

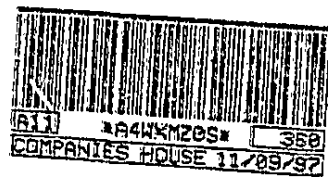
15 - 09 - 97

Cleveland Waste Management Limited

Annual Report

for the year ended 31 March 1997

Registered number: 2669578



CLEVELAND WASTE MANAGEMENT LIMITED

Annual Report
for the year ended 31 March 1997

	Page
Directors' report	1-2
Report of the auditors	3
Profit and loss account	4
Balance sheet	5
Notes to the financial statements	6-14

COMPANY REGISTRATION NUMBER: 2669578

REGISTERED OFFICE: Northumbria House
Gosforth
Newcastle upon Tyne
NE3 3PX

CLEVELAND WASTE MANAGEMENT LIMITED

Directors' report for the year ended 31 March 1997

The directors present their report and the audited financial statements for the year ended 31 March 1997.

Principal activities

The principal activities of the company are the provision of waste disposal facilities.

Review of the business and future developments

The company has progressed the construction of a modern energy from waste plant to replace the existing plant which closed on 30 November 1996. The new plant will generate power, initially under a 15 year contract awarded to the company in the Third Non-Fossil Fuel Obligation Renewables Order. Construction of the new facility commenced on 1 August 1995 and commissioning is expected in Autumn 1997.

Finance for the construction is being provided by Northumbrian Water Group plc, the parent company of Northumbrian Environmental Management Limited, the company's principal shareholder. Further details of the loan are contained in note 13 to these financial statements.

The directors are pleased to report that the performance of the company has continued in line with business plan expectations and that progress on the construction of the new plant is proceeding satisfactorily. The company opened a landfill site in November 1996 in order to support and extend its range of waste disposal facilities. The company made a loss before tax of £612,885 (1996: profit £372,834) in the year. The profit after taxation for the year to 31 March 1997 was £1,641,116 (1996: £728,816). The directors do not recommend the payment of a dividend and the retained profit for the year to 31 March 1997 will be added to reserves.

The Finance Act 1996 included the primary legislation for a Landfill Tax to be levied on landfill site operators for waste deposited in landfill sites with effect from 1 October 1996. The tax is administered by HM Customs & Excise and is applied at prescribed rates, on a weight basis, to certain categories of waste in accordance with secondary legislation. As a consequence, the amounts disclosed as turnover and cost of sales include the landfill tax which has been recovered from customers and accounted for to HM Customs & Excise.

Charitable donations

Donations made by the company during the period amounted to £9,892.

Directors

The directors of the company during the year ended 31 March 1997 were:

Councillor J Garvey	Resigned on 20 June 1996
J C Garvey	
I F Goodfellow	(Chairman)
C M Green	
D J Watson	
P Taylor	
J M Kay	Appointed on 20 June 1996
Councillor M Boddy	Appointed on 20 June 1996

CLEVELAND WASTE MANAGEMENT LIMITED

Directors' report for the year ended 31 March 1997 (continued)

Directors interests

None of the directors who held office as at 31 March 1997 had any interest in the shares of the company.

As at 31 March 1997, IF Goodfellow held options over 400 ordinary shares of FF60 and DJ Watson held options over 200 ordinary shares of FF60 in the capital of Lyonnaise des Eaux SA, the company's ultimate parent company which were granted during the financial year.

No other director holds any interest required to be disclosed in accordance with Schedule 7 of the Companies Act 1985.

Employees

The company recognises its responsibilities towards disabled people and to their training, career development and promotion and gives full and fair consideration to applications for employment made by disabled persons where suitable work can be found. Every effort is made to find appropriate alternative jobs for those who become disabled while working for the company.

The Board recognises that it is important to continue to recruit and develop a successful team. This is achieved by promoting opportunities for decentralised decision making, individual accountability, teamwork and successful communication. Continuous development is promoted to enable employees to reach their full potential. It is the Board's aim to develop a company where people are committed to achieving the best for the business and are confident to use their skills and initiative to add maximum value.

Auditors

The company has appointed Arthur Andersen as its auditors and has, by elective resolution pursuant to section 386 of the Companies Act 1985, dispensed with the obligation to appoint auditors annually.

Statement of directors' responsibilities

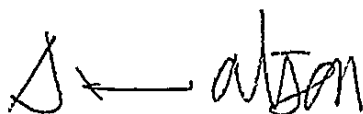
The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1997. The directors also confirm that applicable Accounting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board

D J Watson
Secretary
16 June 1997



Report of the auditors to the shareholders of CLEVELAND WASTE MANAGEMENT LIMITED

We have audited the financial statements on pages 4 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 affairs of the company at 31 March 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

16 June 1997

CLEVELAND WASTE MANAGEMENT LIMITED

Profit and loss account for the year ended 31 March 1997

	Note	Year to 31 March 1997 £	36 weeks to 31 March 1996 £
Turnover	2	5,700,813	3,445,852
Cost of sales		<u>(4,682,350)</u>	<u>(2,823,896)</u>
Gross profit		1,018,463	621,956
Administration expenses		<u>(473,753)</u>	<u>(282,925)</u>
Operating profit		544,710	339,031
Net interest (payable) / receivable	7	<u>(1,157,595)</u>	<u>33,803</u>
(Loss) / profit on ordinary activities before taxation	2&3	(612,885)	372,834
Tax on (loss) / profit on ordinary activities	8	<u>2,254,001</u>	<u>355,982</u>
Retained profit for the financial period	16	<u>1,641,116</u>	<u>728,816</u>

All turnover and operating profits have arisen from the continuing operations of the business. The company has no recognised gains and losses other than those included in the profits / (losses) above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the (loss) / profit on ordinary activities before taxation and the retained profit for the financial period stated above and their historical cost equivalents.

The notes on pages 6 to 14 form part of these financial statements.

CLEVELAND WASTE MANAGEMENT LIMITED

Balance sheet
as at 31 March 1997

	Note	1997 £	1996 £
Fixed assets			
Tangible assets	9	<u>38,670,129</u>	<u>14,879,333</u>
Current assets			
Stocks	10	—	72,857
Debtors	11	3,397,938	2,805,001
Cash at bank and in hand		—	290,740
		<u>3,397,938</u>	<u>3,168,598</u>
Creditors : amounts falling due within one year	12	<u>(15,627,471)</u>	<u>(6,514,064)</u>
Net current liabilities		<u>(12,229,533)</u>	<u>(3,345,466)</u>
Total assets less current liabilities		26,440,596	11,533,867
Creditors : amounts falling due after more than one year	13	(18,014,826)	(4,840,055)
Provisions for liabilities and charges	14	<u>(90,842)</u>	—
Net assets		<u>8,334,928</u>	<u>6,693,812</u>
Capital and reserves			
Called up share capital	15	5,964,996	5,964,996
Profit and loss account	16	<u>2,369,932</u>	<u>728,816</u>
Shareholders' funds	17	<u>8,334,928</u>	<u>6,693,812</u>
Analysis of shareholders' funds			
Equity shareholders' funds		2,370,732	729,616
Non-equity shareholders' funds	17	<u>5,964,196</u>	<u>5,964,196</u>
		<u>8,334,928</u>	<u>6,693,812</u>

The financial statements on pages 4 to 14 were approved by the Board of Directors on 16 June 1997 and were signed on its behalf by:



C M Green
Finance Director

The notes on pages 6 to 14 form part of these financial statements.

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements for the year ended 31 March 1997

1 Principal Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention.

(b) Going concern

The company has net current liabilities at 31 March 1997. The directors have prepared the financial statements on a going concern basis as the company's parent undertaking has confirmed its intention to provide financial support for the foreseeable future.

(c) Cash flow statement

At 31 March 1997 the company was a subsidiary undertaking of Northumbrian Environmental Management Limited which is itself a wholly owned subsidiary undertaking of Northumbrian Water Group plc, a company that produces publicly available accounts in which the company is included. Consequently the company is exempt under the terms of Financial Reporting Standard No1 (Revised) 'Cash Flow Statements', from publishing a cash flow statement.

(d) Turnover

Turnover, which excludes value added tax but includes landfill tax, represents the income receivable in the ordinary course of business for the provision of waste disposal facilities. Landfill tax is included at prescribed rates in accordance with the Finance Act 1996 with effect from 1 October 1996.

(e) Tangible fixed assets and depreciation

Tangible fixed assets are included at cost together with any incidental expenses of acquisition less accumulated depreciation.

Landfill sites are depreciated on the basis of airspace used in the period in relation to the total airspace of the site. Assets in the course of construction are depreciated from the date of commissioning. Other assets are depreciated on a straight line basis over their useful economic lives to an expected residual value. The number of years over which assets are depreciated are as follows:

	Number of years
Plant and machinery	2 - 10
Motor vehicles	4
Fixtures, fittings, tools and equipment	5
Freehold land and buildings	50

(f) Pension scheme arrangements

The cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated as either prepayments or provisions in the balance sheet.

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements for the year ended 31 March 1997 (continued)

1 Principal Accounting Policies (continued)

(g) Taxation

Corporation tax payable is provided on taxable profits at the current rate. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Provision is made at the rate which is expected to apply when the liability or asset crystallises.

(h) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Foreign exchange differences are taken to the profit and loss account in the period in which they arise.

(i) Stock

Stock represents engineering spares stated at cost less any provisions necessary to recognise damage and obsolescence.

(j) Operating leases

Rental costs arising under operating leases are expensed in the year in which they are incurred.

(k) Landfill restoration and aftercare provisions

Provision is made for the expected cost of site restoration and post operational environmental management on the basis of airspace used in the period in relation to the total airspace of the site.

2 Turnover and (loss) / profit on ordinary activities before taxation

Turnover and (loss) / profit on ordinary activities before taxation are attributable to the company's principal activities, the provision of waste disposal facilities. Turnover consists entirely of sales made in the United Kingdom.

3 (Loss) / profit on ordinary activities before taxation

	Year to 31 March 1997	36 weeks to 31 March 1996
	£	£
(Loss) / profit on ordinary activities before taxation is stated after charging:		
Depreciation of owned tangible fixed assets	351,102	236,361
Auditors' remuneration	3,900	4,000
Operating leases -- motor vehicles	24,772	17,403
Operating leases -- other	111,302	1,800

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements
for the year ended 31 March 1997 (continued)

4 Directors' emoluments

Remuneration

The remuneration of two directors was borne by the company:

Emoluments

Year to 31 March 1997	36 weeks to 31 March 1996
£	£
<u>54,736</u>	<u>38,812</u>

The remuneration of the highest paid director was as follows:

Emoluments

Year to 31 March 1997	36 weeks to 31 March 1996
£	£
<u>50,890</u>	<u>34,683</u>

None of the other directors received any remuneration for services as a director of the company in the year ended 31 March 1997 (1996: £nil).

Pension

The highest paid director was a member of a defined benefit scheme.

5 Transactions with directors and officers

There are no transactions or arrangements which would be disclosable under the provisions of the Companies Act 1985.

6 Employee information

The average monthly number of persons (including executive directors) employed by the company during the period was:

<i>By activity</i>	Year to 31 March 1997 Number	36 weeks to 31 March 1996 Number
Operational	38	44
Administration	7	7
	<u>45</u>	<u>51</u>
<i>Staff costs (for the above persons)</i>	£	£
Wages and salaries	905,997	735,670
Social security costs	73,924	60,509
Other pension costs	81,338	57,912
	<u>1,061,259</u>	<u>854,091</u>

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements for the year ended 31 March 1997 (continued)

7 Net interest (payable) / receivable

	Year to 31 March 1997	36 weeks to 31 March 1996
	£	£
Interest payable		
On group loans	(1,091,066)	(173,002)
On bank loans and overdrafts	(107,957)	(11,582)
	(1,199,023)	(184,584)
Interest receivable		
Bank interest receivable	1,182	—
On group loans	40,246	218,387
Net interest (payable) / receivable	(1,157,595)	33,803

8 Tax on (loss) / profit on ordinary activities

	Year to 31 March 1997	36 weeks to 31 March 1996
	£	£
UK corporation tax at 33% (1996: 33%):		
Receivable in respect of group relief	2,249,823	355,982
Under provision in respect of prior years (group relief)	4,178	—
Tax credit	2,254,001	355,982

The company has provisionally surrendered tax losses to fellow subsidiaries in the current period of approximately £6,818,000 (1996: £1,079,000) for which payment will be received at 33%. The tax charge for the period has been reduced by approximately £2,060,000 (1996: £533,000) by the non-provision of deferred tax which is not expected to crystallise in the foreseeable future.

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements for the year ended 31 March 1997 (continued)

9 Tangible fixed assets

	Landfill sites	Assets in the course of construction	Plant and machinery	Motor vehicles	Fixtures, fittings, tools and equipment	Short leasehold land and buildings	Freehold land and buildings	Total
	£	£	£	£	£	£	£	£
<i>Cost</i>								
At 1 April 1996	768,564	13,720,797	29,651	4,750	58,333	430,000	103,599	15,115,694
Additions	1,189,828	22,772,425	179,645	—	—	—	—	24,141,898
Disposals	—	—	(6,334)	—	—	—	—	(6,334)
At 31 March 1997	<u>1,958,392</u>	<u>36,493,222</u>	<u>202,962</u>	<u>4,750</u>	<u>58,333</u>	<u>430,000</u>	<u>103,599</u>	<u>39,251,258</u>
<i>Depreciation</i>								
At 1 April 1996	—	—	6,245	98	7,512	221,143	1,363	236,361
Charge for year	105,642	—	16,930	1,186	15,145	208,857	3,342	351,102
Disposals	—	—	(6,334)	—	—	—	—	(6,334)
At 31 March 1997	<u>105,642</u>	<u>—</u>	<u>16,841</u>	<u>1,284</u>	<u>22,657</u>	<u>430,000</u>	<u>4,705</u>	<u>581,129</u>
<i>Net book value</i>								
At 31 March 1997	<u>1,852,750</u>	<u>36,493,222</u>	<u>186,121</u>	<u>3,466</u>	<u>35,676</u>	<u>—</u>	<u>98,894</u>	<u>38,670,129</u>
At 31 March 1996	<u>768,564</u>	<u>13,720,797</u>	<u>23,406</u>	<u>4,652</u>	<u>50,821</u>	<u>208,857</u>	<u>102,236</u>	<u>14,879,333</u>

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements for the year ended 31 March 1997 (continued)

10 Stock

	1997 £	1996 £
Engineering spares	—	72,857

11 Debtors

	1997 £	1996 £
Amounts falling due within one year:		
Trade debtors	704,640	584,908
Amounts owed by parent and fellow subsidiary undertakings	2,259,403	1,990,392
Other debtors	386,823	2,266
Prepayments and accrued income	47,072	227,435
	<u>3,397,938</u>	<u>2,805,001</u>

Included in amounts owed by parent and fellow subsidiary undertakings is £2,249,823 (1996: £355,982) in respect of tax losses provisionally surrendered by this company in the current year and £4,178 (1996: £nil) in respect of tax losses provisionally surrendered in prior periods.

12 Creditors : amounts falling due within one year

	1997 £	1996 £
Bank overdraft	3,114,511	—
Trade creditors	737,958	613,091
Amounts owed to parent and fellow subsidiary undertakings	3,034,868	1,389,706
Other taxation and social security payable	378,808	81,108
Accruals and deferred income	8,361,326	4,430,159
	<u>15,627,471</u>	<u>6,514,064</u>

13 Creditors : amounts falling due after more than one year

	1997 £	1996 £
Amounts owed to Northumbrian Water Group plc	13,014,826	4,214,826
Retention in respect of assets in the course of construction	—	625,229
	<u>13,014,826</u>	<u>4,840,055</u>

The amounts owed to Northumbrian Water Group plc represent advances under a secured term loan and revolving advances facility agreement dated 21 July 1995. The term loan is repayable in ten equal annual instalments commencing on 30 September 1998.

CLEVELAND WASTE MANAGEMENT LIMITED

Notes to the financial statements for the year ended 31 March 1997 (continued)

14 Provisions for liabilities and charges

(a) *Deferred taxation*

Deferred taxation provided in the financial statements and the full potential liability are as follows:

	Amounts provided		Full potential liability	
	1997	1996	1997	1996
	£	£	£	£
Timing differences arising from:				
Accelerated capital allowances	—	—	2,711,483	564,752
Other	—	—	(39,588)	(31,260)
	<u>—</u>	<u>—</u>	<u>2,671,895</u>	<u>533,492</u>

There has been no movement on the provision for deferred taxation in the year ended 31 March 1997.

(b) *Landfill aftercare and restoration provision*

	£
Amount provided at 1 April 1996	—
Profit and loss account	90,842
Utilised in year	<u>—</u>
Amount provided at 31 March 1997	<u>90,842</u>

15 Called up share capital

	1997	1996
	£	£
<i>Authorised, allotted, called up and fully paid:</i>		
100 'A' and 'B' ordinary (voting, non-equity) shares of 1p each	1	1
200 deferred shares of £1 each	200	200
800 ordinary (equity, non-voting) shares of £1 each	800	800
5,963,995 redeemable preference shares of £1 each	<u>5,963,995</u>	<u>5,963,995</u>
	<u>5,964,996</u>	<u>5,964,996</u>

The 'A' and 'B' ordinary shares, the redeemable preference shares and the deferred shares do not confer any right to receive a dividend or any other distribution of the profits of the company.

The 'A' and 'B' ordinary shares have the voting rights provided for in Article 56 of the company's Articles of Association. The ordinary shares, the redeemable preference shares and the deferred shares do not confer any voting rights in any circumstances.

On a return of capital on liquidation or otherwise, the assets of the company available for distribution amongst the members shall be applied:

- (a) firstly, to the holders of the redeemable preference shares;
- (b) secondly, to the holders of the 'A' and 'B' ordinary shares ranking *pari passu*;
- (c) thirdly, to the holders of the ordinary shares;
- (d) subject thereto, the balance (if any) to the holders of the deferred shares.

The redeemable preference shares may be redeemed at par at any time at the option of the company once the loan facility referred to in note 13 has been fully repaid or after 1 January 2010 if sooner.

CLEVELAND WASTE MANAGEMENT LIMITED

**Notes to the financial statements
for the year ended 31 March 1997 (continued)**

16 Reserves

	Profit and loss account £
At 31 March 1996	728,816
Retained profit for the financial period	<u>1,641,116</u>
At 31 March 1997	<u>2,369,932</u>

17 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Opening shareholders' funds	6,693,812	2
Increase in share capital during the period	—	5,964,994
Retained profit for the financial period	<u>1,641,116</u>	<u>728,816</u>
Closing shareholders' funds	<u>8,334,928</u>	<u>6,693,812</u>

The analysis of non-equity shareholders' funds by class of share is set out below:

	1997 £	1996 £
100 'A' and 'B' ordinary shares of 1p each	1	1
200 deferred shares of £1 each	200	200
5,963,995 redeemable preference shares of £1 each	<u>5,963,995</u>	<u>5,963,995</u>
	<u>5,964,196</u>	<u>5,964,196</u>

18 Commitments and contingent liabilities

	1997 £	1996 £
<i>(a) Capital expenditure</i>		
Approved by the directors, contracted for but not yet provided	<u>6,966,655</u>	<u>27,064,574</u>
<i>(b) Lease commitments</i>		

At 31 March 1997 the company had annual commitments in respect of non-cancellable operating leases for motor vehicles and other assets as follows:

	1997		1996	
	Motor vehicles £	Other assets £	Motor vehicles £	Other assets £
Expiring in less than one year	10,471	—	—	—
Expiring between two and five years	16,148	26,168	27,991	—
Expiring after more than five years	—	<u>52,354</u>	—	—
	<u>26,619</u>	<u>78,522</u>	<u>27,991</u>	—