Company number 4733477

INFINIS HOLDINGS

(formerly Infinis Holdings Limited and WRG Holdings Limited)

Director's Report and Financial Statements

Year Ended 31 December 2006

INFINIS HOLDINGS (formerly Infinis Holdings Limited and WRG Holdings Limited)

Annual report and financial statements for the year ended 31 December 2006

Contents

Page:

1	Directors' report
5	Statement of Directors' responsibilities in respect of the Directors' report and the financial statements
6	Report of the independent auditors
8	Consolidated income statement
9	Consolidated statement of recognised income and expense
10	Consolidated balance sheet
12	Consolidated cash flow statement
13	Notes forming part of the consolidated financial statements
55	Company balance sheet
56	Statement of total recognised gains and losses
57	Company reconciliation of movement in shareholders' funds
58	Notes forming part of the Company's financial statements

Directors

C P T O'Haire
Q R Stewart

Secretary and registered office

Taylor Wessing Secretaries
Carmelite, 50 Victoria Embankment, Blackfriars, London EC4Y 0DX

Company number

4733479

Auditors

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

INFINIS HOLDINGS (formerly Infinis Holdings Limited and WRG Holdings Limited)

Directors' Report

The directors (the "Directors") present their directors report and financial statements for the year ended 31 December 2006

Change of Name

The name of the Company was changed, to Infinis Holdings Limited, from WRG Holdings Limited, on 26 September 2006 On 26 September 2007 the Company name was changed to Infinis Holdings following re-registration as unlimited

Principal Activities

The principal activities of the Company and its subsidiaries were the receiving, processing, recycling, and disposing of waste materials and generation of electricity from landfill gas However, during the year the subsidiaries receiving, processing, recycling, and disposing of waste materials were disposed of

Business Review

Review of Developments

During the year the business was legally separated into two principal businesses, waste management and renewable energy As part of this group reorganisation a number of new subsidiary companies were set up Infinis Acquisitions (a group company) set up Infinis Guarantee Company This newly formed company set up Infinis Operations 1 in conjunction with Infinis Acquisitions which in turn formed Infinis Operations 2 A further subsidiary, Infinis Limited was then established by Infinis Acquisitions Limited

Infinis Operations 2 acquired Waste Recycling Group Limited from Infinis Acquisitions for a consideration of £1 125bn On 17 May 2006 the renewable energy business was transferred to Infinis Operations 2 and then onto Infinis Limited in exchange for Infinis Limited issuing 24A ordinary shares to Infinis Acquisitions and 76A Ordinary shares to Infinis Operations 2 The value of the assets that were acquired and then transferred was £572m, which reflects the market value of the Infinis Limited assets at the date of transfer

During the year Infinis Operations 2 disposed of Waste Recycling Group Limited The disposal was completed on 27 September 2006 to Fomento de Constucciones y Contratas, S A ("FCC") for a consideration of £1 313bn including debt which was utilised in part to settle all external borrowings within the group Post disposal of the waste management operations, the Group's principal activity is that of the generation and sale of electricity from landfill gas

On 28 September 2007 the Directors of the Group passed resolutions to distribute dividends through the Group in order to repay the intercompany loan between Infinis Finance Limited and Monterey Capital II Sarl

Financial Performance

Results and Dividends

The results of the Group are set out on page 8 The Directors do not recommend the payment of a dividend

The Group's turnover from continuing operations was £63 6m *(2005 £55 7m)* and the operating loss was £26 6m *(2005 £7 1m profit)* The Group generated cash of £137 4m *(2005 generated £118 6m)* from its operating activities (including the waste management operations until 27 September 2006)

Principal risks and uncertainties

The Directors consider that the group faces the following risks from the ongoing principal activity, being the generation of electricity from landfill gas

- Hazardous product Due to the hazardous nature of landfill gas, its collection and use is regulated by the Environment Agency (EA) and the regulatory compliance obligation rests with the landfill site operator Waste Recycling Group Limited ("WRG") has contracted out this regulatory compliance service to the Company We are regularly audited by the EA and no significant environmental issues occurred during the period
- Price fluctuations Approximately 50% of our revenue is covered by long term NFFO contracts which vary between 10 and 15 years in length and are protected from inflation through index-linking However we are subject to medium-term revenue fluctuations in respect of the balance of our revenue, where merchant power and ROCs are contracted over a 1 to 3 year period
- Engine performance Engine reliability has a direct impact on output and we monitor performance 24 hours a day via a central control room which co-ordinates remote engine restarts and engineer call-outs
- Regulatory regime The UK Government has recently carried out a statutory consultation exercise (Reform of the Renewables Obligation (RO) and Statutory Consultation on the Renewables Obligation Order 2007) following publication of The Energy Review Report in respect of the methods of restructuring incentives to further promote renewable energy Currently, under the RO, accredited sources of renewable energy (eg landfill gas, wind and biomass) receive the same level of incentive per megawatt-hour (MWh) produced This parity of incentive is under review and may lead to technology 'banding' of the RO incentives to promote the different, less mature technologies in future schemes However, the UK Government remains committed to the principle of "grandfathering", as set out in the 2005 Review of the RO and therefore any reduction in support will only apply to future projects with the exception of co-firing This will offer some income protection going forward

KPIS

The Directors consider the three main KPIs for the Group to be

1. Average selling price per kilowatt hour

   This has increased by 16% year-on-year mainly as a result of moving to 'seasonal time of day' contracts where prices reflect the different demand levels in winter versus summer

2. Direct operating cost per megawatt hour

   This has increased by 15% year-on-year reflecting higher levels of investment in improving gas quality and engine management

3. Megawatt hours exported to the grid

   This has increased by 5% year-on-year reflecting the increased capital investment in gas field wells and new engine capacity

Future Prospects

Overall, the Directors consider that the Group has performed successfully during the period and has created a new identity in the Renewable Energy marketplace which is well placed for growth in 2007 The acquisition of Summerleaze Re-Generation Limited (now Infinis (Re-Gen) Limited) on 31 January 2007, which was financed by new debt facilities, confirms our intention to expand our landfill gas business and exploit the synergies which arise from consolidation

On 27 September 2007 the Group acquired the renewable energy development assets of the Scottish Resources Group Limited ("SRG Limited") and its related company Scottish Biopower Limited This transaction involved the acquisition of the entire share capital of Scottish Biofuels Limited and Scottish Biopower Limited as well as long term land leases amd options from SRG Limited This gives theGroup the ability to further expand its renewable energy capabilities with the rights to develop 125MW of biomass and 125MW of wind capacity

Financial instruments

The Group has a policy to hedge the interest rate risk on the majority of its floating rate borrowing 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 22 to the Group's financial statements

Employees

A policy of equal opportunity employment throughout the Group continues to be encouraged at all times 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 £7,422 during the year ended 31 December 2006 *(2005 £5,750)* It also contributed £11,170,149 *(2005 £13,495,610)* 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 2006 or in the previous year

Directors and their Interests

The Directors who served during the year ended 31 December 2006 and since the year-end were as follows

C P T O'Haire
Q R Stewart

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

A resolution to reappoint KPMG LLP as auditors of the Company will be proposed at the forthcoming Annual General Meeting

By order of the Board

Q R Stewart
Director

9 November 2007

INFINIS HOLDINGS (formerly Infinis Holdings Limited and 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 and applicable law (UK Generally Accepted Accounting Practice)

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

KPMG LLP
1 Puddle Dock
London
EC4V 3PD
United Kingdom

Report of the independent auditors to the members of Infinis Holdings (formerly Infinis Holdings Limited and WRG Holdings Limited)

We have audited the group and parent company financial statements (the "financial statements") of Infinis Holdings for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

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 5

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 We also report to you whether, in our opinion, the information given in Directors' report is 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 judgements 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 Infinis Holdings (formerly Infinis Holdings Limited and 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 2006 and of its profit for the year then ended,
- 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 2006, and
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Director's Report is consistent with the financial statements

KPMG LLP

16 November 2007

KPMG LLP
Chartered Accountants
Registered Auditor

Consolidated income statement for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Continuing Operations			
Revenue		63,585	55,715
Cost of sales		(47,699)	(29,039)
Gross profit		15,886	26,676
Administrative expenses		(42,512)	(19,535)
Operating profit before amortisation and impairment		15,227	21,958
Amortisation and impairment	6,7	(41,853)	(14,817)
Operating (loss)/profit		(26,626)	7,141
Finance costs	3	(123,847)	(106,720)
Finance income	3	2,423	4,402
Net financing costs		**(121,424)**	**(102,318)**
Loss before tax		**(148,050)**	**(95,177)**
Taxation (charge)/credit	4	12,163	1,840
Loss from continuing operations		(135,887)	(92,092)
Discontinued Operations			
Profit from discontinued operations, net of tax	5	919,360	53,208
Profit/(loss) for the year		**783,473**	**(40,129)**
Attributable to			
Equity holders of the parent		783,155	(40,897)
Minority interests		318	768
		783,473	(40,129)

Consolidated statement of recognised income and expense for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Actuarial gain/(losses) on defined benefit pension scheme	9	992	(640)
Change in fair value of hedging interest rate swap		13,615	(10,969)
Share based payments	3	(17,422)	-
Termination of interest rate swap		(2,360)	-
Disposal of interest rate swap	5	4,577	-
Dividend reversal	15	33,047	-
Net gain/(loss) recognised directly in equity		32,449	(11,609)
Profit/(loss) for the year		783,473	(40,129)
Total recognised income and expense for the year		**815,922**	**(51,738)**
Attributable to			
Equity holders of the parent		815,604	(52,506)
Minority interest		318	768
		815,922	(51,738)

Consolidated balance sheet at 31 December 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	6		123,016		805,231
Intangible assets	7		286,086		423,774
Cash held in escrow deposits			-		27,390
			409,102		1,256,395
Current assets					
Stock	11	1,277		-	
Trade and other receivables	12	37,056		93,906	
Cash and cash equivalents	13	39,677		25,457	
Amounts due from related parties	10	417,317		-	
			495,327		119,363
TOTAL ASSETS			**904,429**		**1,375,758**
Non-current liabilities					
Interest-bearing loans and borrowings	15		-		883,621
Cumulative redeemable preference shares	15		-		120,675
Provisions	16		-		159,845
Other payables	17		1,448		1,448
Pension liability	9		-		5,184
Deferred tax	4		60,780		116,194
			62,228		1,286,967
Current liabilities					
Trade and other payables	18	36,421		131,148	
Interest-bearing loans and borrowings	15	-		58,377	
Current income tax		-		8,924	
Provisions	16	2,068		19,326	
			38,489		217,775
TOTAL LIABILITIES			**100,717**		**1,504,742**
NET ASSETS /(LIABILITIES)			**803,712**		**(128,984)**

Consolidated balance sheet at 31 December 2006 ***(continued)***

		2006 £'000	2006 £'000	2005 £'000	2005 £'000
Equity attributable to equity holders of the parent)					
Issued share capital	14	120,718		43	
Cashflow hedging reserve	14	-		(15,832)	
Retained earnings	14	682,994		(116,778)	
			803,712		(132,567)
Minority interest			-		3,583
TOTAL EQUITY			**803,712**		**(128,984)**

The financial statements were approved by the Board of Directors on 8 November 2007 and were signed on its behalf by

Q R Stewart
Director

INFINIS HOLDINGS (formerly Infinis Holdings Limited and WRG Holdings Limited)

Consolidated cash flow statement for the year ended 31 December 2006

	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Cash flows from operating activities				
Profit/(Loss) for the year		783,473		(40,130)
Adjustments for				
Depreciation and impairment of fixed assets		91,161		86,371
Amortisation and impairment of landfill gas reserve		32,011		14,817
Taxation credit		(12,163)		(10,523)
Gain on sale of discontinued operations, net of tax		(919,360)		-
Profit on sale of a business		-		(944)
Interest income		(2,423)		(2,243)
Interest expense		123,847		92,731
Other finance costs		-		5,966
Share based payments		4,979		-
Operating cashflow before changes in working capital and provisions		101,525		146,045
Increase in trade and other receivables	(31,080)		(1,319)	
(Increase) / decrease in stock	(1,277)		-	
(Increase) / decrease in trade and other payables	63,668		(1,062)	
Decrease / (increase) in provisions	4,396		(25,089)	
		35,707		(27,470)
Cash generated from operations		137,232		118,575
Taxation received		-		980
Net cash flows from operating activities		137,232		119,555
Cash flows from investing activities				
Sale of business, net of cash disposed	1,282,292		4,547	
Interest received	2,423		2,243	
Purchase of property, plant and equipment	(89,183)		(145,224)	
Loan to related parties	(417,317)		(29)	
Net cash flows from investing activities		778,215		(143,148)
Cash flows from financing activities				
Dividends paid to minority interests	-		(312)	
Payment of finance lease liabilities	-		(868)	
Proceeds from borrowings	-		68,000	
Repayment of borrowings	(800,997)		(8,165)	
Transfer (from)/to escrow cash	5,001		(3,253)	
Interest paid	(105,231)		(53,422)	
Net cash flows from financing activities		(901,227)		1,980
Net increase / (decrease) in cash and cash equivalents		14,220		(21,613)
Cash and cash equivalents at 1 January		25,457		47,070
Cash and cash equivalents at 31 December (note 13)		39,677		25,457

1 Accounting policies

Infinis Holdings (the Company) is a company incorporated in the UK The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") The parent company financial statements present information about the Company as a separate entity and not about its group

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 55 to 60

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements

Judgements made by the directors, in the application of the accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2

Measurement convention

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

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 entities controlled by the group Control exists where the group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that are currently exercisable or convertible are taken into account The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases

1 Accounting policies *(continued)*

Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange 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) 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

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 in the course of construction

Landfill 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

1 Accounting policies *(continued)*

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method Goodwill represents amounts arising on acquisition of subsidiaries, associates and Jointly Controlled Entities In respect of business acquisitions that have occurred since July 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable

Goodwill is stated at cost less any accumulated impairment losses Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment

In respect of acquisitions prior to July 2003, goodwill is included at 1 January 2004 on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised

An impairment loss is recognised whenever the carrying amount of an asset or it's cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

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

Where goodwill forms part of a cash-generating unit disposed, the goodwill associated with the cash-generating unit disposed is included in the carrying amount of the business when determining the gain or loss on disposal

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

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

1 Accounting policies *(continued)*

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows

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

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 and 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

1 Accounting policies *(continued)*

Restoration and aftercare costs

There is no provision at 31 December 2006 in respect of restoration and aftercare costs, as the landfill business was disposed of in September 2006

At 31 December 2005 a full provision was 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 At that time the Group provided 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 were calculated based on the NPV of estimated future costs Current cost estimates were inflated at 2 5% and discounted at 5% to calculate the NPV The effect of the unwinding of the discount element on existing provisions was 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

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

Share based payments

The amounts recognised in the income statement for equity settled payments reflects the difference between the fair value of the shares issued and the consideration received, which is spread over the period during which employees become unconditionally entitled to the shares

The Group operates long term incentive plans for certain key executives under which the amounts receivable are dependent on the value of Infinis Limited, a fellow subsidiary within the Infinis Holdings group These plans are treated as cash settled

For cash settled share based payment transactions the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

1 Accounting policies *(continued)*

Share based payments(continued)

Where the terms and conditions of share based payment transactions are modified before they vest, the increase in fair value, measured immediately before and after the modification is expensed to the profit and loss account over the remaining vesting period

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

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total lease expense

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

1 Accounting policies *(continued)*

Net financing costs

Net financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that hedge risks associated with financing activities that are recognised in the income statement

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method Dividend income is recognised in the income statement on the date the entity's right to receive payments is established

Taxation

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not provided for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised

Segmental reporting

IAS 14 'Segment Reporting' need only be applied by entities whose debt or debt securities are publicly traded and by entities that are in the process of issuing equity or debt securities in public securities markets The Group has elected not to apply IAS 14 voluntarily and consequently does not present any segmental information

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

1 Accounting policies *(continued)*

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

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

1 Accounting policies *(continued)*

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

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

Adopted IFRSs not yet applied

The following adopted IFRSs were available for early application but have not been applied 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 only concerned with disclosure It will be adopted for the year ended 31 December 2007

IAS 1 'Presentation of financial statements' which is applicable for periods commencing on or after 1 January 2007 The application of this standards in 2006 would not have affected the balance sheet or income statement as it is only concerned with disclosure

IFRIC 8 'Scope of IFRS 2 Share based Payment' which is effective for periods commencing on or after 1 May 2006 The application of this interpretation in 2006 would not have affected the financial statements as share based payment transactions in the Company are made for the receipt of identifiable services

2 Accounting Estimates and judgements

Judgments made by the Directors in the application of the accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below

Landfill Gas Reserve

The Landfill Gas Reserve is valued by the Group based on the net cash earnings from electricity generated from the waste deposited in the landfill sites at the date of acquisition by the Group using an industry standard gas production model A number of assumptions were necessarily made in the estimation, including the method and uniformity of gas production, gas availability, methane content and price

When the Landfill Gas Reserve is tested for impairment the fair value of the gas asset at the date of the test is also dependent on these assumptions, many of which are outside the immediate control of the Group Accordingly changes in the industry or to these assumptions could lead to material impairments of the gas asset value When testing for impairment an 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 8%

Goodwill

Goodwill has been allocated to the Group's sites (cash generating units) based on the valuation of the underlying total gas to be generated from waste in the ground and waste to be tipped into the site Goodwill is assessed for impairment annually by assessing the recoverable amount of the site, 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

The determination of the recoverable amount of each site is calculated based on a valuation of the gas field using an industry standard gas model As discussed above, a number of assumptions are necessarily made in the estimation, including the method and uniformity of gas production, gas availability, methane content and price, many of which are outside the immediate control of the Group Accordingly changes in the industry or to these assumptions could lead to material impairments of goodwill

3 Expenses

	2006 £'000	2005 £'000
Finance costs / (income)		
Unwinding of discount on Zero Coupon Bonds issued to related parties	17,817	21,161
Bank loans	11,457	9,607
9% Senior Loan Notes	41,103	18,060
Second Lien Floating Rate Notes	34,854	25,384
Preference share dividend	-	14,482
Amortisation of arrangement fees	18,616	3,225
Other	-	14,801
Total finance costs	123,847	106,720
Bank interest receivable	(63)	(2,244)
Hedge break proceeds	(2,360)	-
Other	-	(2,158)
Total finance income	(2,423)	(4,402)

On 4 July 2006 the articles of Association of the company were amended to waiver the preference Shareholders' rights to preference dividends This related to prior periods accrued dividends, which under IAS32 were included as part of interest payable in the 2005 consolidated income statement The waiver has led to the accrual being reversed in 2006, which has been taken directly to reserves, and no further accrual being raised The waiver is without prejudice to the preference Shareholders right to receive a preferred return as defined in the amendments to the article

3 Expenses *(continued)*

Depreciation, amortisation, and other items included in consolidated income statement

Depreciation – owned assets	81,319	85,300
Depreciation – leased assets	303	1,071
Amortisation of intangible assets	13,893	14,817
Impairment of Landfill gas reserve	18,118	-
Impairment of fixed assets	9,842	-
Operating lease expense	9,277	16,213
Share based payments to non-employees (see note below)	4,752	-
Other non-recurring items:		
Reassessment of restoration and aftercare provisions	3,078	(1,926)
Reassessment of other provisions	1,161	(6,467)

Auditors Remuneration

Amounts receivable by auditors and their associates in respect of	2006 £'000	2005 £'000
Audit of financial statements pursuant to legislation	135	205
Other services pursuant to such legislation	195	120
Other services relating to taxation	35	60
Valuation and actuarial services	-	86
Services relating to corporate finance transactions entered or proposed to be entered into	-	148

Staff numbers and cost

	2006 £'000	2005 £'000
Wages and salaries	33,075	32,868
Social security costs	2,924	3,533
Pension costs	1,044	1,382
Other staff costs	-	868
Share based payments (see note 9)	987	-
	38,030	38,651

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

	Number	Number
Operational staff	676	768
Administration and management	322	402
	998	1,170

3 Expenses *(continued)*

In addition to the share based payment charge shown in staff costs certain service executives of Waste Recycling Group Limited ("WRG Limited") continue to participate in a separate long term incentive plan, originally established when WRG Limited was part of the Infinis Holdings group On 1 August 2004, 4,500 B ordinary shares of £0 01 in Infinis Investments Limited (formerly WRG Investments Limited) were issued to the Directors of WRG Limited at market value The shares vested over a 7 year period, with the plan being treated as equity settled in accordance with the provisions of IFRS2 *'share based payments'*

On 17 July 2006, the drag along and tag along rights set relating to shares in Infinis Investments Limited were terminated by the amendment of the Articles of Association of Infinis Investments Limited and the termination of the shareholders agreement relating to that company On the same date, Infinis Capital Limited and the holders of B ordinary shares in the capital of Infinis Investments Limited entered into put and call options over the B ordinary shares in the capital of Infinis Investments Limited held by them

Entering into the put and call arrangement resulted in a modification to the terms and conditions on which the equity instruments were originally granted, being specifically the creation of an obligation to settle in cash In accordance with IFRS2, a liability to settle in cash is recognised at the date of modification based on the fair value of the shares at the modification date and the extent to which the specified services have been received Accordingly, a liability of £17 4m was recognised at 30 June 2006 with a corresponding entry to retained earnings The balance of the fair value is recognised as an expense over the remaining vesting period, with a corresponding increase in liabilities The charge included in the consolidated income statement in respect of the plan is £4 8m

The fair value of the plan has been estimated by the Directors based on the Enterprise Value achieved for the landfill operations, which were sold to Fomento de Construcciones y Contratas, S A ("FCC"), on 27 September 2006, and the expected Enterprise Value of the remaining Waste to Energy business (Infinis Limited) based on external valuation advice received The Directors have also estimated the expected return term of the plan based on their current expectations as to the likelihood and timing of the sale of Infinis Limited

On 10 May 2007, Infinis Capital Limited purchased all of the B Ordinary Shares of £0 01 each in the capital of Infinis Investments Limited and the option deeds between Infinis Capital Limited and the holders of the B Ordinary Shares were terminated The consideration for the purchase of the B Ordinary Shares was partially satisfied in cash and partially satisfied by the issue of three classes of loan notes , payable on the earliest of 10 May 2012 an "Exit" (being various events relating to the disposal by Terra Firma Capital Partners partnerships of their interest in the Infinis group), or in the case of the A and B loan notes on the achievement of certain commercial objectives The loan notes are interest bearing

4 Income tax

Consolidated income statement	**2006 £'000**	**2005 £'000**
Current income tax		
Continuing operations	-	-
Discontinued operations	-	121
Total current income tax	-	121
Deferred tax		
Continuing operations	(12,163)	(1,840)
Discontinued operations	2,481	(8,804)
Total deferred tax	(9,682)	(10,644)
Total tax in income statement		
Continuing operations	(12,163)	(1,840)
Discontinued operations	2,481	(8,683)
Total tax in income statement	9,682	(10,523)

Reconciliation of effective tax rate

	2006 £'000	**2005 £'000**
Profit /(loss) before tax		
Continuing operations	(148,050)	(93,932)
Discontinued operations	921,841	43,280
	773,791	(50,652)
At United Kingdom statutory tax rate of 30% (2005 - 30%)	232,137	(15,196)
Expenses not deductible for tax purposes	7,437	3,534
Depreciation in excess of capital allowances	-	25,354
Exempt chargeable gain	(277,529)	-
Site preparation relief	-	(8,814)
Utilisation of environmental provisions	-	(2,516)
Tax losses carried forward/(utilised)	28,273	(2,362)
Adjustment to prior years	-	121
Deferred tax movements relating to origination and reversal of temporary Differences	-	(10,644)
Total tax (including tax on discontinued operations)	(9,682)	(10,523)

4 Income tax *(continued)*

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Liabilities		Assets		Net	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Property, plant and equipment	8,152	76,453	-	-	8,640	76,453
Intangible assets	52,825	63,333	-	-	52,699	63,333
Provisions	-	-	-	(15,887)	-	(15,887)
Losses	-	-	(197)	(7,705)	-	(7,705)
	60,977	139,786	(197)	(23,592)	61,339	116,194

Movement in deferred tax during the year:

	Opening 2006 £'000	Recognised in income £'000	Included in Disposal group £'000	Closing 2006 £'000
Property, plant and equipment	76,453	(10,196)	(58,105)	8,152
Intangible assets	63,333	(8,976)	(1,532)	52,825
Provisions	(15,887)	1,982	13,905	-
Losses	(7,705)	7,508	-	(197)
Net deferred tax liabilities	116,194	(9,682)	(45,732)	60,780

Movement in deferred tax during the prior year:

	Opening 2005 £'000	Recognised in income £'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)
	126,838	(10,644)	116,194

5 Disposal of business and discontinued operations

During the year Infinis Operations 2 Limited disposed of Waste Recycling Group Limited The disposal was completed on 27 September 2006 to Fomento de Constucciones y Contratas, S A ("FCC") for a consideration of 1 12bn

The results from discontinued operations, included in the consolidated income statement, were as follows

	Period ended 27 September 2006 £'000	Year ended 31 December 2005 £'000
Revenue	377,713	486,548
Expenses	(381,025)	(442,023)
Profit before tax	(3,312)	44,525
Taxation (charge)/credit	(2,481)	8,683
Profit after tax	(5,793)	53,208
Profit on disposal of discontinued operations	925,153	-
Net profit attributable to discontinued operations	919,360	53,208

During the year the waste management business contributed £77m (2005 £119m) to the Group's net operating cash flows and paid £63m (2005 £143m) in respect of investing activities

5 Disposal of business and discontinued operations (continued)

The profit on disposal is the proceeds less the carrying amount of the waste management net assets and attributable costs The net assets at the date of disposal were as follows

	Period ended 27 September 2006	**Year ended 31 December 2005**
Property, plant and equipment	680,237	673,123
Intangible assets	105,677	109,135
Cash in escrow	32,391	27,390
Debtors	87,930	75,040
Creditors less than one year	(193,949)	(154,460)
Deferred tax liability	(45,732)	(43,251)
Creditors due in more than one year	(145,428)	(104,628)
Long term provisions	(156,500)	(159,845)
Pension Liability	(3,716)	(5,184)
Minority Interest	(3,780)	(2,928)
Cash	21,395	25,434
Net assets and liabilities disposed	**378,525**	**439,826**
Gain on disposal	925,153	
Cost of disposal	9,800	
Total consideration	1,313,478	

The consideration was satisfied by

Cash	1,313,478
Cash disposed	(21,395)
Cost of disposal	(9,800)
Net cash inflow on disposal	1,282,292

6 Property, plant and equipment

31 December 2006	Land and buildings £'000	Plant and equipment £'000	Assets under construction £'000	Total £'000
Cost as at 1 January 2006 net of accumulated depreciation	534,057	156,328	114,846	805,231
Additions	28,596	24,001	36,586	89,183
Disposals	(498,113)	(34,470)	(147,654)	(680,237)
Impairment	-	(9,842)	-	(9,842)
Depreciation charge for the year	(57,273)	(24,046)	-	(81,319)
At 31 December 2006, net of accumulated depreciation	7,267	111,971	3,778	123,016
At 1 January 2006				
Cost	690,800	181,332	114,846	986,978
Accumulated depreciation and impairment	(156,743)	(25,004)	-	(181,747)
Net carrying amount	534,057	156,328	114,846	805,231
At 31 December 2006				
Cost	26,209	187,966	3,778	217,953
Accumulated depreciation and impairment	(18,942)	(75,995)	-	(94,936)
Net carrying amount	7,267	111,971	3,778	123,016

The net book value of the Group's fixed assets at 31 December 2006 includes £Nil (2005 £26,779,000) in respect of assets held under finance leases Depreciation charged on these assets totalled £303,000 (2005 £1,071,000)

Impairment loss

The impairment loss of £9,842,000 relates to certain fixed assets on landfill sites where discounted future cashflows are not expected to recover the carrying value of the assets

In deciding whether a fixed asset impairment charge is required the carrying value of fixed assets and intangible assets are compared with the recoverable amount of cash generating units (CGUs) which is based on value in use calculations These calculations use business valuations where they are available, otherwise the cash flow projections based on management approved budgets, are used The cash flow projections are based on the expected life of the gas present in each landfill site which, in all cases is greater than five years
Growth rates of 2 5% are used which do not exceed the 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 Company's estimated weighted average cost of capital which is 8%

6 Property, plant and equipment *(continued)*

31 December 2005	**Land and buildings £'000**	**Plant and equipment £'000**	**Assets 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	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)
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)
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)
Net carrying amount	534,057	156,328	114,846	805,231

7 Intangible assets

31 December 2006	Landfill Gas reserve £'000	Goodwill £'000	Software costs £'000	Total £'000
Cost as at 1 January 2006 net of accumulated amortisation	213,204	210,298	272	423,774
Disposals (see note 5)	(5,107)	(100,298)	(272)	(105,677)
Amortisation	(13,893)	-	-	(13,893)
Impairment	(18,118)			(18,118)
At 31 December 2006	176,086	110,000	-	286,086
At 1 January 2006				
Cost (gross carrying amount)	247,825	210,298	548	458,671
Accumulated amortisation	(34,621)	-	(276)	(34,897)
Net carrying amount	213,204	210,298	272	423,774
At 31 December 2006				
Cost (gross carrying amount)	242,718	110,000	-	352,718
Accumulated amortisation	(48,514)	-	-	(48,514)
Accumulated impairment	(18,118)		-	(18,118)
Net carrying amount	176,086	110,000	-	286,086

Goodwill is tested for impairment in accordance with IAS 36 and IAS 38 The impairment test at 31 December 2006 using value in use resulted in a charge of £18,118,000 to goodwill impairment expense within the income statement These impairment charges arise principally due to

- sites generating less gas than previously expected in the gas asset valuation model used by WRG A subsequent review of gas generation at these sites suggests that this is long term problem rather than a one - off short term issue Whilst there is a potential argument that the gas will come off the site in the long term, the related cash flows from this would be heavily discounted and an impairment charge would still arise,
- sites in the original model produced at the time of acquisition by WRG but that were never developed and which current management have decided will not be developed, in the foreseeable future,
- outsourced sites where revenues have fallen significantly short of those expected at the time of acquisition by WRG The reasons for these variances are unclear due to lack of direct control over these sites and the limited availability of clear information The revenues included in the fair value model are based on 2006 actual receipts and,

7 Intangible assets *(continued)*

- Sites where the costs in the original model used by WRG were significantly lower than in the fair value model (and those currently being experienced) Again the reasons for these differences are unclear due to personnel changes However these were new developments when the costs were included in the historic model and as such there was limited information available concerning cost base The costs included in the revised fair value model are based on 2006 actuals and are in line with budgeted costs for 2007

In deciding whether a goodwill impairment charge is required the carrying value of goodwill is compared with the recoverable amount of cash generating units (CGU's) which is based on value in use calculations These calculations use business valuations where they are available, otherwise the cash flow projections based on management approved budgets, are used The cash flows projections are based on the expected life of the gas present in each landfill site which, in all cases is greater than five years.

The growth rates used are conservative estimates which do not exceed the 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 estimated weighted average cost of capital which is 8%

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)
At 31 December 2005	213,204	210,298	272	423,774
At 1 January 2005				
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
At 31 December 2005				
Cost (gross carrying amount)	247,825	210,298	548	458,671
Accumulated amortisation	(34,621)	-	(276)	(34,897)
Net carrying amount	213,204	210,298	272	423,774

7 Intangible assets *(continued)*

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement

	2006 £'000	2005 £'000
Administrative expenses	32,011	14,817

8 Investments in 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 2006 were

Infinis Limited
Infinis Capital Limited
Infinis Investments Limited
Infinis Investments 2 Limited
Infinis Finance
Infinis Acquisitions
Infinis Guarantee Company
Infinis Operations 1 Limited
Infinis Operations 2

The following subsidiaries were disposed of during the year

Waste Recycling Limited*
Waste Notts (Reclamation) Limited*
Waste Recovery Limited*
Waste Recycling Ltd*
Waste Recycling Group Limited*
Waste Recycling Group (Central) Limited*
Waste Recycling Group (Scotland) Limited*+
Waste Recycling Group (Yorkshire) Limited*
WRG Waste Services Limited*
WRG (Northern) Limited*+
WRG (Midlands) Limited*+
WRG Environmental Limited
Kent Enviropower Limited*
Kent Energy Limited*
Lincwaste Limited*
Landfill Management Limited*

Norfolk Waste Limited*
Pennine Waste Management Limited*
T Shooter Limited*
Limited*Landfill Management Limited
WRG Acquisitions 2 Limited
3C Waste Limited*
Anti-Waste (Restoration) Limited*
Anti-Waste Limited*
Arnold Waste Disposal Limited*
BDR Waste Disposal Limited (80% owned)*
Darrington Quarries Limited*
Derbyshire Waste Limited (80% owned)*
East Waste Limited*
Integrated Waste Management Limited
Welbeck Waste Management Limited

* *Companies held indirectly by an intermediate company* + *Companies incorporated in Scotland*

9 Employee benefits

Long term incentive plans

The Group operates long term incentive plans for certain key executives under which the amounts receivable are dependent on the value of Infinis Limited upon any sale These plans are treated as cash settled share based payments in accordance with the provisions of IFRS 2 'share based payments' and the cost of the expected payment is recognised over the expected period of the plan

For cash settled share based payment transactions the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

The expected value of the award has been estimated by the Directors based on external valuation advice received The Directors have also estimated the expected return term of the plan based on their current expectations as to the likelihood and timing of the sale of Infinis Limited

The charge included in operating profit in respect of the plan is £715,000

Share based payments

During the period 0 5% of the share capital of Infinis Limited and 0 01% of the B share capital and 7 5% of the C share capital of Infinis Capital, both subsidiaries with the group, were issued at a discount to certain key executives The share based payment included in the consolidated income statement of £272,000 is included in operating profit based on the difference between the consideration received and the fair value of the shares issued, spread over the period during which the key executive becomes unconditionally entitled to the shares The expected value of the award has been estimated by the Directors based on external valuation advice received

9 Employee benefits *(continued)*

Pensions and other post-employment benefit plans

The Group operated a defined benefit pension scheme which was disposed of upon the disposal of Waste Recycling Group Limited All current employees of the Group are now in a defined contribution pension scheme The net benefit expense in relation to the scheme is included within discontinued operations

The Group operated 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 £753,000 during the year (2005 £587,000)

Certain employees of the Group up to the point of disposal of the WRG business were members of the LAWDC's defined benefit pension scheme in which the Group was a participating employer The year end liability is as follows

	2006 £'000	2005 £'000
Benefit liability		
Present value of obligation	-	(28,037)
Fair value of plan assets	-	22,853
Benefit liability	-	(5,184)

Movements in the liability during the years ended 31 December 2006 and 31 December 2005 are as follows

	2006 £'000	2005 £'000
At 1 January	(5,184)	(5,141)
Current service cost	(468)	(625)
Contributions paid	1,545	1,387
Past service cost	(707)	(170)
Other finance income	106	5
Actuarial gain/(loss)	992	(640)
Disposal of business (see note 5)	3,716	-
At 31 December	-	(5,184)

9 Employee benefits *(continued)*

Movements in fair value of plan assets

At 1 January	22,853	18,025
Expected return on plan assets	1,120	1,245
Actuarial gains	541	2,517
Contributions by employer	1,545	1,387
Contributions by members	132	207
Benefits paid	(128)	(528)
Disposal of business	(26,063)	-
At 31 December	-	22,853

Movements in present value of defined benefit obligation

At 1 January	28,037	23,166
Current service cost	468	625
Interest cost	1,013	1,240
Contributions by members	133	207
Past service costs	708	170
Actuarial losses	(451)	3,157
Benefits paid	(128)	(528)
Disposal of business	(29,780)	-
At 31 December	-	28,037

Expenses recognised in the consolidated income statement

Current service cost	468	625
Past service cost	708	170
Interest on defined benefit obligations	1,013	1,240
Expected return on plan assets	(1,119)	(1,245)
Net benefit expense	1,070	790

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

Profit from discontinued operations, net of tax	1,070	790

9 Employee benefits *(continued)*

Amount recognised in consolidated statement of recognised income and expense

	2006 £'000	2005 £'000
Actual return less expected return on assets	541	2,517
Changes in assumptions	451	(3,157)
Actuarial gain/(loss)	992	(640)

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

	2006 £'000	2005 £'000
Equities	-	17,978
Corporate bonds	-	4,875
	-	22,853
Actual return on plan assets	-	3,762

Difference between expected and actual return on assets and liabilities

	2006 %	2005 %
Experience adjustments on plan liabilities	-	-
Experience adjustments on plan assets	-	11

10 Amounts due from related parties

	2006 £'000	2005 £'000
Amounts due from related parties (see note 20)	417,317	-

11 Stock

	2006 £'000	2005 £'000
Raw materials and consumables	1,277	-

12 Trade and other receivables (current)

	2006 £'000	2005 £'000
Trade receivables	19,749	84,470
Payment on Account	15,200	-
Prepayments and other debtors	2,107	9,430
	37,056	93,906

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

On 17 May 2006, the renewable energy business was transferred from certain subsidiaries of Waste Recycling Group Limited to Infinis Operations 2 Limited and then onto a newly incorporated subsidiary, Infinis Limited, for a total consideration of £572m including debt, settled through intercompany account

The consideration of £572 million included the fair value of Welbeck Waste Management Limited, BDR Waste Disposal Limited and Derbyshire Waste Limited At 31 December 2006 only the Welbeck Waste Management Limited transfer had been effected, as minority interest approval had not been obtained for the other companies

The £15 2 million debtor as at 31 December 2006 is on the basis that the Group will either receive the assets, if shareholder approval is obtained, or, in the event of shareholder approval not being obtained, it will receive compensation of £15 2 million from Waste Recycling Group Limited

13 Cash and cash equivalents

	2006 £'000	2005 £'000
Cash at bank and in hand	39,677	25,457

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

14 Share capital and reserves

Share capital

Authorised	2006	2005
	£	£
Ordinary shares of £1 each	126,504,220	126,504,220
12 % 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

Allotted, called up and fully paid		
	£	£
Ordinary shares of £1 each	42,500	42,500
Cumulative preference shares	120,674,600	120,674,600
	120,717,600	120,717,100
Shares classified as liabilities	-	120,670,600
Shares classified in Shareholders' funds	120,717,100	42,500
	120,717,600	120,717,100

The Group applied IAS 32 for the first time during the year ended 31 December 2005 Under IAS 32, the cumulative redeemable preference shares were reclassified from shareholders' funds to creditors due after more than one year

During the year the preference shares were further reclassified to shareholders' funds following a change on 4 July 2006 to the Articles of Association to amend the class rights of the preference shares such that the dividends payable on this class of share are at the discretion of the Company

14 Share capital and reserves (continued)

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 preference shareholders The preference shares are not redeemable and do not carry any rights to convert into ordinary shares

The preference shares entitle the holder to a preferred return, being 12% per annum of the amount paid on the nominal value of each share, in priority to the holders of the non-cumulative irredeemable preference shares and the ordinary shares The preferred return is calculated from (and including) the date of issue to the and (excluding) the date any dividend is proposed by the company

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

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	Total equity £'000
At 1 January 2005	13	120,675	(56,677)	-	64,011	3,127	67,138
Adjustments in respect of adoption of IAS 32 & 39 on 1 January 2005, net of tax	-	(120,675)	(18,564)	(4,863)	(144,102)	-	(144,102)
Issued during the year	30	-	-	-	30	-	30
Actuarial loss in the pension schemes	-	-	(640)	-	(640)	-	(640)
(Loss) for the year	-	-	(40,897)	-	(40,897)	768	(40,129)
Change in fair value of hedging interest rate swaps	-	-	-	(10,969)	(10,969)	-	(10,969)
Dividend paid to minority interest	-	-	-	-	-	(312)	(312)
At 31 December 2005	43	-	(116,778)	(15,832)	(132,567)	3,583	(128,984)
At 1 January 2006	43	-	(116,778)	(15,832)	(132,567)	3,583	(128,984)
Profit for the year	-	-	783,155	-	783,155	318	783,473
Actuarial gain in the pension schemes	-		992	-	992	-	992
Change in fair value of hedging interest rate swaps	-	-	-	13,615	13,615	-	13,615
Waiver of preference dividend			33,047		33,047		33,047
Termination of interest rate swap	-	-	-	(2,360)	(2,360)	-	(2,360)
Share based payments			(17,422)				(17,422)
Reclassification of preference shares	-	120,675	-	-	120,675	-	120,675
Disposal of a business (see note 5)				4,577	4,577		4,577
Disposal of Minority (see note 5)						(3,901)	(3,901)
At 31 December 2006	**43**	**120,675**	**682,994**	**-**	**803,712**	**-**	**803,712**

15 Interest-bearing loans and borrowings

	2006 £'000	2005 £'000
Current		
Obligations under finance leases		
and hire purchase contracts	-	496
Bank loans	-	9,435
Subordinated loan from related party	-	14,243
Cumulative dividend on preference shares	-	33,046
Other unsecured loans	-	1,157
	-	58,377
Non-current		
Obligations under finance leases		
and hire purchase contracts	-	4,276
Second Lien Floating Rate Loan Notes (due 2011)	-	288,986
Senior Loan Notes (due 2014)	-	192,398
Bank loans	-	227,994
Zero Coupon Bond issued to related party	-	152,575
Interest rate swaps	-	15,832
Other unsecured loans	-	1,560
	-	883,621
12% Preference Shares		
Issued and fully paid	-	120,675

On 4 July 2006 the articles of Association of the company were amended to waive the preference Shareholders' rights to preference dividends This related to prior periods accrued dividends, which under IAS32 were included as part of interest payable in the 2005 consolidated income statement The waiver has led to the accrual being reversed in 2006, which has been taken directly to reserves, and no further accrual being raised The waiver is without prejudice to the preference Shareholders right to receive a preferred return as defined in the amendments to the article

15 Interest-bearing loans and borrowings *continued*

Maturity profile

Within one year or on demand	-	58,377
Between one and two years	-	15,816
Between two and five years	-	141,893
More than five years	-	725,912
	-	941,998

16 Provisions

	Aftercare £'000	Restoration £'000	Other provisions £'000	Total £'000
At 1 January 2006	80,722	34,594	63,855	179,171
Arising during the year	-	-	7,761	7,761
Charged to Profit and Loss	987	795	6,628	8,410
Unwinding of discount	3,143	1,132	694	4,969
Utilised in period	(1,316)	(555)	(13,406)	(15,277)
Transferred on disposal	(83,536)	(35,966)	(63,464)	(182,966)
At 31 December 2006	-	-	2,068	2,068
Current 2006	-	-	2,068	2,068
Non-current 2006	-	-	-	-
	-	-	2,068	2,068
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

The Group provided for the estimated cost of restoring its landfill sites at the end of their operational life and for their subsequent aftercare The aftercare period was generally expected to be between 30 and 60 years These provisions were discounted from the date on which the expenditure was expected to occur

Other provisions included the estimated cost of discharging environmental and other liabilities, including current capping of open landfill areas and the disposal of leachate, which arose during the operational phase of landfill sites

The provisions in the balance sheet at 31 December 2006 relate to the cost of buying out the obligation to supply gas to the brickworks at one particular site and remediation costs to rectify known issues at various other sites These issues were identified in the service level agreement when WRG Limited was disposed of

17 Other payables (non current)

	2006 £'000	2005 £'000
Deferred consideration	1,448	1,448

18 Trade and other payables (current)

	2006 £'000	2005 £'000
Trade payables	7,679	39,560
Landfill tax	-	48,326
Other payables	-	18,390
Accruals and deferred income	6,567	24,872
Cash settled share based payments (see note 3)	22,174	-
	36,420	131,148

19 Commitments and contingencies

Operating leases

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

	2006 £'000	2005 £'000
Less than one year	677	237
Between one and five years	1,273	2,095
More than five years	-	154,233
	1,950	156,565

The majority of these relate to land and buildings and are payable in one to five years
During the year £8 9m (2005 £16 2m) was recognised as an expense in the consolidated income statement in respect of operating leases

19 Commitments and contingencies *(continued)*

Finance lease and hire purchase commitments

The Group has no finance leases or hire purchase contracts All finance leases and hire purchase contracts were held by Waste Recycling Group Limited which was disposed of during the year

	2006		2005	
	Minimum payments £'000	Present value of payments £'000	Minimum payments £'000	Present value of payments £'000
Not later than one year	-	-	903	863
After one year but not more than five years	-	-	5,409	3,944
Total minimum lease payments	-	-	6,312	4,807
Less amounts representing finance charges	-	-	(1,540)	(1,275)
Capital element of minimum lease payments	-	-	4,772	3,532

Capital commitments

During the year ended 31 December 2006, the Company entered into various contracts relating to the development of generation of electricity from Landfill Gas The commitment outstanding at the 31 December 2006 was £7 4m relating to two major development sites at Bletchley and at Brogborough The commitments are expected to be settled during the course of the following financial year

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

Infinis Holdings has the ability to exercise a controlling influence over the Company's subsidiaries Consequently the Directors also consider these subsidiary undertakings to be related parties

During the year the company granted a loan of £417m to Monterey Capital Sarl the parent undertaking At 31 December 2006 the amount outstanding was £417m This loan is interest free

21 Ultimate parent company and parent company of larger group

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 period

Transactions with other related parties

Directors' interests

None of the Directors who held office at 31 December 2006 had an interest in the shares of the Company

Compensation of key management personnel (including directors) of the Group

	2006 £'000	2005 £'000
Emoluments	2,911	2,176
Pension costs	93	167
Share based payments	5,237	-
Total compensation paid to key management personnel	8,241	2,343

In addition to the Directors, key management comprised certain senior directors of Waste Recycling Group Limited, until disposal on 27 September 2006 Details of their share-based payment remuneration are given in note 3

22 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, bonds, 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 2006, after taking into account the effect of interest rate swaps, 100% (2005 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

22 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

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

23 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	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Financial assets				
Cash at bank and in hand	29,562	25,457	29,562	25,457
Cash in escrow deposits	-	27,390	-	27,390
Trade and other receivables	38,609	93,906	38,609	93,906
Financial liabilities				
Trade and other payables	27,457	131,149	27,457	131,149
Interest-bearing loans and borrowings				
Obligations under finance leases and hire purchase contracts	-	4,772	-	4,772
Second Lien Floating Rate Loan Notes	-	288,986	-	288,986
Senior Loan Notes	-	192,398	-	192,398
Bank loans	-	237,429	-	237,429
Subordinated loan from related party	-	14,243	-	14,243
Zero Coupon Bond issued to related party	-	152,575	-	152,575
Cumulative 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	-	2,717

23 Financial instruments *(continued)*

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
Fixed rate							
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
	34,358	1,235	784	773	887	467,014	505,051

23 Financial instruments *(continued)*

Floating rate							
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
	24,019	14,581	23,899	31,414	84,136	379,572	557,621
Total fixed and floating	58,377	15,816	24,683	32,187	85,023	846,586	1,062,672

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 2005 and 2006 all financial assets, with the exception of cash in escrow deposits (which fall due in greater than 5 years) are due within one year

24 Subsequent events

Acquisitions

The Group purchased 100% of the share capital of Summerleaze Re-Generation Limited (now Infinis (Re-Gen) Limited and ENnate Technology Limited, on 31 January 2007, for £69 9 million The acquisition was funded by a five year bank loan facility of £135 million, at an interest rate of one month LIBOR plus 42 5 basis points The excess of the facility funding over the purchase price is available to fund development

Details of the acquiree's net assets have not been disclosed as it is impracticable to do so on the grounds that insufficient time has elapsed since completion to perform a detailed review of both the tangible and intangible assets

On 27 September 2007 the Group acquired the renewable energy development assets of the Scottish Resources Group Limited ("SRG Limited") and its related company Scottish Biopower Limited This transaction involved the acquisition of the entire share capital of Scottish Biofuels Limited and Scottish Biopower Limited as well as long term land leases amd options from SRG Limited This gives the Group the ability to further expand its renewable energy capabilities with the rights to develop 125MW of biomass and 125MW of wind capacity

Details of the acquiree's net assets have not been disclosed as it is impracticable to do so on the grounds that insufficient time has elapsed since completion to perform a detailed review of both the tangible and intangible assets

Tax rate changes

It was announced in the recent budget that the Corporation Tax rate will change from 30% to 28%, from 1 April 2008 The new rate will not be applicable to deferred tax accounting under IAS 12, until the 2007 Finance Act Bill is passed, hence it has no impact on these accounts The estimated impact for the year ended 31 December 2007 is a reduction in deferred tax liabilities of approximately £4m

Group Loan Unwind

On the 28 September 2007 the Directors of the Group passed resolutions to distribute dividends through the group in order to repay the loan between Infinis Finance Plc and Monterey Capital II Sarl This loan was repaid on the 28 September 2007

INFINIS HOLDINGS (formerly Infinis Holdings Limited and WRG Holdings Limited)

Company balance sheet at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed Assets			
Investment	27	120,717	120,717
Current Assets	28	33,790	-
Total assets		154,507	120,717
Creditors: amounts falling due within one year	29	(33,959)	(33,045)
Creditors: amounts falling due after more than one year	30	-	(120,675)
Net Assets/(Liabilities)		**120,548**	**(33,003)**
Capital and Reserves			
Called up share capital	31	120,718	43
Retained earnings		(170)	(33,046)
Shareholders' Funds/(Deficit)		**120,548**	**(33,003)**

The financial statements were approved by the Board of Directors on 9 November 2007 and were signed on its behalf by

Q R Stewart
Director

INFINIS HOLDINGS (formerly Infinis Holdings Limited and WRG Holdings Limited)

Statement of Total Recognised Gains and Losses

	2006 £000	2005 £000
Profit/(loss) for the financial year	(170)	(14,482)
Dividend accrual reversal	33,046	-
Prior year dividends on preference shares	--	(18,564)
Total recognised gains and losses relating to the financial year	32,876	(33,046)
Total gains and losses recognised since last annual report	32,876	(33,046)

INFINIS HOLDINGS (formerly Infinis Holdings Limited and WRG Holdings Limited)

Company reconciliation of movement in shareholders' funds

	Note	2006 £'000	2005 £'000
Profit/(loss) for the year		(170)	(14,482)
Other recognised gains and losses (net)	29	33,046	-
Share capital issued during the year		-	30
Reclassification of preference shares to non-current liabilities		-	(120,674)
Prior year dividends on preference shares		-	(18,564)
Reclassification of preference shares to shareholders funds	31	120,675	-
Net addition to / (reduction in) shareholders' funds		153,551	(153,690)
Opening shareholders' (deficit)/funds		(33,003)	120,687
Closing shareholders' funds/(deficit)		120,548	(33,003)

25 Summary of significant accounting policies

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

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"

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, 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

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

25 Summary of significant accounting policies (continued)

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

26 Information regarding Directors and employees

None of the Directors received any remuneration or benefits from the Company during the year ended 31 December 2006 (2005 £Nil) The Company had no employees during the current or previous years

27 Investment in subsidiary undertaking

	2006 £'000	2005 £'000
At 1 January and 31 December	120,717	120,717

28 Current Assets

	2006 £'000	2005 £'000
Cash at Bank	33,790	-

29 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Dividends on cumulative preference shares	-	33,045
Amounts owed to subsidiary undertaking	33,959	-
	33,959	33,045

During the year the preference shares were further reclassified to shareholders' funds following a change on 4 July 2006 to the Articles of Association to amend the class rights of the preference shares such that the dividends payable on this class of share are at the discretion of the Company

30 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Cumulative preference shares	-	120,675

The Preference shares were reclassified following a change on 4 July 2006 to the Articles of Association to amend the class rights of the preference shares such that the dividends payable on this class of share are at the discretion of the Directors of the company

31 Share capital and reserves

Authorised	2006	2005
Ordinary shares of £1 each	126,504,220	126,504,220
12 % '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

Allotted, called up and fully paid		£
Ordinary shares of £1 each	42,500	42,500
Cumulative preference shares	120,674,600	120,674,600
	120,717,600	120,717,100
Shares classified as liabilities	-	120,670,600
Shares classified in Shareholders' funds	120,717,100	42,500
	120,717,600	120,717,100

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

The Preference shares were further reclassified following a change on 4 July 2006 to the Articles of Association to amend the class rights of the preference shares such that the dividends payable on this class of share are at the discretion of the Directors of the company

32 Profit and loss account

	2006	2005
	£'000	£'000
At 1 January	(33,046)	-
Loss for the year	32,876	(14,482)
Prior years' dividends on preference shares	-	(18,564)
Waiver of preference dividends	33,046	-
At 31 December	(170)	(33,046)

33 Post Balance sheet events

The Company was re-registered as an unlimited company at Companies House on 26 September 2007, following a resolution by the Directors on 25 September 2007

On 28 September 2007 the Directors of the company passed a resolution to reduce the value of the 'A' preference shares from £1 to 0 0007p per share The Company then declared a dividend of £417m to Monterey Capital II Sarl

Tax rate changes
It was announced in the recent budget that the Corporation Tax rate will change from 30% to 28%, from 1 April 2008 The new rate will not be applicable to deferred tax accounting under IAS 12, until the 2007 Finance Act Bill is passed, hence it has no impact on these accounts

34 Related Parties

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

Infinis Holdings Limited has the ability to exercise a controlling influence over the subsidiary undertakings, which are members of the Group The Directors therefore consider the other subsidiary undertakings of Infinis Holdings Limited to be related parties

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