Shanks

Making more from waste

Press Release

03 February 2016

Trading Update

Shanks Group plc (LSE:SKS), the international waste-to-product business, today issues its trading update for the period 1 October 2015 to date.

Market Conditions

Whilst market conditions in the second half have been broadly unchanged in the Commercial Division, the oil, gas and electricity sectors have seen further significant price declines, with consequent direct and indirect impacts on Shanks. In addition, the sharp fall in commodity markets has had an impact on recyclate prices and offtake markets for waste recyclers.

Trading performance

Despite these headwinds, the Commercial Division has continued to deliver strong profit growth, driven by our self-help initiatives. Volumes in the Netherlands construction and demolition segment have remained slightly higher than last year, and good cost control has fully offset lower recyclate prices. In Belgium, we have resumed wood dust shipments to the local power market and increased output of our Solid Recovered Fuel (SRF) as anticipated. We also completed the sale of our loss-making Industrial Cleaning Wallonia business unit in November 2015.

The Hazardous Waste Division has traded robustly despite the deterioration in the oil and gas sector which makes up approximately half its revenues. A strong performance in soil, pyro and waterside ship treatment has not fully offset the further weakness in industrial cleaning activity and in sludge volumes for treatment. The new Theemsweg Total Care Centre was commissioned in the second half and is performing well. The Division is still expected to deliver growth in the current year.

The market headwinds reported above have also impacted the Municipal Division. However, this has been somewhat offset by the Barnsley, Doncaster and Rotherham (BDR) and Wakefield contracts entering full service, and by continuous improvement programmes initiated in the East London (ELWA) facilities. We continue to manage our cost base tightly and further cost reductions are underway in the Division. The build programmes at Surrey (Canada) and Derby continue on track. Underpinned by guaranteed inputs and prices, the long term model for this Division remains robust and it is expected to deliver significant profit and cash generation.

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Cash and borrowings

Cash continues to be managed closely in a year of significant capital investment. Core net debt increased by £17m to £201m as at 31 December 2015, in line with forecast. Following the sale of the Wakefield PFI assets announced today, year-end net debt is expected to be approximately £195m, slightly better than previous guidance.

Outlook

Whilst the Group continues to deliver a strong improvement in the Commercial Division, it has not been possible to compensate fully for the impact of the more challenging conditions in the Hazardous Waste and Municipal markets. As a result, the Board expects the Group to deliver a result for the year ending 31 March 2016 which is slightly below its previous expectations.

Looking forward, assuming current market conditions, the Board expects that the successful increase in capacity commissioned in the current year, together with further margin improvement and cost management initiatives, will position the Group to deliver strong growth.

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Notes to editors

Shanks Group is a leading international waste to product business.

The Group uses a range of cost-effective sustainable technologies to make valuable products from what is thrown away. We produce green energy, recovered fuel, recycled commodities and organic fertiliser.

Shanks meets the growing need from public and private sectors to manage waste sustainably without damaging the environment. Our solutions reduce greenhouse gas emissions, recycle natural resources and limit fossil fuel dependency.

Shanks operates in three divisions that reflect its markets: Hazardous, Commercial and Municipal. It has operations in the Netherlands, Belgium, UK and Canada and employs around 3,500 people.

For more information, visit: www.shanksplc.com