



UK Capital Markets Day

Wakefield PFI Site

19 January 2015

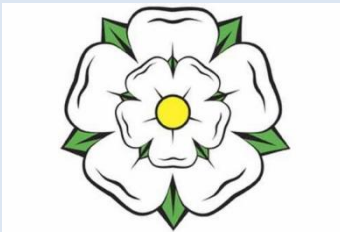


Welcome

Wakefield



Almost 330,000
people living in
Wakefield District



Today's Objectives

- 1 Update on Shanks Group growth strategy**
- 2 Enhance understanding of UK market and PFI accounting**
- 3 Showcase Shanks' Wakefield facility**
- 4 Provide opportunity to meet the Shanks UK Municipal team**
- 5 Listen and learn from your perspectives**

Today's Agenda

Shanks Update

UK Municipal Overview

Wakefield Introduction and Safety Briefing

Site Tour

Lunch

UK Portfolio and PFI Accounting

Future Growth

Refined Vision

**“To be the
most respected
WASTE-TO-
PRODUCT
company”**

Customers



Employees



Investors

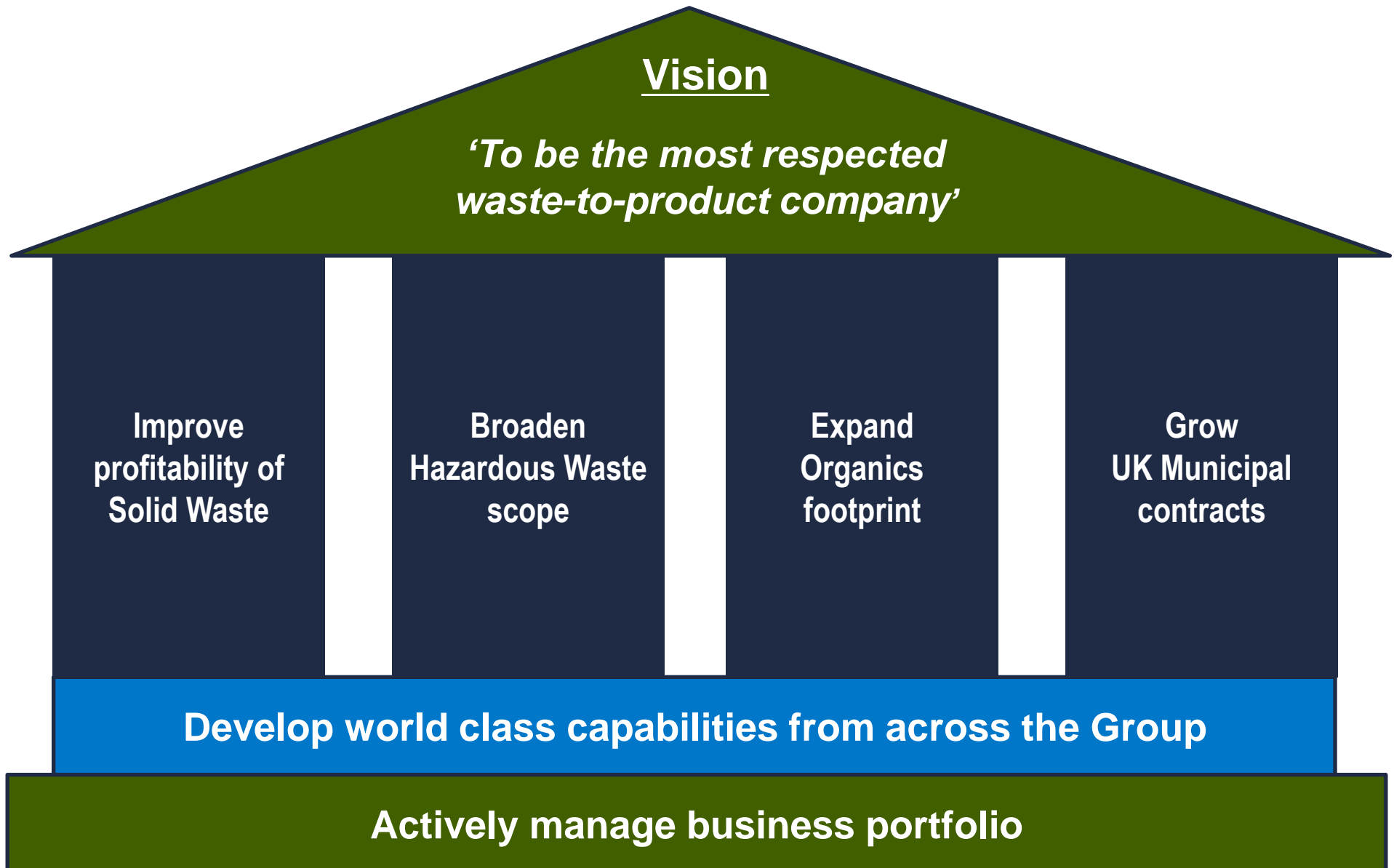


Communities



Reflects our unique position and future direction

Strategy for Growth



Growth Drivers

① Operational Leverage

- Market leader in Benelux with increasingly focused operations
- Building capability and advantage to benefit as markets recover
- Improving productivity and commercial effectiveness

Value and margin expansion as market improves

② Infrastructure Investment

- Advantaged and defensible positions in Hazardous, Organics and UK Municipal
- Building on proven technology and deep processing expertise
- Investing in infrastructure typically underpinned by long-term contracts

High quality, non-cyclical earnings growth

③ Active Portfolio Management

Increasing returns from focused and advantaged businesses

NL SW Improvement Signs

Volumes expected to increase

- **C&D**
 - 3% forecast growth in construction
 - Stable recycling rates
- **I&C**
 - 1% forecast growth
 - Higher recycling rates expected

Increasingly supportive legislation

- New taxes drive need for more recycling
 - Incinerator tax from 1 January 2015
 - Landfill tax started in 2014, continues at adjusted level in 2015
- New Government initiatives to increase recycling rates

Incinerator gate fees increasing

- NL excess capacity now taken-up by imports and outlook similar
- Capacity 'balance' is leading to increased gate fees (spot market)
- Incinerator prices have second order effect on recycling gate fees

Potential market consolidation

- Highly fragmented market beyond Sita, VGG and Shanks
- Larger players rumoured to be assessing strategic options
- Smaller players under pressure and in some cases ceasing to trade⁽¹⁾

Timing of the benefits is uncertain

⁽¹⁾ Smaller players also under increased pressure due to rising incinerator spot fees.

Benelux SW Profit Levers



Investment Division Highlights

Hazardous

- Enhanced emissions control for soil treatment fully operational
- New ATM water tanks on track for Q2 15
- New Rotterdam harbour site opens in Q2 15

Organics

- Contracts renewed in NL underpinning refurbishment
- Awarded Preferred Bidder for 25 year contract in Vancouver
- Continued progress with Canadian municipal opportunities

UK Municipal

- Achieved Financial Close on Derby contract
- BDR construction nearing completion
- Wakefield commissioning on track for Q1 15

On track to deliver sustained, high-quality earnings growth



UK Capital Markets Day

UK Municipal Overview

19 January 2015



UK Team



Peter Eglinton
Managing Director



Nigel Catling
Capital Infrastructure
Director



Mike Turner
PFI Director



David Mulligan
Finance Director



Patrick Rawnsley
Group General
Counsel



Sam Lock
Head of HR

A strong team with a record of delivering

Introduction to the UK Business

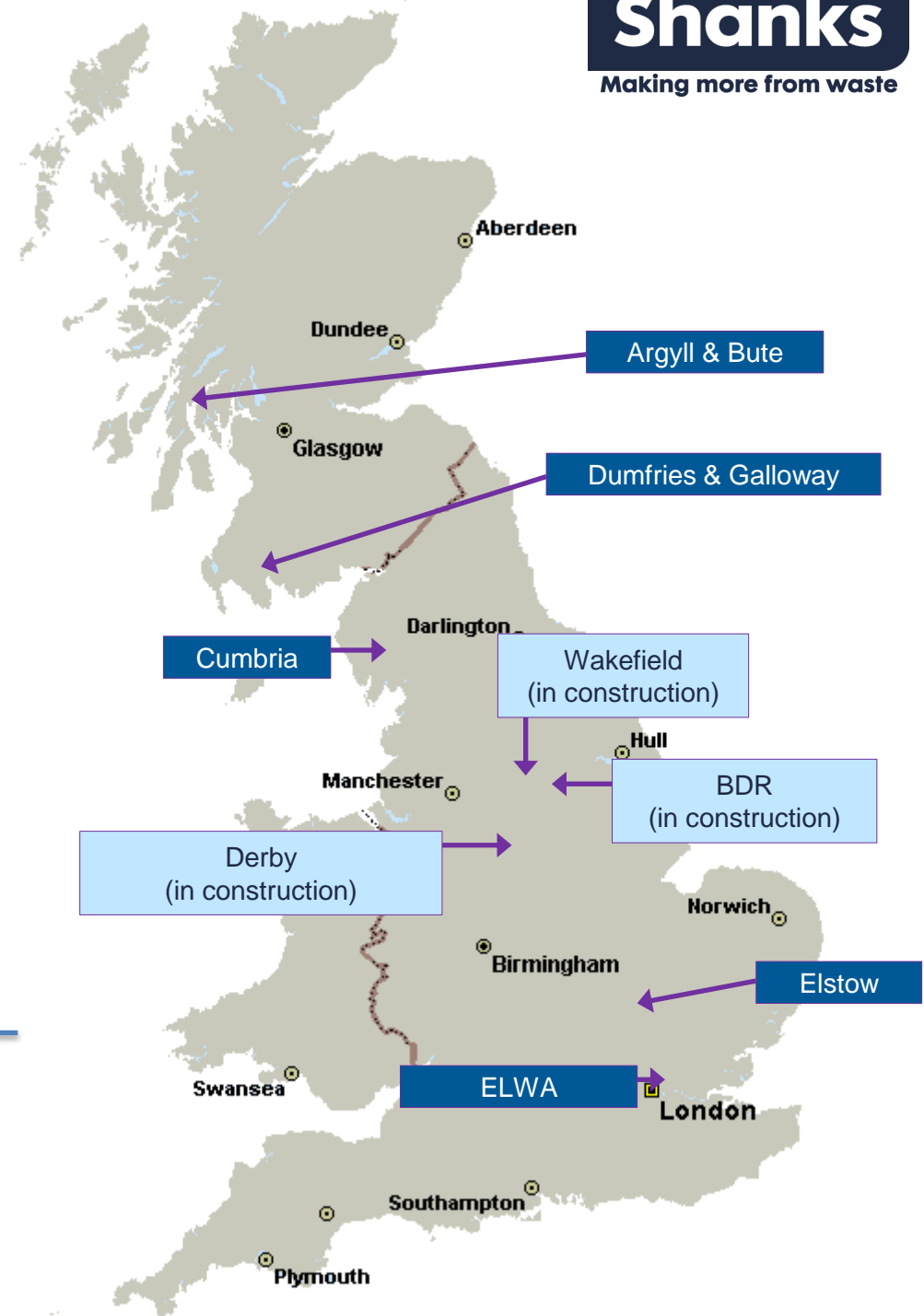
- **Exited sub-scale solid waste business**
- **Focused business of eight major Municipal contracts**
- **Long term contracts with County Councils (can be multiple)**
- **Design, Build, Commission**
- **Maintain, Operate and Optimise**
- **Multiple but common technologies across the business**
- **Almost 1.6m tonnes, 685 employees**

Focused on delivering high quality profit growth

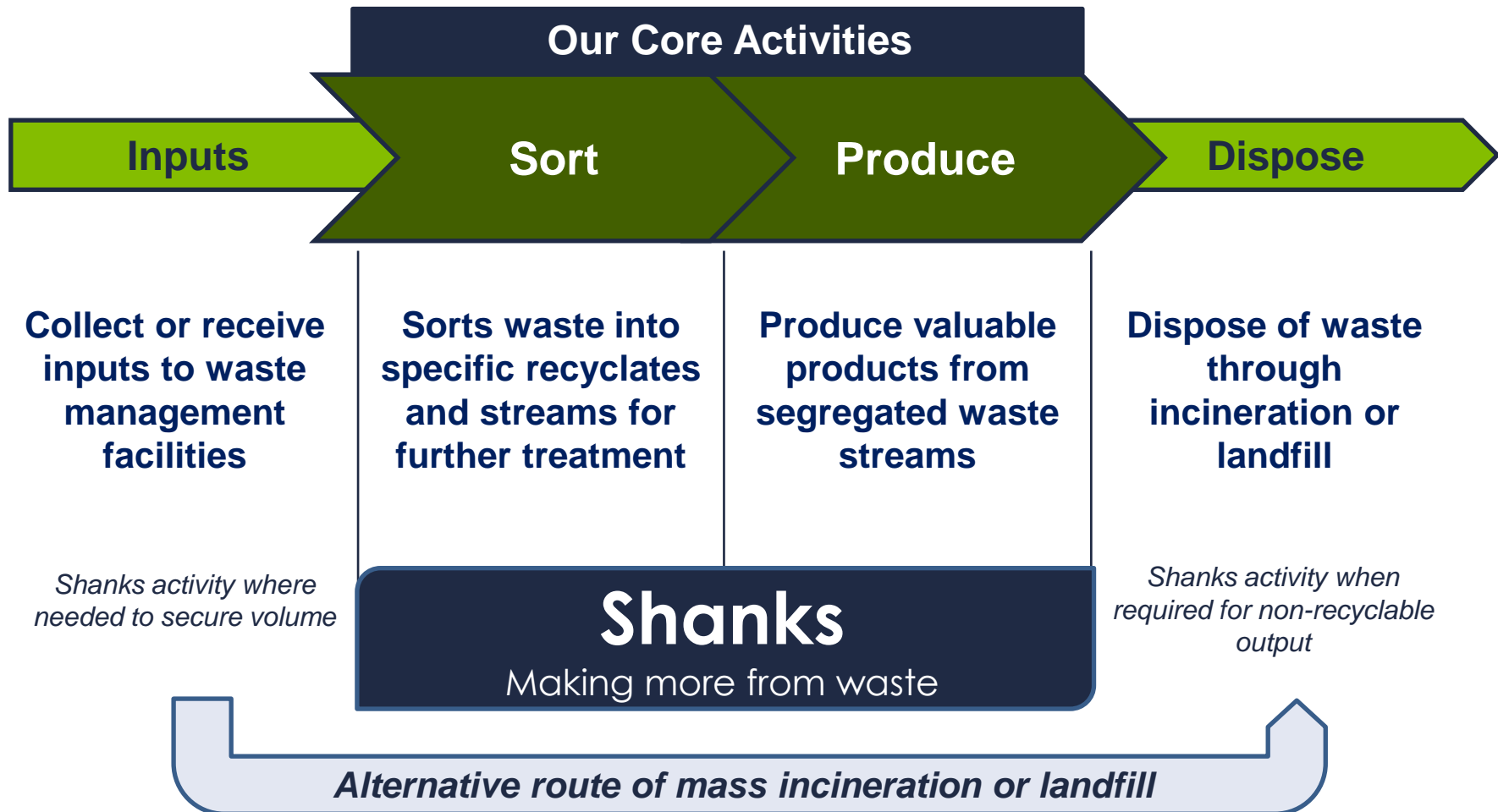
UK Municipal Assets

	Financial Close	Build Phase	Comm-issioning	Full Operation	Contract duration
Derby	<div></div>	Aug 14	Sep 16	Mar 17	2041
Wakefield	<div></div>	Jun 13	Jan 15	Sep 15	2038
BDR	<div></div>	Feb 13	Nov 14	Jul 15	2040
Cumbria	<div></div>	<div></div>	<div></div>	<div></div>	2034
A&B	<div></div>	<div></div>	<div></div>	<div></div>	2026
D&G	<div></div>	<div></div>	<div></div>	<div></div>	2029
ELWA	<div></div>	<div></div>	<div></div>	<div></div>	2027
Elstow	<div></div>	<div></div>	<div></div>	<div></div>	2021

= Achieved
 = In progress
 = To start



Making More From Waste



Focus on maximising the value from waste

Market Overview

Context

- Landfill Tax introduced in 1996
- PFI credits
- Diversion targets
- Majority municipal contracted
- Austerity challenges
- Still lack of capacity in UK

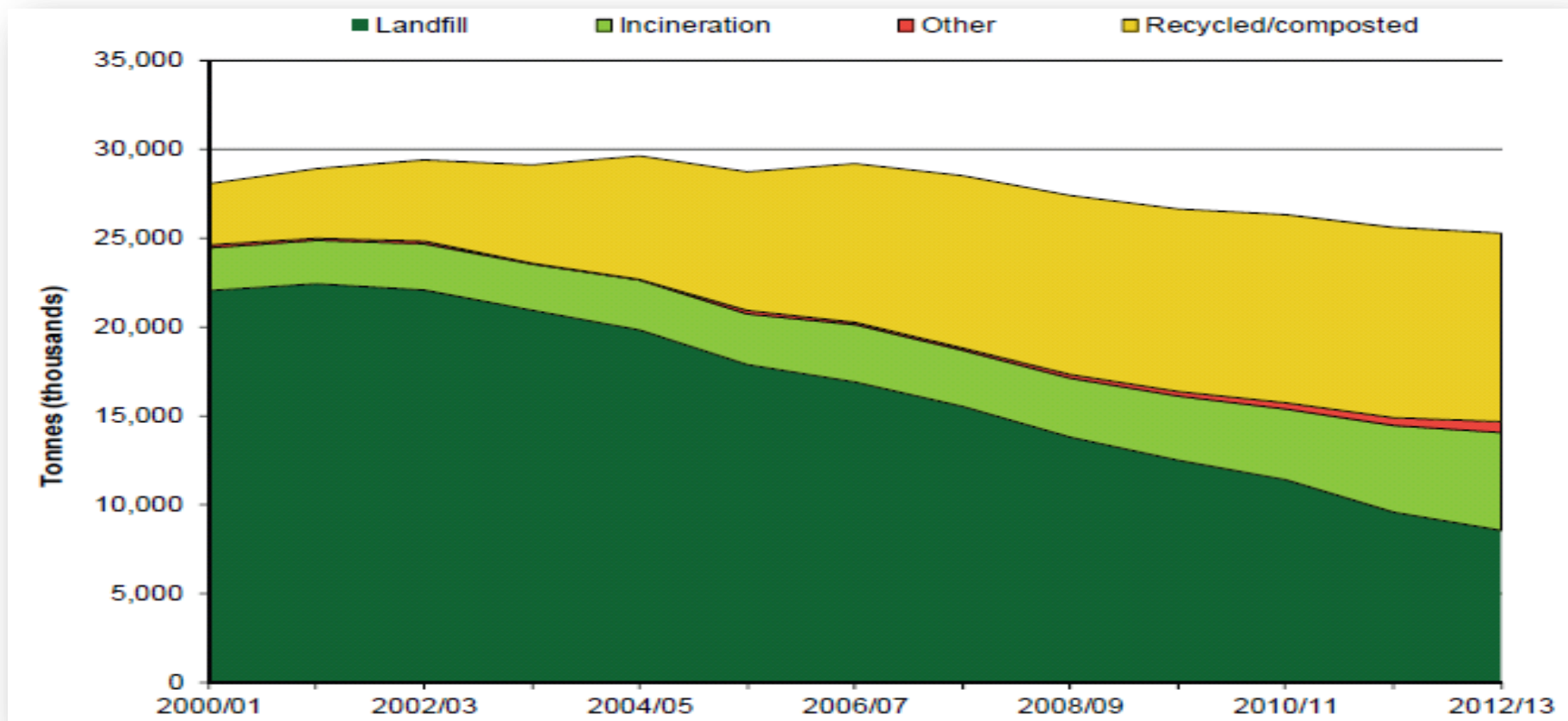
Outlook

- Will remain (2020)
- No new credits
- Look set to deliver
- Still waste to be managed
- Focus on minimising cost
- Currently significant UK exports

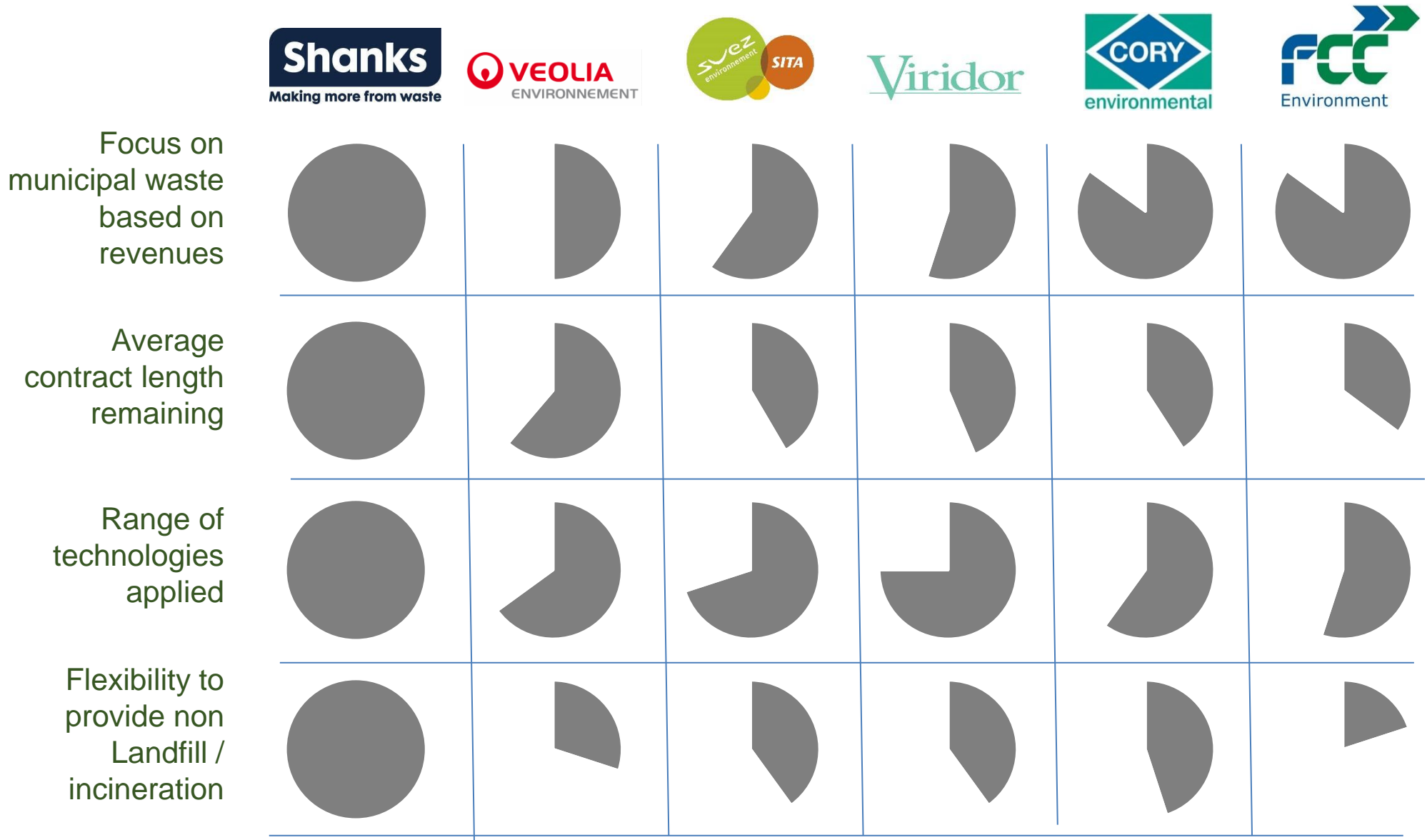
A market that continues to evolve

Municipal Waste Treatment

- Consistent decline in landfill driven by policy / Landfill Tax
- Still significant volume of municipal waste being landfilled

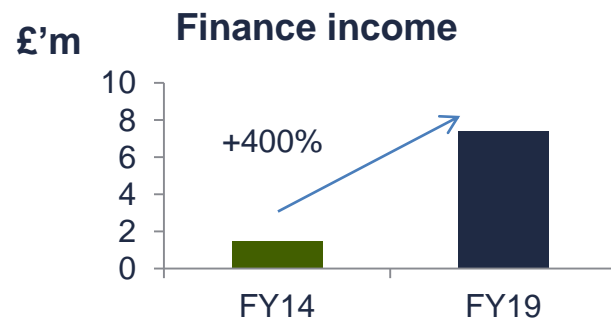
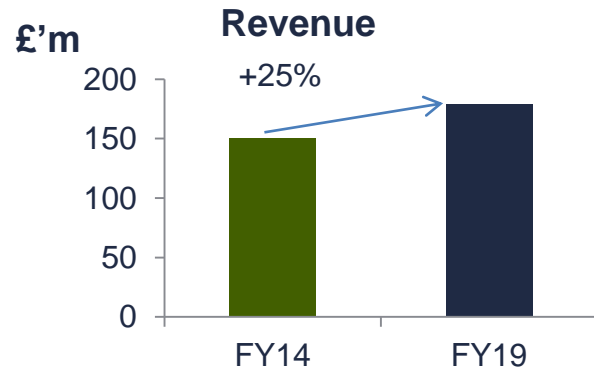


Shanks Distinct Positioning



Based on data and Shank's view on future solutions

Financial Impact



- Doubling of return from UK Municipal over 5 years
- Growth in revenue as projects enter full service
- Increase in trading profit driven by BDR, Wakefield and Derby
- Finance income increases substantially as sub-debt is injected into BDR, Wakefield Derby in FY16 and FY17



UK Capital Markets Day Tour Overview

19 January 2015

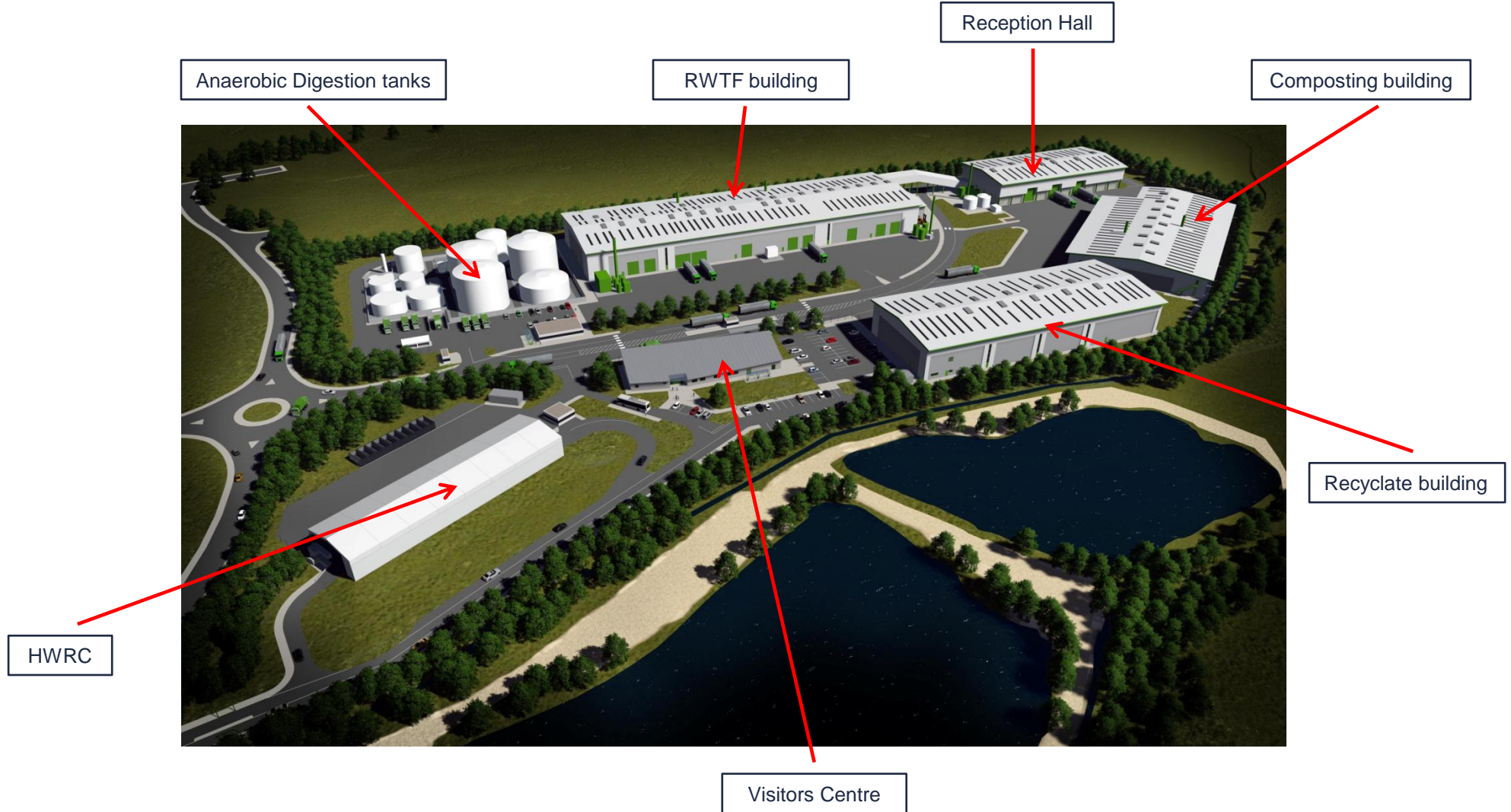


Wakefield

- **25 year Services Contract from 25 Feb 2013**
- **230kt pa total max contract throughput**
- **117 Employees**
- **2x 1.2MW green power generation**
- **Recycling 66%**
- **Diversion 92%**



Today's tour



➤ No phones, no smoking, any concerns please speak up

Safety is our First Concern

UK Team



Peter Eglinton
Managing Director



Nigel Catling
Capital Infrastructure
Director



Mike Turner
UK PFI Director



David Mulligan
UK Finance Director



Patrick Rawnsley
Group General
Counsel



Sam Lock
UK Head of HR



Your Tour Leaders



UK Capital Markets Day

Wakefield PFI Site

19 January 2015



Afternoon Session

➤ **UK Municipal Contracts**

MT

➤ **Case studies**

MT

➤ **PFI Accounting**

DM/CC

➤ **Future Growth**

PE/PD

➤ **Q&A**

➤ **Depart**



UK Capital Markets Day Municipal Contracts

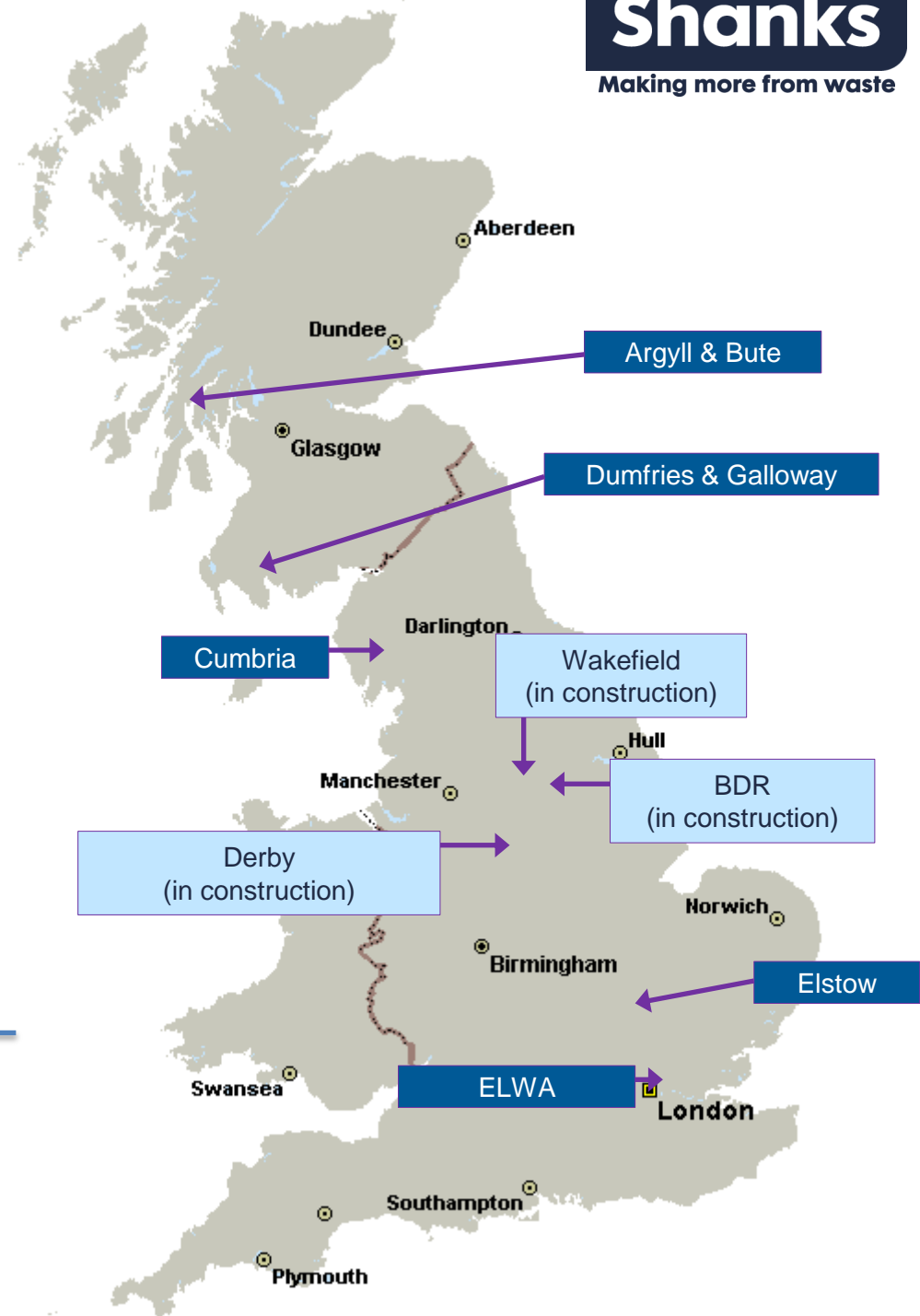
19 January 2015



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Our UK Municipal Portfolio (Full Service)

Contract	Contract Tonnage – kt	Recycling kt - %	Diversion kt - %	Operational employees
ELWA	435	104 – 24%	319 – 73%	270
Derby	287	52 – 18%	216 – 75%	42
BDR	250	48 – 19%	243 – 97%	43
Wakefield	169	112 – 66%	155 – 92%	117
Cumbria	168	56 – 33%	140 – 83%	30
Elstow	102	34 – 33%	79 – 77%	25
D&G	92	18 – 20%	54 – 59%	45
Argyll & Bute	34	3 – 9%	12 – 35%	43
Total	1,537	427 – 28%	1,218 – 79%	615

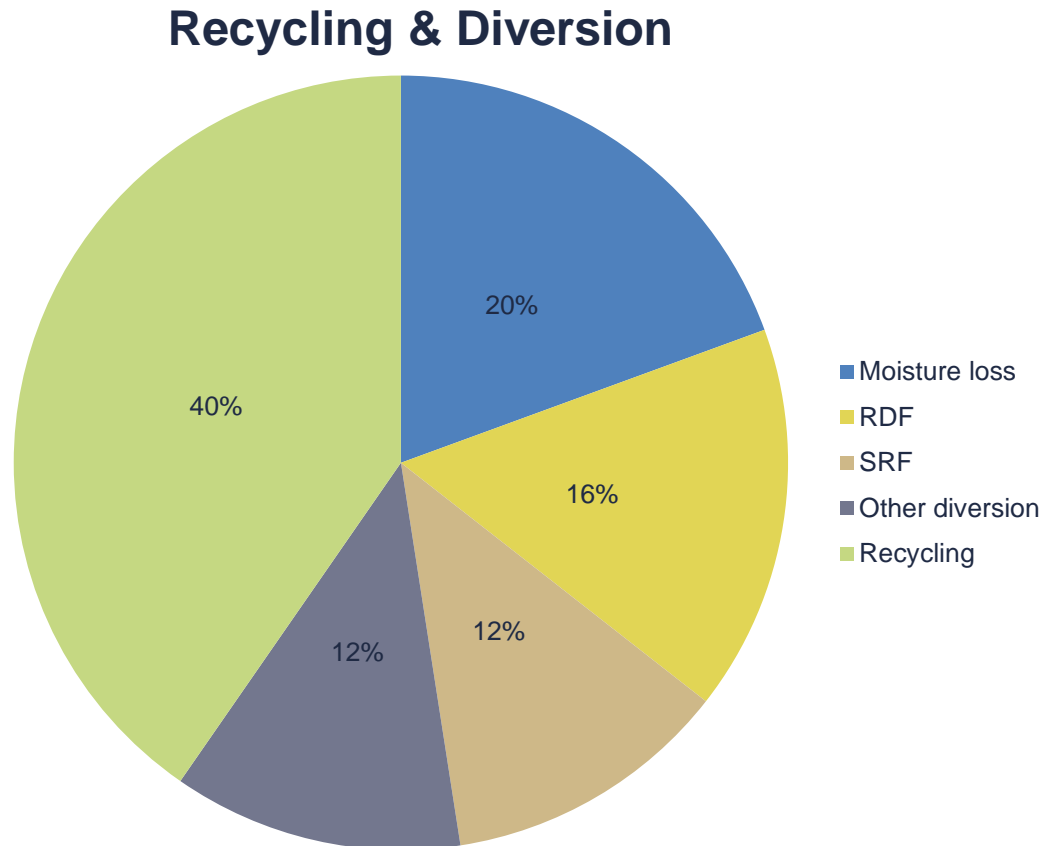
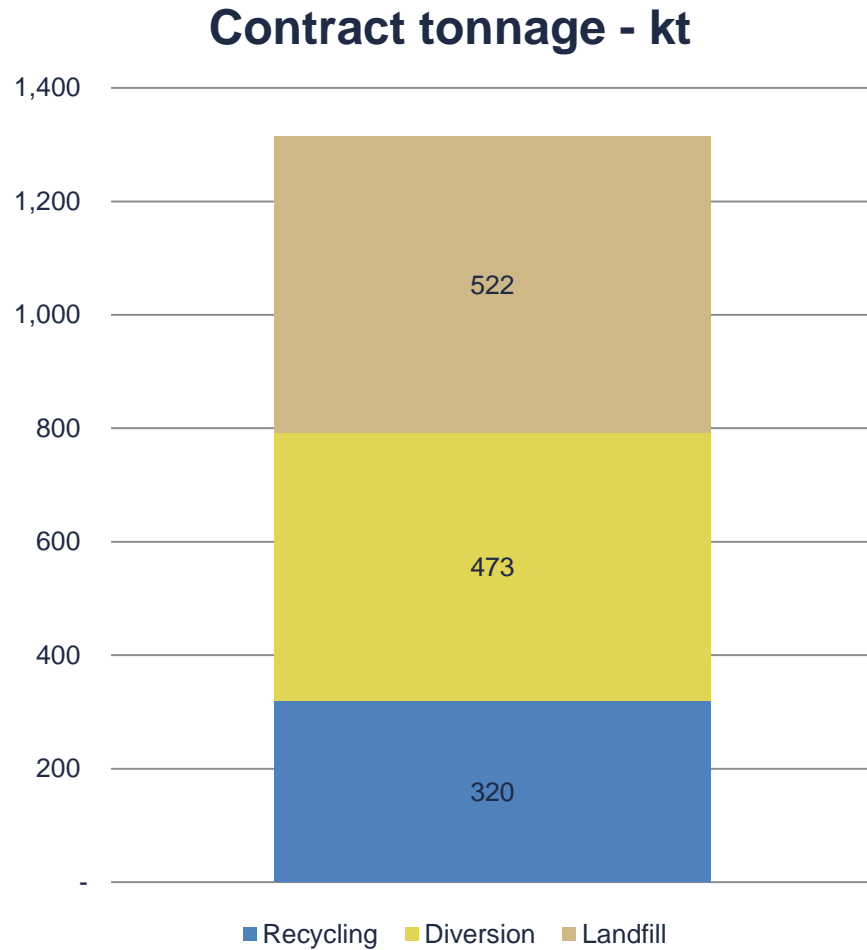
79% diversion on average and as high as 97%!

UK Municipal Technology

Contract	MBT	MRF	AD	IVC	ATT	HWRC
Argyll & Bute	✓					✓
Barnsley/Doncaster/ Rotherham	✓		✓			
Cumbria	✓					✓
Dumfries & Galloway	✓					✓
Derby	✓				✓	✓
Elstow		✓				
ELWA	✓	✓				✓
Wakefield		✓	✓	✓		✓

Experience of a wide range of technologies

UK Mass Balance – 2013/14



Over 60% total diversion despite 2 initial service projects

Case Study 1: ELWA Supplements

CHALLENGE

- Contract signed in 2002 when landfill tax was £13/t
- No incentive for over-diversion



SOLUTION

Agreement with the Authority to enhance the PFI contract so that Shanks would get extra incentives for over-diversion, driven by Shanks' knowledge of the continental fuel market.

KEY BENEFITS

- Significant increase in landfill diversion
- Financial benefit shared between Shanks and Council based on landfill tax saving

Partnership working with the Authority allowed a 'win-win' solution

Case Study 2: MBT Residues

CHALLENGE

- Change in Environment Agency guidance
- Difficult and expensive to compost organic fines from residual waste

SOLUTION

Worked with a local organics expert to develop a new facility in Cumbria to compost the fines to be used for land restoration.

KEY BENEFITS

- Landfill diversion increased
- >90% diversion
- Considerable financial benefits to Shanks and Councils
- New local business started which means local jobs

Technical knowledge and innovation allowed a 'win-win' solution

Case Study 3: Derby Diversion

CHALLENGE

- Planning appeals delayed the development of PFI infrastructure
- Ability to divert from landfill affected

SOLUTION

Agreement with the Councils to manage interim services on a shared savings basis. Shanks provide a pure management service.

KEY BENEFITS

- Significant landfill diversion
- Cost savings shared between the Councils and Shanks
- Experience gained in the management of this service and the waste we will eventually process

Market knowledge allowed a 'win-win' solution



UK Capital Markets Day

PFI Accounting

19 January 2015

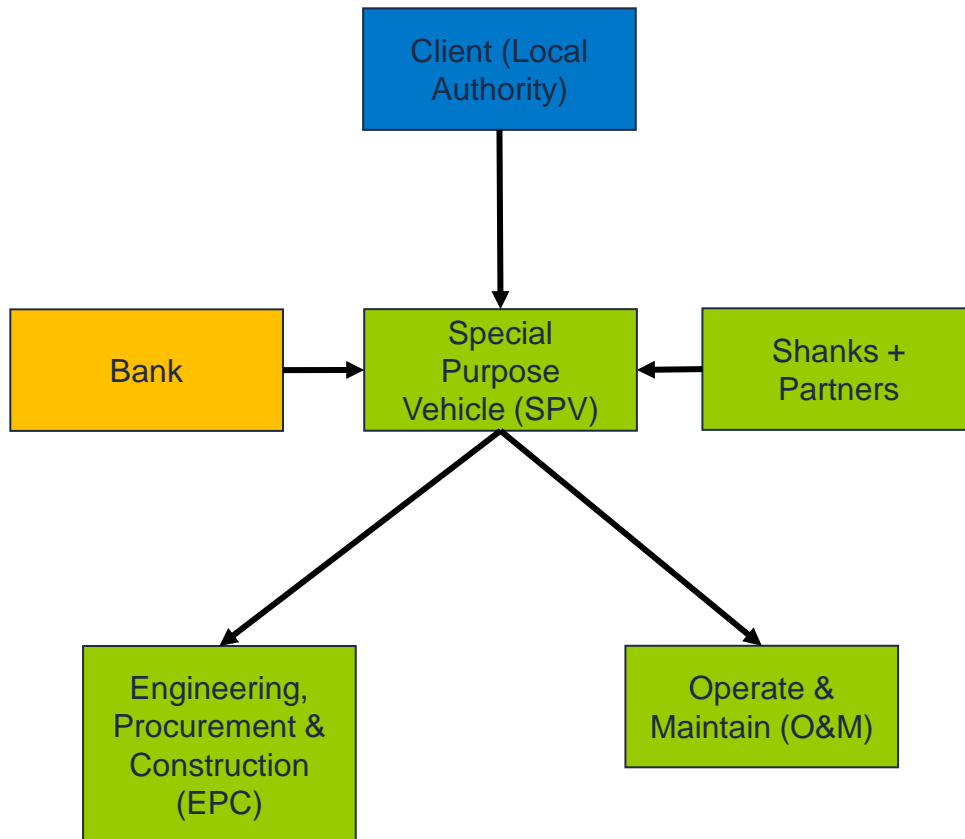


Agenda

- **David Mulligan, UK Finance Director**
- **Christine Cooper, Group Financial Controller**

- **PFI structure**
- **Our contracts**
- **Accounting treatment**
- **Financial assets and debt trajectory**
- **Directors' portfolio valuation**

PFI Structure



- Bank provides non-recourse debt (~85% of debt) to pay for construction and set-up costs, balance (~15%) from equity bridge/sub-debt
- Shanks invests equity and sub-ordinated debt
- Client pays unitary gate fee (UGF) over contract life
- EPC contractor delivers a fixed-cost construction contract to SPV
- O&M provider (UK Municipal) performs operational contract obligations
- Structure is designed to minimise risk in the SPV in order to obtain the lowest possible bank financing cost

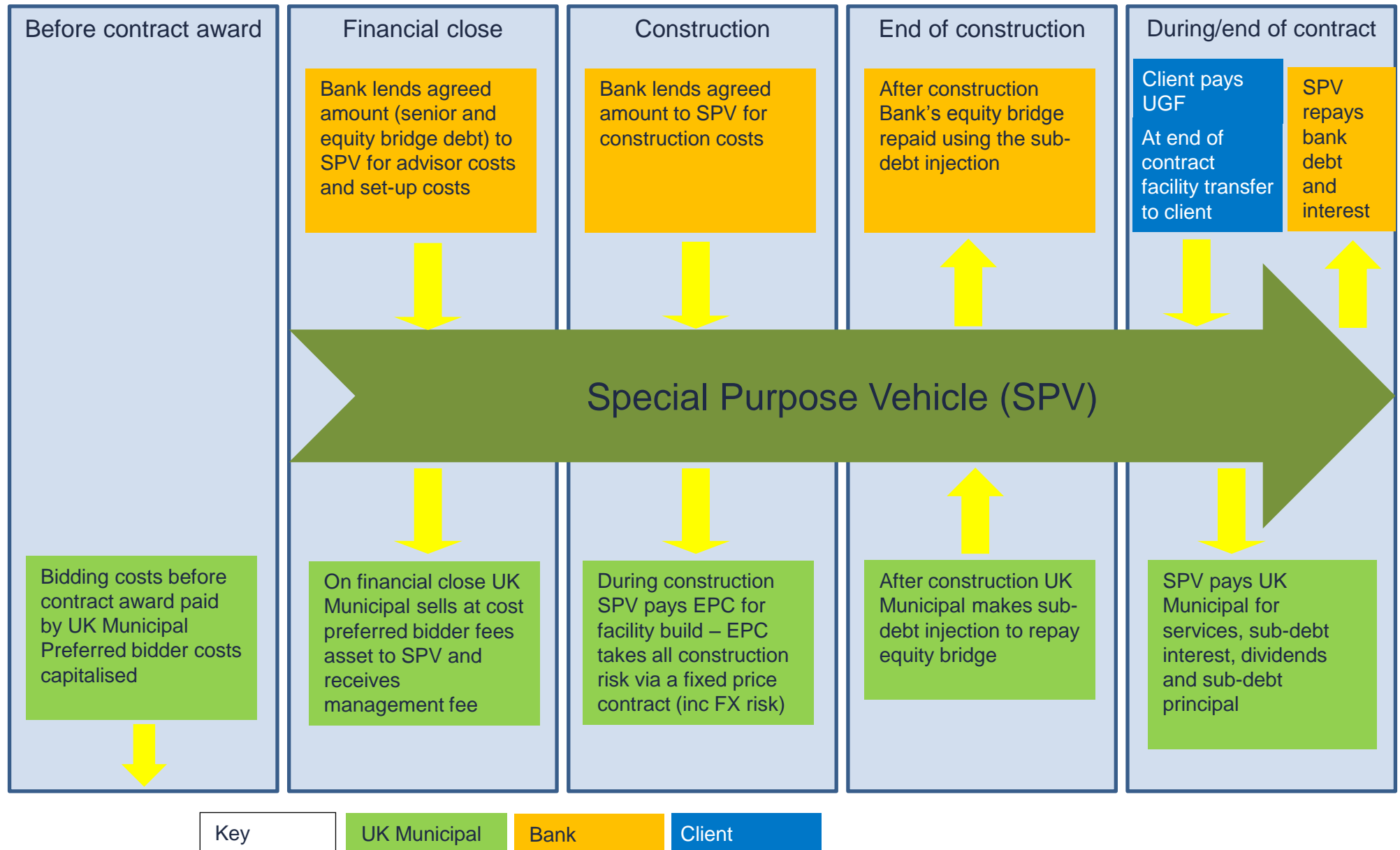
Complex interaction of parties to meet needs of client



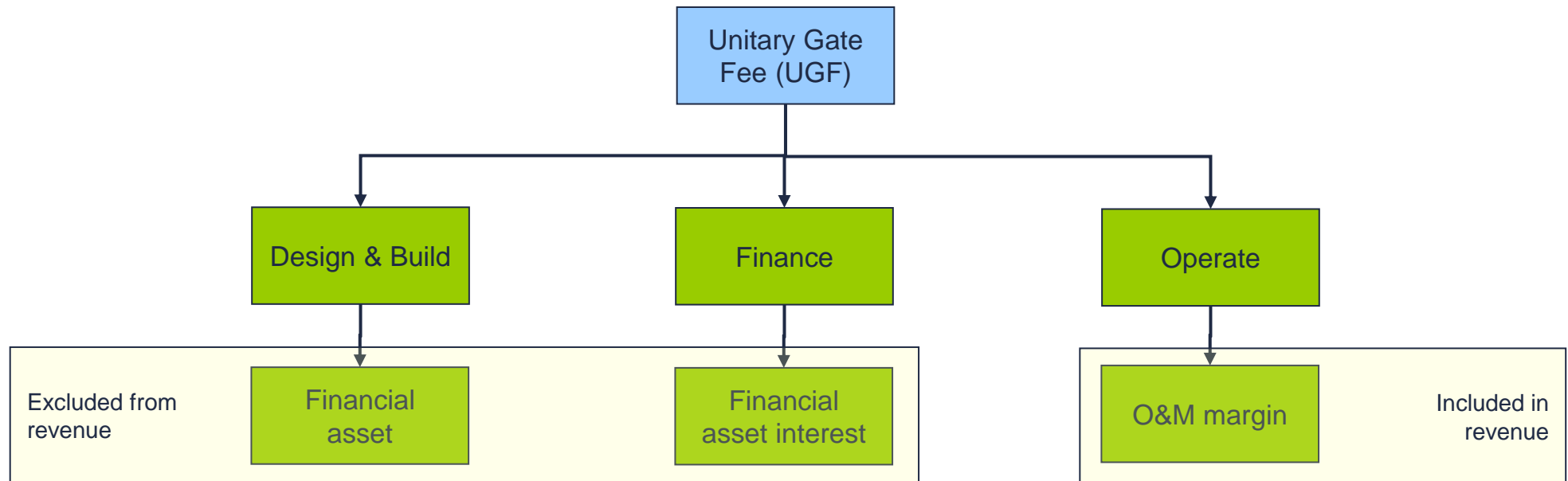
Shanks' Interest in SPVs

- **Shanks invests equity and subordinated debt into SPVs. These are realisable and valuable assets**
- **There are considerations as to why SPVs should be retained:**
 - **Help manage client relationship and delivery of service**
 - **Help in the delivery of contract variations**
 - **Enjoy attractive equity and sub-debt returns**
 - **Share experience from across the portfolio**

PFI Cashflow Overview



Service Offering and Income



- The UGF is split to cover the benefit to the client of Shanks designing, building, maintaining and financing the asset until it is handed over to the client, and to provide a margin for operating the contract
- The financial asset interest 'charge' for the financing benefit is based on the effective cost to Shanks and its partners of funding the project

Our PFI Contracts

Shanks' interest in each contract varies

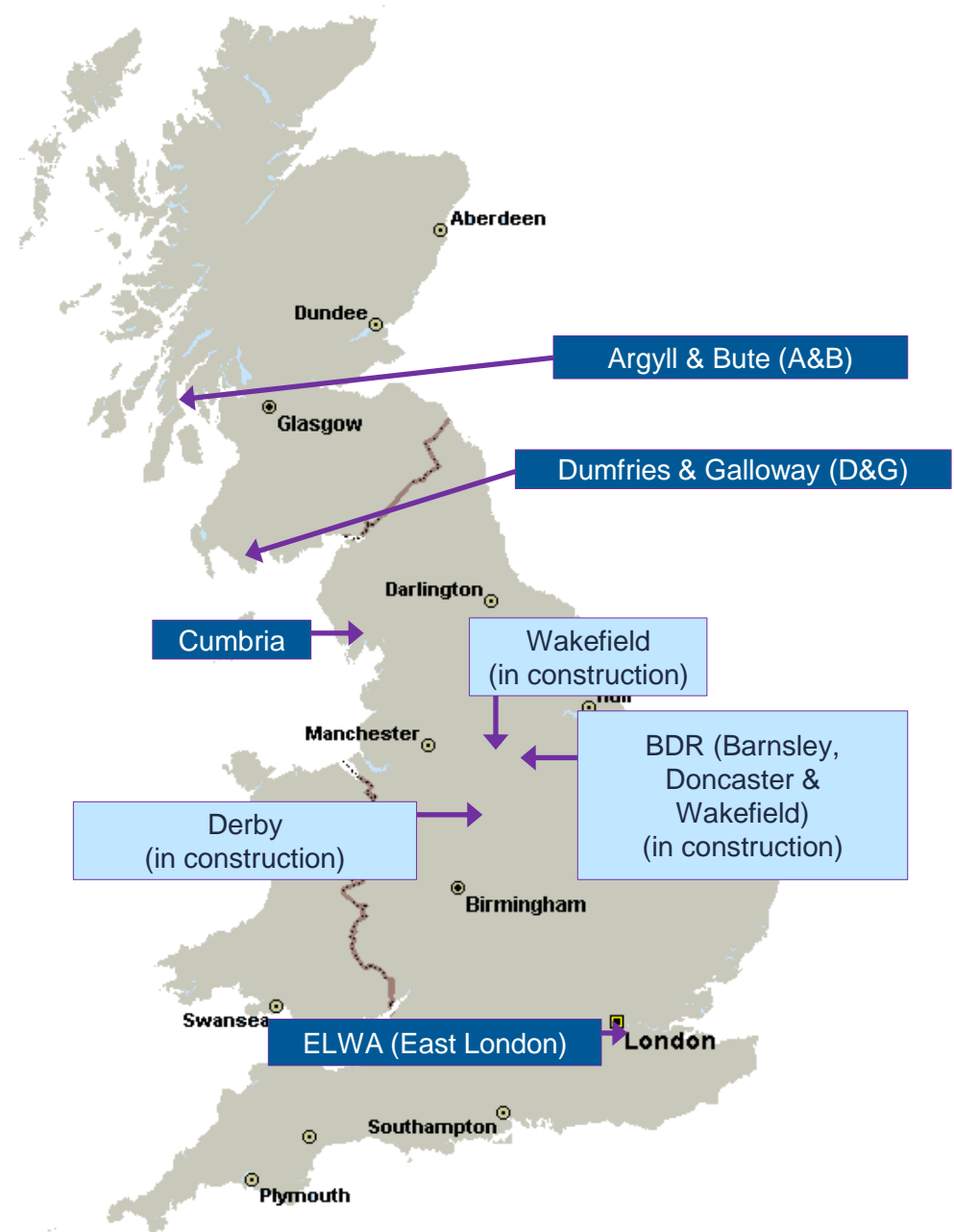
Consolidated

- A&B – 100%
- Cumbria – 100%
- Wakefield – 100%
- BDR – 75% interest (25% SSE), fully consolidated and show minority interest

JVs and Associates

- D&G – 20% associate
- ELWA – 20% associate
- Derby – 50/50 JV with Interserve, not consolidated and shown as interest in JV

Shanks EPC contractor on all except Derby



Accounting Treatment: Income Statement

Income Statement Extract
Six months ended September 2014

	£m
Revenue	74.9
Trading Profit	5.3
Finance income	6.5
Finance charges	(5.9)
Share of results from associates and joint ventures	0.1
Profit before taxation	6.0

Operating Contract – results included in Revenue & Trading Profit

Financing vehicles (SPVs) fully owned

- Operating results for the SPVs go through trading line
- No depreciation as a reversionary asset and financial asset accounting
- Finance income: represents interest income on financial assets
- Finance charges: interest payable on PFI non-recourse debt
- Sub-ordinated debt interest eliminated on consolidation

JV or Associate SPVs

- The post-tax return is shown on the one line
- Future sub-debt interest income for JVs will come through on the finance income

Accounting Treatment: Balance Sheet

Balance Sheet Extract
As at 30 September 2014

	£m
Assets	
Non-current assets	
Investments & Intangible assets	5.3
Financial assets relating to PFI/PPP contracts	214.3
Deferred tax assets	9.0
	<u>228.6</u>
Current assets	
Financial assets relating to PFI/PPP contracts	28.2
Trade and other receivables	24.3
	<u>52.5</u>
Non current liabilities	
Borrowings - PFI/PPP non-recourse net debt	(134.5)
Other non-current liabilities	(5.5)
Deferred tax liabilities	(4.7)
	<u>(144.7)</u>
Current liabilities	
Borrowings - PFI/PPP non-recourse net debt	(58.7)
Trade and other payables	(69.2)
	<u>(127.9)</u>

For fully owned contracts

- Financial assets : represent the monies invested in facilities which are recovered through UGF from the client
- PFI/PPP non-recourse net debt: external bank funding
- Other operating assets included on relevant lines
- Group sub-debt funding is eliminated on consolidation

Where we have a JV or Associate

- Our interest is shown in the Investments line with no separate values for debt or financial asset

Accounting Treatment: Cash Flow

Statement of Cash Flows extract
Six months ended September 2014

	£m
Profits generated from operating activities	<u>5.3</u>
Investing activities	
Outflows in respect of PFI/PPP arrangements	(38.6)
Capital received in respect of PFI/PPP financial assets	2.2
Finance income	<u>2.0</u>
Net cash used in investing activities	<u>(34.4)</u>
Financing activities	
Finance charges	(2.0)
Proceeds from PFI/PPP net debt	39.1
Repayment of PFI/PPP net debt	<u>(0.9)</u>
Net cash generated from financing activities	<u>36.2</u>

Trading results and cash flows go through the operating activities line

Investing activities

- Outflows represent the build of the infrastructure
- Monies recovered from the client allocated to financial asset interest and capital repayments
- Dividends and returns from Associates and JVs

Financing activities

- Interest payments on external non recourse funding
- Proceeds from funding draw downs as infrastructure is built and then repayments once in full service

Financial Asset and Debt Trajectory

	FY14 £m	FY15 £m	FY16 £m	FY17 £m	FY18 £m	FY19 £m	FY20 £m
Financial asset	195	270	260	251	241	231	224
Non-recourse net debt	(151)	(216)	(184)	(177)	(171)	(163)	(156)
Net financial asset	44	54	76	74	70	68	68
Sub-ordinated debt injections	-	-	(37)	(17)	-	-	-
Interest							
Financial asset interest income	9	14	17	16	16	15	14
Interest payable on PFI/PPP non-recourse net debt	(8)	(14)	(15)	(14)	(13)	(13)	(13)
Sub-ordinated debt interest income	1	1	5	6	7	7	7

- An element of sub-ordinated debt interest income will be eliminated on consolidation
- Lower external non-recourse interest following sub-ordinated debt injections

Net financial asset represents Shanks' investment in sub-debt and operations

Directors' Portfolio Valuation

- Portfolio includes the four fully operational contracts plus BDR, Wakefield and Derby under construction
- Directors' valuation based on the cash flows of the financing vehicles and the operating contracts
- Valuation maintained at £110m at September and March 2014

Portfolio split £m

Sep-14

Operating contract - fully operational	50
Operating contract - initial services	8
Operating contract - not yet full services	16
SPV - fully operational	20
SPV - not yet full services	16
	<hr/>
	110

Valuation methodology

- Valuation prepared on a DCF basis
- Valuation of contracts in operation based on operating profits adjusted for tax
- Valuation of interest in SPVs based on returns from sub-debt and equity adjusted for tax
- Corporation tax rate of 21% for FY15 and then 20% for all subsequent periods
- Post-tax discount rate of 8%
- Values risk adjusted

Valuation expected to rise substantially as contracts enter full service

Questions





UK Capital Markets Day

Growth

19 January 2015






UK Growth

- **Build out infrastructure**
- **Making More From Waste**
- **Optimisation (Procurement / Continuous Improvement)**
- **Acquiring new volumes / contracts**
- **Brokering / Consolidator model**
- **New Segments**

Shanks - Good to Grow

Divisional Growth Strategies

Division	Shanks Position	Growth Strategy	FY15 Profit	Future Profit
Solid 	<ul style="list-style-type: none"> • <u>Market leader</u> in Benelux • Linked to NL construction • Strong commercial presence 	<ul style="list-style-type: none"> • Lowest cost and leading productivity • Commercial effectiveness • High quality innovative products 		
Hazardous 	<ul style="list-style-type: none"> • <u>Market leader</u> in EU thermal soil treatment • Advantaged water technology • Integrated & synergistic model 	<ul style="list-style-type: none"> • Fast-tracked waterside expansion • Broader range of treatment inputs • Increased regional presence 		
Organics 	<ul style="list-style-type: none"> • <u>Market leader</u> in Netherlands • Differentiated operating model • Growth footprint in Canada 	<ul style="list-style-type: none"> • Ramp-up EU assets profitably • Canada growth leveraging NL/UK • Co-processing with EU A-brands 		
UK Municipal 	<ul style="list-style-type: none"> • <u>Market leader</u> in UK MBT • Proven operational excellence • New infrastructure being built 	<ul style="list-style-type: none"> • Sustain operational contract delivery • Commission BDR, Wakefield & Derby • New volumes to utilise capacity 		

Actively managing business portfolio

Growth Drivers

① Operational Leverage

- Market leader in Benelux with increasingly focused operations
- Building capability and advantage to benefit as markets recover
- Improving productivity and commercial effectiveness

Value and margin expansion as market improves

② Infrastructure Investment

- Advantaged and defensible positions in Hazardous, Organics and UK Municipal
- Building on proven technology and deep processing expertise
- Investing in infrastructure typically underpinned by long-term contracts

High quality, non-cyclical earnings growth

③ Active Portfolio Management

Increasing returns from focused and advantaged businesses

Questions



Thank You

Appendix

UK Contracts Overview

Argyll & Bute (A&B)



Overview

- Tonnage: 34k
- Diversion: 45%
- Recycling: 10%
- Employees: 43
- Contract end date: September 2026

Technology:

- In-Vessel Composting
- Landfill

Services:

- Composting residual
- 5 HWRCs
- Transfer station

Barnsley Doncaster & Rotherham (BDR)



Overview

- Tonnage: 250k
- Diversion: 97%
- Recycling: 19%
- Employees: 43
- Full Service: 2016/17
- Contract end date: June 2040

Technology:

- MBT
- AD

Services:

- Residual treatment
- Transfer station

Cumbria



Overview

- **Tonnage: 173k**
- **Diversion: 61%**
- **Recycling: 32%**
- **Employees: 30**
- **Contract end date: December 2027**

Technology:

- **MBT (Barrow and Carlisle)**

Services:

- **Residual treatment**
- **14 HWRCs**
- **Transfer station**

Derby



Overview

- **Tonnage: 317k**
- **Diversion: 41%/ 75%**
- **Recycling: 15%/ 18%**
- **Employees: 42**
- **Full Service: 2017/18**
- **Contract end date: March 2042**

Technology:

- **MBT**
- **Gasification**

Services:

- **Residual treatment**
- **9 HWRCs**
- **Transfer stations**

Dumfries & Galloway



Overview

- **Tonnage: 92k**
- **Diversion: 58%**
- **Recycling: 13%**
- **Employees: 45**
- **Contract end date: November 2029**

Technology:

- **MBT**
- **Landfill**

Services:

- **Residual treatment**
- **11 HWRCs**
- **Transfer station**



Overview

- Tonnage: 102k
- Diversion: 68%
- Recycling: 28%
- Employees: 25
- Contract end date: September 2021

Technology:

- Residual waste to ELWA
- MRF

Services:

- Transfer station
- Recyclate sorting



Overview

- **Tonnage: 428k**
- **Diversion: 78%**
- **Recycling: 25%**
- **Employees: 270**
- **Contract end date: December 2027**

Technology:

- **2x MBT**
- **2x MRF**

Services:

- **4 HWRCs**
- **Composting**
- **Recyclate sorting**
- **Transfer station**

Wakefield



Overview

- **Tonnage: 169k**
- **Diversion: 35%/ 63%**
- **Recycling: 35%/ 88%**
- **Employees: 117**
- **Full Service: 2016/17**
- **Contract end date: February 2028**

Technology:

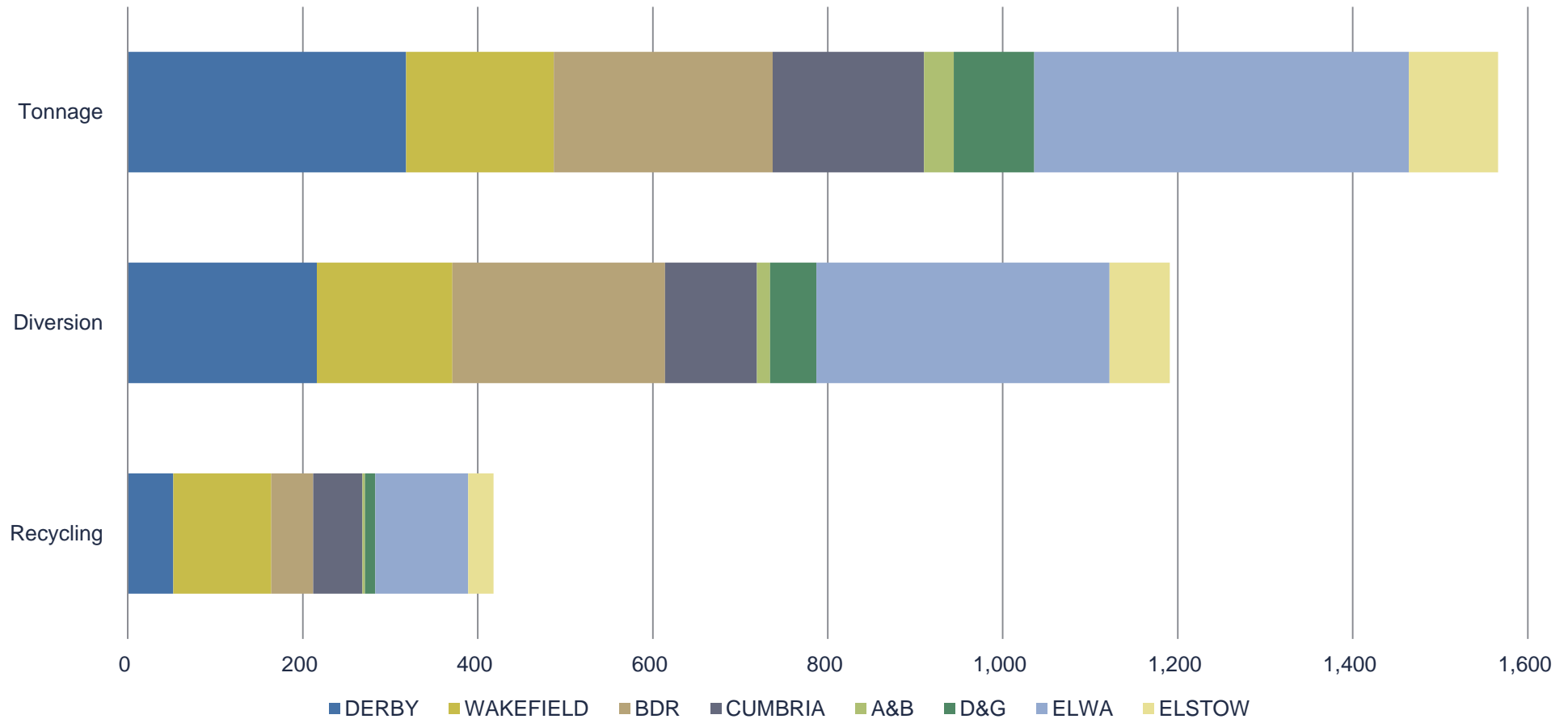
- **MRF**
- **Autoclave**
- **AD**
- **Composting**
- **Residual waste**
- **Recyclate sorting**
- **Transfer station**

Services:

- **4 HWRCs**
- **Composting**
- **Recyclate sorting**
- **Transfer station**

Key Facts 2014

Contract tonnages



Total contract diversion is 76%

UK Technology Overview

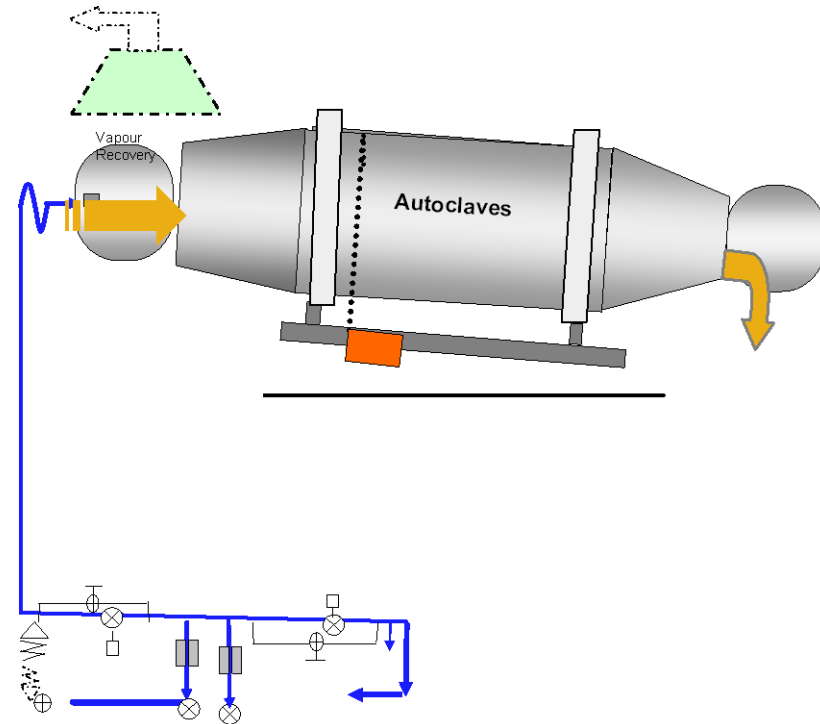
Materials Recycling Facility (MRF)

- Materials sorting technology
- Separates out:
 - Organic fraction
 - RDF
 - Recyclables
 - Rejects for landfilling



Autoclave

- Simple and highly automated system
- Simple pressure cooker
 - Mechanical action breaks down waste into organic feedstock and recycles
- Sparges distribute steam
- Steam treats the waste in a rotating autoclave to break it down into its organic and inorganic elements
- Discharges sanitised materials for separation prior to AD
- Already built and tested



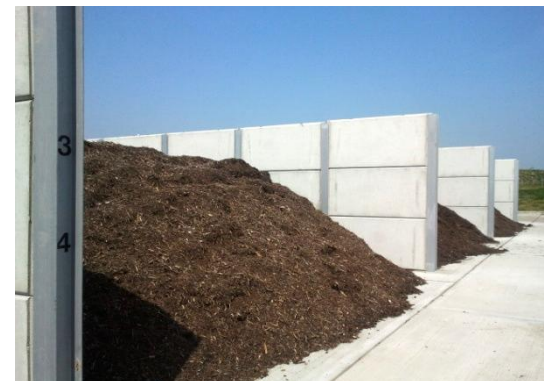
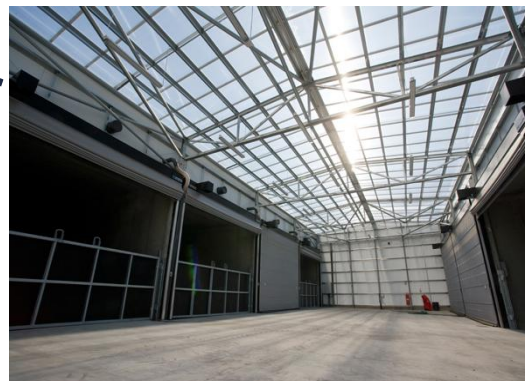
Anaerobic Digestion (AD)

- Organic material
- Wakefield:
 - Capacity to handle 65,000 tonnes of cooked organic fraction per annum
 - 3 X 4,300m³ AD tanks
 - 21 day retention time
 - 1,040m³ biogas storage
 - 2.4MW electrical capacity
- Heat recovery and re-use through the treatment process



Composting

- **Enclosed Composting of Green Waste**
- **Two stage forced air composting process**
- **Internal maturation area**
- **Capacity for 25,000 tonnes per annum at Wakefield**
- **Capable of producing PAS100 compliant product**
- **Markets are well established for this product**



Mechanical Biological Treatment (MBT)

- Convert municipal waste into:
 - Solid Recovered Fuel (SRF)
 - Refuse Derived Fuel (RDF)
- Mechanical and biological means are used to precisely engineer the fuels':
 1. Energy content
 2. Physical characteristics
 3. Chemical composition

