Shanks Group plc
Annual Report & Accounts 2012

MAKING MORE FROM WASTE

Group highlights

Highlights

More information on our operations on **page 48**

More information on our corporate responsibility activities on **page 38**

Operational highlights

- Initial £100m strategic investment programme within target range – overall annualised post tax return of 12.2% for projects which are fully up and running
- Next phase £150m strategic investment programme on track
- The UK business delivered 6% revenue growth and UK Municipal PFI/PPP contracts achieved 10% trading margins up from 6.4% last year
- The Organics business across all our markets delivered 28% revenue growth and trading margins increased from 13% to 18%
- Another strong performance from our Dutch Hazardous Waste business with trading profit up 26% in the year

Financial highlights

- Robust performance in challenging trading conditions
- Underlying profit before tax up 8% at constant currency
- Management actions delivered £11m of cost savings to offset challenging market conditions in our Solid Waste businesses
- Strong cash generation with underlying free cash flow conversion at 81%
- Net debt to EBITDA ratio of 1.7 times versus our target of below 2.5 times and covenant of 3.0 times

Corporate responsibility highlights

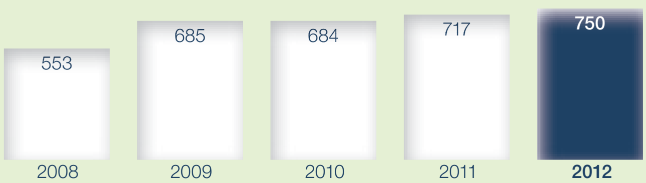
- Reportable accident rate improved by 13%
- Overall recycling and recovery rate up to 78% from 77% last year
- 1.28 million tonnes of carbon avoided
- Local neighbourhood complaints fell by 32%

Key facts and figures

More information on our financial results on **page 48**

Revenue £m

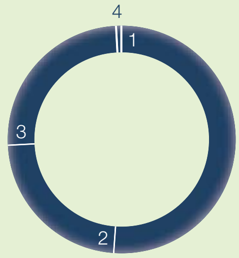
750.1m +3%



Percentage shown at constant currency

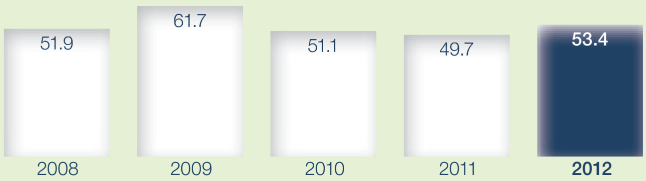
Revenue by country £m

1	Netherlands	380	50%
2	Belgium	172	23%
3	UK	186	25%
4	Canada	15	2%



Trading profit £m

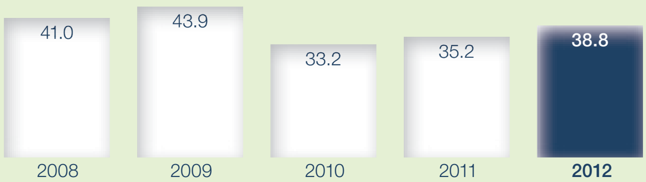
53.4m +6%



Percentage shown at constant currency

Underlying PBT £m

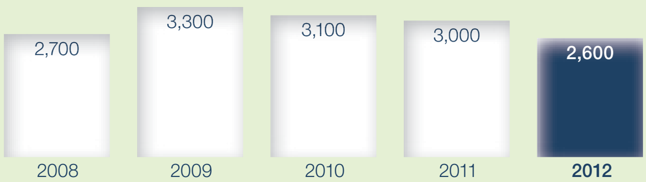
38.8m +8%



Percentage shown at constant currency

RIDDOR accident rate (per 100,000 employees) KPI

2,600 ↓13%



Tonnes of carbon avoided KPI

1.28m

Tonnes of waste handled

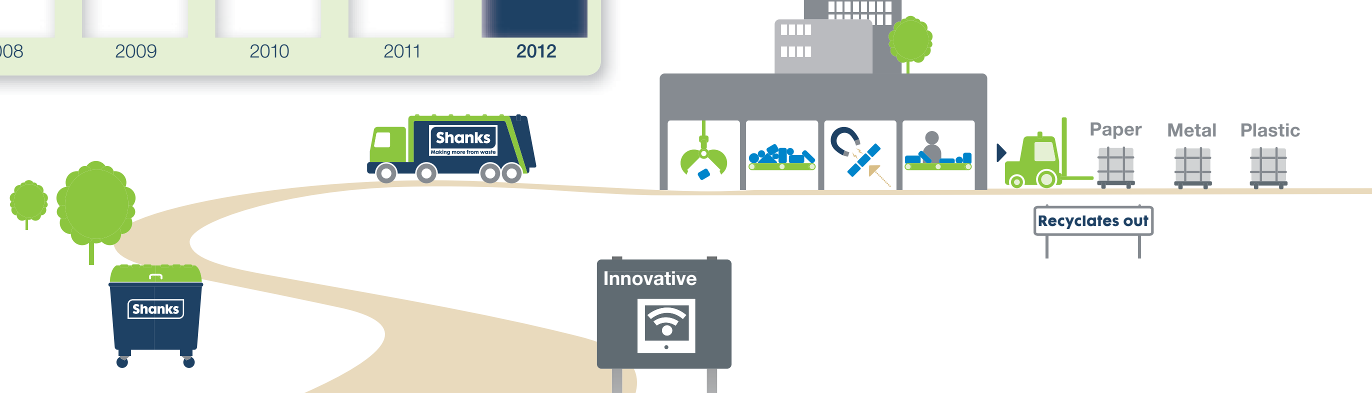
7.9m

Recycling and recovery rate KPI

78%

Dividend per share

3.45p



Contents

Cover image

New Westcott Park AD plant under construction in the UK.

MAKING MORE FROM WASTE

Shanks is a leading international sustainable waste management business.

The driving forces behind our industry are climate change, fossil fuel dependency and society's need to manage waste without damaging the environment.

Shanks Group uses sustainable and cost-effective technologies to make valuable products from what is thrown away. We produce green energy, recovered fuel, recycled commodities and organic fertiliser, while generating favourable returns for our shareholders.

With over 4,000 employees and operations in the Netherlands, Belgium, UK and Canada, Shanks is at the forefront in providing sustainable waste management solutions for both the private and public sector.

More information can be found at: **www.shanksplc.com**

1

About Shanks

Our vision and our strategy

Shanks has a clear, aspirational and achievable 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 is a simple one: to create value by making products from material that is otherwise thrown away.

Our four strategic priorities to deliver this are:

1 Invest in **new sustainable opportunities** that build on our core capabilities and generate attractive returns

Read more on **page 15**

2 Deliver **outstanding operational performance** from existing businesses and investments

Read more on **page 15**

3 Develop world-class **capabilities and technologies** in a cohesive Group culture

Read more on **page 16**

4 Actively **manage Shanks' portfolio and use bolt-on acquisitions** to accelerate profitable growth

Read more on **page 17**

About Shanks

Our business at a glance

Our role in the waste management cycle

Our core activities

Collect → **Sort** → **Produce** → **Dispose**

Collect	Sort	Produce	Dispose
Collect and deliver to waste management facilities	Sort waste into specific recyclates and streams for further treatment	Produce valuable products from segregated waste streams	Dispose of waste through incineration or landfill
Shanks activity where needed to secure volume	Shanks Making more from waste		Shanks activity when required for non-recyclable output

Our core activities

We organise the business under the following segments:

Activities

Solid Waste
Revenue £411m

Sorting and reprocessing of mainly commercial, industrial and construction related waste

Hazardous Waste
Revenue £206m

Reprocessing and recycling of contaminated soil, water and other contaminated materials

Organics
Revenue £31m

Reprocessing of organic waste from municipal and industrial sectors

UK Municipal
Revenue £107m

Sorting and reprocessing of municipal solid waste under long-term agreements

Sorting and Production

Products

- Green energy
- Recovered fuel
- Recycled commodities
- Fertiliser, soil and aggregates

In addition we have Landfill & Power and Sand Quarry activities.

About Shanks

Our business at a glance

We operate in four primary markets

Each market has specific characteristics that allow us to maximise returns and increase market share.

1. Solid Waste

Solid Waste is the collection, transfer, 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. I&C represents general commercial waste where contracts are generally short term. The C&D market is more cyclical in nature and is also typified by shorter term contracts. Municipal represents short or medium-term contracts for the collection and treatment of household waste. Many elements of the waste can be recycled and re-used.

Percentage of total Group revenue

53%

Percentage of total Group trading profit

37%

2. Hazardous Waste

The Hazardous Waste market focuses on the processing and final disposal of lightly contaminated materials including the thermal treatment of soils, the biological and physio-chemical treatment of waste water and the pyrolysis of paint waste. We also supply industrial cleaning services to the oil and gas and petrochemical industries.

Percentage of total Group revenue

27%

Percentage of total Group trading profit

35%

3. Organics

The Organics market includes source segregated streams from both the industrial and municipal sectors with both shorter term and longer term contracts. Through specialist processing, biogas is produced from the natural biological activity. The biogas is then used to produce electricity which is then transferred directly into the local grid. We also use composting techniques to produce a quality pathogen free soil enhancer or fertiliser. Organic processing is one of the fastest growing segments within the waste sector.

Percentage of total Group revenue

4%

Percentage of total Group trading profit

7%

4. UK Municipal

The UK Municipal market represents the provision of waste disposal services to local authorities in the UK. We treat it separately from the rest of the municipal markets referred to in the solid waste section above because of the nature of the contracts. They are 25 year Private Finance Initiative (PFI) or Public Private Partnership (PPP) arrangements where we have an operating contract to treat the municipal waste delivered to the recycling facilities. This market is driven by the need to reduce substantially the amount of UK waste going to landfill as set out in the EU Landfill Directive.

Percentage of total Group revenue

14%

Percentage of total Group trading profit

14%

Read more about our markets on **pages 22 to 24**

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

and four geographic regions

The Group is a major player in the Netherlands and Belgium, where the markets are mature with some of the highest recycling rates globally. The UK and Canada are key growth areas as legislation drives increases in recycling and landfill diversion.

Netherlands

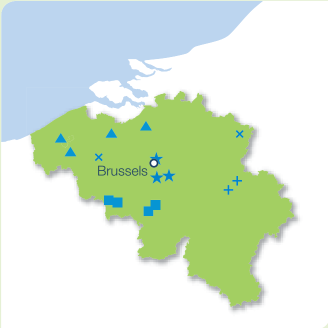
– Solid Waste
– Hazardous Waste
– Organics

▲ Reym
● Vilko
◊ ICOVA
■ Smink Groep
‡ Van Vliet Contrans
+ Van Vliet Group
★ ATM
✕ Orgaworld
⬢ KLOK Containers

Total country revenue for the year	Percentage of total Group revenue
£380m	50%

Belgium

– Solid Waste
– Hazardous Waste



■ Hainaut
★ Brussels-Brabant
▲ Viaanderen
+ Liège-Luxembourg
✕ Foronex

Total country revenue for the year	Percentage of total Group revenue
£172m	23%

UK

– Solid Waste
– Hazardous Waste
– Organics
– UK Municipal

▲ Recycling centre
● PFI
★ Organics

Total country revenue for the year	Percentage of total Group revenue
£186m	25%

Canada

– Organics

● London, Ontario
★ Ottawa

Total country revenue for the year	Percentage of total Group revenue
£15m	2%

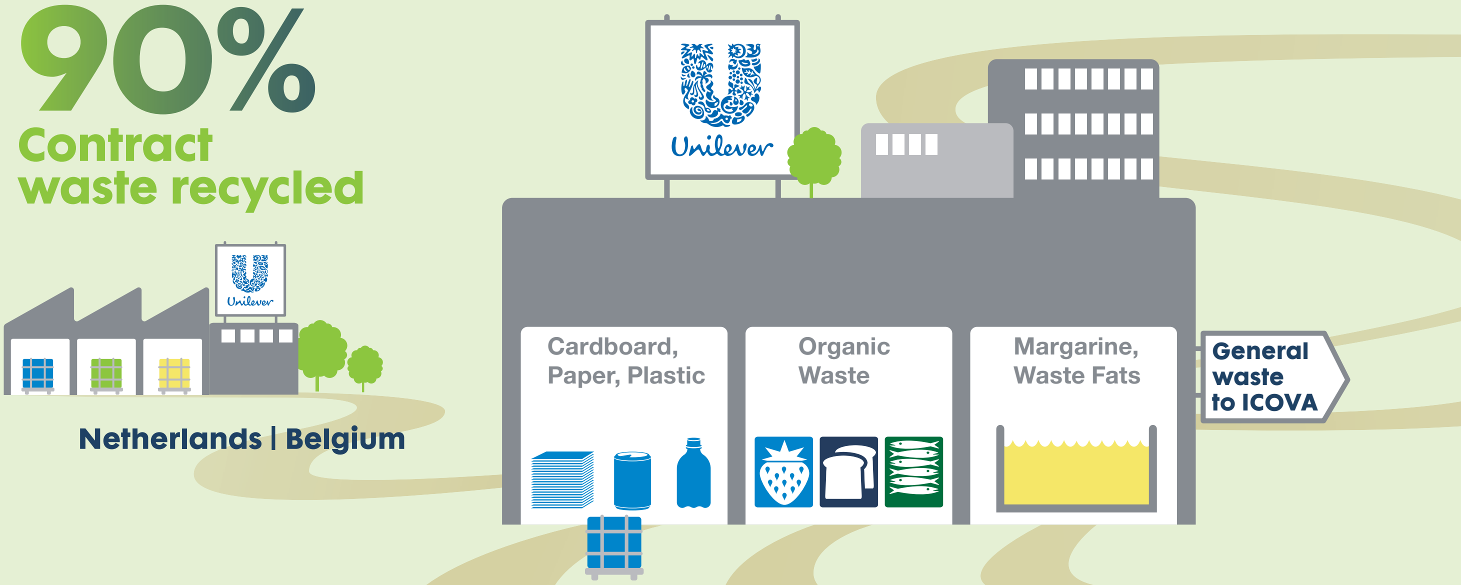
Read more about our performance by region on pages 48 to 65

In addition we have Landfill & Power and Sand Quarry activities.

MAKING MORE **FROM WASTE**

Building on our Benelux commercial success with Unilever

Unilever, one of the world's leading suppliers of foods and home and personal care products recognises recycling as a core part of their business strategy. The contract commenced on 1 April 2011, awarding Shanks our first major European waste management contract. We now manage waste for Unilever across the Netherlands and Belgium.



"This landmark contract demonstrates our ability to deliver a total waste solution to major international companies. Our strategy to provide sustainable solutions means we can bring real value to our customers across the waste management cycle."

Michaël van Hulst
Managing Director, Shanks Netherlands

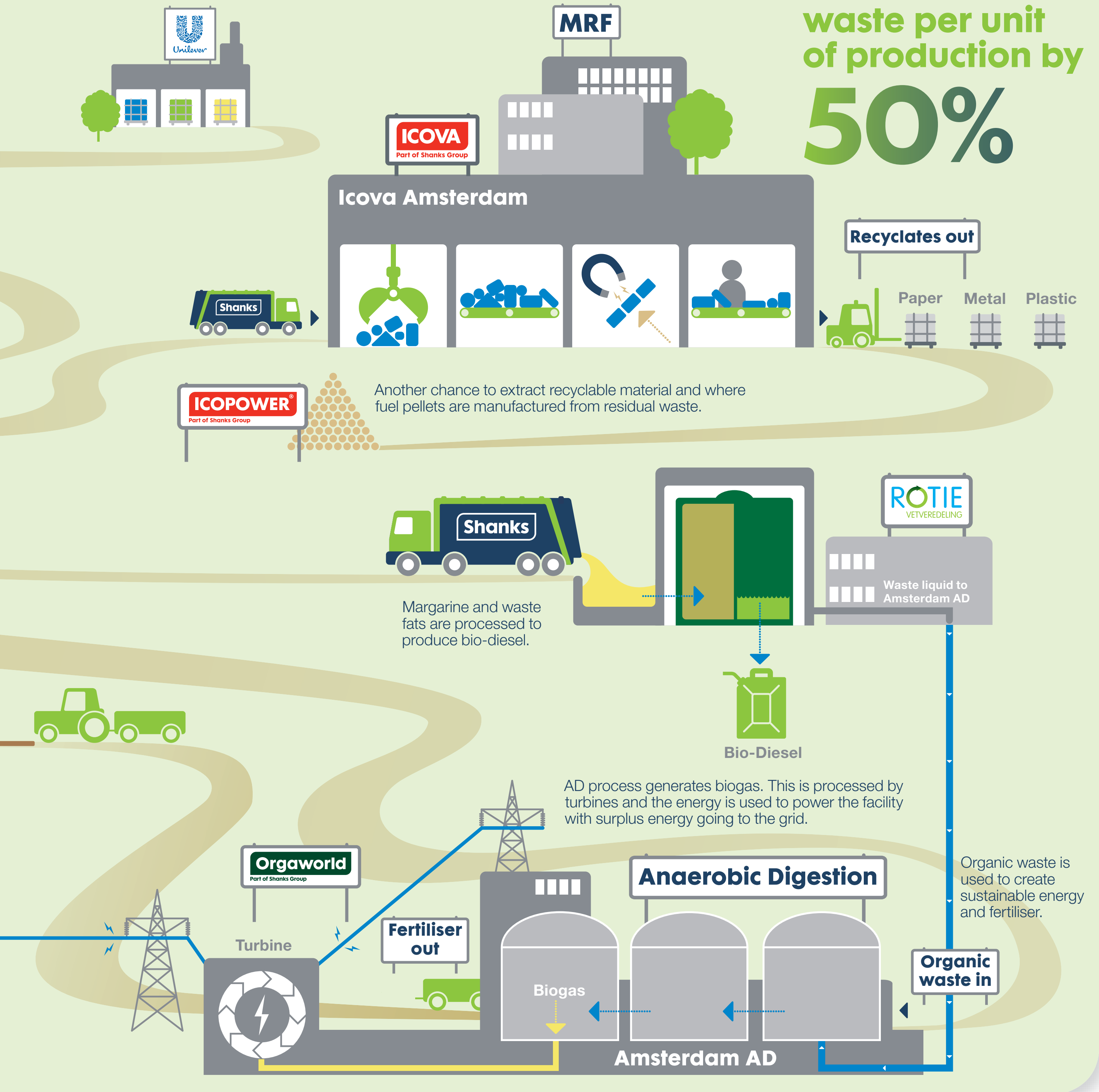
Recyclable material is used to manufacture new products such as sustainable packaging.

Our Amsterdam AD facility can produce enough sustainable energy to power 5,000 homes.

“Shanks’ innovative approach and range of technologies makes them an ideal partner to help us achieve our commitments in this area.”

Rudi van der Arend
Sustainability Manager, Unilever

A joint challenge to reduce the waste per unit of production by 50%



About Shanks

Chairman's statement

The Group's strategy of providing sustainable waste management solutions has continued to gain traction this year.

Adrian Auer Group Chairman

Our investment programme is generating good returns and we have delivered earnings growth despite continued tough economic conditions. In particular, activity levels in the Benelux region have remained slow. However, our business centres on 'making more from waste' and we had another good year in this respect. Our recycling and recovery rate reached an all-time high for the Group at 78%. This is an industry-leading level of recycling and reflects our strategic focus on sustainable alternatives to landfill and mass incineration.

We have continued to make investments in new infrastructure during the year, as we have throughout this recession. This ongoing investment has been enabled by management's continued actions on trading and operational gains, together with tight cost and cash management. The combination of new facilities coming on line, and lean operations, will put us in a strong position as underlying economies improve.

We were disappointed not to progress a number of UK municipal waste contracts, however our PFI portfolio has performed very well. We achieved financial close on the £750m Barnsley, Doncaster and Rotherham contract in March 2012 and our existing PFI businesses have continued to perform strongly with significant improvements in trading margins to the 9%–10% range. This represents a significant turnaround from the loss making position just three years ago and we are confident the gains will be sustained. Our Benelux business produced a robust performance in tough markets with Hazardous Waste delivering strong profit gains from international contract growth. This helped offset domestic price pressures in the Solid Waste business resulting from lower volumes and incineration overcapacity, particularly in the Netherlands.

The industry in which we operate continues to evolve at pace. The challenge of protecting the environment and developing new sources of energy, while stimulating economic growth is intensifying. At the same time, society needs to deal with waste in a more responsible way than simply burying or burning it. Shanks is well placed to provide both cost-effective and sustainable waste management solutions. In our treatment processes we also produce valuable products, including green energy, recovered fuel and recyclates that minimise our reliance on finite raw materials. We therefore continue to invest in sustainable facilities and technologies that will meet future needs and improve the world we live in, as well as generate strong returns for shareholders.

Financial position

At the year-end the ratio of core net debt to EBITDA stood at 1.7 times, well within our banking covenant test of 3 times and our target of less than 2.5 times. This has been achieved through operational delivery and robust cash management. Following the re-financing last year which extended our debt profile, we now have funding in place with maturities in the three to six year range, at an average cost of 5%. This stable and flexible funding structure is an essential platform upon which to build our future growth.

Earnings per share and dividend

Underlying earnings per share for the year grew by 11% to 7.2 pence. Consistent with our stated policy of maintaining dividend cover between 2 and 2.5 times, the Board will be recommending a final dividend of 2.35 pence per share, payable on 1 August 2012 to shareholders on the register on 6 July 2012. It remains the Board's intention to pursue a progressive dividend policy as earnings per share increases.

Underlying earnings per share for the year grew by 11% to

7.2p

People

The Board was pleased to appoint Peter Dilnot as the Group's new Chief Executive, who joined us from Danaher Corporation on 1 February 2012. We would like to express our appreciation to Tom Drury, Peter's predecessor, for his leadership and contribution during his four years as Chief Executive. We would also like to thank Chris Surch for his role as Acting Chief Executive until Peter's arrival.

Once again, on behalf of the Board, I would like to thank all Shanks' employees for their tremendous efforts in providing excellent services to our customers during another challenging year. Our people are the key to our future success and under Peter's overall leadership we are increasing the focus on developing the Group's teams and capabilities. To improve understanding of what Shanks does for its people and their contribution to the Group, we have introduced a new section on 'Our culture and people' in this report (see pages 34 to 37).

It is increasingly important for us to understand the full range of our people's capabilities, skills and perspectives. We have many talented people in the Group and embracing diversity further will help create a stronger team. Managing and building a diverse workforce is not only the right thing to do, it is also valuable for our business. By effectively harnessing all of our people's talents we will be more innovative and serve our customers better.

On 14 May 2012 the Board announced that Chris Surch, Group Finance Director, will be leaving the Company with effect from 31 August 2012, to join FirstGroup plc as Group Finance Director. We will be sorry to see Chris go, but we can see that this is an exciting new challenge for him and we are grateful to Chris for the significant contribution he has made over the last three years. A search for his successor has commenced.

FTSE4Good

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 68 to 74.

Corporate Responsibility

I am pleased to report continued progress in delivering against our nine clear Corporate Responsibility commitments. These include quantified targets for carbon avoidance, employee wellbeing and recycling and recovery rates. Further details are given on pages 38 to 41 of this report. Our ongoing focus in these areas has once again been recognised by Shanks' inclusion in the independently assessed FTSE4Good Index.

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 a key 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 raised the overall performance of health and safety across the Group and has been instrumental in reducing our RIDDOR rates by 13% this year. We have made progress, but will continue and intensify our efforts in this area.

Summary

We are pleased with the progress made on executing our strategy this year. The underlying growth from our investment programme remains strong and the executive management are taking positive action to build a leaner and more focused business. We will up the pace of our execution further in the year ahead. This should deliver short-term earnings growth with significant acceleration once economic conditions improve.

Shanks Group uses sustainable and cost-effective technologies to make valuable products from waste. In doing so, we can deliver solutions to society's environmental challenges while generating good returns for our shareholders.

Thank you for your continued support.

Adrian Auer
Group Chairman

2

Understanding our strategy and markets

Chief Executive's statement

Shanks has many compelling opportunities to deliver profitable growth and shareholder value.

Peter Dilnot Group Chief Executive

Introduction

This is my first statement as Chief Executive, having joined the Group in February. I came to Shanks because I believe it is a strong and well-positioned business in an increasingly important growth market. My time in the business has reinforced this view.

Clearly we are operating in a challenging macro-economic environment at the moment. However, Shanks has many compelling opportunities to deliver profitable growth and shareholder value. By 'making more from waste', I am confident that we will do just that.

Shanks' strategy is focused on delivering cost-effective and sustainable alternatives to landfill and mass incineration. The need for such solutions is increasing due to regulation and legislation, together with society's determination to protect our environment. Shanks is well placed to meet these growing demands with its strong portfolio of businesses, capabilities and technologies.

Performance Review

During the year, Shanks continued to deliver profitable growth despite softer market volumes and price pressure in some of our markets. Revenue grew by 3% at constant currency and underlying earnings per share increased by 9%. This was a direct result of strong returns from Shanks' strategic investment programme, together with focused management action to streamline operations and reduce costs.

It was particularly encouraging to deliver improved results in our core growth areas of the UK and Organics which grew revenue by 6% and 28% year-on-year respectively. Our Benelux Hazardous Waste business also performed strongly with trading profit up 26%. These operational gains, coupled with returns from the investment programme and £11m cost savings achieved during the year, more than offset the difficult trading conditions in our Solid Waste markets.

Site tour in Belgium

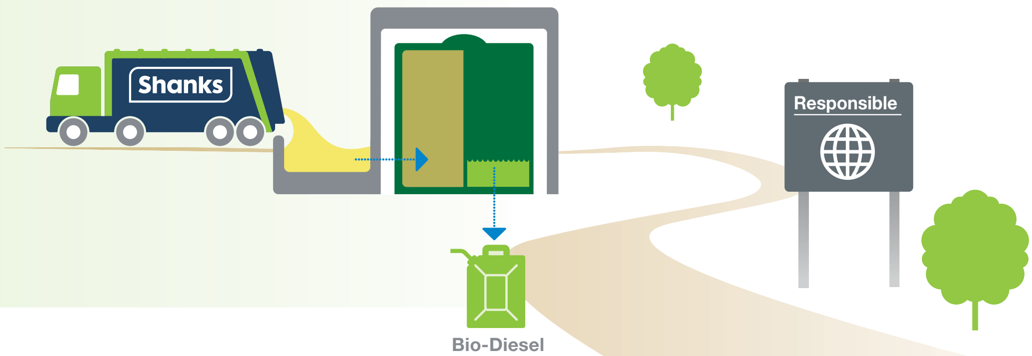
The Group Executive Committee visiting our Roeselare site.

Shanks Group's strategy is focused on delivering cost-effective and sustainable alternatives to landfill and mass incineration.

The Group-wide 'Action on Safety' initiative led by senior management has been instrumental in achieving a reduction of 13% to our level of reportable accidents in the year. The focus on safety continues and we will drive further improvements.

Vision

Shanks' overall vision remains consistent and has become more focused. We retain a clear aim to be the leading provider of sustainable alternatives to landfill and mass incineration. We plan to lead in selected target markets which have strong sustainable growth drivers and characteristics that enable Shanks to gain competitive advantage. This aspiration reflects opportunities in our current growth markets, such as Organics in Canada, and also our commitment to be highly selective about where we will operate in the future.



Understanding our strategy and markets

Chief Executive's statement

Our strategy

More information on how we measure progress on **pages 18 and 19**

Shanks' strategy to deliver growth from sustainable waste management is robust and supported by long-term growth drivers. We create value from recycling, recovering energy and making products from material that is otherwise thrown away. We believe that our approach of 'making more from waste' delivers cost-effective and environmentally sustainable solutions to dealing with a wide range of waste streams.

To focus and accelerate our execution, four strategic priorities have been identified:

	Measurements
1 Invest in new sustainable opportunities that build on our core capabilities and generate attractive returns	Underlying earnings per share growth (%) Organic growth in trading profit (%) Growth in revenue from sustainable activities (%) Post-tax return on investment programme (%)
2 Deliver outstanding operational performance from existing businesses and investments	Overall recycling and recovery rate (%) Plant utilisation (%) Power generation (MWHrs)
3 Develop world-class capabilities and technologies in a cohesive Group culture	Lower RIDDOR rate Carbon avoidance (tonnes)
4 Actively manage Shanks' portfolio and use bolt-on acquisitions to accelerate profitable growth	Return on operating assets (%)

The background and future outlook for each of these is described on the following pages.

1 Invest in new sustainable opportunities

We have invested £140m in sustainable waste management infrastructure since 2008. The performance of these investments has improved over time and we are now consistently delivering our target post-tax returns of 12–15% when plants are fully operational. We have developed project management capabilities and operational metrics to ensure that we continue to generate superior returns on investment.

A further £110m will be deployed as part of the second phase of the strategic investment programme. We are already working on a significant number of sustainable projects that leverage our existing core capabilities and the pipeline of such opportunities continues to grow at a promising rate. Our target projects are increasingly in Organics where we have proven expertise and can deliver excellent operating margins. In the UK municipal market we are detecting early signs of a more difficult funding environment, together with local authorities planning for shorter term contracts and less capital intensive facilities. We believe that there will be ongoing opportunities for Shanks in this market and we will continue to invest heavily in the UK given the strong need for further sustainable diversion from landfill.

2 Deliver outstanding operational performance

Shanks Group sustainably recycles and reprocesses waste into valuable products. We get value from the products we make so our recycling and recovery rate is a critical operational metric. In 2011/12 we achieved an industry-leading recycling and recovery rate of 78% up from 70% three years ago. More broadly in 2011/12, we improved our Organics operating margins from 13% to 18%. Additionally, in our UK PFI/PPP business we delivered excellent service to Local Authorities while driving operating margins from 6.4% to 10.1% in the year.

We are now refocusing the Group to be more product-oriented. This includes significant effort on delivering outstanding productivity. The core principles of lean manufacturing can be applied to our industry and they will be implemented going forward. By way of illustration, we have started to develop an improved set of 'daily management' tools to measure and increase the operational performance of our facilities. These will be rolled out across the Group and will ensure that we really are 'making more from waste'. Our productivity focus is particularly important given that solid waste volumes are currently suppressed by the macro-economic environment.

Organics operating margins increased from 13% to

18%

Westcott Park AD plant under construction

Our second AD facility in the UK is a 48,000 tonnes per annum facility which will generate up to 2MW of renewable energy.

Understanding our strategy and markets

Chief Executive's statement

3 Develop world-class Group capabilities and technologies

We have a decentralised structure that enables local entrepreneurial management teams to deliver responsive and innovative services to our customers. Over recent years, we have sought to foster this cultural advantage whilst developing a stronger central framework to deliver Group-wide benefits. To drive this, the Group's Executive Committee (Excom*) has driven a wider range of initiatives. For example, we have started a centrally coordinated procurement project and have increased cross-border trading activities. In addition, a new overall Shanks brand was successfully rolled out across the Group, including in the Netherlands where there have been only local brands in the past.

In addition to recent improvements, we still have many opportunities to leverage further our Group capabilities, technologies and scale. We are escalating our overall focus on people and capability development. We are also developing the organisation to be more closely aligned with our core activities. To this end Henk Kaskens, the Managing Director of our Organics business, was recently appointed to the Group Excom and now reports directly to me. In addition, we are targeting further synergies from across the Group and announcements will be made as our plans develop during the year.

We still have many opportunities to leverage further our Group capabilities, technologies and scale.

Amsterdam industrial AD and waste water facility

100,000 tonnes per annum AD and 300,000 tonnes per annum waste water treatment.

* The Group Executive Committee meets monthly and the permanent members include the Group Chief Executive, the Group Finance Director and the Managing Directors of the Netherlands, Belgium, the UK and since May 2012 the Managing Director of Orgaworld.

4 Actively manage Shanks' portfolio and use bolt-on acquisitions

Over the years Shanks has delivered significant value from bolt-on acquisitions. In March 2012 this continued with the acquisition of the Dutch glass recycling business, Van Tuijl. This acquisition expands our capabilities in an important recyclate market and complements our existing operations. We have clear plans to grow Van Tuijl and the business is off to a strong start under our ownership.

Looking ahead, we will continue to use acquisitions to strengthen our core businesses. We believe buying and integrating bolt-on businesses in the current environment can accelerate the Group's profitable growth. Our balance sheet provides us with this strategic flexibility and we are actively looking for appropriate opportunities that meet our target returns on investment. In parallel, we are also assessing the Group's current portfolio to identify non-core businesses. This process is ongoing, but has already highlighted some small regional operations that might create more value under alternative ownership.

Our businesses

We have four core activities: Solid Waste, Hazardous Waste, Organics and UK Municipal (PFI/PPP). Each of these activities has different demand drivers, profitability profiles and capital requirements. We also have distinct ways in which we create competitive advantage in each of these activities. At the same time, all of them provide cost-effective and sustainable solutions to reduce landfill and mass incineration. They all 'make more from waste' by creating products such as green energy, recyclate commodities, recovered fuel and organic fertilisers. Our activities are described in more detail throughout this report, together with 'how we win'.

Our portfolio of activities have the following key attributes:

- Solid Waste – productive, lean business with leading recycling rates; well positioned for recovery
- Hazardous Waste – strong profitable business with competitive advantage and international reach
- Organics – growing international green business with proven capabilities and attractive economics
- UK Municipal (long-term PFI/PPP contracts) – strong stable business with improving service and returns, plus continued growth opportunities

Over the last three years, the proportion of Group profit from Hazardous, Organics and UK Municipal has increased from 33% to around 60%. This more balanced business mix reduces the cyclical exposure of the Group.

We believe our combination of established sustainable businesses, coupled with a renewed focus on growth, operational excellence and Group capability, will generate significant shareholder value in the years ahead.

Our portfolio

	Activity	Characteristics
	**Solid Waste**	• Productive, lean business with leading recycling rates • Well positioned for recovery
	**Hazardous Waste**	• Strong profitable business with technology advantages • International experience and reach
	**Organics**	• Growing international green business with proven capabilities • Profitable growth in new markets
	**UK Municipal**	• Stable business with long-term contracts and improving margins • Evolving growth opportunities

We now have a more balanced business mix reducing the cyclical exposure of the Group.

Outlook

Going into 2012/13, we are building on Shanks' stable platform by accelerating and intensifying the execution of our strategy. Our markets look set to remain challenging in the year ahead. To offset these macro headwinds we are taking action to deliver cost reductions and Group synergies. We will also continue to generate further returns from our ongoing investment programme and through a renewed focus on operational performance.

I believe that we are well-positioned to deliver growth in line with the Board's expectations for 2012/13 and that the future outlook for Shanks Group is very positive.

Peter Dilnot
Group Chief Executive

Understanding our strategy and markets

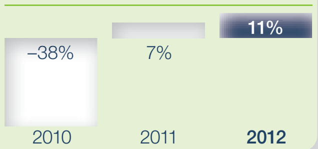
Measuring our performance – KPIs

We measure our performance against our strategy through the use of quantitative and qualitative assessments. The number of waste processes undertaken by the Group is significant, with each site involved in a different range of activities resulting in a varied and broad range of measures. There are however, a number of key measures including recycling rates, productivity and accident rates, which are designated as Key Performance Indicators (KPIs).

It is a key principle to align the interests of the senior management with those of our shareholders and executive remuneration includes measures linked to some of the KPIs below. Full details of the schemes in operation are given in the Remuneration Report. A new Long Term Incentive Plan was introduced during the year, post shareholder approval, which links awards to growth in earnings per share and share price.

Strategic objective: Invest in new sustainable opportunities

Underlying earnings per share growth (%)



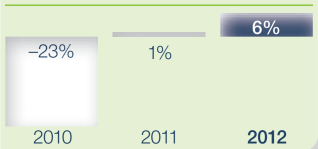
Relevance and definition

Earnings per share growth is considered the key indicator of the Group's success and is closely aligned to management incentives. Our measure is defined as underlying post-tax earnings for continuing operations only and excluding exceptional items, financing fair value remeasurement and amortisation of acquisition related intangibles.

Progress in the year

Strong profit growth and further reduction in the Group tax rate.

Organic growth in trading profit (%)



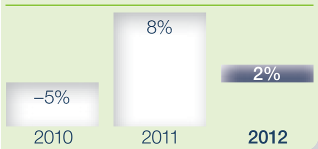
Relevance and definition

To review the performance of our operations the key profit measure is trading profit before interest and tax. The organic growth is defined as the percentage excluding significant acquisitions and discontinued activities at constant currency.

Progress in the year

Strong growth coming from the UK and Organics.

Growth in revenue from sustainable activities (%)



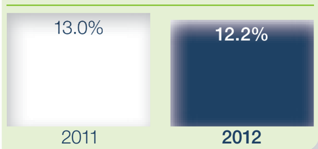
Relevance and definition

As we continue to invest in sustainable projects our revenue from such activities should increase. The way we measure this is the growth in revenue derived from recycling, reuse, diversion or energy recovery thereby avoiding landfill or contaminated materials.

Progress in the year

Although a slight decline year on year, revenue from sustainable activities is still strong at 69% of overall revenue.

Post-tax return on investment programme (%)

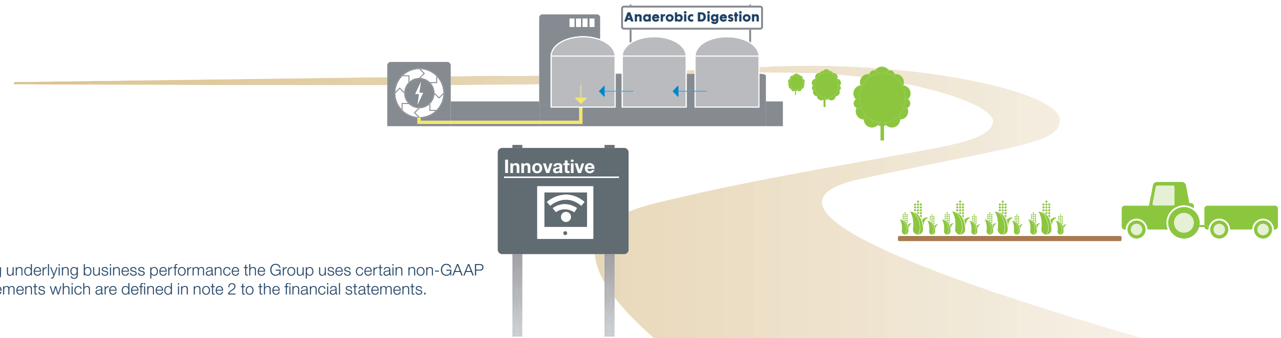


Relevance and definition

As we continue to invest in sustainable waste management infrastructure it is important to ensure that our target returns are being achieved. Our measure here is the post-tax return as a percentage of the original invested capital on those projects fully operational and running at normal operating levels.

Progress in the year

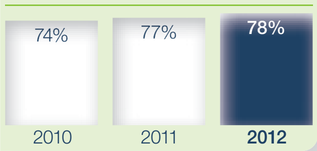
Our target is to achieve a post-tax return of 12% to 15% once the assets are fully operational. The initial £100m investment programme has been completed and for those projects operating at normal levels the return was 12.2%. The more mature projects are at the top end of the range.



For measuring underlying business performance the Group uses certain non-GAAP profit measurements which are defined in note 2 to the financial statements.

Strategic objective: Deliver outstanding operational performance

Overall recycling and recovery rate (%)



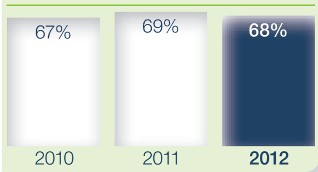
Relevance and definition

We sustainably recycle and reprocess waste and get value from the products we make and as such the recycling and recovery rate is a key operational metric. We have set the objective to have a rate of 80% by March 2015. The rate is defined as tonnes of material recovered from processing expressed as a percentage of the tonnes of waste handled.

Progress in the year

An increase in the year to 78% and we remain confident that the new investment projects coming online will help us reach our long-term target.

Plant utilisation (%)



Relevance and definition

Productivity focus is particularly important given that volumes in our solid waste businesses are currently suppressed by the macro-economic environment. The plant utilisation we monitor is for solid waste only and is defined as tonnes of material processed as a percentage of the available sorting centre capacity.

Progress in the year

The decline in the year was due to weak economic conditions in the Netherlands and the UK and the lower level of solid waste volumes available for processing.

Energy generated (MWHrs)

Relevance and definition

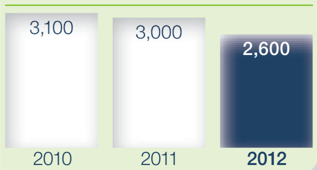
Conversion of waste to renewable energy is another key sustainability measure which we monitor based on the megawatt hours of energy generated.

Progress in the year

Strong increase in the year as new Organic facilities in the Netherlands and UK are commissioned.

Strategic objective: Develop world-class Group capabilities and technologies

Lower RIDDOR rate



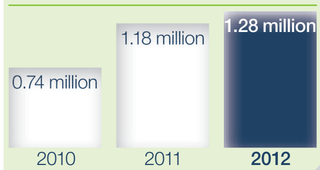
Relevance and definition

The waste management industry is a known high risk sector with a high accident rate level. Health and safety is key with a requirement for continuous improvement and we have set a quantifiable long-term objective to reduce our more serious accident rate by 25% by March 2015. RIDDOR is the more serious accident rate per 100,000 employees.

Progress in the year

The Group-wide 'Action on Safety' initiative led by senior management has been instrumental in a further reduction of 13% in our RIDDOR rates. We have now achieved 16% of the March 2015 target of 25%.

Carbon avoidance (Tonnes)



Relevance and definition

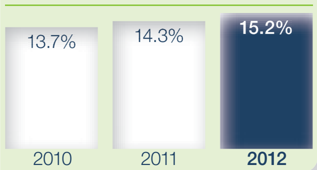
Sustainability and carbon issues are key in our industry and we are focused on the environmental impact of our operations. Our measure is expressed in tonnes and comprises both the benefits Shanks helps others achieve through the use of our waste derived fuel as well as the direct reductions in our own operations from initiatives such as energy efficiencies.

Progress in the year

Another good performance as we move towards the March 2015 target of 1.3 million tonnes.

Strategic objective: Actively manage the portfolio

Return on operating assets (%)



Relevance and definition

It is important to ensure that the portfolio is delivering appropriate returns and value for our shareholders. This measurement is closely aligned with the performance related remuneration for senior management. It is calculated as trading profit over depreciated operating assets. Operating assets exclude core debt, tax, goodwill and acquisition intangibles.

Progress in the year

Continued management of the asset base with improving profits has led to a significant increase.

MAKING MORE **FROM WASTE**

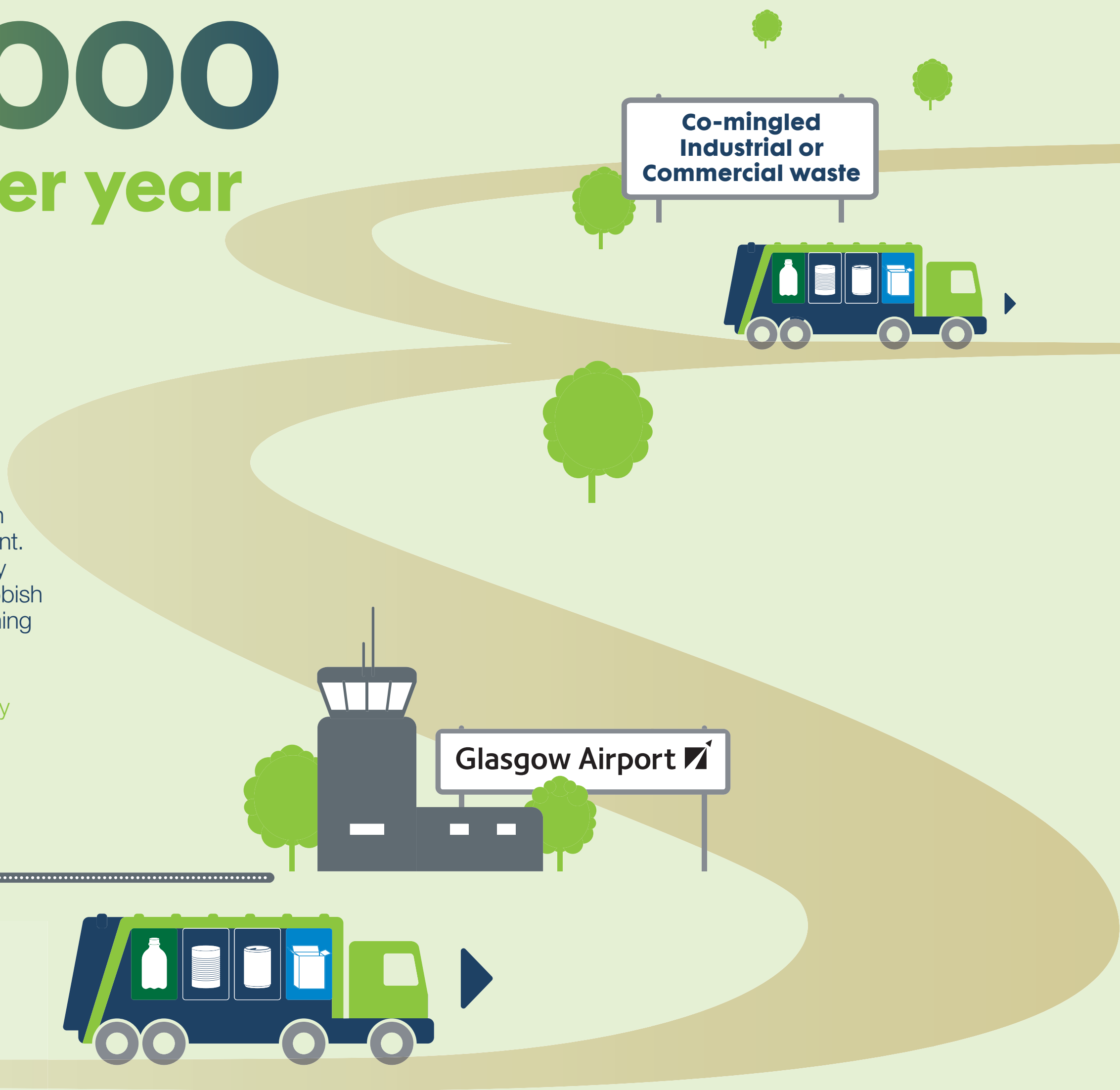
Changing perceptions of waste in Glasgow

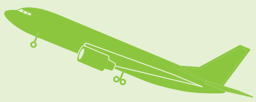
Shanks new Materials Recycling Facility (MRF) in Glasgow is designed to achieve a 95% recovery rate from non-segregated general waste. We sort co-mingled recyclate to extract cardboard, paper, aluminium, glass, wood and metals. The remaining waste can then be converted into a fuel used to generate heat and power.

150,000
tonnes per year

"We must reduce our impact on the local and global environment. Shanks' Glasgow facility clearly demonstrates that sending rubbish to landfill is increasingly becoming a thing of the past."

Richard Lochhead
Scottish Environment Secretary





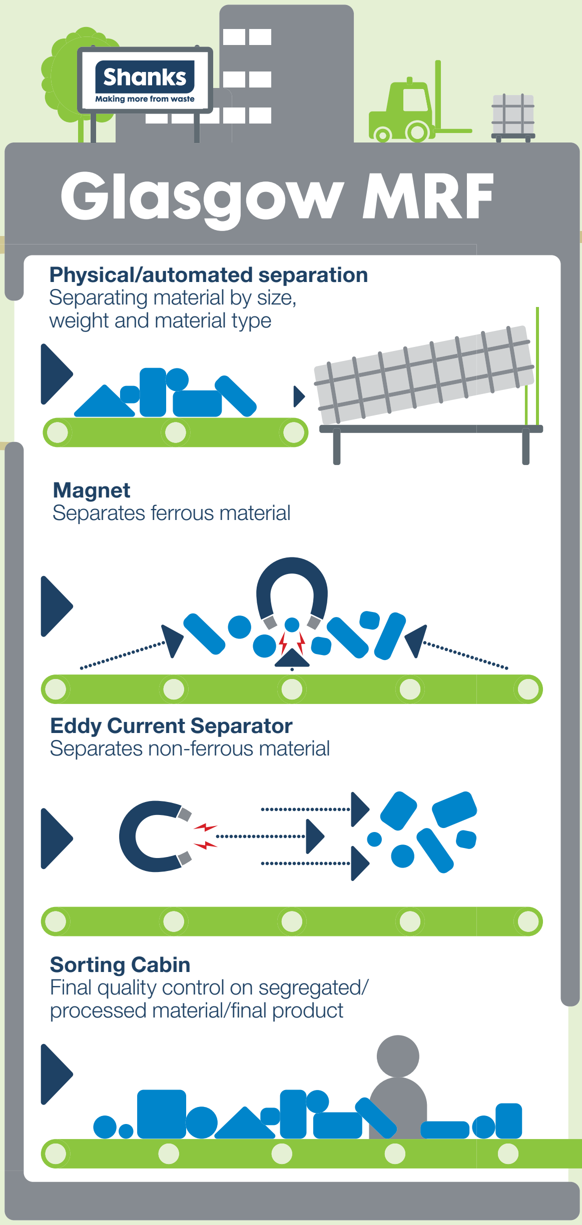
"Glasgow MRF can process 150,000 tonnes per year of material from both municipal and commercial customers whilst substantially increasing recycling and recovery rates."

Gerry Henderson
Glasgow MRF Site Manager

80% recycling recovery rate

"BAA are committed to reducing our carbon footprint and with Shanks' help we have increased our recycling and recovery rate to over 80%, exceeding our target for landfill diversion."

Anne Maclachlan
Sustainability Assurance Manager, Glasgow Airport




Material being transported through the MRF


Sorting cabin

Shanks produces a range of waste derived fuels which are often manufactured to specific requirements and used by customers to offset fossil fuels.

Recyclates

Once sorted materials are sent to reprocessors where they are turned into new products reducing our dependency on virgin materials.

"Saica Natur UK are delighted to be working closely with Shanks to establish a sustainable UK outlet for the cardboard and mixed paper generated from their MRF in Glasgow."

Forbes Connor
Sales Director, Saica Natur UK

Understanding our strategy and markets

The market in which we operate

Our markets

The primary markets in which Shanks operates are set out on page 6. The demand dynamics, our strengths in these markets, the competitive environment and growth opportunities are explained below.

Across the world, governments are urging the waste industry to support them in recovering more resources and energy from waste. The driving factors behind this are climate change, the price and security of fossil fuels and the need for society at large to develop sustainable waste solutions. Through legislation and fiscal incentives, governments are forcing and encouraging everyone to think about recovering more resources from waste.

Our waste processing cycle

The chart below shows the waste management cycle and where we operate. Shanks has a distinct position in this industry structure and we have a reputation as a leading provider of sustainable alternatives to landfill and mass incineration. We focus our activities on sustainable waste solutions and 'making more from waste'.

Our role in the waste management cycle

Collect

In some industrial and commercial markets it is helpful to have a fleet of collection vehicles available to ensure delivery of the base load of waste to our processing plants alongside waste from other third party collectors. For the UK municipal markets, a collection fleet is less important as the contract with the municipality usually provides for the waste to be delivered to our plants. We try to avoid highly competitive municipal collections unless backed by long-term contracts. In Organics, our focus is on the treatment plants and we rely on others to bring the waste to us.

Sort

We invest in highly automated sorting facilities including high-tech separation processes such as automatic optical sorting to sort waste into specific recyclates and streams for further treatment.

Examples of sorting processes:

- Eddy current separation of non-ferrous metals
- Magnet separation of ferrous metals
- Trommels and sieves
- Depackaging
- Manual sorting cabin

Produce

We process segregated waste streams into valuable recyclate products which are used by reprocessors to replace virgin raw materials. We have a market-leading position in the conversion of waste to high calorific value fuels. These fuels include SRF (solid recovered fuel) and wood biomass, both of which are used as a fossil fuel substitute by power generators and cement manufacturers. Our Organics technology focuses on food waste and the generation of biogas for conversion into renewable energy. In our Hazardous Waste sector we treat contaminated soils, water and paint. After treatment the products are either used as alternative sources of fuel, for other activities such as land reclamation, or discharged back into the water systems.

Dispose

We have to pay to dispose of any non-recycled incoming waste either through landfill or incineration. Given our strategy of providing sustainable solutions we avoid investment in the high capital requirements of mass incineration and have a limited investment in landfill.

Understanding our strategy and markets

The market environment

Solid Waste

Demand dynamics

This is a cyclical 'local' business linked to the macro economy and typically involves annual contracts.

How Shanks wins

We have an entrepreneurial approach to customer facing activities and in depth knowledge of local markets which results in a strong regionalised market share. This is complemented by a central framework for sharing technologies.

Competitive environment

There remains an excess capacity in the Continental European incineration market. Although this does not directly impact our Benelux businesses as we do not own mass incineration assets, it does have a significant indirect impact and is exerting downward pressure on overall gate prices. We have taken action to mitigate this through management of costs and maximising the efficiency of our plants. We expect that this over capacity will gradually be removed from the system as the economy recovers, waste imports increase and less efficient plant is retired.

Growth opportunities

The markets in the Benelux are well developed with regard to recycling rates and diversion from landfill. This knowledge is shared with our UK business as the UK market implements EU legislation on recycling and diversion rates.

Hazardous Waste

Demand dynamics

The market is characterised by international 'clean up' projects and long-term service contracts.

How Shanks wins

We have world-class treatment capability with best-in-class equipment and plant productivity and deliver outstanding service levels. Our principal hazardous waste subsidiary in the Netherlands, ATM, is the market leader in its field for the treatment of contaminated soil and waste water. Recent investments in the waste water facilities have increased our storage capacity to match the increased demand. The Hazardous Waste businesses work with the Solid Waste businesses under the banner of Total Care, to provide customers with a combined solution for their waste needs.

Competitive environment

This is a specialised market with a small number of players given the level of investment required to establish competitive operations.

Growth opportunities

Although the business is located only in our core countries we do seek to do business on a wider scale. For example, at our ATM facility soil from many parts of the world is treated before being used for land reclamation in the Netherlands.

Organics

Demand dynamics

The market covers long-term municipal contracts together with medium-term industrial contracts typically linked to the food sector.

How Shanks wins

Our Organics business, Orgaworld, has significant experience in the design, build, optimisation and operation of organics installations. We offer a wide scope of processing techniques for the total range of organic waste focusing on traceability and sustainability.

Competitive environment

The number of players in the UK market offering Organic processing has increased over the last few years. There is limited competition in North America where our competitors are unable to achieve stringent technical requirements.

Growth opportunities

There is an increasing focus on Organics as a technology. The North American markets are evolving rapidly and enforcing an increasing level of regulation in the drive for sustainable solutions to reduce the level of waste going to landfill.

UK Municipal

Demand dynamics

The market is based on contracted volumes secured as part of 20 to 25 year contracts.

How Shanks wins

A leading player in the UK Private Finance Initiative (PFI)/Public Private Partnership (PPP) market providing an outstanding operational service to the local authorities. Shanks had the first MBT plant in the UK which has been operational since 2006 and we are now running five operational contracts, working on the delivery of the infrastructure for one contract and preferred bidder for another contract.

Competitive environment

The PFI/PPP market remains active as a number of local authorities still need to enter the process. The funding market is becoming more difficult with self-financing becoming more advantageous.

Growth opportunities

We adopt a disciplined approach to contract bidding. There is the opportunity for technology leverage, in particular with Organics.

Competitive position

Shanks has a distinct position amongst other large waste competitors due to its sustainable activities compared with landfill and mass incineration.

Products and technology

Products

Shanks' operations sustainably recycle and reprocess waste into valuable products. We get value from the products we make, but also have to pay to dispose of any non-recycled incoming waste. Our recycling rate is therefore the critical operational metric – both for our economics and our sustainable strategy. Going forwards, we are reorienting the Group to be more product-focused. This includes significant effort on driving productivity and on delivering outstanding operational performance.

The key products we produce throughout the Group are shown opposite.

Technology

Shanks has proven capability and technological expertise and is a market-leader in implementing such technologies as Anaerobic Digestion (AD), Mechanical Biological Treatment (MBT) and the production of high calorific value fuel from waste. Our enhanced central framework is leading to greater co-ordination in this area as expertise in technologies is shared throughout the Group.

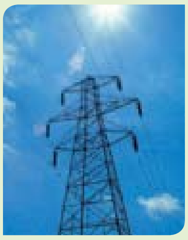
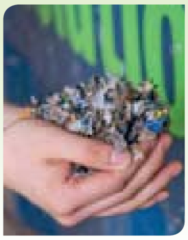
The key types of technology we use throughout the Group are shown on page 26.

Investment programme

The programme of significant strategic investments is key for the future development of the Group. Our programme is broadly balanced with no single project over £20m, but it is focused on the higher growth territories of the UK and Canada and focused on recycling and organics facilities. Given our strong balance sheet and cash flow we are confident that this programme can be funded and gearing kept within our target of 2.5 times EBITDA. Our investment criteria is to achieve an overall post tax return of 12% to 15% once the assets have reached normal operating capacity which is usually achieved in less than three years.

The first phase of our investment programme has reached the end of its investment cycle. The annualised post-tax return for the year to March 2012 for those projects fully operational was 12.2% and 6.7% for those still ramping up. We continue to make good progress with the second £150m phase of which circa £65m of projects are underway.

Products

	Product	End-use applications	Economic drivers
	**Green energy**	Electricity for national grid or local industry (plus heat for municipal services)	Electricity price Green certificates
	**Recovered fuel**	Fossil fuel substitute for range of industrial applications (e.g. cement kilns)	Coal and oil price linkage
	**Recycled commodities**	Substitutes for virgin materials in paper/card, plastic, metals and non-ferrous production	Global recyclate prices
	**Fertiliser, soil and aggregates**	Range of agricultural, commercial and industrial applications	Local fertiliser demand Soil aggregate prices

Understanding our strategy and markets

Products and technology

The key types of technology we use throughout the Group

	Technology	Description
	**Sorting centre**	Sorting centres use rudimentary techniques to separate I&C and C&D waste into different fractions for onward transfer to more specialised processing centres such as Materials Recycling Facilities (MRFs).
	**Material Recycling Facility (MRF)**	MRFs use a combination of advanced optical, mechanical and manual sorting to separate co-mingled waste streams by shape, dimension, colour and material type to separate I&C/C&D/municipal recyclates into various materials to feed established recycling markets. Shanks operate a large number of MRFs across the Group.
	**Mechanical Biological Treatment (MBT)**	MBTs use a combination of mechanical and biological treatment to dry, stabilise and sort Municipal Solid Waste (MSW) into various materials to feed recycling markets and Solid Recovered Fuel (SRF) for energy generation as a replacement for fossil fuel. Shanks works in partnership with Sistema Ecodeco to deliver MBTs in the UK. The process uses naturally generated heat from the degradation of the organic fraction within the MSW prior to mechanical sorting into various recyclates and SRF. Shanks is the sole waste management provider able to use Ecodeco technology in the UK.
	**Organics – Anaerobic Digestion (AD)**	AD enhances the natural breakdown in the absence of air of organic material from I&C and municipal sources to generate biogas for conversion into renewable energy and digestate for use as a nutrient rich soil conditioner. Our Organics business, Orgaworld, has significant experience in the design, build and operation of installations and offers a wide scope of processing techniques for the total range of organic waste focusing on traceability and sustainability.
	**Organics – Composting**	Composting enhances the natural breakdown in the presence of air of organic material from I&C and municipal sources to generate a quality pathogen free soil enhancer/conditioner for use in landscaping and/or agriculture. This is a key technology in the growing Canadian market where there is limited competition.
	**Hazardous Waste – specialised treatment processes**	There are three principal processes at the ATM plant in the Netherlands: • Thermal treatment of contaminated soils • Biological and physio-chemical treatment of waste water • Pyrolysis of paint waste ATM is one of the world's largest single site hazardous waste facilities. In addition, the Group operates industrial cleaning services to the oil and gas, petrochemical and other large industries. Together, these businesses can offer the proposition of total care services for hazardous waste offering cleaning, logistics, handling, management and waste treatment solutions.

An example of a solid waste Materials Recycling Facility (MRF) and Solid Recovered Fuel (SRF) facility

Commerical waste inputs are processed using a combination of optical, mechanical and manual sorting to separate co-mingled waste streams. The diagram shows the different types and percentages of products recovered from the processes.

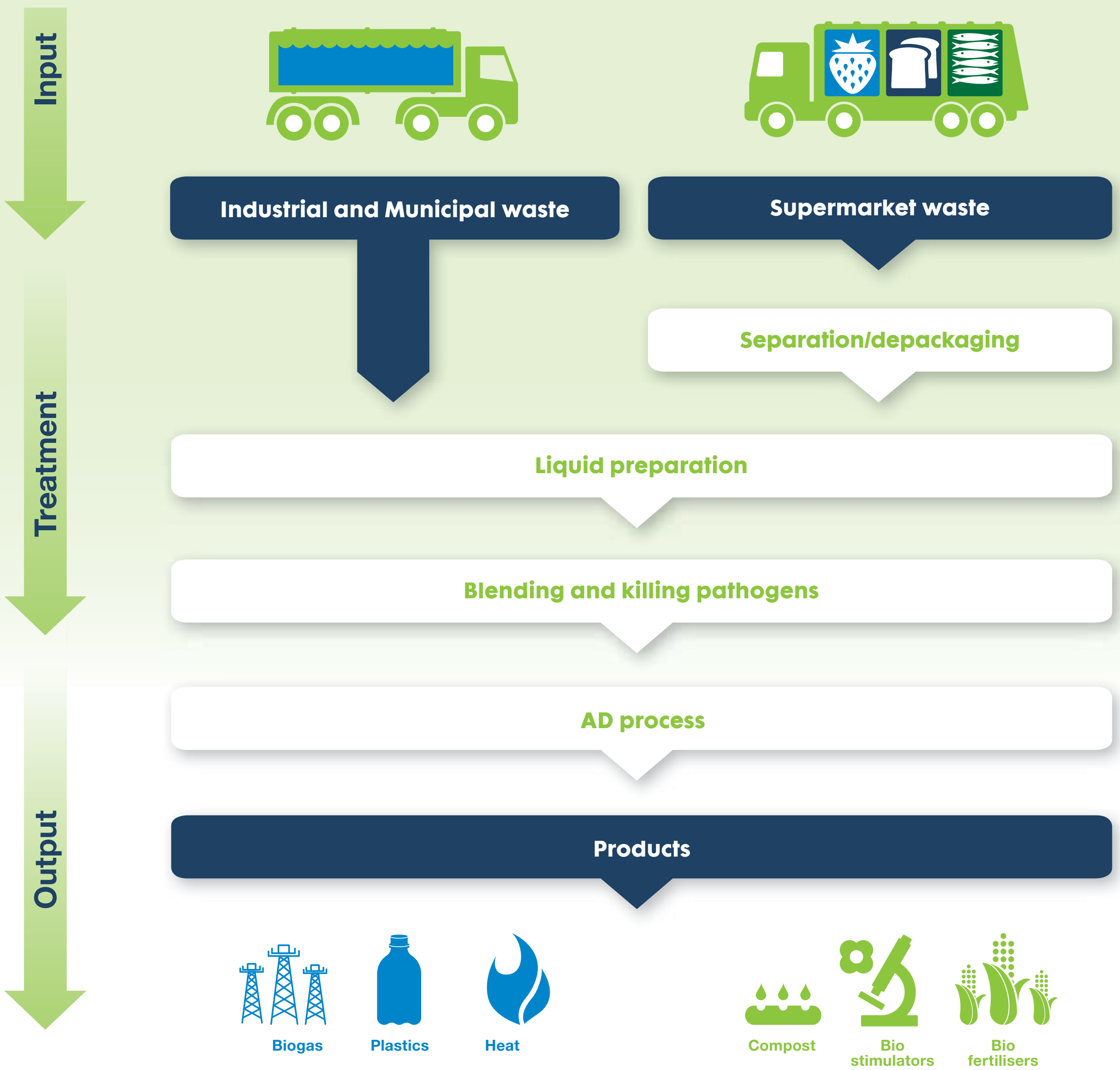
Understanding our strategy and markets

Products and technology

An example of Anaerobic Digestion (AD) technology

Video online: **www.youtube.com/theshanksgroup**

AD is the process where, through biological activity, mixed organics and residual waste are converted into useful products. The biogas generated is converted into clean renewable energy and the residual material is rich in nutrients and can be used as fertiliser.



External drivers

There are a number of external factors that influence the success of our business and future earnings growth. These drivers are set out and discussed below.

Social and business attitudes

It is recognised that more sustainable forms of waste management have a role to play in accelerating the move to a low carbon economy. In short we have to make more from the waste we create.

Macro market drivers

The driving forces behind our industry are climate change, greenhouse gas emissions, fossil fuel dependency and society's need to manage waste without damaging the environment.

Biodegradable waste in landfill is a major source of methane emissions to the atmosphere. Methane is a potent greenhouse gas with 21 times the impact of a carbon dioxide emission of the same mass.

Governments globally are responding with legislation and fiscal incentives to drive change.

Regulatory and legislative

Waste management is an essential service. In the countries where the Group operates, there is a high level of regulation and enforcement and increasingly it is becoming a sophisticated industry using advanced technologies.

The specific legislative drivers, both regulation and environmental taxation, are:

Landfill tax

This is the key measure that is driving change in the industry. This tax is used by many European states to divert waste from landfill to more environmentally acceptable options such as recycling and energy recovery. The UK Government has announced that landfill tax rates will increase by £8 per tonne per annum to £80 per tonne by 2014/15, and moving towards rates in the Benelux of circa €90 per tonne. The level in the UK from 1 April 2012 was £64 per tonne.

Green electricity certificates

The dynamics of the energy markets has led to increased pressure to find alternative fuels and waste is one solution. Many waste based electricity generation projects qualify for renewable electricity subsidies and credits, available in various forms across Europe. This is because a major component of waste derived fuels comprises renewable short carbon cycle materials, for example; wood, paper, and other vegetable matter.

Strong growth drivers

Understanding our strategy and markets

External drivers

Carbon credits

Further to the increased cost of fossil fuels and the need to limit our dependency, waste derived fuels can be exempt from carbon emissions calculations, thereby increasing the level of interest in this alternative source.

European Union (EU), national and local incentives

In the EU, the level of environmental regulation is high, however unlike trade regulations there are no common standards for waste management. EU legislation sets minimum standards which member nations must meet. Each member state is, however, free to exceed these standards in order to follow their own political and environmental agendas.

The revised European Waste Framework Directive published in November 2008 sets minimum energy recovery criteria and introduces statutory recycling targets for member states to achieve by 2020 both for municipal waste, 50%, and construction and demolition waste, 70%.

Biodegradable waste, a key component of municipal waste, is a major source of methane emissions from landfill and a key objective of the European Landfill Directive is to significantly reduce the land-filling of biodegradable waste. Based on 1995 levels, the Directive requires a 25% reduction by 2010, 50% by 2013 and 65% by 2020. The Directive also aims to substantially restrict other types of polluting waste that may be landfilled.

The Canadian market is evolving rapidly and enforcing an increasing level of regulation. As in Europe there is a drive for sustainable solutions and there is an increasing focus on organics as a technology.

Restrictions on the export of waste from Canada to the United States and provincial legislation such as the Waste Diversion Act and Green Energy Act in Ontario are providing a similar framework for stimulating the movement of biodegradable waste out of landfill to sustainable alternatives.

There are still strong growth opportunities for those companies that position themselves with sustainable technologies.

Economic pressures and limited capital

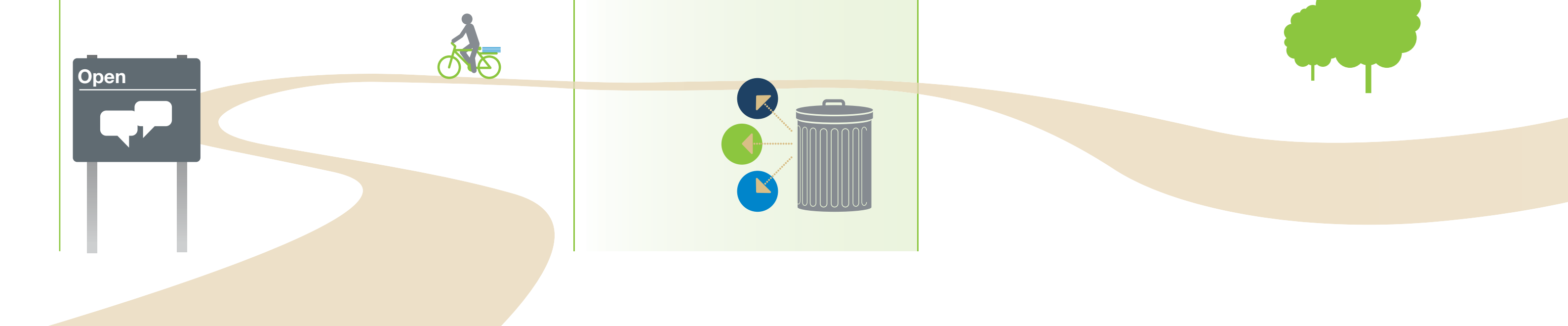
Underpinning these key legislative drivers is the level of industrial activity. Approximately 79% of the Group's activities are derived from industrial and commercial (I&C) and construction and demolition (C&D) activities. There is a relationship between the level of industrial activity and the amount of waste generated.

Historically the drivers of waste volumes were well identified and volumes tracked industrial output and consumption or population growth. More recently however, there has been a de-coupling of this linkage. There are several reasons for this:

- Potential lag effect as certain sectors rebound at different rates.
- Acceleration in waste prevention in certain sectors, for example in the UK.
- Cost cutting initiatives in many companies as a result of the economic crisis.

Consequently underlying waste volumes are becoming less directly linked to GDP growth and industrial activity. Despite this, there are still strong growth opportunities for those companies that position themselves with sustainable technologies that process the waste that is very rapidly being diverted away from landfill.

The C&D market has a long cycle, resulting in a time lag between movements in GDP and the amount of C&D waste. C&D activity throughout the Group mirrors the cyclical nature of these underlying markets. The recent pronouncements from Euroconstruct in November 2011 stated that the European construction market will continue to register negative growth in 2012 with a slow return to growth in 2013 and 2014.



In addition to volumes of waste available, macro-economics also affects pricing of waste inputs and the market value of recovered materials (recyclates). Income generated from the sale of recyclates represents circa 8% to 10% of the Group's solid waste revenue. The key recovered materials include paper, metals, wood, glass and rubble. When end market prices for these commodities are high, the gate fees for receipt of waste from customers will be lower as the customer is aware of the value of the materials in the waste delivered and vice versa.

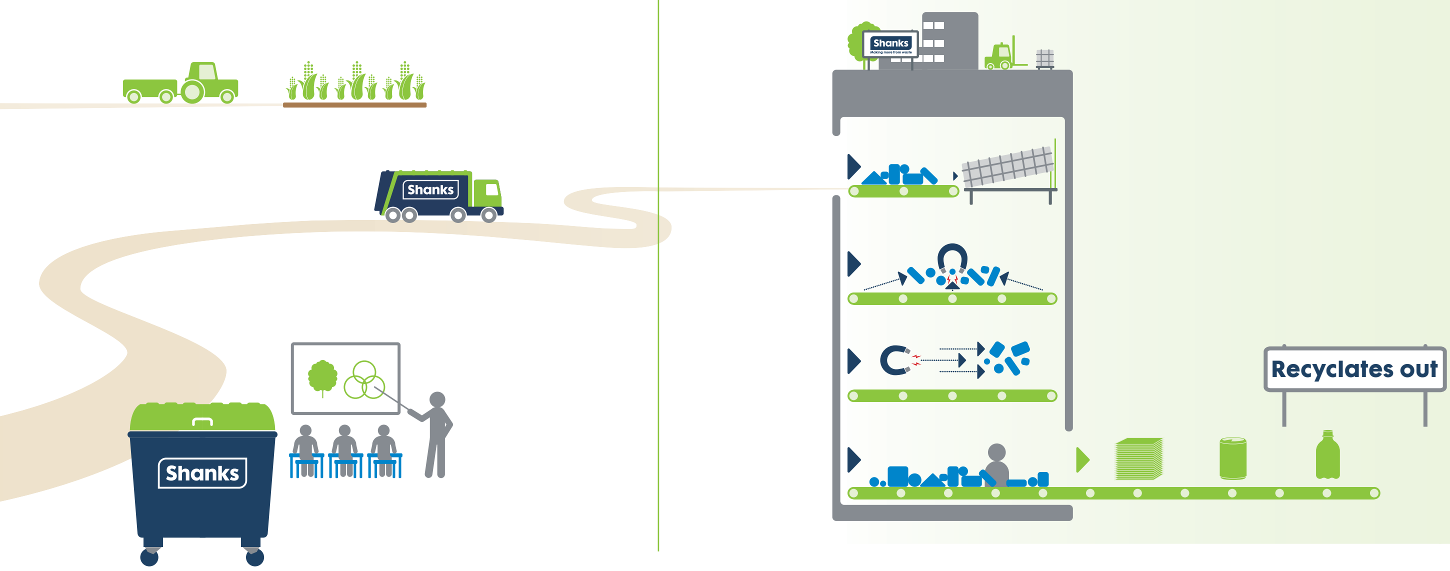
Limited capital resources means that governments and councils are currently looking for partners to work with them to provide solutions to their waste requirements.

In the UK Municipal market we are detecting early signs of a more difficult funding environment, together with local authorities planning for shorter term contracts and less capital intensive facilities.

The inter relationship between these drivers is explained further in our business model on the following pages.

Automatic waste separation

Separating material by size and weight.



Understanding our strategy and markets

Our business model – how we make money

As one of the leading providers of sustainable waste management solutions, we generate revenue from the gate fees which customers pay us for handling their waste and the sale of outputs from processing this waste, including recyclates and energy. The success of our business model is driven by a combination of external and internal factors, which are set out below.

External drivers

Market forces

Gate fees
The fees which customers pay us for handling their waste.

Cost environment
The external operational costs of running our business.

Recyclate prices
The market value of recovered materials, including paper, metals, wood, glass and rubble.

Volumes
The amount of waste handled.

Mass balance

Sale of our products (recyclates and energy)
Income generated from the sale of products from the processing of waste including green electricity, recovered fuel, recycled commodities, fertiliser, soil and aggregates.

Disposal costs
The price Shanks pays to dispose of residue waste after reprocessing.

Internal drivers

Management actions

Cost savings
Management actions to reduce our operational costs.

Investment programme
Our investment programme in sustainable opportunities that build on our capabilities and generate superior returns.

Productivity
We are focused on running our plants as efficiently as possible.

As explained in the previous section, gate fees, cost inflation, recyclate prices and volumes are largely driven by external factors, including regulation and macro-economic conditions.

These external drivers are inter-related, which means they cannot be considered in isolation. The key relationships between these drivers are set out below:

Read more about our marketplace on **page 22**

Gate fees and cost inflation

Gate fees ▲ | **Cost inflation** ▼

In normal times gate fee increases offset cost inflation. This is not the case during a recession.

Gate fees and recyclate prices

Gate fees ▼ | **Recyclate prices** ▲

If recyclate prices increase there will be pressure on us to reduce the gate fee. Similarly if recyclate prices fall we have more opportunity to increase gate fees.

Gate fees and disposal cost savings

Gate fees ▼ | **Disposal cost savings** ▲

Our disposal costs are someone else's gate fee so when gate fees are falling we expect to make savings on disposal costs.

We manage the business within the context of these external drivers to maximise profitable growth in the areas we operate in. We actively pursue a policy of maintaining customers and their volumes.

We focus on producing higher value products, including energy and optimising the outputs from our facilities by reducing disposal costs. We call this optimising the mass balance.

Our success in this area is driven by a combination of internal factors, including our use of technology, and external factors, including macro-economic conditions.

We take action to review the efficiency and cost of all support functions and to deliver our growth strategy by investing in sustainable waste management infrastructure together with efficient running of our existing UK PFI/PPP projects.

Read more on our strategy on **page 3**

Cost savings (other than disposal costs)

Management actions which focus on support function efficiency are continually taken to lower the cost base of the business. Savings are targeted across a number of areas, including procurement.

Investment in new sustainable opportunities

Our investment criteria is to achieve an overall post-tax return of 12% to 15% once the assets are fully operational which is usually two to three years after commissioning. The first phase (£100m) of our investment programme has reached the end of its investment cycle and target rates are being achieved. We have developed project management capabilities and operational metrics to ensure both operational and financial delivery. The second programme (£150m) is well underway.

Productivity

The core principles of lean manufacturing can be applied to our industry. We have started to develop an improved set of daily management tools to measure and increase the operational performance of our facilities.

3

Managing a sustainable business

Our culture and people

Our values

We have a common set of values that represent what we are as a Group and they are:

- **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

Culture

At Shanks we are committed to maintaining the highest standards in everything we do. One of the key strengths of Shanks is the well developed entrepreneurial culture of the individual businesses, which leads to responsiveness and innovation for all of our stakeholders.

Underpinning this entrepreneurial culture is a programme to develop an enhanced central framework that delivers the benefits of being a large group. This central framework is leading to greater co-ordination which has, and will, continue to deliver financial benefits and improved risk management.

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

The framework

The aim of the framework is to improve our execution ability and to ensure experience and good ideas are shared across the Group. Operations are managed through the Group Executive Committee comprising the Group Chief Executive, the Group Finance Director and the Country Managing Directors.

The main elements of this are collaboration, communication, performance management, project management, financial discipline, risk management and talent development.

Recent examples of these initiatives include:

- In the Netherlands a more centralised management of plant utilisation.
- A Group-wide procurement initiative which will deliver savings over time.
- The refreshed and more consistent use of the Shanks brand which has been launched across all of our operations this year.
- The use of engineering experts from one country to assist in the development of new plants in another country.
- The initial phase of the implementation of a Group-wide management information system which is allowing more direct comparisons of financial and operating metrics across the differing businesses.

Our people

Shanks is a service business and our employees are the foundation of our success. Our values are set out opposite and all of our employees are encouraged to live these values on a daily basis. Support and training is given to ensure these values are maintained.

It is also a key focus that we ensure our people are safe. There is significant effort in ensuring not only that health and safety practices are complied with, but our overall attitude to safety is second to none. This is applied at all levels of the organisation including reviews of performance at our monthly country review meetings, Group Executive Committee and the Board. Safety visits with formal follow up processes are conducted by senior management as well as the health and safety team. We are pleased to report as set out on page 40 that as a result of our heightened focus in this area our accident rates have reduced.

Recruitment, training and development

Our goal is to recruit individuals who will perform well and will fit with Shanks' values. We aim to ensure that all of our people are fully trained to perform their duties and in addition have in place development processes and structures to ensure they have progressive careers with Shanks. As the Group develops and in particular as part of the central framework referred to, we will enhance our leadership development programme.

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 communications is actively promoted and trade unions, works councils and other employee groups are involved wherever appropriate.

To ensure continuing employee satisfaction and wellbeing, Shanks has undertaken employee opinion surveys in its three main countries of operation and, from these surveys, has produced action plans aimed at improving employee engagement and retaining its competitive advantage in the employment market.

Shanks is a service business and our employees are the foundation of our success.

4,000+ employees

'Shanks Matters' magazine

Also launched in the year was a new internal magazine, 'Shanks Matters' which is aimed at keeping staff informed of Group, as well as national initiatives, interviews and stories of interest.

Managing a sustainable business

Delivering our goals through our people

Shanks' reputation is built on more than what we deliver to our customers. The people who work at Shanks are committed to changing the way people think about waste. Three of our people explain how they help the Group achieve its goals on a daily basis.

Marcel

Marcel Koen is a director of Vliko, one of the major recycling operations in the Netherlands, and has worked for the company since 1998. Marcel believes that there are two reasons for Vliko's success in working with household names such as Unilever and Heineken.

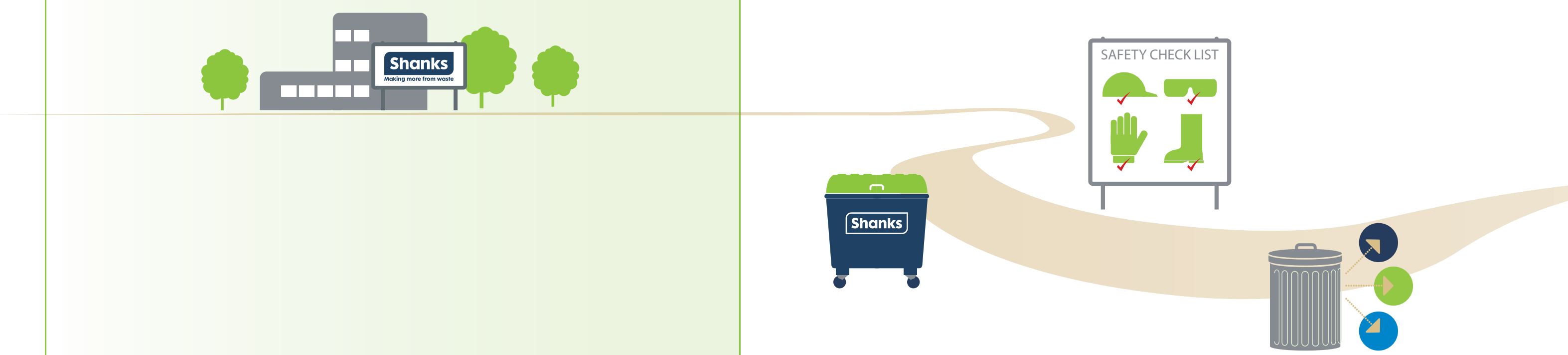
"Firstly we are extremely close to our customers and take time to understand their ambitions and processes. Increasingly we have to assess our customers' processes so we can advise on how these may be adjusted to increase recycling rates. For example, in 2007 we established a joint client and Shanks employee group for one of our major national accounts. When we started this group the customer's recycling rate for their waste was 80% – five years later it is now 98%."

Secondly Marcel believes Shanks' unique position in the Netherlands creates a competitive advantage.

"Customers stay with us and join us because Shanks is the only major waste management company in the Netherlands which has chosen to expand their recycling infrastructure rather than develop incineration capacity."

On a more personal note Marcel continued, "I am convinced that recycling is the best option. We must ensure future generations can live in a healthy environment and Shanks' goal to make more from waste supports this."

Evidence of this partnership approach and unique strategy is the recent extension of a material sorting line with optical sorting technology. This facility can automatically separate plastics and paper from general waste providing another opportunity to increase the amount of material that is recycled and diverted from disposal. "This was done directly to serve the needs of our customers," commented Marcel.



"I am convinced that recycling is the best option. We must ensure future generations can live in a healthy environment and Shanks goal to make more from waste supports this objective."

Marcel Koen
Director of Vliko

"Good companies, like Shanks, understand the positive effects safety can have on employee loyalty and productivity."

Martine Pottier
Safety Adviser

"Shanks is all about sustainable waste management and the more information on what this means that we can provide to community stakeholders the better."

Abi Cox
Waste Education and Minimisation Officer

Martine

Martine Pottier is Safety Adviser at the Roeselare facility in Belgium and is also a member of the Group Health & Safety Committee. She has worked for Shanks for 12 years and believes that Shanks is committed to improving its health and safety standards.

"Shanks understands the positive effects safety can have on employee loyalty and productivity. If an organisation cares about its people, then it must ensure their health and safety is a top priority", commented Martine.

"Of course we are not perfect and must always try to improve. The twelve key safety essentials we released last year are a good example of improvement – clear messages for everyone on common safety standards."

On the topic of what she brings personally to Shanks safety effort, Martine noted: "It is always difficult to prove the benefits of good safety standards, but communicating with and gaining the involvement of employees is key – this is where I can make a difference as the link to ensure safety is embedded in the way we work."

A typical day for Martine will see her arrive at work having given colleagues a lift as part of their car-pool scheme "this is better for the environment and fuel costs" she highlights. She will then meet with any contractors working on site to agree work plans before spending some time in the office to plan activities including health assessments and training. Martine's advice is not just limited to Shanks' sites and she also has to consider customers health and safety.

Martine commented "I often have meetings with customers, such as those we will be doing industrial cleaning tasks for. A typical issue may be fall protection while doing a job. I need to ensure that our employees will be safe and that the customer is not at risk – safety is part of the service we provide to customers."

Abi

Abi Cox is Waste Education and Minimisation Officer for the Derbyshire operations in the UK. Abi has worked for Shanks for 18 months and is clear about her role.

"The work I do allows us to give understandable and accurate information to community stakeholders and dispel any myths about recycling and recovery. This communication is two-way. Not only can I give information out, I can also act as the conduit through which the community can make its feelings known to Shanks", Abi said when asked about the work she does.

"A large part of my role is educational, from giving talks at schools and training teachers to attending road shows and presenting to local groups. The youngest age group I give talks to are five year olds, and the oldest person who has attended one of my presentations was 102 years old."

Commenting on the value she brings to Shanks, Abi said: "My entire job is about community relations and stakeholder engagement. Most people understand that landfill is not an option anymore, but are unsure about what to replace it with. Shanks is all about sustainable waste management and the more effectively we can communicate what this means to community stakeholders, the better.

"There is no typical day for me, but it might start with loading the car with educational resource equipment and packs before arriving at a school for a series of lessons focusing on composting or an introduction to reducing, re-using and recycling wastes.

"Evening work is a given, such as presentations to local community groups. People are always interested in what happens to their waste. One evening a person attending a presentation brought along a bag of waste and asked me to describe what the best waste management route for each of the items in their bag would be – an unusual, but effective approach."

Managing a sustainable business

Delivering sustainable performance

Sustainability is embedded in all that we do. We measure our performance in three areas: the environment, employee health and safety and the wider community. We have set ourselves key performance indicators for each of these areas.

Environmental sustainability

Environmental sustainability is considered in terms of reducing the use of non-renewable resources, avoiding or offsetting environmental emissions (in particular those relating to carbon and climate change) and sustainable energy use. These areas are all core to Shanks. We take waste and make more from it by turning it into products and energy. Our recycling facilities turn waste into recyclate products which are used to replace virgin raw materials and our recovery operations produce renewable fuels which replace fossil fuels. Through our activities, we support society's move to a more environmentally sustainable future.

In the past year we have brought on line more than 300,000 tonnes of entirely new waste recycling and recovery capacity aimed at fulfilling our strategy. To ensure that we continue to implement our strategy we have set ourselves publicly available and quantified objectives in the areas of recycling and recovery rate and carbon avoidance. Details of these objectives and our progress towards them can be found in our Corporate Responsibility reports.

We have set ourselves three long-term key corporate responsibility objectives to achieve by the end of March 2015:

- Increase the potential carbon avoidance facilitated by our activities to more than 1.3 million tonnes per year
- Increase our recycling and recovery rate to more than 80%
- Reduce our more serious accident rate by 25%

The issue of carbon is probably the highest profile environmental concern today. For many organisations their response to carbon and climate change is in energy efficiency and this is a valid approach. For Shanks the issue is more complex. A recycling or recovery plant, because of the equipment required, will consume more energy than a landfill site. However, recycling and recovery plants produce products which have a carbon benefit which outweighs the additional energy consumption required. A landfill site does not produce these benefits and emits methane which is a greenhouse gas.

How we manage sustainability across the Group

While responsibility for delivering sustainable performance rests at an operational level, our Corporate Responsibility Committee and dedicated Group Health & Safety Committee ensure we actively drive sustainable practices, be these in the areas of the environment, employee wellbeing or community relations. Reporting directly into the Group's Executive Committee these committees, staffed by senior specialists from across the Group, provide the supportive environment within which sustainable practice can flourish.

Through our activities, we support society's move to a more environmentally sustainable future.

Our Corporate Responsibility and Sustainability Reporting framework

Kettering Materials Recycling Facility (MRF)

Kettering MRF is just one of our new facilities commissioned and brought on line over the past year. The facility accepts commercial waste and uses high-tech separation processes such as automatic optical sorting to produce quality recyclate products which are used by re-processors to replace virgin raw materials.

Managing a sustainable business

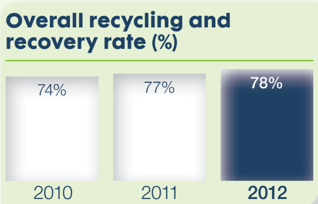
Delivering sustainable performance

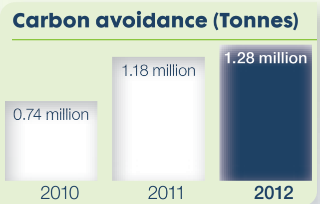
1. Environmental sustainability

Performance measures:

> Recycling and recovery rate
> Carbon avoidance

Our key performance measures for environmental sustainability are our recycling and recovery rate and the carbon avoidance our facilities provide through their activities. We also measure our environmental sustainability performance across a much wider range of measures, from full carbon footprints by country of operation and significant emissions from our facilities. Full details of these wider environmental measures and other measures referred to below, can be found in our annual Corporate Responsibility Report and wider environmental indicators document, both of which are available on our website.





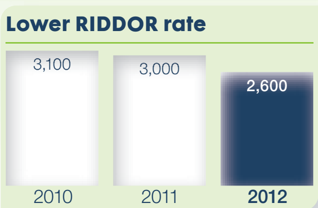
2. Health, safety and wellbeing and people

Performance measures:

> Accident rate

Health and safety is our primary concern and we are actively managing and measuring our accident rate. Waste management is a high-risk sector with accident rates equivalent to those found in the construction and agricultural industries – so ongoing focus is required in this area.

Beyond these basic measures of health and safety performance, we have a wider commitment to our people, to their development and their right to work in an environment which is free from discrimination and where their talents are used to the full. All of our people need to be competent in the tasks they perform to ensure that we both achieve our sustainability targets and comply with the varied and strict regulation in the waste management industry.



↓13%

3. The wider community and local stakeholder engagement

Performance measures:

> Complaints received

Sustainable waste management operations provide a benefit to society. We are more than aware that for those people living in the communities near to our facilities these benefits may be obscured if we fail to control the potential nuisance from our sites. Such communities are a key stakeholder group for us and it is for this reason that the number of complaints received is a key performance measure for Shanks.

We also have many more stakeholder groups including shareholders, customers and environmental groups. We take communication with these groups seriously and have a structured approach to engaging with them.

Complaints received

↓32%

in the year to March 2012

Learning more about our commitments and performance

For more information about our commitment to sustainability, details of our policies and approach to environmental, people and community issues and on our corporate responsibility performance, please read our annual Corporate Responsibility Report and associated documents, which can be found at: **www.shanksplc.com**

4

Risks and uncertainties

Risk management framework

Shanks Group's approach to risk management is governed by its risk management framework.

The Board of Directors has overall responsibility for the Group's system of internal control and risk management and has established a continuous process in relation to the identification, evaluation and management of the significant risks faced by the Group, in compliance with the UK Corporate Governance Code. This process has been in place for the financial year ended March 2012 and to the date of approval of this report and is in accordance with the Turnbull guidance.

Objectives

The objectives of the risk management framework are as follows:

- Manage risk to a level acceptable to the Group Board
- Maximise the achievement of our business objectives by managing our risks and opportunities across the Group
- Make sure that the fundamentals of good risk management are incorporated into decision-making at all levels ensuring better anticipation of opportunities to alleviate potential losses and maximise potential gains and early warning of significant problems given to senior management

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

- The schedule of matters reserved for the Board, and its adherence, 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 annually 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 country management and the Board to ensure the appropriateness of the risks identified and the controls and action plans reported.

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

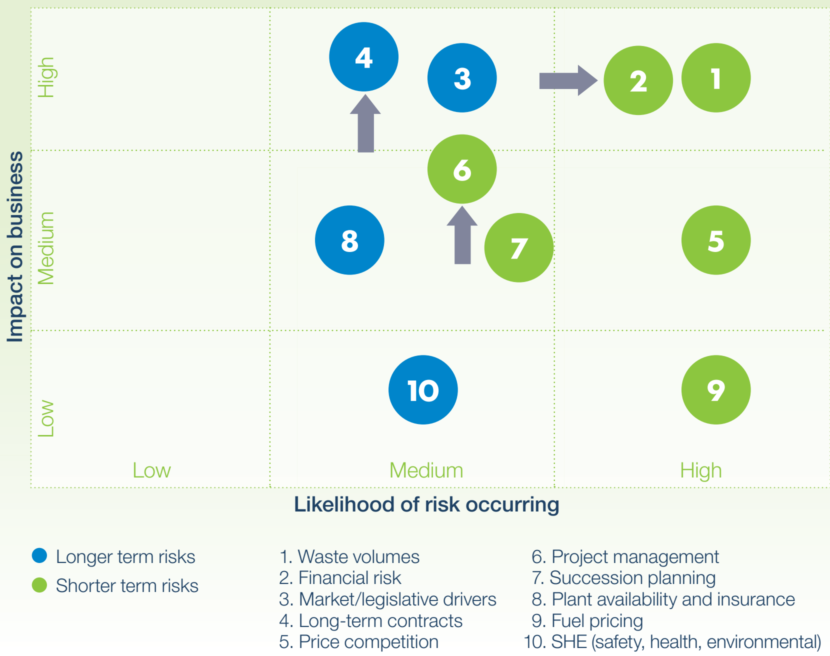
- Involvement of an increasing number of managers across the Group in assessing risks and producing the risk register in each country.
  During the year a Risk Committee was established, reporting to the Group Executive Committee, to revitalise this process by ensuring more effective input by operational managers.
- A requirement that an enhanced risk assessment is completed for all major capital requests. The risk template covers financial and commercial assumptions, reputational risk plus additional business-specific risks to ensure all threats to achieving the stated returns are fully considered before any investment is made.
- The top risks in each country are discussed at the monthly country 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, specifically in relation to investment projects and infrastructure development and acquisitions, 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 38 to 41.

Further information on the Board's assessment of the effectiveness of internal control can be found on **page 73**

Risk management responsibilities

How we see our principal risks



Risk management focus during the year

The main focus during the year has been the continued quest to ensure that risk management is firmly embedded into the day-to-day running of the business.

The establishment of a Risk Committee is aimed at providing a better link between Group and the operating companies, will afford a better risk focus at the local level and help ensure that more operational managers have an input to the risk identification and mitigation process. This process has been instrumental in the identification of new risks facing the Group, as detailed below.

Ensuring that risk management is firmly embedded in the capital allocation process was the reason behind the introduction of a more rigorous investment authorisation process.

Changes to the risk profile

Three new major risks have been identified this year:

- **Plant availability and insurance** Given inflationary risk and the increasing number of capital-intensive activities as a result of the ongoing investment programme, plant availability and insurance is recognised as an emerging risk to the Group.
- **Fuel pricing** Also treated as a growing risk is energy consumption which reflects the ongoing price inflation of all forms of energy used across the Group.
- **Succession planning** Effective succession planning and the continued ability to retain and replace key senior managers is also recognised for the first time.

There are controls and processes in place to adequately mitigate these new risks. These are explained more fully on pages 46 and 47.

Product quality, listed last year, is no longer included as a key risk due to management actions effectively mitigating this risk with product quality being consistently monitored.

As the importance of long-term contracts to the Group increases in the form of PFI and PPP initiatives so it is expected that the potential impact on the business in terms of risk naturally increases also. The existing procedures effectively mitigate this increasing risk.

With increasing amounts of capital investment scheduled it is to be expected that the risks associated with the management of these projects will also rise in monetary terms. It is for this reason that the enhanced capital authorisation process has been implemented and an updated post-investment review programme will be rolled out in the coming year.

Financial risk has increased due to the instability of the Euro.

Risks and uncertainties

Principal risks and uncertainties

Strategic priorities

1. Invest in new sustainable opportunities that build on our core capabilities and generate attractive returns
2. Deliver outstanding operational performance from existing businesses and investments
3. Develop world-class capabilities and technologies in a cohesive Group culture
4. Actively manage Shanks' portfolio and use bolt-on acquisitions to accelerate profitable growth

External drivers

A. Macro market drivers

B. Regulatory and legislative

C. Economic pressures and limited capital

Strategic priorities/ External drivers	Risk/impact	Our response	Progression
2, 4, C	1 – Waste volumes		
	The inability to attract sufficient waste volumes due to external economic factors including over capacity of incineration in the Netherlands, limiting the availability of waste by commercial and municipal customers. If facilities are working at below full capacity, there is the likelihood of increased unit costs.	• Regular reporting and monitoring of volumes both at local and Board level through the use of performance measures. • Dedicated sales teams. • Innovative action taken to increase volumes through the sourcing of new waste streams such as waste importation into the Netherlands and increasing presence in household waste markets in Belgium. • Reorganising the processing and disposal of waste to optimise asset utilisation and reduce costs with a higher focus on energy production.	No change due to the continuing macro-economic environment.

Strategic priorities/ External drivers	Risk/impact	Our response	Progression
C	**2 – Financial risks** The Group is exposed to both interest rate risk and foreign exchange risk. Adverse movements in interest rates or foreign exchange will reduce profitability and/or asset values. Interest rate and foreign exchange sensitivity is set out in note 20 to the Financial Statements.	• Group Treasury is charged with managing these risks in line with policies approved by the Board. Interest rate risk is managed though the use of interest rate swaps, senior notes taken out at fixed rates and by the retail bond. • Foreign exchange risk is mitigated by arranging borrowings to be drawn, as far as possible, in the same currencies as the underlying investment to reduce net translation exposure. Group strategy remains to leave income risk unhedged.	Increased risk due to the instability of the Euro.
1, 3, A, B	**3 – Market/ legislative drivers** Our business is driven by legislative and market drivers that significantly affect our waste treatment activities. As a business we have to understand and anticipate these changes or risk loss of market share as a consequence. In the main, these changes present an opportunity to drive the business forward through our positioning within the waste hierarchy. However, a failure to properly understand the likely changes or being unable to develop new technologies could also result in unanticipated cost increases or, in extreme cases, the write-off of investments.	• Corporate strategy aligned with EU waste policy towards more sustainable waste management. • Employment of waste professionals who understand the underlying legislative landscape and the effects on the business. • Membership of trade associations in all geographic areas in which the business operates that lobby at regional and national level in the interest of the waste industry. • Continuing search for new technologies and, increasingly, the sharing of that technology across the Group.	No change from last year.
1, 2, 4, A, C	**4 – Long-term contracts** The Group enters into long-term contracts with municipalities in the UK (including PFI contracts), the Benelux countries and Canada. Entering into unfavourable contracts will potentially subject the Group to low margins or contract losses for many years.	• Selective bidding process. • Detailed risk assessments for all major contracts. • Authorisation matrix requiring appropriate senior management sign-off. • Of total revenue circa 30% relates to contracts of over two years duration and this percentage has been improving over time.	Increased risk and opportunity as the level of long-term contracts rise.

Risks and uncertainties

Principal risks and uncertainties

Strategic priorities/ External drivers	Risk/impact	Our response	Progression
2, 4, C	**5 – Price competition** Price competition both in terms of incoming waste streams and the sales of recyclate material. This is largely affected by external factors such as macro-economic conditions, competition and commodity prices with the risk of a fall in margins if prices are not maintained or costs kept under control.	• Regular reporting and monitoring of price levels both at local and Board level through the use of KPIs. • Use of long-term contracts where possible to minimise the effect of pricing pressures. • Seeking creative alternative low-cost outlets for waste (such as SRF) to offset incoming waste price pressure. Both the UK and the Netherlands export recycled material to the Far East. • Cost saving initiatives to offset pricing pressures such as optimising sorting efficiencies and other cost saving projects. • A commitment to good customer relations and service through ongoing staff training and the use of customer relationship professionals.	Continuing pricing pressure offset by longer term contracts.
1, 3, 4	**6 – Project management** To meet our commitments relating to our vision and strategy we are making significant capital investments in our infrastructure. Failure to bring in capital projects on time and on budget will lead to an inability to meet contract terms and deliver business plan returns. In addition, there is also the risk that capital investments will not provide the necessary returns if the underlying assets are not properly managed on a long-term basis.	• The appointment of project management professionals to oversee key projects. • Minimum hurdle rates set and monitored. • Large developments such as Wescott Park, Kettering and East London in the UK and enhancements at ATM in the Netherlands are subject to rigorous monitoring by local management. • A central project management office so that the progress of all significant projects is reported back to Group senior management and the Board. • An enhanced capital authorisation process has been implemented during the year.	Increasing risk as the level of investment increases.
2, 3, 4	**7 – Succession planning** The resignation of the previous Chief Executive and the successful search for his replacement have highlighted the continued need to be able to retain and replace key staff in the future.	• Appointment of an interim Group HR Director to oversee organisational design, talent management, hiring and remuneration. • Permanent Group HR Director actively being sought. • Succession plans in place where appropriate.	New risk.

Strategic priorities/ External drivers	Risk/impact	Our response	Progression
2, 4	**8 – Plant availability and insurance** The Group operates an increasing number of capital-intensive sites. Fire or other disaster, failure of a technical installation or severe weather could lead to the loss of availability of a site. Inadequate insurance cover due to inflation or new facilities could result in the inability to rebuild a plant without a fresh capital injection.	• Active monitoring and enforcement in relation to maintenance, security, health and safety and staff training standards. • Use of experienced insurance brokers. In addition, a full review of locations, equipment and stock has been conducted over the year in conjunction with the brokers to reduce insurance cover risk. • Other developments during the year have included the upgrade of disaster recovery planning in the UK and the upgrading of business interruption insurance in terms of duration of loss at UK AD plants. In Belgium, there has been investment in new fire detection and suppression systems at Mont-Saint Guibert, Villerot and Monceau while new procedures have been implemented to ensure that waste is adequately segregated.	New risk.
2, 4, C	**9 – Fuel pricing** Continued increases in diesel and other fuel prices have heightened awareness of energy consumption. Failure to control the effects of price inflation or reduce consumption will result in reduced operating margins.	• Hedging of diesel costs initiated at Group level. • Fuel surcharges in place in the Netherlands and the UK where possible. In Belgium an indexation mechanism is in place to pass increased costs on to municipal customers. • In Belgium, driver training piloted in Liege has reduced fuel consumption by 2% and will be rolled out further during the coming year. • In the UK, intelligent cab-based systems are being tested to reduce fuel costs as well as reduce the risk of accidents.	New risk.
2, 3, 4, B	**10 – SHE (safety, health, environmental) compliance** Shanks' employees are the Group's most important and valuable asset and their health and safety are paramount. Operating sites require local licences, permits and other permissions to operate and compliance with these is monitored by various regulatory agencies. Failure to comply with either health and safety or environmental legislation could result in prosecution, loss of permits and site closure as well as reputational damage.	• Safety leadership scheme in place. Amongst other initiatives this requires senior executives to make regular health and safety visits to plants across the Group. • Health and safety is the top agenda item at all management meetings. • Monthly SHE reporting across all levels of the organisation. • Employment of health and safety professionals. • Conduct of SHE audits. • Environmental management systems and action programmes including regular site inspections.	No change.

5

Our performance

Group

A strong performance from our strategic investment programme and continued cost efficiencies has mitigated the adverse market effects.

Chris Surch Group Finance Director

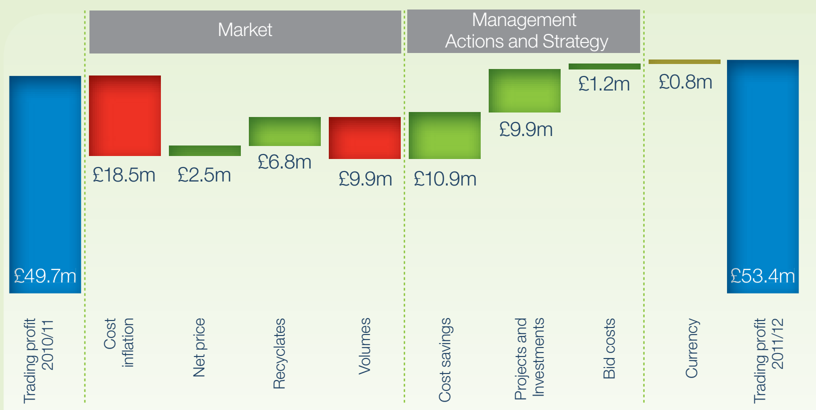
Overview and Group trading performance

This year saw a robust performance in a tough economic climate with trading profit up 7%. A strong performance in management actions (efficiency, cost savings and returns from the investment programme) has continued to mitigate the adverse market conditions which increased during the second half of the year, particularly in Solid Waste. The Euro strengthened against Sterling during the year resulting in a 1% increase in Euro denominated profits. Excluding the effects of currency translation of £0.8m, trading profit was 6% up on the prior year.

During the year, our business in the Netherlands contributed 63% (2011: 69%) of the Group's trading profit (before the allocation of Group central services), with Belgium contributing 18% (2011: 20%), the UK 12% (2011: 9%) and Canada 7% (2011: 2%). Further details of the Group's trading performance and results by waste activity are given in the country reviews included on pages 52 to 65. Group central services refers to the cost of the Group's head office functions including finance, treasury, tax, internal audit and company secretarial. The increased costs in the year relate to employee and strategic business review costs.

During the year, there has been a negative gross market impact (the net of cost inflation, volumes, price and recyclate prices which are all linked) of £19m. This impact has been reduced by further efficiency and cost savings of £11m achieved during the year. Overall net price has been positive year on year with strong pricing in UK Solid Waste and Netherlands Hazardous Waste compensating for ongoing pricing pressure in Netherlands Solid Waste where commercial pricing was down 7% in the year. Overall costs have increased by circa 2% principally due to salary inflation together with some one-off costs. The selling price for our main recyclates of metal and paper continued at high levels for the majority of the period resulting in a benefit of £7m in the year, although the benefit in the second half was lower due to the fall in paper prices in October 2011. The volume declines are principally in Solid Waste in all territories. Efficiency and cost savings come from reductions in final costs of disposal to landfill or incineration and other operational and support function savings as well as increased plant efficiency.

Year on year trading profit causal



The projects and investments increase of £9.9m represents the year on year profit impact of the £100m strategic investment programme. The principal growth projects which contributed in the year were the Ghent Solid Recovered Fuel (SRF) plant, ATM waste water treatment improvements, the Orgaworld Amsterdam Anaerobic Digestion (AD) plant and the Canadian plants. The recycling and AD plants in Scotland remained in commissioning for a large part of the year and consequently have had a minimal effect on the result for the year. Those projects in the initial £100m strategic investment programme which were fully up and running at normal operating levels have achieved a 12.2% return and those commissioned and ramping up 6.7%. This rate of return remains in line with the post-tax target of 12% to 15% once the assets are fully operational which is usually two to three years after commissioning. The next phase of the investment programme, totalling £150m, has now started and approximately £65m of the projects are under construction.

Group revenue and trading profit by geographical region

	Revenue				Trading profit			
	2012	2011	Variance		**2012**	2011	Variance	
	£m	£m	£m	%	**£m**	£m	£m	%
Netherlands	**380**	362	18	5	**38.2**	37.2	1.0	3
Belgium	**172**	172	–	–	**11.0**	10.8	0.2	1
UK	**186**	176	10	6	**6.9**	5.0	1.9	39
Canada	**15**	10	5	43	**3.9**	1.3	2.6	>100
Group central services	**(3)**	(3)	–	–	**(6.6)**	(4.6)	(2.0)	(47)
	750	717	33	5	**53.4**	49.7	3.7	7

Other performance metrics

	2012	2011
EBITDA	**£102m**	£99m
Trading margin	**7.1%**	6.9%
Return on operating assets	**15.2%**	14.3%
Return on capital employed	**6.7%**	6.4%
Post-tax return on fully operational projects	**12.2%**	13.0%

Financial review

Revenue

Revenue from continuing operations increased by £33m to £750m. Excluding the positive effect of currency translation of £9m, revenue was 3% up on the prior year.

Profits

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

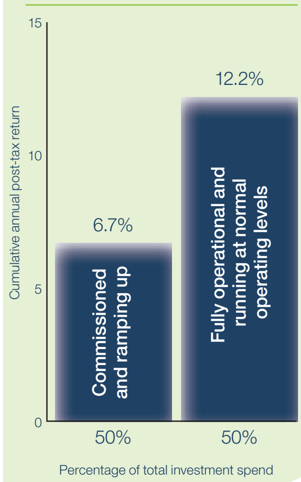
Total non-trading and exceptional items of £7.4m (2010/11: £14.0m) are further explained in note 4 to the financial statements on page 105 and include:

- Amortisation of intangible assets acquired in a business combination of £3.7m (2010/11: £3.9m).
- Financing fair value remeasurement charge of £0.8m (2010/11: £5.8m).
- Impairment charge of £2.5m (2010/11: £11.9m) – changes in market conditions in the volumes delivered to and prices achieved in our small UK joint venture landfill have resulted in a goodwill impairment. The prior year charge related to impairments due to changes in market conditions in wood based and landfill markets in Belgium and the Netherlands.
- A gain of £1.6m (2010/11: £nil) following the reassessment and settlement of contingent consideration in relation to an acquisition made in the UK in the year ended 31 March 2011.
- Write off of investment in a joint venture arrangement £2.0m (2010/11: £nil) – associated with difficulties in the construction of a biomass plant and changes in market conditions.
- The prior year included credits of £3.7m related to the profit on sale of PFI equity share in September 2010 and of £3.9m to a pensions liabilities curtailment gain following the introduction of a 1% pensionable pay cap for active members of the UK defined benefit final salary scheme.

Operating profit on a statutory basis, after taking account of all exceptional items and amortisation of acquisition intangibles, has increased 13% from £41.5m to £46.8m.

Profit before tax on a statutory basis has increased 48% from £21.2m to £31.4m.

Post-tax returns from investment programme



Our performance

Group

The Board has recommended a final dividend of 2.35 pence, making the full year dividend 3.45 pence, an increase of 6% on the total paid in respect of 2011.

Summarised cash flow

	2012 £m	2011 £m	Difference £m
EBITDA	**102**	99	3
Working capital movement and other	**2**	5	(3)
Net replacement capital expenditure	**(40)**	(32)	(8)
Interest and tax	**(20)**	(10)	(10)
Loan fees paid	**(1)**	(3)	2
Underlying free cash flow	**43**	59	(16)
Dividends paid	**(13)**	(12)	(1)
Net growth capital expenditure	**(38)**	(34)	(4)
Acquisitions and Disposals	**(7)**	17	(24)
PFI funding and others	**5**	(7)	12
Net core cash flow	**(10)**	23	(33)
Free cash flow conversion*	**81%**	**118%**	

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

Net finance costs

Finance charges, excluding the change in fair value of derivatives, have increased by £0.2m to £14.7m (2010/11: £14.5m). Core interest, excluding the project finance relating to the PFI contracts, reduced by £0.6m primarily due to a lower amortisation charge for loan fees incurred in the 2011 refinancing.

Taxation

The underlying tax charge for the year of £10.1m equated to an effective rate of 26% down from 26.4% last year. The exceptional tax credit of £5.2m in the current year related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Earnings per share

Underlying earnings per share, which excludes the effect of non-trading and exceptional items, increased at constant currency by 9% to 7.2 pence per share (2011: 6.5 pence per share) as a result of the increased profits and a further reduction in the effective tax rate. Basic earnings per share from continuing operations increased from 5.5 pence per share to 6.7 pence per share.

Dividend

The Group intends to pursue a progressive dividend policy within a range of 2 to 2.5 times cover in the medium term. Consistent with this policy, the Board has recommended a final dividend of 2.35 pence, making the full year dividend 3.45 pence, an increase of 6% on the total paid in respect of 2011.

Cash flow performance

The strong focus on cash management has continued throughout the year resulting in a free cash flow conversion ratio of 81%. Working capital levels have been tightly monitored during the year.

The ratio of replacement capital spend to depreciation was 78% for the year which was within our targeted range.

Growth capital spend of £38m included the UK recycling and organics facilities and a number of other growth projects in the Netherlands in both Solid Waste and Hazardous Waste. Also included is £3m relating to the acquisition of the business and assets of a glass recycling business in the Netherlands.

The prior year acquisitions and disposals income of £17m included the proceeds from the PFI equity sale in September 2010 with the outflow this year including a number of deferred consideration payments.

The current year PFI funding and others total included the receipt of £8.7m (€10.5m) 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 appealed and the ultimate outcome of the case remains uncertain. The amount has been recorded in provisions until the final outcome of the case is known with greater certainty.

The exchange rate on the Euro has moved from 1.13 at 31 March 2011 to 1.20 at 31 March 2012 which has resulted in a £10m benefit on the translation into Sterling of the Group's Euro and Canadian Dollar denominated debt.

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.

Treasury facilities

At 31 March 2012, the Group's core 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 2012, €67m equivalent of term loan was drawn in Euro and Canadian Dollars on three month interest periods plus €33m of the revolving credit facility. The remaining €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. Interest is based on LIBOR or EURIBOR plus the margin for the relevant period. The Group has entered into three year fixed interest rate swaps with a principal of €30m and Canadian $49.5m underwritten at effective interest rates of 2.82% and 2.85% before margin. The definitions of the covenants of this facility exclude the results of PFI and other project companies and the results of joint ventures except where received in cash. The margin varies on a ratchet fixed by the Debt:EBITDA ratio for the prior quarter on a rolling 12 month calculation. The financial covenants of this facility are principally the ratio of Debt:EBITDA of less than 3.00:1, interest cover of not less than 3.00:1 and a minimum net worth of £225m. At the end of March, the ratio of core net debt to EBITDA was 1.7 times which is well within our banking covenant test of 3.0 and our target of less than 2.5 times.

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 €18m of notes issued under the Group's Pricoa private placement carry fixed interest at 6.9% and are due for repayment in September 2013. An additional €40m of private placement with maturity in April 2018 and an interest rate of 5.025% was secured on 11 April 2011. The financial covenants of this facility are identical to those of the Group's bank financing outlined above.

The Group also has approximately £23m of 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 by a legal mortgage over land and/or a fixed and floating charge over the assets of the PFI/PPP company 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. For those contracts where the Group currently holds 100% of the equity in its PFI/PPP companies, the net debt of £45m and the fair value of the interest rate swaps used to fix interest rates of £15m are fully consolidated in the Group balance sheet. The maximum which could be drawn down under these facilities at 31 March 2012 was £103m. The interest rates on these loans vary with one month LIBOR during the construction period and three month or six month LIBOR in the post construction period. In order to provide a fixed price to the client local authority varying only with inflation, interest rates are fixed by means of interest rate swaps at the time of contract inception.

Retirement benefits

The assets of both the final salary and money purchase schemes in the UK are held separately from those of the Group and are invested by independent professional investment managers. At 31 March 2012 the net retirement benefit deficit relating to these UK schemes was £7.6m compared to an asset of £4.9m at 31 March 2011 primarily as a result of the movement in discount rates in the year. Following discussions with the trustees, the Group agreed in 2010 a funding plan over eight years. The plan comprised an annual payment of £1.8m per annum to April 2012 and then increasing to £3.0m per annum. This payment profile will be reconsidered at the next actuarial valuation which is due as at 5 April 2012.

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.

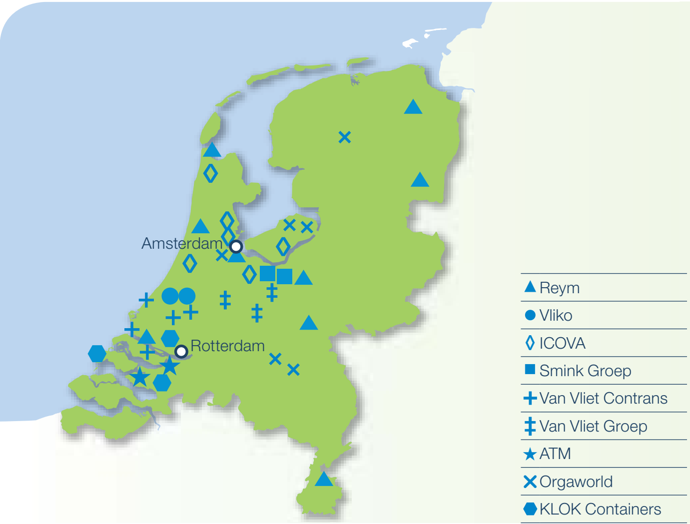
Insurance

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.

Longer maturity on debt profile and strong balance sheet.

Our performance

Netherlands



Michaël van Hulst
Managing Director
Shanks Netherlands

Our main activities

- > Collection
- > Recycling
- > Fuel pellets
- > Soil treatment
- > Waste water treatment
- > Industrial cleaning
- > Anaerobic digestion
- > Composting

Revenue and trading profit

	Revenue				Trading profit			
	2012	2011	Variance		**2012**	2011	Variance	
	€m	€m	€m	%	**€m**	€m	€m	%
Solid Waste	**253**	251	2	1	**19.7**	25.0	(5.3)	(21)
Hazardous Waste	**173**	165	8	4	**26.4**	20.9	5.5	26
Organics	**18**	15	3	24	**2.5**	2.2	0.3	14
Country central services	**(5)**	(6)	1	19	**(4.5)**	(4.6)	0.1	3
Total (€m)	**439**	425	14	3	**44.1**	43.5	0.6	1
Total £m (at average FX rates)	**380**	362	18	5	**38.2**	37.2	1.0	3

Other performance metrics

	2012	2011
Trading margin	**10.1%**	10.2%
Return on operating assets	**17%**	17%
Recycling and recovery rate	**88%**	88%
RIDDOR rate	**1,600**	1,700

Vliko

Operating in the province of Zuid-Holland Vliko collects, sorts and recycles C&D and commercial waste.

Our activities

There are three divisions in the Netherlands: Solid Waste, Hazardous Waste and Organics.

The Solid Waste business comprises 23 recycling and transfer sites many of which are substantial in size, together with supporting collection vehicle fleets of 456 vehicles. Overall the businesses typically recycle and divert from landfill or incineration more than 85% of the waste they process. In normal times, the business derives approximately half its trading profit from construction and demolition (C&D) waste, the other half being from more general industrial and commercial (I&C) waste and other activities. In the current recessionary climate the split is 45% for C&D and 55% for I&C. The work from the municipal sector has increased in recent years with bulky waste, municipal collection and electrical waste contracts. The business is principally based in the populous Randstad area to the west of the country.

The Hazardous Waste business comprises two units: Afvalstoffen Terminal Moerdijk (ATM), a treatment plant and Reym, which focuses on industrial cleaning. ATM is one of the world's largest single site hazardous waste facilities, processing more than 1.5m tonnes of low contamination hazardous waste per annum. There are three principal processes: thermal treatment of contaminated soils, pyrolysis of paint waste and biological and physio-chemical treatment of waste water. Reym supplies industrial cleaning services to the oil and gas, petrochemical and other industries.

Organics comprises the Orgaworld business which consists of a number of treatment facilities for organic wastes by wet or dry anaerobic digestion (AD) or tunnel composting. These facilities include a flagship industrial AD and waste water facility in Amsterdam. The waste streams originate from industry, mainly from food processing companies and supermarkets, and source segregated organic municipal collections.

The Netherlands has performed well with overall revenue and trading profit, excluding exchange, rising by 3% and 1% respectively and trading margins remained strong at 10%.

Market overview

The Dutch Solid Waste market is advanced, with a high level of recycling of the overall waste volumes of circa 51m tonnes. The State Secretary of Infrastructure and the Environment has stated recently that the recycling rate for the Netherlands should be at 83% by 2015. Volumes sent to landfill are very low at approximately 3%. On 1 January 2012 tax on waste sent to landfill was reduced to nil, however new strict guidelines on what can be sent to landfill have been issued. Overcapacity in the waste incineration market has continued and this has resulted in lower gate fees on the spot market and ongoing price pressures. Within these waste volumes the C&D market is important and accounts for approximately one third of the whole market. The other major sectors are general commercial and industrial and municipal.

The main competitors to Shanks include Van Gansewinkel Group and Sita with a number of other strong regional players. In the Randstad area for both I&C and C&D Shanks is the market leader whereas at a national level we are market leader for C&D and number two for I&C.

Hazardous Waste is a more specialist market with annual revenues in excess of circa €570m and the number of players is smaller due to the investment required to establish efficient competitive operations. ATM is the market leader in its field and there is strong potential for growth in waterside activities as legislation becomes more stringent. Similarly Reym has a strong market position and is market leader for industrial cleaning.

The Organics market is circa 3.5m tonnes and Shanks is the third largest competitor with Attero being the market leader. Expansion of the AD market sector is anticipated in the coming years due to the shift from composting to dry and wet digestion driven by green subsidies.

Our performance

Netherlands

Strategic drivers

The strategic goal for the Dutch operations continues to be further improvements in the mature Solid Waste market together with development in both Hazardous Waste and Organics.

For the Solid Waste business this will be achieved by diversification into municipal markets and broadening the product portfolio to offset falling volumes and lower prices in the traditional solid waste markets. Also, there will be more focus on the production of high quality fuel substitutes and recyclates. The key strategic drivers remain the availability of waste and the highly competitive pricing in the incineration market.

For Hazardous Waste, the availability of soil volumes is key and with less Netherlands based activities it is important to win overseas contracts. The lower activity in the industrial market for paint waste will be replaced with further waterside activities given our recent expansion of capacity in this area.

For Organics the increased focus on processing organic waste will lead to opportunities in this market.

We are also focused on using the attributes of all three businesses to provide combined solutions (involving Solid Waste, Hazardous Waste and Organics) to our customers. We believe that increasingly customers will require a single supplier to deal with all of their waste requirements.

Operational review

Despite the challenging market conditions in Solid Waste, the Netherlands has performed well with overall revenue and trading profit, excluding exchange, rising by 3% and 1% respectively and trading margins remained strong at 10%.

The Solid Waste business continued to be impacted by downward pricing pressure and lower volumes which have been compensated in part by recyclate pricing and strong management actions in the achievement of cost savings. The excess capacity in the incineration market has continued throughout the year and prices for Commercial and C&D wastes have declined on average by 7% and 5% respectively compared with the prior year. Overall volumes were 1% down for Commercial and 2% down for C&D. In early 2012, the Economic Institute for the Building Industry stated that volumes in the Dutch construction market would be down 3.5% in 2012 with no recovery in the Dutch housing market expected before 2014. Overall recyclate pricing has been strong throughout the year and has contributed €5m to the profitability of the division year on year.

ATM

ATM is one of the world's largest single site hazardous waste facilities, processing more than 1.5m tonnes of low contamination hazardous waste per annum.

KLOK Containers

Based in Rotterdam, KLOK Containers provides waste collection and recycling services. Waste is sorted, treated and processed for reuse and fuel for green energy.

On 1 March 2012 we acquired the business and assets of Van Tuijl, a key player in the Dutch glass recycling market. This acquisition has given us access to the glass recycling market and offers the opportunity to provide our larger customers such as Unilever and Heineken with a closed loop cycle for their waste streams.

In Hazardous Waste, our ATM waste water and soil treatment facility has had an exceptional performance. For both activities, volumes were up on the prior year boosted by a one-off contract and this together with continued control of treatment costs and the recent investments have resulted in good profit growth. Reym, our industrial cleaning business, has had a satisfactory year with strong revenues but has seen continued pressures on pricing which resulted in lower overall margins.

The growth in the Organics activity of Orgaworld was principally attributable to the final commissioning and ramping up of the AD and waste water facility in the port of Amsterdam. This project has performed well in the year with production of green electricity from the biogas and the capture of the heat from the plant processes which has been exported to the Amsterdam 'heat grid' for access by other companies requiring heat. Overall margins have fallen slightly due to further business development expenditure as we continue to investigate opportunities to expand.

Continued focus on accident rates and safety has resulted in a 6% improvement to the RIDDOR rate in the year.

Outlook and focus for 2013

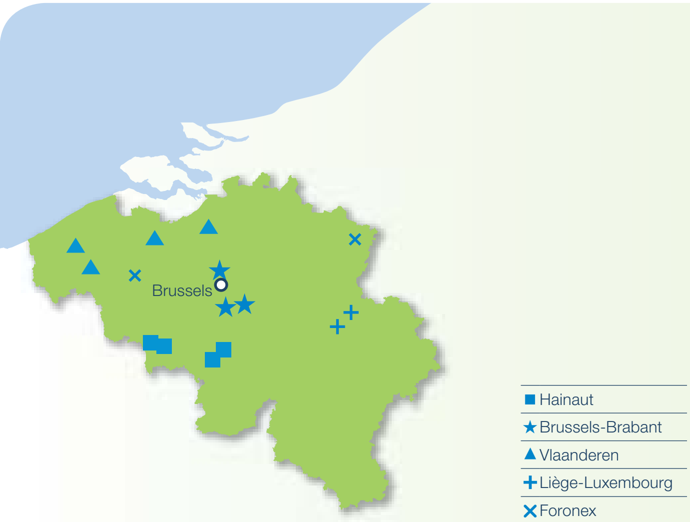
Markets in the more mature Solid Waste business are expected to remain challenging in the short term due to pricing pressures and availability of waste volumes. The continued investment in growth projects in Hazardous Waste and Organics activities, together with focus on cost control and margin improvement will position the business for future growth.

A strong performance from Hazardous Waste (ATM and Reym) – profits up 26% year on year.

Van Tuijl

A key player in the Dutch glass recycling market.

Our performance
Belgium



Philippe Marcuz
Managing Director
Shanks Belgium

Our main activities

- > Collection
- > Sorting and reprocessing
- > Recovered fuel
- > Wood trading and biomass production
- > Industrial cleaning
- > Waste water treatment
- > Power generation

Revenue and trading profit

	Revenue				Trading profit			
	2012	2011	Variance		**2012**	2011	Variance	
	€m	€m	€m	%	**€m**	€m	€m	%
Solid Waste	**148**	148	–	–	**9.1**	7.2	1.9	27
Hazardous Waste	**55**	59	(4)	(7)	**3.3**	4.1	(0.8)	(21)
Landfill and Power	**12**	12	–	2	**6.3**	5.7	0.6	11
Sand Quarry	**3**	3	–	(7)	**0.7**	0.8	(0.1)	(18)
Country central services	**(19)**	(20)	1	(5)	**(6.6)**	(5.1)	(1.5)	(30)
Total (€m)	**199**	202	(3)	(2)	**12.8**	12.7	0.1	–
Total £m (at average FX rates)	**172**	172	–	–	**11.0**	10.8	0.2	1

Other performance metrics

	2012	2011
Trading margin	**6.4%**	6.3%
Return on operating assets	**20%**	18%
Recycling and recovery rate	**74%**	74%
RIDDOR rate	**5,100**	6,100

Renewable energy generation in Wallonia

Generation of renewable electricity provides a major source of income from our landfill operation.

Our activities

The activities in Belgium are broken down into Solid Waste, Hazardous Waste, Landfill and Power and a Sand Quarry.

The Solid Waste business is similar to that in the Netherlands, however the division is less reliant on the Construction and Demolition (C&D) sector and also includes the operation of municipal waste collection contracts including the City of Liege and an intermunicipality partnership in the Hainaut region of Wallonia. Solid Waste also includes Foronex. This business, which was acquired in 2008, is principally focused on the growing wood biomass market with a subsidiary wood trading activity.

The Hazardous Waste division comprises industrial cleaning activities, hazardous and medical waste collection. The industrial cleaning businesses service the steel, cement, chemical and other large industries across Belgium and also in northern France. The main treatment facility at Roeselare in West Flanders specialises in the preparation of waste derived fuels and minerals for the cement industry. Like the ATM facility in the Netherlands, the facility also treats contaminated waste water streams using physio-chemical and biological processes. Green electricity certificates are received for the electricity and heat produced during the processes.

The Landfill and Power operations are situated in the Walloon region where we have one of the largest landfills in the area. Landfill activity has now stabilised following changes to taxation rates and types of waste that can be landfilled in the last few years. A major source of income remains the generation of renewable electricity from the methane produced as the biodegradable waste decays.

In addition we operate a Sand Quarry which is adjacent to the landfill in Wallonia. This remains a small but profitable activity.

Core Solid Waste businesses have performed well with I&C volumes at the sorting centres up 5%.

Market overview

In Belgium, environmental responsibility is devolved to the three regions, namely Flanders, Wallonia and Brussels. Flemish environmental legislation and landfill tax levels are very similar to those in the Netherlands resulting in similar market characteristics with high levels of recycling, a reliance on incineration for final disposal and very little landfill. In Wallonia landfill has historically been more prominent, however landfill tax rose significantly in 2010 to an effective rate of €90 per tonne as an incentive to promote increased recycling and other forms of energy recovery. In addition, the region adopted a strict interpretation of the Landfill Directive requirement for the pre-treatment of organic waste and residual waste from household collection. The Brussels region has limited landfill capacity and has its own incinerator but beyond that depends on the two other regions for final disposal.

Exports of waste from Belgium are only allowed in accordance with strict pre-treatment criteria which in practice limit the extent of such movements of waste and encourage the treatment of waste using local capacity.

The Belgian waste market is still highly fragmented with the largest five players accounting for circa 40% of the total market value. Overall Shanks is the fourth largest player in the Belgian market with Sita being the market leader. Collection services remain increasingly important in view of EU recycling and sorting requirements and the market can be split between Industrial and Commercial (I&C) which accounts for more than 60% of the total waste revenues and is based on short-term contracts and municipal which is based on longer contracts. As in the Netherlands, volumes of waste have started to decline with pricing pressure for I&C contracts.

Power generation from waste (biogas) continues to benefit from environmental subsidies, although power prices are volatile from period to period.

Our performance

Belgium

Roeselare, West Flanders

This facility specialises in the preparation of waste derived fuels. Green electricity certificates are received for the electricity and heat produced during the processes.

Strategic drivers

In Belgium the strategy is to grow the Solid Waste businesses by ensuring competitive advantage through lower average processing and disposal costs and the production of high quality Solid Recovered Fuel (SRF) and biomass products.

As in the Netherlands the key drivers are the amount of waste available and the competitive pressure on prices. The increase in landfill taxes has offset this impact to an extent with reduced levels of waste going into landfill and increased waste sent to incinerators and sustainable recycling facilities.

Our focus remains on treating waste in innovative ways and maximising the volume of products such as SRF produced by our facilities as an alternative to sending the waste to landfill and incinerators.

Operational review

Overall the result for the year shows a small decline in revenue with trading profit remaining unchanged year on year.

The core Solid Waste businesses have performed well with I&C volumes at the sorting centres up 5%, although levels declined in the latter months of the year. Overall price was 2% down on the prior year. The result has been adversely affected by a €0.7m year on year reduction in the return from our investment in an inter-municipality incinerator.

The Foronex business is included within Solid Waste and as communicated in earlier statements, a number of changes were made to strengthen the management team. This has had a beneficial impact on trading with an overall €2m improvement to profits year on year.

As reported at the half year, there had been delays in the commissioning of the combined heat and power plant in our joint venture arrangement with Enviva (formerly known as Intrinergy). It became apparent that significant further investment would be required to get the plant operational albeit at a lower level of profitability. As a consequence of the joint venture company being in breach of its banking covenants, we no longer have control and accordingly have written off our investment in this venture. This has resulted in an overall charge of £2m which has been treated as a non-trading exceptional item.

Brabant, Wallonia

Our principal sorting centre in Wallonia.

Biomass production facility in Flanders

100,000 tonnes per annum facility producing wood biomass for the electricity industry.

Overall profits from the Hazardous Waste businesses were down significantly year on year. Biogas production at the green energy plant in Flanders was down in the first half but following efficiency improvements this has now been addressed and has returned to more normal levels. Profits have been affected by lower power prices which are expected to increase in the medium term.

Pricing in the electricity market continues to be difficult and this has resulted in lower Power revenues year on year.

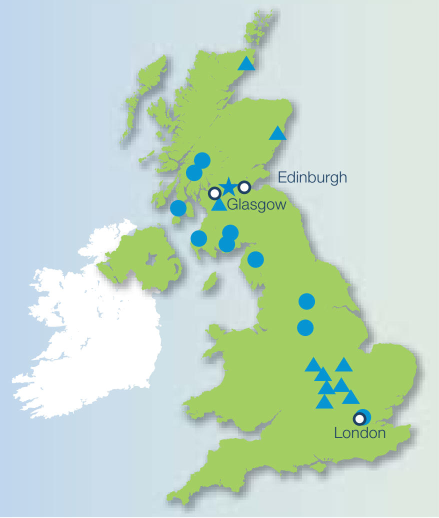
As part of the Group-wide 'Action on Safety' initiative, significant effort has been spent on safety audits and this has resulted in a 16% reduction to the RIDDOR rate in the year.

Outlook and focus for 2013

Like the Netherlands market, the Belgian market is expected to remain challenging for the short to medium term. However, we plan to build on the improvements made in Foronex and other cost savings to offset the impact of the market conditions.

Turnaround at Foronex — overall €2m improvement to profits.

Our performance
UK



▲ Recycling centre
● PFI
★ Organics

Ian Goodfellow
Managing Director
Shanks UK

Our main activities

> Collection
> Sorting and reprocessing
> Recycling
> Recovered fuel
> MBT treatment
> Anaerobic digestion

Revenue and trading profit

	Revenue				Trading profit			
	2012	2011	Variance		**2012**	2011	Variance	
	£m	£m	£m	%	**£m**	£m	£m	%
Solid Waste	**65**	66	(1)	(2)	**4.2**	4.1	0.1	1
Hazardous Waste	**8**	15	(7)	(42)	**1.9**	2.9	(1.0)	(33)
Organics	**1**	2	(1)	(70)	**(0.5)**	0.1	(0.6)	>100
Municipal PFI	**107**	87	20	23	**10.8**	5.6	5.2	92
Landfill and Power	**5**	6	(1)	(5)	**(0.3)**	0.3	(0.6)	>100
Country central services	**–**	–	–	–	**(7.7)**	(5.4)	(2.3)	(40)
UK Operations	**186**	176	10	6	**8.4**	7.6	0.8	10
PFI Bid Team	**–**	–	–	–	**(1.5)**	(2.6)	1.1	44
Total	**186**	176	10	6	**6.9**	5.0	1.9	39

Other performance metrics

	2012	2011
Trading margin (before bid costs)	**4.5%**	4.3%
Return on operating assets	**20%**	10%
Recycling and recovery rate	**47%**	43%
RIDDOR rate	**2,100**	2,200

Blochairn, Glasgow

New MRF designed to achieve a 95% recovery rate from non-segregated general waste.

Our activities

The UK business principally comprises solid waste collection and recycling, municipal PFI/PPP contracts and organics processing businesses.

The Solid Waste collection and recycling business, which has both Industrial and Commercial (I&C) and Construction and Demolition (C&D) customers is focused in Scotland, East Midlands and the Northern Home Counties. Currently we process 47% of the waste collected through our recycling facilities. The plan is to increase this significantly with the investment in new recycling and organics facilities as we strive to divert more waste away from final disposal to landfill.

The Organics processing activity is principally in a joint partnership in a 60,000 tonne per annum Anaerobic Digestion (AD) plant in Glasgow which utilises Orgaworld AD technology to process a range of organic materials including supermarket waste, household and commercial kitchen waste, food processing waste and organic materials resulting in the generation of biogas and high quality compost.

The 25 year municipal PFI/PPP contracts include providing waste disposal services for local authorities in East London, Dumfries and Galloway, Argyll & Bute and Cumbria. The Barnsley, Doncaster and Rotherham (BDR) contract has recently reached financial close and the delivery of waste management services will only commence when the treatment facilities have been built in 2015. We have preferred bidder status for two other contracts (Derby and Wakefield) and remain active in bidding for further contracts where we have a clear market advantage. It remains our intention, where appropriate, to limit our equity contribution into PFI/PPP whilst retaining the long-term operating contracts.

In addition we have a share in landfill operations through a joint venture partnership.

The contaminated land services business which organised the treatment and disposal for clean-up projects is no longer a principal activity.

Market overview

The UK's historical heavy reliance on landfill means that the imposition of the European Landfill Directive is having a major impact. Implementation of the Directive requires waste disposal authorities to develop new strategies to reduce the amount of biodegradable municipal waste (BMW) that they send to landfill. Based on 1995 levels, the Directive requires a 25% reduction in BMW landfilled by 2010, 50% by 2013 and 65% by 2020. As part of this the UK Government has strengthened the existing drivers for diverting I&C waste from landfill and provided further financial support for alternative ways to deal with waste (including reuse, recycling, energy from waste and anaerobic digestion). The key element of this was the agreement to increase the standard rate of landfill tax by £8 per tonne on 1 April each year to £80 per tonne by 1 April 2014.

In our regional I&C and C&D markets we are strong with our main competitors being Veolia, Biffa, Viridor and large regional and local players.

The long-term municipal market is accelerating in an attempt to fulfil landfill diversion targets as set out in the European Landfill Directive and is currently at circa 17m tonnes per annum. Shanks remains a key player in this sector with Veolia as the market leader. We have detected early signs of a more difficult funding environment, together with local authorities planning for shorter term contracts and less capital intensive facilities.

The potential food waste market for AD and composting solutions is currently estimated at circa 5.9m tonnes per annum. This market is still emerging in the UK, with a number of AD plants having become operational in the last year. Shanks continues to invest in this sector, where there is no clear market leader.

Recycling and recovery rate up to

47%

Our performance

UK

Strategic drivers

In the UK, the aim is to extract the maximum value from the products we produce with a geographically integrated infrastructure across municipal, organic and recycling facilities and an expansion of our energy generation capability. Legislative and regulatory drivers remain key together with the availability of waste volumes as feedstock for our facilities.

Operational review

Revenue and trading profit before PFI bid team costs rose by 6% and 10% respectively.

The structural decline in volumes in the UK Solid Waste market has continued with our overall volumes in the collections business down 9%. The profit effect of these volume shortfalls has been compensated by a number of decisive management actions, including improvements in processing leading to greater diversion from landfill and price increases of circa 2%. Overall recyclate prices were still favourable year on year despite the decline in paper pricing in the last quarter.

The commissioning of the Glasgow recycling facility was extended, as the plant was developed to handle a wider range of waste, in response to increasing price competition in obtaining recyclate materials. The Edinburgh facility was redeveloped ahead of time, facilitating the two plants to be run together, with both seeing a significant ramping up of output in the last couple of months of the year. The new recycling facility at Kettering was commissioned ahead of time in the last quarter and will be fully operational in the new financial year.

The final commissioning of the Organics AD plant in Glasgow, a joint venture partnership in Energen Biogas, was delayed and this together with operational issues resulted in losses in the year. Gate fees and availability of waste volumes have been under pressure as other infrastructures have come on stream. Electricity is being generated and delivered to the grid and outputs will increase in the new financial year. The development of the other AD plants in the UK remains on track.

The profitability of the existing PFI/PPP portfolio has continued to improve in line with our plans with further operational enhancements being delivered and a full twelve months benefit from the management of the Derby waste collection service. Margins in the portfolio were 10% in the year, up from 6.4% last year. We expect these to be in the 8% to 10% range going forward. The first of the two Mechanical Biological Treatment (MBT) facilities for the Cumbria contract was delivered ahead of schedule and within budget

Sorting cabin

Final quality control on processed materials.

in December 2011. The second facility is also on track to be completed early.

We continue to invest in the PFI market albeit at a lower level of activity as indicated by the reduction in bid costs expensed of £1.5m in the year. The Barnsley, Doncaster and Rotherham contract, a majority owned joint venture with SSE, reached financial close on 30 March 2012 and work has commenced on the delivery of the infrastructure which is scheduled to be completed in 2015. The Bolton Road facility will be one of the first where Shanks delivers a MBT plant and an AD plant on the same site. It will treat up to 265,000 tonnes per year of leftover household waste and a small amount of commercial waste from the three councils. As part of this contract we signed an agreement with SSE for the supply of Solid Recovered Fuel (SRF) to a new multi-fuel plant for the generation of electricity at Ferrybridge.

We remain preferred bidder for the Wakefield and the Derby contracts. It is anticipated that the Wakefield contract will reach financial close by September 2012. The Derby contract is subject to a planning appeal which will determine the long-term location of the combined MBT and gasification infrastructure. This appeal is scheduled to be held in June 2012 and the outcome will determine the timing of financial close of this contract.

We have once again prepared a Directors' valuation of our PFI/PPP interests to assist the market in valuing these stakes. Using the cash flows of the remaining financing vehicles and the operating contracts discounted at circa 8%, the Directors estimate the value of the existing PFI/PPP contracts to be circa £80m which is unchanged from last year end.

The decrease in Hazardous Waste profits related to a major one-off contract in the prior year.

Reduced volumes and pricing pressures have resulted in a lower performance at our Landfill and Power joint venture. The goodwill associated with this asset has been written off during the year.

As anticipated, there has been an increase in central overhead costs as the organisation has been strengthened to support the growth and development of the business with a proportion of this resource redeployed from PFI bidding.

The significant increase in the return on operating assets from 10% to 20% came as a result of the increased profits and lower operating assets, following the full year effect of the September 2010 disposal of the equity interest in the ELWA and D&G PFI contracts, which removed approximately £20m from the operating asset base.

The recycling and recovery rate has continued to increase year on year as the new recycling facilities start to come on line.

Outlook and focus for 2013

Legislative support for landfill diversion strategy continues to strengthen in the UK. The continued improvements from the recent investments in recycling and organics facilities should continue to compensate for any further decline in volumes.

Decisive management actions including operational enhancements in PFI/PPP contracts resulted in margins at

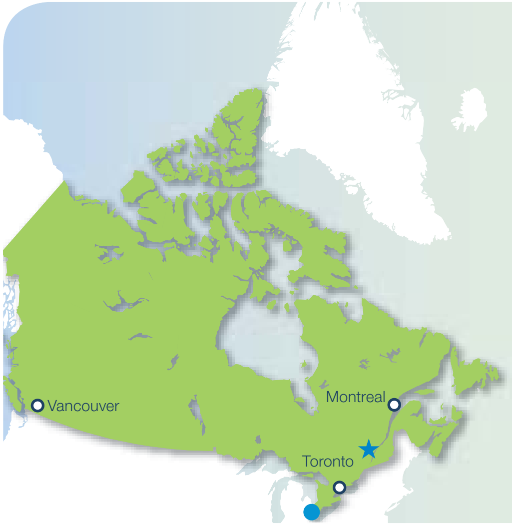
10%

UK Municipal, Cumbria

The MBT plant at Hespin Wood in Cumbria, which opened in December 2011, will reduce the volume of waste sent to landfill by circa 80%.

Our performance

Canada



London, Ontario

150,000 tonnes per annum composting facility.

● London, Ontario
★ Ottawa

Our main activities

> Aerobic tunnel composting

Revenue and trading profit

	Revenue				Trading profit			
	2012	2011	Variance		**2012**	2011	Variance	
	C$m	C$m	C$m	%	**C$m**	C$m	C$m	%
Organics	**24**	17	7	43	**6.1**	2.0	4.1	>100
Total £m (at average FX rates)	**15**	10	5	43	**3.9**	1.3	2.6	>100

Other performance metrics

	2012	2011
Trading margin	**25.7%**	12.1%
Return on operating assets	**12%**	4%
Recycling and recovery rate	**89%**	86%

Our activities

As in Europe, there is a drive to reduce waste going to landfill in Canada and the Orgaworld management in the Netherlands identified an opportunity in the Canadian market to offer biological treatment of source segregated organic municipal waste. We currently have two aerobic tunnel composting sites in Ontario – a 150,000 tonne per annum facility in London and a 100,000 tonne per annum facility in Ottawa. Both sites are backed by long-term municipal contracts.

Market overview

In recent years there has been strong public opinion against landfill, which in some areas has led to a shortage of consented capacity. Consequently the Canadian provinces have targeted the diversion of waste from landfill. The introduction of feed in tariffs and 'green' aspirations has led to stimulation of interest in anaerobic digestion. Circa 6m tonnes of organic waste is produced annually in Ontario and currently less than 20% of source segregated organics is composted.

The waste management industry is fragmented with competitors being principally local with a few European suppliers. Our main competitors are currently unable to meet the stringent regulations and technical requirements of the Ministry of Environment in Canada. Orgaworld is the market-leader in its region and can offer a wide range of processing techniques for the total range of organic waste.

Strategic drivers

The strategy in Canada is to become market leader in the treatment of organic waste streams from municipalities through the development of further production plants to grow across the country.

The key strategic drivers are regulatory developments and the security of input volumes. Investment will focus on regions where input volumes are secured through long-term municipal contracts.

Operational review

Profits in the year were significantly up on the prior year which was affected by the temporary closure of the London Ontario site for an upgrade to increase efficiency and to reduce odour levels. The facility returned to normal operating levels in March. The Ottawa site continued to perform satisfactorily. Trading margins and the return on operating assets have returned to more acceptable levels.

Outlook and focus for 2013

We expect further progress in growth and margins with both sites operating at more normal levels . We continue to pursue further opportunities for expansion in this territory which will lead to further Shanks plants being built.

Margins back on track at

25%

Ottawa

100,000 tonnes per annum composting facility.

We continue to pursue further opportunities for expansion in this territory which will lead to further Shanks plants being built.

6

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: Chairman of Readymix plc, a non-executive director of Electrocomponents plc and AZ Electronic Materials S.A and the Senior Independent Director of Umeco plc.

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

Appointed: February 2012.

Skills and Experience: Peter was appointed to the Board in February 2012. Having graduated from the Royal Military Academy at Sandhurst, Peter spent nine years as an officer in the British Armed Forces. He originally trained as an Army helicopter pilot and subsequently saw active service with both NATO and the UN. Peter then spent seven years at the Boston Consulting Group working in London and Chicago across a range of industries where he was a leader in its global Industrial and Sales & Marketing Practices. In 2005, he joined Danaher Corporation where he was appointed Group President, Emerging Markets, of its Gilbarco Veeder-Root subsidiary and President of Danaher Middle East.

Chris Surch B.Com (Acc), ACA **Group Finance Director**

Appointed: May 2009.

Skills and Experience: Chris was appointed to the Board in May 2009 as Group Finance Director. Following an early career with PricewaterhouseCoopers he joined TI Group plc in 1995 holding a number of audit and finance roles. Following the merger of TI Group with Smiths Group plc in December 2000 he went on to hold further senior finance roles, most recently as Finance Director of their Specialty Engineering division. In the interregnum between Tom Drury's departure and Peter Dilnot's appointment, Chris performed the role of Acting Chief Executive in addition to the duties of Group Finance Director. Chris will be stepping down from the Board and leaving the Company with effect from 31 August 2012 to join FirstGroup 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, HTT NV, 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.

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, 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.

Jacques is considered by the Board to be independent.

Other Appointments: In September 2011 Jacques was appointed as Shanks' nominated director on the board of Hygea SCRL.

Governance

The Chairman's introduction

Adrian Auer Group Chairman

Financial savings and improved risk management consistent with the principles of good corporate governance.

On behalf of the Board, I am pleased to present the Corporate Governance Report for 2012. 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.

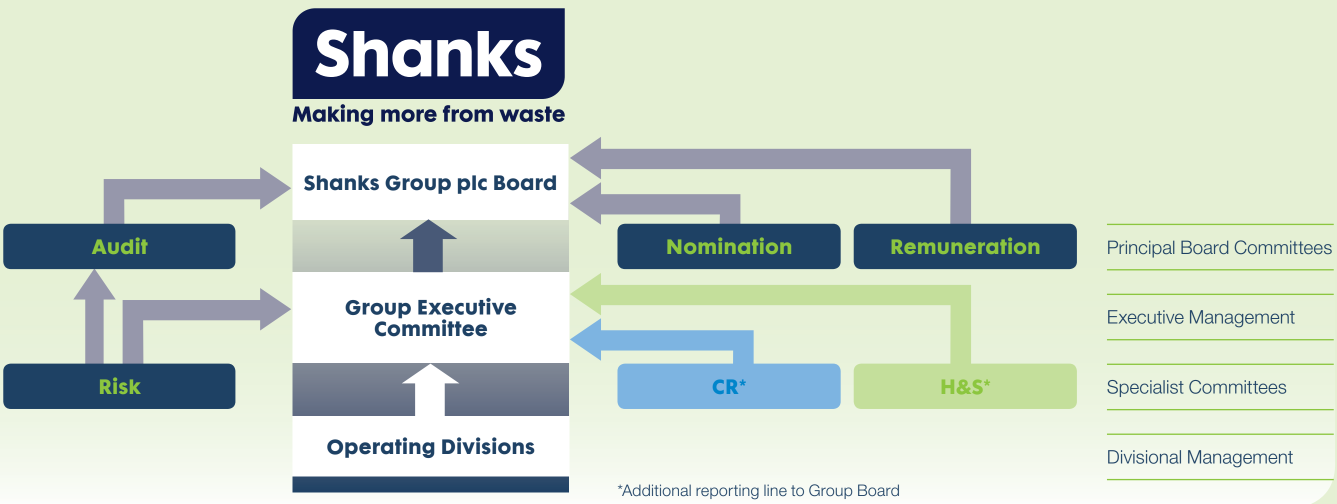
Underpinning our entrepreneurial culture is a central framework which enhances co-ordination throughout the Group and which will continue to deliver financial savings and improved risk management consistent with the principles of good corporate governance. This framework is in turn built around our core values of responsibility, innovation, straightforwardness and openness. The aim of the central framework is to improve our ability to execute right first time and to ensure experience and good ideas are shared across the Group.

The Board also recognises its responsibility to ensure its governance is relevant and focused on improving the business, strengthening our internal controls and its management processes. The establishment during the year of a Risk Committee together with a new Health & Safety Committee further strengthened our governance framework and reporting structure.

A clear priority for the Board during the year was the recruitment of a new Group Chief Executive charged with bringing the energy and leadership to maintain the momentum of the Group's progress and manage the next phase of growth. Following on from a comprehensive search and recruitment process led by the Nomination Committee and external recruitment consultants, I was therefore delighted to announce the appointment of Peter Dilnot who was appointed to the Board in February 2012 and whom shareholders now have an opportunity to elect for the first time at the forthcoming AGM.

This year we report against the new UK Corporate Governance Code which has superseded the Combined Code. Having fully considered the new code the Board are pleased to confirm compliance in all material respects save for one, as identified in last year's Governance Report, regarding the annual re-election of executive directors. A more detailed explanation of this together with our wider corporate governance arrangements are set out on the following pages.

Our Corporate Governance reporting management framework



*Additional reporting line to Group Board

Corporate Governance

Corporate Governance statement

The Board fully supports the principles of good corporate governance. This statement, together with the Remuneration Report on pages 75 to 80, explains how the Group has applied the provisions of the UK Corporate Governance Code in force for the year to 31 March 2012 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 single exception of Code Provision B.7.1 relating to the annual re-election of all directors. The Board's rationale for this was set out in last year's Annual Report and Accounts and is explained again in the Nomination Committee section on page 71.

The Board

The Board comprises the Chairman, a further four independent non-executive directors, the Group Chief Executive and Group Finance Director. The only change to the Board during the year was the resignation of Tom Drury as Group Chief Executive on 30 September 2011 and the subsequent appointment of Peter Dilnot to this position on 1 February 2012. 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. During the period from 30 September 2011 to 1 February 2012, Chris Surch undertook the role of Acting Group Chief Executive in addition to his existing duties of Group Finance Director.

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 one 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)	13 (13)
Peter Dilnot	4 (4)
Tom Drury	5 (5)
Peter Johnson	12 (13)
Jacques Petry	12 (13)
Stephen Riley	12 (13)
Chris Surch	13 (13)
Eric van Amerongen	13 (13)

Bracketed figures indicate maximum potential attendance of each director.
Three of these meetings were held by telephone conference.

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. As part of a planned induction programme in February 2012, during the first month of his appointment, Peter Dilnot visited some 25 sites across the Group, met with senior and operational managers and worked alongside staff on picking lines and on collections.

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 in Nieuwegen (Netherlands), Ghent (Belgium) and Elstow (UK).

In September 2011 as part of their practical commitment to reinvigorating the safety culture throughout the Group the Board attended a Safety Leadership presentation/training session given by the UK Safety, Health and Environment Department. The presentation was followed by a site visit of the Elstow waste facility, focusing on health and safety. One of the purposes of the training, which was also provided to senior managers throughout the Group, was that of confirming the key essential health and safety standards applicable across all of the Group's activities. This is now being taken forward by the Health & Safety Committee reporting into the Group Executive Committee.

Governance

Corporate Governance

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 plans and new borrowing facilities. The Board meets regularly, having met ten times during the year, with a further three meetings being held by telephone conference. In addition, the Board held an annual strategy conference with senior management in attendance.

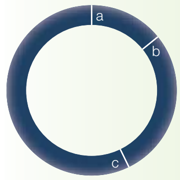
At each main meeting, following a review of the minutes of the previous meeting and any actions arising the first standing item of business for consideration by the Board is the Safety, Health and Environmental report. Other regular reports include those from the Group Chief Executive covering business performance, markets and competition, investor and analyst updates as well as progress against strategic objectives and capital expenditure projects.

The Group Finance Director presents a monthly report on trading results, key metrics and performance indicators whilst one of the purposes of the regular Company Secretary's report is to ensure that the Board are kept up to date on governance matters generally.

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 the furtherance of their duties at the Company's expense.

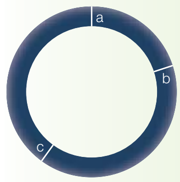
All directors are required to notify the Company on an ongoing basis of any other commitments and through the Company Secretary there are procedures for ensuring that the Board's powers for authorising directors' conflicts of interest are operated effectively.

Balance of non-executive directors and executive directors



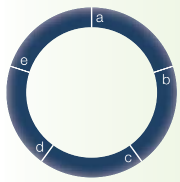
a	Non-executive Chairman	1
b	Executive directors	2
c	Independent non-executive directors	4

Length of tenure of Chairman/non-executive directors



a	0–2 years	1
b	3–6 years	2
c	7 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/defence/publishing	1

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 a Group Executive Committee, which meets monthly and whose permanent members include the Group Finance Director and the Managing Directors of the Netherlands, Belgium, the UK and since May 2012 the Managing Director of Orgaworld. In addition there are three specialist committees reporting through to the Group Executive Committee; Risk, Corporate Responsibility and Health & Safety.

Board evaluation

Performance evaluation of the Board, its Committees and directors during the year was based upon formalised self assessment questionnaires supplemented by structured interviews conducted by the Chairman with individual directors. 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.

The Board recognise that a continuous and constructively critical evaluation of their performance is an important factor in unlocking the full potential of the Group. A number of topics were also identified for the Board to focus further attention on in 2012.

As a consequence of the change of Group Chief Executive during the year and Peter Dilnot's appointment date being just two months from the financial year end, the Board determined to defer the planned external evaluation to 2012/13 to allow a sufficient passage of time in order to reflect a more informed assessment of the contribution of the new Group Chief Executive and his interaction with other Board members.

The calendar of meetings of the Board and its committees for 2011/12 is shown below:

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Board (main meeting)	●	●	●	●		●	●	●		●	●	●
Board (conference call)									●		●	●
Audit Committee		●					●				●	
Remuneration Committee		●		●			●			●		●
Nomination Committee				●		●	●					
Strategy meeting											●	
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 and Jacques Petry. The Committee is formally constituted with written terms of reference which are available on the Group's website. It met on three occasions 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 were engaged primarily in the selection of a new Group Chief Executive necessitated by the announcement in July 2011 of Tom Drury's decision to resign in the autumn of 2011. Facilitated by an external recruitment consultancy a two phase process was undertaken including a preliminary mapping exercise, during which the candidate role was refined and developed. This was followed by a comprehensive search for an individual with the requisite competencies and a proven track record of growth and value creation within a highly capital intensive business. Candidates at both the long and short list stages of the process were purposively drawn from a diverse population in terms of experience and nationality as well as gender.

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.

As previously reported, following discussion of the recommendations of the Lord Davies report on Board Room Diversity, whilst 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. 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)	3 (3)
Peter Johnson	3 (3)
Jacques Petry	3 (3)
Stephen Riley	2 (3)
Eric van Amerongen	3 (3)

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 and Jacques Petry. 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 75 to 80 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	5 (5)
Jacques Petry	5 (5)
Stephen Riley	5 (5)

Bracketed figures indicate potential attendance of each director.

Governance
Corporate Governance

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 and Eric van Amerongen. Peter Johnson, who continues to have current and relevant financial experience under UK Corporate Governance Code requirements, chaired the Committee throughout the year. Representatives from the external auditors (PricewaterhouseCoopers LLP), the Risk Management and Internal Audit manager, 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. In the course of the financial year, Peter Johnson, the Audit Committee Chairman, also met with each of the divisional Finance Directors to obtain first hand a clear understanding of some of the underlying details behind the financial information presented to and considered by the Committee and the Board.

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 2011 meeting the Committee considered Combined Code/Corporate Governance compliance, taxation and the 2011 financial statements. The October 2011 meeting was concerned primarily with the interim results whilst the February 2012 meeting reviewed goodwill and other intangibles, PricewaterhouseCoopers' audit plan and preparation of the 2012 financial statements.

Director	Audit Committee meetings
Peter Johnson (Chairman)	3 (3)
Jacques Petry	3 (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 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.

Accountability and Audit

The responsibilities of the directors and the auditors in relation to the financial statements are set out on pages 84 to 86.

Risk management and internal control

The Group risk management framework and the steps taken to manage risk are outlined on pages 42 to 47.

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 42 and 43. 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 environment 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 country management that appropriate internal controls are in place following assessment by the Risk Management and Internal Audit function.
- Review of reports by internal audit and external auditors. During the year internal audits were conducted on purchases and payments systems, weighbridge operations, accrued income, controls over cash transactions as well as financial controls audits at operational level.

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. See pages 18 and 19 for additional information on the use of KPIs.
- Monthly meetings of the Group's most senior managers and executive directors to discuss performance and plans.
- Monthly visits to key operating locations by the executive directors to attend local management meetings which include discussion of key risk areas.
- 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. Audits are performed under the guidance of the Risk Management and Internal Audit Manager with findings discussed at business unit meetings. 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. The Risk Management and Internal Audit manager attends all Audit Committee meetings.
- A range of quality assurance and environmental management systems in use across the Group. Where appropriate these are independently certified to internationally recognised standards including ISO 9001 and ISO 14001 and subject to regular independent auditing.
- 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.

Governance

Corporate Governance

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.
- Bi-annual certification by country managing directors and finance directors and executive directors on compliance with appropriate policies and the accuracy of financial information.

Information on the Company's share capital is set out in the Directors' Report.

Anti-bribery and corruption

Over the last year the Group has considered its response to the UK Bribery Act which came into force in July 2011. The main steps taken to ensure compliance have been as follows:

- Distribution of the new Group Anti-bribery policy to all business units.
- Follow-up of the policy by an article in the Group newsletter.
- Manager briefing presentations given to all key staff.
- Regular updates given to the Audit Committee on progress against the Anti-bribery policy implementation plan.

Internal Audit will be reviewing compliance with various aspects of the policy across the Group.

Subsequent to the year end, a 24 hour/7 days a week confidential reporting, 'whistleblowing', service has also been established for employees.

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 joint brokers, Jefferies Hoare Govett (formally RBS Hoare Govett) and 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 UK Stewardship Code introduced by the Financial Reporting Council in 2010 encourages enhanced shareholder engagement particularly with a Company's institutional investors to improve long-term returns to shareholders which the Board recognises and supports. The Board was therefore delighted that the 2011 Report and Accounts won two prestigious awards; 'Best Strategy Disclosure' of a FTSE 250 Company at the ICSA Hermes Transparency in Governance Awards in November 2011 and 'Best Investor Communication' at the 2011 PLC Awards held in March 2012.

ICSA Awards Winner 2011

PLC awards 2011
Shanks Group
WINNER
Best Investor Communication

Remuneration Report

Eric van Amerongen
Chairman of the
Remuneration Committee

Incentive arrangements include targets which are very stretching and are in alignment with the interests of shareholders.

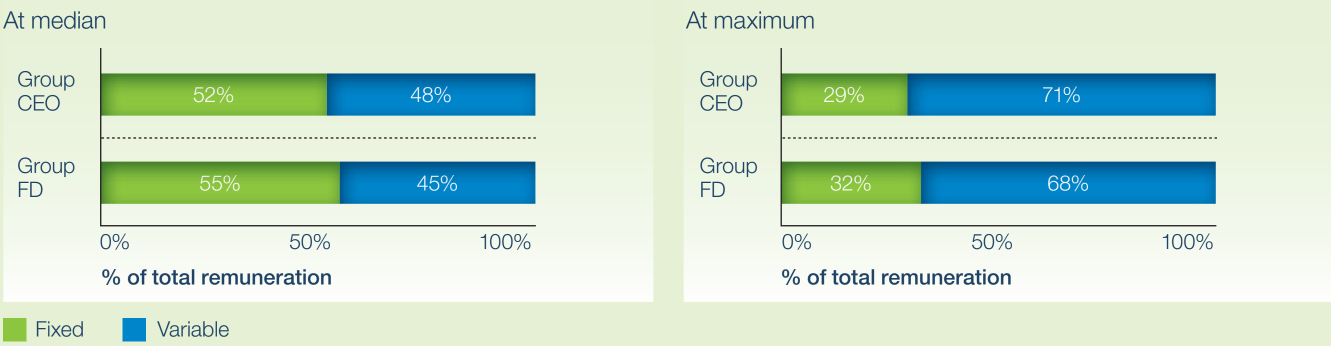
Remuneration Policy

The principal objectives of the Remuneration Committee, which is chaired by Eric van Amerongen and comprises 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 Committee seeks to ensure that the executive directors are fairly rewarded taking into account all elements of their remuneration package in the light of the Group's performance. The Committee members and their attendance at meetings held during the year are set out in the Corporate Governance section on page 71. 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 were considered to be independent as they provided no other services to the Group.

A significant proportion of executive directors' potential total remuneration is performance related and therefore variable. This comprises annual (bonus) and longer term (LTIP) incentives. The fixed proportion of their overall remuneration comprises base salary and a cash element in lieu of pension. For directors achieving median performance, performance related pay would represent almost 50% of total remuneration. If performance were such that the maximum award available under each variable incentive was paid, performance related pay would represent approximately 70% of total remuneration as shown below.

Proportion of fixed and variable remuneration for executive directors 2012



Governance
Remuneration Report

Basic Salary

The basic salary element is determined primarily by reference to external data which takes into account the executive directors' duties and responsibilities. Basic salary is generally reviewed on an annual basis or following a significant change in responsibilities. The Committee also have regard specifically to the general level of pay awards around the Group. The Group Chief Executive Peter Dilnot's initial base salary of £432,600 is scheduled to be reviewed for the first time in April 2013.

In addition to his basic salary of £283,250 as Group Finance Director, Chris Surch received an additional responsibility allowance of £150,000 in respect of carrying out the duties of Acting Group Chief Executive in the interregnum between Tom Drury's departure and Peter Dilnot's appointment.

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 dependent upon corporate financial performance compared to target and the achievement of personal objectives set by the Committee.

For the year to 31 March 2012, 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 objectives. For the financial component, 25% of base salary was payable for achievement of 2011/12 budgeted profit before tax, whilst a maximum of 70% of salary was payable for achievement of Full Potential Plan (FPP) profit targets, representing a stretch of approximately 13% outperformance of budget. The remaining 5% of salary was based on underlying free cash flow performance. In Peter Dilnot's case, the maximum was limited to two-twelfths of the maximum, reflecting his joining date of 1 February 2012.

Minimum threshold performance for the corporate financial component was exceeded for 2011/12 and the underlying free cash flow element target was partially met. This led to a payout of 66% of salary, pro-rated for period in employment, for Peter Dilnot. Achievement of personal objectives relating to safety, cost efficiencies, project milestones and strategic planning resulted in a pro-rated payout of 21% resulting in a total bonus for 2011/12 of 87% (pro rata) of salary for Peter Dilnot. Further to the announcement that Chris Surch would be stepping down from the Board with effect from 31 August 2012 to take up a new appointment as Group Finance Director of FirstGroup plc, and therefore being under notice at the time bonuses are paid, he received no 2011/12 bonus.

The Remuneration Committee has reviewed the 2012/13 annual bonus plan to ensure this short-term reward mechanism for senior executives continues to be aligned with the interests of shareholders and more specifically places additional emphasis on performance incentivisation being closely in line with the achievement of the Shanks Group strategy. Profit growth must be achieved for any financial performance reward, with further linkage to profit improvement and shareholder return. The annual bonus plan is intended to motivate senior executives to focus on both short-term performance and drive initiatives which will support long-term value creation. The Committee acknowledge that a fundamental measure of effective management at Shanks is the superior management of capital projects and as such it is appropriate to reflect this in the bonus plan structure.

Whilst retaining a 75% bonus opportunity for achievement of financial targets the Committee have therefore reweighted the components such that 50% will now be linked to a Group profit before tax target and greater emphasis placed on Group underlying free cash flow such that it represents a 13% opportunity, with the remaining 12% being linked to a new, return on assets, target.

The 25% bonus opportunity for personal objectives will also be retained though the number of targets has been reduced down to a maximum of five, inclusive of a Safety, Health & Environment target.

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 measured over a three year period. Awards are in the form of Shanks Group plc shares.

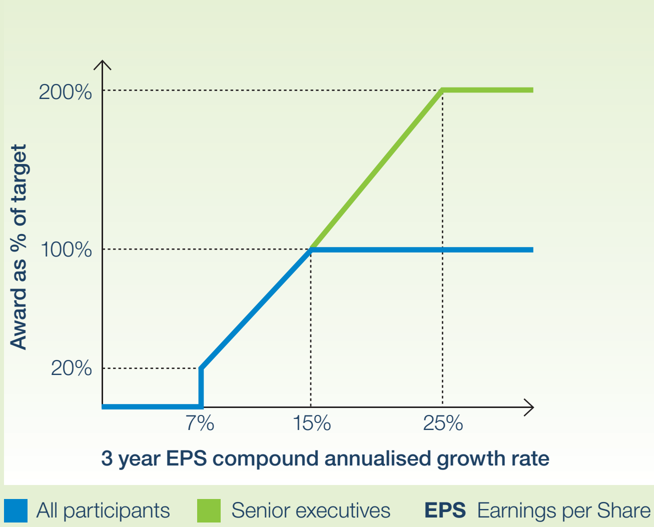
For outstanding awards originally granted in 2010 the Company's Total Shareholder Return (TSR) performance will be compared to the TSR of the FTSE Support Services Sector, with awards only vesting to the extent the Committee is satisfied that the Company's TSR performance reflects underlying performance of the Company. None of the awards will vest if the Company's TSR is ranked below median, whilst 25% will vest for median performance.

At the 2011 AGM shareholders approved a replacement LTIP. For awards granted in 2011 and 2012 vesting 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 Company, while share price growth will help ensure strong alignment with shareholders. Both measures are transparent 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. It 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 initial 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 opposite. Chris Surch's outstanding LTIPs will lapse upon his leaving the Company on 31 August 2012.

2011 and 2012 LTIP performance targets

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



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.
- 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), 2 times for share price growth of 25% p.a. or more.
- 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.

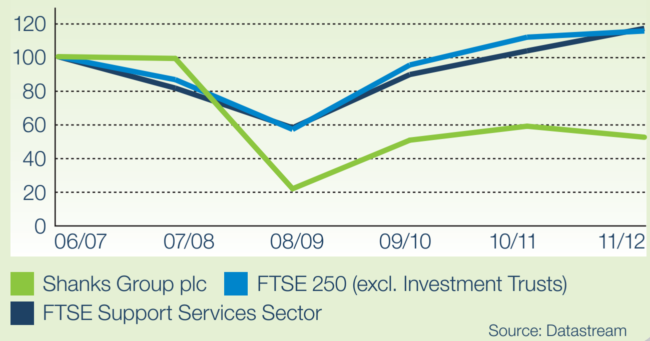
In addition to meeting the EPS and share price growth targets outlined above, the Committee must satisfy itself that the recorded outcome is a fair reflection of the underlying performance of the Group.

The Remuneration Committee believes that these incentive arrangements include targets which are very stretching and are in alignment with the interests of shareholders, as 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, including the LTIP performance measures and targets, which the Committee will continue to do, from time to time.

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 either purchased in the market or new shares subscribed for, with funds provided by the Company or its subsidiaries. As at 31 March 2012 the Employee Share Trust did not hold any of the Company's shares.

Shanks Group plc Total Shareholder Return for the period 31 March 2007 to 31 March 2012



Source: Datastream

The graph above shows the TSR of the Company over the five year period to 31 March 2012. The two comparator indices, for which TSR is also shown, have been selected as they are broad equity indices of which the Company is a constituent member.

Governance
Remuneration Report

Savings Related Share Option Scheme (SRSOS)

The Remuneration Committee believes that share ownership by employees encourages the matching of long-term interests between employees and shareholders. UK employees including executive directors may participate in an HMRC approved SRSOS. Under the terms of this scheme options may be granted during the ten 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 10p 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 2012.

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, Peter Dilnot and Chris Surch have rolling service contracts dated 1 February 2012 and 27 April 2009 respectively which 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 for the twelve month notice period. The Company has the ability to pay such sums in instalments, requiring the director to mitigate his 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 31 March 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. As such, subject to re-election by shareholders both Adrian Auer's and Peter Johnson's letters of appointment will be renewed on 31 July 2012.

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(i)	16 May 2005	16 May 2011	31 July 2012	2 months
Peter Johnson(ii)	16 May 2005	16 May 2011	31 July 2012	2 months
Jacques Petry	30 Sept 2010	–	30 Sept 2013	16 months
Stephen Riley	29 March 2007	29 March 2010	29 March 2013	10 months
Eric van Amerongen(iii)	9 Feb 2007	9 Feb 2010	9 Feb 2013	8 months

Notes

(i) Group Chairman and Nomination Committee chairman.

(ii) Audit Committee chairman.

(iii) Remuneration Committee chairman and Senior Independent Director.

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 17 May 2012 were as follows:

	As at 1 April 2011 or date of appointment if later	As at 31 March 2012 and 17 May 2012
Adrian Auer	43,333	43,333
Peter Dilnot	–	59,500
Peter Johnson	24,684	61,007
Jacques Petry	–	–
Stephen Riley	–	–
Chris Surch	93,333	93,333
Eric van Amerongen	–	–

Note

(i) Tom Drury had an interest in 68,333 ordinary shares as at 1 April 2011 and as at the date of his leaving the Company on 30 September 2011.

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[i] £000	**2012 Total £000**	2011 Total £000
Chairman					
Adrian Auer	113	–	–	**113**	110
Executive Directors					
Peter Dilnot (Appointed 1 February 2012)	72	63	22	**157**	–
Tom Drury (Resigned 30 September 2011)	216	–	68	**284**	840
Chris Surch	283	–	228	**511**	545
Non-executive Directors					
Peter Johnson	43	–	–	**43**	42
Jacques Petry[ii]	40	–	3	**43**	21
Stephen Riley	38	–	–	**38**	37
Eric van Amerongen[ii]	53	–	–	**53**	51
Total	858	63	321	**1,242**	1,646

Notes

(i) Other emoluments include a car allowance and medical insurance. Peter Dilnot and Chris Surch also receive a cash element, paid in lieu of pension scheme contributions, equating to 25% and 20% of salary respectively. Tom Drury similarly received a 25% equivalent. Chris Surch also received a payment of £150,000 in respect of carrying out the duties of Acting Group Chief Executive in the interregnum between Tom Drury's departure and Peter Dilnot's appointment. All of these items are non-pensionable.

(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: €1.1556 (2011: £1: €1.1725). Jacques Petry also received £3,200 in respect of fees associated with his appointment as Shanks Group's nominated director on the Board of Hygea SCRL.

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

Governance
Remuneration Report

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)[iii]	Number at 1 April 2011	Granted in year	Lapsed in year	Exercised in year	Number at 31 March 2012
Tom Drury[i]	25.09.09	01.11.12	30.04.13	71.0	12,781	–	12,781	–	–
Chris Surch[ii]	25.09.09	01.11.12	30.04.13	71.0	12,781	–	–	–	12,781

Notes

(i) Tom Drury's option lapsed upon his leaving the Company on 30 September 2011.

(ii) Chris Surch's option will lapse upon his leaving the Company on 31 August 2012.

(iii) 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 2011	Awards made during the year	Awards lapsed during the year	Awards exercised during the year	Outstanding awards at 31 March 2012	Date of award	Share price on date of award (pence)	Performance period end	Restricted period end
Peter Dilnot[i]	–	887,000	–	–	887,000	01.02.12	99.85	31.03.14	01.02.15
Tom Drury[ii]	250,000	–	250,000	–	–	10.07.09	68.50	31.03.13	09.06.13
	418,000	–	418,000	–	–	09.06.10	100.30	31.03.14	01.08.14
Chris Surch[iii]	175,000	–	175,000	–	–	10.07.09	68.50	31.03.12	10.07.12
	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) Peter Dilnot's award on 1 February 2012 was made on his appointment to the Company, primarily to compensate for long-term incentives forfeited upon leaving his former employer.

(ii) Tom Drury's award lapsed upon his leaving the Company on 30 September 2011.

(iii) Chris Surch's outstanding awards will lapse upon his leaving the Company on 31 August 2012.

(iv) The TSR performance condition relating to awards granted in 2009 under the Long Term Incentive Plan was not met at the end of the three year performance period and these awards lapsed on 31 March 2012.

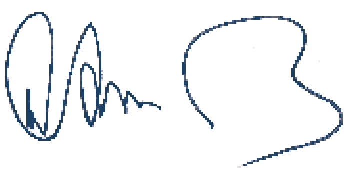
(v) The performance conditions relating to the vesting of outstanding awards are shown on pages 76 and 77.

The highest closing mid-market price of the ordinary shares of the Company during the year was 131.5 pence and the lowest closing mid-market price during the year was 89.5 pence. The mid-market price at the close of business on 31 March 2012 was 98.75 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
17 May 2012

Directors' Report

Directors

The composition of the Board of Directors at the date of this Report, together with their biographical details, is shown on pages 66 and 67. Adrian Auer, Eric van Amerongen, Peter Johnson, Stephen Riley and Chris Surch all served on the Board throughout the financial year under review. Peter Dilnot was appointed as Group Chief Executive with effect from 1 February 2012 following Tom Drury's resignation on 30 September 2011. Adrian Auer, Eric van Amerongen, Peter Johnson, Stephen Riley and Jacques Petry will be offering themselves for annual re-election at the Company's AGM to be held on 19 July 2012 in accordance with the Company's Articles of Association whilst Peter Dilnot will be seeking his first election by shareholders. Chris Surch is also standing, it being three years since his last re-election. 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.

Subsequent to the year-end the Company announced that Chris Surch would be stepping down from the Board with effect from 31 August 2012 to take up a new appointment as Group Finance Director of FirstGroup plc.

Qualifying Third Party Indemnities

As at the date of this Report, the Company has granted indemnities in favour of its directors 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 one of Europe's leading waste management businesses, 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: About Shanks, Understanding our strategy and markets, Managing a sustainable business, Risks and uncertainties and Our performance. 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 2012, 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 Report together with the other information referred to in this Directors' Report.

Acquisitions and Disposals

During the year acquisitions have been made for an initial cash consideration of £3.4m (2011: £6.9m). On 1 March 2012 the Group acquired the assets of Van Tuijl Glasrecycling BV for a cash consideration of £3.4m with contingent consideration of £1.7m. Further details are set out in note 17 of the financial statements. Disposals amounted to nil (2011: £24.6m).

Research and Development

The Group spent £55,000 (2011: £274,000) on research and development during the year ended 31 March 2012. This expenditure 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 88 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 profit for the year amounted to £26.8m (2011: £21.9m).

The directors recommend a final dividend of 2.35p (2011: 2.25p) per share be paid on 1 August 2012 to ordinary shareholders on the register of members at close of business on 6 July 2012. This dividend, if approved by shareholders, together with the interim dividend of 1.1p (2011: 1.0p) per share already paid on 13 January 2012, will make a total dividend for the year of 3.45p per share (2011: 3.25p).

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.

Governance

Directors' Report

Notifiable Interests

As at 31 March 2012 the Company had 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, there being no further notified changes up to 17 May 2012:

	Number of shares	Percentage
Schroders plc	59,005,397	14.87
Artemis Investment Management LLP	29,110,210	7.34
Royal London Asset Management	19,850,423	5.00
Norges Bank	16,312,838	4.11
Legal & General Group plc	13,377,640	3.37

Share Capital

The Company's share capital comprises ordinary shares of 10 pence each par value. As at 31 March 2012 and as at the date of this Report there were 396,857,212 ordinary shares in issue. During the year ended 31 March 2012 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 among 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.

Restrictions on the Holding or Transfer of Shares

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.

Control Rights Under Employee Share Schemes

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 and 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 2012 and as at the date of this Report the Company had in issue a retail bond comprising €100 million 5% guaranteed notes due 22 October 2015. There are no restrictions under the instrument governing the guaranteed notes that restrict the rights of investors to hold or transfer the guaranteed notes. The Company is not aware of any agreements between the holders of guaranteed notes that may result in restrictions on the transfer of guaranteed notes.

Appointment and Replacement 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.
- A director must vacate his or her office if any of the circumstances in Article 100 of the Articles of Association arise.

Powers of Directors

The Articles of Association of the Company 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 of Association 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 of Association, 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 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 Companies Act 2006, the Company may also 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 £1,984,230. This authority lasts until the earlier of the Company's AGM in 2012 or 30 September 2012.
- Repurchase of shares – subject to authorisation by shareholder resolution, the Company may purchase all or any of its own shares in accordance with the Companies Act 2006 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 39,684,602 ordinary shares. This authority lasts until the earlier of the Company's AGM in 2012 or 30 September 2012.
- 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 Company's Articles of Association, 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 68 to 80.

Corporate Responsibility

Information on Corporate Responsibility matters including the environment, employment policies, health and safety and community relations are set out on pages 34 to 41. The Group Corporate Responsibility Policy is available on the Group website as is the 2012 Group Corporate Responsibility Report.

Charitable and Political Donations

During the financial year donations made by the Group for charitable purposes amounted to £17,000 (2011: £19,000), inclusive of £15,000 to the UK youth charity, the Prince's Trust.

Also, in the UK, through the Landfill Communities Fund, the Group has applied £754,000 (2011: £546,000) via not-for-profit organisations to undertake projects such as disused land restoration, public park maintenance and habitat conservation. In addition, staff at individual Group businesses have organised various fund raising events to support local and national charities.

No donations were made by the Group for political purposes during the financial year (2011: £nil).

Governance
Directors' Report

Payment of Suppliers

The Company does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. The amount owed to trade creditors at the year end in proportion to the amounts invoiced by suppliers during the year, expressed as a number of days, was 58 days (2011: 67 days) for the Group and was 38 days (2011: 35 days) for the Company.

Change of Control – Significant Agreements

The Group's principal financing instrument at 31 March 2012, 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 2012, would have required the repayment of £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 2012, repayment of £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 2012 to £49.2m. In addition, a make-whole payment amounting to £9.2m which is not provided for in these financial statements would be payable to private placement noteholders based on treasury yields at 31 March 2012.

In addition, 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.

Persons with Whom the Group has 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, notably, long-term integrated waste management contracts with the East London Waste Authority, Dumfries and Galloway, Argyll & Bute, Cumbria, Derbyshire, 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. In the Netherlands, the Group's hazardous waste business has long-term contracts with the oil and gas industry and is a major supplier of cleaning services to the petrochemical industry. The Netherlands business also has a number of long-term source segregated organic contracts with municipalities and provinces. In Belgium there are a number of municipal waste collection contracts, the largest being for the city of Liege. In Canada there are long-term contracts with the London and Ottawa municipalities.

Annual General Meeting

Notice of the AGM of the Company to be held at the offices of the Royal Bank of Scotland, 250 Bishopsgate, London EC2M 4AA on Thursday 19, July 2012 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 resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole and they recommend unanimously that all shareholders vote in favour of the resolutions, as they intend to do in respect of their own shareholdings.

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Report, the Directors' 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;
- 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 United Kingdom 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 66 and 67 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 81 to 85 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

P. Griffin-Smith

Philip Griffin-Smith
Company Secretary
17 May 2012

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 2012 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 84, 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 and Accounts 2012 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 2012 and of the Group's profit 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 81, 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
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, 17 May 2012

7

Financials

Contents

Financials

Consolidated Income Statement

For the year ended 31 March 2012

	Note	2012 Trading £m	2012 Non trading & exceptional items £m	2012 Total £m	2011 Restated* Trading £m	2011 Restated* Non trading & exceptional items £m	2011 Restated* Total £m
Continuing operations							
Revenue	3	**750.1**	**–**	**750.1**	717.3	–	717.3
Cost of sales	1	**(622.9)**	**(3.7)**	**(626.6)**	(601.9)	(3.9)	(605.8)
Gross profit		**127.2**	**(3.7)**	**123.5**	115.4	(3.9)	111.5
Administrative expenses	1	**(73.8)**	**(2.9)**	**(76.7)**	(65.7)	(4.3)	(70.0)
Operating profit (loss)	3,4,5	**53.4**	**(6.6)**	**46.8**	49.7	(8.2)	41.5
Finance charges		**(21.1)**	**(0.8)**	**(21.9)**	(24.3)	(5.8)	(30.1)
Finance income		**6.4**	**–**	**6.4**	9.8	–	9.8
Net finance charges	8	**(14.7)**	**(0.8)**	**(15.5)**	(14.5)	(5.8)	(20.3)
Income from associates		**0.1**	**–**	**0.1**	–	–	–
Profit (loss) before taxation	3	**38.8**	**(7.4)**	**31.4**	35.2	(14.0)	21.2
Taxation	9	**(10.1)**	**5.5**	**(4.6)**	(9.3)	10.0	0.7
Profit for the year attributable to shareholders		**28.7**	**(1.9)**	**26.8**	25.9	(4.0)	21.9
Earnings per share							–
– basic	11	**7.2**	**(0.5)**	**6.7**	6.5	(1.0)	5.5
– diluted	11	**7.2**	**(0.5)**	**6.7**	6.5	(1.0)	5.5

*The comparative amounts have been restated to more appropriately reflect the allocation of certain items between cost of sales and administrative expenses. Further explanation of the restatement is included in note 1.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Note	2012 £m	2011 £m
Profit for the year		**26.8**	21.9
Exchange loss on translation of foreign operations		**(19.6)**	(2.2)
Change in fair value of cash flow hedging financial instruments	16	**(12.1)**	0.2
Actuarial (loss) gain on defined benefit pension schemes	26	**(16.0)**	4.9
Tax in respect of other comprehensive income items	9	**6.7**	(1.4)
Other comprehensive (loss) income for the year, net of tax		**(41.0)**	1.5
Total comprehensive (loss) income for the year		**(14.2)**	23.4

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31 March 2012

		Group		Company	
	Note	**As at 31 March 2012 £m**	As at 31 March 2011 £m	**As at 31 March 2012 £m**	As at 31 March 2011 £m
Non-current assets					
Intangible assets	13	**271.4**	289.6	**0.8**	0.4
Property, plant and equipment	14	**390.9**	397.5	**0.2**	0.2
Other investments and loans to joint ventures	15	**6.7**	7.1	**469.6**	469.6
Trade and other receivables	21	**66.7**	53.4	**–**	–
Retirement benefit asset	26	**–**	4.9	**–**	4.9
Derivative financial instruments	16	**–**	0.1	**–**	0.1
Deferred tax assets	18	**15.9**	15.3	**2.8**	0.4
		751.6	767.9	**473.4**	475.6
Current assets					
Inventories	19	**10.5**	9.9	**–**	–
Trade and other receivables	21	**160.3**	179.5	**281.9**	284.0
Derivative financial instruments	16	**0.1**	0.2	**0.1**	–
Current tax receivable		**2.9**	–	**4.0**	4.0
Cash and cash equivalents	22	**59.8**	54.5	**25.6**	11.8
		233.6	244.1	**311.6**	299.8
Total assets		**985.2**	1,012.0	**785.0**	775.4
Liabilities					
Non-current liabilities					
Borrowings	23	**(253.8)**	(222.6)	**(106.2)**	(87.1)
Derivative financial instruments	16	**(17.2)**	(6.1)	**(1.5)**	(0.2)
Other non-current liabilities	24	**(5.4)**	(18.7)	**(430.3)**	(434.9)
Deferred tax liabilities	18	**(42.1)**	(51.4)	**–**	(1.3)
Provisions	25	**(49.8)**	(39.4)	**–**	(0.3)
Retirement benefit obligations	26	**(7.6)**	–	**(7.6)**	–
		(375.9)	(338.2)	**(545.6)**	(523.8)
Current liabilities					
Borrowings	23	**(12.2)**	(39.3)	**(8.5)**	(10.5)
Trade and other payables	24	**(214.1)**	(225.4)	**(4.0)**	(11.7)
Current tax payable		**(8.0)**	(4.7)	**–**	–
Provisions	25	**(4.4)**	(7.0)	**(2.0)**	(2.4)
		(238.7)	(276.4)	**(14.5)**	(24.6)
Total liabilities		**(614.6)**	(614.6)	**(560.1)**	(548.4)
Net assets		**370.6**	397.4	**224.9**	227.0
Equity					
Ordinary shares	27	**39.7**	39.7	**39.7**	39.7
Share premium		**99.4**	99.4	**123.4**	123.4
Exchange reserve		**36.0**	55.6	**–**	–
Retained earnings		**195.5**	202.7	**61.8**	63.9
Total equity		**370.6**	397.4	**224.9**	227.0

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

The Financial Statements on pages 88 to 140 were approved by the Board of Directors and authorised for issue on 17 May 2012. They were signed on its behalf by:

A Auer
Chairman

C Surch
Group Finance Director

Financials

Statements of Changes in Equity

For the year ended 31 March 2012

Group	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2011	**39.7**	**99.4**	**55.6**	**202.7**	**397.4**
Profit for the year	**–**	**–**	**–**	**26.8**	**26.8**
Other comprehensive income	**–**	**–**	**(19.6)**	**(21.4)**	**(41.0)**
Total comprehensive income for the year	**–**	**–**	**(19.6)**	**5.4**	**(14.2)**
Share-based compensation	**–**	**–**	**–**	**0.7**	**0.7**
Dividends	**–**	**–**	**–**	**(13.3)**	**(13.3)**
Balance as at 31 March 2012	**39.7**	**99.4**	**36.0**	**195.5**	**370.6**
Balance at 1 April 2010	39.7	99.3	57.8	188.4	385.2
Profit for the year	–	–	–	21.9	21.9
Other comprehensive income	–	–	(2.2)	3.7	1.5
Total comprehensive income for the year	–	–	(2.2)	25.6	23.4
Proceeds from shares issued	–	0.1	–	–	0.1
Share-based compensation	–	–	–	0.6	0.6
Dividends	–	–	–	(11.9)	(11.9)
Balance as at 31 March 2011	39.7	99.4	55.6	202.7	397.4

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	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 April 2011	**39.7**	**123.4**	**63.9**	**227.0**
Profit for the year	**–**	**–**	**23.5**	**23.5**
Other comprehensive income	**–**	**–**	**(13.0)**	**(13.0)**
Total comprehensive income for the year	**–**	**–**	**10.5**	**10.5**
Share-based compensation	**–**	**–**	**0.7**	**0.7**
Dividends	**–**	**–**	**(13.3)**	**(13.3)**
Balance at 31 March 2012	**39.7**	**123.4**	**61.8**	**224.9**
Balance at 1 April 2010	39.7	123.3	75.7	238.7
Profit for the year	–	–	(4.3)	(4.3)
Other comprehensive income	–	–	3.8	3.8
Total comprehensive income for the year	–	–	(0.5)	(0.5)
Proceeds from shares issued	–	0.1	–	0.1
Share-based compensation	–	–	0.6	0.6
Dividends	–	–	(11.9)	(11.9)
Balance as at 31 March 2011	39.7	123.4	63.9	227.0

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

Statements of Cash Flows

For the year ended 31 March 2012

	Note	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Net cash flow from (used in) operating activities	28	**102.8**	95.3	**16.5**	(10.0)
Investing activities					
– Purchases of intangible assets		**(1.4)**	(0.8)	**(0.5)**	(0.4)
– Purchases of property, plant and equipment		**(78.8)**	(70.9)	**–**	–
– Disposals of property, plant and equipment		**5.4**	4.4	**–**	–
– Financial asset capital advances		**(13.5)**	(20.7)	**–**	–
– Financial asset capital repayments		**3.0**	6.2	**–**	–
– Acquisition of subsidiary and other businesses		**(4.1)**	(5.2)	**–**	–
– Payment of deferred consideration		**(5.6)**	(4.2)	**–**	–
– Disposal of subsidiary and other businesses		**1.0**	26.9	**–**	–
– Increase in loans granted to joint ventures		**(0.4)**	(0.5)	**–**	–
Net cash used in investing activities		**(94.4)**	(64.8)	**(0.5)**	(0.4)
Financing activities					
– Finance charges and loan fees paid		**(17.4)**	(17.7)	**(17.8)**	(18.9)
– Finance income		**4.0**	8.4	**7.0**	9.4
– Deposit of restricted funds		**(5.6)**	–	**–**	–
– Net proceeds from issue of shares		**–**	0.1	**–**	0.1
– Dividends paid		**(13.3)**	(11.9)	**(13.3)**	(11.9)
– Proceeds from the issuance of bonds		**–**	83.8	**–**	83.8
– Proceeds from the issuance of senior notes		**35.5**	–	**–**	–
– Repayment of senior notes		**(15.9)**	–	**–**	–
– Proceeds from bank borrowings		**–**	–	**24.0**	–
– Repayment of bank borrowings		**–**	(106.6)	**–**	(59.7)
– Other increase (decrease) in net borrowings		**9.0**	20.7	**(2.1)**	5.2
– Repayments of obligations under finance leases		**(3.8)**	(3.9)	**–**	–
Net cash (used in) from financing activities		**(7.5)**	(27.1)	**(2.2)**	8.0
Net increase (decrease) in cash and cash equivalents		**0.9**	3.4	**13.8**	(2.4)
Effect of foreign exchange rate changes		**(1.2)**	(0.2)	**–**	–
Cash and cash equivalents at beginning of year		**54.5**	51.3	**11.8**	14.2
Cash and cash equivalents at end of year		**54.2**	54.5	**25.6**	11.8

The notes on pages 92 to 140 are an integral part of these consolidated financial statements.

Financials

Notes to the Financial Statements

1. Accounting policies – Group and Company

Corporate information

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

Basis of preparation

The financial statements are 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 2011. 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 has 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) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Changes in presentation and disclosures

The Directors have made certain presentational and classification changes to the income statement in this annual report.

The Group has opted to present its Income Statement for the year ended 31 March 2012 and 31 March 2011 in a three-column format. Such presentation allows non-trading and exceptional items to be presented separately in the middle column of the Income Statement. The various line items of the Income Statement are therefore shown both before and after these items in the first and last columns, respectively. This allows shareholders to understand better the elements of financial performance in the current year, so as to facilitate comparison with the prior year.

The Group has made a classification change with regards to the allocation of items between cost of sales and administrative expenses. This change has been undertaken in order to achieve a more appropriate presentation. In accordance with IAS 1 Presentation of Financial Statements, the 31 March 2011 comparative figures have been restated to reflect this change. The impact of this change was a reduction to cost of sales and an increase to administrative expenses of £4.9m. There is no impact on the overall profitability or equity of the Group and consequently a third balance sheet has not been presented.

The comparative figures in respect of certain income statement disclosure items have been restated as a result of the misstatements identified. Total remuneration of employees has reduced from £182.4m to £171.6m, employee numbers have reduced from 4,246 to 4,020, operating lease costs have increased from £17.6m to £20.0m and repairs and maintenance expenditure has reduced from £44.5m to £40.9m. These changes have no impact on the primary statements, overall profitability or equity of the Group.

Adoption of new and revised accounting standards and interpretations

The Group has adopted in the year the following new standards, amendments to standards and interpretations which are mandatory for the first time for the Group's financial year beginning 1 April 2011:

Accounting Standard	Requirement	Impact on financial statements
IAS 24 Related Party Disclosures	The key amendments were: Provide a partial exemption from related party disclosure requirements for government-related entities. Clarify the definition of a related party. Include an explicit requirement to disclose commitments involving related parties.	The adoption of the amendment by the Group has had no material impact.
IFRIC 14 Prepayments of a Minimum Funding Requirement	Amendments apply when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements, permitting the benefit of such an early payment to be recognised as an asset.	The adoption of the amendment by the Group has had no material impact.
IFRIC 19 Extinguishing Liabilities with Equity Instruments	Requires the extinguishment of a financial liability by the issue of equity instruments to be measured at fair value with the difference between the fair value of the instrument issued and the carrying value of the liability extinguished being recognised in profit or loss.	The adoption of the amendment by the Group has had no material impact.
Improvements to IFRSs (2010)	Amends several pronouncements as a result of the IASB's 2008–2010 cycle of annual improvements. Key amendments: IFRS 1 – accounting policy changes in year of adoption and amendments to deemed cost. IFRS 3/IAS 27 – clarification of transition requirements, measurement of non-controlling interests, unreplaced and voluntarily replaced share-based payment awards. IFRIC 13 – fair value of award credits. Financial statement disclosures: Clarification of content of statement of changes in equity (IAS 1), financial instrument disclosures (IFRS 7) and significant events and transactions in interim reports (IAS 34).	The adoption of the amendment by the Group has had no material impact.

Financials

Notes to the Financial Statements continued

1. Accounting policies – Group and Company continued

New standards and interpretations not yet adopted

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

The following revisions to IFRS will be applicable in future periods:

- IAS 19 Employee Benefits was amended in June 2011 but the amendments are not applicable until 1 January 2013, subject to EU endorsement. The impact on the Group will be 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 (or asset). The Group is yet to assess the full impact of the amendment.
- IFRS 11 Joint Arrangements is effective for accounting periods beginning on or after 1 January 2013 which will impact the accounts for the year ended 31 March 2014, subject to EU endorsement. Given the Group has a number of joint ventures which are currently proportionately consolidated it is possible that the standard will have a material impact on the Group's reporting as this will no longer be permitted. The Group is yet to assess the full impact of the amendment. Full details of the Group's interest in joint ventures are shown in note 15.

It is anticipated that the adoption of the following amendments to standards and interpretations in future periods will have no material impact on the Group's reported results or financial position:

- 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.
- IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2013.
- 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.
- IAS 28 Investments in Associates and Joint Ventures (2011) effective for annual periods beginning on or after 1 January 2013.
- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. Effective for annual periods beginning on or after 1 July 2011.
- Amendments to IFRS 7 Financial Instruments: Disclosures. Effective for annual periods beginning on or after 1 July 2011.
- Amendments to IAS 1: Presentation of Items of Other Comprehensive Income. Effective for annual periods beginning on or after 1 July 2012.
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets. Effective for annual periods beginning on or after 1 January 2012.
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine. Effective for annual periods beginning on or after 1 January 2013.

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 that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the 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.

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.

Subsidiary companies set up under PFI/PPP contracts are fully consolidated by the Group.

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, 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, joint ventures and associates 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 or associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture or associate.

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 given and liabilities incurred or assumed. Identifiable assets acquired and liabilities and contingent liabilities assumed, meeting the conditions for recognition under IFRS 3 (Revised), are recognised at their fair value at the acquisition date. The fair value of businesses acquired may include customer lists, these are recognised as intangible assets, the value is calculated by discounting the future revenue stream attributable to these lists or relationships and they are 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.

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.

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

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.

Accrued income
Accrued income 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 payments made to contractors for the construction of the infrastructure are accounted for as financial assets. 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 are transferred to deferred income upon financial close and released to the Income Statement over the period of construction of the infrastructure.

Unprocessed waste
The deferred income relating to unprocessed waste is calculated at the higher of sales value and processing cost. Where there is a significant delay between the acceptance of waste and its final disposal then profit may be recognised in advance of final disposal over the period of delay provided the outcome of the waste treatment process is certain.

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.

Financials

Notes to the Financial Statements continued

1. Accounting policies – Group and Company continued

Interest
Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

Deferred consideration

Deferred consideration is provided for at the net present value (NPV) of the Group's expected cost or receipt at the date of acquisition or disposal. The likelihood of payment for deferred consideration 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.

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is charged immediately to the Income Statement and is not subsequently reversed.

Goodwill is allocated to cash generating units (CGUs) for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

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
When landfill operations are acquired, landfill void is capitalised based on the fair value of the void acquired and is amortised over its estimated useful life on a void usage basis.

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. 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

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.

Property, plant and equipment

Property, plant and equipment, except for freehold land, is stated at cost less 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 is not depreciated.

Buildings, plant and machinery
Depreciation is provided on these assets to write off their cost by equal annual instalments over the expected useful economic lives. The expected useful life of buildings is 25 to 50 years. Plant and machinery lives are as follows:

Computer equipment	1 to 5 years
Mobile plant	5 years
Generation equipment	8 to 15 years
Heavy goods vehicles	5 to 10 years
Other items	3 to 20 years

As required under IAS 16 Property, Plant and Equipment, the Directors have undertaken 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 will be accounted for prospectively.

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.

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 payables. Depreciation is provided to write down the assets over the shorter of the expected useful life and the lease term.

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 obligation to pay future rentals on operating leases is shown in note 30 to the accounts.

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.

Inventories

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

Provisions

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.

Other provisions
Other provisions are recognised when a present legal or constructive obligation exists for a future liability in respect of a past event and it is probable that this will result in an outflow of resources, the amount of which can be estimated reliably.

Financials

Notes to the Financial Statements continued

1. Accounting policies – Group and Company continued

Discounting

All long-term provisions for restoration, aftercare and onerous leases are calculated based on the NPV of estimated future costs. The effects of inflation and unwinding of the discount element on existing provisions are reflected within the financial statements as a finance charge. The real discount factor currently applied is 2%.

Employee benefits

Retirement benefits

The Group accounts for pensions and similar benefits under IAS 19 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. 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. 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, with a corresponding increase in equity, on a straight-line basis over the vesting period. 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 payable is based on taxable profit 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 liability for current tax is calculated using tax rates that have been enacted, or substantively enacted, by 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 through the Statement of Comprehensive Income or directly to reserves, when it is charged or credited there.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Foreign currency denominated monetary assets and liabilities are translated into sterling at the year end exchange rate. Transactions and the results of overseas subsidiary undertakings and joint ventures in foreign currencies are translated at the average rate of exchange for the year and the resulting exchange differences are recognised in the Group's exchange reserve. 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 2012**	31 March 2011	Change	**31 March 2012**	31 March 2011	Change
Euro	**1.20**	1.13	6.2%	**1.16**	1.17	(1.5)%
Canadian Dollar	**1.60**	1.56	2.4%	**1.59**	1.56	1.7%

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.

Financial instruments

Trade receivables
Trade receivables do not carry interest and are stated initially at their fair value. The carrying amount of trade receivables is reduced by appropriate allowances for estimated irrecoverable amounts.

Financial assets in PFI/PPP contracts
Financial assets in PFI/PPP contracts are classified as loans and receivables and are initially recognised at the fair value of the consideration paid and subsequently amortised using the effective interest rate method.

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 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 to 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 on normal terms are not interest bearing and are stated initially at fair value.

Derivative financial instruments and hedge accounting
In accordance with its treasury policy, the Group only holds or issues derivative financial instruments to manage the Group's exposure to financial risk, not for trading or speculative purposes.

Such financial risk includes:

- Interest risk on the Group's variable-rate borrowings;
- Fair value risk on the Group's fixed-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, forward foreign exchange contracts and contingent forward foreign exchange contracts.

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.

Financials
Notes to the Financial Statements continued

1. Accounting policies – Group and Company continued

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. Lease agreements in which the other party, as lessee, is regarded as the economic owner of the leased assets give rise to accounts receivable in the amount of the discounted future lease payments.

Dividends

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

Segmental reporting

The Group's organisational structure reflects the national nature of markets in which it operates, with divisions in the Netherlands, Belgium, the UK and Canada.

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. Although these estimates are based on management's best knowledge of the relevant facts and circumstances, actual results ultimately may differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if these are also affected.

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 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. 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 and the profit or loss on disposal of properties.

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.

Impairment of intangible assets

In conducting the impairment review on goodwill and intangibles, management is required to make estimates of discount rates, future profitability, growth rates and tax 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 contracts. Further information is set out in note 25.

Retirement benefit schemes

The Group operates defined benefit schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The pension cost under IAS 19 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 schemes are set out in note 26.

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.

Financials

Notes to the Financial Statements continued

3. Segmental reporting

Operating segments are based on the reports provided to the Board of Directors, the chief operating decision-maker. The Group operates in the Netherlands, Belgium, the UK and Canada. Each geographical location can be analysed according to the following types of activity:

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

In addition to the waste activities detailed above, the Group has small infrastructure and groundworks operations in Belgium and the Netherlands which, due to their small size, are reported as part of the Solid Waste activities.

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.

Revenue

	Netherlands		Belgium		UK		Canada		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Solid Waste	**218.8**	213.9	**127.5**	125.8	**64.8**	66.4	**–**	–	**411.1**	406.1
Hazardous Waste	**149.6**	141.2	**47.6**	50.5	**8.5**	14.6	**–**	–	**205.7**	206.3
Organics	**15.8**	12.5	**–**	–	**0.5**	1.6	**15.1**	10.5	**31.4**	24.6
UK Municipal-PFI/PPP Contracts	**–**	–	**–**	–	**106.8**	87.0	**–**	–	**106.8**	87.0
Landfill and Power	**–**	–	**10.2**	9.9	**5.8**	6.1	**–**	–	**16.0**	16.0
Sand Quarry	**–**	–	**2.9**	3.1	**–**	–	**–**	–	**2.9**	3.1
Intra-segment revenue	**(4.5)**	(5.4)	**(16.2)**	(17.0)	**(0.3)**	–	**–**	–	**(21.0)**	(22.4)
	379.7	362.2	**172.0**	172.3	**186.1**	175.7	**15.1**	10.5	**752.9**	720.7
Inter-segment revenue									**(2.8)**	(3.4)
Total revenue									**750.1**	717.3
Group									**737.2**	704.8
Share of joint ventures									**12.9**	12.5
Total revenue									**750.1**	717.3

Results

Trading Profit	Netherlands 2012 £m	Netherlands 2011 £m	Belgium 2012 £m	Belgium 2011 £m	UK 2012 £m	UK 2011 £m	Canada 2012 £m	Canada 2011 £m	Total 2012 £m	Total 2011 £m
Solid Waste	**17.1**	21.3	**7.9**	6.1	**4.2**	4.1	**–**	–	**29.2**	31.5
Hazardous Waste	**22.8**	17.9	**2.8**	3.5	**1.9**	2.9	**–**	–	**27.5**	24.3
Organics	**2.2**	1.9	**–**	–	**(0.5)**	0.1	**3.9**	1.3	**5.6**	3.3
UK Municipal-PFI/PPP Contracts	**–**	–	**–**	–	**10.8**	5.6	**–**	–	**10.8**	5.6
Landfill and Power	**–**	–	**5.4**	4.8	**(0.3)**	0.3	**–**	–	**5.1**	5.1
Sand Quarry	**–**	–	**0.6**	0.7	–	–	**–**	–	**0.6**	0.7
PFI bid team	**–**	–	**–**	–	**(1.5)**	(2.6)	**–**	–	**(1.5)**	(2.6)
Country central services	**(3.9)**	(3.9)	**(5.7)**	(4.3)	**(7.7)**	(5.4)	**–**	–	**(17.3)**	(13.6)
	38.2	37.2	**11.0**	10.8	**6.9**	5.0	**3.9**	1.3	**60.0**	54.3
Group central services									**(6.6)**	(4.6)
Total trading profit (before finance charges)									**53.4**	49.7
Amortisation of acquisition intangibles									**(3.7)**	(3.9)
Non-trading and exceptional items									**(2.9)**	(4.3)
Total operating profit									**46.8**	41.5
Group									**48.4**	41.7
Share of joint ventures									**(1.6)**	(0.2)
Total operating profit									**46.8**	41.5
Finance charges										
Interest payable									**(21.1)**	(23.9)
Interest receivable									**6.4**	9.4
Change in fair value of interest rate swaps									**(0.8)**	(5.8)
Net finance charges									**(15.5)**	(20.3)
Income from associates									**0.1**	–
Profit before tax									**31.4**	21.2

Financials

Notes to the Financial Statements continued

3. Segmental reporting continued

Net Assets

31 March 2012	Operating Assets Netherlands £m	Belgium £m	UK £m	Canada £m	Group central services £m	Tax, net debt and derivatives £m	Total £m
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**
31 March 2011							
Gross non-current assets	491.6	107.2	113.7	34.5	5.5	15.4	767.9
Gross current assets	86.1	50.3	47.0	5.0	1.0	54.7	244.1
Gross liabilities	(127.8)	(78.3)	(76.4)	(2.2)	(5.8)	(324.1)	(614.6)
Net assets	449.9	79.2	84.3	37.3	0.7	(254.0)	397.4

Other disclosures

	Netherlands		Belgium		UK		Canada		Group central services		Total	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Capital expenditure:												
Property, plant and equipment	**49.5**	39.9	**10.2**	12.8	**18.6**	10.4	**1.9**	4.4	**–**	–	**80.2**	67.5
Intangible assets	**0.4**	0.2	**0.1**	0.1	**0.4**	0.1	–	–	**0.5**	0.4	**1.4**	0.8
Depreciation charge	**31.9**	30.5	**13.9**	14.2	**2.8**	3.0	**1.9**	1.1	**–**	–	**50.5**	48.8
Amortisation of intangibles	**3.3**	3.9	**0.2**	0.2	**1.1**	1.1	**0.1**	0.1	**0.1**	–	**4.8**	5.3
Impairment charge	**–**	7.9	**–**	4.0	**2.5**	–	**–**	–	**–**	–	**2.5**	11.9

4. Reconciliation of non-trading and exceptional items

	2012 £m	2011 £m
Amortisation of acquisition intangibles	**3.7**	3.9
Write off of investment in a joint venture arrangement	**2.0**	–
Reassessment of contingent consideration	**(1.6)**	–
Impairment of goodwill	**2.5**	11.9
Gain on disposal of subsidiaries	**–**	(3.7)
Curtailment of pension liabilities	**–**	(3.9)
Total non-trading and exceptional items in operating profit	**6.6**	8.2
Change in fair value of derivatives	**0.8**	5.8
Tax on non-trading and exceptional items	**(0.3)**	(1.5)
Exceptional tax	**(5.2)**	(8.5)
Total non-trading and exceptional items in profit after tax	**1.9**	4.0

The Group has recognised a charge of £2.0m following the loss of control and subsequent impairment of the investment in a joint venture arrangement. This was a result of difficulties in the construction of a biomass plant and changes in market conditions. The charge was the net impact of an impairment of a loan of £1.8m and deconsolidation of net assets of £0.2m including land and buildings, bank loans and derivatives.

A gain of £1.6m (2011: £nil) has been recognised following the reassessment and settlement of contingent consideration in relation to an acquisition made in the UK in the year ended 31 March 2011.

Changes in market conditions in the volumes delivered to and prices achieved in our small UK joint venture landfill have resulted in a goodwill impairment charge of £2.5m. The prior year impairment charge of £11.9m arose from changes in market conditions in wood based and landfill markets in Belgium and the Netherlands.

In the prior year the Group recognised an exceptional gain of £3.7m net of associated taxes arising from the £24.6m sale of all of the subordinated debt and 80% of the equity in the East London Waste Authority and Dumfries and Galloway PFI contracts. An exceptional tax credit of £8.5m arose due to the partial release of provisions booked in March 2009 in respect of the abolition of Industrial Buildings Allowances relating to these contracts.

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

The exceptional tax credit of £5.2m in the current period related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Trading profit to EBITDA	2012 £m	2011 £m
Trading profit (before finance charges)	**53.4**	49.7
Depreciation of property, plant and equipment	**50.5**	48.8
Amortisation of intangible assets (excluding acquisition intangibles)	**1.1**	1.4
Non-exceptional gains on property, plant and equipment	**(2.5)**	(1.4)
Non cash landfill related expense and provisioning	**(0.1)**	0.1
EBITDA	**102.4**	98.6

Financials

Notes to the Financial Statements continued

5. Operating profit

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

	2012 £m	Restated* 2011 £m
Staff costs (see note 6)	**184.6**	171.6
Depreciation of property, plant and equipment	**50.5**	48.8
Amortisation of intangible assets	**4.8**	5.3
Repairs and maintenance expenditure on property, plant and equipment	**40.4**	40.9
Net profit on disposal of property, plant and equipment	**(2.5)**	(1.4)
Non-trading and exceptional items (as described in note 4)	**6.6**	8.2
Trade receivables impairment	**2.3**	1.1
Acquisition expenses	**–**	0.2
Government grants	**(0.2)**	(0.1)
Operating lease costs:		
– Minimum lease payments	**19.6**	20.2
– Less sub-lease rental income	**(0.3)**	(0.2)
	19.3	20.0

*The comparative amounts have been restated. Further explanation of the restatement is included in note 1.

Remuneration of the Group's auditor, PricewaterhouseCoopers LLP and its associates:		
– Audit of parent company and consolidated accounts	**0.2**	0.1
– Audit of subsidiaries pursuant to legislation	**0.4**	0.4
Fees payable to the auditors pursuant to legislation	**0.6**	0.5
– Tax services	**0.1**	0.1
– Other	**0.2**	0.1
Total non-audit fees	**0.3**	0.2
Total fees	**0.9**	0.7

Included in the other non-audit fees was £0.1m for due diligence and advice relating to a PPP contract in Belgium.

6. Employees

	2012 Number	Restated* 2011 Number
The average number of people (including executive directors) employed by the Group during the year was:		
Netherlands	**2,072**	2,034
Belgium	**1,135**	1,151
UK	**841**	792
Canada	**30**	27
Group central services	**16**	16
	4,094	4,020

*The comparative amounts have been restated. Further explanation of the restatement is included in note 1.

	2012 £m	Restated* 2011 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	**144.8**	134.9
Employer's social security costs	**27.5**	25.8
Share-based benefits	**0.7**	0.6
Employer's retirement benefit costs (see note 26)	**11.6**	10.3
	184.6	171.6

*The comparative amounts have been restated. Further explanation of the restatement is included in note 1.

The disclosure above relates to the Group. The average number of persons employed by the Company was 16 (2011: 16), with the related wages and salaries costs, employer's social security costs and employer's retirement benefit costs amounting to £2.5m (2011: £2.3m), £0.4m (2011: £0.3m) and £0.1m (2011: £0.1m) respectively.

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 2010	1,273,753	82p	159,827	110p	3,305,624
Granted during the year	256,515	79p	–	–	2,322,000
Forfeited during the year	(143,882)	79p	–	–	–
Expired during the year	(117,782)	107p	–	–	(1,941,832)
Exercised during the year	(8,458)	71p	–	–	(46,292)
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
Exercisable at 31 March 2012	71,474	141p	96,902	110p	
Exercisable at 31 March 2011	46,858	148p	159,827	110p	
Weighted average share price at date of exercise		99p			
At 31 March 2012:					
Range of price per share		71p to 148p		91p to 114p	
Weighted average remaining contractual life		1–2 years		2–3 years	1–2 years

Financials

Notes to the Financial Statements continued

7. Share-based payments continued

Fair value of options granted during the year

	SRSOS		LTIP	
Valuation model	**2012 Black-Scholes**	2011 Black-Scholes	**2012 Monte Carlo**	2011 Monte Carlo
Weighted average fair value	**32p**	40p	**41p**	51p
Weighted average share price	**104p**	109p	**117p**	99p
Weighted average exercise price	**92p**	79p	**–**	–
Expected volatility	**45%**	48%	**45.7%**	48%
Expected life	**3 years**	3 years	**3 years**	3 years
Risk-free interest rate	**0.6%**	1.3%	**0.9%**	1.5%
Dividend yield	**3.0%**	4.0%	**3.0%**	4.0%

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 £0.7m (2011: £0.6m) relating to equity-settled share-based payments.

8. Net finance charges

	2012 £m	2011 £m
Finance charges		
Interest payable on borrowings wholly repayable within five years	**10.4**	11.2
Interest payable on other borrowings	**5.5**	6.1
Share of interest of joint ventures	**0.1**	0.3
Unwinding of discount on provisions	**3.2**	2.3
Unwinding of discount on deferred consideration payable	**0.5**	0.7
Amortisation of loan fees	**1.4**	3.7
Total finance charges	**21.1**	24.3
Finance income		
Interest receivable on financial assets relating to PFI/PPP contracts	**(3.4)**	(6.3)
Unwinding of discount on deferred consideration receivable	**(0.3)**	(0.4)
Other interest receivable	**(2.7)**	(3.1)
Total finance income	**(6.4)**	(9.8)
Change in fair value of interest rate swaps	**0.8**	5.8
Net finance charges	**15.5**	20.3

9. Tax

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

		2012 £m	2011 £m
Current tax:	UK corporation tax at 26% (2011: 28%)		
	– Prior year	**0.1**	(2.2)
	Overseas tax		
	– Current year	**4.1**	8.0
	– Prior year	**(0.8)**	0.6
	Exceptional	**(5.2)**	–
Total current tax		**(1.8)**	6.4
Deferred tax (see note 18)			
– Current year		**6.0**	1.1
– Prior year		**0.4**	0.3
– Exceptional		**–**	(8.5)
Total deferred tax		**6.4**	(7.1)
Total tax charge (credit) for the year		**4.6**	(0.7)

The exceptional current tax credit of £5.2m in the current period related to a favourable judgement issued with regard to certain historic tax issues in Belgium.

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

The tax assessed for the year is lower than the UK standard rate of tax of 26% (2011: lower than 28%). The differences are explained below:

	2012 £m	2011 £m
Total profit before tax	**31.4**	21.2
Tax charge based on UK tax rate	**8.2**	5.9
Effects of:		
Adjustment to tax charge in respect of prior periods	**(0.3)**	(1.3)
Profits taxed at overseas tax rates	**0.3**	–
Non-taxable/non-deductible items	**(0.4)**	1.7
Unrecognised tax losses	**1.6**	1.6
Change in tax rate	**0.4**	(0.1)
Exceptional	**(5.2)**	(8.5)
Total tax charge (credit) for the year	**4.6**	(0.7)

Financials

Notes to the Financial Statements continued

9. Tax continued

The following taxation charge (credit) has been recognised directly in equity within the consolidated statement of comprehensive income:

	2012 £m	2011 £m
Cash flow hedging financial instruments	2.8	(0.1)
Defined benefit pension schemes	3.9	(1.3)
Total tax charged (credited) to other comprehensive income	6.7	(1.4)

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011 and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. The UK Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. This will reduce the Group's future current tax charge accordingly. The UK deferred tax at 31 March 2012 has been calculated based on the rate of 24% which was substantively enacted at the balance sheet date.

10. Dividends

	2012 £m	2011 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2011 of 2.25p per share (2010: 2.0p)	8.9	7.9
Interim dividend paid for the year ended 31 March 2012 of 1.1p per share (2011:1.0p)	4.4	4.0
	13.3	11.9
Proposed final dividend for the year ended 31 March 2012 of 2.35p per share (2011: 2.25p)	9.3	8.9
Total dividend per share	3.45p	3.25p

11. Earnings per share

	2012	2011
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**396.8m**	396.8m
Effect of share options in issue	**0.4m**	0.5m
Weighted average number of ordinary shares for diluted earnings per share	**397.2m**	397.3m
Calculation of basic and underlying basic earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**26.8**	21.9
Change in fair value of interest rate swaps (net of tax) (£m)	**0.6**	4.3
Amortisation of acquisition intangibles (net of tax) (£m)	**2.8**	2.9
Exceptional items (net of tax) (£m)	**3.7**	5.3
Exceptional tax charge (£m)	**(5.2)**	(8.5)
Earnings for underlying basic earnings per share (£m)	**28.7**	25.9
Basic earnings per share	**6.7p**	5.5p
Underlying earnings per share (see note below)	**7.2p**	6.5p
Calculation of diluted and underlying diluted earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**26.8**	21.9
Effect of dilutive potential ordinary shares (£m)	**–**	–
Earnings for diluted earnings per share (£m)	**26.8**	21.9
Diluted earnings per share	**6.7p**	5.5p
Underlying diluted earnings per share (see note below)	**7.2p**	6.5p

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. Company income statement

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement for the year. Shanks Group plc reported a profit for the year ended 31 March 2012 of £23.5m (2011: £4.3m loss). The Company operates solely in the UK providing central services. The Company is registered in Scotland under company number SC077438.

Financials

Notes to the Financial Statements continued

13. Intangible assets

Group	Goodwill £m	Landfill void £m	Computer software £m	Other acquisition related intangibles £m	Total £m
Cost					
At 31 March 2010	256.0	26.8	5.8	34.4	323.0
On acquisition of businesses	5.8	–	–	4.6	10.4
Reassessment of contingent consideration	(1.7)	–	–	–	(1.7)
Additions	–	–	0.8	–	0.8
Disposals	–	–	(0.5)	–	(0.5)
Exchange	(2.0)	(0.3)	–	(0.2)	(2.5)
At 31 March 2011	258.1	26.5	6.1	38.8	329.5
On acquisition of businesses (note 17)	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**
Accumulated impairment/amortisation					
At 31 March 2010	–	5.9	5.2	12.2	23.3
Amortisation charge for the year	–	1.1	0.4	3.8	5.3
Impairment charge	11.9	–	–	–	11.9
Disposals	–	–	(0.4)	–	(0.4)
Exchange	0.2	–	(0.1)	(0.3)	(0.2)
At 31 March 2011	12.1	7.0	5.1	15.7	39.9
Amortisation charge for the year	–	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**
Net book value					
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
At 31 March 2010	256.0	20.9	0.6	22.2	299.7

Of the total £4.8m (2011: £5.3m) amortisation charge for the year, £3.7m (2011: £3.8m) related to intangible assets arising on acquisition. Of the remaining amortisation expense of £1.1m (2011: £1.5m), £1.0m (2011: £1.5m) has been charged in cost of sales and £0.1 (2011: £nil) has been charged in administration expenses.

Contingent consideration for the 2007 acquisition of Orgaworld in the Netherlands was reassessed in the current and prior year resulting in a decrease of £0.8m (2011: £1.7m) to goodwill. The outstanding contingent consideration is payable in May 2012.

Goodwill impairment

Impairment testing is carried out at cash generating unit (CGU) level on an annual basis. A summary of goodwill by geographical area is presented below:

	2012 £m	2011 £m
Netherlands	**202.4**	212.8
Belgium	**13.6**	14.4
UK	**16.3**	18.8
	232.3	246.0

A significant part of the goodwill, £135.9m (2011: £144.3m), relates to the acquisition of the original business in the Netherlands in 2000.

The Group estimates the recoverable amount of a CGU using a value in use model by projecting cash flows for the next five years from the annual strategy review together with a terminal value using a growth rate. Management determined the five year plan based on past performance and its expectation of market developments. All pre-tax cash flows are discounted at a pre-tax rate of 10%-11% based on the Group's weighted average cost of capital (WACC). As most CGUs have integrated operations across large parts of the Group this is considered appropriate for all parts of the business. The following rates are used:

- Post-tax discount rate 7% (2011: 8%). Group WACC is equivalent to a pre-tax discount rate of 10%–11%.
- Growth rate used in the annuity is 2% (2011: 2%). This does not exceed the long-term economic average growth of the countries that the Group operates in.

The valuations indicated sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

Impairment losses

During the year there have been changes in market conditions in the volumes delivered to and prices achieved in our small UK joint venture landfill site and as a result there has been an impairment to the associated goodwill of £2.5m. No class of asset other than goodwill was impaired.

In the prior year, the Group recognised an impairment provision of £11.9m in relation to the Netherlands and Belgium Solid Waste businesses.

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

	2012 £m	2011 £m
Netherlands – Solid Waste	**–**	7.9
Belgium – Solid Waste	**–**	4.0
UK– Landfill	**2.5**	–
	2.5	11.9

There is no residual goodwill of the UK CGU after impairing the goodwill, there is residual goodwill of £14.2m (2011: £15.1m) and £0.2m (2011: £0.2m) in the Netherlands and Belgian CGUs respectively after impairing the goodwill to its recoverable amount in the prior year.

Financials

Notes to the Financial Statements continued

13. Intangible assets continued

Company	Software £m
Cost	
At 31 March 2011	0.4
Additions	0.5
At 31 March 2012	**0.9**
Accumulated impairment/amortisation	
At 31 March 2011	–
Amortisation charge for the year	0.1
At 31 March 2012	**0.1**
Net book value	
At 31 March 2012	**0.8**
At 31 March 2011	0.4
At 31 March 2010	–

14. Property, plant and equipment

Group	Land and buildings £m	Landfill sites £m	Plant and machinery £m	Total £m
Cost				
At 31 March 2010	271.0	53.1	494.1	818.2
Acquired with acquisition of businesses	–	–	0.1	0.1
Additions	12.7	0.3	54.5	67.5
Transfers	–	1.5	(1.5)	–
Disposals	(5.3)	(0.2)	(39.9)	(45.4)
Exchange	(1.2)	(0.3)	(3.3)	(4.8)
At 31 March 2011	277.2	54.4	504.0	835.6
Acquired with acquisition of businesses (note 17)	–	–	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**
Accumulated depreciation				
At 31 March 2010	68.9	43.3	322.2	434.4
Depreciation charge for the year	9.1	1.4	38.3	48.8
Disposals	(4.8)	–	(37.6)	(42.4)
Exchange	(0.1)	(0.4)	(2.2)	(2.7)
At 31 March 2011	73.1	44.3	320.7	438.1
Depreciation charge for the year	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**
Net book value				
At 31 March 2012	**193.5**	**9.0**	**188.4**	**390.9**
At 31 March 2011	204.1	10.1	183.3	397.5
At 31 March 2010	202.1	9.8	171.9	383.8

Included in plant and machinery are assets held under finance leases with a net book value of £8.1m (2011: £9.2m) and assets under construction of £35.5m (2011: £23.1m).

Depreciation expense of £48.1m (2011: £46.9m) has been charged in cost of sales and £2.4m (2011: £1.9m) in administrative expenses.

Included within additions is £0.1m (2011: £1.0m) of capitalised interest relating to projects under construction at joint ventures.

Financials

Notes to the Financial Statements continued

14. Property, plant and equipment continued

Company	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 31 March 2010, 31 March 2011 and 31 March 2012	0.1	0.4	0.5
Accumulated depreciation			
At 31 March 2010, 31 March 2011 and 31 March 2012	–	0.3	0.3
Net book value			
At 31 March 2010, 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 2010	4.5	–	1.6	6.1	469.6
Additions	1.3	0.5	–	1.8	–
Disposals and repayments	(0.8)	–	–	(0.8)	–
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**

Details of principal subsidiary undertakings, joint ventures and investments in associates are shown in note 33 and form part of these financial statements.

On 1 October 2011, the Group reclassified its investment in Valorbois SPRL from a joint venture to that of a trade investment due to the loss of joint control. Following reclassification the fair value of the investment and the loan to the joint venture arrangement were revalued to nil as reflected in the table above.

On 15 December 2011, the Group purchased 49% of the share capital of HYGEA SCRL for a consideration of £0.6m. The remaining 51% is held by IDEA SCRL, an entity controlled by the participating Municipalities of the Walloon region of Belgium. As at 31 March 2012 HYGEA SCRL had only been trading for three months. As the results for the period were immaterial, no share of profit or loss has been included.

Joint ventures

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

	2012 £m	2011 £m
Non-current assets	**11.3**	24.4
Current assets	**7.9**	11.2
Current liabilities	**(11.6)**	(21.6)
Non-current liabilities	**(1.2)**	(3.8)
Net assets	**6.4**	10.2
Income	**12.9**	12.4
Expenses	**(14.5)**	(13.0)
Loss before tax	**(1.6)**	(0.6)
Tax	**0.2**	–
Share of loss after tax for the year from joint ventures	**(1.4)**	(0.6)

The share of capital commitments of the joint ventures is shown in note 29.

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 2010 (Local GAAP)				
ELWA Limited	97.9	(105.4)	48.9	(1.8)
Shanks Dumfries and Galloway Limited	26.9	(26.0)	8.4	(0.5)
	124.8	(131.4)	57.3	(2.3)
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)

Investments in associates at 31 March 2012 include goodwill of £1.6m (2011: £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 £0.4m (2011: £nil) and Shanks Dumfries and Galloway Holdings Limited profit of £0.3m (2011: £nil).

The associates have no significant contingent liabilities to which the Group is exposed nor has the Group any significant contingent liabilities in relation to its interest in associates. A list of material associates and joint ventures is shown in note 33.

Financials

Notes to the Financial Statements continued

16. Derivative financial instruments

Group	2012 Assets £m	2012 Liabilities £m	2011 Assets £m	2011 Liabilities £m
Derivative financial instruments:				
Interest rate swaps – at fair value through profit and loss	**–**	**0.8**	–	1.6
Interest rate swaps – effective hedges	**–**	**16.4**	0.1	4.5
Forward foreign exchange contracts – effective hedges	**–**	**–**	0.2	–
Fuel derivatives – effective hedges	**0.1**	**–**	–	–
Total	**0.1**	**17.2**	0.3	6.1
Current	**0.1**	**–**	0.2	–
Non-current	**–**	**17.2**	0.1	6.1
Total	**0.1**	**17.2**	0.3	6.1

Cumulative losses recognised in equity on the derivative financial instruments as of 31 March 2012 were £16.3m (2011: £4.2m).

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2012 was £126.6m (2011: £109.4m). The expiry dates of the contracts range from 9 October 2014 (earliest) to 30 June 2037 (latest).

The notional principal amount of the outstanding forward foreign exchange contracts at 31 March 2012 was £6.2m (2011: £3.2m); the liability is not shown above as the value was minimal due to these being transacted on 30 March 2012. The hedged highly probable forecast transactions denominated in a foreign currency are expected to occur at various dates up to 27 February 2015.

The value of wholesale fuel covered by fuel derivatives at 31 March 2012 amounted to £0.6m (2011: £nil).

The Company had effective interest rate swap assets of £nil (2011: £0.1m) and liabilities of £1.5m (2011: £0.2m) and an effective fuel derivative asset of £0.1m (2011: £nil). The notional principal amount of the outstanding interest rate swap as at 31 March 2012 was £39.3m (2011: £48.7m).

17. Business combinations

On 1 March 2012 Shanks acquired the business and assets of Van Tuijl Glasrecycling BV a glass recycling business based in the Netherlands. The intangible assets acquired were permits, the brand and a customer list totalling £0.8m. The residual excess over the net assets acquired has been recognised as goodwill representing the opportunity to access the glass recycling market.

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

	Provisional fair value £m
Intangible assets	0.8
Plant, property and equipment	1.2
Inventory	0.4
Accruals	(0.1)
Net assets acquired	**2.3**
Goodwill	2.8
Total	**5.1**

	£m
Satisfied by:	
Cash consideration paid	3.4
Contingent consideration	1.7
Total consideration	**5.1**

From acquisition to 31 March 2012, Van Tuijl has contributed £0.4m to revenue and £nil to profit after tax. Had the business been acquired on 1 April 2011 it would have contributed £2.9m to revenue and £0.1m to profit after tax. The contingent consideration is payable in two instalments (in 2014 and 2015) based upon achievement of projected cumulative EBITDA during the three years ending March 2015. The amount accrued of £1.7m represents the maximum amount payable under the contract.

For acquisitions completed in the year ended 31 March 2011 there have been no amendments to the provisional values disclosed last year.

Financials

Notes to the Financial Statements continued

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	Retirement benefit schemes £m	Tax losses £m	Derivative financial instruments £m	Capital allowances £m	Other timing differences £m	Total £m
At 31 March 2010	1.9	18.8	5.3	(58.2)	(18.4)	(50.6)
Exceptional deferred tax credit	–	–	–	8.5	–	8.5
Disposals	–	(10.7)	(4.9)	18.8	5.2	8.4
(Charge) credit to Income Statement	(1.9)	(1.8)	1.3	1.7	(0.7)	(1.4)
Charge to equity	(1.3)	–	(0.1)	–	–	(1.4)
Exchange	–	–	–	0.1	0.3	0.4
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	(0.9)	1.8	(0.2)	(5.9)	(1.2)	(6.4)
Credit to equity	3.9	–	2.8	–	–	6.7
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)**
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)**
Deferred tax assets	–	5.6	1.6	4.1	4.0	15.3
Deferred tax liabilities	(1.3)	0.7	–	(33.2)	(17.6)	(51.4)
At 31 March 2011	(1.3)	6.3	1.6	(29.1)	(13.6)	(36.1)

As at 31 March 2012, the Group had unused trading losses (tax effect) of £19.5m (2011: £16.2m) available for offset against future profits. A deferred tax asset has been recognised in respect of £8.0m (2011: £6.3m) of such losses. No deferred tax asset has been recognised in respect of the remaining £11.5m (2011: £9.9m) 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.

As mentioned in note 9 there was an exceptional tax credit of £5.2m in the current period relating to a favourable judgement issued with regard to certain tax liabilities in Belgium. Following this decision, current and deferred tax balances have been reviewed and appropriately classified to reflect all remaining tax assets and liabilities.

Company	Retirement benefit schemes £m	Derivative financial instruments £m	Other timing differences £m	Total £m
At 31 March 2010	1.9	0.1	0.2	2.2
(Charge) credit to Income Statement	(1.9)	–	0.2	(1.7)
Charge to equity	(1.3)	(0.1)	–	(1.4)
At 31 March 2011	(1.3)	–	0.4	(0.9)
(Charge) credit to Income Statement	(0.9)	–	0.3	(0.6)
Credit to equity	3.9	0.4	–	4.3
At 31 March 2012	**1.7**	**0.4**	**0.7**	**2.8**

As at 31 March 2012, the Company has unused tax trading losses (tax effect) of £6.6m (2011: £4.4m) 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	
	2012 £m	2011 £m
Raw materials and consumables	**7.8**	8.0
Work in progress	**0.2**	0.5
Finished goods	**2.5**	1.4
	10.5	9.9

20. Financial instruments

Carrying value and fair value of financial assets and financial liabilities

		Group carrying value		Company carrying value	
Financial assets	Note	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Loans and receivables					
Financial assets	21	**69.0**	51.8	**–**	–
Loans to joint ventures	15	**3.6**	5.0	**–**	–
Trade and other receivables	21	**145.2**	166.3	**281.5**	283.9
Cash and cash equivalents	22	**59.8**	54.5	**25.6**	11.8
Derivative financial instruments					
Interest rate swaps	16	**–**	0.1	**–**	0.1
Forward foreign exchange contracts	16	**–**	0.2	**–**	–
Fuel derivatives	16	**0.1**	–	**0.1**	–
		277.7	277.9	**307.2**	295.8

The Group considers that the fair value of financial assets is not materially different to their carrying value.

Financials

Notes to the Financial Statements continued

20. Financial instruments continued

		Group				Company			
		Carrying value		Fair value		Carrying value		Fair value	
Financial liabilities	Notes	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Loans and payables									
Bank overdrafts and short-term loans	23	**–**	8.2	**–**	8.2	**8.5**	10.5	**8.5**	10.5
Bank loans	23	**128.0**	126.1	**128.0**	126.1	**23.8**	–	**23.8**	–
Retail bond	23	**82.4**	87.1	**84.9**	84.2	**82.4**	87.1	**84.9**	84.2
Senior notes	23	**48.1**	31.6	**52.1**	32.5	**–**	–	**–**	–
Finance lease obligations	23	**7.5**	8.9	**7.5**	8.9	**–**	–	**–**	–
Trade and other payables	24	**206.3**	224.7	**206.3**	224.7	**434.3**	446.6	**434.3**	446.6
Derivative financial instruments									
Interest rate swaps	16	**17.2**	6.1	**17.2**	6.1	**1.5**	0.2	**1.5**	0.2
		489.5	492.7	**496.0**	490.7	**550.5**	544.4	**553.0**	541.5

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

The fair values of the retail bond and senior notes are measured by discounting the future cash flows using observable market interest rate information as no similar instrument is available due to the specific profiles of the instruments. They are considered to be level 2 in the fair value hierarchy.

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 change in 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.

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.

During the year ended 31 March 2012, 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, foreign exchange risk and commodity price risk), liquidity risk and credit risk. Group Treasury is charged with managing and controlling risk relating to the financing and liquidity of the Group under policies approved by the Board of Directors. Group Treasury does not enter into speculative transactions.

Interest rate risk

The Group has continued to limit its exposure to interest rate risk by entering into a fixed rate retail bond of €100m, fixed rate senior notes and further interest rate swaps that fix a substantial part of the Group's core borrowings.

The debt relating to project finance non-recourse borrowings is at floating rates and the Group has entered into interest rate swaps. The interest rate swaps represent a hedge of 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. Any other 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 or assets 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 weighted average effective interest rates at the balance sheet dates were as follows:

	2012			2011		
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	**–**	**69.0**	**5.7**	–	51.8	5.8
Cash and cash equivalents	**19.1**	**–**	**0.5**	40.5	–	0.4
Short-term deposits	**40.7**	**–**	**0.6**	14.0	–	0.7
Financial liabilities						
Bank overdrafts and short-term loans	**–**	**–**	**–**	8.2	–	4.2
Senior notes	**–**	**48.1**	**5.6**	–	31.6	6.9
Retail bond	**–**	**82.4**	**5.0**	–	87.1	5.0
Bank loans	**128.0**	**–**	**2.4**	126.1	–	2.8
Interest rate swaps	**(126.6)**	**126.6**	**5.9**	(109.4)	109.4	5.6

The interest rate swaps weighted average interest rate includes the fixed interest rate which ranges from 1.23% to 5.79% (2011: 1.74% to 5.79%) and the margin of the underlying lending which ranges from 1.1% to 3.2% (2011: 1.1% to 2.75%).

Excluded from the analysis above is £7.5m (2011: £8.9m) of amounts payable under finance leases as set out in note 23, 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.

Financials
Notes to the Financial Statements continued

20. Financial instruments continued

Interest rate sensitivity (assuming all other variables remain constant):

	2012		2011	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
1% increase in interest rates				
Derivatives	**0.9**	**15.4**	1.9	10.1
Non-derivatives	**(0.9)**	**(0.9)**	(1.9)	(1.9)
	–	**14.5**	–	8.2
1% decrease in interest rates				
Derivatives	**(0.9)**	**(17.7)**	(1.9)	(11.2)
Non-derivatives	**0.9**	**0.9**	1.9	1.9
	–	**(16.8)**	–	(9.3)

A 1% movement has been applied to interest rates for the year ended 31 March 2012, representing management's assessment of a reasonably possible change in interest rates (2011: 1%). The interest rate sensitivity is taken to occur from 31 March 2011 and so the change in the fair value of the swaps is shown as an equity sensitivity which results in an increase of £14.5m (2011: £8.2m) for a 1% increase in interest rate and a decrease of £16.8m (2011: £9.3m) for a 1% decrease in rates.

For the Company, there were £25.1m short-term deposits (2011: £11.8m) at an effective interest rate of 0.4% (2011: 0.6%). The effective interest rate on the Company's cash and cash equivalents was nil% (2011: nil%). The weighted average effective interest rates relating to the Company were 2.5% (2011: 4.1%) for bank loans. Interest on inter-company loan balances are charged at rates of between 0% and 12% (2011: 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. 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 £82.4m (2011: £87.1m) (fair value of £84.9m (2011: £84.2m)) as a net investment hedge of the Group's investments denominated in Euros. The hedge was 100% effective for the year ended 31 March 2012 (2011: 100%) and as a result the related exchange gain of £4.7m (2011: £0.3m loss) on translation of the borrowings into Sterling has been recognised in the exchange reserve.

The Group mitigates some foreign exchange risk on financial assets arising in the UK through the use of forward exchange contracts.

Foreign exchange rate sensitivity (assuming all other variables remain constant):

	2012		2011	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
10% increase in foreign exchange rates against sterling				
Euro	**3.7**	**8.6**	3.6	9.5
Canadian Dollar	**0.2**	**0.2**	–	0.1
	3.9	**8.8**	3.6	9.6

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 (2011: 10%).

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 a serious way 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. The value of wholesale fuel covered by derivatives at 31 March 2012 amounted to £0.6m (2011: £nil). These fuel derivatives contracts have been designated as cash flow hedges against highly probable future fuel purchase forecasts to occur over the next six months.

The following table demonstrates the sensitivity of a reasonably possible change in fuel prices, with all other variables held constant:

	2012	2011
	Income sensitivity £m	Income sensitivity £m
30% increase in wholesale fuel price (excluding duty)	**5.1**	4.5
30% decrease in wholesale fuel price (excluding duty)	**(5.1)**	(4.5)

Recyclate price risk
The Group is exposed to recyclate price risk in its normal operations. The main commodities where the Group has exposure are paper, cardboard and ferrous metal. The Group de-risks part of this exposure by pass-through pricing and fixed price contracts. The Group has not entered into any recyclate price derivatives however this remains under regular review.

The following table demonstrates the sensitivity of a reasonably possible change in recyclate prices, with all other variables held constant:

	2012	2011
	Income sensitivity £m	Income sensitivity £m
10% increase in recyclate prices	**2.4**	2.0
10% decrease in recyclate prices	**(2.4)**	(2.0)

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 loan notes see note 23.

Undrawn committed borrowing facilities:

	Core		**Project finance**		**Total Group**	
Group	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Expiring within one year	**–**	–	**–**	–	**–**	–
Expiring between one and two years	**–**	–	**–**	–	**–**	–
Expiring in more than two years	**75.1**	88.0	**102.8**	26.8	**177.9**	114.8
	75.1	88.0	**102.8**	26.8	**177.9**	114.8

In addition, the Group had access to £23.4m (2011: £25.7m) of undrawn uncommitted working capital facilities.

As at 31 March 2012, the Company had undrawn committed borrowing facilities at floating rates of £75.1m (2011: £88.0m) expiring in more than two years.

Financials

Notes to the Financial Statements continued

20. Financial instruments continued

Maturity profile of non-current borrowings:

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Between one and two years	**20.1**	1.4	**–**	–
Between two years and five years	**169.4**	198.6	**106.2**	87.1
Over five years	**64.3**	22.6	**–**	–
	253.8	222.6	**106.2**	87.1

Maturity profile of undiscounted cash flows of financial liabilities and net settled derivative financial instruments:

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 2012			
Senior notes	**2.7**	**22.8**	**35.8**
Retail bond	**3.7**	**94.4**	**–**
Bank borrowings (excluding finance leases)	**13.9**	**102.5**	**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**
At 31 March 2011			
Senior notes	16.4	17.7	–
Retail bond	4.4	106.2	–
Bank borrowings (excluding finance leases)	14.9	94.5	43.0
Finance lease liabilities	3.5	6.3	0.3
Net settled derivative financial instruments	2.9	13.6	23.0
Trade and other payables	216.7	15.0	–
	258.8	253.3	66.3

Security of borrowing facilities

The Group's bank loans, retail bond 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 land and/or 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 2012 the amount of credit risk totalled £59.8m (2011: £54.5m).

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 2012 the credit risk was £0.1m (2011: £0.3m).

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 2012 the credit risk amounted to £158.0m (2011: £181.1m). 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 2012, the credit risk was £69.0m (2011: £51.8m).

Capital management

The Group has a funding strategy to ensure that the Group maintains 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. 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.

Financials

Notes to the Financial Statements continued

21. Trade and other receivables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current assets				
Financial assets	**62.5**	47.6	**–**	–
Deferred consideration	**3.0**	3.6	**–**	–
Other receivables	**1.2**	2.2	**–**	–
	66.7	53.4	**–**	–
Current assets				
Trade receivables	**108.0**	129.3	**–**	–
Provision for impairment of receivables	**(5.3)**	(4.5)	**–**	–
Trade receivables – net	**102.7**	124.8	**–**	–
Accrued income	**21.2**	24.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**280.0**	283.0
Financial assets	**6.5**	4.2	**–**	–
Deferred consideration	**0.8**	0.9	**–**	–
Other receivables	**16.3**	10.5	**1.5**	0.9
Prepayments	**12.8**	14.8	**0.4**	0.1
	160.3	179.5	**281.9**	284.0

Movement in the provision for impairment of receivables:

	Group 2012 £m	Group 2011 £m
At 1 April	**4.5**	4.6
Charged to Income Statement	**2.3**	1.1
Utilised	**(1.3)**	(1.2)
Exchange	**(0.2)**	–
At 31 March	**5.3**	4.5

The allowance for bad and doubtful debts is equivalent to 4.9% (2011: 3.5%) of gross trade receivables.

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

	Group 2012 £m	Group 2011 £m
Neither impaired nor past due	**62.1**	78.7
Not impaired but overdue by less than three months	**37.2**	42.5
Not impaired but overdue by between three and six months	**2.3**	3.2
Not impaired but overdue by more than six months	**1.1**	0.4
Impaired	**5.3**	4.5
Impairment provision	**(5.3)**	(4.5)
	102.7	124.8

Past due 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	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Sterling	**107.6**	96.1	**97.3**	111.2
Euro	**115.1**	131.9	**184.6**	167.1
Canadian Dollar	**4.3**	4.9	**–**	5.7
	227.0	232.9	**281.9**	284.0

22. Cash and cash equivalents

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Cash at bank and in hand	**19.1**	40.5	**0.5**	–
Short-term deposits	**40.7**	14.0	**25.1**	11.8
	59.8	54.5	**25.6**	11.8

Short-term deposits include restricted funds of £5.6m (2011: £nil), held in relation to a legal claim in the Netherlands, see note 31 for further details.

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

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Sterling	**11.9**	23.0	**8.9**	11.8
Euro	**45.6**	29.3	**16.2**	–
Canadian Dollar	**2.3**	2.2	**0.5**	–
	59.8	54.5	**25.6**	11.8

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

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Cash and cash equivalents as above	**59.8**	54.5	**25.6**	11.8
Less: deposits with a maturity of three months or more (restricted funds)	**(5.6)**	–	**–**	–
	54.2	54.5	**25.6**	11.8

Financials

Notes to the Financial Statements continued

23. Borrowings

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Current borrowings				
Bank overdraft and short-term loans	**–**	8.2	**8.5**	10.5
Senior notes	**–**	15.9	**–**	–
Bank loans	**9.4**	12.1	**–**	–
Finance lease obligations	**2.8**	3.1	**–**	–
	12.2	39.3	**8.5**	10.5
Non-current borrowings				
Senior notes	**48.1**	15.7	**–**	–
Retail bond	**82.4**	87.1	**82.4**	87.1
Bank loans	**118.6**	114.0	**23.8**	–
Finance lease obligations	**4.7**	5.8	**–**	–
	253.8	222.6	**106.2**	87.1

At 31 March 2012, 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 2012, €67m (2011: €64m) equivalent of term loan was drawn in Euro and Canadian Dollars on a three month interest period plus €33m (2011: €36m) of the revolving credit facility. The remaining €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 6.9% 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 carrying amounts of borrowings are denominated in the following currencies:

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Sterling	**69.3**	44.4	**25.9**	4.0
Euro	**162.5**	185.5	**88.8**	93.6
Canadian Dollar	**34.2**	32.0	**–**	–
	266.0	261.9	**114.7**	97.6

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

	2012			2011		
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**	3.5	(0.4)	3.1
Between one and five years	**5.2**	**(0.5)**	**4.7**	6.3	(0.7)	5.6
More than five years	**–**	**–**	**–**	0.3	(0.1)	0.2
	8.4	**(0.9)**	**7.5**	10.1	(1.2)	8.9

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 other debt or leases.

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

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Current liabilities				
Trade payables	**94.0**	103.1	**0.3**	0.5
Other tax and social security payable	**15.9**	16.3	**0.3**	0.1
Other payables	**10.3**	13.5	**0.2**	0.3
Accruals and deferred income	**68.1**	66.5	**3.2**	10.8
Deferred consideration	**13.0**	6.8	**–**	–
Unprocessed waste	**12.8**	19.0	**–**	–
Government grants	**–**	0.2	**–**	–
	214.1	225.4	**4.0**	11.7
Non-current liabilities				
Amounts owed to group undertakings	**–**	–	**430.3**	434.9
Deferred consideration	**1.7**	15.0	**–**	–
Government grants	**0.4**	0.2	**–**	–
Other payables	**3.3**	3.5	**–**	–
	5.4	18.7	**430.3**	434.9

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

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Sterling	**63.5**	65.6	**155.6**	157.2
Euro	**154.1**	176.3	**278.7**	289.4
Canadian Dollar	**1.9**	2.2	**–**	–
	219.5	244.1	**434.3**	446.6

Financials

Notes to the Financial Statements continued

25. Provisions

	Group			Company
	Site restoration and aftercare £m	Other £m	Total £m	Other £m
At 31 March 2011	28.8	17.6	46.4	2.7
Provided – cost of sales	0.7	–	0.7	–
Released – cost of sales	–	(0.5)	(0.5)	–
Provided – administrative costs	–	1.5	1.5	–
Finance charges – unwinding of discount	1.5	1.7	3.2	–
Utilised	(0.7)	(3.1)	(3.8)	(0.7)
Other – cash received (see below)	–	8.7	8.7	–
Exchange	(1.6)	(0.4)	(2.0)	–
At 31 March 2012	**28.7**	**25.5**	**54.2**	**2.0**
Current	**0.1**	**4.3**	**4.4**	**2.0**
Non-current	**28.6**	**21.2**	**49.8**	**–**
At 31 March 2012	**28.7**	**25.5**	**54.2**	**2.0**
Current	0.6	6.4	7.0	2.4
Non-current	28.2	11.2	39.4	0.3
At 31 March 2011	28.8	17.6	46.4	2.7

Site restoration

Site restoration provision as at 31 March 2012 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.

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 contract to which they relate which is up to 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. The timing of expected outflows is uncertain therefore an estimate has been made and the majority of the provision has been classified as non-current.

Included within other provisions is £8.7m (€10.5m) received during the year following a court decision in respect of a claim for business interruption in the Netherlands that occurred in 2002. The receipt of the amount was conditional on a parent company guarantee. The court's decision has been appealed and the ultimate outcome of the case remains uncertain. Accordingly, the Directors believe the amount should be recorded within provisions until the ultimate outcome of the case is known with greater certainty.

26. Retirement benefit schemes

Retirement benefit costs	Group 2012 £m	Restated* 2011 £m
UK defined contribution schemes	**0.9**	0.8
UK funded defined benefit schemes	**0.8**	0.8
Overseas pension schemes	**9.9**	8.7
Retirement benefit costs before exceptional items	**11.6**	10.3
UK funded defined benefit schemes – curtailment of pension liabilities	**–**	(3.9)
Total retirement benefit costs	**11.6**	6.4

*The comparative amounts have been restated. Further explanation of the restatement is included in note 1.

UK

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. The Group also has one other small funded defined benefit scheme, which is included in the defined benefit disclosures below. Pension costs for the defined benefit section are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method.

Assumptions

The valuation has been based on a full assessment of the liabilities of the scheme as at 5 April 2009 updated by independent qualified actuaries to take account of the requirements of IAS 19 Employee Benefits in order to assess the liabilities of these schemes at 31 March 2012. The main assumptions were as follows:

	2012 % p.a	2011 % p.a
Discount rate	**4.8**	5.6
Future salary growth (non-Local Government Passport Section members)	**1.0**	1.0
Future salary growth (Local Government Passport Section members)	**4.4**	4.6
Rate of increase in pensions payment (fixed 3%)	**3.0**	3.0
Rate of increase in pensions payment (cap 5%)	**3.2**	3.4
Rate of increase in pensions payment (cap 2.5%)	**2.2**	2.2
Rate of price inflation	**3.4**	3.6
Consumer price inflation	**2.4**	2.7

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 22 years if they are male and for a further 24 years if they are female. For a member who retires in 2027 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 26 years after retirement if they are female.

The assumptions used by the independent qualified actuaries are the best estimates chosen from a range of possible actuarial assumptions.

Financials

Notes to the Financial Statements continued

26. Retirement benefit schemes continued

Income statement

		2012 £m	2011 £m
Operating profit	Current service cost	**0.8**	0.8
	Curtailment gain	**–**	(3.9)
		0.8	(3.1)
Other finance items	Interest charge on scheme liabilities	**6.0**	6.3
	Expected return on scheme assets	**(7.7)**	(7.3)
		(1.7)	(1.0)
Net retirement benefit credit before tax		**(0.9)**	(4.1)

Statement of comprehensive income

	2012 £m	2011 £m
Loss on actual return less expected return on scheme assets	**(2.0)**	(0.2)
Experience losses arising on scheme liabilities	**–**	–
(Loss) gain arising on changes in assumptions underlying the present value of the scheme liabilities	**(14.0)**	5.1
Actuarial (loss) gain	**(16.0)**	4.9

Cumulative actuarial gains and losses recognised in the statement of comprehensive income since 1 April 2004 are losses of £14.0m (2011: £2.0m gains).

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Market value of scheme assets	**117.9**	113.1	106.9	86.3	97.4
Present value of scheme liabilities	**(125.5)**	(108.2)	(113.7)	(87.3)	(88.0)
(Deficit) surplus in the schemes	**(7.6)**	4.9	(6.8)	(1.0)	9.4
Experience adjustments arising on scheme assets (£m)	**(1.9)**	(0.1)	16.9	(16.5)	(7.6)
% of scheme assets	**1.7%**	0.1%	15.8%	19.1%	7.8%
Experience adjustments arising on scheme liabilities (£m)	**(0.1)**	–	(0.9)	0.1	0.3
% of scheme liabilities	**0.0%**	0.0%	0.8%	0.1%	0.3%

Balance sheet

The table below sets out the aggregate fair values of the assets in the Group's defined benefit schemes, their expected weighted average long-term rates of return and the aggregate net pension liabilities:

	Expected long-term rate of return		Net pension fund		Plan assets as % of total assets	
	2012 % p.a	2011 % p.a	**2012 £m**	2011 £m	**2012 %**	2011 %
Equities	**8.0**	8.4	**44.9**	68.4	**38.1**	60.5
Fixed interest gilts	**3.1**	4.4	**7.7**	11.7	**6.5**	10.3
Index linked gilts	**2.9**	4.2	**21.6**	18.5	**18.3**	16.4
Corporate bonds	**4.1**	5.2	**20.8**	11.3	**17.6**	10.0
Newton Diversified Growth Fund	**7.1**	–	**22.2**	–	**18.9**	–
Cash	**3.1**	4.4	**0.7**	3.2	**0.6**	2.8
Total market value of assets			**117.9**	113.1	**100.0**	100.0
Present value of scheme liabilities			**(125.5)**	(108.2)		
Net (deficit) surplus in the schemes			**(7.6)**	4.9		
Related deferred tax asset (liability)			**1.7**	(1.3)		
Net pension (liability) asset			**(5.9)**	3.6		

The overall expected rate of return on scheme assets is 5.9% (2011: 6.9%) and is a weighted average of the expected rates of return on each asset class. 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. The assumed long-term rate of return on each asset class is set out in the table above. The overall expected rate of return is derived by aggregating the expected return for each asset class over the actual asset allocation for the schemes as at 31 March 2012.

At 31 March 2012 the IAS 19 net retirement deficit was £7.6m (2011: £4.9m surplus). The amount of the liability varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased or decreased by 0.25%, the IAS 19 liability would increase or decrease by circa £1.9m.

Movement in scheme assets during the year

	2012 £m	2011 £m
At 1 April	**113.1**	106.9
Expected return on plan assets	**7.7**	7.3
Actual return less expected return on plan assets	**(2.0)**	(0.1)
Employer contributions	**2.6**	2.6
Member contributions	**0.2**	0.3
Benefits paid	**(3.7)**	(3.9)
At 31 March	**117.9**	113.1

Financials
Notes to the Financial Statements continued

26. Retirement benefit schemes continued

Movement in scheme liabilities during the year

	2012 £m	2011 £m
At 1 April	**(108.2)**	(113.7)
Current service cost	**(0.8)**	(0.8)
Interest cost on plan liabilities	**(6.0)**	(6.3)
Changes in assumptions	**(14.0)**	5.1
Member contributions	**(0.2)**	(0.3)
Benefits paid	**3.7**	3.9
Curtailment gain	**–**	3.9
At 31 March	**(125.5)**	(108.2)

The estimated contributions expected to be paid to the schemes in the year ending 31 March 2013 are £3.6m.

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 £9.9m (2011: £8.7m).

27. Called up share capital

Group and Company	2012 £m	2011 £m
Allotted, called up and fully paid 397 million (2011: 397 million) ordinary shares of 10p each	**39.7**	39.7

During the year 11,189 (2011: 54,750) ordinary shares were allotted following the exercise of share based payments under the Savings Related Share Option Schemes for an aggregate consideration of £8,076 (2011: £57,991). Further disclosures relating to share-based payments are set out in note 7.

28. Notes to the statements of cash flows

	Group		Company	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Profit (loss) before tax from continuing operations	**31.4**	21.2	**20.1**	(9.0)
Fair value losses on financial instruments	**0.8**	5.8	**–**	–
Finance costs net	**14.7**	14.5	**9.4**	11.3
Amortisation and impairment of intangible assets	**7.3**	17.2	**0.1**	–
Depreciation of property, plant and equipment	**50.5**	48.8	**–**	–
Exceptional gain on disposal of subsidiary	**–**	(3.7)	**–**	–
Exceptional gain on contingent consideration	**(1.6)**	–	**–**	–
Exceptional loss on write off of investment in a joint venture arrangement	**2.0**	–	**–**	–
Non-exceptional gain on disposal of property, plant and equipment	**(2.5)**	(1.4)	**–**	–
Exchange gain	**–**	–	**1.6**	(0.3)
Net decrease in provisions	**(4.0)**	(10.1)	**(2.5)**	(7.2)
Income from associates	**(0.1)**	–	**–**	–
Share-based payments	**0.7**	0.6	**0.7**	0.6
Operating cash flows before movement in working capital	**99.2**	92.9	**29.4**	(4.6)
Increase in inventories	**(0.8)**	(0.1)	**–**	–
Decrease (increase) in receivables	**14.3**	(19.7)	**(21.6)**	(26.8)
(Decrease) increase in payables	**(11.5)**	26.3	**4.6**	12.9
Cash generated by operations	**101.2**	99.4	**12.4**	(18.5)
Receipt from business interruption claim in the Netherlands	**8.7**	–	**–**	–
Income taxes (paid) received	**(7.1)**	(4.1)	**4.1**	8.5
Net cash from (used in) operating activities	**102.8**	95.3	**16.5**	(10.0)

Consolidated movement in net debt

	2012 £m	2011 £m
Net increase in cash and cash equivalents	**0.9**	3.4
Net (increase) decrease in borrowings and finance leases	**(13.9)**	6.8
Deposit of restricted funds	**5.6**	–
Amortisation of loan fees	**(1.3)**	(3.6)
Capitalisation of loan fees	**–**	4.1
Disposal of subsidiaries and other businesses	**–**	100.0
Exchange gain	**9.9**	1.6
Movement in net debt	**1.2**	112.3
Net debt at beginning of year	**(207.4)**	(319.7)
Net debt at end of year	**(206.2)**	(207.4)

Financials

Notes to the Financial Statements continued

28. Notes to the statements of cash flows continued

Analysis of Group net debt

	As at 31 March 2012 £m	As at 31 March 2011 £m
Cash and cash equivalents	**59.8**	54.5
Current borrowings	**(12.2)**	(39.3)
Non-current borrowings	**(253.8)**	(222.6)
Total Group net debt	**(206.2)**	(207.4)
Core business net debt	**(160.8)**	(159.5)
PFI/PPP companies and other project finance net debt	**(45.4)**	(47.9)
Total Group net debt	**(206.2)**	(207.4)

29. Capital commitments

Group	2012 £m	2011 £m
Contracts placed for future capital expenditure on financial assets	**65.1**	23.7
Contracts placed for future capital expenditure on property, plant and equipment	**19.3**	26.0
Share of joint venture future capital expenditure	**–**	2.5

The Company had no capital commitments as at 31 March 2012 (2011: £nil).

30. Financial commitments

Group	2012 £m	2011 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**10.6**	9.3
Later than one year and less than five years	**26.3**	34.4
More than five years	**72.4**	75.7
	109.3	119.4
Future minimum lease payments expected to be received under non-cancellable sub-leases	**(0.5)**	(0.5)
	108.8	118.9

The Company had commitments under non-cancellable leases of £nil (2011: £0.4m).

31. 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 £3.1m (€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. During the year, the court issued a decision that £5.9m (€7.1m) was payable. An appeal against the decision has been lodged. The Directors believe that no further amount should be provided at this stage as the outcome of the appeal process is uncertain and the provision of £2.9m (€3.5m) established remains appropriate. The claim relates to the period prior to the acquisition of the Netherlands group of companies in 2000 and accordingly any payment to the authorities may be recoverable from the previous owners under the sale and purchase agreement. Any such recovery represents a contingent asset at 31 March 2012 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 £52.6m (2011: £40.6m). In addition, the Company has contingent liabilities in respect of both VAT and HM Revenue & Customs group payment arrangements of £0.2m (2011: £0.2m).

The Company has given guarantees in respect of the Group's subsidiary undertakings' borrowing facilities totalling £88.8m (2011: £90.8m).

Joint ventures

The Group's joint ventures have no significant contingent liabilities or assets.

32. Related party transactions

Transactions between the Company and its subsidiaries

A list of the Company's principal subsidiaries is set out in note 33. Transactions with subsidiaries relate to interest on intercompany loans and management charges. Net interest expense was £5.5m (2011: £7.5m) and management charges received were £3.8m (2011: £3.8m). Total outstanding balances are listed in notes 21 and 24.

Remuneration of key management personnel

Key management comprises the Board of Directors and the managing directors of the country operations. 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 75 to 80, and form part of these financial statements. The emoluments paid to key management personnel were:

	2012 £m	2011 £m
Short-term employee benefits	**2.2**	2.6
Retirement benefits	**0.1**	0.3
Share-based benefits	**0.3**	0.2
	2.6	3.1

Transactions between the Group and its associates

The Group had the following transactions and outstanding balances with associates, in the ordinary course of business:

	2012 £m	2011 £m
Sales	**40.4**	19.1
Management fees	**0.5**	0.2
Accounts receivable at 31 March	**4.1**	4.0

Financials

Notes to the Financial Statements continued

33. Subsidiary undertakings and joint ventures and associates at 31 March 2012

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
Transportbedrijf van Vliet B.V. (Contrans)	Netherlands
Afvalstoffen Terminal Moerdijk B.V. (ATM)	Netherlands
Reym B.V.	Netherlands
Smink Beheer B.V.	Netherlands
Orgaworld 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
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

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	50%	31 December 2011	UK
Energen Biogas Limited	50%	31 March 2012	UK
ELWA Holdings Limited	20%	31 March 2012	UK
Shanks Dumfries and Galloway Holdings Limited	20%	31 March 2012	UK

Consolidated Five Year Financial Summary

At 31 March 2012

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Consolidated income statement					
Revenue	**750.1**	717.3	683.5	685.1	553.0
Trading profit from continuing operations[1]	**53.4**	49.7	51.1	61.7	51.9
Finance charges – interest	**(9.9)**	(8.2)	(12.1)	(14.9)	(8.3)
Finance charges – other	**(4.8)**	(6.3)	(5.8)	(2.9)	(2.6)
Income from associates	**0.1**	–	–	–	–
Profit from continuing operations before exceptional items and tax (underlying profit)	**38.8**	35.2	33.2	43.9	41.0
Amortisation of acquisition intangibles	**(3.7)**	(3.9)	(3.9)	(3.8)	(2.5)
Non-trading and exceptional items	**(3.7)**	(10.1)	(9.7)	(10.8)	(1.0)
Profit before tax from continuing operations	**31.4**	21.2	19.6	29.3	37.5
Tax	**(10.1)**	(9.3)	(6.7)	(7.8)	(11.9)
Exceptional tax	**5.5**	10.0	5.2	(18.4)	–
Profit after tax from continuing operations	**26.8**	21.9	18.1	3.1	25.6
Profit after tax from discontinued operations	**–**	–	19.5	3.3	2.7
Profit for the year	**26.8**	21.9	37.6	6.4	28.3
Consolidated balance sheet					
Non-current assets	**751.6**	767.9	878.7	874.4	726.6
Other assets less liabilities	**(174.8)**	(163.1)	(173.8)	(166.1)	(123.3)
Net debt	**(206.2)**	(207.4)	(319.7)	(408.7)	(323.2)
Net assets	**370.6**	397.4	385.2	299.6	280.1
Share capital and share premium	**139.1**	139.1	139.0	123.0	121.1
Reserves	**231.5**	258.3	246.2	176.6	159.0
Total equity	**370.6**	397.4	385.2	299.6	280.1
Financial ratios					
Underlying earnings per share	**7.2p**	6.5p	6.5p	10.4p	9.3p
Basic earnings per share	**6.7p**	5.5p	4.8p	1.0p	8.6p
Dividends per share	**3.45p**	3.25p	3.0p	1.7p	4.9p

[1] Trading profit from continuing operations is stated before exceptional items and amortisation of acquisition intangibles.

8

Other information

Shareholder Information

Analysis of shareholders as at 31 March 2012

	Holders	%	Shares held	%
Private shareholders	2,405	65.2	16,146,739	4.1
Corporate shareholders	1,284	34.8	380,710,473	95.9
Total	3,689	100.0	396,857,212	100.0

Size of shareholding			Holders	%	Shares held	%
1	–	5,000	2,505	67.9	5,073,653	1.3
5,001	–	25,000	772	20.9	8,243,934	2.1
25,001	–	50,000	100	2.7	3,585,941	0.9
50,001	–	100,000	74	2.0	5,388,784	1.4
100,001	–	250,000	73	2.0	11,856,549	3.0
250,001	–	500,000	153	4.2	205,334,800	51.7
		over 500,000	12	0.3	157,373,551	39.6
Total			3,689	100.0	396,857,212	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.computershare.com/investor.

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 (over 100 countries worldwide), 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/payments, enter the Company name and your Shareholder Reference Number and add your payment instruction (you will need your bank details).

Low cost share dealing service

A low cost, execution only share-dealing service for the purchase and sale of Shanks Group plc shares is available from NatWest Stockbrokers who are authorised and regulated by the Financial Services Authority and are a member of the London Stock Exchange. NatWest Stockbrokers, Suite 1/1, 3 Minster Court, Mincing Lane, London EC3R 7DD. Telephone: 0808 208 4433.

Share price information

On 31 March 2012, the middle market price of Shanks Group plc ordinary 10 pence shares was 98.75 pence per share, having varied during the year between a low of 89.5 pence and a high of 131.5 pence. Share price information on Shanks Group plc is widely available in the financial press and on financial websites. The ISIN ('International Securities Identification Number') code for the Company's ordinary shares is GB0007995243 and the SEDOL ('Stock Exchange Daily Official List') number is 0799524.

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.

Company websites

The Shanks Group plc website, containing Company details, financial information and current news can be found at www.shanksplc.com. The website for Shanks companies within Belgium can be found at www.shanks.be, for the Netherlands at www.shanks.nl, for the United Kingdom at www.shanks.co.uk and for Canada at www.orgaworld.ca.

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.

The Shanks Group plc website contains copies of our financial reports, corporate news and other shareholder information. Shareholder information will be made available by way of publication on the website. Shareholders have the following options:

Option A. Receive email notification that documents and information are available on the Shanks Group plc website.

You may choose this option by registering your email address at www.etreeuk.com/shanksplc. (You will require 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 plant a tree under the Woodland Trust's "tree for all" campaign.**

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 Shanks Group plc 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. It is not just the novice investor who has been duped in this way; Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. While high profits are promised, those who buy and sell shares in this way usually lose their money.

Protect yourself

If you are offered unsolicited investment advice, you should take these steps before handing over any money:

- Make sure you get the name of the person and organisation contacting you;
- Check the FSA Register at www.fsa.gov.uk/fsaregister to ensure they are authorised;
- Use the details on the FSA Register to contact the firm;
- Call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are advised they are out of date or complete an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml;
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted UK investors; and
- Inform our 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!

Report a scam

If you are approached about a share scam you should tell the FSA using the fraud reporting form at www.fsa.gov.uk/scams, where you can also find out about the latest investment scams or call the Consumer Helpline on 0845 606 1234.

Details of any sharedealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website www.moneymadeclear.org.uk.

Financial calendar

4 July 2012	Ex-dividend date for final 2012 dividend
6 July 2012	Record date for final 2012 dividend
19 July 2012	Annual General Meeting
1 August 2012	Payment of final 2012 dividend
8 November 2012	Announcement of interim results and dividend
5 December 2012	Ex-dividend date for interim dividend
7 December 2012	Record date for interim dividend
11 January 2013	Payment of interim dividend
31 March 2013	2013 financial year-ends
May 2013	Announcement of 2013 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

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Philip Griffin-Smith, FCIS

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Independent Auditors

PricewaterhouseCoopers LLP

Principal Bankers

Barclays Bank plc
Fortis Bank s.a.
HSBC Bank plc
ING bank n.v.
Rabobank International
The Royal Bank of Scotland plc

Financial Advisers

Greenhill & Co International LLP

Solicitors

Ashurst LLP
Dickson Minto W.S.

Financial PR Advisers

College Hill

Corporate Brokers

Jefferies Hoare Govett
Investec

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
BMW	Biodegradable Municipal Waste
C&D	Construction & Demolition
CGU	Cash Generating Unit
D&G	Dumfries & Galloway
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ELWA	East London Waste Authority
EPS	Earnings Per Share
EURIBOR	Euro Interbank Offer Rate
FPP	Full Potential Plan
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
GDP	Gross Domestic Product
I&C	Industrial & Commercial
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LIBOR	London Interbank Offer Rate
LTA	Lost Time Accident
LTIP	Long Term Incentive Plan
MBT	Mechanical Biological Treatment
MRF	Material Recycling Facility
MSW	Municipal Solid Waste
MWHrs	Megawatt Hours of energy generated
PBT	Profit Before Tax
PFI	Private Finance Initiative
PPP	Public Private Partnership
PwC	PricewaterhouseCoopers LLP
R&D	Research & Development
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
SHE	Safety, Health & Environmental
SRF	Solid Recovered Fuel
SRSOS	Savings-Related Share Option Scheme
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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