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16 September 2016

Shanks Group plc
("Shanks", the "Company" or, together with its subsidiaries, the "Group")

Update on the Proposed Merger with van Gansewinkel Groep BV ("VGG" or together with its subsidiaries, the "VGG Group") and Trading Update for Shanks and VGG

Summary

- Significant progress made on transaction and due diligence, with exclusivity agreement with VGG and its two largest shareholders extended for further short period
- Merger terms materially unchanged, with the implied headline value of VGG increasing in line with the appreciation of Shanks' share price since the announcement on 7 July 2016 to €484 million on a debt-free cash-free basis, reflecting the positive stock market reaction to the Proposed Merger
- Consideration mix amended to reduce the share consideration by approximately €60m and increase the cash consideration accordingly, in order to enable VGG's existing debt to be repaid at completion and reflecting strong support for equity participation from Shanks investors
- Based on the closing Shanks share price of 102.25p on 15 September 2016, the proposed consideration payable by Shanks would now be:
  - Cash consideration of approximately €286 million (to be financed through new debt facilities for the Combined Group and an increased equity issue of approximately £140 million); and
  - Share consideration representing approximately 23% of the enlarged issued share capital following completion of the transaction and the equity issue (previously approximately 29%)[1]
  - Accordingly Shanks shareholders to retain increased interest in Combined Group and share of synergies
- Combined Group expected to achieve aggregate annual risk-weighted pre-tax cost synergies of approximately €40 million in the third full year following completion, with approximately 30 per cent in the first 12 months, 75 per cent in the subsequent 12 months, and 100 per cent within 36 months of completion
- VGG is trading significantly ahead of budget and compared to management expectations earlier this year
- Shanks overall current trading for the year to date is in line with management's expectations at constant currency

[1] Based on an equity issue of approximately £140 million, assumed issue terms and a GBP/EUR FX rate of 1.20

Update on the Proposed Merger and extension of exclusivity

Further to the announcement on 7 July 2016, the Board of Shanks announces that significant progress has been made on the financial, commercial, operational, environmental, HR and legal due diligence associated with the proposed merger with VGG, a leading privately-owned waste collection and recycling business in the Netherlands and Belgium (the "Proposed Merger"). In addition, good progress has been made in relation to the other principal pre-conditions, including, inter alia, the proposed terms of the transaction, financing, the negotiation of a sale and purchase agreement, anti-trust preparation for clearance and the relevant works council advice proceedings.

Given the significant progress made and advanced stage of discussions, the binding exclusivity agreement between Shanks, VGG's parent company (VGG Holdco B.V.) and its two largest shareholders (which was due to expire in mid-September 2016) has now been extended for a further short period.

For the avoidance of doubt, no definitive or binding documentation to effect the Proposed Merger has been signed, and there can be no certainty that the Proposed Merger or any other transaction with VGG will ultimately occur.

Update on structure of the Proposed Merger

In Shanks' announcement on 7 July 2016, in principle merger terms were announced which valued VGG at approximately €440 million on a debt-free, cash-free basis, including share consideration valued at €204 million based on the closing Shanks share price of 81 pence on 23 May 2016 (the business day immediately prior to the suspension of its listing). Based on the closing Shanks share price of 102.25 pence on 15 September 2016 (the business day immediately prior to this announcement), the current value of this share consideration would be approximately €258 million, implying an increase in the value of Shanks' original proposal to approximately €494 million on a debt-free, cash-free basis.

Reflecting an increased cash requirement by VGG to repay its existing debt at completion, and strong support for equity participation from Shanks investors, the share consideration to be issued by Shanks has been reduced and the cash consideration has been increased by approximately €60m. Accordingly, based on the closing Shanks share price of 102.25p on 15 September 2016, the proposed consideration payable by Shanks on a debt-free, cash-free basis (the "Revised Proposal") would now be:

- Cash consideration of approximately €286 million (to be financed through new debt facilities for the Combined Group and an increased equity issue of approximately £140 million); and
- Share consideration representing approximately 23% of the enlarged issued share capital following completion of the transaction and the equity issue which, based on the closing Shanks share price of 102.25 pence on 15 September 2016 (the business day immediately prior to this announcement), is valued at approximately €198 million[2]

Inclusive of an increase in expected underlying net cash in the VGG business at closing, the Revised Proposal is anticipated to result in VGG shareholders receiving a total value of approximately €564 million, and implies a debt-free, cash-free value of approximately €484 million.

[2] Based on an equity issue of approximately £140 million, assumed issue terms and a GBP/EUR FX rate of 1.20

Synergies from the Proposed Merger

Following detailed analysis, the Board of Shanks believes that the Combined Group could be expected to achieve aggregate annual risk-weighted pre-tax cost synergies of approximately €40 million in the third full financial year following completion of the Merger. Approximately 30 per cent of these synergies would be delivered in the first 12 months following completion of the Merger, 75 per cent in the subsequent 12 months, and 100 per cent within 36 months of completion of the Merger. These synergies would be contingent on the completion of the Merger and could not be achieved by the Shanks Group and the VGG Group operating independently.

These cost synergies can be broadly categorised into the following three areas:

(a) Direct synergies – The Directors expect these predominantly to arise from route optimisation gains and a site rationalisation programme. Shanks has identified significant areas of logistics overlap between the two businesses, principally in the Randstad area of the Netherlands, where the Directors believe it will be possible to reduce costs through greater logistics efficiency and a reduced fleet size. Each of the Shanks Group and the VGG Group has a number of depots and processing sites where it may be possible to reduce locations and move operations to a single site in the same local area;

(b) Scale synergies – It is anticipated that the increased scale and presence of the Combined Group will result in a number of synergy opportunities. These include savings generated from improved procurement both from economies of scale generating increased purchasing power as well as being able to leverage the VGG Group’s strong procurement team across the wider group. In addition, the Directors believe that the Combined Group will be able to achieve better recyclate income by using the increased recyclate volumes and improved quality mix to service larger contracts and having a greater reach of potential customers to optimise pricing. The Directors also believe there is an opportunity to reduce off-take costs and optimise the application of off-take contracts.

(c) Indirect synergies – The Directors believe that there will be significant synergies achievable through further rationalisation of the Combined Group headquarters and regional overheads as well as back office processes and systems.

Based on the Board’s current analysis, it is expected that approximately 30 per cent of the cost synergies would arise from direct synergies, approximately 20 per cent would arise from scale synergies and approximately 50 per cent would arise from indirect synergies.

The Directors expect that the integration process and the realisation of these cost synergies will result in one-off exceptional cash costs of approximately €50 million to be incurred over a three year time period.

In addition, the Board believes the application of the Shanks Group’s commercial effectiveness programme to the VGG Group, including greater segmental focus, has the potential to generate incremental revenue synergies. There are also potential synergy opportunities through the cross-selling and internalisation of treatment and in outbound logistics management. The Combined Group should also deliver long term cash savings from reduced capital expenditure, and capital procurement at scale, as well as in reduced landfill aftercare costs.

Extensive pre-completion integration planning, including planning of organisation structures, would enable the new Combined Group to shorten the integration planning process post-completion and to deliver synergies in an efficient manner. A full time Integration Director will be appointed, reporting directly to the Group Chief Executive, to oversee the integration process.

Shanks current trading update

Since the last update on 7 July 2016, overall Shanks has continued to trade in line with management's expectations.

The Commercial Division has continued to perform well, delivering growth on the prior year in line with management's expectations. The Netherlands has seen positive volumes, especially in construction & demolition waste, and an improved performance from the organics segment. Recyclate prices remain subdued after a brief pick-up earlier in the year. The Belgian business has also performed well and is ahead of the prior year despite a temporary suspension of wood dust production due to disruption in the end market. Solid Recovered Fuel ('SRF') demand has continued to strengthen and shipments are up significantly on last year.

The Hazardous Division has also performed strongly, delivering growth ahead of management's expectations. Soil volumes have been particularly positive in the first half, with several imported projects from around Europe. Water and sludge volumes have continued to be more volatile. During the period, investment has been made in a joint venture for the storage of salt water in order to better serve the maritime market and to improve operating and processing efficiencies. Reym has performed in line with management's expectations in markets that remain challenging.

The Municipal Division has continued to experience market and operational challenges in the UK, with a resultant impact on profitability. Ongoing reductions in the available UK SRF market and increasing costs, including due to currency, in the export of Refuse Derived Fuels (RDF) have further impacted margins. Additionally, we are continuing to experience challenges in ramping up the new Barnsley, Doncaster and Rotherham (BDR) and Wakefield facilities to targeted profitability as quickly as we had expected, the latter largely a result of the contractor insolvency last year. In July 2016 we were also informed by the SPV for the Derby PPP project, that an insolvency of one of the major contractors for Interserve Construction Ltd, our EPC contractor, could lead to a six month delay in the commissioning of that facility. While Shanks is largely protected from the impact of this insolvency as it is not involved in the construction of the project, there will be a financial impact in the second half of lost commissioning profits along with an expected £1.7m of liquidated damages. The Canadian business has performed well in the first half. The build programme in Vancouver is proceeding well and is on track to commission shortly after year end – a delay of a few weeks.

In July we agreed the acquisition of the commercial waste collection activities of the City of Leiden. This bolt-on acquisition was completed on 1 August and is in line with our strategy to build operational leverage from accretive acquisitions. During August we completed the sale of 50% of our equity stake in the Wakefield Special Purchase Vehicle which was announced on 3 February 2016, receiving £4.2m. We also expect in September to complete the sale of a closed facility in Hazardous Waste.

Cash remains well controlled and is in line with management's expectations. Our borrowings are largely maintained in Euros as a match against our Euro earnings and have therefore increased in reported terms as a result of the weakening of Sterling. This has no impact on our banking covenants which use average exchange rates for both profits and net debt.

Looking forward, the Shanks Board expects to deliver results for the year ending 31 March 2017 in line with management's expectations.

VGG current trading update

VGG has turned the corner in the course of 2016, and is trading significantly ahead of budget based on unaudited numbers and compared to management expectations earlier this year.

Van Gansewinkel Netherlands and Belgium, representing around 85% of the revenues of VGG, has continued to perform well. Revenue composition has improved strongly, providing a platform for the delivery of benefits from the repositioning in the market and the various cost management initiatives. Trading has been particularly strong in Belgium and the Netherlands has showed an improvement in run rate. As a result, trading for these business lines is ahead of VGG management's expectations.

Despite historic low material prices, the Recycling business lines, comprising Coolrec, Maltha and VGG's Minerals activities, have also performed well in the period. The recommissioning of Maltha's Dintelmond plant is leading to an improvement in profitability alongside margin improvement initiatives in Coolrec and positive trading in Minerals. As a result, trading for these business lines is developing well.

Cash performance has also been positive during the period. Tight control of working capital, effective capital expenditure, positive trading development and reduced exceptional and non-trading items have all contributed to a cash flow that is approximately €20 million ahead of VGG management's expectations.

Given this positive performance, the Board of VGG expects VGG to deliver a result for the year ending 31 December 2016 ahead of management's expectations.

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