

CHOLET HOLDINGS LIMITED

**DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2003**



CHOLET HOLDINGS LIMITED

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CHOLET HOLDINGS LIMITED

SECRETARY AND ADVISERS

DIRECTORS

CPT O'Haire
QR Stewart

SECRETARY AND REGISTERED OFFICE

A Waterhouse
3 Sidings Court
White Rose Way
Doncaster
DN4 5NU

REGISTERED NUMBER

4733479

AUDITORS

KPMG LLP
1 Puddle Dock
London
EC4V 3PD

CHOLET HOLDINGS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 31 December 2003.

Activity

The principal activity of the group is the receiving, processing, recycling and disposing of waste materials, generation of electricity from landfill gas and quarrying.

Review of developments

The company was incorporated on 14 April 2003.

Acquisition of Waste Recycling Group

On 29 July the company's wholly owned subsidiary undertaking, Cholet Acquisitions Limited, acquired the entire share capital of Waste Recycling Group Plc (WRG) by means of a Scheme of Arrangement under s425 of the Companies Act 1985. Further details of the acquisition are given in note 24.

The group paid £2.67½ per ordinary issued share, valuing the consideration at £325.8m including acquisition expenses. This acquisition was funded by equity and debt of £301.7m from Terra Firma Capital Partners II, a Fund managed by a subsidiary of the company's ultimate parent Terra Firma Capital Partners Holdings Limited, and bank finance totalling £280.0m, including refinancing of original debt.

Assets Acquired

WRG is the largest independent operator of landfill sites in the UK, operating from a total of 40 freehold and 20 leasehold sites, with approximately 137 million cubic metres of void reserves and site lives up to 60 years. These sites are complimented by over 80 transfer stations and civic amenity sites, providing consolidation, separation and recycling services to a large number of local authorities throughout the UK. With WRG, the group acquired an integrated waste management business which the directors believe will provide future growth through focussed investment in energy and landfill assets. The directors are encouraged by the growing number of PFI opportunities with municipal clients.

The group operates an energy from waste plant in support of contracts with Nottingham City and County Councils and a new £150 million state of the art facility located in Kent commenced construction in April 2004 as part of a 25 year contract with Kent County Council (KCC). This facility will have the capacity to process 500,000 tonnes per annum for KCC and other clients and will enter production in 2006, exporting 35MW of power to the National Grid.

The group's landfill waste to energy activity is already well established, with 50MW of landfill gas generated electricity produced in house and 53MW outsourced to third party operators.

The group also operates liquid waste treatment facilities, treating hazardous and non-hazardous liquid waste by neutralising it prior to disposal. A number of limestone quarries are operated in the North and West Yorkshire regions.

Acquisition Fair Values

Following the acquisition, the group has undertaken an extensive exercise to prepare a fair value balance sheet for Cholet Holdings Limited under FRS 7 based on the assets acquired with WRG at the acquisition date. This resulted in goodwill of circa £59.1m on acquisition.

The key valuation adjustments applied in the fair value balance sheet were to landfill void property, and to recognise the landfill gas reserves, which are produced by the biodegradable waste in the ground on acquisition. Both of these assets were valued using an estimated market value derived from the present value (PV) of the expected future cash flows. The environmental provisions covering the company's future potential costs of site capping, leachate disposal, restoration and after-care were calculated in detail as part of the fair value exercise, resulting in a net increase of £18.3m in these provisions.

CHOLET HOLDINGS LIMITED

DIRECTORS REPORT (continued)

Results and Dividends

The results of the group are set out on page 8. The directors do not recommend payment of a dividend on the ordinary shares and a dividend on the cumulative redeemable preference share has not been declared

The group's turnover was £128.9m and the operating loss was £7.7m. After adjusting for depreciation and amortisation of £31.2m and the movement in provisions of £5.5m the group generated earnings before interest, tax, depreciation, amortisation and provisions ('EBITDAP') of £28.9m.

The group generated cash of £58.8m from its operating activities, which resulted in a £25.9m cash surplus after cash flows for interest, capital expenditure and tax.

A new executive team has been appointed to implement a group-wide re-organisation, resulting in the centralisation of group management at Doncaster.

Landfill operations have been reviewed as part of a detailed 'Best Practice' exercise to enhance operational efficiencies and maximise value across the group's portfolio of sites. The process will also ensure a consistent approach to environmental compliance ahead of the revised landfill site licensing framework (PPC) being introduced by the Environment Agency in 2004/5. Procurement initiatives have already delivered significant benefits to the group by leveraging the group's buying power in capital expenditure and new national supply agreements.

In landfill power generation the group has installed 8 MW capacity in the period and plans to install a further 28 MW in 2004, as it seeks to maximise the returns from this developing sector. Further investment has been made to improve generator uptime by constant monitoring of machine and gas field performance linked to a fully manned help desk.

The group continues to support its municipal clients in meeting their challenging waste diversion and recycling targets, and is well placed to develop these opportunities with its existing core asset base and long term relationships within the municipal sector. In addition to its long-term funding and working capital facilities the group is also a strong cash generator and has access to further equity and/or debt finance via its ultimate parent Terra Firma Capital Partners Holdings Limited.

After the acquisition, the group continued to retain existing business including a 5 year 180,000 tonnes per annum contract with Doncaster Borough Council and win new business including a 12 year 100,000 tonnes per annum contract for Luton Borough Council.

Employees

The company encourages a policy of equal opportunity employment throughout the group at all times.

Subject to the nature of its businesses in the waste management industry, the policy of the company is to ensure that there are fair opportunities in the group for the employment and training of disabled persons.

The directors recognise the importance of communication with employees. Members of the management team regularly visit sites and discuss with members of staff matters of current interest and concern to the business.

CHOLET HOLDINGS LIMITED

DIRECTORS REPORT (continued)

Charitable and Political Donations

The group made charitable donations amounting to £856 during the period. It also contributed £3,182,880 of its landfill tax liability to WREN and other ENTRUST registered environmental bodies as permitted by Government regulations. No political donations were made during the period.

Directors and their Interests

The directors who served during the period and since the period-end were as follows:


| | |
|----------------------------|--|
| CPT O'Haire | (appointed 14 April 2003) |
| QR Stewart | (appointed 14 April 2003) |
| PW Burns | (appointed 14 April 2003, resigned 23 February 2004) |
| Huntsmoor Limited | (appointed 14 April, resigned 14 April 2003) |
| Huntsmoor Nominees Limited | (appointed 14 April, resigned 14 April 2003) |

None of the directors held an interest in the share capital of the company during the period.

Auditors

The directors appointed KPMG LLP as the company's first auditors.

By order of the Board



Alan Waterhouse
Company Secretary

3 Sidings Court
White Rose Way
Doncaster
DN4 5NU

15th July 2004

CHOLET HOLDINGS LIMITED

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 group 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 group 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 group and to prevent and detect fraud and other irregularities.

CHOLET HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHOLET HOLDINGS LIMITED

We have audited the financial statements on pages 8 to 29.

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 6, 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 group 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 group'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 and the group as at 31 December 2003 and of the loss of the group for the period from 14 April 2003 (the date of incorporation) to 31 December 2003 and have been properly prepared in accordance with the Companies Act 1985.

KMG LLP

KPMG LLP
Chartered Accountants
Registered auditor
London

22 September 2004

CHOLET HOLDINGS LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT****Period ended 31 December 2003**

| | Note | 2003 £'000 |
|--|-------------|------------------------|
| TURNOVER | | |
| Cost of sales | 2 | 128,920 (124,668) |
| Gross profit | | <u>4,252</u> |
| Administrative expenses | | |
| - general administrative expenses | | (10,715) |
| - goodwill amortisation | | (1,231) |
| Total administrative expenses | | <u>(11,946)</u> |
| OPERATING LOSS | 3 | <u>(7,694)</u> |
| Interest receivable | | 619 |
| Interest payable and similar charges | 5 | (22,681) |
| Other finance costs | 6 | (2,341) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | <u>(32,097)</u> |
| Tax on loss on ordinary activities | 7 | 1,952 |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | | <u>(30,145)</u> |
| Equity minority interests | | 101 |
| LOSS FOR THE FINANCIAL PERIOD | | <u>(30,044)</u> |
| Undeclared fixed non-equity dividend | | (5,912) |
| RETAINED LOSS FOR THE FINANCIAL PERIOD | 19 | <u><u>(35,956)</u></u> |

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

CHOLET HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET 31 December 2003

| | Note | 2003 £'000 |
|--|------|------------------|
| FIXED ASSETS | | |
| Intangible assets | 8 | 57,916 |
| Landfill gas reserve | 9 | 125,174 |
| Tangible assets | 10 | 525,650 |
| | | <u>708,740</u> |
| CURRENT ASSETS | | |
| Debtors due within one year | 12 | 59,531 |
| Cash at bank and in hand - Escrow deposits | 13 | 2,013 |
| Cash at bank and in hand | | 20,776 |
| | | <u>82,320</u> |
| CREDITORS: amounts falling due within one year | 14 | <u>(84,491)</u> |
| NET CURRENT LIABILITIES | | <u>(2,171)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 706,569 |
| CREDITORS: amounts falling due after more than one year | 15 | (461,166) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 17 | <u>(146,845)</u> |
| NET ASSETS EXCLUDING PENSIONS LIABILITY | | 98,558 |
| PENSIONS LIABILITY | 22 | (4,946) |
| EQUITY MINORITY INTERESTS | | <u>(2,895)</u> |
| NET ASSETS | | <u>90,717</u> |
| CAPITAL AND RESERVES | | |
| Called up share capital | 18 | 120,687 |
| Profit and loss account | 19 | <u>(29,970)</u> |
| SHAREHOLDERS' FUNDS | | <u>90,717</u> |
| Attributable to equity shareholders | | (35,869) |
| Attributable to non-equity shareholders | | <u>126,586</u> |
| | | <u>90,717</u> |

These financial statements were approved by the Board of Directors on 15th July 2004.

Signed on behalf of the Board of Directors

Director

Director

CHOLET HOLDINGS LIMITED

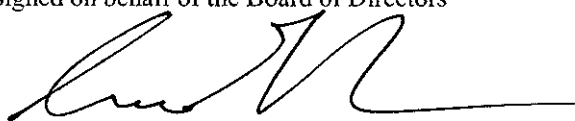
BALANCE SHEET

31 December 2003

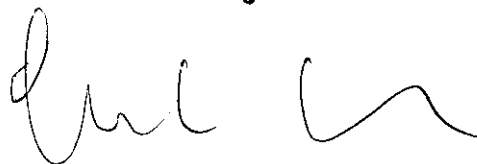
| | Note | 2003 £'000 |
|---|------|----------------|
| FIXED ASSETS | | |
| Investment in subsidiary undertakings | 11 | <u>120,687</u> |
| CAPITAL AND RESERVES | | |
| Called up share capital | 18 | <u>120,687</u> |
| SHAREHOLDERS' FUNDS | | <u>120,687</u> |
| Attributable to equity shareholders | | (5,899) |
| Attributable to non-equity shareholders | | <u>126,586</u> |
| | | <u>120,687</u> |

These financial statements were approved by the Board of Directors on 15th July 2004.

Signed on behalf of the Board of Directors


Director

Director



CHOLET HOLDINGS LIMITED

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Period ended 31 December 2003

| | The Group 2003 £'000 | The Company 2003 £'000 |
|--|---|---|
| Loss for the financial period | (30,044) | - |
| Undeclared fixed non-equity dividend | (5,912) | (5,912) |
| | <hr/> | <hr/> |
| Other recognised gains and losses relating to the period | (35,956) | (5,912) |
| | 74 | - |
| New share capital subscribed | 120,687 | 120,687 |
| Add back non-equity dividend not paid | 5,912 | 5,912 |
| | <hr/> | <hr/> |
| Net addition to shareholders' funds | 90,717 | 120,687 |
| Opening shareholders' funds | - | - |
| | <hr/> | <hr/> |
| Closing shareholders' funds | <u>90,717</u> | <u>120,687</u> |

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Period ended 31 December 2003

| | 2003 £'000 |
|--|-----------------------|
| Loss for the financial period | (30,044) |
| Actuarial gain in the pension schemes | 74 |
| | <hr/> |
| Total recognised gains and losses relating to the period | <u>(29,970)</u> |

CHOLET HOLDINGS LIMITED**CONSOLIDATED CASH FLOW STATEMENT**
Period ended 31 December 2003

| | Note | 2003 £'000 |
|--|-------------|-----------------------|
| Net cash inflow from operating activities | 25 | <u>58,780</u> |
| Returns on investments and servicing of finance | | |
| Interest received | | 619 |
| Interest paid | | (10,234) |
| Finance lease interest paid | | <u>(209)</u> |
| Net cash outflow from returns on investments and servicing of finance | | <u>(9,824)</u> |
| Taxation | | <u>4,424</u> |
| Capital expenditure and financial investment | 26 | <u>(27,467)</u> |
| Acquisitions and disposals | 27 | <u>(325,164)</u> |
| Cash outflow before financing | | <u>(299,251)</u> |
| Financing | 28 | <u>317,440</u> |
| Increase in cash | | <u><u>18,189</u></u> |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (note 29)

| | 2003 £'000 |
|--|-------------------------|
| Increase in cash in the period | 18,189 |
| Cash inflow from change in debt and lease financing | (196,753) |
| Non cash movements in debt financing | <u>(12,238)</u> |
| Change in net debt resulting from cash flows | <u>(190,802)</u> |
| Debt and lease financing acquired with subsidiary undertakings | <u>(257,254)</u> |
| Net debt at 31 December | <u><u>(448,056)</u></u> |

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group'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.

Basis of consolidation

The group financial statements consolidate the financial statements of Cholet Holdings Limited and all its subsidiaries made up to 31 December 2003.

Acquisitions have been accounted for using the acquisition method of accounting and are consolidated from the effective date of acquisition.

As permitted by Section 230(4) of the Companies Act 1985, a separate profit and loss account for the company has not been presented. The retained loss for the financial period of the company amounted to £5,912,000.

Goodwill

Goodwill arising on consolidation, representing the excess of the purchase price over the fair value of the net assets acquired, is capitalised and is written off on a straight line basis over its estimated useful life up to a maximum of 20 years.

Tangible fixed assets

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 | - over 25 to 50 years |
| Landfill sites | - based on the void used in the period as a proportion of total void |
| Leased assets | - over the term of the lease |
| Plant and equipment | - over 3 to 20 years |
| Motor vehicles | - over 4 years |

No depreciation is provided for on freehold land.

All assets, except landfill sites, are depreciated on a straight-line basis.

Landfill gas reserve

The landfill gas reserve represents the value of the gas generative capability of waste in the group's landfill waste sites at the date of acquisition. The value of the landfill gas reserve is being amortised based on the actual value of gas generated in the period as a proportion of the total expected gas to be generated over the life of the reserve.

Investments

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

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Certain employees of the group are members of the LAWDC's pension scheme in which the group is a participating employer. This scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Restoration and after-care costs

Full provision is made for the net present value (NPV) of the group's minimum unavoidable costs, in respect of restoration liabilities at the group's landfill sites, which have been capitalised in tangible fixed assets. The group provides 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 arise 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% and discounted at 5% to calculate the NPV. The effect of the unwinding of the discount element on existing provisions is reflected as a financial item.

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, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Leasing and hire purchase commitments

In respect of each finance lease the cost of the asset is capitalised and the cost, less residual value of the asset, is depreciated over the term of the lease. Rentals payable are apportioned between finance charges and leasing commitments. The total finance charge is allocated to accounting periods over the term of the lease at a constant periodic rate of charge on the remaining leasing commitments for each accounting period.

All other leases are operating leases and the relevant annual rentals are charged to profit and loss account on a straight-line basis over the lease term.

Turnover

Turnover represents sales of goods and services including landfill tax but excluding value added tax. Turnover is recognised when the relevant service is performed.

Capital instruments

Capital instruments are recorded at the fair value of the consideration received less issue costs in accordance with FRS4 'Capital instruments'. The difference between net proceeds of the issue and the total amounts of payments that the issuer may be required to make are recorded as a finance cost of the instrument and written off over the life of the instrument.

Financial instruments

Derivative instruments, such as interest rate swaps, are used by the group for hedging purposes to alter the risk profile of an underlying exposure to adverse interest rate movements. The group does not enter into speculative derivative contracts.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

2. TURNOVER AND PROFITS

All turnover and profits were generated in the United Kingdom principally from receiving, processing, recycling and disposing of waste materials, the generation of electricity from landfill gas and quarrying which the directors consider to be a single business segment. All net assets are applied in this business segment and are based in the United Kingdom.

3. OPERATING LOSS

| | 2003 £'000 |
|--|---------------|
| Operating loss is after charging: | |
| Depreciation of tangible fixed assets | |
| - owned assets | 23,120 |
| - leased assets | 650 |
| Landfill gas asset utilisation | 6,141 |
| Goodwill amortisation | 1,231 |
| Loss on sales of fixed assets | 39 |
| Auditors' remuneration | |
| - audit fees | 185 |
| - other fees | 615 |
| Operating lease rentals | |
| - hired plant and machinery | 3,599 |
| - land and buildings | 1,591 |

Other fees paid to the Company's auditors were for taxation, other compliance and advisory services.

During the period, the group paid additional fees of £1,710,000 to the company's auditors, which have been included in the costs of acquiring subsidiary undertakings (see note 24).

4. EMPLOYMENT COSTS

| | |
|--|-----------------------|
| Employee costs (including directors) were as follows: | 2003 £'000 |
| Wages and salaries | 8,652 |
| Social security costs | 748 |
| Other pension costs | 661 |
| | <u>10,061</u> |

The average number of persons employed (including directors) was:

| | |
|-------------------------------|------------|
| Operational staff | 607 |
| Administration and management | 190 |
| | <u>797</u> |

| | |
|------------------------------|-----------------------|
| Directors emoluments: | 2003 £'000 |
| Salaries | 83 |
| Bonus | 28 |
| Pension costs | 22 |
| | <u>133</u> |

The emoluments above relate to the highest paid director. No other directors received emoluments from the group and no retirement benefits are accruing to any of the other directors.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2003 £'000 |
|--|---------------|
| Unwinding of discount on zero coupon bonds issued to related parties (note 16) | 11,487 |
| Bank loans | 9,861 |
| Bank overdraft and other borrowings | 189 |
| Finance leases | 209 |
| Arrangement fees | 935 |
| | <u>22,681</u> |

Arrangement fees incurred in raising the group's finance are charged to the profit and loss account over the period of the related finance. Un-amortised finance charges as at 31 December 2003 were £11,937,000.

6. OTHER FINANCE COSTS

| | 2003 £'000 |
|--|---------------|
| Unwinding of discount on provisions | 2,307 |
| Expected return on pension scheme assets | (404) |
| Interest on pension scheme liabilities | 438 |
| | <u>2,341</u> |

7. TAXATION

| | 2003 £'000 |
|--|----------------|
| Deferred tax: | |
| Origination and reversal of timing differences | (1,952) |
| | <u>(1,952)</u> |
| Tax on loss on ordinary activities | (1,952) |

The current period tax credit is less than the standard rate of tax of 30% for the reasons set out below in the reconciliation.

| | |
|---|----------|
| Loss on ordinary activities before taxation | (32,097) |
| Tax on loss on ordinary activities at standard rate of 30 % | (9,629) |

Effects of:

| | |
|--|---------|
| Expenses not deductible for tax purposes | 8,053 |
| Goodwill amortisation | 369 |
| Depreciation in excess of capital allowances | 1,051 |
| Unrelieved tax losses | 2,278 |
| Site preparation relief | (3,269) |
| Utilisation of general provisions | 1,147 |

| | |
|---|----------|
| Current corporation tax credit for the period | <u>-</u> |
|---|----------|

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

8. INTANGIBLE FIXED ASSETS

| | Goodwill £'000 |
|---|-------------------|
| The group | |
| On acquisition of subsidiary undertakings | 59,147 |
| Amortisation for the period | (1,231) |
| At 31 December 2003 | <u>57,916</u> |

Goodwill arising on the acquisition of Waste Recycling Group Plc is being amortised over a period of 20 years.

9. LANDFILL GAS RESERVE

| | £'000 |
|---|----------------|
| The group | |
| On acquisition of subsidiary undertakings | 131,315 |
| Amortisation for the period | (6,141) |
| At 31 December 2003 | <u>125,174</u> |

The value of the gas generative capability of the waste in the group's landfill waste sites on acquisition of Waste Recycling Group Limited (formerly Waste Recycling Group plc) has been recognised as a fixed asset at its estimated fair market value based on projected discounted cash flows at the date of acquisition.

The value of the landfill gas reserve is being amortised based on the actual value of gas generated in the period as a proportion of the total expected gas to be generated over the life of the reserve.

10. TANGIBLE FIXED ASSETS

| | Landfill sites £'000 | Other freehold property £'000 | Motor vehicles £'000 | Plant and equipment £'000 | Total £'000 |
|---|----------------------------|--|----------------------------|---------------------------------|----------------|
| The group | | | | | |
| Cost | | | | | |
| On acquisition of subsidiary undertakings | 368,416 | 87,792 | 842 | 51,820 | 508,870 |
| Additions | 22,114 | 3,278 | - | 15,197 | 40,589 |
| Disposals | - | - | (35) | (4) | (39) |
| At 31 December 2003 | <u>390,530</u> | <u>91,070</u> | <u>807</u> | <u>67,013</u> | <u>549,420</u> |
| Depreciation | | | | | |
| Charge for the period | 19,190 | 1,977 | 174 | 2,429 | 23,770 |
| At 31 December 2003 | <u>19,190</u> | <u>1,977</u> | <u>174</u> | <u>2,429</u> | <u>23,770</u> |
| Net book value | | | | | |
| At 31 December 2003 | <u>371,340</u> | <u>89,093</u> | <u>633</u> | <u>64,584</u> | <u>525,650</u> |

The net book value of the group's fixed assets at 31 December 2003 includes £30,790,000 in respect of assets held under finance leases. Depreciation charged on these assets totalled £650,000 in the period.

The company has no tangible fixed assets.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

11. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

| The company | £'000 |
|--|----------------|
| Additions at cost - Shares in subsidiary undertaking | 120,687 |
| At 31 December 2003 | <u>120,687</u> |

The additions in the year relate to costs incurred for subsidiary undertakings acquired. The principal operating subsidiaries, all of which were engaged in the principal activities of the group, incorporated in England and 100% owned, unless otherwise stated, at 31 December 2003 were:

| | |
|---|--------------------------------------|
| Cholet Investments Limited | Lincwaste Limited* |
| Cholet Acquisitions Limited* | Landfill Management Limited* |
| 3C Waste Limited* | Norfolk Waste Limited* |
| Anti-Waste (Restoration) Limited* | Pennine Waste Management Limited* |
| Anti-Waste Limited* | T Shooter Limited* |
| Arnold Waste Disposal Limited* | Waste Recycling Limited* |
| BDR Waste Disposal Limited (80% owned)* | WasteNotts (Reclamation) Limited* |
| Darrington Quarries Limited* | Waste Recovery Limited* |
| Derbyshire Waste Limited (80% owned)* | Waste Recycling Group Limited* |
| East Waste Limited* | Waste Recycling (Central) Limited* |
| Integrated Waste Management Limited* | Waste Recycling (Scotland) Limited** |
| Kent Enviropower Limited* | Waste Recycling (Yorkshire) Limited* |
| Kent Energy Limited* | Welbeck Waste Management Limited* |

* companies held indirectly by an intermediate company

+ incorporated in Scotland

12. DEBTORS

| The group | 2003 £'000 |
|--------------------------------|---------------|
| Trade debtors | 53,434 |
| Other debtors | 2,553 |
| Prepayments and accrued income | 3,544 |
| | <u>59,531</u> |

13. CASH AT BANK AND IN HAND - ESCROW DEPOSITS

Escrow deposits are held in bank accounts in the name of Anti-Waste Limited with various County Councils or the Environment Agency. Because these funds have restricted use they are disclosed separately as Escrow deposits in the balance sheet.

A total of £5,879,910 is contracted to be deposited over the useful life of certain sites which is expected to be in excess of 20 years and, subject to certain conditions, costs in respect of site restoration and post closure after-care will be met from these funds. On completion of satisfactory monitoring of the sites for the relevant periods, any balance remaining will be returned.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| The group | 2003 £'000 |
|--|---------------|
| Bank loans and overdrafts (note 16) | 8,163 |
| Obligations under finance leases (note 16) | 353 |
| Trade creditors | 19,930 |
| Corporation tax | 2,500 |
| Landfill tax | 24,826 |
| Other taxes and social security | 4,268 |
| Other creditors | 1,003 |
| Accruals and deferred income | 23,448 |
| | <u>84,491</u> |

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| The group | 2003 £'000 |
|--|----------------|
| Bank loans (note 16) | 264,986 |
| Zero coupon bond issued to related party | 187,501 |
| Other unsecured loans (note 16) | 2,640 |
| Obligations under finance leases (note 16) | 5,189 |
| Contingent consideration | 850 |
| | <u>461,166</u> |

16. BORROWINGS

| The group | 2003 £'000 |
|--|----------------|
| Summary | |
| Bank loans | 268,063 |
| Zero coupon bond issued to related party | 187,501 |
| Other unsecured loans | 5,139 |
| Overdrafts | 2,587 |
| | <u>463,290</u> |
| Obligations under finance leases | 5,542 |
| | <u>468,832</u> |
| Due within one year | (8,516) |
| | <u>460,316</u> |

The bank facilities are secured on a first mortgage on certain freehold properties of the company's subsidiary undertakings and bear interest at rates between 2.25% and 3.25% above the London Inter-bank Offered Rate. The loan is repayable by instalments over seven years commencing in 2004, but earlier repayments are required in the event that the group generates surplus funds in accordance with a formula set out in the facility agreement.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

16. BORROWINGS (continued)

The loans from related parties are provided by Terra Firma Investments (GP) 2 Limited, acting as manager of the Terra Firma Capital Partners II fund, and represent zero coupon bonds plus accrued discount. The balance represents bonds plus accrued discount with an effective discount rate of 16% and a repayment date of 8 June 2013.

The group overdraft bears interest at 1% above Lloyds TSB Bank plc base rate. The other unsecured loans bear interest at a combination of index rates related to the Retail Price Index and other indices.

Obligations under finance leases are secured by related assets.

Maturity Profile

| The group | 2003 £'000 |
|------------------------------|----------------|
| Within one year or on demand | 8,516 |
| Between one and two years | 18,796 |
| Between two and five years | 73,745 |
| More than five years | 367,775 |
| | <u>468,832</u> |

17. PROVISIONS FOR LIABILITIES AND CHARGES

| | Deferred taxation £'000 | Other provisions £'000 | Restoration £'000 | After-care £'000 | Total £'000 |
|--|-------------------------------|------------------------------|----------------------|---------------------|----------------|
| At acquisition of subsidiary undertakings | 1,952 | 36,176 | 30,319 | 77,622 | 146,069 |
| (Credit) charge to profit and loss account | (1,952) | 2,581 | - | 2,879 | 3,508 |
| Unwinding of discount | - | - | 632 | 1,675 | 2,307 |
| Expended in period | - | (1,867) | (2,192) | (980) | (5,039) |
| At 31 December 2003 | <u>-</u> | <u>36,890</u> | <u>28,759</u> | <u>81,196</u> | <u>146,845</u> |

The group provides for the estimated cost of restoring its landfill sites at the end of their operational life and for their subsequent after-care. The after-care period is generally expected to be 30 years. These 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 its landfill sites.

The amounts of deferred taxation provided, and the amounts for which no provision has been made in the financial statements, are as follows:

| The group | 2003 | |
|-------------------------------------|-------------------|---------------------|
| | Provided £'000 | Unprovided £'000 |
| Timing differences: | | |
| Accelerated capital allowances | 4,153 | - |
| Other short term timing differences | (4,153) | (11,963) |
| | <u>-</u> | <u>(11,963)</u> |

The group has unprovided deferred tax on group losses, as there is insufficient certainty as to whether events will materialise to crystallise the deferred tax benefit. The company had no provided or unprovided deferred taxation liabilities at 31 December 2003.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

18. CALLED UP SHARE CAPITAL

| | 2003 £'000 |
|--|---------------|
| Authorised, called up, allotted and fully paid: | |
| 12,500 Ordinary shares of £1 each | 13 |
| 120,674,600 Cumulative redeemable preference shares of £1 each | 120,674 |
| | <hr/> |
| | 120,687 |
| | <hr/> |

Issues of share capital

On incorporation the company allotted 1 ordinary share to Huntsmoor Nominees Limited at par. Huntsmoor Nominees Limited transferred this share to Monterey Capital II Sarl on 29 April 2003.

On 24 April 2003 the company allotted 12,499 ordinary shares to Monterey Capital II Sarl at par. On 4 August the company allotted 120,674,600 cumulative redeemable A preference £1 shares to Monterey Capital II Sarl.

Rights attaching to each class of share

The ordinary shares entitle the holder to participate in the profits of the company after payment in full of all dividends due to the cumulative redeemable preference shareholders. The cumulative redeemable preference shares do not carry any rights to convert into ordinary shares.

The cumulative redeemable preference shares entitle the holder to a fixed cumulative cash dividend of 12p per £1 paid up on the nominal amount of each share. The preference dividend is payable half-yearly on 30 June and 31 December in every year with the first being due on 30 June 2003. In the absence of distributable reserves, no dividend is payable for the period ended 31 December 2003. The dividend has been calculated on a pro-rata basis for the period 4 August 2003 to 31 December 2003.

The capital of the company is first applied to any arrears of preference dividends and to the repayment of the nominal amounts paid for the cumulative redeemable preference shares. The balance (if any) is distributable amongst the holders of the ordinary share capital.

The ordinary shareholders are entitled to attend and vote at general meetings of the company. The holders of the cumulative redeemable preference shares are entitled to attend and speak at general meetings of the company but the shares do not carry voting rights.

The company may redeem the cumulative redeemable preference shares by not less than 14 days notice to the cumulative redeemable preference shareholders.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

19. RESERVES

| | Profit and Loss Account £'000 |
|---|--|
| The group | |
| Retained loss for the period | (35,956) |
| Non equity dividend not paid | 5,912 |
| Actuarial gain recognised in the pension scheme | 74 |
| | <hr/> |
| At 31 December 2003 | <u>(29,970)</u> |

| | 2003 Total £'000 |
|---|---------------------------------|
| The group | |
| Profit and loss reserve excluding pension liability | (25,024) |
| Pension liability | (4,946) |
| | <hr/> |
| Profit and loss reserve including pension liability | <u>(29,970)</u> |

| | Profit and Loss Account £'000 |
|------------------------------|--|
| The company | |
| Retained loss for the period | (5,912) |
| Non equity dividend not paid | 5,912 |
| | <hr/> |
| At 31 December 2003 | <u>-</u> |

20. CONTINGENT LIABILITIES

- 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.
- In the ordinary course of business certain subsidiary undertakings have guaranteed the due and proper performance of various contracts entered into by other subsidiary undertakings.
- Certain subsidiary undertakings have, in the ordinary course of business, given guarantees and performance bonds in respect of obligations under Waste Management Licences.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

21. CAPITAL COMMITMENTS

| | 2003 £'000 |
|---|---------------|
| The group | |
| Authorised and contracted capital expenditure commitments, for which no provision has been made in the financial statements | 600 |

22. PENSION SCHEMES

The group operates defined contribution pension schemes on behalf of one director and all eligible employees. The assets of the schemes are held separately from those of the group in independently administered funds.

Certain employees of the group are members of the LAWDC's pension scheme in which the group is a participating employer. Following the acquisition of Integrated Waste Management (IWM) in 2001, the Company has taken responsibility for IWM's section of the Scheme. The most recent actuarial report on the LAWDC's Pension Scheme was prepared as at 31 March 2003 and was updated for FRS 17 purposes at 31 December 2003 by a qualified independent actuary. The company has adopted FRS 17 'Retirement benefits'.

There were no outstanding or prepaid contributions at either the beginning or end of the year.

| | |
|--|---------------|
| The contributions under these schemes amounted to: | 2003 £'000 |
| Defined contribution schemes | 129 |
| Defined benefit schemes | 530 |
| | <u>659</u> |

In accordance with the requirements of FRS 17, a qualified independent actuary has derived the valuation of liabilities detailed below by projecting forward the position from 1 April 2003 to 31 December 2003. In calculating the liabilities, the following financial assumptions have been used:

| | 2003 % pa |
|----------------------------------|--------------|
| Discount rate | 5.4 |
| Pensionable Pay growth | 3.5 |
| Price inflation | 2.5 |
| Increases to pensions in payment | 2.5 |

Deferred pensions are revalued to retirement age in line with the RPI assumption of per annum unless otherwise prescribed by statutory requirements or the Scheme rules.

The fair value of the assets and actuarial valuation of the liabilities of the two LAWDC sections as at 31 December 2003, together with the expected rate of return over the following year is as follows:

| | WRG section | | IWM section | |
|------------------------------|----------------|-----------------|--------------|-----------------|
| | 2003 | Expected return | 2003 | Expected return |
| | £'000 | 2003 | £'000 | 2003 |
| | | (% pa) | | (% pa) |
| Equities | 11,229 | 7.7 | 671 | 7.7 |
| Bonds | 3,049 | 5.0 | 286 | 4.0 |
| | <u>14,278</u> | | <u>957</u> | |
| Fair value of assets | | | | |
| Actuarial value of liability | (19,071) | | (1,110) | |
| | <u>(4,793)</u> | | <u>(153)</u> | |
| Deficit of section | | | | |

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

22. PENSION SCHEMES (continued)

Movement in deficit during the period

| | 2003 £'000 |
|------------------------------------|----------------|
| Deficit acquired with subsidiaries | (5,692) |
| Current Service Cost | (280) |
| Contributions paid | 1,146 |
| Past service cost | (160) |
| Other finance income/cost | (34) |
| Actuarial gain | 74 |
| Deficit as at 31 December | <u>(4,946)</u> |

Analysis of other pension costs charged in arriving at operating loss

| | 2003 £'000 |
|----------------------|---------------|
| Current service cost | 280 |
| Past service cost | 160 |
| | <u>440</u> |

Analysis of amounts included in other finance costs

| | 2003 £'000 |
|--|---------------|
| Expected return on pension scheme assets | 404 |
| Interest on pension scheme liability | (438) |
| | <u>(34)</u> |

Analysis of amount recognised in statement of total recognised gains and losses

| | 2003 £'000 |
|---|---------------|
| Actual return less expected return on scheme assets | 581 |
| Experience gains and losses arising on scheme liabilities | 152 |
| Changes in assumptions underlying the present value of the scheme liabilities | (659) |
| | <u>74</u> |

History of experience gains and losses

| | 2003 |
|---|-------------|
| Difference between the expected and actual return on scheme assets: | |
| Amount (£'000) | 404 |
| % of Scheme assets | 2.7% |
| Experience loss on Scheme liabilities: | |
| Amount (£'000) | 152 |
| % of the present value of the Scheme liabilities | 0.8% |
| Total amount of loss recognised in Statement of total recognised gains and losses | |
| Amount (£'000) | (659) |
| % of the present value of the Scheme liabilities | <u>3.3%</u> |

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

23. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2003 the group had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings 2003 £'000 | Other 2003 £'000 |
|--|--|------------------------|
| Operating leases which expire: | | |
| Within one year | 82 | 184 |
| In the second to fifth years inclusive | 310 | 2,391 |
| In over five years | 3,343 | - |

The group is also committed to make royalty payments in respect of waste to be deposited in the future at certain of its landfill sites in proportion to the tonnage of waste deposited.

The company has no commitments under operating leases.

24. ACQUISITIONS

Waste Recycling Group Plc

On 29 July 2003 the company's wholly owned subsidiary undertaking, Cholet Acquisitions Limited, acquired the entire share capital of Waste Recycling Group Plc by means of a Scheme of Arrangement under s425 of the Companies Act 1985.

The Chairman of Waste Recycling Group Plc recommended the scheme to its shareholders on 16 June 2003. The scheme was subject to the approval by the necessary majorities of Shareholders at a Court meeting and at an Extraordinary General Meeting, both of which were held on 9 July 2003. Following approval by the shareholders, the scheme was subsequently sanctioned by the Court on 28 July 2003 and it became effective upon delivery of a copy of the Order to the Registrar of Companies on 29 July 2003. Waste Recycling Group Plc re-registered as a private company on 31 July 2003.

The results of Waste Recycling Group Plc were as follows:

| | Year ended 31 December 2002 £'000 | 1 January 2003 to date of acquisition £'000 |
|---|---|---|
| Turnover | 302,531 | 183,105 |
| Cost of sales | (232,481) | (150,032) |
| Gross profit | 70,050 | 33,073 |
| Administrative expenses (including exceptional costs and goodwill amortisation) | (56,550) | (42,966) |
| Operating profit (loss) | 13,500 | (9,893) |

There were no recognised gains or losses in either period other than the results for the period.

The results and operating cash flows of Waste Recycling Group Limited after the date of acquisition are wholly represented by those of the group.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

24. ACQUISITIONS (continued)

The following table sets out the book value of the identifiable assets and liabilities and their fair value to the group:

| | Book value at date of acquisition £'000 | Revaluation adjustments £'000 | Accounting policy alignment £'000 | Provisional fair value of net assets £'000 |
|-----------------------------------|--|-------------------------------------|--|---|
| Tangible fixed assets | 256,247 | 252,623 (i) | | 508,870 |
| Landfill gas reserve | | 131,315 (ii) | | 131,315 |
| Debtors | 75,272 | (1,500) (iii) | | 73,772 |
| Escrow cash balances | 2,013 | | | 2,013 |
| Cash balances | 656 | | | 656 |
| Creditors and accruals | (39,225) | 1,283 (iv) | | (37,942) |
| Bank loans and overdrafts | (251,635) | | | (251,635) |
| Finance leases | (5,619) | | | (5,619) |
| Provisions; | | | | |
| - restoration | (48,260) | 17,941 (iv) | | (30,319) |
| - after-care | (48,117) | (29,505) (iv) | | (77,622) |
| - other | (16,256) | (6,763) (iv) | (13,157) (v) | (36,176) |
| Deferred taxation | (1,952) | | | (1,952) |
| Pension liability | | | (5,692) (vi) | (5,692) |
| Minority interests | (2,559) | (437) (vii) | | (2,996) |
| Total net assets | <u>(79,435)</u> | <u>364,957</u> | <u>(18,849)</u> | <u>266,673</u> |
| Goodwill arising from acquisition | | | | <u>59,147</u> |
| Cost of acquisition | | | | <u>325,820</u> |
| Satisfied by: | | | | |
| Cash consideration | | | | 315,245 |
| Costs associated with acquisition | | | | <u>10,575</u> |
| | | | | <u>325,820</u> |

The adjustments represent revisions to book values of existing assets and liabilities, in accordance with FRS 7 'Fair values in acquisition accounting' and are as follows:

- i) landfill void property which has been revalued to reflect the estimated market value based on the discounted cash flows arising from future utilisation of the consented void available for tipping of waste (£243.6m) and adjustments to reflect the current market values of other assets (£9m)
- ii) the value of the gas generative capability of the waste in the group's landfill sites on acquisition has been recognised at its estimated fair market value based on projected discounted cash flows
- iii) increase in value of bad debt provision
- iv) reassessment of the groups obligation for restoration and after-care costs in respect of landfill and quarry sites and recognition of other specific liabilities
- v) recognition of the group's ongoing statutory liability to cap operational areas of landfill sites
- vi) recognition of the group's pension scheme deficit in accordance with FRS17 'Retirement benefits'
- vii) impact of fair value adjustments on minority interests.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

25. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2003 £'000 |
|--|----------------------|
| Operating loss | (7,694) |
| Depreciation | 23,770 |
| Landfill gas utilisation | 6,141 |
| Loss on sale of fixed assets | 39 |
| Goodwill amortisation | 1,231 |
| Decrease in debtors | 12,317 |
| Increase in creditors | 22,976 |
| Net cash inflow from operating activities | <u>58,780</u> |

26. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

| | 2003 £'000 |
|--|------------------------|
| Purchase of tangible fixed assets | (27,467) |
| Net cash outflow for capital expenditure and financial investment | <u>(27,467)</u> |

27. ACQUISITIONS AND DISPOSALS

| | 2003 £'000 |
|---|-------------------------|
| Purchase of businesses and subsidiary undertakings | (325,820) |
| Net cash acquired with businesses and subsidiary undertakings | 656 |
| Net cash outflow for acquisitions and disposals | <u>(325,164)</u> |

28. FINANCING

| | 2003 £'000 |
|---|-----------------------|
| Issue of ordinary share capital | 120,687 |
| Zero coupon bond issued to related party | 181,014 |
| New bank loans | 267,645 |
| Redemption of zero coupon bond | (4,816) |
| Bank borrowings repaid | (247,013) |
| Capital element of finance lease repayments | (77) |
| Net cash inflow from financing | <u>317,440</u> |

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

29. ANALYSIS OF CHANGES IN NET DEBT

| | Acquisition £'000 | Cashflow £'000 | Non cash movements £'000 | At 31 December 2003 £'000 |
|-----------------------------------|----------------------|-------------------|--------------------------------|------------------------------------|
| Cash at bank and in hand | | 20,776 | | 20,776 |
| Bank overdrafts | | (2,587) | | (2,587) |
| | | <u>18,189</u> | | |
| Debt due within one year | (216,978) | 211,402 | | (5,576) |
| Debt due after one year | (34,657) | (408,232) | (12,238) | (455,127) |
| Capital element of finance leases | (5,619) | 77 | | (5,542) |
| | | <u>(196,753)</u> | <u>(12,238)</u> | |
| Total | <u>(257,254)</u> | <u>(178,564)</u> | <u>(12,238)</u> | <u>(448,056)</u> |

30. ULTIMATE PARENT COMPANY

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

Cholet Holdings Limited is the parent company of the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of the financial statements are available from 3 Sidings Court, White Rose Way, Doncaster DN4 5NU.

31. RELATED PARTY TRANSACTIONS

Terra Firma Investments (GP) 2 Limited, acting as manager of the Terra Firma Capital Partners II fund (comprising six individual Limited partnerships), and of two co-investment partnerships, has the ability to exercise a controlling influence over the company through the holding of shares (for and on behalf of the Terra Firma Capital Partners II fund and the two co-investment partnerships) in Monterey Capital II Sarl. The directors therefore consider the company to be a related party.

Transactions during the year with this related party are as follows:

- On 12 June 2003 Cholet Investments Limited issued Terra Firma Investments (GP) 2 Limited, acting as General Partner of the Terra Firma Capital Partners II fund with Zero Coupon Bonds with a subscription value of £3.18m.
- On 1 August 2003 Cholet Investments Limited issued Terra Firma Investments (GP) 2 Limited, acting as General Partner of the Terra Firma Capital Partners II fund with Zero Coupon Bonds with a subscription value of £177.83m.
- On 29 September 2003 Cholet Investments Limited redeemed £5m of Zero Coupon Bonds including unwound discount of £0.18m
- On 12 June 2003 Terra Firma Investments (GP) 2 Limited acting as General Partner of the Terra Firma Capital Partners II fund issued a call option relating to the zero coupon bonds issued by Cholet Investments Limited. Consideration for the issue of the call option was £1. The call option grants Cholet Holdings Limited the right to require Terra Firma Investments (GP) 2 Limited acting as General Partner of the Terra Firma Capital Partners II fund to sell and transfer to Cholet Holdings Limited the zero coupon bonds, or at Cholet Holdings Limited's election, any of them. Upon exercise of the option the right to receive any outstanding amounts under the zero coupon bonds will be transferred to Cholet Holdings Limited. Cholet Holdings Limited is entitled to exercise the option at any time during the option period (which expires upon redemption). Consideration for the acquisition of the zero coupon bonds under the call option shall comprise the issue and allotment to Terra Firma Investments (GP) 2 Limited acting as General Partner of the Terra Firma Capital Partners II a fixed number of B Preference Shares of Cholet Holdings Limited.

CHOLET HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2003

32. POST BALANCE SHEET EVENT

On 24 May 2004 the company acquired the entire issued share capital of Cholet Investments 2 Limited. On 1 July 2004 Cholet Acquisitions 2 Limited, a wholly owned subsidiary of Cholet Investments 2 Limited, acquired the UK landfilling business of Shanks Plc for a total consideration of £227.5m plus costs. Cholet Acquisitions 2 Limited, acquired the entire share capital of eight companies, which together comprise the business acquired