Shanks

Making more from waste

Press Release

17 May 2012

Shanks Group plc
Preliminary results for the year ended 31 March 2012

Shanks Group plc, one of Europe's leading waste management businesses, today issues its results for the year ended 31 March 2012.

Continuing Operations

	2012	2011	%Change Reported	% Change Constant Currency
Revenue	**£750.1m**	**£717.3m**	**5%**	**3%**
EBITDA	**£102.4m**	**£98.6m**	**4%**	**3%**
Trading profit	**£53.4m**	**£49.7m**	**7%**	**6%**
Operating profit (statutory basis)	**£46.8m**	**£41.5m**	**13%**	**11%**
Underlying profit before tax	**£38.8m**	**£35.2m**	**10%**	**8%**
Underlying EPS	**7.2p**	**6.5p**	**11%**	**9%**
Basic EPS (statutory basis)	**6.7p**	**5.5p**	**22%**	**20%**
Dividend per share	**3.45p**	**3.25p**	**6%**	**6%**

Underlying measures exclude exceptional items, financing fair value measurements and amortisation of acquisition intangibles. Trading profit is operating profit before amortisation of acquisition intangibles and exceptional items.

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Financial Highlights

- **Robust performance in challenging trading conditions.**
- **Revenue up 3% and underlying profit before tax up 8% at constant currency.**
- **Strong cash generation with underlying free cash flow conversion at 81%.**
- **Strong balance sheet maintained with core net debt of £161m representing a net debt to EBITDA ratio of 1.7x.**
- **Underlying EPS up 9% at constant currency and recommended full year dividend increase of 6% to 3.45p per share (2011: 3.25p).**
- **Net exceptional post tax credit of £1.5m (2011: £3.2m).**

Business Highlights

- **Initial £100m strategic investment programme performing well, with overall annualised post tax returns of 12.2% for projects which are fully up and running.**
- **Next phase £150m strategic investment programme on track.**
- **Focus on UK delivered 6% revenue growth, with PFI/PPP contracts achieving 10% margin in the year (2011: 6%) and the £750m Barnsley, Doncaster and Rotherham municipal contract achieving financial close.**
- **The Organics business across all our markets delivered 28% revenue growth and trading margins increased from 13% to 18%.**
- **To reflect the strategic importance of Organics, Henk Kaskens, MD Orgaworld, is now reporting direct to the CEO and has been appointed to the Shanks Group Executive Committee.**
- **Another strong performance from Dutch Hazardous Waste business (trading profit up 26%).**
- **Management actions delivered £11m cost savings to offset challenging market conditions in our Solid Waste businesses.**
- **Overall recycling rate at 78% (2011: 77%).**

Commenting on the results, Peter Dilnot, Group Chief Executive of Shanks, said:

"Shanks has a clear strategy to meet the increasing demand for sustainable alternatives to landfill and mass incineration. We intend to accelerate the execution of this strategy by driving improved productivity and further Group synergies, and by focusing our ongoing investments in the core growth areas of Organics and the UK.

"The Group delivered another robust performance during the year in challenging markets. Earnings growth has been driven by increasing returns from our strategic investment programme and focused management action to streamline operations. The strong performance from our UK, Organics and Hazardous Waste businesses has also offset difficult trading conditions in Benelux Solid Waste.

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"Our markets look set to remain challenging in the year ahead. To offset these macro headwinds we are taking action to deliver cost reductions and Group synergies. We will also continue to generate further returns from our ongoing investment programme and through a renewed focus on operational performance. I believe that we are well positioned to deliver growth in line with the Board's expectations for 2012/13 and that the future outlook for Shanks Group is very positive. As a reflection of its confidence in further progress, the Board is recommending a 6% increase in the full year dividend."

Notes:

1. The recommended final dividend of 2.35 pence per share, subject to shareholder approval at the AGM, is scheduled to be paid on 1 August 2012 to shareholders on the register at close of business on 6 July 2012.

2. Management will be holding an analyst presentation at 9:30 a.m. today, 17 May 2012, at the offices of RBS, 250 Bishopsgate, London, EC2M 4AA.

3. Audio dial in details for the presentation at 9.30 a.m.

   - Telephone conference +44 (0)20 3427 1920 or UK toll free 0800 279 4849

   - Confirmation code 3354340

   - Slide Share Link www.storm-events.co.uk/webcasts/live/17052012_01/

4. A copy of this announcement is available on the Company's website (www.shanksplc.com) as will the presentation being made today to financial institutions.

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Forward-looking statements

Certain statements in this announcement constitute "forward-looking statements". Forward-looking statements may sometimes, but not always, be identified by words such as "will", "may", "should", "continue", "believes", "expects", "intends" or similar expressions. These forward-looking statements are subject to risks, uncertainties and other factors which, as a result, could cause Shanks Group's actual future financial condition, performance and results to differ materially from the plans, goals and expectations set out in the forward-looking statements. Such statements are made only as at the date of this announcement and, except to the extent legally required, Shanks Group undertakes no obligation to revise or update such forward-looking statements.

Chief Executive's Statement

Introduction

This is my first statement as Chief Executive having joined the Group in February. I came to Shanks because I believe it is a strong and well-positioned business in an increasingly important growth market. My time in the business has reinforced this view.

Clearly we are operating in a challenging macro-economic environment at the moment. However, Shanks has many compelling opportunities to deliver profitable growth and shareholder value. By 'making more from waste', I am confident that we will do just that.

Shanks' strategy is focused on delivering cost-effective and sustainable alternatives to landfill and mass incineration. The need for such solutions is increasing due to regulation and legislation, together with society's determination to protect our environment. Shanks is well placed to meet these growing demands with its strong portfolio of businesses, capabilities and technologies.

Performance Review

During the year Shanks continued to deliver profitable growth, despite softer market volumes and price pressure in some of our markets. Revenue grew by 3% at constant currency and underlying earnings per share increased by 9%. This was a direct result of strong returns from Shanks' strategic investment programme, together with focused management action to streamline operations and reduce costs.

It was particularly encouraging to deliver improved results in our core growth areas of the UK and Organics which grew revenue by 6% and 28% year-on-year respectively. Our Benelux Hazardous Waste business also performed strongly with trading profit up 26%. These operational gains, coupled with returns from the investment programme and £11m cost savings achieved during the year, more than offset the difficult trading conditions in our Solid

Waste markets.

The Group-wide 'Action on Safety' initiative led by senior management has been instrumental in achieving a reduction of 13% to our level of reportable accidents in the year. The focus on safety continues and we will drive further improvements.

Vision

Shanks' overall vision remains consistent and has become more focused. We retain a clear aim to be the leading provider of sustainable alternatives to landfill and mass incineration. We plan to lead in selected target markets which have strong sustainable growth drivers and characteristics that enable Shanks to gain competitive advantage. This aspiration reflects opportunities in our current growth markets, such as Organics in Canada, and also our commitment to be highly selective about where we will operate in the future.

Strategy

Shanks' strategy to deliver growth from sustainable waste management is robust and supported by long-term growth drivers. We create value from recycling, recovering energy and making products from material that is otherwise thrown away. We believe that our approach of 'making more from waste' delivers cost-effective and environmentally sustainable solutions to dealing with a wide range of waste streams.

To focus and accelerate our execution, four strategic priorities have been identified:

1. Invest in new sustainable opportunities that build on our core capabilities and generate attractive returns
2. Deliver outstanding operational performance from existing businesses and investments
3. Develop world-class capabilities and technologies in a cohesive Group culture
4. Actively manage Shanks' portfolio and use bolt-on acquisitions to accelerate profitable growth

The background and future outlook for each of these is described below.

1. Invest in new sustainable opportunities

We have invested £140m in sustainable waste management infrastructure since 2008. The performance of these investments has improved over time and we are now consistently delivering our target post-tax returns of 12-15% when plants are fully operational. We have developed project management capabilities and operational metrics to ensure that we continue to generate superior returns on investment.

A further £110m will be deployed as part of the second phase of the strategic investment programme. We are already working on a significant number of sustainable projects that leverage our existing core capabilities and the pipeline of such opportunities continues to grow at a promising rate. Our target projects are increasingly in Organics where we have proven expertise and can deliver excellent operating margins. In the UK municipal market we are detecting early signs of a more difficult funding environment, together with local authorities planning for shorter term contracts and less capital intensive facilities. We believe that there will be ongoing opportunities for Shanks in this market and we will continue to invest heavily in the UK given the strong need for further sustainable diversion from landfill.

2. Deliver outstanding operational performance

Shanks Group sustainably recycles and reprocesses waste into valuable products. We get value from the products we make so our recycling and recovery rate is a critical operational metric. In 2011/12 we achieved an industry-leading recycling and recovery rate of 78% up from 70% three years ago. More broadly in 2011/12, we improved our Organics operating margins from 13% to 18%. Additionally, in our UK PFI/PPP business we delivered excellent service to Local Authorities while driving operating margins from 6.4% to 10.1% in the year.

We are now refocusing the Group to be more product-oriented. This includes significant effort on delivering outstanding productivity. The core principles of lean manufacturing can be applied to our industry and they will be implemented going forward. By way of illustration, we have started to develop an improved set of 'daily management' tools to measure and increase the operational performance of our facilities. These will be rolled out across the Group and will ensure that we really are 'making more from waste'. Our productivity focus is particularly important given that solid waste volumes are currently suppressed by the macro-economic environment.

3. Develop world-class Group capabilities and technologies

We have a decentralised structure that enables local entrepreneurial management teams to deliver responsive and innovative services to our customers. Over recent years, we have sought to foster this cultural advantage whilst developing a stronger central framework to deliver Group-wide benefits. To drive this, the Group's Executive Committee (Excom) has driven a wider range of initiatives. For example, we have started a centrally coordinated procurement project and have increased cross-border trading activities. In addition, a new overall Shanks brand was successfully rolled out across the Group, including in the Netherlands where there have been only local brands in the past.

In addition to recent improvements, we still have many opportunities to leverage further our Group capabilities, technologies and scale. We are escalating our overall focus on people and capability development. We are also developing the organisation to be more closely aligned with our core activities. To this end Henk Kaskens, the Managing Director of our Organics business, was recently appointed to the Group Excom and now reports directly to me. In addition, we are targeting further synergies from across the Group and announcements will be made as our plans develop during the year.

4. Actively manage Shanks' portfolio and use bolt-on acquisitions

Over the years Shanks has delivered significant value from bolt-on acquisitions. In March 2012 this continued with the acquisition of the Dutch glass recycling business, Van Tuijl. This acquisition expands our capabilities in an important recyclate market and complements our existing operations. We have clear plans to grow Van Tuijl and the business is off to a strong start under our ownership.

Looking ahead, we will continue to use acquisitions to strengthen our core businesses. We believe buying and integrating bolt-on businesses in the current environment can accelerate the Group's profitable growth. Our balance sheet provides us with this strategic flexibility and we are actively looking for appropriate opportunities that meet our target returns on investment. In parallel, we are also assessing the Group's current portfolio to identify non-core businesses. This process is ongoing, but has already highlighted some small regional operations that might create more value under alternative ownership.

Our Businesses

We have four core activities: Solid Waste, Hazardous Waste, Organics and UK Municipal (PFI/PPP). Each of these activities has different demand drivers, profitability profiles and capital requirements. We also have distinct ways in which we create competitive advantage in each of these activities. At the same time, all of them provide cost-effective and sustainable solutions to reduce landfill and mass incineration. They all 'make more from waste' by creating products such as green energy, recyclate commodities, recovered fuel and organic fertilisers.

Our portfolio of activities has the following key attributes:

- Solid Waste - productive, lean business with leading recycling rates; well positioned for recovery
- Hazardous Waste - strong profitable business with competitive advantage and international reach
- Organics- growing international green business with proven capabilities and attractive economics
- UK municipal (long-term PFI/PPP contracts) - strong stable business with improving service and returns, plus continued growth opportunities

Over the last three years, the proportion of Group profit from Hazardous, Organics and UK municipal has increased from 33% to around 60%. This more balanced business mix reduces the cyclical exposure of the Group.

We believe our combination of established sustainable businesses, coupled with a renewed focus on growth, operational excellence and Group capability, will generate significant shareholder value in the years ahead.

Outlook

Going into 2012/13, we are building on Shanks' stable platform by accelerating and intensifying the execution of our strategy. Our markets look set to remain challenging in the year ahead. To offset these macro headwinds we are taking action to deliver cost reductions and Group synergies. We will also continue to generate further returns from our ongoing investment programme and through a renewed focus on operational performance.

I believe that we are well positioned to deliver growth in line with the Board's expectations for 2012/13 and that the future outlook for Shanks Group is very positive.

Peter Dilnot, Chief Executive

Financial and Operating Reviews

Overview and Group trading performance

This year saw a robust performance in a tough economic climate with trading profit up 7%. A strong performance in management actions (efficiency, cost savings and returns from the investment programme) has continued to mitigate the adverse market conditions which increased during the second half of the year, particularly in Solid Waste. The Euro strengthened against Sterling during the year resulting in a 1% increase in Euro denominated profits. Excluding the effects of currency translation of £0.8m, trading profit was 6% up on the prior year.

During the year our business in the Netherlands contributed 63% (2011: 69%) of the Group's trading profit (before the allocation of Group Central Services), with Belgium contributing 18% (2011: 20%), the UK 12% (20111: 9%) and Canada 7% (2011: 2%). Further details of the Group's trading performance and results by waste activity are given in the country financial and operating reviews. Central Services refers to the cost of the Group's head office functions including finance, treasury, tax, internal audit and company secretarial. The increased costs in the year relate to employee and strategic business review costs.

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Group Revenue and Trading Profit by Geographical Region

	Revenue				Trading Profit			
	2012	2011	Variance		2012	2011	Variance	
	£m	£m	£m	%	£m	£m	£m	%
Netherlands	380	362	18	5	38.2	37.2	1.0	3
Belgium	172	172	-	-	11.0	10.8	0.2	1
UK	186	176	10	6	6.9	5.0	1.9	39
Canada	15	10	5	43	3.9	1.3	2.6	>100
Central services	(3)	(3)	-	-	(6.6)	(4.6)	(2.0)	(47)
	750	717	33	5	53.4	49.7	3.7	7

	2012	2011
EBITDA	£102m	£99m
Trading margin	7.1%	6.9%
Return on operating assets	15.2%	14.3%
Return on capital employed	6.7%	6.4%
Post tax return on fully operational projects	12.2%	13.0%

The following table summarises the effect of the external and internal business drivers on the year on year change in trading profit.

	£m
Trading profit 2010/11	49.7
Market factors:	
Cost inflation	(18.5)
Net price	2.5
Recyclate prices	6.8
Volumes	(9.9)

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Management actions	
Cost savings	10.9
Projects and investments	9.9
Bid costs	1.2
At constant currency	52.6
Effect of currency	0.8
Trading profit 2011/12	53.4

During the year, there has been a negative gross market impact (the net of cost inflation, volumes, price and recyclate prices which are all linked) of £19m. This impact has been reduced by further efficiency and cost savings of £11m achieved during the year. Overall net price has been positive year on year with strong pricing in UK Solid Waste and Netherlands Hazardous Waste compensating for ongoing pricing pressure in Netherlands Solid Waste where commercial pricing was down 7% in the year. Overall costs have increased by circa 2% principally due to salary inflation together with some one-off costs. The selling price for our main recyclates of metal and paper continued at high levels for the majority of the period resulting in a benefit of £7m in the year, although the benefit in the second half was lower due to the fall in paper prices in October 2011. The volume declines are principally in Solid Waste in all territories. Efficiency and cost savings come from reductions in final costs of disposal to landfill or incineration and other operational and support function savings as well as increased plant efficiency.

The projects and investments increase of £9.9m represents the year on year profit impact of the £100m strategic investment programme. The principal growth projects which contributed in the year were the Ghent Solid Recovered Fuel (SRF) plant, ATM waste water treatment improvements, the Orgaworld Amsterdam Anaerobic Digestion (AD) plant and the Canadian plants. The recycling and AD plants in Scotland remained in commissioning for a large part of the year and consequently have had a minimal effect on the result for the year. Those projects in the initial £100m strategic investment programme which were fully up and running at normal operating levels have achieved a 12.2% return and those commissioned and ramping up 6.7%. This rate of return remains in line with the post tax target of 12% to 15% once the assets are fully operational which is usually two to three years after commissioning. The next phase of the investment programme, totalling £150m, has now started and approximately £65m of the projects are under construction.

Netherlands: Financial and Operating Review

Despite the challenging market conditions in Solid Waste, the Netherlands has performed well with overall revenue and trading profit, excluding exchange, rising by 3% and 1% respectively and trading margins remained strong at 10%.

	Revenue				Trading Profit			
	2012	2011	Variance		2012	2011	Variance	
	€m	€m	€m	%	€m	€m	€m	%
Solid Waste	253	251	2	1	19.7	25.0	(5.3)	(21)
Hazardous Waste	173	165	8	4	26.4	20.9	5.5	26
Organics	18	15	3	24	2.5	2.2	0.3	14
Country central services	(5)	(6)	1	19	(4.5)	(4.6)	0.1	3
Total (€m)	439	425	14	3	44.1	43.5	0.6	1
Total £m (at average FX rates)	380	362	18	5	38.2	37.2	1.0	3

	2012	2011
Trading margin	10.1%	10.2%
Return on operating assets	17%	17%
Recycling and recovery rate	88%	88%
RIDDOR rate	1,600	1,700

The Solid Waste business continued to be impacted by downward pricing pressure and lower volumes which have been compensated in part by recyclate pricing and strong management actions in the achievement of cost savings. The excess capacity in the incineration market has continued throughout the year and prices for Commercial and Construction and Demolition (C&D) wastes have declined on average by 7% and 5% respectively compared with the prior year. Overall volumes were 1% down for Commercial and 2% down for C&D. In early 2012, the Economic Institute for the Building Industry stated that volumes in the Dutch construction market would be down 3.5% in 2012 with no recovery in the Dutch housing market expected before 2014. Overall recyclate pricing has been strong throughout the year and has contributed €5m to the profitability of the division year on year.

On 1 March 2012 we acquired the business and assets of Van Tuijl, a key player in the Dutch glass recycling market. This acquisition has given us access to the glass recycling market and offers the opportunity to provide our larger customers such as Unilever and Heineken with a closed loop cycle for their waste streams.

In Hazardous Waste, our ATM waste water and soil treatment facility has had an exceptional performance. For both activities, volumes were up on the prior year boosted by a one-off contract and this together with the continued control of treatment costs and the recent investments have resulted in good profit growth. Reym, our industrial cleaning business, has had a satisfactory year with strong revenues but has seen continued pressures on pricing which resulted in lower overall margins.

The growth in the Organics activity of Orgaworld was principally attributable to the final commissioning and ramping up of the Anaerobic Digestion (AD) and waste water facility in the port of Amsterdam. This project has performed well in the year with production of green electricity from the biogas and the capture of the heat from the plant processes which has been exported to the Amsterdam 'heat grid' for access by other companies requiring heat. Overall margins have fallen slightly due to further business development expenditure as we continue to investigate opportunities to expand.

Continued focus on accident rates and safety has resulted in a 6% improvement to the RIDDOR rate in the year.

Outlook and focus for 2013

Markets in the more mature Solid Waste business are expected to remain challenging in the short term due to pricing pressures and availability of waste volumes. The continued investment in growth projects in Hazardous Waste and Organics activities, together with focus on cost control and margin improvement will position the business for future growth.

Belgium: Financial and Operating Review

Overall the result for the year shows a small decline in revenue with trading profit remaining unchanged year on year.

	Revenue				Trading Profit			
	2012	2011	Variance		2012	2011	Variance	
	€m	€m	€m	%	€m	€m	€m	%
Solid Waste	148	148	-	-	9.1	7.2	1.9	27
Hazardous Waste	55	59	(4)	(7)	3.3	4.1	(0.8)	(21)

Landfill and Power	12	12	-	2	6.3	5.7	0.6	11
Sand Quarry	3	3	-	(7)	0.7	0.8	(0.1)	(18)
Country central services	(19)	(20)	1	(5)	(6.6)	(5.1)	(1.5)	(30)
Total (€m)	199	202	(3)	(2)	12.8	12.7	0.1	-
Total £m (at average FX rates)	172	172	-	-	11.0	10.8	0.2	1

	2012	2011
Trading margin	6.4%	6.3%
Return on operating assets	20%	18%
Recycling and recovery rate	74%	74%
RIDDOR rate	5,100	6,100

The core Solid Waste businesses have performed well with Industrial and Commercial (I&C) volumes at the sorting centres up 5%, although levels declined in the latter months of the year. Overall price was 2% down on the prior year. The result has been adversely affected by a €0.7m year on year reduction in the return from our investment in an inter-municipality incinerator.

The Foronex business is included within Solid Waste and as communicated in earlier statements, a number of changes were made to strengthen the management team. This has had a beneficial impact on trading with an overall €2m improvement to profits year on year.

As reported at the half year, there had been delays in the commissioning of the combined heat and power plant in our joint venture arrangement with Enviva (formerly known as Intrinergy). It became apparent that significant further investment would be required to get the plant operational albeit at a lower level of profitability. As a consequence of the joint venture company being in breach of its banking covenants, we no longer have control and accordingly have written off our investment in this venture. This has resulted in an overall charge of £2m which has been treated as a non-trading exceptional item.

Overall profits from the Hazardous Waste businesses were down significantly year on year. Biogas production at the green energy plant in Flanders was down in the first half but following efficiency improvements this has now been addressed and has returned to more normal levels. Profits have been affected by lower power prices which are expected to increase in the medium term.

Pricing in the electricity market continues to be difficult and this has resulted in lower Power revenues year on year.

As part of the Group wide Action on Safety initiative, significant effort has been spent on safety audits and this has resulted in a 16% reduction to the RIDDOR rate in the year.

Outlook and focus for 2013

Like the Netherlands market, the Belgian market is expected to remain challenging for the short to medium term. However, we plan to build on the improvements made in Foronex and other cost savings to offset the impact of the market conditions.

UK: Financial and Operating Review

Revenue and trading profit before PFI bid team costs rose by 6% and 10% respectively.

	Revenue				Trading Profit			
	2012	2011	Variance		2012	2011	Variance	
	£m	£m	£m	%	£m	£m	£m	%
Solid Waste	65	66	(1)	(2)	4.2	4.1	0.1	1
Hazardous Waste	8	15	(7)	(42)	1.9	2.9	(1.0)	(33)
Organics	1	2	(1)	(70)	(0.5)	0.1	(0.6)	>100
Municipal PFI	107	87	20	23	10.8	5.6	5.2	92
Landfill & Power	5	6	(1)	(5)	(0.3)	0.3	(0.6)	>100
Country central services	-	-	-	-	(7.7)	(5.4)	(2.3)	(40)
UK Operations	186	176	10	6	8.4	7.6	0.8	10
PFI Bid Team	-	-	-	-	(1.5)	(2.6)	1.1	44
TOTAL	186	176	10	6	6.9	5.0	1.9	39

	2012	2011
Trading margin (before bid costs)	4.5%	4.3%
Return on operating assets	20%	10%
Recycling and recovery rate	47%	43%
RIDDOR rate	2,100	2,200

The structural decline in volumes in the UK Solid Waste market has continued with our overall volumes in the collections business down 9%. The profit effect of these volume shortfalls has been compensated by a number of decisive management actions, including improvements in processing leading to greater diversion from landfill and price increases of circa 2%. Overall recyclate prices were favourable year on year despite the decline in paper pricing in the last quarter.

The commissioning of the Glasgow recycling facility was extended, as the plant was developed to handle a wider range of waste, in response to increasing price competition in obtaining recyclate materials. The Edinburgh facility was redeveloped ahead of time, facilitating the two plants to be run together, with both seeing a significant ramping up of output in the last couple of months of the year. The new recycling facility at Kettering was commissioned ahead of time in the last quarter and will be fully operational in the new financial year.

The final commissioning of the Organics Anaerobic Digestion (AD) plant in Glasgow, a joint venture partnership in Energen Biogas, was delayed and this together with operational issues, resulted in losses in the year. Gate fees and availability of waste volumes have been under pressure as other infrastructures have come on stream. Electricity is being generated and delivered to the grid and outputs will increase in the new financial year. The development of the other AD plants in the UK remains on track.

The profitability of the existing PFI/PPP portfolio has continued to improve in line with our plans with further operational enhancements being delivered and a full twelve months benefit from the management of the Derby waste collection service. Margins in the portfolio were 10% in the year, up from 6.4% last year. We expect these to be in the 8% to 10% range going forward. The first of the two Mechanical Biological Treatment (MBT) facilities for the Cumbria contract was delivered ahead of schedule and within budget in December 2011. The second facility is also on track to be completed early.

We continue to invest in the PFI market albeit at a lower level of activity as indicated by the reduction in bid costs expensed of £1.5m in the year. The Barnsley, Doncaster and Rotherham contract, a majority owned joint venture with SSE, reached financial close on 30 March 2012 and work has commenced on the delivery of the infrastructure which is scheduled to be completed in 2015. The Bolton Road facility will be one of the first where Shanks delivers a MBT plant and an AD plant on the same site. It will treat up to 265,000 tonnes per year of leftover household waste and a small amount of commercial waste from the three councils. As part of this contract we signed an agreement with SSE for the supply of Solid Recovered Fuel (SRF) to a new multi-fuel plant for the generation of electricity at Ferrybridge.

We remain preferred bidder for the Wakefield and the Derby contracts. It is anticipated that the Wakefield contract will reach financial close by September 2012. The Derby contract is subject to a planning appeal which will determine the long term location of the combined MBT and gasification infrastructure. This appeal is scheduled to be held in June 2012 and the outcome will determine the timing of financial close of this contract.

We have once again prepared a Directors' valuation of our PFI/PPP interests to assist the market in valuing these stakes. Using the cash flows of the remaining financing vehicles and the operating contracts discounted at circa 8%, the Directors estimate the value of the existing PFI/PPP contracts to be circa £80m which is unchanged from last year end.

The decrease in Hazardous Waste profits related to a major one-off contract in the prior year.

Reduced volumes and pricing pressures have resulted in a lower performance at our Landfill and Power joint venture. The goodwill associated with this asset has been written off during the year.

As anticipated, there has been an increase in central overhead costs as the organisation has been strengthened to support the growth and development of the business with a proportion of this resource redeployed from PFI bidding.

The significant increase in the return on operating assets from 10% to 20% came as a result of the increased profits and lower operating assets, following the full year effect of the September 2010 disposal of the equity interest in the ELWA and D&G PFI contracts, which removed approximately £20m from the operating asset base.

The recycling and recovery rate has continued to increase year on year as the new recycling facilities start to come on line.

Outlook and focus for 2013

Legislative support for landfill diversion strategy continues to strengthen in the UK. The continued improvements from the recent investments in recycling and organics facilities should continue to compensate for any further decline in volumes.

Canada - Financial and Operating Review

Profits in the year were significantly up on the prior year which was affected by the temporary closure of the London Ontario site for an upgrade to increase efficiency and to reduce odour levels. The facility returned to normal operating levels in March. The Ottawa site continued to perform satisfactorily. Trading margins and the return on operating assets have returned to more acceptable levels.

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	Revenue				Trading Profit			
	2012	2011	Variance		2012	2011	Variance	
	C$m	C$m	C$m	%	C$m	C$m	C$m	%
Organics	24	17	7	43	6.1	2.0	4.1	>100
Total £m (at average FX rates)	15	10	5	43	3.9	1.3	2.6	>100

	2012	2011
Trading margin	25.7%	12.1%
Return on operating assets	12%	4%
Recycling and recovery rate	89%	86%

Outlook and focus for 2013

We expect further progress in growth and margins with both sites operating at more normal levels. We continue to pursue further opportunities for expansion in this territory which will lead to further Shanks plants being built.

Group Financial Review

Revenue

Revenue from continuing operations increased by £33m to £750m. Excluding the positive effect of currency translation of £9m, revenue was 3% up on the prior year.

Profits

Certain items are excluded from trading profit and underlying profit due to their size, nature or incidence to enable a better understanding of performance.

Total non-trading and exceptional items of £7.4m (2010/11: £14.0m) include:

- Amortisation of intangible assets acquired in a business combination of £3.7m (2010/11: £3.9m).
- Financing fair value remeasurement charge of £0.8m (2010/11: £5.8m).

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- Impairment charge of £2.5m (2010/11: £11.9m) - changes in market conditions in the volumes delivered to and prices achieved in our small UK joint venture landfill have resulted in a goodwill impairment. The prior year charge related to impairments due to changes in market conditions in wood based and landfill markets in Belgium and the Netherlands.
- A gain of £1.6m (2010/11: £nil) following the reassessment and settlement of contingent consideration in relation to an acquisition made in the UK in the year ended 31 March 2011.
- Write off of investment in a joint venture arrangement £2.0m (2010/11: £nil) - associated with difficulties in the construction of a biomass plant and changes in market conditions.
- The prior year included credits of £3.7m related to the profit on sale of PFI equity share in September 2010 and of £3.9m to a pensions liabilities curtailment gain following the introduction of a 1% pensionable pay cap for active members of the UK defined benefit final salary scheme.

Operating profit on a statutory basis, after taking account of all exceptional items and amortisation of acquisition intangibles, has increased 13% from £41.5m to £46.8m.

Profit before tax on a statutory basis has increased 48% from £21.2m to £31.4m.

Net finance costs

Finance charges, excluding the change in fair value of derivatives, have increased by £0.2m to £14.7m (2010/11: £14.5m). Core interest, excluding the project finance relating to the PFI contracts, reduced by £0.6m primarily due to a lower amortisation charge for loan fees incurred in the 2011 refinancing.

Taxation

The underlying tax charge for the year of £10.1m equated to an effective rate of 26% down from 26.4% last year. The exceptional tax credit of £5.2m in the current year related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Earnings per share

Underlying earnings per share, which excludes the effect of non-trading and exceptional items, increased at constant currency by 9% to 7.2 pence per share (2011: 6.5 pence per share) as a result of the increased profits and a further reduction in the effective tax rate. Basic earnings per share from continuing operations increased from 5.5 pence per share to 6.7 pence per share.

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Dividend

The Group intends to pursue a progressive dividend policy within a range of 2 to 2.5 times cover in the medium term. Consistent with this policy, the Board has recommended a final dividend of 2.35 pence, making the full year dividend 3.45 pence, an increase of 6% on the total paid in respect of 2011.

Cash flow performance

A summary of the cash flows in relation to core funding is shown below.

	2012 £m	2011 £m	Difference £m
EBITDA	**102**	**99**	**3**
Working capital movement and other	2	5	(3)
Net replacement capital expenditure	(40)	(32)	(8)
Interest & tax	(20)	(10)	(10)
Loan fees paid	(1)	(3)	2
Underlying free cash flow	**43**	**59**	**(16)**
Dividends paid	(13)	(12)	(1)
Net growth capital expenditure	(38)	(34)	(4)
Acquisitions and Disposals	(7)	17	(24)
PFI funding & others	5	(7)	12
Net core cash flow	**(10)**	**23**	**(33)**
Free cash flow conversion *	**81%**	**118%**	

*Free cash flow conversion is defined as underlying free cash flow divided by trading profit

The strong focus on cash management has continued throughout the year resulting in a free cash flow conversion ratio of 81%. Working capital levels have been tightly monitored during the year.

The ratio of replacement capital spend to depreciation was 78% for the year which was within our targeted range.

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Growth capital spend of £38m included the UK recycling and organics facilities and a number of other growth projects in the Netherlands in both Solid Waste and Hazardous Waste. Also included is £3m relating to the acquisition of the business and assets of a glass recycling business in the Netherlands.

The prior year acquisitions and disposals income of £17m included the proceeds from the PFI equity sale in September 2010 with the outflow this year including a number of deferred consideration payments.

The current year PFI funding and others total included the receipt of £8.7m (€10.5m) following a court decision in respect of a claim for business interruption in the Netherlands that occurred in 2002. The court's decision has been appealed and the ultimate outcome of the case remains uncertain. The amount has been recorded in provisions until the final outcome of the case is known with greater certainty.

The exchange rate on the Euro has moved from 1.13 at 31 March 2011 to 1.20 at 31 March 2012 which has resulted in a £10m benefit on the translation into Sterling of the Group's Euro and Canadian Dollar denominated debt.

Consolidated Income Statement

For the year ended 31 March 2012

		2012			2011 Restated*		
	Note	Trading £m	Non trading & exceptional items £m	Total £m	Trading £m	Non trading & exceptional items £m	Total £m
Continuing operations							
Revenue	2	**750.1**	-	**750.1**	717.3	-	717.3
Cost of sales	1	**(622.9)**	**(3.7)**	**(626.6)**	(601.9)	(3.9)	(605.8)
Gross profit		**127.2**	**(3.7)**	**123.5**	115.4	(3.9)	111.5
Administrative expenses	1	**(73.8)**	**(2.9)**	**(76.7)**	(65.7)	(4.3)	(70.0)
Operating profit (loss)	2,3	**53.4**	**(6.6)**	**46.8**	49.7	(8.2)	41.5
Finance charges		**(21.1)**	**(0.8)**	**(21.9)**	(24.3)	(5.8)	(30.1)
Finance income		**6.4**	**-**	**6.4**	9.8	-	9.8
Net finance charges	4	**(14.7)**	**(0.8)**	**(15.5)**	(14.5)	(5.8)	(20.3)
Income from associates		**0.1**	**-**	**0.1**	-	-	-
Profit (loss) before taxation	2	**38.8**	**(7.4)**	**31.4**	35.2	(14.0)	21.2
Taxation	5	**(10.1)**	**5.5**	**(4.6)**	(9.3)	10.0	0.7
Profit for the year attributable to shareholders		**28.7**	**(1.9)**	**26.8**	25.9	(4.0)	21.9

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Earnings per share							-
- basic	7	**7.2**	**(0.5)**	**6.7**	6.5	(1.0)	5.5
- diluted	7	**7.2**	**(0.5)**	**6.7**	6.5	(1.0)	5.5

*The comparative amounts have been restated to more appropriately reflect the allocation of items between cost of sales and administrative expenses. Further explanation of the restatement is included in note 1.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	2012 £m	2011 £m
Profit for the year	**26.8**	21.9
Exchange loss on translation of foreign operations	**(19.6)**	(2.2)
Change in fair value of cash flow hedging financial instruments	**(12.1)**	0.2
Actuarial (loss) gain on defined benefit pension schemes	**(16.0)**	4.9
Tax in respect of other comprehensive income items	**6.7**	(1.4)
Other comprehensive (loss) income for the year, net of tax	**(41.0)**	1.5
Total comprehensive (loss) income for the year	**(14.2)**	23.4

The notes on pages 19 to 28 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 March 2012

	Note	**As at 31 March 2012 £m**	As at 31 March 2011 £m
Non-current assets			
Intangible assets		**271.4**	289.6
Property, plant and equipment		**390.9**	397.5
Other investments and loans to joint ventures		**6.7**	7.1
Trade and other receivables		**66.7**	53.4
Retirement benefit asset		**-**	4.9

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Derivative financial instruments		**-**	0.1
Deferred tax assets		**15.9**	15.3
		751.6	767.9
Current assets			
Inventories		**10.5**	9.9
Trade and other receivables		**160.3**	179.5
Derivative financial instruments		**0.1**	0.2
Current tax receivable		**2.9**	-
Cash and cash equivalents		**59.8**	54.5
		233.6	244.1
Total assets		**985.2**	1,012.0
Liabilities			
Non-current liabilities			
Borrowings		**(253.8)**	(222.6)
Derivative financial instruments		**(17.2)**	(6.1)
Other non-current liabilities		**(5.4)**	(18.7)
Deferred tax liabilities		**(42.1)**	(51.4)
Provisions	9	**(49.8)**	(39.4)
Retirement benefit obligations	10	**(7.6)**	-
		(375.9)	(338.2)
Current liabilities			
Borrowings		**(12.2)**	(39.3)
Trade and other payables		**(214.1)**	(225.4)
Current tax payable		**(8.0)**	(4.7)
Provisions	9	**(4.4)**	(7.0)
		(238.7)	(276.4)
Total liabilities		**(614.6)**	(614.6)
Net assets		**370.6**	397.4
Equity			
Ordinary shares		**39.7**	39.7
Share premium		**99.4**	99.4
Exchange reserve		**36.0**	55.6
Retained earnings		**195.5**	202.7
Total equity		**370.6**	397.4

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Consolidated Statement of Changes in Equity
For the year ended 31 March 2012

	Share Capital £m	Share Premium £m	Exchange reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2011	**39.7**	**99.4**	**55.6**	**202.7**	**397.4**
Profit for the year	-	-	-	26.8	26.8
Other comprehensive income	-	-	(19.6)	(21.4)	(41.0)
Total comprehensive income for the year	**-**	**-**	**(19.6)**	**5.4**	**(14.2)**
Share based compensation	-	-	-	0.7	0.7
Dividends	-	-	-	(13.3)	(13.3)
Balance as at 31 March 2012	**39.7**	**99.4**	**36.0**	**195.5**	**370.6**
Balance at 1 April 2010	39.7	99.3	57.8	188.4	385.2
Profit for the year	-	-	-	21.9	21.9
Other comprehensive income	-	-	(2.2)	3.7	1.5
Total comprehensive income for the year	-	-	(2.2)	25.6	23.4
Proceeds from shares issued	-	0.1	-	-	0.1
Share based compensation	-	-	-	0.6	0.6
Dividends	-	-	-	(11.9)	(11.9)
Balance as at 31 March 2011	39.7	99.4	55.6	202.7	397.4

The exchange reserve comprises all foreign exchange differences arising since 1 April 2005 from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign operations.

The notes on pages 19 to 28 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 March 2012

	Note	**2012 £m**	2011 £m
Net cash flow from operating activities	11	**102.8**	95.3
Investing activities			
- Purchases of intangible assets		**(1.4)**	(0.8)
- Purchases of property, plant and equipment		**(78.8)**	(70.9)
- Disposals of property, plant and equipment		**5.4**	4.4
- Financial asset capital advances		**(13.5)**	(20.7)
- Financial asset capital repayments		**3.0**	6.2
- Acquisition of subsidiary and other businesses		**(4.1)**	(5.2)

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- Payment of deferred consideration		**(5.6)**	(4.2)
- Disposal of subsidiary and other businesses		**1.0**	26.9
- Net movement on loans granted to joint ventures		**(0.4)**	(0.5)
Net cash used in investing activities		**(94.4)**	(64.8)
Financing activities			
- Finance charges and loan fees paid		**(17.4)**	(17.7)
- Finance income		**4.0**	8.4
- Deposit of restricted funds		**(5.6)**	-
- Net proceeds from issue of shares		**-**	0.1
- Dividends paid		**(13.3)**	(11.9)
- Proceeds from the issuance of bonds		**-**	83.8
- Proceeds from the issuance of senior notes		**35.5**	-
- Net proceeds from the issuance of senior notes		**(15.9)**	-
- Repayment of bank borrowings		**-**	(106.6)
- Other increase in net borrowings		**9.0**	20.7
- Repayments of obligations under finance leases		**(3.8)**	(3.9)
Net cash used in financing activities		**(7.5)**	(27.1)
Net increase in cash and cash equivalents		**0.9**	3.4
Effect of foreign exchange rate changes		**(1.2)**	(0.2)
Cash and cash equivalents at beginning of year		**54.5**	51.3
Cash and cash equivalents at end of year	11	**54.2**	54.5

The notes on pages 19 to 28 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

Basis of preparation

Shanks Group plc is a public limited company incorporated and domiciled in Scotland under the Companies Act 2006.

The figures and financial information for the year ended 31 March 2012 are extracted from but do not constitute the statutory financial statements for that year. The figures and financial information are audited. The income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 March 2011

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and the balance sheet as at 31 March 2011 have been derived from the full Group accounts published in the Annual Report and Accounts 2011 which have been delivered to the Registrar of Companies and on which the report of the independent auditors was unqualified and did not contain a statement under section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2012 will be filed with the Registrar of Companies in due course.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2011. The IFRS accounting policies have been applied consistently to all periods presented and throughout the Group for the purpose of the consolidated financial statements.

The Directors have made certain presentational and classification changes to the income statement in the year. The Group has opted to present its Income Statement for the years ended 31 March 2012 and 31 March 2011 in a three-column format. Such presentation allows non-trading and exceptional items to be presented separately in the middle column of the Income Statement. The various line items of the Income Statement are therefore shown both before and after these items in the first and last columns, respectively. This allows shareholders to understand better the elements of financial performance in the current year, so as to facilitate comparison with the prior year. The Group has made a classification change with regards to the allocation of items between cost of sales and administrative expenses. This change has been undertaken in order to achieve a more appropriate presentation. In accordance with IAS 1 Presentation of Financial Statements, the 31 March 2011 comparative figures have been restated to reflect this change. The impact of this change was a reduction in cost of sales and an increase in administrative expenses of £4.9m. There is no impact on the overall profitability or equity of the Group.

The Group believes that trading profit, underlying profit before tax, underlying profit after tax, underlying free cash flow, underlying earnings per share and EBITDA provide useful information on underlying trends to shareholders. These measures are used by the Group for internal performance analysis and incentive compensation arrangements for employees. The terms 'trading profit', 'exceptional items' and 'underlying' are not defined terms under IFRS and may therefore not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to GAAP measurements of profit. The term 'underlying' refers to the relevant measure being reported for continuing operations excluding exceptional items, financing fair value remeasurements and amortisation of acquisition intangibles, excluding landfill void and computer software. Trading profit is defined as continuing operating profit before amortisation of acquisition intangibles and exceptional items. Reconciliations are set out in note 3.

Notes to the Financial Statements (continued)

2. Segmental reporting

Operating segments are based on the reports provided to the Board of Directors, the chief operating decision-maker. The Group operates in the Netherlands, Belgium, the UK and Canada. Each geographical location can be analysed according to the following types of activity:

Solid Waste	Non-hazardous solid waste collections, transfer, recycling and treatment
Hazardous Waste	Principally contaminated waste including industrial cleaning, transport, treatment (including contaminated soils) and disposal and contaminated land remediation
Organics	Anaerobic digestion and tunnel composting of source segregated organic waste streams
UK Municipal - PFI/PPP Contracts	Long term UK municipal waste treatment contracts
Landfill and Power	Landfill disposal (including contaminated soils) and power generation from landfill gas
Sand Quarry	Mineral extraction

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In addition to the waste activities detailed above, the Group has small infrastructure and groundworks operations in Belgium and the Netherlands which, due to their small size, are reported as part of the Solid Waste activities.

The profit measure the Group uses to evaluate performance is trading profit. Trading profit is operating profit before the amortisation of acquisition intangibles (excluding landfill void and computer software) and exceptional items. The Group accounts for inter-segment trading on an arm's length basis.

Revenue	Netherlands		Belgium		UK		Canada		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Solid Waste	**218.8**	213.9	**127.5**	125.8	**64.8**	66.4	**-**	-	**411.1**	406.1
Hazardous Waste	**149.6**	141.2	**47.6**	50.5	**8.5**	14.6	**-**	-	**205.7**	206.3
Organics	**15.8**	12.5	**-**	-	**0.5**	1.6	**15.1**	10.5	**31.4**	24.6
UK Municipal-PFI Contracts	**-**	-	**-**	-	**106.8**	87.0	**-**	-	**106.8**	87.0
Landfill and Power	**-**	-	**10.2**	9.9	**5.8**	6.1	**-**	-	**16.0**	16.0
Sand Quarry	**-**	-	**2.9**	3.1	**-**	-	**-**	-	**2.9**	3.1
Intra-segment revenue	(4.5)	(5.4)	**(16.2)**	(17.0)	**(0.3)**	-	**-**	-	**(21.0)**	(22.4)
	379.7	362.2	**172.0**	172.3	**186.1**	175.7	**15.1**	10.5	**752.9**	720.7
Inter-segment revenue									**(2.8)**	(3.4)
Total revenue									**750.1**	717.3
Group									**737.2**	704.8
Share of joint ventures									**12.9**	12.5
Total revenue									**750.1**	717.3

Notes to the Financial Statements (continued)

2. Segmental reporting (continued)

Segmental Results	Netherlands		Belgium		UK		Canada		**Total**	
	2012	2011	2012	2011	2012	2011	2012	2011	**2012**	2011
	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m
Solid Waste	17.1	21.3	7.9	6.1	4.2	4.1	-	-	**29.2**	31.5
Hazardous Waste	22.8	17.9	2.8	3.5	1.9	2.9	-	-	**27.5**	24.3
Organics	2.2	1.9	-	-	(0.5)	0.1	3.9	1.3	**5.6**	3.3
UK Municipal-PFI Contracts	-	-	-	-	10.8	5.6	-	-	**10.8**	5.6
Landfill and Power	-	-	5.4	4.8	(0.3)	0.3	-	-	**5.1**	5.1
Sand Quarry	-	-	0.6	0.7	-	-	-	-	**0.6**	0.7
PFI Bid Team	-	-	-	-	(1.5)	(2.6)	-	-	**(1.5)**	(2.6)

Country central services	(3.9)	(3.9)	(5.7)	(4.3)	(7.7)	(5.4)	-	-	**(17.3)**	(13.6)
	38.2	37.2	11.0	10.8	6.9	5.0	3.9	1.3	**60.0**	54.3
Group central services									**(6.6)**	(4.6)
Total trading profit (before finance charges)									**53.4**	49.7
Amortisation of acquisition intangibles									**(3.7)**	(3.9)
Exceptional items									**(2.9)**	(4.3)
Total operating profit									**46.8**	41.5
Group									**48.4**	41.7
Share of joint ventures									**(1.6)**	(0.2)
Total operating profit									**46.8**	41.5
Finance charges										
Interest payable									**(21.1)**	(23.9)
Interest receivable									**6.4**	9.4
Change in fair value of interest rate swaps									**(0.8)**	(5.8)
Net finance charges									**(15.5)**	(20.3)
Income from associates									**0.1**	-
Profit before tax									**31.4**	21.2

Notes to the Financial Statements (continued)

3. Reconciliation of non-trading and exceptional items

	2012 £m	2011 £m
Amortisation of acquisition intangibles	**3.7**	3.9
Write off of investment in a joint venture arrangement	**2.0**	-
Reassessment of contingent consideration	**(1.6)**	-
Impairment of goodwill	**2.5**	11.9
Gain on disposal of subsidiaries	**-**	(3.7)
Curtailment of pension liabilities	**-**	(3.9)
Total non-trading and exceptional items in operating profit	**6.6**	8.2
Change in fair value of derivatives	**0.8**	5.8
Tax on non-trading and exceptional items	**(0.3)**	(1.5)
Exceptional tax	**(5.2)**	(8.5)
Total non-trading and exceptional items in profit after tax	**1.9**	4.0

The Group has recognised a charge of £2.0m following the loss of control and subsequent impairment of the investment in a joint arrangement. This was a result of difficulties in the construction of a biomass plant and changes in market conditions. The charge was the net impact of an impairment of a loan of £1.8m and deconsolidation of net assets of £0.2m including land and buildings, bank loans and derivatives.

A gain of £1.6m (2011: £nil) has been recognised following the reassessment and settlement of contingent consideration in relation to an acquisition made in the UK in the year ended 31 March 2011.

Changes in market conditions in the volumes delivered to and prices achieved in our small UK joint venture landfill have resulted in a goodwill impairment charge of £2.5m. The prior year impairment charge of £11.9m arose from changes in market conditions in wood based and landfill markets in Belgium and the Netherlands.

In the prior year the Group recognised an exceptional gain of £3.7m net of associated taxes arising from the £24.6m sale of all of the subordinated debt and 80% of the equity in the East London Waste Authority and Dumfries and Galloway PFI contracts. An exceptional tax credit of £8.5m arose due to the partial release of provisions booked in March 2009 in respect of the abolition of Industrial Buildings Allowances relating to these contracts.

With effect from 31 March 2011, the Group introduced a pensionable pay increase cap of 1% per annum that applies to the benefit that active non-local government section members can accrue in the scheme. This led to an exceptional credit of £3.9m in the prior year.

The exceptional tax credit of £5.2m in the current period related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

	2012	2011
Trading profit to EBITDA	£m	£m
Trading profit before finance charges	53.4	49.7
Depreciation of property, plant and equipment	50.5	48.8
Amortisation and impairment of intangibles assets (excl. acquisition intangibles)	1.1	1.4
Non-exceptional gains on property, plant and equipment	(2.5)	(1.4)
Non cash landfill related expense and provisioning	(0.1)	0.1
EBITDA	102.4	98.6

Notes to the Financial Statements (continued)

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4. Net finance charges

	2012 £m	2011 £m
Finance charges		
Interest payable on borrowings wholly repayable within five years	10.4	11.2
Interest payable on other borrowings	5.5	6.1
Share of interest of joint ventures	0.1	0.3
Unwinding of discount on provisions	3.2	2.3
Unwinding of discount on deferred consideration payable	0.5	0.7
Amortisation of loan fees	1.4	3.7
Total finance charges	21.1	24.3
Finance income		
Interest receivable on financial assets relating to PFI/PPP contracts	(3.4)	(6.3)
Unwinding of discount on deferred consideration receivable	(0.3)	(0.4)
Other interest receivable	(2.7)	(3.1)
Total finance income	(6.4)	(9.8)
Change in fair value of interest rate swaps	0.8	5.8
Net finance charges	15.5	20.3

5. Tax

The tax charge (credit) based on the profit for the year is made up as follows:

		2012 £m	2011 £m
Current tax:	UK corporation tax at 26% (2011: 28%)		
	- Prior year	**0.1**	(2.2)
	Overseas tax		
	- Current year	**4.1**	8.0
	- Prior year	**(0.8)**	0.6
	Exceptional	**(5.2)**	-
Total current tax		**(1.8)**	6.4
Deferred tax			
- Current year		**6.0**	1.1
- Prior year		**0.4**	0.3
- Exceptional		**-**	(8.5)
Total deferred tax		**6.4**	(7.1)
Total tax charge (credit) for the year		**4.6**	(0.7)

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The exceptional current tax credit of £5.2m in the current period related to a favourable judgement issued with regard to certain historic tax issues in Belgium.

The exceptional deferred tax credit of £8.5m in the prior year related to the partial release of provisions booked in March 2009 in respect of the abolition of Industrial Buildings Allowances. A detailed review of historic capital allowances on PFI infrastructure was performed which has been agreed with the taxation authorities.

Notes to the Financial Statements (continued)

6. Dividends

	2012 £m	2011 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2011 of 2.25p per share (2010: 2.0p)	**8.9**	7.9
Interim dividend paid for the year ended 31 March 2012 of 1.1p per share (2011:1.0p)	**4.4**	4.0
	13.3	11.9
Proposed final dividend for the year ended 31 March 2012 of 2.35p per share (2011: 2.25p)	**9.3**	8.9
Total dividend per share	**3.45p**	3.25p

7. Earnings per share

	2012	2011
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**396.8m**	396.8m
Effect of share options in issue	**0.4m**	0.5m
Weighted average number of ordinary shares for diluted earnings per share	**397.2m**	397.3m
Calculation of basic and underlying basic earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**26.8**	21.9
Change in fair value of interest rate swaps (net of tax) (£m)	**0.6**	4.3
Amortisation of acquisition intangibles (net of tax) (£m)	**2.8**	2.9
Exceptional items (net of tax) (£m)	**3.7**	5.3
Exceptional tax charge (£m)	**(5.2)**	(8.5)
Earnings for underlying basic earnings per share (£m)	**28.7**	25.9

Basic earnings per share	**6.7p**	5.5p
Underlying earnings per share (see note below)	**7.2p**	6.5p

Calculation of diluted and underlying diluted earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**26.8**	21.9
Effect of dilutive potential ordinary shares (£m)	**-**	-
Earnings for diluted earnings per share (£m)	**26.8**	21.9
Diluted earnings per share	**6.7p**	5.5p
Underlying diluted earnings per share (see note below)	**7.2p**	6.5p

The Directors believe that adjusting earnings per share for the effect of the amortisation of acquisition intangibles, (excluding landfill void and computer software), the change in value of interest rate swaps and exceptional items enables comparison with historical data calculated on the same basis. Exceptional items are those items that need to be disclosed separately on the face of the income statement, because of their size or incidence, to enable a better understanding of performance.

Notes to the Financial Statements (continued)

8. Business combinations

On 1 March 2012 Shanks acquired the business and assets of Van Tuijl Glasrecycling BV a glass recycling business based in the Netherlands. The intangible assets acquired were permits, the brand and a customer list totalling £0.8m. The residual excess over the net assets acquired has been recognised as goodwill representing the opportunity to access the glass recycling market.

The provisional fair value to the Group of the assets and liabilities acquired were as follows:

	Provisional fair value £m
Intangible assets	0.8
Plant, property and equipment	1.2
Inventory	0.4
Accruals	(0.1)
Net assets acquired	2.3
Goodwill	2.8
Total	5.1

	£m
Satisfied by:	
Cash consideration paid	3.4
Contingent consideration	1.7
Total consideration	5.1

From acquisition to 31 March 2012, Van Tuijl has contributed £0.4m to revenue and £nil to profit after tax. Had the business been acquired on 1 April 2011 it would have contributed £2.9m to revenue and £0.1m to profit after tax. The contingent consideration is payable in two instalments (in 2014 and 2015) based upon achievement of projected cumulative EBITDA during the 3 years ending March 2015.

For acquisitions completed in the year ended 31 March 2011 there have been no amendments to the provisional values disclosed last year.

Notes to the Financial Statements (continued)

9. Provisions

	Site restoration and aftercare £m	Other £m	Total £m
At 31 March 2011	**28.8**	**17.6**	**46.4**
Provided - cost of sales	**0.7**	**-**	**0.7**
Released - cost of sales	**-**	**(0.5)**	**(0.5)**
Provided - administrative costs	**-**	**1.5**	**1.5**
Finance charges - unwinding of discount	**1.5**	**1.7**	**3.2**
Utilised	**(0.7)**	**(3.1)**	**(3.8)**
Other - cash received	**-**	**8.7**	**8.7**
Exchange	**(1.6)**	**(0.4)**	**(2.0)**
At 31 March 2012	**28.7**	**25.5**	**54.2**

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	Site restoration and aftercare £m	Other £m	Total £m
Current	**0.1**	**4.3**	**4.4**
Non-current	**28.6**	**21.2**	**49.8**
At 31 March 2012	**28.7**	**25.5**	**54.2**
Current	0.6	6.4	7.0
Non-current	28.2	11.2	39.4
At 31 March 2011	28.8	17.6	46.4

Other provisions principally cover onerous contracts, leases, warranties and indemnities.

Included within other provisions is £8.7m (€10.5m) received during the year following a court decision in respect of a claim for business interruption in the Netherlands that occurred in 2002. The receipt of the amount was conditional on a parent company guarantee. The court's decision has been appealed and the ultimate outcome of the case remains uncertain. Accordingly, the Directors believe the amount should be recorded within provisions until the ultimate outcome of the case is known with greater certainty.

10. Retirement benefit schemes

The main assumptions used to assess the liabilities of the principal defined benefit scheme have been updated by independent qualified actuaries. The principal change to the assumptions related to the discount rate used to estimate future cash flows which has reduced in line with the yield on the iBoxx AA-rated corporate bond spot yield curve. There is a deficit in the pension scheme of £7.6m (2011: £4.9m surplus).

Notes to the Financial Statements (continued)

11. Notes to the statement of cash flows

	2012 £m	2011 £m
Profit before tax from continuing operations	**31.4**	21.2
Fair value losses on financial instruments	**0.8**	5.8
Finance costs net	**14.7**	14.5
Amortisation and impairment of intangible assets	**7.3**	17.2
Depreciation of property, plant and equipment	**50.5**	48.8
Exceptional gain on disposal of subsidiary	**-**	(3.7)
Exceptional gain on contingent consideration	**(1.6)**	-

	2012 £m	2011 £m
Exceptional loss on write off of investment in a joint venture arrangement	**2.0**	-
Non-exceptional gain on disposal of property, plant and equipment	**(2.5)**	(1.4)
Net decrease in provisions	**(4.0)**	(10.1)
Income from associates	**(0.1)**	-
Share-based payments	**0.7**	0.6
Operating cash flows before movement in working capital	**99.2**	92.9
Increase in inventories	**(0.8)**	(0.1)
Decrease (increase) in receivables	**14.3**	(19.7)
(Decrease) increase in payables	**(11.5)**	26.3
Cash generated by operations	**101.2**	99.4
Receipt from business interruption claim in the Netherlands	**8.7**	-
Income taxes paid	**(7.1)**	(4.1)
Net cash from operating activities	**102.8**	95.3

Consolidated movement in net debt

	2012 £m	2011 £m
Net increase in cash and cash equivalents	**0.9**	3.4
Net (increase) decrease in borrowings and finance leases	**(13.9)**	6.8
Deposit of restricted funds	**5.6**	-
Amortisation of loan fees	**(1.3)**	(3.6)
Capitalisation of loan fees	**-**	4.1
Disposal of subsidiaries and other businesses	**-**	100.0
Exchange gain	**9.9**	1.6
Movement in net debt	**1.2**	112.3
Net debt at beginning of year	**(207.4)**	(319.7)
Net debt at end of year	**(206.2)**	(207.4)

For the purpose of the cash flow statement, cash and cash equivalents comprise:

	As at 31 March 2012 £m	As at 31 March 2011 £m
Cash and cash equivalents	**59.8**	54.5
Less: deposits with a maturity of three months or more (restricted funds)	**(5.6)**	-
	54.2	54.5

Notes to the Financial Statements (continued)

11. Notes to the statement of cash flows (continued)

Analysis of Group net debt

	As at 31 March 2012 £m	As at 31 March 2011 £m
Cash and cash equivalents	**59.8**	54.5
Current borrowings	**(12.2)**	(39.3)
Non-current borrowings	**(253.8)**	(222.6)
Total Group net debt	**(206.2)**	(207.4)
Core business net debt	**(160.8)**	(159.5)
PFI companies and other project finance net debt	**(45.4)**	(47.9)
Total Group net debt	**(206.2)**	(207.4)

12. Contingent assets and liabilities

Provision is made for the Directors' best estimate of all known claims and all legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

At the start of the year the Group held a provision of £3.1m (€3.5m) relating to a claim from authorities for operating outside of permitted volumes in the period 1997 to 1999 at a location in the Netherlands. During the year, the court issued a decision that £5.9m (€7.1m) was payable. An appeal against the decision has been lodged. The Directors believe that no further amount should be provided at this stage as the outcome of the appeal process is

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uncertain and the provision of £2.9m (€3.5m) established remains appropriate. The claim relates to the period prior to the acquisition of the Netherlands group of companies in 2000 and accordingly any payment to the authorities may be recoverable from the previous owners under the sale and purchase agreement. Any such recovery represents a contingent asset at 31 March 2012 and no receivable for a potential payment from the previous owners will be recorded until its receipt is virtually certain.

APPENDIX

The following additional information, summarised from the Shanks Group plc Annual Report and Accounts 2012, is disclosed in accordance with Disclosure and Transparency Rule 6.3.5.

1. Principal Risks and Uncertainties affecting the Group

Waste Volumes

The inability to attract sufficient waste volumes due to external economic factors limiting the production of waste by commercial and municipal customers. If facilities are working at below full capacity, there is the likelihood of increased unit costs.

Market and legislative drivers

Our business is driven by legislative and market drivers that significantly affect our waste treatment activities. As a business, we have to understand and anticipate these changes or risk loss of market share as a consequence. In the main, these changes present an opportunity to drive the business forward through our positioning within the waste hierarchy. However, a failure to properly understand the likely changes or being unable to develop new technologies could also result in unanticipated cost increases or, in extreme cases, the write-off of investments.

Long-term contracts

The Group enters into long-term contracts with municipalities in the UK (including PFI/PPP contracts), the Benelux countries and Canada. Entering into unfavourable contracts will potentially subject the Group to low margins or contract losses for many years.

Financial risks

The Group is exposed to both interest rate risk and foreign exchange risk. Adverse movements in interest rates or foreign exchange will reduce profitability and/or asset values. Interest rate and foreign exchange sensitivity is set out in the notes to the Financial Statements.

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Price Competition

Price competition both in terms of incoming waste streams and the sales of recyclate material. This is largely affected by external factors such as macro-economic conditions, competition and commodity prices with the risk of a fall in margins if prices are not maintained or costs kept under control.

Project Management

To meet our commitments relating to our vision and strategy we are making significant capital investments in our infrastructure. Failure to bring in capital projects on time and on budget will lead to an inability to meet contract terms and deliver business plan returns. In addition, there is also the risk that capital investments will not provide the necessary returns if the underlying assets are not properly managed on a long-term basis.

Succession Planning

The resignation of the previous Group Chief Executive and the successful search for his replacement have highlighted the continued need to be able to retain and replace key staff in the future.

Plant Availability and Insurance

The Group operates an increasing number of capital-intensive sites. Fire or other disaster, failure of a technical installation or severe weather could lead to the loss of availability of a site. Inadequate insurance cover due to inflation or new facilities could result in the inability to rebuild a plant without a fresh capital injection.

Safety, health, and environmental (SHE) compliance

Shanks' employees are the Group's most important and valuable asset and their health and safety are paramount. Operating sites require local licences, permits and other permissions to operate and compliance with these is monitored by various regulatory agencies. Failure to comply with either health and safety or environmental legislation could result in prosecution, loss of permits and site closure as well as reputational damage.

Fuel Price Volatility

Continued increases in diesel and other fuel prices have heightened awareness of energy consumption. Failure to control the effects of price inflation or reduce consumption will result in reduced operating margins.

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Making more from waste

2. Directors' Responsibility Statement

The 2012 Annual Report which will be published in June 2012 contains a responsibility statement in compliance with DTR 4.1.12. This states that on 17 May 2012, the date of the approval of the Annual Report, the Directors confirm that to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group: and
- the Business Review in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

There have been the following changes to the Board of Directors of Shanks Group plc since the 2011 Annual Report. On 30 September 2011 Mr Tom Drury resigned from the Board and on 1 February 2012 Mr Peter Dilnot was appointed to the Board. A list of current directors is shown on the Company website.

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