the LAWDC's Pension Scheme in which Waste Recycling Group Limited is a participating employer. This is a defined benefit multi-employer scheme, the assets of which are held independently of the group. The Company is unable to identify its share of the underlying assets and liabilities of the scheme. Further details regarding the scheme are provided in the financial statements of Waste Recycling Group Limited.

Contributions to the scheme for the period are stated below and the agreed contribution rate commencing from 1 January 2004 is 16%.

An actuarial valuation of the scheme at 31 March 2003 indicated that the scheme was 96% funded based upon the minimum funding requirement basis. At 31 December 2005 the deficit on the group section of the scheme, calculated on an FRS 17 basis, was £5,184,000 *(2004: £5,141,000)*. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

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

	Year ended 31 December 2005	6 months ended 31 December 2004
	£000	£000
Defined contribution scheme	**4**	66
LAWDC pension scheme	**123**	102
	127	168

19 Related party transactions

In the ordinary course of business, the Company has also traded with fellow subsidiaries of Monterey Capital II Sarl. The Company has taken advantage of the exemption conferred by FRS 8 from disclosing details of these transactions.

Notes *(continued)*

20 Ultimate parent company

The Directors regard TFCP Holdings Limited *(formerly Terra Firma Capital Partners Holdings Limited)*, a company registered in Guernsey, as the ultimate controlling party and the ultimate parent entity.

Monterey Capital II Sarl 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 Waste Recycling Group Limited financial statements are available from the Company Secretary, Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG.