

## Final Results

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### Shanks Group plc

Preliminary results for the year ended 31 March 2011

Shanks Group plc, one of Europe's leading waste management businesses, today issues its results for the year ended 31 March 2011.

#### Continuing Operations

	2011	2010	Change % Reported	Change % Constant Currency
Revenue	£717m	£684m	5%	8%
EBITDA	£98.6m	£102.1m	-3%	0%
Trading profit	£49.7m	£51.1m	-3%	1%
Operating profit (statutory basis)	£41.5m	£35.8m	16%	20%
Underlying free cash flow (UFCF)	£58.6m	£54.5m	7%	13%
Underlying profit before tax	£35.2m	£33.2m	6%	10%
Underlying EPS <sup>1</sup>	6.5p	6.1p	7%	11%
Basic EPS (statutory basis)	5.5p	4.8p	14%	17%
Dividend per share	3.25p	3.0p	8%	8%

*Underlying measures exclude exceptional items, financing fair value measurements and amortisation of acquisition intangibles. Trading profit is operating profit before amortisation of acquisition intangibles and exceptional items. Underlying free cash flow is before dividends, growth capex, acquisitions and disposals.*

<sup>1</sup>As a result of the 2009 Rights Issue, EPS for the prior period was 6.5p on an undiluted basis.

#### Financial Highlights

- Revenue up 8% and underlying profit before tax up 10% at constant currency.
- Strong cash generation and balance sheet with core net debt reduced to £160m (31 March 2010: £186m).
- Funding structure diversified and maturity extended.
- Underlying EPS up 7% and recommended dividend increase of 8% to 3.25 pence per share reflecting increased confidence in the future.
- Net exceptional credit of £3.2m (2009/10: £4.5m charge).

#### Business Highlights

- UK PFI municipal waste target of 1.5m tonnes under contract or at preferred bidder successfully achieved. Strong pipeline of potential future contracts.
- Preferred bidder for PPP contract in the IDEA region of Wallonia, Belgium - greater than €0.5bn revenue over 20 years.
- Ongoing management actions continue to offset challenging market conditions with cost reductions of £36m in last two years and PFI margins increased from 3.6% to 6.4% during the year.
- Initial (c£100m) phase of strategic investment programme progressing well with overall annualised 8% post tax returns achieved so far including 13% for projects which are fully up and running.
- Next c£150m three year investment programme now underway with approximately half focused on the UK.

Commenting on the results, Tom Drury, Group Chief Executive of Shanks, said:

"We are pleased to have achieved strong underlying growth at constant currency with revenue up 8% at £717m and profit before tax up 10% at £35.2m.

Our strategy to deliver sustainable alternatives to landfill and incineration for our customers is proving successful, with the award of new long term municipal contracts and rising volumes at our new organics sites at Greenmills in the Netherlands and Cumbernauld in Scotland.

While market conditions remain challenging, our trading in the final quarter and early into the new financial year gives us encouragement that the market for our services is improving. A continued emphasis on cost control and PFI margin improvement coupled with delivery on our distinct strategy gives us confidence that good growth can again be achieved this year. For this reason the Board is pleased to recommend an increased dividend. Overall we anticipate trading for 2011/12 to be in line with our expectations\*."

*\*Given the nature of the Group's earnings profile, the Euro exchange rate can exert a material impact on profitability. Board expectations are based on an average exchange rate for the year of approximately €1.2=£1.*

**Notes:**

1. The recommended final dividend of 2.25 pence per share, subject to shareholder agreement at the AGM, is scheduled to be paid on 5 August 2011 to shareholders on the register at close of business on 8 July 2011.
2. Management will be holding an analyst presentation at 9:30 a.m. today, 26 May at the offices of RBS Hoare Govett, 250 Bishopsgate, London, EC2M 4AA.
3. Audio dial in details for the presentation at 9.30 a.m.:
  - Telephone conference +44 (0)20 7806 1968 or UK toll free 0800 028 1299
  - Confirmation code 6040579
  - Slide Share Link [www.storm-events.co.uk/webcasts/live/26052011\\_04](http://www.storm-events.co.uk/webcasts/live/26052011_04)
4. A copy of this announcement is available on the Company's website ([www.shanksplc.com](http://www.shanksplc.com)) as will the presentation being made today to financial institutions.

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**Forward-looking statements**

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



## Chief Executive's Statement

Over the last twelve months we have experienced the most challenging market conditions for many years. Despite this we have managed to deliver a 5% increase in Group revenues and 6% increase in underlying profit before tax to £35.2m. Overall, the benefit of management actions outweighed the negative market conditions experienced in the Benelux, particularly in our construction related markets.

The UK has performed strongly and, given the regulatory drivers, we expect it to continue to do so and, over time, become a much larger contributor to Group profits. This is reflected in the next investment programme with approximately half of the expenditure expected to be made in the UK business.

When I joined as Group Chief Executive in 2007, I set out the vision for Shanks to become Europe's leading provider of sustainable waste management solutions and established the following strategic objectives to achieve this:

- Invest where returns are greatest - in recycling technology, organics technology and municipal contracts (including UK PFI/PPP);
- Continue to develop our infrastructure further to support sustainable waste management;
- Share core capabilities and technologies around the Group;
- Maximise asset utilisation and minimise unit costs;
- Use acquisitions to improve asset utilisation and re-orient the portfolio towards high growth markets.

We are confident that this strategy provides a sound platform for the future growth of the Group and market trends confirm the validity of our strategy of delivering sustainable alternatives to landfill and mass burn incineration. We will measure the success of this strategy by monitoring the following KPIs:

- Non financial measures - waste volumes handled; recycling and recovery rates; plant utilisation rates; power production; carbon avoidance and accident rates
- Financial measures - revenue from sustainable activities; organic growth in trading profit; return on operating assets by territory; free cash flow conversion; post tax return on investment programme; leverage ratio of net debt to EBITDA and underlying earnings per share growth

Throughout the recession we have continued to invest in our strategy and between 2008 and 2011 about £100m was invested in new sustainable infrastructure. We aim to deliver 12-15% post tax returns on this new investment and are comfortable that progress to date is on course to achieve this target. Based upon this early success we recently announced the next phase of our investment programme which will see Shanks invest approximately £150m in new capital projects over the next three years.

We have continued to simplify our business through the sale of the majority of our subordinated debt and equity positions in our larger UK PFI projects to John Laing Investments. This leaves us as operators of long term waste contracts rather than financiers of complex special purpose vehicles. Consistent with this business model, we have also developed a partnership with John Laing whereby they will provide the majority of the investment for future PPP projects in which Shanks will be the operator. This partnership allows us to focus our capital on a portfolio of smaller projects, principally in recycling and organic processing.

### Progress during the year against our strategic objectives

Progress during the year against our strategic objectives is summarised below:

#### 1. Invest where returns are greatest

2010/11 was an important year for the Group in which we commissioned a number of new projects in the UK, Canada, Belgium and the Netherlands. We estimate that of our £100m capital investment programme approximately £60m has now been commissioned and is earning an annualised run rate return after tax of 8%. This remains consistent with our target of 12-15% once the assets are fully operational after 2 to 3 years. For the five projects which have reached maturity, returns are within this range.

Our next £150m growth capital investment programme will again be a broadly balanced one with no single project over £20m, but it will be focused on the rapidly changing UK market. Given our strong balance sheet and cash flow, our recent refinancing and our expected future growth we are confident that this programme can be funded and gearing kept within our target of 2.5 times EBITDA.

#### 2. Continue to develop our infrastructure further to support sustainable waste management

As we implement this capital programme we are developing expertise in assembling a range of different technologies to allow us to recover the maximum amount of reusable product and green energy from waste. This is attractive to both private and public sector customers who are increasingly focused on the environmental impact of their operations. Customers such as Unilever who have put sustainability at the heart of their own business strategy have turned to Shanks because of our ability to support them in this goal.

To measure progress we have identified recycling and the amount of carbon that we either avoid directly or facilitate others to avoid as key performance indicators. During the year we increased the proportion of waste recycled by the Group to 77% of incoming waste and directly or indirectly we helped 1.18m tonnes of carbon to be avoided.

We have chosen "making more from waste" as the Group's new business descriptor to replace "waste solutions". Our ability to deliver on the positive environmental outcomes described above and so transform the perception of the waste industry from an environmentally harmful one to an enabler of environmental improvement is at the heart of our business strategy and, as we continue with our investment in new facilities, becomes a stronger reality.

To ensure we stay at the forefront of this movement, we have increased our focus on R&D and emerging technologies. We were pleased during the year to have been chosen by the Walloon government for funding for an R&D project under their Greenwin initiative to develop future green technologies. Working with other private sector partners, two universities and two research centres, Shanks is leading the consortium which will use new technologies to create a profile of landfills, to improve the generation of biogas and explore the potential for landfill mining to extract materials for recovery and solid recovered fuel (SRF) production.

### **3. Share core capabilities and technologies around the Group**

Collaboration across borders has increased with a now well established framework agreement in operation between Shanks UK and Orgaworld to design and construct our new Organics plants in the UK. This brings together the design and operational expertise of Orgaworld with the local procurement and construction management expertise within the UK. Our first UK AD plant in Cumbernauld Scotland is ramping up and further similar projects are underway.

Through greater in-country collaboration in the Netherlands we have been successful in selling "Total Care" solutions which offer joined up solutions from our Solid Waste, Hazardous Waste and Organics businesses. I see this as a source of competitive advantage to be built upon further.

In Belgium we are using our solutions and bidding expertise from the UK as we develop that business into larger municipal contracts.

### **4. Maximise asset utilisation and minimise unit costs**

The rationalisation of our facilities has continued and increasingly we consider the best processing logistics for each waste stream. In the Netherlands we have increased our overall Solid Waste processing utilisation to 77%, a record level despite the fall in volumes.

In the Netherlands, where price competition has been fiercest, we have pursued a strategy of remaining competitive on price to retain customers through the recession. For both our Solid Waste and Hazardous Waste businesses, this strategy has succeeded in maintaining volumes well above the reductions in the end markets. In order to mitigate the impact on profitability of these price reductions we have continued our programme of cost reduction with £36m taken out of the cost base over the last two years.

Looking forward, we expect overcapacity in the Benelux to keep prices below their pre-recession levels and so limit the amount we can recover from the recessionary impact on our profits. However, we are increasingly confident that in such market conditions we will also maintain the cost savings we have made. The net result is that we expect profits to recover as we emerge from the recession and volumes increase.

We do not own incineration capacity in the Netherlands and have noted the profit impact that low levels of utilisation have had on those that do. Utilisation remains a key metric for all of our operational managers and has improved to 69% for our solid waste businesses during the year. We also seek to minimise risk by constructing mid-sized facilities, securing long term contracts for our larger facilities and proactive targeting of new waste volumes.

### **5. Use acquisitions to improve asset utilisation and re-orient the portfolio towards high growth markets**

We have remained very selective in our use of capital for acquisitions during the period. However, we were pleased to announce the acquisition of United Utilities UK waste business in October followed in February by a teaming agreement to acquire Babcock's waste business. Both of these deals have been structured to link the consideration to the successful closure of contracts in the pipeline with any consideration payable from project win fees. They brought us immediate preferred bidder status at Derbyshire County/Derby City and at Wakefield together with a pipeline of further opportunities and some skilled resources to strengthen our own team.

These deals together with our success in being named preferred bidder at Barnsley, Doncaster and Rotherham bring the total amount of UK municipal waste under contract or at preferred bidder to 1.5m tonnes. This was the target we set three years ago and, given the strength of our bid pipeline, we are increasingly confident we will exceed it.

Our success in the UK PFI/PPP space has caused us to consider similar opportunities in our other countries. During the year we were named preferred bidder for a major PPP contract in the IDEA region of Wallonia, Belgium. This twenty year contract is the first PPP contract of its type in Belgium and is likely to have total revenue over the life of the contract of in excess of €0.5 billion. It is expected to reach financial close in July 2011.

### **Culture**

One of the key strengths of Shanks has been the well developed entrepreneurial culture of the individual businesses. This allows for responsiveness and innovation with the customer. Over the last few years we have sought to maintain this advantage while developing a central framework to support our managers both at a country and Group level. This greater coordination and control will enable us to deliver financial savings and effective governance.

In both our Belgian and Dutch operations we have taken significant steps to operate more as a single business than a federation of companies. In Belgium this has been facilitated by a management reorganisation that saw the appointment of two regional directors, a national accounts team and a new post of human resources director. In the Netherlands the management structure has been rationalised to create a smaller strategic executive group steering the overall management of the country and coordinating activity.

Our Fit for the Future programme in the Netherlands led to more coordinated management of plant utilisation and outlets for waste residues together with more centralised procurement. In total savings of £7m were realised over two years.

This programme will continue during the current year with the launch of a major procurement review across the Group, a new Group wide management information system and a more consistent and refreshed use of the brand.

### **Outlook**

Whilst market conditions remain challenging, our trading in the final quarter and early into our new financial year gives us encouragement that the market for our services is improving. A continued emphasis on cost control and PFI margin improvement coupled with a delivery on our distinct strategy gives us confidence that good growth can again be achieved this year. Overall we anticipate trading for 2011/12 to be in line with the Board's expectations.



## Financial and Operating Reviews

Shanks is one of Europe's leading waste management businesses with operations in the Netherlands, Belgium and the UK, as well as an expanding Organics business in Canada. The Group also has small operations in France close to the Belgian border which are managed from Belgium and included in the Belgian financial results.

In the year to 31 March 2011, our business in the Netherlands contributed 69% of the Group's profits before group central services, with Belgium contributing 20%, the UK 9% and the remaining 2% from Canada.

Our strong market position, technical knowledge and earnings from the Benelux provide powerful support for Shanks to develop and invest in growth areas of the UK, Canada and Organics.

Further details of the Group's trading performance and results by waste activity are given in the country financial and operating reviews. Group Central Services relates to the cost of the Group's head office functions including finance, treasury, tax and company secretarial. The results in the prior year benefited from the reversal of charges for equity settled share-based payments as vesting conditions would not be met.

### Group Revenue and Trading Profit by Geographical Region

	Revenue				Trading Profit			
	2011	2010	Variance		2011	2010	Variance	
	£m	£m	£m	%	£m	£m	£m	%
Netherlands	362	354	8	3	37.2	36.7	0.5	1
Belgium	172	176	(4)	(2)	10.8	14.0	(3.2)	(23)
United Kingdom	176	147	29	20	5.0	2.1	2.9	>100
Canada	10	8	2	29	1.3	1.9	(0.6)	(31)
Central Services	(3)	(1)	(2)		(4.6)	(3.6)	(1.0)	(28)
Total	717	684	33	5	49.7	51.1	(1.4)	(3)
Discontinued	-	1	(1)		-	0.3	(0.3)	
	717	685	32	5	49.7	51.4	(1.7)	(3)

	2011	2010
	£99m	£102m
EBITDA		
Trading margin	6.9%	7.5%
Return on operating assets*	14.3%	13.7%
Return on capital employed	6.4%	6.4%
Post tax return on investments**	8.0%	-

\*Return on operating assets represents pre tax trading profit divided by average operating assets

\*\*Post tax return on investments represents the annualised post tax return on the original invested capital of the £100m strategic investment programme for those assets fully commissioned

Revenue from continuing operations increased £33m to £717m. Excluding the adverse effect of currency translation of £21m, revenue was 8% up on the prior year.



## Netherlands: Financial and Operating Review

In the face of continuing challenging market conditions, the Netherlands has performed well with overall revenue and trading profit, excluding exchange, rising by 7% and 5% respectively and trading margins remained strong at 10%.

	Revenue				Trading Profit			
	2011	2010	Variance		2011	2010	Variance	
	€m	€m	€m	%	€m	€m	€m	%
Solid Waste	251	246	5	2	25.0	27.3	(2.3)	(8)
Hazardous Waste	165	144	21	14	20.9	16.4	4.5	27
Organic Treatment	15	13	2	9	2.2	2.2	-	-
Country Central Services	(6)	(4)	(2)	(35)	(4.6)	(4.5)	(0.1)	(2)
<b>Total (€m)</b>	<b>425</b>	<b>399</b>	<b>26</b>	<b>7</b>	<b>43.5</b>	<b>41.4</b>	<b>2.1</b>	<b>5</b>
Total £m (at average FX rates)	362	354	8	3	37.2	36.7	0.5	1

	2011	2010
EBITDA	€80m	€78m
Trading margin	10.2%	10.4%
Return on operating assets*	17%	16%

\*Return on operating assets represents pre tax trading profit divided by average operating assets

The Solid Waste business continued to be impacted by the economic downturn with profits down 8% year on year as excess capacity in the Netherlands incineration market has continued to exert downward pricing pressures equating to 4% of total revenue. Overall Industrial and Commercial (I&C) volumes were 3% up on the prior year. As communicated in recent Euroconstruct reports, volumes in the construction markets fell 9% in 2010. Our Construction and Demolition (C&D) volumes ended the year 2% down as actions were taken to expand into new areas including municipal bulky waste. Management actions taken at the end of last year to reduce the cost of disposal to incinerators together with further cost savings have had a significant effect on the results for the year. Recyclate prices have continued to recover throughout the year and have contributed €3m to the profitability of the division. Further rationalisation of the sorting centres as part of the Fit for the Future programme and moving to a country level rather than plant based view has increased utilisation rates from 72% to 77%.

In Hazardous Waste, ATM has performed exceptionally well with a strong performance in its waste water and soil treatment activities. The recent investment in water storage capacity together with increasing demand has resulted in volumes in waste water treatment being up 16% on the prior year. In soil treatment, pressure on pricing has continued but this has been offset by increased volumes (up 15% overall) together with continued cost reduction initiatives. A significant level of replacement capital was invested in the soil treatment plant this year which has improved productivity by 15%. Our industrial cleaning business, Reym, has had a satisfactory year with revenue up 10% but pricing pressures held the business flat at a trading profit level.

Our Organic Treatment activity, Orgaworld, continued to trade satisfactorily in its home market with revenue 9% ahead of the prior year. Margins have remained fairly constant year on year as management actions on final disposal and other cost savings mitigated pricing pressure. Spend on business development has continued to increase as we investigate opportunities to expand. Our Greenmills anaerobic digestion and waste water facility in the port of Amsterdam opened during the year and is in its commissioning phase. As well as the production of green electricity from the biogas produced by AD and the production of a high quality fertiliser for use in agriculture, the plant has also been designed to capture the heat from its processes and export them into a 'heat grid' which can be accessed by other companies requiring heat. The connection to the heat grid will be completed in the first half of 2011/12 and will further improve the energy efficiency of this project.

The return on operating assets has increased marginally in the year to 17% and this will continue to increase as the recent capital spend at Greenmills starts to deliver. Cash generation remained strong across all businesses.

### Outlook

Markets in the mature solid waste business are expected to remain difficult in the short term with benefits and growth coming from recent investments made in Orgaworld and ATM. The continued investment in growth projects, focus on cost control and margin improvement will help position the business for steady growth. While prices have stabilised recently, there will nevertheless be a year on year impact of price falls especially in the first half of the new financial year. There are encouraging signs on volumes to produce growth in earnings and we expect market conditions to improve further in 2012.

## Belgium: Financial and Operating Review

Excluding the decline in Landfill, revenue and trading profit, excluding exchange, rose by 7% and 8% respectively and margins were slightly higher.

	Revenue				Trading Profit			
	2011	2010	Variance		2011	2010	Variance	
	€m	€m	€m	%	€m	€m	€m	%
Solid Waste	148	144	4	2	7.2	5.3	1.9	36
Landfill	6	15	(9)	(63)	1.8	5.7	(3.9)	(69)
Power	6	7	(1)	(8)	3.9	4.6	(0.7)	(15)
Hazardous Waste	59	51	8	16	4.1	3.9	0.2	5

Sand Quarry	3	3	-	3	0.8	0.8	-	5
Country Central Services	(20)	(21)	1	9	(5.1)	(4.5)	(0.6)	(13)
Total (€m)	202	199	3	2	12.7	15.8	(3.1)	(20)

Total £m (at average FX rates)	172	176	(4)	(2)	10.8	14.0	(3.2)	(23)
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	2011	2010
EBITDA	€28m	€34m
Trading margin	6.3%	8.0%
Return on operating assets*	18%	22%

\*Return on operating assets represents pre tax trading profit divided by average operating assets

Market conditions in Solid Waste were challenging for a significant part of the year due to pricing pressure and waste availability. However I&C volumes have increased in the last quarter and ended the year 6% ahead of the prior year with a strong performance from the Walloon sorting centres. Overall price was 1% down on the prior year. In addition in Flanders, the recent enhancements to the SRF line at Ghent have resulted in a strong performance from increased throughput and lower costs.

Trading in our Foronex business, which is part of Solid Waste, has continued to be difficult. The wood based markets have been adversely affected by the weak economic backdrop with volumes in the trading business down 11%. A number of changes have been made to strengthen the Foronex management and we expect the business to make a positive contribution in the second half of 2011/12. As referred to at the half year, a full exit of the animal bedding division has been completed with all associated assets being sold.

The January 2010 increase in landfill tax and ban on landfilling of municipal waste has, as anticipated, had a significant effect on landfill volumes and profits during the year. Volumes of waste delivered to landfill were 72% down on the prior year and although offset with cost savings of £1.5m has resulted in a 69% drop in profits.

As previously communicated, pricing in the electricity market continues to be difficult and this has resulted in Power revenues and profits being down 8% and 15% respectively. Power prices are expected to increase in the medium term.

Overall profits from the Hazardous Waste businesses were up 5% year on year. The manual cleaning business in Wallonia, which was restructured last year, has improved profits this year.

Our success in long term municipal contracts in the UK has caused us to consider similar opportunities in other territories and as announced in February 2011, Shanks Belgium was selected as preferred bidder for a significant PPP municipal contract in Wallonia. This twenty year contract, which is expected to commence in late 2011, is the first PPP contract of its type in Belgium and is likely to have total revenues greater than €0.5 billion. The contract which is subject to final negotiations will see Shanks as part of a new joint venture partnership that will collect approximately 250,000 tonnes of waste per annum from twenty three municipalities or districts in the region and include the operation of a treatment facility processing household, bulky, green and electrical waste.

#### Outlook

Following the decline in landfill in the last year and the recent stabilisation of volumes and prices, we expect to be in positive territory in the new financial year.



## United Kingdom: Financial and Operating Review

Revenue and trading profit before PFI bid costs rose by 20% and 69% respectively with trading margins before bid costs increasing to 4%.

	Revenue				Trading Profit			
	2011	2010	Variance		2011	2010	Variance	
	£m	£m	£m	%	£m	£m	£m	%
Solid Waste	66	65	1	2	4.1	5.5	(1.4)	(24)
Landfill & Power	6	6	-	-	0.3	0.9	(0.6)	(65)
Hazardous Waste	15	6	9	145	2.9	0.9	2.0	222
Organic Treatment	2	-	2	>100	0.1	-	0.1	>100
Municipal - PFI Contracts	87	70	17	25	5.6	2.4	3.2	126
Country Central Services	-	-	-	-	(5.4)	(5.2)	(0.2)	(6)
UK Operations	176	147	29	20	7.6	4.5	3.1	69
PFI Bid Team	-	-	-	-	(2.6)	(2.4)	(0.2)	(13)
	176	147	29	20	5.0	2.1	2.9	>100
Discontinued operations	-	1	(1)		-	0.3	(0.3)	
<b>TOTAL</b>	<b>176</b>	<b>148</b>	<b>28</b>	<b>19</b>	<b>5.0</b>	<b>2.4</b>	<b>2.6</b>	<b>&gt;100</b>

	2011	2010
EBITDA	£7m	£4m
Trading margin*	4.3%	3.1%
Return on operating assets**	10%	3%

*Trading margin before PFI bid team costs*

*\*\*Return on operating assets represents pre tax trading profit divided by average operating assets*

Trading conditions in Solid Waste have remained challenging with overall volumes in the collections business down 10% on the prior year and adverse competitor pricing pressure. However, the profit effect of these volume shortfalls has been partially offset by management actions on price (circa 6%) and on cost control. The new recycling facility in Scotland is nearing the end of commissioning and it will be fully operational in the new financial year. The next stage of our investment in recycling continues with the achievement of planning permission for the Kettering plant and planning permission remains on track for other facilities.

In February 2011, we completed the acquisition of Edinburgh based Allied Waste Services for £6m which brings new customers and increases our market share in Scotland. The materials collected will be processed through a combination of both the existing infrastructure and the new Glasgow material recycling facility with any organic waste being diverted to the Cumbernauld AD plant.

The Hazardous Waste activities have performed well in the year due to a number of good contracts in the contaminated land services business.

Our Organics AD plant in Glasgow, a joint venture partnership in Energen Biogas, is in its commissioning phase with the first waste delivered during March and the first electricity production scheduled for June. The process which uses proven Orgaworld AD technology will generate up to 3MW of renewable energy.

The profitability of the existing PFI portfolio has increased significantly with margins increasing from 3.6% to 6.4% year on year. The Cumbria contract continues to perform well and in line with expectations and the construction of the MBT facilities is ahead of schedule. The acquisition in October 2010 of the UK waste activities of United Utilities and preferred bidder status for the Derbyshire County and Derby City contract included the management of a waste collection service of 330,000 tonnes per annum which will continue until at least July 2015.

The PFI market remains active with bid costs £0.2m up on the prior year. Our bid pipeline is strong and has been further enhanced by the recent teaming agreement with Babcock International in respect of the Wakefield PFI project. This agreement sees us working with Babcock to bring the Wakefield deal to financial close and then acquire its waste business. The solution, which includes materials recycling facilities, an autoclave and AD, is another example of our ability to provide long term solutions to the municipal sector using a range of technologies. Our recent appointment as preferred bidder for the Bradford, Doncaster and Rotherham contract means that we are now preferred bidder for three contracts and in the last two in seven other bid processes.

As reported at the half year, all of the subordinated debt and eighty percent of the equity in the ELWA and Dumfries & Galloway PFI contracts were sold to John Laing Investments for £25m in cash on 29 September 2010. The sale of these PFI equity interests has minimal impact on the trading results, provides cash for alternative investments and simplifies the reporting of the results including the removal of non-recourse debt from the balance sheet. We have once again prepared a Directors' valuation of our PFI interests to assist the market in valuing these stakes. Using the cash flows of the remaining financing vehicles and the operating contracts discounted at circa 8% the Directors estimate the value of the existing PFI contracts to be circa £80m. The movement from the prior year reflects an increase of £30m reflecting the value of those operating contracts for which we are now preferred bidder together with £30m being monetised as a result of the operating performance for the year and the disposal of PFI equity interests.

The return on operating assets has increased from 3% to 10% as a result of the increased profits and lower operating assets following the disposal of the equity interest in the ELWA and D&G PFI contracts which removed approximately £20m from the operating asset base.

### Outlook

Legislative support for landfill diversion strategy continues to strengthen in the UK. We remain confident that our strategic

investment actions put us in a strong position to take advantage of this significant growth potential.

## Canada - Financial and Operating Review

Profits in the year have been significantly affected by the temporary closure of the London Ontario site for three months while an upgrade to increase efficiency and to reduce odour levels was implemented. The plant had been built to the permitted standards but this retrofit to a higher specification ensures that Ministry of Environment standards are also met. The plant is operational again and a ramp up schedule agreed with the authorities. The Ottawa site is now fully operational and is performing satisfactorily. Trading margins and the return on operating assets are lower than the prior year due to the lost contribution from the London site.

	Revenue				Trading Profit			
	2011	2010	Variance		2011	2010	Variance	
	C\$m	C\$m	C\$m	%	C\$m	C\$m	C\$m	%
Organic Treatment	17	14	3	23	2.0	3.1	(1.1)	(35)
Total £m (at average FX rates)	10	8	2	29	1.3	1.9	(0.6)	(31)

	2011	2010
EBITDA	\$4m	\$4m
Trading margin	12.1%	23.0%
Return on operating assets*	4%	7%

\*Return on operating assets represents pre tax trading profit divided by average operating assets

### Outlook

We expect good progress in both growth and margins as the London site returns to full capacity and as we pursue further opportunities which could support additional plants in this territory.

## Group - Financial and Operational Review

The Group's trading performance is summarised by country on page 7.

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

	£m
Trading profit 2009/10	51.1
<b>Market factors:</b>	
Belgium landfill volumes and price*	(5.0)
Cost pressures	(19.3)
Net price	(6.3)
Recyclate prices	5.7
Disposal cost savings	7.3
<b>Management actions</b>	
Volume growth	5.4
Other cost savings	9.0
Projects and investments	3.9
Bid costs	(0.2)
At constant currency	51.6
Effect of currency	(1.9)
Trading profit 2010/11	49.7

\*In addition there are cost savings of £1.5m relating to the Belgian landfill giving a total year on year decline of £3.4m

A strong performance in management actions (cost savings, PFI margin improvements and returns from the investment programme) has continued to counter the adverse market cost pressures and the anticipated decline in Belgium landfill profits.

Overall net price declines amounted to £6m with increases in the UK compensating in part for severe pricing pressures, particularly in the Netherlands. This has helped us maintain volumes and, as described further in the Netherlands' operating review, the decline in the hard hit C&D sector was 2% compared with the Dutch construction sector being down circa 9%. The selling prices for our main recyclates of metal and paper continued to strengthen throughout the year resulting in a significant year on year profit impact for both the Netherlands and UK. The businesses have shown overall volume growth with strong performance in Hazardous Waste, principally waste water and soil volumes, and the move into new Solid Waste markets areas. Cost savings include support function savings of £9.0m and savings on final costs of disposal to incineration or landfill of £7.3m.

The projects and investments value of £3.9m represents the year on year profit impact of investments in the strategic investment programme together with growth from the new Derby PFI contract following the acquisition of the UK waste activities of United Utilities. The principal growth projects which contributed this year were the Brabant sorting centre, Ghent SRF plant and the Canadian Ottawa plant. The Greenmills AD plant and the recycling and AD plants in Scotland have not yet been fully commissioned and have had a minimal effect on the result for the year.

From the £100m strategic investment programme approximately £60m has now been commissioned and the annualised post tax return at the end of March 2011 was 8%. Those projects which are fully up and running at normal operating levels have achieved a 13% return and those commissioned and ramping up 5.5%. A number of projects remain in the commissioning phase and consequently have had no effect on the annualised return. This rate of return remains in line with the post tax target of 12-15% once the assets are fully operational which is usually after two or three years.

The next phase of the investment programme has now started and approximately £150m will be spent over three years. The principal components of this will be two additional organics plants in Canada, two additional recycling facilities for the UK business, one in England and one in Scotland, four additional AD plants across the UK, further development to the Greenmills AD plant, other Organics sites and at ATM in the Netherlands.

Sterling strengthened against the Euro during the year resulting in a 4% fall in Euro denominated profits. Excluding the effects of currency translation of £1.9m and the anticipated decline in profits from the Belgian Landfill, trading profit was 8% up on the prior year.

Operating profit on a statutory basis, after taking account of all exceptional items and amortisation of acquisition intangibles, has increased 16% from £35.8m to £41.5m.

#### Non trading and exceptional items excluded from pre tax underlying profits

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

Total non trading items of £9.7m (2009/10: £2.2m) include:

- Amortisation of intangible assets acquired in a business combination of £3.9m (2009/10: £3.9m)
- Financing fair value remeasurement charge of £5.8m (2009/10: £1.7m credit)

Total exceptional items of £4.3m (2009/10: £11.4m) include:

- Profit on sale of PFI equity share of £3.7m (2009/10: £nil) - on 29 September 2010, Shanks sold all of the subordinated debt and 80 per cent of the equity in the East London Waste Authority (ELWA) and Dumfries and Galloway (D&G) PFI contracts to John Laing Investments whilst retaining the long term operating contracts for both ELWA and D&G for total proceeds of £25m.
- Impairment charge of £11.9m (2009/10: £nil) - changes in market conditions in wood based markets and limitations on the type of waste that can be landfilled and the prices achieved have resulted in goodwill impairments in both Belgium and the Netherlands.
- Pension liabilities curtailment gain of £3.9m (2009/10: £nil) - following negotiation with the trustees and consultation with the membership, a 1% pensionable pay cap was introduced for active members of the principal UK defined benefit final salary scheme with effect from 1 April 2011. This has resulted in a credit to the current year's service cost and a corresponding reduction in the scheme's future liabilities.

#### Net Finance Costs

Finance charges excluding the change in fair value of interest rate swaps have decreased £3.4m to £14.5m (2009/10: £17.9m), which is principally due to a decrease in core borrowing levels. Following the sale of the PFI equity in September 2010, net financial asset income is £1.0m lower year on year.

The change in the market value of financial instruments relates to interest rate swaps which fix the interest rate on PFI contract and other project finance borrowings which, under IAS39, must be valued at current market value. There was a £5.8m adverse (2009/10: £1.7m favourable) change in the market value of these swaps in the year. Revaluation of these swaps can lead to large accounting gains and losses but does not affect the long term profitability of the contract. IAS39 does allow these gains and losses to be taken directly to reserves as long as the actual cash flows remain in close correlation to those originally forecast. For the earlier PFI contracts planning delays rendered the interest rate swaps ineligible to be matched to the underlying loans and as a result changes in fair value are included in the income statement. All interest rate swaps entered into after 31 March 2009 are considered to be effective at this time for hedge accounting purposes and the portion of any effective gain or loss is recognised directly in equity. On 29 September 2010 the interest rate swaps relating to the ELWA and D&G PFI contracts were disposed of as part of the PFI equity sale.

#### Taxation

The average tax rate on underlying profits fell to 26.4% (2009/10: 27.1%). This was attributable to a combination of prior year credits in relation to the release of provisions held in respect of earlier periods which have now been closed and a reduction from 25.5% to 25% in the statutory rate in the Netherlands where the majority of the Group's profits are earned.

The exceptional tax credit of £8.5m in the current year related to the release of provisions booked in prior periods relating to the withdrawal of industrial buildings allowances enacted in the Finance Act 2008. A detailed review of historic capital expenditure on PFI infrastructure has been agreed with the tax authorities. This review identified that a significant level of expenditure qualified for plant and machinery allowances which had previously been allocated to industrial buildings allowances.

#### Earnings per share

Underlying earnings per share from continuing operations, which excludes the effect of exceptional items, remained constant at 6.5 pence per share despite the higher profits. This was due to further dilution from the 2009 Rights Issue as the average number of shares included in the calculation has increased from 374.4m last year to 396.8m this year. On a fully diluted basis, the earnings per share for last year would have been 6.1 pence which gave year on year earnings per share growth of 7%.

Basic earnings per share from continuing operations increased from 4.8 pence per share to 5.5 pence per share.

#### Discontinued Operations

The profits from discontinued operations in the prior year relate to the sale of the Avondale joint venture in May 2009.

#### Dividend

The Group intends to pursue a progressive dividend policy within a range of 2 to 2.5 times cover in the medium term. Consistent with this policy, the Board has recommended a final dividend of 2.25 pence, making the full year dividend 3.25 pence, an increase of 8% on the total paid in respect of 2010.

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

	2011	2010	Difference
	£m	£m	£m
<b>EBITDA</b>	<b>99</b>	<b>102</b>	<b>(3)</b>
Working capital movement and other	5	5	-
Net replacement capital expenditure	(32)	(28)	(4)
Interest & tax	(10)	(18)	8
Loan fees paid	(3)	(7)	4
<b>Underlying free cash flow</b>	<b>59</b>	<b>54</b>	<b>5</b>
Dividends / issue of shares	(12)	63	(75)
Net growth capital expenditure	(34)	(30)	(4)
Discontinued operations	-	20	(20)
Acquisitions and Disposals	17	(9)	26
PFI funding & others	(7)	(6)	(1)
<b>Net core cash flow</b>	<b>23</b>	<b>92</b>	<b>(69)</b>
<b>Free cash flow conversion *</b>	<b>118%</b>	<b>107%</b>	

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

The focus on cash management has continued throughout the year resulting in a free cash flow conversion ratio of 118%. Working capital levels have been tightly monitored during the year.

The ratio of replacement capital spend to depreciation was 63% for the year which was within our targeted range. Spend on the investment programme and other growth projects amounted to £34m and included spend on the Greenmills facility in Amsterdam, Blochairn recycling facility in Glasgow, ATM waterside expansion and the AD facility in Glasgow.

A lower level of interest and tax payments was due to settlement of tax repayments for prior years, non payment of interest on the non-recourse PFI debt which fell due after the date of disposal of the PFI equity and a change in the payment profile of core interest payments following the issue of the retail bond.

In total fees of £4m were payable for the recent round of core debt refinancing; £1m of these remained unpaid at the end of March 2011.

The acquisitions and disposals spend of £17m included the proceeds from the PFI equity sale together with deferred consideration receivable from the disposal of Avondale net of scheduled deferred consideration payments on previous acquisitions in the Netherlands and the current year acquisitions of Allied Waste Services in Edinburgh and the UK waste activities from United Utilities PLC.

The exchange rate on the Euro has moved from 1.12 at 31 March 2010 to 1.13 at 31 March 2011. The net cash flow of £23m together with £3m benefit on the translation into Sterling of the Group's Euro and Canadian Dollar denominated debt has decreased core debt by £26m in the year.

Non-recourse borrowings relating to PFI/PPP contracts and other project finance have decreased from £134m to £48m as a result of the PFI equity sale in September 2010.

#### *Treasury and Refinancing*

Following the successful completion of the €100m, 2015 Benelux retail bond in October 2010 and the €200m, 2015 bank financing in February 2011 an additional €40m of longer term debt with maturity in April 2018 was secured from Pricoa Capital Group Limited on 11 April 2011. This completed the re-financing programme with medium and longer term debt secured at an overall interest cost of circa 5% per annum. At the end of March, the ratio of core net debt to EBITDA was 1.6 times which is well within our banking covenant test of 3.0 and our target of 2.5 times.



## Consolidated Income Statement

year ended 31 March 2011

	Note	2011 £m	2010 £m
<b>Continuing operations</b>			
<b>Revenue</b>	2	<b>717.3</b>	683.5
Cost of sales before amortisation of acquisition intangibles		<b>(606.8)</b>	(569.6)
Amortisation of acquisition intangibles		<b>(3.9)</b>	(3.9)
Total cost of sales		<b>(610.7)</b>	(573.5)
<b>Gross profit</b>		<b>106.6</b>	110.0
Administrative expenses before exceptional items		<b>(60.8)</b>	(62.8)
Exceptional items	3	<b>(4.3)</b>	(11.4)
Total administrative expenses		<b>(65.1)</b>	(74.2)
<b>Operating profit</b>	2,3	<b>41.5</b>	35.8
Finance charges		<b>(24.3)</b>	(29.3)
Finance income		<b>9.8</b>	11.4
Change in fair value of interest rate swaps		<b>(5.8)</b>	1.7
Net finance charges	4	<b>(20.3)</b>	(16.2)
<b>Profit before tax</b>	2	<b>21.2</b>	19.6
Tax before exceptional tax		<b>(7.8)</b>	(6.7)
Exceptional tax		<b>8.5</b>	5.2
Total tax	5	<b>0.7</b>	(1.5)
<b>Profit for the year from continuing operations</b>		<b>21.9</b>	18.1
Profit from discontinued operations		-	19.5
<b>Profit for the year attributable to shareholders</b>		<b>21.9</b>	37.6
<b>Earnings per share from continuing operations</b>			
- basic	7	<b>5.5p</b>	4.8p
- diluted	7	<b>5.5p</b>	4.8p
<b>Total earnings per share for the year</b>			
- basic	7	<b>5.5p</b>	10.0p
- diluted	7	<b>5.5p</b>	10.0p

## Consolidated Statement of Comprehensive Income

year ended 31 March 2011

	2011 £m	2010 £m
<b>Profit for the year</b>	<b>21.9</b>	37.6
Exchange loss on translation of foreign operations	<b>(2.2)</b>	(6.4)
Interest rate hedges	<b>0.2</b>	(4.5)
Actuarial gain (loss) on defined benefit pension schemes	<b>4.9</b>	(6.8)
Tax in respect of other comprehensive income items	<b>(1.4)</b>	3.2
<b>Other comprehensive income for the year, net of tax</b>	<b>1.5</b>	(14.5)
<b>Total comprehensive income for the year</b>	<b>23.4</b>	23.1

The notes on pages 22 to 30 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet

at 31 March 2011

	Note	At 31 March 2011 £m	At 31 March 2010 £m
<b>Non-current assets</b>			
Intangible assets		<b>289.6</b>	299.7
Property, plant and equipment		<b>397.5</b>	383.8
Other investments and loans to joint ventures		<b>7.1</b>	6.1
Trade and other receivables		<b>53.4</b>	170.8
Retirement benefit asset	10	<b>4.9</b>	-
Derivative financial instruments		<b>0.1</b>	-
Deferred tax assets		<b>15.3</b>	18.3
		<b>767.9</b>	878.7

<b>Current assets</b>		
Inventories	9.9	9.9
Trade and other receivables	179.5	166.1
Derivative financial instruments	0.2	-
Current tax receivable	-	-
Cash and cash equivalents	54.5	51.3
	<b>244.1</b>	<b>227.3</b>
<b>Total assets</b>	<b>1,012.0</b>	<b>1,106.0</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	(222.6)	(361.5)
Derivative financial instruments	(6.1)	(18.7)
Other non-current liabilities	(18.7)	(20.4)
Deferred tax liabilities	(51.4)	(68.9)
Provisions	9	(39.4)
Retirement benefit obligations	10	-
	<b>(338.2)</b>	<b>(509.4)</b>
<b>Current liabilities</b>		
Borrowings	(39.3)	(9.5)
Trade and other payables	(225.4)	(195.6)
Current tax payable	(4.7)	(2.4)
Provisions	9	(7.0)
	<b>(276.4)</b>	<b>(211.4)</b>
<b>Total liabilities</b>	<b>(614.6)</b>	<b>(720.8)</b>
<b>Net assets</b>	<b>397.4</b>	<b>385.2</b>

#### Equity attributable to shareholders

Ordinary shares	39.7	39.7
Share premium	99.4	99.3
Exchange reserve	55.6	57.8
Retained earnings	202.7	188.4
<b>Total equity</b>	<b>397.4</b>	<b>385.2</b>

The notes on pages 22 to 30 are an integral part of these consolidated financial statements.

The Financial Statements on pages 18 to 30 were approved by the Board of Directors and authorised for issue on 26 May 2011.

## Consolidated Statement of Changes in Equity

year ended 31 March 2011

	Share capital	Share premium	Exchange reserve	Merger reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
<b>Balance at 1 April 2010</b>	<b>39.7</b>	<b>99.3</b>	<b>57.8</b>	<b>-</b>	<b>188.4</b>	<b>385.2</b>
Profit for the year	-	-	-	-	21.9	21.9
Other comprehensive income	-	-	(2.2)	-	3.7	1.5
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(2.2)</b>	<b>-</b>	<b>25.6</b>	<b>23.4</b>
Proceeds from shares issued	-	0.1	-	-	-	0.1
Share based compensation	-	-	-	-	0.6	0.6
Dividends	-	-	-	-	(11.9)	(11.9)
<b>Balance at 31 March 2011</b>	<b>39.7</b>	<b>99.4</b>	<b>55.6</b>	<b>-</b>	<b>202.7</b>	<b>397.4</b>
Balance at 1 April 2009	23.8	99.2	64.2	-	112.4	299.6
Profit for the year	-	-	-	-	37.6	37.6
Other comprehensive income	-	-	(6.4)	-	(8.1)	(14.5)
Total comprehensive income for the year	-	-	(6.4)	-	29.5	23.1
Proceeds from shares issued	15.9	0.1	-	51.0	-	67.0
Transfer to retained earnings	-	-	-	(51.0)	51.0	-
Share based compensation	-	-	-	-	(0.5)	(0.5)
Dividends	-	-	-	-	(4.0)	(4.0)
Balance at 31 March 2010	39.7	99.3	57.8	-	188.4	385.2

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

## Consolidated Statement of Cash Flows

year ended 31 March 2011

	Note	2011 £m	2010 £m
<b>Net cash flow from:</b>			
Continuing activities	11	95.3	89.3
Discontinued operations	11	-	(0.8)
<b>Net cash generated from operating activities</b>		<b>95.3</b>	<b>88.5</b>
<b>Investing activities</b>			
Continuing operations:			
- Purchases of intangible assets		(0.8)	(0.4)
- Purchases of property, plant and equipment		(70.9)	(59.1)
- Disposals of property, plant and equipment		4.4	2.3
- Financial asset capital advances		(20.7)	(24.7)
- Financial asset capital repayments		6.2	17.1
- Acquisition of subsidiary and other businesses		(9.4)	(4.9)
- Disposal of subsidiary and other businesses		26.9	-
- Net movement on loans granted to joint ventures		(0.5)	(3.7)
Discontinued operations:			
- Disposal of joint venture		-	21.1
- Discontinued operations investing activities		-	(0.1)
<b>Net cash used in investing activities</b>		<b>(64.8)</b>	<b>(52.4)</b>
<b>Financing activities</b>			
Continuing operations:			
- Finance charges and loan fees paid		(17.7)	(28.8)
- Finance income		8.4	11.0
- Net proceeds from issue of shares		0.1	67.0
- Dividends paid		(11.9)	(4.0)
- Net proceeds from the issuance of bonds		83.8	-
- Repayment of bank borrowings		(106.6)	-
- Other increase (decrease) in net borrowings		20.7	(50.3)
- Repayments of obligations under finance leases		(3.9)	(6.2)
Discontinued operations financing activities		-	(0.1)
<b>Net cash flow used in financing activities</b>		<b>(27.1)</b>	<b>(11.4)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3.4</b>	<b>24.7</b>
<b>Effect of foreign exchange rate changes</b>		<b>(0.2)</b>	<b>(0.4)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>51.3</b>	<b>27.0</b>
<b>Cash and cash equivalents at end of year</b>		<b>54.5</b>	<b>51.3</b>

The notes on pages 22 to 30 are an integral part of these consolidated financial statements.

## Notes to the Financial Statements

### 1. Basis of Preparation

The figures and financial information for the year ended 31 March 2011 are extracted from but do not constitute the statutory financial statements for that year. The figures and financial information are audited. The income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 March 2010 and the balance sheet as at 31 March 2010 have been derived from the full Group accounts published in the Annual Report and Accounts 2010 which have been delivered to the Registrar of Companies and on which the report of the independent auditors was unqualified and did not contain a statement under section 498 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2011 will be filed with the Registrar of Companies in due course.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2010. The IFRS accounting policies have been applied consistently to all periods presented and throughout the Group for the purpose of the consolidated financial statements.

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

## Notes to the Financial Statements (continued)

### 2. Segmental reporting

Management has determined the operating segments based on the reports reviewed by the Board of Directors and the executive committee. The Group operates in The Netherlands, Belgium, the United Kingdom and Canada. The Group is organised and managed mainly by geographical location. Each geographical location can be analysed according to the following types of activity:

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

\*Belgium Landfill is viewed separately to Belgium Power. In addition to the waste activities detailed above the Group has small infrastructure and groundworks operations in Belgium and the Netherlands. Due to their small size the infrastructure and groundworks activities are reported as part of the Solid Waste activities.

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

		2011	2010
<b>Revenue</b>		<b>£m</b>	<b>£m</b>
Netherlands	Solid Waste	213.9	217.8
	Hazardous Waste	141.2	127.8
	Organic Treatment	12.5	11.9
	Intra-segment revenue	(5.4)	(3.8)
		<u>362.2</u>	<u>353.7</u>
Belgium	Solid Waste	125.8	127.9
	Hazardous Waste	50.5	45.4
	Landfill	4.8	13.5
	Power	5.1	5.8
	Sand Quarry	3.1	3.1
	Intra-segment revenue	(17.0)	(19.3)
	<u>172.3</u>	<u>176.4</u>	
United Kingdom	Solid Waste	66.4	65.3
	Hazardous Waste	14.6	5.9
	Organic Treatment	1.6	-
	Municipal - PFI Contracts	87.0	69.4
	Landfill and Power	6.1	6.1
	<u>175.7</u>	<u>146.7</u>	
Canada	Organic Treatment	10.5	8.2
Inter-segment revenue		(3.4)	(1.5)
<b>Total revenue from continuing operations</b>		<b>717.3</b>	<b>683.5</b>
Group		704.8	671.7
Share of joint ventures		12.5	11.8
Total revenue from continuing operations		717.3	683.5
Total revenue from discontinued operations		-	1.5
<b>Total revenue</b>		<b>717.3</b>	<b>685.0</b>

## Notes to the Financial Statements (continued)

### 2. Segmental reporting - continued

		2011	2010
<b>Segment Results</b>		<b>£m</b>	<b>£m</b>
Trading Profit			
Netherlands	Solid Waste	21.3	24.2
	Hazardous Waste	17.9	14.5

	Organic Treatment	1.9	2.0
	Country Central Services	(3.9)	(4.0)
		<u>37.2</u>	<u>36.7</u>
Belgium	Solid Waste	6.1	4.7
	Hazardous Waste	3.5	3.5
	Landfill	1.5	5.0
	Power	3.3	4.1
	Sand Quarry	0.7	0.7
	Country Central Services	(4.3)	(4.0)
		<u>10.8</u>	<u>14.0</u>
United Kingdom	Solid Waste	4.1	5.5
	Hazardous Waste	2.9	0.9
	Organic Treatment	0.1	-
	Municipal - PFI Contracts	5.6	2.4
	PFI Bid Team	(2.6)	(2.4)
	Landfill and Power	0.3	0.9
	Country Central Services	(5.4)	(5.2)
		<u>5.0</u>	<u>2.1</u>
Canada	Organic Treatment	1.3	1.9
Group Central Services		(4.6)	(3.6)
Total trading profit		<u>49.7</u>	<u>51.1</u>
Amortisation of acquisition intangibles		(3.9)	(3.9)
Exceptional items		(4.3)	(11.4)
		<u>(8.2)</u>	<u>(15.3)</u>
Total operating profit from continuing operations		<u>41.5</u>	<u>35.8</u>
Group		41.7	34.8
Share of joint ventures		(0.2)	1.0
Total operating profit		<u>41.5</u>	<u>35.8</u>
Finance charges			
	Interest payable	(23.9)	(29.3)
	Interest receivable	9.4	11.4
	Change in fair value of interest rate swaps	(5.8)	1.7
Net finance charges		<u>(20.3)</u>	<u>(16.2)</u>
Profit before tax for the year		<u>21.2</u>	<u>19.6</u>

## Notes to the Financial Statements (continued)

### 3. Reconciliation of underlying information and exceptional items

	2011	2010
	£m	£m
<b>Non trading and exceptional items in operating profit</b>		
Gain on disposal of subsidiaries	(3.7)	-
Curtailment of pension liabilities	(3.9)	-
Impairment of goodwill	11.9	-
Dumfries and Galloway PFI contract	-	6.7
Restructuring charge	-	1.9
Exceptional professional fees	-	2.7
Other non trading one off items	-	0.1
Total non trading and exceptional items in administrative expenses	4.3	11.4
Amortisation of acquisition intangibles	3.9	3.9
Total non trading and exceptional items in operating profit	<u>8.2</u>	<u>15.3</u>

The Group has recognised an exceptional gain of £3.7m net of associated taxes arising from the £24.6m sale of all of the subordinated debt and 80 per cent of the equity in the East London Waste Authority (ELWA) and Dumfries and Galloway (D&G) PFI contracts. The gain is stated net of costs, net assets disposed and a gross £9.6m provision for the remaining life of the D&G operating contract. The removal of the net assets of the subsidiaries has resulted in a significant decrease in trade and other receivables and in non-recourse net debt. An exceptional tax credit of £8.5m arose in the year relating to the partial release of provisions booked in March 2009 in respect of the abolition of Industrial Buildings Allowances relating to these contracts. A detailed review of historic capital allowances on PFI infrastructure was performed which has been agreed with the taxation authorities.

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

Changes in conditions in wood based and landfill markets have resulted in goodwill impairments of £11.9m.

	£m	£m
<b>Operating profit to trading profit</b>		
Operating profit from continuing operations	41.5	35.8
Non trading and exceptional items	8.2	15.3
Trading profit	49.7	51.1

	2011	2010
	£m	£m
<b>EBITDA</b>		
Operating profit from continuing operations	41.5	35.8
Non trading and exceptional items	8.2	15.3
Amortisation and impairment of intangible assets	17.2	5.9
Depreciation of property, plant and equipment	48.8	50.1
Exceptional depreciation and amortisation	(11.9)	(1.1)
Amortisation of acquisition intangibles	(3.9)	(3.9)
Non-exceptional gains on property, plant and equipment	(1.4)	(0.6)
Non cash landfill related expense and provisioning	0.1	0.6
Underlying EBITDA	98.6	102.1

	2011	2010
	£m	£m
<b>Profit before tax to underlying profit before tax</b>		
Profit before tax	21.2	19.6
Non trading and exceptional items	8.2	15.3
Change in fair value of interest rate swaps	5.8	(1.7)
Underlying profit before tax	35.2	33.2

## Notes to the Financial Statements (continued)

### 3. Reconciliation of underlying information and exceptional items (continued)

	2011	2010
	£m	£m
<b>Profit after tax to underlying profit after tax</b>		
Profit after tax	21.9	18.1
Non trading and exceptional items, net of tax	8.2	12.6
Change in fair value of interest rate swaps, net of tax	4.3	(1.3)
Exceptional tax	(8.5)	(5.2)
Underlying profit after tax	25.9	24.2

### 4. Net finance charges

	2011	2010
	£m	£m
<b>Finance charges:</b>		
Interest payable on borrowings wholly repayable within five years	11.2	14.8
Interest payable on other borrowings	6.1	8.6
Share of interest of joint ventures	0.3	0.1
Unwinding of discount on provisions	2.3	1.3
Unwinding of discount on deferred consideration payable	0.7	0.8
Amortisation of loan fees	3.7	3.7
Total finance costs	24.3	29.3
<b>Finance income:</b>		
Interest receivable on financial assets relating to PFI contracts	(6.3)	(9.7)
Unwinding of discount on deferred consideration receivable	(0.4)	(0.4)
Other interest receivable	(3.1)	(1.3)
Total finance income	(9.8)	(11.4)
<b>Change in fair value of interest rate swaps</b>	5.8	(1.7)
<b>Net finance charges</b>	20.3	16.2

### 5. Tax

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

	2011	2010
	£m	£m
Current tax: UK corporation tax at 28% (2010: 28%)		
- Current year	-	0.2
- Prior year	(2.2)	0.2
Overseas tax		

- Current year	8.0	8.4
- Prior year	0.6	(3.5)
Exceptional	-	(5.2)
<b>Total current tax</b>	<b>6.4</b>	<b>0.1</b>
Deferred tax		
- Current year	1.1	1.0
- Prior year	0.3	0.4
- Exceptional	(8.5)	-
<b>Total deferred tax</b>	<b>(7.1)</b>	<b>1.4</b>
<b>Total tax (credit) charge for the year</b>	<b>(0.7)</b>	<b>1.5</b>

An exceptional tax credit of £8.5m arose in the year relating to the partial release of provisions booked in March 2009 in respect of the abolition of Industrial Buildings Allowances relating to these contracts. A detailed review of historic capital allowances on PFI infrastructure was performed which has been agreed with the taxation authorities. The exceptional tax credit of £5.2m in 2010 related to a release of provisions in respect of prior year tax matters.

## Notes to the Financial Statements (continued)

### 6. Dividends

	2011	2010
	£m	£m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2010 of 2.0p per share (2009: nil)	7.9	-
Interim dividend paid for the year ended 31 March 2011 of 1.0p per share (2010: 1.0p)	4.0	4.0
	<b>11.9</b>	<b>4.0</b>
Proposed final dividend paid for the year ended 31 March 2011 of 2.25p per share (2010: 2.0p)	8.9	7.9
Dividend per share	<b>3.25p</b>	<b>3.0p</b>

### 7. Earnings per share

	2011	2010
<b>Number of shares</b>		
Weighted average number of ordinary shares for basic earnings per share	396.8m	374.4m
Effect of share options in issue	0.5m	0.3m
Weighted average number of ordinary shares for diluted earnings per share	<b>397.3m</b>	<b>374.7m</b>
<b>Calculation of basic and underlying basic earnings per share</b>		
Earnings for basic earnings per share being profit for the year (£m)	21.9	18.1
Change in fair value of interest rate swaps (net of tax) (£m)	4.3	(1.3)
Amortisation of acquisition intangibles (net of tax) (£m)	2.9	2.9
Exceptional items (net of tax) (£m)	5.3	9.7
Exceptional tax charge (£m)	(8.5)	(5.2)
Earnings for underlying basic earnings per share (£m)	<b>25.9</b>	<b>24.2</b>
<b>Basic earnings per share</b>	<b>5.5p</b>	<b>4.8p</b>
<b>Underlying earnings per share</b> (see note below)	<b>6.5p</b>	<b>6.5p</b>
<b>Calculation of diluted earnings per share</b>		
Earnings for basic earnings per share being profit for the year (£m)	21.9	18.1
Effect of dilutive potential ordinary shares (£m)	-	-
Earnings for diluted earnings per share (£m)	21.9	18.1
Diluted earnings per share	<b>5.5p</b>	<b>4.8p</b>
<b>Total earnings per share</b>		
Basic and diluted earnings per share for continuing operations	5.5p	4.8p
Basic and diluted earnings per share for discontinued operations	-	5.2p
Total basic and diluted earnings per share	<b>5.5p</b>	<b>10.0p</b>

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

## Notes to the Financial Statements (continued)

## 8. Business combinations

On 21 October 2010, the Group acquired the UK waste PFI/PPP interests of United Utilities PLC (UU). Shanks took UU's place on all of its existing bids including preferred bidder for a PPP municipal solid waste treatment contract for both Derbyshire County and Derby City Councils and short-list positions at Leicestershire, Derry and Gloucestershire. Shanks also acquired additional skilled technical and commercial resources from the UU bid team, strengthening and complementing its existing resources to enable it to deliver on its increased pipeline of PFI opportunities.

From acquisition to 31 March 2011, the acquired interests have contributed £12.7m to revenue and £0.8m to profit after tax.

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

Net assets acquired:	Fair value
	£m
Intangible assets	0.3
Trade and other receivables	2.9
Trade and other payables	(1.4)
<b>Net assets acquired</b>	<b>1.8</b>
Goodwill	4.3
	<b>6.1</b>
<hr/>	
Satisfied by:	£m
Cash consideration paid	1.0
Deferred consideration	5.1
<b>Cash outflow on acquisition</b>	<b>6.1</b>

The deferred consideration is contingent upon the successful financial closure of individual projects and payable from win fees.

On 24 February 2011 the Group acquired Allied Waste Services business based in Edinburgh from the Henry Grant Group.

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

Net assets acquired:	Fair value
	£m
Intangible assets	4.3
Plant, property and equipment	0.1
Trade and other receivables	0.6
<b>Net assets acquired</b>	<b>5.0</b>
Goodwill	1.5
	<b>6.5</b>
<hr/>	
Satisfied by:	£m
Cash consideration paid	5.9
Deferred consideration	0.6
<b>Cash outflow on acquisition</b>	<b>6.5</b>

From acquisition to 31 March 2011, Allied Waste Services has contributed £0.3m to revenue and £0.1m to profit after tax.

In February 2011, the Group signed a teaming agreement with Babcock International ("Babcock") in respect of the Wakefield PFI project. This agreement sees Shanks working with Babcock to bring the Wakefield PFI project to financial close and then acquire its waste business.

For acquisitions completed in the year ended 31 March 2010 there have been no amendments to the provisional fair values disclosed last year.

## Notes to the Financial Statements (continued)

### 9. Provisions

	Site restoration and aftercare	Other	Total
	£m	£m	£m
At 31 March 2010	29.0	8.0	37.0
Provided - cost of sales	0.7	0.9	1.6
Released - cost of sales	(0.4)	-	(0.4)
Finance charges - unwinding of discount	1.1	1.2	2.3
Disposal of subsidiary	(0.6)	9.9	9.3
Utilised	(0.7)	(2.4)	(3.1)
Exchange	(0.3)	-	(0.3)
<b>At 31 March 2011</b>	<b>28.8</b>	<b>17.6</b>	<b>46.4</b>
<b>Current</b>	<b>0.6</b>	<b>6.4</b>	<b>7.0</b>
<b>Non-current</b>	<b>28.2</b>	<b>11.2</b>	<b>39.4</b>
<b>At 31 March 2011</b>	<b>28.8</b>	<b>17.6</b>	<b>46.4</b>

Current	0.6	3.3	3.9
Non-current	28.4	4.7	33.1
At 31 March 2010	29.0	8.0	37.0

## 10. Retirement benefits

The main assumptions used to assess the liabilities of the scheme have been updated by independent qualified actuaries. There have been no significant changes in assumptions other than those described below.

In line with changes to legislation certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary method rather than the Retail Price Index (RPI). There has also been a curtailment of future benefits for certain members of the scheme.

There is a surplus in the pension scheme of £4.9m (2010: £6.8m liability).

## 11. Notes to the cash flow statement

	2011	2010
	£m	£m
<b>Continuing operations</b>		
<b>Profit before tax from continuing operations</b>	<b>21.2</b>	19.6
Fair value losses (gains) on financial instruments	5.8	(1.7)
Net finance charges	14.5	17.9
Amortisation of intangible assets	17.2	5.9
Depreciation of property, plant and equipment	48.8	50.1
Exceptional gain on disposal of subsidiary	(3.7)	-
Non-exceptional gain on disposal of property, plant and equipment	(1.4)	(0.6)
Net (decrease) increase in provisions	(10.1)	1.1
Share-based payments	0.6	(0.6)
<b>Operating cash flows before movement in working capital</b>	<b>92.9</b>	91.7
Increase in inventories	(0.1)	-
Increase in receivables	(19.7)	(5.1)
Increase in payables	26.3	9.9
<b>Cash generated by operations</b>	<b>99.4</b>	96.5
Income taxes paid	(4.1)	(7.2)
<b>Net cash from operating activities - continuing operations</b>	<b>95.3</b>	89.3

## Notes to the Financial Statements (continued)

### 11. Notes to the cash flow statement (continued)

	2011	2010
	£m	£m
<b>Discontinued operations</b>		
Operating profit	-	0.3
Depreciation of property, plant and equipment	-	0.2
<b>Operating cash flows before movement in working capital</b>	<b>-</b>	0.5
Increase in receivables	-	(0.1)
Decrease in payables	-	(1.1)
<b>Cash generated by operations</b>	<b>-</b>	(0.7)
Income taxes paid	-	(0.1)
<b>Net cash from operating activities - discontinued operations</b>	<b>-</b>	(0.8)

### Consolidated movement in net debt

	2011	2010
	£m	£m
Net increase in cash and cash equivalents	3.4	24.7
Net decrease in borrowings and finance leases	6.8	52.0
Amortisation of loan fees	(3.6)	(3.7)
Capitalisation of loan fees	4.1	7.4
Disposal of subsidiaries and other businesses	100.0	-
Exchange gain	1.6	8.6
<b>Movement in net debt</b>	<b>112.3</b>	89.0
<b>Net debt at beginning of year</b>	<b>(319.7)</b>	(408.7)

## Analysis of net debt

	At	At
	31 March	31 March
	2011	2010
	£m	£m
Cash and cash equivalents	54.5	51.3
Current borrowings	(39.3)	(9.5)
Non-current borrowings	(222.6)	(361.5)
<b>Total Group net debt</b>	<b>(207.4)</b>	<b>(319.7)</b>

	At	At
	31 March	31 March
	2011	2010
	£m	£m
Core Business net debt	(159.5)	(185.6)
PFI companies and other project finance net debt	(47.9)	(134.1)
<b>Total Group net debt</b>	<b>(207.4)</b>	<b>(319.7)</b>

## 12. Post balance sheet events

On 11 April 2011, pursuant to an agreement entered into on 24 March 2011 with Pricoa Capital Group Limited, the Group drew down €40m of 7 year senior notes at a fixed rate of 5.025%. On the same date the Group repaid €18m of senior notes at their maturity.

On 7 April 2011, the Group was appointed preferred bidder (subject to contract) for the Barnsley, Doncaster and Rotherham Waste Partnership, a 25 year PFI residual waste management contract with a revenue value in excess of £750 million.



## APPENDIX

The following additional information, summarised from the Shanks Group plc Annual Report and Accounts 2011, is disclosed in accordance with Disclosure and Transparency Rule 6.3.5.

### 1. Principal Risks and Uncertainties affecting the Group

#### Market and legislative drivers

Our business is driven by legislative and market drivers that significantly affect our waste treatment activities. As a business we have to understand and anticipate these changes or risk loss of market share as a consequence. In the main these changes present an opportunity to drive the business forward through our positioning within the waste hierarchy.

#### Waste Volumes

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

#### Long term contracts

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

#### Financial risks

The Group is exposed to both interest rate risk and foreign exchange risk. Adverse movements in interest rates or foreign exchange will reduce profitability and/or asset values.

Interest rate and foreign exchange sensitivity is set out in the notes to the Financial Statements.

#### Price Competition

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

#### Project Management

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

#### Product quality

The gaining of market share and the retention of customers is increasingly dependent on finding innovative solutions to landfill, as iterated in our vision. The output of such products as secondary building materials, solid recovered fuel (SRF) and compost have to be of a sufficient quality to meet our customer's needs. Failure to achieve this will affect the achievement of our strategic objective as well as increasing disposal costs.

#### Safety, health, and environmental (SHE) compliance

Shanks' employees are the Group's most important and valuable asset and their health and safety are paramount.

Operating sites require local licences, permits and other permissions to operate and compliance with these are monitored by various regulatory agencies. Failure to comply with either health and safety or environmental legislation could result in prosecution, loss of permits and site closure as well as reputational damage.

### 2. Directors' Responsibility Statement

The 2011 Annual Report which will be published in June 2011 contains a responsibility statement in compliance with DTR 4.1.12. This states that on 26 May 2011, the date of the approval of the Annual Report, the Directors confirm that to the best of their knowledge:

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

There has been one addition to the Board of Directors of Shanks Group plc since the 2010 Annual Report, namely Mr Jacques Petry who was appointed on 30 September 2010. A list of current directors is shown on the Company website.

This information is provided by RNS  
The company news service from the London Stock Exchange

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