19 May 2016

Shanks Group plc

Shanks Group plc (LSE: SKS), a leading international waste-to-product business, today announces its results for the year ended 31 March 2016.

Commenting on the results, Peter Dilnot, Group Chief Executive, said:
"We have delivered revenue and profit growth in 2015/16 despite tough macro markets. Our Commercial Waste Division returned to strong profit growth, our Hazardous Waste Division delivered a robust performance and our Municipal Division experienced market headwinds but commissioned two flagship assets. Overall we remain well positioned to make progress and meet our expectations for 2016/17."

Business Overview*

- Revenue and profit growth in tough markets.
- Commercial Waste Division delivered 18% trading profit growth, driven by self-help initiatives and stabilising markets.
- Hazardous Waste Division delivered robust performance, with 1% trading profit growth despite over half of its revenues coming from the oil and gas sector.
- Municipal Division performance impacted by market headwinds, with trading profit down 15%; successful commissioning of two flagship PFI facilities for long-term profit and cash generation.
- Continued progress with self-help initiatives across the Group to improve margins.
- Consistent strategy with increased focus on delivering returns from our existing assets across all our divisions.
- Ongoing active portfolio management to recycle capital and increase returns, including £30m sale of Wakefield PFI financial assets.

Financial Summary

- Performance in line with revised expectations, with self-help initiatives largely offsetting macro-economic headwinds in the second half.
- Revenue increased 7%*, with underlying growth in all Divisions.
- Trading profit up by 4%* to £33.4m.
- Operating profit of £9.8m compared with prior year loss of £12.4m.
- Underlying profit before tax up by 4%* to £21.0m.
- Underlying EPS up 1%* to 4.7p.
- Total Group exceptional and non-trading charges of £23.5m, as previously disclosed
- Ongoing focus on capital discipline delivered strong cash performance in a year of high investment, with underlying free cash flow generation of £56.8m.
- Year end core net debt was lower than expected at £193m resulting in a net debt to EBITDA ratio of 2.6x.
- Final dividend maintained at 2.35p per share, reflecting confidence in medium term growth.

** variances at constant exchange rates*

	2016	2015	Change %	Change % Constant Currency
Revenue[#]	**£614.8m**	**£601.4m**	**2%**	**7%**
EBITDA	**£68.5m**	**£73.0m**	**-6%**	**0%**
Trading profit*	**£33.4m**	**£34.3m**	**-3%**	**4%**
Operating profit (loss)	**£9.8m**	**£(12.4)m**		
Underlying[+] free cash flow	**£56.8m**	**£23.4m**	**143%**	**147%**
Underlying[+] profit before tax	**£21.0m**	**£21.7m**	**-3%**	**4%**
Exceptional and non-trading items	**£(23.5)m**	**£(42.2)m**		
Loss after tax (statutory basis)	**£(4.0)m**	**£(18.2)m**		
Underlying EPS	**4.7p**	**5.0p**	**-6%**	**1%**
Basic loss per share (statutory basis)	**(1.0)p**	**(4.6)p**		
Total dividend per share	**3.45p**	**3.45p**		

[#]Revenue excludes the impact of non-trading and exceptional items of £1.0m (2015: £2.0m).
+Underlying measures exclude non-trading and exceptional items, financing fair value measurements and amortisation of acquisition intangibles.
**Trading profit is continuing operating profit before amortisation of acquisition intangibles, non-trading and exceptional items. EBITDA comprises trading profit before depreciation, amortisation and profit or loss on disposal of plant, property and equipment. Underlying free cash flow is before dividends, growth capital expenditure, acquisitions and disposals.*

Outlook

Despite the current macro-economic environment, we remain well positioned to make progress and to meet our expectations for 2016/17. We continue to implement our self-help initiatives to drive margin expansion across all our divisions and significant new infrastructure assets are coming on stream. As we come to the end of a period of high capital investment in the coming year, we will focus even more intensively on delivering returns from our existing assets.

Longer term, the underlying growth drivers in our business remain attractive. Our vision, strategy and organisation are designed to increase customer focus, improve operational performance and deliver growth. Our portfolio management plans are also expected to increase returns and recycle capital into higher growth opportunities.

Notes:

1. The final dividend of 2.35 pence per share will be paid on 29 July 2016 to shareholders on the register at close of business on 1 July 2016.

2. Management will be holding an analyst presentation at 9:30 a.m. today, 19 May in the Entrust Room at etc Venues, Bishopsgate Court, 4-12 Norton Folgate, London E1 6DQ.

3. Webcast details for the presentation at 9.30 a.m.
   – Webcast: www.shanksplc.com
   – Telephone conference:

United Kingdom	0800 368 0649
Belgium	0289 48067
Netherlands	020 7946 721
All other locations	+44 2030 5981 25

   – Confirmation password: **Shanks**

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

For further information contact:

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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.

CEO Statement

Introduction

The Group made good progress against its strategic and operational objectives in 2015/16 despite the tough macro market. Our core commercial waste markets in the Netherlands showed signs of improvement after a number of years of contraction. In addition, we made good progress with our self-help initiatives, although we were unable to offset fully the impact of a weakening macro-economic environment, particularly in the second half of our financial year.

With global energy and commodity prices at what appear to be cyclical lows, our plans for growth are based on current market conditions with no material expectation of recovery in the short term. Our own initiatives and newly commissioned capacity are expected to deliver growth, independent of any potential market recovery.

Group Performance

Revenues from continuing businesses grew by 7% at constant currency to £615m, and by 2% at reported currency (2015: £601m). Trading profit grew by 4% (a reduction of 3% at actual rates) to £33.4m and underlying earnings per share grew by 1% at constant currency to 4.7p (2015: 5.0p). Exceptional items totalled £23.5m (2015: £42.2m).

Commercial Waste produced a strong performance in the year, growing trading profit by 18% at constant currency to €21.1m on revenues that grew by 1% to €406m. The Netherlands strongly increased trading profit by 37% to €13.7m while Belgium fell by 6% to €7.4m, as expected. The benefit of improving conditions in the Dutch construction market was countered by weaker recyclate and energy prices in the second half of the financial year. However, we were still able to deliver profit growth from our self-help initiatives and ongoing portfolio management.

Hazardous Waste delivered a robust performance despite difficult oil and gas markets, which represent over 50% of its revenues. Revenues increased by 6% at constant currency to €186m and trading profit increased by 1% to €21.2m. Record waterside and soil volumes were processed to offset intake and off-take pricing pressure, productivity pressure and lower sludge volumes.

Municipal had a challenging year, although revenue grew by 21% at constant currency to £190m as a result of the commissioning of new sites and construction activity in Surrey, Canada. However, trading profit fell by 15% at constant currency to £9.6m as a result of off-take, recyclate and energy price pressures, as well as higher insurance costs. As previously disclosed, the impact of changes in market conditions on our Cumbria PFI contract has caused us to take a £5m onerous contract provision. We were pleased to commission both the Barnsley Doncaster and Rotherham (BDR) and Wakefield flagship facilities during the year, both of which will contribute to profit and cash performance over the next 25 years.

Strong cash management and capital discipline continued in 2015/16, which we had highlighted as a year of peak capital investment in a range of strategic and long-term projects. We kept tight control of our operating cash flows, delivering an underlying free cash flow of £56.8m (2015: £23.4m). Our core net debt on 31 March 2016 was better than expected at £193m, representing a multiple of 2.6 times EBITDA, comfortably within our covenant level.

Market and macro-economic background

The weakening of the global macro-economic environment in the second half presented new headwinds just as our commercial waste markets had begun to stabilise.

The key Netherlands construction market grew for the first time in four years, increasing by around 3% primarily driven by the residential sector, with commercial and infrastructure construction remaining subdued. This improvement remains at an early stage, not least because many of the major construction companies are themselves still recovering. The Dutch industrial and commercial waste segment experienced some price increases in a flat market following an increase in incinerator gate fees and the impact of the domestic incinerator tax of €13 per tonne implemented in January 2015. The outlook is for continued modest growth in construction and demolition waste, supported by a stable broader waste market.

This recovery in our core commercial market was, however, more than offset by the global weakening of the macro-economic environment, especially in the second half, which led to further deterioration in oil and gas markets, falling commodity prices and lower energy prices.

The fall in oil and gas market prices impacts our Hazardous Waste Division in a number of ways. The first is that our oil and gas customers minimise their operational expenditure and cut back on exploration expenditure. This has included a reduction in the volume and the shape of refinery maintenance programmes and hence a significant impact on the productivity and profitability of our Dutch industrial cleaning business, Reym. The second is that the same cost pressures and reduced cleaning activities have resulted in around 15% less industrial waste sludges being delivered to our ATM facility for treatment. The third is that with virgin oil at very low prices, the market for waste oils, an output of our treatment process, has been significantly reduced both in volume and pricing. We continue to believe that this reduced maintenance activity and the impact of low pricing is short term in nature, but we are suitably cautious about forecasting the timing of the recovery.

The global fall in commodity prices also has a direct impact on recyclate prices, particularly metal and plastics. This impacted the Municipal and Commercial divisions by around £3m in the second half. The ferrous metal price fell by 40% in the third quarter of our financial year before stabilising in the fourth quarter. Other recyclate markets, including glass and wood, proved volatile but downside risks were somewhat mitigated through rapid adjustments to inbound and/or outbound pricing to maintain margin. Commodity prices appear to be towards the bottom of their normal cycles, but our growth plans are based on current levels with no expectation of material recovery in the short term.

A consistent strategy for growth

Our vision is to be the most respected waste-to-product company. We exclusively focus on extracting value from waste, rather than on its disposal through mass burn incineration or landfill. We believe that our unique focus both addresses social and regulatory trends and offers the most capital-efficient solution to waste management.

Our strategy remains consistent, with three core divisional strategies to address the specific market opportunities that each of our Divisions serves. These divisional strategies are reinforced by three overarching strategies that apply across the Group. These are to:

- Drive margin expansion across the Group through self-help initiatives such as commercial effectiveness, continuous improvement and off-take management;
- Invest in infrastructure through the cycle in areas where we are structurally advantaged and can deliver superior returns; and

- Manage our portfolio of assets and businesses, exiting those that are non-core or under-performing and recycling capital into segments where we can deliver increased returns and growth.

Driving margin expansion through self-help initiatives

We are driving margin expansion principally through a range of initiatives that address the key areas of our business model: intake, processing and disposal. Our success in driving these initiatives has been the main reason that we have been able to offset most of the impact of the global macro-economic headwinds.

Our commercial effectiveness initiative has been focused on managing intake margin, at the front end of the business, particularly in our Commercial Division. Our sales force has shifted its emphasis towards margin from volume, focusing on profitable segments and exiting from loss-making contracts. New tools for managing both pricing and sales force activity have allowed us to more effectively manage market changes such as new taxes or movements in recyclate prices.

Our continuous improvement initiative made good progress in 2015/16, building on the successful completion of our structural cost programme last year. Lean conversions of two key sites, van Vliet Group and Ghent, have been successfully completed in the Commercial Division, identifying annualised savings of around €2m. This initiative will be rolled out across the rest of the Division, starting with most of our master plants in 2016/17. Continuous improvement has also been introduced in Municipal, with around £1m of savings identified and delivered at ELWA, and will be rolled out across the division in the coming year.

We additionally created a new initiative last year to manage our off-take, including the recyclates and the refuse derived fuel (RDF) that we produce throughout the Group. This initiative has delivered savings of over €700k through optimised pricing and disposal routes. Further savings are targeted for 2016/17.

Bringing infrastructure on line for future growth

A core part of our strategy has been to invest through the cycle in infrastructure where we are advantaged and where we can generate attractive returns. The 2015/16 and 2016/17 years will see our infrastructure investment peak and we are now increasingly focusing on profit and cash flow delivery.

During 2015/16 we successfully commissioned two flagship PFI facilities in the UK. The £100m Wakefield site provides a range of technology solutions to meet the diversion requirements of Wakefield’s residents. The insolvency late in construction of a major supplier led to a four month delay in full service commencement but the site entered full service on our revised target date in December and is performing as expected. The new £90m BDR facility is our largest mechanical biological treatment (MBT) facility and is capable of processing up to 265,000 tonnes of residual waste per annum with a diversion rate of 96.5%.

We also commissioned important new assets within our Hazardous Waste Division. Our new Shanks Total Care site at Theemsweg is located in the heart of the Europoort at Rotterdam. It combines a Reym cleaning depot with waste reception and storage facilities. This means that both Reym and other industrial customers in the Europoort can deliver their waste to Theemsweg instead of making the four hour round trip to our main ATM treatment site. This significant time saving benefits our customers and we then bulk up the waste for transfer by ship to ATM, reducing our internal costs. Additional processing assets were commissioned at ATM, including storage tanks, a jetty extension and water cooling technology. The increased capacity created on the site allowed record throughput to be processed, offsetting the reduction in intake of certain high margin waste streams.

Portfolio management for improved returns

In managing our portfolio, we have exited activities where we are unable to generate acceptable returns or which are non-core. This is driven by our commitment to increase our returns through the recycling of capital into higher growth areas. During 2015/16, we sold our loss-making Industrial Cleaning Wallonia business to a local player, allowing us to avoid future losses of over €700k per annum and also rationalise our divisional overhead, reducing costs by a further €1m. We also sold our non-core Shanks Nord business to a local player, exiting a business where we were sub-scale. During the year we acquired and integrated PRA, a small paper recycler within our core operational area of the Randstad.

Focus on cash

We have continued to focus on cash, especially given the higher than usual investment commitments of the Group during the year. The business generated an underlying cash flow of £56.8m before growth investments and exceptional costs, representing underlying free cash flow generation of 172% (2015: 69%).

Highlights of our cash management activities have included:

- The sale in March 2016 of 100% of the subordinated debt and 49.99% of the equity in our Wakefield PFI special purpose vehicle for £30m, £26m of which was received by year end;
- A project to enhance working capital processes that has delivered benefits of around £5m in 2015/16;
- The sale of certain accounts receivable in segments of the business with structurally longer days sales outstanding (DSO) to increase capital efficiency; and
- The sale of Shanks Nord in France and our Kettering site for a combined value of £3m.

In addition, we were pleased to underpin and extend our long-term financing through the issuance of a €100m Green Bond to the Belgian retail market, the first Green Bond to be listed on the London Stock Exchange. This Green Bond has a coupon of 3.65%. During the period, we also redeemed shorter term and more expensive borrowings.

Strategic Goals in 2016/17

While our strategy remains consistent, we will shift emphasis in the coming year as we come to the end of a period of particularly high capital investment.

Going forward, there will be greater focus on margin expansion initiatives. We will extend the roll out of our continuous improvement programme to reduce cost and increase productivity across all our divisions.

On the investment side, we plan to allocate future capital expenditure more to incremental projects that will enhance capacity or performance at existing sites rather than investing in new greenfield sites. This is due to most segments having sufficient capacity and low forecast volume growth. We will also focus heavily on delivering returns from our existing assets.

Finally, we continue to be alert to opportunities both to generate cash and improve returns through targeted disposals and to create value through suitable acquisitions whilst maintaining our capital discipline.

Delivering responsibly

Sustainability and corporate responsibility are at the heart of Shanks' vision to be the most respected waste-to-product company. Last year we laid out a demanding new five year programme for corporate responsibility and we have made good progress against our new targets. In particular, we were delighted to deliver yet another year of improved safety performance, with a 13% reduction in three day accidents and a new record low RIDDOR rate for the Group. We continue to engage closely with communities, regulators and employees, and are investing heavily in enhanced technologies to improve our recycling rates and to minimise our impact in the communities around us.

Outlook

Despite the current macro-economic environment, we remain well positioned to make progress and to meet our expectations for 2016/17. We continue to implement our self-help initiatives to drive margin expansion across all our divisions and significant new infrastructure assets are coming on stream. As we come to the end of a period of high capital investment in the coming year, we will focus even more intensively on delivering returns from our existing assets.

Longer term, the underlying growth drivers in our business remain attractive. Our vision, strategy and organisation are designed to increase customer focus, improve operational performance and deliver growth. Our portfolio management plans are also expected to increase returns and recycle capital into higher growth opportunities.

Peter Dilnot
Group Chief Executive

Finance Director's Review

Financial Review

Revenue and trading profit

Group underlying revenue increased by 7% at a constant exchange rate in 2015/16 to £614.8m. Trading profit on continuing businesses, before non-trading and exceptional items, increased by 4% at constant exchange to £33.4m (3% decrease at reported rates).

Continuing Operations	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 16	Mar 15	Variance %		Mar 16	Mar 15	Variance %	
	£m	£m	Reported	CER	£m	£m	Reported	CER
Commercial Waste	297.3	314.2	-5%	1%	15.4	14.0	10%	18%
Hazardous Waste	136.2	138.0	-1%	6%	15.6	16.4	-5%	1%
Municipal	187.7	156.6	20%	21%	9.4	11.3	-17%	-15%
Group central services	-	-			(7.0)	(7.4)	5%	5%
Inter-segment revenue	(6.4)	(7.4)			-	-		
Total	**614.8**	**601.4**	**2%**	**7%**	**33.4**	**34.3**	**-3%**	**4%**

CER=at constant exchange rate.
Revenue in 2016 excludes the impact of the non-trading item of £1.0m (2015: £2.0m).

Other profit and loss items

Non-trading and exceptional items excluded from pre-tax underlying profits
To enable a better understanding of underlying performance, certain items are excluded from trading profit and underlying profit due to their size, nature or incidence.

Total non-trading and exceptional items from continuing operations amounted to £23.5m (2015: £42.2m). The cash cost of non-trading and exceptionals was £18.5m (2015: £7.8m), however including the benefits from associated asset disposals there was a net receipt of £16.4m. These items are further explained in note 3 to the financial statements and include:

- Portfolio management activity: loss of £9.5m (2015: £0.8m) in order to reduce ongoing losses and to generate cash. These items include the disposal of the subordinated debt and 49.99% of the equity in the Wakefield SPV, the sale of the Industrial Cleaning business in Wallonia and other acquisition related expenditure;
- Restructuring charges and associated costs of £2.4m (2015: £6.5m) relating to the prior year and, separately new structural cost reduction programmes across the Group in response to the current market environment;
- Other items of £9.4m (2015: £9.6m) including a market-related onerous contract provision relating to the Cumbria PPP facilities and the impact of liquidated damages and other associated costs on the Wakefield contract offset by the gain on disposal of land at Vliko;
- Amortisation of intangible assets acquired in business combinations of £1.8m (2015: £1.9m);
- Impairment of assets of £0.5m (2015: £23.5m) principally plant and equipment at the Shanks Wood Products biomass facility in Belgium as a result of market changes; and
- Financing fair value measurements credit of £0.1m (2015: £0.1m).

The operating profit on a statutory basis, after taking account of all non-trading and exceptional items, was £9.8m (2015: loss of £12.4m).

Excluding cash generative actions from our portfolio management, we anticipate a further reduction in other non-trading and exceptional items going forward assuming that the economy and our core markets have now stabilised.

Net finance costs
Net finance costs, excluding the change in the fair value of derivatives, were flat year on year at £13.4m. The higher level of finance income is due to an increase in interest receivable on financial assets relating to PFI/PPP contracts as the build programme for the BDR, Surrey and Wakefield contracts progressed and this is mirrored by an increase in interest payable on non-recourse PFI/PPP debt.

Loss before tax from continuing operations on a statutory basis including the impact of non-trading and exceptional items was £2.5m (2015: £20.5m).

Taxation
The taxation charge for the year on continuing operations was a charge of £1.5m (2015: credit of £2.3m). The underlying tax charge of £2.3m includes a £2.2m credit from the recognition of tax losses in Belgium as a result of greater certainty of utilisation following the restructuring completed as part of the sale of the Industrial Cleaning business. Excluding this additional deferred tax credit, the underlying effective rate was 21.4%, down slightly from 21.7% last year. There is a tax credit of £0.8m on the non-trading and exceptional items of £23.5m as a significant proportion of these are non-taxable.

The Group statutory loss after tax and including all discontinued and exceptional items was therefore £3.9m (2015: £16.9m).

Earnings per share (EPS)
Underlying EPS from continuing operations, which excludes the effect of non-trading and exceptional items, increased by 1% at constant currency (down 6% at actual rates) to 4.7p per share (2015: 5.0p). Basic EPS from continuing operations improved from a loss of 4.6p per share to a loss of 1.0p per share.

Dividend
The Board is recommending an unchanged final dividend per share of 2.35p. Subject to shareholder approval, the final dividend will be paid on 29 July 2016 to shareholders on the register on 1 July 2016. Total dividend cover, based on earnings before non-trading and exceptional items from continuing operations, is 1.3 times (2015: 1.4 times).

Discontinued operations
The profit from discontinued operations of £0.1m (2015: £1.3m) relates to the UK solid waste activities.

Cash flow performance

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

	Mar 16 £m	Mar 15 £m
EBITDA	68.2	72.8
Working capital movement and other	24.8	(1.7)
Net replacement capital expenditure	(18.6)	(29.3)
Interest and tax	(17.6)	(18.4)
Underlying free cash flow	**56.8**	**23.4**
Growth capital expenditure	(9.9)	(12.8)
Acquisitions and disposals	27.8	(1.5)
Restructuring spend	(2.6)	(7.6)
Dividends paid	(13.7)	(13.7)
UK PFI funding	(53.9)	(7.3)
Canada Municipal funding	(10.3)	-
Other	(15.2)	(5.2)
Net core cash flow	**(21.0)**	**(24.7)**
Free cash flow conversion	**172%**	**69%**

All numbers above include both continuing and discontinued operations.
Free cash flow conversion is underlying free cash flow as a percentage of trading profit.

The Group demonstrated its ability to control free cash flow in order to generate cash for the final phases of the UK and Canadian investment activities. Free cash flow conversion increased significantly year on year as a result of lower replacement capital spend and other working capital improvements. The working capital movement included the sale of certain trade receivables in Belgium and Hazardous Waste. The ratio of replacement capital spend to depreciation decreased from 75% last year to 52% this year, impacted by the receipt of proceeds from the sale of the old Vliko site as part of the relocation programme with the majority of the spend on the new facility falling into the new financial year. Excluding this asset sale the ratio increases to 65%. The lower cash interest and tax spend in the year was due to reduced tax payments in Belgium. Interest payments are lower this year as the first annual payment for the 2015 Green retail bond falls in the next financial year and this saving has been reduced by the payment of £1.4m of arrangement and adviser fees relating to the March 2015 refinancing and the bond issue in June 2015.

Growth capital spend of £9.9m was principally focused on the Hazardous Waste Division and included storage tanks and jetty extension at ATM and the Theemsweg facility. In the current year the acquisitions and disposal inflow included the Wakefield divestment and the sale of the UK Solid Waste site at Kettering net of spend on the acquisition of the small paper recycler in the Netherlands and the exit from the Industrial Cleaning business in Wallonia. The value in the prior year included the acquisition of the Hazardous Waste purchase in Farmsum in the north of the Netherlands. The current year UK PFI funding included the subordinated debt investments of £35m in relation to the BDR and Wakefield contracts following full service delivery along with additional spend relating to project completion and commissioning at these two locations. A similar injection of £17.5m into the Derby contract is due to be paid in March 2017. The other category included the payment of liquidated damages and other associated costs as a result of the delays at Wakefield and costs associated with the contamination at ATM, along with the deficit funding on the closed UK defined benefit pension scheme and other non-trading cash flows.

Investment activities and performance

Investment programme
The Group has a stated strategy of investing in sustainable waste management infrastructure, with a target pre-tax trading profit return of 15-20% on fully operational assets (post-tax return of 12-15%). At 31 March 2016, the fully operational proportion of the investment portfolio delivered a pre-tax return of 19.5% (2015: 18.1%). The portfolio as a whole delivered a pre-tax return of 16.1% (2015: 14.9%).

The investment in the Municipal programme has progressed rapidly during the year with both BDR and Wakefield entering full service and good progress in construction at Derby and the Canadian plant in Surrey. For the year to 31 March 2016, the PFI/PPP related financial assets reduced by £119.6m to £158.6m principally as a result of the sale of equity in the Wakefield SPV and the deconsolidation of the associated assets. Once the Surrey construction is completed in the last quarter of 2016/17 and all contracts are then in full service, the value of PFI /PPP financial assets will start to reduce year on year through repayments. The build on the Derby contract is not reflected in financial assets as we hold our interest in this contract in a joint venture.

Group return on assets
The Group return on operating assets (excluding debt, tax and goodwill) from continuing operations has fallen slightly from 12.2% at 31 March 2015 to 12.0% at 31 March 2016. The total Group post-tax return on capital employed increased from 6.0% to 6.3%.

Treasury and cash management

Core net debt and gearing ratios
Core net debt of £192.6m was better than our expectations at the year-end, especially considering the weakening of Sterling against the Euro. This represents a covenant ratio of 2.6 times net debt:EBITDA which is well within our banking limits of 3.5 times. Core net debt increased by £37.6m principally as a result of the net core cash outflow of £21.0m, supplemented by an adverse exchange rate effect of £17.2m on the translation of the Group's Euro and Canadian Dollar denominated debt into Sterling.

Debt structure and strategy
Core borrowings which exclude PFI/PPP non-recourse borrowings, are all long term. During the year, we issued a 3.65% €100m Green retail bond in the Belgian market, our third bond issue in Belgium, but our first Green bond. A bond can only be classified as Green if the funds raised will be used for sustainable purposes, which is the case for almost all of the investments made by Shanks. In October 2015 we redeemed our first Belgian retail bond. We also redeemed in June 2015 our PRICOA senior notes of €40m which were at a fixed interest rate of 5.025%.

At 31 March 2016, the Group's bank financing comprised a €180m multicurrency revolving credit facility with seven major banks entered into on 31 January 2014 and expiring in January 2019. At 31 March 2016, €77m equivalent of the facility was drawn. The margin varies on a ratchet fixed by the Net Debt:EBITDA ratio. As announced on 5 April 2016, the financial covenants of this facility were amended to extend leverage and reduce the total net worth requirement. These amendments provide further flexibility while we complete the build phases on our Derby and Surrey PPP contracts and will give further protection against currency fluctuation as the EU referendum approaches. The principal covenants are the ratio of Net Debt:EBITDA of less than 3.5:1, interest cover of not less than 3.0:1 and a minimum net worth of £175m. The six year retail bonds of €100m, issued in July 2013 to investors in Belgium and Luxembourg have an annual coupon of 4.23%, are quoted on the London Stock Exchange.

The Group also has access to £25.1m of undrawn uncommitted working capital facilities with various banks. Cash flows are pooled at a country level and each operation is tasked with operating within the limits of the locally available working capital facilities.

Debt borrowed in the special purpose vehicles (SPVs) for the financing of UK PFI/PPP programmes is separate from the Group's core debt and is secured over the assets and future cash flows of the SPVs with no recourse to the Group as a whole. Interest rates are fixed by means of interest rate swaps at the time of contract inception. At 31 March 2016 the UK PFI/PPP borrowings were £91.1m (2015: £222.6m). The significant decrease in the year arose following the disposal of 49.99% of the equity in the Wakefield contract on 30 March and the consequent equity accounting for our remaining interest as a joint venture.

Directors' valuation of PFI portfolio

The Directors' valuation of the PFI portfolio, excluding Canada, is based on the net present value of the future cash flows of the PFI contracts and has been maintained at £115m as per 30 September 2015. The Directors' valuation is not recorded in the Group's balance sheet. In arriving at the valuation, the Directors have assumed that some recovery in commodity market pricing from current cyclical lows will take place over the long duration of these contracts.

Retirement benefits

The Group operates a defined benefit pension scheme for certain UK employees which is closed to new entrants. At 31 March 2016, the net retirement benefit deficit relating to the UK scheme was £8.8m compared with £13.1m at 31 March 2015. The reduction in the deficit was due to an increase in the discount rate being used to value the liabilities. The most recent actuarial valuation of the scheme was carried out at 5 April 2015 and this is currently being finalised by the trustees and the Company. It is anticipated that a new funding plan of £3.1m per annum will be agreed for a further six years with the trustees.

Operating Review

Commercial Waste

Divisional strategy

The Commercial Division's strategy is to restore profitability to attractive levels, primarily through the active implementation of operational self-help initiatives, supplemented by targeted investments and portfolio management.

Financial performance

The Commercial Division performed strongly in 2015/16, delivering 18% trading profit growth to €21.1m on revenues up by 1% to €406m. Trading margin increased by 70bps to 5.2% and the return on operating assets rose to 9.6%.

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 16	Mar 15	Variance		Mar 16	Mar 15	Variance	
Netherlands Commercial Waste	253.6	242.2	11.4	5%	13.7	10.0	3.7	37%
Belgium Commercial Waste	152.8	158.8	(6.0)	-4%	7.4	7.9	(0.5)	-6%
Total €m	**406.4**	**401.0**	**5.4**	**1%**	**21.1**	**17.9**	**3.2**	**18%**
Total £m (at average rate)	**297.3**	**314.2**	**(16.9)**	**-5%**	**15.4**	**14.0**	**1.4**	**10%**

	Trading Margin		Return on Operating Assets	
Netherlands Commercial Waste	5.4%	4.1%	7.5%	5.0%
Belgium Commercial Waste	4.8%	5.0%	19.8%	16.0%
Total	**5.2%**	**4.5%**	**9.6%**	**7.2%**

The return on operating assets for Belgium exclude all landfill related provisions.

The Netherlands grew revenues by 5% to €254m and trading profit by 37% to €13.7m. Trading margins improved by 130bps to 5.4%. All regions showed both revenue and profit growth, with a particularly strong performance in the Northern Region. Volumes were broadly flat, with reductions in rubble and soil/sludge offset by growth in more profitable mixed construction waste. Recyclate revenues were also broadly flat over the year. Strong growth in volumes was offset in the second half by a fall in recyclate prices, particularly metal pricing which impacted the Netherlands business by €1.8m compared to prior year.

Belgium revenues fell by 4% to €153m and trading profit by 6% to €7.4m in line with expectations. As reported last year, revenue in the first half was impacted by weak sales of solid recovered fuel (SRF) and wood dust due to market challenges. Sales of both picked up in the second half and a second shift of SRF production resumed in the fourth quarter. Wood dust sales will be severely disrupted again in 2016/17 due to the main customer switching from coal to biomass fuel. Profitability of the landfill continued to decline as expected, further impacted by the introduction of a landfill tax on the remaining incoming waste streams from July 2015. However, we were delighted to be granted a 400k tonne extension to the permit for the receipt of valorisation waste streams at the landfill. This will extend the profitable operation of the site by a further three to four years and will assist in the creation of an optimised shape to the landfill prior to its eventual closure, reducing long-term capping and aftercare costs.

Operational review

The initial focus of the Commercial Waste Division in the year was to bed down the reorganisation which took effect on 1 April 2015 and which led to the Netherlands and Belgian organisations being separately managed, and then to implement our self-help initiatives in order to deliver profit growth despite subdued end markets. Both the Dutch and Belgian businesses achieved these goals with a broad range of successfully implemented projects.

The reorganisation announced last year was completed smoothly and with no material disruption. The Belgian business has clearly benefited from additional focus on its regional needs: waste streams are being rerouted to optimise recycling rates and profitability and significant progress has been made in tidying the portfolio and reducing overhead cost. The Orgaworld organic treatment facilities in the Netherlands have been integrated into the remainder of the Division and overhead has been reduced, saving around €0.4m.

The commercial effectiveness programme continued to be rolled out across the Netherlands during 2015/16, with a focus on developing the skills and driving the activities of the sales force. The division effectively managed pricing in a dynamic environment of rising incinerator gate fees, falling recyclate prices and regional supply/demand imbalances in the wood and glass monostreams. Commercial effectiveness was also rolled out in Belgium, helping the business to ensure that margins were maintained following the unexpected increase in waste taxes in July 2015.

Continuous improvement was also introduced in the form of full lean conversions of our van Vliet Groep and Ghent sites. Savings of up to €2m have been identified. The introduction of “lean” is empowering for front line staff and has been enthusiastically adopted by our businesses. As at year end we were already rolling out the next lean conversion to Smink, van Vliet Groep’s neighbour in the Central region. Performance continued to improve at Icova and van Tuijl where specific continuous improvement projects were carried out in the prior year.

The C&D sorting line installed at van Vliet Contrans late in 2014/15 performed strongly through the year, delivering high volumes of good quality recyclates for a reduced operating cost per tonne. At Icova, we opened up our waterside quay, with the support of the Port Authority of Amsterdam who dredged the approach. This allowed us to construct a storage shed by the quay to store our Icopellet production prior to direct shipment of Icopellets to our customer in Sweden with whom we have signed an extended long-term contract. At the same time, we have started to receive baled RDF from our ELWA facility in the UK for onward shipment to the Amsterdam AEB incinerator. Construction of our new €11m Vliko and Kluivers depot is well underway at Zoeterwoude and in October 2015 we sold the previous site to the municipality of Leiderdorp. In Belgium, we commissioned a new shredder at Kortemark that has helped to increase our RDF volumes at an improved cost.

The Belgian business made good progress in focusing its portfolio of assets. In July 2015 the business sold its small non-core operation in France, Shanks Nord, for €0.6m. In November 2015 it sold the non-core and loss-making Industrial Cleaning Wallonia business to a local player. This exit from a challenged business not only eliminated operating losses, but it will also facilitate a broader reduction in overhead of up to €1m across the Division. The Dutch business acquired and integrated a small paper recycler, PRA, that operated within the core Randstad area.

Hazardous Waste

Divisional strategy

The Hazardous Waste Division's strategy is to grow through increasing capacity to treat additional volumes that will be sourced through market growth and expanding both geographically and the range of products that can be treated through our assets.

Financial performance

Hazardous Waste delivered a robust performance in 2015/16 given the challenges in its core end markets. Revenues increased by 6% to €186m and trading profit by 1% to €21.2m. Margins were 11.4%, reflecting the change in mix and productivity pressures, and the return on assets remained attractive at 22.7% despite the addition of new assets during the year.

Reym saw revenues increase by 1% during the year, primarily reflecting additional activity under its Total Care contracts that is less profitable than the core cleaning revenues, which came under significant price pressure. As a result, capacity was somewhat reduced in the second half to match lower expected demand during 2016/17. Revenues at ATM increased by nearly 10% as capacity installed over the past two years allowed record throughput of soil and water treatment. These high volumes drove encouraging profit growth but the total performance was impacted by a 15% fall in intake of high value industrial sludges and an 80% fall in the value of waste oil.

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 16	Mar 15	Variance		Mar 16	Mar 15	Variance	
Total €m	**185.9**	**176.2**	**9.7**	**6%**	**21.2**	**21.0**	**0.2**	**1%**
Total £m (at average rate)	**136.2**	**138.0**	**(1.8)**	**-1%**	**15.6**	**16.4**	**(0.8)**	**-5%**

	Trading Margin		Return on Operating Assets	
Total	**11.4%**	**11.9%**	**22.7%**	**25.7%**

Operational review

ATM, our hazardous waste treatment site, has an advantaged location and cost position with regard to its soil and water treatment processes, which have therefore been the focus of investment to increase capacity and capability. End markets were challenged throughout the year, as reported above.

ATM had a strong operational performance during the year, processing record throughput of both soil and water. This was notwithstanding two operational challenges experienced in the first half. In July the waterside operations were contaminated by large quantities of molybdenum delivered by a customer under a wrong waste code. In September we reported that the operating system had been over-reporting soil volumes processed in the last quarter of 2014/15 and the first quarter of 2015/16. The process issue was resolved and additional equipment and processes added through the year to ensure more accurate weighing of soil into the process and measurement of soil stocks in the warehouses. The ability of the plant to operate towards its permitted capacity has been driven by our investment in significant additional environmental and emissions control equipment in the prior year, and the commissioning of extra storage and handling capacity in the current year. This included the completion of our new 30,000m^3 water storage tanks, enhanced cooling equipment for the bio-reactors, a second ship degassing line and a 40% extension to our jetty for ship cleaning and unloading. In addition to physical investment in assets, we have been investing heavily in developing our staff capabilities in order to apply for Seveso III classification, which was granted just after year end. Seveso III is the highest level of qualification and is required for plants that handle dangerous and flammable materials in large quantities. The award of the Seveso III permit, subject to final audits this year, is the culmination of over two years' work and preparation.

Reym, our high end industrial cleaning business, continued to focus on expanding its range of services in order to offset price and volume declines in industrial cleaning activities. This has included further roll-out of the Shanks Total Care solution in which industrial cleaning and the transport and treatment of both hazardous and non-hazardous waste can be managed under a single contract. The flagship initiative has been the investment of our €10m Shanks Total Care centre at Theemsweg in the heart of the Europoort at Rotterdam. This has been built and commissioned on time and on budget. Waste is now being delivered to Theemsweg and the first ship containing batched waste was sent to ATM in December 2015. In addition, the new ultrasonic cleaning unit has been transferred to Theemsweg where it is already gaining traction with its efficient means of deep cleaning heat exchangers. Business conditions remained challenging in serving offshore exploration, which has seen material reduction in activity and in the north east which serves the reduced onshore gas market.

Municipal

Divisional Strategy

The Municipal Division's strategy is to complete the build out of major new assets in both the UK and Canada and then to deliver strong profits and cash flows from driving optimised performance from these assets.

Financial performance

Municipal revenues grew by 21% at constant currency to £189.7m but trading profit fell by 15% at constant currency to £9.6m. The revenue growth was boosted by the inclusion of £13m construction costs at a minimal margin relating to the Surrey project in which we are the EPC contractor and principal. Excluding these construction costs, underlying revenue increased by 12%.

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 16	Mar 15	Variance		Mar 16	Mar 15	Variance	
UK Municipal	163.5	144.6	18.9	13%	7.8	9.8	(2.0)	-20%
Canada Municipal	26.2	12.0	14.2	118%	2.2	2.8	(0.6)	-21%
Bid costs	-	-	-		(0.4)	(1.3)	0.9	
Total £m (at constant currency)	**189.7**	**156.6**	**33.1**	**21%**	**9.6**	**11.3**	**(1.7)**	**-15%**
Total £m (at average rate)	**187.7**	**156.6**	**31.1**	**20%**	**9.4**	**11.3**	**(1.9)**	**-17%**

	Trading Margin	
UK Municipal	4.8%	6.8%
Canada Municipal *	14.5%	23.3%
Total *	**5.2%**	**7.2%**

All numbers for Canada are shown at a constant exchange rate.
**The Canadian margin excludes Surrey construction revenue.*

UK revenues increased by 13% as a result of full service commencement at BDR and Wakefield. Trading profit fell by 20% to £7.8m due to worsening market conditions including increasing fuel off-take costs, lower recyclate and energy income, and increases in the cost of insurance. These had a combined impact of £3m on profitability in 2015/16 and will have a further full year impact on 2016/17. These headwinds, while disappointing, are expected to ease or reverse over time, allowing the full profit and cash potential of our facilities to be delivered.

Canadian revenues increased by 118% to £26.2m including the Surrey build costs, although this represented an underlying reduction of 7% at the two existing plants primarily due to lower throughput from one municipal customer. Trading profit grew by 14% as a sharp reduction in bid costs offset profit pressures at the Ottawa and London sites. Both sites were impacted by increased off-take costs and also by the impact of changing customer demand.

Operational review

The UK performed strongly at an operational level, with the roll out of continuous improvement alongside other initiatives offsetting much of the adverse impact of the worsening external environment.

At ELWA, a continuous improvement project identified £1m of cost savings and created new capacity improvements of over c.45% on certain operating lines. Both ELWA and Derby delivered another year of record diversion from landfill, ELWA achieving an all-time peak of 98.8% in March 2016. ELWA also made good progress with the reconstruction of its refinement hall at the flagship Frog Island facility, which was destroyed by fire in August 2014. The new refinement lines will be commissioned in the first quarter of 2016/17.

As reported above, the off-take market worsened significantly during the year as a combination of reducing available demand for SRF and increasing RDF prices as a function of supply/demand and also the weakening of sterling. We responded by creating a Group off-take initiative to work across the Group to ensure the best possible off-take options. This has resulted in improved supply arrangements into two incinerators in the Netherlands and improved recyclate pricing for paper. However, these initiatives were not sufficient to offset the market conditions.

As a consequence of these changes in the UK off-take market, our Cumbria PPP contract has become loss-making in the second half and is forecast to remain so subject to resolution of off-take challenges. As a result, we have accounted for the contract as an onerous contract, recognising a £5m charge as an exceptional item.

The division has made good progress in sharing best practice across its contracts. The new Evergreen IT solution provided a new platform for tracking and sharing operational performance of assets across the division. Our new compliance IT solution is being piloted at one site and is intended to help contract teams ensure perfect adherence to customer requirements.

The commissioning of BDR and Wakefield were central to the operational performance during the year. BDR is our largest MBT facility, capable of processing up to 265,000 tonnes of residual waste per annum, extracting recyclates and creating a high quality fuel for SSE's new multi-fuel facility at Ferrybridge. The facility commissioned on time and on budget in July 2015 and has been processing steadily increasing volumes. The completion of our £100m facility at Wakefield was briefly delayed by the insolvency late in the construction process of a major contractor for the AD facility on site. However, a determined response by our engineering teams ensured that the facility entered full service just four months late and in line with our revised opening schedule. The Wakefield facility provides a wide range of waste treatment technologies to process the full waste streams from Wakefield Council. The operation of this contract for the long term is not affected by the sale of financial assets relating to the SPV for the project.

Construction on our flagship Derby gasification project has made good progress and is on time. The site is due to commission at the end of 2016/17. Interserve Group plc is the EPC contractor and joint venture partner on this project.

The Canadian business experienced a mixed year operationally. New compost regulations came into force that are not helpful for companies operating higher technology tunnel composting lines as they require longer maturation times and a moister compost. These regulations have impacted site capacity and costs. In addition, we have seen lower volumes from the City of Toronto to our London facility. Nevertheless, the business worked hard to increase efficiency and reduce cost, including staff costs, overtime and overhead.

Construction has proceeded well on the Surrey bio-fuel project near Vancouver. This state-of-the-art facility will take organic waste from the City of Surrey for treatment to produce bio-gas that will be used to fuel the City's fleet of waste collection vehicles in an innovative circular solution. Commissioning is due in the fourth quarter of 2016/17.

Consolidated Income Statement

For the year ended 31 March 2016

		2016			2015		
	Note	**Trading £m**	**Non-trading & exceptional items £m**	**Total £m**	Trading £m	Non-trading & exceptional items £m	Total £m
Revenue	2,3	**614.8**	**(1.0)**	**613.8**	601.4	(2.0)	599.4
Cost of sales	3	**(517.8)**	**(0.6)**	**(518.4)**	(506.1)	(21.5)	(527.6)
Gross profit (loss)		**97.0**	**(1.6)**	**95.4**	95.3	(23.5)	71.8
Administrative expenses	3	**(63.6)**	**(22.0)**	**(85.6)**	(61.0)	(23.2)	(84.2)
Operating profit (loss)	2,3	**33.4**	**(23.6)**	**9.8**	34.3	(46.7)	(12.4)
Finance income	3,4	**16.6**	**0.1**	**16.7**	14.8	0.1	14.9
Finance charges	4	**(30.0)**	**-**	**(30.0)**	(28.2)	-	(28.2)
Share of results from associates and joint ventures		**1.0**	**-**	**1.0**	0.8	4.4	5.2
Profit (loss) before taxation		**21.0**	**(23.5)**	**(2.5)**	21.7	(42.2)	(20.5)
Taxation	3,5	**(2.3)**	**0.8**	**(1.5)**	(1.7)	4.0	2.3
Profit (loss) for the year from continuing operations		**18.7**	**(22.7)**	**(4.0)**	20.0	(38.2)	(18.2)
Discontinued operations							
(Loss) profit for the year from discontinued operations		**(0.3)**	**0.4**	**0.1**	(0.2)	1.5	1.3
Profit (loss) for the year		**18.4**	**(22.3)**	**(3.9)**	19.8	(36.7)	(16.9)
Attributable to:							
Owners of the parent		**18.4**	**(22.3)**	**(3.9)**	19.7	(36.7)	(17.0)
Non-controlling interest		**-**	**-**	**-**	0.1	-	0.1
		18.4	**(22.3)**	**(3.9)**	19.8	(36.7)	(16.9)
Basic earnings (loss) per share attributable to owners of the parent (pence per share)							
Continuing operations	7	**4.7**	**(5.7)**	**(1.0)**	5.0	(9.6)	(4.6)
Discontinued operations	7	**(0.1)**	**0.1**	**-**	(0.1)	0.4	0.3
		4.6	**(5.6)**	**(1.0)**	4.9	(9.2)	(4.3)
Diluted earnings (loss) per share attributable to owners of the parent (pence per share)							
Continuing operations	7	**4.7**	**(5.7)**	**(1.0)**	5.0	(9.6)	(4.6)
Discontinued operations	7	**(0.1)**	**0.1**	**-**	(0.1)	0.4	0.3
		4.6	**(5.6)**	**(1.0)**	4.9	(9.2)	(4.3)

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2016

	2016 £m	2015 £m
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign subsidiaries	**13.0**	(25.2)
Fair value movement on cash flow hedges	**(4.8)**	(28.1)
Deferred tax on fair value movement on cash flow hedges	**0.2**	5.6
Share of other comprehensive income of investments accounted for using the equity method	**0.1**	(3.1)
	8.5	(50.8)
Items that will not be reclassified to profit or loss:		
Actuarial gain (loss) on defined benefit pension scheme	**3.2**	(5.8)
Deferred tax on actuarial gain (loss) on defined benefit pension scheme	**(0.9)**	1.2
	2.3	(4.6)
Other comprehensive income (loss) for the year, net of tax	**10.8**	(55.4)
Loss for the year	**(3.9)**	(16.9)
Total comprehensive income (loss) for the year	**6.9**	(72.3)
Attributable to:		
Owners of the parent	**7.1**	(70.7)
Non-controlling interest	**(0.2)**	(1.6)
Total comprehensive income (loss) for the year	**6.9**	(72.3)
Total comprehensive income (loss) attributable to owners of the parent arising from:		
Continuing operations	**7.0**	(72.0)
Discontinued operations	**0.1**	1.3
	7.1	(70.7)

Consolidated Balance Sheet

As at 31 March 2016

	Note	**31 March 2016 £m**	31 March 2015 £m
Assets			
Non-current assets			
Intangible assets		**194.5**	173.8
Property, plant and equipment		**297.0**	282.9
Investments		**12.1**	10.1
Financial assets relating to PFI/PPP contracts		**145.8**	246.6
Trade and other receivables		**1.1**	2.2
Deferred tax assets		**19.9**	21.7
		670.4	737.3
Current assets			
Inventories		**6.8**	6.9
Financial assets relating to PFI/PPP contracts		**12.8**	31.6
Trade and other receivables		**122.4**	121.0
Derivative financial instruments	13	**0.3**	0.1
Current tax receivable		**-**	0.1
Cash and cash equivalents		**34.7**	60.8
		177.0	220.5
Assets classified as held for sale	6	**-**	3.5
		177.0	224.0
Total assets		**847.4**	961.3
Liabilities			
Non-current liabilities			
Borrowings - PFI/PPP non-recourse net debt		**(87.9)**	(160.3)
Borrowings - Other		**(224.9)**	(140.8)
Derivative financial instruments	13	**(28.8)**	(43.8)
Other non-current liabilities		**(6.4)**	(0.6)
Deferred tax liabilities		**(31.6)**	(30.2)
Provisions	11	**(43.9)**	(40.4)
Defined benefit pension scheme deficit	12	**(10.7)**	(16.4)
		(434.2)	(432.5)
Current liabilities			
Borrowings - PFI/PPP non-recourse net debt		**(3.2)**	(62.3)
Borrowings - Other		**(2.4)**	(75.0)
Derivative financial instruments	13	**(2.4)**	(0.3)
Trade and other payables		**(203.3)**	(187.0)
Current tax payable		**(6.1)**	(6.3)
Provisions	11	**(13.0)**	(8.8)
		(230.4)	(339.7)
Total liabilities		**(664.6)**	(772.2)
Net assets		**182.8**	189.1
Equity			
Share capital		**39.8**	39.8
Share premium		**100.2**	100.0
Exchange reserve		**24.4**	11.4
Retained earnings		**20.4**	39.7
Equity attributable to owners of the parent		**184.8**	190.9
Non-controlling interest		**(2.0)**	(1.8)
Total equity		**182.8**	189.1

Consolidated Statement of Changes in Equity

For the year ended 31 March 2016

	Note	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 April 2015		**39.8**	**100.0**	**11.4**	**39.7**	**(1.8)**	**189.1**
Loss for the year		-	-	-	**(3.9)**	**-**	**(3.9)**
Other comprehensive income (loss):							
Exchange gain on translation of foreign subsidiaries		-	-	**13.0**	-	-	**13.0**
Fair value movement on cash flow hedges		-	-	-	**(4.6)**	**(0.2)**	**(4.8)**
Actuarial gain on defined benefit pension scheme		-	-	-	**3.2**	-	**3.2**
Tax in respect of other comprehensive income items		-	-	-	**(0.7)**	**-**	**(0.7)**
Share of other comprehensive income of investments accounted for using the equity method		-	-	-	**0.1**	-	**0.1**
Total comprehensive income (loss) for the year		-	-	**13.0**	**(5.9)**	**(0.2)**	**6.9**
Share-based compensation		-	-	-	**0.5**	-	**0.5**
Movement on tax arising on share-based compensation		-	-	-	**(0.2)**	-	**(0.2)**
Proceeds from exercise of employee options		-	**0.2**	-	-	-	**0.2**
Dividends	8	-	-	-	**(13.7)**	-	**(13.7)**
Balance as at 31 March 2016		**39.8**	**100.2**	**24.4**	**20.4**	**(2.0)**	**182.8**
Balance at 1 April 2014		39.8	99.9	36.6	97.4	(0.2)	273.5
(Loss) profit for the year		-	-	-	(17.0)	0.1	(16.9)
Other comprehensive (loss) income:							
Exchange loss on translation of foreign subsidiaries		-	-	(25.2)	-	-	(25.2)
Fair value movement on cash flow hedges		-	-	-	(26.0)	(2.1)	(28.1)
Actuarial loss on defined benefit pension scheme		-	-	-	(5.8)	-	(5.8)
Tax in respect of other comprehensive income items		-	-	-	6.4	0.4	6.8
Share of other comprehensive income of investments accounted for using the equity method		-	-	-	(3.1)	-	(3.1)
Total comprehensive loss for the year		-	-	(25.2)	(45.5)	(1.6)	(72.3)
Share-based compensation		-	-	-	1.3	-	1.3
Movement on tax arising on share-based compensation		-	-	-	0.2	-	0.2
Proceeds from exercise of employee options		-	0.1	-	-	-	0.1
Dividends	8	-	-	-	(13.7)	-	(13.7)
Balance as at 31 March 2015		39.8	100.0	11.4	39.7	(1.8)	189.1

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.

Consolidated Statement of Cash Flows

For the year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities	14	**72.2**	55.8
Income tax paid		**(4.8)**	(5.7)
Net cash inflow from operating activities		**67.4**	50.1
Investing activities			
Purchases of intangible assets		**(4.9)**	(1.2)
Purchases of property, plant and equipment		**(29.5)**	(39.0)
Disposals of property, plant and equipment		**6.2**	2.2
Acquisition of business assets		**(0.2)**	(0.4)
Proceeds from disposal of subsidiary		**0.4**	-
Proceeds from sale of subordinated debt and on loss of control of subsidiary		**25.8**	-
Proceeds from discontinued assets		**2.4**	0.8
Outflow from disposal of subsidiaries		**(1.4)**	-
Receipt of deferred consideration		**0.9**	1.9
Payment of deferred consideration		**(0.1)**	(0.1)
Investment in joint venture		**(0.7)**	(1.3)
Proceeds from disposal of investments and other assets		**-**	1.2
Dividends received from associates and joint ventures		**0.1**	-
Repayment of loans granted to joint ventures		**-**	1.0
Outflows in respect of PFI/PPP arrangements under the financial asset model		**(29.3)**	(73.0)
Capital received in respect of PFI/PPP financial assets		**22.8**	3.4
Finance income		**12.6**	4.0
Net cash inflow (outflow) from investing activities		**5.1**	(100.5)
Financing activities			
Finance charges and loan fees paid		**(25.4)**	(16.8)
Proceeds from issuance of ordinary shares		**0.2**	0.1
Dividends paid	8	**(13.7)**	(13.7)
Proceeds from the issuance of retail bonds		**71.4**	-
Repayment of retail bonds		**(73.5)**	-
Repayment of senior notes		**(28.5)**	-
Proceeds from (repayment of) bank borrowings		**25.1**	(18.9)
Proceeds from PFI/PPP net debt		**9.2**	64.4
Repayment of PFI/PPP net debt		**(63.4)**	(1.8)
Repayments of obligations under finance leases		**(2.8)**	(3.3)
Net cash (outflow) inflow from financing activities		**(101.4)**	10.0
Net decrease in cash and cash equivalents		**(28.9)**	(40.4)
Effect of foreign exchange rate changes		**2.8**	(3.0)
Cash and cash equivalents at the beginning of the year		**60.8**	104.2
Cash and cash equivalents at the end of the year		**34.7**	60.8

Notes to the Consolidated Financial Statements

1. Basis of Preparation

Shanks Group plc is a public limited company incorporated and domiciled in Scotland under the Companies Act 2006, registered number SC077438.

The figures and financial information for the year ended 31 March 2016 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 2015 and the balance sheet as at 31 March 2015 have been derived from the full Group accounts published in the Annual Report and Accounts 2015 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 2016 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 related interpretations issued by the IFRS Interpretations Committee (IFRS IC) 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 2015. The IFRS accounting policies have been applied consistently to all periods presented and throughout the Group for the purpose of the consolidated financial statements.

Changes in presentation
The Group changed the composition of its reportable segments with effect from 1 April 2015. This was undertaken following the implementation of a new divisional structure to align the business more closely with our customers and to reflect the information provided to the chief operating decision maker in order to assess performance and to make decisions on allocating resources. The following changes were made to the reportable segments:

- Commercial Waste combines the Benelux Solid Waste division with the Netherlands Organics segment and the Belgium Organics business unit.
- Municipal combines the UK Municipal division with the Canada segment and the UK Organics business unit.
- Hazardous Waste and Group central services reportable segments are unchanged by the new structure.

As required under IFRS 8 Operating Segments, the Group has restated the corresponding items of segment information for earlier periods to ensure consistent comparisons to the new structure. Segment information under the previous format is also included for information purposes.

Changes in accounting policies

There were no new standards, amendments to standards and interpretations adopted for the first time for the Group's financial year beginning 1 April 2015 that had a significant impact on these financial statements.

Exchange Rates

The assets and liabilities of foreign operations, including goodwill arising on acquisition, are translated to sterling at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated into sterling at the average rate of exchange during the year.

The most significant currencies for the Group were translated at the following exchange rates:

	Closing rates			**Average rates**		
Value of £1	**31 March 2016**	31 March 2015	Change	**31 March 2016**	31 March 2015	Change
Euro	**1.26**	1.38	(8.7)%	**1.37**	1.28	6.8%
Canadian dollar	**1.86**	1.88	(1.1)%	**1.97**	1.84	7.5%

Underlying business performance

The Group believes that trading profit, underlying profit before tax, underlying profit after tax, underlying free cash flow, underlying earnings per share and EBITDA (earnings before interest, tax, depreciation and amortisation) 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.

Notes to the Consolidated Financial Statements

1. Basis of Preparation - continued

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 non-trading and exceptional items, financing fair value remeasurements and amortisation of acquisition intangibles. 'Trading profit' is defined as continuing operating profit before amortisation of acquisition intangibles and exceptional items. EBITDA comprises trading profit before depreciation, amortisation and profit or loss on disposal of plant, property and equipment. Reconciliations are set out in note 3.

2. Segmental reporting

The Group's chief operating decision maker is considered to be the Board of Directors. The Group's reportable segments are determined with reference to the information provided to the Board of Directors in order for it to allocate the Group's resources and to monitor the performance of the Group.

Following the implementation of the new divisional structure as at 1 April 2015 the Group's reportable segments are:

Commercial Waste	Collection and treatment of commercial waste in the Netherlands and Belgium.
Hazardous Waste	Industrial cleaning and treatment of hazardous waste.
Municipal	Operation of waste management facilities under long-term municipal contracts in the UK and Canada.
Group central services	Head office corporate function.

The Commercial Waste division includes the Netherlands and Belgium operating segments and the Municipal division includes the UK and Canada operating segments, based on geographical location. Operating segments within the Commercial Waste and Municipal divisions have been aggregated as they operate in similar markets in relation to the nature of the products, services, production processes and type of customer.

The profit measure the Board of Directors uses to evaluate performance is trading profit. Trading profit is continuing operating profit before the amortisation of acquisition intangibles, non-trading and exceptional items. The Group accounts for inter-segment trading on an arm's length basis.

Revenue	**2016 £m**	2015 £m
Netherlands Commercial Waste	**185.5**	189.7
Belgium Commercial Waste	**111.8**	124.5
Commercial Waste	**297.3**	314.2
Hazardous Waste	**136.2**	138.0
UK Municipal	**163.5**	144.6
Canada Municipal	**24.2**	12.0
Municipal	**187.7**	156.6
Inter-segment revenue	**(6.4)**	(7.4)
Total revenue from continuing operations#	**614.8**	601.4

The comparatives have been restated to reflect the new reportable segments

#Total revenue from continuing operations in 2016 excludes the impact of the non-trading item of £1.0m (2015: £2.0m)

Notes to the Consolidated Financial Statements

2. Segmental reporting - continued

Results	2016 £m	2015 £m
Netherlands Commercial Waste	**10.0**	7.7
Belgium Commercial Waste	**5.4**	6.3
Commercial Waste	**15.4**	14.0
Hazardous Waste	**15.6**	16.4
UK Municipal	**7.8**	9.8
Canada Municipal	**2.0**	2.8
Bid costs	**(0.4)**	(1.3)
Municipal	**9.4**	11.3
Group central services	**(7.0)**	(7.4)
Total trading profit	**33.4**	34.3
Non-trading and exceptional items	**(23.6)**	(46.7)
Total operating profit (loss) from continuing operations	**9.8**	(12.4)
Finance income	**16.7**	14.9
Finance charges	**(30.0)**	(28.2)
Share of results from associates and joint ventures	**1.0**	5.2
Loss before taxation and discontinued operations	**(2.5)**	(20.5)

The comparatives have been restated to reflect the new reportable segments

The segment results as prepared under the previous structure are as follows:

Revenue	2016 £m	2015 £m
Netherlands Solid Waste	**173.0**	176.0
Belgium Solid Waste	**69.2**	82.8
Belgium Other	**49.1**	50.9
Intra-segment revenue	**(9.8)**	(12.5)
Solid Waste Benelux	**281.5**	297.2
Hazardous Waste	**136.2**	138.0
Netherlands	**13.7**	14.7
Canada	**24.2**	12.0
Other Organics	**5.2**	3.3
Organics	**43.1**	30.0
UK Municipal	**161.6**	144.6
Inter-segment revenue	**(7.6)**	(8.4)
Total revenue from continuing operations*	**614.8**	601.4

*Total revenue from continuing operations in 2016 excludes the impact of the non-trading item of £1.0m (2015: £2.0m)

Notes to the Consolidated Financial Statements

2. Segmental reporting - continued

Results	2016 £m	2015 £m
Netherlands Solid Waste	**13.3**	9.3
Belgium Solid Waste	**2.7**	3.9
Belgium Other	**8.3**	7.8
Divisional central services	**(10.6)**	(9.1)
Solid Waste Benelux	**13.7**	11.9
Hazardous Waste	**16.9**	17.7
Divisional central services	**(1.3)**	(1.3)
Hazardous Waste	**15.6**	16.4
Netherlands	**1.1**	1.3
Canada	**1.8**	2.8
Other Organics	**(0.4)**	0.6
Divisional central services	**-**	(1.3)
Organics	**2.5**	3.4
UK Municipal	**13.4**	15.0
Divisional central services	**(4.8)**	(5.0)
UK Municipal	**8.6**	10.0
Group central services	**(7.0)**	(7.4)
Total trading profit	**33.4**	34.3
Non-trading and exceptional items	**(23.6)**	(46.7)
Total operating profit (loss) from continuing operations	**9.8**	(12.4)
Finance income	**16.7**	14.9
Finance charges	**(30.0)**	(28.2)
Share of results from associates and joint ventures	**1.0**	5.2
Loss before taxation and discontinued operations	**(2.5)**	(20.5)

Notes to the Consolidated Financial Statements

3. Non-trading and exceptional items

To improve the understanding of the Group's financial performance, items which do not reflect the underlying performance are presented in non-trading and exceptional items.

	Note	**2016 £m**	2015 £m
Continuing operations			
Restructuring charges		**2.4**	6.5
Portfolio management activity:			
Industrial Cleaning in Belgium	10	**3.7**	-
Wakefield equity and subordinated debt disposal	10	**5.0**	-
Acquisition and disposal costs		**0.8**	1.6
Reassessment of contingent consideration		**-**	(0.8)
		9.5	0.8
Other items:			
Onerous contract provisions		**5.0**	0.7
Municipal contract issues		**4.9**	3.0
ATM waterside contamination		**1.3**	-
ATM soil revenue recognition		**1.0**	-
Profit on disposal of land (Vliko)		**(2.7)**	-
Prior period exceptional provision releases		**(0.1)**	(0.1)
UK Municipal lifecycle (including £2m revenue recognition)		**-**	2.3
Costs relating to fires		**-**	1.0
UK Associates income		**-**	(4.4)
Reassessment of discount rate for long-term provisions		**-**	7.1
		9.4	9.6
Impairment of assets and goodwill		**0.5**	23.5
Amortisation of acquisition intangibles		**1.8**	1.9
Change in fair value of derivatives		**(0.1)**	(0.1)
Continuing non-trading and exceptional items in loss before tax		**23.5**	42.2
Tax on non-trading and exceptional items		**(0.8)**	(4.0)
Continuing non-trading and exceptional items in loss after tax		**22.7**	38.2
Discontinued operations		**(0.4)**	(1.5)
Total non-trading and exceptional items in loss after tax		**22.3**	36.7

The above non-trading and exceptional items include the following:

Restructuring charges
Restructuring charges and associated costs of £2.4m (2015: £6.5m) relate to structural cost reduction programmes across the Group in response to the current macro-economic environment. The total cost of £2.4m is recorded in administrative expenses (2015: £1.2m in cost of sales and £5.3m in administrative expenses).

Portfolio management activity
The sale of the loss-making industrial cleaning business in Wallonia to a local player resulted in a loss on sale of £3.7m (2015: £nil). A charge of £5.0m (2015: £nil) as a result of the disposal of the subordinated debt and 49.99% of the equity in the Wakefield SPV. Other acquisition and disposal related costs of £0.8m (2015: £1.6m) have been incurred. The total charge of £9.5m is recorded £9.4m in administrative expenses and £0.1m in cost of sales (2015: £0.1m in cost of sales and £0.7m in administrative expenses).

Notes to the Consolidated Financial Statements

3. Non-trading and exceptional items – continued

Other items
The onerous contract charge in the current year of £5.0m relates to the Cumbria PPP facilities as the contract has become loss-making in the second half of the year due to permanent changes in the UK off-take market. The prior year included a £2.1m charge following the reassessment of the best estimate of the required provisions for other contracts net of a credit of £1.4m following the final negotiated exit from a loss-making contract in Belgium.

As a result of the late delivery of full service on the Wakefield contract due to the insolvency of a subcontractor, the Group incurred damages under contract and other associated costs of £4.9m. The prior year charge of £3.0m related to contractual issues in the Canadian organics business following an arbitration ruling which included the write off of trade receivables and associated operating and legal costs.

In July 2015 the waterside processing plant at ATM was contaminated by the delivery of sludges containing a large quantity of molybdenum. Associated costs incurred were £1.3m (2015: £nil).

At ATM the identification of an over-recognition of revenue of £1.0m (2015: £nil) arose from the processing of soil following a change in operational processes as part of the investment programme in late 2014.

Following the fire at the Vliko site in 2014 and as part of the relocation programme agreed with the municipality, the old site was sold to the municipality in October 2015 and a profit on sale of £2.7m was recorded (2015: £nil). The proceeds from this sale have been used to start construction at the new location.

The total charge of £9.4m is recorded as £1.0m in revenue, £1.4m credit in cost of sales and £9.8m in administrative expenses (2015: £2.0m in revenue, £5.9m in cost of sales, £6.1m in administrative expenses and a credit of £4.4m in share of results from associates and joint ventures).

Impairment of assets and goodwill
Impairment of assets of £0.5m (2015: £23.5m) principally relate to plant and equipment at the Shanks Wood Products biomass facility in Belgium as a result of market changes. The prior year charge of £23.5m included goodwill impairment of £11.1m relating to Solid Waste Netherlands as a result of lower than expected performance in the division and an associated revision of the future trading performance and an impairment of plant and equipment of £12.4m at Belgian and UK facilities. The charge is split as to £0.1m (2015: £12.4m) in cost of sales and £0.4m (2015: £11.1m) in administrative expenses.

Amortisation of intangible assets acquired in business combinations of £1.8m (2015: £1.9m) is all recorded in cost of sales.

Financing fair value measurements credit of £0.1m (2015: £0.1m) is recorded in finance income.

Reconciliation of trading profit to EBITDA from continuing operations	**2016 £m**	2015 £m
Trading profit	**33.4**	34.3
Depreciation of property, plant and equipment	**33.2**	35.8
Amortisation of intangible assets (excluding acquisition intangibles)	**2.6**	2.5
Non-exceptional gains on disposal of property, plant and equipment	**(0.3)**	(0.2)
Non cash landfill related expense and provisioning	**(0.4)**	0.6
EBITDA from continuing operations	**68.5**	73.0

Notes to the Consolidated Financial Statements

4. Net finance charges

Continuing operations	**2016 £m**	2015 £m
Finance charges		
Interest payable on borrowings wholly repayable within five years	**9.5**	11.9
Interest payable on borrowings repayable after five years	**1.9**	-
Interest payable on PFI/PPP non-recourse net debt	**14.2**	12.8
Unwinding of discount on provisions	**2.3**	2.1
Interest charge on the retirement pension scheme	**0.5**	0.5
Amortisation of loan fees	**1.1**	0.9
Other finance costs	**0.5**	-
Total finance charges	**30.0**	28.2
Finance income		
Interest receivable on financial assets relating to PFI/PPP contracts	**(16.2)**	(14.1)
Unwinding of discount on deferred consideration receivable	**(0.2)**	(0.2)
Interest income on bank deposits	**(0.1)**	(0.1)
Interest receivable on other loans and receivables	**(0.1)**	(0.4)
Total finance income	**(16.6)**	(14.8)
Change in fair value of derivatives at fair value through profit or loss	**(0.1)**	(0.1)
Net finance charges	**13.3**	13.3

5. Taxation

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

	2016 £m	2015 £m
Current tax		
UK Corporation tax		
- Current year	**1.0**	0.7
- Prior year	**-**	(0.2)
Overseas tax		
- Current year	**3.1**	4.2
- Prior year	**0.2**	(0.4)
Total current tax	**4.3**	4.3
Deferred tax		
- Origination and reversal of temporary differences in the current year	**(2.6)**	(6.7)
- Adjustment in respect of prior year	**(0.2)**	0.1
Total deferred tax	**(2.8)**	(6.6)
Total tax charge (credit) for the year	**1.5**	(2.3)

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements. As a result the UK deferred tax for the year has been calculated based on the enacted rates of 18%, 19% and 20% depending on when the timing differences are expected to reverse (2015: 20%).

6. Assets classified as held for sale

	2016 £m	2015 £m
Property, plant and equipment	**-**	3.5

The prior year included the material recycling facility at Kettering which was sold in September 2015 generating a profit of £0.4m which is reflected as a discontinued exceptional and non-trading item. In addition the land and buildings at Jaartsveld, a closed Hazardous Waste location, have been reclassified back to land and buildings.

Notes to the Consolidated Financial Statements

7. Earnings per share

	2016	2015
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**398.0m**	397.8m
Effect of share options in issue	**0.4m**	0.3m
Weighted average number of ordinary shares for diluted earnings per share	**398.4m**	398.1m
Continuing operations		
Loss attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**(4.0)**	(18.3)
Non-trading and exceptional items (net of tax) (£m) (see note 3)	**22.7**	38.2
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**18.7**	19.9
Basic and diluted loss per share	**(1.0)p**	(4.6)p
Underlying and underlying diluted earnings per share (see note below)	**4.7p**	5.0p
Discontinued operations		
Profit attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**0.1**	1.3
Non-trading and exceptional items (net of tax) (£m) (see note 3)	**(0.4)**	(1.5)
Loss attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**(0.3)**	(0.2)
Basic and diluted earnings per share	**-**	0.3p
Underlying and underlying diluted loss per share (see note below)	**(0.1)p**	(0.1)p
Total operations		
Loss attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**(3.9)**	(17.0)
Non-trading and exceptional items (net of tax) (£m) (see note 3)	**22.3**	36.7
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**18.4**	19.7
Basic and diluted loss per share	**(1.0)p**	(4.3)p
Underlying and underlying diluted earnings per share (see note below)	**4.6p**	4.9p

The Directors believe that adjusting earnings per share for the effect of the amortisation of acquisition intangibles, the change in fair value of derivatives 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.

8. Dividends

	2016 £m	2015 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2015 of 2.35p per share (2014: 2.35p)	**9.3**	9.3
Interim dividend paid for the year ended 31 March 2016 of 1.1p per share (2015: 1.1p)	**4.4**	4.4
	13.7	13.7
Proposed final dividend for the year ended 31 March 2016 of 2.35p per share (2015: 2.35p)	**9.4**	9.3
Total dividend per share	**3.45p**	3.45p

Notes to the Consolidated Financial Statements

9. Property, plant and equipment

During the year ended 31 March 2016, the Group acquired assets with a cost of £28.4m (2015: £46.4m), disposed of assets with a net book value of £4.3m (2015: £2.1m) and charged depreciation of £33.2m (2015: £35.8m). An impairment charge of £0.5m (2015: £10.5m) has been recognised and assets transferred from assets held for sale were £1.6m (2015: £1.1m transferred to assets held for sale). The major growth projects are as described in the finance review.

At 31 March 2016, the Group had capital commitments of £9.6m (2015: £13.1m).

10. Acquisitions and disposals

Acquisitions
On 23 December 2015 the Netherland Commercial Waste division acquired Paper Recycling Alphen BV for a total consideration of £0.3m net of cash acquired. The business included plant and machinery assets of £0.1m and the residual excess of £0.3m over the net assets acquired has been recognised in goodwill representing the synergies of acquiring this recycling business.

Disposals
On 30 November 2015 Shanks sold 100% of its holding in Shanks Wallonia Industrial Cleaning SA, a non-core industrial cleaning business in the Belgium Commercial Waste segment. A loss of £3.7m was recognised in non-trading administrative expenses as a result of the transaction. This included a working capital adjustment which is recorded within deferred consideration and is payable during the year ending March 2017.

On 30 March 2016 the Group signed a share purchase agreement to dispose of 100% of the subordinated debt and 49.99% of its equity interest in the Wakefield Waste PFI Holdings Limited. A loss of £5.0m was recognised in non-trading administrative expenses as a result of the transaction. Total cash consideration was £30.0m of which £25.8m was received before the year end. The remaining deferred consideration of £4.2m is expected to be received within the next year.

The aggregate effect of the disposals on the Group's assets and liabilities was as follows:

Net assets disposed	Total £m
Property, plant and equipment	(0.6)
Financial assets relating to PFI/PPP contracts	(133.7)
Deferred taxation	(2.6)
Trade and other receivables	(4.1)
Trade and other payables	6.6
Provisions	0.8
Derivative financial instruments	17.8
Cash	(0.7)
Borrowings – PFI/PPP non-recourse net debt	80.4
Net assets sold	(36.1)
Costs directly related to the disposals	(2.2)
Loss on disposal	8.7
Consideration receivable	(29.6)

Net cash flow effect	
Consideration receivable	29.6
Less deferred consideration	(3.8)
Less cash and cash equivalents disposed	(0.7)
Less costs associated with the disposals	(0.7)
Net cash inflow	**24.4**

Notes to the Consolidated Financial Statements

11. Provisions

	Site restoration and aftercare £m	Restructuring £m	Other £m	Total £m
At 1 April 2015	32.9	1.7	14.6	49.2
Provided in the year	0.2	1.3	8.2	9.7
Released in the year	(0.3)	-	(0.1)	(0.4)
Disposal of subsidiary	-	-	(0.8)	(0.8)
Finance charges – unwinding of discount	1.3	-	1.0	2.3
Utilised in the year	(0.3)	(1.8)	(4.3)	(6.4)
Exchange	3.1	0.1	0.1	3.3
At 31 March 2016	**36.9**	**1.3**	**18.7**	**56.9**
Current	**2.5**	**1.3**	**9.2**	**13.0**
Non-current	**34.4**	**-**	**9.5**	**43.9**
At 31 March 2016	**36.9**	**1.3**	**18.7**	**56.9**
Current	2.0	1.7	5.1	8.8
Non-current	30.9	-	9.5	40.4
At 31 March 2015	32.9	1.7	14.6	49.2

Site restoration

The site restoration provision as at 31 March 2016 related to the cost of final capping and covering of the landfill sites. The Group's minimum unavoidable costs have been reassessed at the year end and the net present value fully provided for. These costs are expected to be paid over a period of up to 23 years from the balance sheet date and may be impacted by a number of factors including changes in legislation and technology.

Aftercare

Post-closure costs of landfill sites, including such items as monitoring, gas and leachate management and licensing, have been estimated by management based on current best practice and technology available. These costs may be impacted by a number of factors including changes in legislation and technology. The dates of payments of these aftercare costs are uncertain but are anticipated to be over a period of approximately 30 years from closure of the relevant landfill site.

Restructuring

The restructuring provision relates to redundancy and related costs incurred as part of the previous structural cost programme and also recent restructuring initiatives. As at 31 March 2016 the remaining affected employees are expected to leave the business during the following year.

Other

Other provisions principally cover onerous contracts, onerous leases, lifecycle expenditure obligations, warranties and indemnities. Onerous contracts are provided at the net present value of the least net cost of either exiting the contracts or fulfilling our obligations under the contracts. The provisions are to be utilised over the period of the contracts to which they relate with the latest date being 2034. Under the terms of the agreements for the disposal of certain businesses, the Group has given a number of warranties and indemnities to the purchasers which may give rise to payments.

Notes to the Consolidated Financial Statements

12. Defined benefit pension scheme

The Group's principal defined benefit pension scheme is the Shanks Group Pension Scheme which covers eligible UK employees and is closed to new entrants. The amounts recognised in the Income Statement were as follows:

	2016 £m	2015 £m
Current service cost	**0.3**	0.3
Interest expense on scheme net liabilities	**0.5**	0.5
Net retirement benefit charge before tax	**0.8**	0.8

The amounts recognised in the balance sheet were as follows:

	2016 £m	2015 £m
Present value of funded obligations	**(161.5)**	(169.2)
Fair value of plan assets	**150.8**	152.8
Pension scheme deficit	**(10.7)**	(16.4)
Related deferred tax asset	**1.9**	3.3
Net pension liability	**(8.8)**	(13.1)

The discount rate assumption is derived from the single agency curve based on high quality AA rated bonds.

13. Financial instruments at fair value

The Group holds derivative financial instruments used for hedging which are measured at fair value. The Group uses the following hierarchy of valuation techniques to determine the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group does not hold any financial instruments at fair value which are valued using Level 1 or Level 3 techniques and there have been no transfers between categories in the current or preceding year.

The table below presents the Group's financial instruments measured at fair value:

	Level 2	
	2016 £m	2015 £m
Assets		
Derivative financial instruments	**0.3**	0.1
	0.3	0.1
Liabilities		
Derivative financial instruments	**31.2**	44.1
Retail bonds	**164.6**	149.6
Senior notes	**-**	31.7
	195.8	225.4

The fair value of all other financial assets and financial liabilities in the consolidated balance sheet were not materially different to their carrying value.

Offsetting
PFI/PPP cash and cash equivalents are offset against the non-recourse gross debt as they are subject to offsetting arrangement enforceable in the event of the default on debt facilities.

Notes to the Consolidated Financial Statements

14. Notes to the statement of cash flows

	2016 £m	2015 £m
Loss before tax	**(2.5)**	(20.5)
Fair value gain on financial instruments	**(0.1)**	(0.1)
Finance income	**(16.6)**	(14.8)
Finance charges	**30.0**	28.2
Share of results from associates and joint ventures	**(1.0)**	(5.2)
Operating profit (loss) from continuing operations	**9.8**	(12.4)
Operating profit from discontinued operations	**0.1**	1.3
Amortisation and impairment of intangible assets	**4.4**	15.8
Depreciation and impairment of property, plant and equipment	**33.7**	46.3
Gain on disposal of property, plant and equipment	**(3.0)**	(0.2)
Increase in service concession arrangement receivable	**(10.3)**	-
Current asset write offs	**-**	1.7
Exceptional gain on disposal of discontinued assets	**(0.4)**	-
Exceptional loss on disposal of subsidiaries	**8.7**	0.5
Exceptional gain on sale of impaired investment in associate	**-**	(0.6)
Reassessment of contingent consideration	**-**	(0.8)
Net increase in provisions	**2.1**	5.4
Payments to fund defined benefit pension scheme deficit	**(3.1)**	(3.1)
Share-based compensation	**0.5**	1.3
Exceptional non-cash contract costs	**2.3**	-
Operating cash flows before movement in working capital	**44.8**	55.2
Decrease in inventories	**0.8**	0.5
Decrease in receivables	**5.0**	1.7
Increase (decrease) in payables	**21.6**	(1.6)
Cash flows from operating activities	**72.2**	55.8

Consolidated movement in net debt

	2016 £m	2015 £m
Net decrease in cash and cash equivalents	**(28.9)**	(40.4)
Net decrease (increase) in borrowings and finance leases	**62.4**	(40.4)
Capitalisation of loan fees	**1.7**	-
Total cash flows in net debt	**35.2**	(80.8)
Disposal of PFI/PPP non-recourse debt	**80.4**	-
Finance leases entered into during the year	**(0.3)**	(6.5)
Deferred interest on PFI/PPP non-recourse debt	**(3.1)**	(8.8)
Amortisation of loan fees	**(1.1)**	(0.9)
Exchange (loss) gain	**(17.2)**	23.5
Movement in net debt	**93.9**	(73.5)
Net debt at beginning of year	**(377.6)**	(304.1)
Net debt at end of year	**(283.7)**	(377.6)

Notes to the Consolidated Financial Statements

14. Notes to the statement of cash flows - continued

Movement in net debt

	At 1 April 2015 £m	Cash flows £m	Other non-cash changes £m	Exchange movements £m	**At 31 March 2016 £m**
Cash and cash equivalents	60.8	(28.9)	-	2.8	**34.7**
Bank loans	(31.3)	(24.2)	(0.6)	(3.5)	**(59.6)**
Senior notes	(28.8)	28.5	(0.1)	0.4	**-**
Retail bonds	(144.0)	2.8	(0.4)	(15.9)	**(157.5)**
Finance leases	(11.7)	2.8	(0.3)	(1.0)	**(10.2)**
Total core net debt	(155.0)	(19.0)	(1.4)	(17.2)	**(192.6)**
PFI/PPP non-recourse net debt	(222.6)	54.2	77.3	-	**(91.1)**
Total net debt	(377.6)	35.2	75.9	(17.2)	**(283.7)**

Reconciliation of underlying free cash flow as presented in the Finance Review

	2016 £m	2015 £m
Net cash inflow from operating activities	**67.4**	50.1
Exclude provisions, working capital and restructuring spend	**7.4**	12.3
Exclude payments to fund defined benefit pension scheme	**3.1**	3.1
Exclude increase in service concession arrangement	**10.3**	-
Include finance charges and loan fees paid	**(25.4)**	(16.8)
Include finance income received	**12.6**	4.0
Include purchases of intangible assets	**(1.0)**	(1.2)
Include purchases of replacement items of property, plant and equipment	**(23.8)**	(30.3)
Include proceeds from disposals of property, plant & equipment	**6.2**	2.2
Underlying free cash flow	**56.8**	23.4

15. Contingent liabilities

Due to the nature of the industry in which the business operates, from time to time the Group is made aware of claims or litigation arising in the ordinary course of the Group's business. Provision is made for the Directors' best estimate of all known claims and all such 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.

Under the terms of sale agreements, the Group has given a number of indemnities and warranties relating to the disposed operations for which appropriate provisions are held.

Under the terms of an agreement entered into in June 2015, the Group has an obligation to settle a deferred premium of €3.2m (£2.5m) to the holders of the private placement notes issued in April 2011 and redeemed in June 2015, should future interest cover calculations reach a specified level.

APPENDIX

The following additional information, summarised from the Shanks Group plc Annual Report and Accounts 2016, is disclosed in accordance with Disclosure and Transparency Rule 6.3.5.

1. Principal Risks and Uncertainties affecting the Group

Waste volumes - that incoming waste in the market may fall.

Investment and growth cash risk - that funding sources are available, but that cash generation is insufficient to allow access to funding.

Pricing competition - that market pricing may put pressure on our margins.

Talent development/leadership - that we may lack the required management capabilities.

Long-term contracts - that we enter into long-term contracts at disadvantageous terms or we rely on a small number of large contracts.

Investment and growth financing risk – that funding is not available.

Health and safety risk – that we incur reputational loss or civil and criminal costs.

Recyclate pricing - that the value we receive for recycled and recovered products falls.

Fire and business continuity planning - business interruption and other costs as the result of a disaster such as a fire.

Project execution - that we fail to deliver our investment and cost reduction programmes.

ICT failure - that ICT failure causes business interruption or loss.

Operational failure – at a key facility leading to business interruption and other costs.

Output recyclate/recovered product volumes – that the volumes of products we place to market falls.

Environmental permit risk – that our environmental permits to operate are restricted or removed.

2. Directors' Responsibility, financial information and posting of accounts

The 2016 Annual Report which will be published in June 2016 contains a responsibility statement in compliance with DTR 4.1.12. This states that on 19 May 2016, 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 Strategic Report 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.

The financial information set out above does not constitute the Company's full statutory accounts for the year ended 31 March 2015 or 2016, but is derived from those accounts. Statutory accounts for 2014/15 have been delivered to the Registrar of Companies and those for 2015/16 will be delivered following the Company's Annual General Meeting on 14 July 2016. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The changes to the Board of Directors of Shanks Group plc since the 2015 Annual Report were:

- Mr A Auer retired from the Board on 31 March 2016
- Mr C Matthews joined the Board on 7 March 2016 as Chairman Designate succeeding Mr Auer as Chairman on 1 April 2016

A list of current directors is maintained on the Shanks Group plc website: www.shanksplc.com.