

WRG HOLDINGS LIMITED

Annual Report and Financial Statements

Year Ended

31 December 2005

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WRG HOLDINGS LIMITED

Annual report and financial statements for the year ended 31 December 2005

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Directors

CPT O'Haire
QR Stewart

Secretary and registered office

JM Bolton and SN Hardman (Joint Secretaries)
Ground Floor West, 900 Pavilion Drive, Northampton Business Park, Northampton, NN4 7RG

Company number

4733479

Auditors

KPMG LLP, 1 Puddle Dock, London, EC4V 3PD

WRG HOLDINGS LIMITED

Directors' Report

The directors (the "Directors") present their annual report and the audited financial statements of WRG Holdings Limited (the "Company"), together with the consolidated accounts for the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

Principal Activities

The principal activities of the Company and its subsidiaries are the receiving, processing, recycling, and disposing of waste materials and generation of electricity from landfill gas.

Accounting Standards

The Group's consolidated results in this report are prepared under International Financial Reporting Standards ("IFRSs") as adopted by the EU. As this is the first time this basis of preparation has been adopted by the Group, the comparative results have been restated under IFRSs. The impact of this change can be seen in note 23. The Company only balance sheet, which is presented, on page 62 of this report, continues to be prepared under UK Accounting Standards (UK Generally Accepted Accounting Practice).

Intention to change share rights

The implementation of IAS 32 in the year has lead to the cumulative redeemable preference shares of £120.7 million being moved out of equity and into non-current interest bearing liabilities and unpaid dividends of £33.0 million to 31 December 2005 being shown as a current liability. As a result of this, the Directors will propose to the members of the Company to amend the class rights of the cumulative redeemable preference shares such that dividends payable on this class of share are payable at the discretion of the Directors of the Company. All other rights will remain unchanged.

The effect of this will be that the shares become classified within equity.

Review of Developments

The largest segment of the business, landfill, continues to operate satisfactorily. Good progress has been made in achieving PPC (Pollution Prevention Control) permitting for the Group's landfill sites and the Directors believe that any potential reduction in void from permits not yet issued will not be material to the Group's activities.

Waste to Energy operating capacity was increased by 36 megawatts in the year as part of the Group's investment strategy for this business, while the construction of the Energy-from-Waste facility at Allington, Kent, continues to make good progress and has commenced operational testing in April 2006, as planned.

On 21 July 2005 the Group acquired the assets and business of Alco Waste Management Limited (in administration) for a cash consideration of £4.45m (plus costs of £0.3m). The acquired business comprises a landfill site with capability for hazardous waste disposal, a clinical waste collection business, a materials recycling facility, liquid waste treatment plant and a modest supporting transport fleet. Its integration into the Group has been completed and the business is contributing to the operating profits of the Group.

The Group has engaged in the new sector PFI-based tenders, in response to growing demand for recycling and energy from waste initiatives from municipal authorities. The Directors believe that the Group's extensive network of locally based assets and ability to provide innovative technical and financial solutions, backed by an experienced waste management team, will be key differentials in this competitive market-place.

Results and Dividends

The results of the Group are set out on page 6. The Directors do not recommend the payment of a dividend.

The Group's turnover was £542.8m (2004: £431.8m) and the operating profit was £45.8m (2004: £45.3m). The Group generated cash of £119.6m (2004: £110.2m) from its operating activities.

The comparative results include 6 months of results of a number of subsidiaries acquired from Shanks Group Plc.

WRG HOLDINGS LIMITED

Directors' Report *(continued)*

Use of financial instruments

The Group has a policy to hedge the interest rate risk on the majority of its floating rate borrowing, with the exception of those borrowings which are non-recourse. In addition the Group has an immaterial amount of foreign currency purchases, some of which are hedged.

The exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk is covered in note 21 to the Group's financial statements.

Employees

A policy of equal opportunity employment throughout the Group continues to be encouraged at all times. Subject to the nature of its businesses in the waste management industry, the policy of the Group is to ensure that there are fair opportunities 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.

Charitable and Political Donations

The Group made charitable donations amounting to £5,750 during the year ended 31 December 2005 (2004: £9,759). It also contributed £13,495,610 (2004: £10,918,505) of its landfill tax liability to Waste Recycling Environmental Limited and other ENTRUST registered environmental bodies as permitted by Government regulations. No political donations were made during the year ended 31 December 2005 or prior year.

Directors and their Interests

The Directors who served during the year ended 31 December 2005 and since the year-end were as follows:

CPT O'Haire

QR Stewart

None of the Directors had an interest in the shares of the Company.

Annual General Meeting and Auditors

A resolution to reappoint KPMG LLP as auditors of the Company will be proposed at the 2006 annual general meeting of the Company.

By order of the Board



JM Bolton
Company Secretary

28 April 2006

WRG HOLDINGS LIMITED

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' report and the Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent Company.

In preparing each of the Group and parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

1 Puddle Dock
London
EC4V 3PD
United Kingdom

Report of the independent auditors to the members of WRG Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of WRG Holdings Limited for the year ended 31 December 2005 which comprise the group income statement, the group and parent company balance sheets, the group cash flow statement, the group statement of recognised income and expense and the related notes on pages 6 to 69. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

Report of the independent auditors to the members of WRG Holdings Limited (*continued*)

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2005; and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

28 April 2006

KPMG LLP
Chartered Accountants
Registered Auditor

WRG HOLDINGS LIMITED

Consolidated income statement for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Continuing operations			
Revenue	3	542,809	431,811
Cost of sales (including exceptional reassessment of restoration, aftercare and other provisions credit £nil (2004: credit £27,604,000) and exceptional fixed asset impairment of £nil (2004: £10,085,000))		(464,441)	(359,246)
Gross profit		78,368	72,565
Administrative expenses		(32,567)	(27,278)
Operating profit		45,801	45,287
Finance costs	4	(99,942)	(85,790)
Finance income	4	3,489	3,934
Loss before tax		(50,652)	(36,569)
Income tax credit	5	10,523	6,920
Loss for the year	14	(40,129)	(29,649)
Attributable to:			
Equity holders of the parent		(40,897)	(29,881)
Minority interests (2004: equity under FRS 4)		768	232
		(40,129)	(29,649)

WRG HOLDINGS LIMITED

Consolidated balance sheet at 31 December 2005

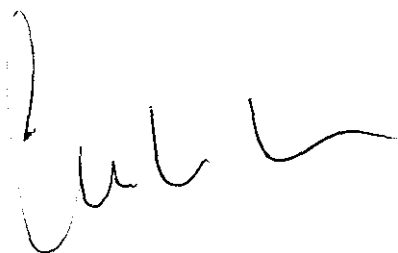
	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	7	805,231		736,734	
Intangible assets	8	423,774		438,562	
Cash held in escrow deposits		27,390		24,137	
			1,256,395		1,199,433
Current assets					
Trade and other receivables	12	93,906		93,654	
Cash and cash equivalents	13	25,457		47,070	
			119,363		140,724
TOTAL ASSETS			1,375,758		1,340,157
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent (shareholders' funds containing both FRS 4 equity and non-equity in 2004)					
Issued share capital	14	43		13	
Cumulative redeemable preference shares	14	-		120,674	
Cashflow hedging reserve	14	(15,832)		-	
Retained earnings	14	(116,778)		(56,677)	
			(132,567)		64,010
Minority interest (2004: equity under FRS 4)			3,583		3,127
Total equity (2004: shareholders' funds containing £139,238,000 non-equity on the FRS 4 basis)			(128,984)		67,137

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Consolidated balance sheet at 31 December 2005 (continued)

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Non-current liabilities					
Interest-bearing loans and borrowings	15	883,621		808,267	
Cumulative redeemable preference shares	15	120,674		-	
Provisions	16	159,845		167,974	
Other payables	17	1,448		7,258	
Pension liability	11	5,184		5,141	
Deferred taxation	5	116,194		126,838	
			1,286,966		1,115,478
Current liabilities					
Trade and other payables	18	131,149		131,487	
Interest-bearing loans and borrowings	15	58,377		1,034	
Current income tax payable		8,924		8,895	
Provisions	16	19,326		16,126	
			217,776		157,542
TOTAL LIABILITIES			1,504,742		1,273,020
TOTAL EQUITY AND LIABILITIES			1,375,758		1,340,157
(2004: includes £139,238,000 of non-equity)					

The financial statements were approved by the Board of Directors on 28 April 2006



QR Stewart
Director

WRG HOLDINGS LIMITED
Consolidated cash flow statement for the year ended 31 December 2005

	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Cash flows from operating activities				
Loss for the year	(40,130)		(29,649)	
Adjustments for				
Depreciation and amortisation	101,188		88,388	
Impairment to fixed assets	-		10,085	
Taxation credit	(10,523)		(6,920)	
(Profit) / loss on sale of property, plant and equipment	(944)		180	
Interest income	(2,243)		(2,827)	
Interest expense	92,731		80,805	
Other finance costs	5,966		3,877	
Operating cashflow before changes in working capital and provisions		146,045		143,939
(Increase) / decrease in trade and other receivables	(1,319)		(18,190)	
(Decrease) / increase in trade and other payables	(1,062)		27,980	
Decrease in provisions	(25,089)		(50,031)	
Cash generated from operations		118,575		103,698
Taxation received	980		6,548	
Net cash flows from operating activities		119,555		110,246
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	4,547		749	
Interest received	2,243		2,827	
Purchase of property, plant and equipment	(145,224)		(105,500)	
Purchase of intangible assets	(29)		(1,413)	
Acquisition of business / subsidiary, net of cash acquired	(4,685)		(220,989)	
Net cash flows used in investing activities		(143,148)		(324,326)
Cash flows from financing activities				
Dividends paid to minority interests	(312)		-	
Payment of finance lease liabilities	(868)		(829)	
Proceeds from borrowings	68,000		790,142	
Repayment of borrowings	(8,165)		(436,246)	
Transfer to escrow cash	(3,253)		(22,124)	
Interest paid	(53,422)		(87,982)	
Net cash flows from financing activities		1,980		242,961
Net (decrease) / increase in cash and cash equivalents		(21,613)		28,881
Cash and cash equivalents at 1 January		47,070		18,189
Cash and cash equivalents at 31 December (note 13)		25,457		47,070

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Consolidated statement of recognised income and expense for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Actuarial losses on defined benefit pension scheme	11	(640)	(832)
Effective portion of reduction in fair value of hedging interest rate swap		(10,969)	-
Net loss recognised directly in equity		(11,609)	(832)
Loss for the year		(40,129)	(29,649)
Total recognised income and expense for the year		(51,738)	(30,481)
Attributable to:			
Equity holders of the parent		(52,506)	(30,713)
Minority interest		768	232
		(51,738)	(30,481)
Effect of change in accounting policy (notes 1,14 & 15)			
Effect of adoption of IAS 32 and 39, net of tax, on 1 January 2005 (with 2004 not restated) on:			
Cumulative redeemable preference shares		(120,674)	-
Retained earnings		(18,564)	-
Cashflow hedging reserve		(4,863)	-
		(144,101)	-

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005

1 Corporation information

The consolidated financial statements of the Company for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Directors on 26 April 2006. The Company is a private limited company incorporated in England and Wales. The principal activities of the Group are described in note 3.

2 Summary of significant accounting policies

Statement of compliance

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"); these are presented on pages 62 to 69.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRSs. The principal exception is that financial instruments accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39 which under IFRS 1 exempts companies from the requirement to restate comparatives for IAS 32 and IAS 39.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 23.

The Group has adopted the revised provisions of IAS 19 early.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged. The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except when otherwise indicated.

Business combinations

IFRS 3 has been applied retrospectively to business combinations that occurred since the acquisition of Waste Recycling Group Limited, including that acquisition. Accumulated amortisation on this and subsequent acquisitions have been adjusted as part of the transition to IFRS (see note 23).

Use of judgements and estimates

The preparation of financial statements in conformity with adopted IFRSs requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2 Summary of significant accounting policies (*continued*)

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as follows:

- Provisions – Under environmental legislation and through regulation and planning consents we are obliged to decommission and restore landfill sites to a prescribed standard. The elements included in the restoration provision are those projected costs which are required to close down the site in compliance with the site's environmental license (PPC), planning conditions, and contractual and lease requirements. The provision is limited to costs incurred in the immediate closure and restoration period.

In addition to restoring a site we are obliged under PPC legislation and planning permission to manage the site for a period of up to 60 years or until it becomes inactive. As a result, in addition to provisions for restoration, we also establish provisions for aftercare. Elements included in the provision are those costs which are required to ensure that a landfill site is properly managed during its closed phase.

In addition to our restoration and aftercare provisions, we make additional provision for other costs relating to regulatory and environmental compliance to be incurred on items such as capping and leachate disposal.

These provisions are based principally on measurement and survey data and some engineering estimates, including cost assumptions. Estimating provisions over long time periods requires a number of assumptions and judgements to be made. Significant reductions in our estimates of the remaining site lives of our landfill sites or significant increases in our estimates of restoration costs or aftercare costs due to changes in regulatory requirements or estimates could have a substantial impact on the value of our provisions.

An annual inflation rate of 2.5% has been assumed over the period of cost relating to the provisions and the provisions have been discounted at 5%;

- Gas asset – The gas asset is stated at a valuation at the acquisition date based on the present value of expected net cash earnings from the gas field based on an industry standard gas production model. The value of this asset is limited to the gas volume that is expected to become available from the waste mass in existence at the date of acquisition. A number of assumptions have been used in the estimation including the method and uniformity of gas production, gas availability, methane content and price.

The fair value of the gas asset on acquisition is dependent on these assumptions and future events, many of which are outside of the Group's control. Any change to these assumptions or the industry could lead to an impairment in the gas asset.

An annual inflation rate of 2.5% has been assumed over the period of gas production for both revenue and costs and the net revenue streams have been discounted at 5%;

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005

2 Summary of significant accounting policies (*continued*)

- Goodwill – as required by IAS 36, goodwill has been tested for impairment using business valuations, where available, or the Directors' current estimate of the medium term forecast and a discount rate of 9.5%, being an estimate of the Group's weighted average cost of capital. Goodwill has been allocated to business segments, being the smallest aggregation of cash generating units over which goodwill can reasonably be allocated and the lowest level at which goodwill is monitored by management.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using materially consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

Certain companies formerly owned by Shanks Group Plc, acquired on 1 July 2004 by WRG Acquisitions 2 Limited and transferred to Waste Recycling Group Limited on 26 August 2004, have been included in the consolidated financial statements using the purchase method of accounting that measures the acquiree's assets and liabilities at their fair value at acquisition date. Accordingly, the consolidated financial statements include the results of these companies for the six month period from acquisition to 31 December 2004, and for the full year to 31 December 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Minority interests represent the interests in BDR Waste Disposal Limited and Derbyshire Waste Limited, not held by the Group.

Foreign currency translation

The functional and presentation currency of the Company and its UK subsidiaries, is sterling (£). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date (unless they are hedged, in which case the hedged rate is used). The Group has an immaterial amount of foreign currency hedging. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

2 Summary of significant accounting policies (*continued*)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Freehold buildings	-	over 25 to 50 years
Leasehold properties	-	over the expected life of each site
Leased assets	-	over the term of the lease
Plant and equipment	-	over 3 to 20 years
Motor vehicles	-	over 4 years
Landfill sites	-	based on the void used in the period as a proportion of total void

No depreciation is provided for assets under the course of construction.

Restoration assets (and provisions) are created on commencement of operation at a site and depreciated as for landfill sites above. Capping assets and provisions are created in a similar way when new cell construction commences and capping assets are depreciated based on cell void usage.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is de-recognised.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

2 Summary of significant accounting policies (*continued*)

Borrowing costs

Borrowing costs are recognised as an expense when incurred in accordance with the benchmark accounting treatment under IAS 23.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill relating to acquisitions is not amortised. Goodwill is reviewed for impairment, at each balance sheet date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses in respect of goodwill are not reversed.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Landfill gas reserve

The landfill gas reserve represents the fair 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 on a site by site basis over the expected life of gas production for each site (varying from 10 to 60 years), based on the proportion of electricity units produced in the period against the total units expected.

Other intangible assets

Acquired both separately and from a business combination:

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'administrative expenses' line item on a straight-line basis over the estimated useful life of the asset.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 *(continued)*

2 Summary of significant accounting policies *(continued)*

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. Intangible assets (including the landfill gas reserve) are tested for impairment annually either individually or at the cash generating unit level. Useful lives and residual values are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Software costs are being amortised over a 3 year period.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Trade and other receivables

Trade and other receivables, excluding derivative assets are carried at cost less impairment losses. Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents include cash-in-hand, deposits held at call with banks and other short term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short term deposits. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Cash held in escrow accounts

Cash balances held in restricted bank accounts as security for the Group's aftercare costs are excluded from the definition of cash and cash equivalents for purposes of the cash flow statement and the balance sheet.

Trade and other payables

Trade and other payables, excluding derivative liabilities are carried at cost less impairment losses.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

2 Summary of significant accounting policies (*continued*)

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method over the life of the borrowings. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are de-recognised or impaired, as well as through the amortisation process.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Restoration and aftercare costs

Full provision is made for the net present value (NPV) of the Group's 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 aftercare 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 aftercare 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 finance cost in the consolidated income statement.

Pensions and other post-employment benefits

The Group operates a defined contribution pension scheme. The assets are held separately from those of the Group in an independently administered fund. The amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Certain employees of the Group are members of the LAWDC's defined benefit 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 fair values. Pension scheme liabilities are measured using a projected credit unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

2 Summary of significant accounting policies (continued)

The Group has recognised its share of the fair value of the plan assets and the present value of the plan obligation. The movement in the scheme surplus/deficit is split between operating charges, finance items and actuarial gains and losses.

Actuarial gains and losses are recognised in full as income or expense within the statement of recognised income and expense in the period in which they occur.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

Revenue represents sales of goods and services including landfill tax but excluding value added tax. Turnover is recognised when the recognition conditions within IAS 14 have been satisfied. For waste disposal services this is when the waste has been received and disposed of. For sale of electricity this is when the electricity unit has been transferred. A small element of Waste-to-Energy revenue is not recognised until received as the amount cannot be determined with certainty in advance of receipt.

Income tax

Current tax is the expected tax payable on the taxable surplus for the year using tax rates enacted at the balance sheet date, and any adjustments in respect of previous periods.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

Income tax relating to items recognised directly in equity are recognised in equity and not in the income statement. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

2 Summary of significant accounting policies (*continued*)

Deferred income tax is recognised for all temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, non-tax deductible goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing services that are subject to risks and rewards that are different from those of other segments. The primary segments have been determined by reference to the Group's management reporting approach and therefore reflect business activities.

Research and development costs

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. Other development expenditure is recognised in the income statement as an expense as incurred.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps to hedge specific risks associated with interest rate. Such derivative financial instruments are recognised initially at fair value. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date. The gain or loss on remeasurement is recognised in profit or loss other than where hedge accounting can be applied.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

2 Summary of significant accounting policies (continued)

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction that is highly probable.

The Group does not currently have any fair value hedges.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a cash flow hedge, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For a cash flow hedge, any cumulative gain or loss on the hedging instrument which has been recognised in equity is retained in equity until the forecast transaction occurs.

If a hedged transaction in a cash flow hedge is no longer expected to occur, the net cumulative gain or loss on the hedging instrument recognised in equity is transferred immediately to profit or loss. For a fair value hedge, where the hedged item is an interest bearing asset or liability, the related fair value adjustment is amortised to profit or loss over the period to maturity (subject to impairment or the derecognition of the related asset or liability). Where the hedged asset or liability is not interest bearing, it is retained at its adjusted amount, subject to impairment, until it is disposed of.

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

2 Summary of significant accounting policies (*continued*)

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Effect of first time adoption of IAS 32 and IAS 39 on 1 January 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Accordingly, corresponding amounts for 2004 are presented and disclosed in accordance with the requirements of the Companies Act 1985, SSAP 20 and FRS 4 (as applicable in 2004) and all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. Interest differentials arising from interest rate swaps were recognised by adjusting net interest payable or receivable over the period of the contract.

The following adjustments were necessary to implement the revised policies in accordance with IAS 32 and IAS 39 as at 1 January 2005 with the net adjustment to net assets, after tax, taken through the 2005 statement of recognised income and expense:

Effect on the consolidated balance sheet at 1 January 2005

	£'000
Non-current liabilities – cumulative redeemable preference share	(120,674)
Non-current liabilities – interest rate swap (cashflow hedge)	(4,863)
Current liabilities – preference share dividends accrued	(18,564)
	<u>(144,101)</u>
Share capital	(120,674)
Retained earnings	(18,564)
Cashflow hedging reserve	(4,863)
	<u>(144,101)</u>

Retained earnings are impacted upon by including the liability of the unpaid cumulative preference share dividends to date, which were previously added back to equity under UK GAAP.

The nature of the main effects upon the consolidated balance sheet at 1 January 2005 and upon the 2005 consolidated income statement, are as follows:

- The Company's cumulative redeemable preference shares are treated as part of equity in 2004 and as liabilities in 2005 and unpaid dividends to date are recorded as a current liability.
- Finance payments in respect of these shares do not affect the profit for the year in 2004 but are charged in the income statement as interest in 2005.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

2 Summary of significant accounting policies (*continued*)

- In 2005 hedging instruments and hedged items are accounted for separately in the balance sheet. Gains and losses in both are included in profit for the year when they arise (fair value hedges) or when the hedged transaction occurs having first recorded those on the hedging instrument in equity (cash flow hedges, to the extent effective). In 2004 hedging instruments were not recognised and hedged items were held at cost (amortised as appropriate) without any adjustment in respect of the hedged risk. On 1 January 2005 the hedged items and hedging instruments are brought separately on to the balance sheet in accordance with the 2005 policy. The cash flow statement is unaffected by this change in accounting policy.
- The 2004 disclosures follow FRS 4 as applicable. This includes the analysis of 2004 shareholders' funds and minority interest into equity and non-equity components. FRS 4 used "equity" as a sub-set of shareholders' funds, whereas IAS 32 applies the term "equity" to issued financial instruments other than those, or those components, classified as liabilities.

The main effects on the primary statements in the comparative year, had IAS 32 been adopted, would have been similar to those stated above. The cash flow statement is unaffected by this change in accounting policy.

Equity

Equity issued by the Company is recorded as the proceeds received with the nominal amount of share capital being allocated to the share capital account and any excess being allocated to the share premium account. Direct issue costs are netted off the share premium account.

Adopted IFRSs not yet applied

The following Adopted IFRSs were available for early application but have not been applied by the Group in these financial statements:

- IFRS 7 'Financial instruments: Disclosure' applicable for years commencing on or after 1 January 2007

The application of IFRS 7 in 2007 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The Group plans to adopt it in the year ended 31 December 2007.

The Group has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

The Group does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

3 Segment information

The Group's management consider that a segmental split by business is the primary reporting format of the group. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The Group splits its revenue from landfill operations between municipal customers and trade customers as the pricing, type of contract, commitment and other risks vary significantly between the two groups.

The Waste-to-Energy segment represents the business of generating and selling electricity from the gas collected from landfill sites. The other business segments operated by the Group did not require separate disclosure by virtue of their size.

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2005 and 31 December 2004. This is derived from the information contained in the Group's management accounts.

Year ended 31 December 2005

	Municipal Landfill Customers £'000	Trade Landfill Customers £'000	Total Landfill £'000	Waste to Energy £'000	Other Operations £'000	Total £'000
Revenue						
Total sales	278,018	177,339	455,357	56,261	56,621	568,239
Inter-segment sales	(24,072)	-	(24,072)	-	(1,358)	(25,430)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sales to external customers	253,946	177,339	431,285	56,261	55,263	542,809
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Result						
Gross Profit			51,733	13,781	12,854	78,368
			<hr/>	<hr/>	<hr/>	<hr/>
Unallocated expenses						(32,567)
						<hr/>
Operating profit						45,801
Net finance costs						(96,453)
						<hr/>
Loss before income tax						(50,652)
Income tax credit						10,523
						<hr/>
Loss for the year						(40,129)

Inter-segment sales are included in municipal for presentational purposes, although the split between trade and municipal can not be determined.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 *(continued)*

3 Segment information *(continued)*

Year ended 31 December 2005 *(continued)*

	Total Landfill £'000	Waste to Energy £'000	Corporate £'000	Other £'000	Total Operations £'000
Assets and liabilities					
Segment assets	673,800	487,137	1,378	213,443	1,375,758
including goodwill of	100,298	110,000	-	-	210,298
Segment liabilities	(292,721)	(77,166)	(982,627)	(152,228)	(1,504,742)
Other segment information					
Capital expenditure:					
Property, plant and equipment	(48,063)	(47,791)	-	(57,635)	(153,489)
Intangible assets	-	-	-	(29)	(29)
Depreciation	(71,334)	(11,437)	-	(3,600)	(86,371)
Amortisation	-	(14,663)	-	(154)	(14,817)
Other non-cash expenses:					
Provisions	(3,546)	-	-	-	(3,546)

All operations in the current and prior financial years related to continuing operations.

It is not possible to separate the assets relating to business with municipal customers and trade customers.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

3 Segment information (*continued*)

Year ended 31 December 2004

	Municipal Landfill Customers £'000	Trade Landfill Customers £'000	Total Landfill £'000	Waste to Energy £'000	Other £'000	Total Operations £'000
Revenue						
Total sales	209,589	148,797	358,386	34,403	58,500	451,289
Inter-segment sales	(18,771)	-	(18,771)	-	(707)	(19,478)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sales to external customers	190,818	148,797	339,615	34,403	57,793	431,811
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Result						
Gross Profit			58,780	4,160	9,625	72,565
			<hr/>	<hr/>	<hr/>	<hr/>
Unallocated expenses						(27,278)
						<hr/>
Operating profit						45,287
Net finance costs						(81,856)
						<hr/>
Loss before income tax						(36,569)
Income tax credit						6,920
						<hr/>
Loss for the year						(29,649)
						<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

3 Segment information (*continued*)

Year ended 31 December 2004 (*continued*)

	Total Landfill £'000	Waste to Energy £'000	Corporate £'000	Other £'000	Total Operations £'000
Assets and liabilities					
Segment assets	698,813	459,606	12,333	169,405	1,340,157
including goodwill of	100,298	110,000	-	-	210,298
Segment liabilities	(279,062)	(85,206)	(800,855)	(107,897)	(1,273,020)
Other segment information					
Capital expenditure:					
Property, plant and equipment	(25,397)	(34,454)	-	(55,139)	(114,990)
Intangible assets	-	(1,000)	-	(413)	(1,413)
Depreciation	(62,231)	(6,792)	-	(5,442)	(74,465)
Amortisation	-	(13,817)	-	(106)	(13,923)
Other non-cash expenses:					
Provisions	(3,733)	-	-	-	(3,733)

WRG HOLDINGS LIMITEDNotes forming part of the financial statements for the year ended 31 December 2005 *(continued)***4 Revenues and expenses**

	2005 £'000	2004 £'000
Finance costs / (income)		
Unwinding of discount on Zero Coupon Bonds issued to related parties	21,161	36,073
Bank loans	9,948	27,205
Bank overdraft and other borrowings	81	-
9% Senior Loan Notes	18,060	740
Second Lien Floating Rate Notes	25,384	1,030
Finance leases	447	480
Amortisation of arrangement fees	3,225	13,225
Unwinding of discount relating to restoration and aftercare provision	5,966	3,877
Interest on pension scheme liabilities	1,240	1,108
Foreign exchange movement	(52)	2,052
Preference share dividend	14,482	-
	<hr/>	<hr/>
Total finance costs	99,942	85,790
	<hr/>	<hr/>
Bank interest receivable	(2,244)	(2,827)
Expected return on pension scheme assets	(1,245)	(1,107)
	<hr/>	<hr/>
Total finance income	(3,489)	(3,934)
	<hr/>	<hr/>
Depreciation, amortisation, and other items included in consolidated income statement		
	2005 £'000	2004 £'000
Included in loss:		
Depreciation – owned assets	85,300	72,888
Depreciation – leased assets	1,071	1,577
Amortisation of intangible assets	14,817	13,923
Operating lease expense	16,213	11,626
Auditors' remuneration – audit fees	205	300
Auditors' remuneration – other fees	413	343
Other non-recurring items:		
Exceptional reassessment of restoration, aftercare and other provisions	-	(27,604)
Exceptional impairment of fixed assets	-	10,085
Reassessment of restoration and aftercare provisions	(1,926)	-
Reassessment of other provisions	(6,467)	(1,500)
	<hr/>	<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

4 Revenues and expenses (continued)

In the prior year, the reassessment of restoration and aftercare provisions was to reflect the re-costing exercise undertaken as part of the process of agreeing the overall provisioning levels for an agreement with the Environment Agency.

Following the receipt of adverse environmental permitting decisions the company performed impairment reviews at landfill sites with similar features that were also expected to be affected. The carrying value of the cash generating units was compared to the recoverable amount based on the value in use calculated using discounted cashflows. This assumed a discount rate of 7.97%. Impairment losses totalling £10,085,000 were identified. These have all been allocated to land and buildings as other assets are carried at a value which does not exceed their value in use for the rest of the business.

As part of the implementation of Adopted IFRSs, the Group has revised the life of the gas asset from 1 January 2005. Under UK GAAP this was being amortised over 20 years in line with FRS 10, under IAS 38 the asset is being amortised over the full expected life. This has had the effect of reducing the amortisation charge in 2005 by £4,543,000.

Employee benefits expense

	2005 £'000	2004 £'000
Wages and salaries	32,868	25,343
Social security costs	3,533	2,349
Pension costs	1,382	1,300
Other staff costs	868	1,073
	<u>38,651</u>	<u>30,065</u>

The average number of persons employed by the Group during the year was:

	Number	Number
Operational staff	768	676
Administration and management	402	225
	<u>1,170</u>	<u>901</u>

None of the Directors received any remuneration or other benefits in respect of their services to the company. No retirement benefits are accruing to any of the Directors.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

5 Income tax

Major components of income tax expense for the years ended 31 December 2005 and 31 December 2004 are:

	2005 £'000	2004 £'000
Consolidated income statement		
<i>Current income tax</i>		
Current income tax charge	-	7
Adjustment to prior years	121	(1,259)
	<hr/>	<hr/>
Total current income tax	121	(1,252)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(10,644)	(5,668)
	<hr/>	<hr/>
	(10,523)	(6,920)
	<hr/>	<hr/>

A reconciliation of income tax expense applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 31 December 2005 and 31 December 2004 is as follows:

	2005 £'000	2004 £'000
Accounting loss before income tax	(50,652)	(35,569)
	<hr/>	<hr/>
At United Kingdom statutory income tax rate of 30% (2004 - 30%)	(15,196)	(10,671)
Expenses not deductible for tax purposes	3,534	(5,042)
Depreciation in excess of capital allowances	25,354	21,092
Group relief not paid for	-	-
Site preparation relief	(8,814)	(8,266)
Utilisation of environmental provisions	(2,516)	4,072
Utilisation of tax losses	(2,362)	(1,178)
Adjustment to prior years	121	(1,259)
Deferred tax movements relating to origination and reversal of temporary differences	(10,644)	(5,668)
	<hr/>	<hr/>
At effective income tax rate of 20.8% (2004: 19.5%)	(10,523)	(6,920)
	<hr/>	<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

5 Income tax (continued)

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Liabilities		Assets		Net	
	2005	2004	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	76,453	77,289	-	-	76,453	77,289
Intangible assets	63,333	67,743	-	-	63,333	67,743
Provisions	-	-	(15,887)	(12,299)	(15,887)	(12,299)
Losses	-	-	(7,705)	(5,895)	(7,705)	(5,895)
	<u>139,786</u>	<u>145,032</u>	<u>(23,592)</u>	<u>(18,194)</u>	<u>116,194</u>	<u>126,838</u>

Movement in deferred tax during the year:

	Opening 2005 £'000	Recognised in income £'000	Recognised in equity £'000	Closing 2005 £'000
Property, plant and equipment	77,289	(836)	-	76,453
Intangible assets	67,743	(4,410)	-	63,333
Provisions	(12,299)	(3,588)	-	(15,887)
Losses	(5,895)	(1,810)	-	(7,705)
	<u>126,838</u>	<u>(10,644)</u>	<u>-</u>	<u>116,194</u>

Movement in deferred tax during the prior year:

	Opening 2004 £'000	Recognised in income £'000	Acquired with subsidiaries £'000	Closing 2004 £'000
Property, plant and equipment	72,788	(12,284)	16,785	77,289
Intangible assets	37,552	(4,137)	34,328	67,743
Provisions	(10,999)	11,531	(12,831)	(12,299)
Losses	(5,117)	(778)	-	(5,895)
	<u>94,224</u>	<u>(5,668)</u>	<u>38,282</u>	<u>126,838</u>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

6 Dividends paid and proposed

	2005 £'000	2004 £'000
Undeclared fixed non-equity dividend	-	12,652
Non-equity dividend paid	-	1,830
	<u>-</u>	<u>14,482</u>

7 Property, plant and equipment

31 December 2005	Land and buildings £'000	Plant and equipment £'000	Asset under construction £'000	Total £'000
Cost as at 1 January 2005 net of accumulated depreciation	559,632	119,891	57,211	736,734
On acquisition of business (note 10)	5,243	739	-	5,982
Additions	43,605	52,249	57,635	153,489
Disposals	(3,753)	(850)	-	(4,603)
Reclassification	(248)	248	-	-
Depreciation charge for the year	(70,422)	(15,949)	-	(86,371)
	<u>534,057</u>	<u>156,328</u>	<u>114,846</u>	<u>805,231</u>
At 31 December 2005, net of accumulated depreciation	534,057	156,328	114,846	805,231
At 1 January 2005				
Cost	643,599	134,019	57,211	834,829
Accumulated depreciation and impairment	(83,967)	(14,128)	-	(98,095)
	<u>559,632</u>	<u>119,891</u>	<u>57,211</u>	<u>736,734</u>
Net carrying amount	559,632	119,891	57,211	736,734
At 31 December 2005				
Cost	690,800	181,332	114,846	986,978
Accumulated depreciation and impairment	(156,743)	(25,004)	-	(181,747)
	<u>534,057</u>	<u>156,328</u>	<u>114,846</u>	<u>805,231</u>
Net carrying amount	534,057	156,328	114,846	805,231

The net book value of the Group's fixed assets at 31 December 2005 includes £26,779,000 (2004: £27,849,000) in respect of assets held under finance leases. Depreciation charged on these assets totalled £1,071,000 (2004: £1,577,000).

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

7 Property, plant and equipment (*continued*)

31 December 2004	Land and buildings £'000	Plant and equipment £'000	Asset under construction £'000	Total £'000
Cost as at 1 January 2004 net of accumulated depreciation	460,433	58,574	6,553	525,560
On acquisition of subsidiary undertaking	137,802	42,602	-	180,404
Revisions to fair values (note 10)	1,259	-	-	1,259
Impairment (note 4)	(10,085)	-	-	(10,085)
Additions	31,868	32,464	50,658	114,990
Disposals	(507)	(422)	-	(929)
Reclassification	1,662	(1,662)	-	-
Depreciation charge for the year	(62,800)	(11,665)	-	(74,465)
	<u>559,632</u>	<u>119,891</u>	<u>57,211</u>	<u>736,734</u>
At 31 December 2004, net of accumulated depreciation				
At 1 January 2004				
Cost	481,600	61,161	6,553	549,314
Accumulated depreciation and impairment	(21,167)	(2,587)	-	(23,754)
	<u>460,433</u>	<u>58,574</u>	<u>6,553</u>	<u>525,560</u>
Net carrying amount				
At 31 December 2004				
Cost	643,599	134,019	57,211	834,829
Accumulated depreciation and impairment	(83,967)	(14,128)	-	(98,095)
	<u>559,632</u>	<u>119,891</u>	<u>57,211</u>	<u>736,734</u>
Net carrying amount				

WRG HOLDINGS LIMITEDNotes forming part of the financial statements for the year ended 31 December 2005 *(continued)***8 Intangible assets**

31 December 2005	Landfill Gas reserve £'000	Goodwill £'000	Software costs £'000	Total £'000
Cost as at 1 January 2005 net of accumulated amortisation	227,867	210,298	397	438,562
Additions	-	-	29	29
Amortisation	(14,663)	-	(154)	(14,817)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	213,204	210,298	272	423,774
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2005				
Cost (gross carrying amount)	247,825	210,298	519	458,642
Accumulated amortisation	(19,958)	-	(122)	(20,080)
	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount	227,867	210,298	397	438,562
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005				
Cost (gross carrying amount)	247,825	210,298	548	458,671
Accumulated amortisation	(34,621)	-	(276)	(34,897)
	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount	213,204	210,298	272	423,774
	<hr/>	<hr/>	<hr/>	<hr/>

Goodwill is tested at least annually for impairment in accordance with IAS 38 and IAS 36. The impairment test at 31 December 2005 indicated no impairment charge was necessary.

In comparing whether a goodwill impairment charge is required, the carrying value of the cash-generating units (CGUs), or groups of CGUs, is compared with the recoverable amount of the CGUs which is determined based on value in use calculations. These calculations use business valuations where available and where not, cash flow projections based on budgets approved by management. In all cases the growth rate is a conservative estimate, which does not exceed long-term average growth rates for the business in which the CGU operates. The discount rates used are pre-tax and reflect specific risks relating to the respective business segments. The rates are calculated with reference to the Group's weighted average cost of capital.

Goodwill has been allocated as shown in note 3.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

8 Intangible assets (continued)

31 December 2004	Landfill Gas reserve £'000	Goodwill £'000	Software costs £'000	Total £'000
Cost as at 1 January 2004 net of accumulated amortisation	125,174	157,976	90	283,240
Additions	1,000	-	413	1,413
Acquisition of subsidiary (note 10)	115,510	47,639	-	163,149
Revisions to fair values (note 10)	-	4,683	-	4,683
Amortisation	(13,817)	-	(106)	(13,923)
At 31 December 2004	227,867	210,298	397	438,562
At 1 January 2004				
Cost (gross carrying amount)	131,315	157,976	106	289,397
Accumulated amortisation	(6,141)	-	(16)	(6,157)
Net carrying amount	125,174	157,976	90	283,240
At 31 December 2004				
Cost (gross carrying amount)	247,825	210,298	519	458,642
Accumulated amortisation	(19,958)	-	(122)	(20,080)
Net carrying amount	227,867	210,298	397	438,562

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

9 Subsidiaries

The principal operating subsidiaries, all of which were engaged in the principal activity of the Group, incorporated in England and Wales and 100% owned, unless otherwise stated, at 31 December 2005 were:

WRG Investments Limited	Landfill Management Limited*
WRG Investments 2 Limited	Norfolk Waste Limited*
WRG Finance Plc	Pennine Waste Management Limited*
WRG Acquisitions Plc	T Shooter Limited*
WRG Acquisitions 2 Limited	Waste Recycling Limited*
3C Waste Limited*	WasteNotts (Reclamation) Limited*
Anti-Waste (Restoration) Limited*	Waste Recovery Limited*
Anti-Waste Limited*	Waste Recycling Ltd*
Arnold Waste Disposal Limited*	Waste Recycling Group Limited*
BDR Waste Disposal Limited (80% owned)*	Waste Recycling Group (Central) Limited*
Darrington Quarries Limited*	Waste Recycling Group (Scotland) Limited*+
Derbyshire Waste Limited (80% owned)*	Waste Recycling Group (Yorkshire) Limited*
East Waste Limited*	Welbeck Waste Management Limited (81% owned)*
Integrated Waste Management Limited*	WRG Waste Services Limited*
Kent Enviropower Limited*	WRG (Northern) Limited*+
Kent Energy Limited*	WRG (Midlands) Limited*+
Lincwaste Limited*	WRG Environmental Limited*

* companies held indirectly by an intermediate company. + companies incorporated in Scotland

A full list of subsidiaries will be appended to the next annual return filed at Companies House.

10 Business combinations

2004 Acquisition of Subsidiaries of Shanks Group Plc

On 1 July 2004, WRG Acquisitions 2 Limited, a subsidiary of the Company, acquired the entire share capital of certain companies formerly owned by Shanks Group Plc, representing the landfill sites and Waste-to-Energy operations of that group. On 26 August 2004, the share capital of WRG Acquisitions 2 Limited was transferred to Waste Recycling Group Limited, an indirectly held wholly owned subsidiary of the Company, for the consideration of £1.

In 2004, the acquired assets contributed an operating profit of £6,142,000 to the Group. It has not been possible to accurately quantify the amount of profit or loss arising in 2005 as the assets have been combined with those of the rest of the Group.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

10 Business combination (continued)

The provisional fair value of the identifiable assets and liabilities of the companies acquired as at the date of acquisition are:

	£'000 Book value at date of acquisition	£'000 Fair value
Property, plant and equipment	151,736	180,404
Landfill gas reserve	-	115,510
Trade receivables	26,708	26,708
Stock	1,248	754
Other receivables	193	193
Trade and other payables	(34,844)	(32,576)
Intercompany liability	(32,560)	(32,560)
Deferred consideration	(8,348)	(8,348)
Provisions:		
- restoration	(20,469)	(11,316)
- aftercare	(27,297)	(28,895)
- other	(473)	(30,802)
Deferred taxation	(4,530)	-
Fair value of net assets acquired	51,364	179,072
Deferred tax liability (arising on implementation of Adopted IFRSs)		(38,282)
Goodwill arising on acquisition		47,639
Cost of acquisition		188,429
Consideration:		183,206
Cash		5,223
Costs associated with acquisition		
Total consideration		188,429
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary		-
Cash paid		(188,429)
Net cash outflow		(188,429)

Goodwill arose on this acquisition as benefits were anticipated from increased market share, ownership of a greater percentage of void space within the United Kingdom, future electricity generation from gas produced by landfill sites and certain synergies.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

10 Business combination (continued)

A fair value revision exercise has been undertaken during the period prior to 30 June 2005 and the provisional fair values have been adjusted as follows (in accordance with IFRS 3 these adjustments have been reflected in the period in which the acquisition occurred):

		£'000
Fair value of assets at 1 January 2005 (including deferred tax)		140,790
Property, plant and equipment	1,259	
Provisions:		
- restoration	(800)	
- other	(5,142)	
		(4,683)
Adjusted fair value of net assets acquired (including deferred tax)		136,107
Goodwill		52,322
Cost of acquisition		188,429

2005 Acquisition of Business and Assets of Alco Waste Management Limited (in administration)

On 21 July 2005 the Group acquired the business and assets of Alco Waste Management Limited (in administration). The following table sets out the book value of the identifiable assets and liabilities and their provisional fair value to the Group after revaluation adjustments at the date of acquisition:

	Book value at date of acquisition £'000	Fair value £'000
Property, plant and equipment	4,851	5,982
Payables and accruals	(147)	(612)
Provisions:		
- restoration	-	(161)
- aftercare	(210)	(356)
- other	-	(168)
Net assets acquired	4,494	4,685
Satisfied by:		
Cash consideration		4,360
Costs associated with the acquisition		325
		4,685

The amount of profit arising in the post acquisition period is not significant to that of the rest of the Group.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

11 Employee benefits

Pensions and other post-employment benefit plans

The Group operates a defined contribution pension scheme on behalf of all eligible employees. The assets of the scheme are held separately from those of the Group in independently administered funds.

There were no outstanding or prepaid contributions at either the beginning or end of the year in respect of defined contribution schemes. Contributions under defined contribution schemes amounted to £587,000 during the year (2004 - £558,000).

Certain employees of the Group are members of the LAWDC's defined benefit pension scheme in which the Group is a participating employer. The year end liability is as follows:

	2005 £'000	2004 £'000
<i>Benefit liability</i>		
Present value of obligation	(28,037)	(23,166)
Fair value of plan assets	22,853	18,025
	<hr/>	<hr/>
Benefit liability	(5,184)	(5,141)
	<hr/>	<hr/>

Movements in the liability during the years ended 31 December 2005 and 31 December 2004 are as follows:

At 1 January	(5,141)	(4,946)
Current service cost	(625)	(650)
Contributions paid	1,387	1,380
Past service cost	(170)	(92)
Other finance income/(cost)	5	(1)
Actuarial loss	(640)	(832)
	<hr/>	<hr/>
At 31 December	(5,184)	(5,141)
	<hr/>	<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

11 Employee benefits (*continued*)

Movements in fair value of plan assets:

	2005 £'000	2004 £'000
At 1 January	18,025	15,235
Expected return on plan assets	1,245	1,107
Actuarial gains	2,517	389
Contributions by employer	1,387	1,380
Contributions by members	207	224
Benefits paid	(528)	(310)
	<hr/>	<hr/>
At 31 December	22,853	18,025
	<hr/>	<hr/>

Movements in present value of defined benefit obligation:

At 1 January	23,166	20,181
Current service cost	625	650
Interest cost	1,240	1,108
Contributions by members	207	224
Past service costs	170	92
Actuarial losses	3,157	1,221
Benefits paid	(528)	(310)
	<hr/>	<hr/>
At 31 December	28,037	23,166
	<hr/>	<hr/>

Expenses recognised in the consolidated income statement

Current service cost	625	650
Past service cost	170	92
Interest on defined benefit obligations	1,240	1,108
Expected return on plan assets	(1,245)	(1,107)
	<hr/>	<hr/>
Net benefit expense	790	743
	<hr/>	<hr/>

The expense is recognised in the following line items in the consolidated income statement:

Cost of sales	795	742
Finance costs	1,240	1,108
Finance income	(1,245)	(1,107)
	<hr/>	<hr/>
Net benefit expense	790	743
	<hr/>	<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

11 Employee benefits (continued)

Amount recognised in consolidated statement of recognised income and expense

	2005 £'000	2004 £'000
Actual return less expected return on assets	2,517	389
Changes in assumptions	(3,157)	(1,221)
	<hr/>	<hr/>
Actuarial loss	(640)	(832)
	<hr/>	<hr/>

The fair value of the plan assets and the return on those assets were as follows:

Equities	17,978	14,131
Corporate bonds	4,875	3,894
	<hr/>	<hr/>
	22,853	18,025
	<hr/>	<hr/>
Actual return on plan assets	3,762	1,496
	<hr/>	<hr/>

Difference between expected and actual return on assets and liabilities:

	2005 %	2004 %
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	11	2
	<hr/>	<hr/>

The principal assumptions used in determining pension and post-employment benefit obligations for the Group's plans are shown below:

	2005 %	2004 %
Discount rate:	4.80	5.30
Expected rate of return on assets:	4.4-7.1	4.7-7.4
Pensionable pay growth:	3.70	3.65
Price inflation:	2.70	2.65
Increases to pensions in payment:	2.70	2.65

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

11 Employee benefits (continued)

The inflation rate is set by reference to the difference between yields on fixed interest and index-linked gilts. The rate of increase of pensions in payment is the same as the inflation rate.

The rate of increase in salaries is equal to the long-term expected annual average salary pay increase for the employees who are members of the scheme.

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

12 Trade and other receivables (current)

	2005 £'000	2004 £'000
Trade receivables	84,470	84,886
Other receivables	4,811	4,419
Prepayments	4,625	4,349
	<u>93,906</u>	<u>93,654</u>

The carrying value of trade and other receivables approximate to their fair value.

13 Cash and cash equivalents

	2005 £'000	2004 £'000
Cash at bank and in hand (current)	25,457	47,070
	<u>25,457</u>	<u>47,070</u>

For the purposes of the consolidated cash flow statement, cash and cash equivalents also comprise of the above amounts.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

14 Share capital and reserves

<i>Authorised</i>	2005	2004
Ordinary shares of £1 each	126,504,220	126,504,220
12 % cumulative redeemable 'A' preference shares of £1 each	120,674,600	120,674,600
Non-cumulative irredeemable 'B' preference shares of £1 each	200,000,000	200,000,000
	<u> </u>	<u> </u>
<i>Ordinary shares of £1 each Issued and fully paid</i>		£
At 1 January 2005		12,500
Issued during the year		30,000
At 31 December 2005		<u>42,500</u>
		<u> </u>
<i>Cumulative redeemable preference shares issued and fully paid</i>		£
At 1 January and 31 December 2004		120,674,600
		<u> </u>

During the year 30,000 ordinary shares of £1 each were issued for cash at par to the parent company.

From 1 January 2005 the cumulative redeemable preference shares are classified as non-current liabilities as prescribed by IAS 32 (notes 1 & 15).

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. The holders of these shares will be paid in priority to the payment of any dividend to the holders of the non-cumulative irredeemable preference shares and the ordinary shares. The holders of the cumulative redeemable preference shares shall not be entitled to any other right of participation in the profits of the company. An interim dividend of £1,830,000 was declared and paid for the year ended 31 December 2004.

The non-cumulative irredeemable preference shares entitle the holder to a fixed non-cumulative cash dividend, the rate of which depends on whether such shares are issued before, on or after 7 June 2013. The non-cumulative irredeemable preference dividend is payable half-yearly on 30 June and 31 December in every year. The holders of these shares will be paid in priority to the payment of any dividend to the holders of the ordinary shares. The holders of the non-cumulative irredeemable preference shares shall not be entitled to any other participation in the profits of the company.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

14 Share capital and reserves (continued)

The capital of the Company is first applied to any arrears of preference dividends, second in paying any accrued but unpaid non-cumulative irredeemable preference dividend, third, in prepaying the nominal amounts paid for the cumulative redeemable preference shares and the non-cumulative irredeemable preference shares, as if such shares constituted a single class. 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 and the non-cumulative irredeemable preference shares are entitled to receive notice of and 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. The non-cumulative irredeemable preference shares are not redeemable and do not carry any rights to convert into ordinary shares.

Nature and purpose of other reserves

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

14 Share capital and reserves (continued)

Reconciliation of movement in capital and reserves

	Attributable to equity holders of the parent					
	Share capital £'000	Cumulative redeemable preference shares £'000	Retained earnings £'000	Cashflow hedging reserve £'000	Total £'000	Minority Interest £'000
At 1 January 2004	13	120,674	(24,134)	-	96,553	2,895
Actuarial loss in the pension schemes	-	-	(832)	-	(832)	-
(Loss) / profit for the year	-	-	(29,881)	-	(29,881)	232
Non-equity dividend	-	-	(14,482)	-	(14,482)	-
Add back non-equity dividend not paid	-	-	12,652	-	12,652	-
At 31 December 2004	13	120,674	(56,677)	-	64,010	3,127
At 1 January 2005	13	120,674	(56,677)	-	64,010	3,127
Adjustments in respect of adoption of IAS 32 & 39 on 1 January 2005, net of tax (notes 1, 14)	-	(120,674)	(18,564)	(4,863)	(144,101)	-
Issued during the year	30	-	-	-	30	30
Actuarial loss in the pension schemes	-	-	(640)	-	(640)	-
(Loss) / profit for the year	-	-	(40,897)	-	(40,897)	768
Change in fair value of hedging interest rate swaps	-	-	-	(10,969)	(10,969)	-
Dividend paid to minority interest	-	-	-	-	-	(312)
At 31 December 2005	43	-	(116,778)	(15,832)	(132,567)	3,583

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

15 Interest-bearing loans and borrowings

	Effective interest rate % 2005	2005 £'000	2004 £'000
Current			
Obligations under finance leases and hire purchase contracts	6.7%	496	421
Bank loans	6.6%	9,435	613
Subordinated loan from related party	4.1%	14,243	-
Cumulative dividend on preference shares	12.0%	33,046	-
Other unsecured loans	2.6%	1,157	-
		<u>58,377</u>	<u>1,034</u>
Non-current			
Obligations under finance leases and hire purchase contracts	6.7%	4,276	4,772
Second Lien Floating Rate Loan Notes (due 2011)	8.5%	288,986	287,818
Senior Loan Notes (due 2014)	9.0%	192,398	191,878
Bank loans	6.6%	227,994	175,502
Subordinated loan from related party	n/a	-	14,243
Zero Coupon Bond issued to related party	16.1%	152,575	131,414
Interest rate swaps	n/a	15,832	-
Other unsecured loans	2.6%	1,560	2,640
		<u>883,621</u>	<u>808,267</u>
Maturity profile			
Within one year or on demand		58,377	1,034
Between one and two years		15,816	27,329
Between two and five years		141,893	55,045
More than five years		725,912	725,893
		<u>941,998</u>	<u>809,301</u>

In addition to the interest bearing loans and borrowings set out above the group has non current liabilities in respect of cumulative redeemable preference shares of £120,674,600 which are due in more than five years.

As more fully explained in note 1, classifications of financial liabilities are determined on different bases in 2005 and 2004 due to the transition provisions of IAS 32 and IAS 39. As a result, at 31 December 2005 the cumulative redeemable preference shares of £120,674,600 have been reclassified as non-current liabilities and the associated dividend liability of £33,046,000 has been reclassified as current liabilities as prescribed by IAS 32 (notes 1 & 15).

Details of the interest rate swaps are included in note 22.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 *(continued)*

15 Interest-bearing loans and borrowings *(continued)*

The Second Lien Floating Rate Notes were issued by WRG Acquisitions Plc in December 2004 and are listed on the Irish Stock Exchange. Interest is payable quarterly in arrears at the London Inter-bank Offered Rate (LIBOR) plus 3.5% per annum. Redemption is due on 15 December 2011. The 9% Senior Notes were issued by WRG Finance Plc in December 2004 and are listed on the Irish Stock Exchange. Interest is payable semi-annually in arrears at 9% per annum. Redemption is due on 15 December 2014.

The Second Lien Floating Rate Loan Notes are guaranteed on a senior subordinated basis by Waste Recycling Group Limited and certain of its subsidiaries. The Senior Loan Notes are guaranteed on a subordinated basis by WRG Acquisitions Plc and Waste Recycling Group Limited and certain of its subsidiaries.

The loans from related parties are provided by Terra Firma Investments (GP) 2 Limited, acting as general partner of the six limited partnerships which constitute the Terra Firma Capital Partners II Fund, Terra Firma Capital Partners II L.P.-H. and TFCP II Co-Investments 1 LP, and represent Zero Coupon Bonds plus accrued discount with an effective discount rate of 16% and a repayment date of 8 June 2013.

The other unsecured loans bear interest at a combination of index rates related to the Retail Price Index and other indices.

Bank loans are principally made up of syndicated bank loans and a non-recourse bank loan.

The syndicated bank loans are secured on a first mortgage on certain freehold properties of the Group's subsidiary undertakings and bear interest at rates between 2.25% and 3.25% above LIBOR. The loan is repayable by instalments over seven years commencing in 2004.

The non-recourse bank loan is secured against the Group's Waste to Energy facility currently under construction at Allington, Kent and is currently accruing interest at 1.35% above LIBOR. The subordinated loan is provided by a related party with security interest subordinated to the non-recourse bank loan. Interest is accruing at 12.5%.

Obligations under finance leases are secured on the related assets.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

16 Provisions

	Aftercare £'000	Restoration £'000	Other provisions £'000	Total £'000
At 1 January 2005	80,180	37,893	66,027	184,100
Acquisition of business (note 10)	356	161	168	685
Arising during the year	(3,132)	(1,610)	8,288	3,546
New provisions capitalised in fixed assets	-	-	13,509	13,509
Utilised	(858)	(3,640)	(24,137)	(28,635)
Discount rate adjustment	4,176	1,790	-	5,966
At 31 December 2005	80,722	34,594	63,855	179,171
Current 2005	1,638	4,170	13,518	19,326
Non-current 2005	79,084	30,424	50,337	159,845
	80,722	34,594	63,855	179,171
Current 2004	1,399	2,926	11,801	16,126
Non-current 2004	78,781	34,967	54,226	167,974
	80,180	37,893	66,027	184,100

Certain provisions have been reassessed during the year. See note 4 for details.

The Group provides for the estimated cost of restoring its landfill sites at the end of their operational life and for their subsequent aftercare. The aftercare period is generally expected to be between 30 and 60 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 and other liabilities, including current capping of open landfill areas and the disposal of leachate, which arise during the operational phase of landfill sites.

WRG HOLDINGS LIMITED**Notes forming part of the financial statements for the year ended 31 December 2005 (continued)****17 Other payables (non current)**

	2005	2004
	£'000	£'000
Contingent consideration	-	850
Deferred consideration	1,448	6,408
	<u>1,448</u>	<u>7,258</u>

18 Trade and other payables (current)

	2005	2004
	£'000	£'000
Trade payables	39,560	43,154
Landfill tax	48,326	43,502
Other payables	18,391	14,539
Accruals and deferred income	24,872	30,292
	<u>131,149</u>	<u>131,487</u>

Trade payables and other payables are non-interest bearing and have terms varying between 14 and 60 days.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

19 Commitments and contingencies

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2005 £'000	2004 £'000
Not later than one year	237	411
Later than one year and not later than five years	2,095	4,026
Later than five years	154,233	159,469
	<hr/>	<hr/>
	156,565	163,906
	<hr/>	<hr/>

The majority of these relate to land and buildings and are payable in more than five years time.

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and equipment. These leases have no terms of renewal or purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2005		2004	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Not later than one year	903	863	868	830
After one year but not more than five years	5,409	3,944	6,312	4,390
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum lease payments	6,312	4,807	7,180	5,220
Less amounts representing finance charges	(1,540)	(1,275)	(1,987)	(1,592)
	<hr/>	<hr/>	<hr/>	<hr/>
Capital element of minimum lease payments	4,772	3,532	5,193	3,628
	<hr/>	<hr/>	<hr/>	<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 *(continued)*

19 Commitments and contingencies *(continued)*

Capital commitments

At 31 December 2005, the Group had capital commitments of £nil (2004: £18,063,000).

Escrow commitments

During 2004 the Group entered into an arrangement with the Environment Agency whereby £22m was placed into a deposit account under an escrow agreement in order to comply with the Agency's financial provisioning requirements. The Group is committed to making an additional £4m annual contribution into the escrow account, until such time as the Group's aftercare costs (as defined by the agreement), can be satisfied by withdrawals from the account. It is estimated that this will be achieved by the year 2011.

Other escrow deposits which amounted to £1.9 million at 31 December 2004 were held in bank accounts in the name of Anti-Waste Limited (a wholly owned subsidiary) with various County Councils or the Environment Agency. These have been superseded by the new agreement. These funds were returned during the year ended 31 December 2005.

Legal claims

The Group has received notice of an aggregate claim of approximately £2 million from two customers at one of our facilities for alleged losses and additional costs. Further particulars have been requested but to date none have been received.

The Group has also received notice of an intended claim for alleged nuisance from neighbours at a landfill site in Yorkshire. The alleged nuisance relates principally to odour. No formal legal proceedings have yet been instituted and the alleged claim is not yet capable of quantification.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

20 Related party disclosures

Terra Firma Investments (GP) 2 Limited, acting as general partner of the six limited partnerships which constitute the Terra Firma Capital Partners II Fund, Terra Firma Capital Partners II L.P.-H. and TFCP II Co-Investment 1LP ("Terra Firma"), has the ability to exercise a controlling influence over the Company through the holding of shares. The Directors therefore consider Terra Firma to be a related party.

WRG Holdings Limited has the ability to exercise a controlling influence over the Company and other subsidiary undertakings, which are not members of the Group. The Directors therefore consider these other subsidiary undertakings of WRG Holdings Limited to be related parties.

Transactions during 2004 with related parties were as follows:

- Waste Recycling Group Limited, a wholly owned subsidiary undertaking of the Company, acquired the entire share capital of WRG Acquisitions 2 Limited from WRG Investments 2 Limited, a wholly owned subsidiary undertaking of WRG Holdings Limited. Further details are provided in note 10.
- Through its wholly owned subsidiary Enviropower Investments Limited, Terra Firma provided a subordinated loan facility to Kent Enviropower Limited, a subsidiary undertaking of the Company. On 31 March 2004, £14.2m was drawn by Kent Enviropower Limited and remains due at 31 December 2004 and 2005 together with accrued interest.
- WRG Acquisitions 2 Limited transferred to WRG Acquisitions Plc, Zero Coupon Bonds at a value of £165m. On 15 December 2004 WRG Acquisitions Plc redeemed £174.2m of these Zero Coupon Bonds including unwound discount of £11.8m.
- On 15 December 2004 WRG Investments Limited redeemed £85.5m of Zero Coupon Bonds including unwound discount of £29.7m.

No similar transactions were undertaken in 2005.

The ultimate parent

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

There were no transactions between the Company and TFCP Holdings Limited during the financial year.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2005, the Group has not

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

20 Related party disclosures (*continued*)

raised any provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2004: £nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with other related parties

Directors' interests

None of the Directors who held office at 31 December 2005 had an interest in the shares of the Company.

Compensation of key management personnel of the Group

	2005 £'000	2004 £'000
Emoluments	2,176	1,068
Pension costs	167	64
	<hr/>	<hr/>
Total compensation paid to key management personnel	2,343	1,132
	<hr/>	<hr/>

In addition to the Directors, key management comprised the board of directors of Waste Recycling Group Limited, the principal operating subsidiary of the Group.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

21 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, bonds, cumulative redeemable preference shares, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments. The magnitude of this risk that has arisen over the year is discussed in note 22. The Group's accounting policies in relation to derivatives are set out in note 2.

Cash flow interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2005, after taking into account the effect of interest rate swaps, approximately 95% of the Group's borrowings are at a fixed rate of interest. The change in fair value of derivatives is recognised in equity in the year. There is no impact upon the income statement.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Commodity price risk

The Group's exposure to fluctuation in commodity prices is minimal and the Directors therefore feel this is a negligible risk.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 *(continued)*

21 Financial risk management objectives and policies *(continued)*

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the measurement currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, bonds, preference shares, finance leases and hire purchase contracts.

Foreign exchange risk

The Group operates solely in the United Kingdom. However it does acquire some assets in foreign currencies, mainly Euros and uses forward contracts to fix the exchange rate used to settle the transaction. This currency exposure is not material as at the date of this report. Currency exposures are reviewed regularly.

The finance function is responsible for managing the net position in each foreign currency.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

22 Financial instruments

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
<i>Financial assets</i>				
Cash at bank and in hand	25,457	47,070	25,457	47,070
Cash in escrow deposits	27,390	24,137	27,390	24,137
Trade and other receivables	93,906	93,654	93,906	93,654
<i>Financial liabilities</i>				
Trade and other payables	131,149	131,487	131,149	131,487
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	4,772	5,193	4,772	5,193
Second Lien Floating Rate Loan Notes	288,986	287,818	288,986	287,818
Senior Loan Notes	192,398	191,878	192,398	191,878
Bank loans	237,429	176,115	237,429	176,115
Subordinated loan from related party	14,243	14,243	14,243	14,243
Zero Coupon Bond issued to related party	152,575	131,414	152,575	131,414
Cumulative Redeemable Preference Shares	120,674	-	120,674	-
Cumulative dividend on Preference Shares	33,046	-	33,046	-
Interest rate swap	15,832	-	15,832	-
Other unsecured loans	2,717	2,640	2,717	2,640

The fair value of all financial liabilities is estimated using an equivalent market interest rate for similar borrowings. The fair value of interest rate swaps is determined from market prices.

Although the Group's loan notes are listed they do not regularly trade on an active market and therefore the directors do not consider that a reliable measure of fair value is available. Accordingly the fair value of the loan notes is deemed to be its carrying value. The fair value of derivative contracts is the estimated amount that the Group would receive or pay to terminate the contract at the balance sheet date.

The following derivative contracts were in place at 31 December 2005:

	Expiry Date	Interest rate %	Value of contract £'000	Fair value £'000
Barclays	Dec 2011	4.8	135,923	(2,217)
Barclays	Sept 2011	4.95	60,000	(1,529)
Merrill Lynch	Dec 2008	4.65	127,500	(341)
Merrill Lynch	Sept 2011	4.95	60,000	(1,445)
Deutsche Bank	Sept 2011	4.95	60,000	(1,528)
Royal Bank of Scotland	March 2027	5.32	84,016	(8,772)
			527,439	(15,832)

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

22 Financial instruments (continued)

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk. See note 15 for effective interest rates.

Year ended 31 December 2005

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
<i>Fixed rate</i>							
Senior Loan Notes	-	-	-	-	-	192,398	192,398
Preference shares	-	-	-	-	-	120,674	120,674
Dividend	33,046	-	-	-	-	-	33,046
Bank loan	606	656	114	-	-	-	1,376
Obligations under finance leases and hire purchase contracts	496	579	670	773	887	1,367	4,772
Zero Coupon Bonds	-	-	-	-	-	152,575	152,575
Other unsecured loans	210	-	-	-	-	-	210
	<u>34,358</u>	<u>1,235</u>	<u>784</u>	<u>773</u>	<u>887</u>	<u>467,014</u>	<u>505,051</u>
<i>Floating rate</i>							
Second Lien Floating Rate Loan Notes	-	-	-	-	-	288,986	288,986
Bank loans	8,829	14,581	23,899	29,854	84,136	74,754	236,053
Subordinated loan	14,243	-	-	-	-	-	14,243
Other unsecured loans	947	-	-	1,560	-	-	2,507
Interest rate swaps	-	-	-	-	-	15,832	15,832
	<u>24,019</u>	<u>14,581</u>	<u>23,899</u>	<u>31,414</u>	<u>84,136</u>	<u>379,572</u>	<u>557,621</u>
Total fixed and floating	<u>58,377</u>	<u>15,816</u>	<u>24,683</u>	<u>32,187</u>	<u>85,023</u>	<u>846,586</u>	<u>1,062,672</u>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

22 Financial instruments (Continued)

Year ended 31 December 2004

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
<i>Fixed rate</i>							
Senior Loan Notes	-	-	-	-	-	191,878	191,878
Bank loan	560	606	656	114	-	-	1,936
Obligations under finance leases and hire purchase contracts	421	496	579	670	773	2,254	5,193
Zero Coupon Bonds	-	-	-	-	-	131,414	131,414
Other unsecured loans	-	210	-	-	-	-	210
	<u>981</u>	<u>1,312</u>	<u>1,235</u>	<u>784</u>	<u>773</u>	<u>325,546</u>	<u>330,631</u>
<i>Floating rate</i>							
Second Lien Floating Rate Loan Notes	-	-	-	-	-	287,818	287,818
Bank loans	53	9,844	12,093	16,780	22,880	112,529	174,179
Subordinated loan	-	14,243	-	-	-	-	14,243
Other unsecured loans	-	1,930	-	-	500	-	2,430
	<u>53</u>	<u>26,017</u>	<u>12,093</u>	<u>16,780</u>	<u>23,380</u>	<u>400,347</u>	<u>478,670</u>
Total fixed and floating	<u>1,034</u>	<u>27,329</u>	<u>13,328</u>	<u>17,564</u>	<u>24,153</u>	<u>725,893</u>	<u>809,301</u>

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

At 31 December 2004 and 2005 all financial assets, with the exception of cash in escrow deposits (which fall due in greater than 5 years) are due within one year.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

23 Explanation of transition to IFRS

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004.

The Group's IFRS accounting policies have been applied for the years ended 31 December 2004 and 31 December 2005 as described in the statement of compliance in note 1, where the effects on the Group of adopting IAS 32 and IAS 39 at 1 January 2005 is also detailed.

Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Property, plant and equipment	iii	525,650	(90)	525,560
Intangible assets	i, ii, iii	183,090	100,150	283,240
Cash in escrow deposits		2,013	-	2,013
Total non-current assets		710,753	100,060	810,813
Trade and other receivables		59,531	-	59,531
Cash and cash equivalents		20,776	-	20,776
Total current assets		80,307	-	80,307
Total assets		791,060	100,060	891,120
Interest bearing loans		468,832	-	468,832
Trade and other payables		74,325	-	74,325
Current tax liability		2,500	-	2,500
Provisions		146,845	-	146,845
Pension liability		4,946	-	4,946
Deferred taxation	i	-	94,224	94,224
Total liabilities		697,448	94,224	791,672
Total assets less total liabilities		93,612	5,836	99,448
Share capital		120,687	-	120,687
Retained earnings		(29,970)	5,836	(24,134)
Minority interest		2,895	-	2,895
Total equity		93,612	5,836	99,448

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

23 Explanation of transition to IFRS (continued)

Reconciliation of equity at 31 December 2004 (date of last UK GAAP financial statements)

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Property, plant and equipment	iii, v	735,872	862	736,734
Intangible assets	i, ii, iii, iv, v	274,501	164,061	438,562
Cash in escrow deposits		24,137	-	24,137
Total non-current assets		1,034,510	164,923	1,199,433
Trade and other receivables		93,654	-	93,654
Cash and cash equivalents		47,070	-	47,070
Total current assets		140,724	-	140,724
Total assets		1,175,234	164,923	1,340,157
Interest bearing loans		809,301	-	809,301
Trade and other payables		138,745	-	138,745
Current tax liability		8,895	-	8,895
Provisions	v	178,158	5,942	184,100
Pension liability		5,141	-	5,141
Deferred taxation	i	-	126,838	126,838
Total liabilities		1,140,240	132,780	1,273,020
Total assets less total liabilities		34,994	32,143	67,137
Share capital		120,687	-	120,687
Retained earnings	i, ii, iv	(88,820)	32,143	(56,677)
Minority interest		3,127	-	3,127
Total equity		34,994	32,143	67,137

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

23 Explanation of transition to IFRS (continued)

Reconciliation of profit or loss for the year ended 31 December 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue		431,811	-	431,811
Cost of sales	iv	(376,765)	17,519	(359,246)
Gross profit		55,046	17,519	72,565
Administrative expenses	ii	(29,139)	1,861	(27,278)
Operating profit		25,907	19,380	45,287
Finance income	vi	2,827	1,107	3,934
Finance costs	vi	(84,683)	(1,107)	(85,790)
Loss before tax		(55,949)	19,380	(36,569)
Tax expense	i, iv	(7)	6,927	6,920
Net profit/(loss)		(55,956)	26,307	(29,649)

Notes to the reconciliations

- i. Under IAS 12, deferred tax on temporary timing differences arising from business combinations must be recognised. This relates principally to fair value adjustments made in respect of non-current assets and provisions.

1 January 2004

The IFRS restatement results in the provision for a deferred tax liability of £98,829,000 prior to transition date being taken against goodwill. £4,605,000 of this reverses through the income statement prior to the transition date.

31 December 2004

A further adjustment of £38,282,000 is provided following the acquisition during the year, and is taken against goodwill. The movement in the year to 31 December 2004 on the deferred tax balance of £5,668,000 is taken as a credit to the income statement.

- ii. Under UK GAAP goodwill has been amortised over its estimated expected useful life up to a maximum of 20 years. Under IFRS 3, goodwill is considered to have an indefinite life and so is not amortised, but is subject to annual impairment testing. Therefore the annual goodwill charge previously made under UK GAAP is not recorded under IFRS from the date of acquisition.

1 January 2004

The IFRS restatement results in an increase to goodwill and equity of £1,231,000, being the goodwill amortisation previously charged on the 2003 acquisition up to 31 December 2003.

31 December 2004

The IFRS restatement results in a reduction in the 31 December 2004 amortisation charge of £1,861,000, thereby reducing both operating and retained loss and further increasing goodwill. Net assets at 31 December 2004 are increased by £3,092,000.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

23 Explanation of transition to IFRS (*continued*)

Notes to the reconciliations (*continued*)

- iii. Software costs have been reclassified from within property, plant and equipment to intangible assets.
- 1 January 2004
The impact of the reclassification at 1 January 2004 is £90,000.
- 31 December 2004
The impact of the reclassification at 31 December 2004 was £397,000. The software depreciation charge of £121,000 recognised under UK GAAP during the year ended 31 December 2004 was reclassified as amortisation.
- iv. Under IFRS, fair value adjustments on acquisitions are only permitted up to twelve months after the acquisition date. Under UK GAAP the period for adjustments on acquisitions to be made extends until the balance sheet for the first full year following an acquisition. Certain fair value adjustments were identified after the close of the period allowed under IFRS for the WRG acquisition (which extended up to July 2004) but before the close of the UK GAAP adjustment period.
- 1 January 2004
No impact.
- 31 December 2004
Based on a review of the timing of the triggering events certain fair value adjustments, relating to the reduction in provisions (£27,604,000), reduction in value of landfill site assets (£10,085,000) and recognition of corporation tax rebate (£1,259,000) have therefore been reclassified from being set against goodwill, to being written off or written back within the income statement for the year ended 31 December 2004.
- v. Under IFRS, revisions to fair values are taken back to time of the related acquisition.
- 1 January 2004
No impact.
- 31 December 2004
The fair value revisions in note 10 relating to the acquisition of subsidiaries of Shanks Group Plc increase goodwill by £4,683,000, property, plant and equipment by £1,259,000 and provisions by £5,942,000.
- vi. Under IFRS, offsetting of finance costs and finance income in relation to the pension scheme is not permitted. Hence the 2004 finance income and finance costs are grossed up by £1,107,000.

Explanation of material adjustments to the cash flow statement for 2004

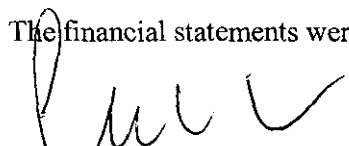
The key changes to the cash flow statement include:

- Presenting a statement showing movements in cash and cash equivalents, rather than just cash. Cash under UK GAAP comprised only amounts accessible in 24 hours without penalty less overdrafts repayable on demand. The components of cash equivalents are explained in note 2.
- Classifying tax cash flows as relating to operating activities.

WRG HOLDINGS LIMITED**Company balance sheet at 31 December 2005**

	Note	2005 £'000	2004 £'000
Fixed Assets			
Investment	26	120,717	120,687
Creditors: amounts falling due within one year	27	(33,046)	-
Creditors: amounts falling due after more than one year	28	(120,674)	-
		<hr/>	<hr/>
Net (Liabilities)/Assets		(33,003)	120,687
		<hr/>	<hr/>
Capital and Reserves			
Called up share capital	29	43	120,687
Retained earnings		(33,046)	-
		<hr/>	<hr/>
Shareholders' (Deficit) /Funds			
(2004: £139,238,000 non-equity on FRS 4 basis)		(33,003)	120,687
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors on 28 April 2006



QR Stewart
Director

WRG HOLDINGS LIMITED**Company reconciliation of movement in shareholders' funds**

	2005 £'000	2004 £'000
(Loss) / profit for the year	(14,482)	1,830
Undeclared fixed non-equity dividend	-	(12,652)
Non-equity dividend paid	-	(1,830)
	<hr/>	<hr/>
	(14,482)	(12,652)
Add back non-equity dividend not paid (2004 only)	-	12,652
Share capital issued during the year	30	-
Effect of adoption of FRS 25 on 1 January 2005 (with 2004 not restated):		
Reclassification of preference shares to non-current liabilities (note 24)	(120,674)	-
Prior year dividends on preference shares (note 24)	(18,564)	-
	<hr/>	<hr/>
Net reduction in shareholders' funds	(153,690)	-
Opening shareholders' funds	120,687	120,687
	<hr/>	<hr/>
Closing shareholders' (deficit)/funds	(33,003)	120,687
	<hr/>	<hr/>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005

24 Summary of significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except as noted below.

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

- FRS 21 'Events after the balance sheet date';
- FRS 25 'Financial instruments: presentation and disclosure';
- FRS 26 'Financial Instruments'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are, other than those covered by the exception permitted by FRS 25, restated in accordance with the new policies. FRS 25 permits the corresponding amounts not to be restated and the Company has adopted this approach. The financial instruments policy set out below provides further details of the 2005 and 2004 bases and of the change booked on 1 January 2005. Other accounting policy changes have no impact on either the current or preceding year.

The Company has not adopted amendments to FRS 26 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

Basis of preparation

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

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005

24 Summary of significant accounting policies (*continued*)

Investments

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

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, 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 "Deferred Taxation".

Derivative financial instruments

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

Fair value of financial instruments

All financial instruments in the Company have a fair value equal to book value.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

24 Summary of significant accounting policies (continued)

Classification of financial instruments issued by the Company (continued)

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' fund, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

The Company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustments necessary to implement this policy have been made as at 1 January 2005 with the net adjustment to net assets less minority interests, after tax, taken through the 2005 reconciliation of movements in shareholders' funds. Corresponding amounts for 2004 are presented and disclosed in accordance with the requirements of FRS 4 (as applicable in 2004). The main differences between the 2005 and 2004 bases of accounting are shown below:

Effect on the Company balance sheet at 1 January 2005

	£'000
Cumulative redeemable preference shares (including dividends accrued)	
Creditors: amounts falling due after more than one year	(120,674)
Creditors: amounts falling due within one year	(18,564)
	<u>(139,238)</u>
Share capital	(120,674)
Retained earnings	(18,564)
	<u>(139,238)</u>

The nature of the main effects upon the Company balance sheet at 1 January 2005 and upon the 2005 income statement, are as follows:

- The Company's cumulative redeemable preference shares are treated as part of equity in 2004 and as liabilities in 2005.
- Dividends payable to date are recorded as a current liability.
- Finance payments in respect of these cumulative redeemable preference shares do not affect the profit for the year in 2004 but are charged in the income statement as interest in 2005.

The cash flow statement is unaffected by this change in accounting policy.

The 2004 disclosures follow FRS 4 as applicable. This includes the analysis of 2004 shareholders' funds and minority interest into equity and non-equity components. FRS 4 used "equity" as a sub-set of shareholders' funds, whereas FRS 25 applies the term "equity" to issued financial instruments other than those, or those components, classified as liabilities. In 2004 cumulative redeemable preference shares were part of non-equity shareholders' funds.

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

24 Summary of significant accounting policies (continued)

Classification of financial instruments issued by the Company (continued)

The net effect of the above on the Company is to increase the current year loss by £14,482,000. The main effects on the primary statements in the comparative year, had FRS 25 been adopted, would have been similar to those stated above.

The adoption of FRS 26 did not have any material impact at the date of adoption.

The Company's financial risk management objectives and policies are the same as those of the Group (see note 21).

25 Information regarding Directors and employees

None of the Directors received any remuneration or benefits from the Company during the year ended 31 December 2005. The Company had no employees during the current or previous years.

26 Investment in subsidiary undertaking

	£'000
At 1 January 2005	120,687
Additions	30
At 31 December 2005	<u>120,717</u>

During the year the Company purchased an additional 250 'B' ordinary shares of £0.01 in WRG Investments Limited for £29,600.

27 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Dividends on cumulative redeemable preference shares	<u>33,046</u>	<u>-</u>

28 Creditors: amounts falling due after more than one year

	2005 £'000	2004 £'000
Cumulative redeemable preference shares	<u>120,674</u>	<u>-</u>

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (*continued*)

29 Share capital and reserves

<i>Authorised</i>	2005	2004
Ordinary shares of £1 each	126,504,220	126,504,220
12 % cumulative redeemable 'A' preference shares of £1 each	120,674,600	120,674,600
Non-cumulative irredeemable 'B' preference shares of £1 each	200,000,000	200,000,000
	<u> </u>	<u> </u>
<i>Ordinary shares of £1 each</i>		
<i>Issued and fully paid</i>		£
At 1 January 2005		12,500
Issued during the year		30,000
At 31 December 2005		<u>42,500</u>
		<u> </u>
<i>Cumulative redeemable preference shares issued and fully paid</i>		£
At 1 January and 31 December 2004		120,674,600
		<u> </u>

During the year 30,000 ordinary shares of £1 each were issued for cash at par to the parent company.

The Company applied FRS 25 for the first time during the year ended 31 December 2005. Under FRS 25, the cumulative redeemable preference shares are reclassified from shareholders' funds to creditors due after more than one year (see note 24).

See note 14 for the rights attaching to each class of share.

30 Profit and Loss Account Reserve

	£'000
At 1 January 2005	-
Retained loss for the year	(14,482)
Prior years' dividends on preference shares (note 24)	(18,564)
	<u> </u>
	(33,046)
	<u> </u>

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

WRG HOLDINGS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2005 (continued)

31 Commitments and contingencies

Guarantees

The Company has the following contingent liabilities at 31 December 2005:

- The Company has entered into unlimited cross-guarantees with its bankers relating to the borrowings of other subsidiary undertakings. At the year end the total bank borrowings of the Group were £239 million.
- 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 financial provision bonds in respect of obligations under waste management licences and other obligations. These amounts are not provided for in the financial statements and total £31.3 million at the year end.

32 Related party disclosures

Terra Firma Investments (GP) 2 Limited, acting as general partner of the six limited partnerships which constitute the Terra Firma Capital Partners II Fund, Terra Firma Capital Partners II L.P.-H. and TFCP II Co-Investment 1LP ("Terra Firma"), has the ability to exercise a controlling influence over the Company through the holding of shares. The Directors therefore consider Terra Firma to be a related party.

The Directors consider subsidiary undertakings to be related parties.

During the year the Company was charged interest by Terra Firma of £21,160,595 (2004: £39,225,000). It also had interest receivable from WRG Acquisitions Plc of £13,030,053 (2004: £38,732,000). In 2004 £50 million of Zero Coupon Bond issued by the Company to WRG Acquisitions Plc was waived.

The ultimate parent

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

There were no transactions between the Company and TFCP Holdings Limited during the financial year.