Shanks
Making more from waste

17 November 2016

Shanks Group plc

Shanks Group plc (LSE: SKS), a leading international waste-to-product business, today announces its interim results for the six months ended 30 September 2016.

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

"We have delivered a good performance in the first half, with revenue and underlying profit growth at constant currency in line with our expectations. Our two Benelux Divisions have performed strongly, offsetting a reduced result in Municipal. We are making good progress with our transformational merger with Van Gansewinkel Groep to create a leading waste-to-product business in the Benelux.

"Our expectations for progress for the full year are unchanged at constant currency and our reported results will benefit materially from recent FX movements. We are therefore well positioned both as Shanks, and as an enlarged group post-merger, to deliver long-term sustainable growth and attractive returns."

Business Overview

- Good Group trading performance, with revenue and underlying profit growth at constant currency in line with our expectations and ahead of our expectations at reported currency given weakness of sterling
- Commercial Waste Division performed strongly, with trading profit up 20%* to £11.1m. Both the Netherlands and Belgium performed well, with volume growth in the Dutch construction, commercial and organics market segments
- Hazardous Waste Division performed well, with trading profit up 38%* to £11.4m primarily due to improved soil processing and water volumes
- Ongoing market and operational challenges in the Municipal Division, as previously reported, resulted in a significant reduction in trading profit to £1.1m. Corrective action programmes being taken expected to deliver improved operational performance from the second half
- Commissioning of Derby PPP project delayed by six months, as previously reported, due to a contractor insolvency resulting in a £1.7m charge for liquidated damages
- Continued good progress with Group self-help initiatives to improve margins
- Pre-tax returns on investment portfolio increased to 21.1% (March 2016:19.5%)

Merger Overview

- Proposed merger with Van Gansewinkel Groep BV ("VGG") announced on 29 September 2016 to create a leading waste-to-product business in the Benelux
- Compelling strategic and commercial rationale from complementary technologies, services and geographies, together with €40m of cost synergies
- Shareholder approval received from both companies; awaiting anti-trust clearance in Belgium and the Netherlands, now expected in early 2017
- Integration planning well underway, including the creation of a new brand

** variances at constant exchange rates*

Financial Summary

- Revenue up 7% at constant currency to £348.4m (up 17% at reported rates)
- Underlying profit before tax up 23% at constant currency to £15.4m (up 44% at reported rates)
- Exceptional and non-trading items of £16.3m, £10.2m of which related to the proposed merger, resulting in a statutory loss before tax of £0.9m
- Underlying EPS[1] up 23% at constant currency to 2.7p per share (up 43% at actual rates)
- Core net debt in line with management expectations at constant currency; reported core net debt of £244m reflects adverse currency movement
- Interim dividend maintained at 0.95p per share adjusting for the bonus factor within the recent rights issue

[1]In accordance with IAS33 as the rights issue has been completed prior to this date the average number of shares used in the EPS calculation for both periods has been adjusted for the bonus factor.

	2016	2015	Change %	Change % Constant Currency
Revenue[#]	**£348.4m**	**£297.0m**	**17%**	**7%**
EBITDA*	**£40.3m**	**£35.0m**	**15%**	**1%**
Trading profit*	**£20.7m**	**£17.4m**	**19%**	**3%**
Operating profit	**£7.1m**	**£9.3m**	**-23%**	**-51%**
Underlying* free cash flow	**£(1.4)m**	**£16.4m**		
Cash flow from operating activities	**£6.0m**	**£28.5m**		
Underlying* profit before tax	**£15.4m**	**£10.7m**	**44%**	**23%**
Exceptional and non-trading items	**£(16.3)m**	**£(8.1)m**		
(Loss) profit after tax (statutory basis)	**£(3.4)m**	**£1.1m**		
Underlying* EPS	**2.7p**	**1.8p**	**43%**	**23%**
Basic (loss) earnings per share (statutory basis)	**(0.7)p**	**0.2p**		
Interim dividend per share[+]	**0.95p**	**1.1p**		

[#]Revenue excludes the impact of non-trading and exceptional items of £nil (2015/16 £1.0m).
[+]The interim dividend for the current year has been adjusted for the bonus factor within the recent rights issue
**See page 33 for definition and full list of non-IFRS measures included in this interim financial report.*

Outlook

The Board's expectations for the year ending 31 March 2017 remain unchanged at constant currency and the current weakness of sterling will benefit our reported results for the full year materially. Longer term, the growth drivers in our business remain attractive. We continue to focus actively in our existing business on driving margin expansion and completing existing infrastructure build programmes. Furthermore, the transformational merger with VGG will create a strong business with the scale, capability and expertise to deliver sustainable growth and attractive returns in our core Benelux market.

Notes:

1. The interim dividend of 0.95 pence per share will be paid on 6 January 2017 to shareholders on the register at close of business on 25 November 2016.

2. Management will be holding an analyst presentation at 9:30 a.m. today, 17 November in the Entrust Room on the fifth floor 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	0800 39247
Netherlands	0800 0249942
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.

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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.

INTRODUCTION

Shanks Group plc is a leading international waste-to-product business, with market leading positions in its three operating divisions. Our vision is to be the most respected waste-to-product company and we are delivering on a clear long-term strategy for growth through sustained margin expansion, infrastructure investment in attractive market segments and active management of the business portfolio.

The results for the six months ended 30 September 2016 were in line with the Board's expectations, with strong performances from the Commercial and Hazardous Waste Divisions offsetting the specific market and operational challenges in the Municipal Division.

On 29 September 2016 we announced the terms of a proposed merger with VGG, which has subsequently been approved by both sets of shareholders.

STRATEGY

Our strategy is focused on making products from waste as a cost-effective and sustainable alternative to landfill and mass incineration. The need for such solutions continues to grow due to regulation and legislation, and as a result of society's determination to protect the environment and promote the re-use of materials. Shanks has leading positions in its target markets and a unique portfolio of businesses, capabilities and technologies.

The Group has three market-facing divisions: Commercial Waste, Hazardous Waste and Municipal. Each is a leader in its target market and has a clear strategy to deliver organic growth.

The Group has three core strategies that are applied across all three divisions:

- **Driving Margin Expansion:** using advantaged capabilities and productivity to drive improved operational performance;
- **Investing in Infrastructure:** expanding the footprint with investment in new infrastructure where advantaged and where we can deliver sustained and high quality earnings growth; and
- **Managing the Portfolio:** actively managing the business portfolio to improve returns and accelerate growth.

MERGER WITH VAN GANSEWINKEL

On 29 September 2016 we announced the terms of a proposed merger with VGG valuing the company at €482m on a cash-free, debt-free basis. The consideration payable by Shanks for VGG comprises the payment of approximately €286m in cash (financed from new debt facilities and an equity issue of approximately £141m) and the issue of approximately 190 million new Shanks shares to the vendors, representing approximately 23.8% of the enlarged issued share capital following completion of the merger and equity issue.

The proposed merger is in line with Shanks' long-term strategy and has a compelling strategic and commercial rationale: the merger will create a leading waste-to-product company in the Benelux with complementary services, technologies and geographic footprint. Risk adjusted annualised pre-tax cost synergies are expected to be approximately €40m from the third full year following completion and the transaction is expected to be significantly earnings enhancing in the second full year after completion.

Since the announcement on 29 September 2016, approval for the transaction has been secured from both Shanks and VGG shareholders and integration planning is well underway. Particular focus is currently on designing the new organisation, developing the day 1 action plan to take control of the merged entity and preparing the new brand. Completion is principally dependent upon securing anti-trust approvals for the transaction from the respective Belgian and Dutch authorities, which is now expected in early 2017.

As previously announced, VGG is trading significantly ahead of budget and compared to management expectations earlier in the year.

BOARD CHANGES

As announced yesterday, the Board is pleased to announce the appointment of Allard Castelein to the Board as a non-executive director on 3 January 2017.

OVERVIEW

Continuing Operations	Revenue				Trading Profit			
	Six months ended				Six months ended			
	Sep 16	Sep 15	Variance %		Sep 16	Sep 15	Variance %	
	£m	£m	Reported	CER	£m	£m	Reported	CER
Commercial Waste	166.7	145.5	15%	1%	11.1	8.1	37%	20%
Hazardous Waste	80.5	64.4	25%	11%	11.4	7.3	56%	38%
Municipal	104.1	90.2	15%	14%	1.1	5.2	-79%	-81%
Group central services	-	-			(2.9)	(3.2)	9%	9%
Inter-segment revenue	(2.9)	(3.1)			-	-		
Total	**348.4**	**297.0**	**17%**	**7%**	**20.7**	**17.4**	**19%**	**3%**

CER = at constant exchange rate.
Revenue for the six months ended 30 September 2015 excludes the impact of the non-trading item of £1.0m.
The figures above are reconciled to statutory measures in note 2 in the interim financial statements.

Group underlying revenue increased by 7% at constant currency in the six months ended 30 September 2016 to £348.4m. Trading profit grew by 3% at constant currency to £20.7m and underlying profit before tax grew by 23% at constant currency to £15.4m. At £244m, core net debt at 30 September, excluding currency movements, was in line with expectations, representing a net debt to EBITDA ratio of 3.0x, comfortably within the Group's covenant level of 3.5x.

The Commercial Waste Division delivered a trading profit of £11.1m, an increase of 20% at constant currency, on revenues up by 1%. This result was underpinned by a further strong performance from our Netherlands operations, where trading profit grew by 22% in local currency, and a return to trading profit growth of 16% in Belgium despite the temporary closure of the Shanks Wood Products business due to its core customer's shutdown.

The Hazardous Waste Division delivered an 11% increase in revenues and a 38% increase in trading profit at constant currency to £11.4m, driven mainly by improved soil processing compared to the prior period. The oil and gas markets remained at broadly the same subdued levels as last year.

The Municipal Division reported a 14% increase in revenues at constant currency, including the effect of construction revenues in Canada, but an 81% fall in profits to £1.1m as a result of the impact of previously reported specific market and operational challenges.

Group Central Services costs decreased by £0.3m to £2.9m.

Exceptional items amounted to £16.3m in the first half (2015: £8.1m), £10.2m of which related to transaction costs for the proposed merger with VGG, resulting in a statutory loss before tax of £0.9m (2015: profit of £2.6m).

The Group continues to invest in opportunities that are expected to deliver sustained growth and attractive returns. The fully operational investment portfolio improved its pre-tax returns to 21.1% (March 2016: 19.5%) driven by strong returns from recent Hazardous Waste investments.

The Group delivered an underlying free cash outflow of £1.4m (2015: inflow of £16.4m) in the first half, driven by a working capital outflow as a result of timing on customer receipts in Commercial and Hazardous Divisions and an increase in working capital levels given the increased business activity. Replacement capital spend was higher than the prior year as the Vliko relocation project was completed. The prior year benefited from an inflow following the commencement of the factoring of receivables in Belgium.

Reflecting the Board's continuing confidence in the medium term growth prospects for the Group, we are pleased to announce a maintained interim dividend of 0.95p per share, adjusting for the bonus factor within the recent rights issue.

Outlook

The Board's expectations for the year ending 31 March 2017 remain unchanged at constant currency and the current weakness of sterling will benefit our reported results for the full year materially. Longer term, the growth drivers in our business remain attractive. We continue to focus actively in our existing business on driving margin expansion and completing existing infrastructure build programmes. Furthermore, the transformational merger with VGG will create a strong business with the scale, capability and expertise to deliver sustainable growth and attractive returns in our core Benelux market.

DIVISIONAL REVIEW

The divisional review is presented with performance variances in local currency and the translation impact of currency movements excluded unless otherwise stated.

Commercial Waste Division

	Revenue				Trading Profit			
	Six months ended				Six months ended			
	Sep 16	Sep 15	Variance		Sep 16	Sep 15	Variance	
Netherlands Commercial Waste	132.0	126.5	5.5	4%	10.0	8.2	1.8	22%
Belgium Commercial Waste	72.5	75.4	(2.9)	-4%	3.6	3.1	0.5	16%
Total €m	**204.5**	**201.9**	**2.6**	**1%**	**13.6**	**11.3**	**2.3**	**20%**
Total £m (at average rate)	**166.7**	**145.5**	**21.2**	**15%**	**11.1**	**8.1**	**3.0**	**37%**

	Trading Margin		Return on Operating Assets	
Netherlands Commercial Waste	7.6%	6.5%	8.6%	7.2%
Belgium Commercial Waste	5.0%	4.1%	25.3%	15.0%
Total	**6.7%**	**5.6%**	**11.1%**	**8.7%**

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

The Commercial Waste Division comprises solid waste collection and treatment activities across the Netherlands and Belgium along with organics processing sites in the Netherlands and various smaller units in Belgium.

The Commercial Waste Division delivered a strong performance in the first half, with trading profit up by 20% at constant currency on revenues up by 1%. Reported trading profit at actual currency improved by 37% to £11.1m.

Netherlands

Market conditions in the Netherlands continued to improve and to provide a stable platform for our margin expansion initiatives. Data from the Economic Institute of Building (EIB) showed that the important Dutch construction market continued to show encouraging growth up 4.5% since the beginning of 2016 and is forecast to grow an additional 3% next year. The commercial market segment was also positive with modest growth in recycling in the face of full capacity utilisation at the incinerators.

Revenue in the Netherlands increased by 4% to €132.0m. Total volumes increased by 13%, boosted by a major sludge contract, with underlying construction volumes increasing by 8% and commercial volumes by 7%. The Dutch organics business also performed strongly in favourable seasonal conditions. Inbound pricing was broadly flat and recyclate income was unchanged with higher volumes offsetting lower prices compared with last year. Trading profit increased by 22% to €10.0m, with the trading margin increasing by 110 basis points to 7.6% and the return on operating assets increasing by 140 basis points to 8.6%.

The Division has continued to implement the self-help initiatives of commercial effectiveness, continuous improvement and off-take management to deliver significantly increased profitability in a modestly improving market. This has resulted in an effective response to dynamic mono-stream market conditions, particularly in wood and paper, and an ongoing strong recovery of the Amsterdam region performance.

The Division also continued to manage its portfolio of assets with the sale of the loss-making and non-core groundworks business and the acquisition in August of the commercial waste activities of the City of Leiden. These activities have been fully integrated into the new Vliko depot at Zoeterwoude which opened at the end of the period, and which incorporates lean production and modern environmental technologies.

Belgium

The Belgian business performed well in dynamic markets, delivering profit growth for the first time in five years. Solid recovered fuel (SRF) demand for the Belgian cement market remained strong in the first half, as were landfill volumes, but the Shanks Wood Products facility was adversely impacted by the closure for rebuild of its core customer. Wood dust production is unlikely to restart until 2017. Tax increases on transport that were introduced in April were successfully passed on.

Revenues fell by 4% to €72.5m due to the sale of the Industrial Cleaning Wallonia business last year and the reduction in wood dust sales. Adjusting for exiting non-core activities, revenues increased by 4%. Trading profit increased by 16% to €3.6m. Profitability increased across much of the business as a result of the lean production and commercial effectiveness programmes at our Gent plant which combined to enable a better quality and well-priced SRF product to be offered to the Belgian cement market, our ongoing self-help initiatives and the exit from the loss-making Industrial Cleaning Wallonia business last year.

Hazardous Waste

	Revenue				Trading Profit			
	Six months ended				Six months ended			
	Sep 16	Sep 15	Variance		Sep 16	Sep 15	Variance	
Total €m	**98.9**	**89.4**	**9.5**	**11%**	**13.9**	**10.1**	**3.8**	**38%**
Total £m (at average rate)	**80.5**	**64.4**	**16.1**	**25%**	**11.4**	**7.3**	**4.1**	**56%**

	Trading Margin		Return on Operating Assets	
Total	**14.1%**	**11.3%**	**27.6%**	**23.2%**

The Hazardous Waste Division comprises ATM, one of Europe's largest facilities for the treatment of contaminated soil, water, sludges and packed chemical waste, and Reym, one of the leading industrial cleaning companies in the Netherlands.

The Hazardous Waste Division delivered a strong performance in the first half driven by soil throughput at ATM and improved salt water volumes. Revenues were up 11% to €98.9m and trading profit up 38% to €13.9m compared to a challenged first half last year.

The core oil and gas market, which represents over half of the Division's revenues, was broadly flat at subdued levels similar to last year. Industrial cleaning activity was largely as expected, with a reduction in the northern region offset by increased activity in the south-west, particularly through our new Theemsweg site and using the new ultrasound cleaning equipment. While oil prices have stabilised, the off-set of waste oils remains a challenge.

Soil intake during the period was encouraging, with imported soil and grit offsetting ongoing over-capacity in the local market. Volumes through the pyrolysis plant were also up on last year, as have been water volumes. During the period we entered into a joint venture with local partners to provide water storage and treatment capabilities and to better manage the operating flow of waters through our ATM facility.

ATM has received important Seveso III classification which demonstrates the highest levels of safety and compliance. Work has started on a larger storage shed for inbound waste to the pyrolysis plant that will increase both future capacity and improve safety.

Municipal

	Revenue				Trading Profit			
	Six months ended				Six months ended			
	Sep 16	Sep 15	Variance		Sep 16	Sep 15	Variance	
UK Municipal	87.9	80.4	7.5	9%	(0.7)	4.2	(4.9)	-117%
Canada Municipal	14.5	9.8	4.7	48%	1.8	1.3	0.5	38%
Bid costs	-	-	-		(0.1)	(0.3)	0.2	
Total £m (at constant currency)	**102.4**	**90.2**	**12.2**	**14%**	**1.0**	**5.2**	**(4.2)**	**-81%**
Total £m (at average rate)	**104.1**	**90.2**	**13.9**	**15%**	**1.1**	**5.2**	**(4.1)**	**-79%**

	Trading Margin	
UK Municipal	-0.8%	5.2%
Canada Municipal *	25.0%	19.3%
Total *	**0.7%**	**5.8%**

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

The Municipal Division is a UK market leader in providing mechanical biological treatment (MBT) and anaerobic digestion (AD) solutions to divert municipal waste from landfill and is also a leader in Canada in the diversion of municipal organic waste from landfill through composting and AD.

As previously reported, in the six months ended 30 September 2016, the Division experienced ongoing market and operational challenges in the UK which significantly reduced trading profits to £1.0m. Revenues increased primarily due to a full six months of operation of Barnsley, Doncaster and Rotherham (BDR) and due to construction revenues in Canada.

UK Municipal

The UK business grew revenues by 9% to £87.9m, driven by a full six months of revenues from the new BDR plant as outlined above. However, the business reported a trading loss of £0.7m compared with a trading profit of £4.2m last year.

Market challenges have been largely driven by severe pressure on output prices for the products produced by our MBT facilities. The available market in the UK for SRF remains constrained and the cost of disposing refuse derived fuel (RDF), the alternative product, has increased with rising gate fees across Europe exacerbated by the weakness of Sterling. Recyclate prices also remain subdued. A shortage of available inbound organic waste for our Westcott Park has led to material ongoing operating losses at that facility.

Operational challenges have continued at Wakefield and BDR following their commissioning last year. The operational issues at Wakefield are primarily linked to the insolvency of a major contractor late in the construction phase last year. Clear improvement plans are being implemented in both facilities and we are confident that a sustained recovery in performance will be delivered in the coming 18-24 months.

Given changes in market rates, the Division has experienced increased unrecoverable insurance costs of around £1m in the current year.

As previously reported, in September we were informed by Interserve PLC, EPC contractor to the Derby PPP project, that one of their core contractors was insolvent. We have worked closely with Interserve and the Derby and Derbyshire Councils to mitigate the impact of an expected six month delay. We have taken an exceptional charge for £1.7m relating to liquidated damages as a result of this delay and will also lose commissioning profits that had been expected in the second half.

The Energen Biogas (EBG) joint venture at Cumbernauld in Scotland has continued to perform well, with strong profit growth on the back of new installed capacity. The Frog Island facility in the ELWA contract has also now fully recommissioned following the major fire in August 2014. We have also invested in two new balers at ELWA which will increase the quality and efficiency of the production of waste-derived fuels.

We remain confident that the challenges facing the Division will be overcome. We are working to improve and realign our off-take contracts to reduce disposal costs and to adjust intake where necessary and contractually possible. On the operational side we will ensure that our new assets ramp up to expected performance levels and that costs and productivity are improved more generally through all contracts. We expect these initiatives to drive sustained profit improvement from these very long-term contracts going forward.

Canada Municipal

Revenues in Canada Municipal grew by 48% to £14.5m and trading profit by 38% to £1.8m at constant currency. The principal driver of the revenue growth was the recognition of the revenues of the build programme for our new bio-fuel facility in Surrey, Canada. Unlike our UK PFI contracts, we are acting as principal and not agent in this build programme: therefore the revenues and costs of construction are shown in our income statement with a modest margin. The Surrey facility is progressing well and is expected to enter full service in the first half of 2017.

Excluding the Surrey construction activities, the business continued to perform well with trading profit at London and Ottawa up by 39% to £1.3m at constant currency due to modest increases in volumes and strong cost control.

Peter Eglinton, Municipal Managing Director, has left the business and been replaced by James Priestley. James has held senior management roles at a number of blue-chip companies including Tesco, Ford and BA. He has a track record of delivering profitable growth and will provide strong stable leadership to reposition our Municipal Division going forward. James holds a first class degree in Engineering from Cambridge University and an MBA from the Manchester Business School.

FINANCE REVIEW

Revenue and profit

The Sterling/Euro exchange rate has moved from €1.26:£1 at 31 March 2016 to €1.16:£1 at 30 September 2016, with the average rate for the six month period moving by 12% from €1.39:£1 to €1.22:£1.

Revenue grew by 7% at constant currency to £348.4m (an increase of 17% at actual rates) with growth across all divisions. Trading profit increased by 3% at constant currency to £20.7m (an increase of 19% at actual rates). The Hazardous and Commercial Waste Divisions performed strongly whilst the Municipal Division was affected by a number of market and operational challenges principally in the UK.

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 before tax due to their size, nature or incidence.

Total non-trading and exceptional items from continuing operations amounted to £16.3m (2015: £8.1m). These items are further explained in note 3 to the financial statements and include:

- Portfolio management activity: a total charge of £10.4m (2015: £0.1m) including £10.2m of acquisition related costs in connection with the proposed merger with Van

Gansewinkel Groep BV and a net loss of £0.2m following the sale of the groundworks business in the Netherlands along with the disposal of surplus land and other assets.
- Restructuring charges and associated costs of £0.9m (2015: £0.1m) relating to structural cost reduction programmes announced in early 2016.
- Other items of £4.1m (2015: £7.0m) as a result of contractual issues in Municipal UK caused by delays at the Derby contract due to the insolvency of a major contractor, incremental third party and waste disposal costs at Wakefield following on from the subcontractor insolvency in the prior year and incremental costs relating to the East London fire in 2014 unable to be claimed from the insurers.
- Amortisation of intangible assets acquired in business combinations of £0.8m (2015: £0.9m).
- Fair value measurements charge of £0.1m (2015: £nil).

The operating result from continuing operations on a statutory basis, which takes into account non-trading and exceptional items, was a profit of £7.1m (2015: £9.3m).

Net finance costs
Overall net finance costs before the non-trading and exceptional items decreased by £0.9m in the period. For core borrowings interest charges were £1.0m lower than the same period last year which included the more expensive 2010 Belgian retail bond and charges for the private placement notes net of increased borrowing levels in the current year. The decline in finance income is driven by the disposal of 49.99% of the equity in the Wakefield SPV in March which has resulted in equity accounting for our remaining interest as a joint venture. There is a corresponding reduction in the level of interest charge for PFI/PPP non-recourse net debt. The non-trading and exceptional item charge of £2.7m relates to the obligation to settle a deferred premium to the holders of the private placement notes as a result of the recently announced equity issue.

Share of results from associates and joint ventures
The significant increase period on period is attributable to the strong performance from our joint venture in the anaerobic digestion facility in Scotland following recent investments and strong operational performance.

Profit (loss) before tax
The result before tax from continuing operations on a statutory basis including the impact of non-trading and exceptional items in the period was a loss of £0.9m (2015: profit of £2.6m).

Taxation
The effective tax rate on underlying profits from continuing operations was 22.0% (2015: 21.7%) based on management's best estimate of the weighted average annual tax rate expected for the full financial year.

Earnings per share (EPS)
As the rights issue was completed before this announcement date it is appropriate to calculate the EPS for both the current and prior periods taking into account the bonus factor. Consequently underlying EPS from continuing operations, which excludes the effect of non-trading and exceptional items, increased by 23% at constant currency to 2.7p per share (2015: 1.8p as adjusted). Basic EPS from continuing operations was a loss of 0.7p per share compared to earnings of 0.2p per share as adjusted in the prior period.

Dividend
The Board has approved an interim dividend of 0.95 pence per share (2015: 1.1 pence) that will be paid on 6 January 2017, to shareholders on the register at the close of business on 25 November 2016. This represents a maintained dividend, adjusted for the bonus factor in the rights issue.

Cash Flow Performance

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

	Sep 16 £m	Sep 15 £m
EBITDA	40.3	34.9
Working capital movement and other	(17.6)	(1.4)
Net replacement capital expenditure	(14.7)	(9.2)
Interest and tax	(9.4)	(7.9)
Underlying free cash flow	**(1.4)**	**16.4**
Growth capital expenditure	(2.9)	(4.8)
Acquisitions and disposals	4.0	2.8
Restructuring spend	(0.9)	(1.2)
Dividends paid	(9.4)	(9.3)
UK PFI funding	(4.2)	(21.6)
Canada Municipal funding	(9.9)	(3.2)
Other	(6.6)	(4.6)
Net core cash flow	**(31.3)**	**(25.5)**
Free cash flow conversion	**-7%**	**95%**

All numbers above include both continuing and discontinued operations
Free cash flow conversion is defined as underlying free cash flow divided by trading profit

Free cash flow conversion decreased significantly period on period as a result of working capital movements and increased replacement capital spend. Working capital in the prior period benefited by £10.0m from the initial sale of trade receivables in Belgium. Adjusting for this one-off item, the adverse period on period variance is reduced to £6.2m which is attributable to an anticipated increase in working capital given increased business activities and also timing issues with receipts from certain customers in Commercial and Hazardous Waste which will be recovered in the second half. Replacement capital expenditure was also higher this period as it includes the final build out of the Vliko relocation project using the sale proceeds from the old site received in the second half of 2015/16. Capital spend across all other Divisions has remained tightly controlled with further compliance related and catch up expenditure expected in the second half. The ratio of replacement capital spend to depreciation was 74% (2015: 52%). The cash interest and tax spend in the period was higher than the prior period due to the annual payment of both retail bonds now falling in the first half, payment of financing fees relating to covenant amendments in March 2016 and timing of tax payments.

The growth capital expenditure of £2.9m related to spend on operator enhancements for Municipal contracts which is classified as an intangible asset. The acquisitions and disposals inflow of £4.0m in the current period includes the monies received from the sale of 49.99% of the equity in the Wakefield SPV which was completed in August and other disposals net of the acquisition in August of the commercial waste activities of the City of Leiden. The Canada Municipal funding reflects the construction spend on the Surrey facility.

The other category includes the funding for the closed UK defined benefit pension scheme, onerous contract provision spend in UK Municipal and other non-trading cash flows including acquisition related expenditure.

Net cash generated from operating activities reduced from £28.0m in the prior period to £5.0m in the six months to 30 September 2016. A reconciliation to the underlying cash flow performance as referred to above is included in note 13 in the interim financial statements.

Investment activities and performance

Investment programme
The Group has had a stated strategy of investing in sustainable waste management infrastructure, with a target pre-tax return of 15-20% on fully operational assets (post-tax return of 12-15%). At 30 September 2016, the fully operational proportion of the investment portfolio delivered a pre-tax return of 21.1% (March 2016: 19.5%) driven by a strong performance from the soil assets in the Hazardous Waste Division. The portfolio as a whole delivered a pre-tax return of 17.5% (March 2016: 16.1%).

The investment in the Municipal programme has continued with progress in construction at the Canadian plant in Surrey and delays at Derby following the insolvency of a principal contractor. For the period to 30 September 2016, the PFI financial assets increased by £10.3m to £168.9m due to further construction spend in Surrey net of repayments on other contracts. The build on the Derby contract is not reflected in financial assets as we hold our interest in this contract in a joint venture.

There will be further investments in the Surrey plant in the second half and into 2017/18 as the build out continues in advance of full service in 2017. The subordinated debt investment of £17.5m into the Derby contract is due to be paid in March 2017.

Group return on assets
The Group return on operating assets (excluding debt, tax and goodwill) from continuing operations increased from 12.0% at 31 March 2016 to 12.4% at 30 September 2016. The total Group post-tax return on capital employed was 6.4% compared with 6.3% at 31 March 2016.

Treasury and cash management

Core net debt and gearing ratios
The net core cash outflow of £31.3m along with an adverse exchange effect of £19.1m on the translation into Sterling of the Group's Euro and Canadian Dollar denominated debt and loan fee amortisation has resulted in a core net debt increase of £51.0m to £243.6m. Core net debt, excluding currency movements, was in line with expectations at the half year. Net debt to EBITDA was 3.0x, comfortably within our covenant limit of 3.5x. Our leverage covenant has protection from the recent currency fluctuations post Brexit as it is tested by converting core net debt at the same average FX rate as applied to earnings.

Overall, net debt (prior to completion of the merger) is expected to be around £120m at the year end assuming a €1.15:£1 rate of exchange.

Debt structure and strategy
Core borrowings, excluding PFI/PPP non-recourse borrowings, are all long term, as outlined in the table below.

All figures in £m	Available	Drawn	Term
€100m Belgian retail bond	86.5	86.5	Jul-19
€100m Belgian Green retail bond	86.5	86.5	Jun-22
Revolving credit facility	155.8	93.5	Jan-19
Total debt and facilities	328.8	266.5	
Finance leases and other		11.0	
Loan fees		(2.1)	
Cash		(31.8)	
Core net debt		243.6	

During the period as a result of the proposed merger with Van Gansewinkel Groep B.V. announced on 29 September 2016, the Group entered into a new five year €600m multi-currency facility with a syndicate of banks, comprising a €150m term facility and a €450m revolving credit facility. Utilisation of this facility is subject to the satisfaction of the relevant conditions precedent including completion of the merger and until this time the existing €180m multi-currency facility remains in place.

Debt borrowed in the special purpose vehicles (SPVs) created for the financing of UK PFI/PPP programmes is separate from the Group core debt and is secured over the assets of the SPVs with no recourse to the Group as a whole. Interest rates are fixed by means of interest rate swaps at contract inception. At 30 September 2016 this debt amounted to £88.7m (31 March 2016: £91.1m). The significant decrease from September 2015 is due to the disposal of 49.99% of the equity in the Wakefield contract in March and the consequent equity accounting for our remaining interest as a joint venture.

Directors’ valuation of PFI/PPP portfolio

The Directors’ valuation of the PFI/PPP portfolio, excluding Canada, is based on the net present value of the future cash flows of the PFI/PPP contracts, both the financing vehicles and the operating contracts, and has fallen by £15m to £100m at September 2016 given the performance issues across a number of the UK contracts. 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. This valuation is not recorded in the Group’s balance sheet as it relates to the future value of profits.

Retirement benefits

The Group operates a defined benefit pension scheme for certain UK employees which has been closed to new entrants since September 2002. At 30 September 2016, the net retirement benefit deficit was £22.5m compared with £8.8m at 31 March 2016. The increase in the deficit reflected the fall in the yield on corporate bonds following the EU referendum, which resulted in a lower discount rate of 2.35% at September 2016 compared to 3.5% at March 2016.

Principal risks and uncertainties

The Group operates a risk management framework to identify, assess and control the most serious risks facing the Group and the Board believes that the key risks and associated mitigation strategies have not changed in the period. The 2016 Annual Report (pages 60 to 67) provides a discussion of the Group's principal risks and uncertainties and these are as follows:

- Waste volumes - that incoming waste volumes 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 - 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 a result of a disaster such as 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 - 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.

The Board has monitored and considered the potential impact on the Group of Brexit. Following engagement with industry bodies, we believe that the UK government will maintain its stance on the main elements of environmental policy relating to our industry after Brexit, including continued landfill tax and other initiatives to deliver sustainable waste management. It is also expected that there will continue to be harmonisation with the EU on major environmental priorities and associated policies relating to waste classifications and treatment.

There is a negative trading impact on the Municipal Division relating to increased costs of exporting RDF to Europe at the current weaker rate of Sterling. However, this is more than offset by the positive impact on reported earnings arising from translation of our Euro denominated profits. At current exchange rates we do not anticipate material changes to our markets but we remain vigilant and review potential scenarios periodically. Material currency exposures relating to the merger with Van Gansewinkel have been mitigated through currency hedging.

Looking forward over the remainder of the financial year, the biggest areas of risk focus for the Group concern the maintenance of volumes and pricing in the Commercial and Hazardous Divisions, the delivery of operational recovery in Municipal and the completion of construction programmes in Municipal. With regard to the merger, the largest risks relate to maintaining focus on business as usual in both businesses in the run up to completion and the securing of anti-trust approvals as efficiently as possible. Fire remains a significant risk in waste treatment but we continue to implement improvements to mitigate this risk.

Statement of the Directors' responsibilities

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last Annual Report.

There have been no amendments to the Board of Directors of Shanks Group plc since the 2016 Annual Report. A list of current Directors is maintained on the Shanks Group plc website: www.shanksplc.com.

By order of the Board

P Dilnot
Group Chief Executive
17 November 2016

T Woolrych
Group Finance Director
17 November 2016

Consolidated Interim Income Statement (unaudited)

First half ended 30 September 2016

		First half 2016/17			First half 2015/16 (restated*)		
	Note	**Trading £m**	**Non-trading & exceptional items £m**	**Total £m**	Trading £m	Non-trading & exceptional items £m	Total £m
Revenue	2	**348.4**	**-**	**348.4**	297.0	(1.0)	296.0
Cost of sales		**(289.3)**	**(1.5)**	**(290.8)**	(250.5)	(2.3)	(252.8)
Gross profit (loss)		**59.1**	**(1.5)**	**57.6**	46.5	(3.3)	43.2
Administrative expenses		**(38.4)**	**(12.1)**	**(50.5)**	(29.1)	(4.8)	(33.9)
Operating profit (loss)	2,3	**20.7**	**(13.6)**	**7.1**	17.4	(8.1)	9.3
Finance income	2	**5.0**	**-**	**5.0**	8.7	-	8.7
Finance charges	2	**(11.2)**	**(2.7)**	**(13.9)**	(15.8)	-	(15.8)
Share of results from associates and joint ventures		**0.9**	**-**	**0.9**	0.4	-	0.4
Profit (loss) before taxation	2	**15.4**	**(16.3)**	**(0.9)**	10.7	(8.1)	2.6
Taxation	3,4	**(3.4)**	**0.9**	**(2.5)**	(2.3)	0.8	(1.5)
Profit (loss) for the period from continuing operations		**12.0**	**(15.4)**	**(3.4)**	8.4	(7.3)	1.1
Discontinued operations							
(Loss) profit for the period from discontinued operations	5	**-**	**-**	**-**	(0.1)	0.4	0.3
Profit (loss) for the period		**12.0**	**(15.4)**	**(3.4)**	8.3	(6.9)	1.4
Attributable to:							
Owners of the parent		**12.1**	**(15.4)**	**(3.3)**	8.2	(6.9)	1.3
Non-controlling interest		**(0.1)**	**-**	**(0.1)**	0.1	-	0.1
		12.0	**(15.4)**	**(3.4)**	8.3	(6.9)	1.4
Basic earnings (loss) per share attributable to owners of the parent (pence per share)							
Continuing operations	6	**2.7**	**(3.4)**	**(0.7)**	1.8	(1.6)	0.2
Discontinued operations	6	**-**	**-**	**-**	-	0.1	0.1
		2.7	**(3.4)**	**(0.7)**	1.8	(1.5)	0.3
Diluted earnings (loss) per share attributable to owners of the parent (pence per share)							
Continuing operations	6	**2.7**	**(3.4)**	**(0.7)**	1.8	(1.6)	0.2
Discontinued operations	6	**-**	**-**	**-**	-	0.1	0.1
		2.7	**(3.4)**	**(0.7)**	1.8	(1.5)	0.3

*The prior year earnings (loss) per share has been adjusted to reflect the bonus factor included within the 2016 rights issue.

Consolidated Interim Statement of Comprehensive Income (unaudited)

First half ended 30 September 2016

	First half 2016/17 £m	First half 2015/16 £m
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign subsidiaries	**16.3**	0.4
Fair value movement on cash flow hedges	**(5.5)**	4.0
Deferred tax on fair value movement on cash flow hedges	**0.5**	(0.7)
Share of other comprehensive income of investments accounted for using the equity method	**(0.2)**	0.3
	11.1	4.0
Items that will not be reclassified to profit or loss:		
Actuarial loss on defined benefit pension scheme	**(17.8)**	(7.5)
Deferred tax on actuarial loss on defined benefit pension scheme	**2.9**	1.5
	(14.9)	(6.0)
Other comprehensive loss for the period, net of tax	**(3.8)**	(2.0)
(Loss) profit for the period	**(3.4)**	1.4
Total comprehensive loss for the period	**(7.2)**	(0.6)
Attributable to:		
Owners of the parent	**(6.1)**	(1.0)
Non-controlling interest	**(1.1)**	0.4
Total comprehensive loss for the period	**(7.2)**	(0.6)
Total comprehensive loss attributable to owners of the parent arising from:		
Continuing operations	**(6.1)**	(1.3)
Discontinued operations	**-**	0.3
	(6.1)	(1.0)

Consolidated Interim Balance Sheet (unaudited)

As at 30 September 2016

	Note	**30 September 2016 £m**	30 September 2015 £m	31 March 2016 £m
Assets				
Non-current assets				
Intangible assets		**216.2**	175.3	194.5
Property, plant and equipment		**314.0**	279.7	297.0
Investments		**13.9**	11.5	12.1
Financial assets relating to PFI/PPP contracts		**156.1**	271.5	145.8
Trade and other receivables		**1.7**	0.8	1.1
Deferred tax assets		**23.8**	22.2	19.9
		725.7	761.0	670.4
Current assets				
Inventories		**7.4**	6.9	6.8
Financial assets relating to PFI/PPP contracts		**12.8**	5.5	12.8
Trade and other receivables		**135.1**	121.9	122.4
Derivative financial instruments	12	**0.3**	-	0.3
Cash and cash equivalents		**31.8**	59.5	34.7
		187.4	193.8	177.0
Assets classified as held for sale	5	**-**	1.1	-
		187.4	194.9	177.0
Total assets		**913.1**	955.9	847.4
Liabilities				
Non-current liabilities				
Borrowings - PFI/PPP non-recourse net debt		**(86.2)**	(164.1)	(87.9)
Borrowings - Other		**(271.6)**	(167.3)	(224.9)
Derivative financial instruments	12	**(35.6)**	(38.4)	(28.8)
Other non-current liabilities		**(5.9)**	(4.5)	(6.4)
Deferred tax liabilities		**(33.1)**	(29.5)	(31.6)
Provisions	10	**(44.4)**	(38.7)	(43.9)
Defined benefit pension scheme deficit	11	**(27.1)**	(22.6)	(10.7)
		(503.9)	(465.1)	(434.2)
Current liabilities				
Borrowings - PFI/PPP non-recourse net debt		**(2.5)**	(32.5)	(3.2)
Borrowings - Other		**(3.8)**	(75.9)	(2.4)
Derivative financial instruments	12	**(1.2)**	(1.5)	(2.4)
Trade and other payables		**(208.2)**	(183.8)	(203.3)
Current tax payable		**(10.0)**	(8.3)	(6.1)
Provisions	10	**(17.9)**	(9.9)	(13.0)
		(243.6)	(311.9)	(230.4)
Total liabilities		**(747.5)**	(777.0)	(664.6)
Net assets		**165.6**	178.9	182.8
Equity				
Share capital		**39.8**	39.8	39.8
Share premium		**100.2**	100.0	100.2
Exchange reserve		**40.7**	11.8	24.4
Retained earnings		**(12.0)**	28.7	20.4
Equity attributable to owners of the parent		**168.7**	180.3	184.8
Non-controlling interest		**(3.1)**	(1.4)	(2.0)
Total equity		**165.6**	178.9	182.8

Consolidated Interim Statement of Changes in Equity (unaudited)

First half ended 30 September 2016

	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 April 2016	**39.8**	**100.2**	**24.4**	**20.4**	**(2.0)**	**182.8**
Loss for the period	**-**	**-**	**-**	**(3.3)**	**(0.1)**	**(3.4)**
Other comprehensive income (loss)	**-**	**-**	**16.3**	**(19.1)**	**(1.0)**	**(3.8)**
Total comprehensive income (loss) for the period	**-**	**-**	**16.3**	**(22.4)**	**(1.1)**	**(7.2)**
Share-based compensation	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Movement on tax arising on share-based compensation	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
Dividends	**-**	**-**	**-**	**(9.4)**	**-**	**(9.4)**
Balance as at 30 September 2016	**39.8**	**100.2**	**40.7**	**(12.0)**	**(3.1)**	**165.6**
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)	-	-	13.0	(2.0)	(0.2)	10.8
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	-	-	-	(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 2015	39.8	100.0	11.4	39.7	(1.8)	189.1
Profit for the period	-	-	-	1.3	0.1	1.4
Other comprehensive income (loss)	-	-	0.4	(2.7)	0.3	(2.0)
Total comprehensive income (loss) for the period	-	-	0.4	(1.4)	0.4	(0.6)
Share-based compensation	-	-	-	(0.1)	-	(0.1)
Movement on tax arising on share-based compensation	-	-	-	(0.2)	-	(0.2)
Dividends	-	-	-	(9.3)	-	(9.3)
Balance as at 30 September 2015	39.8	100.0	11.8	28.7	(1.4)	178.9

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 Interim Statement of Cash Flows (unaudited)

First half ended 30 September 2016

	Note	**First half 2016/17 £m**	First half 2015/16 £m
Cash flows from operating activities	13	**6.0**	28.5
Income tax paid		**(1.0)**	(0.5)
Net cash generated from operating activities		**5.0**	28.0
Investing activities			
Purchases of intangible assets		**(4.0)**	(0.5)
Purchases of property, plant and equipment		**(15.6)**	(14.8)
Acquisition of business assets		**(1.1)**	-
Disposals of property, plant and equipment		**2.0**	1.3
Proceeds from disposal of subsidiaries		**0.7**	0.4
Proceeds from exiting UK Solid Waste		**-**	2.4
Receipt of deferred consideration		**4.5**	0.3
Payment of deferred consideration		**(0.1)**	-
Outflows in respect of PFI/PPP arrangements under the financial asset model		**(3.6)**	(20.6)
Capital received in respect of PFI/PPP financial assets		**1.8**	21.0
Finance income		**4.9**	3.7
Dividends received from associates and joint ventures		**0.1**	0.1
Investment in associates and joint ventures		**(0.8)**	(0.7)
Net cash used in investing activities		**(11.2)**	(7.4)
Financing activities			
Finance charges and loan fees paid		**(13.3)**	(11.1)
Dividends paid	7	**(9.4)**	(9.3)
Proceeds from the issuance of retail bonds		**-**	71.4
Proceeds from loan from non-controlling interest		**-**	3.4
Repayment of senior notes		**-**	(28.5)
Proceeds from (repayment of) bank borrowings		**27.8**	(17.4)
Proceeds from PFI/PPP net debt		**0.6**	4.7
Repayment of PFI/PPP net debt		**(3.0)**	(33.8)
Repayments of obligations under finance leases		**(1.3)**	(1.7)
Net cash generated from (used in) financing activities		**1.4**	(22.3)
Net decrease in cash and cash equivalents		**(4.8)**	(1.7)
Effect of foreign exchange rate changes		**1.9**	0.4
Cash and cash equivalents at the beginning of the period		**34.7**	60.8
Cash and cash equivalents at the end of the period		**31.8**	59.5

Notes to the Consolidated Interim Financial Statements (unaudited)

1. Basis of preparation

General information
Shanks Group plc is a public limited company listed on the London Stock Exchange and is incorporated and domiciled in Scotland under the Companies Act 2006, registered number SC077438.

This condensed set of consolidated interim financial statements for the six months ended 30 September 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union. They should be read in conjunction with the 2016 Annual Report and Accounts, which have been 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 and comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable for companies reporting under IFRS. The 2016 Annual Report and Accounts are available from the Company's website www.shanksplc.com.

These primary statements and selected notes comprise the unaudited consolidated interim financial results of the Group for the six months ended 30 September 2016 and 2015, together with the audited results for the year ended 31 March 2016. These interim financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative figures as at 31 March 2016 have been extracted from the Group's statutory Annual Report and Accounts for that financial year, but do not constitute those accounts. Those statutory accounts for the year ended 31 March 2016 were approved by the Board of Directors on 19 May 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

Having reassessed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

The Board of Directors approved, on 17 November 2016, this condensed set of consolidated interim financial statements which have been reviewed by PricewaterhouseCoopers LLP but not been audited (see page 34).

Accounting policies and principal risks
The results have been prepared applying the accounting policies and presentation that were used in the preparation of the 2016 Annual Report and Accounts except taxes on income in the interim periods are accrued using the estimated tax rate that would be applicable to expected total annual profit or loss.

New standards have no significant impact on the consolidated results or financial position in the current financial period.

The Finance Review includes consideration of the principal risks and uncertainties affecting the Group in the remaining six months of the year.

Estimates
The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the nature of the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that were applied to the financial statements for the year ended 31 March 2016 and can be found on pages 118 to 120 of the 2016 Annual Report and Accounts.

Notes to the Consolidated Interim Financial Statements (unaudited)

1. Basis of Preparation – continued

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.

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, 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, as shown in note 3.

Non-trading and exceptional items
Items classified as non-trading and exceptional are disclosed separately due to their size or incidence to enable better understanding of performance. These include, but are not limited to, significant impairments, restructuring of the activities on an entity including employee severance costs, acquisition and disposal transaction costs, onerous contracts, significant provision releases and profit or loss on disposal of properties. A full listing of those items presented as non-trading and exceptional is shown in note 3.

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 period.

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

Closing Rates

Value of £1	**30 September 2016**	30 September 2015	Change	31 March 2016	Change
Euro	**1.16**	1.36	(14.8)%	1.26	(8.4)%
Canadian dollar	**1.71**	2.03	(15.9)%	1.86	(8.2)%

Average Rates

Value of £1	**30 September 2016**	30 September 2015	Change
Euro	**1.22**	1.39	(11.8)%
Canadian dollar	**1.77**	1.95	(9.1)%

Notes to the Consolidated Interim Financial Statements (unaudited)

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.

The 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 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	**First half 2016/17 £m**	First half 2015/16 £m
Netherlands Commercial Waste	**107.6**	91.2
Belgium Commercial Waste	**59.1**	54.3
Commercial Waste	**166.7**	145.5
Hazardous Waste	**80.5**	64.4
UK Municipal	**87.9**	80.4
Canada Municipal	**16.2**	9.8
Municipal	**104.1**	90.2
Inter-segment revenue	**(2.9)**	(3.1)
Total revenue from continuing operations#	**348.4**	297.0

#Total revenue from continuing operations in 2015/16 excludes the impact of a non-trading item of £1.0m**.**

Results	**First half 2016/17 £m**	First half 2015/16 £m
Netherlands Commercial Waste	**8.1**	5.9
Belgium Commercial Waste	**3.0**	2.2
Commercial Waste	**11.1**	8.1
Hazardous Waste	**11.4**	7.3
UK Municipal	**(0.7)**	4.2
Canada Municipal	**1.9**	1.3
Bid costs	**(0.1)**	(0.3)
Municipal	**1.1**	5.2
Group central services	**(2.9)**	(3.2)
Total trading profit	**20.7**	17.4
Non-trading and exceptional items	**(13.6)**	(8.1)
Total operating profit from continuing operations	**7.1**	9.3
Finance income	**5.0**	8.7
Finance charges	**(11.2)**	(15.8)
Finance charges – non-trading and exceptional items	**(2.7)**	-
Share of results from associates and joint ventures	**0.9**	0.4
(Loss) profit before taxation and discontinued operations	**(0.9)**	2.6

Notes to the Consolidated Interim Financial Statements (unaudited)

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.

Continuing operations	**First half 2016/17 £m**	First half 2015/16 £m
Restructuring charges	**0.9**	0.1
Portfolio management activity:		
Acquisition costs	**10.2**	0.1
Disposals in the Netherlands	**0.2**	-
	10.4	0.1
Other items:		
Municipal contract issues	**2.4**	4.6
Costs relating to a fire	**1.7**	-
ATM waterside contamination	**-**	1.4
ATM soil revenue recognition	**-**	1.0
	4.1	7.0
Amortisation of acquisition intangibles	**0.8**	0.9
Change in fair value of derivatives	**0.1**	-
Continuing non-trading and exceptional items in (loss) profit before tax	**16.3**	8.1
Tax on non-trading and exceptional items	**(0.9)**	(0.8)
Continuing non-trading and exceptional items in (loss) profit after tax	**15.4**	7.3
Discontinued operations (further details in note 5)	**-**	(0.4)
Total non-trading and exceptional items in (loss) profit after tax	**15.4**	6.9

Restructuring charges
Restructuring and associated costs of £0.9m (2015/16: £0.1m) relate to structural cost reduction programmes announced in the last financial year. The cost of £0.9m (2015/16: £0.1m) is recorded in administrative expenses.

Portfolio management activity
Acquisition related costs of £10.2m relating to the proposed merger with Van Gansewinkel Groep BV have been incurred in the period (2015/16: £0.1m). The disposal activity charge of £0.2m included the loss on sale of the groundworks business (£1.1m) along with the profit on sale of surplus land (£0.5m) in the Netherlands Commercial business and the profit on sale of a closed facility in Hazardous Waste (£0.4m). The total cost of £10.4m is recorded £7.7m in administrative expenses and £2.7m in finance charges (2015/16: £0.1m in administrative expenses).

Other items
The Municipal contract issues relate to the Derby and Wakefield contracts. As a result of the insolvency of one of the major contractors for the Derby contract, a six month delay in the commissioning of the facility is expected. The Group is largely protected from this as it is not involved in the construction of the project, however liquidated damages and associated costs of £1.7m have been incurred. For the Wakefield contract, £0.7m of additional third party cleaning and disposal costs have been incurred at the anaerobic digestion and interface sections of the facility following on from the subcontractor insolvency last year. The prior year charge of £4.6m related to damages under contract and associated costs as a result of the late delivery of full service on the Wakefield contract due to the insolvency of a sub-contractor.

Costs of £1.7m relate to incremental operating costs which were unable to be reclaimed under the Group's business interruption insurance following the fire at the UK Municipal East London site in August 2014. The new refinement lines have been fully recommissioned in the first half.

The total cost of £4.1m is recorded £3.4m in administrative expenses and £0.7m in cost of sales. (2015/16: £4.6m in administrative expenses, £1.4m in cost of sales and £1.0m in revenue).

Amortisation of intangible assets acquired in business combinations of £0.8m (2015/16: £0.9m) is all recorded in cost of sales.

Fair value measurements charge of £0.1m (£nil) is recorded in administrative expenses.

Notes to the Consolidated Interim Financial Statements (unaudited)

3. Non-trading and exceptional items - continued

Reconciliation of trading profit to EBITDA from continuing operations	**First half 2016/17 £m**	First half 2015/16 £m
Trading profit	**20.7**	17.4
Depreciation of property, plant and equipment	**18.4**	16.2
Amortisation of intangible assets (excluding acquisition intangibles)	**1.4**	1.2
Non-exceptional gains on property, plant and equipment	**(0.3)**	(0.1)
Landfill related expense and provisioning	**0.1**	0.3
EBITDA from continuing operations	**40.3**	35.0

4. Tax

Tax expense is recognised based on management's best estimate of the full year effective tax rate on expected full year profits to March 2017. The estimated average underlying annual tax rate on continuing operations for the year to 31 March 2017 is 22.0% (2015/16: 21.7%).

Changes to the UK corporation tax rates were substantially enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the UK corporation tax rate to 19% from 1 April 2017 and to 17% from 1 April 2010. As a result, the UK deferred tax for the period has been calculated based on the enacted rates of 17%, 19% and 20% depending on when the timing differences are expected to reverse (2015/16: 20%).

5. Assets classified as held for sale and discontinued operations

Assets classified as held for sale

Assets classified as held for sale in the prior year included £1.1m of land and buildings at Jaartsveld, a closed Hazardous Waste facility. These were reclassified back to property, plant and equipment at March 2016 and have been sold during the period ended September 2016. The associated profit on the disposal is included in non-trading and exceptional items as shown in note 3.

Discontinued operations

The profit after tax on the UK Solid Waste discontinued operations, sold in December 2013, included in the Group Income Statement was £nil (2015/16: £0.3m). The net cash inflow generated from these discontinued operations included in the Group Cash Flow Statement was £0.3m (2015/16: £2.4m).

Notes to the Consolidated Interim Financial Statements (unaudited)

6. Earnings per share

	First half 2016/17	Restated First half 2015/16
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**449.7m**	449.3m
Effect of share options in issue	**0.4m**	0.6m
Weighted average number of ordinary shares for diluted earnings per share	**450.1m**	449.9m
Continuing operations		
(Loss) profit attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**(3.3)**	1.0
Non-trading and exceptional items (net of tax) (£m) (see note 3)	**15.4**	7.3
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**12.1**	8.3
Basic and diluted (loss) earnings per share	**(0.7)p**	0.2p
Underlying and underlying diluted earnings per share (see note below)	**2.7p**	1.8p
Discontinued operations		
Profit attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**-**	0.3
Non-trading and exceptional items (net of tax) (£m) (see note 3)	**-**	(0.4)
Loss attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**-**	(0.1)
Basic and diluted earnings per share	**-**	0.1p
Underlying and underlying diluted earnings per share (see note below)	**-**	-
Total operations		
(Loss) profit attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**(3.3)**	1.3
Non-trading and exceptional items (net of tax) (£m) (see note 3)	**15.4**	6.9
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**12.1**	8.2
Basic and diluted (loss) earnings per share	**(0.7)p**	0.3p
Underlying and underlying diluted earnings per share (see note below)	**2.7p**	1.8p

On 29 September 2016, the Group announced the offer of 45,000,000 firm placing shares to placees and an offer of 166,201,962 rights issue shares to qualifying shareholders. As set out in note 16 both the firm placing shares and the rights issue shares have now been admitted to listing on the London Stock Exchange's main market. As required by International Accounting Standard 33 - Earnings per Share, the Group has adjusted the current year and prior year basic, diluted and underlying earnings per share, for the bonus element included within the placing and rights issue. The bonus adjustment factor was 1.129.

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 are disclosed separately on the face of the Income Statement, because of their size or incidence, to enable a better understanding of underlying performance.

Notes to the Consolidated Interim Financial Statements (unaudited)

7. Dividends

	First half 2016/17 £m	First half 2015/16 £m
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 March 2016 of 2.35p per share (2015: 2.35p)	**9.4**	9.3
Interim dividend per share	**0.95p**	1.1p

In 2015/16 an interim dividend of 1.1p per share was paid. The final dividend for 2015/16 of 2.35p per share (2014/15: 2.35p) was approved by the shareholders at the Annual General Meeting on 14 July 2016 and was paid on 29 July 2016. An interim dividend of 0.95p per share was approved by the Board on 17 November 2016 and will be paid on 6 January 2017 to shareholders on the register at close of business on 25 November 2016.

8. Property, plant and equipment

During the six months ended 30 September 2016, the Group acquired assets with a cost of £13.4m (2015/16: £11.4m), disposed of assets with a net book value of £2.9m (2015/16: £1.4m) and charged depreciation of £18.4m (2015/16: £16.2m). Significant capital spend is described in the Finance Review.

At 30 September 2016 the Group had capital commitments of £8.3m (2015/16: £11.4m).

9. Borrowings

As a result of the proposed merger with van Gansewinkel Groep BV on 29 September 2016 the Group entered into an agreement for a new five year €600m multi-currency facility with a syndicate of banks, comprising a €150m term facility and a €450m revolving credit facility. Utilisation of this new facility is subject to satisfaction of the relevant conditions precedent including completion of the merger and until this time the existing €180m multi-currency facility remains in place.

10. Provisions

	Site restoration and aftercare £m	Restructuring £m	Other £m	Total £m
At 1 April 2016	36.9	1.3	18.7	56.9
Provided in the period	0.1	0.8	3.7	4.6
Released in the period	-	-	(0.1)	(0.1)
Finance charges – unwinding of discount	0.7	-	0.4	1.1
Utilised in the period	-	(0.9)	(2.9)	(3.8)
Exchange	3.3	0.1	0.2	3.6
At 30 September 2016	**41.0**	**1.3**	**20.0**	**62.3**
Current	**2.4**	**1.3**	**14.2**	**17.9**
Non-current	**38.6**	**-**	**5.8**	**44.4**
At 30 September 2016	**41.0**	**1.3**	**20.0**	**62.3**
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	2.2	0.9	6.8	9.9
Non-current	32.2	-	6.5	38.7
At 30 September 2015	34.4	0.9	13.3	48.6

The site restoration provision relates to the cost of final capping and covering of the landfill sites. 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. 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. 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.

Notes to the Consolidated Interim Financial Statements (unaudited)

10. Provisions - continued

The restructuring provision relates to redundancy and related costs incurred as part of recent restructuring initiatives. During the period a further £0.9m has been utilised (2015/16: £0.8m).

Other provisions principally cover onerous contracts, onerous leases, lifecycle expenditure obligations, a deferred premium obligation, warranties and indemnities. Onerous contracts are provided at the net present value of the operating losses of the onerous 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 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 future payments.

11. Defined benefit pension scheme

The amounts recognised in the Income Statement were as follows:

	First half 2016/17 £m	First half 2015/16 £m
Current service cost	**0.1**	0.2
Interest expense on scheme net liabilities	**0.2**	0.2
Net retirement benefit charge before tax	**0.3**	0.4

The amounts recognised in the balance sheet were as follows:

	As at 30 September 2016 £m	As at 30 September 2015 £m	As at 31 March 2016 £m
Present value of funded obligations	**(203.9)**	(166.3)	(161.5)
Fair value of plan assets	**176.8**	143.7	150.8
Pension scheme deficit	**(27.1)**	(22.6)	(10.7)
Related deferred tax asset	**4.6**	4.5	1.9
Net pension liability	**(22.5)**	(18.1)	(8.8)

The scheme deficit has increased significantly since 31 March 2016 as a result of the fall in the yield on AA-rated corporate bonds and an increase in the long-term outlook for inflation which was only partially offset by a gain in the value of scheme assets. The discount rate used for the valuation fell from 3.50% at 31 March 2016 to 2.35% to 30 September 2016.

Notes to the Consolidated Interim Financial Statements (unaudited)

12. 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 all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- 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 periods.

Valuation techniques used to derive Level 2 fair values
The fair values of interest rate swaps, forward foreign exchange contracts and fuel derivatives are determined by discounting the future cash flows using the applicable period-end yield curve. For the retail bonds, the fair value is based on indicative market pricing.

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

	As at 30 September 2016 £m	As at 30 September 2015 £m	As at 31 March 2016 £m
Assets			
Derivative financial instruments	**0.3**	-	0.3
	0.3	-	0.3
Liabilities			
Derivative financial instruments	**36.8**	39.9	31.2
Retail bonds	**181.0**	224.5	164.6
	217.8	264.4	195.8

The Group considers that the fair value of all other financial assets and financial liabilities was not materially different to their carrying value.

13. Notes to the statement of cash flows

	First half 2016/17 £m	First half 2015/16 £m
(Loss) profit before taxation	**(0.9)**	2.6
Finance income	**(5.0)**	(8.7)
Finance charges	**13.9**	15.8
Share of results from associates and joint ventures	**(0.9)**	(0.4)
Operating profit from continuing operations	**7.1**	9.3
Operating profit from discontinued operations	**-**	0.3
Amortisation of intangible assets	**2.2**	2.1
Depreciation of property, plant and equipment	**18.4**	16.2
Exceptional gain on disposal of property, plant and equipment	**(0.5)**	-
Exceptional loss on disposal of subsidiaries	**0.7**	-
Exceptional gain on disposal of UK Solid Waste assets	**-**	(0.4)
Non-exceptional gain on disposal of property, plant and equipment	**(0.3)**	(0.1)
Net decrease in provisions	**(2.1)**	(2.2)
Payments to fund defined benefit pension scheme deficit	**(1.5)**	(1.5)
Share-based compensation	**(0.3)**	(0.1)
Increase in service concession arrangement receivable	**(9.9)**	(3.2)
Other non-cash exceptional items	**0.1**	4.6
Operating cash flows before movement in working capital	**13.9**	25.0
Increase in inventories	**(0.2)**	-
Increase in receivables	**(10.9)**	(0.8)
Increase in payables	**3.2**	4.3
Cash flows from operating activities	**6.0**	28.5

Notes to the Consolidated Interim Financial Statements (unaudited)

13. Notes to the statement of cash flows – continued

Consolidated movement in net debt

	First half 2016/17 £m	First half 2015/16 £m	Full year 2015/16 £m
Net decrease in cash and cash equivalents	**(4.8)**	(1.7)	(28.9)
Net increase in borrowings and finance leases	**(24.1)**	5.2	62.4
Capitalisation of loan fees	**-**	1.4	1.7
Total cash flows in net debt	**(28.9)**	4.9	35.2
Disposal of PFI/PPP non-recourse debt	**-**	-	80.4
Finance leases entered into during the period	**-**	-	(0.3)
Deferred interest of PFI/PPP non-recourse debt	**-**	(3.1)	(3.1)
Amortisation of loan fees	**(0.6)**	(0.7)	(1.1)
Exchange loss	**(19.1)**	(3.8)	(17.2)
Movement in net debt	**(48.6)**	(2.7)	93.9
Net debt at beginning of period	**(283.7)**	(377.6)	(377.6)
Net debt at end of period	**(332.3)**	(380.3)	(283.7)

Movement in net debt

	At 1 April 2016 £m	Cash flows £m	Other non-cash changes £m	Exchange movements £m	**At 30 September 2016 £m**
Cash and cash equivalents	34.7	(4.8)	-	1.9	**31.8**
Bank loans	(59.6)	(27.8)	(0.5)	(5.7)	**(93.6)**
Retail bonds	(157.5)	-	(0.1)	(14.5)	**(172.1)**
Finance leases	(10.2)	1.3	-	(0.8)	**(9.7)**
Total core net debt	(192.6)	(31.3)	(0.6)	(19.1)	**(243.6)**
PFI/PPP non-recourse net debt	(91.1)	2.4	-	-	**(88.7)**
Total net debt	(283.7)	(28.9)	(0.6)	(19.1)	**(332.3)**

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

	First half 2016/17 £m	First half 2015/16 £m
Net cash generated from operating activities	**5.0**	28.0
Exclude reclassification for provisions, working capital and restructuring	**5.3**	0.3
Exclude payments to fund defined benefit pension scheme	**1.5**	1.5
Exclude increase in service concession arrangement	**9.9**	3.2
Include finance charges and loan fees paid	**(13.3)**	(11.1)
Include finance income received	**4.9**	3.7
Include purchases of replacement items of intangible assets	**(1.3)**	(0.5)
Include purchases of replacement items of property, plant and equipment	**(15.4)**	(10.0)
Include proceeds from disposals of property, plant and equipment	**2.0**	1.3
Underlying free cash flow	**(1.4)**	16.4

Notes to the Consolidated Interim Financial Statements (unaudited)

14. Contingent liabilities

The nature of the Group's contingent liabilities remains consistent with those as listed in the 2016 Annual Report and Accounts, apart from the obligation to settle the deferred premium to the holders of the private placement notes which is no longer contingent and now included within provisions.

15. Related party transactions

The Group's significant related parties remain as disclosed in note 34 of the 2016 Annual Report and Accounts. There were no material differences in related parties or related party transactions in the period compared to the prior period.

16. Post balance sheet events

As set out in the combined circular and prospectus dated 29 September 2016 to fund the acquisition of Van Gansewinkel Groep B.V., the Company has undertaken an offer of 45,000,000 firm placing shares to placees and an offer of 166,201,962 rights issue shares to qualifying shareholders. The firm placing shares were admitted to listing on the London Stock Exchange's main market on 26 October 2016 and the rights issue shares on 10 November 2016. Following completion of the rights issue the Company's issued share capital consists of 609,407,199 ordinary shares of 10 pence each, which have one vote per share.

Explanation of non-IFRS measures

The Directors use alternative performance measures as they believe these measures provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for internal performance analysis. These terms are not defined terms under IFRS and may therefore not be comparable with similarly titled measures used by other companies. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The alternative performance measures used are set out below.

Financial Measure	How we define it	Why we use it
Trading profit	Operating profit from continuing operations excluding amortisation of intangible assets arising on acquisition, non-trading and exceptional items	Provides insight into ongoing profit generation and trends
Trading margin	Trading profit as a percentage of revenue	Provides insight into ongoing margin development and trends
EBITDA	Trading profit before depreciation, amortisation and profit or loss on disposal of plant, property and equipment	Measure of earnings and cash generation to assess operational performance
Underlying profit before tax	Profit before tax from continuing operations before non-trading and exceptional items, amortisation of intangible assets arising on acquisition and fair value remeasurements	Facilitates underlying performance evaluation
Underlying EPS	Earnings per share before non-trading and exceptional items, amortisation of intangible assets arising on acquisition and fair value remeasurements	Facilitates underlying performance evaluation
Return on operating assets	Last 12 months trading profit divided by a 13 month average of total net assets excluding core net debt, derivatives, tax balances, goodwill and acquisition intangibles	Provides a measure of the return on assets across the Divisions and the Group excluding historic goodwill and acquisition intangible balances
Post-tax return on capital employed	Last 12 months trading profit as adjusted by the Group effective tax rate divided by a 13 month average of total net assets excluding core net debt and derivatives	Provides a measure of the Group return on assets taking into account the historic goodwill and acquisition intangible balances
Pre-tax return on investment programme	Last 12 months trading profit generated by the investment divided by the original invested capital spend presented for the total programme spend and also for fully operational assets only	Provides a measure of the efficiency of recent significant capital investment
Underlying free cash flow	Net cash generated from operating activities principally excluding non-trading and exceptional items and including interest, tax and replacement capital spend	Measure of cash available after regular replacement capital expenditure to pay dividends, fund growth capital projects and invest in acquisitions
Free cash flow conversion	The ratio of underlying free cash flow to trading profit	Provides an understanding of how our profits convert into cash
Core net debt	Core net debt includes cash and cash equivalents but excludes the net debt relating to the UK PFI/PPP contracts.	The borrowings relating to the UK PFI/PPP contracts are non-recourse to the Group and excluding these gives a suitable measure of indebtedness for the Group
Net debt to EBITDA	Core net debt divided by an annualised EBITDA with a net debt value based on the terminology of financing arrangements and translated at an average rate of exchange for the period	Commonly used measure of financial leverage and consistent with covenant definition
Underlying effective tax rate	The effective tax rate on underlying profit before tax	Provides a more comparable basis to analyse our tax rate

Independent review report to Shanks Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Shanks Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim financial report of Shanks Group plc for the six month period ended 30 September 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Consolidated Interim Balance Sheet as at 30 September 2016;
- the Consolidated Interim Income Statement and Consolidated Interim Statement of Comprehensive Income for the period then ended;
- the Consolidated Interim Statement of Changes in Equity for the period then ended;
- the Consolidated Interim Statement of Cash Flows for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim financial report have been prepared in accordance with the International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of Shanks Group plc is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim financial report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
17 November 2016

Notes:

(i) The maintenance and integrity of the Shanks Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
(ii) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.