Shanks

Making more from waste

Shanks Group plc
Annual Report & Accounts 2013

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Watch the video:
www.shanksplc.com/ceovideo

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Making more from waste

Shanks Group is a leading international sustainable waste management business.

We meet the growing need to manage waste without damaging the environment. Our solutions reduce greenhouse gas emissions, recycle natural resources and limit fossil fuel dependency.

Shanks uses a range of sustainable and cost-effective technologies to make valuable products from what is thrown away and generate increasing returns for our shareholders. We produce green energy, recovered fuel, recycled commodities and organic fertiliser.

Shanks operates in four divisions that reflect our markets: Solid, Hazardous, Organics and UK Municipal. It has operations in the Netherlands, Belgium, UK and Canada, and employs around 4,000 people.

In its target markets, the Group is at the forefront in providing sustainable waste management solutions for both the public and private sectors.

Read more about our strategy on pages 10-15

Watch the video: www.shanksplc.com/ceovideo

More financial detail on pages 74-119

Find out more about Shanks: www.shanksplc.com

Overview

Our Group structure

Our divisions

Our four divisions are leaders in their respective end markets.

1

Solid

Our markets & customers

The solid waste market addresses the collection, recycling and treatment of non-hazardous waste. The market can be divided into Industrial and Commercial (I&C), Construction and Demolition (C&D), and Municipal. Solid waste can range from black bag refuse, through various grades of mixed or comingled recyclates, to high purity mono-streams such as paper or glass. C&D waste will include glass, timber and rubble as well as mixed waste from construction work. Customers range from the national (such as Unilever) to independent high street stores. Shanks operates across the Netherlands and Belgium as well as Scotland and the central belt of England.

Our products & technologies

We use a range of technologies in our highly automated material recycling facilities (MRFs) and other facilities to produce:

- Recyclates: glass, paper, plastic, cardboard and metals
- Products: wood chips, stone, road aggregate, building materials and fertiliser/compost
- Recovered fuels: solid recovered fuel (SRF) and Icopellets
- Electricity

How we win:

- Lowest cost position in target markets through logistic scale and efficiency, high recycling rates and low cost processing technologies
- High quality products delivered to established customers and efficient off-take markets
- Effective commercial management focused on winning locally, while leveraging Shanks' breadth
- Sustainable solutions meeting environmental needs and supported by legislation

Read more on pages 22-29

Percentage of total Group revenue

58%

Percentage of total Group trading profit

28%

2

Hazardous

Our markets & customers

Our core markets in hazardous waste are the European contaminated soil, paints and solvents markets, and the Benelux waste water and industrial cleaning markets.
We serve these markets through two interlinked businesses: Reym and ATM. Our Reym business provides services to petrochemical customers, both onshore and offshore, as well as other chemical and heavy industrial companies. ATM processes contaminated waste received from industrial, municipal and construction companies.

Our products & technologies

- Reym carries out highly specialised industrial cleaning. It also transports and treats waste products derived from the cleaning process
- ATM has developed an integrated set of processes which are efficient and synergistic. The business:
  - uses thermal or washing processes for contaminated soils to produce clean and reusable soil and aggregates
  - processes waste water streams from industrial cleaning, ship cleaning and other activities to produce clean water
  - treats waste paints and solvents by gasification

How we win:

- Specialist equipment used by a highly trained workforce allows Reym to offer premium levels of service and a lower total cost and operating risk to customers
- Symbiotic manufacturing processes and a dockside location give ATM a sustainable cost advantage in the treatment of soils and waste water
- High asset utilisation across both businesses
- Well established environmental excellence and emissions performance in a highly regulated market

Read more on pages 30-33

Percentage of total Group revenue

21%

Percentage of total Group trading profit

41%

Percentages based on revenue and profits before intra segment revenue and Group central services.

Our unique positioning in the waste management cycle

Our core activities

Input
Collect or receive inputs to waste management facilities

Shanks activity where needed to secure volume

Sort
Sort waste into specific recyclates and streams for further treatment

Produce
Produce valuable products from segregated waste streams

Shanks
Making more from waste

Dispose
Dispose of remaining waste through incineration or landfill

Shanks activity when required for non-recyclable output

Organics

Our markets & customers
The organic waste market comprises the collection and treatment of food waste, garden waste and other organic materials such as sludges. Disposing of organic waste through landfill is particularly damaging to the environment. As a result, the treatment of segregated organic waste is one of the fastest growing segments within the waste sector. We serve both municipalities and commercial businesses, including supermarkets such as Albert Heijn and Marks & Spencer.

Our products & technologies
- Our Organics Division uses anaerobic digestion (AD) and a range of advanced aerobic composting technologies to process organic waste streams
- We produce green energy from biogas and fertilisers from the remaining treated waste
- A number of our plants are eligible for subsidies for the green electricity and heat that we produce

How we win:
- Design, Build, Own, Operate model creates a virtuous circle of knowledge and operating capability
- Technical expertise to provide range of turn-key solutions depending on input mix
- Targeted investment where inputs are secure, typically under long-term contracts
- Leverage deep expertise in established North European markets to expand internationally

Read more on pages **34-37**

Percentage of total Group revenue
5%

Percentage of total Group trading profit
11%

UK Municipal

Our markets & customers
The UK Municipal Division provides recycling and waste management services to local authorities in the UK. The market is driven by the need for authorities to divert waste away from landfill as set out in the EU Landfill Directive. We serve the market through long-term private finance initiative (PFI) or public private partnership (PPP) contracts. We have four contracts that are fully operational, two in build phase and one in which we are operating legacy processes whilst awaiting planning permission and a move to financial close. Most major municipal contracts have now been awarded in the UK, but opportunities remain with smaller bolt-on contracts to maximise asset utilisation.

Our products & technologies
We process municipal waste with a range of complementary technologies to maximise diversion rates:
- Mechanical biological treatment (MBT) facilities process black bag waste to produce recyclates and solid recovered fuel (SRF) that can be used in cement kilns and as a fossil fuel substitute
- Material recycling facilities (MRFs) to separate recyclate streams
- Integrated anaerobic digestion (AD) facilities produce green energy from organic waste
- Household waste recycling centres (HWRC) maximise segregation of recyclates into usable products

How we win:
- Proven operational excellence in PFI/PPP delivery
- Work in partnership with authorities to increase diversion and reduce costs
- Deep expertise in MBT and AD technology providing low capital-intensity solutions
- UK market leadership in the development of and production of SRF as a fossil fuel substitute

Read more on pages **38-41**

Percentage of total Group revenue
16%

Percentage of total Group trading profit
20%

Overview

Our vision and strategy

Our vision

To be the leading provider of sustainable waste management solutions in our target markets.

Leading Provider
Defined as high market share and with clear competitive advantages

Waste Management Solutions
Combining technologies to make valuable products from waste

The Leading Provider of Sustainable Waste Management Solutions in our Target Markets

Sustainable
Providing effective alternatives to landfill and mass incineration

Target Markets
Markets with high sustainable growth drivers and potential for high recycling rates

Our strategy

Our overarching strategy of 'making more from waste' remains consistent. However, the new Group structure with four market-facing divisions has led to our strategy evolving into one which is more market-orientated. The core pillars of this strategy are therefore now aligned with each division and aim to generate growth in each of our distinct markets.

The core pillars of our strategy are to:

1 **Improve the profitability of our Solid Waste businesses.** We will continue to face challenging market conditions in Solid Waste and as such, we will continue to streamline our organisation and operations in the years ahead. We are also increasingly focusing our activities in regions and areas where we can be the lowest cost operator through local scale and productivity advantages. Our cost actions will be supplemented by commercial activity in both securing waste and the sale of our products.

2 **Broaden the scope of our Hazardous Waste business.** Our Hazardous Waste business delivers superior returns through its symbiotic range of treatments and operational excellence. We will build on this profitable base by investing in more water treatment capacity. In parallel, we will expand the range of waste inputs that we treat with our existing assets and will broaden our commercial coverage.

3 **Expand the Organics footprint in target geographies.** Our unique design, build, own and operate business model provides us with a distinct competitive edge which we will leverage to expand in target markets. This will include successfully ramping-up new UK assets and developing co-processing with Dutch A-brand customers. We will also expand our North American footprint by delivering proven solutions that meet the emerging diversion requirements of that market.

4 **Grow the UK Municipal long-term contract business.** We will deliver continued improvements in our operational contracts and will profitably ramp-up newly commissioned assets. Our medium-term growth will be underpinned by the successful construction of significant new sustainable waste management infrastructure. We expect this strategy to deliver top-line growth with similar operating margins.

Underpinning our four divisional strategies are two key Group strategies that span all our businesses:

5 **Develop world-class capabilities in a cohesive Group culture.** Going forward, we will further increase our focus on building Group capabilities. This will include the introduction of a formal continuous improvement function across the Group and an initiative to improve commercial effectiveness.

6 **Actively manage the Group's portfolio.** We are actively managing our wide portfolio of assets to improve the quality of our earnings and the return on capital employed. We are focused on deploying capital in areas where we are confident of sustainable advantage and higher growth, including potential bolt-on acquisitions.

Overview

Group highlights

More financial detail on pages 16-21

Financial

- Resilient performance against the backdrop of very challenging solid waste markets
- Revenue, underlying profit before tax and underlying EPS down at constant currency
- Total cost savings of £17m delivered, with £11m operational savings plus £6m savings through structural cost programme, including headcount reduction of 310 full time employees
- Robust balance sheet with lower than expected core net debt at £177.3m and EBITDA ratio of 2.0 times
- Final dividend maintained at 2.35 pence per share, reflecting confidence in medium-term growth
- Non-trading and exceptional charges of £61.8m in line with guidance previously reported and principally reflecting restructuring and impairment in Solid Waste

Read more about operations on pages 22-41

Operational

- Business reorganised into market-facing segments: Solid Waste, Hazardous Waste, Organics and UK Municipal
- Good profit performances in Organics (up 7%*), UK Municipal (up 80%) and Hazardous Waste unchanged maintaining record prior year performance
- Solid Waste (down 50%*) affected by impact of recessionary markets and record construction lows
- Structural cost programmes on track to reduce costs by £20m per annum by 2015/16
- Investment programme continues to deliver expected returns, is well funded and has a promising pipeline

Read more about CR on pages 48-49

Corporate responsibility

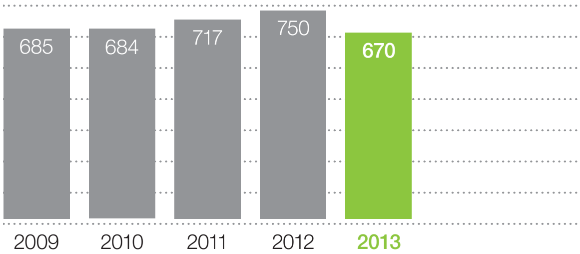
- Reportable accident rate improved by 8% over the year and has improved by more than 20% since 2009/10
- Overall recycling and recovery rate at 78%
- 1.21 million tonnes of carbon avoided

* At constant currency.

Key facts and figures

Revenue £m

£670m



Tonnes of carbon avoided

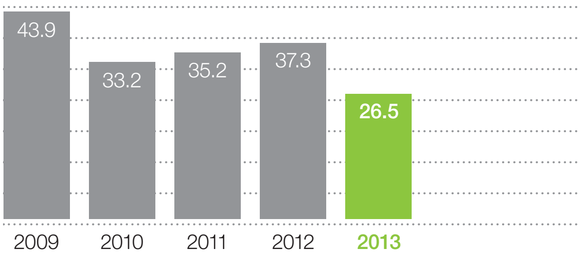
1.21m

Tonnes of waste handled

7.83m

Underlying PBT £m

£26.5m



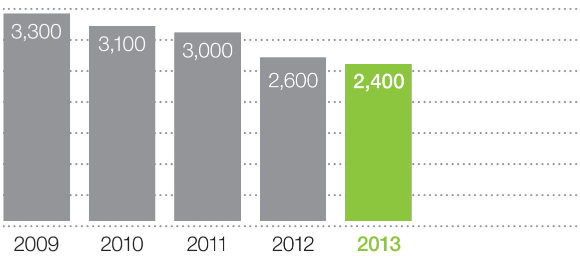
Recycling and recovery rate

78%

Dividend per share

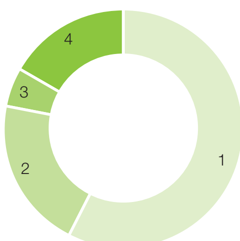
3.45p

Reportable accident rate*



Revenue by division £m

1 Solid Waste	**391**	58%
2 Hazardous Waste	**139**	21%
3 Organics	**36**	5%
4 UK Municipal	**111**	16%



* Accidents resulting in greater than three day absence per 100,000 employees.

Overview

Chairman's statement

We have made great progress in terms of positioning the business for future success both organisationally and commercially.

Adrian Auer Group Chairman

Shanks is a leading international sustainable waste management business. We are uniquely positioned within the market, with a strategy that delivers alternatives to environmentally unfriendly landfill sites or to highly capital-intensive incineration plants. Our business model is to 'make more from waste' by delivering maximum value from the waste streams that we recycle, and this model is well supported by long-term legislative and environmental fundamentals.

Review of the year

The waste management industry, in particular the Solid Waste market segment, has experienced progressively more challenging market conditions since mid 2012, with volumes and prices coming under intense pressure. At the same time, the value of recyclate products has fallen sharply. Taking into account these adverse market conditions, Shanks has traded resiliently in the year ended 31 March 2013.

We have also made great progress in positioning the business for future growth. The business has been reorganised into four market-facing divisions and we are already seeing significant benefits from this new structure. Peter Dilnot, Group Chief Executive, has assembled a new senior team to manage the business within this new organisation structure, combining experienced waste industry veterans with talented newcomers with fresh vision for the Group.

From a commercial perspective, we have won major contracts with key customers such as Marks & Spencer, Albert Heijn and Heineken. We have achieved financial close on the £750m 25 year PFI contract with Wakefield City Council. We have also completed and commissioned a major new facility as part of the Cumbria PFI contract and a composting facility in the Hook of Holland. At the same time, we have responded to the tough trading conditions by initiating a large scale structural cost reduction programme to reduce costs by £20m over three years. This programme has made good progress and remains on track.

We have continued to selectively invest for growth, not just through our important PFI contracts but also with ongoing investment in new assets, notably in the Organics and Hazardous Waste Divisions.

Financial position

We continue to manage cash closely across the Group and have delivered another year of strong underlying free cash flow (UFCF). Operating cash inflow was £48.8m (2012: £43.0m) and UFCF was 118% (2012: 81%). There was a net cash outflow for the year of £16.5m, of which £3.0m relates to exchange movements and £13.2m relates to a final earn out payment relating to the purchase of Orgaworld in 2007. Net debt at year end was £177.3m, ahead of expectations. Net debt to EBITDA increased slightly to 2.0 times, well within our banking covenants.

Earnings per share and dividend

Underlying basic earnings per share for the year fell by 29% to 5.0 pence. We indicated at the time of the Interim Results that, notwithstanding the continuing challenging conditions, the Board was minded to maintain the dividend, confirming the Board's confidence in a return to earnings growth in the medium term. I am pleased to confirm that we will be recommending an unchanged final dividend of 2.35 pence per share (2012: 2.35 pence per share), payable on 2 August 2013 to shareholders on the register on 5 July 2013. The Board currently intends to maintain this level of dividend until earnings recover, such that the dividend is back within the range of 2.0 to 2.5 times cover, and a progressive dividend policy can be resumed.

Board changes

Peter Johnson will be stepping down from the Board at the Annual General Meeting on 25 July 2013. Peter has served with great distinction on our Board since 2005 and has been Chairman of the Audit Committee since July 2006. He has provided invaluable advice during periods of great change for Shanks and we wish him well in the future. I am delighted to announce that Marina Wyatt joined the Board on 2 April 2013 and will Chair the Audit Committee following Peter's departure. After training with Arthur Andersen, Marina was Chief Financial Officer of Psion plc and Colt Telecom plc. She is currently Chief Financial Officer of TomTom NV, splitting her time between the UK and the Netherlands.

Reduced accidents

8%

reduction in our reportable accident rate which has decreased by 20% in three years.

She brings significant financial and strategic expertise in changing and growing businesses and has valuable experience in the Netherlands where many of our businesses operate.

Following the departure of Chris Surch, on which I reported last year, we were very pleased to welcome Toby Woolrych to the Board as Group Finance Director at the end of August 2012. Toby has significant experience in the manufacturing and renewable energy sectors, including with Johnson Matthey plc, and was most recently Group Finance Director of Consort Medical plc.

Corporate governance

The Board is committed to the highest standards of corporate governance. Details on our processes and approach, including those relating to the role and effectiveness of the Board, and compliance with the Governance Code, are set out in the Governance section on pages 55 to 62. Over the past year, we have been pleased to see these efforts recognised; winning the Excellence in Reporting award in the FTSE 250 category at the 2012 PwC Building Public Trust Awards, and for the second year running, winning the Best Strategy Disclosure award at the 2012 ICSA/Hermes Transparency in Governance awards in the FTSE 250 category.

Corporate responsibility

I am pleased to report continued progress in delivering against our three Corporate Responsibility objectives. These include quantified targets for carbon avoidance, employee wellbeing and recycling and recovery rates. Further details are given on pages 48 and 49 of this report, and in our Corporate Responsibility report. Our ongoing focus in these areas has once again been recognised by Shanks' inclusion in the independently assessed FTSE4Good Index. We were also delighted to be awarded the 'Achievement in Sustainability' at the 2012 PLC Awards. Sustainability is at the heart of what we do and we are proud to have been appreciated as a leader in this field.

Shanks has one of the lowest reported accident figures in the waste industry. However we will not be satisfied until we have zero accidents and this remains our goal. Our Group-wide 'Action on Safety' initiative has been led strongly by the Group's senior management and significant time has been invested in conducting safety audits and improvements throughout our operations. The initiative has improved the overall performance of health and safety across the Group and has been instrumental in reducing our reportable accident rate by 8% this year. We have made progress, but will continue to intensify our efforts in this area.

Summary and outlook

The continuing weak economic environment means that our core markets are likely to remain extremely challenging. In particular, the Dutch construction market is forecast to contract again in 2013 to new historic lows. It is not yet possible to say with any confidence that markets have reached the bottom, although there are some recent indications that pricing may be stabilising.

Despite the current adverse market conditions, there is much that we are doing to improve our business, and our model for growth is not based on anticipation of a short-term recovery. Our structural cost reduction programme, accompanied by selective investment in growth opportunities in the Hazardous Waste, UK Municipal and Organics Divisions, will deliver benefits ahead of any market recovery. In addition, the active management of our business assets, as evidenced by the imminent sale of our Netherlands Headquarters for €8m, will release essential growth capital. The fundamentals for our industry remain attractive and we are well positioned to benefit from a cyclical recovery.

On behalf of the Board I would like to thank all employees of Shanks for their continuing commitment. Despite experiencing what has been another very difficult year, they are managing the required extensive changes to our business resolutely, and very effectively. We do not take their passion and commitment to the environment and to Shanks for granted.

Finally, to our shareholders, I would like to thank you for your continuing support.

A. Auer

Adrian Auer
Group Chairman

Chief Executive's statement

Repositioning for growth

We have taken decisive and effective action to respond to the immediate market headwinds.

Peter Dilnot Group Chief Executive

Introduction

It has been a challenging, yet transformational, year for Shanks. Whilst we have faced tough market conditions which have clearly impacted the performance of the business, we have also made significant progress in positioning the Group for the future.

During the year, we have taken decisive and effective action to respond to the immediate market headwinds. This included launching a structural cost programme which will deliver over £20m annual savings by 2015/16. We are on track with our plans, with significant capacity reductions implemented and 310 employees having left the business during the financial year. We have also managed cash tightly and maintain a strong balance sheet despite our reduced current earnings.

In parallel with protecting our short-term position, we have made good progress with building a platform for growth. We successfully reorganised the Group into four new market-facing divisions: Solid Waste, Hazardous Waste, Organics and UK Municipal. This structure enables us to manage the business much more effectively and is already delivering benefits. In the last year, we also created a new Executive Committee through a combination of new hires and internal promotions. Finally, we are actively continuing to manage our portfolio and have already sold some non-core assets.

In the short term, market conditions look set to remain challenging, especially in Solid Waste. However, the underlying growth opportunities for the Group remain in place and we are well underway with repositioning Shanks for sustained profit growth and long-term value creation. I am therefore confident that Shanks is on track to emerge leaner, more focused and much stronger for the future.

Performance overview

The Group delivered a resilient performance given the challenging market conditions. Our revenues fell by 11% (7% at constant currency) to £670.0m (2012: £750.1m), primarily due to revenue being £76m lower in Solid Waste. As a result of these lower volumes and significant pricing pressure, our trading profit before non-trading and exceptional items fell by 23% (18% at constant currency) to £41.3m (2012: £53.4m). Underlying earnings per share fell by 29% to 5.0p (2012: 7.0p).

At a divisional level, we delivered revenue increases and record trading profits in UK Municipal and Organics, and a broadly flat performance in Hazardous Waste against a particularly strong 2011/12. We also remained on track with delivering investment programme returns and savings from our cost programmes. However, these strong performances and management actions were more than offset by the challenges in Solid Waste where trading profit was down 54%.

We are pleased to report that our cash position at year end was better than the Board's expectations. Our core net debt was significantly lower at £177.3m and therefore, despite reduced earnings, our net debt to EBITDA ratio was 2.0 times, comfortably within our covenant level of 3.0 times. This performance highlights the strength of our underlying cash generation and management's effectiveness at delivering on things directly in its control.

Strong growth drivers

Macro market drivers

- Reduce greenhouse gas emissions
- Preserve natural resources
- Limit fossil fuel dependency
- Protect local environments

Social and business attitudes

Increasing need for cost-effective, sustainable waste management solutions

Regulatory and legislative

- Landfill tax
- Green electricity certificates
- Carbon credits
- EU, national and local incentives

Economic pressures and limited capital

Market context

After delivering a good set of results in the year ended 31 March 2012 and a robust start to the year, volumes in the Solid Waste markets contracted significantly as the Eurozone returned to recession. This effect was compounded by the ongoing impact of austerity measures in Europe and exceptionally weak underlying industrial and construction markets. Our largest market, the Netherlands, was particularly soft, with construction volumes falling by more than 7% in 2012 and new residential building permits at their lowest levels since 1953. Between June and September 2012, the price of almost all recyclates fell sharply – in some cases by as much as 60%. As a result, recyclate revenues fell by approximately £10m versus the prior year, with the majority of this falling to our bottom line. In addition, the reduction in waste volumes has created over-capacity in the market, which has led to lower gate fees and ongoing pricing pressure.

It is hard to call if we have 'reached the bottom' or when we will do so. Whilst we have started to see some prices stabilise in recent months, we are not expecting a recovery in the short term.

Despite all the market challenges, there remains a growing need to manage waste without damaging the environment and this is underpinned by legislation and regulation that continues to be passed. For instance, the Dutch government has recently announced measures to increase recycling to 83% by 2015, and in the last 12 months the UK government has reconfirmed its renewable obligations certificates (ROCs) approach to anaerobic digestion.

We will benefit from the legislative and other long-term drivers that will phase out landfill. Our sustainable solutions reduce greenhouse gas emissions, recycle natural resources and limit fossil fuel dependency – and critically they do so in a cost-effective and less capital intensive way than other waste management alternatives. We believe that our competitive position will also be further strengthened by our actions to become the lowest cost operator in our target markets.

#1

Making more from waste

Green power for 33 M&S Simply Food stores

Creating 19,000 MWh per year of electricity

In October 2012, Shanks signed a Power Purchase Agreement with Marks & Spencer (M&S) to supply the retailer with the total renewable energy output from our anaerobic digestion (AD) facility in Cumbernauld, Glasgow.

M&S sends 60,000 tonnes per annum of food waste to the AD facility, where it is converted into biogas for renewable energy generation and digestate for use as a nutrient-rich soil conditioner. M&S directly purchase approximately 19,000 MWh per year of electricity, the equivalent energy used to power 33 M&S Simply Food stores, helping to close the loop for its food waste.

New Group structure and management team

After joining the Group in February last year, it became increasingly apparent to me that Shanks had some core businesses that addressed very different end markets. These businesses have specific characteristics, but were grouped together within country organisations. In July 2012, we formally reorganised the Group into four market-facing divisions: Solid Waste, Hazardous Waste, Organics and UK Municipal. This reorganisation has already had a profound and positive impact on the way that we run the business and is fundamental to the Group's future. Each division has specific customer needs, competitive positions, core competencies, cost structures and capital needs. We have already implemented cost actions and capital allocations that reflect these differences.

To deliver our divisional strategies and derive significant value from being a Group, we have created a new Executive Committee made up of both seasoned Shanks leaders and a number of new hires from outside the sector. All major Group decisions are brought to this Committee, so that we benefit from the combination of collective waste management experience, together with recent leadership and best practices from a range of blue-chip global businesses.

Shanks Group Executive Committee:

Toby Woolrych (46) joined Shanks in August 2012 as Group Finance Director. Toby has significant experience in the manufacturing and renewable energy sectors, including Consort Medical plc, Acta SpA and Johnson Matthey plc. Toby brings extensive experience in leading public companies and in restructuring businesses and shaping strategies for growth.

Michelle Cummins (41) also joined Shanks in August 2012 in the newly created role of Group Human Resources (HR) Director. Michelle has outstanding experience with a range of blue-chip companies including Inchcape plc, BAE Systems plc and John Lewis. She has already had a significant impact in organisational design, restructuring, hiring and talent development, and structured performance management.

Michael van Hulst (48) was previously on the Executive Committee as Managing Director, Netherlands, and has been appointed Managing Director, Benelux Solid Waste – our largest division. Michael has been with Shanks for over 20 years and is a leading figure in the Netherlands waste market. He has been the architect of much of the structural cost reduction programme and can advise widely across the Group's activities.

Jonny Kappen (54) was promoted to the Executive Committee in July 2012 as Managing Director, Hazardous Waste. Jonny has been in the hazardous waste market with Shanks for over 30 years. Jonny has led our ATM and Reym businesses on their recent five year journey of doubling profits, and his appointment reflects both the importance of the Hazardous Waste Division and the contribution he can make across the Group.

Henk Kaskens (50) was promoted to the Executive Committee in May 2012 as Managing Director, Organics. Henk was one of the founders of Orgaworld, which was acquired by Shanks in 2007. He has led the Organics business through a cycle of successful expansion in the Netherlands and Canada. In his new role he additionally has oversight of our Organics assets in Belgium and the UK. Henk is an experienced process chemist and is a recognised leader in the Organics market.

Peter Eglinton (44) joined Shanks in April 2013 and was appointed as Managing Director, UK on 1 May 2013. Peter has extensive experience in logistics with Groupe Norbert Dentressangle, Christian Salvesen, DHL, Exel plc and most recently with Iron Mountain. Peter replaces Ian Goodfellow, who left the business to pursue other interests after 10 years with Shanks. Ian contributed greatly to the growth of the UK business and we wish him well for the future.

Experience

70+ years

waste experience reinforced by blue-chip industry leaders within our Group Executive Committee.

Decisive and effective cost action

The clarity provided by the new organisation, combined with the market downturn experienced from the middle of 2012, resulted in us taking decisive action on structural overcapacity and inefficiency in our Solid Waste business. We announced with our interim results a structural cost reduction programme that will reduce our cost base by more than £20m by 2015/16. To put this in context, we will make a saving equivalent to 75% of our 2012/13 underlying profit before tax.

The structural cost programme will result in a total reduction in headcount of around 420 people across our UK and Benelux Solid Waste businesses. The programme also includes the closure of a number of transfer stations and smaller materials recycling facilities (MRFs) around the Group, as we optimise our capacity utilisation. In addition, we are planning to implement a shared service centre in each of Belgium and the Netherlands in order to streamline our currently decentralised support functions.

We have made good progress on this plan. Our targeted saving of £5m in 2012/13 has been delivered and we are on track to deliver a saving of £14m in 2013/14. At 31 March 2013, 310 people had already left the business. In addition to the savings identified in the structural cost programme, we have also continued to pursue other forms of operational cost reduction – for example, renegotiating off-take agreements that will save over £3m next year.

We manage our business portfolio actively and have already taken steps to dispose of non-core assets that are not delivering the required returns. In the past year, we have sold our Foronex transport business for £6.2m, realising a profit of £1.4m, and also exited Belgium ground-works. Shortly after the year end we also exited our last UK landfill by selling our joint venture share in Caird Bardon Ltd for a small consideration. We are in the process of closing the sale of our Netherlands Headquarters for €8m, given that it had become surplus to requirements in our new structure.

#2

Making more from waste

Shanks signs 25 year PFI contract with Wakefield Council

On 11 January 2013, Shanks signed a 25 year PFI contract with Wakefield Council worth an estimated £750m.

Shanks will build a residual waste treatment facility at South Kirkby, which will employ a number of processes to treat and recycle waste from the Wakefield District transforming it into valuable products and green energy. The facility will process up to 230,000 tonnes per annum of municipal solid waste, helping to increase the local authority's landfill diversion rate towards 90%.

Shanks will also take over a network of household waste recycling centres, transfer stations and bring sites within the Wakefield District, as well as building a visitors' centre at the South Kirkby site for waste education and the promotion of waste minimisation.

Vision and strategy

Vision
To be the leading provider of sustainable waste management solutions in our target markets

1 Improve profitability of Solid Waste

2 Broaden Hazardous Waste scope

3 Expand Organics footprint

4 Grow UK Municipal contracts

5 Develop world-class Group capabilities

6 Actively manage business portfolio

Future vision

Our new organisation and new management team, coupled with progress on structural cost action and portfolio management, have created a strong 'platform for growth'. This platform is aligned with our consistent vision to be the leading provider of sustainable waste management solutions in our target markets.

We retain our unique focus on providing sustainable and cost-effective alternatives to landfill and mass incineration. We are also focusing our efforts increasingly in selected target markets that have strong sustainable growth drivers and characteristics that enable Shanks to gain a competitive advantage. This aspiration reflects opportunities in our current growth markets, such as North American Organics, and also our commitment to be highly selective about where we will operate and deploy further capital in the future.

Shanks will continue to create value by making products from material that is otherwise thrown away. In so doing, we meet a growing long-term need and can generate sustainable and increasing returns for our shareholders.

Evolving strategy for growth

Our overarching strategy of 'making more from waste' remains consistent. However, the new Group structure with four market-facing divisions has led to our strategy evolving into one which is more market-oriented. The core pillars of this strategy are therefore now aligned with each division and aim to generate growth in each of our distinct markets.

1. **Improve profitability of Solid Waste businesses.** We will continue to face challenging market conditions in Solid Waste. We have already taken significant action to offset headwinds and will continue to streamline our organisation and operations in the years ahead. We are also increasingly focusing our activities in regions and areas where we can be the lowest cost operator through local scale and productivity advantages. Our cost actions will be supplemented by commercial activity in both securing waste and the sale of our products. Our strategy is focused on returning this business to previous profitability levels.
2. **Broaden Hazardous Waste scope.** Our Hazardous Waste business delivers superior returns through its symbiotic range of treatments and operational excellence. We will build on this profitable base by investing in more water treatment capacity. In parallel, we will expand the range of waste inputs that we treat with our existing assets and will broaden our commercial coverage. While short-term performance improvement will be muted by the strong contribution of some profitable one-time projects in the last two years, our strategy will deliver sustained profit growth in this division over the medium term.
3. **Expand Organics footprint.** The foundation of our Organics business is leadership in the highly advanced Dutch market. Our unique design, build, own and operate business model also provides us with distinct competitive edge which we will leverage to expand in target markets. This will include successfully ramping-up new UK assets and developing co-processing with Dutch A-brand customers. We will also expand our North American footprint by delivering proven solutions that meet the emerging diversion requirements of that market.
4. **Grow the UK Municipal long-term contract business.** We are well-placed to grow in the UK PFI market with established contracts, together with over £200m capital committed to projects in construction. We will deliver continued improvements in our operational contracts and will profitably ramp-up newly commissioned assets. Our medium-term growth will be underpinned by the successful construction of significant new sustainable waste management infrastructure. We expect this strategy to deliver top-line growth with similar operating margins.

Increased stability

70%

increasing proportion of trading profit from our growth divisions – Hazardous Waste, Organics and UK Municipal.

While we are increasingly clear about the actions needed to deliver growth in each division, we will continue to deliver value by leveraging our Group capabilities and scale. At a strategic level, our four divisional strategies are underpinned by two key Group strategies that span all our businesses.

5. **Develop world-class capabilities in a cohesive Group culture.** We are already using the breadth of the Group's capabilities to accelerate growth. For example, in Canada our position is being enhanced by the combination of Dutch Organics leadership and UK PFI experience. We are also benefiting from our improving organisational design, hiring and talent development. Going forward, we will further increase our focus on building Group capabilities. This will include the introduction of a formal continuous improvement function across the Group and an initiative to improve commercial effectiveness.

6. **Actively manage the Group's portfolio.** We are actively managing our wide portfolio of assets to improve the quality of our earnings and the return on capital employed. This has already involved some small disposals and our focus in this area continues. In particular, we are exploring the sale of underperforming or non-core assets in order to concentrate our resources on areas where we have a long-term capability to generate attractive returns. Overall, we are focused on deploying capital in areas where we are confident of sustainable advantage and higher growth, including potential bolt-on acquisitions – such as the purchase of the glass mono-stream business, Van Tuijl, last year.

Outlook

Assuming no further material decline in the challenging solid waste markets, our structural cost programme combined with an increased focus on commercial execution should deliver an improved solid waste divisional performance in 2013/14.

Longer term, we are well underway towards creating a strong platform for growth. The foundation for this is a leaner organisation that is more focused on winning in its target markets. The longer term growth drivers in our business remain attractive and I am therefore confident that the Group will deliver increased returns for shareholders in the future.

Peter Dilnot
Group Chief Executive

Our performance

Finance Director's review

We will look to re-establish sustained revenue growth, improve our trading margins and increase the return on our operating assets and investments.

Toby Woolrych Group Finance Director

Overview and Group trading performance

The year ended 31 March 2013 was dominated by European recession, falling waste volumes and a sharp drop in recyclate prices. Together these made for a very challenging year for the waste management market. Our response has been determined and we have taken significant structural cost action. Nevertheless, we have not been able to offset the market impact and the financial performance for the year has been disappointing compared with the prior year, as outlined below.

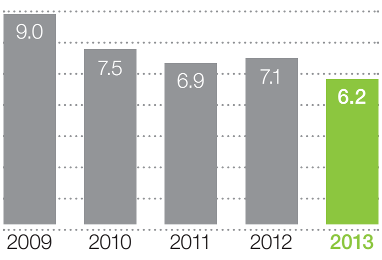
The Euro weakened significantly against Sterling during the first half of the year, resulting in an adverse translation impact for the Group. The Euro strengthened again in the last two months of the year, but this has had a modest impact on our translated profits. We show underlying divisional performance in the operating review section in local currency in order to remove most of the impact of currency movements.

We have developed and refined our strategy, as laid out in the Chief Executive's statement. This strategy seeks to 'control the controllables': to ensure that we execute on our cost reduction programmes and our investment plans, develop enhanced capabilities and actively manage our portfolio. Delivery of this strategy will significantly improve the quality of our earnings over time, and will position us well to benefit strongly when markets recover.

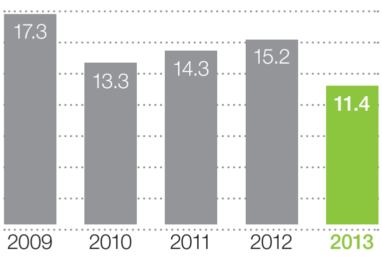
In financial terms, we can set simple metrics for improving the quality of our earnings. We will look to re-establish sustained revenue growth, improve our trading margins and increase the return on our operating assets (or return on investment in the case of new acquisitions). We also monitor the projected return on capital employed over asset lifetimes, but we consider that this is of lesser importance at a time of high market volatility and relatively higher leverage for the Group. Each division is continually assessed for its ability to meet our financial targets and we will over time take action with regard to underperforming assets.

We are also taking strong action to manage underlying cash flows, including working capital. Significant progress was made during the year, and we will continue to manage cash with great focus in order to ensure that we can invest in our growth opportunities.

Trading profit margin %



Return on operating assets %



Group revenue and trading profit by division

	Revenue				Trading profit			
	Mar 13 £m	Mar 12 £m	Change reported %	Change CER %	**Mar 13 £m**	Mar 12 £m	Change reported %	Change CER %
Benelux Solid Waste	**330.9**	387.8	–15%	–9%	**16.3**	26.2	–38%	–34%
UK Solid Waste	**59.8**	78.8	–24%	–24%	**(3.2)**	2.3	–239%	–239%
Hazardous Waste	**139.4**	149.6	–7%	–1%	**19.1**	21.2	–10%	–4%
Organics	**35.9**	34.4	4%	11%	**5.3**	5.2	2%	7%
UK Municipal	**110.9**	106.8	4%	4%	**9.2**	5.1	80%	80%
Group central services	**–**	–			**(5.4)**	(6.6)	18%	18%
Inter-segment revenue	**(6.9)**	(7.3)			**–**	–		
Total	**670.0**	750.1	–11%	–7%	**41.3**	53.4	–23%	–18%

CER = at constant exchange rate.

Financial review

Revenue and trading profit

Revenue in 2012/13 decreased by 11% to £670.0m (7% at constant currency), with sharp falls in both Solid Waste Benelux and UK.

Trading profit, before non-trading and exceptional items, fell by 23% to £41.3m (18% at constant currency). Strong growth in Organics and UK Municipal was offset by the challenging conditions in the Solid Waste businesses. Group central services, which comprise the Group's head office functions, reduced in the year as a result of lower bonuses and incentives as well as a number of one-off costs in the prior year.

A full description of divisional trading follows in the Operating review.

Other profit and loss items

Other non-trading and exceptional items

The market challenges of the past year and our active response to them has resulted in a significant number of non-trading and exceptional items. Non-trading and exceptional items of £61.8m (2012: £7.4m) were incurred in the year, with cash costs being £20m (2012: £nil). These items are further explained in note 4 to the financial statements and include:

- amortisation of intangible assets acquired in business combinations of £3.6m (2012: £3.7m);
- charges relating to a structural cost reduction programme of £32.5m (2012: £nil), including non cash impairments of property, plant and equipment of £20.0m;
- goodwill and intangibles impairment charge of £19.4m (2012: £2.5m) relating to certain Scottish recycling assets, a Belgian sorting centre and a landfill site and a loss-making ground-works business in the Netherlands;
- positive net litigation settlement of £6.0m (2012: £nil) following agreement of outstanding legal cases in Hazardous Waste;
- the exit from our remaining UK landfill investment was completed on 21 April 2013 with the sale of our joint venture share in Caird Bardon Limited. The investment was written down and held as for sale at the end of March 2013 which resulted in a charge of £3.9m;
- gain from exiting transport activities in Foronex in Belgium of £1.4m (2012: £nil);
- a net onerous contract charge of £5.9m (2012: £nil) has arisen spread across both Belgium and the UK and relates to increased onerous contract provisions taken on a few long-term contracts offset by releases following reassessment of others;
- the accounting for processing costs and liabilities relating to unprocessed waste held at certain facilities in the UK was not aligned with the policy in the rest of the Group and bringing this into line has led to a one-off charge of £1.5m (2012: £nil);
- a number of other one-off charges and associated costs of £2.5m; and
- financing fair value measurements credit of £0.1m (2012: charge of £0.8m).

The operating loss on a statutory basis, after taking account of all non-trading and exceptional items, was £20.6m (2012: profit of £46.8m).

Our performance

Finance Director's review

Structural cost programme

£20m

Our structural cost reduction programme is on track for £20m cost savings in 2015/16.

Finance costs

Excluding the change in fair value of derivatives and the interest on PFI funding, the core interest charge has reduced by £0.4m in the year.

Profit before taxation

The Group has adopted the amendment to IAS 19 (revised) Employee Benefits early, and this has resulted in a restatement of the prior year profit before tax number which has decreased by £1.5m to reflect the reduced income from the defined benefit pension scheme. Underlying profit before tax and before non-trading and exceptional items has fallen £10.8m from £37.3m to £26.5m. Profit before tax on a statutory basis has decreased from £29.9m to a loss of £35.3m.

Taxation

The taxation charge for the year was a credit of £0.1m (2012: charge of £4.2m). The underlying tax charge of £6.8m equated to an effective rate of 25.7% down from 26.0% last year. The exceptional tax credit of £6.9m includes a net credit of £4.9m for non-trading and exceptional items of which a significant proportion are non taxable. Also included is £2.0m (2012: £5.2m) related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Earnings per Share (EPS)

Underlying EPS, which excludes the effect of non-trading and exceptional items, decreased at constant currency by 23% to 5.0p per share. Basic EPS decreased from 6.5p per share to a loss of 8.9p per share.

Dividend

The Board is recommending a final dividend per share of 2.35p (2012: 2.35p). The final dividend will be paid on 2 August 2013 to shareholders on the register on 5 July 2013. Dividend cover, based on earnings before non-trading and exceptional items, is 1.45 times (2012: 2.0 times).

Cash flow performance

	Mar 13 £m	Mar 12 £m
EBITDA	**84.8**	102.4
Working capital movement and other	**(1.8)**	1.6
Net replacement and capital expenditure	**(24.6)**	(40.4)
Interest and tax	**(9.6)**	(20.6)
Underlying free cash flow	**48.8**	43.0
Growth capital expenditure	**(28.3)**	(37.9)
Acquisitions and disposals	**(7.0)**	(6.8)
Restructuring spend	**(7.0)**	–
Dividends paid	**(13.7)**	(13.3)
PFI funding and other	**(5.5)**	5.2
Net core cash flow	**(12.7)**	(9.8)
Free cash flow conversion	**118%**	81%

A summary of the cash flows in relation to core funding is shown in the table above. The strong focus on cash management and tight control of capital expenditure has continued and resulted in a free cash flow conversion of 118% (2012: 81%). The ratio of replacement capital spend to depreciation was 54%, significantly below last year's 78%. We plan a return to 2011/12 levels of capital expenditure next year. The lower cash interest and tax spend in the year was due to net tax receipts following prior year repayments primarily in the Netherlands compared to a net payable position last year. Also at the start of the prior year a number of loan refinancing fees were settled relating to the February 2011 bank refinancing. The acquisitions and disposals spend of £7.0m included the final earn out payment in relation to the acquisition of Orgaworld net of proceeds from the exit of the transport activities in Foronex in Belgium. The prior year PFI funding and other total included the receipt of £8.7m further to a court decision in respect of a claim for business interruption in the Netherlands.

Restructuring – cost reduction programme

	P&L charge			Timing of charge			Expected benefit			
All figures in £m	Cash	Non-cash	Total	12/13	13/14	14/15	12/13	13/14	14/15	15/16
Benelux Solid Waste	13	8	21	15	5	1	3	8	9	9
UK Solid Waste	3	11	14	14	–	–	2	4	4	4
Other divisions	4	1	5	4	1	–	1	1	1	1
Solid Waste shared services	8	–	8	–	7	1	–	–	2	3
Procurement	–	–	–	–	–	–	–	1	2	3
	28	20	48	33	13	2	6	14	18	20

Our structural cost reduction programme

Our structural cost reduction programme is expected to deliver £20m of cost savings per annum by 2015/16 and £6m of savings were delivered in the current year. The expected timing of the savings and the charges is set out in the table above.

The status of the principal actions is as follows, with further detail provided in the divisional reviews:

- Benelux Solid Waste: On track. 180 out of a planned total of 275 heads had left the business as at 31 March 2013;
- UK Solid Waste: On track. 124 out of a planned total of 150 heads had left the business as at 31 March 2013;
- Other divisions: completed;
- Solid Waste shared services: feasibility phase complete and planning underway for implementation by mid 2014; and
- Procurement: On track. These specific savings are linked to the restructuring of the Benelux and the introduction of shared services and a procurement centre of excellence.

Our investment activities and performance

Investment programme

Since 2008, the Group has had a stated strategy of investing up to £250m in sustainable waste management infrastructure, with a target post-tax return of 12–15% on fully operational assets. As at 31 March 2013, £145m has been invested. The divisional split of the investment to date has been: Organics £80m (55%), Solid Waste £49m (34%) and Hazardous Waste £16m (11%).

As at 31 March 2013, £65m of the investment portfolio was considered fully operational and it delivered a post-tax return of 12.1% in the year (2012: 12.2%). The portfolio as a whole delivered a post-tax return of 12.4%. As might be expected, post-tax return has varied according to division, with strong returns from the Hazardous Waste investments, sound but increasing returns from the Organics portfolio, and mixed returns from the Solid Waste investments due to the market volatility.

There were no other new growth assets under construction at year end. The Board has, however, approved an investment totalling £5m in capacity expansion in Hazardous Waste. This investment will largely take place in 2014/15 once permitting is secured.

UK Municipal programme

To support growth of the UK Municipal Division's PFI and PPP contracts, the Group is currently undertaking a large investment programme. In the year ended 31 March 2013 our PFI financial assets increased by £59.7m to £125.5m. This increase related to Barrow MBT facility (£9m), BDR (£14m) and Wakefield (£36m). The asset increases are broadly matched by increases in non-recourse debt that is lent directly to the PFI funding entities with no recourse to the Group as a whole. Timing differences do occur between drawing down funds and making payments, and any additional investment in the form of subordinated debt or approved capital over-runs would be funded by the Group's existing facilities. In the next 12 months, we expect our PFI financial assets to increase by up to £70m as the BDR and Wakefield construction phases accelerate.

Treasury and cash management

Core net debt and gearing ratios

The net core cash outflow of £12.7m, together with an adverse exchange effect on the translation into Sterling of the Group's Euro and Canadian Dollar denominated debt, has increased core debt by £16.5m to £177.3m. This represents a covenant ratio of 2.0 times EBITDA which is well within the banking limits of 3.0 times. The value of non-recourse debt lent directly to the PFI funding entities was £100.1m (2012: £45.4m).

#3

Making more from waste

Construction underway for BDR Waste Treatment Facility

On 18 February 2013, the BDR (Barnsley, Doncaster and Rotherham) ground-breaking ceremony marked the beginning of the construction phase of this PFI project.

Once operational in 2015, the facility at Bolton Road in Manvers, will treat up to 265,000 tonnes per year of household and commercial waste from the three councils and will save the equivalent of 114,000 tonnes of CO_2 every year.

The facility will make more from waste by creating products, solid recovered fuel and biogas for energy generation, and digestate for use as a nutrient-rich soil conditioner.

Debt structure and strategy

Core borrowings, excluding PFI/PPP non-recourse borrowings, are almost all long term. At 31 March 2013, the Group's bank financing was a €200m term loan and multicurrency revolving credit facility with six major banks entered into on 2 February 2011 and expiring in June 2015. At 31 March 2013, €128m equivalent of the facility was drawn. The margin varies on a ratchet fixed by the Net Debt:EBITDA ratio. The financial covenants of this facility are principally the ratio of Net Debt:EBITDA of less than 3.00:1, interest cover of not less than 3.00:1 and a minimum net worth of £225m. The five year retail bonds of €100m, issued in October 2010 to investors in Belgium and Luxembourg have an annual coupon of 5.0% and are quoted on the London Stock Exchange. The senior notes issued under the Group's Pricoa private placement include €18m at a fixed interest rate of 6.98% with repayment due in September 2013 and €40m of seven year senior notes issued in April 2011 at a fixed interest rate of 5.025%.

The Group also has access to £28.4m of undrawn uncommitted working capital facilities with various banks. Cash flows are pooled at a country level and each operation is tasked with operating within the limits of the locally available working capital facilities.

Each of the Group's PFI/PPP projects has senior debt facilities which contribute approximately 85% of the capital funding required. These facilities are secured on the future cash flows of the PFI/PPP companies with no recourse to the Group as a whole. Repayment of these facilities, and any equity bridge facility in respect of the remaining capital funding, commences when construction is complete and concludes one to two years prior to the expiry of the PFI/PPP contract period. The maximum which could be drawn down under these facilities at 31 March 2013 was £167.7m. Interest rates are fixed by means of interest rate swaps at the time of contract inception.

Treasury risk management

The Group's treasury policy is to use financial instruments with a spread of maturity dates and sources in order to reduce funding risk. Borrowings are drawn in the same currencies as the underlying investment to reduce cash and net translation exposures on exchange rate movements. The Group maintains a significant proportion of its debt on fixed rates of interest in order to protect interest cover. It is and has been throughout the period under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

Retirement benefits

The Group operates a defined benefit pension scheme for certain UK employees which was closed to new entrants in September 2002. Since then, new employees have been offered a defined contribution pension scheme. At 31 March 2013 the net retirement benefit deficit relating to the UK scheme was £6.8m compared with £5.9m at 31 March 2012. The movement was as a result of an increase in liabilities due to a fall in discount rates, offset by an increase in asset values due to rising equity and bond markets. The latest actuarial valuation of the scheme was at 5 April 2012 and a funding plan of £3.0m per annum over seven years has been agreed with the trustees. This payment profile will be reconsidered at the next actuarial valuation which is due as at 5 April 2015.

Plans are underway to automatically enrol eligible UK employees into a workplace pension scheme towards the end of 2013.

In the Netherlands, employees participate in compulsory collective transport industry-wide pension schemes, or equivalent schemes, which provide benefits up to a certain level of pay. These are accounted for as defined contribution plans as it is not possible to split the assets and liabilities of the schemes between participating companies and the Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit. In Belgium, the Group operates small defined contribution schemes.

Insurance

The Group manages its property and third party risks through insurance policies that mainly cover property, business interruption, public liability, environmental pollution and employer's liability. The Group covers its operating risks by self insurance, whereby the operating businesses pay a moderate deductible on most claims, together with cover provided by the external insurance market, arranged by our brokers with insurance companies which have good credit ratings. It is advised by Marsh as insurance broker. Marsh believe that our policies and the risks covered are appropriate for a business of our size and industry. Insurance premia have been rising generally over the past year as a result of a high claims level across the industry as a whole. During the year we significantly increased insurance cover on selected key sites.

Outlook

The Group expects to continue to experience very challenging short-term trading conditions, with waste volumes continuing to fall in the face of weak economies and contracting construction activities in the Netherlands. This is expected to have a consequent continuing pressure on pricing. No recovery in recyclate prices is forecast. The Board expects to offset this with the full year impact of our ongoing cost reduction activities combined with various assets in our investment portfolio becoming fully operational.

The Group will continue very actively to manage cash, including improvements in working capital, continual focus on replacement capital and judicious approval of new growth capital programmes. Nevertheless, the investment of £11m in subordinated debt into the Cumbria PFI in April, a further anticipated investment of £5m in the PFI programme and scheduled payments of £20m in restructuring charges and other provision payments will result in net debt increasing slightly over the year, while remaining well within our covenants.

Toby Woolrych
Group Finance Director

Our performance

Operating review: Solid Waste

Shanks is a leader in the collection and treatment of solid waste in Benelux and regions of the UK.

We make more from waste by using technologies that maximise recycling and produce reusable products. Our model is less capital intensive and is more environmentally friendly than incineration or landfill.

Revenue – Benelux

£330.9m –15%

Revenue – UK

£59.8m –24%

Trading profit – Benelux

£16.3m –38%

Trading profit – UK

–£3.2m n/a

#4

Making more from waste

Shanks helps Heineken to go green

15,000 tonnes

In December 2012, our Van Tuijl glass recycling business was awarded a contract to recycle 15,000 tonnes of glass bottles in the Netherlands for international brewer, Heineken.

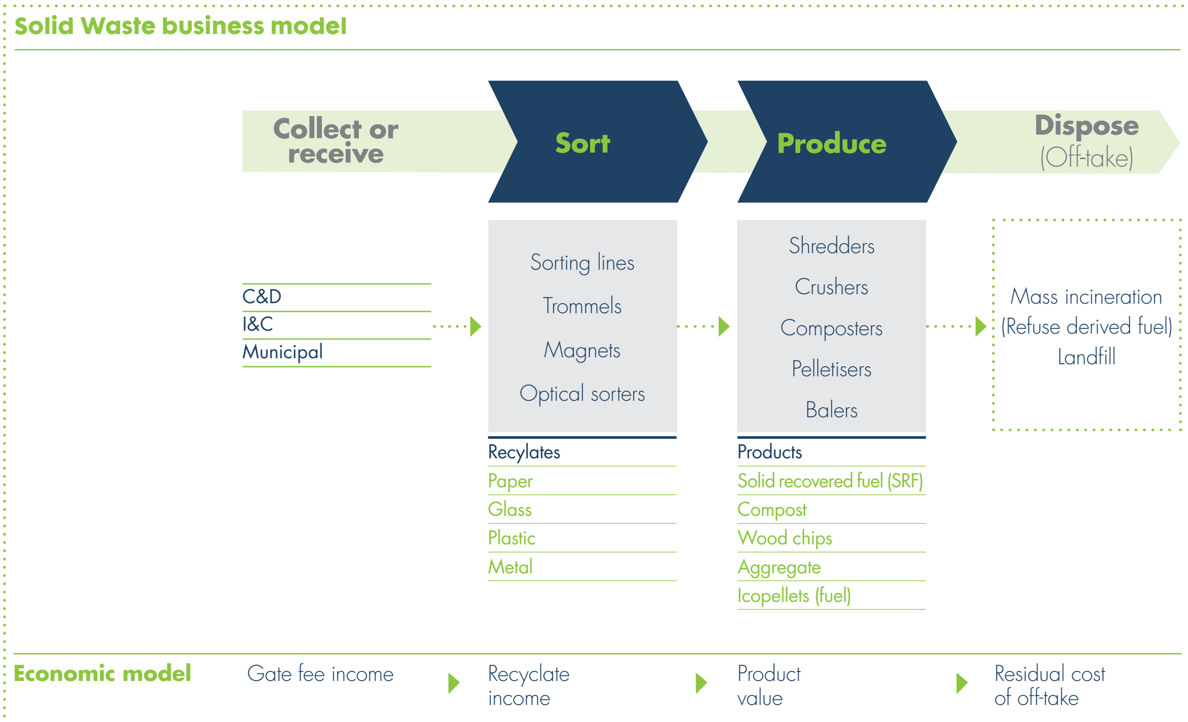
Heineken had traditionally bottled its beer into both brown and green coloured bottles, but decided that going forward it will produce all of its beers only in its famous green bottles. As a consequence, Heineken needed to recycle its entire inventory of around nine million brown bottles which Shanks is recycling and will supply back to the customer.

Operational highlights

- New streamlined organisation structure focused on commercial effectiveness
- Launch of structural cost programme that will save £16m by 2015/16
- £5m saved in 2012/13
- Significant contract wins with Rabobank, Heineken and Dura Vermeer

Strategic aims

- Lowest cost position through scale and productivity advantages
- High quality, innovative products for target markets
- Commercial effectiveness to secure volume and sell product profitably and internationally



Business model

The solid waste market covers the collection, sorting, treatment and ultimate disposal of solid waste materials from a range of sources. The market can be divided into three main sources of waste: Construction and Demolition (C&D), Industrial and Commercial (I&C), and Municipal (where the latter has not been tied up in a long-term PFI-type contract).

Shanks' unique business model in this market is to focus primarily on the sorting and treatment phases of the cycle. We generally collect where necessary to secure waste volumes, and we dispose only of the residues that we are unable to convert into a reusable product or recyclate. In this way, we 'make more from waste' both environmentally and economically.

Our general business model is set out in the graphic above.

We operate Solid Waste businesses in the Netherlands, Belgium and the UK. Each has a different profile in terms of the source of waste, which affects its current financial performance and competitive strategy as outlined in the following sections.

Market overview — Benelux

The Benelux solid waste market has good long-term fundamentals but significant short-term challenges. The largest segment in the Dutch market is C&D. This segment has been under sustained and significant pressure during the downturn and the market is believed to have contracted by >7% in 2012. The Dutch residential real estate market has shrunk by 50% over the last three years, demonstrating the severity of the contraction. This was due in part to new austerity measures by the Dutch government that have reduced infrastructure spend, and removed tax incentives for the residential market. As a result, in 2012 new building permits reached the lowest levels since 1953. Lower volumes have had a significant consequential impact on pricing both of incoming waste and of outgoing recycled products for use in the sector. Lower global recyclate prices and demand for wood chips, paper and metals have added to the economic pressure. The Economic Institute for Building Industry forecasts for 2013 are for a further contraction of 5%, followed by a return to stability and modest growth.

The Dutch I&C sector also contracted during 2012 in line with the general recessionary environment. Manufacturers have been taking measures to reduce their waste volumes and waste disposal costs. The fall in volumes since the credit crunch began has created a significant incinerator over-capacity. The incinerators receive our residues after recycling but also receive waste directly from those who do not wish to recycle. The over-capacity has caused incinerator 'spot' gate fees to roughly halve from €100 per tonne five years ago, with consequent price pressure on the gate fees of the recycling companies. The incinerators have partially addressed their lack of capacity by importing waste from the UK and other markets. Currently, incinerator assets that make up around 50% of Dutch capacity are believed to be in a sale process.

The Belgian solid waste market has a significant component of the market in public ownership. The key segmentation in Belgium is between the three regions of Wallonia, Flanders and Brussels; each market operating with a high degree of independence and with little waste transferring between them. The general waste market in Belgium has remained weak in the last year, with a slight decline in volumes due to the recession and due to an ongoing decline in the Belgian manufacturing base, especially in Wallonia. Shanks has a lower exposure to the C&D segment in Belgium and a higher involvement in municipal collections (under mid-length contracts), which has provided some earnings stability when compared to the Dutch business.

The market leaders in the Benelux solid waste market are van Gansewinkel Group, Sita and Shanks. Each of these businesses has implemented a programme of cost and capacity reduction over the past year. The market is highly fragmented, however, and there are many small- to medium-sized operators. We have seen an increase in the number of small players exiting the market in the last year, but it is not yet clear whether sufficient capacity has been removed from the market to prevent further pricing reductions.

Despite the short-term changes, long-term drivers continue to strongly support our positioning as a recycler within the value chain. In the Netherlands there is a stated ambition to improve recycling rates from 80% to 83%. In Flanders the new Vlarema legislation will, from 2014, require businesses either to sort their waste themselves before sending to incineration, or ensure that it is sent to a recycler. Both of these initiatives should drive an increase in volumes for recycling. We are also seeing a sustained growth in the market for waste mono-streams such as glass and plastics.

Finally, while we are not forecasting the timing of a cyclical recovery in the solid waste market, we will be very well positioned as and when it comes.

Products and technologies — Benelux

The Benelux Solid Waste Division operates a number of technologies in order to recycle the waste it sources into usable products. Waste may be delivered to a transfer station, where it is collected and subjected to a rough sort before being sent on for further treatment. The core technology is the material recycling facility (MRF) which combines automated sorting technologies (such as magnets, eddy current separators and optical sorters to remove recyclates) along with manual sorting lines. In Gent solid recovered fuel (SRF) is being produced that is burned in incinerators or cement kilns. C&D waste passes through heavier duty processes, including stone crushers to produce rubble. Our Icova site further processes selectively collected (dry) commercial waste into high calorific Icopower pellets which can be used in power stations or cement plants. Shanks also operates businesses that focus on mono-streams such as glass (Van Tuijl), wood (Van Vliet Nieuwegein and Foronex) and paper or cardboard (Kluivers). The Hook of Holland facility serves the local horticultural market with composting of green waste and the treatment of rockwool, in which flowers and vegetables are grown. The division also operates a small Hazardous Waste business in Belgium, one landfill in each country and a sand quarry in Belgium.

The key products are as follows:

- **Recyclates (commodities):** ferrous and non-ferrous metals, glass, plastics, cardboard, paper, wood chips, batteries.
- **Industrial products:** rubble, aggregate, compost, building materials.
- **Power:** gas from the landfills, Icopower pellets, SRF for cement kilns or high energy generating incineration.

Recycling rates for the division are over 75% and over 95% for the C&D businesses. The Benelux Division also has a minority share, along with other leading waste companies, in an incinerator in Wallonia.

Strategy — Benelux

Our strategy is to improve profitability by achieving cost leadership through scale and operational efficiency in target regions. In parallel, we will drive excellent commercial execution and optimise our product mix. These actions are focused on both improving the quality of our earnings and returns on operating assets.

Our product strategy includes increasing production from our mono-stream facilities such as Kluivers and Van Tuijl, and increasing production of high calorific fuels such as Icopellets from Icova and SRF from Gent.

SOLID WASTE Benelux

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 13 €m	Mar 12 €m	Change €m	%	**Mar 13 €m**	Mar 12 €m	Change €m	%
Netherlands Solid Waste	**231.0**	253.0	(22.0)	–9%	**11.9**	19.7	(7.8)	–40%
Belgium Solid Waste	**109.4**	113.1	(3.7)	–3%	**8.4**	8.4	–	0%
Belgium Others	**84.1**	100.9	(16.8)	–17%	**9.3**	11.0	(1.7)	–15%
Divisional central services	**–**	–	–		**(9.5)**	(8.8)	(0.7)	
Intra-segment revenue	**(18.3)**	(18.8)	0.5		**–**	–	–	
Total €m	**406.2**	448.2	(42.0)	–9%	**20.1**	30.3	(10.2)	–34%
Total £m (at average rate)	**330.9**	387.8	(56.9)	–15%	**16.3**	26.2	(9.9)	–38%

	Trading Margin		Return on operating assets	
Netherlands Solid Waste	**5.2%**	7.8%	**4.3%**	9.6%
Belgium Solid Waste	**7.7%**	7.4%	**24.7%**	22.1%
Belgium Others	**11.1%**	10.9%		
Total	**4.9%**	6.8%	**8.1%**	12.7%

Financial performance — Benelux

Overall revenues and trading profit, excluding exchange, were down on the prior year by 9% and 34% respectively as a result of reduced volumes and continued pricing pressures net of savings of £3.2m from the restructuring programme. Total Dutch solid waste volumes were flat year on year with C&D volumes down 10%. Overall in Belgium the impact was less severe with C&D volumes down 3% which was compensated by stable I&C volumes. Trading margins in Belgium have remained stable across the year with the decline in the Netherlands due to competitive pricing and lower recyclate pricing.

Operational review — Benelux

This has been a year of almost unprecedented change, in which we have taken decisive action to address the challenging market conditions. We believe that the actions taken already and those planned for the coming year will strengthen the Solid Waste Division for the future.

Implementing the new organisation The Benelux Solid Waste Division was created in July 2012, amalgamating the largest part of the previous Netherlands country organisation with the Belgium division. Michael van Hulst, Division Managing Director, has created a streamlined new management structure, with the Netherlands reduced from nine operating regions to three: North, Central and South West. Most of the existing brands have been retained because of their strong recognition in the local markets, but the commercial structure has been reshaped to enable more efficient operation. Administration will be centralised into a shared service centre in Amersfoort. Belgium has been restructured into Wallonia (including Brussels) and Flanders regions.

Delivering significant structural cost reduction
£15m of the targeted £20m savings from the Group's structural cost programme are to take place in Benelux Solid Waste. The programme can be divided into capacity and cost reduction (£9m), shared services (£3m) and procurement (£3m). Good progress has been made already, with cost savings of £3m realised in 2012/13 and we are on track to deliver a further £9m in 2013/14. Actions taken in 2012/13 included:

- the removal by the end of year of 180 from a total target of 275 heads;
- the closure of the Van Vliet Puin recycling transfer station at Wateringen;
- the conversion of turning and sorting lines at Burgerbrug, the Hague and Amersfoort into transfer stations for onward shipment to larger MRFs; and
- the completion of the feasibility phase of the shared services project, with a plan approved for the creation of shared services centres in Brussels and in Amersfoort.

Continuing success in core markets We have also maintained or increased our market share in the face of a changing competitive landscape, and won or renewed some significant contracts over the past year, despite the overall market challenges. These wins included:

- nationwide waste treatment for leading Dutch construction company Dura Vermeer;
- waste collection and treatment for Rabobank's regional banking network of over 200 banks; and
- recycling over 15,000 tonnes of brown glass for Heineken.

1 Overview
2 Strategy
3 Our performance
4 People & sustainability
5 Risk & uncertainties
6 Governance
7 Financials & other information

#5

Making more from waste

Major Dutch construction waste contract

In September 2012, major construction company Dura Vermeer appointed Shanks to exclusively manage waste across its infrastructure and construction portfolios in the Netherlands.

Shanks collects and sorts the rubble and delivers it back to Dura Vermeer for reuse in this closed-loop agreement. Through greater source separation of recyclables, we are helping Dura Vermeer to meet its source separation target of 60% by 2015.

Whilst Shanks has been working on a regional basis with Dura Vermeer for more than 15 years, this is the first time that Dura Vermeer has issued a single national contract.

Successful implementation of new assets We have successfully commissioned new assets in Hook of Holland and in Van Tuijl. The Hook of Holland composting facility serves the local horticultural industry by treating green waste. The facility has been built with a state-of-the-art closed composting system which not only meets stringent environmental targets, but also reduces the composting time from around 18 months to just six weeks, while greatly increasing capacity and reducing working capital employed. In addition, the Van Tuijl glass processing business has installed a further sorting line that has doubled capacity.

Disposal of non-core assets We sold the transport activities of the Foronex wood business (including property) in Belgium for £6.2m. The profit on disposal of £1.4m has been treated as an exceptional item.

Outlook — Benelux

We continue to face ongoing volume and price pressure in our core Solid Waste markets and as such, it is hard to call if we have ‘reached the bottom’ or when we will do so. Whilst we have started to see some prices stabilise in recent months, we are not expecting a recovery in the short term.

Delivery of our structural cost programme and excellent commercial execution should offset the continuing short-term headwinds and position the division for a resumption of growth. Governments in both Belgium and the Netherlands continue to increase the regulations related to waste recycling. Longer term, the outlook remains positive due to the continuing drive for higher recycling levels and our strong market position.

SOLID WASTE UK

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 13 £m	Mar 12 £m	Change £m	%	**Mar 13 £m**	Mar 12 £m	Change £m	%
Solid Waste	**59.8**	78.8	(19.0)	–24%	**(0.7)**	5.8	(6.5)	–112%
Divisional central services	**–**	–	–		**(2.5)**	(3.5)	1.0	
Total	**59.8**	78.8	(19.0)	–24%	**(3.2)**	2.3	(5.5)	–239%

	Trading Margin		Return on operating assets	
Total	**–5.4%**	2.9%	**–6.1%**	5.3%

Market overview — UK

The overall solid waste market in the UK has a similar structure to the Benelux, except that around 25% of I&C and 40% of Municipal waste still goes to landfill. The market has suffered from a similar sustained downturn as in the Benelux, with volumes down by 12% in 2012. This has created over-capacity in collection and recycling assets, creating economic pressures on the business models historically adopted by the industry. The recycling market has had a high dependence on recyclate prices, so the decline in prices on average by a quarter, when compared to 2011/12 has had a strong impact on profitability in the sector. Recent weeks have seen several high profile closures.

Shanks is a minor player in the overall UK collection and treatment market, but has concentrated and significant local scale around the northern Home Counties, East Midlands and the central belt of Scotland.

Products and technologies — UK

The UK operates similar assets and technologies to the Benelux. It has two transfer stations and two MRFs in Scotland and four transfer stations and three MRFs in England.

Strategy — UK

Our strategy in UK Solid Waste is to improve profitability by continued streamlining of our operations and by securing local volumes through excellent commercial execution. We will also leverage our cost advantage against landfill (landfill tax rose again in April 2013 to £72 per tonne) to gain share in target regions and increase diversion. We also seek collaboration with our UK Municipal assets where there are mutual benefits to be achieved.

Financial performance — UK

Revenue in the year fell by 24% to £59.8m, with collection and recycling tonnages down by 12% and 17% respectively. The division made a loss after central costs of £3.2m compared with a profit of £2.3m last year which included a profit of £1.9m from a specific contract in relation to the contaminated land services business.

Operational review — UK

We took decisive action in the light of volume declines, particularly in Scotland where we reduced costs by £2.4m in the year. Actions included mothballing our Blochairn co-mingled MRF and reducing headcount by 124 (12% of the UK workforce). In April 2013, we reorganised UK Solid Waste to bring the operations closer to their local markets and we expect to save a further £2m in 2013/14.

There have been significant commercial successes, including the securing of the Silverburn shopping centre contract in Glasgow. We are also pleased to have commissioned our state-of-the-art Kettering MRF just before year end, with production capabilities performing in line with expectations.

Outlook — UK

Unless there is a recovery in volumes and recyclate pricing, we expect the UK market to remain very challenging in 2013/14.

Our performance

Operating review: Hazardous Waste

We are a leader in Dutch industrial cleaning and in the treatment of contaminated soil and water in Europe and beyond.

Reym delivers premium Total Care solutions for cleaning of onshore and offshore heavy plants. ATM converts contaminated water from ships and industry and contaminated soil into clean water and soil.

Revenue

£139.4m –7%

Trading profit

£19.1m –10%

#6

Making more from waste

ATM ship cleaning

>2,700 ships

ATM is market leader in Europe for the treatment of contaminated water, a large part of which involves the cleaning of inland tank barges.

Each year, ATM cleans approximately 2,700 coastal inland ships at our jetty in Moerdijk. Through our four working stations, we are able to provide cleaning, waste disposal and de-gassing of ship's cargo tanks, providing a complete service for ships to get ready for loading cargo.

The waste water is put through decanters, flocculation and flotation units to remove solids and oils and is then treated in five biological treatment tanks in which bacteria clean the contaminants and produce clean water.

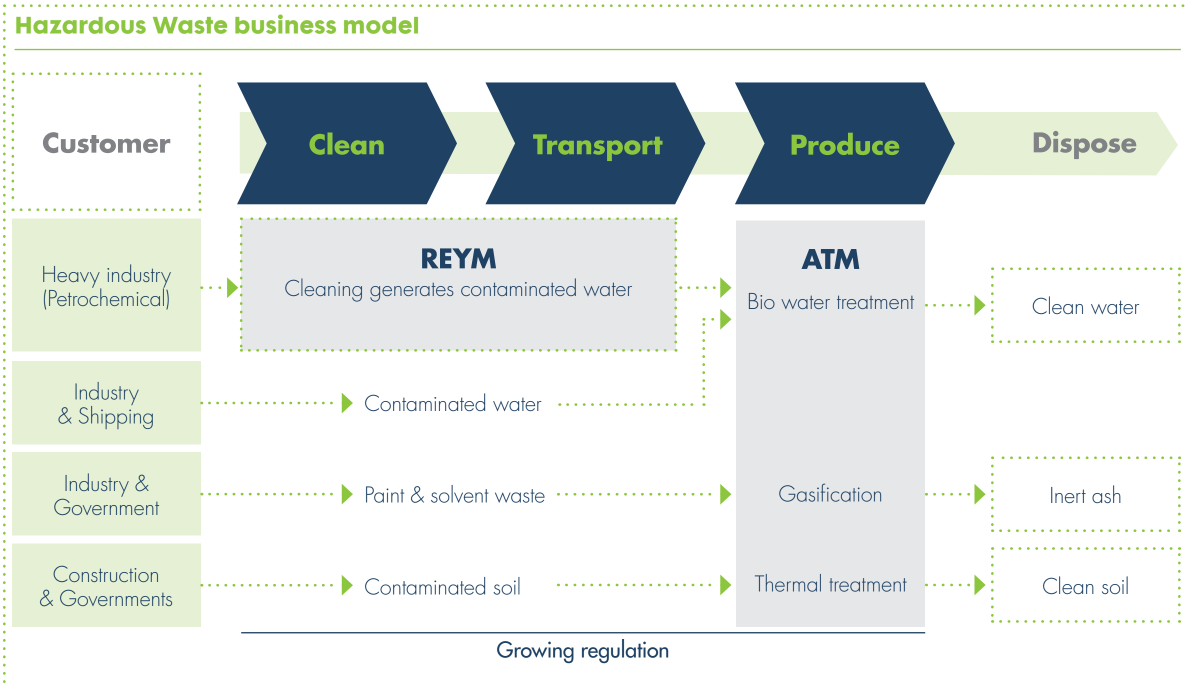
Operational highlights

- Strong year at Reym with excellent asset utilisation
- Good growth in Total Care business
- Strong year at ATM with profitable soil mix
- Record levels of ship cleaning

Strategic aims

- Invest in increasing water treatment capacity
- Expand range of inputs requiring thermal treatment
- Broaden commercial coverage in target markets
- Drive further synergies and productivity gains

Our performance
Hazardous Waste



Business model

The Hazardous Waste Division is made up of two businesses: Reym and ATM. Reym is a leading industrial cleaning company in the Netherlands, providing a Total Care solution (cleaning, transport and waste management) for heavy industry, petrochemical sites, oil and gas production (both on and offshore) and the food industry. ATM is one of Europe's largest sites for the treatment of contaminated soil and water, as well as for the disposal of a broad range of hazardous waste such as waste paints and solvents.

The business model is shown in the graphic above.

Reym's highly experienced and trained cleaning teams use specialist equipment to deliver a reliable and safe cleaning process in a market where the cost of safety and quality is of paramount importance. ATM is a leader in water and soil treatment because of: the cost advantages provided by its fully integrated plant processes; its waterside location for the cleaning of ships; and its excellent record of compliance with the many environmental controls and permits required in the hazardous waste market.

Market overview

Our Reym business is one of the market leaders in the Netherlands along with Mourik and van Gansewinkel Group. The cleaning market has been flat at best since the downturn, with a decline in Dutch heavy industrial activity and margins being offset by growth in the petrochemicals segment. The services element of the market is growing moderately. Prices are under strong pressure due to the financial challenges faced by our customer base, but we are to some extent protected by the quality of our offering and its importance in terms of keeping the customers' facilities safely operational.

ATM is a clear market leader in both thermal soil treatment and waste water treatment. The waste water market is growing steadily as a consequence of increased regulation and growth in the ship cleaning business. The soil market includes contaminated soil, sludges and TAG (tar and asphalt). The market has been under sustained pressure during the downturn, as the primary supply of soil comes from government or EU sponsored remediation and construction projects. In addition, TAG has recently started to be exported overseas. In response, ATM has sourced contaminated soil from across Europe, including one major contract that has materially boosted results in 2012/13. ATM's strong technical reputation and large capacity positions it very well for an eventual upturn in the market. The paints and solvents treatment market has over-capacity in treatment assets and is not seen as an area for growth.

Products and technologies

The Reym business operates bespoke and specialised cleaning equipment in order to serve its clients. These include trucks for onshore work and specialist transportable units for offshore work. Our solutions use high pressure cleaning, vacuum cleaning, chemical cleaning and decontamination. Liquid waste streams (including those created by the cleaning process) can be collected and transported to one of our waste treatment facilities. Reym operates a fleet of around 250 vehicles and units from sites across the Netherlands. Most of these sites are also equipped and licensed for treating hazardous waste.

Contaminated soil can be cleaned by washing or treated thermally (depending on contamination levels). We operate two small washing units and a principal thermal treatment facility with one million tonne capacity. The ATM unit passes contaminated soil through a kiln in order to produce clean and reusable soil, with the effluent gases being carefully scrubbed of all contaminants.

Contaminated water is removed from ships at our jetty at ATM or received from trucks, which can themselves then be cleaned on site. The water is put through a decanter to remove solids and oils; it is then treated in five biological treatment tanks in which bacteria cleans the contaminants and produces clean water.

HAZARDOUS WASTE

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 13 €m	Mar 12 €m	Change €m	%	**Mar 13 €m**	Mar 12 €m	Change €m	%
Hazardous Waste	**170.9**	172.9	(2.0)	–1%	**25.3**	26.4	(1.1)	–4%
Divisional central services	**–**	–	–		**(1.9)**	(1.9)	–	
Total €m	**170.9**	172.9	(2.0)	–1%	**23.4**	24.5	(1.1)	–4%
Total £m (at average rate)	**139.4**	149.6	(10.2)	–7%	**19.1**	21.2	(2.1)	–10%

	Trading Margin		Return on operating assets	
Total	**13.7%**	14.2%	**36.2%**	40.6%

Paint and solvent waste, along with sludges removed from the contaminated water, is treated in a gasification process to produce largely inert ash.

Strategy

The strategy of the Hazardous Waste Division is to continue to grow its local markets through capacity expansion, particularly in water treatment. Specifically, the strategy is to:

- expand water treatment storage and treatment capacity and capabilities;
- accelerate the transformation of Reym into an industrial service provider as opposed to solely cleaning activities (Total Care Solution); and
- maximise throughput in the soil treatment and pyro facilities, including the completion of storage expansion, the sourcing of new waste types and seeking further international soil business.

Financial performance

Excluding exchange, revenues have decreased by 1% to €170.9m and profits by 4% to €23.4m. During the prior year ATM benefited from the storage and treatment of waste water from a large remediation project. Overall trading margins have declined slightly in the year with improvements at Reym compensating a shortfall in ATM.

Operational review

Hazardous Waste delivered another strong performance, with a continuing focus on customer service and operational efficiency delivering sustained strong returns in the face of significant pricing pressure.

Reym performed particularly well, with outstanding levels of asset utilisation across the busy periods. The enhancement of systems from order intake and planning to project execution has continued and this has resulted in benefits from the optimal deployment and utilisation of the experienced teams and their equipment. Reym also saw growth in its offshore cleaning business and also in its Total Care Solution offering, in which cleaning, transport and waste management are combined in one package.

ATM also delivered a strong performance, driven in part by an exceptional international soil contract for highly contaminated soil that delivered good margins. Despite underlying soil markets being more challenging, the potential order book is strong, although the timing of the start of some projects is uncertain in the current market. The waste water segment also performed strongly, with a record number of ships being cleaned at our jetty.

#7

Making more from waste

Total Care solution

Reym, a leading industrial cleaning company in the Netherlands, has launched a 'Total Care' solutions package.

Total Care provides a unique combination of cleaning, transport and waste management; allowing us to offer our customers a complete solution.

Reym are additionally able to utilise knowledge and services from other Shanks divisions in the Netherlands to ensure that we make more from the waste provided to us. For example, we are able to send organic fractions to our Organics Division to process and create renewable energy.

Outlook

As announced previously, the performance of Hazardous Waste in the current year will be impacted by the completion of high margin contracts in thermal soil treatment. However, with good returns and a strong defensible position, we will invest in additional capacity that will deliver medium-term organic growth.

Our performance

Operating review: Organics

We are a leader in the sustainable treatment of organic waste using composting or anaerobic digestion in Europe and Canada.

We treat organic waste and turn it into green energy and compost or fertiliser, completely eliminating the environmental risk arising from the uncontrolled disposal of organic matter.

Revenue

£35.9m +4%

Trading profit

£5.3m +2%

#8

Making more from waste

Major Dutch supermarket contract win

In December 2012 Orgaworld, part of our Organics Division and Icova, from the Solid Waste Division, signed a national contract with a major Dutch supermarket chain, Albert Heijn.

Under the contract, Icova provides the logistics solution at the four Albert Heijn distribution centres by managing the transportation of out-of-date food waste from the supermarket chain. The waste is unpacked and treated at our anaerobic digestion (AD) facility in Amsterdam.

Orgaworld and Icova have been working with Albert Heijn for several years; the addition of the innovative logistic approach to the contract further strengthens our cross-divisional portfolio.

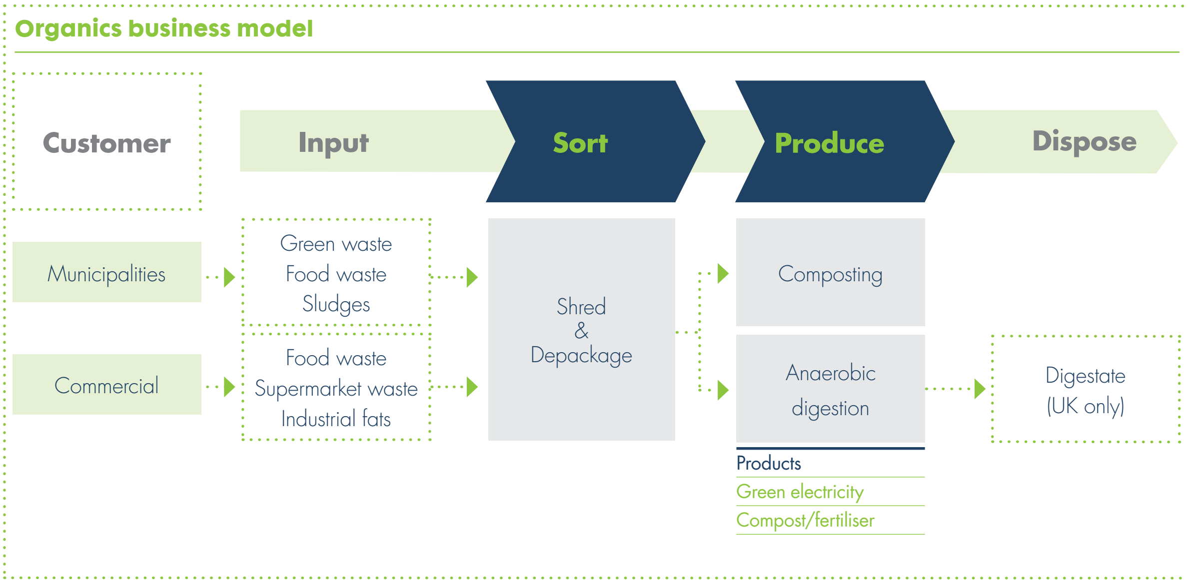
Operational highlights

- Contract wins with Albert Heijn, M&S and McCain
- Glasgow AD facility becomes profitable and Westcott Park nears completion
- €3m CHP and dryer installed at Amsterdam AD facility

Strategic aims

- Ramp-up new EU assets profitably
- Capture North American growth opportunity by leveraging UK municipal, EU organics and Canadian experience
- Develop co-processing with Dutch A-brand customers
- Invest in maintaining technology leadership

Our performance
Organics



Business model

Organic waste is the most environmentally damaging form of waste to be sent to landfill, because it decomposes into methane which is a harmful greenhouse gas (21 times worse than carbon dioxide). The Organics Division offers a sustainable alternative by treating organic waste, turning it into green energy, compost and fertiliser.

The division receives green waste (e.g. garden waste) and food waste from both municipalities and commercial businesses. It receives a gate fee for treating the waste, and income from the electricity and heat produced and associated subsidies in some territories. The remaining output is used as fertiliser and generates a nominal income or cost on disposal, depending upon quality and territory.

Our principal organic technologies were purchased in 2007 with the acquisition of Orgaworld, a leading Dutch organic waste treatment company. Orgaworld employs a design, build, own and operate model, unusual in the sector, which we believe offers a significant competitive advantage. This business model enables us to design facilities based on our deep operational experience and this tight linkage leads to continuous improvement in facility productivity and gas yields. Each project is different, depending upon its feedstock. Orgaworld's technology is secondary to its adaptability: it provides bespoke customer solutions based on accumulated operational expertise and design capability. As a result of the new organisation structure, the Organics Division is now responsible for all our anaerobic digestion (AD) assets together with our composting facilities.

Market overview

Netherlands: The Dutch organics market is relatively mature, with high levels of organic waste diverted and treated, primarily through AD and composting. Shanks is a significant player, alongside a small number of others. The AD segment is relatively stable, with no major new players entering the market. Around a third of the market is served by dedicated industrial AD facilities. Composting to produce fertiliser is a well served market with an established national footprint of facilities. Overall volumes of source segregated organics (SSO) are expected to grow steadily, but the expiry of a number of long-term municipal composting contracts in the market in the next two to three years is expected to test current market pricing.

UK: The UK market is less mature than the Netherlands, with less than 20% of food waste being treated by composting or AD. UK government incentives are leading to a significant increase in AD facility capacity – somewhat ahead of the provision of municipal segregated organic waste; however we are seeing support for the technology from the Scottish and Welsh governments under their respective waste programmes. While the long-term future is one of continued expansion in AD, the short-term market is relatively saturated, given the relatively immature supply chain. The key to success is to secure municipal or merchant organic waste on medium to long-term contracts.

Canada and North America: The Canadian and North American markets have very limited organic waste treatment and send over 90% of waste to landfill. National and provincial governments (especially in Canada) are keen to treat waste more sustainably and have passed legislation to support this development. As a result, we are seeing a significant increase in bidding activity at city and province level for organic treatment solutions – often combined with residual waste treatment such as MBT. While the timing of these opportunities remains somewhat unclear at present, the long-term emergence of the North American Organics market is one of the most important growth areas in our portfolio. We believe we are well positioned to grow in this emerging market due to our Dutch organic experience, UK Municipal expertise and established Canadian footprint.

ORGANICS

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 13 €m	Mar 12 €m	Change €m	%	**Mar 13 €m**	Mar 12 €m	Change €m	%
Netherlands	**17.8**	18.2	(0.4)	–2%	**3.3**	3.4	(0.1)	–3%
Canada	**18.4**	17.5	0.9	5%	**4.4**	4.5	(0.1)	–2%
Other Organics	**7.8**	4.1	3.7	90%	**–**	(0.6)	0.6	100%
Divisional central services	**–**	–	–		**(1.2)**	(1.2)	–	
Total €m	**44.0**	39.8	4.2	11%	**6.5**	6.1	0.4	7%
Total £m (at average rate)	**35.9**	34.4	1.5	4%	**5.3**	5.2	0.1	2%

	Trading Margin		Return on operating assets	
Netherlands	**18.5%**	18.7%	**6.4%**	7.3%
Canada	**23.9%**	25.7%	**10.3%**	12.0%
Other Organics	**0.0%**	–14.6%	**0.2%**	–3.0%
Total	**14.8%**	15.3%	**6.7%**	7.0%

Products and technologies

We operate two main technologies for the treatment of Organic waste: AD and tunnel composting.

AD can be performed in a wet or dry process. In the wet AD process, AD operates in a similar process to a digestive tract. Depackaged food slurry is fed into large steel digester tanks full of bacteria, which break down the organic waste to produce methane and digestate. The methane is burned in engines to produce electricity (and heat, where the latter has an economic use). The digestate is dewatered where possible and treated to become a fertiliser, while the water is cleaned and discharged.

Tunnel composting is an accelerated composting technology which uses forced aeration to process food, garden waste and other types of waste into compost.

Strategy

The core strategy of the Organics Division is to:

- maximise returns from existing assets by delivering excellent operating performance and securing long-term contracts;
- exploit the Canadian and North American opportunity;
- maintain a leading position with ongoing organic treatment technology developments; and
- develop co-processing with key A-brand customers.

Financial performance

Revenues grew by 11% to €44.0m and profits by 7% to €6.5m with growth coming from the improved performance in the UK and Belgium. Trading margins in the Netherlands and Canada have slipped back slightly compared to the prior year.

Operational review

The Organics Division had a solid year, delivering modest growth, principally from the ramping up of assets in the UK and Belgium.

The Netherlands had a good year operationally. A third combined heat and power (CHP) engine is being installed at our flagship site in Amsterdam which will increase our installed capacity to 5.6 megawatt when it is commissioned over the summer. The Biocel AD facility also achieved record performance with a gas output of 107m^3 per tonne of input.

A key contract was renewed for the medium term with Albert Heijn, the leading Dutch supermarket brand, and a further contract was won with McCain. We also secured a new waste water treatment contract from a leading biodiesel manufacturer, in partnership with our Reym business. Our small AD facility in Belgium also delivered good growth and an improved performance.

In the UK, our joint venture in Energen Biogas at Cumbernauld successfully ramped up production and moved into profit. In October 2012, we signed a power purchase agreement with Marks and Spencer (M&S) to deliver up to 19,000 MWh of green electricity per annum to them and we also contracted to process the company's organic waste. This has helped M&S achieve their sustainability targets, whilst underpinning the commercial performance of the Cumbernauld site. Construction work has largely been completed on our new AD facility at Westcott Park in Buckinghamshire, which will be commissioned over the summer and move into production in the second half. It is expected to reach profitability in 2014/15. We also made good progress in Wales, where we have been awarded preferred bidder status for South West Wales and remain in the process for Heads of Valleys and Cardiff.

Our Canadian business delivered a steady performance during the year. Volumes at our London, Ontario, facility were marginally down on the prior year, as we have been operating the facility below its maximum levels while upgrades to the odour management systems have been made. The Ottawa facility had another strong year. In early 2012, the Canadian Government licensed us to use ammonium sulphate (an odour abatement system by-product) as a land applied fertiliser, further increasing the complete conversion of waste to usable products.

Outlook

The Organics business is expected to deliver good progress in 2013/14 on the back of commissioning of the third CHP engine in Amsterdam, increased Canadian volumes, further growth from the UK and Belgian facilities and commissioning of Westcott Park which will begin to generate EBITDA returns.

Our performance

Operating review: UK Municipal

UK Municipal is a leader in the provision of PFI or PPP waste solutions and is growing strongly with new contracts under construction.

We help local authorities meet the need to sustainably treat waste using advanced green technologies, such as MBT and AD. We have four operational contracts and two under construction.

Revenue

£110.9m +4%

Trading profit

£9.2m +80%

#9

Making more from waste

Shanks opens new MBT facility in Barrow

On 6 March 2013, the new 75,000 tonne Southern Resource Park mechanical biological treatment (MBT) facility in Barrow, Cumbria was officially opened.

One of the main outputs from the facility will be solid recovered fuel which can be used for energy production in a variety of facilities and industrial processes, such as cement kilns.

The new facility will complement our MBT facility near Carlisle in providing a sustainable waste management solution for Cumbria County Council. Under the 25 year, £700m contract, Shanks will manage around 200,000 tonnes per annum of Cumbria's municipal waste; diverting around 85% of waste processed at the MBTs from landfill and significantly reducing the County's annual landfill tax liability.

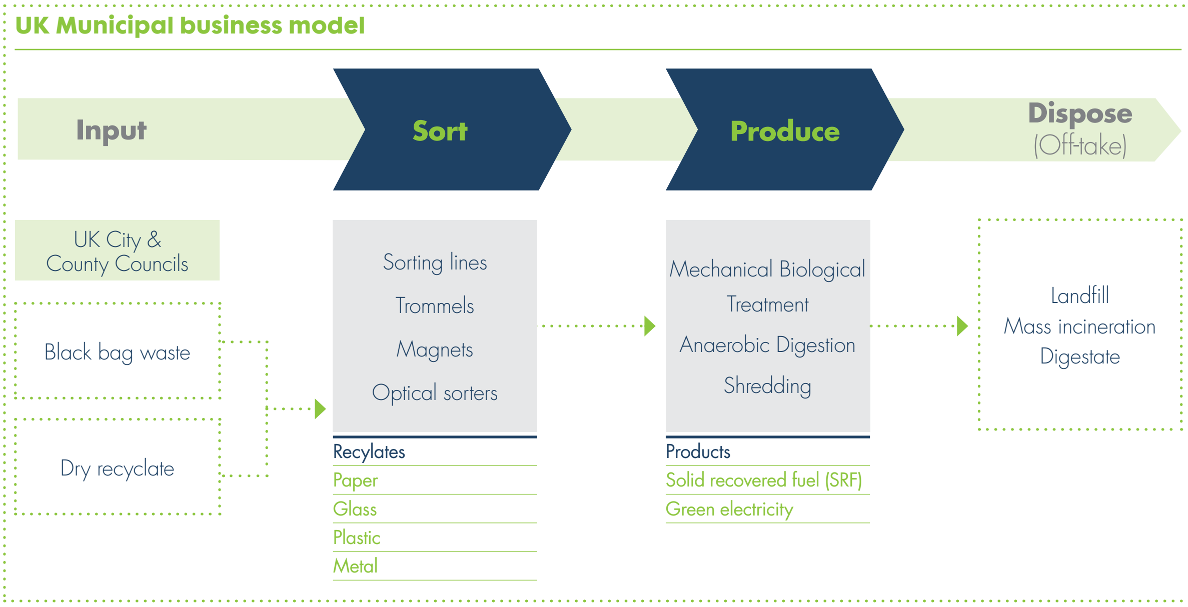
Operational highlights

- Good margin growth on current contracts
- Financial close on Wakefield PFI
- Construction started on BDR PFI
- Barrow MBT facility completed ahead of schedule

Strategic aims

- Sustain margin on operational contracts in partnership with local authorities
- Ramp-up recently commissioned assets profitably
- Successfully commission assets under construction
- Win new volume to utilise full treatment capacity

Our performance
UK Municipal



Business model

The UK Municipal Division operates waste treatment facilities for UK city and county councils under long-term contracts, typically 25 years. Such contracts are established primarily to divert waste from landfill in a cost-effective and sustainable way. The capital cost of the associated infrastructure is financed with non-recourse bank debt and in the case of PFI, is supported by central government funding. Both PFI and PPP contracts benefit from guaranteed revenues and tonnages from the associated council.

In a typical PFI or PPP solution, a special purpose vehicle (SPV) is created to finance the construction of the treatment assets and Shanks arranges for a club of banks to provide funding for some 25 years. Securing this funding is called 'Financial Close', at which point all the long-term contracts are signed between Shanks, the councils, the suppliers and the banks. This signals the start of the build phase, in which Shanks may or may not be the main contractor. On completion and commissioning of the assets, Shanks will generally inject up to 20% of the invested capital of the SPV in the form of subordinated debt, which should earn a return in line with the Group target of 12–15% post-tax.

Once operational, there are two potential income streams from the PFI or PPP contract. The first is the income for treatment of the waste under the operating contract, which is signed with Shanks Waste Management Limited as the supplier. The successful operation of this contract relies not only on excellent management of the contract and the meeting of strict diversion targets, but also on working closely with the customer to identify improved ways of managing the waste, to a shared benefit. It is this latter focus on continuously improving how we do things that has driven a sustained increase in the Group margin and importantly, a significant saving for the councils. The operating contract offers the Group protection from variations in recyclate prices, waste volumes and similar items that have caused challenges within our Solid Waste Division.

The second income stream is the interest from the subordinated debt and ultimately a dividend stream from the SPV. Shanks has historically sold the majority of its interest in its SPVs, following commissioning, to a third party; so this is currently a minor part of our income. However, we maintain an open stance on our ownership of current and future SPV stakes.

The above model is driven by bank funding of the SPV and it is essential to understand where risk does and does not accrue. We are responsible for the execution of the build phase of the contracts (where we are the main contractor) and the operation of the contracts. To that end, it will generally have bonds or guarantees to the banks for performance of its duties. Guarantees on the build phase will fall away when commissioning is complete and the performance liability period ends. We are also liable for capital overruns, as we are also the main contractor, and we are committed to injecting interest-bearing subordinated debt on commissioning. However, and crucially, Shanks is not liable for the non-recourse bank debt within the SPVs. The non-recourse debt is shown separately in our financial statements and excluded from all our calculations of gearing. Over the next two years the banks will be investing some £200m into the BDR and Wakefield PFI contracts, which we are not liable for, but which will underpin the growth of our UK Municipal portfolio.

Market overview

The transition of the UK Municipal market from landfill to more sustainable waste treatment has largely been funded by a series of PFI or PPP initiatives at city or county level. Shanks has been a leading player in the developing UK Municipal segment and will have an overall market share of around 8% when current contracts are in operation. Our share of the PFI market outside incineration solutions is much higher, this reflects our strategy and positions us as the UK market leader in MBT technology. We have been active bidders for PFI contracts in recent years. We currently have four fully

UK MUNICIPAL

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 13 £m	Mar 12 £m	Change £m	%	**Mar 13 £m**	Mar 12 £m	Change £m	%
PFI/PPP contracts	**110.9**	106.8	4.1	4%	**13.5**	10.8	2.7	25%
Divisional central services	**–**	–	–		**(4.3)**	(5.7)	1.4	
Total	**110.9**	106.8	4.1	4%	**9.2**	5.1	4.1	80%
Trading Margin	**8.3%**	4.8%						

operational contracts, two that are in build phase, and one where we are operating the current assets for the customer while awaiting planning approval and financial close for the long-term project.

Market data suggests that a waste treatment provider or solution has now been identified for around 75% of all UK Municipal waste, with up to half of the assets required having been built. The PFI funding structure has now ended, so waste solutions for the remainder of the market will be through a combination of shorter-term financing models and/or leveraging capacity in existing assets and those under construction. In February 2013, the government withdrew PFI funding for three contracts that were pre-financial close; we were unaffected by this change in policy.

Products and technologies

The overall goal of all PFI or PPP contracts is to maximise recycling and diversion from landfill. Each contract will involve a bespoke solution to meet the needs and preferences of the customer. This will generally include the operation of household waste recycling centres (HWRCs) and MRFs to sort incoming waste streams into recyclates. Shanks has an exclusive contract with Ecodeco, a leading European waste engineering company, to operate mechanical biological treatment (MBT) facilities in the UK. These treat the residual waste, shredding and drying it to produce a high calorific fuel called solid recovered fuel (SRF), which can be burned as a fossil fuel substitute in cement kilns, or refuse derived fuel (RDF) which can be incinerated to produce electricity. Remaining organic elements can be composted to secure further diversion from landfill or processed by anaerobic digestion (AD) to produce electricity.

Strategy

Our strategy is to deliver sustained operational excellence under our current contracts and to successfully commission the two major contracts which are currently in build phase. We will continue to work with our customer at Derby to progress that contract through planning and towards an affordable financial solution. We remain alert to opportunities to assist other potential customers without a current solution to their waste diversion requirements and continue to bid for outstanding contracts where we feel we have an advantage.

Financial performance

Revenue has increased by 4% in the year and trading profit before divisional central services by 25% to £13.5m. Trading margin of 8.3% (2012: 4.8%) has been restated to include bid costs and an allocation of divisional central services.

Operational review

UK Municipal had a very good year, delivering strong growth through improved performance and diversion within existing assets, while also making good progress with new assets. Financial improvement has come from implementing changes we have agreed by working closely with our customers to create a mutual benefit.

Good operating performances from Derby, Cumbria, ELWA and Argyll & Bute saw operating margins increase to 8.3% (after central costs). We also made solid progress in reducing losses at Dumfries & Galloway, and amendments to the operating contract have resulted in a reduction in the onerous contract provision.

In January 2013, we achieved financial close on the 25 year £750m Wakefield PFI contract after prolonged negotiations in a complex and increasingly challenging financing environment. We will build a residual waste facility at South Kirkby, comprising two MRFs, an autoclave, in-vessel composting and an anaerobic digestion facility, processing up to 230,000 tonnes of waste per annum. This will raise Wakefield Metropolitan District Council's landfill diversion towards 90% and construction is due to start next year and the site will be commissioned in late 2015.

In March 2013, we were pleased to commission a new 75,000 tonne MBT facility under our Cumbria PFI contract. This £22m facility has been built at Barrow in south Cumbria to complement the initial MBT built near Carlisle in north Cumbria. Some 150,000 tonnes per annum of waste can be treated at the two sites. Barrow was commissioned slightly ahead of schedule and on budget.

In October 2012, we gained planning consent for the proposed treatment solution for Derby City and County councils at Sinfield Lane in Derby. This was subject to further appeal, which was turned down in March 2013 and we continue to support the customer through the final stages of the process.

In February 2013, we broke ground on the construction phase of our 25 year £720m contract with Barnsley, Doncaster and Rotherham (BDR) councils. Construction of this 265,000 tonne per annum MBT and AD site is on schedule, and is due to commission in late 2015.

Outlook

While our performance in 2012/13 benefited from a number of success fees for projects which are not expected to recur, the medium-term outlook for the UK Municipal Division is positive, with growth coming primarily from the new assets being commissioned.

Our performance

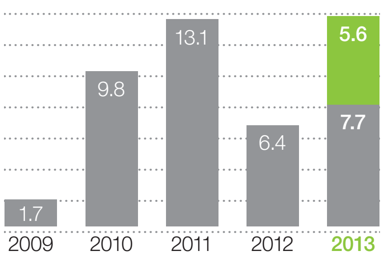
Key performance indicators

We track performance against our strategy through the use of quantitative and qualitative measures. The measures outlined below are focused on the operational performance of the Group. In addition, given that sustainability is at the heart of our business, we also report on specific sustainability KPIs that are outlined in pages 48 and 49 of this report. Further information is published in the Corporate Responsibility Report that is available on our website.

Read more about Solid Waste on pages 22-29

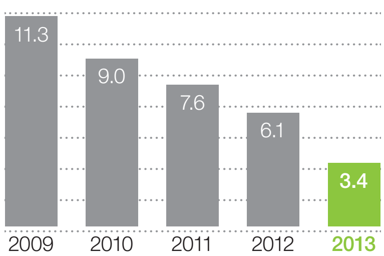
1. Improve the profitability of our Solid Waste businesses

Total cost reduction £m



Operational cost savings Structural cost savings

Trading margin Solid Waste %



Achievements in 2012/13:

- £5m structural cost savings
- £8m operational cost savings
- Streamlined regional organisations
- Flagship contract wins with Heineken, Albert Heijn and Dura Vermeer
- Van Tuijl glass integration

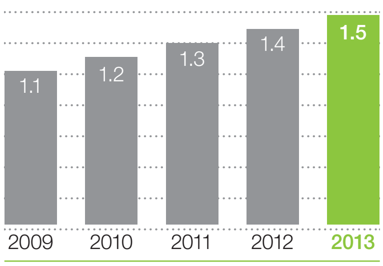
Goals for 2013/14:

- £12m structural cost savings
- £5m operational cost savings
- Implement shared services centres
- Non-core asset disposals of > £10m
- New commercial structure better aligned with customer segments
- Increased production of SRF (fossil fuel substitute)

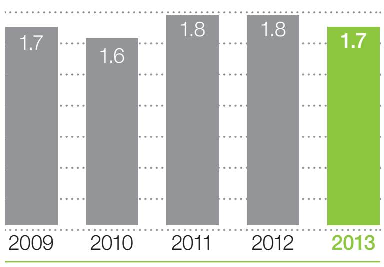
Read more about Hazardous Waste on pages 30-33

2. Broaden the scope of our Hazardous Waste business

Reym project hours m



ATM Total Volumes m tonnes



Achievements in 2012/13:

- New Hazardous Waste division and management team created
- Progress in construction of new soil storage shed
- Increase in international soil sourcing
- Approval for new water treatment site

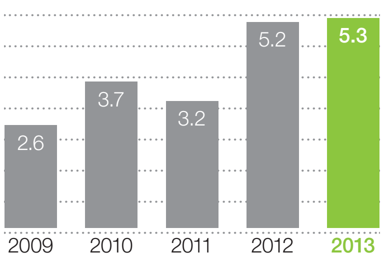
Goals for 2013/14:

- Completion of soil storage shed
- Record treatment of waste water
- Progress in new waste stream sources

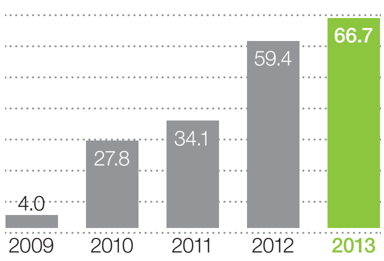
Read more about Organics on pages 34-37

3. Expand the Organics footprint in target geographies

Trading profit Organics £m



Energy produced by Organics MWh



Achievements in 2012/13:

- M&S Power Purchase Agreement deal signed in the UK
- Westcott Park AD construction completed on time in the UK
- Installation of third CHP at Amsterdam AD
- Preferred bidder on South West Wales (SWW) AD municipal contract

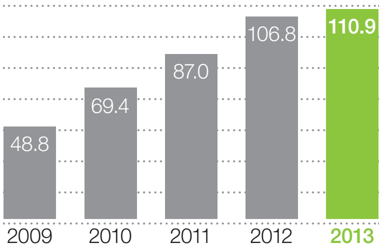
Goals for 2013/14:

- Commissioning of Westcott Park AD facility in the UK
- Progression of SWW AD bid to financial close
- Progress in Organics North American municipal funnel
- JVs/partnerships in Canada to accelerate growth

Read more about UK Municipal on pages 38-41

4. Grow the UK Municipal long-term contract business

Revenue from UK Municipal £m



UK Municipal margin %

Achievements in 2012/13:

- Construction started on BDR contract
- Financial close and commenced operational management of Wakefield contract
- Commissioned Barrow MBT as part of Cumbria contract (on budget and ahead of time)
- Record operating margin on current PFI contracts
- Improvements to challenging legacy of D&G contract

Goals for 2013/14:

- Construction on time and on budget for BDR and Wakefield
- Profitable first year of management of Wakefield contract
- Assist Derby authorities in progression of Derby PFI contract through planning and financial close
- Further improvements on D&G contract

5. Develop world-class capabilities in a cohesive Group culture

Achievements in 2012/13:

- New market-facing divisional structure fully implemented
- Implementation of performance management process across the Group
- Organics Division responsible for performance of all AD assets
- Executive Committee strengthened with significant new appointments
- Improved processes for capital allocation and tracking
- Enhanced Group leadership team connectivity and effectiveness

Goals for 2013/14:

- Introduction of formal continuous improvement function to the Group
- Group IT strategy and upgrading plan
- Implementation of talent development and succession plans
- Recruitment of further first-class middle management talent
- Further improvements to commercial effectiveness across the Group

6. Actively manage the Group's portfolio

Achievements in 2012/13:

- Sale of Foronex transport business and associated land for £6.2m
- Progress on exiting UK landfill
- Successful transfer of De Vriendt land following resolution of environmental permits
- Capacity expansion of new Van Tuijl glass mono-stream acquisition

Goals for 2013/14:

- Realise in excess of £10m from sale of non-core assets
- Development of full growth portfolio strategy
- Complete exit from UK landfill
- Sale of Wateringen Headquarters in the Netherlands

People and sustainability

Leading our organisation through change

There have been many changes in our business in the last 12 months, including a new divisional structure, a new Executive Committee and a significant restructuring programme. A key differentiator during this period of change is our people and our culture. Our people continue to demonstrate the ability to meet the market challenges with a 'can do' approach. The effective changes we have been able to put in place over the past year are a testament not only to our people but also to our culture and values.

Our values:

At Shanks, we have set our values to be a guiding force for the way we behave and go about our business, we strive to be:

- **Responsible:** we recognise our obligations to our fellow employees, the environment and the communities in which we operate and can be trusted to do the right thing.
- **Innovative:** we aim to create an environment which encourages and supports an entrepreneurial spirit.
- **Straightforward:** a 'no nonsense' approach means we do what we say we will do, empower our people to make decisions and are easy to do business with.
- **Open:** a transparent approach means that we are able to maintain high professional and ethical standards and internally our open culture enables us to benefit from shared knowledge and experience.

Realigning our organisation

We have transformed the business organisation in order to focus on our markets and our customers. This has included:

- implementing the new divisional structure and creating a new Executive Committee;
- creating regional customer focused and collaborative organisations in Solid Waste Benelux, breaking down the barriers between local entities;
- reshaping the UK Division to give regional integrated P&L responsibility closer to the customer;
- leveraging our Organics Division's capability and know-how across all our Organics plants internationally to optimise performance; and
- fostering cross-divisional excellence in finance, health and safety, environmental, communications, HR and other support functions.

People and sustainability

Leading our organisation through change

Across four countries

4,000+

employees working across four countries.

Our culture

Shanks' culture has been built on key values which demonstrate that 'how' we do things is just as important as 'what' we do. Embedding these values into our daily working lives allows us to create a unique culture and to meet the expectations of our people, our customers and our stakeholders. Having an open culture is important to us as it provides an environment where our employees feel informed, included and are motivated and aligned to perform at their best.

In order to enhance this culture and to support our drive for high performance, the Board appointed Group HR Director, Michelle Cummins, in August 2012. Michelle's role focuses on working with the senior leadership team to recruit the right talent to help create an organisation which supports and develops our people. Over the last few months the leadership team has determined that to achieve our change programmes at pace and to thrive in our markets, we need to maximise our efforts to focus on our people, specifically to:

- focus on and communicate our values as we drive the business;
- realign our organisation to meet the changing market and customer demands;
- engage and support our people through change; and
- accelerate the recruitment and development of new talent and personal development.

Engaging and supporting our people

Our employees are the foundation of our business and having the right people in place is vital for our success. Today we have more than 4,000 employees, working across four countries.

We have implemented specific communication channels to ensure our people feel supported and engaged:

- Our internal magazine *Shanks Matters* is published five times per year and has proved a great success.
- The SpeakUp whistleblowing service allows our employees to report any wrong-doing in the workplace in a completely confidential manner.
- A leadership conference was held in September 2012 and enabled managers from across the Group to come together to reset the priorities to ensure we focus on building our winning team. The conference proved a great experience for all involved and has facilitated our leaders working together to connect and share business ideas and best practice.
- We provide informal as well as formal communications conduits for our employees either through local toolbox talks or through various works councils which we have set up in the Netherlands, Belgium and the UK.

Lifestyle is a significant contributing factor to the welfare of our people. It is with this in mind that we have undertaken various projects to enhance the lifestyles of our employees. Reym, part of our Hazardous Waste Division, has recently undertaken a 'Vitality Project' whereby all employees are offered benefits to support getting the right balance. Highlights of the project include employees being offered free fruit at work and being encouraged to participate in sports through subsidised membership costs and free sports kit. These small steps have proven to have a profound effect on the engagement of our people.

Ensuring our people are able to work in a safe environment and get home safely every night is our first priority. We make a significant effort to further reduce our low accident rate and are constantly investing in training to ensure compliance with both regulatory and internal standards.

The Group Health & Safety Committee was set up in 2012 to challenge our existing performance and develop our safety culture. The Committee meets six times per year to discuss health and safety best practice and to put procedures in place to ensure that all of our people are correctly trained and able to work in a safe environment. The launch of our Group Health & Safety Award in February 2013 reinforced the focus on health and safety across the Group and highlighted many useful cross-divisional initiatives.

Accelerating recruitment and development of talent

We want to attract, grow and retain strong people that together create winning teams across the business. Every employee, whether new or experienced, has the chance to progress their career and to develop new skills at Shanks. We have taken advantage of the change required this year to bring in high quality new talent but also to promote and develop high potential managers into broader new roles. This has resulted in tangible progress at all levels of the Group. For example, we have invested in several apprenticeships and graduate trainee schemes across the business demonstrating our commitment to developing emerging talent and career paths.

Our Group-wide performance and development review (PDR) system was rolled out at the end of 2012 and will improve the way we empower our people to manage their performance and development. The system supports our people with coaching from their line managers to set objectives and helps to plan training and development needs which align with the individual's aspirations and those of the organisation. As part of the PDR process, we have also launched a leadership skills toolkit for our managers, which provide a clear framework to support managers in their personal evaluation and development planning of how they deliver their objectives.

The Group is an equal opportunities employer and full and fair consideration is given to applications from, and the continuing employment, career development and training of, disabled people. A culture of two-way communication is actively promoted and trade unions, works councils and other employee groups are involved wherever appropriate.

People and sustainability

Delivering sustainable performance

www.shanksplc.com/cr

Shanks is a leading international sustainable waste management business. We are unique because our strategy delivers alternatives to environmentally unfriendly landfill sites and resource inefficient incineration plants. Our goal is to 'make more from waste' by making valuable products from what is thrown away.

FTSE4Good

SHANKS GROUP PLC
WINNER
ACHIEVEMENT IN SUSTAINABILITY AWARD
PLC AWARDS
2012

Making more from waste

Landfills emit methane, no matter how well they are managed, and methane is a far more aggressive greenhouse gas than carbon dioxide. In addition, landfills are waste repositories: the waste deposited in landfills may take decades to degrade, during which the risk of environmental pollution will still be present. Governments and communities agree that landfill can never be a sustainable approach to how we manage society's waste.

Incineration of waste is a sensible option for the safe destruction of hazardous waste. However, the mass incineration of dry, non-hazardous waste without significant energy recovery destroys valuable and reusable materials and fails to maximise the material, economic or calorific value to be obtained by making more from waste.

Our sustainable strategy is to take waste which would have gone to landfill or mass incineration and to make more from it. We do this by providing more sustainable waste management options such as:

- **Recycling waste** so that we protect the world's finite primary resources. These resources include bio-products such as paper, fossil fuel derived products such as plastic or mined mineral resources such as metals and glass.
- **Composting waste** or treating it in an anaerobic digestion (AD) facility, to produce a fertiliser that can replace a chemical alternative. For AD the benefit is further enhanced by green electricity production.
- **Treating waste** to produce a waste derived fuel which displaces fossil fuel in a manufacturing or power generation facility.

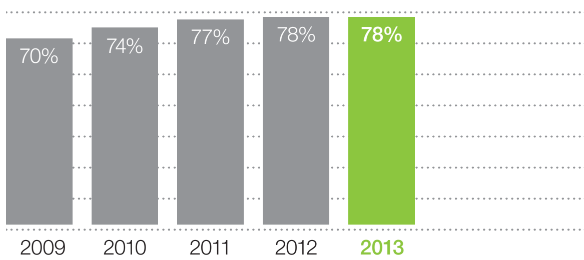
Our commitment to sustainability is confirmed by external and independent measures. We are listed in the FTSE4Good Index and in 2013 we won the PLC 'Achievement in Sustainability' award.

In 2009/10 we set ourselves the target of improving our recycling and recovery rate to more than 80% of the waste our sites handle by April 2015. We seek to achieve this by expanding our sustainable waste management portfolio. During 2012/13 we built new AD capacity, brought on line further waste derived fuel production facilities and enhanced our recycling and recovery activities.

In 2013/14, we will be continuing our significant UK Municipal build programme which will ultimately convert 500,000 tonnes of waste into recyclates, products, fuel and electricity. We will commission our AD facility at Westcott Park and seek to win further organic treatment contracts in North America. In Solid Waste Benelux we will be investing significantly in Euro6 compliant vehicles to reduce emissions during our waste collection activities.

In 2012/13 we increased our recycling and recovery rate slightly, against severe economic headwinds which have put pressure on waste volumes. Our recycling and recovery rate stands at 78%. Our planned developments should see this figure rise and we are on target to achieve our 80% target by April 2015.

Overall recycling and recovery rate %



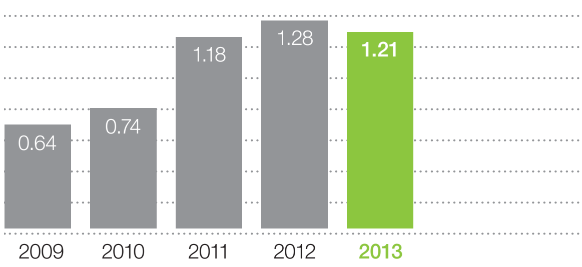
Avoiding greenhouse gas emissions

The resource benefits of recycling and recovery are clear. Using recycled and recovered materials reduces the need to consume finite resources. However, recycling and recovery also have a carbon avoidance benefit. For example, every tonne of most waste derived fuels used in manufacturing or power production saves more than a tonne of carbon being emitted to the atmosphere when compared to coal.

To underpin our recycling and recovery rate target, in 2009/10 we also set ourselves a five year objective to increase the carbon avoidance resulting from our activities to more than 1.3 million tonnes a year.

During 2012/13 the amount of carbon avoidance benefit produced by our activities fell slightly to 1.21 million tonnes. This reflects the impacts of the economic climate on waste management operations. However, the trend remains one of improvement and we are on target to meet our five year objective.

Carbon avoidance million tonnes



We have reported publicly on our greenhouse gas emissions since 2008. This reporting includes our Group carbon footprint which gives detail of both our direct, such as process, and indirect, such as transport and energy use, emissions and the carbon avoidance benefits of our activities. Further details on our approach to carbon can be found in our annual Corporate Responsibility (CR) Report.

Improving health and safety

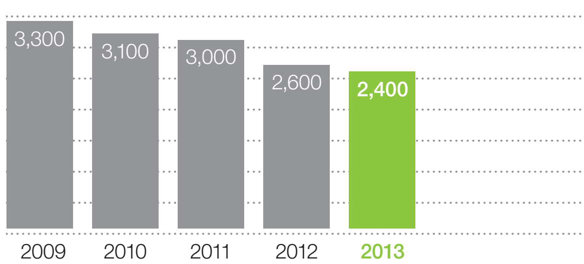
Delivering environmental sustainability is core to Shanks' vision and strategy. We must also deliver sustainability in our unceasing commitment to health and safety issues for our employees and those with whom we interact.

Waste management is known as a high-risk industry with accident rates well in excess of the manufacturing and other similar sectors. Health and safety is of paramount importance to us. For this reason the third key corporate responsibility objective we set ourselves in 2009/10 was to reduce our reportable employee accident rate by 25% over five years.

We aim to achieve this objective by systematic improvements to our health and safety processes and culture. These improvements are managed by our new Group Health & Safety Committee and embedded in, and tracked by, our Group safety action plan.

In 2012/13 we improved our reportable accident rate by 8%. Since 2009/10 we have reduced our accident rate by more than 20% and we are on target to achieve our five year key objective. Significant focus has been placed during the year on traffic management at our sites.

Reportable accident rate*



* Accidents resulting in greater than three days absence per 100,000 employees

Detail on our corporate responsibility (CR) performance may be found in Shanks annual CR Reports, which are available on the Group website: www.shanksplc.com

Emissions from our activities

Source	CO_2 equivalent 2013 ('000 tonnes)[1]	CO_2 equivalent 2012 ('000 tonnes)[1]
Process based emissions		
Emissions from anaerobic digestion and composting	**55**	50
Emissions from hazardous waste treatment	**258**	287
Emissions from landfill	**105**	100
Emissions from mechanical biological treatment	**18**	13
Transport based emissions		
Fuel used by transport vehicles and business travel	**74**	80
Energy use emissions		
Electricity used on sites and in offices	**46**	48
Gas and other fuels used[2]	**33**	32
Total emissions from significant sources	**589**	610

Emissions avoided by our activities

Renewable energy generated	**44**	36
Waste derived fuels produced and sold	**652**	652
Materials separated for re-use/recycling (some re-used directly, others undergo re-processing by third parties)	**518**	588
Total potential avoided emissions	**1,214**	1,276

1. Figures rounded to nearest 1,000 tonnes.
2. Includes heat use on site for Shanks Hazardous Waste.

Risks and uncertainties

Description of the risk framework

Risk is at the heart of all business and is heightened by change within either the Group or its markets. The effective management of that risk is a core function of the Board and executive management. Shanks Group has a long established and effective framework for risk identification, evaluation and management of the risks we face. This is an area for ceaseless improvement and we have made advances in risk management in the last year and have a programme for further improvements in 2013/14.

Objectives:

The following are the key objectives of the risk management framework:

– **Know what risk we want to bear:** manage a risk strategy in which the tolerance and appetite of the Group for differing levels of risk is clearly understood.

– **Know what risks we face:** evaluate the universe of potential risks and create and manage a register of risks faced by the Group.

– **Manage or mitigate our risks:** ensure that all identified risks are effectively mitigated or, where appropriate, that risk is mitigated through insurance.

– **Train our people in risk management:** ensure that Group management is trained in the effective identification, assessment and management of risk.

– **Control systemic risk:** maintain and improve a system of internal controls to manage risks in decision-making, legal contract management and financial transactions.

Challenging markets challenge our risk process

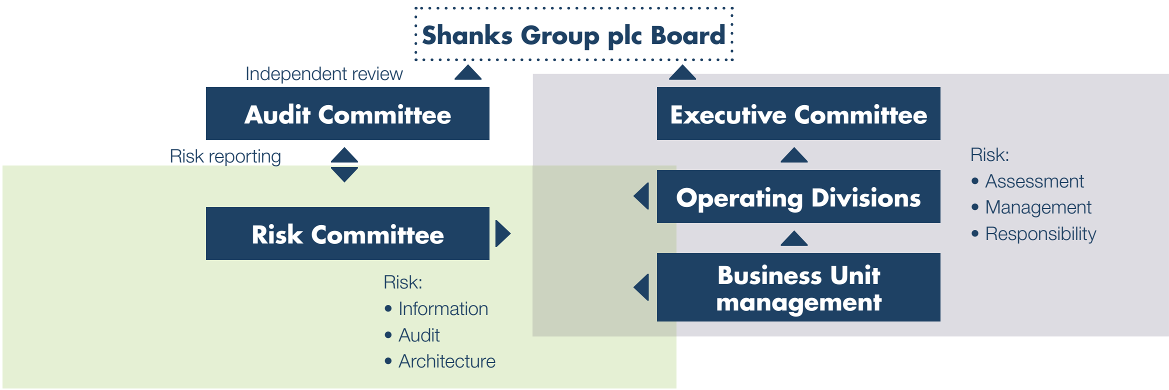
The difficult markets of the past year have demonstrated how the real experience of significant risks can challenge the financial performance of the Group. The risks identified last year of waste volumes and price competition have been realised. We believe that, although the Group has been unable to fully offset these risks in the current year, our decisive response in changes to strategy, organisation and cost base have demonstrated that we have met these risks in a timely and effective manner. We have also reviewed our risk processes further and made improvements, in particular with regard to the investment review process. The following sections report on both the progress made in the past year and our goals for the next year.

Current risk framework

The main elements of the risk management process are as follows:

- The schedule of matters reserved for the Board, and adherence to it, ensures that all significant factors affecting Group strategy, structure and financing are properly managed by the directors.
- The Group risk management framework ensures that each business assesses the risks it faces and its monitoring and control of those risks. The output of this process is a summary of all significant strategic, operational, financial and compliance risks, mitigating controls and the action plans necessary to reduce risks to a level deemed appropriate by the Board. These are reviewed by both divisional management and the Board to ensure the appropriateness of the risks identified and the controls and action plans reported.

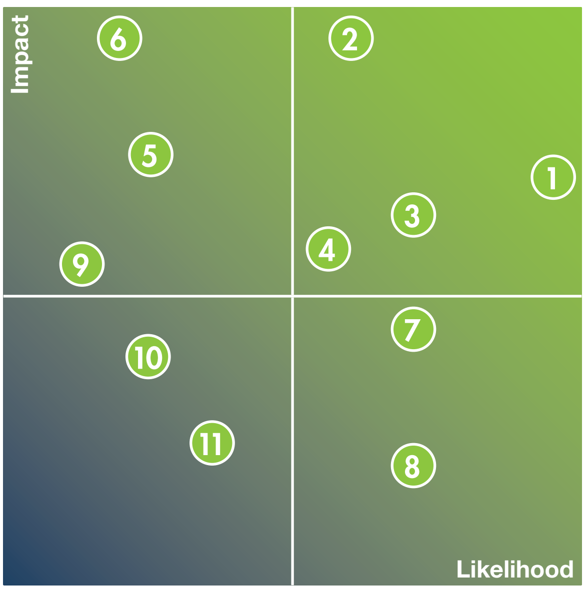
Risk management responsibilities



Embedding risk management processes into the day-to-day running of the Group is important if it is to be effective. The following requirements help ensure the effectiveness of the risk management framework:

- involvement of an increasing number of managers across the Group in assessing risks and producing the risk register in each division;
- ensuring that an enhanced risk assessment is completed for all major capital requests; and
- review of top risks in each division at the divisional review meetings to help monitor risk mitigation actions. As well as being embedded in the major decision-making processes involved in delivering the Group's strategy, risk management is also embedded in the day-to-day management of operations including health, safety and environmental compliance where there is regular monitoring, auditing and reporting of procedures and controls. More details regarding the KPIs in these areas are set out on pages 48 and 49.

Overarching Group risks



1. Waste volumes
2. Liquidity risk
3. Pricing competition
4. Talent development/leadership
5. Long-term contracts
6. Credit risk
7. SHE (safety, health and environmental) compliance
8. Recyclate pricing
9. Fire and business continuity planning
10. Project execution
11. ICT failure

All risk rates are shown in the grid above with the current level of mitigation.

Progress made in 2012/13 year

During the year, we have made good progress in developing our risk management systems. Specifically, we have:

- reorganised our risk framework in line with the new divisional organisation;
- reviewed and enhanced the risk management strategy;
- appointed the first Group Risk and Insurance Manager, who will drive significant changes through the Group and sharing of best practices in the coming years;
- introduced a process of post investment review to ensure that our current major investments are performing to target and to learn from risks encountered with a view to future investments;
- changed the financial internal audit process to include an increased number of peer-conducted control reviews supplemented by a number of external control reviews; and
- recruited external support to review our risk management of our information and computer technology (ICT) systems.

Improvements for 2013/14 year

Over the next 12 months we will continue to improve our risk systems. This will include:

- training in risk management at a divisional level;
- implementation of online risk management software to give top to bottom transparency of the business and project risk registers and the timely implementation of promised mitigation actions;
- revised terms of reference and composition of the Risk Committee to increase its decision-making effectiveness;
- increase in the depth and frequency of internal control reviews; and
- introduction of new control frameworks for key processes such as capital investments and acquisitions.

Risks and uncertainties

Description of key risks and mitigations

New principal risks since the last report include:

– **Liquidity risk:** the risk that the Group is unable to fund its growth aspirations has been increased by the decline in EBITDA this year and by challenging markets.

– **Credit risk:** the risk that the Group is unable to renew its borrowing facilities on acceptable terms is considered to be a principal risk, albeit a remote one.

– **Recyclate pricing:** the rapid decline in recyclate pricing during 2012 has had a material impact on Group profitability.

– **ICT failure:** a significant or sustained loss of ICT capability could have a material effect on our ability to do business, especially in certain business units.

Principal risks removed since the last report include:

– Financial risks are reported on below but are not considered a principal risk as we have effective mechanisms in place for the control of interest rate and currency transactional risk.

– Market and legislative drivers are not considered a principal risk as they are generally well understood by the Group and are, over time, believed to be favourable to us.

– Fuel pricing is an important risk but is not believed to be on the principal risk schedule. We use diesel hedging to partially mitigate the risk of material price increases.

Risk	Mitigations	Progress and goals
1. Waste volumes: that incoming waste arising in the market may fall	• Market-facing structures. • Effective commercial organisations. • Daily reporting of incoming waste volumes throughout the Group. • Development of processes to identify new waste streams. • Cost management plans in response to falling volumes.	• BDR and Wakefield PFI contracts secure significant incoming volumes. • Good commercial wins such as Dura Vermeer and Rabobank. • £20m structural cost plan implemented.
2. Liquidity risk: that the Group may generate insufficient cash to invest and grow	• Accurate financial reporting and forecasting processes. • Strong focus on cash management of working and replacement capital. • Focus on higher margin businesses for future growth. • Realisation of non-core assets.	• New and effective financial forecasting process created. • Strong cash performance in the year just ended. • £5m of non core assets sold. • Continuing focus on cash performance. • Target to sell £10m of non core assets in 2014/15.
3. Pricing competition: that market pricing may put pressure on our margins	• Constant reporting and monitoring of price through operational systems. • Use of long-term contracts, where appropriate, to fix pricing. • Cost management, both structural and operational, to deliver cost leadership in core markets. • Effective commercial organisations to maximise margins.	• New commercial organisations in place. • Price increases in targeted areas.

Risk	Mitigations	Progress and goals
4. Talent development/ leadership: that we may lack the required management capabilities	• Appointment of permanent Group HR Director to lead HR function. • Strategy for introduction of first-class talent development and performance management processes.	• New Group HR Director appointed in August 2012. • Performance appraisal process launched at the end of 2012. • Succession planning and talent development process to be launched in summer 2013. • Employee engagement process to be initiated in 2013.
5. Long-term contracts: that we enter into long-term contracts on disadvantageous terms	• Selective bidding on contracts. • Detailed risk assessment and due diligence on contracts. • Strict Board controls on entering into major contracts.	• BDR and Wakefield PFI contracts entered into and progressing well. • Record operating margins on existing PFI contracts. • Improvements to D&G PFI contract. • Challenges in Belgian long-term contract being actively addressed. • Off-take contracts being renegotiated where appropriate.
6. Credit risk: that we are unable to refinance our debt cost effectively	• Maintain wide range of funding options available. • Constant review of funding markets with our advisors. • Good control of cash and debt leverage to maintain attractive lending profile.	• Good cash control in 2012/13 to maintain strong balance sheet. • Preparation in 2013/14 for refinancing strategy over following three years.
7. SHE (safety, health and environmental) compliance: that we incur reputational damage, cost or business interruption through failure to comply	• Safety leadership scheme in place. • SHE is the top agenda item in all management meetings. • Monthly SHE reporting across all levels of organisation. • Employment of SHE professionals. • Conduct of SHE audits. • Environment management systems and regular inspections. • Active engagement with regulatory agencies.	• Reportable accident rate fell by 8% in the year and has fallen by more than 20% in the past three years. • Group SHE Manager appointed. • Effective management of all environmental matters arising. • Formal Group safety action plan now in place to embed improvements.
8. Recyclate pricing: that the value we receive for recycled products falls	• Optimise commercial effectiveness to improve quality of incoming waste and raise gate fees. • Focus on improving product quality. • Group collaboration to maximise pricing leverage, where appropriate. • Cost control actions to offset impact of lost revenue.	• Improved quality schemes to meet customer demand for high quality recyclates. • Focus on markets through dedicated sales teams.

Risks and uncertainties

Description of key risks and mitigations

Risk	Mitigations	Progress and goals
9. Fire and business continuity planning: business interruption costs arising from a physical disaster	• Active monitoring and enforcement of maintenance, environmental, safety and training standards. • Effective insurance programmes supported by experienced brokers. • Effective disaster planning processes at key sites.	• Current site level disaster planning process to be enhanced to full business continuity plans for all operations. • In-depth investigation of current property and business interruption insurance to ensure correct and effective cover. • Group-wide fire precautions and planning standard to be developed in co-operation with insurers.
10. Project execution: that we fail to deliver our investment and cost reduction programmes	• Regular senior management review of all programmes. • Strong financial oversight of project costs and effective capital authorisation processes. • Use of skilled and trained project management teams. • Fixing of contractual costs, where possible.	• Introduction of the post-investment review process. • Development of a three stage toll gate process before final approval for all capital projects in excess of £1m.
11. ICT failure: that ICT failure causes business interruption or loss	• Create central awareness of ICT risk around Group and generate recovery plans. • Ensure appropriate disaster recovery plans are in place at each site.	• Increase robustness of ICT systems through shared services projects. • ICT strategy improvement plans in progress.

Financial risks

The Group takes action to insure or hedge against the most material financial risks. Details of our key policies for control of financial risks are given below.

– **Interest rate risk:** the Group has continued to limit its exposure to interest rate risk by entering into fixed rate retail bonds, fixed rate senior notes and interest rate swaps that fix a substantial proportion of floating rate debt. At the end of March 2013 circa 80% of core borrowings were on fixed terms. For all long-term PFI contracts, interest rate swaps for the duration of the contracts are entered into as part of financial close of the project.

– **Foreign exchange risk:** the Group is exposed to foreign exchange risk for movements between the Euro, Canadian Dollar and Sterling. The majority of the Group's subsidiaries conduct their business in their respective functional currencies. Hedging agreements, such as forward exchange contracts, are in place to minimise known currency transactional exposures. The Group does not hedge its foreign currency exposures on the translation into Sterling of profits. Assets denominated in Euros and Canadian Dollars are hedged by borrowings in the same currency to manage translational exposure.

– **Trade credit risk:** trade credit risk is the risk of financial loss where counterparties are not able to meet their obligations. The Group has implemented the setting and monitoring of appropriate customer credit limits. Credit limits and outstanding receivables are reviewed monthly. The Group has a policy to ensure that any surplus cash balances are held by financial institutions meeting minimum acceptable credit ratings.

– **Fraud risk:** to mitigate the exposure to losses arising from fraud committed on the Group or by Group employees, robust internal controls and financial procedures are reviewed and tested regularly.

Governance

Chairman's introduction

Governance is focused on improving the business, strengthening internal controls and management processes.

Adrian Auer Group Chairman

On behalf of the Board, I am pleased to present the Governance Report for 2013. The Board fully supports the principles of good corporate governance and is committed to the improvement and development of appropriate structures, processes and procedures throughout the Group in support of these principles.

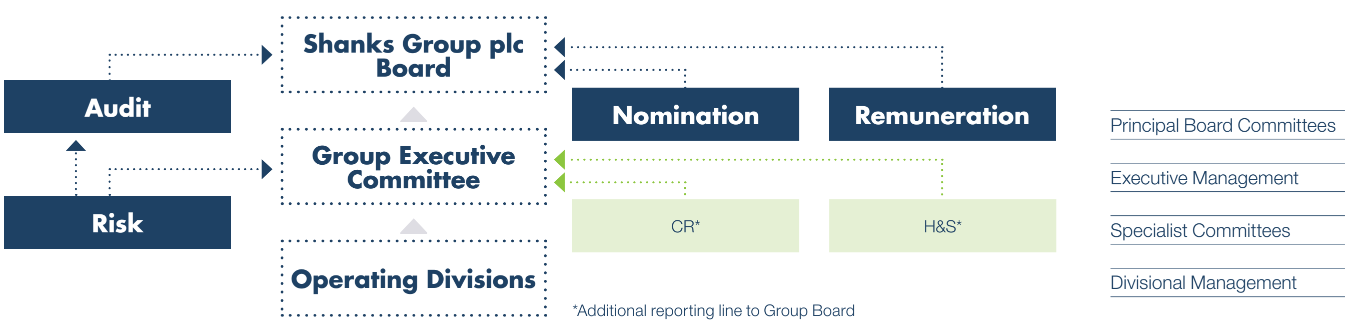
Underpinning our entrepreneurial culture is a central framework which enhances co-ordination throughout the Group to deliver financial savings and improved risk management consistent with the principles of good corporate governance. This framework is, in turn, built around our core values of being responsible, innovative, straightforward and open.

The Board also recognises its responsibility to ensure its governance is focused on improving the business, strengthening internal controls and management processes. Under Peter Dilnot's leadership this year, the Group Executive Committee has been re-invigorated and refreshed. Peter is now supported by Toby Woolrych, having joined us in August 2012 as Group Finance Director, the Managing Directors of our four reorganised operating divisions and Michelle Cummins, our new Group HR Director. In supporting the Group Chief Executive, one of the responsibilities of this central team is the development of our corporate culture and promotion of the values within which the Group expects all employees to operate. In addition to optimising the allocation and adequacy of the Group's resources they are also able to leverage synergies and efficiencies across the Group's operations.

The Board is pleased to confirm compliance with the UK Corporate Governance Code in all material respects save that regarding the annual re-election of executive directors. Toby Woolrych, however, will be standing for election this year, this being his first Shanks AGM. An explanation of this, together with our wider corporate governance arrangements, is set out on the following pages.

As mentioned in my opening Chairman's Statement the Board are grateful to Peter Johnson for his eight years service as a non-executive director and as Chairman of the Audit Committee. We wish him well following his retirement from the Board at the end of the forthcoming AGM and welcome Marina Wyatt who joined the Board in April 2013 and will take up the chairmanship of the Audit Committee after the AGM.

Our Corporate Governance reporting management framework



Governance

Board of Directors

Adrian Auer BA, MBA, ACT **Group Chairman**

Appointed: May 2005 and appointed Chairman in July 2006. Chairman of the Nomination Committee and member of the Remuneration Committee.

Skills and Experience: Adrian has held the position of Finance Director in a number of major companies, notably in the building materials and construction sectors, as well as senior finance positions with BP and ICI. He is Chairman of Addaction, Britain's largest specialist drug and alcohol treatment charity.

Adrian is considered by the Board to be independent.

Other Appointments: Non-executive director of Electrocomponents plc and AZ Electronic Materials S.A.

Peter Dilnot B.Eng **Group Chief Executive**

Appointed: February 2012.

Skills and Experience: Prior to joining Shanks, Peter was a senior executive at Danaher Corporation, a leading global industrial business listed on the NYSE. At Danaher, he held a number of progressive general management roles including President Danaher Middle East, Group President Emerging Markets, and President EMEA and Asia of its Gilbarco Veeder-Root subsidiary. Before Danaher, Peter spent seven years at the Boston Consulting Group (BCG) in London and Chicago, where he worked with industrial and pharmaceutical clients and was a leader in BCG's global Sales & Marketing Practice. Peter's earlier career was spent as an officer in the British Armed Forces. He originally trained as an Army helicopter pilot and saw active service with both NATO and the UN. Peter is a graduate of RMA Sandhurst and holds an engineering degree from Bristol University.

Toby Woolrych MA, ACA **Group Finance Director**

Appointed: August 2012.

Skills and Experience: Toby began his career at Arthur Andersen where he qualified as a chartered accountant before becoming Finance Director of Medicom International Ltd, a medical publishing company, in 1992. He joined Johnson Matthey plc as Corporate Development Manager in 1997, going on to become Divisional Finance Director and then Managing Director of one of Johnson Matthey's global speciality chemicals business units. From 2005 to 2008 he was the Chief Financial Officer and Chief Operating Officer at Acta SpA, a renewable energy company, before then joining Consort Medical plc as Group Finance Director.

Eric van Amerongen Senior Independent Director

Appointed: February 2007 and as Senior Independent Director in July 2007. Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.

Skills and Experience: Until January 2008 Eric was a non-executive director of Corus Group plc, a position he held for seven years. Eric has wide ranging European business experience including the telecoms, defence and publishing sectors. He holds a number of non-executive and advisory positions.

Eric is considered by the Board to be independent.

Other Appointments: Chairman of the Supervisory Boards of BT Nederland BV and Thales Nederlands BV and also Supervisory Board Member of ANWB BV, Imtech NV, Royal Wegener NV and Essent NV.

Peter Johnson BA, ACA **Non-executive Director**

Appointed: May 2005. Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Peter will retire from the Board at the end of the AGM on 25 July 2013 and will therefore not be seeking re-election.

Skills and Experience: Peter is a chartered accountant and was Finance Director of Taylor Wimpey plc from 2002 until October 2008. Previously he has held a number of senior positions in the Financial Services sector including those of Group Finance Director of Henderson plc, Chief Financial Officer for Pearl Assurance and Finance Director of Norwich Union Life. He was until December 2010 a non-executive director of Oriel Securities Limited.

Peter is considered by the Board to be independent.

Stephen Riley B.Eng, PhD **Non-executive Director**

Appointed: March 2007. A member of the Audit, Remuneration and Nomination Committees.

Skills and Experience: Stephen is currently the CEO and President, UK-Europe with International Power plc. He has responsibility for European plant operations, finance, energy trading and business development. He is a chartered engineer and joined International Power in 1985, holding senior positions in two UK power stations before being appointed Managing Director of their Australian operations in 2000. From January 2004 to February 2011 he was a director of International Power plc, resigning from that board following the amalgamation of International Power and GDF SUEZ Energy International.

Stephen is considered by the Board to be independent.

Jacques Petry MBA **Non-executive Director**

Appointed: September 2010. A member of the Audit, Remuneration and Nomination Committees.

Skills and Experience: Jacques is currently Chairman and CEO of energy provider, Albioma (formerly Séchilienne Sidec). He was Chairman and Chief Executive of SITA and its parent company Suez Environnement. In 2005 he was appointed Chief Executive of Sodexo Continental Europe and S. America. Since 2007 he has advised corporate and financial sponsors, specialising in Infrastructure and Environmental Services investments worldwide. He has extensive international non-executive and executive experience. He was until October 2012 also Shanks' nominated director on the board of Hygea SCRL.

Jacques is considered by the Board to be independent.

Marina Wyatt MA, FCA **Non-executive Director**

Appointed: April 2013. A member of the Audit, Remuneration and Nomination Committees and will chair the Audit Committee following the 2013 AGM.

Skills and Experience: Marina is a Fellow of the Institute of Chartered Accountants and is currently the Chief Financial Officer and a Member of the Management Board at TomTom NV. Following nine years with Arthur Andersen in London and the US she then joined Psion Plc as its Group Controller and became Group Finance Director in 1996. In 2002 she was appointed Chief Financial Officer of Colt Telecom Plc and joined TomTom as its Chief Financial Officer in 2005. Marina has previously served as a non-executive director of Symbian Ltd and Blackwell Publishing Ltd.

Marina is considered by the Board to be independent.

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2 Strategy
3 Our performance
4 People & sustainability
5 Risk & uncertainties
6 Governance
7 Financials & other information

Governance

Corporate Governance

Corporate Governance statement

The Board fully supports the principles of good corporate governance. This statement, together with the Remuneration Report on pages 63 to 67, explains how the Group has applied the provisions of the UK Corporate Governance Code in force for the year to 31 March 2013 and also with the provisions of the Disclosure and Transparency Rules on Audit Committees and Corporate Governance Statements (DTR7).
The Board considers that it has complied with Section 1 of the Governance Code and DTR7 throughout the year with the exception of Code Provision B.7.1 relating to the annual re-election of all directors. The Board's explanation for this is set out in the Nomination Committee section on page 60.

The Board

The Board comprises the Chairman, a further five independent non-executive directors, the Group Chief Executive and Group Finance Director. Toby Woolrych was appointed as Group Finance Director on 27 August 2012 following the resignation of Chris Surch. On 2 April 2013 Marina Wyatt was appointed as a non-executive director and it was announced that Peter Johnson would be retiring from his non-executive directorship on the Board at the conclusion of the AGM on 25 July 2013.

The Chairman, who has been independent since his original appointment, has primary responsibility for running the Board. The Group Chief Executive is responsible for the operations of the Group and for the development of strategic plans and initiatives for consideration by the Board. The formal division of responsibilities between the Chairman and the Group Chief Executive has been agreed by the Board and documented, a copy of which is available on the Group's website.

The non-executive directors bring a wide range of experience to the Group and are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The non-executive directors make a significant contribution to the functioning of the Board, thereby ensuring that no individual or group dominates the decision making process. Non-executive directors are not eligible to participate in any of the Company's share option or pension schemes. The Chairman also meets and communicates regularly with the other non-executive directors without the presence of the executive directors.

Eric van Amerongen continues to hold the position of Senior Independent Director, being available to shareholders should they have concerns which contact through the normal channels of Chairman, Group Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate.

The table below details the number of formal Board meetings held in the year and the attendance record of each director.

Director	Board meetings
Adrian Auer (Chairman)	11 (11)
Peter Dilnot	11 (11)
Peter Johnson	9 (11)
Jacques Petry	11 (11)
Stephen Riley	11 (11)
Eric van Amerongen	11 (11)
Toby Woolrych	7 (7)

Bracketed figures indicate maximum potential attendance of each director. One of these meetings was held by telephone conference. Marina Wyatt was appointed subsequent to the 31 March 2013 year end.

Board induction and professional development

On appointment, directors are given an introduction to the Group's operations, including visits to principal sites and meetings with operational management.

Specific training requirements of directors are met either directly or by the Company through legal/regulatory updates. Non-executive directors also have access to PricewaterhouseCoopers' non-executive database and course programme. There is a rolling programme of holding Board meetings at various Group locations in order to review local operations and make site visits. In the year under review, the Board visited facilities near Amsterdam and Wateringen in the Netherlands and near Gent in Belgium.

Board governance

There is a formal schedule of matters reserved specifically for the Board's decision. These include approval of financial statements, strategic policy, acquisitions and disposals, capital projects over defined limits, annual budgets and new borrowing facilities. The Board meets regularly, having met ten times during the year, with one further meeting held by telephone conference.

The Board is provided with appropriate information in a timely manner to enable it to effectively discharge its duties. All directors have access to the Company Secretary whose role includes ensuring that Board procedures and regulations are followed. In addition, directors are entitled, if necessary, to seek independent professional advice in connection with their duties at the Company's expense.

In recognition of the importance of their stewardship responsibilities the first standing item of business at every scheduled Board meeting is the consideration of the Safety, Health and Environmental report. Other regular reports include those from the Group Finance Director and Group Chief Executive covering business performance, markets and competition, investor and analyst updates as well as progress against strategic objectives and capital expenditure projects.

All directors are required to notify the Company on an ongoing basis of any other commitments and through the Company Secretary there are procedures for ensuring that the Board's powers for authorising directors' conflicts of interest are operated effectively.

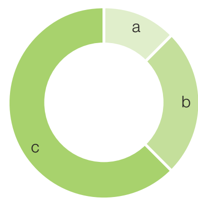
The work of the Board is further supported by three formal Committees (Audit, Remuneration and Nomination), detailed on the following pages. In addition, whilst not a Committee with specific powers of its own delegated by the Board, the Group Chief Executive is assisted in the performance of his duties by the Group Executive Committee. This meets monthly and comprises the Group Chief Executive and Group Finance Director, the four Divisional Managing Directors of Benelux Solid Waste, UK Solid Waste & Municipal, Hazardous Waste and Organics and the newly appointed Group Human Resources Director. In addition there are three specialist committees reporting through to the Group Executive Committee; Risk, Corporate Responsibility and Health and Safety.

Board evaluation

Performance evaluation of the Board, its Committees and directors during the year was based upon formalised self assessment questionnaires. The performance evaluation of the Chairman was undertaken by the non-executive directors, led by the Senior Independent Director. Following this year's performance evaluation the Board recommends to shareholders the election and re-election of those directors standing at the forthcoming AGM, all of whom continue to demonstrate commitment to their role and whose performance continues to be effective. A number of topics were identified for the Board to focus further attention on in 2013 including the greater allocation of time to the Nomination Committee.

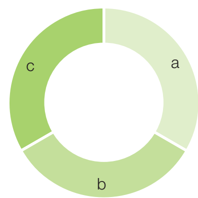
Balance of non-executive directors and executive directors

a Non-executive Chairman	1
b Executive directors	2
c Independent non-executive directors	5



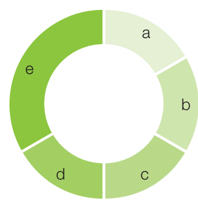
Length of tenure of Chairman/non-executive directors

a 0–3 years	2
b 4–7 years	2
c 8 years +	2



Industry background/experience of Chairman/non-executive directors

a Building materials/chemical	1
b Construction/financial services	1
c Electricity	1
d Water/waste	1
e Telecom/publishing	2



The calendar of meetings of the Board and its committees for 2012/13 is shown below:

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Board (main meeting)	•	•	•	•		•		••	•	•	•	•
Audit Committee		•						•			•	
Remuneration Committee		•	•	•				•				•
Nomination Committee			•									•
Shareholder (AGM)				•								

Nomination Committee

The Nomination Committee is chaired by Adrian Auer and is comprised solely of non-executive directors; Eric van Amerongen, Peter Johnson, Stephen Riley, Jacques Petry and since April 2013, Marina Wyatt. The Committee is formally constituted with written terms of reference which are available on the Group's website. It met twice during the year and is responsible for making recommendations to the Board on the appointment of directors and succession planning. It also reviews organisation and resourcing plans for the purpose of providing assurance that appropriate processes are in place to ensure a sufficient supply of competent executive and senior management.

During the year the Committee members were engaged primarily in the selection of a new Group Finance Director necessitated by the announcement in May 2012 of Chris Surch's decision to resign in the summer of 2012 in order to join FirstGroup plc. Facilitated by external recruitment consultancy, Heidrick & Struggles (H&S), a comprehensive search for an individual with the requisite competencies and track record was undertaken, resulting in the appointment of Toby Woolrych on 27 August 2012.

The Committee also engaged H&S in the search of an additional non-executive director, Marina Wyatt, who joined the Board on 2 April 2013.

Any new director appointed to the Board is subject to election by shareholders at the first opportunity after their appointment. In accordance with the Company's Articles of Association non-executive directors are also required to stand for re-election on an annual basis. Non-executive directors have previously been appointed for renewable three year terms but, for consistency with their annual re-election requirements, letters of re-appointment are now issued on the basis of renewable annual terms.

Both the executive directors have contractual notice periods of one year and are required to stand for re-election every three years. The Board does not believe it is necessary to require executive directors to stand for annual re-election as the Chairman and non-executives have an existing accountability to shareholders for ensuring executives perform effectively and a responsibility, if necessary, to remove them from their post if they fail to do so. However, in recognition of the UK Corporate Governance Code requirement for annual re-elections, the Board will review, on an annual basis, their position regarding applicability to the executive directors.

The Committee at the current time has not determined to set a specific female Board member quota. Appointments to the Board and throughout the Group will continue to be based on the diversity of contribution and required competencies, irrespective of gender, age, nationality or any other personal characteristic. Statistical employment data for the Group can be found in the Shanks Corporate Responsibility Report available on the Group website.

Director	Nomination Committee meetings
Adrian Auer (Chairman)	2 (2)
Peter Johnson	1 (2)
Jacques Petry	2 (2)
Stephen Riley	2 (2)
Eric van Amerongen	2 (2)

Bracketed figures indicate potential attendance of each director.

Remuneration Committee

The Remuneration Committee, which met five times in the year, is formally constituted with written terms of reference which are available on the Group's website. The Committee is comprised solely of non-executive directors; Eric van Amerongen, Adrian Auer, Peter Johnson, Stephen Riley, Jacques Petry and since April 2013, Marina Wyatt. The Committee is chaired by Eric van Amerongen and determines the Company's policy on remuneration and on a specific package for each of the executive directors. It also determines the terms on which the Long Term Incentive Plan and the Savings Related Share options are awarded to employees.

The Committee also determines the remuneration of the Group's senior management and that of the Chairman. It recommends the remuneration of the non-executive directors for determination by the Board. In exercising its responsibilities the Committee has access to professional advice, both internally and externally, and may consult the Group Chief Executive about its proposals. The Remuneration Report on pages 63 to 67 contains particulars of directors' remuneration and their interests in the Company's shares.

Director	Remuneration Committee meetings
Eric van Amerongen (Chairman)	5 (5)
Adrian Auer	5 (5)
Peter Johnson	3 (5)
Jacques Petry	4 (5)
Stephen Riley	5 (5)

Bracketed figures indicate potential attendance of each director.

Audit Committee

The Audit Committee which met three times in the year is formally constituted with written terms of reference which are available on the Group's website. The Committee is comprised solely of non-executive directors Peter Johnson, Stephen Riley, Jacques Petry, Eric van Amerongen and since April 2013, Marina Wyatt. Peter Johnson will retire from the Board and as chairman of the Audit Committee following the AGM on 25 July 2013 and be succeeded by Marina Wyatt who, as required under the UK Corporate Governance Code, has current and relevant financial experience. Representatives from the external auditors (PricewaterhouseCoopers LLP), the Chairman and the executive directors are regularly invited to attend meetings. The Committee also has access to the external auditors' advice without the presence of the executive directors.

The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment, terms of engagement, objectivity and independence of the external auditors, the nature and scope of the audit, reviews of the interim and annual financial statements, internal control procedures, accounting policies, adherence with accounting standards and such other related functions as the Board may require. The Committee also considers and regularly reviews other risk management and control documentation, including the Group's policy on whistleblowing and security reporting procedures.

Specifically, at their May 2012 meeting the Committee considered Corporate Governance compliance, taxation and the 2012 financial statements whilst the November 2012 meeting was concerned primarily with the interim results and a review of authority levels. The February 2013 meeting considered accounting treatments, PricewaterhouseCoopers' audit plan and preparation of the 2013 financial statements and reviewed risk systems and internal control improvements.

Director	Audit Committee meetings
Peter Johnson (Chairman)	3 (3)
Jacques Petry	2 (3)
Stephen Riley	3 (3)
Eric van Amerongen	3 (3)

Bracketed figures indicate potential attendance of each director.

External audit

PricewaterhouseCoopers LLP rotate their lead audit engagement partner as a minimum at least every five years, as required by their own rules and by regulatory bodies. Rotation ensures a fresh look without sacrificing institutional knowledge. Rotation of key audit partners, other partners including specialist partners and senior engagement personnel is reviewed on a regular basis by the lead audit engagement partner in consultation with the Audit Committee. As well as the lead audit partner being required to rotate every five years, key partners involved in the audit are required to do so every seven years and other partners and senior staff members every ten years.

Specified non-audit services may be provided by the external auditor subject to a competitive bid process other than in situations where it is determined by the Group Finance Director that the work is closely related to the audit or when a significant benefit can be obtained from work previously conducted by the external auditor. Whilst the Group Finance Director may approve any new engagement up to the value of £25,000, anything in excess requires Audit Committee approval up to an agreed annual aggregate limit of 75% of the prior year audit fee. In exceptional circumstances this limit may be exceeded with the approval of the Board. In determining whether or not to engage the external auditor to provide any non-audit services consideration will be given to whether this would create a threat to their independence. Similarly the external auditor will not be permitted to undertake any advocacy role for the Group such that their objectivity may be compromised. The external auditor may not provide services involving the preparation of accounting records or financial statements, the design, implementation and operation of financial information systems, actuarial and internal control functions or the management of internal audits. Fees paid to the auditors are disclosed in note 5 of the financial statements.

Tax and other professional services have also been provided to the Group by audit firms KPMG, Deloitte and Ernst & Young during the year. A resolution proposing PricewaterhouseCoopers LLP's re-appointment as Group auditors will be put to shareholders at the forthcoming AGM.

Internal audit

The internal audit capability was enhanced during the year by moving to a cross-divisional peer review internal audit system. The benefits of this improvement are:

- greater resourcing of our audit function and capability;
- wider spread of specialist knowledge during audits;
- enhanced operational and business model knowledge input to internal audits;
- better ability to share knowledge across the Group on audit outcomes and improvements; and
- independent assessment as divisional auditors will not audit their own divisions.

The improvement provides a more robust, better resourced and knowledge-based internal audit capacity. This will be co-ordinated via the Group financial function to ensure consistency, quality of reporting and close-out of improvement actions and will be reported up to the Audit Committee. In addition we will also carry out a number of control reviews using external experts in order to perform detailed analyses in specific segments or sites.

Accountability and audit

The responsibilities of the directors and the auditors in relation to the financial statements are set out on pages 71 and 72.

Risk management and internal control

The Group risk management framework, major risks and the steps taken to manage these risks are outlined on pages 50 to 54.

Internal control responsibility

The system of internal control is based on a continuous process of identifying, evaluating and managing risks including the risk management processes outlined on pages 50 and 51. The Board of directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board recognises that internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatements, losses and the breach of laws and regulations.

Annual assessment of the effectiveness of the system of internal control

In addition to the Board's ongoing internal control monitoring process it has also conducted an annual review of the effectiveness of the Group's system of internal control in compliance with Provision C.2.1 of the UK Corporate Governance Code. This review covered all material controls including financial, operational and compliance controls and risk management systems. Specifically, the Board's review consisted of the following elements:

- consideration of changes in the risk universe and the Group's ability to respond to these through its review of business risk registers controls and improvement action plans;
- review of the six-monthly certification by divisional management that appropriate internal controls are in place; and
- review of reports by internal audit and external auditors.

Continuous process for the monitoring of the system of internal control

Regular features of the Group's internal control system which contribute towards its continuous monitoring are as follows:

- a defined schedule of matters for decision by the Board;
- a clear management structure including clear limits of authority over items such as capital expenditure, pricing strategy and contract authorisation;
- a comprehensive planning and budgeting exercise. Performance is measured monthly against plan and prior year results and explanations sought for significant variances. Key performance indicators (KPIs) are also extensively used to help management of the business and to provide early warning of potential additional risk factors;
- monthly meetings and visits to key operating locations by the Group's most senior managers and executive directors to discuss performance and plans;
- appointment and retention of appropriately experienced and qualified staff to help achieve business objectives;
- an annual risk-based internal audit plan approved by the Audit Committee. Summaries of audit findings and the status of action plans to remedy significant failings are discussed at Group Board and Audit Committee meetings on a regular basis;
- a range of quality assurance, safety and environmental management systems in use across the Group. Where appropriate these are independently certified to internationally recognised standards including ISO9001, ISO14001 and OHSAS18001 and subject to regular independent auditing; and
- regular meetings of the Audit Committee, comprising non-executive directors, to consider all key aspects of the risk management and internal control systems.

Where weaknesses in the internal control system have been identified through the monitoring processes outlined above, plans for strengthening them are put in place and action plans regularly monitored until complete. The Board confirms that no material weaknesses were identified during the year and therefore no remedial action is required in relation to them.

Financial reporting

In addition to the general risk management and internal control processes described above, the Group has also implemented internal controls specific to the financial reporting process and the preparation of the annual consolidated financial statements. The main control aspects are as follows:

- formal written financial policies and procedures applicable to all business units;
- a detailed reporting calendar including the submission of detailed monthly accounts for each business unit in addition to the year end and interim reporting process;
- detailed management review to Board level of both monthly management accounts and year end and interim accounts; and
- bi-annual certification by divisional managing and finance directors and executive directors on compliance with appropriate policies and accuracy of financial information.

Anti-bribery and corruption

The Group has an anti-bribery policy in place which is applicable to all business units throughout the Group. A 24 hour/7 days a week confidential reporting, 'whistleblowing', service for employees has also been in operation throughout the year, with all notifications being reported to and considered by the Audit Committee.

Investor relations

The Company has an active investor relations programme, regularly meeting with institutional investors, analysts, press and other parties. The Board obtains feedback from its brokers, Investec, on the views of institutional shareholders and the Chairman attends meetings with major shareholders whose views are communicated to the Board as a whole. Detailed shareholder and market comment in particular is reported to the Board after results announcements. The Group website contains useful information for shareholders and the general public. The Company also communicates with private and institutional investors through the AGM.

The Board was delighted that the 2012 Annual Report won two prestigious awards. In November 2012, for the second consecutive year, Shanks won 'Best Strategy Disclosure' of a FTSE 250 Company at the ICSA Hermes Transparency in Governance Awards. In October 2012, Shanks also won the 'Excellence in Reporting' award in the FTSE 250 category at the PwC Building Public Trust Awards.

Building Public Trust Awards 2012
Winner of 'Excellence in Reporting'
in the FTSE 250

EXCELLENCE IN GOVERNANCE AWARDS 2012
WINNER

Governance

Remuneration Report

Total remuneration is designed to help motivate and retain executives and senior managers to deliver the Group's long-term strategy and goals.

Eric van Amerongen
Chairman of the Remuneration Committee

Remuneration Policy

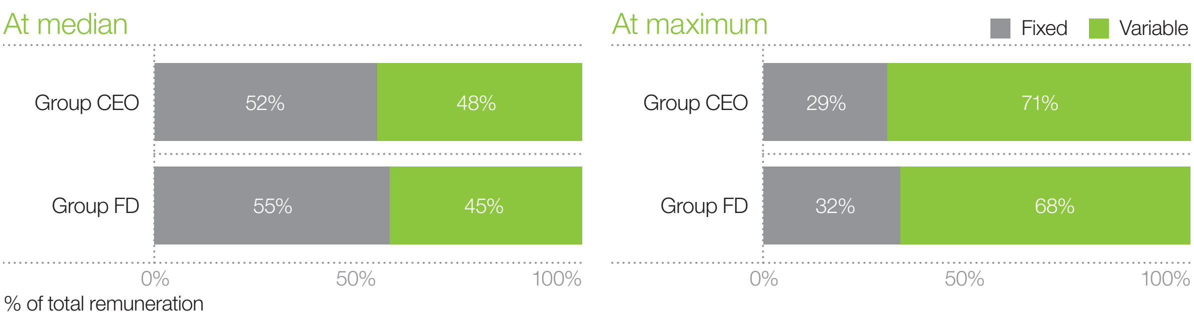
The principal objectives of the Remuneration Committee, which is chaired by Eric van Amerongen and comprises all the non-executive directors, are to attract, retain and motivate high quality senior management and to provide a competitive package of incentives linked to performance and the interests of shareholders.

The Group operates in a very competitive market and regards the retention of talented staff as a key priority. During the past year the Group introduced a new system of performance management which, along with a restructuring of the business, has helped to better focus staff at all levels on the Group's key strategic priorities. Throughout this activity, the Group has remained focused on providing levels of remuneration that strike an appropriate balance between the need to retain key employees while safeguarding the interests of shareholders.

The Committee seeks to ensure that the executive directors are fairly rewarded in the light of the Group's performance taking into account all elements of their remuneration package. A significant proportion of executive directors' potential total remuneration is therefore performance related. This comprises annual bonus and a Long Term Incentive Plan (LTIP). The fixed portion of remuneration comprises base salary and a payment in lieu of pension.

For directors achieving median performance, performance related pay would represent almost 50% of total remuneration. If performance was at a level where the maximum award available under each variable incentive was paid, performance related pay would represent approximately 70% of the total package as shown below.

Proportion of fixed and variable remuneration for executive directors 2013



Remuneration Committee

The Committee members and their attendance at meetings held during the year are set out in the Corporate Governance section on page 60. The Committee's duties are outlined in its terms of reference which are available on the Group website.

Kepler Associates Partnership LLP (Kepler) provided independent advice to the Committee relating to executive remuneration and benefits during the year. Kepler is a founder member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to Remuneration Committees of UK-listed companies. Kepler fully adheres to this Code of Conduct. Kepler provides no other services to the Group. The Committee is satisfied that the advice provided by Kepler is independent.

Total remuneration in respect of 2012/13

The Committee notes the proposed regulations laid out by the Department for Business Innovation & Skills regarding the information that companies will be required to disclose in future within the Remuneration Report. Although some of the detail surrounding these new regulations has still to be finalised at the date of writing this report, the Committee are supportive of increased transparency in this area, particularly with regard to the requirement to report the total pay received for the year as a single figure for each of the executive directors. The Committee has included this information in the table below.

Basic salary

Basic salary is generally reviewed on an annual basis or following a significant change in responsibilities. In addition to referencing external data which takes into account the executive directors' duties and responsibilities, the Committee also have regard to the general level of pay awards across the Group. Having considered these issues, the Committee determined not to increase executive directors' salaries this year. As a result, the Group Chief Executive, Mr Dilnot's basic salary remains at £432,600 per annum and that of the Group Finance Director, Mr Woolrych at £283,250 per annum.

Annual cash bonus

Annual cash bonuses for executive directors are paid at the discretion of the Remuneration Committee and are determined as a percentage of base salary depending on corporate financial performance and the achievement of personal objectives.

The Remuneration Committee reviewed the annual bonus plan for 2012/13 to ensure this reward mechanism for senior executives was aligned with the interests of shareholders and, more specifically, placed additional emphasis on performance incentivisation being closely in line with the achievement of the Group strategy. The annual bonus plan is intended to motivate senior executives to maximise short-term performance and help drive initiatives which support long-term value creation.

For the year to 31 March 2013, the maximum bonus potential for executive directors was 100% of base salary. 75% of the bonus was measured against financial targets and 25% was based on the achievement of personal or strategic objectives. For the financial component, 50% was linked to a Group profit before tax target, 13% on Group underlying free cash flow and the remaining 12% being linked to a return on assets target. Based on the financial performance of the Group during the year, no payout of the financial component became payable. Based on the achievement of personal objectives including health and safety targets, restructuring and cost reductions, the Remuneration Committee determined that overall bonuses of 19% be awarded to both Mr Dilnot and Mr Woolrych, representing actual payments of £82,194 to Mr Dilnot and £31,393 to Mr Woolrych, the latter payment having been pro-rated for seven months worked.

The Remuneration Committee has reviewed the 2013/14 annual bonus plan arrangements and has determined that the maximum bonus potential for executive directors should remain at 100% of base salary and that this should only be paid in the event of all stretch targets being met. Of the bonus, 75% will continue to be measured against financial targets with the remaining 25% based on the achievement of personal objectives. For the financial component, 50% remains linked to Group profit before tax, with the remaining 25% being based on Group underlying free cash flow. The Remuneration Committee has decided to introduce a 'clawback' arrangement in exceptional circumstances, e.g. material misstatement or gross misconduct.

Salary + Benefits + Pension + Bonus + Long Term Incentives (LTI) = Total Remuneration

Pay for performance

Total Remuneration received 2012/13

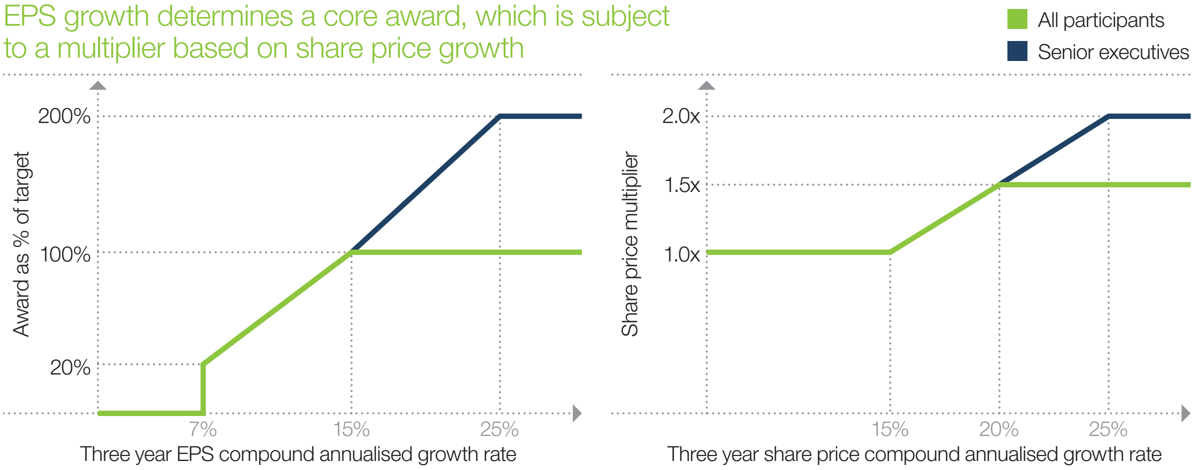
£000	Salary	Benefits	Pension	Subtotal	Bonus	LTI	Subtotal	Total Remuneration
Group CEO	433	27	108	568	82	–	82	650
Group FD	171	13	34	218	31	–	31	249

For the purposes of the table above:

- Salary means the amount of salary paid in the year
- Benefits means the taxable value of any benefits in kind received during the year
- Pension means the value of defined contribution pension contributions or cash supplements provided during the year
- Bonus means the amount of bonus earned in the year
- LTI means the value of any LTI's which vested in the year

2012 and 2013 LTIP performance targets

EPS growth determines a core award, which is subject to a multiplier based on share price growth



Long Term Incentive Plan (LTIP)

Executive directors and senior employees may be granted awards annually as determined by the Committee. The vesting of these awards is subject to the attainment of performance conditions for a three year period from grant. Awards are in the form of Shanks Group plc shares.

At the 2011 AGM shareholders approved a new LTIP. Vesting of awards is linked to three years' growth in earnings per share (EPS) and share price. The Committee believes that EPS growth is a key indicator of success for the Group, while share price growth provides strong alignment with shareholders. Both measures are transparent, visible and motivational to executives. They are combined in a multiplicative manner, with sliding scales for each measure so that share price growth without EPS growth would not be rewarded. The design provides a progressive relationship between pay and performance and a highly motivational incentive.

Annual grants of shares are up to a maximum of 200% of salary. The target award is 50% of salary (200% maximum) for the Group Chief Executive and 37.5% (150% maximum) of salary for the Group Finance Director. Shares vest on three year growth in EPS and share price, as shown in the charts above.

LTIP performance targets

Three year EPS growth determines the core award as follows:

- no award for EPS growth of less than 7% p.a.;
- 20% of the target award for EPS growth of 7% p.a.;
- 100% of the target award for EPS growth of 15% p.a. (maximum vesting for the majority of participants);
- for the most senior executives only (including the two executive directors), 200% of target award vesting for EPS growth of 25% p.a. or more; and
- straight-line vesting in between these points.

The core award is subject to a share price multiplier as follows:

- 1 times for share price growth of up to and including 15% p.a.;
- 1.5 times for share price growth of 20% p.a.;
- for the most senior executives only (including the two executive directors), two times for share price growth of 25% p.a. or more; and
- straight-line vesting in-between these points.

Share price growth is calculated using three month average share prices immediately prior to the start and end of the performance period.

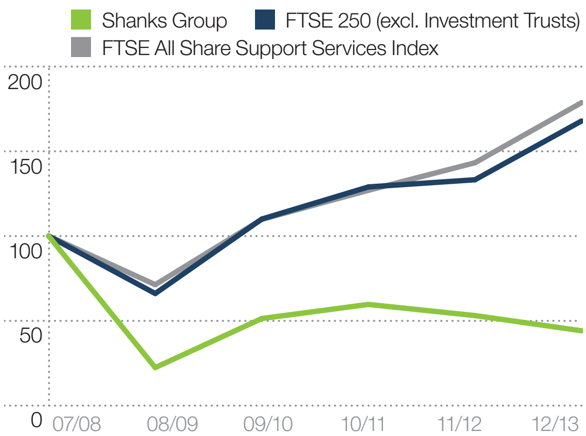
In addition to meeting the EPS and share price growth targets outlined above, the Committee must satisfy itself that the recorded outcome is a fair reflection of the underlying performance of the Group.

The Remuneration Committee believes that these incentive arrangements include targets which are very stretching and align well with the interests of shareholders. They help to motivate and retain executives and senior managers to deliver the Group's long-term strategy and goals.

It is the Committee's policy to periodically review executive remuneration arrangements from time to time, including the LTIP performance measures and targets, which the Committee will continue to do.

The Shanks Group plc Employee Share Trust has been established for the purpose of granting awards under the LTIP and to hold shares in the Company which are either purchased in the market or subscribed for with funds provided by the Company or its subsidiaries. As at 31 March 2013 the Employee Share Trust did not hold any of the Company's shares.

Shanks Group plc Total Shareholder Return for the period 31 March 2008 to 31 March 2013



The graph above shows the Total Shareholder Return of the Company over the five year period to 31 March 2013. The Support Services Sector has been selected as a comparator index as it is a broad equity index of which the Company is a constituent member. The Company was until December 2012 also a member of the FTSE 250.

1 Overview
2 Strategy
3 Our performance
4 People & sustainability
5 Risk & uncertainties
6 Governance
7 Financials & other information

Savings Related Share Option Scheme (SRSOS)

The Remuneration Committee believes that share ownership by employees encourages the alignment of long-term interests of employees and shareholders. UK employees only (who make up circa 22% of the Group's total employee headcount) including executive directors may participate in an HMRC approved SRSOS. Under the terms of this scheme options may be granted during the 10 year period to July 2015 to acquire up to 10% of the issued equity share capital of the Company. Options are granted at the higher of the nominal value of an ordinary 10 pence share and an amount determined by the Remuneration Committee being not less than 80% of the market value. Employees held options over circa 1.3 million shares under the SRSOS as at 31 March 2013.

Given the approach to compensation and tax regimes operated in other geographies, it has not been considered feasible to offer a similar type of plan to non-UK employees. The Remuneration Committee will continue to monitor this position on an ongoing basis.

Directors' service contracts and notice periods

The Remuneration Committee has agreed that the policy with regard to the notice period for executive directors is one year. Accordingly, Mr Dilnot and Mr Woolrych have rolling service contracts dated 1 February 2012 and 2 July 2012 respectively which each require one year's notice from the Company.

The executive directors' service contracts contain the ability for the Company to terminate the employment of the executive directors by making a payment in lieu of salary and contractual benefits only for the twelve month notice period. The Company has the ability to pay such sums in instalments, requiring the director to mitigate loss (for example, by gaining new employment) over the relevant period.

Non-executive directors

The non-executive directors do not have service contracts as their terms of engagement are governed by letters of appointment. These letters of appointment have previously included renewable three year terms, but since 2011 re-appointment letters have been issued with an annual renewable term linked, for consistency, to the end of July, being the month of the Company's AGM at which all non-executive directors must stand for annual re-election.

The Chairman and non-executive directors do not participate in the Company's share or bonus plans and do not receive any pension contributions.

	Date of original appointment	Date of current re-appointment	Expiry date	Unexpired term at date of this report
Adrian Auer	16 May 2005	31 July 2012	31 July 2013	2 months
Peter Johnson	16 May 2005	31 July 2012	31 July 2013	2 months
Jacques Petry	30 Sept 2010	–	30 Sept 2013	4 months
Stephen Riley	29 March 2007	29 March 2013	31 July 2013	2 months
Eric van Amerongen	9 Feb 2007	9 Feb 2013	31 July 2013	2 months
Marina Wyatt	2 April 2013	–	31 July 2013	2 months

External appointments

The Remuneration Committee acknowledges that executive directors may be invited to become non-executive directors of other quoted companies which have no business relationship with the Group and that these duties can broaden their experience and knowledge to the benefit of the Company. Executive directors are limited to holding one such position and the policy is that fees may be retained by the director, reflecting the personal risk assumed in such appointments. No external appointments were held by the executive directors during the year.

Directors' interests in ordinary shares

The directors' interests in the ordinary shares of the Company both during the year and at 16 May 2013 were as follows:

	As at 1 April 2012 or date of appointment if later	As at 31 March 2013 and 16 May 2013
Adrian Auer	43,333	103,333
Peter Dilnot	59,500	72,191
Peter Johnson	61,007	61,007
Jacques Petry	–	–
Stephen Riley	–	–
Eric van Amerongen	–	–
Toby Woolrych	–	14,757
Marina Wyatt	–	–

Note

(i) Chris Surch had an interest in 93,333 ordinary shares at 1 April 2012 and at the date of his resignation from the Board on 26 August 2012.

The auditors are required to report on the information contained in the remaining section of the Remuneration Report.

Directors' remuneration

	Basic salary/fees £000	Performance related bonus £000	Other emoluments £000	**2013 Total £000**	2012 Total £000
Chairman					
Adrian Auer	113	–	–	**113**	113
Executive Directors					
Peter Dilnot (appointed 1 February 2012)	433	82	135	**650**	157
Toby Woolrych (appointed 27 August 2012)	171	31	47	**249**	–
Tom Drury (resigned 30 September 2011)	–	–	–	**–**	284
Chris Surch (resigned 26 August 2012)	118	–	33	**151**	511
Non-executive Directors					
Peter Johnson	43	–	–	**43**	43
Jacques Petry	38	–	–	**38**	43
Stephen Riley	38	–	–	**38**	38
Eric van Amerongen	50	–	–	**50**	53
Total	1,004	113	215	**1,332**	1,242

Notes

(i) Other emoluments include a car allowance and medical insurance. Peter Dilnot and Toby Woolrych also receive a cash element, paid in lieu of pension scheme contributions, equating to 25% and 20% of salary respectively. Chris Surch similarly received a 20% equivalent.

(ii) Eric van Amerongen's and Jacques Petry's fees are paid in Euros but stated above in Sterling at an exchange rate of £1: €1.2317 (2012: £1: €1.1556).

(iii) The non-executive directors do not participate in the annual bonus plan and do not receive any pension contributions from the Group.

Directors' interests in share options

The following directors held options to subscribe for ordinary shares under the Shanks Group plc Savings Related Share Option Scheme:

	Date of Grant	Normal Exercise dates from	Normal Exercise dates to	Option price (pence)[ii]	Number at 1 April 2012	Granted in year	Lapsed in year	Exercised in year	Number at 31 March 2013
Peter Dilnot	20.09.12	01.11.15	30.04.16	73.0	–	12,328	–	–	12,328
Toby Woolrych	20.09.12	01.11.15	30.04.16	73.0	–	12,328	–	–	12,328
Chris Surch[i]	25.09.09	01.11.12	30.04.13	71.0	12,781	–	12,781	–	–

Notes

(i) Chris Surch's option lapsed upon his leaving the Company on 31 August 2012.

(ii) The option price is the price at which the option was granted. The price is set by the Remuneration Committee but is not less than 80% of the average market price of the shares over the last three dealing days immediately preceding the date of the invitation to subscribe.

Directors' interests in Long Term Incentive Plans

The executive directors have been made notional allocations of shares under the Company's Long Term Incentive Plans:

	Outstanding awards at 31 March 2012	Awards made during the year	Awards lapsed during the year	Awards exercised during the year	Outstanding awards at 31 March 2013	Date of award	Share price on date of award (pence)	Performance period end	Restricted period end
Peter Dilnot	887,000	–	–	–	887,000	01.02.12	99.85	31.03.14	01.02.15
	–	1,091,000	–	–	1,091,000	01.08.12	79.27	31.03.15	01.08.15
Toby Woolrych	–	470,000	–	–	470,000	28.08.12	90.33	31.03.15	28.08.15
Chris Surch[i]	274,000	–	274,000	–	–	09.06.10	100.30	31.03.13	09.06.13
	334,000	–	334,000	–	–	01.08.11	126.90	31.03.14	01.08.14

Notes

(i) Chris Surch's awards lapsed upon his leaving the Company on 31 August 2012.

(ii) The performance conditions relating to the vesting of outstanding awards are shown on page 65.

The highest and lowest closing mid-market prices of the ordinary shares of the Company during the year were 98.95 pence and 75.8 pence respectively. The mid-market price at the close of business on 31 March 2013 was 78.5 pence.

Other interests

None of the directors had an interest in the shares of any subsidiary undertaking of the Company or in any significant contracts of the Group.

By order of the Board

Eric van Amerongen
Chairman of the Remuneration Committee
16 May 2013

Governance

Directors' Report

Directors

The composition of the Board at the date of this Report, together with biographical details, is shown on pages 56 and 57. Adrian Auer, Eric van Amerongen, Peter Johnson, Jacques Petry, Stephen Riley and Peter Dilnot all served on the Board throughout the financial year under review. Toby Woolrych was appointed as Group Finance Director on 27 August 2012 following Chris Surch's resignation on 26 August 2012. Marina Wyatt was appointed as a non-executive director on 2 April 2013. Adrian Auer, Eric van Amerongen, Stephen Riley and Jacques Petry will be offering themselves for annual re-election at the Company's 2013 AGM in accordance with the Company's Articles of Association. Toby Woolrych and Marina Wyatt will be seeking their first election by shareholders. The Board commends to shareholders the re-election and election of these directors, all of whom continue to demonstrate commitment to their respective roles and all of whose individual performance continues to be effective.

Directors' indemnities

As at the date of this Report, the Company has granted indemnities to the extent permitted by law, in respect of certain liabilities incurred as a result of carrying out the role as a director of the Company. The indemnities are qualifying third party indemnity provisions for the purposes of the Companies Act 2006. In respect of those liabilities for which the directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year and has renewed that policy.

Principal activities and Business Review

Shanks Group plc is a leading international sustainable waste management business, with operations in the Netherlands, Belgium, the UK and Canada providing a range of recycling and energy recovery solutions and technologies to customers in the public and private sectors. The Group has more than a hundred facilities handling more than seven million tonnes of waste a year, of which some 78% is recycled or recovered. Group activities range from mechanical biological treatment and anaerobic digestion to recycling and waste collection operations.

Preceding sections of this Annual Report include: Overview, Strategy, Our Performance, People and Sustainability, and Risks and Uncertainties. These refer to the objectives and strategy of the Group, its competition and the markets in which it operates, the principal risks and uncertainties it faces, a review of the development and performance of the business for the year ended 31 March 2013, the Group's financial position, key performance indicators and likely future developments of the business. Together with the Governance section, the information referred to above fulfils the requirements of the business review provisions in section 417 of the Companies Act 2006 and is incorporated by reference into, and is deemed to form part of, this Directors' Report.

Acquisitions and disposals

During the year acquisitions amounted to £nil (2012: £3.4m). Disposals amounted to £nil (2012: £nil). Subsequent to the year end the Group announced the sale of its 50% interest in its Caird Bardon joint venture with Aggregate Industries to Seneca Global Energy Limited. Further details are set out in note 22 of the financial statements.

Research and development

The Group spent £190,000 (2012: £55,000) on research and development during the year ended 31 March 2013. This related to the Group's participation in a four year project by a consortium of universities, research centres and commercial companies in Belgium aimed at developing technologies for mapping landfill sites, optimising waste decomposition processes and the recovery of energy and materials through excavation techniques and waste pre-treatment.

Results and dividends

The Group's Consolidated Income Statement appears on page 74 and note 3 to the financial statements shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's loss for the year was £35.2m (2012: profit of £25.7m).

Notifiable interests

The Company has been notified of the following direct and indirect interests in voting rights equal to or exceeding 3% of the ordinary share capital of the Company:

	Notifications received up to 31 March 2013		Notifications received between 31 March 2013 and 16 May 2013	
	Number of shares	Percentage	Number of shares	Percentage
Schroders plc	69,237,221	17.42	–	–
Royal London Asset Management	19,898,363	5.01	–	–
Norges Bank	19,102,718	4.80	21,102,718	5.31
Artemis Investment Management LLP	18,994,894	4.78	–	–
Legal & General Group plc	13,138,758	3.31	–	–
Sterling Strategic Value Ltd	–	–	11,954,123	3.01

The directors recommend a final dividend of 2.35 pence (2012: 2.35 pence) per share be paid on 2 August 2013 to ordinary shareholders on the register of members at the close of business on 5 July 2013. This dividend, if approved by shareholders, together with the interim dividend of 1.1 pence (2012: 1.1 pence) per share already paid on 11 January 2013, will make a total dividend for the year of 3.45 pence per share (2012: 3.45 pence).

Statement of going concern

After making enquiries, the directors have formed the view, at the time of approving the financial statements, that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that the Group's business is a going concern. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Share capital

The Company's share capital comprises ordinary shares of 10 pence each par value. As at 31 March 2013 and as at the date of this Report there were 397,463,413 and 397,539,076 ordinary shares in issue respectively. During the year ended 31 March 2013 no ordinary shares were issued other than in respect of the exercise of options or awards under the Company's share schemes, details of which are given in note 7 to the financial statements. The principal rights and obligations attaching to the ordinary shares are as follows:

- Dividend rights – holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the directors. The directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Payment or satisfaction of a dividend may be made wholly or partly by distribution of assets, including fully paid shares or debentures of any other company. The directors may deduct from any dividend payable to a member all sums of money (if any) payable by such member to the Company in respect of their ordinary shares.
- Voting rights – voting at any general meeting is by a show of hands unless a poll is duly demanded. Voting at this year's AGM will be by a poll only. On a show of hands, every shareholder who is present in person or by proxy or represented by a corporate representative has one vote regardless of the number of shares held by the shareholder. On a poll, every shareholder who is present in person or by proxy or represented by a corporate representative has one vote for every share held by that shareholder. A poll may be demanded by any of the following: (a) the chairman of the meeting; (b) at least five shareholders entitled to vote and present in person or by proxy or represented by corporate representatives at the meeting; (c) any shareholder(s) present in person or by proxy or represented by corporate representatives and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to attend and vote at the meeting or (d) any shareholder(s) present in person or by proxy or represented by corporate representatives and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. In the case of joint holders of an ordinary share, the vote of the senior who tenders a vote, shall be accepted to the exclusion of the votes of the other joint holders. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding. The deadline for appointing proxies to exercise voting rights at any general meeting is set out in the notice convening the relevant meeting. The Company is not aware of any agreements between holders of its shares that may result in restrictions on voting rights.
- Return of capital – in the event of the liquidation of the Company, after payment of all liabilities and deductions taking priority, the balance of assets available for distribution will be distributed amongst the holders of ordinary shares according to the amounts paid up on the shares held by them. A liquidator may, with the sanction of a special resolution of the shareholders and any other sanction required by law, divide among the shareholders in kind the whole or any part of the Company's assets or vest the Company's assets, in whole or in part, in trustees such trust for the benefit of shareholders, but no shareholder may be compelled to accept any assets upon which there is any liability.

Share restrictions

There are no restrictions under the Company's Memorandum or Articles of Association that restrict the rights of members to hold or transfer the Company's shares. Certain restrictions may however from time to time be imposed by laws and regulations (for example insider trading laws). The Company is not aware of any agreements between holders of its shares that may result in restrictions on the transfer of securities.

Employee share schemes — control rights

The Company operates a number of employee share schemes. Under one of those schemes, ordinary shares may be held by trustees on behalf of employees. Employees are not entitled to exercise directly any voting or other control rights in respect of any shares held by such trustees. The trustees have full discretion to vote or abstain from voting at general meetings of the Company in respect of such shares.

Retail bond

As at 31 March 2013 and as at the date of this Report the Company had in issue a Retail Bond comprising €100m 5% guaranteed notes due 22 October 2015. There are no restrictions under the instrument governing the notes that restrict the rights of investors to hold or transfer them. The Company is not aware of any agreements between the holders of the notes that may result in restrictions on their transfer.

Appointment of directors

The Company shall appoint not less than two directors (disregarding alternate directors). The appointment and replacement of directors may be made as follows:

- the Company's members may, by ordinary resolution, appoint any person who is willing to act to be a director;
- the Board may appoint any person who is willing to act to be a director. Any director so appointed shall hold office only until the next AGM and shall then be eligible for election;
- each executive director shall retire from office no later than at the third AGM after the AGM at which he or she was last elected but he or she may be re-appointed by ordinary resolution if eligible and willing;

- each non-executive director shall retire from office at every AGM but he or she may be re-appointed by ordinary resolution if eligible and willing;
- the Company may, by special resolution, remove any director before the expiry of his or her period of office or may, by ordinary resolution, remove a director where special notice has been given and the necessary statutory procedures are complied with; and
- a director must vacate his or her office if any of the circumstances in Article 100 of the Articles of Association of the Company arise.

Powers of directors

The Articles of Association (Articles) provide that the business of the Company shall be managed by the Board which may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. This power is subject to any limitations imposed on the Company by legislation. It is also limited by the provisions of the Articles and by any directions given by special resolution of the members of the Company which are applicable on the date that any power is exercised. Specific provisions relevant to the exercise of powers by the directors include the following:

- pre-emptive rights and new issues of shares – while holders of ordinary shares have no pre-emptive rights under the Articles, the ability of the directors to cause the Company to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employees share scheme, is restricted. Under the Companies Act 2006, (the Act), the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in general meeting, but which in either event cannot last for more than five years. Under the Act, the Company may not allot shares for cash (otherwise than pursuant to an employees share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the Company's shareholders. The Company received authority at the last AGM to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £1,984,286. This authority lasts until the earlier of the AGM in 2013 or 30 September 2013;
- repurchase of shares – subject to authorisation by shareholder resolution, the Company may purchase all or any of its own shares in accordance with the Act and the Listing Rules. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital. The Company received authority at the last AGM to purchase up to 39,685,721 ordinary shares. This authority lasts until the earlier of the AGM in 2013 or 30 September 2013; and
- borrowing powers – the directors are empowered to exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the Company's assets, provided that the aggregate amount of borrowings of the Group outstanding at any time does not exceed the limit set out in the Articles, unless sanctioned by an ordinary resolution of the Company's shareholders.

Amendment to Company's Articles

The Company may alter its Articles of Association by special resolution passed at a general meeting.

Corporate governance

The Board is fully committed to high standards of corporate governance. Details relating to the Company's compliance with the UK Corporate Governance Code for the financial year are given in the Corporate Governance and Remuneration Reports on pages 55 to 67.

Corporate responsibility

Shanks is a sustainable waste management company. Information on Corporate Responsibility (CR) matters including the environment, employment policies and health and safety are set out on pages 45 to 49, together with CO_2 data. Further details on the Company's approach to carbon avoidance and the benefits of sustainable waste management can be found in the Group CR Report and CR Policy both of which are available on the Group website.

In March 2013 Shanks won the PLC 'Achievement in sustainability' Award in recognition of its contribution to resource efficiency and future sustainability.

Charitable and political donations

During the financial year the Group's donations for charitable purposes amounted to £19,000 (2012: £17,000), inclusive of £15,000 to the UK youth charity, the Prince's Trust. Also, in the UK, through the Landfill Communities Fund, the Group applied £728,000 (2012: £754,000) via not-for-profit organisations to undertake projects such as disused land restoration, public park maintenance and habitat conservation.

No donations were made by the Group for political purposes during the financial year (2012: £nil).

Payment of suppliers

The Company does not subscribe to any code or standard on payment practice. The Company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of and abide by the terms of payment. The Group's average creditor payment period at 31 March 2013 was 64 days (2012: 58 days) and that of the Company was 31 days (2012: 38 days).

Change of control – significant agreements

The Group's principal financing instrument at 31 March 2013, a €200m term loan and multicurrency revolving credit facility with six major banks, contains an option for those banks to declare by notice that all sums outstanding under that agreement are repayable immediately in the event of a change of control of the Company. Any such notice may take effect no earlier than 30 days from the change of control and, if exercised at 31 March 2013, would have required the repayment of £96.2m (2012: £84.6m) in principal and interest.

The Group's five year Retail Bond issued in October 2010 requires notice to be given to bondholders within seven business days of a change of control following which the holders have an option to seek repayment at a 1% premium, within 60 days of that notice. Such repayment must be made within 10 business days of the expiry of the option period. If exercised at 31 March 2013, repayment of £87.3m (2012: £86.0m) in principal and interest would have been required.

The notes issued under the Group's 24 March 2011 private placement contain an option for the noteholders to enforce prepayment between 30 and 60 days from a change of control of outstanding principal and interest which would have amounted in total at 31 March 2013 to £50.4m (2012: £49.2m). In addition, a make-whole payment amounting to £6.6m (2012: £8.0m) which is not provided for in these financial statements would be payable to private placement noteholders based on treasury yields at 31 March 2013.

The rules of the Company's employee share plans provide that awards and options may vest and become exercisable on a change of control of the Company.

Essential contractual and other arrangements

The Group's largest customers for its products and services include local authorities and municipalities. In the UK these include, long-term waste management contracts with the East London Waste Authority, Dumfries and Galloway, Argyll & Bute, Cumbria, Derbyshire, Wakefield, Barnsley, Doncaster and Rotherham Councils. Under these contracts, the Group is responsible for managing the municipal wastes and recyclables collected by the local authority or their subcontractors. The Hazardous Waste Division has long-term contracts with the oil and gas industry and is a major supplier of cleaning services to the petrochemical industry. The Organics Division also has a number of long-term source segregated organic contracts with municipalities and provinces in the Netherlands and Canada.

Annual General Meeting

Notice of the AGM of the Company to be held at the offices of Ashurst LLP, Broadgate House, 5 Appold Street, London EC2A 2HA on Thursday, 25 July 2013 at 11.00am will be made available to shareholders, together with a form of proxy, and will also be available on the Group website at www.shanksplc.com. The directors consider that all the AGM resolutions are in the best interests of the Company and they recommend unanimously that all shareholders vote in favour, as they intend to do in respect of their own shareholdings.

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on pages 56 and 57 of the Annual Report 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;
- the Directors' Report contained on pages 68 to 71 of 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 is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Philip Griffin-Smith
Company Secretary
16 May 2013

Shanks Group plc
Registered in Scotland no. SC077438

Governance

Independent Auditors' Report to the members of Shanks Group plc

We have audited the financial statements of Shanks Group plc for the year ended 31 March 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 71, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This Report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report & Accounts 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2013 and of the Group's loss and Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 69, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

John Waters

John Waters
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
16 May 2013

Financials & other information

Financials

Financials

Consolidated Income Statement

For the year ended 31 March 2013

	Note	2013 Trading £m	2013 Non trading and exceptional items £m	2013 Total £m	2012 Restated* Trading £m	2012 Restated* Non trading and exceptional items £m	2012 Restated* Total £m
Revenue	3	**670.0**	**–**	**670.0**	750.1	–	750.1
Cost of sales	4	**(566.1)**	**(12.8)**	**(578.9)**	(622.9)	(3.7)	(626.6)
Gross profit (loss)		**103.9**	**(12.8)**	**91.1**	127.2	(3.7)	123.5
Administrative expenses	4	**(62.6)**	**(49.1)**	**(111.7)**	(73.8)	(2.9)	(76.7)
Operating profit (loss)	3,4,5	**41.3**	**(61.9)**	**(20.6)**	53.4	(6.6)	46.8
Finance income	8	**6.2**	**0.1**	**6.3**	4.9	–	4.9
Finance charges	8	**(21.3)**	**–**	**(21.3)**	(21.1)	(0.8)	(21.9)
Income from associates	15	**0.3**	**–**	**0.3**	0.1	–	0.1
Profit (loss) before taxation	3	**26.5**	**(61.8)**	**(35.3)**	37.3	(7.4)	29.9
Taxation	4,9	**(6.8)**	**6.9**	**0.1**	(9.7)	5.5	(4.2)
Profit (loss) for the year		**19.7**	**(54.9)**	**(35.2)**	27.6	(1.9)	25.7
Profit (loss) attributable to:							
– Owners of the parent		**19.6**	**(54.9)**	**(35.3)**	27.6	(1.9)	25.7
– Non-controlling interest		**0.1**	**–**	**0.1**	–	–	–
		19.7	**(54.9)**	**(35.2)**	27.6	(1.9)	25.7
Earnings per share attributable to owners of the parent (pence per share)							
– basic	11	**5.0**	**(13.9)**	**(8.9)**	7.0	(0.5)	6.5
– diluted	11	**5.0**	**(13.9)**	**(8.9)**	7.0	(0.5)	6.5

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

	Note	2013 £m	Restated* 2012 £m
(Loss) profit for the year		**(35.2)**	25.7
Exchange gain (loss) on translation of foreign subsidiaries		**5.4**	(19.6)
Fair value movement on cash flow hedges	16	**(13.8)**	(12.1)
Deferred tax on fair value movement on cash flow hedges	18	**3.0**	2.8
Actuarial loss on defined benefit pension scheme	27	**(4.2)**	(14.5)
Deferred tax on actuarial loss on defined benefit pension scheme	18	**0.9**	3.5
Other comprehensive loss for the year, net of tax		**(8.7)**	(39.9)
Total comprehensive loss for the year		**(43.9)**	(14.2)

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

The notes on pages 78 to 118 are an integral part of these consolidated financial statements.

Financials

Balance Sheets

As at 31 March 2013

	Note	Group As at 31 March 2013 £m	Group As at 31 March 2012 £m	Company As at 31 March 2013 £m	Company As at 31 March 2012 £m
Assets					
Non-current assets					
Intangible assets	13	**251.8**	271.4	**0.7**	0.8
Property, plant and equipment	14	**375.3**	390.9	**0.1**	0.2
Investments	15	**5.6**	6.7	**466.9**	469.6
Financial assets relating to PFI/PPP contracts	20	**117.5**	59.3	**–**	–
Trade and other receivables	21	**5.9**	7.4	**–**	–
Deferred tax assets	18	**16.0**	15.9	**2.6**	2.8
		772.1	751.6	**470.3**	473.4
Current assets					
Inventories	19	**11.0**	10.5	**–**	–
Financial assets relating to PFI/PPP contracts	20	**8.0**	6.5	**–**	–
Trade and other receivables	21	**147.8**	153.8	**296.8**	281.9
Derivative financial instruments	16	**–**	0.1	**–**	0.1
Current tax receivable		**1.8**	2.9	**–**	4.0
Cash and cash equivalents	23	**75.4**	59.8	**19.3**	25.6
		244.0	233.6	**316.1**	311.6
Assets classified as held for sale	22	**3.3**	–	**–**	–
		247.3	233.6	**316.1**	311.6
Total assets		**1,019.4**	985.2	**786.4**	785.0
Liabilities					
Non-current liabilities					
Borrowings PFI/PPP non-recourse net debt	24	**(87.5)**	(36.0)	**–**	–
Other	24	**(234.5)**	(217.8)	**(121.7)**	(106.2)
Derivative financial instruments	16	**(30.8)**	(17.2)	**(1.0)**	(1.5)
Other non-current liabilities	25	**(2.3)**	(5.4)	**(145.6)**	(430.3)
Deferred tax liabilities	18	**(41.6)**	(42.1)	**–**	–
Provisions	26	**(38.7)**	(49.8)	**(0.3)**	–
Defined benefit pension scheme deficit	27	**(8.8)**	(7.6)	**(8.8)**	(7.6)
		(444.2)	(375.9)	**(277.4)**	(545.6)
Current liabilities					
Borrowings PFI/PPP non-recourse net debt	24	**(12.6)**	(9.4)	**–**	–
Other	24	**(18.2)**	(2.8)	**–**	(8.5)
Trade and other payables	25	**(202.2)**	(214.1)	**(70.7)**	(4.0)
Current tax payable		**(6.8)**	(8.0)	**(0.4)**	–
Provisions	26	**(18.4)**	(4.4)	**(2.2)**	(2.0)
		(258.2)	(238.7)	**(73.3)**	(14.5)
Liabilities directly associated with assets classified as held for sale	22	**(3.3)**	–	**–**	–
		(261.5)	(238.7)	**(73.3)**	(14.5)
Total liabilities		**(705.7)**	(614.6)	**(350.7)**	(560.1)
Net assets		**313.7**	370.6	**435.7**	224.9
Equity attributable to owners of the parent					
Called up share capital	28	**39.7**	39.7	**39.7**	39.7
Share premium	28	**99.8**	99.4	**123.8**	123.4
Exchange reserve		**41.4**	36.0	**–**	–
Retained earnings		**132.7**	195.5	**272.2**	61.8
		313.6	370.6	**435.7**	224.9
Non-controlling interest		**0.1**	–	**–**	–
Total equity		**313.7**	370.6	**435.7**	224.9

The notes on pages 78 to 118 are an integral part of these consolidated financial statements. The Financial Statements on pages 74 to 118 were approved by the Board of Directors and authorised for issue on 16 May 2013.

They were signed on its behalf by:

A. Auer

A Auer
Chairman

T Woolrych
Group Finance Director

Financials

Statements of Changes in Equity

For the year ended 31 March 2013

Group	Note	Called up share capital £m	Share premium £m	Exchange reserve £m	Restated* Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 April 2012		**39.7**	**99.4**	**36.0**	**195.5**	**–**	**370.6**
(Loss) profit for the year		**–**	**–**	**–**	**(35.3)**	**0.1**	**(35.2)**
Other comprehensive income:							
Exchange gain on translation of foreign subsidiaries		**–**	**–**	**5.4**	**–**	**–**	**5.4**
Fair value movement on cash flow hedges		**–**	**–**	**–**	**(13.8)**	**–**	**(13.8)**
Actuarial loss on defined benefit pension scheme	27	**–**	**–**	**–**	**(4.2)**	**–**	**(4.2)**
Tax in respect of other comprehensive income items	18	**–**	**–**	**–**	**3.9**	**–**	**3.9**
Total comprehensive income (loss) for the year		**–**	**–**	**5.4**	**(49.4)**	**0.1**	**(43.9)**
Share-based compensation	7	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Movement on tax arising on share-based compensation	18	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Proceeds from exercise of employee options	28	**–**	**0.4**	**–**	**–**	**–**	**0.4**
Dividends	10	**–**	**–**	**–**	**(13.7)**	**–**	**(13.7)**
Balance as at 31 March 2013		**39.7**	**99.8**	**41.4**	**132.7**	**0.1**	**313.7**
Balance at 1 April 2011		39.7	99.4	55.6	202.7	–	397.4
Profit for the year		–	–	–	25.7	–	25.7
Other comprehensive income:							
Exchange loss on translation of foreign subsidiaries		–	–	(19.6)	–	–	(19.6)
Fair value movement on cash flow hedges		–	–	–	(12.1)	–	(12.1)
Actuarial loss on defined benefit pension schemes	27	–	–	–	(14.5)	–	(14.5)
Tax in respect of other comprehensive income items	18	–	–	–	6.3	–	6.3
Total comprehensive (loss) income for the year		–	–	(19.6)	5.4	–	(14.2)
Share-based compensation	7	–	–	–	0.7	–	0.7
Dividends	10	–	–	–	(13.3)	–	(13.3)
Balance as at 31 March 2012		39.7	99.4	36.0	195.5	–	370.6

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

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

Company	Note	Called up share capital £m	Share premium £m	Restated* Retained earnings £m	Total equity £m
Balance at 1 April 2012		**39.7**	**123.4**	**61.8**	**224.9**
Profit for the year	12	**–**	**–**	**226.9**	**226.9**
Other comprehensive income:					
Fair value movement on cash flow hedges	16	**–**	**–**	**0.4**	**0.4**
Actuarial loss on defined benefit pension scheme	27	**–**	**–**	**(4.2)**	**(4.2)**
Tax in respect of other comprehensive income items		**–**	**–**	**0.7**	**0.7**
Total comprehensive income for the year		**–**	**–**	**223.8**	**223.8**
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	28	**–**	**0.4**	**–**	**0.4**
Dividends	10	**–**	**–**	**(13.7)**	**(13.7)**
Balance at 31 March 2013		**39.7**	**123.8**	**272.2**	**435.7**
Balance at 1 April 2011		39.7	123.4	63.9	227.0
Profit for the year	12	–	–	22.4	22.4
Other comprehensive income:					
Fair value movement on cash flow hedges		–	–	(1.3)	(1.3)
Actuarial loss on defined benefit pension schemes	27	–	–	(14.5)	(14.5)
Tax in respect of other comprehensive income items		–	–	3.9	3.9
Total comprehensive income for the year		–	–	10.5	10.5
Share-based compensation		–	–	0.7	0.7
Dividends	10	–	–	(13.3)	(13.3)
Balance as at 31 March 2012		39.7	123.4	61.8	224.9

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

The notes on pages 78 to 118 are an integral part of these consolidated financial statements.

Financials

Statements of Cash Flows

For the year ended 31 March 2013

	Note	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Cash flows from (used in) operating activities	30	**67.7**	109.9	**(1.2)**	12.4
Income tax received (paid)		**1.9**	(7.1)	**3.5**	4.1
Net cash generated from operating activities		**69.6**	102.8	**2.3**	16.5
Investing activities					
Purchases of intangible assets	13	**(1.7)**	(1.4)	**–**	(0.5)
Purchases of property, plant and equipment		**(53.1)**	(78.8)	**–**	–
Proceeds from exiting transport activities in Foronex in Belgium		**6.2**	–	**–**	–
Disposals of property, plant and equipment		**4.7**	5.4	**–**	–
Outflows in respect of PFI/PPP arrangements under the financial asset model		**(57.2)**	(13.5)	**–**	–
Capital received in respect of PFI/PPP financial assets		**4.2**	3.0	**–**	–
Finance income		**6.1**	4.0	**11.0**	7.0
Acquisition of subsidiary and other businesses		**–**	(4.1)	**–**	–
Payment of deferred consideration		**(13.2)**	(5.6)	**–**	–
Other unlisted investment purchase		**(1.7)**	–	**–**	–
Disposal of subsidiary and other businesses		**–**	1.0	**–**	–
Repayment of (increase in) loans granted to joint ventures	15	**2.5**	(0.4)	**–**	–
Net cash (used in) from investing activities		**(103.2)**	(90.4)	**11.0**	6.5
Financing activities					
Finance charges and loan fees paid		**(17.6)**	(17.4)	**(11.9)**	(17.8)
Return (deposit) of restricted funds	23	**5.6**	(5.6)	**–**	–
Proceeds from issuance of ordinary shares	28	**0.4**	–	**0.4**	–
Dividends paid	10	**(13.7)**	(13.3)	**(13.7)**	(13.3)
Proceeds from the issuance of senior notes		**–**	35.5	**–**	–
Repayment of senior notes		**–**	(15.9)	**–**	–
Proceeds from bank borrowings	30	**27.6**	–	**14.1**	24.0
Repayment of bank borrowings		**–**	–	**(8.5)**	(2.1)
Proceeds from PFI/PPP net debt	30	**55.6**	9.7	**–**	–
Repayment of PFI/PPP net debt	30	**(0.9)**	(0.7)	**–**	–
Repayments of obligations under finance leases	30	**(2.8)**	(3.8)	**–**	–
Net cash from (used in) financing activities		**54.2**	(11.5)	**(19.6)**	(9.2)
Net increase (decrease) in cash and cash equivalents		**20.6**	0.9	**(6.3)**	13.8
Effect of foreign exchange rate changes	30	**0.6**	(1.2)	**–**	–
Cash and cash equivalents at beginning of year		**54.2**	54.5	**25.6**	11.8
Cash and cash equivalents at end of year	23	**75.4**	54.2	**19.3**	25.6

The notes on pages 78 to 118 are an integral part of these consolidated financial statements.

Financials

Notes to the Financial Statements

1. Accounting policies – Group and Company

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. The address of the registered office is given on page 122. The nature of the Group's operations and its principal activities are set out in note 3.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are stated at fair value. The policies set out below have been consistently applied. The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2012, including the early adoption of IAS 19 (revised) Employee Benefits. The set of financial statements included in this Annual Report have been prepared on a going concern basis as the directors consider that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations 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.

Changes in presentation

The Group has changed the composition of reportable segments. This has been undertaken following the implementation of a new management structure which is aligned with the Group's core activities and to reflect the information provided to the chief operating decision maker in order to assess performance and to make decisions on allocating resources. As required under IFRS 8 Operating Segments, the Group has restated the corresponding items of segment information for earlier periods. The previous format is also included for information purposes.

Finance income is now included within Investing activities in the cash flow to be in line with IAS 7 Statement of Cash Flows.

Adoption of new and revised accounting standards and interpretations

The Group has adopted the following new standards, amendments to standards and interpretations for the first time for the Group's financial year beginning 1 April 2012:

Accounting Standard	Requirement	Impact on financial statements
Amendments to IFRS 7, Financial instruments: Disclosures	To promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.	The adoption of the amendment by the Group has had no material impact.
Amendment to IAS 19, Employee Benefits	The amendment eliminates the corridor approach and calculates finance costs on a net funding basis.	The Group has adopted this amendment early. The impact is to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. This has reduced the defined benefit income recognised in net finance charges in the Income Statement for the year ended 31 March 2012 by £1.5m and the related tax credit by £0.4m, with the corresponding adjustments in the Statement of Comprehensive Income. The effect has been to reduce basic, diluted and underlying earnings per share by 0.2 pence with no change in the balance sheet net deficit position. The Group did not previously apply the corridor approach therefore this amendment has had no impact.

Other new standards and amendments had no significant impact on the amounts reported in these financial statements.

New standards and interpretations not yet adopted

Standards and interpretations issued by the IASB are only applicable if endorsed by the European Union.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 11 Joint Arrangements is effective for accounting periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IFRS 9 Financial Instruments (2010) effective for annual periods beginning on or after 1 January 2015.
- IFRS 10 Consolidated Financial Statements effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IFRS 13 Fair Value Measurement effective for annual periods beginning on or after 1 January 2013.
- IAS 27 Separate Financial Statements (2011) effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IAS 28 Investments in Associates and Joint Ventures (2011) effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IAS 32 Financial Instruments: Presentation, on asset and liability offsetting for annual periods beginning on or after 1 January 2014.
- Amendment to IAS 1 Financial Statements Presentation, regarding Other Comprehensive Income effective for annual periods beginning on or after 1 July 2012.
- Amendment to IFRS 1 First Time Adoption of IFRS, on government loans effective for annual periods beginning on or after 1 January 2013.
- Amendment to IFRS 7 Financial Instruments: Disclosures, on asset and liability offsetting effective for annual periods beginning on or after 1 January 2013.
- Amendment to IFRSs 10, 11 and 12 on transition guidance effective for annual periods beginning on or after 1 January 2013.
- Amendment to IFRS 10, Consolidated Financial statements and IFRS 12 and IAS 27 for investment entities for annual periods beginning on 1 January 2014.
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine, effective for annual periods beginning on or after 1 January 2013.
- Annual improvements 2011, effective for annual periods beginning on or after 1 January 2013.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future accounting periods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Shanks Group plc and all its subsidiary undertakings (subsidiaries). Subsidiaries are entities which are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with those used by the Group.

Subsidiary companies set up under PFI/PPP contracts are fully consolidated by the Group, where there is a non-controlling interest this is identified separately from the Group’s equity.

Entities which are jointly controlled with another party or parties (joint ventures) are incorporated in the financial statements by proportional consolidation. A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost or, in the case of a disposal of the majority shareholding at fair value. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. An associate is an entity, other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of an entity but is not in control or joint control over those policies.

The results of subsidiaries and joint ventures acquired or sold during the year are included in the consolidated financial statements up to, or from, the date control passes. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where a Group company transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group’s interest in the relevant joint venture.

Investments

Equity investments in entities that are neither associates nor subsidiaries are held at cost, less any provision for impairment.

1. Accounting policies – Group and Company continued

Business combinations

The acquisitions of subsidiaries are accounted for using the purchase method. The cost of acquisition is measured as the fair value of assets transferred and liabilities incurred or assumed. Identifiable assets acquired and liabilities and contingent liabilities assumed, meeting the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date. The fair value of businesses acquired may include waste permits, licences and customer lists with the value calculated by discounting the future revenue stream attributable to these lists or relationships, these are recognised as intangible assets and amortised. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. The costs of acquisition are charged to the Income Statement in the period in which they are incurred.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the Company's balance sheet, less any provision for impairment in value.

Revenue recognition

Revenue

Revenue represents the fair value of consideration received or receivable, including landfill tax but excluding sales taxes, discounts and inter-company sales, for goods and services provided in the normal course of business. Revenue is recognised when processing occurs or when the goods and services have been provided to the customer.

Revenue from the sale of recyclate materials is recognised, based on contractually agreed prices, when the risks and rewards have passed to the buyer, can be reliably measured and recovery of consideration is probable.

Income from electricity generated from gas produced by processes at anaerobic digestion facilities and landfill sites and includes an estimation of the amount to be received.

Accrued income

Accrued income at the balance sheet date is recognised at the fair value based on contractually agreed prices. It is subsequently invoiced and accounted for as a trade receivable.

PFI/PPP contracts

The Group's PFI/PPP contracts are either integrated or residual waste management contracts. The contracts require the building of new infrastructure and all rights to the infrastructure pass to the Local Authority at the termination or expiry of the contract. The Group applies IFRIC 12 (Service Concession Arrangements) which specifies the accounting treatment applied by concession operators. Under IFRIC 12, the operator's rights over infrastructure operated under concession arrangements should be accounted for based on the control of the grantor (the local authority), over what services the operator must provide with the infrastructure, to whom it must provide them and at what price. Accordingly the Group applies the 'financial asset' model as it does not have the right to control the use of the public service infrastructure. The Group splits the local authority payment between a service element as revenue and a repayment element that is deducted from the financial asset. Interest receivable is added to the financial asset based on the rate implied in the contract payments. Reviews are undertaken regularly to ensure that the financial asset will be recovered over the contract life. Borrowing costs relating to contract specific external borrowings are expensed in the Income Statement.

Bid costs are expensed in the Income Statement until the Group is appointed preferred bidder and there is a high probability that a contract will be awarded. Bid costs incurred after this point are capitalised within trade and other receivables. When the contract is awarded, the costs are included in the relevant financial asset.

Win fees and other contract specific income are transferred to deferred income upon financial close and released to the Income Statement over the period of construction of the infrastructure.

Unprocessed waste

Where the obligation arising under the sales contract with the customer requires the Group to process waste received, revenue recognition is deferred until the waste has been processed. The deferred income relating to unprocessed waste is calculated at the higher of sales value or processing/disposal cost. Separately, the costs of disposing of waste are accrued at the point that all of the risks and rewards of ownership of the waste have passed to the Group, as the Group considers there to be an obligation arising to dispose of the waste at that point. Where there is a delay between the acceptance of waste and processing then profit may be recognised in advance of disposal costs such that costs are not recognised in advance of revenue in the Income Statement.

Government grants and subsidies

Capital related government grants are released to the Income Statement evenly over the expected useful lives of the related assets. Revenue grants and subsidies are credited in the same period as the items to which they relate.

Intangible assets

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition and is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to those cash generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination. Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. Any impairment is charged immediately to the Income Statement and is not reversed in a subsequent period.

Goodwill arising on acquisitions prior to the date of transition to IFRS (31 March 2004) has been retained at the previous UK GAAP net book value following impairment tests. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

Landfill void

Landfill void represents landfill operation acquisitions, landfill void was capitalised based on the fair value of the void acquired. This asset is amortised over its estimated useful life on a void usage basis and measured at cost less accumulated amortisation. The estimated remaining useful is 20 to 26 years.

Other intangibles

Other intangible assets are capitalised on the basis of the fair value of the assets acquired or on the basis of costs incurred to purchase and bring the assets into use, and are subsequently measured at cost less accumulated amortisation. These are amortised over the estimated useful life on a straight-line basis, as follows:

Computer software	1 to 5 years
Acquisition related intangibles:	
Waste permits and licences	5 to 20 years
Others including customer lists	5 to 10 years

Property, plant and equipment

Property, plant and equipment, except for freehold land and assets under construction, is stated at cost less accumulated depreciation and provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Freehold land and assets under construction are not depreciated.

As required under IAS 16 Property, plant and equipment, the Directors undertook a review of the residual value and the useful life of the Group's property, plant and equipment as at 31 March 2012. As a result of this review, the Group has revised upwards the estimated useful life of elements of plant and machinery with effect from 1 April 2012. As this is a change in accounting estimate the impact has been accounted for prospectively, the impact on the operating profit was £1.6m.

Buildings, plant and machinery

Depreciation is provided on these assets to write off their cost (less the expected residual value) on a straight-line basis over the expected useful economic lives as follows:

Buildings	Up to 30 years
Fixtures and fittings	10 years
Plant	5 to 10 years
Cars and service vehicles	5 to 10 years
Heavy goods vehicles	10 years
Computer equipment	3 to 5 years
Other items of plant and machinery	5 to 15 years

Landfill sites

Site development costs including engineering works and the discounted cost of final site restoration are capitalised. These costs are written off over the operational life of each site based on the amount of void space consumed.

Impairment of assets

Assets other than goodwill are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount is estimated to be less than the carrying amount the asset is reduced to the recoverable amount. An impairment loss is recognised immediately as an operating expense, and at each reporting date the impairment is reviewed for possible reversal.

Leased assets

Finance leases

Where the Group has substantially all the risks and rewards of ownership of a leased asset, the lease is treated as a finance lease. Leased assets are included in property, plant and equipment at the total of the capital elements of the payments during the lease term and the corresponding obligation is included in borrowings. Depreciation is provided to write down the assets over the shorter of the expected useful life and the lease term, unless there is reasonable certainty that the Group will obtain ownership of the asset by the end of the lease term in which case it is depreciated over its useful life.

Operating leases

All leases other than finance leases are treated as operating leases. Rentals paid under operating leases are charged to the Income Statement in the year to which they relate. The future aggregate minimum lease payments for operating leases are shown in note 32 to the accounts.

Inventories

Inventories are stated at the lower of cost and net realisable value and are measured on a first-in first-out basis.

1. Accounting policies – Group and Company continued

Provisions

Provisions are recognised where there is a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material the value of a provision is the present value of the expenditures expected to be required to settle the obligation. The unwinding of the discount to present value is included within finance costs.

The Group's policies on provisions for specific areas are:

Site restoration provision

Full provision is made for the net present value (NPV) of the Group's unavoidable costs in relation to restoration liabilities at its landfill sites and this value is capitalised and amortised over the useful life of the site. In addition the Group continues to provide for the NPV of intermediate restoration costs over the life of its landfill sites and mineral extraction sites, based on the quantity of waste deposited or mineral extracted in the year.

Aftercare provision

Provision is made for the NPV of post closure costs at the Group's landfill sites based on the quantity of waste deposited in the year. Similar costs incurred during the operating life of the sites are written off directly to the Income Statement and not charged to the provision.

Restructuring provision

Provision for restructuring costs is recognised when a detailed formal plan exists and those affected by that plan have a valid expectation that the restructuring will be carried out.

Employee benefits

Retirement benefits

The Group accounts for pensions and similar benefits under IAS 19 (revised) Employee Benefits. For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at market value. The operating and financing costs of the plans are recognised separately in the Income Statement and actuarial gains and losses are recognised in full through the Statement of Comprehensive Income. Interest cost and expected return on plan assets has been replaced with a net interest amount that is calculated by applying the discount rate to the net defined pension liability. Surpluses on defined benefit plans are recognised only to the extent that they are recoverable. Movements in irrecoverable surpluses are recognised immediately in the Statement of Comprehensive Income.

Payments to defined contribution schemes are charged to the Income Statement as they become due. The Group participates in several multi-employer schemes in the Netherlands and Belgium. These are accounted for as defined contribution plans as it is not possible to split the assets and liabilities of the schemes between participating companies, and the Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit.

Share-based payments

The Group issues equity-settled share-based awards to certain employees. The fair value of share-based awards is determined at the date of grant and expensed based on the Group's estimate of the shares that will eventually vest, on a straight-line basis over the vesting period with a corresponding increase in equity. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest, save for changes resulting from any market-related performance conditions.

Taxation

Current tax

Current tax is based on taxable profit (loss) for the year. Taxable profit differs from profit before tax in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The asset or liability for current tax is calculated using tax rates that have been enacted, or substantively enacted, at the balance sheet date.

Deferred tax

Deferred tax is recognised in full where the carrying value of assets and liabilities in the financial statements is different to the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that have been substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the Income Statement, except where it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority.

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Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling, which is the Group's presentational currency.

The results and financial position of all the Group entities that have a functional currency different from the presentational currency are translated into the presentational currency of the Group and Parent Company as follows:

- assets and liabilities at each balance sheet date are translated into sterling at the closing year end exchange rate;
- income and expenses in each Income Statement are translated at the average rate of exchange for the year; and
- the resulting exchange differences are recognised in the exchange reserve in other comprehensive income.

Cumulative exchange differences are recognised in the Income Statement in the year in which an overseas subsidiary undertaking is disposed of.

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

	Closing rates			Average rates		
Value of £1	**31 March 2013**	31 March 2012	Change	**31 March 2013**	31 March 2012	Change
Euro	**1.18**	1.20	(1.4)%	**1.23**	1.16	6.6%
Canadian Dollar	**1.54**	1.60	(3.4)%	**1.59**	1.59	0%

The Group applies the hedge accounting principles of IAS 39 Financial Instruments: Recognition and Measurement relating to net investment hedging to offset the exchange differences arising on foreign currency denominated borrowings with the translation of foreign operations. Net investment hedges are accounted for by recognising exchange rate movements in the exchange reserve, with any hedge ineffectiveness being charged to the Income Statement in the period the ineffectiveness arises.

Deferred consideration

Deferred consideration is provided for at the NPV of the Group's expected cost or receipt at the date of acquisition or disposal. The likelihood of payment or receipt for deferred consideration where conditional on meeting certain performance targets is considered on acquisition or disposal. For acquisitions after 1 April 2010, any differences between consideration accrued and consideration paid or received are charged or released to the Income Statement, before this date differences are adjusted through goodwill.

Financial instruments

Trade receivables

Trade receivables do not carry interest and are recognised initially at their fair value and are subsequently measured at amortised cost less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Subsequent recoveries of amounts previously written off are credited in the Income Statement.

Financial assets relating to PFI/PPP contracts

Financial assets relating to PFI/PPP contracts are classified as loans and receivables and are initially recognised at fair value of consideration paid and subsequently at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less. Where the Group has a legally enforceable right to offset with a financial institution, then bank overdrafts are offset against the cash balances.

External borrowings

Interest bearing loans, private placement notes and bonds are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the borrowings to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated initially at fair value and subsequently held at amortised cost.

1. Accounting policies – Group and Company continued

Derivative financial instruments and hedging activities

In accordance with its treasury policy, the Group only holds or issues derivative financial instruments to manage the Group's exposure to financial risk. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Such financial risk includes:

- interest risk on the Group's variable-rate borrowings;
- commodity risk in relation to diesel consumption and recyclate prices; and
- foreign exchange risk on transactions.

The Group manages these risks through a range of derivative financial instruments, including interest rate swaps, fuel derivatives and forward foreign exchange contracts.

The Group is exposed to the fair value of fixed rate borrowings in the event of early repayment. The Group has no plans to repay any fixed rate borrowings before the applicable maturity date and therefore does not make provision for the fair value of these borrowings in the accounts, which are prepared on a going concern basis.

Interest rate swaps entered into before 31 March 2009 are measured at fair value at each reporting date with gains or losses between period ends being taken to finance charges in the Income Statement. Interest rate swaps entered into after 31 March 2009 are considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines. At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The change in the fair value of the portion of the hedging instrument that is determined to be an effective hedge is recognised in equity and subsequently recycled to the Income Statement when the hedged cash flow impacts the Income Statement. The ineffective portion of the fair value of the hedging instrument is recognised immediately in the Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs at which point it is recognised in the Income Statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is recognised in the Income Statement immediately.

Details of the fair values of the derivative financial instruments used for hedging purposes are disclosed in note 16.

Other receivables and other payables

Other receivables and other payables are measured at amortised cost using the effective interest rate method.

Called up share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or share options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the net proceeds over the nominal value of any shares issued is credited to the share premium account.

Dividends

Dividend distributions to the equity holders are recognised in the period in which they are approved by the shareholders in general meeting. Interim dividends are recognised when paid.

Segmental reporting

The Group's segmental reporting reflects the management structure which is aligned with the core activities of the Group being Solid Waste Benelux, Solid Waste UK, Hazardous Waste, Organics and UK Municipal.

2. Key accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

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 exceptional items, financing fair value remeasurements and amortisation of acquisition intangibles, excluding landfill void and computer software. 'Trading profit' is defined as continuing operating profit before amortisation of acquisition intangibles and exceptional items. EBITDA comprises trading profit before depreciation, amortisation and profit or loss on disposal of property, plant and equipment. Reconciliations are set out in note 4.

Non-trading and exceptional items

Items classified as non-trading and exceptional are disclosed separately due to their size or incidence to enable a better understanding of performance. These include, but are not limited to, significant impairments, restructuring of the activities of an entity including employee severance costs, onerous contracts, significant provision releases and the profit or loss on disposal of properties.

Service concession arrangements under PFI/PPP contracts

Financial assets are recognised in accordance with IFRIC 12. They represent the present value of the future cash flows of the contract. These cash flows are dependent on, amongst other things, tonnages, indexation, recycling rates and labour costs.

The Group's PFI/PPP arrangements involve the construction of waste management facilities to be provided to local authorities. The building of the facilities is governed by the engineer, procure and construct contract entered into by the Group. The construction work is undertaken by third party contractors with draw downs of financing from the PFI/PPP funders used to pay the subcontractor for the construction works. Further to a detailed consideration of all relevant factors in the contractual arrangements between the parties, including performance and credit risk, the Group considers that during the construction phase of these contracts the Group acts as agent rather than principal. Accordingly the Group does not recognise revenue and costs for the construction gross in the Income Statement.

Impairment of intangible assets

In conducting the impairment review on goodwill and intangibles, management is required to make estimates of pre-tax discount rates, future profitability and growth rates. Detailed descriptions of assumptions and values are given in note 13.

Provisions

Restoration and aftercare provisions are recognised in the financial statements at the net present value of the estimated future expenditure required to settle the Group's restoration and aftercare provisions. A discount is applied to recognise the time value of money and is unwound over the life of the provision. Provisions also include the present value of the estimated operating losses on loss making onerous contracts. Further information is set out in note 26.

Retirement benefit scheme

The Group operates a defined benefit scheme for which an actuarial valuation is carried out as determined by the trustees at intervals of not more than three years. The pension cost under IAS 19 (revised) Employee Benefits is assessed in accordance with management's best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The principal assumptions in connection with the Group's retirement benefit scheme are set out in note 27.

Taxation

The Group operates in the Netherlands, Belgium, the UK and Canada, all of which have their own tax legislation. Deferred tax assets and liabilities are recognised at the current tax rate which may not be the tax rate at which they unwind. The Group has available tax losses, some of which have been recognised as a tax asset and some have not based on management's best estimate of the ability of the Group to utilise those losses. Further information is set out in note 18.

3. Segmental reporting

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

Following the implementation of a new management structure more closely aligned with the core activities of the Group, the operating segments have been restated as follows:

Solid Waste Benelux	The collection, recycling and treatment of non-hazardous waste in the Netherlands and Belgium. The other activities in Belgium include landfill disposal and power generation from landfill gas, industrial cleaning activities, wood trading activities and the operation of a sand quarry.
Solid Waste UK	The collection, recycling and treatment of non-hazardous waste in the UK.
Hazardous Waste	The reprocessing and recycling of contaminated soil, water and other contaminated materials. Industrial cleaning of heavily contaminated industrial plant.
Organics	The collection and treatment of food waste, garden waste and other organic materials.
UK Municipal	Long-term PFI/PPP contracts providing recycling and waste management services to local authorities in the UK.

The accounting policies of the reportable segments are the same as those described in note 1, except that the pension expense for the UK is recognised and measured on the basis of cash payments to the pension plan.

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.

The segment information following the new reportable segment format is as follows:

Revenue

	2013 £m	2012 £m
Netherlands Solid Waste	**188.3**	218.8
Belgium Solid Waste	**89.0**	97.9
Belgium Other	**68.5**	87.3
Intra-segment revenue	**(14.9)**	(16.2)
Solid Waste Benelux	**330.9**	387.8
Solid Waste UK	**59.8**	78.8
Hazardous Waste	**139.4**	149.6
Netherlands	**14.5**	15.8
Canada	**15.0**	15.1
Other Organics	**6.4**	3.5
Organics	**35.9**	34.4
UK Municipal	**110.9**	106.8
Inter-segment revenue	**(6.9)**	(7.3)
Total revenue	**670.0**	750.1
Group	**660.0**	737.2
Share of joint ventures	**10.0**	12.9
Total revenue	**670.0**	750.1

Results

	2013 £m	Restated* 2012 £m
Netherlands Solid Waste	**9.7**	17.1
Belgium Solid Waste	**6.9**	7.2
Belgium Other	**7.5**	9.6
Divisional central services	**(7.8)**	(7.7)
Solid Waste Benelux	**16.3**	26.2
Solid Waste UK	**(0.7)**	5.8
Divisional central services	**(2.5)**	(3.5)
Solid Waste UK	**(3.2)**	2.3
Hazardous Waste	**20.6**	22.8
Divisional central services	**(1.5)**	(1.6)
Hazardous Waste	**19.1**	21.2
Netherlands	**2.6**	2.9
Canada	**3.7**	3.9
Other Organics	**–**	(0.6)
Divisional central services	**(1.0)**	(1.0)
Organics	**5.3**	5.2
UK Municipal	**13.5**	10.8
Divisional central services	**(4.3)**	(5.7)
UK Municipal	**9.2**	5.1
Group central services	**(5.4)**	(6.6)
Total trading profit (before finance charges)	**41.3**	53.4
Non trading and exceptional items	**(61.9)**	(6.6)
Total operating (loss) profit	**(20.6)**	46.8
Group	**(20.8)**	48.4
Share of joint ventures	**0.2**	(1.6)
Total operating (loss) profit	**(20.6)**	46.8
Finance charges	**(21.3)**	(21.9)
Finance income	**6.3**	4.9
Income from associates	**0.3**	0.1
(Loss) profit before taxation	**(35.3)**	29.9

*The comparative finance income amount has been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

3. Segmental reporting continued

Net assets

31 March 2013	Operating Assets: Solid Waste Benelux £m	Solid Waste UK £m	Hazardous Waste £m	Organics £m	UK Municipal £m	Group central services £m	Tax, net debt and derivatives £m	**Total £m**
Gross non-current assets	**322.2**	**40.2**	**159.1**	**109.3**	**124.0**	**1.3**	**16.0**	**772.1**
Gross current assets	**77.2**	**15.1**	**37.1**	**10.1**	**29.7**	**0.9**	**77.2**	**247.3**
Gross liabilities	**(121.0)**	**(13.5)**	**(46.7)**	**(18.1)**	**(58.8)**	**(15.6)**	**(432.0)**	**(705.7)**
Net assets	**278.4**	**41.8**	**149.5**	**101.3**	**94.9**	**(13.4)**	**(338.8)**	**313.7**
31 March 2012								
Gross non-current assets	354.4	56.9	153.6	102.4	66.2	2.2	15.9	751.6
Gross current assets	85.4	17.6	32.9	8.0	25.0	1.9	62.8	233.6
Gross liabilities	(132.5)	(13.8)	(51.5)	(11.5)	(57.7)	(14.3)	(333.3)	(614.6)
Net assets	307.3	60.7	135.0	98.9	33.5	(10.2)	(254.6)	370.6

Other disclosures

31 March 2013	Solid Waste Benelux £m	Solid Waste UK £m	Hazardous Waste £m	Organics £m	UK Municipal £m	Group central services £m	**Total £m**
Capital expenditure:							
Property, plant and equipment	**23.4**	**2.7**	**10.2**	**16.7**	**0.1**	**–**	**53.1**
Intangible assets	**0.9**	**–**	**0.7**	**0.1**	**–**	**–**	**1.7**
Depreciation charge	**27.4**	**1.8**	**7.6**	**6.0**	**0.4**	**–**	**43.2**
Amortisation of intangibles	**3.5**	**1.1**	**0.1**	**0.7**	**–**	**0.2**	**5.6**
Impairment charge:							
Property, plant and equipment	**8.4**	**11.0**	**–**	**0.6**	**–**	**–**	**20.0**
Intangible assets	**16.3**	**3.1**	**–**	**–**	**–**	**–**	**19.4**
31 March 2012							
Capital expenditure:							
Property, plant and equipment	41.5	9.8	14.5	13.5	0.9	–	80.2
Intangible assets	0.5	0.4	–	–	–	0.5	1.4
Depreciation charge	33.5	2.8	8.9	5.3	–	–	50.5
Amortisation of intangibles	2.8	1.1	–	0.8	–	0.1	4.8
Impairment charge:							
Intangible assets	–	2.5	–	–	–	–	2.5

The reportable segments as prepared under the previous format of geography are as follows:

Revenue

	Netherlands 2013 £m	Netherlands 2012 £m	Belgium 2013 £m	Belgium 2012 £m	UK 2013 £m	UK 2012 £m	Canada 2013 £m	Canada 2012 £m	Total 2013 £m	Total 2012 £m
Solid Waste	**188.3**	218.8	**110.0**	127.5	**56.9**	64.8	**–**	–	**355.2**	411.1
Hazardous Waste	**139.4**	149.6	**40.5**	47.6	**0.3**	8.5	**–**	–	**180.2**	205.7
Organics	**14.5**	15.8	**–**	–	**3.0**	0.5	**15.0**	15.1	**32.5**	31.4
UK Municipal-PFI/PPP Contracts	**–**	–	**–**	–	**110.9**	106.8	**–**	–	**110.9**	106.8
Landfill and Power	**–**	–	**7.8**	10.2	**3.4**	5.8	**–**	–	**11.2**	16.0
Sand Quarry	**–**	–	**2.6**	2.9	**–**	–	**–**	–	**2.6**	2.9
Intra-segment revenue	**(3.6)**	(4.5)	**(14.9)**	(16.2)	**(0.8)**	(0.3)	**–**	–	**(19.3)**	(21.0)
	338.6	379.7	**146.0**	172.0	**173.7**	186.1	**15.0**	15.1	**673.3**	752.9
Inter-segment revenue									**(3.3)**	(2.8)
Total revenue									**670.0**	750.1
Group									**660.0**	737.2
Share of joint ventures									**10.0**	12.9
Total revenue									**670.0**	750.1

Results

	Netherlands 2013 £m	Netherlands 2012 £m	Belgium 2013 £m	Belgium 2012 £m	UK 2013 £m	UK 2012 £m	Canada 2013 £m	Canada 2012 £m	Total 2013 £m	Total Restated* 2012 £m
Solid Waste	**9.7**	17.1	**7.5**	7.9	**(0.7)**	4.2	**–**	–	**16.5**	29.2
Hazardous Waste	**20.6**	22.8	**2.6**	2.8	**0.1**	1.9	**–**	–	**23.3**	27.5
Organics	**1.6**	2.2	**–**	–	**–**	(0.5)	**3.7**	3.9	**5.3**	5.6
UK Municipal-PFI/PPP Contracts	**–**	–	**–**	–	**13.5**	10.8	**–**	–	**13.5**	10.8
Landfill and Power	**–**	–	**3.8**	5.4	**(0.1)**	(0.3)	**–**	–	**3.7**	5.1
Sand Quarry	**–**	–	**0.5**	0.6	**–**	–	**–**	–	**0.5**	0.6
PFI bid team	**–**	–	**–**	–	**(0.8)**	(1.5)	**–**	–	**(0.8)**	(1.5)
Country central services	**(4.0)**	(3.9)	**(5.3)**	(5.7)	**(6.0)**	(7.7)	**–**	–	**(15.3)**	(17.3)
	27.9	38.2	**9.1**	11.0	**6.0**	6.9	**3.7**	3.9	**46.7**	60.0
Group central services									**(5.4)**	(6.6)
Total trading profit (before finance charges)									**41.3**	53.4
Non-trading and exceptional items									**(61.9)**	(6.6)
Total operating (loss) profit									**(20.6)**	46.8
Group									**(20.8)**	48.4
Share of joint ventures									**0.2**	(1.6)
Total operating (loss) profit									**(20.6)**	46.8
Finance charges									**(21.3)**	(21.9)
Finance income									**6.3**	4.9
Income from associates									**0.3**	0.1
(Loss) profit before taxation									**(35.3)**	29.9

*The comparative finance income amount has been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

3. Segmental reporting continued

Net assets

	Operating assets						
31 March 2013	Netherlands £m	Belgium £m	UK £m	Canada £m	Group central services £m	Tax, net debt and derivatives £m	**Total £m**
Gross non-current assets	**468.8**	**65.2**	**186.5**	**34.3**	**1.3**	**16.0**	**772.1**
Gross current assets	**78.4**	**39.5**	**47.0**	**4.3**	**0.9**	**77.2**	**247.3**
Gross liabilities	**(101.5)**	**(70.7)**	**(83.7)**	**(2.2)**	**(15.6)**	**(432.0)**	**(705.7)**
Net assets	**445.7**	**34.0**	**149.8**	**36.4**	**(13.4)**	**(338.8)**	**313.7**
31 March 2012							
Gross non-current assets	479.8	80.7	139.4	33.6	2.2	15.9	751.6
Gross current assets	74.0	47.2	43.2	4.5	1.9	62.8	233.6
Gross liabilities	(121.2)	(68.2)	(75.6)	(2.0)	(14.3)	(333.3)	(614.6)
Net assets	432.6	59.7	107.0	36.1	(10.2)	(254.6)	370.6

Other disclosures

	Netherlands		**Belgium**		**UK**		**Canada**		**Group central services**		**Total**	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Capital expenditure:												
Property, plant and equipment	**29.9**	49.5	**8.2**	10.2	**13.5**	18.6	**1.5**	1.9	**–**	–	**53.1**	80.2
Intangible assets	**1.4**	0.4	**0.3**	0.1	**–**	0.4	**–**	–	**–**	0.5	**1.7**	1.4
Depreciation charge	**28.4**	31.9	**10.4**	13.9	**2.5**	2.8	**1.9**	1.9	**–**	–	**43.2**	50.5
Amortisation of intangibles	**3.9**	3.3	**0.3**	0.2	**1.1**	1.1	**0.1**	0.1	**0.2**	0.1	**5.6**	4.8
Impairment charge:												
Property, plant and equipment	**4.2**	–	**4.8**	–	**11.0**	–	**–**	–	**–**	–	**20.0**	–
Intangible assets	**11.0**	–	**5.3**	–	**3.1**	2.5	**–**	–	**–**	–	**19.4**	2.5

4. Reconciliation of non-trading and exceptional items

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

	Note	**2013 £m**	2012 £m
Amortisation of acquisition intangibles	13	**3.6**	3.7
Impairment of goodwill and acquisition intangibles	13	**19.4**	2.5
Restructuring charge		**12.5**	–
Impairment of property, plant and equipment	14	**20.0**	–
Provision for disposal of joint venture in UK landfill		**3.9**	–
Gain from exiting transport activities in Foronex in Belgium		**(1.4)**	–
Net litigation settlement in Hazardous Waste		**(6.0)**	–
Net onerous contract provision		**5.9**	–
UK unprocessed waste		**1.5**	–
Other exceptional items		**2.5**	–
Reassessment of contingent consideration		**–**	(1.6)
Write off of investment in a joint venture arrangement		**–**	2.0
Total non-trading and exceptional items in operating (loss) profit		**61.9**	6.6
Change in fair value of derivatives		**(0.1)**	0.8
Tax on non-trading and exceptional items		**(4.9)**	(0.3)
Exceptional tax		**(2.0)**	(5.2)
Total non-trading and exceptional items in (loss) profit after tax		**54.9**	1.9

Given the recent declines in trading activity across all Solid Waste businesses, an impairment charge of £19.4m has been recognised relating to certain Scottish recycling assets, a Belgian sorting centre and a landfill site and a loss-making ground works business in the Netherlands. The charge in the prior year of £2.5m related to changes in market conditions and volumes delivered to our small UK joint venture landfill.

A range of structural cost initiatives has been implemented which have resulted in £12.5m of restructuring charges in the year. The charge represents settlement costs for those employees already notified of redundancy together with associated costs.

As part of the structural cost programme, there has been an impairment of £20.0m of property, plant and equipment, reflecting in particular recycling assets in Scotland where there has been a change in market dynamics and facilities have been mothballed in the light of the operating conditions.

The charge also includes the write down of the Netherlands central offices to their recoverable value as they are no longer required given the new divisional organisation and the impairment of the Foronex biomass production facility.

The exit from our remaining UK landfill investment was completed on 21 April 2013 with the sale of our joint venture share in Caird Bardon Limited. The investment was written down and held as for sale at the end of March 2013 which resulted in a charge of £3.9m.

Following a decision to exit from the transport activity in Foronex, our Belgian biomass and wood trading subsidiary, trucks and property were sold to a third party which resulted in a gain of £1.4m.

Following the final settlement of outstanding legal cases in Hazardous Waste a net credit of £6.0m arose in the year.

A net onerous contract charge of £5.9m has arisen spread across both Belgium and the UK and relates to increased onerous contract provisions taken on a few long-term contracts offset by releases following reassessment of others.

The accounting for processing costs and liabilities relating to unprocessed waste held at certain facilities in the UK was not aligned with the policy in the rest of the Group and bringing this into line has led to a one off charge of £1.5m.

In the prior year £1.6m of contingent consideration was reassessed and settled in relation to a UK acquisition which took place in the year ended March 2011.

In the prior year the Group recognised a charge of £2.0m following the loss of control and subsequent impairment of the investment in a joint venture arrangement as a result of difficulties in the construction of a biomass plant and changes in market conditions.

The exceptional tax credit of £2.0m (2012: £5.2m) related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Trading profit to EBITDA	**2013 £m**	2012 £m
Trading profit (before finance charges)	**41.3**	53.4
Depreciation of property, plant and equipment	**43.2**	50.5
Amortisation of intangible assets (excluding acquisition intangibles)	**2.0**	1.1
Non-exceptional gains on property, plant and equipment	**(1.7)**	(2.5)
Non cash landfill related expense and provisioning	**–**	(0.1)
EBITDA	**84.8**	102.4

5. Operating profit (loss)

Profit (loss) for the year is stated after charging (crediting):

	Note	**2013 £m**	2012 £m
Staff costs	6	**172.1**	184.6
Depreciation of property, plant and equipment	14	**43.2**	50.5
Amortisation of intangible assets	13	**5.6**	4.8
Repairs and maintenance expenditure on property, plant and equipment		**37.4**	40.4
Net profit on disposal of property, plant and equipment		**(1.7)**	(2.5)
Non-trading and exceptional items	4	**61.9**	6.6
Trade receivables impairment	21	**2.4**	2.3
Government grants		**(0.1)**	(0.2)
Operating lease costs:			
– Minimum lease payments		**18.2**	19.6
– Less sub-lease rental income		**(0.3)**	(0.3)
		17.9	19.3
Remuneration of the Group's auditor, PricewaterhouseCoopers LLP and its associates:			
– Audit of parent company and consolidated accounts		**0.2**	0.2
– Audit of subsidiaries pursuant to legislation		**0.4**	0.4
Fees payable to the auditors pursuant to legislation		**0.6**	0.6
– Other taxation advisory services		**–**	0.1
– Other services		**0.1**	0.2
Total non-audit fees		**0.1**	0.3
Total fees		**0.7**	0.9

6. Employees

Staff costs and the average monthly number of employees analysed by reportable segment are shown below:

	Note	2013 £m	2012 £m
The total remuneration of all employees comprised:			
Wages and salaries		**134.3**	144.8
Social security costs		**26.1**	27.5
Share-based benefits	7	**0.5**	0.7
Retirement benefit costs	27	**11.2**	11.6
		172.1	184.6

	2013 Number	2012 Number
The average monthly number of people by reportable segment prepared under the revised format employed by the Group during the year was:		
Benelux Solid Waste	**2,359**	2,440
Solid Waste UK	**452**	468
Hazardous Waste	**745**	727
Organics	**85**	75
UK Municipal	**429**	368
Group central services	**16**	16
	4,086	4,094

7. Share-based payments

Group and Company

As described in the Remuneration Report, the Group issues equity-settled share-based payments under a Savings Related Share Option Scheme (SRSOS) and a Long Term Incentive Plan (LTIP). The Executive Share Option Scheme (ESOS) was discontinued in August 2005.

Outstanding options

	SRSOS		ESOS		LTIP
	Options Number	Weighted average exercise price pence	Options Number	Weighted average exercise price pence	Options Number
Outstanding at 31 March 2011	1,260,146	80p	159,827	110p	3,639,500
Granted during the year	271,320	92p	–	–	3,336,000
Forfeited during the year	(123,191)	79p	(62,925)	110p	(998,000)
Expired during the year	(65,858)	127p	–	–	(1,057,500)
Exercised during the year	(11,189)	72p	–	–	–
Outstanding at 31 March 2012	1,331,228	80p	96,902	110p	4,920,000
Granted during the year	808,589	73p	–	–	4,943,500
Forfeited during the year	(163,390)	80p	(18,877)	114p	(2,355,500)
Expired during the year	(110,155)	80p	–	–	–
Exercised during the year	(606,201)	71p	–	–	–
Outstanding at 31 March 2013	1,260,071	76p	78,025	109p	7,508,000
Exercisable at 31 March 2013	164,867	71p	78,025	109p	
Exercisable at 31 March 2012	71,474	141p	96,902	110p	
Weighted average share price at date of exercise		86p			
At 31 March 2013:					
Range of price per share		71p to 92p		91p to 114p	
Weighted average remaining contractual life		2–3 years		1–2 years	

Fair value of options granted during the year

	SRSOS		LTIP			
Valuation model	**2013 Black-Scholes**	2012 Black-Scholes	**2013 Discounted**	2012 Discounted	**2013 Monte Carlo**	2012 Monte Carlo
Weighted average fair value	**29p**	32p	**70p**	109p	**27p**	41p
Weighted average share price	**91p**	104p	**78p**	119p	**78p**	117p
Weighted average exercise price	**73p**	92p	**–**	–	**–**	–
Expected volatility	**46%**	45%	**–**	–	**46%**	46%
Expected life	**3 years**	3 years	**3 years**	3 years	**3 years**	3 years
Risk-free interest rate	**0.4%**	0.6%	**–**	–	**0.2%**	0.9%
Dividend yield	**3.6%**	3.0%	**3.5%**	3.0%	**3.5%**	3.0%

For the LTIP awards granted during the year, the fair value of the element subject to non-market conditions has been calculated using a discounted model based on the share price at the award date. For the EPS performance element of these LTIP awards, the expense recognised is based on expectations of these conditions being met and these are reassessed at each balance sheet date.

Expected volatility has been calculated using average volatility historical data over a five year period from the grant date. The risk-free interest rate is based on the implied yield of zero-coupon government bonds with a remaining term equal to the expected life. The expected life used in the models equals the vesting period as employees are expected to receive their vested shares on vesting or soon after vesting.

Charge for the year

The Group recognised a total charge of £0.5m (2012: £0.7m) relating to equity-settled share-based payments.

8. Net finance charges

	2013 £m	Restated* 2012 £m
Finance charges		
Interest payable on PFI/PPP non-recourse net debt	**5.1**	3.8
Interest payable on borrowings wholly repayable within five years	**10.2**	10.4
Interest payable on borrowings repayable after five years	**1.6**	1.7
Share of interest of joint ventures	**0.1**	0.1
Unwinding of discount on provisions (note 26)	**2.9**	3.2
Unwinding of discount on deferred consideration payable	**0.1**	0.5
Interest charge on the retirement pension scheme	**0.3**	–
Amortisation of loan fees	**1.0**	1.4
Total finance charges	**21.3**	21.1
Finance income		
Interest receivable on financial assets relating to PFI/PPP contracts	**(5.1)**	(3.1)
Unwinding of discount on deferred consideration receivable	**(0.2)**	(0.3)
Interest income on bank deposits	**(0.2)**	(0.2)
Interest receivable on other loans and receivables	**(0.7)**	(1.1)
Interest income on the retirement pension scheme	**–**	(0.2)
Total finance income	**(6.2)**	(4.9)
Change in fair value of derivatives at fair value through P&L	**(0.1)**	0.8
Net finance charges	**15.0**	17.0

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

9. Taxation

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

		2013 £m	Restated* 2012 £m
Current tax:	UK corporation tax		
	– Prior year	**–**	0.1
	Overseas tax		
	– Current year	**1.9**	4.1
	– Prior year	**(2.3)**	(0.8)
	Exceptional	**(2.0)**	(5.2)
Total current tax		**(2.4)**	(1.8)
Deferred tax (note 18)			
– Origination and reversal of temporary differences in the current year		**3.7**	5.6
– Adjustment in respect of prior year		**(1.4)**	0.4
Total deferred tax		**2.3**	6.0
Total tax (credit) charge for the year		**(0.1)**	4.2

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

The overseas tax credit of £2.3m in respect of the prior year included a £1.2m tax credit in relation to a tax deduction for the impairment of a loan to a joint venture following the loss of control and subsequent impairment of the net assets in the year ended 31 March 2012 and a £1.3m tax credit in respect of additional tax relief received for capital expenditure in the Netherlands.

The exceptional tax credit of £2.0m (2012: £5.2m) related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

The tax on the Group's (loss) profit for the year differs from the UK standard rate of tax of 24% (2012: 26%), as explained below:

	2013 £m	Restated* 2012 £m
Total (loss) profit before taxation	**(35.3)**	29.9
Tax (credit) charge based on UK tax rate of 24% (2012: 26%)	**(8.5)**	7.8
Effects of:		
Adjustment to tax charge in respect of prior years	**(3.7)**	(0.3)
Profits taxed at overseas tax rates	**(1.0)**	0.3
Non-taxable/non-deductible items	**0.2**	(1.0)
Non deductible impairments of goodwill	**4.7**	0.6
Non deductible impairment of property, plant and equipment	**2.9**	–
Non deductible provision for disposal of joint venture in landfill	**0.9**	–
Unrecognised tax losses	**5.7**	1.6
Change in tax rate	**0.7**	0.4
Exceptional	**(2.0)**	(5.2)
Total tax (credit) charge for the year	**(0.1)**	4.2

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (Employee Benefits), refer to note 1.

A reduction in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. The March 2013 budget statement also announced an intention to reduce the main rate of corporation tax to 21% (effective from 1 April 2014) and then 20% (effective from 1 April 2015). This will reduce the Group's future current tax charge accordingly. The UK deferred tax at 31 March 2013 has been calculated based on the rate of 23% which was substantively enacted at the balance sheet date.

10. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2012 of 2.35p per share (2011: 2.25p)	**9.3**	8.9
Interim dividend paid for the year ended 31 March 2013 of 1.1p per share (2012: 1.1p)	**4.4**	4.4
	13.7	13.3
Proposed final dividend for the year ended 31 March 2013 of 2.35p per share (2012: 2.35p)	**9.3**	9.3
Total dividend per share	**3.45p**	3.45p

11. Earnings per share

	2013	Restated* 2012
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**397.1m**	396.8m
Effect of share options in issue	**0.1m**	0.4m
Weighted average number of ordinary shares for diluted earnings per share	**397.2m**	397.2m
Calculation of basic (losses) earnings per share and underlying earnings per share		
(Losses) earnings for basic earnings per share being profit for the year attributable to owners of the parent (£m)	**(35.3)**	25.7
Non-trading and exceptional items (net of tax) (£m)	**56.9**	7.1
Exceptional tax credit (£m)	**(2.0)**	(5.2)
Earnings for underlying basic earnings per share attributable to owners of the parent (£m)	**19.6**	27.6
Basic (losses) earnings per share	**(8.9)p**	6.5p
Underlying earnings per share (see note below)	**5.0p**	7.0p
Calculation of diluted (losses) earnings per share and underlying diluted earnings per share		
(Losses) earnings for basic earnings per share being profit for the year attributable to owners of the parent (£m)	**(35.3)**	25.7
Effect of dilutive potential ordinary shares (£m)	**–**	–
(Losses) earnings for diluted earnings per share (£m)	**(35.3)**	25.7
Diluted (losses) earnings per share	**(8.9)p**	6.5p
Underlying diluted earnings per share	**5.0p**	7.0p

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

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

12. Profit of parent company

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement or Statement of Comprehensive Income. Shanks Group plc reported a profit for the year ended 31 March 2013 of £226.9m (2012: £22.4m restated as a result of the early adoption of IAS 19 (revised) Employee Benefits). The Company operates solely in the UK providing central services.

13. Intangible assets

Group	Goodwill £m	Landfill void £m	Computer software £m	Other acquisition related intangibles £m	Total £m
Cost					
At 31 March 2011	258.1	26.5	6.1	38.8	329.5
On acquisition of businesses	2.8	–	–	0.8	3.6
Additions	–	–	1.1	0.3	1.4
Reassessment of contingent consideration	(0.8)	–	–	–	(0.8)
Reclassification	–	(3.8)	(0.4)	4.2	–
Exchange	(13.8)	(1.3)	–	(1.8)	(16.9)
At 31 March 2012	246.3	21.4	6.8	42.3	316.8
Additions	–	–	1.5	0.2	1.7
Exchange	3.3	0.3	0.2	0.5	4.3
At 31 March 2013	**249.6**	**21.7**	**8.5**	**43.0**	**322.8**
Accumulated amortisation and impairment					
At 31 March 2011	12.1	7.0	5.1	15.7	39.9
Amortisation charge	–	0.7	0.4	3.7	4.8
Impairment charge	2.5	–	–	–	2.5
Reclassification	–	(0.9)	(0.3)	1.2	–
Exchange	(0.6)	(0.4)	–	(0.8)	(1.8)
At 31 March 2012	14.0	6.4	5.2	19.8	45.4
Amortisation charge	–	1.3	0.7	3.6	5.6
Impairment charge	18.9	–	–	0.5	19.4
Exchange	–	0.1	0.1	0.4	0.6
At 31 March 2013	**32.9**	**7.8**	**6.0**	**24.3**	**71.0**
Net book value					
At 31 March 2013	**216.7**	**13.9**	**2.5**	**18.7**	**251.8**
At 31 March 2012	232.3	15.0	1.6	22.5	271.4
At 31 March 2011	246.0	19.5	1.0	23.1	289.6

Of the total £5.6m (2012: £4.8m) amortisation charge for the year, £3.6m (2012: £3.7m) related to intangible assets arising on acquisition. Of the remaining amortisation expense of £2.0m (2012: £1.1m), £1.5m (2012: £1.0m) has been charged in cost of sales and £0.5m (2012: £0.1m) has been charged in administrative expenses.

Contingent consideration for the 2007 acquisition of Orgaworld in the Netherlands was reassessed in the prior year resulting in a decrease of £0.8m to goodwill. The final contingent consideration of £13.2m was paid in May 2012.

Goodwill impairment

Impairment testing is carried out at cash generating unit (CGU) level on an annual basis. The following is a summary of the goodwill allocation for each reporting segment:

	2013 £m	2012 £m
Solid Waste Benelux	**89.2**	103.5
Solid Waste UK	**7.5**	10.4
Hazardous Waste	**98.5**	97.1
Organics	**17.2**	17.0
UK Municipal	**4.3**	4.3
	216.7	232.3

A significant part of the goodwill, £137.9m (2012: £135.9m), relates to the acquisition of the original business in the Netherlands in 2000 which included both Solid Waste and Hazardous Waste businesses.

The Group estimates the recoverable amount of a CGU using a value in use model by projecting cash flows for the next five years together with a terminal value using a growth rate. The key assumption underpinning the recoverable amounts of the CGUs tested for impairment is forecast trading profit. The five year plans used in the impairment models are based on management's past experience and future expectations of performance and reflect the planned changes in the CGUs as a result of restructuring programmes and actions instigated in the current year together with limited recovery and improvement in general market and economic conditions. As most CGUs have integrated operations across large parts of the Group it is considered appropriate to apply the following rates consistently:

- pre-tax discount rate 9%-11% (2012: 10%-11%). This is derived from the Group's weighted average cost of capital of 7% (2012: 7%); and
- growth rate used in the annuity is 2% (2012: 2%). This does not exceed the long-term economic average growth of the territories that the Group operates in.

Impairment losses

The net impairment losses recognised in the consolidated Income Statement within exceptional administrative expenses, in respect of goodwill and intangibles were as follows:

	2013 £m	2012 £m
Solid Waste Benelux	**16.3**	–
Solid Waste UK	**3.1**	2.5
	19.4	2.5

Given the recent declines in trading activity across all Solid Waste businesses, a goodwill impairment charge of £18.9m has been recognised relating to certain Scottish recycling assets, a Belgian sorting centre and a landfill site and a loss-making ground works business in the Netherlands. In addition acquisition intangibles have been impaired of £0.3m in Benelux and £0.2m in the UK.

The residual goodwill in the impaired CGU in the Solid Waste UK segment is £6.8m and in the CGUs in the Solid Waste Benelux segment is £14.4m after impairing the goodwill to their recoverable amount in the year.

The carrying value of the goodwill of the Netherlands Solid Waste CGU was £72.6m and there was minimal headroom. As such, an impairment charge may arise if the economic market conditions or the availability of waste volumes for processing were to deteriorate or if the Group fails to realise the benefits of the restructuring programme already underway. For our Hazardous Waste, Organics and UK Municipal segments it is considered unlikely that any reasonable change to key assumptions would result in an impairment charge.

In the prior year changes in market conditions in the volumes delivered to and prices achieved in our small UK joint venture landfill site resulted in an impairment to the associated goodwill of £2.5m. No class of asset other than goodwill was impaired.

13. Intangible assets continued

Company	Computer software £m
Cost	
At 31 March 2011	0.4
Additions	0.5
At 31 March 2012 and 31 March 2013	**0.9**
Accumulated amortisation	
At 31 March 2011	–
Amortisation charge	0.1
At 31 March 2012	0.1
Amortisation charge	0.1
At 31 March 2013	**0.2**
Net book value	
At 31 March 2013	**0.7**
At 31 March 2012	0.8
At 31 March 2011	0.4

14. Property, plant and equipment

Group	Land and buildings £m	Landfill sites £m	Plant and machinery £m	Total £m
Cost				
At 31 March 2011	277.2	54.4	504.0	835.6
Acquired with acquisition of businesses	–	–	1.2	1.2
Additions	25.0	0.2	55.0	80.2
Disposals	(14.7)	–	(22.9)	(37.6)
Exchange	(14.5)	(2.4)	(28.3)	(45.2)
At 31 March 2012	273.0	52.2	509.0	834.2
Additions	13.5	–	39.6	53.1
Disposals	(5.8)	–	(20.1)	(25.9)
Transfer to assets held for sale (note 22)	(0.8)	(8.9)	(0.6)	(10.3)
Reclassifications	(2.3)	–	2.3	–
Exchange	4.7	0.6	7.1	12.4
At 31 March 2013	**282.3**	**43.9**	**537.3**	**863.5**
Accumulated depreciation and impairment				
At 31 March 2011	73.1	44.3	320.7	438.1
Depreciation charge	10.5	1.1	38.9	50.5
Disposals	–	–	(20.4)	(20.4)
Exchange	(4.1)	(2.2)	(18.6)	(24.9)
At 31 March 2012	79.5	43.2	320.6	443.3
Depreciation charge	9.4	0.9	32.9	43.2
Impairment charge	8.7	–	11.3	20.0
Disposals	(2.0)	–	(17.0)	(19.0)
Transfer to assets held for sale (note 22)	(0.8)	(5.0)	(0.4)	(6.2)
Exchange	1.5	0.5	4.9	6.9
At 31 March 2013	**96.3**	**39.6**	**352.3**	**488.2**
Net book value				
At 31 March 2013	**186.0**	**4.3**	**185.0**	**375.3**
At 31 March 2012	193.5	9.0	188.4	390.9
At 31 March 2011	204.1	10.1	183.3	397.5

Included in plant and machinery are assets held under finance leases with a net book value of £8.0m (2012: £8.1m).

Included above are plant and machinery assets under construction of £24.6m (2012: £24.8m) and land and buildings assets under construction of £16.5m (2012: £10.7m).

Depreciation expense of £41.2m (2012: £48.1m) has been charged in cost of sales and £2.0m (2012: £2.4m) in administrative expenses.

As part of the structural cost programme, there has been an impairment of £20.0m of property, plant and equipment, reflecting in particular recycling assets in Scotland where there has been a change in market dynamics and facilities have been mothballed in the light of the operating conditions. The charge also includes the write down of the Netherlands central offices to their recoverable value as they are no longer required given the new divisional organisation and the impairment of the Foronex biomass production facility. The impairment charge of £20.0m (2012: £nil) has been charged in cost of sales £4.1m and administrative expenses £15.9m.

No interest was capitalised in the year (2012: £0.1m).

Company	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 31 March 2011, 31 March 2012 and 31 March 2013	0.1	0.4	0.5
Accumulated depreciation			
At 31 March 2011 and 31 March 2012	–	0.3	0.3
Depreciation charge for the year	–	0.1	0.1
At 31 March 2013	–	0.4	0.4
Net book value			
At 31 March 2013	**0.1**	**–**	**0.1**
At 31 March 2011 and 31 March 2012	0.1	0.1	0.2

15. Investments

	Group				Company
	Loans to joint ventures £m	Associates £m	Other unlisted investments £m	Total £m	Investments in subsidiary undertakings £m
At 31 March 2011	5.0	0.5	1.6	7.1	469.6
Additions	0.4	0.9	–	1.3	–
Associate share of profit and loss	–	0.1	–	0.1	–
Impairment charge	(1.8)	–	–	(1.8)	–
At 31 March 2012	3.6	1.5	1.6	6.7	469.6
Additions	–	–	1.7	1.7	–
Repayment	(2.5)	–	–	(2.5)	–
Associate share of profit and loss	–	0.3	–	0.3	–
Impairment charge	–	(0.6)	–	(0.6)	(2.7)
At 31 March 2013	**1.1**	**1.2**	**3.3**	**5.6**	**466.9**

Details of principal subsidiary undertakings, joint ventures and investments in associates are shown in note 36 and form part of these financial statements.

The impairment of £0.6m relates to an associate with an onerous long-term contract.

In the previous year the investment in Valorbois SPRL had been reclassified from a joint venture due to the loss of joint control and was revalued to nil, on 8 November 2012 this investment was sold for no consideration.

The impairment charge in the Company of £2.7m arose following the decision to sell the investment in Caird Bardon Limited.

Joint ventures

In relation to the Group's interest in joint ventures, the assets, liabilities, income and expenses are shown below:

	2013 £m	2012 £m
Non-current assets	**7.6**	11.3
Current assets	**3.3**	7.9
Current liabilities	**(5.1)**	(11.6)
Non-current liabilities	**(4.4)**	(1.2)
Net assets	**1.4**	6.4
Income	**10.0**	12.9
Expenses	**(13.8)**	(14.5)
Loss before tax	**(3.8)**	(1.6)
Tax	**(0.2)**	0.2
Share of loss after tax for the year from joint ventures	**(4.0)**	(1.4)

The net assets of the joint venture Caird Bardon Limited were held for sale at 31 March 2013 and described in note 22.

15. Investments continued

Investment in associates

The gross amount of assets, liabilities, revenue and results of the subsidiaries of principal associates as presented in the latest publically available audited financial statements are as follows:

	Assets £m	Liabilities £m	Revenues £m	Profit (loss) £m
31 March 2011 (Local GAAP)				
ELWA Limited	99.8	(108.3)	49.5	(1.0)
Shanks Dumfries and Galloway Limited	29.5	(28.0)	8.7	0.5
	129.3	(136.3)	58.2	(0.5)
31 March 2012 (Local GAAP)				
ELWA Limited	96.4	(106.3)	48.5	(1.4)
Shanks Dumfries and Galloway Limited	30.0	(28.8)	9.2	(0.3)
	126.4	(135.1)	57.7	(1.7)

Investments in associates at 31 March 2013 include goodwill of £1.6m (2012: £1.6m).

The associates prepare their statutory information to 31 March each year under local GAAP, but prepare management information in both local GAAP and IFRS. Management information under IFRS has been used to calculate the contribution to profit in the year; ELWA Holdings Limited profit of £0.9m (2012: £0.4m) and Shanks Dumfries and Galloway Holdings Limited profit of £0.5m (2012: £0.3m).

16. Derivative financial instruments

	2013		2012	
Group	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps – at fair value through profit and loss	**–**	**0.7**	–	0.8
Interest rate swaps – effective hedges	**–**	**30.1**	–	16.4
Fuel derivatives – effective hedges	**–**	**–**	0.1	–
Total	**–**	**30.8**	0.1	17.2
Current	**–**	**–**	0.1	–
Non-current	**–**	**30.8**	–	17.2
Total	**–**	**30.8**	0.1	17.2

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than one year and as a current asset or liability when the remaining maturity is less than one year. The notional principal amount of the outstanding interest rate swap contracts at 31 March 2013 was £172.8m (2012: £126.6m). The expiry dates of the contracts range from 9 October 2014 (earliest) to 30 June 2037 (latest).

The carrying value of the outstanding forward foreign exchange contracts at 31 March 2013 was £nil (2012: £nil), the notional principal amount of these contracts was £17.8m (2012: £6.2m). The hedged highly probable forecast transactions denominated in a foreign currency are expected to occur at various dates up to 27 February 2015.

The Group had no fuel derivatives at 31 March 2013, the value of wholesale fuel covered by fuel derivatives at 31 March 2012 amounted to £0.6m.

Cumulative losses recognised in equity on the derivative financial instruments as of 31 March 2013 were £30.1m (2012: £16.3m), the amount recognised in the current period was £13.8m (2012: £12.1m).

The Company had non-current effective interest rate swap liabilities of £1.0m (2012: £1.5m) and in the prior year an effective fuel derivative asset of £0.1m. The notional principal amount of the outstanding interest rate swaps as at 31 March 2013 was £40.5m (2012: £39.3m).

17. Business combinations

There have been no business combinations during the year. For acquisitions completed in the year ended 31 March 2012 there have been no amendments to the provisional values disclosed last year.

18. Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using applicable local tax rates. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Group	Restated* Retirement benefit scheme £m	Tax losses £m	Derivative financial instruments £m	Capital allowances £m	Other timing differences £m	Restated* Total £m
At 31 March 2011	(1.3)	6.3	1.6	(29.1)	(13.6)	(36.1)
Transfers	–	–	–	–	7.0	7.0
(Charge) credit to Income Statement (note 9)	(0.5)	1.8	(0.2)	(5.9)	(1.2)	(6.0)
Credit to equity	3.5	–	2.8	–	–	6.3
Exchange	–	(0.1)	–	2.0	0.7	2.6
At 31 March 2012	1.7	8.0	4.2	(33.0)	(7.1)	(26.2)
(Charge) credit to Income Statement (note 9)	(0.6)	(4.7)	–	(3.5)	6.5	(2.3)
Credit (charge) to equity	0.9	–	3.0	–	(0.2)	3.7
Exchange	–	(0.1)	–	(0.6)	(0.1)	(0.8)
At 31 March 2013	**2.0**	**3.2**	**7.2**	**(37.1)**	**(0.9)**	**(25.6)**
Deferred tax assets	**2.0**	**1.3**	**7.2**	**3.0**	**2.5**	**16.0**
Deferred tax liabilities	**–**	**1.9**	**–**	**(40.1)**	**(3.4)**	**(41.6)**
At 31 March 2013	**2.0**	**3.2**	**7.2**	**(37.1)**	**(0.9)**	**(25.6)**
Deferred tax assets	1.7	6.9	4.2	2.0	1.1	15.9
Deferred tax liabilities	–	1.1	–	(35.0)	(8.2)	(42.1)
At 31 March 2012	1.7	8.0	4.2	(33.0)	(7.1)	(26.2)

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits refer to note 1.

At 31 March 2013, £16.0m (2012: £15.9m) of the deferred tax asset and £41.6m (2012: £42.1m) of the deferred tax liability is expected to be recovered after more than one year.

As at 31 March 2013 the Group had unused trading losses (tax effect) of £20.4m (2012: £19.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £3.2m (2012: £8.0m) of such losses. No deferred tax asset has been recognised in respect of the remaining £17.2m (2012: £11.5m) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

No liability has been recognised on the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries. This is because the Group is in a position to control the timing and method of the reversal of these differences and it is probable that such differences will not give rise to a tax liability in the foreseeable future. The temporary difference unrecognised at 31 March 2013 amounted to £146.5m (2012: £170.9m), the deferred tax on the unremitted earnings is estimated to be £0.5m (2012: £0.5m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Company	Restated* Retirement benefit schemes £m	Derivative financial instruments £m	Other timing differences £m	Restated* Total £m
At 31 March 2011	(1.3)	–	0.4	(0.9)
(Charge) credit to Income Statement	(0.5)	–	0.3	(0.2)
Credit to equity	3.5	0.4	–	3.9
At 31 March 2012	1.7	0.4	0.7	2.8
Charge to Income Statement	(0.6)	–	(0.1)	(0.7)
Credit (charge) to equity	0.9	(0.2)	(0.2)	0.5
At 31 March 2013	**2.0**	**0.2**	**0.4**	**2.6**

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

At 31 March 2013 £2.6m (2012: £2.8m) of the deferred tax asset is expected to be recovered after more than one year.

As at 31 March 2013, the Company has unused tax trading losses (tax effect) of £4.6m (2012: £6.6m) available for offset against future profits. No deferred tax asset has been recognised in respect of the losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

19. Inventories

	Group	
	2013 £m	2012 £m
Raw materials and consumables	**7.9**	7.8
Work in progress	**0.3**	0.2
Finished goods	**2.8**	2.5
	11.0	10.5

20. Financial assets relating to PFI/PPP contracts

Financial assets result from the application of IFRIC 12 on accounting for concession arrangements relating to the UK PFI/PPP Municipal contracts, they are measured initially at fair value of consideration paid and subsequently at amortised cost. The capitalised financial assets amounts have corresponding items in PFI/PPP non-recourse net debt. The movement in the carrying value of non-current and current financial assets follows:

Group	£m
At 1 April 2011	48.1
Income recognised in the Income Statement: Interest Income	3.1
Advances	20.5
Repayments	(5.9)
At 31 March 2012	65.8
Income recognised in the Income Statement: Interest Income	5.1
Advances	63.9
Repayments	(9.3)
At 31 March 2013	**125.5**
Current	**8.0**
Non-current	**117.5**
At 31 March 2013	**125.5**
Current	6.5
Non-current	59.3
At 31 March 2012	65.8

21. Trade and other receivables

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Non-current assets				
Deferred consideration	**2.2**	3.0	**–**	–
Other receivables	**3.7**	4.4	**–**	–
	5.9	7.4	**–**	–
Current assets				
Trade receivables	**103.2**	108.0	**–**	–
Provision for impairment of receivables	**(5.7)**	(5.3)	**–**	–
Trade receivables – net	**97.5**	102.7	**–**	–
Accrued income	**18.1**	21.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**295.9**	280.0
Deferred consideration	**1.7**	0.8	**–**	–
Other receivables	**13.7**	16.3	**0.8**	1.5
Prepayments	**16.8**	12.8	**0.1**	0.4
	147.8	153.8	**296.8**	281.9

Movement in the provision for impairment of receivables:

	Group	
	2013 £m	2012 £m
At 1 April	**5.3**	4.5
Charged to Income Statement	**2.4**	2.3
Utilised	**(2.1)**	(1.3)
Exchange	**0.1**	(0.2)
At 31 March	**5.7**	5.3

The allowance for bad and doubtful debts is equivalent to 5.5% (2012: 4.9%) of gross trade receivables.

Ageing of trade receivables that are past due but not impaired:

	Group	
	2013 £m	2012 £m
Neither impaired nor past due	**66.8**	62.1
Not impaired but overdue by less than three months	**28.9**	37.2
Not impaired but overdue by between three and six months	**0.7**	2.3
Not impaired but overdue by more than six months	**1.1**	1.1
Impaired	**5.7**	5.3
Impairment provision	**(5.7)**	(5.3)
	97.5	102.7

Past due and current amounts are not impaired where collection is considered likely. The Group considers that the carrying amount of trade and other receivables approximates their fair value.

There is no other concentration of credit risk with respect to trade and other receivables as the Group has a large number of customers internationally dispersed with no individual customer owing a significant amount.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Sterling	**38.5**	41.8	**130.7**	97.3
Euro	**111.1**	115.1	**164.7**	184.6
Canadian Dollar	**4.1**	4.3	**1.4**	–
	153.7	161.2	**296.8**	281.9

22. Assets classified as held for sale

	Group
	2013 £m
Assets classified as held for sale	**3.3**
Liabilities directly associated with assets classified as held for sale	**(3.3)**
	–

Assets and liabilities held for sale at 31 March 2013 reflect the assets and liabilities of the joint venture Caird Bardon Limited, along with the associated liabilities directly attributable to the disposal. This investment was sold on 21 April 2013.

23. Cash and cash equivalents

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash at bank and in hand	**34.6**	19.1	**1.5**	0.5
Short-term deposits	**40.8**	40.7	**17.8**	25.1
	75.4	59.8	**19.3**	25.6

Short-term deposits in the prior year included restricted funds of £5.6m, held in relation to a legal claim in the Netherlands, see note 33 for further details.

The carrying amounts of cash and of cash equivalents are denominated in the following currencies:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Sterling	**42.1**	11.9	**19.1**	8.9
Euro	**31.0**	45.6	**0.1**	16.2
Canadian Dollar	**2.3**	2.3	**0.1**	0.5
	75.4	59.8	**19.3**	25.6

23. Cash and cash equivalents continued

For the purposes of the cash flow statement cash and cash equivalents comprise:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Cash and cash equivalents as above	**75.4**	59.8	**19.3**	25.6
Less: deposits with a maturity of three months or more (restricted funds)	**–**	(5.6)	**–**	–
	75.4	54.2	**19.3**	25.6

24. Borrowings

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current borrowings				
Bank overdraft and short-term loans	**–**	–	**–**	8.5
Senior notes	**15.3**	–	**–**	–
Bank loans	**0.1**	–	**–**	–
Finance lease obligations	**2.8**	2.8	**–**	–
Core borrowings	**18.2**	2.8	**–**	8.5
PFI/PPP non-recourse net debt	**12.6**	9.4	**–**	–
	30.8	12.2	**–**	8.5
Non-current borrowings				
Senior notes	**33.6**	48.1	**–**	–
Retail bonds	**83.8**	82.4	**83.8**	82.4
Bank loans	**112.2**	82.6	**37.9**	23.8
Finance lease obligations	**4.9**	4.7	**–**	–
Core borrowings	**234.5**	217.8	**121.7**	106.2
PFI/PPP non-recourse net debt	**87.5**	36.0	**–**	–
	322.0	253.8	**121.7**	106.2

The table below details the maturity profile of non-current borrowings:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Between one and two years	**3.0**	20.1	**–**	–
Between two years and five years	**244.5**	169.4	**121.7**	106.2
Over five years	**74.5**	64.3	**–**	–
	322.0	253.8	**121.7**	106.2

At 31 March 2013, the Group's core/non-PFI bank financing was a €200m term loan and multicurrency revolving credit facility with six major banks entered into on 2 February 2011 and expiring in June 2015. At 31 March 2013, €67m (2012: €67m) equivalent of term loan was drawn in Euro and Canadian Dollars on a three month interest period plus €61m (2012: €33m) of the revolving credit facility. The remaining €72m (2012:€100m) represented committed funds available for drawing in Sterling, Euro or Canadian Dollars by way of a revolving credit facility on a maximum of three days' notice or for ancillary derivative facilities.

The senior notes issued under the Group's Pricoa private placement include €18m at a fixed interest rate of 6.98% with repayment due in September 2013 and €40m of seven year senior notes issued in April 2011 at a fixed interest rate of 5.025%.

The five year retail bonds of €100m, issued to Belgium and Luxembourg investors in October 2010 have an annual coupon of 5.0% and are quoted on the London Stock Exchange.

The Group's finance lease liabilities are payable as follows:

	2013			2012		
Group	**Minimum lease payments £m**	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Within one year	**3.2**	**(0.4)**	**2.8**	3.2	(0.4)	2.8
Between one and five years	**5.0**	**(0.3)**	**4.7**	5.2	(0.5)	4.7
More than five years	**0.3**	**(0.1)**	**0.2**	–	–	–
	8.5	**(0.8)**	**7.7**	8.4	(0.9)	7.5

The Group has an option to purchase leased assets at the end of the lease term. There are no restrictions imposed by lessors to take out further debt or leases.

The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Sterling	**155.6**	69.3	**37.9**	25.9
Euro	**165.0**	162.5	**83.8**	88.8
Canadian Dollar	**32.2**	34.2	**–**	–
	352.8	266.0	**121.7**	114.7

25. Trade and other payables and other non-current liabilities

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Current liabilities				
Trade payables	**91.7**	94.0	**0.1**	0.3
Other tax and social security payable	**18.7**	15.9	**0.2**	0.3
Other payables	**12.9**	10.3	**0.2**	0.2
Accruals and deferred income	**65.9**	68.1	**3.8**	3.2
Deferred consideration	**–**	13.0	**–**	–
Unprocessed waste	**13.0**	12.8	**–**	–
Amounts owed to group undertakings	**–**	–	**66.4**	–
	202.2	214.1	**70.7**	4.0
Non-current liabilities				
Other payables	**–**	3.3	**–**	–
Deferred consideration	**1.8**	1.7	**–**	–
Government grants	**0.5**	0.4	**–**	–
Amounts owed to group undertakings	**–**	–	**145.6**	430.3
	2.3	5.4	**145.6**	430.3

The carrying amounts of trade and other payables and other non-current liabilities are denominated in the following currencies:

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Sterling	**69.0**	63.5	**214.3**	155.6
Euro	**133.3**	154.1	**2.0**	278.7
Canadian Dollar	**2.2**	1.9	**–**	–
	204.5	219.5	**216.3**	434.3

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26. Provisions

Group	Site restoration and aftercare £m	Restructuring £m	Other £m	Total £m
At 31 March 2012	28.7	–	25.5	54.2
Provided in the year	0.1	10.6	10.6	21.3
Released in the year	–	–	(10.9)	(10.9)
Finance charges – unwinding of discount (note 8)	1.3	–	1.6	2.9
Utilised in the year	(0.1)	(6.2)	(4.9)	(11.2)
Transfer to assets held for sale (note 22)	(0.6)	–	–	(0.6)
Reclassified from accruals	–	–	0.6	0.6
Exchange	0.1	0.1	0.6	0.8
At 31 March 2013	**29.5**	**4.5**	**23.1**	**57.1**
Current	**0.1**	**4.2**	**14.1**	**18.4**
Non-current	**29.4**	**0.3**	**9.0**	**38.7**
At 31 March 2013	**29.5**	**4.5**	**23.1**	**57.1**
Current	0.1	–	4.3	4.4
Non-current	28.6	–	21.2	49.8
At 31 March 2012	28.7	–	25.5	54.2

Site restoration

The site restoration provision as at 31 March 2013 related to the cost of final capping and covering of the landfill sites. The Group's minimum unavoidable costs have been reassessed at the year end and the net present value fully provided for. These costs are expected to be paid over a period of up to 25 years from the balance sheet date and may be impacted by a number of factors including changes in legislation and technology.

Aftercare

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

Restructuring

The restructuring provision relates to redundancy and related costs incurred in the structural cost reduction programme which has been implemented in the year. Costs of £10.6m have been reflected and £6.2m has been utilised to date. As at 31 March 2013 the majority of the affected employees had left the Group's employment with the remainder due to depart during the first half of the new year.

Other

Other provisions principally cover onerous contracts, leases, warranties and indemnities. Onerous contracts are provided at the net present value of the operating losses of the onerous contracts. The provision is to be utilised over the period of the contracts to which they relate with the latest date being 2029. Under the terms of the agreements for the disposal of the UK landfill and power and other UK operations, the Company has given a number of warranties and indemnities to the purchasers which may give rise to payments.

Included within other provisions at 31 March 2012 was £8.7m (€10.5m) received following a court decision in respect of a claim for business interruption in the Netherlands that occurred in 2002. The court's decision has been confirmed during the year and the case has now been settled which has resulted in a release of the provision during the year.

Company	Restructuring £m	Other £m	Total £m
At 31 March 2012	–	2.0	2.0
Provided in the year	1.6	–	1.6
Utilised in the year	(0.3)	(0.8)	(1.1)
At 31 March 2013	**1.3**	**1.2**	**2.5**
Current	**1.0**	**1.2**	**2.2**
Non-current	**0.3**	**–**	**0.3**
At 31 March 2013	**1.3**	**1.2**	**2.5**
Current	–	2.0	2.0
Non-current	–	–	–
At 31 March 2012	–	2.0	2.0

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27. Retirement benefit scheme

Retirement benefit costs	Group 2013 £m	2012 £m
UK defined contribution scheme	**0.9**	0.9
UK funded defined benefit scheme	**0.5**	0.8
Overseas pension schemes	**9.8**	9.9
Total retirement benefit costs	**11.2**	11.6

UK defined benefit scheme

The Group and Company's principal pension scheme is the Shanks Group Pension Scheme which covers eligible UK employees and has both funded defined benefit and defined contribution sections. On 1 April 2012 the Lothian Chemical Company Limited Retirement and Death Benefits Plan was merged into the Shanks Group Pension Scheme.

The defined benefit plan provides benefits to members in the form of a guaranteed level of pension payable for life, the level of benefits provided depends on the members' length of service and salary. Plan assets are managed by the trustees. There are five trustees, three were appointed by the Company and two were nominated by members, who are responsible for ensuring the scheme is run in accordance with the members' best interests and the pension laws of the UK (which are overseen by The Pensions Regulator).

The most recently completed triennial actuarial valuation of the Scheme, which was performed by independent qualified actuaries for the trustees of the Scheme, was carried out as at 5 April 2012.

The Group has agreed that it will aim to eliminate the pension plan deficit over seven years, with an agreed deficit annual contribution of £3.0m. This level of funding will be reassessed as part of the 5 April 2015 actuarial valuation. The total estimated contributions expected to be paid to the scheme in the year ending 31 March 2014 are £3.5m.

Income statement

	2013 £m	Restated* 2012 £m
Current service cost	**0.5**	0.8
Interest expense on scheme net liabilities	**0.3**	(0.2)
Net retirement benefit charge before tax	**0.8**	0.6

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

Balance sheet

The amounts recognised in the balance sheet are as follows:

	2013 £m	2012 £m
Present value of funded obligations	**(142.4)**	(125.5)
Fair value of plan assets	**133.6**	117.9
Liability	**(8.8)**	(7.6)
Related deferred tax asset (note 18)	**2.0**	1.7
Net pension liability	**(6.8)**	(5.9)

27. Retirement benefit scheme continued

The movement in the net defined benefit obligation over the year is as follows:

	Present value of obligations £m	Fair Value of plan assets £m	Total £m
At 1 April 2011	(108.2)	113.1	4.9
Current service cost	(0.8)	–	(0.8)
Interest expense	(6.0)	–	(6.0)
Remeasurements:			
Actuarial loss on scheme liabilities arising from changes in financial assumptions	(13.9)	–	(13.9)
Actuarial loss on scheme liabilities arising from changes in experience	(0.1)	–	(0.1)
Return on plan assets excluding interest expense	–	5.6	5.6
Employers contributions	–	2.7	2.7
Plan participants contributions	(0.2)	0.2	–
Benefit payments	3.7	(3.7)	–
At 31 March 2012	(125.5)	117.9	(7.6)
Current service cost	(0.5)	–	(0.5)
Interest expense	(5.9)	–	(5.9)
Remeasurements:			
Actuarial loss on scheme liabilities arising from changes in financial assumptions	(10.5)	–	(10.5)
Actuarial loss on scheme liabilities arising from changes in demographic assumptions	(0.4)	–	(0.4)
Actuarial loss on scheme liabilities arising from changes in experience	(3.5)	–	(3.5)
Return on plan assets excluding interest expense	–	15.8	15.8
Employers contributions	–	3.8	3.8
Plan participants contributions	(0.2)	0.2	–
Benefit payments	4.1	(4.1)	–
At 31 March 2013	**(142.4)**	**133.6**	**(8.8)**

The weighted average duration of the defined benefit obligation is 19 years.

The assets held by the scheme were as follows:

	2013		2012	
	£m	**%**	£m	%
Equities	**47.8**	**35.8**	44.9	38.1
Fixed interest gilts	**–**	**–**	7.7	6.5
Index linked gilts	**28.7**	**21.5**	21.6	18.3
Corporate bonds	**27.5**	**20.6**	20.8	17.6
Newton Diversified Growth Fund	**29.4**	**22.0**	22.2	18.9
Cash	**0.2**	**0.1**	0.7	0.6
Total	**133.6**	**100.0**	117.9	100.0

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Statement of comprehensive income

	2013 £m	Restated* 2012 £m
Actuarial losses on scheme liabilities	**(14.4)**	(14.0)
Actuarial gains (losses) on scheme assets	**10.2**	(0.5)
Actuarial loss	**(4.2)**	(14.5)

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income since 1 April 2004 are losses of £16.7m (2012: £12.5m restated).

Assumptions

The significant actuarial assumptions adopted at the balance sheet date were as follows:

	2013 % p.a.	2012 % p.a.
Discount rate	**4.4**	4.8
Rate of price inflation	**3.5**	3.4
Consumer price inflation	**2.6**	2.4

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23 years if they are male and for a further 25 years if they are female. For a member who retires in 2033 at age 65 the assumptions are that they will live on average for around a further 24 years after retirement if they are male or for a further 27 years after retirement if they are female.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption %	**Increase in assumption £m**	**Decrease in assumption £m**
Discount rate	0.25	6.2	(6.8)
Rate of price inflation	0.25	(3.3)	3.3
Consumer price inflation	0.25	(3.3)	3.3

	Increase by 1 year in assumption £m	**Decrease by 1 year in assumption £m**
Life expectancy	(4.9)	4.6

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

Risks

Through its defined benefit pension scheme the Group is exposed to a number of risks, the most significant are detailed below:

Volatility

The Scheme liabilities are calculated using a discount rate set with reference to corporate bond yields and if plan assets underperform this yield, this will create a deficit. The Group's pension scheme holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The trustees have agreed an underlying strategy with the Company so that any ongoing improvements in the Scheme's funding position would trigger movements from growth assets (Equities and Diversified Growth) to non growth assets (Gilts and Bonds) in order to protect and consolidate such improvements. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Group does not use derivatives to manage the risks of the pension scheme.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the Scheme's bond holdings.

Inflation risk

The majority of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation).

Life expectancy

The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in the life of the member will result in an increase in the plans' liabilities.

Overseas

In the Netherlands, employees are members of either a multi-employer pension scheme or other similar externally funded schemes. These schemes are treated as defined contribution plans as it is not possible to separately identify the Group's share of the assets and liabilities of those schemes. The Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit. In Belgium, the Group operates small defined contribution schemes. The total cost in the year for overseas pensions was £9.8m (2012: £9.9m).

28. Called up share capital and share premium

Group	Number	Ordinary shares of 10p each £m	Share premium £m
Share capital allotted, called up and fully paid			
At 31 March 2011	396,846,023	39.7	99.4
Issued under share option schemes	11,189	–	–
At 31 March 2012	396,857,212	39.7	99.4
Issued under share option schemes	606,201	–	0.4
At 31 March 2013	**397,463,413**	**39.7**	**99.8**

During the year 606,201 (2012: 11,189) ordinary shares were allotted following the exercise of share based payments under the Savings Related Share Option Schemes for an aggregate consideration of £430,514 (2012: £8,076). Further disclosures relating to share-based payments are set out in note 7.

Company	Number	Ordinary shares of 10p each £m	Share premium £m
Share capital allotted, called up and fully paid			
At 31 March 2011	396,846,023	39.7	123.4
Issued under share option schemes	11,189	–	–
At 31 March 2012	396,857,212	39.7	123.4
Issued under share option schemes	606,201	–	0.4
At 31 March 2013	**397,463,413**	**39.7**	**123.8**

29. Financial instruments

Carrying value and fair value of financial assets and financial liabilities

		Group carrying value		Company carrying value	
Financial assets	Note	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Loans and receivables					
Financial assets relating to PFI/PPP contracts	20	**125.5**	65.8	**–**	–
Loans to joint ventures	15	**1.1**	3.6	**–**	–
Trade and other receivables	21	**136.9**	148.4	**296.7**	281.5
Cash and cash equivalents	23	**75.4**	59.8	**19.3**	25.6
Derivatives used for hedging					
Fuel derivatives	16	**–**	0.1	**–**	0.1
		338.9	277.7	**316.0**	307.2

The Group considers that the fair value of financial assets is not materially different to their carrying value.

		Group				Company			
		Carrying value		Fair value		Carrying value		Fair value	
Financial liabilities	Notes	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Bank overdrafts and short-term loans	24	**–**	–	**–**	–	**–**	8.5	**–**	8.5
Bank loans – core facility	24	**112.3**	82.6	**112.3**	82.6	**37.9**	23.8	**37.9**	23.8
Retail bonds	24	**83.8**	82.4	**87.5**	84.9	**83.8**	82.4	**87.5**	84.9
Senior notes	24	**48.9**	48.1	**53.3**	52.1	**–**	–	**–**	–
Finance lease obligations	24	**7.7**	7.5	**7.7**	7.5	**–**	–	**–**	–
Bank loans – PFI/PPP non-recourse net debt	24	**100.1**	45.4	**100.1**	45.4	**–**	–	**–**	–
Trade and other payables	25	**191.0**	206.3	**191.0**	206.3	**216.3**	434.3	**216.3**	434.3
Interest rate swaps	16	**0.7**	0.8	**0.7**	0.8	**–**	–	**–**	–
Derivatives used for hedging									
Interest rate swaps	16	**30.1**	16.4	**30.1**	16.4	**1.0**	1.5	**1.0**	1.5
		574.6	489.5	**582.7**	496.0	**339.0**	550.5	**342.7**	553.0

Fair value hierarchy

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;
- 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 fair value 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. They are considered to be level 2 in the fair value hierarchy. None of the changes in the fair value of interest rate swaps is attributable to changes in the Group's credit risk.

The Group considers that the fair value of bank overdrafts and loans, trade and other payables and finance lease obligations are not materially different to their carrying value.

During the year ended 31 March 2013, there were no transfers between level 1 and level 2 fair value measurements and no transfers into and out of level 3.

Risk management

The Group is exposed to market risk (interest rate risk and commodity price risk), foreign exchange risk, liquidity risk and credit risk. The Group's Treasury function is charged with managing and controlling risk relating to the financing and liquidity of the Group under policies approved by the Board of Directors. The Group does not enter into speculative transactions.

Interest rate risk

The Group has continued to limit its exposure to interest rate risk by entering into fixed rate retail bonds of €100m, fixed rate senior notes and further interest rate swaps that fix a substantial part of the Group's core borrowings.

The PFI/PPP non-recourse borrowings are at floating rates and the Group has entered into interest rate swaps at the inception of the PFI/PPP contract. The interest rate swaps hedge the interest cash flows. The interest rate swaps entered into after 31 March 2009 are accounted for under IAS 39 hedge accounting with changes in the fair value of interest rate swaps being recognised directly in reserves as they are effective hedges. All earlier outstanding interest rate swaps have not previously been allocated as hedges by the Group and are therefore classified as held for trading in accordance with IAS 39.

The interest rate swaps are presented in non-current liabilities as they are related to long-term borrowings and the Group believes this best reflects the commercial reality of the instruments. Changes in interest rates could have a significant impact on banking covenants relating to interest cover and on the interest charge in the Income Statement. In order to measure the risk, borrowings and the expected interest cost for the year are forecast on a quarterly basis and scenarios run using management's expectations of a reasonably possible change in interest rates. Interest expense volatility remained within acceptable limits throughout the year. The Group's exposure has not significantly changed.
The interest rate profile of financial assets and liabilities were as follows:

	2013			2012		
Group	**Floating rate £m**	**Fixed rate £m**	**Weighted average interest rate %**	Floating rate £m	Fixed rate £m	Weighted average interest rate %
Financial assets						
Financial assets relating to PFI/PPP contracts	**–**	**125.5**	**5.1**	–	69.0	5.7
Cash and cash equivalents	**34.6**	**–**	**0.3**	19.1	–	0.5
Short-term deposits	**40.8**	**–**	**1.0**	40.7	–	0.6
Financial liabilities						
Senior notes	**–**	**48.9**	**5.6**	–	48.1	5.6
Retail bonds	**–**	**83.8**	**5.0**	–	82.4	5.0
Bank loans – PFI/PPP non-recourse net debt	**100.1**	**–**	**3.2**	45.4	–	3.0
Bank loans – core borrowings	**112.3**	**–**	**2.3**	82.6	–	2.1
Interest rate swaps	**(172.8)**	**172.8**	**3.2**	(126.6)	126.6	3.8

The interest rate swaps weighted average interest rate is the fixed interest rate which ranges from 0.99% to 5.79% (2012: 1.23% to 5.79%).

Excluded from the analysis above is £7.7m (2012: £7.5m) of amounts payable under finance leases as set out in note 24, which are subject to fixed rates of interest. In addition, trade and other receivables and payables have been excluded as they are not interest bearing.

The average term for short-term deposits is no more than three months.

29. Financial instruments continued

Interest rate sensitivity (assuming all other variables remain constant):

	2013		2012	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
1% increase in interest rates				
Derivatives	**1.2**	**47.2**	0.9	15.4
Non-derivatives	**(1.3)**	**(1.3)**	(0.9)	(0.9)
	(0.1)	**45.9**	–	14.5
1% decrease in interest rates				
Derivatives	**(1.2)**	**(30.3)**	(0.9)	(17.7)
Non-derivatives	**1.3**	**1.3**	0.9	0.9
	0.1	**(29.0)**	–	(16.8)

A 1% movement has been applied to interest rates for the year ended 31 March 2013, representing management's assessment of a reasonably possible change in interest rates (2012: 1%). The interest rate sensitivity is taken to occur from 31 March 2012 and so the change in the fair value of the borrowings and interest rate derivatives is shown as an equity sensitivity which results in an increase of £45.9m (2012: £14.5m) for a 1% increase in interest rate and a decrease of £29.0m (2012: £16.8m) for a 1% decrease in rates.

For the Company, there were £17.8m short-term deposits (2012: £25.1m) at an effective interest rate of 0.4% (2012: 0.4%). The effective interest rate on the Company's cash and cash equivalents was nil% (2012: nil%). The weighted average effective interest rates relating to the Company were 2.5% (2012: 2.5%) for bank loans. Interest on inter-company loan balances is charged at rates of between 0% and 12% (2012: 0% and 12%).

Foreign exchange risk

The Group operates in Europe and Canada and is exposed to foreign exchange risk for movements between the Euro, Canadian Dollar and Sterling. The majority of the Group's subsidiaries conduct their business in their respective functional currencies; therefore there is limited transaction risk. The Group mitigates some foreign exchange risk on financial assets arising in the UK through the use of forward exchange contracts. Foreign exchange risk arises mainly from net investments in foreign operations. This exposure is reduced by funding the investments as far as possible with borrowings in the same currency. The Group applies hedge accounting principles to net investments in foreign operations and the related borrowings.

The Group has designated the carrying value of Euro borrowings of £83.8m (2012: £82.4m) (fair value of £87.5m (2012: £84.9m)) as a net investment hedge of the Group's investments denominated in Euros. The hedge was 100% effective for the year ended 31 March 2013 (2012: 100%) and as a result the related exchange loss of £1.2m (2012: £4.7m gain) on translation of the borrowings into Sterling has been recognised in the exchange reserve.

Foreign exchange rate sensitivity (assuming all other variables remain constant):

The table details how the Group's income and equity would increase if there were a 10% increase in the respective currency against sterling. A 10% decrease would have an equal and opposite effect. A 10% movement has been applied to each currency representing management's assessment of a reasonably possible change in foreign exchange currency rates (2012: 10%).

	2013		2012	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
10% increase in foreign exchange rates against Sterling				
Euro	**(0.2)**	**5.7**	3.7	8.6
Canadian Dollar	**(0.1)**	**0.2**	0.2	0.2
	(0.3)	**5.9**	3.9	8.8

Commodity price risk

Fuel price risk

The Group is exposed to fuel price risk therefore management's risk strategy aims to provide protection against sudden and significant increases in oil prices whilst ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price of fuel. It is expected that part of this risk can be off-set through customers paying fuel surcharges and recovery via escalation clauses linked to the price of fuel within contracts such as UK PFI/PPP.

To meet these objectives the fuel risk management programme allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits. There were no fuel derivatives in place at 31 March 2013. The value of wholesale fuel covered by derivatives at 31 March 2012 amounted to £0.6m these contracts were designated as cash flow hedges against highly probable future fuel purchase forecasts to occur over the following six months.

The following table demonstrates the sensitivity of a reasonably possible change in fuel prices, with all other variables held constant:

	2013 Income sensitivity £m	2012 Income sensitivity £m
30% increase in wholesale fuel price (excluding duty)	**4.5**	5.1
30% decrease in wholesale fuel price (excluding duty)	**(4.5)**	(5.1)

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due.

As well as term borrowings under a syndicated loan facility, the Group maintains uncommitted lending facilities with a range of banks for working capital purposes. The Group manages liquidity risk by monitoring forecast cash flows to ensure that facility draw-downs are arranged as necessary and an adequate level of headroom is maintained. The Group's exposure to and the way it manages liquidity risk has not changed from the previous year.

For more details of the Group's bank overdrafts, bank loans and senior notes see note 24.

Undrawn committed borrowing facilities:

	Core borrowings		PFI/PPP non-recourse net debt		Total Group	
Group	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Expiring within one year	**–**	–	**–**	–	**–**	–
Expiring between one and two years	**–**	–	**–**	–	**–**	–
Expiring in more than two years	**54.3**	75.1	**167.7**	102.8	**222.0**	177.9
	54.3	75.1	**167.7**	102.8	**222.0**	177.9

In addition, the Group had access to £28.4m (2012: £23.4m) of undrawn uncommitted working capital facilities.

As at 31 March 2013, the Company had undrawn committed borrowing facilities at floating rates of £52.4m (2012: £75.1m) expiring in more than two years.

The following table analyses the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings. The maturities of the undiscounted cash flows, including interest and principal, at the balance sheet date are based on the earliest date on which the Group is obliged to pay:

	Within one year £m	Between one and five years £m	Over five years £m
At 31 March 2013			
Senior notes	**17.5**	**6.8**	**34.7**
Retail bonds	**4.2**	**93.0**	**–**
Bank loans – core facility	**3.3**	**117.5**	**–**
Bank loans – PFI/PPP non-recourse net debt	**15.9**	**59.8**	**62.6**
Finance lease liabilities	**3.2**	**5.0**	**0.3**
Net settled derivative financial instruments	**5.2**	**24.4**	**63.5**
Trade and other payables	**189.2**	**1.8**	**–**
	238.5	**308.3**	**161.1**
At 31 March 2012			
Senior notes	2.7	22.8	35.8
Retail bonds	3.7	94.4	–
Bank loans – core facility	2.3	89.7	–
Bank loans – PFI/PPP non-recourse net debt	11.6	12.8	46.9
Finance lease liabilities	3.2	5.2	–
Net settled derivative financial instruments	3.7	9.8	18.1
Trade and other payables	204.6	1.7	–
	231.8	236.4	100.8

The Group manages the liquidity risk of derivatives by entering into these only by way of hedging existing and projected exposures with counterparties of approved credit ratings for the OTC trades with no margin calls.

In the majority of cases subsidiary undertakings holding PFI/PPP contracts are restricted in their ability to transfer funds to the parent in the form of cash dividends or to repay loans and advances. This is due to the terms of the financing facility agreements and require lender approval to make such transfers.

29. Financial instruments continued

Security of borrowing facilities

The Group's bank loans, retail bonds and senior notes are unsecured but are subject to cross guarantees within the Group. Each PFI/PPP company has loan facilities which are secured by a legal mortgage over any land and a fixed and floating charge over the assets of the PFI/PPP company.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Surplus cash, when not used to repay borrowings, is placed on deposit with banks and money market funds in accordance with a policy that specifies the minimum acceptable credit rating and the maximum exposure to each counterparty. At 31 March 2013 the amount of credit risk totalled £75.4m (2012: £59.8m).

Trade and other receivables mainly comprise amounts due from customers for services performed. Management consider that the exposure to any single customer is not significant and that where credit quality is in doubt, adequate provision has been made for probable losses. At 31 March 2013 the credit risk amounted to £153.7m (2012: £161.2m). The Group does not hold any collateral as security.

The financial assets relating to PFI/PPP contracts are recoverable from the future revenues relating to these contracts. Management consider that as the counterparties for the future revenues are UK local authorities or councils, there is minimal credit risk. At 31 March 2013, the credit risk was £125.5m (2012: £65.8m).

Credit risk on derivatives where the fair value is positive is closely monitored to ensure that it remains within the limits set for each counterparty. At 31 March 2013 the credit risk was £nil (2012: £0.1m).

Capital management

The Group has a funding strategy to ensure there is an appropriate debt to equity ratio as well as an appropriate debt maturity profile. The strategy is based on the requirements of the Company's Articles of Association, which state that debt should be limited to three times the level of capital and reserves, which is the equity attributable to the owners of the parent. The Group's funding strategy has not changed from the previous year.

The Group has to comply with a number of banking covenants which are set out in the agreements for bank loans and senior notes. There are financial covenants which are measured using the performance of the core Group, excluding PFI companies and joint ventures, and relate to interest cover, the ratio of debt to EBITDA and the net worth of the Group. There are other restrictions in the loan documentation concerning acquisitions, disposals, security and other issues. The Group has complied with its banking covenants during the year.

30. Notes to the statements of cash flows

	Group		Company	
	2013 £m	2012 £m	**2013 £m**	2012 £m
(Loss) profit before tax	**(35.3)**	29.9	**228.4**	18.6
Fair value (gain) loss on financial instruments	**(0.1)**	0.8	**–**	–
Finance costs net	**15.1**	16.2	**5.6**	10.9
Income from associates	**(0.3)**	(0.1)	**–**	–
Amortisation and impairment of intangible assets	**25.0**	7.3	**0.2**	0.1
Depreciation and impairment of property, plant and equipment	**63.2**	50.5	**–**	–
Impairment of investment	**0.6**	–	**2.7**	–
Exceptional gain from exiting transport activities in Foronex in Belgium	**(1.4)**	–	**–**	–
Exceptional provisions/write off of investment in a joint venture arrangement	**3.9**	2.0	**–**	–
Non-exceptional gain on disposal of property, plant and equipment	**(1.7)**	(2.5)	**–**	–
Exceptional gain on contingent consideration	**–**	(1.6)	**–**	–
Non cash exceptional	**0.5**	–	**–**	–
Exchange (loss) gain	**–**	–	**(26.8)**	1.6
Net (decrease) increase in provisions	**(0.1)**	(2.2)	**0.3**	(0.7)
Payments to fund defined benefit pension scheme deficit	**(3.1)**	(1.8)	**(3.1)**	(1.8)
Share-based compensation	**0.5**	0.7	**0.5**	0.7
Operating cash flows before movement in working capital	**66.8**	99.2	**207.8**	29.4
Increase in inventories	**(0.5)**	(0.8)	**–**	–
Decrease (increase) in receivables	**7.4**	14.3	**(6.6)**	(21.6)
(Decrease) increase in payables	**(6.0)**	(11.5)	**(202.4)**	4.6
Cash generated by (used in) operations	**67.7**	101.2	**(1.2)**	12.4
Receipt from business interruption claim in the Netherlands	**–**	8.7	**–**	–
Cash flows from (used in) operating activities	**67.7**	109.9	**(1.2)**	12.4

Consolidated movement in net debt

	2013 £m	2012 £m
Net increase in cash and cash equivalents	**20.6**	0.9
Net increase in borrowings and finance leases	**(79.5)**	(13.9)
(Release) deposit of restricted funds	**(5.6)**	5.6
Capitalisation of loan fees	**0.2**	–
Total cash flows in net debt	**(64.3)**	(7.4)
Finance leases entered into during the year	**(2.9)**	–
Amortisation of loan fees	**(1.0)**	(1.3)
Exchange (loss) gain	**(3.0)**	9.9
Movement in net debt	**(71.2)**	1.2
Net debt at beginning of year	**(206.2)**	(207.4)
Net debt at end of year	**(277.4)**	(206.2)

	At 1 April 2012 £m	Cash flows £m	Other non-cash changes £m	Exchange movements £m	**At 31 March 2013 £m**
Cash and cash equivalents	59.8	15.0	–	0.6	**75.4**
Bank loans	(82.6)	(27.6)	(0.5)	(1.6)	**(112.3)**
Senior notes	(48.1)	–	(0.1)	(0.7)	**(48.9)**
Retail bonds	(82.4)	0.2	(0.4)	(1.2)	**(83.8)**
Finance leases	(7.5)	2.8	(2.9)	(0.1)	**(7.7)**
Total core net debt	(160.8)	(9.6)	(3.9)	(3.0)	**(177.3)**
PFI/PPP non-recourse net debt	(45.4)	(54.7)	–	–	**(100.1)**
Total net debt	(206.2)	(64.3)	(3.9)	(3.0)	**(277.4)**

31. Capital commitments

Group	2013 £m	2012 £m
Contracts placed for future capital expenditure on financial assets	**111.5**	65.1
Contracts placed for future capital expenditure on property, plant and equipment	**7.3**	19.3

There were no capital commitments for joint ventures (2012: £nil).

32. Financial commitments

Group	2013 £m	2012 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**10.4**	10.6
Later than one year and less than five years	**25.6**	26.3
More than five years	**84.2**	72.4
	120.2	109.3
Future minimum lease payments expected to be received under non-cancellable sub-leases	**(0.4)**	(0.5)
	119.8	108.8

33. Contingent assets and liabilities

Group and Company

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

Under the terms of the sale agreement with Terra Firma for the disposal of the Group's landfill and power operations in 2004, the Group gave a number of indemnities and warranties relating to the disposed operations for which appropriate provisions are held.

At the start of the year the Group held a provision of £2.9m (€3.5m) relating to a claim from authorities for operating outside of permitted volumes in the period 1997 to 1999 at a location in the Netherlands. A decision that £6.0m (€7.1m) was payable was issued by the Court in 2012 and the Group has decided not to appeal this ruling and has recognised an exceptional charge of £3.2m (€3.6m) in the Income Statement in order to make full provision for the damages. The claim relates to the period prior to the acquisition of the Netherlands group of companies in 2000 and accordingly any settlement may be recoverable from the previous owners under the sale and purchase agreement. Any such recovery represents a contingent asset at 31 March 2013 and no receivable for a potential payment from the previous owners will be recorded until its receipt is virtually certain.

The Company and certain subsidiaries have, in the normal course of business, given guarantees and performance bonds relating to the Group's contracts totalling £197.6m (2012: £52.6m). In addition, the Company has contingent liabilities in respect of both VAT and HM Revenue & Customs group payment arrangements of £4.7m (2012: £0.2m).

The Company has given guarantees in respect of the Group's subsidiary and joint venture undertakings' borrowings totalling £129.8m (2012: £88.8m).

34. Related party transactions

Transactions between the Group and its associates

The Group had the following transactions and outstanding balances with associates, in the ordinary course of business:

	2013 £m	2012 £m
Sales	**43.4**	40.4
Management fees	**0.6**	0.5
Accounts receivable at 31 March	**5.8**	4.1

Remuneration of key management personnel

Key management personnel comprises the Board of Directors and the members of the Group's Executive Committee. The disclosures required by the Companies Act 2006 and those specified by the Financial Services Authority relating to Directors' remuneration (including retirement benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 63 to 67, and form part of these financial statements. The emoluments paid to key management personnel were:

	2013 £m	2012 £m
Short-term employee benefits	**3.5**	2.2
Retirement benefits	**0.2**	0.1
Share-based benefits	**0.3**	0.3
	4.0	2.6

Transactions between the Company and its subsidiaries

A list of the Company's principal subsidiaries is set out in note 36. Transactions with subsidiaries relate to interest on intercompany loans and management charges. Net interest income was £0.6m (2012: £5.5m expense) and management charges were £5.9m (2012: £3.8m). Total outstanding balances are listed in notes 21 and 25.

35. Post balance sheet events

On 21 April 2013 the Group sold its joint venture share in Caird Bardon Limited for a small consideration.

36. Subsidiary undertakings and joint ventures and associates at 31 March 2013

Subsidiary undertakings

The Company held, through wholly-owned subsidiaries, 100% of the issued share capital of the following principal trading subsidiaries (unless otherwise stated) all of which operate in the waste management sector and have been consolidated in the Group's financial statements.

	Country of incorporation
Principal Group subsidiary undertakings	
Shanks Nederland B.V.	Netherlands
Shanks B.V.	Netherlands
Icova B.V.	Netherlands
BV van Vliet Groep Milieu-dienstverleners	Netherlands
Vliko B.V.	Netherlands
Klok Containers B.V.	Netherlands
Smink Beheer B.V.	Netherlands
Transportbedrijf van Vliet B.V. (Contrans)	Netherlands
Afvalstoffen Terminal Moerdijk B.V. (ATM)	Netherlands
Reym B.V.	Netherlands
Orgaworld International B.V.	Netherlands
Orgaworld Nederland B.V.	Netherlands
Shanks s.a.	Belgium
Shanks Hainaut s.a.	Belgium
Shanks Liège-Luxembourg s.a.	Belgium
Shanks Brussels-Brabant s.a.	Belgium
Shanks Vlaanderen n.v.	Belgium
Foronex n.v.	Belgium
Shanks Waste Management Limited	UK
Shanks PFI Investments Limited	UK
Shanks Waste Operations Limited	UK
Orgaworld Canada Limited	Canada
Subsidiary undertakings holding PFI/PPP contracts	
Shanks Argyll & Bute Limited	UK
Shanks Cumbria Limited	UK
Resource Recovery Solutions (Derbyshire) Limited	UK
3SE (Barnsley, Doncaster and Rotherham) Limited (75%)	UK
Wakefield Waste PFI Limited	UK

Joint ventures and associates

The Company held, through wholly-owned subsidiaries, the following interests in material joint venture companies and associates, all of which operate in the waste management sector.

	% Group holding	Most recent year end	Country of incorporation
Caird Bardon Limited (note 21)	50%	31 December 2012	UK
Energen Biogas Limited	50%	31 March 2013	UK
ELWA Holdings Limited	20%	31 March 2013	UK
Shanks Dumfries and Galloway Holdings Limited	20%	31 March 2013	UK

Financials

Consolidated Five Year Financial Summary

As at 31 March 2013

	2013 £m	Restated* 2012 £m	2011 £m	2010 £m	2009 £m
Consolidated income statement					
Revenue	**670.0**	750.1	717.3	683.5	685.1
Trading profit from continuing operations[1]	**41.3**	53.4	49.7	51.1	61.7
Finance charges – interest	**(11.4)**	(11.4)	(8.2)	(12.1)	(14.9)
Finance charges – other	**(3.7)**	(4.8)	(6.3)	(5.8)	(2.9)
Income from associates	**0.3**	0.1	–	–	–
Profit from continuing operations before exceptional items and tax (underlying profit)	**26.5**	37.3	35.2	33.2	43.9
Non-trading and exceptional items	**(61.8)**	(7.4)	(14.0)	(13.6)	(14.6)
(Loss) profit before tax from continuing operations	**(35.3)**	29.9	21.2	19.6	29.3
Taxation	**(6.8)**	(9.7)	(9.3)	(6.7)	(7.8)
Exceptional tax and tax on exceptional items	**6.9**	5.5	10.0	5.2	(18.4)
(Loss) profit after tax from continuing operations	**(35.2)**	25.7	21.9	18.1	3.1
Profit after tax from discontinued operations	**–**	–	–	19.5	3.3
(Loss) profit for the year	**(35.2)**	25.7	21.9	37.6	6.4
(Loss) profit attributable to:					
– Owners of the parent	**(35.3)**	25.7	21.9	37.6	6.4
– Non-controlling interest	**0.1**	–	–	–	–
	(35.2)	25.7	21.9	37.6	6.4
Consolidated balance sheet					
Non-current assets	**772.1**	751.6	767.9	878.7	874.4
Other assets less liabilities	**(181.0)**	(174.8)	(163.1)	(173.8)	(166.1)
Net debt	**(277.4)**	(206.2)	(207.4)	(319.7)	(408.7)
Net assets	**313.7**	370.6	397.4	385.2	299.6
Equity attributable to owners of the parent					
Share capital and share premium	**139.5**	139.1	139.1	139.0	123.0
Reserves	**174.1**	231.5	258.3	246.2	176.6
	313.6	370.6	397.4	385.2	299.6
Non-controlling interest	**0.1**	–	–	–	–
Total equity	**313.7**	370.6	397.4	385.2	299.6
Financial ratios					
Underlying earnings per share	**5.0p**	7.0p	6.5p	6.5p	10.4p
Basic earnings per share	**(8.9)p**	6.5p	5.5p	4.8p	1.0p
Dividend per share	**3.45p**	3.45p	3.25p	3.0p	1.7p

*The comparative amounts have been restated as a result of the early adoption of IAS 19 (revised) Employee Benefits, refer to note 1.

[1] Trading profit from continuing operations is stated before exceptional items and amortisation of acquisition intangibles.

Other information

Shareholder information

Analysis of shareholders as at 31 March 2013

	Holders	%	Shares held	%
Private shareholders	2,506	66.5	12,538,894	3.2
Corporate shareholders	1,263	33.5	384,924,519	96.8
Total	3,769	100.0	397,463,413	100.0

Size of shareholding			Holders	%	Shares held	%
1	–	5,000	2,508	66.5	5,044,558	1.3
5,001	–	25,000	863	22.9	9,197,240	2.3
25,001	–	50,000	108	2.9	3,881,106	1.0
50,001	–	100,000	73	1.9	5,197,584	1.3
100,001	–	250,000	65	1.7	10,566,732	2.7
250,001	–	500,000	39	1.1	13,183,884	3.3
over 500,000			113	3.0	350,392,309	88.1
Total			3,769	100.0	397,463,413	100.0

Registrar services

Administrative enquiries concerning shareholdings in the Company should be made to the Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Computershare can also be contacted by telephone on 0870 707 1290. Shareholders can also manage their holding online by registering at www.investorcentre.co.uk.

Dividends

Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate form obtainable from Computershare. Tax vouchers are sent to the shareholder's registered address under this arrangement, unless requested otherwise. Shareholders are strongly encouraged to receive their cash dividends by direct transfer as this ensures dividends are credited promptly and efficiently.

Overseas shareholders wishing to receive their dividend payment in local currency can now do so using the Global Payments Service offered by our Registrars. The benefits include, automatic currency conversion into local currency, faster receipt of funds by being credited directly to your bank account and no risk of lost cheques. To action this service go to www.investorcentre.co.uk.

Share price information

On 31 March 2013, the middle market price of Shanks Group plc ordinary 10 pence shares was 78.5 pence per share, having varied during the year between a low of 75.8 pence and a high of 98.95 pence.

ShareGift

If shareholders have only a small number of shares whose value makes it uneconomic to sell, they may wish to consider donating them to the charity ShareGift (registered charity no. 1052686). Further information may be obtained from their website at www.sharegift.org or by calling 020 7930 3737.

Electronic shareholder communication

Shareholders may elect to receive future shareholder documents and information by email or via the Company's website. This is intended to help the environment by reducing paper and transport as well as enabling the Company to save on administration, printing and postage costs. Shareholders have the following options:

Option A. Receive email notification that documents and information are available on the website.

You may choose this option by registering your email address at www.etreeuk.com/shanksplc. (You will need your Shareholder Reference Number which can be found on either your Share Certificate or recent Dividend Certificate/Tax Voucher.) **If you choose this option, we will make a donation to the Woodland Trust.**

Option B. Receive all documents and information by post.

Option C. Receive notification by post that documents and information (including the Annual Report) are available on the website.

You may change your mind as to how you receive your shareholder information at any time by notifying Computershare. You may also request a hard copy of a particular document at any time from the Company.

Share fraud warning

In recent years many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turns out to be worthless, high risk or non-existent shares. They can be very persistent and extremely persuasive. Shareholders are advised to be very wary of any unsolicited investment advice, premium price offers for shares or offers of free company reports. While high profits are promised, those who buy and sell shares in this way usually lose their money.

If you are offered unsolicited investment advice it is recommended that you take the following steps before handing over any money:

- get the name of the person and organisation contacting you;
- check the Financial Conduct Authority Register (FCA) at www.fca.org.uk/firms/systems-reporting/register to ensure they are authorised;
- use the details on the FCA Register to contact the firm;
- call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are advised they are out of date;
- search the FCA list of unauthorised firms and individuals to avoid doing business with; and
- inform Computershare Registrars on 0870 707 1290.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REMEMBER: if it sounds too good to be true, it probably is!

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/scams where you can find out about the latest investment scams or call the Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Financial calendar

3 July 2013	Ex-dividend date for final 2013 dividend
5 July 2013	Record date for final 2013 dividend
25 July 2013	Annual General Meeting
2 August 2013	Payment of final 2013 dividend
November 2013	Announcement of interim results and dividend
31 March 2014	2014 financial year end
May 2014	Announcement of 2014 results and dividend recommendation

For updates to the calendar during the year, please visit the Shanks Group website www.shanksplc.com.

Other information

Company information

Principal Offices

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Dickson Minto W.S.

Financial Advisers

Greenhill & Co International LLP

Financial PR Advisers

College Hill

Corporate Brokers

Investec

Independent Auditors

PricewaterhouseCoopers LLP

Glossary

A&B	Argyll & Bute
AD	Anaerobic Digestion
AGM	Annual General Meeting
BDR	Barnsley, Doncaster and Rotherham
Benelux	The economic union of Belgium, The Netherlands and Luxembourg
C&D	Construction & Demolition
CGU	Cash Generating Unit
CHP	Combined Heat and Power
CR	Corporate Responsibility
D&G	Dumfries & Galloway
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ELWA	East London Waste Authority
EPS	Earnings Per Share
Free Cash Flow	Cash flow before dividends, growth capex, PFI funding, acquisitions, disposals, exceptional items and discontinued operations
Free Cash Flow Conversion	Underlying free cash flow divided by trading profit
HWRC	Household Waste Recycling Centre
I&C	Industrial & Commercial
IFRS	International Financial Reporting Standards
JV	Joint Venture
KPI	Key Performance Indicator
LTIP	Long Term Incentive Plan
MBT	Mechanical Biological Treatment
MRF	Material Recycling Facility
MWH	Megawatt Hours of energy generated
PBT	Profit Before Tax
PDR	Performance Development Review
PFI	Private Finance Initiative
PPP	Public Private Partnership
P&L	Profit and Loss
RDF	Refuse Derived Fuel
ROC	Renewable Obligations Certificate
SHE	Safety, Health & Environmental
SPV	Special Purpose Vehicle
SRF	Solid Recovered Fuel
SRSOS	Savings-Related Share Option Scheme
SSO	Source Segregated Organics
TAG	Tar and Asphalt
Trading Profit	Operating profit before the amortisation of acquisition intangibles, exceptional items and discontinued operations
TSR	Total Shareholder Return
UK GAAP	UK Generally Accepted Accounting Practice
WACC	Weighted Average Cost of Capital

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