

**WRG Waste Services Limited
(formerly Shanks Waste Services
Limited)**

Directors' report and financial
statements

Registered number 988844

6 months ended 31 December 2004



Contents

Statutory information	1
Directors' report	2
Statement of Directors' responsibilities	4
Report of the independent auditors to the members of WRG Waste Services Limited (formerly Shanks Waste Services Limited)	5
Profit and loss account	6
Balance sheet	7
Notes	8

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 6 month period ended 31 December 2004.

Principal activity

The principal activity of the Company during the period ended 31 December 2004 was the handling, recycling and disposal of waste materials.

Review of business and future developments

On 1 July 2004, the Company's immediate parent WRG (Management) Limited (formerly Shanks & McEwan (Waste Services) Limited) was sold by Shanks Group plc to WRG Acquisitions 2 Limited (formerly Cholet Acquisitions 2 Limited), an indirectly wholly owned subsidiary of WRG Holdings Limited (formerly Cholet Holdings Limited). On 21 July 2004 the Company changed its name from Shanks Waste Services Limited to WRG Waste Services Limited.

Following the acquisition of WRG (Management) Limited by WRG Acquisitions 2 Limited, the Company adopted the accounting policies and bases of WRG Holdings Limited and its subsidiary companies (the "Group") and undertook a comprehensive review of the book values of the Company's assets and liabilities.

Developments during the period

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.

Post balance sheet events

Following the 6 month period ended 31 December 2004, it became evident that certain formalities associated with the Refinancing had not been followed. Accordingly on 28 April 2005, the Company re-executed transaction documents associated with the Refinancing.

On 27 July 2005, the Company amended its accounting reference date from 30 June to 31 December. Accordingly the accounting reference period for the audited financial statements is shortened to 31 December 2004.

Dividends and transfers to reserves

The results for the period ended 31 December 2004 are set out in the profit and loss account on page 6. The loss for the financial period ended 31 December 2004 amounted to £4,783,000 (*3 months ended 30 June 2004: profit of £2,803,000*). The Directors do not recommend the payment of a dividend (*3 months ended 30 June 2004: £33,219,000*).

Directors and their interests

The Directors who served as directors of the Company during the period ended 31 December 2004 and up to the date of this report were as follows:

Q R Stewart (appointed 1 July 2004, resigned 25 October 2004)

P W Burns (appointed 1 July 2004, resigned 25 October 2004)

J R Meredith (appointed 1 July 2004)

L J D Cassells (appointed 1 July 2004)

S N Hardman (appointed 16 August 2004)

M C E Averill (resigned 1 July 2004)

D J Downes (resigned 1 July 2004)

M J Clarke (resigned 1 July 2004)

Directors' report (continued)

None of the Directors or connected persons held an interest in the share capital of the Company during the period. The interests of the Directors and connected persons in the share capital of WRG Investments Limited (formerly Cholet Investments Limited), an indirect parent company of the Company, as at 31 December 2004 are set out below:

		31 December 2004		1 July 2004*	
		Beneficial	Non-beneficial	Beneficial	Non-beneficial
LJD Cassells	'B' Ordinary shares £0.01	500	-	-	-
SN Hardman	'B' Ordinary shares £0.01	300	-	-	-
JR Meredith	'B' Ordinary shares £0.01	2,000	-	-	-

*or date of appointment if later

Charitable and political donations

The Company made no charitable or political donations in either the current or previous financial period.

Auditors

KPMG LLP were appointed by the Directors to fill a casual vacancy in the office of auditor created by the resignation of PricewaterhouseCoopers LLP on 27 April 2005. A resolution to reappoint KPMG LLP as auditors of the Company will be proposed at the annual general meeting of the Company.

By order of the board



J Bolton
 Company Secretary

30 January 2006

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period 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 LLP

1 Puddle Dock
London
EC4V 3PD
United Kingdom

Report of the independent auditors to the members of WRG Waste Services Limited (formerly Shanks Waste Services Limited)

We have audited the financial statements on pages 6 to 16.

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 are responsible for preparing the directors' report and, as described on page 4, 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 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

31 January 2006

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account

6 months ended 31 December 2004

	<i>Note</i>	6 months ended 31 December 2004 £000	3 months ended 30 June 2004 £000
Turnover	2	64,633	36,054
Cost of sales (including exceptional costs of £16,097,000 (3 months ended 30 June 2004 £nil)) – see note 3		(65,341)	(30,679)
Gross (loss)/ profit		(708)	5,375
Administrative expenses		(6,506)	(1,639)
Operating (loss)/profit		(7,214)	3,736
Income from fixed asset investments		-	9
Exceptional profit on disposal of fixed assets	3	-	1,387
Interest payable and other finance costs	5	(429)	(1,144)
(Loss)/profit on ordinary activities before taxation	3	(7,643)	3,988
Tax on (loss)/profit on ordinary activities	6	2,860	(1,185)
(Loss)/profit for the financial period		(4,783)	2,803
Dividends payable		-	(33,219)
Retained loss	14	(4,783)	(30,416)

All results are derived from continuing operations.

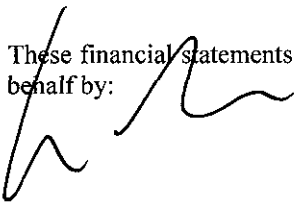
There are no recognised gains and losses in either the current or previous financial period other than as stated in the profit and loss account. Therefore, no separate statement of total recognised gains and losses has been presented.

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

Balance sheet
at 31 December 2004

	<i>Note</i>	31 December 2004	30 June 2004
		£000	£000
Fixed assets			
Tangible assets	7	50,206	52,531
Current assets			
Debtors: amounts falling due within one year	8	-	39,252
Debtors: amounts falling after more than one year	9	5,794	-
Total debtors		5,794	39,252
Stocks		-	951
Creditors: amounts falling due within one year	<i>10</i>	(6,648)	(44,068)
Net current liabilities		(854)	(3,865)
Total assets less current liabilities		49,352	48,666
Creditors: amounts falling due after more than one year	<i>11</i>	(4,098)	(12,003)
Provisions for liabilities and charges	<i>12</i>	(41,563)	(28,189)
Net assets		3,691	8,474
Capital and reserves			
Called up share capital	<i>13</i>	-	-
Profit and loss account	<i>14</i>	3,691	8,474
Equity shareholders' funds		3,691	8,474

These financial statements were approved by the board of Directors on 30 January 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.

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.

Consolidation

The Company has claimed exemption from the preparation of consolidated financial statements under section 228 of the Companies Act 1985 as it is an indirectly held 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.

Related party transactions

As the Company is an indirectly wholly owned subsidiary of WRG Holdings Limited (formerly Cholet Holdings Limited), the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities that form part of the group. The consolidated financial statements of WRG Holdings Limited, within which the Company is included, can be obtained from the address given in note 21.

Investment

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

Fixed assets and depreciation

Tangible fixed assets are stated at cost.

Depreciation is provided on tangible fixed assets in use at rates calculated to write off the cost less residual value of each asset as follows:

Freehold buildings	- 25 to 50 years
Freehold landfill sites	- based on the void used in the period as a proportion of total void
Plant and equipment	- 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.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the result for the period 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 FRS19.

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 FRS17 '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. The Directors regard these activities as one class of business.

3 (Loss)/profit on ordinary activities before taxation

	6 months ended 31 December 2004 £000	3 months ended 30 June 2004 £000
(Loss)/profit on ordinary activities before taxation is stated after (crediting)/charging exceptional items:		
Included in cost of sales		
- Decrease in restoration and aftercare provisions on revision of estimation basis (note a)	(8,033)	-
- Revision of estimation basis on other provisions (note a)	24,130	-
- Exceptional profit on disposal of fixed assets (note b)	-	(1,387)
	16,097	(1,387)
	16,097	(1,387)

(a) reassessment (following the acquisition of the Company by WRG Acquisitions 2 Limited (formerly Cholet 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) exceptional profit as a result of the disposal to a fellow Group company of landfill sites.

(Loss)/profit on ordinary activities before taxation is stated after charging:

Depreciation of tangible fixed assets - owned	3,587	3,945
Operating lease rentals - plant and machinery	943	858
	3,587	3,945
	3,587	3,945

Auditors' remuneration in respect of audit fees has been met by the Company's fellow subsidiary undertaking of Waste Recycling Group Limited (the Company's indirect parent company), Waste Recycling Limited.

Notes (continued)

4 Information regarding Directors and employees

	6 months ended	3 months ended
	31 December	30 June
	2004	2004
	£000	£000
Staff costs including Directors' emoluments		
Wages and salaries	4,653	2,115
Social security costs	246	152
Other pension costs	168	177
	5,067	2,444
	No.	No.
Average number employed during the period was:	276	277

None of the Directors received any remuneration or benefits from the Company during the period (3 months ended 30 June 2004: £52,000). In the period under review, the Directors are remunerated as directors or employees of the Company's indirect parent company, Waste Recycling Group Limited.

5 Interest payable and other finance costs

	6 months ended	3 months ended
	31 December	30 June
	2004	2004
	£000	£000
Interest payable	65	864
Unwinding of discount (note 12)	364	280
	429	1,144

6 Taxation

	6 months ended	3 months ended
	31 December	30 June
	2004	2004
	£000	£000
UK Corporation tax		
United Kingdom corporation tax at 30% (3 months ended 30 June 2004: 30%) based on losses for the period	-	1,518
Adjustments in respect of prior periods	(1,095)	-
	(1,095)	1,518
Deferred tax (note 12)		
Timing differences, origination and reversal	(1,765)	(333)
	(2,860)	1,185

Notes (continued)

6 Taxation (continued)

The total current tax charge for the current period is greater than (3 months ended 30 June 2004: greater than) the standard rate of 30% for the reasons set out in the following reconciliation:

	6 months ended 31 December 2004 £000	3 months ended 30 June 2004 £000
(Loss)/profit on ordinary activities before tax	(7,643)	3,988
Tax on (loss)/profit on ordinary activities at standard rate	(2,293)	1,196
Factors affecting charge:		
Expenses not deductible for tax purposes	(27)	(11)
Other timing differences	-	96
Depreciation in excess of capital allowances	1,034	237
Increase in general provisions	652	-
Group loss relief surrendered	715	-
Site preparation relief	(81)	-
	-	1,518

7 Tangible fixed assets

	Land and buildings £000	Landfill sites £000	Plant and machinery £000	Total £000
Cost				
At 1 July 2004	6,898	21,254	66,139	94,291
Additions	19	96	1,147	1,262
Reclassifications	687	815	(1,502)	-
At 31 December 2004	7,604	22,165	65,784	95,553
Depreciation				
At 1 July 2004	3,239	6,634	31,887	41,760
Charge for the period	110	2,740	737	3,587
Reclassifications	644	(1,522)	878	-
At 31 December 2004	3,993	7,852	33,502	45,347
Net book value				
At 31 December 2004	3,611	14,313	32,282	50,206
At 30 June 2004	3,659	14,620	34,252	52,531

Notes *(continued)*

8 Debtors: amounts due within one year

	31 December	30 June
	2004	2004
	£000	£000
Trade debtors	-	26,709
Prepayments and accrued income	-	193
Amounts owed from fellow subsidiary undertakings	-	11,287
Other debtors	-	1,063
	<u>-</u>	<u>39,252</u>
	<u>-</u>	<u>-</u>

9 Debtors: amounts due after more than one year

	31 December	30 June
	2004	2004
	£000	£000
Amounts prepaid to fellow group undertaking	5,794	-
	<u>5,794</u>	<u>-</u>

10 Creditors: amounts falling due within one year

	31 December	30 June
	2004	2004
	£000	£000
Trade creditors	-	7,998
Other creditors	-	152
Accruals and deferred income	-	5,705
Taxation and social security	-	22,847
Corporation tax	-	1,095
Deferred consideration	4,250	-
Amounts owed to fellow subsidiary undertakings	2,398	6,271
	<u>6,648</u>	<u>44,068</u>
	<u>6,648</u>	<u>44,068</u>

11 Creditors: amounts falling due after more than one year

	31 December	30 June
	2004	2004
	£000	£000
Deferred consideration	4,098	-
Other creditors	-	4,000
Amounts owed to fellow subsidiary undertakings	-	8,003
	<u>4,098</u>	<u>12,003</u>
	<u>4,098</u>	<u>12,003</u>

Notes (continued)

12 Provisions for liabilities and charges

	Deferred tax £000	Other provisions £000	Landfill restoration £000	Landfill aftercare £000	Total £000
At 1 July 2004	1,765	473	8,528	17,423	28,189
Charged/(credited) to profit and loss account	(1,765)	(287)	-	301	(1,751)
Charged/(credited) to profit and loss account following a revision of estimation basis	-	24,130	(2,012)	(6,021)	16,097
Unwinding of discount (note 5)	-	-	77	287	364
Expended in period	-	(1,330)	-	(6)	(1,336)
At 31 December 2004	-	22,986	6,593	11,984	41,563

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

	6 months ended 31 December 2004 £000	Provided 3 months ended 30 June 2004 £000
Capital allowances in excess of depreciation	3,003	3,056
Short term timing differences	(3,003)	(1,291)
	-	1,765

13 Called up share capital

	31 December 2004 £	30 June 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)*

14 Reserves

Profit and loss account	£000
At 1 July 2004	8,474
Loss for the financial period	(4,783)
	3,691
At 31 December 2004	3,691

15 Reconciliation of movement in shareholders' funds

	6 months ended 31 December 2004 £000	3 months ended 30 June 2004 £000
(Loss)/profit for the financial period	(4,783)	2,803
Dividend payable for the financial period	-	(33,219)
	(4,783)	(30,416)
Net deduction to shareholders' funds	(4,783)	(30,416)
Opening shareholders' funds	8,474	38,890
	3,691	8,474

16 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.

17 Capital commitments

	31 December 2004 £000	30 June 2004 £000
Contracted for but not provided:	-	413
	-	413

Notes (continued)

18 Operating lease commitments

At 31 December 2004, the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Plant and machinery	
	31 December 2004 £000	30 June 2004 £000	31 December 2004 £000	30 June 2004 £000
Which expire:				
Within one year	-	-	45	28
In two to five years	-	-	84	243
In over five years	21	-	-	68
	<u>21</u>	<u>-</u>	<u>129</u>	<u>339</u>

19 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 these 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 2000 indicated that the scheme was 106% funded based upon the minimum funding requirement basis. At 31 December 2004 the deficit on the group section of the scheme, calculated on an FRS 17 basis, was £5,141,000 (2003: £4,946,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

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

	6 months ended 31 December 2004 £000	3 months ended 30 June 2004 £000
Defined contribution scheme	66	-
LAWDC pension scheme	102	-
	<u>168</u>	<u>-</u>

20 Related party transactions

In the ordinary course of business, the Company has also traded with fellow subsidiaries of WRG Holdings Limited. The Company has taken advantage of the exemption conferred by FRS8 from disclosing details of these transactions.

Notes *(continued)*

21 **Ultimate parent company**

The Company's immediate parent company is WRG (Management) Limited (formerly Shanks & McEwan (Waste Services) Limited), a company which is registered in England and Wales.

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

WRG Holdings Limited (formerly Cholet Holdings Limited) is the parent company of the largest group of which the Company is a member and for which group accounts are drawn up. Copies of WRG Holdings Limited financial statements are available from the Company Secretary, Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG.