Shanks

Making more from waste

Press Release

31 March 2015

Pre-Close Trading Update and New Divisional Structure

Shanks Group plc (LSE:SKS), the international waste-to-product business, today announces its pre-close trading update for the year ending 31 March 2015, ahead of its preliminary results which will be released on 21 May 2015, as well as a new divisional structure.

Peter Dilnot, Group Chief Executive, said: *"Core markets remain challenging, but we expect to deliver a stronger underlying second half based on our active management of the business. We expect our trading performance for the year ended 31 March 2015 to be broadly in line with the Board's expectations, and our cash performance to be in line with our expectations. We are today announcing a reorganisation of our Group structure that will align our businesses more closely with our customers, deliver synergies and accelerate growth. Other than the translation impact of fluctuating currency rates on reported results, the Board's expectations for the coming year remain unchanged."*

Trading performance

The trading performance across the Group has been broadly in line with the Board's expectations. Core markets, especially in solid waste, remain challenging but have recently stabilised and we expect to deliver a stronger underlying second half due to our continued active management of the business. Market pricing remains tight, with pockets of intense competition, and recyclate prices have continued to reduce. We have also experienced reduced off-take demand for our Solid Recovered Fuel ("SRF") in Belgium, resulting in less profitable outlets. On the positive side, the incinerator tax of €13 per ton has been implemented in the Netherlands from 1 January 2015, price increases to pass the effect of this tax on to the waste producers have been successful to date, and this is expected over time to be an incentive for them to recycle further.

During the period we have also made significant progress towards achieving our long term strategic objectives. Specifically:

- Our investment to increase capacity at our Hazardous Waste business remains on track. The new emissions equipment on the soil line is performing well, the water storage tanks are being commissioned for an April service introduction, and our new site at Theemsweg, Rotterdam is on schedule with the depot nearly complete;
- We have completed the roll out of our commercial effectiveness programme in Netherlands Solid Waste, targeting core markets and focusing on margin enhancement. The programme will commence in Belgium Solid Waste in the next quarter;

- In January 2015, we acquired an operational and fully permitted site at Farmsum in the north of the Netherlands for €3.7m to act as a Shanks Total Care centre for the northern region. We have moved onto the site and are already consolidating regional activities to deliver the planned cost synergies;
- In February 2015 we achieved financial close to design, build, own and operate one of Canada's largest green waste initiatives, the Surrey Organics Biofuel Processing Facility near Vancouver;
- The UK Municipal contracts for BDR (Barnsley/Doncaster/Rotherham) and Wakefield are both on schedule for full service commencement in 2015. First waste has been processed at BDR in the commissioning phase, delivering the first fuel intake to the Ferrybridge waste-to-energy plant.

We expect our results for the year ended 31 March 2015 to be broadly in line with expectations.

Non-trading and exceptional items

In addition to the non-trading and exceptional items announced at the half year, the Board expects to report further non-trading or exceptional items in the second half amounting to approximately £20m (of which a third is non-cash and a third relates to cash paid in the current year or to be paid within the next three years). Some of these items relate to the previously announced three year structural cost programme in Solid Waste Benelux that will complete by mid-2015. The most material new items are:

- The ongoing decline in long term government bond yields has required us to reduce the discount rate that we apply to long term provisions, such as for landfill aftercare. This will result in a one-off increase in the current carrying value of these provisions by c£5m;
- Non-cash impairment of operating assets in Gent of c£5m as a result of the challenges in the Belgian SRF market as described above;
- Net adjustment to onerous contract provisions in the UK and Belgium following the annual review process and reassessment of discount rate (c£3m); and
- One-off adjustment to historic revenue recognition in relation to life cycle accounting in UK Municipal (c£2m).

Cash and borrowings

Cash continues to be managed closely. Net debt at the end of March 2015 is anticipated to be line with our expectations at around £170m, benefitting from the weaker Euro.

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New Divisional Structure

The Group is implementing a new divisional structure to align our businesses more closely with our customers, deliver synergies and accelerate growth. The Group will now be reorganised into the following three divisions: Commercial, Municipal and Hazardous.

The Organics division will no longer be a standalone business and will be incorporated within the Commercial and Municipal divisions:

- Our Benelux Solid Waste division will combine with the Netherlands and Belgium Organics business units to create a new Commercial Division, renamed to reflect its broader offering; and
- Our Canadian Organics business and the Orgaworld technical team will combine with the UK Municipal Division to create a new Municipal Division. In Canada, our business is centred on winning long-term contracts with municipalities in North America. This model is similar to the focus of our UK division, and there are synergies which will both accelerate growth and improve returns.

Our Hazardous Waste Division is unaffected by the new structure.

The Group will report its results for the year ended 31 March 2015 under the previous organisational structure and then report under the new structure going forward. The necessary historic financial information will be made available in both formats to ensure both transparency and clarity.

Outlook for the year ending 31 March 2016

Other than the translation impact of fluctuating currency rates on reported results, the Board's expectations for the coming year remain unchanged.

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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 3,600 people.

For more information, visit: www.shanksplc.com

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