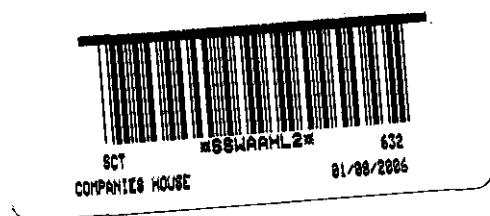


**shanks. waste solutions.**

SL 77438

**Shanks Group plc** Annual Report and Accounts 2006



# shanks. waste solutions.

One of Europe's largest independent waste management companies, Shanks Group plc has operations in the United Kingdom, Belgium and the Netherlands and is a leading player in each of these markets.

The Group provides an extensive range of waste and resource management solutions and handles a wide variety of wastes, including domestic refuse, commercial waste, contaminated spoils and hazardous waste. Services offered include collections, domestic and commercial waste recycling, resource recovery, composting, mechanical biological treatment, thermal treatment, industrial cleaning, special waste treatment and modern disposal.

Further information about the Group and its activities is available on our website.

## **Shanks Group plc**

Registered in Scotland No. 77438

Astor House, Station Road, Bourne End, Buckinghamshire, SL8 5YP

[www.shanks.co.uk](http://www.shanks.co.uk)

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## financial highlights.

	2006	2005
<b>Revenue</b>	<b>£443m</b>	£420m
<b>Headline profit<sup>1</sup></b>	<b>£34.0m</b>	£30.7m
<b>Exceptional items</b>		
– restructuring costs <sup>2</sup>	–	£(10.5)m
– change in fair value of financial instruments <sup>2</sup>	£(3.7)m	£(0.5)m
<b>Profit before tax from continuing operations</b>	<b>£30.3m</b>	£19.7m
<b>Adjusted basic earnings per share<sup>3</sup></b>	<b>9.6p</b>	8.7p
<b>Basic earnings per share</b>	<b>13.0p</b>	33.1p
<b>Dividend per share</b>	<b>5.7p</b>	5.7p
<b>Core Business net debt</b>	<b>£76m</b>	£111m
<b>PFI Companies net debt<sup>4</sup></b>	<b>£105m</b>	£64m
<b>Total Group net debt before fair value adjustment<sup>4</sup></b>	<b>£181m</b>	£175m
<b>Fair Value of PFI interest swaps</b>	<b>£8m</b>	£4m
<b>Total Group net debt</b>	<b>£189m</b>	£179m
<b>EBITDA on continuing operations<sup>5</sup></b>	<b>£68.6m</b>	£63.2m

1 On continuing operations before exceptional items and tax

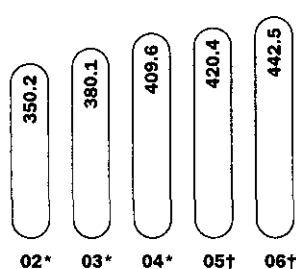
2 The Group considers these items as exceptional for the purposes of determining headline profit

3 Before exceptional items, net of associated tax

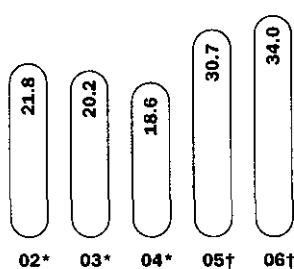
4 Excluding fair value of financial instruments

5 Earnings before interest, tax, depreciation and amortisation (EBITDA), excluding exceptional items and discontinued operations

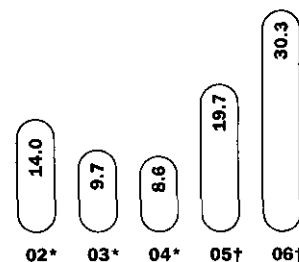
**Revenue**  
(£m)



**Headline profit**  
(£m)



**Profit before tax from continuing operations**  
(£m)



\*Figures reported under UK GAAP, using IFRS presentation

†Figures reported under IFRS

## chairman's statement.

### Financial Performance

I am pleased to report a further improved performance for the 2005/6 year, driven principally by progress in the UK business. Reporting under International Financial Reporting Standards (IFRS) for the first time in 2005/6, Headline Profit (profit from continuing operations before exceptional items and tax) rose 11% to £34.0m (2005: £30.7m) despite increased energy costs. The tax rate on Headline Profit remained at 34% giving adjusted basic earnings per share of 9.6p (2005: 8.7p). Basic earnings per share were 13.0p (2005: 33.1p). Your Board recommends an unchanged final dividend of 3.8p per share which, if approved by shareholders, brings the total dividend for the year to 5.7p per share (2005: 5.7p per share).

Turnover from continuing operations increased 5% to £443m (2005: £420m) and profit after tax was £30.4m (2005: £77.6m) of which £19.8m arose in the continuing business (2005: £12.6m). Continuing operations profit before tax was £30.3m (2005: £19.7m) after a £3.7m (2005: £0.5m) non-cash charge for the change in fair value of financial instruments. Profit after tax from discontinued operations was £10.6m (2005: £65.0m) principally due to the £8.7m pre-tax profit on the disposal of the UK hazardous waste business.

Since 31 March 2005 borrowings relating to the core business fell by £35m to £76m (2005: £111m), mainly due to the proceeds from the exit from the UK hazardous waste business. By contrast Private Finance Initiative (PFI) company debt has increased by £41m to £105m (2005: £64m) following substantial planned capital investment particularly in the East London Waste Authority (ELWA) and Dumfries & Galloway (D&G) projects.

As part of the adoption of IFRS the Group has moved to the financial asset accounting model for its UK PFI contracts for the long term management of municipal wastes. The change results in certain reclassifications in revenue and operating costs. The underlying cash flows in all of our PFI projects are unaltered.

A reconciliation between UK GAAP and IFRS of selected comparative financial highlights is set out in the 2005/6 Financial Review pages 10 to 12.

### Divisional Review

#### United Kingdom

Trading profit\* from continuing UK operations showed a substantial improvement for a second successive year increasing by £5.6m to £4.1m profit (2005: £1.5m loss).

Following a review in 2003, Group strategy is to focus its UK businesses on the new waste management markets generated by changes in European waste management regulation and UK Landfill Tax.

In a drive to meet the obligations contained in the European Landfill Directive a significant number of UK local authorities are, or will shortly be, tendering for long term municipal waste contracts, often using the PFI. The Group has already secured three such contracts all of which are proceeding broadly according to plan. A range of new technologies is being commissioned within these projects including the core Mechanical Biological Treatment (MBT) technology developed with Italian partner, Ecodeco. The Group plans to exploit this surge in demand and secure a share of this burgeoning market on satisfactory terms.

The programmed increase in Landfill Tax is also discouraging the disposal to landfill of industrial and commercial waste as already experienced within the Benelux countries. The skills gained in these markets are transferable to the UK and will be used to build a franchise in industrial and commercial waste recycling.

With the development of these initiatives, coupled with determined management action to raise efficiency, results have improved. One small acquisition has recently been completed in the central belt of Scotland for a consideration of £0.8m.

#### Belgium

Trading profit in Belgium reduced to £15.7m (2005: £16.6m). Last year the division enjoyed substantial windfall landfill profits accruing from the scheduled refurbishment of the Brussels household waste incinerator. Further volumes diverted from public sector incinerators, in the year under review, have largely offset this loss.

The division has renewed for 10 years, and expanded the scope of, its contract for waste collection in the City of Liège.

\*Operating profit before restructuring costs.

Results from the Flanders hazardous waste operations, the sand quarry and general waste activities in Brussels were lower.

Two small acquisitions for a total of £0.6m were completed in Flanders.

#### **The Netherlands**

Trading profit in the Netherlands reduced to £23.5m (2005: £24.3m). This modest change masks more significant variances within the division. On 1 June 2005 German landfill regulation changed radically. The effect was to eliminate several low cost disposal routes in Germany which had previously been exploited. The monthly impact has been monitored carefully with a programme of price and efficiency increases aimed at its mitigation. The programme has been successful with the monthly effect at year end being substantially reduced.

By contrast both the Reym industrial cleaning unit and the ATM hazardous waste business recorded significantly better performances.

Three small acquisitions for an aggregate consideration of £2.6m were completed during the year.

Flection, our small computer refurbishment business, was sold in the year to its management for a total consideration of £1.4m of which a part is deferred.

#### **Central Services**

Central Services costs increased to £4.4m (2005: £3.4m) due to, inter alia, the overlap of new and retiring Board members and costs associated with the implementation of IFRS.

#### **Developments**

##### **United Kingdom**

Commissioning of the first MBT plant is underway on time at the ELWA project at the Frog Island site on the north bank of the Thames. Progress is encouraging with the process operating to the requisite performance standards, including ancillary equipment. These results bode well for the commissioning of the second ELWA plant at Jenkins Lane and the D&G plant later this year. These flagship projects are already attracting substantial interest from other councils and will shortly be serving as a showcase for these technologies.

#### **Benelux**

The Group continues its programme of tuck-in acquisitions and investments in new industrial cleaning activities. Various other opportunities are also under consideration.

#### **Directorate**

Mr Richard Biffa retired from the Board as a Non-executive Director in June 2005 followed by former Group Finance Director, Mr David Downes, in December 2005. I thank them both for their contributions and wise counsel and wish them well in retirement.

Mr Adrian Auer, who was appointed as a Non-executive Director in May 2005, will succeed me as Chairman with effect from the Annual General Meeting on 27 July 2006. Mr Philippe Delaunois is also due to retire as a Non-executive Director during the next financial year on attaining age 65. Mr Peter Johnson, also appointed as a Non-executive Director in May 2005, will assume Chairmanship of the Audit Committee.

#### **Outlook**

The disposal of the UK hazardous waste business marked the last major element in the restructuring of the Group. With a strong balance sheet and the necessary financial resources in place the Group is well positioned to further its strategic agenda. The UK PFI projects continue to advance although progress on further contracts will be slower than expected. The Group is also pursuing opportunities to grow its business in the Benelux countries.

The Group is well positioned to improve its trading performance particularly in a market where the ownership of a number of major competitors is currently changing. The Board is therefore confident in further progress.



I M Clubb  
Chairman



## **business review.**

Shanks Group plc is a modern waste and resource management group serving customers in the United Kingdom, Belgium and the Netherlands. The Group offers a wide and often innovative range of waste management solutions within its various collection, transport, recycling, treatment and disposal services.

### **The European Waste Market**

Waste management is an essential service. In societies where there is a high level of regulation and enforcement, it is a sophisticated industry using advanced technologies. In societies with little or no regulation or enforcement, waste tends to be treated indiscriminately.

In Europe the level of environmental regulation is high, however unlike trade regulations, there are no common standards for waste management. European legislation on waste sets minimum standards which member nations must meet, they are free however to exceed these standards in order to follow their own political and environmental agendas. The result is that within Europe national regulations differ and there is no single market.

The waste management market can be subdivided into non-hazardous and hazardous waste. The former tends to be a local business, as the relatively low unit cost of treatment makes transport a significant part of the overall cost. Hazardous waste treatment costs tend to be higher making it a more regional business.

Both the public and the private sector are active in the waste market. The degree of privatisation varies across Europe; it is high in the UK and France but lower in Germany, the Netherlands and Belgium. Advancing European legislation is necessitating substantial investment in new infrastructure. This combined with budgetary constraints is driving privatisation initiatives in many

European countries. Within the private sector, consolidation of the industry has been a feature for many years. The new infrastructure requirements and the long term nature of the business have recently attracted private equity groups.

Within the national markets a further distinction may be made between "collection, transfer and recycling" and "treatment and disposal". The former has historically had low barriers to entry and hence has been made up of many small participants. Increasing recycling requires greater investment in infrastructure which is moving this market towards the larger players. Treatment and disposal has high barriers to entry as facilities tend to be capital intensive and projects have long gestation periods. These activities are therefore the domain of well capitalised companies, and are populated by a few large players, often multinationals.

The markets may also be split between the industrial and commercial sector and the municipal sector. In most European countries the municipalities have a statutory duty to deal with household waste, which they either do themselves or use private sector contractors. They have no such duty in respect of industrial and commercial waste. The municipal sector is therefore typified by long term contracts which tend to be 5 to 10 years for collection and often in excess of 20 years for treatment and disposal. The industrial and commercial sector tends to be a much more short term market, with contracts in excess of a couple of years being rare.

### **Market Trends and Drivers**

There is currently convergence between the waste, energy intensive and power industries. This is being driven by a number of factors:

**The European Landfill Directive** - over time this directive seriously restricts the types and quantities of waste that may be landfilled by European member states.

**Landfill tax** is a significant mechanism being used by many European states to drive waste out of landfill to more *environmentally acceptable options*.

**Soaring energy prices** have increased the pressure to find alternative fuels; waste is one of these.

**Carbon emissions quotas** have further increased the cost of using fossil fuels. Waste derived fuels can be exempt from carbon emissions calculations, increasing interest in this source of fuel.

**Renewable electricity** - many waste based electricity generation projects qualify for renewable electricity subsidies and credits, available in various forms across Europe.

The effects of these drivers vary from country to country.

### **United Kingdom**

The UK's heavy reliance on landfill means that the imposition of the Landfill Directive is having a major impact, particularly on

## business review.

continued

the municipal sector. Implementation of the directive implies that some 20 million tonnes per annum of biodegradable municipal waste needs to be diverted from landfill by 2020. DEFRA's web site estimates that the investment in new infrastructure required to achieve this is between £600m and £700m per annum for the next 10 years. In an endeavour to secure least cost compliance the Government has introduced the Landfill Allowance Trading Scheme (LATS), a tradeable permit scheme between local authorities. Here authorities who overachieve against their landfill diversion requirements may sell their overachievement to an underachieving authority. In parallel, the government has stated that landfill tax will increase by a minimum of £3 per tonne per annum until it reaches a minimum level of £35 per tonne. In April 2006 landfill tax went up to £21 per tonne.

### The Netherlands

The Netherlands has had some of the most advanced environmental legislation in Europe in place for some time. They also have high levels of landfill tax. These, together with the geological characteristics of the country, have resulted in a low reliance on landfill and therefore they are not subject to the major changes currently occurring in the UK. They have however been influenced by significant restrictions on landfill in Germany imposed in June 2005.

### Belgium

In Belgium, environmental responsibility is devolved to the three

Regions: Flanders, Wallonia and Brussels. The Flemish legislation is very similar to that in the Netherlands. In the Walloon Region a reasonable proportion of municipal waste is still landfilled as there is currently very little landfill tax on municipal waste. This is not an issue from the Landfill Directive perspective, as it applies to entire member states and Belgium as a whole landfills very little municipal waste due to the low levels of landfilling in Flanders. There is, however, a political move to reduce landfilling and so in the longer term it will reduce.

### Strategy

It is the Group's belief that to maximise the value generation it is necessary to be a top two player in a particular geographical market. This criteria applies to local markets, and is not important at a country or European level. The Group's strategy is to expand existing operations via a combination of organic growth and accretive acquisitions. Should an opportunity arise to move into a new market area we would only pursue it if it met these criteria.

The rapidly changing market in the UK presents some specific opportunities. In the next 5 years some 30% of the UK market for municipal waste will be tendered as local authorities strive to meet the EU Landfill Directive targets. We have already secured three of these contracts, ELWA being the largest PFI waste contract closed to date. The Group intends to pursue these opportunities vigorously using our innovative MBT technology where appropriate. Our goal is to secure contracts over the next



five years which will increase the total waste under management to 2 million tonnes per annum.

It is strongly believed that advancing regulatory pressure from the EU Landfill Directive coupled with steeply rising Landfill Tax will drive industrial and commercial waste from landfill into the newer higher value added services on which the Group now concentrates. The business model already operating in our continental operations provides the example and much of the know-how for these developments.

#### **Principal Risks and their Mitigation**

The performance of our commercial and industrial businesses is linked to the economic activity in the sectors we serve. We are therefore exposed to fluctuations in these sectors across our national markets. We mitigate this risk by diversifying our customer base where possible.

In addition to this general economic risk there are a number of waste industry specific risks:

#### **Environmental Legislation and its Interpretation**

As already mentioned, regulation is a key driver of the waste market. The ability of individual countries, and indeed Regions in the case of Belgium, to set their own legislation makes this a very complex field. This is further complicated by the rapid rate of change in legislation resulting from the increased profile of environmental issues. Changes in the legislation or its

interpretation can have a significant and far reaching impact on markets. The Group endeavours to mitigate this risk by employing high quality management in each of our divisions to influence the evolving legislative framework. We therefore actively lobby for our interests at European, National and Regional levels.

#### **Environmental Compliance**

All operating sites and activities are regulated by environmental authorities in line with the requirements set out within licences and permits. These licences and permits are required to carry on the business. Therefore the negotiation of, and compliance with, their terms is of paramount importance. Maintaining the highest environmental standards is also important to ensure continuing acceptance of operations by host communities, and to satisfy customers.

Details of how the Group monitors and controls environmental compliance are given in the Environment and the Community section of this report on pages 13 and 14.

#### **Health and Safety**

The waste industry is recognised as one of the more dangerous industries in which to work. As employees are the Group's most important and valuable asset, their health and safety is paramount. The Group devotes considerable management resources to ensuring the highest health and safety practices are imposed and maintained. Details can be found in the Health and Safety section of this report on page 15.

## business review.

continued

### The Pace of the UK Municipal Waste Contracts Tender Process

Significant resources are devoted to the bidding process due to the size and complexity of these contracts. A consequence is that there are often unforeseen delays in, and in extreme cases cancellation of, the process. As the investment in the bidding process is only recouped in the event a contract is won, the Group regularly review the risks and rewards. The Group also tries to have its advisors work on a contingency fee basis wherever possible, and restrict expenditure in the early stage of a bid when the certainty of success is less.

### Activities and Structure

The Group is a major player in the UK, the Netherlands and Belgium. The Belgium activities also incorporate some small activities in France close to the Belgian border.

The Group's organisational structure reflects the national nature of the markets in which it operates, with divisions in the UK, the Netherlands and Belgium. Management of the Group is decentralised to ensure that the people making the decisions are close to, and understand, their markets. This structure is underpinned by strong central financial control. Throughout the organisation we employ high calibre management who are properly trained and motivated.

Table 1 summarises the Group's waste activities in each country. In addition to these we also operate a sand quarry adjacent to our landfill in Wallonia.

### 2005/6 Operating Review

Thanks are once again due to the staff who have responded superbly to the industry's rapidly changing conditions.

### United Kingdom

During the year the Group exited the UK hazardous waste business, which had been identified as low growth and therefore non-core. In two transactions the Group realised a total cash consideration of £34m generating a disposal profit of £8.7m.

Trading profit from continuing UK operations showed a substantial improvement for the second year running, increasing by £5.6m to £4.1m, including property disposals. Revenue was flat at £126m. The recent overhead reduction programme contributed substantially to this turnaround, as did a strong performance from our land remediation activities in the run up to new restrictions on landfill disposal in July 2005. Our joint venture landfills also performed well, helped by additional power production at the Avondale site. Despite rising fuel costs, the overall results of collections, transfer and recycling improved and further new initiatives should maintain progress. We have made one small tuck-in acquisition for £0.8m which strengthens our position in the central belt of Scotland.

On the new accounting basis, as described in the 2005/6 Financial Review on pages 10 to 12, PFI trading profit has fallen by £0.7m, due to increased bid costs and some one-off restructuring charges at ELWA. There was a positive impact of a full year's contribution from the D&G contract.

**Table 1: Group activities**

	Industrial and commercial	Municipal
<b>Non-hazardous waste</b>		
Collection	UK, NL, BE	BE
Transfer and recycling	UK, NL, BE	UK, BE
Treatment	NL, BE	UK
Landfill disposal	UK, BE	UK, BE
<b>Hazardous waste</b>		
Industrial cleaning and transport	NL, BE	
Treatment and disposal	NL, BE	
Land remediation	UK, NL, BE	

As last year, there has been significant investment in our three PFI contracts. The investment programme in Argyll & Bute (A&B) is now substantially complete and the first of two major facilities in East London is in the commissioning stage. The facility should be fully operational by the end of the summer. The second ELWA facility is scheduled to follow six months later. The D&G facility, which is ahead of schedule, is expected to complete in a similar time frame. All three contracts are performing broadly to their plans. Encouragingly, we have recently executed our first contract to supply Solid Recovered Fuel (SRF) from the MBT process to the cement industry. This agreement is a recognition of the role which SRF will play in the new world of high energy costs.

#### **Belgium**

Trading profit in Belgium declined less than expected from last year's level of £16.6m to £15.7m. One-off inputs diverted from incinerators in Wallonia due to technical problems, replaced inputs received during the scheduled maintenance shut down of the Brussels incinerator in 2004/5. Total revenue increased £8m to £110m.

Our sand quarry in Wallonia had a difficult year due to low activity levels in the construction sector. The Flemish hazardous waste market was harsher than in recent years reflecting the general economic situation.

We successfully renewed an enlarged ten year contract for municipal waste collection and street cleaning for the City of

Liège. This contract, which started in July 2005, should provide predictable revenues and cash flows for the future.

Two small acquisitions were completed in Flanders for a total of £0.6m.

#### **The Netherlands**

Trading profit from continuing operations in the Netherlands declined to £23.5m (2005: £24.3m) on revenue £14m higher at £206m. Although there has been a recovery in the construction industry, our solid waste businesses have experienced higher elimination costs as a result of changes in the German landfill regulatory regime in June 2005.

Volumes of contaminated soil processed at our hazardous waste treatment facility, ATM, increased following recent investments in additional capacity. Our industrial cleaning business, Reym, performed extremely well aided by increased oil exploration on the back of high crude prices. Reym's 2004/5 performance was also adversely affected by a single loss making contract.

Three small acquisitions were completed during the year for a total of £2.6m.

The computer refurbishment business, Flection, which was considered to be non-core, was sold to management for £1.4m in November 2005. There was no profit or loss on disposal.

## business review.

continued

### Financial Review

#### IFRS

The results for the year ended 31 March 2006 are the first audited results presented under International Financial Reporting Standards (IFRS).

The adoption of IFRS has no impact on the Group's cash flows or the manner in which the Group's operations are run.

The major impact of the adoption of IFRS on the Group's reported results are:

- the presentation of the results relating to discontinued activities;
- accounting for PFI contracts on a "financial asset" basis. The impact of this is to divide the transactions into two parts for accounting purposes:
  - the financing of the construction of assets for the local authority;
  - the provision of waste management services using existing assets as well as those created under the contract.

The income stream from the waste authority is allocated between the two parts. The part attributed to the service contract is treated as sales, which after operating costs produces an operating profit. The part relating to the construction of assets is treated as funding cash flows (i.e. repayment of capital and interest). In the balance sheet the costs relating to the construction of the assets are classified

as an interest bearing "financial asset". It is the Group's opinion that this treatment better reflects the commercial substance of the transactions, provides greater transparency for the financial community and also represents current best practice;

- at the financial close of a PFI contract, the price of the service is determined by, inter alia, the long term interest rate available in the market. The Group therefore protects itself against future fluctuations in interest rates by entering into interest rate swaps to match its future cash inflows and outflows.

Under IFRS we are required to revalue these swaps at current market value irrespective of the commercial reasons for entering into them. Revaluation of these swaps can lead to large accounting gains or losses but does not affect the long term profitability of the contract as the Group has matched its long term revenue and costs. Whilst IFRS does allow these gains and losses to be taken directly to reserves, it is on the proviso that onerous documentation requirements are fulfilled. The Group believes it is not worth expending significant resources fulfilling these requirements in respect of an item that does not reflect commercial reality. In future, accounting for changes in the market value could therefore cause major fluctuations to our reported profits. These changes are excluded from our Headline Profit;

- goodwill is no longer amortised but is subject to annual impairment reviews;
- the net deficit of the Group's UK pension scheme is now

**Table 2: Reconciliation between UK GAAP and IFRS of selected financial highlights**

Year ended 31 March 2005	Trading profit £m	Headline profit £m	Adjusted earnings per share pence	Profit before tax £m	Net assets £m	Net debt £m
<b>As reported under UK GAAP</b>	<b>44.1</b>	<b>33.3</b>	<b>9.4</b>	<b>64.4</b>	<b>194.7</b>	<b>(162.3)</b>
Discontinued activities	(7.1)	(3.1)	(0.8)	(54.2)	–	–
<b>UK GAAP – continuing</b>	<b>37.0</b>	<b>30.2</b>	<b>8.6</b>	<b>10.2</b>	<b>194.7</b>	<b>(162.3)</b>
Financial asset accounting	(1.5)	1.1	0.3	1.1	2.4	(1.6)
Fair value of interest swaps	–	–	–	(0.5)	(2.6)	(3.7)
Goodwill amortisation	–	–	–	9.6	9.6	–
Pensions	(0.1)	(0.7)	(0.2)	(0.7)	(18.9)	–
Share based payments	–	–	–	(0.1)	–	–
Leases	0.6	0.1	–	0.1	0.1	(9.6)
Joint ventures	–	–	–	–	–	(1.5)
Dividends	–	–	–	–	8.9	–
Deferred tax	–	–	–	–	(5.2)	–
<b>As reported under IFRS</b>	<b>36.0</b>	<b>30.7</b>	<b>8.7</b>	<b>19.7</b>	<b>189.0</b>	<b>(178.7)</b>

consolidated into the Group's balance sheet. The change in the basis for recognising future pension liabilities gives rise to an increased pension charge;

- the cost of share based payments to employees is charged to profits;
- certain leases classified as operating under UK GAAP are now classified as finance, increasing property, plant and equipment and net debt accordingly;
- joint venture investments are proportionately consolidated, resulting in our share of assets and liabilities, including debt, being consolidated on a line by line basis;
- dividends are now only included in the accounts once approved, as opposed to when proposed;
- deferred tax is now provided in respect of revalued properties, even if there is little likelihood of the revaluation crystallizing.

Table 2 shows a reconciliation between UK GAAP and IFRS of selected 2004/5 financial highlights.

### Financial Results

The background to the Group's trading performance is given in the 2005/6 Operating Review on pages 8 and 9.

The UK hazardous waste and the Netherlands computer refurbishment businesses together generated £0.4m of operating profits in the period prior to their disposals and are

classified as discontinued. They are estimated to have lost £0.2m after taking into account their financial charges, before inclusion of disposal profits of £8.7m.

Changes in the average Euro exchange rate during the year had a positive £0.1m effect on Group Headline Profit.

Finance charges for the continuing business were £0.4m lower at £4.9m, before taking into account the change in market value of financial instruments, which was £3.7m adverse (2005: £0.5m adverse).

The average tax rate on Headline Profit was constant year on year at 34%. The underlying rates of tax in the countries where the Group operates were: UK: 30%, the Netherlands: 29% and Belgium: 34%. The Group suffers a higher effective charge in Belgium as landfill tax is non-deductible for corporation tax purposes.

### Cash Flow

Details of the Group's cash flow performance are shown in table 3 below.

The underlying cash generated by the core business was £8m after net capital expenditure of £33m. The £31m inflow from business disposals comprises the sale proceeds and cash flows relating to the discontinued businesses during the year. This includes a £5m payment into the Group's UK defined benefit pension scheme to cover the residual liabilities of the employees of the UK hazardous waste activities who became deferred pensioners. The exceptional cash outflow of £2m was principally

**Table 3: Group Cash Flow**

	Core £m	PFI £m	2006 Total £m	2005 Total £m	Change £m
Trading profit*	39	–	39	36	3
Depreciation and landfill provisions	30	–	30	27	3
<b>EBITDA</b>	<b>69</b>	<b>–</b>	<b>69</b>	<b>63</b>	<b>6</b>
Working capital	(5)	3	(2)	(1)	(1)
Net capital expenditure and acquisitions	(33)	(47)	(80)	(67)	(13)
Interest, tax, dividends and other	(23)	3	(20)	(27)	7
<b>Underlying cash flow</b>	<b>8</b>	<b>(41)</b>	<b>(33)</b>	<b>(32)</b>	<b>(1)</b>
Business disposals	31	–	31	188	(157)
Exceptional cashflows	(2)	–	(2)	(3)	1
Exchange	(2)	–	(2)	(5)	3
<b>Group cash flow</b>	<b>35</b>	<b>(41)</b>	<b>(6)</b>	<b>148</b>	<b>(154)</b>

\* operating profit before restructuring costs

## business review.

continued

redundancy costs related to the reorganisation of the UK businesses started last year. There was a £2m adverse movement on the translation the Group's Euro denominated debt into Sterling, giving a reduction in core debt of £35m. The non-recourse aggregated debt in the PFI companies increased by £41m mainly due to the construction work in the ELWA and D&G contracts.

### Capital Expenditure and Acquisitions

The Group spent £80m net on capital expenditure (2005: £67m) of which £33m was in the core business and £47m on PFI contracts. The core business growth capital projects included six small acquisitions; one in the UK, three in the Netherlands and two in Belgium. Other major items included the purchase of a site in Rotterdam and the construction of a new storage shed at ATM. The core business maintenance capital expenditure was £23m (2005: £21m). The expenditure on PFI contracts relates principally to construction of MBT facilities at our ELWA and D&G contracts.

### Treasury and Risk Management Policy

The 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 exposure on exchange rate movements. No other currency hedging mechanisms are used. The Group maintains a significant proportion of its debt on fixed rates of interest in order to protect interest cover.

The Group's principal financing is a £250m multicurrency revolving credit facility with five major banks expiring in April 2010. Adjusting for cash, this facility was less than 25% utilised at 31 March 2006. The 2001 notes issued under the Group's private placement of £36m have maturity dates between 2009 and 2013. The Group also has £26m of working capital facilities with various banks.

Each of the Group's PFI projects has senior debt facilities which contribute approximately 85% of the capital funding required. These facilities are secured on the future cash flows of the PFI companies with no recourse to the Group as a whole. Repayment of these facilities, and any equity bridge facility in respect of the remaining capital funding, commences when construction is complete and concludes one to two years prior to the expiry of the PFI contract period. As the Group currently holds 100% of the equity in its PFI companies, the net debt of £105m is fully consolidated in the Group balance sheet. The maximum which could be drawn down under these facilities at 31 March 2006 is £159m.

### Insurance

The Group places all its insurance with leading insurance companies with sound financial credentials. For obligatory insurances, the policy is to obtain the necessary cover at competitive rates. For other areas, regular risk assessments are undertaken to identify and assess risks. Where appropriate insurance is then used to mitigate these risks. The level of cover put in place will depend on the nature of the risks and the cost and extent of cover available in the market. The majority of our insurances are renewed annually.

The Group uses renowned international brokers to advise on risk management, appropriate insurers, cover levels and benchmarking.

Insurance requirements for our UK PFI contracts are set out in the funding and project agreements.

### Pensions

Under IFRS the Group uses IAS19 – Employee Benefits to account for pensions. The pension charge for the continuing business for the year has increased to £5.7m (2005: £4.8m). The net retirement benefit obligations which relate to the defined benefit section of our UK scheme have reduced to £10.3m (2005: £16.9m), mainly as a result of the £5m payment to the scheme made in November 2005. This related to the residual liabilities of the UK hazardous waste employees who have become deferred pensioners. A £1.2m curtailment gain arose on these pensioners becoming deferred, which is included in the profit from discontinued operations.

The defined benefit section of the UK scheme was closed to new members in September 2002 and new employees are now offered a defined contribution arrangement. The triennial actuarial valuation of this scheme, based on the assets and liabilities as at 1 April 2003, showed a smoothed funding deficit of £12m. The Group reduced its annual pension cash contributions by £0.3m with effect from 1 April 2005 following a £10m lump sum payment into the scheme in March 2005.

### Going Concern

The Directors, having reviewed the Group's 2006/7 budget, its medium term plans and its banking arrangements are satisfied that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

### **The Environment and the Community**

The Group's approach to its business is clearly outlined in a 'Statement of Business Principles and Corporate Ethics' publicly available alongside all other corporate publications on our website at [www.shanks.co.uk](http://www.shanks.co.uk).

The commitment to achieve business goals by acting with honesty, integrity, openness and fairness is plainly stated, together with a clear and public definition of acceptable business practice. The statement also provides staff with the Group vision and guidance on dealings with stakeholders such as shareholders, employees, customers, suppliers and contractors, as well as covering the specific areas of environmental protection and health and safety.

The Group is committed to making a significant contribution to managing society's waste in a sustainable and acceptable manner. All operating sites are regulated by environmental authorities against requirements set out within licences and permits for each facility. Data on emissions from our facilities is submitted to the regulators and is publicly available. In addition we report annually on our performance within the Environmental Report and the Health and Safety Review. These documents are both available on our website.

The Group was, once again, included within the FTSE4Good UK index; a measurement of corporate social responsibility administered by EIRIS (Ethical Investment Research Service), for the independent FTSE Group. There are a number of other benchmarking initiatives such as the annual Business in the

Environment (BiE) Index of Corporate Environmental Engagement. The Group intends to participate in the 2006 BiE Index as it is now once again within the qualifying group of the UK's top 350 quoted companies. In previous BiE Index participation surveys the Group achieved top 20% scoring within the support services sector. During 2005/6 the Group, working with the UK trade association (Environmental Services Association) and the Environment Agency, has been helping to prepare a Sector Report on the UK waste management industry; it is hoped that this report will be published in summer 2006.

### **Environmental Management**

The Group is committed to setting high standards of waste management and co-operating with all regulatory authorities in ensuring safe and environmentally acceptable working practices for all its activities. The Group aims to manage and reduce any negative impacts of its business on the environment, including the prevention of pollution.

The Environmental Policy, available on our website, sets principles applicable across the Group. Implementation of the policy is a line management responsibility within each of the separate operating companies of the Group, requiring participation of all employees.

All waste management facilities within the Group have a site licence, authorisation or permit, regulated by the relevant environmental regulators. Site managers are responsible for environmental issues, supported by various personnel such as environmental co-ordinators and management systems personnel.

## business review.

continued

A number of sites across the Group have Environmental Management Systems (EMS) certified to ISO 14001. Other certifications are also held, including the ISO 9001 quality assurance system standard, and in Belgium and the Netherlands, the Veiligheids Checklist Aannemers (VCA) standard ("Contractor's Safety Checklist", a health and safety standard which also focuses on the environment). During 2005/6 the UK operating company, Shanks Waste Management Limited, successfully achieved ISO 14001 certification for its EMS. This covers all their UK sites. A separate ISO 14001 certification was also achieved at the Group's PFI contract by Shanks Dumfries and Galloway Limited. Shanks Nederland B.V. already has ISO 14001 certification for its management system.

The Group has a well developed system of environmental reporting at both operating board and Group board level. Where appropriate the Group uses systems developed by the environmental regulators such as the risk based Operator and Pollution Risk Appraisal (OPRA) system developed by the Environment Agency in England and Wales. In the Netherlands, where environmental permits are of a more uniform type, we utilise a bespoke environmental software tool.

During the year the Group published its sixth annual Environmental Report, once again covering all three operating divisions: the UK, Belgium and the Netherlands. In the report performance is reported in a quantitative manner using a set of ten environmental performance indicators developed in conjunction with the Green Alliance and which also reflects the UK Government's general guidelines for environmental reporting.

The Environmental Report for the period 2005/6 will be published later in 2006. This year we intend to merge the Environmental Report and the Health and Safety Report into a single document. Data for previous years is available on our website.

### Environmental Advisory Board

The Group set up an Environmental Advisory Board (EAB) in 1989 to act as an independent assessor of its environmental management and performance and to give advice on environmental and related matters. Chaired by Professor James Bridges, the Emeritus Professor of Toxicology and Environmental Health at the University of Surrey, the EAB membership comprises a range of international environmental and technical specialists.

A summary of their activities for the review period is included in the Environmental Report for 2005/6. The EAB meets the Group Chief Executive four times per year and the EAB Chairman presents to the Group Board annually. The EAB is free to visit any site within the Shanks Group and from time to time has also undertaken bench marking visits to other waste management companies.

### Employees

Employees remain the Group's most important and valuable asset. The Group has a management philosophy aimed at ensuring all employees feel respected and able to fulfil their potential. Dignity at work is a fundamental principle, which underpins all of our employment policies. Equal opportunities is at the heart of recruitment and employment practices and the



Group is committed to the principle that it must invest in its people to ensure that they have the business, commercial and technical skills appropriate to our industry to provide the best possible service to the customer.

A culture of two-way communication is actively promoted and Trades Unions, Works Councils and other employee groups are involved wherever appropriate.

### Health and Safety

The waste management industry is one of the most hazardous industrial sectors. Health and Safety Executive figures for the UK show that the waste management sector has a fatal accident rate some ten times that of the average for all industries. In the 2005/6 year alone in Britain there were some 20 fatal workplace accidents.

Against this background the Group has a good record with a serious accident rate less than half the average for the waste management industry. In addition, across all of the Group's activities in 2005/6 no fatal accidents were recorded.

All Group operations have comprehensive safety management systems. In the UK these are powered by a dedicated department staffed with qualified advisors. In the Netherlands and Belgium, because of the differing structure of the Group in these countries, each operational unit has its own safety professional.

To ensure co-ordination between operations in each country nominated safety advisors from each divisional company report

statistics such as accident and incident performance into the UK Safety Department using a common system. In addition, the Group's H&S Committee, consisting of safety advisors from each country of operation, meets regularly to spread good practice and share experience. This performance measurement and co-ordination system ensures that the Group is both informed on safety risk issues and is able to intervene to produce improvement.

Table 4 below shows the Group's accident performance for 2005/6 and 2004/5 by country of operation and overall results. Of note is that the Group as a whole achieved the 10% serious accident reduction target it set itself at the start of the year. To promote continual improvement the Group has set itself the repeat target of reducing its rate of more serious accidents by a further 10% in 2006/7.

### The Wider Community

The Group strives to achieve effective communications with all stakeholders and seeks to secure good relations with operational site neighbours. Increasingly, the internet and intranet are utilised as modern communication tools and the Group has developed its website as a source of easily accessible and understandable information. Informal discussions, meetings, newsletters, exhibitions and, where regarded as appropriate by interested parties, formal liaison groups, remain among the more traditional methods employed. All sites subscribe to the 'open door' policy for pre-arranged visits and some also host additional educational resources for students and community groups.

**Table 4: Accident numbers and rates**

	2005/6				2004/5			
	Minor	Minor rate	RIDDOR	RIDDOR rate	Minor	Minor rate	RIDDOR	RIDDOR rate
UK	133	12,700	28	2,700	177	13,600	35	2,700
Belgium	95	10,700	42	4,700	113	13,900	67	8,300
Netherlands	53	3,400	40	2,500	45	2,800	39	2,500
<b>Group total</b>	<b>281</b>	<b>7,900</b>	<b>110</b>	<b>3,100</b>	<b>335</b>	<b>9,000</b>	<b>141</b>	<b>3,800</b>

Note: Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) is UK law which requires companies to report specified more serious accidents and incidents to the Health and Safety Executive. While RIDDOR is UK law, the Group requires all of its operations, no matter which country they are based in, to report to this common format.

## directors.

at 19 June 2006

### Non-executive Directors

**Ian Clubb, CA (Age 65)\***

**Chairman**

Ian Clubb was appointed Chairman in 2002 and joined the Board in 1994. He is Chairman of the Nomination Committee and was Chairman of the Trustees of the Company's Pension

Scheme until May 2006. He is a Non-executive Director of Platinum Investment Trust plc. He retired as Chairman of First Choice Holidays plc in 2004. He will be retiring on 27 July 2006 following the AGM.

**Adrian Auer, BA, MBA, ACT (Age 57)\***

Adrian Auer was appointed to the Board on 16 May 2005. He currently chairs the Audit Committee and will continue to do so until he takes on the role of Chairman of the Board following Mr Clubb's retirement. He was Group Finance

Director of RMC Group plc. He is Chairman of Readymix plc and Non-executive Director of Bepak plc, Foseco plc, Filtrona plc and Hiscox plc.

**Phillippe Delaunois, Ir, IC (Age 64)\***

Phillippe Delaunois, a Belgian national, was appointed to the Board in 2001. He holds a degree in engineering from the State's University at Mons. He was Chief Executive of Cockerill Sambre, a Belgian steel producing company with a turnover

in excess of €5bn until 1999. He is currently a Non-executive Director of a number of companies in Belgium.

**Peter Johnson, BA, ACA (Age 52)\***

Peter Johnson was appointed to the Board on 16 May 2005. He will be taking on the role of Chairman of the Audit Committee when Mr Auer steps down from this role in July 2006. He is Finance Director of Taylor Woodrow plc. Previously

he was Group Finance Director of Henderson plc, was Chief Financial Officer for Pearl Assurance and was Finance Director of Norwich Union Life.

**Barry Pointon, BSc (Age 59)\***

**Senior Independent Director**

Barry Pointon was appointed to the Board in 1999. He is the Senior Independent Director and is Chairman of the Remuneration Committee. He retired at the end of March 2004 as an

Executive Director of IMI plc after twenty two years service. He is an engineer with over thirty years experience in industry.

### Executive Directors

**Michael Averill, BSc, MBA, ARSM, FCIWM (Age 55)**

**Group Chief Executive**

Michael Averill holds an MBA from Cranfield Management School and a degree from Imperial College of Science and Technology. He joined the Group in

1989 as a Business Development Director for Rechem International Limited. He became Managing Director of Rechem in 1992. He was appointed Group Chief Executive in 1994. He is a Non-executive Director of TDG plc.

**Fraser Welham, BSc ACA (Age 41)**

**Group Finance Director**

Fraser Welham is a qualified accountant and holds a degree in Mechanical Engineering from Kings College, University of London. He was appointed to the Board on 16 May 2005 and

assumed the position of Group Finance Director in June 2005. He was previously Finance Director for Shanks Belgium for seven years.

\*Member of the Audit, Nomination and Remuneration Committees

## report of the directors.

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2006.

### 1 Annual General Meeting

The notice of the Annual General Meeting is set out on pages 75 and 76. Resolutions (1) to (6) to be proposed at this year's AGM are concerned with routine ordinary business. The following special business will also be considered at the meeting. The Directors consider that the passing of all the resolutions to be proposed at the AGM is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of the resolutions.

#### Resolution (7) – Authority to allot unissued shares

The current authority to allot unissued shares was granted in July 2002 and is due to expire on 24 July 2007. Although this is some time away, it is likely that such expiry will occur before the Company's Annual General Meeting in 2007 and, therefore, the Directors consider that it is advisable to replace the current authority to allot unissued shares at this year's AGM. Accordingly, resolution (7) will be proposed as an ordinary resolution authorising the Directors to allot up to an aggregate nominal amount of £7,820,000 of the authorised but unissued ordinary shares during the period ending 26 July 2011. This represents approximately 33% of the total issued share capital of the Company as at 19 June 2006. The Directors do not have any present intention of exercising this authority other than in connection with the Company's employee share schemes.

#### Resolution (8) – Authority to purchase own shares

The Company has the authority to purchase up to 23,400,000 ordinary shares of 10 pence each. The authority remains valid until the next Annual General Meeting or, if earlier, 27 January 2007. The Directors recommend that shareholders renew the Company's authority to purchase its own ordinary shares as permitted under Article 10 of its Articles of Association. Accordingly, resolution (8) will be proposed as a special resolution seeking authority to make such purchases in the market. The Directors have no immediate intention of using such authority and would do so only when they consider it to be in the best interests of shareholders generally. Any ordinary shares purchased under this authority will be cancelled and the number of ordinary shares in issue will be reduced accordingly. The Company did not purchase any of its ordinary shares during the year.

Resolution (8) specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and the UK Listing Rules. The Directors intend to seek renewal of this power at subsequent Annual General Meetings. As at 19 June 2006 (being the latest practicable date prior to the printing of this document) there were outstanding options to subscribe for a total of 3,493,940 ordinary shares in the Company, representing 1.5% of the issued share capital of the Company at that date. If the share buy-back authority referred to above is exercised in full, the outstanding options as at 19 June 2006 would represent 1.7% of the issued share capital of the Company.

#### Resolution (9) – Disapplication of statutory pre-emption rights

The Directors consider it advisable to renew their authority to allot equity securities for cash, other than to existing shareholders pro-rata to their holdings, which is due to expire on 27 October 2006. This authority will enable the Directors, at any time until 26 October 2007, to allot equity securities wholly for cash up to an aggregate nominal amount of £1,170,000 or otherwise in connection with a rights issue. This limited disapplication will allow the Directors to allot up to 11,700,000 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 19 June 2006. Resolution (9) will be proposed as a special resolution.

### 2 Principal Activities, Group Results and Business Review

The principal activities of the Group and an indication of likely future developments are described in the Chairman's Statement on pages 2 and 3 and in the Business Review on pages 4 to 15. The Group's Consolidated Income Statement appears on page 31 and note 2 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 £30.4m (2005: £77.6m).

# report of the directors.

continued

## 3 Dividends

The Directors recommend a final dividend of 3.8p per share be paid on 4 August 2006 to ordinary shareholders whose names appear in the register at close of business on 14 July 2006. This dividend, together with the interim dividend of 1.9p per share already paid, will make a total dividend for the year on the ordinary shares of 5.7p per share (2005: 5.7p per share).

## 4 Acquisitions and Disposals

Acquisitions have been made during the year at a total cost of £4.2m. Disposals have been made during the year for a net consideration of £34.0m. The acquisitions and disposals are described in note 13 to the financial statements.

## 5 Directors

The composition of the Board of Directors at the date of this report is shown on page 16. Mr M Averill, Mr I Clubb, Mr P Delaunois and Mr B Pointon served on the Board throughout the financial year under review. Mr A Auer, Mr P Johnson and Mr F Welham were appointed on 16 May 2005. Mr M Averill and Mr P Delaunois retire by rotation at the Annual General Meeting and will be offering themselves for re-election. Mr M Averill has a service contract terminable on 12 months notice. Mr P Delaunois does not have a service contract as a Director but does have a three month rolling agreement to provide consultancy services to the Group's Belgian subsidiaries.

Mr I Clubb, having reached the age of 65 during the year, intends to retire immediately after the AGM on 27 July 2006 as required under the Company's Articles of Association. Mr R Biffa retired on 30 June 2005 and Mr D Downes retired on 31 December 2005.

Details of the Directors' interests are shown in the Remuneration Report on pages 25 to 30.

## 6 Corporate Governance

A report on Corporate Governance is given on pages 20 to 24.

## 7 Share Capital

During the year ended 31 March 2006 no ordinary shares were issued other than those issued in respect of exercises of options under the Company's share option schemes, details of which are given in note 5 to the financial statements. At 31 March 2006 and at the date of this report the authorised ordinary share capital was and is £35,000,000 represented by 350,000,000 ordinary shares of 10 pence each. At 31 March 2006, 234,625,196 ordinary shares were in issue and a further 47,998 shares were issued in respect of options exercised prior to 19 June 2006, leaving an unissued balance of 115,326,806 ordinary shares of 10 pence each, representing 33% of the authorised ordinary share capital.

## 8 Notifiable Interests

As at 19 June 2006, the Company had been notified of the following interests of 3% or more of the ordinary share capital of the Company:

	Number of shares	Percentage
GAM London Limited	7,596,000	3.24
Legal & General Investment Management Limited	7,593,607	3.24
AXA s.a.	7,480,115	3.19
Artemis Investment Management Limited	7,363,438	3.14
Aberforth Smaller Companies Trust plc	7,259,800	3.09

## 9 Research and Development

The Group spent £Nil (2005: £0.1m) on research and development during the year ended 31 March 2006, which was charged to profits.

**10 Health and Safety**

The Group and the Board of Directors regard the provision of safe working conditions for all employees as a high priority and Health and Safety performance is quantified and published for stakeholder scrutiny. (See the Environment and the Community section of the Business Review on page 15).

**11 Employment Policies**

Group employees are recognised as a key asset and it is Group policy to ensure that effective employee communications are maintained at all times. (See the Environment and the Community section of the Business Review on page 14).

**12 Payment of Suppliers**

It is the Group's payment policy to agree payment terms with all suppliers and to abide by them. 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 62 days (2005: 69 days) for the Group and was 30 days (2005: 33 days) for the Company.

**13 Charitable and Political Donations**

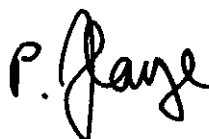
During the period donations made by the Group for charitable purposes amounted to £11,248 (2005: £4,055). No donations were made for political purposes during the year (2005: £Nil), as defined by the Companies Act 1985.

**14 Registered Auditors**

In accordance with the provisions of the Companies Act 1985, each of the Company's Directors in office as at the date of this report confirms that so far as each Director is aware, there is no relevant audit information in connection with preparing their report of which the Company's auditors are unaware and he has taken all steps which he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the Annual General Meeting.

By Order of the Board



**P Kaye**  
Secretary  
19 June 2006

## corporate governance.

### Combined Code

The Group is committed to achieving high standards of corporate governance and to integrity and exemplary ethical standards in all its business dealings. This statement, together with the Remuneration Report on pages 25 to 30, explains how the Group has applied the provisions of the Combined Code on Corporate Governance issued by the Financial Services Authority in July 2003. The Board considers that it has complied with the Code provisions in all material respects throughout the year.

### The Board of Directors

The Board currently comprises the Non-executive Chairman, the Chief Executive, four further Non-executive Directors and one Executive Director. Their brief biographies are set out on page 16. During the year to 31 March 2006, Mr A Auer, Mr P Johnson and Mr F Welham were appointed as Directors on 16 May 2005. Mr R Biffa retired on 30 June 2005 and Mr D Downes retired on 31 December 2005. Mr I Clubb, having reached the age of 65, will be retiring at the conclusion of the AGM due to be held on 27 July 2006 and will be succeeded by Mr A Auer. The roles of the Chairman and Chief Executive are held by separate individuals and the role of the Chairman is Non-executive. The Chairman has primary responsibility for running the Board and the 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 division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board.

The Non-executive Directors bring a wide range of experience to the Group and are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Mr I Clubb and Mr P Delaunois are not deemed to be independent in accordance with the criteria set out in the Combined Code due to Mr Clubb's length of service and Mr Delaunois' receiving fees for providing consultancy advice to the Group's Belgian subsidiaries in addition to the fees received for acting as Director. Notwithstanding this, the Board considers they are independent due to their experience, strength of character, objectivity and contribution to the Board and its Committees. 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 schemes. Mr R Pointon is the Senior Independent Director.

The Board meets regularly, normally at least ten times a year, and in addition, separate strategic discussions take place. Several meetings are held at subsidiaries in the United Kingdom and overseas where local operations are reviewed. The Board operates under agreed terms of reference, and may delegate certain powers to Committees of the Board. Amongst the matters reserved for decision by the full Board are published financial statements, strategic policy, acquisitions and disposals, capital projects over a defined limit, annual plans and new borrowing facilities. Matters not reserved for the Board may be delegated to senior management. The Board is provided with appropriate information in a timely manner to enable it to effectively discharge its duties.

The performance of the Board, its Committees and the Directors were evaluated during the year via the Company Secretary where questionnaires were completed and reviewed by the Board.

All Directors submit themselves for re-election by shareholders every three years if eligible, and all Non-executive Directors are appointed initially for a three year term. Any new Director appointed to the Board will be subject to election by shareholders at the first opportunity after their appointment. It has been agreed that those Non-executive Directors who have served for a period greater than nine years from initial appointment will submit themselves for annual re-election.

The Board confirms that it is satisfied that Mr M Averill and Mr P Delaunois, who are proposed for re-election at the AGM, continue to demonstrate the necessary commitment to be fully effective members of the Board.

On appointment, Directors are given a comprehensive introduction to the Group's operations, including visits to principal sites and meetings with operating management. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, Directors are entitled, if necessary, to seek independent professional advice in the furtherance of their duties at the Company's expense.

During the year an insurance policy has been maintained by the Company which indemnifies the Directors against certain liabilities arising in the conduct of their duties.

The terms of reference for the Board and its Committees are available for inspection on request from the Company Secretary.

The table below details the number of formal Board and Committee Meetings attended by each Director. During the year ended 31 March 2006 there were ten Board meetings, four Audit Committee meetings, five Remuneration Committee meetings and two Nomination Committee meetings. In addition, the Board held a two day strategy meeting with senior operations management attending for part of the time. There was one meeting of the Non-executive Directors without the presence of the Executive Directors.

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	Possible to attend	Attended	Possible to attend	Attended	Possible to attend	Attended	Possible to attend	Attended
A Auer	9	9	4	4	5	5	1	1
M Averill	10	10	4	4*	n/a	n/a	n/a	n/a
R Biffa	3	2	1	1	2	2	1	1
I Clubb	10	10	4	4	5	5	2	2
P Delaunois	10	10	4	4	5	4	2	2
D Downes	7	7	3	3*	n/a	n/a	1	1*
P Johnson	9	7	4	2	5	4	1	1
R Pointon	10	10	4	4	5	5	2	2
F Welham	10	10*	4	4*	n/a	n/a	n/a	n/a

\* Invited by the Audit Committee to be in attendance for part of the meeting.

\* Invited by the Nomination Committee to be in attendance at the meeting.

^ Invited by the Board to attend the April meeting.

#### Audit Committee

The Audit Committee is formally constituted with written terms of reference. It was chaired by Mr R Biffa for the period up to his retirement and then by Mr A Auer for the remaining part of the year. Mr P Johnson will be taking on this role from July 2006. It comprises the Non-executive Directors (see page 16). Normally, it meets three times a year. The external auditors and the Executive Directors are regularly invited to attend meetings and the Committee has access to the external auditors' advice without the presence of the Executive Directors. The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment, terms of engagement, objectivity and independence of the external auditors, the nature and scope of the audit, reviews of the interim and annual financial statements, internal control procedures, accounting policies, adherence with accounting standards and such other related functions as the Board may require. The Board considers that both Mr A Auer and Mr P Johnson have recent and relevant financial experience under the requirements of the Combined Code.

There is a 'whistleblowing' and security reporting procedure which encourages a free and open culture within the Group in all its business dealings.

The policy on engagement of the external auditors for non-audit services is that where the work is closely related to the audit, or if the work requires a detailed understanding of the Group, or when a significant benefit can be obtained from work previously conducted, the work may be awarded to the auditors without compromising their independence.

During the year the performance of the external auditors and that of the Audit Committee itself was reviewed by means of completing a detailed questionnaire.

## corporate governance.

continued

### Remuneration Committee

The Remuneration Committee is chaired by Mr R Pointon and comprises the Non-executive Directors (see page 16). The Committee 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 Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) 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 Chief Executive about its proposals. The Remuneration Report on pages 25 to 30 contains particulars of Directors' remuneration and interests in the Company's shares.

### Nomination Committee

The Nomination Committee is chaired by Mr I Clubb and comprises the Non-executive Directors (see page 16). It meets as required and is responsible for making recommendations to the Board on the appointment of Directors and succession planning. During the year the structure, composition and balance of skills of the Board were reviewed including ensuring that all members of the Board had devoted sufficient time and contributed adequately to the work of the Board. Following this review and taking into account the impending retirement of Mr I Clubb, two new Non-executive Directors, both with recent and relevant financial experience, were appointed after an external executive search. The Committee agreed that Mr A Auer would be nominated for approval by the Board to succeed Mr I Clubb as Chairman of the Board.

### Pensions

The assets of both the final salary and money purchase schemes in the UK are held separately from those of the Group, are invested by independent professional investment managers and cannot be invested directly in the Company. Three trustees have been appointed by the Company and, in addition, two member nominated trustees were appointed in 2004 for a period of three years. Senior employees in Belgium are provided with defined contribution pension benefits. In the Netherlands, employees participate in compulsory collective transport industry wide pension schemes which provide benefits up to a certain level of pay. Senior employees in the Netherlands earning in excess of the maximum level of pay allowed for within the compulsory pension schemes also participate in a defined contribution arrangement for the excess amount.

### Relationship with Investors

The Company has an active investor relations programme, with designated members of the Board regularly meeting institutional investors, analysts, press and other parties. The Company is pleased to welcome both private and institutional shareholders to its Annual General Meeting and to discuss any topic shareholders may wish to raise. The Group's website [www.shanks.co.uk](http://www.shanks.co.uk) provides additional information for shareholders and the general public. All interim, preliminary and final results together with other press releases are published on the website.



### Internal Control

The Board confirms that a continuing formal process for identifying, evaluating and managing the material risks faced by the Group has been in place for the financial year 2005/6 and to the date of approval of the annual report and accounts. This includes reviewing financial, operational and compliance controls and risk management procedures. This process is regularly reviewed by both the Group and subsidiary boards and complies with the Turnbull guidance. This approach ensures that internal control and risk management measures are embedded into the operations of the business and any areas requiring improvement are addressed.

The Directors are responsible for and have reviewed the effectiveness of the Group's system of internal control during the period covered by the annual report and accounts. The system is designed to provide reasonable but not absolute assurance against material avoidable loss or misstatement of financial information. The key features of the control system are as follows:

- (i) monthly visits by Executive Directors to key operating locations to attend local board or management meetings;
- (ii) regular Executive Committee meetings of the Group's most senior managers and Executive Directors;
- (iii) formal written financial policies and procedures applicable to all business units with procedures for reporting compliance therewith, for identifying weaknesses and for taking corrective action;
- (iv) comprehensive annual budgets, requiring Board and business sector approval, reviewed on a regular basis, with performance measured against budgets and explanations sought for significant variances;
- (v) a formal clearly defined framework for control and approval of capital expenditure and investment programmes, with cash authorisation limits and post investment appraisals along with contract authorisation levels;
- (vi) identification and evaluation of key risks applicable to each area of business assessed on a continuing basis at both operating board and Group Board level;
- (vii) appointment of experienced and professional staff of the necessary calibre to meet their responsibilities;
- (viii) the Group's internal audit activities comprise a programme of site audits performed by each Country Office, and a programme of peer reviews where the adequacy of the internal controls in each Country's operations are reviewed by senior individuals from elsewhere in the Group. The Group does not maintain a separate internal audit department;
- (ix) the Group's operations use a range of quality assurance and environmental management systems across its sites. Where appropriate these are independently certified to internationally recognised standards such as ISO 9001 and ISO 14001; and
- (x) an Audit Committee comprising Non-executive Directors, the responsibilities of which are set out on page 21.

The Group publishes a Health and Safety Report and an Environmental Report. The independent Environmental Advisory Board also publishes its own annual report. Further details about these reports can be found on pages 14 and 15 and copies are also available on the Group's website [www.shanks.co.uk](http://www.shanks.co.uk).

## corporate governance.

continued

### Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the auditors' report on pages 72 and 73, is made to distinguish for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs as at the end of the year, and of the profit or loss, total recognised income and expense and cash flows of the Group and Company for that period.

In preparing the financial statements for the year ended 31 March 2006 the Directors have:

- (i) used appropriate accounting policies, consistently applied;
- (ii) made judgements and estimates that are reasonable and prudent;
- (iii) ensured that all applicable accounting standards have been followed; and
- (iv) prepared the financial statements on the going concern basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the Group's website is the responsibility of the Directors. The uncertainty regarding legal requirements in relation to the website is compounded as information published on the internet is accessible in many countries and legislation in the United Kingdom governing the preparation and distribution of financial statements may differ from legislation in other jurisdictions.

The auditors' report on the financial statements set out on pages 72 and 73 confirms that the scope of their report covers the provisions of the Combined Code that are specified for their review by the Financial Services Authority.

## remuneration report.

### Remuneration Policy

The principal objectives of the Remuneration Committee, which is chaired by Mr B Pointon and comprises the Non-executive Directors set out on page 16 and included Mr R Biffa up to his retirement, are to attract, retain and motivate high quality senior management with a competitive package of incentives and awards 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 has appointed Deloitte & Touche LLP to provide independent market information and advice relating to executive remuneration and benefits. Deloitte & Touche LLP are considered to be independent as they provide only very limited other services to some subsidiary companies within the Group.

This remuneration report will be put to shareholders for their approval as a separate ordinary resolution at the forthcoming Annual General Meeting.

As described below, a significant proportion of potential total remuneration is performance related and is built around annual and longer term incentives. For Directors achieving medium performance, performance related pay would represent approximately 31% of total remuneration. If performance were such that the maximum award available under each incentive scheme was paid, performance related pay would represent approximately 64% of total remuneration.

### Basic Salary

The basic salary element is determined after evaluating the Executive Director's duties and responsibilities and is based on the complexity, know-how, decision-making involved and their overall impact on the business. Account is taken of relevant external data that provides information to assist in the deliberations. Basic salary is generally reviewed on an annual basis or following a significant change in responsibilities.

### Annual Cash Bonuses

Annual cash bonuses are payable at the discretion of the Remuneration Committee as a percentage of basic salary dependent on corporate performance compared to target. For the year to 31 March 2006, the Executive's potential cash bonus ranged from 20% for achieving target performance to a maximum bonus of 75% for achieving a performance of 17% above target performance. Cash bonuses are not pensionable.

### Long Term Incentive Plan

Under the Long Term Incentive Plan (LTIP) senior employees may be granted an award annually, the vesting of which is subject to the attainment of two pre-determined performance conditions measured over a three year period. Awards are in the form of a number of shares, the maximum value in any financial year cannot be more than 100% of basic salary as at the date of grant and calculated on the Company's share price at that time.

The first performance condition is based on Total Shareholder Return (TSR), where the Company's TSR achieved during the three year performance period is measured against the TSR achieved by those companies that constituted the FTSE Support Services Sector immediately before the date of grant of an award. An award will only vest in full if the Company's TSR results in it being ranked in the upper quartile of the companies in the comparator group where the company with the highest TSR is ranked first. If the TSR of the Company results in a median position in the comparator group then 25% of the award will vest. Vesting above the median position is on a sliding scale, with 3% of the award vesting for each percentile increase in the Company's rank above the median position up to the maximum award. If the Company's TSR for the performance period results in a position below the median then the award will lapse.

The second performance condition is based on Earnings Per Share (EPS) and for an award to vest, the average growth in the Company's EPS on a consistent UK GAAP basis, before taking into account goodwill amortisation and exceptional or extraordinary items, for the three year performance period, must exceed the growth in Retail Price Index over the same period by at least nine percentage points.

No amendment may be made to the performance conditions which would be to the material advantage of participants without the prior approval of shareholders in general meeting.

## remuneration report.

continued

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 2006 the Employee Share Trust did not hold any of the Company's shares.

### Performance Review

**Figure 1: Shanks Group plc Total Shareholder Return versus FTSE Support Services Sector Index**

The graph at Figure 1 shows the Total Shareholder Return of the Company and that of the FTSE Support Services Sector Index over the five year period to 31 March 2006. This Index has been selected as it is a broad equity index of which Shanks Group plc is a constituent company.

### Share Option Schemes

The Committee believes that share ownership by employees encourages the matching of long term interests between employees and shareholders. All UK employees including Executive Directors, subject to certain service conditions, may participate in an HM Revenue & Customs approved Savings Related Share Option Scheme (SRSOS). Senior executives were also able to participate in an Executive Share Option Scheme at the discretion of the Remuneration Committee. The Executive Share Option Scheme expired in August 2005 and after this date only awards under the LTIP scheme can be made to senior executives.

Under the terms of the SRSOS for employees, 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, including options granted under the ESOS and LTIP. Options are granted at the higher of the nominal value and an amount determined by the Remuneration Committee being not less than 80% of the market value. At 31 March 2006 options outstanding amounted to 0.9m ordinary shares (see note 5 to the financial statements).

Under the terms of the expired ESOS, options could be granted during the ten year period to August 2005 to acquire up to 5% of the issued equity share capital of the Company. The exercise of options granted under the ESOS, is subject to a performance condition, achievement of which is a pre-requisite for exercise of options. The condition is tested once only after a period of three years and if it is not achieved the relevant options will lapse. Options granted after 26 July 2001 will only be exercisable if the Group's EPS on a consistent UK GAAP basis, before taking into account goodwill amortisation and exceptional or extraordinary items for the three year measurement period, exceed growth in the Retail Price Index for the same period by at least nine percentage points. The Remuneration Committee applied a different performance condition for options granted under the ESOS prior to 26 July 2001. These options may not be exercised unless the growth in the Group's EPS over the period of any three consecutive years after the date of grant equals or exceeds the increase in the Retail Price Index over the same period by at least six percentage points. Options were granted at the higher of the nominal value or the market value. At 31 March 2006 options outstanding amounted to 3.6m ordinary shares (see note 5 to the financial statements).

### Performance Conditions

The performance conditions for the LTIP and ESOS schemes described above were chosen following recommendations from external remuneration advisers and remain consistent with market practice.

### Directors' Service Contracts and Notice Periods

The Remuneration Committee has agreed that the policy with regard to notice period for Executive Directors is one year. Accordingly, Mr M Averill and Mr F Welham have rolling service contracts dated 29 September 1994 and 21 July 2005, respectively, which require one year's notice from the Company and six month's notice from the Director. Termination payments are limited to the director's contractual remuneration including basic salary, any bonus earned and benefits for the unexpired portion of the notice period. Any entitlement to LTIP awards or exercise of share options upon termination is governed by the rules of the relevant scheme. Pensionable service will also accrue for the unexpired portion of the notice period. In the event of early termination, the Remuneration Committee will consider carefully what compensation should be paid taking into account the circumstances of the particular case. The Non-executive Directors do not have service contracts. Mr P Delaunois has an agreement to provide consultancy services via his company, S.A. CGO, to the Group's Belgian subsidiary companies which is terminable on giving three month's notice by either party.

### 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 hold one such position and the policy is that fees may be retained by the director, which reflects the personal risk assumed in such appointments. Mr M Averill has been appointed to one such non-executive position. The fee received from this appointment was £34,000.

### Directors' Emoluments (audited)

The following table shows a breakdown of the emoluments of the individual Directors, excluding pension contributions to the defined benefit scheme and potential gains on exercise of share options and vesting of LTIPs, for the period of time during which they were Directors of the Group.

	Basic salary		Performance related bonuses		Other emoluments		Total emoluments	
	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000
I Clubb*	100	100	-	-	-	-	100	100
A Auer*	29	-	-	-	-	-	29	-
M Averill	353	338	130	249	26	25	509	612
R Biffa*	9	28	-	-	-	-	9	28
P Delaunois*	30	28	-	-	41	41	71	69
D Downes	206	266	76	193	67	70	349	529
P Johnson*	25	-	-	-	-	-	25	-
R Pointon*	35	28	-	-	-	-	35	28
F Welham	114	-	48	-	13	-	175	-
							<b>1,302</b>	<b>1,366</b>

\* Non-executive Director

Mr A Auer, Mr P Johnson and Mr F Welham were appointed on 16 May 2005. Mr R Biffa retired on 30 June 2005 and Mr D Downes retired on 31 December 2005.

- (i) Other emoluments for Mr M Averill, Mr D Downes and Mr F Welham includes such items as a company car or car allowance, medical insurance, payments relating to FURBS and life assurance. They are not pensionable.
- (ii) Other emoluments for Mr P Delaunois are for fees received amounting to £41,000 pa for consultancy services provided to the Group's Belgian subsidiaries. Mr P Delaunois is a shareholder and director of S.A. CGO and the fees were paid to this company.
- (iii) The Non-executive Directors do not participate in the annual bonus plan and do not receive any pension contributions from the Group.
- (iv) Mr R Biffa is also a shareholder and director of Radstrong Limited. The fees in respect of Mr Biffa's services as a Director of the Group were paid to this company.

## remuneration report.

continued

### Directors' Pension Benefits (audited)

Mr M Averill and Mr F Welham are members of the Shanks Group Pension Scheme, which is a funded, defined benefit scheme approved by HM Revenue & Customs. Under the terms of this scheme the Executive Directors have:

- at retirement, and subject to length of service, a pension of up to two thirds of basic salary;
- an employee contribution of 7% of basic salary;
- a lump sum death in service benefit of four times basic salary; and
- a spouse's pension on death.

The table below shows the movement in Directors' pension benefit during the year:

	Age at 31.03.06 or at date of retirement	Increase in accrued pension during the year (ii) £000 pa	Increase in accrued pension during the year net of inflation (iii) £000 pa	Accrued pension at 31.03.06 (iv) £000	Transfer value at 31.03.06 of pension benefits accrued at 31.03.06 (v) £000	Transfer value at 31.03.05 of pension benefits accrued at 31.03.05 (v) £000	Increase in transfer value less Directors' contributions (v) £000	Transfer value of increase in accrued pension during the year net of inflation less Directors' contributions (vi) £000
M Averill	54	20	15	197	3,757	3,022	710	268
D Downes	60	7	6	42	844	630	208	109
F Welham	41	8	7	24	189	106	76	49

- (i) Mr D Downes was subject to the HM Revenue & Customs cap on approved pension benefits and was provided with comparable unapproved benefits for basic salary in excess of the cap via a Funded Unapproved Retirement Benefits Scheme (FURBS). The Company contributed £90,000 into Mr D Downes' FURBS during the year.
- (ii) Mr F Welham is subject to the HM Revenue & Customs cap on approved pension benefits and was not provided with any pension benefits for basic salary in excess of the cap during the year.
- (iii) The increase in accrued pension during the year represents the difference between the total accrued pension at the end of the year and the equivalent amount at the beginning of the year.
- (iv) The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.
- (v) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The calculation is based on the assumption that pensions will be paid from the earliest retirement age possible without the application of actuarial reduction factors (at age of 57 for Mr M Averill and 62 for Mr F Welham).
- (vi) The increase in transfer value has been calculated taking into account market conditions and the Directors' ages at 31 March 2005 and 31 March 2006.

**Directors' interests under the LTIP (audited)**

The Director's conditional beneficial interests under the LTIP in the ordinary 10p shares of the Company as at 31 March 2006 or the date of retirement were as follows:

	Outstanding awards at 31 March 2005	Awards made during the year	Awards lapsed during the year	Outstanding awards at 31 March 2006	Date of award	Share price on date of award (pence)	Performance period end	Restricted period end
M Averill	171,000	–	171,000	–	05.08.02	134.5	31.03.05	05.08.05
	325,000	–	–	325,000	02.06.03	101.0	31.03.06	02.06.06
	290,000	–	–	290,000	02.08.04	115.0	31.03.07	02.08.07
	–	240,000	–	240,000	06.06.05	144.75	31.03.08	06.06.08
D Downes*	135,000	–	135,000	–	05.08.02	134.5	31.03.05	05.08.05
	256,000	–	–	256,000	02.06.03	101.0	31.03.06	02.06.06
F Welham	–	75,000	–	75,000	06.06.05	144.75	31.03.08	06.06.08

+ Mr D Downes' interests for 2006 are shown at his date of retirement.

**Directors' interests in Ordinary Shares and Share Options (audited)**

The Directors' interests, all beneficial, in the ordinary shares of the Company, including shares over which options have been granted under the terms of the Group's share option schemes (other than the LTIP), on 31 March 2006 or date of retirement and 31 March 2005 were as follows:

	Ordinary Shares		Executive (E) and Savings Related (S) Share Options					
	2006	2005	2006	2005	Date of grant	Option price (pence)	Normal Exercise Dates	
							From	To
I Clubb	<b>30,000</b>	30,000	–	–	–	–	–	–
A Auer	–	–	–	–	–	–	–	–
M Averill	<b>75,666</b>	75,406	<b>150,000(E)</b>	150,000(E)	02.06.99	233.5	03.06.02	02.06.06
			<b>150,000(E)</b>	150,000(E)	05.06.00	180.0	06.06.03	05.06.07
			–	114,000(E)	30.07.02	145.0	31.07.05	30.07.12
			<b>2,335(S)</b>	2,335(S)	27.09.01	144.5	01.11.06	30.04.07
			<b>8,495(S)</b>	8,495(S)	26.09.02	116.0	01.11.07	30.04.08
			<b>3,773(S)</b>	3,773(S)	25.09.03	84.0	01.11.08	30.04.09
R Biffa*	<b>9,174,993</b>	9,174,993	–	–	–	–	–	–
P Delaunois	<b>1,500</b>	1,500	–	–	–	–	–	–
D Downes*	<b>91,562</b>	91,562	<b>100,000(E)</b>	100,000(E)	02.06.99	233.5	03.06.02	02.06.06
			<b>100,000(E)</b>	100,000(E)	05.06.00	180.0	06.06.03	05.06.07
			–	90,000(E)	30.07.02	145.0	31.07.05	30.07.12
			<b>14,159(S)</b>	14,159(S)	26.09.02	116.0	01.11.07	30.04.08
P Johnson	<b>1,585</b>	–	–	–	–	–	–	–
R Pointon	<b>3,000</b>	3,000	–	–	–	–	–	–
F Welham	–	–	<b>15,000(E)</b>	–	02.06.99	233.5	03.06.02	02.06.06
			<b>20,000(E)</b>	–	05.06.00	180.0	06.06.03	05.06.07
			<b>20,000(E)</b>	–	04.06.01	176.5	05.06.04	04.06.08
			<b>25,000(E)</b>	–	02.06.03	101.5	03.06.06	02.06.13
			<b>25,000(E)</b>	–	02.08.04	115.0	03.08.07	02.08.14
			<b>18,869(S)</b>	–	25.09.03	84.0	01.11.08	30.04.09

\* Mr R Biffa's and Mr D Downes' interests shown for 2006 are at their respective dates of retirement.

- (i) 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% (Savings Related Scheme) and 100% (Executive Scheme) of the average market price of the shares over the last three dealing days immediately preceding the date of the invitation to subscribe (Savings Related Scheme) or the date of grant (Executive Scheme). The performance conditions relating to the exercise of Executive Share Options are shown on page 26.

## remuneration report.

continued

- (ii) No options were exercised by serving Directors during the year.
- (iii) The Executive options granted to Mr M Averill and to Mr D Downes on 30 July 2002 at an option price of 145p lapsed on 31 July 2005.
- (iv) The highest closing mid-market price of the ordinary shares of the Company during the year was 191p and the lowest closing mid-market price during the year was 133p. The mid-market price at the close of business on 31 March 2006 was 177p.

Mr A Auer purchased 10,000 Ordinary shares on 1 June 2006. The 150,000 and 15,000 Executive Share Options granted on 2 June 1999 to Mr M Averill and Mr F Welham respectively lapsed on 2 June 2006. The 325,000 LTIPs awarded to Mr M Averill on 2 June 2003 and the 25,000 Executive Share Options granted to Mr F Welham on the same date both lapsed on 2 June 2006. 213,000 and 94,000 LTIPs were awarded to Mr M Averill and Mr F Welham respectively on 5 June 2006. There have been no other alterations in the above interests, options or LTIPs between 31 March 2006 and 19 June 2006 for currently serving directors.

### 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.

### Auditable Information

The information in the Remuneration Report subject to audit is that included in the tables and related notes in the sections above on Directors' Emoluments, Directors' Pension Benefits, Directors' Interests under the Long Term Incentive Plan and Directors' Interests in Ordinary Shares and Share Options.



## consolidated income statement.

year ended 31 March 2006

	Note	2006 £m	2005 £m
<b>Continuing operations</b>			
Revenue	2(a)	442.5	420.4
Cost of sales – ongoing		(358.6)	(336.3)
Cost of sales – restructuring costs	3	–	(5.2)
Total cost of sales		(358.6)	(341.5)
<b>Gross profit</b>		<b>83.9</b>	<b>78.9</b>
Administrative expenses – ongoing		(45.0)	(48.1)
Administrative expenses – restructuring costs	3	–	(5.3)
Total administrative expenses		(45.0)	(53.4)
<b>Operating profit</b>	2(a),3	<b>38.9</b>	<b>25.5</b>
Finance charges:			
Interest payable and other		(12.7)	(10.7)
Interest receivable		7.8	5.4
Change in fair value of financial instruments		(3.7)	(0.5)
Total finance charges	6	(8.6)	(5.8)
<b>Profit before tax from continuing operations</b>	2(a)	<b>30.3</b>	<b>19.7</b>
Tax	7	(10.5)	(7.1)
<b>Profit after tax for the year from continuing operations</b>	2(a)	<b>19.8</b>	<b>12.6</b>
<b>Discontinued operations</b>			
Profit after tax for the year from discontinued operations	2(b)	10.6	65.0
<b>Profit for the year</b>	23	<b>30.4</b>	<b>77.6</b>
<b>Dividend per share</b>	8	<b>5.7p</b>	<b>5.7p</b>
<b>Earnings per share</b>			
– basic	9	13.0p	33.1p
– diluted	9	12.9p	33.1p
<b>Earnings per share from continuing operations</b>			
– basic	9	8.5p	5.4p
– diluted	9	8.4p	5.4p

## consolidated statement of recognised income and expense.

year ended 31 March 2006

	2006 £m	2005 £m
Exchange gain on translation of foreign operations	1.9	3.1
Actuarial (loss) gain on defined benefit pension schemes	(0.6)	0.1
	1.3	3.2
Deferred tax in respect of the above	0.2	–
<b>Net income recognised directly in equity</b>	<b>1.5</b>	<b>3.2</b>
<b>Profit for the year</b>	<b>30.4</b>	<b>77.6</b>
<b>Total recognised income and expense for the year</b>	<b>31.9</b>	<b>80.8</b>

**consolidated balance sheet.**

at 31 March 2006

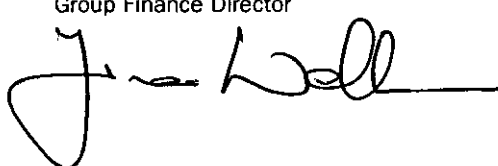
	Note	At 31 March 2006 £m	At 31 March 2005 £m
<b>Non-current assets</b>			
Intangible assets	10	144.4	140.5
Property, plant and equipment	11	183.6	202.4
Loans to joint ventures	12	0.6	1.6
Other investments	12	2.3	1.3
Trade and other receivables	16	120.1	75.6
Deferred tax assets	14	15.0	12.3
		<b>466.0</b>	<b>433.7</b>
<b>Current assets</b>			
Inventories	15	9.0	9.3
Trade and other receivables	16	97.3	109.1
Current tax receivable		1.4	3.0
Cash and cash equivalents	17	59.4	32.5
		<b>167.1</b>	<b>153.9</b>
<b>Total assets</b>		<b>633.1</b>	<b>587.6</b>
<b>Current liabilities</b>			
Borrowings	18	(10.9)	(4.0)
Trade and other payables	19	(114.1)	(125.7)
Current tax payable		(8.3)	(4.2)
Provisions	20	(9.1)	(11.9)
		<b>(142.4)</b>	<b>(145.8)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(237.3)	(207.2)
Other non-current liabilities	19	(0.7)	(1.0)
Deferred tax liabilities	14	(17.5)	(13.8)
Provisions	20	(16.3)	(13.9)
Retirement benefit obligations	21	(10.3)	(16.9)
		<b>(282.1)</b>	<b>(252.8)</b>
<b>Total liabilities</b>		<b>(424.5)</b>	<b>(398.6)</b>
<b>Net assets</b>		<b>208.6</b>	<b>189.0</b>
<b>Equity</b>			
Share capital	22	23.5	23.4
Share premium	23	93.7	93.2
Exchange reserve	23	5.0	3.1
Retained earnings	23	86.4	69.3
<b>Total equity</b>	23	<b>208.6</b>	<b>189.0</b>

The Financial Statements were approved by the Board of Directors and authorised for issue on 19 June 2006.  
They were signed on its behalf by:

**I M Clubb**  
Chairman



**F A N Welham**  
Group Finance Director



## consolidated cash flow statement.

year ended 31 March 2006

	Note	2006 £m	2005 £m
<b>Net cash from operating activities</b>	24(c)	<b>58.9</b>	64.9
<b>Investing activities</b>			
Purchase of intangible assets		(0.2)	(0.3)
Purchases of property, plant and equipment		(31.9)	(34.4)
Disposal of property, plant and equipment		3.1	6.9
Financial asset capital advances		(48.8)	(37.2)
Financial asset capital repayments		1.9	0.7
Acquisition of subsidiary and other businesses	13(b)	(4.2)	(1.7)
Net proceeds from disposal of subsidiary and other businesses	13(c)	34.0	175.0
Income received from other investments		0.7	0.1
<b>Net cash used in investing activities</b>	24(c)	<b>(45.4)</b>	109.1
<b>Financing activities</b>			
Interest paid		(12.6)	(12.9)
Interest received		7.8	5.2
Proceeds from issue of shares		0.6	0.1
Dividends paid		(13.4)	(13.3)
Increase (repayment) of borrowings		32.2	(151.4)
Increase in obligations under finance leases		1.8	2.5
Repayments of obligations under finance leases		(3.0)	(2.5)
<b>Net cash flow from financing activities</b>		<b>13.4</b>	(172.3)
<b>Net increase in cash and cash equivalents</b>		<b>26.9</b>	1.7
<b>Cash and cash equivalents at beginning of year</b>		<b>32.5</b>	30.8
<b>Cash and cash equivalents at end of year</b>		<b>59.4</b>	32.5

## consolidated movement in net debt.

year ended 31 March 2006

	2006 £m	2005 £m
Net increase in cash and cash equivalents	26.9	1.7
(Increase) repayment of borrowings and finance leases	(31.0)	151.4
Amortisation of loan fees	(0.4)	(0.3)
Exchange loss	(1.9)	(4.5)
Change in fair value of financial instruments	(3.7)	(0.5)
<b>Movement in net debt</b>	<b>(10.1)</b>	147.8
<b>Net debt at beginning of year</b>	<b>(178.7)</b>	(326.5)
<b>Net debt at end of year</b>	<b>(188.8)</b>	(178.7)

## consolidated analysis of net debt.

at 31 March 2006

	At 31 March 2006 £m	At 31 March 2005 £m
Core Business net debt	75.9	110.6
Private Finance Initiative net debt	105.5	64.4
Total Group net debt before fair value of interest rate swaps	181.4	175.0
Fair value of Private Finance Initiative interest rate swaps	7.4	3.7
<b>Total Group net debt</b>	<b>188.8</b>	178.7

## company income statement.

year ended 31 March 2006

	Note	2006 £m	2005 £m
<b>Continuing operations</b>			
Administrative expenses – ongoing		(4.4)	(4.3)
Administrative expenses – restructuring costs	3	-	(0.1)
Total administrative expenses		(4.4)	(4.4)
Other operating income - exchange		0.9	1.1
Other operating income - disposal of investments	3	2.5	107.3
Total other operating income		3.4	108.4
<b>Operating (loss) profit</b>	* 2(a),3	(1.0)	104.0
Finance charges:			
Interest payable and other		(9.2)	(15.1)
Interest receivable		2.1	1.4
Total finance charges	6	(7.1)	(13.7)
<b>(Loss) profit before tax from continuing operations</b>		(8.1)	90.3
Tax credit	7	2.6	1.6
<b>(Loss) profit after tax for the year from continuing operations</b>	23	(5.5)	91.9

## company statement of recognised income and expense.

year ended 31 March 2006

	2006 £m	2005 £m
Actuarial (loss) gain on defined benefit pension schemes	(0.6)	0.1
Deferred tax in respect of the above	0.2	-
<b>Net (expense) income recognised directly in equity</b>	(0.4)	0.1
<b>(Loss) profit for the year</b>	(5.5)	91.9
<b>Total recognised income and expense for the year</b>	(5.9)	92.0

**company balance sheet.**

at 31 March 2006

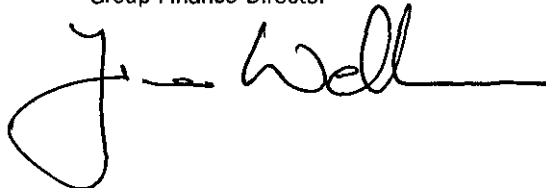
	Note	At 31 March 2006 £m	At 31 March 2005 £m
<b>Non-current assets</b>			
Property, plant and equipment	11	0.2	0.1
Investments in subsidiary undertakings	12	365.8	365.8
Deferred tax assets	14	6.5	8.1
		<b>372.5</b>	<b>374.0</b>
<b>Current assets</b>			
Trade and other receivables	16	41.0	55.5
Current tax receivable		3.0	-
Cash and cash equivalents	17	40.2	15.9
		<b>84.2</b>	<b>71.4</b>
<b>Total assets</b>		<b>456.7</b>	<b>445.4</b>
<b>Current liabilities</b>			
Borrowings	18	(6.5)	(8.6)
Trade and other payables	19	(3.1)	(1.6)
Current tax payable		-	(1.0)
Provisions	20	(4.4)	(5.5)
		<b>(14.0)</b>	<b>(16.7)</b>
<b>Non-current liabilities</b>			
Borrowings	18	(95.5)	(103.6)
Other non-current liabilities	19	(144.3)	(97.3)
Provisions	20	(0.3)	(0.4)
Retirement benefit obligations	21	(10.3)	(16.9)
		<b>(250.4)</b>	<b>(218.2)</b>
<b>Total liabilities</b>		<b>(264.4)</b>	<b>(234.9)</b>
<b>Net assets</b>		<b>192.3</b>	<b>210.5</b>
<b>Equity</b>			
Share capital	22	23.5	23.4
Share premium	23	117.7	117.2
Retained earnings	23	51.1	69.9
<b>Total equity</b>	23	<b>192.3</b>	<b>210.5</b>

The Financial Statements were approved by the Board of Directors and authorised for issue on 19 June 2006.  
They were signed on its behalf by:

**I M Clubb**  
Chairman



**F A N Welham**  
Group Finance Director



## company cash flow statement.

year ended 31 March 2006

	2006 £m	2005 £m
<b>Net cash from operating activities</b>		
Operating (loss) profit	(1.0)	104.0
Depreciation of property, plant and equipment	–	0.1
Gain on disposal of subsidiaries	(2.5)	(107.3)
Net (decrease) increase in provisions	(8.4)	16.7
Exchange gains	(0.9)	(1.1)
Share based payments	0.5	0.1
<b>Operating cash flows before movements in working capital</b>	<b>(12.3)</b>	<b>12.5</b>
Increase in receivables	14.5	93.6
Increase in payables	49.8	8.7
<b>Cash generated by operations</b>	<b>52.0</b>	<b>114.8</b>
Income taxes received (paid)	0.4	(0.4)
<b>Net cash from operating activities</b>	<b>52.4</b>	<b>114.4</b>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(0.1)	–
Disposal of property, plant and equipment	–	0.4
Acquisition of subsidiary and other businesses	–	(78.9)
Net proceeds from disposal of subsidiary and other businesses	2.5	127.8
<b>Net cash used in investing activities</b>	<b>2.4</b>	<b>49.3</b>
<b>Financing activities</b>		
Interest paid	(10.0)	(19.9)
Interest received	2.1	1.4
Proceeds from issue of shares	0.6	0.1
Dividends paid	(13.4)	(13.3)
Repayment of borrowings	(9.8)	(124.4)
<b>Net cash flow from financing activities</b>	<b>(30.5)</b>	<b>(156.1)</b>
<b>Net increase in cash and cash equivalents</b>	<b>24.3</b>	<b>7.6</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>15.9</b>	<b>8.3</b>
<b>Cash and cash equivalents at end of year</b>	<b>40.2</b>	<b>15.9</b>

## notes to the financial statements.

### 1 Accounting policies – Group and Company

#### (a) General information

Shanks Group plc is a company incorporated in the United Kingdom under the Companies Act 1985.

#### (b) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as required by Article 4 of the European Union IAS Regulation and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements are prepared on the historical cost basis, except for derivative financial instruments which are stated at fair value. Previously, the Group reported its results under United Kingdom Generally Accepted Accounting Principles (UK GAAP). The disclosures required by IFRS1 – First Time Adoption of International Financial Reporting Standards concerning the transition from UK GAAP to IFRS are set out in note 29 of this report. The policies set out below have been consistently applied.

Under UK GAAP, the Group accounted for its Private Finance Initiative (PFI) contracts as tangible fixed assets. During 2005, the International Financial Reporting Interpretations Committee (IFRIC) issued draft interpretations D12-14 on accounting for service concession arrangements. IFRIC is yet to finalise the guidance, which is expected to be published in the second half of 2006. In light of these draft IFRICs, the Group has reassessed whether the balance of risk and rewards derived from the underlying assets in its PFI contracts are borne by the Group. In absence of specific guidance within IFRS, the Group has reclassified assets relating to PFI contracts as financial assets as defined by IAS39.

The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2005. Accounting standards and interpretations in issue at the date of authorisation of these financial statements but not yet effective are not expected to have a material impact on the financial statements of the Group.

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 amount, event or actions, actual results ultimately may differ from those estimates. The most significant judgements made relate to assumptions concerning discount rates, future returns on assets and future contribution rates in connection with the Group's retirement benefit obligations (see note 21). In making these assumptions, the Group takes advice from qualified actuaries. Other significant judgements made relate to provisions (see notes 1(o) and (p)) and PFI contracts (see note 1(d)).

#### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Shanks Group plc and all its subsidiary undertakings (subsidiaries). Entities which are jointly controlled with another party or parties (joint ventures) are incorporated in the financial statements by proportional consolidation. The results of subsidiaries and joint ventures acquired or sold during the year are included in the consolidated financial statements up to, or from, the date control passes.

Wholly owned subsidiary companies set up under PFI contracts are fully consolidated by the Group.

#### (d) PFI contracts

The Group's PFI contracts are all Integrated Waste Management contracts. In these contracts, the existing Local Authority waste management operations are operated by the Group from inception of the contract. The PFI contract requires the building of new infrastructure to add to that inherited from the previous service provider 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 accounts for the service element as revenue and the repayment element is deducted from the financial asset. Interest receivable is added to the financial asset based on the rate implied in the contract payments from the Local Authority. Reviews are undertaken regularly to ensure that the financial asset will be recovered over the contract life.

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.

## notes to the financial statements.

continued

### 1 Accounting policies – continued

#### (e) Revenue

Revenue represents the invoiced value of waste streams processed and other services provided including landfill tax but excluding sales taxes. Revenue is recognised when processing occurs or when the service is provided.

#### (f) Share based payments

IFRS2 – Share Based Payments has been applied to grants of equity instruments after 7 November 2002 which had not vested as of 1 April 2005. The fair value of options granted is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Adjustments to the amounts expensed are only made in respect of non-market related factors.

#### (g) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

#### (h) Intangible assets

##### (i) Goodwill

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Capitalised goodwill is reviewed for impairment on an annual basis. Any impairment is charged immediately to the income statement and is not subsequently reversed.

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.

The profit or loss on disposal or closure of a business is calculated after taking into account any goodwill excluding amounts previously written off to reserves prior to 1998.

##### (ii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives (1 to 3 years) on a straight-line basis.

##### (iii) Other intangibles

Other acquired intangible assets are capitalised on the basis of costs incurred, and are amortised over the estimated useful life (up to 20 years) on a straight line basis.

#### (i) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation, except for freehold land, which is not depreciated, and less provision for any impairment.

##### (i) Buildings, plant and equipment:

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 equipment lives are:

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

##### (ii) Landfill sites:

Acquisition costs, commissioning costs, 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.



**1 Accounting policies – continued****(j) Impairment of assets**

Assets subject to amortisation or depreciation are reviewed for impairment whenever the 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.

**(k) Leased assets****(i) 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 creditors. Depreciation is provided to write off the assets over the expected useful life.

**(ii) 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 26 to the accounts.

**(l) Inventories**

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

**(m) Government grants and subsidies**

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

**(n) Unprocessed waste**

The accrual for the cost of treating unprocessed waste is calculated at the higher of sales value or processing cost.

**(o) 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 as property, plant and equipment. In addition the Group continues to provide for the NPV of intermediate restoration costs over the life of its landfill sites, based on the quantity of waste deposited in the year.

**(p) Aftercare provision**

Provision is made for the NPV of post closure costs at its 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.

**(q) 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%.

**(r) Retirement benefits**

The Group accounts for pensions and similar benefits under the amended IAS19 – 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 recognised income and expense. Payments to defined contribution schemes are charged to the income statement as they become due. Multi-employer schemes are accounted for as defined contribution plans where it is not possible to split the assets and liabilities of the schemes between participating companies and the Group has no obligation to make additional contributions in the event of any overall deficit.

## notes to the financial statements.

continued

### 1 Accounting policies – continued

#### (s) Tax

##### (i) 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 substantially enacted, by the balance sheet date.

##### (ii) 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 taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited through the statement of recognised income and expense or directly to reserves, when it is charged or credited there.

#### (t) 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 subsidiaries 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 is disposed of. The Group applies the hedge accounting principles of IAS39 – 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.

#### (u) Financial Instruments

##### (i) Trade receivables

Trade receivables do not carry interest and are stated at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

##### (ii) Financial assets relating to PFI contracts

Financial assets relating to PFI contracts are initially recognised at fair value of the consideration paid and subsequently amortised using the effective interest rate method.

##### (iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less.

##### (iv) External borrowings

Interest bearing bank loans 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.

##### (v) Trade payables

Trade payables on normal terms are not interest bearing and are stated at their nominal value.

##### (vi) Derivative financial instruments

As part of the Group's PFI contracts, the Group has a number of interest rate swaps. These swaps are measured at fair value at each reporting date with the gains or losses between period ends being taken to finance charges in the income statement.

##### (vii) Other receivables and other payables

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

**1 Accounting policies – continued****(v) Dividends**

Dividends are accounted for on a cash basis and are not accrued in the balance sheet.

**(w) Segment reporting**

The Group operates in one business, Waste Management, and is divided by geography for management reporting and control. Components that make up the primary segmental analysis provided in the financial statements are the United Kingdom, Belgium, the Netherlands and Central Services. No secondary segmental analysis is provided as the primary segmental analysis follows the geographical split.

**2 Segmental reporting**

Waste management business shown by management responsibility and geographical area:

		2006 £m	2005 £m
<b>(a) Continuing operations</b>			
Revenue	United Kingdom	126.1	126.2
	Belgium	110.2	102.2
	Netherlands	206.2	192.0
	Total revenue	442.5	420.4
	Group	429.9	410.2
	Share of joint ventures	12.6	10.2
Total revenue		442.5	420.4
Trading profit*	United Kingdom	4.1	(1.5)
	Belgium	15.7	16.6
	Netherlands	23.5	24.3
	Central Services	(4.4)	(3.4)
	Total trading profit	38.9	36.0
	Group	35.7	34.1
	Share of joint ventures	3.2	1.9
Total trading profit		38.9	36.0
Restructuring costs (United Kingdom)		-	(10.5)
Total operating profit		38.9	25.5
Operating profit	United Kingdom	4.1	(12.0)
	Belgium	15.7	16.6
	Netherlands	23.5	24.3
	Central Services	(4.4)	(3.4)
Total operating profit		38.9	25.5
Finance charges	Interest payable and other	(12.7)	(10.7)
	Interest receivable	7.8	5.4
	Change in fair value of financial instruments	(3.7)	(0.5)
Total finance charges		(8.6)	(5.8)
Profit before tax from continuing operations		30.3	19.7
Tax		(10.5)	(7.1)
<b>Profit after tax for the year from continuing operations</b>		<b>19.8</b>	<b>12.6</b>

\*trading profit excludes restructuring costs as these are an unusual occurrence, unlikely to recur in the near future. Their exclusion allows for better comparability between the years presented.

Intersegment sales are not significant.

The Company operates solely in the United Kingdom providing Central Services.

# notes to the financial statements.

continued

## 2 Segmental reporting – continued

		2006 £m	2005 £m
<b>(b) Discontinued operations</b>			
Revenue	United Kingdom	18.4	78.5
	Netherlands	4.9	11.1
Total revenue		23.3	89.6
Operating profit	United Kingdom	0.7	7.1
	Netherlands	(0.3)	–
Total operating profit		0.4	7.1
Profit on disposal of operations (United Kingdom)		8.7	59.4
Finance charges	Interest payable	(0.6)	(3.5)
	Other – discount unwind	–	(0.5)
Total finance charges		(0.6)	(4.0)
Profit before tax from discontinued operations		8.5	62.5
Tax credit		2.1	2.5
<b>Profit after tax for the year from discontinued operations</b>		<b>10.6</b>	<b>65.0</b>

Interest payable has been allocated to discontinued operations by applying the average external interest rate to the net operating assets employed.

		At 31 March 2006 £m	At 31 March 2005 £m
<b>(c) Analysis of net assets</b>			
United Kingdom	Gross assets	175.0	163.9
	Gross liabilities	(50.9)	(73.2)
	Net operating assets	124.1	90.7
Belgium	Gross assets	73.8	70.0
	Gross liabilities	(42.4)	(39.2)
	Net operating assets	31.4	30.8
Netherlands	Gross assets	307.9	302.3
	Gross liabilities	(47.8)	(50.5)
	Net operating assets	260.1	251.8
Central Services	Gross assets	0.6	3.6
	Gross liabilities	(9.4)	(6.5)
	Net operating assets	(8.8)	(2.9)
Total	Gross assets	557.3	539.8
	Gross liabilities	(150.5)	(169.4)
Net operating assets		406.8	370.4
Corporation tax		(6.9)	(1.2)
Deferred tax		(2.5)	(1.5)
Net debt		(188.8)	(178.7)
<b>Net assets</b>		<b>208.6</b>	<b>189.0</b>

**2 Segmental reporting – continued**

		2006 £m	2005 £m
<b>(d) Other disclosures</b>			
United Kingdom	Capital expenditure	4.3	3.9
	Depreciation	5.8	12.8
	Amortisation of intangibles	–	–
Belgium	Capital expenditure	6.8	8.2
	Depreciation	6.9	6.4
	Amortisation of intangibles	–	–
Netherlands	Capital expenditure	20.8	24.2
	Depreciation	18.1	16.9
	Amortisation of intangibles	0.5	0.8
Total	Capital expenditure	31.9	36.3
	Depreciation	30.8	36.1
	Amortisation of intangibles	0.5	0.8

**3 Operating profit**

Group operating profit is stated after charging (crediting):

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Staff costs (see note 4)	107.1	118.6	2.3	2.2
Depreciation of property, plant and equipment				
– Owned assets	28.7	33.7	–	0.1
– Held under finance leases	2.1	2.4	–	–
Impairment of property, plant and equipment, and intangible assets (included in restructuring costs)	–	3.3	–	–
Amortisation of intangible assets	0.5	0.8	–	–
Net profit on disposal of property, plant and equipment	(1.3)	(1.4)	–	–
Net profit on disposal of subsidiary undertakings	–	–	2.5	107.3
Operating lease rentals payable				
– Plant and machinery	8.3	6.0	–	–
– Property	2.8	4.2	–	–
Repairs and maintenance expenditure on property, plant and equipment	25.5	22.8	–	–
Trade receivables impairment	1.0	1.6	–	–
Government grants	(0.1)	(0.1)	–	–
Restructuring costs (including £3.3m impairment of intangible assets and property, plant and equipment)	–	10.5	–	0.1
Auditors' remuneration:				
– Statutory audit	0.5	0.5	0.1	0.1
– Audit – related regulatory reporting	0.2	–	0.2	–
– Tax – compliance services	0.2	0.2	0.2	0.2
– Tax – advisory services	0.3	0.2	0.3	0.2
– Other services not covered above	–	–	–	–

The Group's restructuring costs of £10.5m in the year to 31 March 2005 related to the integration and reorganisation of the Group's business in the United Kingdom. It included £3.3m for the impairment of intangible assets and property, plant and equipment. The remaining charge related to redundancies and other closure costs. This charge increased the deferred tax credit by £3.1m. It had no effect on the current tax charge.

The Company incurred exceptional restructuring costs of £0.1m in the year to 31 March 2005 related to the integration and reorganisation of the Group's business in the United Kingdom. The Company received other operating income of £2.5m in the year to 31 March 2006 which included £1.6m on the disposal of the United Kingdom hazardous waste business, and £0.9m on the liquidation of subsidiary undertakings. In the year to 31 March 2005, the Company received other operating income of £107.3m relating to the disposal of the United Kingdom landfill and power subsidiary undertakings. There was no tax relating to the net profit on disposal of subsidiary undertakings.

In addition to the auditors' remuneration stated above a further £0.6m was incurred within the profit on disposal of operations by the Group and the Company in 2005 relating to transaction support services.

## notes to the financial statements.

continued

### 4 Employees

	2006 Number	2006 Number
The average number of persons employed by the Group during the year was as follows:		
United Kingdom	706	1,348
Belgium	975	967
Netherlands	1,774	1,803
Central Services	15	13
	<b>3,470</b>	<b>4,131</b>

	2006 £m	2005 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	86.1	96.7
Employer's social security costs	14.8	15.5
Employer's pension costs	6.2	6.4
	<b>107.1</b>	<b>118.6</b>

The disclosure above relates to the Group. The average number of persons employed by the Company was 15 (2005: 13), with the related wages and salaries costs, employer's social security costs and employers pension costs amounting to £1.5m (2005: £1.6m), £0.3m (2005: £0.2m) and £0.5m (2005: £0.4m) respectively.

### 5 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), an Executive Share Option Scheme (ESOS) and a Long Term Incentive Plan (LTIP) for key executives.

#### (a) Outstanding options

	SRSOS		ESOS		LTIP	
	Options No	Weighted average exercise price pence	Options No	Weighted average exercise price pence	Options No	Weighted average exercise price pence
Outstanding at 31 March 2004	3,002,636	112p	5,385,000	169p	1,143,000	114p
Granted during the year	389,350	92p	645,000	113p	515,000	115p
Forfeited during the year	(1,374,367)	112p	(1,238,000)	187p	(131,000)	124p
Exercised during the year	(65,310)	108p	(56,000)	102p	–	–
Outstanding at 31 March 2005	1,952,309	108p	4,736,000	158p	1,527,000	113p
Granted during the year	157,136	131p	615,000	144p	540,000	145p
Forfeited during the year	(938,845)	117p	(1,580,000)	163p	(351,000)	135p
Exercised during the year	(240,662)	107p	(216,000)	136p	–	–
<b>Outstanding at 31 March 2006</b>	<b>929,938</b>	<b>103p</b>	<b>3,555,000</b>	<b>154p</b>	<b>1,716,000</b>	<b>119p</b>
Exercisable at 31 March 2006	2,950	172p	1,708,000	191p	–	–
Exercisable at 31 March 2005	98,632	190p	2,265,000	193p	–	–

At 31 March 2006:

Range of price per share	84p to 172p	102p to 234p	101p to 145p
Weighted average remaining contractual life	3 years	5 years	2 years

## 5 Share-based payments – continued

### (b) Fair value of options

Valuation model	SRSOS		ESOS		LTIP	
	2006 Black-Scholes	2005 Black-Scholes	2006 Black-Scholes	2005 Black-Scholes	2006 Binomial	2005 Binomial
Weighted average fair value	56p	36p	36p	30p	79p	61p
Weighted average share price	172p	112p	144p	113p	145p	115p
Weighted average exercise price	131p	92p	144p	113p	–	–
Expected volatility	35%	35%	35%	35%	35%	35%
Expected life	3 years	5 years	5 years	5 years	3 years	3 years
Risk free rate	4.1%	4.8%	4.1%	5.0%	4.1%	5.0%
Dividend yield	3.4%	4.0%	4.0%	4.0%	–	–
Expected dividends	–	–	–	–	1.9p/3.8p	1.9p/3.8p
Correlation	–	–	–	–	6%	7%

Expected volatility was determined by calculating the historical volatility of the Company's share price over 3, 5 and 7 years prior to the date of grant. The risk-free interest rate is based on the term structure of UK Government zero coupon bonds. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### (c) Charge for the year

The Group and the Company recognised total expenses of £0.5m (2005: £0.1m) related to equity-settled share-based payments.

## 6 Finance charges

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Continuing operations</b>				
<b>Interest payable and other:</b>				
Interest payable on bank loans and overdrafts repayable within five years	5.4	5.6	3.6	6.8
Interest payable on other loans	6.5	4.3	5.2	8.1
Share of interest of joint ventures	0.1	0.2	–	–
Unwinding of discount on long term landfill liabilities	0.3	0.3	–	–
Amortisation of bank fees	0.4	0.3	0.4	0.2
Total interest payable	12.7	10.7	9.2	15.1
<b>Interest receivable:</b>				
Interest receivable	(2.2)	(2.4)	(2.1)	(1.4)
Interest receivable on financial assets relating to PFI contracts	(5.6)	(3.0)	–	–
Total interest receivable	(7.8)	(5.4)	(2.1)	(1.4)
<b>Change in fair value of financial instruments</b>	3.7	0.5	–	–
<b>Net finance charges</b>	8.6	5.8	7.1	13.7
<b>Discontinued operations</b>				
<b>Interest payable and other:</b>				
Interest payable on bank loans and overdrafts repayable within five years	0.6	3.5	–	–
Unwinding of discount on long term landfill liabilities	–	0.5	–	–
Total interest payable	0.6	4.0	–	–

The change in fair value of financial instruments relates to interest rate swaps that the group has entered into in relation to its PFI contracts' financing arrangements.

## notes to the financial statements.

continued

### 7 Tax

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

		Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Current tax:	UK corporation tax at 30% (2005: 30%)				
	– Current year	<b>1.9</b>	3.4	<b>(2.5)</b>	(2.4)
	– Prior year	<b>(3.2)</b>	(0.3)	<b>(1.7)</b>	0.7
	Double tax relief	<b>(2.2)</b>	(2.8)	–	–
	Overseas tax				
	– Current year	<b>10.7</b>	7.6	–	–
	– Prior year	<b>(0.1)</b>	1.2	–	–
Total current tax		<b>7.1</b>	9.1	<b>(4.2)</b>	(1.7)
Deferred tax (see note 14)					
	– Current year	<b>1.6</b>	(3.8)	<b>1.6</b>	0.1
	– Prior year	<b>(0.3)</b>	(0.7)	–	–
Total deferred tax		<b>1.3</b>	(4.5)	<b>1.6</b>	0.1
Tax charge (credit) for the year		<b>8.4</b>	4.6	<b>(2.6)</b>	(1.6)
Total tax charge (credit) – continuing operations		<b>10.5</b>	7.1	<b>(2.6)</b>	(1.6)
Total tax credit – discontinued operations		<b>(2.1)</b>	(2.5)	–	–
		<b>8.4</b>	4.6	<b>(2.6)</b>	(1.6)

The tax assessed for the year is lower than the United Kingdom standard rate of tax of 30% (2005: 30%). The differences are explained below:

		Group		Company	
		2006 £m	2005 £m	2006 £m	2005 £m
Profit (loss) before tax – continuing operations		<b>30.3</b>	19.7	<b>(8.1)</b>	90.3
Profit before tax – discontinued operations		<b>8.5</b>	62.5	–	–
		<b>38.8</b>	82.2	<b>(8.1)</b>	90.3
Tax charge (credit) based on UK tax rate		<b>11.6</b>	24.7	<b>(2.4)</b>	27.1
Effects of:					
	Adjustment to tax charge in respect of prior periods	<b>(3.9)</b>	0.2	<b>(1.7)</b>	(0.2)
	Profits taxed at overseas tax rates	<b>1.8</b>	(2.8)	–	–
	Non-taxable items	<b>(3.6)</b>	(20.6)	<b>(0.1)</b>	(32.3)
	Unrecognised tax losses	<b>1.9</b>	3.1	<b>1.6</b>	2.6
	Other	<b>0.6</b>	–	–	1.2
Tax charge (credit) for the year		<b>8.4</b>	4.6	<b>(2.6)</b>	(1.6)

For both the Group and the Company, in addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations and share based payments amounting to £0.1m (2005: £Nil) has been credited directly to equity.



## 8 Dividends

	Group and Company	
	2006 £m	2005 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2005 of 3.8p per ordinary share (2004: 3.8p)	8.9	8.9
Interim dividend paid for the year ended 31 March 2006 of 1.9p per ordinary share (2005: 1.9p)	4.5	4.4
	<b>13.4</b>	<b>13.3</b>
Proposed final dividend for the year ended 31 March 2006 of 3.8p per share (2005: 3.8p)	8.9	8.9

## 9 Earnings per share

	Group	
	2006	2005
<b>Number of shares</b>		
Weighted average number of ordinary shares for basic earnings per share	<b>234.3</b>	234.1
Effect of share options in issue	<b>0.8</b>	0.6
Weighted average number of ordinary shares for diluted earnings per share	<b>235.1</b>	234.7
<b>Calculation of basic and adjusted basic earnings per share</b>		
Earnings for basic earnings per share being profit for the year (£m)	<b>30.4</b>	77.6
Earnings from discontinued operations being profit for the year from discontinued operations (£m)	<b>(10.6)</b>	(65.0)
Earnings for basic earnings per share being profit for the year from continuing operations (£m)	<b>19.8</b>	12.6
Restructuring costs (net of tax) (£m)	-	7.4
Change in fair value of financial instruments (net of tax) (£m)	<b>2.6</b>	0.4
Earnings for adjusted basic earnings per share (£m)	<b>22.4</b>	20.4
<b>Basic earnings per share (pence)</b>	<b>13.0p</b>	33.1p
<b>Basic earnings per share from continuing operations (pence)</b>	<b>8.5p</b>	5.4p
<b>Basic earnings per share from discontinued operations (pence)</b>	<b>4.5p</b>	27.7p
<b>Adjusted basic earnings per share (pence) (see note below)</b>	<b>9.6p</b>	8.7p
<b>Calculation of diluted earnings per share</b>		
Earnings for basic earnings per share being profit for the year (£m)	<b>30.4</b>	77.6
Effect of dilutive potential ordinary shares (£m)	-	-
Earnings for diluted earnings per share (£m)	<b>30.4</b>	77.6
Earnings from discontinued operations (£m)	<b>(10.6)</b>	(65.0)
Earnings for diluted earnings per share from continuing operations (£m)	<b>19.8</b>	12.6
Diluted earnings per share (pence)	<b>12.9p</b>	33.1p
Diluted earnings per share on continuing operations (pence)	<b>8.4p</b>	5.4p
Diluted earnings per share on discontinued operations (pence)	<b>4.5p</b>	27.7p

The Directors believe that adjusting earnings per share for the effect of 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. Restructuring costs have been excluded as they are an unusual occurrence unlikely to recur in the near future. Changes in fair values of financial instruments on interest rate swaps that the Group is required to enter into in relation to its PFI arrangements are excluded as they do not reflect commercial reality.

## notes to the financial statements.

continued

### 10 Intangible assets

Group	Goodwill £m	Other £m	Total £m
<b>Cost</b>			
At 31 March 2004	171.2	4.0	175.2
Acquisitions/additions	(0.1)	0.3	0.2
Disposals	(35.5)	–	(35.5)
Exchange	3.9	0.1	4.0
At 31 March 2005	139.5	4.4	143.9
Acquisitions/additions	1.2	1.3	2.5
Disposals	–	(0.6)	(0.6)
Exchange	1.8	0.1	1.9
<b>At 31 March 2006</b>	<b>142.5</b>	<b>5.2</b>	<b>147.7</b>
<b>Accumulated impairment/amortisation</b>			
At 31 March 2004	–	2.0	2.0
Amortisation charge for the year	–	0.8	0.8
Impairment charge for the year	–	0.5	0.5
Exchange	–	0.1	0.1
At 31 March 2005	–	3.4	3.4
Amortisation charge for the year	–	0.5	0.5
Disposals	–	(0.6)	(0.6)
<b>At 31 March 2006</b>	<b>–</b>	<b>3.3</b>	<b>3.3</b>
<b>Net book value</b>			
<b>At 31 March 2006</b>	<b>142.5</b>	<b>1.9</b>	<b>144.4</b>
At 31 March 2005	139.5	1.0	140.5
At 31 March 2004	171.2	2.0	173.2

#### Goodwill impairment

Impairment testing is carried out at segment level on an annual basis. The Group estimates the recoverable amount of goodwill using projected cashflows for the next twenty years discounted at the Group's estimated average cost of capital of 9%. The cashflows are based on projections prepared by management covering a five year period, and include no growth assumptions after the end of the current five year projection. The projections also assume that the current five year plan is achieved. The calculations use effective tax rates specific to each separate segment.

The carrying value of the Group's most significant balance of goodwill relates to the Netherlands and is £129.9m (2005: £127.4m).

#### Other intangible assets impairment

During the year there has been no indication of any impairment. Accordingly, no impairment review has been carried out. The impairment loss on other intangible assets of £0.5m for the year ended 31 March 2005 arose in connection with the integration and reorganisation of the Group's business in the United Kingdom.

**11 Property, plant and equipment**

Group	Land and buildings £m	Landfill sites £m	Plant and machinery £m	Total £m
<b>Cost</b>				
At 31 March 2004	102.5	216.5	440.1	759.1
On acquisition of businesses	–	1.2	–	1.2
Additions	9.7	2.2	24.4	36.3
On disposal of businesses	(10.9)	(179.9)	(82.4)	(273.2)
Disposals	(1.7)	(0.2)	(20.2)	(22.1)
Exchange	2.5	0.8	6.7	10.0
At 31 March 2005	102.1	40.6	368.6	511.3
On acquisition of businesses	–	–	0.9	0.9
Additions	6.4	1.0	24.5	31.9
On disposal of businesses	(5.3)	–	(84.9)	(90.2)
Disposals	(0.2)	–	(14.5)	(14.7)
Reclassification	0.1	0.9	1.5	2.5
Exchange	1.3	0.4	3.6	5.3
<b>At 31 March 2006</b>	<b>104.4</b>	<b>42.9</b>	<b>299.7</b>	<b>447.0</b>
<b>Accumulated depreciation</b>				
At 31 March 2004	27.1	105.2	269.0	401.3
Depreciation charge for the year	4.7	4.2	27.2	36.1
Impairment charge for the year	–	–	2.8	2.8
On disposal of businesses	(5.6)	(76.3)	(38.6)	(120.5)
Disposals	(0.3)	–	(16.3)	(16.6)
Exchange	0.8	0.8	4.2	5.8
At 31 March 2005	26.7	33.9	248.3	308.9
Depreciation charge for the year	3.8	1.0	26.0	30.8
On disposal of businesses	(2.6)	–	(65.7)	(68.3)
Disposals	(0.1)	–	(12.8)	(12.9)
Reclassification	0.2	(4.4)	5.9	1.7
Exchange	0.4	0.3	2.5	3.2
<b>At 31 March 2006</b>	<b>28.4</b>	<b>30.8</b>	<b>204.2</b>	<b>263.4</b>
<b>Net book value</b>				
<b>At 31 March 2006</b>	<b>76.0</b>	<b>12.1</b>	<b>95.5</b>	<b>183.6</b>
At 31 March 2005	75.4	6.7	120.3	202.4
At 31 March 2004	75.4	111.3	171.1	357.8

The impairment charge on plant and machinery of £2.8m for the year ended 31 March 2005 arose in connection with the integration and reorganisation of the Group's business in the United Kingdom.

Included in plant and machinery are assets held under finance leases with a net book value of £11.7m (2005: £12.5m).

Depreciation expense of £29.9m (2005: £35.8m) has been charged in cost of sales, and £0.9m (2005: £0.3m) in administrative expenses.

## notes to the financial statements.

continued

### 11 Property, plant and equipment – continued

<b>Company</b>	<b>Land and buildings £m</b>	<b>Plant and machinery £m</b>	<b>Total £m</b>
<b>Cost</b>			
At 31 March 2004	0.5	0.4	0.9
Disposals	(0.4)	–	(0.4)
At 31 March 2005	0.1	0.4	0.5
Additions	–	0.1	0.1
<b>At 31 March 2006</b>	<b>0.1</b>	<b>0.5</b>	<b>0.6</b>
<b>Accumulated depreciation</b>			
At 31 March 2004	–	0.3	0.3
Depreciation charge for the year	–	0.1	0.1
At 31 March 2005	–	0.4	0.4
Depreciation charge for the year	–	–	–
<b>At 31 March 2006</b>	<b>–</b>	<b>0.4</b>	<b>0.4</b>
<b>Net book value</b>			
<b>At 31 March 2006</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
At 31 March 2005	0.1	–	0.1
At 31 March 2004	0.5	0.1	0.6

**12 Investments**

	Loans to joint ventures £m	Group Other unlisted investments £m	Company Investments in subsidiary undertakings £m
At 31 March 2004	1.6	1.3	329.8
Additions	–	–	78.9
Disposals	–	–	(20.5)
Impairment provision	–	–	(22.4)
At 31 March 2005	1.6	1.3	365.8
Additions	–	1.0	–
Repayment	(1.0)	–	–
<b>At 31 March 2005</b>	<b>0.6</b>	<b>2.3</b>	<b>365.8</b>

Details of subsidiary undertakings and joint ventures are shown on page 70 and form part of these financial statements.

The additions for the Company in 2005 related to the intercompany transfer and increased capitalisation of Shanks Waste Management Limited, and the purchase of WRG Environmental Limited (formerly Caird Environmental Limited). The disposals for the Company during 2005 related to WRG (Management) Limited (formerly Shanks & McEwan (Waste Services) Limited) and WRG Environmental Limited.

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

	2006 £m	2005 £m
Non-current assets	<b>11.5</b>	11.8
Current assets	<b>4.4</b>	3.2
Current liabilities	<b>(7.1)</b>	(5.6)
Non-current liabilities	<b>(1.0)</b>	(3.8)
Net assets	<b>7.8</b>	5.6
Income	<b>12.6</b>	10.2
Expenses	<b>(9.5)</b>	(8.5)
Profit before tax	<b>3.1</b>	1.7
Tax	<b>(1.0)</b>	(0.6)
Share of profit after tax for the year from joint ventures	<b>2.1</b>	1.1

The joint ventures 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 joint ventures.

The share of capital commitments of the joint ventures are shown in note 25.

## notes to the financial statements.

continued

### 13 Acquisitions and disposals

- (a) During the year the Group completed its evaluation of the businesses acquired in the year ended 31 March 2005. No adjustments to the provisional fair values and goodwill arose following this evaluation.
- (b) During the year the Group completed the acquisition of a number of tuck-in businesses. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the businesses, were as follows:

	Book value £m	Fair value £m	Total value £m
Intangible assets	0.4	0.7	1.1
Property, plant and equipment	0.9	–	0.9
Other investments	1.0	–	1.0
	2.3	0.7	3.0
Provisional goodwill			1.2
Cash consideration (net of costs)			4.2

- (c) In September 2005, the Group disposed of its United Kingdom hazardous waste business. In November 2005 the Group disposed of its Netherlands computer refurbishment operation (Flection). The book value of the net assets disposed of were as follows:

	Hazardous Waste £m	Flection £m	Total £m
Property, plant and equipment	21.7	0.2	21.9
Inventories	1.1	0.8	1.9
Trade receivables	1.2	1.1	2.3
Trade payables	–	(0.8)	(0.8)
Net assets disposed of	24.0	1.3	25.3
Net profit on disposal	8.7	–	8.7
Estimated cash consideration (net of costs)	32.7	1.3	34.0
Satisfied by:			
Cash	28.0	0.4	28.4
Deferred consideration	4.7	0.9	5.6
Estimated cash consideration (net of costs)	32.7	1.3	34.0

The effect of the disposals on the income statement is disclosed in note 2(b).

The disposed businesses contributed £1.2m (2005: £14.3m) to the cash flows from operating activities, £1.2m outflow (2005: £0.9m outflow) to cash flows from investing activities and £0.6m (2005: £3.5m) to cash flows from financing activities.

#### 14 Deferred tax

Deferred tax is calculated 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 obligations £m	Tax losses £m	Interest rate swaps £m	Capital allowances £m	Other timing differences £m	Total £m
At 31 March 2004	8.2	2.3	1.0	(25.4)	1.7	(12.2)
Acquisitions	–	–	–	–	1.6	1.6
Disposals	–	–	–	8.5	(3.5)	5.0
(Charge) credit to income statement	(0.1)	(0.3)	0.1	(1.6)	6.4	4.5
Exchange	–	–	–	(0.5)	0.1	(0.4)
At 31 March 2005	8.1	2.0	1.1	(19.0)	6.3	(1.5)
Disposals	–	–	–	0.3	–	0.3
(Charge) credit to income statement	(1.8)	4.3	1.1	(3.8)	(1.1)	(1.3)
(Charge) credit to equity	0.2	–	–	–	(0.1)	0.1
Exchange	–	–	–	(0.1)	–	(0.1)
<b>At 31 March 2006</b>	<b>6.5</b>	<b>6.3</b>	<b>2.2</b>	<b>(22.6)</b>	<b>5.1</b>	<b>(2.5)</b>
<b>Deferred tax assets</b>						<b>15.0</b>
<b>Deferred tax liabilities</b>						<b>(17.5)</b>
<b>At 31 March 2006</b>						<b>(2.5)</b>
Deferred tax assets						12.3
Deferred tax liabilities						(13.8)
At 31 March 2005						(1.5)

As at 31 March 2006, the Group has unused trading losses (tax effect) of £10.5m (2005: £7.7m) available for offset against future profits. A deferred tax asset has been recognised in respect of £6.3m (2005: £2.0m) of such losses. No deferred tax asset has been recognised in respect of the remaining £4.2m (2005: £5.7m) 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 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.

Company	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 31 March 2004	8.2	–	8.2
Charge to income statement	(0.1)	–	(0.1)
At 31 March 2005	8.1	–	8.1
Credit (charge) to income statement	(1.8)	0.2	(1.6)
Credit to equity	0.2	(0.2)	–
<b>At 31 March 2006</b>	<b>6.5</b>	<b>–</b>	<b>6.5</b>

As at 31 March 2006, the Company has unused trading losses (tax effect) of £4.2m (2005: £2.6m) available for offset against future profits. No deferred tax asset has been recognised in respect of the losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

## notes to the financial statements.

continued

### 15 Inventories

	Group	
	2006 £m	2005 £m
Raw materials and consumables	4.6	5.6
Work in progress	3.7	2.6
Finished goods	0.7	1.1
	<b>9.0</b>	<b>9.3</b>

### 16 Trade and other receivables

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
<b>Non-current assets:</b>				
Financial assets relating to PFI contracts	119.9	75.6	-	-
Other receivables	0.2	-	-	-
	<b>120.1</b>	<b>75.6</b>	<b>-</b>	<b>-</b>
<b>Current assets:</b>				
Trade receivables	88.2	101.1	-	-
Provision for impairment of receivables	(4.0)	(4.6)	-	-
Trade receivables – net	84.2	96.5	-	-
Amounts owed by subsidiary undertakings	-	-	40.8	55.4
Other receivables	6.2	7.6	0.2	0.1
Prepayments and accrued income	6.9	5.0	-	-
	<b>97.3</b>	<b>109.1</b>	<b>41.0</b>	<b>55.5</b>

At 31 March 2006 the financial assets relating to PFI contracts bore interest at a weighted average rate of 6.2% (2005: 6.2%). The financial assets will be recovered over the term of the contracts with the latest repayment in November 2029. In the opinion of the Directors, the fair value of trade and other receivables is not materially different to their carrying values.

### 17 Cash and cash equivalents

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Cash at bank and in hand	19.2	24.9	-	8.3
Short term deposits	40.2	7.6	40.2	7.6
	<b>59.4</b>	<b>32.5</b>	<b>40.2</b>	<b>15.9</b>

The effective interest rate on short term deposits was 4.5% (2005: 4.7%), and the deposits have an average maturity of 25 days (2005: 1 day)

The fair value of cash and cash equivalents is not materially different to their carrying values.

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

	Group		Company	
Currency	2006 £m	2005 £m	2006 £m	2005 £m
Sterling	49.6	19.9	40.2	15.9
Euro	9.5	10.6	-	-
Dollar	0.3	2.0	-	-
	<b>59.4</b>	<b>32.5</b>	<b>40.2</b>	<b>15.9</b>



## 18 Borrowings and derivative financial instruments

### (a) Financial risk management objectives and policies

#### (i) Risk

The Group is exposed to a number of financial risks, of which the most significant are set out below. Risk management is carried out by Group Treasury under policies approved by the Board of Directors.

##### Foreign exchange risk

The Group operates in Europe and is exposed to foreign exchange risk for movements in the Euro and Sterling. Foreign exchange risk arises mainly from net investments in foreign operations. This exposure is managed primarily through Euro denominated borrowings. The Group applies hedge accounting principles to net investments in foreign operations and the related borrowings (see note 1(t)).

##### Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from long term borrowings issued at variable rates to finance PFI contracts. In order to reduce funding risk and maintain interest cover, the Group manages the risk by using floating-to-fixed interest rate swaps over the period of the borrowing. Under the swaps, the Group agrees to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts, calculated by reference to the agreed notional principal amount. Whilst the interest rate swaps represent a hedge of the interest cash flows and hedge accounting under IAS39 would allow changes in fair value of the interest rate swaps to be recognised directly in reserves, the Group believes that it is not worth expending significant resources fulfilling the onerous documentation requirements of IAS39. The interest rate swaps are therefore classified as held for trading in accordance with IAS39 (see accounting policy in note 1(u)). The swaps are presented in non-current liabilities together with the related long term borrowings since the Group believes this best reflects the commercial reality of the instruments.

The Group is exposed to fair value interest rate risk through the fixed interest rate on the Group's Senior Loan Notes and the fixed interest rate on finance leases.

##### Credit risk

The Group is not exposed to significant credit risk.

#### (ii) Fair value estimation

The fair value of interest swaps is measured by reference to the cost of foreclosing the swap position at the year end. The fair value of fixed interest liabilities is measured by reference to the present value of their future interest payments against equivalent current market rates.

## notes to the financial statements.

continued

### 18 Borrowings and derivative financial instruments – continued

#### (b) Borrowings

	Group		Company	
	2006	2005	2006	2005
	£m	£m	£m	£m
<b>Current borrowings:</b>				
Bank overdrafts and short term loans	7.9	–	6.5	8.6
Other loans	–	1.0	–	–
Finance lease obligations	3.0	3.0	–	–
	<b>10.9</b>	<b>4.0</b>	<b>6.5</b>	<b>8.6</b>
<b>Non-current borrowings:</b>				
Senior notes	36.0	35.5	10.9	10.8
Bank loans	185.7	158.6	84.6	92.8
Interest rate swaps	7.4	3.7	–	–
Finance lease obligations	8.2	9.4	–	–
	<b>237.3</b>	<b>207.2</b>	<b>95.5</b>	<b>103.6</b>
<b>Maturity of non-current borrowings:</b>				
Between one and two years	23.5	94.0	–	92.8
Between two years and five years	106.5	33.2	95.5	10.8
Over five years	107.3	80.0	–	–
	<b>237.3</b>	<b>207.2</b>	<b>95.5</b>	<b>103.6</b>

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

	2006			2005		
Group	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	3.5	(0.5)	3.0	3.6	(0.6)	3.0
Between one and five years	8.1	(0.7)	7.4	8.9	(0.6)	8.3
More than five years	0.9	(0.1)	0.8	1.3	(0.2)	1.1
	<b>12.5</b>	<b>(1.3)</b>	<b>11.2</b>	<b>13.8</b>	<b>(1.4)</b>	<b>12.4</b>

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.

The weighted average effective interest rates at the balance sheet dates were as follows:

	2006		2005	
Group	Sterling %	Euro %	Sterling %	Euro %
Bank overdraft (floating rate)	5.5	3.5	5.8	3.0
Senior notes (fixed rate)	–	6.9	–	6.9
Bank loans (floating rate)	–	3.4	–	2.8
Finance lease obligations	–	4.7	–	4.6

The weighted average effective interest rates relating to the Company were 5.5% (2005: 5.8%) for Sterling bank overdrafts, 6.9% (2005: 6.9%) for senior notes and 3.3% (2005: 2.8%) for bank loans.

**18 Borrowings and derivative financial instruments – continued****Currency profile of borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Sterling	<b>113.0</b>	70.1	<b>6.5</b>	8.6
Euro	<b>135.2</b>	141.1	<b>95.5</b>	103.6
	<b>248.2</b>	211.2	<b>102.0</b>	112.2

**Undrawn borrowing facilities**

<b>Group</b>	<b>Principal Group</b>		<b>PFI companies</b>		<b>Total Group</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Floating rate:						
Expiring within one year	<b>24.5</b>	28.6	–	–	<b>24.5</b>	28.6
Expiring between one and two years	–	7.2	–	–	–	7.2
Expiring in more than two years	<b>137.8</b>	–	<b>53.7</b>	92.2	<b>191.5</b>	92.2
	<b>162.3</b>	35.8	<b>53.7</b>	92.2	<b>216.0</b>	128.0

As at 31 March 2006, the Company had undrawn borrowing facilities at floating rates of £137.8m expiring in more than two years (2005: £7.2m expiring between one and two years).

**Security of borrowing facilities**

The Group's principal bank loans are unsecured but are subject to cross guarantees within the Group, excluding the PFI companies (see note 27). Each PFI Company has loan facilities which are secured by fixed and floating charges on its individual assets only.

**Fair values of financial liabilities**

<b>Group</b>	<b>2006</b>		<b>2005</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Bank overdrafts and short term loans	<b>7.9</b>	<b>7.9</b>	–	–
Other loans	–	–	1.0	1.0
Trade and other payables	<b>114.1</b>	<b>114.1</b>	125.7	125.7
Senior notes	<b>36.0</b>	<b>37.9</b>	35.5	38.5
Bank loans	<b>185.7</b>	<b>185.7</b>	158.6	158.6
Interest rate swaps	<b>7.4</b>	<b>7.4</b>	3.7	3.7
Other non-current liabilities	<b>0.7</b>	<b>0.7</b>	1.0	1.0
	<b>351.8</b>	<b>353.7</b>	325.5	328.5

The fair value of interest swaps is measured by reference to the cost of foreclosing the swap position at the year end. The fair value of fixed interest liabilities is measured by reference to the present value of their future interest payments against equivalent current market rates.

The fair value of financial liabilities for the Company is not materially different to the carrying value, except for the Senior Notes, which have a fair value of £11.4m (2005: £11.6m) compared with a carrying value of £10.9m (2005: £10.8m).

## notes to the financial statements.

continued

### 18 Borrowings and derivative financial instruments – continued

#### (c) Derivative financial instruments – interest rate swaps

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2006 was £128.2m (2005: £86.2m). At 31 March 2006 the fixed interest rates varied from 4.9% to 5.8% (2005: 4.9% to 5.8%) and floating rates were 4.6% for both (2005: 4.6% for both) (1 and 3 month LIBOR). The expiry dates of the swaps range from 1 April 2006 (earliest) to 31 March 2025 (latest).

#### (d) Hedge of net investment in foreign entity

The Group has Euro denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the Netherlands and Belgium. The fair value of Euro borrowings at 31 March 2006 was £97.2m (2005: £104.5m). The foreign exchange loss of £1.3m (2005: loss £3.1m) on translation of the borrowings into Sterling has been recognised in the exchange reserve.

### 19 Trade and other payables and other non-current liabilities

	Group		Company	
	2006	2005	2006	2005
	£m	£m	£m	£m
<b>Current liabilities:</b>				
Trade payables	52.6	66.2	0.2	0.2
Other tax and social security payable	10.3	9.8	–	0.1
Other creditors	6.2	4.7	0.5	0.3
Accruals and deferred income	37.4	37.4	2.4	1.0
Unprocessed waste	7.5	7.5	–	–
Government grants	0.1	0.1	–	–
	<b>114.1</b>	<b>125.7</b>	<b>3.1</b>	<b>1.6</b>
<b>Non-current liabilities:</b>				
Amounts owed to group undertakings	–	–	144.3	97.3
Amounts owed by joint ventures	0.6	0.9	–	–
Government grants	0.1	0.1	–	–
	<b>0.7</b>	<b>1.0</b>	<b>144.3</b>	<b>97.3</b>

**20 Provisions for liabilities and charges**

			<b>Group</b>	<b>Company</b>
	Site restoration and aftercare £m	Other £m	Total £m	Other £m
At 31 March 2005	17.8	8.0	25.8	5.9
Provided – cost of sales	0.7	0.1	0.8	–
Provided – finance charges	0.3	–	0.3	–
Provided – discontinued businesses	–	4.8	4.8	–
Reclassified	1.2	–	1.2	–
Utilised	(3.0)	(4.7)	(7.7)	(1.2)
Exchange	0.2	–	0.2	–
<b>At 31 March 2006</b>	<b>17.2</b>	<b>8.2</b>	<b>25.4</b>	<b>4.7</b>
<b>Current</b>	<b>2.3</b>	<b>6.8</b>	<b>9.1</b>	<b>4.4</b>
<b>Non-current</b>	<b>14.9</b>	<b>1.4</b>	<b>16.3</b>	<b>0.3</b>
<b>At 31 March 2006</b>	<b>17.2</b>	<b>8.2</b>	<b>25.4</b>	<b>4.7</b>
Current	4.9	7.0	11.9	5.5
Non-current	12.9	1.0	13.9	0.4
At 31 March 2005	17.8	8.0	25.8	5.9

**Site restoration**

Site restoration provision as at 31 March 2006 relates 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.

An element of the closing provision relates to costs of £2.3m that are expected to be paid next year. The remaining part of the provision relates to restoration costs that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

**Aftercare**

The total 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 thirty years from closure of the relevant landfill site.

**Other**

Other provisions principally cover onerous leases, warranties and indemnities. The net present value of the rental on vacant leasehold properties has been provided in full. These payments will be made over the next five years. Under the terms of the agreements for the disposal of the United Kingdom landfill and power and other United Kingdom operations, the Company has given a number of warranties and indemnities to the purchasers which may give rise to payments.

## notes to the financial statements.

continued

### 21 Retirement benefit obligations

#### (a) United Kingdom

The Group's and the Company's principal pension scheme is the Shanks Group Pension Scheme which covers eligible United Kingdom employees and has both funded defined benefit and defined contribution sections. In addition, the Group also has two small funded defined benefit schemes, which are included in the defined benefit pension scheme disclosures below. The total United Kingdom pension cost for the year was £1.9m (2005: £2.4m). 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 most recent actuarial valuations of the defined benefit pension schemes operated by the Group dated 5 April 2003 have been updated by independent qualified actuaries to take account of the requirements of IAS19 – Employee Benefits in order to assess the liabilities of these schemes at 31 March 2006. The main assumptions were as follows:

	2006 % pa	2005 % pa
Discount rate	4.9	5.4
Future salary growth	4.5	4.4
Rate of increase in pensions payment	2.9	2.8
Rate of price inflation	3.0	2.9

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

#### Income statement

		2006 £m	2005 £m
Operating profit:	Current service cost	1.5	2.4
	Past service cost	0.1	–
	Curtailement gain	(1.2)	(1.0)
		0.4	1.4
Other finance items:	Interest charge on scheme liabilities	4.7	4.5
	Expected return on scheme assets	(5.0)	(3.9)
		(0.3)	0.6
Net pension cost before tax		0.1	2.0

**21 Retirement benefit obligations – continued****Statement of recognised income and expense**

	2006 £m	2005 £m
Gain on actual return less expected return on scheme assets	<b>11.7</b>	1.8
Experience gain arising on scheme liabilities	–	0.8
Loss arising on changes in assumptions underlying the present value of the scheme liabilities	<b>(12.3)</b>	(2.5)
Actuarial (loss) gain	<b>(0.6)</b>	0.1

The cumulative amount of actuarial gains and losses on defined benefit pension schemes as at 31 March 2006 is £0.5m loss (2005: £0.1m gain).

**History of the weighted average experience gains and losses**

	2006	2005
Difference between actual and expected returns on assets:		
Amount (£m)	<b>11.7</b>	1.8
% of scheme assets	<b>12.4%</b>	2.5%
Experience gains on scheme liabilities:		
Amount (£m)	–	0.8
% of scheme liabilities	–	0.9%
Changes in assumptions on scheme liabilities:		
Amount (£m)	<b>(12.3)</b>	(2.5)
% of scheme liabilities	<b>11.8%</b>	2.8%
Total amount recognised in Statement of Recognised Income and Expense:		
Amount (£m)	<b>(0.6)</b>	0.1
% of scheme liabilities	<b>0.6%</b>	0.1%

**Balance Sheet**

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

	Expected long term rate of return		Net pension liability		Plan assets as % of total assets	
	2006 %pa	2005 %pa	2006 £m	2005 £m	2006 %	2005 %
Equities	<b>7.3</b>	7.8	<b>62.6</b>	47.6	<b>66.5</b>	66.5
Property	<b>6.3</b>	6.8	–	0.1	–	0.1
Government bonds	<b>4.3</b>	4.8	<b>30.8</b>	22.0	<b>32.8</b>	30.7
Corporate bonds	<b>4.7</b>	5.2	<b>0.4</b>	0.4	<b>0.4</b>	0.6
Cash	<b>4.4</b>	4.9	<b>0.3</b>	1.5	<b>0.3</b>	2.1
Total market value of assets			<b>94.1</b>	71.6	<b>100.0</b>	100.0
Present value of scheme liabilities			<b>(104.4)</b>	(88.5)		
Net deficit in the schemes			<b>(10.3)</b>	(16.9)		
Related deferred tax assets			<b>3.1</b>	5.1		
Net pension liability			<b>(7.2)</b>	(11.8)		

The overall expected rate of return on scheme assets is a weighted average of the expected rates on each asset class. The actual return on plan assets was £16.7m (2005: £5.7m).

## notes to the financial statements.

continued

### 21 Retirement benefit obligations – continued

#### Movement in plan assets and plan liabilities during the year

	Plan assets		Plan liabilities	
	2006 £m	2005 £m	2006 £m	2005 £m
At 1 April 2005	71.6	54.4	(88.5)	(82.6)
Current service cost	-	-	(1.5)	(2.4)
Past service cost	-	-	(0.1)	-
Curtailment gains	-	-	1.2	1.0
Expected return on plan assets	5.0	3.9	-	-
Interest cost on plan liabilities	-	-	(4.7)	(4.5)
Actual return less expected return on plan assets	11.7	1.8	-	-
Experience gains	-	-	-	0.8
Changes in assumptions	-	-	(12.3)	(2.5)
Employer contributions – regular	2.3	3.2	-	-
Employer contributions – special	5.0	10.0	-	-
Member contributions	0.7	1.0	(0.7)	(1.0)
Benefits paid	(2.2)	(2.7)	2.2	2.7
<b>At 31 March 2006</b>	<b>94.1</b>	<b>71.6</b>	<b>(104.4)</b>	<b>(88.5)</b>

The estimated contributions expected to be paid to the schemes during 2006/7 are £1.5m.

#### (b) Overseas

In the Netherlands, employees are members of industry wide defined benefit pension schemes. These schemes are treated as defined contribution schemes as it is not possible to separately identify the Group's share of the assets and liabilities of those schemes. No additional assets or liabilities have been recognised with regard to the schemes due to the uncertainty relating to the existence of contractual obligations for the Group to fund any deficit and due to the unavailability of reliable data to evaluate the existence and amount of such assets and liabilities. In Belgium, the Group operates a small defined contribution scheme. The total cost in the year for overseas pensions was £4.3m (2005: £3.7m).

### 22 Called up share capital

Group and Company	2006 £m	2005 £m
Authorised 350 million (2005: 350 million) ordinary shares of 10p each	35.0	35.0
Allotted, called up and fully paid 235 million (2005: 234 million) ordinary shares of 10p each	23.5	23.4

During the year 456,662 (2005: 121,310) ordinary shares were allotted following the exercise of options under the Company's Executive and Savings Related Share Option Schemes for an aggregate consideration of £557,227 (2005: £114,098). Further disclosures relating to share based payments are set out in note 5.



**23 Consolidated statement of changes in equity**

<b>Group</b>	<b>Share capital £m</b>	<b>Share premium £m</b>	<b>Exchange reserve £m</b>	<b>Retained earnings £m</b>	<b>Total £m</b>
Balance brought forward at 1 April 2004	23.4	93.1	–	4.8	121.3
Issue of share capital	–	0.1	–	–	0.1
Exchange gain on translation of foreign operations	–	–	3.1	–	3.1
Profit for the year	–	–	–	77.6	77.6
Actuarial gain on defined benefit pension schemes	–	–	–	0.1	0.1
Share based payments (see note 5)	–	–	–	0.1	0.1
Dividends paid in the year (see note 8)	–	–	–	(13.3)	(13.3)
Balance carried forward at 31 March 2005	23.4	93.2	3.1	69.3	189.0
Issue of share capital	0.1	0.5	–	–	0.6
Exchange gain on translation of foreign operations	–	–	1.9	–	1.9
Profit for the year	–	–	–	30.4	30.4
Actuarial loss on defined benefit pension schemes	–	–	–	(0.4)	(0.4)
Share based payments (see note 5)	–	–	–	0.5	0.5
Dividends paid in the year (see note 8)	–	–	–	(13.4)	(13.4)
<b>Balance at 31 March 2006</b>	<b>23.5</b>	<b>93.7</b>	<b>5.0</b>	<b>86.4</b>	<b>208.6</b>

The exchange reserve comprises all foreign exchange differences arising since 1 April 2004 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. The reserve also includes any related tax.

<b>Company</b>	<b>Share capital £m</b>	<b>Share premium £m</b>	<b>Retained earnings £m</b>	<b>Total £m</b>
Balance brought forward at 1 April 2004	23.4	117.1	(8.9)	131.6
Issue of share capital	–	0.1	–	0.1
Profit for the year	–	–	91.9	91.9
Actuarial gain on defined benefit pension schemes	–	–	0.1	0.1
Share based payments (see note 5)	–	–	0.1	0.1
Dividends paid in the year (see note 8)	–	–	(13.3)	(13.3)
Balance carried forward at 31 March 2005	23.4	117.2	69.9	210.5
Issue of share capital	0.1	0.5	–	0.6
Loss for the year	–	–	(5.5)	(5.5)
Actuarial loss on defined benefit pension schemes	–	–	(0.4)	(0.4)
Share based payments (see note 5)	–	–	0.5	0.5
Dividends paid in the year (see note 8)	–	–	(13.4)	(13.4)
<b>Balance at 31 March 2006</b>	<b>23.5</b>	<b>117.7</b>	<b>51.1</b>	<b>192.3</b>

## notes to the financial statements.

continued

### 24 Notes to the cash flow statement

	2006 £m	2005 £m
<b>(a) Continuing operations</b>		
<b>Net cash from operating activities</b>		
Operating profit from continuing operations	38.9	25.5
Amortisation of intangible assets	0.5	0.8
Impairment loss on intangible assets	-	0.5
Depreciation of property, plant and equipment	28.7	25.4
Impairment loss on property, plant and equipment	-	2.8
Charge for long term landfill provisions	0.5	1.0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	68.6	56.0
Gain on disposal of property, plant and equipment	(1.3)	(1.4)
Net (decrease) increase in provisions	(4.4)	0.5
Share based payments	0.5	0.1
<b>Operating cash flows before movements in working capital</b>	63.4	55.2
(Increase) in inventories	(1.2)	(3.3)
Decrease (increase) in receivables	7.9	(11.2)
(Decrease) increase in payables	(10.9)	16.3
<b>Cash generated by operations</b>	59.2	57.0
Income taxes paid	(1.5)	(6.4)
<b>Net cash from operating activities</b>	57.7	50.6
<b>Investing activities</b>		
Purchases of intangible assets	(0.2)	(0.3)
Purchases of property, plant and equipment	(30.7)	(33.2)
Disposal of property, plant and equipment	3.1	6.6
Financial asset capital advances	(48.8)	(37.2)
Financial asset capital repayments	1.9	0.7
Acquisitions of subsidiary and other businesses	(4.2)	(1.7)
Net proceeds from disposal of subsidiary and other businesses	34.0	175.0
Income received from other investments	0.7	0.1
<b>Net cash used in investing activities</b>	(44.2)	110.0
<b>(b) Discontinued operations</b>		
<b>Net cash from operating activities</b>		
Operating profit from discontinued activities	0.4	7.1
Depreciation of property, plant and equipment	2.1	10.7
Charge for long term landfill provisions	-	1.2
(Decrease) in provisions	(2.8)	(10.2)
<b>Operating cash flows before movements in working capital</b>	(0.3)	8.8
(Increase) decrease in inventories	(0.4)	0.3
Decrease in receivables	1.4	2.3
Increase in payables	0.5	2.9
<b>Cash generated by operations</b>	1.2	14.3
<b>Net cash from operating activities</b>	1.2	14.3
<b>Investing activities</b>		
Purchases of property, plant and equipment	(1.2)	(1.2)
Disposal of property, plant and equipment	-	0.3
<b>Net cash used in investing activities</b>	(1.2)	(0.9)

## 24 Notes to the cash flow statement – continued

	2006 £m	2005 £m
<b>(c) Total Group operations</b>		
<b>Net cash from operating activities</b>		
Operating profit from all operations	39.3	32.6
Amortisation of intangible assets	0.5	0.8
Impairment loss on intangible assets	–	0.5
Depreciation of property, plant and equipment	30.8	36.1
Impairment loss on property, plant and equipment	–	2.8
Charge for long term landfill provisions	0.5	2.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	71.1	75.0
Gain on disposal of property, plant and equipment	(1.3)	(1.4)
(Decrease) in provisions	(7.2)	(9.7)
Share based payments	0.5	0.1
<b>Operating cash flows before movements in working capital</b>	<b>63.1</b>	<b>64.0</b>
(Increase) in inventories	(1.6)	(3.0)
Decrease (increase) in receivables	9.3	(8.9)
(Decrease) increase in payables	(10.4)	19.2
<b>Cash generated by operations</b>	<b>60.4</b>	<b>71.3</b>
Income taxes paid	(1.5)	(6.4)
<b>Net cash from operating activities</b>	<b>58.9</b>	<b>64.9</b>
<b>Investing activities</b>		
Purchases of intangible assets	(0.2)	(0.3)
Purchases of property, plant and equipment	(31.9)	(34.4)
Disposal of property, plant and equipment	3.1	6.9
Financial asset capital advances	(48.8)	(37.2)
Financial asset capital repayments	1.9	0.7
Acquisitions of subsidiary and other businesses	(4.2)	(1.7)
Net proceeds from disposal of subsidiary and other businesses	34.0	175.0
Income received from other investments	0.7	0.1
<b>Net cash used in investing activities</b>	<b>(45.4)</b>	<b>109.1</b>

## 25 Capital commitments

Group	2006 £m	2005 £m
Contracts placed for future capital expenditure not provided in the financial statements	44.6	83.8
Share of joint venture future capital expenditure not provided in the financial statements	0.3	–

The Company had no capital commitments (2005: £Nil).

## 26 Financial commitments

Group	2006 £m	2005 £m
Commitments under non-cancellable operating leases relating to plant and machinery expiring:		
Within one year	0.7	0.8
Later than one year and less than five years	6.7	1.8
After five years	4.2	4.1
	<b>11.6</b>	<b>6.7</b>

The Company has annual commitments of £0.1m (2005: £0.1m) under non-cancellable leases expiring after five years.

## notes to the financial statements.

continued

### 27 Contingent liabilities

#### Group and Company

Under the terms of the sale agreement with Terra Firma for the disposal of the Group's landfill and power operations in 2005, the Group has given a number of indemnities and warranties relating to the disposed operations.

The Company and certain subsidiaries have, in the normal course of business, given guarantees and performance bonds relating to the Group's contracts.

The Company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities totalling £25.1m (2005: £27.8m). In addition the Company has contingent liabilities in respect of both VAT and HM Revenue & Customs group payment arrangements of £Nil (2005: £0.9m).

#### Joint Ventures

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

### 28 Related party transactions

#### (a) Transactions between the Company and its subsidiaries

A list of the Company's principal subsidiaries is set out on page 70. Transactions with subsidiaries relate to interest on inter-company loans or receivables. Net interest expense was £2.6m (2005: £7.5m). Total outstanding balances are listed in notes 16 and 19.

#### (b) Remuneration of key management personnel

The disclosures required by the Companies Act 1985 and those specified by the Financial Services Authority relating to Director's remuneration (including pension benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 25 to 30, and form part of these financial statements.

During the year Mr P Delaunois, a Non-executive Director of the Group, received £41,000 (2005: £41,000) for consultancy services provided to the Belgian subsidiaries. Mr P Delaunois is a shareholder and director of S.A. CGO and the fees were paid to this company.

### 29 Reconciliation of UK GAAP to IFRS

As stated in note 1(b), the Group previously prepared its financial statements in accordance with UK GAAP. As a result of adopting IFRS in respect of the year ended 31 March 2006, the Group has restated comparative information for the year ended 31 March 2005. As required by IFRS1 - First-time Adoption of International Financial Reporting Standards, the reconciliation between previously reported UK GAAP based information and their IFRS equivalents is set out below.

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
<b>31 March 2004 – Group</b>				
Previously reported under UK GAAP	23.4	93.1	20.8	137.3
IAS10 – Events after the balance sheet date (dividends)	–	–	8.9	8.9
IAS12 – Deferred tax	–	–	(4.4)	(4.4)
IAS17 – Leases	–	–	(0.1)	(0.1)
IAS19 – Employee benefits	–	–	(19.2)	(19.2)
IAS39 – Fair value of interest swaps	–	–	(2.2)	(2.2)
IAS39 – Financial assets adoption	–	–	1.0	1.0
<b>Reported now under IFRS</b>	<b>23.4</b>	<b>93.1</b>	<b>4.8</b>	<b>121.3</b>

## 29 Reconciliation of UK GAAP to IFRS – continued

	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Total equity £m	Profit for the year £m
<b>31 March 2005 – Group</b>						
Previously reported under UK GAAP	23.4	93.2	–	78.1	194.7	46.9
IFRS2 – Share based payments	–	–	–	–	–	(0.1)
IFRS3 – Business combinations	–	–	–	9.6	9.6	16.9
IAS10 – Events after the balance sheet date (dividends)	–	–	–	8.9	8.9	13.3
IAS12 – Deferred tax	–	–	–	(5.2)	(5.2)	–
IAS17 – Leases	–	–	–	0.1	0.1	0.1
IAS19 – Employee benefits	–	–	–	(18.9)	(18.9)	0.2
IAS21 – Foreign currencies	–	–	3.1	(3.1)	–	–
IAS39 – Fair value of interest swaps	–	–	–	(2.6)	(2.6)	(0.4)
IAS39 – Financial assets adoption	–	–	–	2.4	2.4	0.7
<b>Reported now under IFRS</b>	<b>23.4</b>	<b>93.2</b>	<b>3.1</b>	<b>69.3</b>	<b>189.0</b>	<b>77.6</b>

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
<b>31 March 2004 – Company</b>				
Previously reported under UK GAAP	23.4	117.1	1.4	141.9
IAS10 – Events after the balance sheet date (dividends)	–	–	8.9	8.9
IAS19 – Employee benefits	–	–	(19.2)	(19.2)
<b>Reported now under IFRS</b>	<b>23.4</b>	<b>117.1</b>	<b>(8.9)</b>	<b>131.6</b>

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m	Profit for the year £m
<b>31 March 2005 – Company</b>					
Previously reported under UK GAAP	23.4	117.2	79.9	220.5	78.5
IFRS2 – Share based payments	–	–	–	–	(0.1)
IAS10 – Events after the balance sheet date (dividends)	–	–	8.9	8.9	13.3
IAS19 – Employee benefits	–	–	(18.9)	(18.9)	0.2
<b>Reported now under IFRS</b>	<b>23.4</b>	<b>117.2</b>	<b>69.9</b>	<b>210.5</b>	<b>91.9</b>

**IFRS1 – First-time adoption of IFRS**

IFRS1 sets out the rules that the Group is following for the first consolidation under IFRS. It requires that the IFRS accounting policies to be applied for the first consolidation as at 31 March 2006 are determined and then applied retrospectively to the comparative balance sheet at 31 March 2005 and opening balance sheet at 31 March 2004 (the transition date). IFRS1 contains certain optional exemptions to assist the Group in its transition to IFRS. Significant instances where the Group has opted for these exemptions together with other changes in accounting policy required through the adoption of IFRS are described below.

**IAS1 – Presentation of financial statements**

IAS1 sets out the basis on which the Group's financial statements are to be presented. The most significant change to presentation made to the Income Statement is in respect of the position of the profits of discontinued operations and the profit on their disposal. These are now included on an after tax basis below profit after tax on continuing operations.

For the balance sheet the most significant change is in respect of deferred tax where certain deferred tax assets are no longer netted from deferred tax liabilities.

## notes to the financial statements.

continued

### 29 Reconciliation of UK GAAP to IFRS – continued

#### IFRS2 – Share based payments

IFRS2 requires measurement of share based transactions with employees at fair value at the date of grant. This value forms the basis of the charge to the income statement over the period between grant and exercise. The fair values of the various incentive or share plans have been calculated using appropriate valuation models. Under a transitional exemption covering first-time adoption, this applies only to options granted after 7 November 2002.

#### IFRS3 – Business combinations

Acquisitions that took place after the transition date must be accounted for under IFRS. The Group has taken advantage of the exemption given in IFRS1 to not restate acquisitions made prior to the transition date on an IFRS basis.

The Group has applied the exemption given in IFRS1 to treat the net book value of goodwill as deemed cost as at the transition date. This exemption extends to amounts written off directly to reserves. Consequently, on disposal of operations, there is no requirement to reinstate any associated goodwill previously written off to reserves. Amortisation of goodwill under UK GAAP is replaced by an annual impairment review under IFRS3.

#### IAS7 – Cash flow statements

Other than the reclassifications for presentation purposes, there are no material differences between the cash flow statement presented under IFRS and that presented under UK GAAP.

#### IAS10 – Events after the balance sheet date

Under IAS10 dividends declared after the period end do not represent a present obligation under IAS37 – Provisions, Contingent Liabilities and Contingent Assets as it is subject to approval. The accrual for the final dividend under UK GAAP is reversed for IFRS purposes and accounted for in the subsequent reporting period.

#### IAS12 – Income taxes

Provision for deferred tax has to be included where assets are held at values different to the tax base cost. Whilst the Group does not revalue property, certain properties were held at valuation prior to acquisition by the Group. Under UK GAAP no deferred tax provision was included, as there was no intention to dispose of the properties. IFRS requires provision irrespective of any plans for the property's use.

#### IAS17 – Leases

The definition of a finance lease under IAS17 differs to that under UK GAAP. Accordingly, a number of operating leases are now accounted for as finance leases under IFRS. The relevant asset is recognised as part of property, plant and equipment and a corresponding finance lease creditor included in net debt.

#### IAS19 – Employee benefits

Previously the Group has accounted for pensions under SSAP 24 – Pension Costs and had adopted the transitional arrangements of FRS 17 – Retirement Benefits. IAS19 (like FRS 17) requires the Group to consolidate its proportion of the assets, liabilities and returns of the defined benefit schemes in which the Group participates. It also changes the basis for recognising the cost of future pension liabilities. The net pension deficit is included within liabilities with the corresponding deferred tax asset included in assets. Actuarial gains and losses on the pension scheme are taken through the Statement of Recognised Income and Expense in the year they arise from transition date, in accordance with the amendment to IAS19 – Employee Benefits issued on 16 December 2004.

#### IAS21 – The effect of changes in foreign exchange rates

Under IAS21 cumulative exchange rate variances on the net investment in foreign operations are recognised in a separate equity reserve. The Group has elected to set these exchange differences to zero at the transition date, as permitted under IFRS1.

The Group has applied the principles of IAS39 on hedge accounting for intercompany loans denominated in Euros and reported in subsidiaries that have a Sterling functional currency. As a result, exchange rate variances arising on these loans will be reflected in reserves.

**29 Reconciliation of UK GAAP to IFRS – continued****IAS31 – Interest in joint ventures**

IAS31 gives a choice for accounting for joint ventures under either the equity method or the preferred method of proportional consolidation. The Group has opted to use proportional consolidation, which requires line by line consolidation of the Group's share of income and expenditure and the share of assets and liabilities. This change has no effect on the Group's consolidated profits after tax and net assets.

**IAS39 – Financial instruments: recognition and measurement; and****IAS32 – Financial instruments: disclosure and presentation**

The Group has various integrated waste management contracts with certain UK local authorities concluded under the Private Finance Initiative (PFI). It is also bidding for further contracts. As stated in note 1(b), the Group has reclassified its PFI assets as financial assets which are measured at amortised cost.

At the financial close of a PFI contract, the price of the service is determined, inter alia, by the long term interest rate available in the market. The Group therefore protects itself against fluctuations in interest rates by entering into interest rate swaps to match its future cash inflows and outflows. Under IFRS these swaps are revalued at current market value at each reporting date irrespective of the commercial reasons for entering into them. Revaluation of these swaps can lead to large accounting gains or losses but does not affect the long term profitability of the contract as the Group has matched its long term revenue and costs. Whilst IFRS does allow these gains and losses to be taken directly to reserves, it is on the proviso that onerous documentation requirements are fulfilled. The Group believes it is not worth expending significant resources fulfilling these requirements in respect of an item that does not reflect the commercial reality. Accounting for changes in the market value could therefore cause major fluctuations to our reported profits.

## subsidiary undertakings and joint ventures.

at 31 March 2006

### Subsidiary undertakings

The Company held, through wholly owned subsidiaries, 100% of the issued share capital of the following trading subsidiaries, all of which have been consolidated in the Group's financial statements. All of the businesses operate in the one segment, Waste Management:

Subsidiary undertakings	Country of incorporation
<b>Principal Group subsidiary undertakings</b>	
Shanks Waste Management Limited	UK
Shanks s.a.	Belgium
Shanks Hainaut s.a.	Belgium
Shanks Liege Lux s.a.	Belgium
Shanks Bruxelles s.a.	Belgium
Shanks Vlaanderen n.v.	Belgium
Shanks Transport n.v.	Belgium
Shanks Nederland B.V.	Netherlands
Icova BV	Netherlands
BV van Vliet Groep Milieudienstverleners	Netherlands
Vliko BV	Netherlands
Klok Containers BV	Netherlands
Transportbedrijf van Vliet BV "Contrans"	Netherlands
Afvalstoffen Terminal Moerdijk BV "ATM"	Netherlands
Reym BV	Netherlands
<b>Subsidiary undertakings holding Private Finance Initiative contracts</b>	
Shanks Argyll & Bute Limited	UK
ELWA Limited	UK
Shanks Dumfries and Galloway Limited	UK

### Joint ventures

The Company held, through wholly owned subsidiaries, the following interests in material joint venture companies, all of which operate as waste management companies. The Group's share of profits and gross assets and liabilities have been incorporated in the Group's financial statements:

	% Group holding	Most recent year end	Country of incorporation
Geohess (UK) Limited	50%	31 December 2005	UK
Avondale Environmental Limited	50%	31 March 2006	UK
Caird Bardon Limited	50%	31 December 2005	UK
Silvamo s.a.	50%	31 December 2005	Belgium
Marpos n.v.	45%	31 December 2005	Belgium



# consolidated five year financial summary.

at 31 March 2006

	2006 IFRS £m	2005 IFRS £m	2004 UK GAAP £m	2003 UK GAAP £m	2002 UK GAAP £m
<b>Consolidated income statement</b>					
Revenue	442.5	420.4	409.6	380.1	350.2
Operating profit from continuing operations before exceptional items	38.9	36.0	31.8	34.6	36.4
Finance charges – interest	(4.2)	(4.7)	(12.2)	(13.7)	(13.9)
Finance charges – other	(0.7)	(0.6)	(1.0)	(0.7)	(0.7)
Profit from continuing operations before exceptional items and tax (Headline Profit)	34.0	30.7	18.6	20.2	21.8
Exceptional items (see note 9)	(3.7)	(11.0)	–	(1.5)	0.6
Goodwill amortisation	–	–	(10.0)	(9.0)	(8.4)
Profit before tax from continuing operations	30.3	19.7	8.6	9.7	14.0
Tax	(10.5)	(7.1)	(5.0)	(6.8)	(6.7)
Profit after tax from continuing operations	19.8	12.6	3.6	2.9	7.3
Profit after tax from discontinued operations	10.6	65.0	5.6	6.2	7.8
<b>Profit for the year</b>	<b>30.4</b>	<b>77.6</b>	<b>9.2</b>	<b>9.1</b>	<b>15.1</b>
<b>Consolidated balance sheet</b>					
Non-current assets	466.0	433.7	549.7	532.4	491.5
Other assets less liabilities	(68.6)	(66.0)	(103.3)	(91.1)	(60.5)
Net debt	(188.8)	(178.7)	(309.1)	(297.5)	(289.5)
<b>Net assets</b>	<b>208.6</b>	<b>189.0</b>	<b>137.3</b>	<b>143.8</b>	<b>141.5</b>
Share capital and share premium	117.2	116.6	116.5	116.5	116.4
Reserves	91.4	72.4	20.8	27.3	25.1
<b>Total equity</b>	<b>208.6</b>	<b>189.0</b>	<b>137.3</b>	<b>143.8</b>	<b>141.5</b>
<b>Financial ratios</b>					
Adjusted basic earnings per share (see note 9)	9.6p	8.7p	8.9p	10.1p	13.3p
Basic earnings per share	13.0p	33.1p	3.9p	3.9p	6.4p
Dividends per share	5.7p	5.7p	5.7p	5.7p	5.7p

Note: Comparative figures for 2004, 2003 and 2002 are stated under UK GAAP. The consolidated income statement for those years has been re-presented in IFRS format, but with underlying figures accounted for under UK GAAP.

## **independent auditors' report to the members of Shanks Group plc.**

We have audited the Group and Company financial statements (the "financial statements") of Shanks Group plc for the year ended 31 March 2006 which comprise the Group and Company Income Statements, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense, the Group Movement in Net Debt, the Group Analysis of Net Debt and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

### **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information in the Business Review that is cross referred from the Directors' Report. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Business Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Company's affairs as at 31 March 2006 and of the Group's profit and the Company's loss and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

  
**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

19 June 2006

## shareholder information.

at 31 March 2006

	Number of shareholders	Number of shares (thousands)	%
<b>Range of shareholding</b>			
1 – 5,000	2,040	3,284	1.4
5,001 – 25,000	452	4,410	1.9
25,001 – 50,000	80	2,765	1.2
50,001 – 100,000	61	4,369	1.9
100,001 – 250,000	52	8,490	3.6
250,001 – 500,000	38	13,439	5.7
over 500,000	84	197,868	84.3
	<b>2,807</b>	<b>234,625</b>	<b>100.0</b>

### Analysis of shareholders

Individuals	1,984	16,168	6.9
Banks and nominee companies	700	199,486	85.0
Other institutions and companies	123	18,971	8.1
	<b>2,807</b>	<b>234,625</b>	<b>100.0</b>

### Low cost share dealing service

Hoare Govett Limited offers an execution only "Low Cost Postal Share Dealing Service" which enables UK resident investors to buy or sell small certificated holdings of Shanks Group plc 10p Ordinary Shares in a simple and economic manner.

Further information may be obtained from: Hoare Govett Limited  
250 Bishopsgate, London EC2M 4AA  
Service Helpline No: 020 7661 6617

### Registrar and Transfer Office

Any enquiries relating to shareholdings such as lost certificates, dividend payments or a change of address should be made to the Registrar and Transfer Office (see address on Inside Back Cover). Mandated dividends are paid by BACS (Bankers Automated Clearing System) which credits shareholders' bank or building society accounts on the payment date. The appropriate tax voucher will be sent to the registered address. Further information on this facility can be obtained from the Registrar.

## financial calendar.

14 July 2006	Record date for final dividend 2005/6
27 July 2006	Annual General Meeting
4 August 2006	Payment of final dividend 2005/6
November 2006	Announcement of interim results and dividends
January 2007	Payment of interim dividend
March 2007	2006/7 financial year ends
June 2007	Announcement of 2006/7 results and recommended dividend

## notice of annual general meeting.

Notice is hereby given that the Annual General Meeting of Shanks Group plc will be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday 27 July 2006, at 11.00 a.m. for the purpose of transacting the following business:

### Routine ordinary business

- (1) To receive the reports of the Directors and auditors, the balance sheets of the Group and of the Company as at 31 March 2006 and the income statement of the Group and Company for the year ended 31 March 2006.
- (2) To approve the Directors' Remuneration Report for the year ended 31 March 2006.
- (3) To declare a final dividend of 3.8 pence per ordinary share for the year ended 31 March 2006.
- (4) To re-elect Mr Averill as a Director.
- (5) To re-elect Mr Delaunois as a Director.
- (6) To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

### Special business

- (7) To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company.

"THAT in substitution for any existing authority under section 80 of the Companies Act 1985 (as amended and from time to time in force) (the "Act"), the Directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with section 80 of the Act to exercise all the powers of the Company to allot and make offers or agreements to allot relevant securities (as defined in the said section 80) up to an aggregate nominal amount of £7,820,000, such authority to expire on 26 July 2011 save that the Company may before the expiry of such authority make offers or agreements which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired."

- (8) To consider and, if thought fit, pass the following resolution as a special resolution of the Company.

"THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Act for the purposes of section 166 of the Companies Act 1985 (as amended and from time to time in force) (the "Act")) of ordinary shares of 10p each in the Company ("Ordinary Shares") provided that:

- (a) the maximum number of Ordinary Shares hereby authorised to be acquired is 23,400,000;
- (b) the maximum price which may be paid for any such Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased, and the minimum price which may be paid for any such Ordinary Share is 10 pence (in each case exclusive of associated expenses); and
- (c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 18 months from the date of this resolution, whichever is the earlier, but a contract of purchase may be made before such expiry which will or may be completed wholly or partly thereafter, and a purchase of Ordinary Shares may be made in pursuance of any such contract."

- (9) To consider and, if thought fit, pass the following resolution as a special resolution of the Company.

"THAT in substitution for any existing power under section 95 of the Companies Act 1985 (as amended and from time to time in force) (the "Act"), but without prejudice to the exercise of any such power prior to the passing of this resolution, the Directors be and are hereby empowered until 26 October 2007, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority available to the Directors under section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

## notice of annual general meeting.

continued

- (a) the allotment of equity securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the Directors in proportion (as nearly as practicable) to the respective numbers of such ordinary shares held by them on that date provided that the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal requirements or practical problems arising under the laws of, or the regulations of any recognised regulatory body or stock exchange, in any territory; or
- (b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £1,170,000.

but so that this authority shall allow the Company, before the expiry of this authority, to make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offers or agreements as if the power conferred hereby had not expired."

By Order of the Board

**P Kaye**  
Secretary

19 June 2006

Registered office:  
Shanks House  
211 Blochairn Road  
Blochairn  
Glasgow  
G21 2RL

### Notes:

1. A member entitled to attend and vote at the meeting convened by the foregoing Notice is entitled to appoint one or more proxies (who need not be a member or members) to attend and, on a poll, vote instead of him/her. A prepaid form of proxy accompanies this Notice.
2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, should be delivered to the Company's Registrar, Computershare Investor Services PLC, PO Box 1075, Bristol, BS99 3FA not later than 48 hours before the time appointed for the meeting.
3. The return of a completed form of proxy will not prevent a member from attending in person at the meeting should he/she so wish.
4. The register of interests of the Directors (and of their families) in the shares of the Company and copies of all service contracts under which Directors are employed by the Company or any of its subsidiaries and copies of the letter of appointment in respect of Non-executive Directors, will be available for inspection at the registered office of the Company at Shanks House, 211 Blochairn Road, Blochairn, Glasgow G21 2RL during normal business hours, on any weekday (Saturday and public holidays excluded) from the date of this Notice up to the date of the Annual General Meeting and at the Glasgow Hilton on 27 July 2006, at least 15 minutes prior to, and during, the meeting.
5. In accordance with Regulation 41 of the Uncertified Securities Regulations 2001, only those members entered on the Company's register of members not later than 11.00 a.m. on 25 July 2006 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

## **company information.**

### **CORPORATE HEAD OFFICE**

#### **Shanks Group plc**

Astor House  
Station Road  
Bourne End  
Buckinghamshire SL8 5YP

Tel: 00 44 (0) 1628 554920

Fax: 00 44 (0) 1628 524114

website: [www.shanks.co.uk](http://www.shanks.co.uk)

e-mail: [info@shanks.co.uk](mailto:info@shanks.co.uk)

### **REGISTERED OFFICE**

#### **Shanks Group plc**

Shanks House  
211 Blochairn Road  
Blochairn  
Glasgow G21 2RL

Registered in Scotland No. 77438

### **PRINCIPAL OFFICES**

#### **UNITED KINGDOM**

##### **Shanks Waste Management**

Dunedin House  
Auckland Park  
Mount Farm  
Milton Keynes  
Buckinghamshire MK1 1BU  
Tel: 00 44 (0) 1908 650650  
Fax: 00 44 (0) 1908 650699

#### **BELGIUM**

##### **Shanks Belgium**

Rue Edouard Belin, 3/1  
BE-1435  
Mont Saint Guilbert  
Belgium  
Tel: 00 32 (0) 1023 3660  
Fax: 00 32 (0) 1023 3661

#### **THE NETHERLANDS**

##### **Shanks Nederland**

PO Box 171  
3000 AD Rotterdam  
The Netherlands  
Tel: 00 31 (0) 10 280 5300  
Fax: 00 31 (0) 10 280 5311

## **corporate advisers.**

#### **Financial Advisers**

Lazard Brothers & Co. Limited

#### **Stockbrokers**

Hoare Govett Limited

#### **Bankers**

ABN AMRO Bank n.v.  
Barclays Bank plc  
Fortis Bank s.a.  
HSBC Bank plc  
The Royal Bank of Scotland plc

#### **Solicitors**

Ashurst  
Dickson Minto W.S.

#### **Auditors**

PricewaterhouseCoopers LLP

#### **Registrars**

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH  
Tel: 0870 702 0003



The paper used was manufactured at a mill that has the Nordic Swan accreditation for environmental production. It is 50% totally chlorine free and recycled, any wastage in the finishing process has been minimised.