Shanks

Shanks Group plc

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Annual Report and Accounts 2014

MAKING MORE FROM WASTE

Shanks Group plc is a leading international sustainable waste management business

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Strategic report

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Forward-looking statements
Certain statements in this Shanks Group plc Annual Report and Accounts 2014 constitute "forward-looking statements". Forward-looking statements may sometimes, but not always, be identified by words such as "will", "may", "should", "continue", "believes", "expects", "intends" or similar expressions. These forward-looking statements are subject to risks, uncertainties and other factors which, as a result, could cause Shanks Group plc's actual future financial condition, performance and results to differ materially from the plans, goals and expectations set out in the forward-looking statements. Such statements are made only as at the date of this Report and, except to the extent legally required, Shanks Group plc undertakes no obligation to revise or update such forward-looking statements.

We meet the growing need to manage waste without damaging the environment

Key facts and figures

Our solutions

Reduce greenhouse gas emissions

Produce green energy

Treat contaminated waste

Recycle commodities

Provide highly specialised industrial cleaning

Produce recovered fuel

Reduce untreatable waste residues to a minimum

Our sustainable performance

82% recycling and recovery rate

19% reduction in our reportable accident rate[1]

1.26m tonnes of carbon avoided

70+ years of waste experience reinforced by blue chip industry leaders within our Group Executive Committee

Where we operate

Benelux

63 operating sites

Our operations in the Benelux comprise the Solid, Hazardous and Organics Divisions

UK

20 operating sites

Our Municipal Division provides recycling and waste management services to local authorities in the UK, creating fuel for green energy production

Canada

2 operating sites

We process organic waste using tunnel composting

Our people

890 Belgium

1,996 The Netherlands

585 UK

30 Canada

Financial highlights

£636m revenue

+14% increase in profit before tax

1. Accidents resulting in greater than three-day absence per 10,000 employees.
2. 2010-2013 results are as previously reported and include subsequently discontinued operations.
3. Continuing operations only.

About the Group

"We are making great progress with repositioning our Group to deliver sustained profitable growth"
Peter Dilnot,
Group Chief Executive

OUR VISION

TO BE THE LEADING PROVIDER OF SUSTAINABLE WASTE MANAGEMENT SOLUTIONS IN OUR TARGET MARKETS

What it means

Our vision

Leading Provider

High market share and with clear competitive advantages

Sustainable

Providing effective alternatives to landfill and mass incineration

Waste Management

Combining proven technologies to make valuable products from waste

Target Markets

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

We aim to achieve our goals by leveraging our unique position in the waste management cycle

Long-term market forces

There is an increasing need for cost-effective, sustainable waste management solutions

no.1 / no.2

Market leading position in all our core target markets

Macro market drivers

Growing awareness of the environmental damage caused by landfill, incineration and over-use of virgin raw material has led to a determination both by governments and wider society to champion sustainable waste management.

Economic pressures

Economic conditions have remained difficult and there is overcapacity in some parts of the market. With customers seeking out the most cost-effective solutions, this has led to increased competition and pressure on prices. A recovery is expected but timing is uncertain.

Legislation

Legislation continues to be enacted to encourage sustainable ways of managing waste. The Dutch Government, for example, is increasing recycling rates across the country. In the UK and Canada there are also an increasing number of policies aimed at diverting waste from landfill and incineration.

Social and business attitudes

The resource and carbon avoidance benefits of sustainable waste management are widely acknowledged but businesses have a challenge to engage with those living close to facilities where new processes and technologies are in use.

About the Group

OUR DIVISIONS AND STRATEGY

Our divisions	Markets	Revenue
Solid Waste	The Solid Waste market addresses the collection, recycling and treatment of non-hazardous waste. The market can be divided into Industrial and Commercial (I&C), Construction and Demolition (C&D), and Municipal. **www.shanksplc.com/solid**	£324m
Hazardous Waste	Our core markets in Hazardous Waste are the European contaminated soil, paints and solvents markets, and the Benelux waste water and industrial cleaning markets. **www.shanksplc.com/hazardous**	£148m
Organics	The Organic Waste market comprises the collection and treatment of food waste, garden waste and other organic materials such as sludges. This avoids disposing of organic waste through landfill, which is particularly damaging to the environment. **www.shanksplc.com/organics**	£36m
UK Municipal	The UK Municipal Division provides recycling and waste management services to local authorities in the UK and converts waste into fuel for green energy for cement manufacturers and power stations. The market is driven by the need for authorities to divert waste away from landfill, as set out in the EU Landfill Directive. **www.shanksplc.com/ukmunicipal**	£137m

"Our strategy is based on market leadership in our four divisions underpinned by Group capability"
Peter Dilnot, Group Chief Executive

Divisional strategy

Improve the profitability of Solid Waste

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

more detail on p22

Broaden the scope of Hazardous Waste

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

more detail on p28

Expand the Organics footprint

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

more detail on p34

Grow UK Municipal long-term contracts

We will deliver continued improvements in our operational contracts and will profitably ramp-up newly commissioned assets. Our medium-term growth will be underpinned by the successful construction of significant new sustainable waste management infrastructure. We expect this strategy to deliver profitable top-line growth.

more detail on p40

KEY STRATEGIC OBJECTIVES THAT SPAN THE GROUP

In addition to our divisional strategies, we have two key strategic objectives that form the foundation of our overall Group strategy.

Develop world-class capabilities

We will further increase our focus on building Group capabilities and a cohesive Group culture. This will include the introduction of a formal continuous improvement function across the Group and an initiative to improve commercial effectiveness.

Actively manage the Group portfolio

We are actively managing our wide portfolio of assets to improve the quality of our earnings and the return on capital employed. We are focused on deploying capital in areas where we are confident of sustainable advantage and higher growth, including potential acquisitions.

Chairman's statement

Our business model is to 'make more from waste' by creating value from recycling and the production of energy and other commodities

Shanks is a leading international sustainable waste management business. Despite the continuing difficult market conditions, during the course of the year Shanks has made significant progress in strengthening its business model: 'making more from waste' by creating value from recycling and the production of energy and other commodities. This model remains well supported by long-term legislative and environmental drivers, and we are uniquely positioned to deliver cost-effective alternatives to environmentally harmful landfill sites or capital-intensive incineration plants.

Review of the year

The waste management industry, in particular the solid waste market segment, has continued to experience very challenging market conditions. Volumes and prices have remained under pressure and there has been no recovery in the value of recyclate products. Taking into account these adverse market conditions, Shanks has traded well in the year ended 31 March 2014.

Our strategy of portfolio management, in particular the exit from the UK solid waste market, has generated cash and increased profits and returns. The focus on execution of our divisional strategies, to cut cost and to deliver growth, has delivered robust results across the Group. We are very pleased with the performance of the Hazardous Waste Division, which delivered underlying growth and superior returns. We have also been able to report profit growth in our Solid Waste Benelux Division for the first time in five years despite a contracting market, which is testament to the cost-reduction programmes that we have been delivering on time and to budget.

Bidding and building for growth

As a Board, we have been careful to balance the short-term demands of cost reduction and excellent cash management, with a relentless focus on the imperative need to secure longer-term sustainable growth opportunities. We have significantly increased our investment in our Hazardous Waste Division, where we anticipate growing volumes with good returns. We are also working hard to deliver growth in our UK Municipal portfolio, with major construction programmes underway at BDR and Wakefield and steady progress towards financial close at Derby. We are also actively bidding on a number of opportunities for municipal waste contracts to treat organic waste in Canada. We remain alert to other opportunities to grow in the solid waste market, either organically or through acquisitions, but will exercise appropriate caution bearing in mind the current market conditions and our determination to improve our return on capital.

Financial position

We continue to manage cash tightly across the Group and have delivered another year of strong underlying free cash flow (UFCF). UFCF was £56.5m (2013: £48.8m) and the UFCF% was 136% (2013: 118%). There was a core cash inflow for the year of £10m, notwithstanding an £11m investment in subordinated debt on the Cumbria PFI contract. Core net debt at year end was £156m, ahead of expectations. Net debt to EBITDA reduced slightly to 1.9 times, improving our ability to respond to investment opportunities.

Earnings per share and dividend

Underlying basic earnings per share for the year remained constant at 5.7 pence. I am pleased to confirm that we will be recommending an unchanged final dividend of 2.35 pence per share (2013: 2.35 pence per share), payable on 1 August 2014 to shareholders on the register on 4 July 2014. The Board currently intends to maintain this level of dividend until earnings recover, such that the dividend is back within the range of 2.0 to 2.5 times cover, and a progressive dividend policy can then be resumed.

Board changes

As mentioned in my report last year, in April 2013 we were pleased to welcome Marina Wyatt to the Board as a non-executive director. Marina is currently Chief Financial Officer of TomTom NV and succeeded to chair our Audit Committee in July 2013 following Peter Johnson's retirement at the 2013 Annual General Meeting after eight years of dedicated service.

Corporate governance

The Board is committed to the highest standards of corporate governance. Details of our processes and approach, including those relating to the role and effectiveness of the Board, and compliance with the Governance Code, are set out in the Governance section on pages 62 to 67. Over the past year, we have been pleased to see these efforts recognised: we won the Best Small Cap/AIM Annual Report category at the 2013 ICSA/Hermes Transparency in Governance awards, and the Best Small Cap/AIM corporate website at the 2013 Investor Relations Society Awards.

Corporate responsibility

I am pleased to report continued progress in delivering our three Corporate Responsibility objectives. These include quantified targets for carbon avoidance, employee wellbeing, and recycling and recovery rates. Further details are given on pages 56 and 57 of this report, and in our Corporate Responsibility Report. Our ongoing focus in these areas has once again been recognised by Shanks' inclusion in the independently assessed FTSE4Good Index. We were delighted to be nominated for 'Achievement in Sustainability' at the 2014 PLC Awards, having won this in 2013. Sustainability is at the heart of what we do and we are proud to have been recognised as a leader in this field.

Shanks has one of the lowest reported accident figures in the waste industry. However, we will not be satisfied until we have zero accidents, and this remains our goal. Our Group-wide 'Action on Safety' initiative has been led strongly by the Group's senior management and significant time has been invested in conducting safety audits and improvements throughout our operations. The initiative has improved the overall performance of health and safety across the Group and has been instrumental in reducing our reportable accident rate by an impressive 19% this year, hitting our five-year target one year early.

Summary and outlook

The economies where we operate appear to be stabilising or returning to modest growth, but that has not yet read through into the waste market. We are therefore cautious in predicting when our markets will see a material improvement in volumes, gate fees or recyclate pricing. Despite the current market conditions, we continue to improve our business. Our ongoing commercial effectiveness and cost reduction programmes, accompanied by selective investment in growth opportunities in the Hazardous Waste, UK Municipal and Organics Divisions, are expected to deliver benefits ahead of any market recovery. The fundamentals for our industry remain attractive and we are well positioned to benefit from a cyclical recovery.

On behalf of the Board, I would like to thank all employees of Shanks for their continuing commitment. They are managing the many changes to our business resolutely, and are effectively outperforming in a challenging market place. We do not take their passion and commitment for granted.

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

Adrian Auer
Group Chairman

HEALTH AND SAFETY

- 19% REDUCTION IN ACCIDENT RATE
- MET FIVE-YEAR TARGETS ONE YEAR EARLY
- GROUP INITIATIVES ON TRAFFIC MANAGEMENT
- MORE THAN 150 DEDICATED SITE SAFETY LEADERSHIP VISITS BY SENIOR MANAGEMENT

Group Chief Executive's review

I am confident that we have laid the foundations for sustained profitable growth and increasing returns in the future

We have made good progress with our strategic goals over the last 12 months and have delivered a robust performance in markets that remain very challenging. Our active portfolio management has enabled Shanks to outperform the market in 2013/14. We have further repositioned the Group to generate increasing returns in current market conditions and strong profit growth as normal market conditions return in the years ahead.

In the year ended 31 March 2014, we generated an underlying profit before tax of £30.2m, 14% higher than the £26.5m that we reported last year. This increase was primarily due to the successful exit from our loss-making UK Solid Waste business. On a like-for-like basis of continuing businesses, we have delivered a broadly similar profit before tax to last year, reflecting resilient performances from most of our divisions.

The good progress with our strategic goals includes: delivering targeted structural cost reductions; actively managing our business portfolio; selectively investing for growth where we are advantaged; building new infrastructure backed by long-term contracts; and maintaining strong capital discipline. We will continue to execute our plans and I am confident that we have laid the foundations for sustained profitable growth and increasing returns in the future.

Peter Dilnot
Group Chief Executive

Decisive action in tough markets
Underlying market conditions have remained very challenging throughout the last year. During 2013, the Netherlands remained in recession while Belgium GDP increased by just 0.2%. More specifically, Dutch construction, our largest single end market, contracted by a further 5% in 2013, following a 7% fall in 2012.

Against this backdrop, many of our competitors have struggled to maintain profitability due to lower volumes. This has resulted in sustained price pressure as waste operators compete to fill their processing capacity, most acutely in Flanders, Belgium, and in the Amsterdam area of the Netherlands. We have also seen increasing overcapacity in organic waste treatment across Europe lead to a reduction in gate fees for all organic waste streams, but especially those that yield a high gas stream when processed by anaerobic digestion. Recyclate income is another important profit driver for our Solid Waste business. We have seen greater stability in the last year in pricing for recycled paper and plastics, albeit at a low level, but metal volumes and prices have continued to fall, directly impacting our profitability by £3m year on year.

The competitive environment has remained intense. In the Netherlands, many of our competitors have reported margin reduction and we have seen further mid-size waste companies go bankrupt in the last 12 months. It is clear that capacity continues to come out of the market, either through reduced investment, restructuring or insolvency. However, any significant price increases are only likely to come with a macro recovery.

Our response to these short-term conditions has been decisive, allowing us both to outperform the market and position ourselves for sustained future growth. During this financial year we have:

- Taken significant cost action that has increased the profitability of our Solid Waste Benelux business despite reducing revenues;
- Exited underperforming assets, including UK Solid Waste, raising cash while increasing profits and underlying returns;
- Increased investment for growth in segments, such as Hazardous Waste, where we are competitively advantaged;
- Focused bidding activities on new long-term municipal contracts in Canada in order to deliver top-line growth and reduce the volatility of our income streams;
- Increased the value of our UK Municipal business by making good progress with the construction of £200m of new infrastructure and progressing the Derby contract; and
- Exercised strong capital discipline and generated cash for future deployment in areas of sustained high future returns.

Robust Group performance
The Group delivered a robust performance given the challenging market conditions. Our revenues from continuing businesses increased by 1% at constant currency (4% at actual currency) to £636m (2013: £615m). Our trading profit before non-trading and exceptional items was £45.9m (2013: £44.9m), a decrease of 1% at constant currency (2% increase at actual currency). Underlying earnings per share remained constant at 5.7p (2013: 5.7p).

At a divisional level, we were pleased with the performance of the Solid Waste Benelux Division, which grew trading profit by 16% at constant currency to £19.7m despite a revenue contraction of 5% to £324m. This represented the first profit growth by the Solid Waste business in five years and is a direct result of successful execution of our cost reduction and portfolio management plans. Hazardous Waste also exceeded our expectations by offsetting the end of a highly profitable contract last year. At constant currency the division maintained trading profit of £19.9m on revenue growth of 3% to £148m. Excluding the impact of that contract in 2012/13, the division delivered underlying double digit trading profit growth.

As previously indicated, the Organics Division had a challenging year, with market overcapacity impacting anaerobic digestion (AD) facilities in the Benelux and operational challenges in Canada. Our Netherlands composting assets performed well and supported revenue growth of 1% to £36m, but overall divisional trading profit declined 16% to £4.4m. The UK Municipal Division performed strongly, with 19% revenue growth to £137m driven by the first full year of the Wakefield contract. Reported divisional profit declined slightly to £9.2m; however, excluding the success fee income last year, underlying divisional profit improved significantly. Group central services costs were up on last year in line with expectations, mainly due to credits in the prior period.

We are pleased to report that our strong cash management and capital discipline continues to control our net debt effectively. Our net debt at 31 March 2014 was £156m, representing a multiple of 1.9 times EBITDA and comfortably within our covenant level of 3.0 times. This strong cash performance reflects a strict control of capital expenditure coupled with the generation of significant funds through the sale of underperforming assets, as well as a positive FX effect. In total, we generated cash of £10m, while funding both our growth programme and the injection of subordinated debt into Cumbria.

In addition to our financial performance, we have continued to make good progress with ensuring the health and safety of our employees and all other stakeholders. In particular, during the last 12 months we delivered a 19% reduction in reported accidents (based on RIDDOR data) and, in doing so, achieved our ambitious Group five-year safety target one year early. This performance is the direct result of prioritising safety management and our efforts will continue in this important aspect of our business.

Successful portfolio management
One of our core strategies is to actively manage our portfolio. Our goal is to create a focused Group with businesses that have sustainable competitive advantages and can generate attractive returns in their respective markets. The last year has seen significant portfolio management action, including the important exit from the UK solid waste market.

In late 2012, we conducted a strategic review which confirmed that our UK Solid Waste business was loss-making, sub-scale and lacked the ability to generate

Group Chief Executive's review

appropriate returns in an increasingly challenging sector. In October 2013, we announced the sale of the majority of our UK Solid Waste assets to Biffa in a transaction which subsequently completed on schedule in late December 2013. At the same time, we closed our Blochairn material recycling facility (MRF) and sold it to Glasgow City Council in March 2014. Our Kettering MRF has also been closed. The plant and equipment has been sold and the site is on the market for general industrial purposes. This co-ordinated range of exit activities resulted in an increase in profit before tax of around £3.6m per annum and will generate a total cash inflow of £15m. Following this transaction, the UK management team is now focused predominantly on delivering strong growth from our municipal contract business.

Other portfolio management activity has taken place in the Benelux, including the sale of the Foronex wood trading business, the Kluivers metal trading business and two sites in Wateringen and Mont St Guibert.

A fuller report on the financial impact of all these disposals is included in the Group Finance Director's review on page 16.

Long-term growth drivers remain

Despite the current market challenges, there have been some important legislative developments in the last 12 months that support our long-term growth prospects. Governments have continued to promote and stimulate efficient resource and energy management, including increased recycling and power generation from renewable sources such as waste. As an example, in the past year the Dutch Government has reiterated its intention to increase recycling rates by halving the amount of waste going to landfill and mass burn incineration. It has introduced a landfill tax of €17 per tonne from April 2014 and is exploring further options for levying taxes on less sustainable forms of waste disposal. In the UK, the Zero Waste Scotland initiative has also demonstrated the impact of government action in promoting waste diversion, with an increase in organic waste tonnages delivered to our Cumbernauld AD facility. In Canada, we are also now seeing an increase in municipal procurement activity as a result of national and regional policies to divert organic waste from landfill.

Shanks is uniquely placed to meet the increasing need for sustainable waste management solutions, so will benefit from legislative and other long-term drivers that will phase out landfill over time. Our sustainable solutions reduce greenhouse gas emissions, recycle natural resources and limit fossil fuel dependency – and critically they do so in a cost-effective and less capital-intensive way than other waste management alternatives.

Sustainability is at our core. In early 2014, we were proud to be shortlisted again in the Sustainability category at the PLC Awards (which we won in 2013), and we are listed again in the FTSE4Good Index. Our business centres on enabling customers to meet their sustainability objectives in a way

Water treatment at our ATM facility, which is an engine of Group profit

STRATEGIC HIGHLIGHTS

- SUCCESSFUL COST MANAGEMENT GROWS SOLID WASTE BENELUX PROFITS FOR FIRST TIME IN FIVE YEARS
- NEW INVESTMENT FOR GROWTH IN HAZARDOUS WASTE
- KEY UK MUNICIPAL BUILD PROGRAMME ON TRACK
- ORGANICS CANADA PIPELINE DEVELOPING WELL

We have bought more than 30 new trucks in Belgium to drive efficiency

that makes good financial sense. We do this by using our recycling and product technology to deliver value for customers and attractive returns to our shareholders. We were very pleased to achieve a record recycling rate of 82%, reaching our five-year target one year early.

We are focusing our efforts increasingly in selected target markets that have strong sustainable growth drivers and characteristics that enable Shanks to gain competitive advantage. This aspiration reflects opportunities in our growth markets, such as European industrial waste water treatment, UK long-term municipal contracts, and North American Organics. This focus is also consistent with our commitment to be highly selective about where we will deploy further capital in the future.

Consistent strategy for growth
Our overarching strategy of 'making more from waste' remains consistent. The core pillars of this strategy are focused on generating profitable growth in each of our four distinct markets.

1. **Improve the profitability of Solid Waste Benelux.** Our Solid Waste business is now focused in the Benelux region where it is a clear market leader with the scale and position to win. Our strategy is focused on returning this business to previous profitability levels. We continue to improve efficiency through the structural cost programme, increasing route density, and delivering new procurement and continuous improvement initiatives. We are investing in optimising our commercial effectiveness to take advantage of market opportunities, and have also streamlined the portfolio to increase returns.

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

3. **Expand the Organics footprint in target geographies.** Our strong market position and experience in the Netherlands, combined with our unique business model (design, build, own and operate), provides us with a distinct competitive edge which we will leverage to expand in target markets. We plan to expand our North American footprint selectively by delivering proven solutions that meet the emerging diversion requirements of that market. We will also ramp up new UK assets and develop co-processing with Dutch A-brand customers.

4. **Grow the UK Municipal long-term contract business.** We are well-placed to grow in the UK PFI/PPP market with established contracts, together with over £200m capital committed to projects in construction. We will deliver continued improvements with our operational contracts and will profitably ramp up newly commissioned assets. Our medium-term growth will be underpinned by the successful construction of significant new sustainable waste management infrastructure.

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

5. **Develop world-class capabilities in a cohesive Group culture.** This strategy comprises the introduction of enhanced capabilities of commercial effectiveness, continuous improvement and talent development. It also includes leveraging of our many deep skills between divisions. For example, we are combining the skills of our Netherlands Organics and UK Municipal businesses to bid for contracts in Canada, while our Shanks Total Care initiative creates a unique commercial proposition in the Netherlands.

6. **Actively manage the Group's portfolio.** We are actively managing our portfolio of assets to improve the quality of our earnings and the return on capital employed. In particular, we have sold underperforming assets that lack the long-term capability to generate attractive returns. Overall, we are committed to deploying capital to deliver growth in areas where we are confident of sustainable advantage, attractive returns and higher growth.

Future outlook
Notwithstanding markets which are expected to continue to be challenging in the year ahead, the Board's expectations for 2014/15 remain unchanged. In the coming year, we expect to deliver growth in our Hazardous Waste and UK Municipal Divisions. Our Solid Waste Benelux Division is likely to deliver a broadly similar performance as the benefits of cost reduction will be offset by continued market headwinds. In the Organics Division the outlook is impacted by price pressure and our investment in bidding costs for Canadian expansion.

Longer term, the growth drivers in our business remain attractive. There is a clear and growing need for cost-effective and sustainable waste management which Shanks is uniquely placed to meet. Following our active portfolio management, we now have leadership positions in all our core markets with a clear strategy to deliver profitable growth and attractive returns in each division. Furthermore, by building a focused and lean business we are well positioned to benefit from operational gearing when markets recover.

Peter Dilnot
Group Chief Executive

Key performance indicators

"To implement our growth strategy effectively, we have set ambitious targets and milestones. We monitor these goals closely to focus our effort and ensure we deliver both in the short term and long term"
Peter Dilnot, Group Chief Executive

Strategy component

Solid Waste Benelux

- **Cost reduction in line with expectations**
- **First improvement in profit in five years**

Hazardous Waste

- **Record volumes processed at ATM**
- **Record project hours billed at Reym**

Organics

- **Profit impacted by market conditions**
- **Record electricity output**

UK Municipal

- **Revenue growth from new contracts**
- **Margins in line with expectations**

Achievements in 2013/14	Goals for 2014/15
• €4m structural cost savings* • €3m operational cost savings • Shared Service Centres (SSCs) established • Non-core asset disposals of €13m • Commercial effectiveness programme launched more details on p22	• Gain share in target segments • Improve product and pricing mix • Implement selected continuous improvement projects • Complete transfer of transactional processes to SSCs • Deliver €4m structural cost savings • Install sorting line at Wateringen
• Completion of soil storage shed • Record treatment of waste water • Renewed all major customer contracts in challenging market • First treatment of iron sludges • Commissioning of ship degassing capability • The structural cost programme as launched in 2013 • First ultrasonic cleaning unit commissioned more details on p28	• Commission new water tanks and emissions equipment (ESP) • Complete Theemsweg Total Care base • Increase revenue from new streams, including iron sludges and degassing • Extend ATM ship jetty by 80 metres • Grow soil/TAG commercial funnel • Further development of Reym technology centre
• Strong performance from Cumbernauld AD facility • First power generation at Westcott Park AD facility in the UK • Shortlisted for two major municipal opportunities in Canada • Agreement with Sanimax to exploit Quebec opportunities more details on p34	• Renew major composting contract in the Netherlands • Progress Organics North American municipal funnel • Develop new opportunities with A-brands in the Netherlands • Improve returns from new AD assets in UK and the Netherlands • Expand customer base in Ontario
• BDR and Wakefield construction projects on time and on budget • Profitable first year of management of Wakefield contract • Assisted Derby authorities in progression of Derby PFI contract • Improved profit from operational contracts • Reduced losses on D&G contract more details on p40	• Achieve financial close on Derby contract • Commission BDR • Wakefield construction to near completion • Full capacity with appropriate inputs • Optimise process for efficiency • Increase diversion rates from landfill • Improve fuel quality to fulfil new contracts • Long-term off-take contracting for fuel

*The structural cost programme as launched in 2013 (see page 19).

MEETING OUR OBJECTIVES

Our key performance indicators are an essential measure of our performance against the divisional and Group strategies

Our KPIs and goals are set to measure our progress in improving our financial performance and in embedding sustainable long-term growth. They are consistent with last year for clarity and transparency in both reporting and management.

SOLID WASTE BENELUX COST REDUCTION ACTIONS IN 2013/14

- COMPLETION OF MAIN STRUCTURAL COST REDUCTION WITH 341 PEOPLE HAVING LEFT THE BUSINESS
- ESTABLISHMENT OF SHARED SERVICE CENTRES IN BELGIUM AND THE NETHERLANDS
- PROCUREMENT DIRECTOR APPOINTED AND FIRST SAVINGS MADE
- FIRST 'CONTINUOUS IMPROVEMENT' PROJECTS DELIVERING

Key performance indicators

Strategy component

Develop world-class capabilities in a cohesive Group culture

Group strategy

Achievements in 2013/14

- Shanks Total Care rolled out across the Netherlands
- Initial continuous improvement projects in UK and Belgium
- Key improvements to IT architecture and infrastructure
- Integrated performance and talent management system – performance and development reviews, resource and succession planning
- Recruitment of further first-class management talent

more details on p28

Goals for 2014/15

- Further continuous improvement projects across divisions
- Delivery of further IT enhancements, including ERP systems in Hazardous Waste and systems to improve the SSCs
- Further progress in implementing cross-divisional best practices and talent sharing
- New Group communications system (ConnectUs) and employee engagement process
- Launch of refreshed Group vision and values aligned with growth
- Further Shanks Total Care contract wins

Actively manage the business portfolio

Group strategy

Achievements in 2013/14

- Exit from UK Solid Waste through sale of assets to Biffa and Glasgow City Council
- Sale of surplus or non-strategic assets in Solid Waste Benelux
- Ongoing review of markets for suitable acquisition opportunities

more details on p17

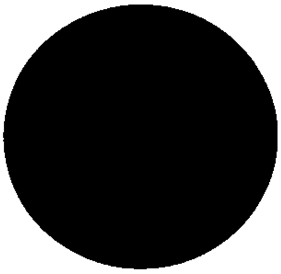
Goals for 2014/15

- Remain alert for appropriate opportunities for acquisition
- Ongoing strategic review of portfolio to reduce exposure in segments where we are less advantaged
- Sale of the Kettering site in the UK

Corporate responsibility

Overall recycling and recovery rate

Recycling/recovery indicates how much we help to reduce the use of non-renewable resources by providing alternatives



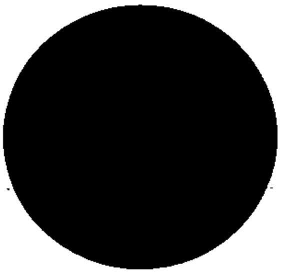
Achievements

- **The rate increased to 82%, more than exceeding our five-year target and achieving it a year early**
- **The increase was mainly due to the divestment of landfill, increased sales of fuels and increased inputs to ATM**

more details on p56

Carbon avoidance

Carbon avoidance indicates how we help to reduce society's carbon emissions through sustainable waste management and green energy production



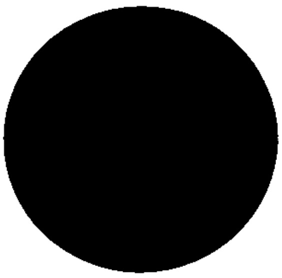
Achievements

- **Reached 1.260m tonnes of carbon avoided in 2013/14**
- **This was due to increased sales of waste-derived fuels and improved recycling and recovery rates**

more details on p57

Reportable accident rate

The accident rate is the basic measure of our dedication to employee welfare



Achievements

- **The accident rate fell by 19%, from 2,400 to 1,950**
- **As a result we achieved our five-year target one year early**

more details on p57

1. Accidents resulting in greater than three-day absence per 10,000 employees.

Group Finance Director's review

As we continue to implement the Group strategy for growth, we will deliver higher quality earnings and further opportunities for investment

Toby Woolrych
Group Finance Director

Overview and Group trading performance
The year ended 31 March 2014 demonstrated the benefits of the execution of our strategy, with cost reduction, portfolio management and capital discipline all playing a part in our robust performance in very challenging markets.

In our 2013 Annual Report we laid out some simple financial measures to demonstrate that we are improving the quality of our earnings and to ensure that delivery of strategy reads through into a strong financial performance for our stakeholders. We look to re-establish sustained revenue growth, improve our trading margins and increase the return on our operating assets (or return on investment in the case of new acquisitions).

In the past year, we have delivered progress in all three of these measures. Revenue increased by 1%, including growth in three of our four divisions. Trading margins decreased by 10bps for the Group on a continuing basis as a result of a changing mix. However, crucially, our cost action increased trading margins by 120bps in the Solid Waste Benelux division to deliver the first increase in trading profits in five years in that division. Return on operating assets also increased by 90bps to 15.1%, moving back above our prudent estimated weighted average cost of capital of 8% (11% pre-tax).

Strong capital discipline and cash management have also been exercised over the year in order to ensure we can invest in carefully targeted growth opportunities.

We delivered a net core cash inflow of £10m during the year, despite our investment of £11m into our Cumbria PFI contract and our significant investments in increasing capacity in the Hazardous Waste Division. As a result, our core net debt to EBITDA ratio reduced to 1.9 times.

Looking forward, we will continue to focus on excellence in cost and cash management, whilst also increasing our commercial effectiveness to drive growth. We continue to review the portfolio to address underperforming or non-core assets. We are confident that as we continue to deliver on our strategy, the Group's financial performance measures will strengthen and provide further funds to support growth.

Revenue and trading profit
Constant currency revenue in 2013/14 from continuing activities increased by 1% to £636.4m (4% at actual rates), with growth from UK Municipal and Hazardous Waste offsetting the expected reduction in Solid Waste Benelux.

Trading profit on continuing businesses, before non-trading and exceptional items, decreased by 1% at constant currency to £45.9m (2% increase at actual rates). Solid Waste Benelux delivered strong profit growth, offset by the expected reduction in Organics profits. Group central services, which comprise the Group's head office functions, increased in the year as a result of credits in the prior year, investment in Group capabilities and the restoration of various bonuses and incentives.

continues >

STRATEGY IN ACTION

Portfolio action has increased profits and returns, and generated £24m cash

As reported in the Group Chief Executive's review on page 8 of this report, we established in a strategic review that the UK Solid Waste Division was loss-making, sub-scale and lacked the competitive advantages to generate acceptable returns even in recovered markets. We therefore proceeded to exit the segment in a series of linked transactions. The principal transaction was the sale of the bulk of our collection business to Biffa on 31 December 2013 for £9.5m. We simultaneously closed our Kettering and Blochaim MRFs and expect to recover a further £7.5m in cash for these assets, of which £3m has already been received. We retained our Elstow site as it is profitable and serves UK Municipal customers, and rationalised our central costs to save £2m per annum. Further portfolio action in Solid Waste Benelux, described on page 22 of this report, raised an additional £9m. Full financial information is shown in the table overleaf.

Continuing operations

	Revenue				Trading profit			
	Year ended				Year ended			
	Mar 14 £m	Mar 13 £m	Change reported %	Change CER %	Mar 14 £m	Mar 13 £m	Change reported %	Change CER %
Solid Waste Benelux	**324.2**	330.9	-2%	-5%	**19.7**	16.3	21%	16%
Hazardous Waste	**148.2**	139.4	6%	3%	**19.9**	19.1	4%	0%
Organics	**36.2**	35.9	1%	1%	**4.4**	5.3	-17%	-16%
UK Municipal	**137.5**	115.3	19%	19%	**9.2**	9.6	-4%	-4%
Group central services	–	–			**(7.3)**	(5.4)	-35%	-35%
Inter-segment revenue	**(9.7)**	(6.9)			–	–		
Total	**636.4**	614.6	4%	1%	**45.9**	44.9	2%	-1%

CER = at constant exchange rate.

Group Finance Director's review

Cash impact of portfolio actions

£m	Biffa transaction	Other UK Solid Waste sites	UK Solid Waste exit	Benelux actions	Total
Anticipated sale proceeds	9.5	7.8	**17.3**	9.1	**26.4**
Working capital movements	3.1	–	**3.1**	–	**3.1**
Restructuring charges	(2.9)	–	**(2.9)**	–	**(2.9)**
Transaction costs	(1.9)	(0.3)	**(2.2)**	(0.4)	**(2.6)**
Cash inflow on sale	7.8	7.5	**15.3**	8.7	**24.0**
	(12.3)	(13.6)	**(25.9)**	0.7	**(25.2)**

Other profit and loss items

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

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

The market challenges of the past year and our active response to them has continued to result in a larger than usual number of non-trading and exceptional items, albeit a significant reduction on the prior year. Total non-trading and exceptional items from continuing operations of £22.5m (2013: £40.4m) were incurred in the year, with cash costs being £4.5m (2013: £12.8m). These items are further explained in note 4 to the financial statements and include:

- Goodwill and intangibles impairment charge of £15.3m (2013: £16.3m) relating to the Dutch Solid Waste activities and the Gent site;
- Charges relating to a structural cost reduction programme of £8.7m (2013: £10.8m), including the introduction of SSCs in the Netherlands and Belgium;
- Impairment of assets of £3.1m (2013: £9.0m), including plant and equipment in the Netherlands and Belgium of £2.5m;
- Aborted bid costs of £2.9m (2013: £nil) principally relate to the write-off of previously capitalised bid costs following the decision to exit bidding activity in South West Wales;
- Amortisation of intangible assets acquired in business combinations of £2.3m (2013: £2.5m);
- During the year the cost for treatment of a large quantity of old unprocessed waste at the Gent site in Belgium was found to be under accrued and this resulted in a current year charge of £1.7m;
- A litigation provision of £1.2m for an ongoing legal issue in Belgium;
- Financing fair value measurements credit of £0.3m (2013: credit of £0.1m);
- A release of £1.0m (2013: £nil) following the reassessment of the contingent consideration payable on a previous acquisition;
- Recovery from a legacy litigation case in Hazardous Waste of £1.4m (2013: £6.0m);
- Net gain of £2.3m (2013: £nil) representing the impairment of assets in the Netherlands of £3.4m following a fire in August 2013 which has been offset by the insurance recovery relating to these assets of £5.7m;
- A credit of £7.7m (2013: charge of £5.8m) in relation to onerous contract provisions in Belgium and the UK where performance has improved in the last 12 months.

The operating profit on a statutory basis, after taking account of all non-trading and exceptional items, was £23.4m (2013: £4.5m).

Net finance costs

Net finance costs, excluding the change in the fair value of derivatives, increased by £1.0m in the year. On core borrowings there were increases in interest rates and loan amortisation costs on refinancing. For PFI/PPP funding, finance income was £4.3m higher due to an increase in interest receivable on financial assets as the build programme continues for the BDR and Wakefield contracts, partially offset by lower interest payable due to the repayment of the Cumbria equity bridge loan.

Profit before tax from continuing operations on a statutory basis including the impact of non-trading and exceptional items turned around from a loss of £10.1m last year to a profit of £7.7m this year.

Taxation

The taxation charge for the year on continuing operations was a charge of £5.9m (2013: £1.0m). The underlying tax charge of £7.3m equated to an effective rate of 24.2%, down from 25.5% last year. There is a tax credit of £1.4m on the non-trading and exceptional items of £22.5m as a significant proportion are non-taxable. The prior year included a credit of £2.0m related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Discontinued items

On 15 October 2013, the Group announced the exit from its UK Solid Waste activities. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the net results of these operations being sold are presented within discontinued operations in the income statement and the assets of the discontinued operations are presented separately in the balance sheet. The loss after tax on discontinued operations was £30.0m (2013: £24.1m) which included a trading loss of £4.4m (2013: £3.6m), finance charges of £0.1m (2013: £0.1m) and exceptional and non-trading items of £24.5m (2013: £21.5m). Further details are set out in note 10 in the financial statements.

The Group statutory loss after tax, including all discontinued and exceptional items, was therefore £28.2m (2013: £35.2m).

Earnings per share (EPS)

Underlying EPS from continuing operations, which excludes the effect of non-trading and exceptional items, remained constant at 5.7p per share (2013: 5.7p). Basic EPS from continuing operations increased from a loss of 2.8p per share to a profit of 0.4p per share.

Dividend

The Board is recommending a final dividend per share of 2.35p (2013: 2.35p), which will be paid on 1 August 2014 to shareholders on the register on 4 July 2014. Total dividend cover, based on earnings before non-trading and exceptional items from continuing operations, is 1.7 times (2013: 1.6 times).

Cash flow performance

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

The strong focus on cash management and tight control of capital expenditure has continued and resulted in a free cash flow conversion of 136% (2013: 118%), which has been boosted by the £3.1m unwind of working capital following the exit from UK Solid Waste. The ratio of replacement capital spend to depreciation was 48%, slightly lower than last year's 54% and this is planned to increase next year to 80%. The increase in cash interest and tax spend in the year was due to net tax receipts last year in the Netherlands which have not been repeated. Following the refinancing activity in the year, arrangement and adviser fees of £2.4m have been paid. Growth capital spend of £18.6m included a number of improvements at ATM, further investments in the Amsterdam AD facility and the completion of the UK AD facility at Westcott Park. The acquisitions and disposals income of £12.1m included the proceeds net of costs from the sale and closure of UK Solid Waste activities. The spend in the prior year represents the final earn out payment in relation to the acquisition of Orgaworld, net of proceeds from the exit of the transport activities in Foronex in Belgium. The PFI funding line has a net outflow of £19.3m as it includes the subordinated debt investment made in April 2013 in relation to the Cumbria PPP contract following full service delivery.

Structural cost reduction programme

The Solid Waste Benelux cost reduction programme is on track to deliver €19m of savings in 2015/16 and the expected timing of the savings and the charges is set out in the table below. Savings totalling €10m were realised in 2013/14, in line with our original forecasts. A further €4m is to be realised in 2014/15. The total cash cost of the Solid Waste Benelux programme has increased slightly to €23m, although some €6m of the cost has passed from last year to the current year due to the timing of the SSC projects.

The projected cash out for the total programme including all other divisions is now £26m versus the £28m originally expected, of which £20m has been spent.

Investment activities and performance

Investment programme

Since 2008, the Group has had a stated strategy of investing up to £250m in sustainable waste management infrastructure, with a target post-tax return of 12-15% on fully operational assets. Following the exit from Solid Waste activities in the UK, the associated assets of £20m have been removed from the reporting of the investment portfolio. As at 31 March 2014, £142m has been invested. The divisional split of the investment to date has been: Organics £79m (56%), Hazardous Waste £34m (24%) and Solid Waste Benelux £29m (20%).

Total cash flows	March 14 £m	March 13 £m
EBITDA	**83.6**	84.8
Working capital movement and other	**8.8**	(1.8)
Net replacement capital expenditure	**(20.9)**	(24.6)
Interest and tax	**(15.0)**	(9.6)
Underlying free cash flow	**56.5**	48.8
Growth capital expenditure	**(18.6)**	(28.3)
Acquisitions and disposals	**12.1**	(7.0)
Restructuring spend	**(9.3)**	(7.0)
Dividend paid	**(13.7)**	(13.7)
PFI funding	**(19.3)**	1.9
Other	**2.5**	(7.4)
Net core cash flow	**10.2**	(12.7)
Free cash flow conversion	**136%**	118%

Solid Waste Benelux structural cost programme €m	P&L charge Cash	Non-cash	Total	Timing of charge 2012/13	2013/14	2014/15	Expected benefit 2012/13	2013/14	2014/15	2015/16
Restructuring	14	3	17	11	2	4	4	8	9	10
Portfolio management	1	7	8	8	–	–	–	2	2	2
Solid Waste shared services	8	–	8	–	5	3	–	–	1	3
Procurement	–	–	–	–	–	–	–	–	2	4
	23	**10**	**33**	**19**	**7**	**7**	**4**	**10**	**14**	**19**

Group Finance Director's review

At 31 March 2014, £90m (2013: £65m) of the investment portfolio was considered fully operational and it delivered a post-tax return of 13.5% (2013: 12.1%). The portfolio as a whole delivered a post-tax return of 11.0% (2013: 12.4%). As previously identified, the post-tax return has varied according to division, with strong returns from the Hazardous Waste investments, reduced returns from the Organics portfolio as assets continue to ramp up and are affected by market volatility, and good returns from the Benelux Solid Waste investments which currently has no new growth assets under construction.

In 2014/15, we will transition £15m of assets from the 'in construction' category as a number of the Hazardous Waste projects become operational.

UK Municipal programme
To support growth of the UK Municipal division's PFI and PPP contracts, the Group is currently undertaking a large investment programme. In the year ended 31 March 2014, our PFI financial assets increased by £70.1m to £195.6m as a result of construction at BDR and Wakefield. The asset increases are broadly matched by increases in non-recourse debt that is lent directly to the PFI funding entities with no recourse to the Group as a whole. In the next 12 months, we expect our PFI financial assets to increase further to around £320m as the construction on these projects is finalised ready to enter full service delivery and the Derby contract reaches financial close and construction starts.

Group return on assets
The Group return on operating assets (excluding debt, tax and goodwill) from continuing operations has increased from 14.2% at 31 March 2013 to 15.1% at 31 March 2014 with significant improvements from the Benelux Solid Waste division. The total Group post-tax return on capital employed was 6.0% compared with 5.4% at 31 March 2013.

Treasury and cash management
Core net debt and gearing ratios
The net core cash inflow of £10.2m, together with a positive exchange effect on the translation into Sterling of the Group's Euro and Canadian Dollar denominated debt, has decreased core debt by £21.3m to £156.0m. This represents a covenant ratio of 1.9 times EBITDA which is well within the banking limits of 3.0 times. The value of non-recourse debt lent directly to the PFI funding entities was £151.2m (2013: £100.1m).

Debt structure and strategy
Core borrowings, excluding PFI/PPP non-recourse borrowings, are now almost all long term, following the successful refinancing in the year of both our main facilities and the issuance of a new Belgian retail bond.

At 31 March 2014, the Group's bank financing comprised a €180m multicurrency revolving credit facility with seven major banks entered into on 31 January 2014 and expiring in January 2019. At 31 March 2014, €62.5m equivalent of the facility was drawn. The margin varies on a ratchet fixed by the Net Debt:EBITDA ratio. The financial covenants of this facility are principally the ratio of Net Debt:EBITDA of less than 3.0:1, interest cover of not less than 3.0:1 and a minimum net worth of £225m. The five-year retail bonds of €100m, issued in October 2010 to investors in Belgium and Luxembourg, have an annual coupon of 5.0% and are quoted on the London Stock Exchange. On 30 July 2013, the Group issued a further €100m of six year bonds to retail investors in Belgium and Luxembourg at an annual coupon of 4.23%. The remaining senior notes issued under the Group's Pricoa private placement at 31 March were €40m of seven year senior notes issued in April 2011 at a fixed interest rate of 5.025% following the repayment of €18m at their maturity on 13 September 2013.

The Group also has access to £27.3m of undrawn uncommitted working capital facilities with various banks. Cash flows are pooled at a country level and each operation is tasked with operating within the limits of the locally available working capital facilities.

Each of the Group's PFI/PPP projects has separate senior debt facilities which contribute approximately 85% of the capital funding required. These facilities are secured on the future cash flows of the PFI/PPP companies with no recourse to the Group as a whole. Repayment of these facilities, and any equity bridge facility in respect of the remaining capital funding, commences when construction is complete and concludes one to two years prior to the expiry of the PFI/PPP contract period. The maximum which could be drawn down under these facilities at 31 March 2014 was £103.0m. Interest rates

< Our Jenkins Lane facility in East London

are fixed by means of interest rate swaps at the time of contract inception. While PFI assets are under construction, there are periods when the timing of drawdowns from the non-recourse debt differs from the outflows required and the Group may temporarily fund any difference.

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

Directors' valuation of PFI portfolio
The Directors' valuation of the PFI portfolio is based on the net present value of the future cash flows of the PFI contracts and it has increased by £22m from £88m to £110m on updated conservative projections. This is primarily a result of the £11m investment in subordinated debt in Cumbria along with good progress in construction at BDR and Wakefield. The Directors' valuation is not recorded in the Group's balance sheet.

Retirement benefits
The Group operates a defined benefit pension scheme for certain UK employees which was closed to new entrants in September 2002. At 31 March 2014, the net retirement benefit deficit relating to the UK scheme was £10.5m compared with £6.8m at 31 March 2013. The increase in the deficit was due to a decrease in the discount rate being used to value the liabilities. The exit from the UK Solid Waste business has resulted in a 40% reduction in the active membership of the scheme. Under IAS 19, this event is classified as a curtailment and the corresponding loss on activities must be recognised in the year. This charge has been calculated at £0.7m and has been classified as part of the loss from discontinued operations. The latest actuarial valuation of the scheme was at 5 April 2012 and a funding plan of £3.1m per annum over seven years has been agreed with the trustees. This payment profile will be reconsidered at the next actuarial valuation which is due at 5 April 2015.

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

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

Outlook
The trading outlook is reported on pages 8 to 11 of the Group Chief Executive's review.

The Group will continue to manage cash very actively. Nevertheless, increased spend on replacement capital and the new growth capital programmes together with final elements of the restructuring programme will result in net debt increasing over the year, while remaining well within our covenants.

Toby Woolrych
Group Finance Director

STRATEGY IN ACTION

SOLID WASTE BENELUX

FOCUSING ON OUR STRENGTHS

WE'RE MANAGING OUR PORTFOLIO OF BUSINESSES AND OFFICES TO KEEP A SHARP FOCUS ON WHAT WE DO BEST

Selling underperforming businesses and streamlining administration has helped to focus the Benelux Solid Waste Division on the things it does best and realise €22m in the process – equivalent to the cost of around 150 new waste trucks.

Henk Rogiers, CFO of Solid Waste Benelux says: "We've sold some businesses because we'd rather do fewer things really well than try and do everything. We only play where we can win and generally that means activities where we are making more from waste rather than simply trading."

That's why, since 2012, we have sold the underperforming transport and wood trading arms of our Foronex business in Belgium for a total of €9.5m. We retained the wood manufacturing activities of Foronex, which have been rebranded as Shanks Wood Products and produce wood dust, which is used in biomas plants to create green electricity.

In addition, we sold the Kluivers metal trading business in the Netherlands. It was also outside the normal scope of our operations and did not support our mission to make more from waste. These divestments will allow us to focus our investment in areas where we have the necessary scale, technical resources and expertise to compete effectively.

During the year, we also identified an opportunity to become more efficient by establishing two Shared Service Centres (SSCs). The SSCs house centralised functions including accounts payable, payroll and health and safety in

> // We've sold some businesses because we'd rather do fewer things really well than try and do everything //

O OPPORTUNITIES

New recycling goals will offer opportunity to Shanks

KEY NUMBERS FOR 2013/14

+16%

O FIRST PROFIT GROWTH FOR FIVE YEARS IN SOLID WASTE BENELUX

€22m

O CASH RAISED FROM SALES OF SURPLUS ASSETS OVER TWO YEARS

a central hub in offices in the Netherlands and Belgium. The implementation of the SSCs enabled us to sell the division's head office as well as a second building in Belgium for a total of €10m.

Henk explains: "By selling non-core businesses and offices we're not just raising money, we are making the division much stronger."

Our philosophy of making more from waste positions us well for any upturn in the longer term. The division is also increasingly lean and focused on its core activities thanks to the active management of its portfolio of businesses and the structural cost programme.

Against this background, there are already some specific opportunities emerging. In the Netherlands, the government is seeking to increase recycling rates from 80% to 83%, and the Secretary of State has recently expressed a desire to see greater recycling instead of incineration. In Flanders, new legislation will from this year require businesses to sort their waste before sending it for incineration, or to send it to a recycling company.

We have also already seen sustained growth in waste mono-streams such as glass and plastics as part of a drive towards a more circular manufacturing economy.

DRIVERS OF PROFIT IMPROVEMENT

2014/15

O FULL COMMISSIONING OF SHARED SERVICE CENTRES AND OTHER COST PROGRAMMES

2015/16

O PROCUREMENT, IT UPGRADES AND CONTINUOUS IMPROVEMENT TO REDUCE COSTS FURTHER

Operating review

"My team is immensely proud to have delivered profit growth in these challenging markets"
Michael van Hulst, Managing Director, Solid Waste Benelux

Solid Waste Benelux
We have focused on improving our core business and outperforming in very challenging markets

Solid Waste Benelux is a market leader in the collection and treatment of solid waste across Belgium and the Netherlands. We have particular strength in the Randstad in the Netherlands, and in the Construction and Demolition waste sectors.

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

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

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

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

Market overview
The challenging market conditions have been covered in some detail in the Chief Executive's review on page 8. The long-term market drivers for companies like Shanks that can deliver market leading recycling rates remain good. Legislation and regulation continue to promote increased recycling rates and to stimulate the beginnings of a circular economy in which waste is re-entered into the manufacturing chain as a raw material whenever possible. The short-term market conditions remain affected by continuing overcapacity, low recyclate prices and competition from both public and private waste management operations. The stabilisation of the Benelux economies and the return of some activity to the Dutch housing market are encouraging indicators of a future improvement in the market, but we do not expect a material increase in waste volumes arising until 2015 at the earliest.

Products and technologies
The Benelux Solid Waste Division operates a number of technologies in order to recycle the waste it sources into usable products. Waste may be delivered to a transfer station, where it is collected and subjected to a rough sort before being sent on for further treatment. The core technology is the material recycling facility (MRF) which combines automated sorting technologies (such as magnets, eddy current separators and optical sorters to remove recyclates) along with manual sorting lines. In Gent, solid recovered fuel (SRF) is being produced to create a clean fuel for incinerators or cement kilns. C&D waste passes through heavier duty processes, including stone crushers to produce rubble. Our Icova site further processes specifically collected (dry)

continues >

STRATEGIC AIMS

- LOWEST COST POSITION THROUGH SCALE AND PRODUCTIVITY ADVANTAGES
- HIGH QUALITY INNOVATIVE PRODUCTS FOR TARGET MARKETS
- COMMERCIAL EFFECTIVENESS TO SECURE VOLUME AND SELL PROFITABLY

OPERATIONAL HIGHLIGHTS

- PROFIT INCREASE DUE TO PORTFOLIO ACTION AND COST REDUCTION
- ONGOING COMMERCIAL WINS IN MARKET PLACE
- ORGANISATION AND CAPACITY ALIGNED TO WIN IN TOUGH MARKETS

Solid Waste Benelux continued

commercial waste into high calorific Icopower pellets which can be used in power stations or cement plants. Shanks also operates businesses that focus on mono-streams, such as glass (Van Tuijl), wood (Shanks Wood Products) and paper, or cardboard (Kluivers). The Hook of Holland facility serves the local horticultural market with composting of green waste and the treatment of rockwool, in which flowers and vegetables are grown. The division also operates a small Hazardous Waste business in Belgium, one landfill in each country and a sand quarry in Belgium.

The key products are as follows:

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

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

Strategy

Our strategy is focused on returning this division to previous profitability levels. We continue to drive cost efficiency through the completion of the structural cost programme together with new procurement and continuous improvement initiatives. We are also investing in optimising our commercial effectiveness to take advantage of market opportunities and have also streamlined the portfolio to increase returns.

Financial performance

The trading profit of Solid Waste Benelux has increased for the first time in five years, growing by 16% to €23.3m, on revenues that fell by 5% to €384.6m. Trading margins increased to 6.1%, with a strong increase in the Netherlands, and return on operating assets also increased by 320bps to 11.3%. This improvement reflects our delivery of the structural cost programme and our portfolio management. Margins declined in Belgium Solid Waste, largely due to price pressure, but increased in Belgium Others due to a strong performance from our landfill and the green energy produced from it, as well as from the impact of portfolio actions to improve Shanks Wood Products. We continue to focus on increasing returns as some units are still operating below their cost of capital at this stage of the economic cycle.

The processing of rockwool, used in Dutch horticulture, is another specialist area of our recycling

Around €15m (68%) of the revenue reduction decrease can be attributed to the exit from small unprofitable activities. Total Dutch Solid Waste volumes grew 1% on prior year, with 2-3% growth in commercial and construction waste offset by falls in rubble and paper. Pricing fell by 1-3% across most segments. Recyclate revenues fell by €2.1m, with reduced volumes and prices, particularly in metals. Solid waste volumes in Belgium increased by 4%, but pricing fell by 2%.

Financial performance

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 14 €m	Mar 13 €m	Change €m	Change %	Mar 14 €m	Mar 13 €m	Change €m	Change %
Netherlands Solid Waste	**223.3**	231.0	(7.7)	-3%	**14.2**	11.9	2.3	19%
Belgium Solid Waste	**108.7**	109.4	(0.7)	-1%	**6.7**	8.4	(1.7)	-20%
Belgium Others	**70.9**	84.1	(13.2)	-16%	**11.5**	9.3	2.2	24%
Divisional central services	**-**	–	–		**(9.1)**	(9.5)	0.4	
Intra-segment revenue	**(18.3)**	(18.3)	–		**-**	–		
Total €m	**384.6**	406.2	(21.6)	-5%	**23.3**	20.1	3.2	16%
Total £m (at average rate)	**324.2**	330.9	(6.7)	-2%	**19.7**	16.3	3.4	21%

	Trading Margin		Return on Operating Assets	
Netherlands Solid Waste	**6.4%**	5.2%	**6.5%**	4.3%
Belgium Solid Waste	**6.2%**	7.7%	**47.1%**	24.7%
Belgium Others	**16.2%**	11.1%		
Total	**6.1%**	4.9%	**11.3%**	8.1%

Operational review

During the year our focus in the Solid Waste Benelux division remained on commercial and operational delivery, combined with portfolio management to increase returns.

At the heart of the profit improvement was the €6m of further cost reduction delivered, as planned, through the structural cost programme. Around half of this benefit was the full year effect of savings delivered in the prior year. Additional savings came as a result of reduced disposal costs, enhanced logistics, lower maintenance spend and reductions at Icova, Contrans and Smink.

The key remaining savings from the structural cost programme will come from the introduction of Shared Service Centres (SSCs) for each of the Netherlands and Belgium and the associated procurement savings that can be generated from a more centralised approach. Both of the new SSCs went live just before year end with the first processes and sites transferring. The process of transitioning all remaining accounting activities into the SSCs will continue through 2014/15, with full savings to be realised from 2015/16. We have also created a new procurement function at a divisional level that has identified material savings that we intend to secure in the coming two years.

As our cost reduction programme progresses, we will be focusing increasingly on continuous improvement initiatives to reduce cost sustainably through resolution of points of failure or other inefficiency. For example, we have been running an initiative in Flanders to improve the operational performance of our SRF line that is expected to reduce costs by up to €1m per annum, and our carefully planned upgrade to the Belgian truck fleet is expected to have a similar impact on EBITDA as a result of reduced fuel and maintenance costs. We have experienced operational challenges at our glass recycling business, Van Tuijl, resulting in impairment of some of the acquired assets and goodwill. Remedial actions are well in hand.

Our commercial activities have also been a major contributor to the strong performance in the current market conditions. We believe that the volume increases described in the financial performance review reflect market share gains. Contract wins have included Ado Den Haag, V&D, Zublin, NL ZorgserviceXL, Baxter, Vivaqua and SPGE. We have in the last quarter been running a commercial effectiveness programme to drive consistent use of best practice across all our sites in the Netherlands.

The portfolio management actions to increase focus and to generate cash from underperforming areas have been reported on in the Group Chief Executive's review (page 8 to 11). The cash generated of €22m over the last two years is sufficient to build three sorting lines or to replace around 150 trucks.

Outlook

We do not expect the nascent economic recovery in the Benelux to result in materially higher waste volumes or prices in 2014/15. Our focus on commercial success, combined with the delivery of our cost programmes, is expected to offset the continuing challenging market conditions to deliver a broadly similar performance to last year. Over the medium term, we believe that we are increasingly well positioned to take advantage of a recovery in market conditions, particularly in the Dutch construction market, as and when it may arise.

more information at
www.shanksplc.com/solid

STRATEGY IN ACTION

Gaining share in a downturn

During tough markets it is important to continue to focus on the customer. Our regional operating model ensures that we deliver a local service and a great understanding of local market needs. We have maintained our local commercial field forces and local customer invoicing even as we have implemented the structural cost programme to optimise capacity and gain efficiency.

Between January 2011 and December 2013 we lost around €52m or 21% of our revenue in the Netherlands due to customer bankruptcies, lower customer activity or pricing reduction. However, in the same period we gained around €39m of revenue in net gain of new customers.

GROUP SYNERGIES

- GAINING SHARE THROUGH 'TOTAL CARE' CONTRACT WINS
- COLLABORATION TO OPTIMISE GREEN WASTE VOLUMES WITH ORGANICS
- INTRODUCTION OF NEW PROCESSES USING GROUP EXPERTISE
- SHARED OVERHEADS IN THE NETHERLANDS

STRATEGY IN ACTION

HAZARDOUS WASTE

A TOTAL PACKAGE FOR CUSTOMERS

PROVIDING A TOTAL WASTE MANAGEMENT SOLUTION THROUGH A SINGLE CONTACT PERSON IS MAKING OUR CUSTOMERS' LIVES MUCH EASIER

Dealing with multiple contractors to remove different types of waste can be an expensive and time-consuming headache for companies. Our solution is Shanks Total Care, a service providing a complete range of cleaning, transport and waste management expertise through a single contact.

It's a simple concept that has enabled us to use our unique range of services and treatment technologies to win new customers and to extend and deepen our relationship with existing customers. We now provide integrated cleaning, transport and waste management services to organisations including oil and gas company Taqa and logistics business Den Hartogh.

Ron Grobecker, Commercial Director at Reym, part of Shanks' Hazardous Waste Division, says: "We are solving a problem for our customers. Normally they would have a different company and contact person for cleaning and for waste management and they may have different contractors for each waste stream.

"But within the Shanks Group, we have the technology and expertise to provide all of these solutions through one contact person. We can clean their facilities, take the waste away, treat it and send them a single invoice."

The idea proved compelling for Taqa, which had worked with Reym for 18 years prior to the launch of Shanks Total Care. The company has now signed a single waste management contract spanning facilities including offshore oil platforms, drilling locations on land and gas storage sites.

Another example is Den Hartogh who had previously used both Reym and our ATM business for some services but has now awarded us a contract for all of the cleaning and waste management at its truck cleaning stations in the Netherlands.

Through these contracts, our customers gain access to expertise from several Shanks businesses, such as Reym, ATM, Van Vliet Groep, Smink, Orgaworld and Klok. Their combined capabilities enable us to to divert about 90% from landfill, saving our customers money and helping them meet their sustainability targets.

> // We have the technology and expertise to provide all of these solutions through one contact person //

KEY NUMBERS FOR 2013/14

€176m

- REVENUE ON RECORD VOLUMES

€20m

- BEING SPENT TO INCREASE CAPACITY AND TREAT NEW WASTE STREAMS

o OPPORTUNITIES

Waste management can be complex and arduous for companies, but Shanks Total Care reduces the burden and the cost

Shanks Total Care provides us with an opportunity to win more business and to grow our market share. It is a service for customers that offers significant advantages through both greater simplicity and reduced costs for companies at a time when the market remains under pricing pressure.

Although some other companies act like a broker to bring a number of cleaning and waste management services together, we are unusual in being able to supply all of these services from within the Shanks Group and therefore can ensure we maintain a high level of service and co-ordination.

GROSS ASSETS UNDER CONSTRUCTION

2014/15

- COMMISSION NEW SOIL EMISSIONS UNIT, NEW WATER TANKS AND DEGASSING UNIT

2015/16

- COMMISSION THEEMSWEG SITE AND JETTY EXTENSION

Operating review

"In the past year, we have grown through treatment of new waste streams and greater commercial coverage"
Jonny Kappen, Managing Director, Hazardous Waste

Hazardous Waste
Investing for growth with attractive returns

The Hazardous Waste Division delivered underlying strong profit growth with record treatment volumes and cleaning hours. An improvement in markets and further investments are expected to continue to drive medium-term growth.

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

The business model is shown in the graphic opposite.

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

Market overview
The core market drivers for the Hazardous Waste division are industrial activity in the Benelux, particularly in the Rotterdam region, coupled with construction and site remediation activity across Europe.

Industrial activity in the Benelux has stabilised in the last year, and we have seen continuing robust activity in Rotterdam, which we believe is set for steady growth in the future. This has resulted in good demand for industrial cleaning services and growth in waterside waste volumes arising. However, this is somewhat offset by strong margin pressure experienced in the tenders for the renewal of industrial cleaning contracts due to the scale and purchasing power possessed by the larger industrial corporations in the Netherlands. New legislation coming into force in 2015 to forbid the degassing of fumes from ships' tanks to air is expected to drive volume growth through our newly commissioned degassing unit at ATM.

The volume of contaminated soil available for treatment in Europe has been affected by the budgetary constraints of governments. This results in a continued downward pressure on pricing. However, the long-term pipeline remains sound, with many sites earmarked for brownfield redevelopment. Short-term decreases in the volume of soil available are offset by increased volumes of tar containing asphalt grit as a result of a successful industry lobbying campaign to have this material, produced during road surface replacement, treated within the Netherlands, albeit at lower pricing. We have also opened up new market opportunities, such as the treatment of iron sludges from steel manufacturing, and are working with the authorities to be able to treat a broader range of contaminants in soil, such as pesticides.

Products and technologies
The Reym business operates bespoke and specialised cleaning equipment in order to serve its clients. These include trucks for onshore work and specialist transportable units for offshore work. Our solutions use

continues >

STRATEGIC AIMS

- INVEST IN INCREASING TREATMENT CAPACITY
- EXPAND RANGE OF INPUTS REQUIRING THERMAL TREATMENT
- BROADEN COMMERCIAL COVERAGE
- DRIVE FURTHER SYNERGIES AND PRODUCTIVITY GAINS

OPERATIONAL HIGHLIGHTS

- GOOD UNDERLYING GROWTH IN DUTCH MARKETS
- €18M INVESTMENT PROJECTS UNDERWAY
- DEGASSING CAPABILITY INSTALLED
- STRONG SOIL INPUT TO NEW SHED

Operating review

Hazardous Waste continued

ultrasonic cleaning, high pressure cleaning, vacuum cleaning, chemical cleaning and decontamination. Liquid waste streams (including those created by the cleaning process) can be collected and transported to one of our waste treatment facilities. Reym operates a fleet of around 250 vehicles and units from sites across the Netherlands. Most of these sites are also equipped and licensed for treating hazardous waste.

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

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

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

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

- Invest in increasing treatment capacity;
- Expand the range of inputs requiring thermal treatment;
- Broaden commercial coverage; and
- Drive further synergies and productivity gains (see page 33).

Financial performance
Revenues grew by 3% to €175.8m and operating profits were flat at €23.5m. Trading margins and return on operating assets remained strong at 13.4% and 34.7% respectively. Volume growth in ATM in both soil and water treatment offset the impact of the end of a materially profitable contract in the prior year. Exclusive of the impact of this contract, the division delivered double digit underlying profit growth. Reym also increased revenues but saw a slight margin fall in the face of pricing pressure.

Operational review
Hazardous Waste delivered another strong performance, with a continuing focus on customer service and operational efficiency generating underlying profit growth, as outlined above, in the face of significant pricing pressure.

ATM processed record volumes such that it was able to fully offset the end of a particularly profitable contract in the prior year. The facility operated at close to capacity for most of the year, with significant investment underway to optimise and increase capacity for the coming years. Soil input was encouraging, with the newly completed soil storage shed providing an essential buffering capability to receive different types of contaminated soil for optimal processing. We have secured good soil input from international sources, as well as beginning to see the benefits of a campaign by the industry to domestically treat tar containing asphalt granulate (TAG) that is dug up during road renovation and which had been increasingly exported. Revenues from waste water treatment also grew strongly, with a particular increase in the treatment of sludges.

Reym also performed robustly in tough markets, despite intense margin pressure. All key tenders were retained last year. As a result of these renewals, around 70% of revenue has been secured for 2014/15. Operational efficiency and asset utilisation were again increased over last year's strong performance. The Shanks Total Care offering was actively and successfully promoted during 2013/14, resulting in a number of important new contracts, including with Taqa, den Hartogh and RWE. The Total Care offering uniquely combines industrial cleaning services with the transportation and treatment of hazardous, solid and organic waste by other Shanks sites.

The long-term growth of our Hazardous Waste Division will be supported by

Financial performance

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 14 €m	Mar 13 €m	Change €m	Change %	**Mar 14 €m**	Mar 13 €m	Change €m	Change %
Hazardous Waste	**175.8**	170.9	4.9	3%	**25.7**	25.3	0.4	2%
Divisional central services	**–**	–	–		**(2.2)**	(1.9)	(0.3)	
Total €m	**175.8**	170.9	4.9	3%	**23.5**	23.4	0.1	0%
Total £m (at average rate)	**148.2**	139.4	8.8	6%	**19.9**	19.1	0.8	4%

	Trading Margin		Return on Operating Assets	
Total	**13.4%**	13.7%	**34.7%**	36.2%

selective investment in increased capabilities and capacity. A number of projects were completed in 2013/14 and others are underway that will complete in 2014/15 and 2015/16.

Projects completed in the year included:

- A soil shed, which allows large soil contracts to be received, stored and processed in an efficient manner. At the year end, we had significant stocks on site to support business performance in 2014/15. The shed can store up to 500,000 tonnes of soil (six months' capacity) to await treatment;
- A waterside boiler so that ship cleaning can continue even if the main soil treatment kiln, from which surplus heat is normally taken, is off line for maintenance;
- A ship degassing unit to remove and destroy waste gasses from ships that are cleaned. New legislation in the Netherlands will, from July 2015, require all inland ships to be degassed into such units rather than venting fumes into the open air;
- An iron sludge processing system to manage the increasing volumes of iron sludge for treatment.

We have the following further expansion projects in construction that will complete over the next 12 months:

- Waste water and sludge collection depot at Theemsweg, in the heart of the Europoort of Rotterdam;
- Sevenfold expansion of our waste water storage capacity with three new 10,000m³ tanks;
- Expansion of our thermal soil treatment emissions equipment to allow optimised throughput;
- Introduction of an ultrasonic cleaning unit to add a new capability to our Reym business;
- Extension of the jetty at ATM to increase capacity for ship cleaning.

These projects will in aggregate cost around €16m in 2014/15.

Outlook

Good volumes are expected at Reym but at reduced prices, while the volume outlook for ATM's soil and water treatment remains positive. The timely completion of our expansion projects is expected to underpin continued growth in the Hazardous Waste Division while sustaining attractive returns.

more information at **www.shanksplc.com/hazardous**

STRATEGY IN ACTION

Introducing new technologies

Ships have for many years visited ATM to have their holds and bilges cleaned. New legislation coming into force in 2015 will also require ships to have residual gases in their tanks extracted in a safe and controlled environment rather than being vented to air as they travel. To meet this emerging need, ATM has installed a degassing unit to remove and destroy any gases in our existing incinerator. This additional service for our customers has undergone trials in early 2014 and will be fully commissioned in 2014/15.

A video made by a local television company about the degassing unit can be seen on our website.

GROUP SYNERGIES

- SUPPORTED BY OTHER DIVISIONS TO WIN 'TOTAL CARE' CONTRACTS
- WASTE WATER TREATED AT AMSTERDAM AD FACILITY
- OBTAINED THEEMSWEG DEVELOPMENT SITE FROM SOLID WASTE
- INVESTMENT CAPITAL AND SUPPORT FROM GROUP

STRATEGY IN ACTION

ORGANICS

GAME-CHANGING TECHNOLOGY

ORGANIC WASTE CAN BE EXTREMELY HARMFUL TO THE ENVIRONMENT BUT OUR ADVANCED TECHNIQUES ARE PUTTING IT TO GOOD USE

// In the Netherlands, municipalities have an obligation to increase the amount they recycle //

KEY NUMBERS FOR 2013/14

€44.4m

REVENUE GREW BY 1% TO €44.4M DURING 2013/14

€5.5m

TRADING PROFIT WAS €5.5M IN THE YEAR

Organic waste is highly damaging when it decomposes in landfills because it emits the greenhouse gas methane. Instead, we use advanced technology to convert it into clean energy and nutrient-rich compost for agriculture.

An example of our innovative approach can be seen in the Dutch province of Flevoland, where our Biocel facility processes 30,000 tonnes of organics each year, including mixed garden and food waste. It is unique in handling dirty nappies, which are notoriously hard to break down and treat safely, in a sophisticated dry anaerobic digestion process.

Henk Kaskens, Managing Director, Organics, says: "In the Netherlands, municipalities have an obligation to increase the amount they recycle from 80% to 83%. That sounds like a small step but actually it's a challenge because they already recycle quite a lot. One of the easiest ways to achieve it is to separate more organics from household waste.

"In Flevoland, we can treat nappies with other organic waste but we are the only ones to do it because it is more difficult with other technologies. Anaerobic digestion is usually associated with liquid waste but our 'dry' process means that we can also process solid waste."

The Biocel is part of our portfolio of innovative technologies. Micro-organisms turn the waste into biogas and heat in an oxygen-free environment. Each tonne of waste can produce 85m^3 of biogas, which is then turned into electricity and further heat in a combined heat and power (CHP) unit. The facility is energy self-sufficient and exports around 3.5MWh of electricity to the Dutch power grid each year.

From every tonne of waste that comes into the facility, around 35% to 40% is transformed into high-grade compost for agriculture and the remainder evaporates as clean water. Only 1-2% of the waste from the thousands of truckloads that arrive each year cannot be recycled, equivalent to a bucketful in every tonne.

OPPORTUNITIES

Our organic processes provide a way for authorities and companies to meet tougher recycling targets

Shanks is a leading player in the relatively mature Dutch organics market and we have significant expertise there, which we are using to develop our business in new markets, including the UK and North America.

In the UK, less than 20% of food waste is currently treated by composting or anaerobic digestion. The long-term future of the market is one of expansion but the key to success is to secure long-term contracts.

In North America, more than 90% of organic waste is currently sent to landfill but national and provincial governments (particularly in Canada) are looking for more sustainable solutions. The exact timing of specific opportunities is unclear but the region remains an important growth area and we are well placed within it because of our European experience.

Operating review

"We have encouraging opportunities for growth in Canada and with leading customers in the Netherlands"
Henk Kaskens, Managing Director, Organics

Organics
Our Organics Division is a market leader in composting and anaerobic digestion of harmful organic waste

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

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

The business model is shown in the graphic opposite.

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

Market overview
The increased diversion of organic waste from landfill is a key regulatory target for governments across the world, with volume increases forecast over the medium to long term in order to meet these goals.

The response of providers to these needs can create overcapacity in certain regions, leading to local challenges with securing of volumes or appropriate pricing. This is the primary reason we increasingly seek long-term municipal contracts to support the decision to build any new facilities.

In the Netherlands, we expect steady growth in composting volumes available. However, some overcapacity means that contract renewals are generally at lower prices than previously, especially when the expiring contract was entered into a long time ago. The wet AD market is more challenged, with strong competition for those waste streams that create the largest

continues >

STRATEGIC AIMS

- RAMP UP EU ASSETS PROFITABLY
- CAPTURE NORTH AMERICA FUNNEL
- CO-PROCESS WITH DUTCH A-BRAND CUSTOMERS
- INVEST IN TECHNOLOGY AND LEADERSHIP

OPERATIONAL HIGHLIGHTS

- STRONG YEAR FOR DUTCH COMPOSTING
- CHALLENGES IN EUROPEAN AD BUSINESS
- GOOD PROGRESS IN CANADA FUNNEL OF OPPORTUNITIES
- RECORD PERFORMANCE FROM CUMBERNAULD

more information at **www.shanksplc.com/organics**

Operating review

Organics continued

quantities of gas resulting in negative gate fees for the waste. Growth opportunities remain for innovative partnerships with major A-brand customers such as those that we have entered into with Albert Heijn and Friesland Campina.

In the UK, the Zero Waste Scotland initiative is boosting volumes diverted in Scotland, but there are signs of overcapacity for merchant AD treatment in England where there is currently no structured strategy to increase municipal segregation and diversion.

In Canada, we are seeing accelerated progress in a number of municipal opportunities across all major provinces. With relatively low current diversion rates, there is a good prospect of strong growth in this market segment in the coming decade.

Products and technologies

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

AD can be performed in a wet or dry process. In the wet AD process, AD operates in a similar process to a digestive tract. Depackaged food slurry is fed into large steel digester tanks full of bacteria, which break down the organic waste to produce methane and digestate. The methane is used as fuel in engines that produce electricity (and heat, where the latter has an economic use). The digestate is dewatered where possible and treated to become a fertiliser, while the water is cleaned and discharged. Dry AD likewise produces green electricity from the same biological process but in a dry state and without the subsequent need to dewater.

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

Strategy

The core strategy of the Organics Division is to:

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

Financial performance

Revenues grew by 1% to €44.4m but trading profit fell by 16% to €5.5m.

The Netherlands decreased as a result of pricing pressure from overcapacity in the Dutch AD market not being offset by increased volumes processed, and Canada contracted due to operational restrictions at London, costs of processing additional waste volumes at Ottawa, an unusually cold winter and the initiation of bidding costs on a number of opportunities. Cumbernauld delivered a good performance, increasing revenues and trading profit, while Westcott Park remained in commissioning through the year.

Operational review

The Organics Division had a disappointing year, with increasing pressure on input gate fees combining with operational challenges to reduce profits on slightly increased revenues.

In the Netherlands, the composting plants delivered a strong performance, with increased throughput and tight operational cost control. The third Combined Heat and Power (CHP) engine was commissioned at our Amsterdam AD facility, alongside a dryer to reduce the cost of digestate disposal. However, the initial benefits of these were more than offset by falling input prices for waste, especially waste with a high gas yield. Good progress was made in our collaborations with A-brand customers.

The Canadian sites performed well through the year, although they were impacted both

Financial performance

	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 14 €m	Mar 13 €m	Change €m	Change %	Mar 14 €m	Mar 13 €m	Change €m	Change %
Netherlands	**18.9**	17.8	1.1	6%	**2.9**	3.3	(0.4)	-12%
Canada	**17.3**	18.4	(1.1)	-6%	**3.5**	4.4	(0.9)	-20%
Other Organics	**8.2**	7.8	0.4	5%	**0.3**	–	0.3	n/a
Divisional central services	–	–	–	–	**(1.2)**	(1.2)	–	–
Total €m	**44.4**	44.0	0.4	1%	**5.5**	6.5	(1.0)	-16%
Total £m (at average rate)	**36.2**	35.9	0.3	1%	**4.4**	5.3	(0.9)	-17%

	Trading Margin		Return on Operating Assets	
Netherlands	**15.3%**	18.5%	**5.1%**	6.4%
Canada	**20.2%**	23.9%	**8.3%**	10.3%
Other Organics	**3.7%**	0.0%	**0.9%**	0.2%
Total	**12.4%**	14.8%	**5.2%**	6.7%

(Results for Canada shown at constant currency) commercially and operationally by the exceptionally cold winter. The London site continues to operate under volume restrictions from the Ministry of the Environment due to historic odour issues. However, we have commissioned new emissions control equipment that is resulting in record low odour scores, so we are hopeful that volumes can increase later in the year. The long-running arbitration process concerning contractual issues with the Ottawa municipality is expected to resolve in 2014/15. Operating costs increased in Ottawa during the year as a result of increased volumes processed for the same revenue under the contract.

We have been working for a number of years to develop a further pipeline of potential municipal organic treatment opportunities in Canada. We are therefore pleased that a number of these procurement programmes are now moving forward and that we are on the tender shortlist for three opportunities, two of which may be awarded in 2014/15. Initial bid fees of £0.2m were expensed in relation to these in 2013/14 and these are expected to increase next year.

In the UK, the Cumbernauld AD facility delivered a good performance with improved profitability. As discussed in the Chief Executive's review, the Zero Waste Scotland policy initiative is boosting volumes of organic waste available such that we are investing further to optimise performance. Westcott Park, our new AD facility in Buckinghamshire, was in a commissioning phase through the year, running around six months late due to the bankruptcy of an electrical contractor late in the construction phase. The site is now beginning to produce gas and generate electricity. We have exited the bidding process for a number of AD contracts in South Wales and the bidding costs have been written off. The Belgian AD facility at Roeselare struggled in very tough local market conditions, with increasing costs in input waste and lower electricity and subsidy income. As a consequence, we have taken a partial impairment charge against the Roeselare assets.

Outlook

The outlook is for a slightly reduced performance next year from the Organics Division. A number of our long-term Dutch composting contracts are due to renew in the coming 24 months and these are expected to be at materially lower prices if the contract tenders are won. The impact of this, which had been expected, was due to have been offset by growth from increased AD capacity. However, reduced gate fees mean that we no longer expect this to be achievable. In Canada, we will be investing up to €1m in bid costs in 2014/15, which will be expensed. Overall, the existing assets continue to generate good operational cash and future investments are targeted at long-term municipal contracts where future satisfactory returns can be secured with confidence.

STRATEGY IN ACTION

Building the Canadian funnel of opportunity

The Canadian organics market is expected to see a significant number of bidding opportunities for long-term municipal contracts in the next few years. Shanks can augment its existing local footprint in Canada with world leading technical expertise from its Netherlands business and years of experience in managing municipal contracts from its UK operations. Where appropriate, Shanks teams up with local partners. In Quebec we have teamed up with Sanimax, a well respected regional rendering company that has in depth experience of the management of organic waste within the province.

2014/15

- FULLY COMMISSION WESTCOTT PARK AND IMPROVE CUMBERNAULD
- RENEW DUTCH COMPOSTING CONTRACTS

2015/16

- BUILD NEXT CANADIAN MUNICIPAL FACILITY

STRATEGY IN ACTION

UK MUNICIPAL

TURNING WASTE INTO POWER

OUR UK MUNICIPAL DIVISION PROCESSED MORE THAN A MILLION TONNES OF HOUSEHOLD WASTE LAST YEAR, TURNING MUCH OF IT INTO CLEAN ENERGY

The UK Municipal Division processes in excess of 1.25 million tonnes of household waste and diverts the vast majority from landfill. But it's the products that it creates from ordinary household rubbish that make it a truly extraordinary business.

Peter Eglinton, Managing Director of the division, says: "I don't see this as a waste business. Waste is certainly our input but I see our business as one which creates fuels and energy because that's the majority of what we do. And we have the technology, systems and highly-skilled people in place to do it."

It's a vision that strikes a chord with local authorities anxious to divert more waste away from landfill. We already operate under long-term PFI or PPP contracts in East London, Cumbria, Dumfries and Galloway, and Argyll & Bute and facilities are planned for Barnsley, Doncaster and Rotherham (BDR), Wakefield and Derby. Our customers all require a consistent and reliable service but also one that is focused on improving year on year.

But it's not simply the prospect of turning their waste into something useful that inspires local authorities but also the opportunity to choose the technologies that best suit their needs and the preferences of local people. These range from mechanical and biological treatment (MBT) to anaerobic digestion (AD) and gasification.

During the year, for example, we began building a waste treatment facility in South Kirkby that will include MBT, the Group's first autoclave and an AD plant. When complete, it will process up to 230,000 tonnes of municipal solid waste, converting much of it into fuel for the nearby Ferrybridge Power Station and facilities such as cement kilns.

> // Waste is certainly our input but I see our business as one which creates fuels and energy //

Organic material will be sterilised in the autoclave before being converted into biogas for energy generation, and compost. This energy will both power the facility and be exported back to the grid; it is estimated that the process will generate sufficient green energy to power around 3,000 homes.

o OPPORTUNITIES

The legislative and financial environment is right for a Group like Shanks

We are a leading player in the UK municipal market, which has been largely funded through PFI or PPP initiatives as the Government sought to move waste management from landfill to a more sustainable model. We have a total market share of around 8%, but it is considerably higher in our target market outside of incineration.

A waste treatment solution has been identified for 75% of the UK's municipal waste and the PFI funding structure has now ended. Solutions for the rest of the market are now likely to be through shorter-term finance models or by taking up unused capacity in existing treatment facilities.

Operating review

"We have clear plans to grow this business through our new projects under construction and by providing high-quality clean fuel to meet the green energy needs of our customers"
Peter Eglinton, Managing Director, UK Municipal

UK Municipal
UK Municipal takes municipal waste and diverts as much as possible from landfill, extracting recyclates, making products and creating clean fuel and electricity from bio-gas

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

The business model is shown in the graphic opposite.

In a typical PFI or PPP solution, a special purpose vehicle (SPV) is created to finance the construction of the treatment assets and Shanks arranges for a club of banks to provide funding. Securing this funding is called 'Financial Close', at which point all the long-term contracts are signed between Shanks, the councils, the suppliers and the banks. This signals the start of the build phase, in which Shanks may or may not be the main contractor.

On completion and commissioning of the assets, Shanks will generally inject up to 20% of the invested capital of the SPV in the form of subordinated debt, which should earn a return of around 12% pre-tax.

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

continues ›

more information at
www.shanksplc.com/ukmunicipal

STRATEGIC AIMS

- SUSTAIN MARGIN ON OPERATIONAL CONTRACTS THROUGH PARTNERSHIP WITH LOCAL AUTHORITIES
- COMMISSION ASSETS UNDER CONSTRUCTION
- ACHIEVE FINANCIAL CLOSE ON KEY CONTRACTS
- WIN NEW VOLUME TO UTILISE CAPACITY

OPERATIONAL HIGHLIGHTS

- SUCCESSFUL FIRST YEAR AT WAKEFIELD
- BUILD PROGRAMME ON SCHEDULE AND BUDGET
- DERBY PLANNING CONSENT RECEIVED
- OVERHEADS REDUCED FOLLOWING EXIT FROM SOLID WASTE

Operating review

UK Municipal continued

Financial performance	Revenue				Trading Profit			
	Year ended				Year ended			
	Mar 14 £m	Mar 13 £m	Change £m	Change %	Mar 14 £m	Mar 13 £m	Change £m	Change %
UK Municipal	137.5	115.3	22.2	19%	13.1	14.4	(1.3)	-8%
Divisional central services	-	-	-		(3.9)	(4.8)	0.9	
Total	137.5	115.3	22.2	19%	9.2	9.6	(0.4)	-4%

	Trading Margin	
Total	6.7%	8.3%

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

Market overview

The bidding process for major PFI/PPP opportunities in the UK is largely complete, with a few programmes, such as our Derby contract, moving towards financial close and the build phase. Some councils are still seeking a solution to their waste diversion needs, quite possibly through contracting spare capacity in existing assets. Our UK Municipal Division, having therefore secured its input waste, then competes in a number of downstream markets, in particular with regard to the provision of solid recovered fuels to cement manufacturers and refuse derived fuels to energy from waste companies. A proportion of these disposal routes are secured under long-term agreements.

Products and technologies

The overall goal of all PFI or PPP contracts is to maximise recycling and diversion from landfill. Each contract will involve a bespoke solution to meet the needs and preferences of the customer. This will generally include the operation of household waste recycling centres (HWRCs) and MRFs to sort incoming waste streams into recyclates. Shanks has an exclusive contract with A2A (formerly Ecodeco), a leading European waste engineering company, to operate mechanical biological treatment (MBT) facilities in the UK. These treat the residual waste, shredding and drying it to produce a high calorific fuel called solid recovered fuel (SRF), which can be burned as a fossil fuel substitute in cement kilns, or refuse derived fuel (RDF) which can be incinerated to produce electricity. Remaining organic elements can be composted to secure further diversion from landfill or processed by anaerobic digestion (AD) to produce electricity.

Strategy

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

Financial performance

Revenues grew strongly during the year, increasing by 19% to £137.5m. Trading profit fell by 4%, as expected, to £9.2m, reflecting that there had been £0.5m of fee income relating to successful plant commissioning in the prior year. Underlying trading profit, excluding this one-off income, increased by 1%.

Operational review

UK Municipal had a good year, achieving its targets while successfully separating from the UK Solid Waste business as it was sold. There was a strong underlying performance in the ELWA, Derby and Argyll & Bute contracts. ELWA delivered record diversion during the year, and in Cumbria, the two MBT facilities were able to divert nearly all outputs from landfill. Operating margins in the division fell as expected due to the first full year operating the Household Waste Recycling Centres (HWRCs) at Wakefield under an interim contract while the main treatment facility is constructed. The Cumbria contract saw a strong performance from the Hespin Wood MBT plant, with excellent diversion rates, but operational challenges in the first full operational year at the Barrow MBT impacted performance and trading profit. Losses continue to reduce in the Dumfries and Galloway contract, and a contract amendment agreed in January will significantly reduce future losses. As a result, we have released £5.0m (39%) of the onerous contract provision as an exceptional credit to reflect the improved future prospects of this contract. We are currently working with the client to address the opportunities and challenges of the Zero Waste Scotland initiative. Off-take markets for our residual fuels remain dynamic and, at times, challenging. We are exploring opportunities to increase further profitability and also security in these markets.

The exit from UK Solid Waste presented significant separation challenges along with the opportunity to reduce the divisional overhead and refocus it on the needs of the UK Municipal customers and operations. This project was largely completed by year end, with total overhead being reduced by an annualised £2m, including the consolidation of divisional finance into the Milton Keynes divisional headquarters and the closure of the shared service centre at Nursling, Southampton.

The £200m build programmes at Barnsley Doncaster and Rotherham (BDR) and Wakefield are progressing well and to plan. At BDR, the main civil construction works are nearing completion and the installation of the waste processing equipment has commenced, with the plant expected to be commissioned and to process the first trial waste around March 2015. The construction of the new waste facilities at Wakefield is also progressing well and the site is expected to be commissioned in the summer of 2015.

Good progress was also made with the important Derby PFI contract. Final planning permission was secured for our client to build a gasification facility at the Sinfin Lane site in Derby, following a successful appeal at the High Court. We are now in negotiations to secure Financial Close on the project later in the year. We have also extended our interim contract to provide services to Derby City and Derbyshire County Councils until 31 March 2017. The income for the last two years will be at a lower rate, to reflect changing circumstances, and this will reduce the annual profit on the interim contract from April 2015.

Outlook

The outlook for the UK Municipal Division is positive. Our operational contracts are expected to continue to perform robustly. Growth is expected to come primarily from the new assets to be commissioned from 2015 to 2017.

STRATEGY IN ACTION

Managing £220m of capital spend

Our growth over the next few years is underpinned by the timely completion of our major construction projects at BDR and Wakefield. The technology across these sites includes sorting lines, mechanical biological treatment facilities, dry and wet anaerobic digesters and household waste recycling centres (HWRCs). In addition to the technology, on-site education centres will promote the benefits of the facilities to school children and the local community. Our Calder Vale Road HWRC in Wakefield recently won an award in the Design of a Waste Management Facility category at the Excellence in Recycling and Waste Management Awards.

GROUP SYNERGIES

- COLLABORATION WITH ORGANICS IN THE UK AND CANADA
- WORKING ON GROUP OFF-TAKE MARKET WITH SOLID WASTE BENELUX
- SHARED OVERHEADS WITH GROUP

Risks and uncertainties

A long established and effective framework

Risk management framework

The effective management of risk is a core function of the Board and executive management. Shanks Group has a long established and effective framework for risk identification, evaluation and management. This is an area for constant improvement and we have made advances in risk management in the last year and have a programme to deliver further improvements in 2014/15.

Objectives
Shanks' risk management framework has five key objectives, which are shown in the graphic below.

Challenging markets and our risk process
The waste markets we operate in continued to be challenging in the past year, adding to our real experience of how significant risks can test our financial performance and of how we can effectively mitigate these risks. Our portfolio management actions can be seen as a decisive and strategic response to an evaluated market risk. In addition, our actions through the changes we have made to strategy, organisation, portfolio and cost base have demonstrated that we have anticipated and met risks in a timely and effective manner. We continue to review our risk processes and have made improvements so that we can identify and address risk more quickly and effectively.

The following sections report on both the progress made in the past year and our goals for the next year.

Current risk framework
The main elements of our risk management process are as follows:

- The schedule of matters reserved for the Board, and our adherence to it, ensures that all significant factors affecting Group strategy, structure and financing are properly managed by the directors
- The Group risk management framework ensures that each business assesses the risks it faces and its monitoring and control of those risks. The output of this

Five key objectives of our risk management framework

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

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

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

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

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

more information at
www.shanksplc.com/risksanduncertainties

process is a summary of all significant strategic, operational, financial and compliance risks, mitigating controls and the action plans necessary to reduce risks to a level deemed appropriate by the Board. These are reviewed by both divisional management and the Board to ensure the appropriateness of the risks identified and the controls and action plans reported

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

- Involvement of an increasing number of managers and other employees across the Group in assessing risks we face and producing the risk registers for each division
- Ensuring that an enhanced risk assessment is completed for all major capital requests
- Review of top risks in each division at divisional review meetings to help monitor risk mitigation actions. As well as being embedded in the major decision-making processes involved in delivering the Group's strategy, risk management is also embedded in the day-to-day management of operations, including operational, health, safety and environmental compliance where there is regular monitoring, auditing and reporting of procedures and controls

Progress made during 2013/14

We have made good progress in developing our risk management systems. We have:

- Reviewed and updated risk strategy and policy, including enhancement of our risk appetite matrix and its application
- Revised and issued enhanced anti-bribery and other risk specific policies and systems
- Strengthened our Group Risk Committee, pushing a series of important initiatives through it
- Conducted training for all of our top teams in anti-bribery and corruption measures
- Commenced the migration of our current risk registers into a web-based system with greater ability to track risks, their direction and implementation of mitigation measures
- Reintroduced an effective process of internal peer review audits and employed external advisors to bolster and support our internal reviews
- Reviewed and refined our internal control frameworks for key processes
- Enhanced our resilience to ICT, fire and other potential business interruption risks

Improvements for 2014/15

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

- Further training in risk management at a divisional level
- Full implementation of our new web-based online risk register and management system
- Introducing a common framework for business continuity planning across all of our operations
- Spreading awareness of our risk management strategies and policies through our new ConnectUs Group collaboration tool
- Rationalisation of our current insurance programme to gain benefits in terms of risk transfer effectiveness
- Continuation of the internal peer review audit process we initiated in 2013/14, supplemented by deep-dive reviews with external advisors as required
- Introduction of an enhanced control framework for identified key processes
- Full implementation of the Shared Service Centres in the Benelux to enhance the control environment and systems in use

Risks and uncertainties

"Avoidance of downside events can be as important to profit as our investment for growth. Risk management is at the heart of all our decision making"
Toby Woolrych, Group Finance Director

Key risks, risk direction and mitigations

In early 2013, we completely reviewed our key risks register. As a result of this review, we removed some historic risks from our register and added new risks which had risen in importance over time. This year, we have again reviewed our key risks and we have added the new risk of material operational failure at one of our core facilities. We are continuing to review the impact of possible Scottish independence but, at this stage, we consider there will be no material impact. While the level and direction of some of the key risks we identified in 2013 have changed, the risks themselves have not. These key risks, our mitigation progress and risk direction are outlined in the heat diagram below and on the following pages.

Risk management responsibilities

Overarching Group risks

All risk rates are shown in the heat diagram with the current level of mitigation.
Direction of risk compared to the previous year is also shown.

Key risk (number allocated relates to heat diagram)	Mitigations	Progress and risk direction
1 **Waste volumes:** that incoming waste arising in the market may fall	• Market-facing organisation to compete most effectively • Skilled and focused commercial organisations • Shanks Total Care leverages Group capabilities to secure additional volumes • Reporting of incoming waste volumes throughout the Group • Investment to source new waste streams • Cost management in response to falling volumes • Securing of long-term contracts to underpin major deployment of capital	• New PFI contracts secure significant incoming volumes • Divestment of UK commercial operations reduces exposure in the markets where we lack scale • Good commercial wins • Structural cost plan implemented • New waste streams in iron sludges, ultrasonic cleaning and ship degassing **Risk direction:** while effective management is in place, risk remains at previous levels as a result of macro-economic factors
2 **Liquidity risk:** that the Group may generate insufficient cash to invest and grow	• Accurate financial reporting and forecasting processes • Strong focus on cash management of working and replacement capital • Focus on higher margin businesses for future growth • Realisation of non-core assets	• Strong cash performance in the year just ended • £19m from non-core assets sold • Continuing focus on cash performance **Risk direction:** reduced likelihood as a result of strong cash performance
3 **Pricing competition:** that market pricing may put pressure on our margins	• Constant reporting and monitoring of price through operational systems • Use of long-term contracts, where appropriate • Cost management, both structural and operational, to deliver cost leadership in core markets • Effective commercial organisations to maximise margins	• New commercial organisations developing well • Price increases in targeted areas • Commercial effectiveness project in Solid Waste Benelux **Risk direction:** risk remains at previous levels as a result of macro-economic factors
4 **Talent development/leadership:** that we may lack the required management capabilities	• Group HR Director to ensure good HR leadership • Introduction of first-class talent mapping and development processes • Performance appraisal process across the Group • Leadership programmes in place	• Succession planning and talent development process launched • Mentoring process launched • Employee engagement process being developed **Risk direction:** reduced likelihood as a result of improved processes initiated in the past year
5 **Long-term contracts:** that we enter into long-term contracts on disadvantageous terms	• Selective bidding on contracts • Detailed risk assessment and due diligence on contracts • Strict Board controls on entering into major contracts • Strict controls and reviews on build programmes to ensure everything is on track • Good operating margins on existing PFI contracts	• Improvements to D&G PFI contract terms • Challenges in Belgian long-term contract being actively addressed and losses significantly reduced • BDR and Wakefield PFI build contracts on target and on track • Off-take contracts being renegotiated where appropriate **Risk direction:** likelihood of risk reduced due to tighter processes around contract structure and capital allocation

Risks and uncertainties

Key risks, risk direction and mitigations continued

Key risk (number allocated relates to heat diagram)	Mitigations	Progress and risk direction
6 **Credit risk:** that we are unable to refinance our debt cost effectively	• Maintain wide range of funding options available • Constant review of funding markets with our advisors • Good control of cash and debt leverage to maintain attractive lending profile	• Good cash control in 2013/14 to maintain strong balance sheet • Completed the refinancing of core facilities through new six-year Belgium bond and extended bank facilities **Risk direction:** reduced likelihood as a result of strong cash performance and completion of refinancing
7 **SHE (safety, health and environmental) compliance:** that we incur reputational damage, cost or business interruption through failure to comply	• Safety leadership scheme in place • SHE is the top agenda item in all management meetings • Group SHE Manager in place • Monthly SHE reporting across all levels of organisation • Employment of SHE professionals and conduct of SHE audits • Environment management systems and regular inspections • Active engagement with regulatory agencies	• Reportable accident rate fell significantly in the year and has fallen by more than 40% in the past three years • Effective management of all environmental matters arising • Formal Group safety action plan being progressed to embed improvements **Risk direction:** reduced likelihood as a result of good safety performance improvements and progress of Group safety action plan
8 **Recyclate pricing:** that the value we receive for recycled products falls	• Optimise commercial effectiveness to improve quality of incoming waste and raise gate fees • Focus on improving product quality • Group collaboration to maximise pricing leverage, where appropriate • Cost control actions to offset impact of lost revenue	• Improved quality schemes to meet customer demand for high quality recyclates • Continued focus on markets through dedicated sales teams **Risk direction:** while enhanced management is in place, risk remains at previous levels as a result of macro-economic factors
9 **Fire and business continuity planning:** business interruption costs arising from a physical disaster	• Active monitoring and enforcement of maintenance, environmental, safety and training standards • Effective insurance programmes supported by experienced brokers • Effective disaster planning processes at key sites • Improvements in fire control through common fire control standards	• Common framework for business continuity planning in production • Enhanced risk survey processes being developed for full enactment in 2014 **Risk direction:** likelihood and impact reducing as a result of improved fire controls aimed at reducing likelihood of a fire and reducing spread
10 **Project execution:** that we fail to deliver our investment and cost reduction programmes	• Regular senior management review of all programmes including post-investment reviews • Strong financial oversight of project costs and effective capital authorisation processes • Use of skilled and trained project management teams • Fixing of contractual costs, where possible	• Development of staged review processes for all major projects • Several opportunities reviewed and rejected due to lack of certainty of returns **Risk direction:** while enhanced controls have been developed, the range of developments currently being undertaken result in risk level remaining unchanged

Key risk (number allocated relates to heat diagram)	Mitigations	Progress and risk direction
11 **ICT failure:** that ICT failure causes business interruption or loss	• Appointment of new Group ICT Director • Development of greater centralisation of ICT systems to allow common risk approach • Business continuity planning in place for ICT • Investment in upgraded systems and infrastructure	• Increase robustness of ICT systems through ongoing shared services projects • ICT improvement plans being progressed **Risk direction:** reduced likelihood and impact levels as a result of greater resilience of systems and enhanced back-up capability
12 **Operational failure:** a material failure at one of our core facilities, particularly ATM	• Highly experienced operational teams with in depth knowledge of processes • Regular annual shutdowns to ensure facilities remain well invested and maintained • Strong environmental monitoring and active control to ensure compliance	• Improved business continuity plans • Increased investment in ATM underway, including upgrades to the emissions control systems • New foam system to blanket tank farm in foam in event of fire • New laboratory analysis equipment to prevent contamination • New emergency alert system **Risk direction:** new risk due to level of profits arising at core facilities, especially ATM

Financial risks

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

- **Interest rate risk:** the Group has continued to limit its exposure to interest rate risk by entering into fixed rate retail bonds, fixed rate senior notes and interest rate swaps that fix a substantial proportion of floating rate debt. At the end of March 2014, circa 79% of core borrowings were on fixed terms. For all long-term PFI contracts, interest rate swaps for the duration of the contracts are entered into as part of financial close of the project.
- **Foreign exchange risk:** the Group is exposed to foreign exchange risk for movements between the Euro, Canadian Dollar and Sterling. The majority of the Group's subsidiaries conduct their business in their respective functional currencies. Hedging agreements, such as forward exchange contracts, are in place to minimise known currency transactional exposures. The Group does not hedge its foreign currency exposures on the translation of profits into Sterling. Assets denominated in Euros and Canadian Dollars are hedged by borrowings in the same currency to manage translational exposure.
- **Trade credit risk:** trade credit risk is the risk of financial loss where counterparties are not able to meet their obligations. The Group has implemented the setting and monitoring of appropriate customer credit limits. Credit limits and outstanding receivables are reviewed monthly. The Group has a policy to ensure that any surplus cash balances are held by financial institutions, meeting minimum acceptable credit ratings.
- **Fraud risk:** to mitigate the exposure to losses arising from fraud committed on the Group or by Group employees, robust internal controls and financial procedures are reviewed and tested regularly.

People

"Our people continue to take real personal accountability for their work and are passionate and driven in our ambition to make more from waste"
Michelle Cummins, Group HR Director

Our people

Leading our organisation through change

Our people are the cornerstone of our business. They make Shanks what it is today through their skills, knowledge, hard work and commitment to our business. Having the right people in place – and ensuring they are supported, developed and motivated – is crucial to our success. It is through our people that we deliver value to our customers, engage with our local communities, and generate returns for our shareholders.

Today, we have more than 3,500 employees working across the Group. We aim to provide all of them with what they need to perform to their maximum potential in a safe and inspiring place to work. We strive to communicate and engage effectively with them through multiple channels. We also dedicate significant effort to supporting our people as we change the shape of our business to meet customer and market needs.

Our team at Shanks is dynamic and growing in its capabilities. We have restructured our organisation to be more focused on customer segments and, in the process, continuously aim to give our people the opportunity to grow in their roles. We also continue to attract and hire new talent into the Group. This has often been from outside our industry where new joiners share fresh perspectives and bring best practices from other sectors. These new ways of working are proving very

OUR EMPLOYEES

>3,500

EMPLOYEES ACROSS FOUR DIVISIONS

Our values

Our values act as a guiding force for the way that we behave and the way that we make decisions. In conjunction with our Shanks Leadership Team (comprising the 60 most senior leaders across the Group), we have recently refreshed our values to align more closely with our vision and our strategy. Our values reflect the way we operate and what differentiates us from our competition.

They demonstrate that 'how' we do things is just as important as 'what' we do. Embedding these values into our daily working lives allows us to create a unique identity which meets the expectations of our people and our stakeholders.

We have six values and, to ensure they are easily remembered and brought to life, we have created the mnemonic IMPACT. This mnemonic also reflects the fact that our values have real impact in all aspects of our business.

I – Integrity
We commit to being open, honest and doing the right thing. We have strong ethical principles which guide the way that we make decisions.

M – Making more from waste
We believe that waste is a resource. We use sustainable technology to make valuable products from what is otherwise thrown away.

P – Passion
We are excited by what we do, how we do it and where we are going. We are committed to making a difference and putting in extra effort to get the job done.

A – Accountability
We take full responsibility for what we say and do. We deliver on our commitments.

C – Customer focus
We are dedicated to exceeding our customers' needs. We seek to build lasting relationships by delivering real value to our customers.

T – Teamwork
We believe in working together to achieve shared goals. This makes the most of our skills and maximises the value we can deliver to our customers.

The way that our people live these values is measured through our performance and development system. This ensures that we give direct and regular feedback on how individuals perform relative to our values and this is also linked to incentives.

more information at
www.shanksplc.com/peopleandsustainability

powerful when combined with the deep experience and knowledge of our long-serving and dedicated teams.

We believe a key differentiator in today's highly competitive market is our people's passion, skills, teamwork and resilience. Our people take real personal accountability for their work and are driven by our core purpose to make more from waste. It is therefore critical that we continue to prioritise our investments in supporting, developing and engaging them now and in the years ahead.

The Board and Group Executive Committee are determined to achieve Shanks' goals at pace and to outperform in our markets. To do this, we have identified four levers where we will focus organisational and leadership effort:

- *Refresh and embed our values as we* drive the business forward;
- Realign our organisation to meet changing market and customer demands;
- Engage and support our people to thrive through change;
- Improve the development and recruitment of talent.

Realigning our organisation
In the last 12 months we have implemented significant organisational changes to align our business with changing market and customer demands, as well as make us more effective and efficient. These changes have included:

- Creating SSCs in Belgium and the Netherlands to improve and centralise our common support functions;
- Exiting the UK solid waste market and reshaping the UK business as the UK Municipal Division, including the appointment of Managing Director, Peter Eglinton;
- Encouraging cross-divisional mentoring and collaboration to improve knowledge-sharing and delivering together; and
- Fostering cross-divisional excellence in finance, health and safety, environmental, communications, HR and other support functions.

Engaging and supporting our people
We have gone, and continue to go, through many organisational changes across the Group. During such periods, we must strengthen our ability to engage with our people. To do this, we have launched our first Group-wide employee survey, called Pulse. This survey allows us to gain an accurate picture of our employees' perspectives on many aspects of our business. It also identifies specific areas where we can work together to improve performance and engagement at all levels of the organisation.

Over the year, we have also put a performance management system in place to support individual and team development. We have developed improved communication channels to ensure our people are knowledgeable about our business and industry, and also *feel informed and supported in what they* do. These channels include:

- Our Group-wide internal magazine *Shanks Matters* which is published five times per year and includes news, features and interviews on everything related to our business;
- The SpeakUp whistle-blowing service which allows our employees to report any wrong-doing in the workplace in a completely confidential manner;
- The annual Shanks Leadership Conference which enables managers from across the Group to come together to align on priorities and share best practices;
- Informal, as well as formal, communication conduits for our employees through local toolbox talks and through various works councils and
- The launch of our Group-wide collaboration tool called 'ConnectUs' which will dramatically improve communication, skills and knowledge sharing, and overall productivity.

In addition, we continue to do all we can to ensure our people are able to work in a safe environment. We are dedicating significant effort to reducing our low accident rate even further. This includes constantly investing in training to ensure compliance

continues >

STRATEGY IN ACTION

Nurturing talent

We have a clear framework in place to support those with leadership potential

Nurturing talent and maintaining a pipeline of people who can deliver *our strategy both today and in the* future is key to the success of our organisation.

Our performance development review (PDR) process supports this and identifies strong performers with leadership potential. Managers are assessed against six leadership skills: Living Our Values; People and Team Development; Motivating and Communicating; Performance Delivery; Commercial Edge and Strategic Capability. At the end of the PDR process, individual development plans are created and supported with feedback, coaching and mentoring. Last year, we also started our cross-divisional mentoring programme by setting-up some key support relationships across the Group. We will extend this going forward as a way of both nurturing talent and implementing our stated strategy of developing world-class capability.

PDRs form a key part of our integrated performance management process. It ensures that the individual performance is calibrated against the team performance and aligns it with our Group talent review process. Our aim is to nurture and attract the best talent and equip our business for future growth.

People

Our people continued

with both regulatory and internal standards, while reinforcing the need for safety awareness. This includes Shanks leaders at all levels, and across all functions, conducting site safety visits – both to drive concrete safety improvements and to send an important signal about the importance of safety.

The Group Health & Safety Committee was set up in 2012 to challenge our existing performance and develop our safety culture. The Committee meets six times a year to discuss health and safety best practice and to put procedures in place to ensure that all of our people are correctly trained and able to work in a safe environment. The launch of our Group Health & Safety Award in February 2013 continued its success in 2014. The focus on health and safety across the Group has highlighted many useful cross-divisional initiatives which are currently being implemented.

Attracting, retaining and developing top talent

We want to attract, grow and retain strong people who have excellent skills and live our values. Every employee, whether new or experienced, has the chance to progress their career and to develop new skills at Shanks. Over the year, we have hired high-quality talent and have also developed high-potential managers into broader new roles. This has resulted in tangible progress at all levels of the Group. For example, we have invested in apprenticeships and graduate trainee schemes across the business and demonstrated our commitment to diversity and the development of emerging talent.

Our Group-wide performance and development review (PDR) system empowers our people to manage their own performance and development. The system supports our people with coaching from their line managers to review performance, set objectives and create development opportunities through on the job coaching and formal training plans.

The Group is an equal opportunities employer and full and fair consideration is given to applications from, and the continuing employment, career development and training of, disabled people. Two-way communication is actively promoted and trade unions, works councils and other employee groups are involved wherever appropriate. This report does not contain information about any policies of the business in relation to human rights since it is not considered necessary for an understanding of the development, performance or position of the Group's business activities.

We benefit enormously from our diverse workforce. Our people come from different backgrounds and cultures, creating a vibrant workforce where we can all learn from one another. The importance of diversity, equality and non-discrimination is highlighted in our Code of Conduct and underpinned by our values, which guide the respectful way we behave towards one another. Around 13% of our workforce is female, with some 470 women employed. At a senior leadership level, seven senior managers and one Board member are female.

GENDER DIVERSITY

13%

OF OUR WORKFORCE IS FEMALE

11%

OF SENIOR MANAGEMENT ARE FEMALE

14%

OF THE BOARD MEMBERS ARE FEMALE

Sustainability

Delivering sustainable performance

We make more from waste by creating valuable products from what is thrown away

Shanks is dedicated to sustainable waste management. Recycling and recovery of waste reduces use of non-renewable resources by providing more sustainable alternatives to waste disposal. It also avoids greenhouse gas emissions associated with landfill sites, reduces virgin raw material use and displaces non-renewable energy production. By achieving our vision, we not only improve our own environmental footprint, we allow our customers and the society around us to improve theirs.

Our sustainability strategy is to take waste that would have gone to landfill or mass incineration and make more from it. We do this by using the latest technology across our waste management facilities:

- **Sorting centres and recycling facilities** take mixed or partially separated waste and sort it into individual components such as paper, card, plastics and metals for use in product manufacture.
- **Mechanical biological treatment (MBT) facilities** remove recycled material and process the remaining residual material to produce a waste-derived fuel, such as solid recovered fuel (SRF) which can be used in power production and industrial processes.
- **Anaerobic digestion (AD) and in-vessel composting (IVC)** facilities take organic waste, such as food waste, and turn it into fertilisers. AD plants also generate green electricity from the resulting gases.
- **Our main hazardous waste treatment facility**, located in the Netherlands, uses thermal and other treatments to destroy the hazardous components of waste such as paints and contaminated soils.

We brought additional capacity for recycling and recovery on-line in 2013/14. This includes our new AD facility at Westcott Park, near Bicester. This new facility and other improvements helped us to achieve an 82% recycling and recovery rate in 2013/14, so meeting our challenging five-year target of 80% set in 2010 one year early.

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

SUSTAINABILITY

82%

- RECYCLING AND RECOVERY RATE ACHIEVED BY OUR SITES
- FIVE YEAR GOAL ACHIEVED ONE YEAR EARLY

Emissions from our activities

Source	CO_2 equivalent ('000 tonnes)[1] 2014	CO_2 equivalent ('000 tonnes)[1] 2013
Process based emissions		
Emissions from anaerobic digestion and composting	64	55
Emissions from hazardous waste treatment	255	258
Emissions from landfill	115	105
Emissions from mechanical biological treatment	22	18
Transport based emissions		
Fuel used by transport vehicles and business travel	65	74
Energy use emissions		
Electricity used on sites and in offices[2]	64	46
Gas and other fuels used	29	33
Total emissions from significant sources	**614**	**589**
Emissions avoided for society by our activities		
Renewable energy generated	36	44
Waste derived fuels produced and sold	750	652
Materials separated for re-use/recycling (some re-used directly, others undergo reprocessing by third parties)	474	518
Total potential avoided emissions	**1,260**	**1,214**

1. Figures rounded to nearest 1,000 tonnes – totals may reflect rounding.
2. Increase in electricity consumption mainly the result of additional MBT and other capacity brought on-line.

Less waste, lower emissions
By "Making More from Waste", Shanks is delivering sustainability for its customers, its partners, the Group itself and for the wider community. Our unique range of technologies and industry-high recycling rates allow our customers to achieve their sustainability goals. Through a combination of sustainable waste management and green electricity production, Shanks is committed to helping reduce society's carbon emissions.

Our recycling facilities produce recyclate products, lifting the carbon burden associated with virgin raw materials. The waste derived fuels we produce and the green electricity we generate displace fossil fuels, providing a carbon benefit. We measure how much carbon is avoided as a result of the recyclate materials we produce, the green electricity we generate and the waste-derived fuels we supply. We are also finding ways to become more energy efficient, as demonstrated by our recent eco driving initiative. In 2013/14, we narrowly missed achieving our five year target one year early with 1.26m tonnes of carbon avoided.

We have set ourselves a target of increasing the carbon avoidance benefit produced by our operations to 1.3m tonnes by 2015. Our carbon emission and avoidance intensity ratios demonstrate the progress we have already made in reducing emissions and increasing our carbon avoidance benefit.

Having reported publicly on our greenhouse gas emissions since 2008, Shanks is determined to remain at the forefront of our industry's efforts to reduce society's carbon footprint.

Putting our people's safety first
Health and safety is at the top of our agenda. We work in a high risk industry, but we are minimising the risk of accidents by giving our people the support, training and equipment they need to work safely. Our dedication to safe working led to a 19% reduction in the Group's employee accident rate during 2013/14. As a result, we achieved our target of reducing our accident rate by 25% over five years one year early.

We also reduced traffic-related accidents by more than a quarter, mainly thanks to our major 2013 traffic safety initiative, which has delivered more than 1,000 improvements across our operations.

We will continue to drive health and safety improvements by implementing the second stage of our traffic safety initiative during 2014, enhancing our near-miss and hazard reporting systems and improving our fire safety performance through common standards and enhanced fire risk surveys.

HEALTH AND SAFETY

19%

REDUCTION IN THE GROUP'S EMPLOYEE ACCIDENT RATE IN 2014

25%

REDUCTION IN TRAFFIC-RELATED ACCIDENTS IN 2014

Further details of our corporate responsibility (CR) performance can be found in our annual CR Reports

available at
www.shanksplc.com/our-responsibilities

The 2014 Strategic Report, from page 2 to page 57, was approved by the Board of Directors on 15 May 2014.

Peter Dilnot
Group Chief Executive

Governance

Chairman's introduction to the Corporate Governance Report

Clear and effective communications with our shareholders and other stakeholders

On behalf of the Board, I am delighted to present our Corporate Governance Report for 2014 and confirm our compliance with the UK Corporate Governance Code. It is my privilege to lead a talented and entrepreneurial Board that I firmly believe has the combination of expertise and experience to drive the Group forward. However, we can only achieve this within a strong governance framework and we therefore maintain robust structures, processes and procedures to support the principles of good corporate governance.

We also recognise that tight financial control is at the heart of successful business. Our Audit Committee, under the leadership of Marina Wyatt, monitors the Group's finances and scrutinises all matters relating to its financial affairs and risk management processes. In this way, we are able to ensure that financial management is equal to the demands placed upon it by our international operations.

While we have a clear path to growth, it is also essential that we retain a pool of talented people at senior levels with the expertise to deliver our strategy. It is a responsibility of our Nomination Committee to ensure that we employ highly skilled executive and senior managers.

During the year, new regulations under the Companies Act 2006 came into force in relation to directors' remuneration. These require the Company to offer shareholders a binding vote on the Company's Remuneration Policy at least every three years. This is in addition to a separate annual advisory vote on the implementation of the Company's existing Remuneration Policy in terms of the payments and share awards made to directors during the year. The Remuneration Committee has developed our policy on rewards to ensure that they are sufficient to attract, retain and motivate first-class senior managers. The Remuneration Policy and Report are set out on pages 68 to 82.

Whilst our internal procedures are essential to the efficient running of the Company, it is also my responsibility to ensure that we maintain clear and effective communications with our shareholders and other stakeholders. As such, the Board was particularly delighted in November 2013, when, for an unprecedented third consecutive year, Shanks Group plc was a winner at the ICSA Hermes Transparency in Governance Awards, this time for Best Annual Report in the Small Cap/AIM category.

A. Auer

Adrian Auer
Group Chairman

Governance

THE BOARD OF DIRECTORS

The non-executive directors, all of whom the Company regard as independent, bring to the Board a wealth of international experience across a number of sectors. They play a full role in constructively challenging and developing strategic proposals, as well as chairing and being members of various Board committees.

During the year, the executive directors have continued to make significant progress with the implementation of our strategy and the delivery of operational performance in the face of market conditions that have remained challenging.

ERIC VAN AMERONGEN

JACQUES PETRY

TOBY WOOLRYCH

ADRIAN AUER

PETER DILNOT

STEPHEN RILEY

MARINA WYATT

Directors' biographies

ADRIAN AUER BA, MBA, ACT
Group Chairman
Appointed: May 2005 and appointed Chairman in July 2006. Chairman of the Nomination Committee and member of the Remuneration Committee.
Skills and Experience: Adrian has held the position of Finance Director in a number of major companies, notably in the building materials and construction sectors, as well as senior finance positions with BP and ICI. He is Chairman of Addaction, Britain's largest specialist drug and alcohol treatment charity. Adrian is considered by the Board to be independent.
Other Appointments: Non-executive director of Electrocomponents plc and AZ Electronic Materials S.A.

PETER DILNOT B.ENG
Group Chief Executive
Appointed: February 2012.
Skills and Experience: Prior to joining Shanks, Peter was a senior executive at Danaher Corporation, a leading global industrial business listed on the NYSE. He held a number of progressive general management roles including President Danaher Middle East, Group President Emerging Markets, and President EMEA and Asia of its Gilbarco Veeder-Root subsidiary. Before Danaher, Peter spent seven years at the Boston Consulting Group (BCG) in London and Chicago, working with industrial and pharmaceutical clients and was a leader in BCG's global Sales & Marketing Practice. Peter's earlier career, after graduating from RMA Sandhurst, was spent as an officer in the British Armed Forces. He originally trained as an Army helicopter pilot and saw active service with both NATO and the UN.

TOBY WOOLRYCH MA, ACA
Group Finance Director
Appointed: August 2012.
Skills and Experience: Toby began his career at Arthur Andersen where he qualified as a chartered accountant before becoming Finance Director of Medicom International Ltd, a medical publishing company, in 1992. He joined Johnson Matthey plc as Corporate Development Manager in 1997, going on to become Divisional Finance Director and then Managing Director of one of Johnson Matthey's global speciality chemicals business units. From 2005 to 2008, he was the Chief Financial Officer and Chief Operating Officer at Acta SpA, a renewable energy company, before joining Consort Medical plc as Group Finance Director.

ERIC VAN AMERONGEN
Senior Independent Director
Appointed: February 2007 and as Senior Independent Director in July 2007. Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.
Skills and Experience: Until January 2008, Eric was a non-executive director of Corus Group plc, a position he held for seven years. Eric has wide-ranging European business experience including the telecoms, defence and publishing sectors. He holds a number of non-executive and advisory positions. Eric is considered by the Board to be independent.
Other Appointments: Vice Chairman of the Supervisory Boards of BT Nederland BV and Thales Nederlands BV, and also Supervisory Board Member of ANWB BV, Royal Wegener NV and Essent NV.

STEPHEN RILEY B.ENG, PHD
Non-executive Director
Appointed: March 2007. Member of the Audit, Remuneration and Nomination Committees.
Skills and Experience: Stephen is currently the CEO and President, GDF SUEZ Energy International UK-Europe. He has responsibility for European plant operations, finance, energy trading and business development. He is a chartered engineer and joined International Power in 1985, holding senior positions in two UK power stations before being appointed Managing Director of their Australian operations in 2000. From January 2004 to February 2011, he was a director of International Power plc, resigning from that Board following the amalgamation of International Power and GDF SUEZ Energy International. Stephen is considered by the Board to be independent.

JACQUES PETRY MBA
Non-executive Director
Appointed: September 2010. Member of the Audit, Remuneration and Nomination Committees.
Skills and Experience: Jacques is currently Chairman and CEO of energy provider Albioma. He was Chairman and Chief Executive of SITA and its parent company Suez Environnement. In 2005, he was appointed Chief Executive of Sodexo Continental Europe and South America. Since 2007, he has advised corporate and financial sponsors, specialising in Infrastructure and Environmental Services investments worldwide. He has extensive international non-executive and executive experience. Jacques is considered by the Board to be independent.

MARINA WYATT MA, FCA
Non-executive Director
Appointed: April 2013. Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.
Skills and Experience: Marina is a Fellow of the Institute of Chartered Accountants and is currently the Chief Financial Officer and a member of the Management Board at TomTom NV. Following nine years with Arthur Andersen in London and the US, she then joined Psion Plc as its Group Controller and became Group Finance Director in 1996. In 2002 she was appointed Chief Financial Officer of Colt Telecom Plc and joined TomTom as its Chief Financial Officer in 2005. Marina is considered by the Board to be independent.

Governance

Corporate Governance Report

The Board is provided with appropriate information in a timely manner to enable it to discharge its duties effectively

The Board is committed to maintaining a sound governance framework through which the strategy and objectives of the Group are set, and the means of attaining these objectives, and monitoring performance is determined.

Corporate Governance Statement
The Board fully supports the principles of good corporate governance. This statement, together with the Directors' Remuneration Report on pages 68 to 82, explains how the Group has applied and complied fully with the provisions of the UK Corporate Governance Code in force for the year to 31 March 2014.

The Board
The Board comprises the Chairman, a further four independent non-executive directors, the Group Chief Executive and Group Finance Director. On 2 April 2013, Marina Wyatt was appointed as a non-executive director and, upon Peter Johnson's retirement from the Board on 25 July 2013, succeeded him as chairman of the Audit Committee.

The Chairman, who has been independent since his original appointment, has primary responsibility for running the Board. The Group Chief Executive is responsible for the operations of the Group and for the development of strategic plans and initiatives for consideration by the Board.

The formal division of responsibilities between the Chairman and the Group Chief Executive has been agreed by the Board and documented, a copy of which is available on the Group's website.

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

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

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

Director	Board meetings
Adrian Auer (Chairman)	9 (9)
Peter Dilnot	9 (9)
Jacques Petry	8 (9)
Stephen Riley	8 (9)
Eric van Amerongen	8 (9)
Toby Woolrych	9 (9)
Marina Wyatt	8 (9)

Bracketed figures indicate maximum potential attendance of each director.

The calendar of meetings of the Board and its committees for 2013/14 is shown below.

Board governance
There is a formal schedule of matters reserved specifically for the Board's decision. These include approval of financial statements, strategic policy, acquisitions and disposals, capital projects over defined limits, annual budgets and new borrowing facilities. Specifically during the year under review, the Board in July 2013 approved the successful issue of the Company's second €100m Belgian retail bond and in October 2013, the sale of the majority of the UK Solid Waste business, which completed at the end of December 2013. In January 2014, the Board also successfully refinanced the Group's banking facilities with a new €180m revolving credit facility. The Board meets regularly, having met nine times during the year.

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

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

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

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

In reviewing the Group's overall corporate governance arrangements, the Board continues to give due consideration to balancing the interests of customers, shareholders, employees and the wider communities in which the Group operates.

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

Specific training requirements of directors

The calendar of meetings of the Board and its Committees for 2013/14

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

In addition, 28 duly authorised Board Committee meetings, comprising at least two directors, were held. These were primarily in connection with the allotment of shares under employee share schemes and transaction completion formalities.

Governance

Corporate Governance Report continued

are met either directly or by the Company through legal/regulatory updates. Non-executive directors also have access to PricewaterhouseCoopers' non-executive database and course programme. There is a rolling programme of holding Board meetings at different Group locations in order to review local operations, with a focus on health and safety during site visits. In the year under review, the Board visited facilities near Amsterdam, the Hook of Holland, Amersfoort and Moerdijk in the Netherlands and Mont St Guibert in Belgium.

Board evaluation

Performance evaluation of the Board, its Committees and directors during the year was based upon formalised self-assessment questionnaires. The evaluation of the Chairman was undertaken by the non-executive directors, led by the Senior Independent Director. The process was designed to cover the key aspects of Board and Board Committee effectiveness and directors' performance. The results, all of which were positive and constructive, identified a small number of areas for improvement including the greater allocation of time to the Nomination Committee. In conclusion, it was determined that the Board and its Committees continued to operate effectively during the year and that each director continued to demonstrate commitment to their role and perform effectively. The Board was therefore able to recommend the re-election of the directors standing at the forthcoming AGM.

Nomination Committee

The Nomination Committee is chaired by Adrian Auer and is solely comprised of non-executive directors: Eric van Amerongen, Stephen Riley, Jacques Petry and, since 2 April 2013, Marina Wyatt. Peter Johnson was also a member until his retirement from the Board on 25 July 2013. The Committee is formally constituted with written terms of reference which are available on the Group's website. It met twice during the year and is responsible for making recommendations to the Board on the appointment of directors and succession planning. It also reviews organisation and resourcing plans for the purpose of providing assurance that appropriate processes are in place to ensure a sufficient supply of competent executive and senior management.

During the year, the Committee members were engaged primarily in the selection of an additional non-executive director in advance of the retirement of Peter Johnson at the July 2013 AGM. Facilitated by an external recruitment consultancy, Heidrick & Struggles (H&S), a comprehensive search for an individual with the requisite competencies and financial experience was undertaken, resulting in the appointment of Marina Wyatt on 2 April 2013. H&S were also engaged in the year to assist with the recruitment of a small number of senior managers across the Group.

Any new director appointed to the Board is subject to election by shareholders at the first opportunity after their appointment. All non-executive directors are required under the Company's Articles of Association to stand for re-election at each AGM. In accordance with best corporate governance practice, this year the full Board, including the two executive directors, will retire at the AGM and offer themselves for re-election.

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

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

Bracketed figures indicate maximum potential attendance of each director.

Remuneration Committee

The Remuneration Committee, which met four times in the year, is formally constituted with written terms of reference which are available on the Group's website. The Committee is solely comprised of non-executive directors: Eric van Amerongen, Adrian Auer, Stephen Riley, Jacques Petry and, since 2 April 2013, Marina Wyatt. Peter Johnson was also a member until his retirement from the Board on 25 July 2013. The Committee, which is chaired by Eric van Amerongen, formulates the Company's remuneration policy and the individual remuneration packages for executive directors.

The Committee also determines the remuneration of the Group's senior management and that of the Chairman. It recommends the remuneration of the non-executive directors for determination by the Board. In exercising its responsibilities, the Committee has access to professional advice, both internally and externally, and may consult the Group Chief Executive about its proposals. The Directors' Remuneration Report on pages 68 to 82 contains particulars of directors' remuneration and their interests in the Company's shares.

Director	Remuneration Committee meetings
Eric van Amerongen (Chairman)	4 (4)
Adrian Auer	4 (4)
Jacques Petry	3 (4)
Stephen Riley	4 (4)
Marina Wyatt	4 (4)

Bracketed figures indicate maximum potential attendance of each director.

Audit Committee

The Audit Committee, which met three times in the year, is formally constituted with written terms of reference which are available on the Group's website. The Committee is solely comprised of non-executive directors: Stephen Riley, Jacques Petry, Eric van Amerongen and, since 2 April 2013, Marina Wyatt. Peter Johnson chaired the Committee until his retirement from the Board on 25 July 2013 and was succeeded by Marina Wyatt. As required under the UK Corporate Governance Code, Marina Wyatt has current and relevant financial experience. She is a chartered accountant and currently holds the position of Chief Financial Officer at TomTom NV.

Representatives from the external auditors PricewaterhouseCoopers LLP (PwC), the Chairman and the executive directors are regularly invited to attend meetings. The Committee also has access to the external auditors' advice without the presence of the executive directors.

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

At their May 2013 meeting, the Committee considered Corporate Governance compliance, taxation and the 2013 financial statements whilst the November 2013 meeting was concerned primarily with the interim results and a review of authority levels. The February 2014 meeting considered accounting treatments, PwC's audit plan and preparation of the 2014 financial statements and reviewed risk systems and internal control improvements.

Director	Audit Committee meetings
Marina Wyatt (Chair)	3 (3)
Jacques Petry	3 (3)
Stephen Riley	3 (3)
Eric van Amerongen	3 (3)

Bracketed figures indicate maximum potential attendance of each director.

In addition, the Committee considered specifically those matters with the potential likelihood to have the greatest significant impact on the financial statements. The significant matters considered by the Committee during the year were:

- Asset impairment. The determination in relation to whether or not impairment charges were necessary was based on judgements applied in calculating the value of those assets. These included key assumptions on long-term growth rates, future cash flow forecasts and discount rates. Papers with supporting information were presented to enable the Committee to come to a fair and balanced determination as to whether or not to impair certain tangible and intangible assets.
- Restructuring and associated costs. This included consideration of the impact of the significant changes to the business as a result of the exit from UK Solid Waste, the initial implementation of Shared Service Centres in the Benelux and the progression of the corporate simplification programme, all against a backdrop of tough market conditions. The Committee ensured that items accounted for as non-trading met the requirements of the Group policy and good accounting practice.
- PFI valuation. To assist the market in valuing the Group's UK PFI operations, the Committee reviewed the valuation methodology. This included an assessment of all the key components of the special purpose legal entities, the operational contracts and sub-debt.
- Management override of internal controls. Having considered the regular internal and external audit reports throughout the year and management's letter of representation, the Committee is satisfied with the appropriateness of the system of internal controls and that management was operating within the control environment.
- Revenue recognition. In particular, the Committee reviewed the accounting treatment including any judgemental matters in relation to revenue recognition of material transactions and contracts.

Fair, balanced and understandable

In compliance with new regulations, the Audit Committee also assisted the Board in their consideration as to whether the Annual Report and Accounts are fair, balanced and understandable, such that shareholders are provided with the necessary information to assess the Group's performance, business model and strategy. Having reviewed the year end internal verification and approval processes at their meeting in May 2014, the Committee was able to confirm this to be the case. During this review, the challenges of clearly and simply reporting UK PFI accounting were noted and PFI valuation was one of a number of significant matters considered by the Committee during the year. As a result, the Board have tried to provide fuller and simpler explanations of the PFI accounting and the directors' valuation of the PFI Portfolio.

Governance

Corporate Governance Report continued

External audit

PwC were appointed as the Company's external auditors by shareholders at the AGM in 1994, following a competitive tender process. The Audit Committee is aware of and is monitoring ongoing deliberations by the EU and the Competition Commission concerning new rules governing auditor rotation and audit tendering, including transitional arrangements. Pending final implementation of those requirements, the Company expects to schedule an external audit tender process by no later than 2020.

The Audit Committee continues to review the performance and independence of the auditors on an annual basis.

PwC rotate their lead audit engagement partner as a minimum at least every five years, as required by their own rules and by regulatory bodies. The current audit partner will perform his last audit in 2014/15. Rotation ensures a fresh look without sacrificing institutional knowledge. The rotation of lead audit partners, other partners including specialist partners and senior engagement personnel is reviewed on a regular basis by the lead audit engagement partner in consultation with the Audit Committee. As well as the lead audit partner being required to rotate every five years, key partners involved in the audit are required to do so every seven years and other partners and senior staff members every ten years.

The Committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a non-audit services policy. Specified non-audit services may be provided by the external auditor subject to a competitive bid process other than in situations where it is determined by the Group Finance Director that the work is closely related to the audit or when a significant benefit can be obtained from work previously conducted by the external auditor. Whilst the Group Finance Director may approve any new engagement up to the value of £25,000, anything in excess requires Audit Committee approval up to an agreed annual aggregate limit of 50% of the prior year's audit fee. In exceptional circumstances, this limit may be exceeded with the approval of the Board. In determining whether or not to engage the external auditor to provide any non-audit services, consideration will be given to whether this would create a threat to their independence. Similarly, the external auditor will not be permitted to undertake any advocacy role for the Group such that their objectivity may be compromised. The external auditor may not provide services involving the preparation of accounting records or financial statements, the design, implementation and operation of financial information systems, actuarial and internal control functions or the management of internal audits. During the year, less than £0.1m of non-audit services were provided by PwC, whilst their total audit fees, as disclosed in note 5 of the financial statements, amounted to £0.6m.

A resolution proposing PwC's re-appointment as Group auditors will be put to shareholders at the forthcoming AGM.

As part of the external audit process, the Committee discusses and agree the scope of the audit which is based around a structured methodology to help ensure quality and rigour as well as regulatory compliance. The 2013/14 audit was conducted via a six step audit process based on PwC's acceptance and independence procedures reflecting their understanding of the business and focusing on scoped areas determined to be of highest risk.

Tax and other professional services have also been provided to the Group by audit firms KPMG, Deloitte and EY during the year.

Internal audit

The internal audit capability benefited this year from a new formal programme of internal cross-divisional peer reviews designed to bring the benefits of:

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

This provides a more robust, better resourced and knowledge-based internal audit capacity. The Group financial function co-ordinates the process to ensure consistency, quality of reporting and close-out of improvement actions and reports up to the Audit Committee. Also during the year, KPMG were engaged to undertake three external control reviews which covered payroll processes in the Netherlands businesses, uninvoiced income controls in Belgium and capital process controls in the UK Municipal Division. The detailed findings from these reviews were presented to and considered by the Audit Committee. Any necessary improvements from both the internal and external reviews are acted upon by local divisional teams.

Accountability and audit

The responsibilities of the directors and the auditors in relation to the financial statements are set out on pages 86 to 89.

Risk management

The Group risk management framework, major risks and the steps taken to manage these risks are outlined on pages 46 to 51.

Internal control responsibility

The internal control environment remains of paramount importance. The system of internal control is based on a continuous process of identifying, evaluating and managing risks including the risk management processes outlined on pages 46 to 51. The Board of directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board recognises that internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatements, losses and the breach of laws and regulations.

Annual assessment of the effectiveness of the risk management and internal control systems

In addition to the Board's ongoing internal control monitoring process, it has also conducted an annual review of the effectiveness of the Group's risk management and internal control systems in compliance with Provision C.2.1 of the UK Corporate Governance Code and

Turnbull guidance. This review covered all material controls including financial, operational and compliance controls and risk management systems.

Specifically, the Board's review consisted of the following elements:

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

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

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

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

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

- formal written financial policies and procedures applicable to all business units;
- a detailed reporting calendar including the submission of detailed monthly accounts for each business unit in addition to the year end and interim reporting process;
- detailed management review to Board level of both monthly management accounts and year end and interim accounts including an assessment as to whether the Annual Report and Accounts are fair, balanced and understandable;
- consideration by the Board of whether the Annual Report is fair, balanced and understandable in line with new guidance and with reference to the Board's accumulated knowledge of the Group's performance; and
- bi-annual certification by divisional managing and finance directors and executive directors on compliance with appropriate policies and accuracy of financial information.

The Committee also receives regular reports from the Group Tax Manager on the Group's tax policy, tax management and compliance.

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

Investor relations
The Company has an active investor relations programme, regularly meeting with institutional investors, analysts, press and other parties. The Board obtains feedback from its brokers, Investec, on the views of institutional shareholders and the Chairman attends meetings with major shareholders whose views are communicated to the Board as a whole. Detailed shareholder and market comment in particular is reported to the Board after results announcements. The Company communicates with private and institutional investors through the AGM and the Group website, the latter having been enhanced significantly to provide more frequent and relevant information for shareholders and the general public. The Company's efforts in this regard were recognised when it was named as the winner of the Best Corporate Website in the Small Cap/AIM category at the 2013 Investor Relations Society Best Practice Awards.

Other information
Other information, necessary to fulfil the requirements of the Corporate Governance Statement, relating to the Company's share capital structure and the appointment and powers of the directors, can be found in the Directors' Report on pages 83 to 86.

Governance

Directors' Remuneration Report

Our directors are rewarded based on their performance against the Group strategy

Remuneration Committee Chairman's Annual Statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2014 for which we will be seeking approval at the Annual General Meeting on 25 July 2014.

In summer 2013, the UK Government Department for Business, Innovation & Skills (BIS) published regulations setting out what companies must disclose in the Directors' Remuneration Report with the aim of improving transparency and promoting best practice. In line with these regulations, this Report is divided into three sections:

- the Remuneration Committee Chairman's statement;
- the Directors' Remuneration Policy, which details our remuneration policies and their link to Group strategy, as well as projected pay outcomes under various performance scenarios; and
- the Annual Report on Remuneration, which focuses on the remuneration arrangements and outcomes for the year under review, and how the Committee intends to implement the Remuneration Policy in 2014/15.

During the year, the Committee reviewed the remuneration arrangements with a view to further improve alignment with Group strategy, improve line-of-sight for the executives and support the continued delivery of shareholder value.

Following the review, which included a consultation exercise with our largest shareholders and institutional investor bodies, the Committee agreed on a number of revisions. The key changes are to increase the maximum annual bonus opportunity from 100% to 150% of salary, but to defer one third of any bonus earned into Shanks Group plc shares for up to five years, reduce the maximum LTIP opportunity from 200% to 150% and 120% of salary for the Group Chief Executive and Group Finance Director respectively and to introduce Return On Capital Employed (ROCE) as an additional performance measure.

Additionally, to further strengthen alignment with shareholders, the Committee has introduced share ownership guidelines for executive directors of 100% of salary over five years.

The Remuneration Committee believes that these revisions are in the interests of shareholders as they will incentivise management to deliver the Group's strategy and to maximise value and will help retain and motivate critical talent. The revisions have the full support of the Remuneration Committee and Board as a whole.

Resolutions to approve the Directors' Remuneration Policy (subject to a binding vote) and the Annual Report on Remuneration (subject to an advisory vote) will be put to shareholders at the AGM.

Eric van Amerongen
Chairman of the Remuneration Committee

15 May 2014

This report, prepared by the Committee on behalf of the Board, takes full account of the UK Corporate Governance Code and the latest ABI and NAPF guidelines, and has been prepared in accordance with the provisions of the Companies Act 2006, the Listing Rules of the Financial Conduct Authority and the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Act requires the Auditor to report to the Group's shareholders on the audited information within this report and to state whether in their opinion those parts of the report have been prepared in accordance with the Act. The Auditor's opinion is set out on pages 87 to 89 and those aspects of the report which have been subject to audit are clearly marked.

Directors' Remuneration Policy

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

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

This section of the report sets out the future remuneration policy for executive directors. Shareholders will be invited to approve this Policy at the 2014 AGM. In formulating the Policy, the Committee took full account of the UK Corporate Governance Code and the latest ABI and NAPF guidelines. The Committee intends that this policy will formally come into effect from 25 July 2014. Remuneration paid to executive directors in 2013/14 and remuneration arrangements proposed for 2014/15 are set out later in this report.

Policy table

Base salary: To pay a competitive basic salary to attract, retain and motivate the talent required to operate and develop the Group's businesses

Operation	Opportunity	Performance metrics
Base salaries are generally reviewed on an annual basis or following a significant change in responsibilities. Salary levels are reviewed by reference to FTSE-listed companies of similar size and complexity. The Committee also has regard to individual and Group performance and changes to pay levels across the Group.	Any basic salary increases are applied in line with the outcome of the review. For executive directors, it is anticipated that salary increases will normally be in line with those of salaried employees as a whole. In exceptional circumstances (including, but not limited to, a material increase in job size or complexity or a material market misalignment), the Committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive.	None.

Pension: To provide an opportunity for executives to build up a provision for income on retirement

Operation	Opportunity	Performance metrics
Executive directors receive a cash pension allowance in lieu of pension scheme contributions.	Executive directors may receive a cash allowance of up to 25% of salary.	None.

Benefits: To provide market-competitive benefits

Operation	Opportunity	Performance metrics
Benefits include life insurance, medical insurance, income protection and car/travel allowances.	Benefits may vary by role. However, the total cost of taxable benefits will not normally exceed 10% of salary. The Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. relocation or ex-patriation) or in circumstances where factors outside the Group's control have changed (e.g. increases in market insurance premia).	None.

Savings Related Share Option Scheme (SRSOS): To encourage share ownership among UK employees and use the benefits available under an HMRC approved scheme

Operation	Opportunity	Performance metrics
In line with HMRC's requirements for such schemes, SRSOS options may be granted to all UK employees. The options are granted at the higher of the nominal value of an ordinary share and an amount determined by the Committee being not less than 80% of the market value. UK executive directors participate on the same terms as other UK employees.	The maximum opportunity will not exceed the relevant HMRC limits.	None.

Governance

Directors' Remuneration Report continued

Policy table continued

Annual bonus: To motivate senior executives to maximise short-term performance and help drive initiatives which support long-term value creation

Operation	Opportunity	Performance metrics
Performance measures, targets and weightings are set at the start of the year. The maximum bonus is payable only if all performance targets are met in full. One third of any annual bonus award is deferred into shares for at least three years, subject to continued employment. The Group's current policy is for 50% of the bonus to vest after three years, 25% to vest after four years, and 25% to vest after five years. Clawback provisions exist which entitle the Committee, at its discretion, to seek repayment in exceptional circumstances, e.g. material financial misstatement or gross misconduct.	For executive directors, the maximum annual bonus opportunity is 150% of salary. For threshold performance, the bonus earned is generally 25% of maximum and for on-target performance 80% of maximum.	Executive director performance is assessed by the Committee on an annual basis by reference to Group financial performance (75% weighting) and the achievement of personal or strategic objectives (25% weighting). When assessing financial performance, the primary measures are profit before tax and underlying free cash flow, but may include other indicators of performance defined at the start of the year. The Committee retains discretion to vary the weightings of measures +/- 25%, to help ensure alignment with the business priorities for the year. Bonus targets are generally calibrated with reference to the Group's budget for the year. The Committee has the discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards, to ensure that payments are a true reflection of performance over the performance period, e.g. in the event of unforeseen circumstances outside management control. Details of the measures, weightings and targets applicable for the financial year under review are provided in the Annual Report on Remuneration.

Long Term Incentive Plan (LTIP): To motivate and retain executives and senior managers to deliver the Group's strategy and long-term goals and to help align executive and shareholder interests

Operation	Opportunity	Performance metrics
Executive directors and senior employees may be granted awards annually, as determined by the Committee. The vesting of these awards is subject to the attainment of performance conditions. Awards are in the form of Group shares. Dividends accrue over the vesting period but would be paid only on shares that vest. Awards made under the LTIP have a performance and vesting period of at least three years. If no entitlement has been earned at the end of the relevant performance period, then the awards will lapse. Once vested awards may, at the discretion of the Committee, be subject to further holding in whole, or in part, for a period of up to two years following the end of the performance period. The Group's current policy is for 50% to be released immediately (subject to continued employment), 25% after a further year and 25% after two more years. Clawback provisions exist which entitle the Committee to reduce the final award or deem it to have lapsed during the period between the granting and end of the later of the vesting or holding period, if there has been material misstatement, gross misconduct or something which causes significant reputational damage to the Group.	The maximum award limit in normal circumstances under the 2011 Long Term Incentive Plan will be 150% of salary (up to 200% in exceptional circumstances). The Committee's current intention is to grant awards of 150% of salary to the Group Chief Executive and 120% of salary to the Group Finance Director. Threshold performance will result in vesting of 25% of maximum under each element.	Vesting of LTIP awards will be subject to continued employment and performance over a period of at least three years. The performance measures for 2014 onwards will be EPS, share price and ROCE, weighted 50%, 25% and 25% respectively. The Committee has the discretion to adjust the performance measures and weightings up to +/- 25% to ensure they continue to be linked to the delivery of Group strategy. In addition to the Group achieving its EPS, share price and ROCE targets, the Committee must satisfy itself that the recorded outcome is a fair reflection of the underlying performance of the Group. The Committee has discretion (within the limits of the scheme) to adjust the formulaic performance outcomes to ensure that payments fairly reflect underlying performance over the period. Adjustments may be upwards or downwards. Details of LTIP targets are included in the Annual Report on Remuneration.

Notes to the policy table

Payments from existing awards
The Group will honour any commitment entered into, and executive directors will be eligible to receive payment from any award made, prior to the approval and implementation of the remuneration policy detailed in this report, including previous awards under the LTIP. Details of any such awards are disclosed in the Annual Report on Remuneration.

Use of discretion
The Committee may apply discretion as detailed below. Under each element of remuneration a full description of how discretion can be applied is set out, in line with the new UK reporting requirements:

- To ensure fairness and align executive remuneration with individual and underlying company performance the Committee may adjust up or down the outcome of the annual bonus and LTIP. Any adjustments in light of 'non-regular events' (including, but not limited to, corporate events, changes in the Group's accounting policies, minor or administrative matters, internal promotions, external recruitment and terminations of employment) are expected to be made on a 'neutral' basis – i.e. adjustments will be designed so that the event is not expected to be to the benefit or the detriment of participants. Adjustments to incentives to ensure that outcomes reflect underlying performance may be made in exceptional circumstances to help ensure outcomes are fair to shareholders and participants.

Performance measurement selection
The measures used in the annual bonus are selected annually to reflect the Group's main business priorities for the year, and capture both financial and non-financial objectives. Group financial performance targets relating to the annual bonus plan are based around the Group's annual budget, which is reviewed and approved by the Board prior to the start of each financial year. Profit before tax and underlying free cash flow are typically used as the key financial performance measures in the annual bonus plan because they are clear and well-understood measures of Group performance.

Performance targets are reviewed annually and set to be stretching and achievable, taking into account the Group's resources, strategic priorities and the economic environment in which the Group operates. Targets are set taking into account a range of internal and external reference points, including the Group's strategic plan and broker forecasts for both the Group and sector peers. The Committee believes that the performance targets are stretching, and that to achieve maximum outcomes requires truly outstanding performance.

The Committee considers the combination of three-year EPS, ROCE improvement and share price growth in the LTIP to be key indicators of success for the Group. These measures are transparent, visible and motivational to participants, balance growth and returns, and provide good line-of-sight for executives and alignment with shareholders.

Changes to remuneration
In early 2014, the Committee undertook a comprehensive review of executive director remuneration arrangements to ensure they continue to be fully aligned with business strategy and shareholders' interests, are motivational, and continue to reflect evolving best practice, including the latest regulatory and governance requirements.

Following the review, the Committee decided to introduce an element of deferral of bonus into shares to support retention and encourage executive share ownership. From 2014/15, a third of any annual bonus earned will be deferred into Shanks Group plc shares, vesting 50% after three years, 25% after four years and 25% after five years. The maximum bonus for executive directors will be increased from 100% to 150% of salary and target bonus will remain at 80% of maximum.

Following the review of the LTIP, the Committee concluded that an additive combination of performance measures would be simpler. The Committee also concluded that it should introduce ROCE as a third measure to encourage capital discipline and complement EPS growth. Weightings on EPS, share price and ROCE will be 50%, 25% and 25% respectively. Vesting for threshold performance will be 25% of maximum. The Committee will also be able to apply a two-year holding period in addition to the three-year performance period to reflect shareholder preference for longer vesting periods. Once vested 50% of the 2014 LTIP award will be released immediately, 25% after one year and 25% after two years.

The Committee has set EPS, ROCE and share price targets for the 2014/17 cycle, which it considers are suitably stretching but achievable. Details are provided in the Annual Report on Remuneration on page 79. The normal maximum quantum of LTIP awards will be reduced from 200% to 150% of salary for the Group Chief Executive and from 150% to 120% of salary for the Group Finance Director.

Share ownership guidelines were introduced for executive directors as a result of the review (see page 72 for details).

Remuneration policy for our senior leaders
The Group's approach to annual salary reviews is broadly consistent across the Group, with consideration given to the scope of the role, level of experience, responsibility, individual performance and pay levels for comparable roles in comparable companies. The broader Remuneration Policy across the Group is also consistent with that set out in this report for the executive directors. For example, remuneration is linked to Group and individual performance in a way that is ultimately aimed at reinforcing the delivery of shareholder value.

Senior employees generally participate in an annual bonus scheme with a similar structure to that described for the executive directors. Opportunities and specific performance conditions vary by organisational level, with business area-specific metrics incorporated where appropriate.

Members of the Group Executive Committee and other senior managers participate in the LTIP on a similar basis to, but at lower levels than, executive directors.

All UK employees are eligible to participate in the SRSOS on the same terms.

Governance

Directors' Remuneration Report continued

Share ownership guidelines
The Committee recognises the importance of executive directors aligning their interests with shareholders through building up significant shareholdings in the Group. Share ownership guidelines are in place that require executive directors to acquire a holding equivalent to 100% of their salaries over five years. Executive directors are required to retain 50% of any LTIP and deferred bonus shares acquired on vesting (net of tax) until they reach their ownership guideline.

Pay scenario charts
The charts below provide an estimate of the potential future reward opportunities for the executive directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on our Remuneration Policy, applied to basic salaries as at 1 April 2014. Note that the projected values exclude the impact of any share price movements.

The 'Minimum' scenario shows basic salary, pension and benefits (i.e. fixed remuneration). These are the only elements of the executive directors' remuneration packages which are not at risk.

The 'on-target' scenario reflects fixed remuneration as above, plus a target bonus of 80% of maximum and threshold LTIP vesting of 25%.

The 'Maximum' scenario reflects fixed remuneration plus full pay out of all incentives, excluding any share price appreciation and dividends (as per the regulations).

Approach to recruitment remuneration
External appointments
In the cases of hiring or appointing a new executive director, the Committee may make use of any of the existing components of remuneration, as described in the Policy Table on pages 69 and 70. The maximum limits for variable pay (excluding buy-outs) will be as for existing executive directors.

In determining the appropriate remuneration for a new executive director, the Committee will take into consideration all relevant factors (including the overall quantum and nature of remuneration, and the jurisdiction from which the candidate is being recruited) to ensure that all such arrangements are in the best interests of Shanks Group and its shareholders.

The Committee may also make an award in respect of a new appointment to buy-out incentive arrangements forgone on leaving a previous employer on a like-for-like basis, in addition to providing the normal remuneration elements.

In constructing a buy-out, the Committee will consider all relevant factors including time to vesting, any performance conditions attached to awards, and the likelihood of those conditions being met.

Any such buy-out awards will typically be made under the existing annual bonus and LTIP schemes, although in exceptional circumstances the Committee may exercise the discretion available under the FCA Listing Rule 9.4.2 R to make awards using a different structure. Any buy-out awards would have a fair value no higher than that of the awards forgone.

Internal appointments
In cases of appointing a new executive director by way of internal promotion, the Committee will determine remuneration in line with the policy for external appointees. Where an individual has contractual commitments made prior to promotion to the Board, the Group will continue to honour these. Incentive opportunities for below Board employees are typically no higher than for executive directors, but measures may vary to ensure they are relevant to the role.

Non-executive director recruitment
In recruiting a new non-executive director, the Committee will use the policy as set out in the table on page 74. A base fee in line with the prevailing rate for Board membership would be payable, with additional fees payable for acting as Senior Independent Director or Chairman of a Committee, as appropriate.

Service contracts and exit payment policy

Executive director service contracts, including arrangements for early termination, are carefully considered by the Committee. The Committee has agreed that the policy with regard to the notice period for executive directors is one year's written notice from the Group and from the individual. The contracts provide for an obligation to pay salary plus contractual benefits for any portion of the notice period waived by the Group. The Group has the ability to pay such sums in instalments, requiring the director to mitigate loss (for example, by gaining new employment) over the relevant period.

Executive Director	Date of service contract
Peter Dilnot	1 February 2012
Toby Woolrych	27 August 2012

If employment is terminated by the Group, the departing executive director may have a legal entitlement (under statute or otherwise) to certain payments, which would be met. In addition, the Committee retains discretion to settle any other amounts reasonably due to the executive director, for example to meet the legal fees incurred by the executive director in connection with the termination of employment, where the Group wishes to enter into a settlement agreement (as provided for below), and the individual must seek independent legal advice.

In certain circumstances, the Committee may approve new contractual arrangements with departing executive directors including (but not limited to) settlement, confidentiality, restrictive covenants and/or consultancy arrangements. These will be used sparingly and only entered into where the Committee believes that it is in the best interests of the Group and its shareholders to do so.

When considering exit payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus and LTIP are typically treated in different circumstances, with the final treatment remaining subject to the Committee's discretion:

Scenario	Timing of vesting	Treatment of awards
Annual cash bonus		
Ill-health, disability, death, retirement (with Group consent) or any other reasons the Committee may determine in its absolute discretion.	Normal payment date, although the Committee has discretion to accelerate.	Cash bonuses will only be paid to the extent that Group and personal objectives set at the beginning of the year have been achieved. Any resulting bonus will generally be pro-rated for time served during the year.
Change of control.	Immediately.	Performance against targets will be assessed at the point of change of control and any resulting bonus will generally be pro-rated for time.
Any other reason.	Not applicable.	No bonus is paid.
Deferred Annual Bonus (DAB)		
Ill-health, disability, death, retirement (with Group consent) or any other reasons the Committee may determine in its absolute discretion.	Normal payment date, although the Committee has discretion to accelerate.	Any outstanding DAB awards will generally be pro-rated for time.
Change of control.	Immediately.	Any outstanding DAB awards will generally be pro-rated for time.
Any other reason.	Not applicable.	Awards lapse.
Long Term Incentive Plan (LTIP)		
Ill-health, disability, death, retirement (with Group consent) or any other reasons the Committee may determine in its absolute discretion.	Normal vesting date, although the Committee has discretion to accelerate.	Any outstanding LTIP awards will generally be pro-rated for time and performance.
Change of control.	Immediately.	Any outstanding LTIP awards will generally be pro-rated for time and performance, subject to the Committee's discretion. In the event of a change of control, awards may alternatively be exchanged for new equivalent awards in the acquirer where appropriate.
Any other reason.	Not applicable.	Awards lapse.

Non-executive directors

The non-executive directors do not have service contracts as their terms of engagement are governed by letters of appointment. These letters make provision for annual renewal at the AGM. Details of the non-executive directors' terms of appointment are shown in the table on page 74. The appointment and re-appointment and the remuneration of non-executive directors are matters reserved for the full Board.

Governance

Directors' Remuneration Report continued

Non-executive director	Initial agreement date	Expiry/renewal date
Adrian Auer	16 May 2005	31 July 2014
Jacques Petry	30 September 2010	31 July 2014
Stephen Riley	29 March 2007	31 July 2014
Eric van Amerongen	9 February 2007	31 July 2014
Marina Wyatt	2 April 2013	31 July 2014

The non-executive directors are not eligible to participate in the Group's performance-related incentive plans and do not receive any pension contributions.

Details of policy on fees paid to non-executive directors are set out in the table below:

Objective	Operation	Opportunity	Performance measures
To attract and retain non-executive directors of the highest calibre with broad commercial and other experience relevant to the Group.	Fee levels are reviewed annually, with any adjustments effective 1 April each year. The fee paid to the Chairman is determined by the Committee, and fees to non-executive directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chairman of the Board's Committees (Audit and Remuneration). Fee levels are reviewed by reference to FTSE-listed companies of similar size and complexity. The required time commitment and responsibilities are taken into account when reviewing fee levels.	Non-executive director fee increases are applied in line with the outcome of the review. Fees in respect of the year under review, and for the following year, are disclosed in the Annual Report on Remuneration. It is expected that any increases to non-executive director fees will normally be in line with those for salaried employees. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive director role, the Board has discretion to make an appropriate adjustment to the fee level.	None.

External appointments

The 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 Group. Executive directors are limited to holding one such position, and the policy is that fees may be retained by the director, reflecting the personal risk assumed in such appointments. No external appointments were held by the executive directors during the year.

Consideration of conditions elsewhere in the Group

Although the Committee does not consult directly with employees on executive Remuneration Policy, the Committee does consider general basic salary increases across the Group, remuneration arrangements and employment conditions for the broader employee population when determining Remuneration Policy for the executive directors.

Consideration of shareholder views

When determining executives' remuneration, the Committee takes into account views of shareholders and best practice guidelines issued by institutional shareholder bodies. The Committee is always open to feedback from shareholders on Remuneration Policy and arrangements, and commits to undergoing shareholder consultation in advance of any significant changes to Remuneration Policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate.

Further detail of the votes received in relation to the 2013 Directors' Remuneration Report is provided in the Annual Report on Remuneration on page 75.

Annual Report on Remuneration

The following section provides details of how our Remuneration Policy was implemented during the financial year ending 31 March 2014.

Remuneration Committee membership in 2013/14

The role of the Committee is to:

- Determine the Group's policy on remuneration and monitor its careful implementation;
- Review and set performance targets for incentive plans;
- Set the remuneration of the Group's senior management;
- Approve the specific remuneration package for each of the executive directors;
- Determine the remuneration of the Chairman;
- Determine the terms on which LTIP and SRSOS awards are made to employees;
- Determine the policy for and scope of pension arrangements for the executive directors.

The Committee's full terms of reference are set out on the Group's website. As of 31 March 2014, the Committee comprised five independent non-executive directors:

- Eric van Amerongen (Committee Chairman)
- Adrian Auer
- Jacques Petry
- Stephen Riley
- Marina Wyatt

Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Group Chief Executive, Group HR Director and external consultants, advise the Committee and may attend from time to time by invitation. No individuals are involved in decisions relating to their own remuneration.

The Remuneration Committee met four times during the year and details of members' attendance at meetings are provided in the Corporate Governance section on pages 64 to 65.

Advisers

Kepler Associates Partnership LLP (Kepler) provided independent advice to the Committee relating to executive remuneration and benefits during the year. Kepler is a member of the Remuneration Consultants Group and is a signatory to the Code of Conduct for consultants to Remuneration Committees of UK-listed companies, details of which can be found at www.remunerationconsultantsgroup.com. Kepler adheres to this Code of Conduct.

In 2013/14 Kepler provided independent advice on remuneration for executives, remuneration benchmarking data, analysis on all elements of the Remuneration Policy, and regular market and best practice updates. Kepler reports directly to the Chairman of the Committee and provides no other services to the Group. Their total fees for the provision of remuneration services to the Committee in 2013/14 were £74,000 plus VAT on the basis of time and materials.

The Committee undertakes due diligence periodically to ensure that Kepler remains independent of the Group and that the advice provided is impartial and objective. The Committee is satisfied that the advice provided by Kepler is independent.

Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory shareholder vote on the 2013 Directors' Remuneration Report at the AGM on 25 July 2013:

	Total number of votes	% of votes cast
For (including discretionary)	233,047,176	94.6%
Against	13,213,104	5.4%
Total votes cast (excluding withheld votes)	246,260,280	100%
Votes withheld	4,887,571	

Governance

Directors' Remuneration Report continued

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 March 2014 and the prior year.

	Peter Dilnot		Toby Woolrych	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
Basic salary	433	433	283	171
Taxable benefits[1]	27	27	21	13
Pension[2]	108	108	57	34
Single-year variable[3]	285	82	186	31
Multiple-year variable[4]	–	–	–	–
Other[5]	7	7	5	3
Total	860	657	552	252

1. Taxable benefits comprise car allowance and medical insurance.
2. During the year, Peter Dilnot and Toby Woolrych received cash supplements in lieu of pension contribution of 25% and 20% of salary respectively.
3. Payment for performance during the year under the annual bonus. See following sections for further details.
4. Includes any LTIP awards based on the value at vesting of shares vesting on performance over the three-year period ending 31 March 2014.
5. Includes SRSOS, valued based on embedded gain at grant, life insurance and income protection.

Single total figure of remuneration for non-executive directors (audited)

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 March 2014 and the prior year.

	Base fee		Additional fees		Total	
	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000	2013/14 £000	2012/13 £000
Adrian Auer (Chairman)	113	113	–	–	113	113
Peter Johnson[1]	14	43	–	–	14	43
Jacques Petry	38	38	–	–	38	38
Stephen Riley	38	38	–	–	38	38
Eric van Amerongen[2]	52	50	–	–	52	50
Marina Wyatt	38	–	7	–	45	–

1. Peter Johnson retired from the Board on 25 July 2013. His fee was inclusive of his Audit Committee chairmanship.
2. Eric van Amerongen's fee is inclusive of his role as the Senior Independent Director and his chairmanship of the Remuneration Committee. His fees were paid in euros but stated above in sterling at an exchange rate of £1:€1.1839 (2012/13: £1:€1.2317).

Incentive outcomes for the year ended 31 March 2014

Performance-related annual bonus in respect of 2013/14 performance

For the year to 31 March 2014, the maximum bonus potential for executive directors was 100% of basic salary. 75% of the bonus was based on financial performance and 25% on the achievement of personal objectives. For the financial component, 50% was linked to a Group underlying profit before tax target and the remaining 25% to Group underlying free cash flow. Personal objectives included health and safety targets, restructuring and cost reduction targets, people and performance delivery.

Based on the financial performance of the Group during the year, a bonus of 41% of salary was payable for the financial element. Based on the achievement of personal objectives, the Committee determined that overall bonuses of 66% be awarded to both Peter Dilnot and Toby Woolrych, representing actual payments of £284,655 to Peter Dilnot and £186,381 to Toby Woolrych.

Further details of the bonuses paid for 2013/14, including performance against each of the metrics, are provided in the table on page 77.

Financial element outcomes

The specific targets for the year are deemed to be commercially sensitive and will not be published until such time that the Committee is confident there will be no adverse impact on the Group of such disclosure. At this time, the Committee believes that disclosure of targets within three years of the determination of bonuses is appropriate.

Measure	Weighting	Actual performance	Bonus payout (% of max)
Profit before tax	50%	Between threshold and target	32%
Underlying free cash flow	25%	Target has been achieved	100%

Personal element outcomes

The personal performance measures were based on individual objectives, as detailed below.

Executive director	Objectives during the year	Bonus payout (% of max)
Peter Dilnot	Develop and communicate Group strategy; define portfolio management plan; deliver cost savings; talent management and succession planning; investor relations; drive health and safety improvements	100%
Toby Woolrych	Define portfolio management plan; deliver cost savings; investor relations; improve Group controls processes; develop and execute refinancing strategy; drive health and safety improvements	100%

Overall bonus outcomes

Executive director	Financial element bonus outcome (% of salary)	Personal element bonus outcome (% of salary)	Overall bonus outcome (% of salary)
Peter Dilnot	41%	25%	66%
Toby Woolrych	41%	25%	66%

2011 LTIP vesting

Peter Dilnot was granted an award under the 2011-2014 LTIP cycle of circa 200% of salary. Vesting was dependent on three-year EPS and share price performance. Further details, including vesting schedules and performance against targets, are provided in the table below.

Performance measure	Performance targets	Actual performance	Vesting outcome (% of maximum)
EPS growth	0% vesting for EPS growth below 7% p.a. 5% vesting for EPS growth of 7% p.a. 50% vesting for EPS growth of 25% p.a. or more Straight line vesting between these points	<7%	0%
Share price growth	1x multiplier for share price growth at or below 15% p.a. 2x multiplier for share price growth of 25% p.a. or more Straight line vesting between these points	N/A	0%
Total LTIP vesting			0%

Share price growth was calculated using three-month average share prices immediately prior to the start and end of the performance period. The three-year period over which performance was measured ended on 31 March 2014. Having failed to achieve the performance targets, the award has not vested and therefore has been deemed to have lapsed.

Toby Woolrych joined the Board on 27 August 2012 and, as such, no awards were due to vest for him for performance to the end of the year.

Governance

Directors' Remuneration Report continued

Scheme interests awarded in 2013/14 (audited)

In June 2013, Peter Dilnot and Toby Woolrych were granted awards under the 2011 LTIP with a face value of circa 200% and circa 150% of their respective 2013/14 salaries. The three-year period over which performance will be measured began on 1 April 2013 and will end on 31 March 2016. The awards are eligible to vest in their entirety on the third anniversary of the date of grant (i.e. 7 June 2016), subject to performance.

Executive director	Date of grant	Awards made during the year (shares)	Market price as per plan rules	Grant value
Peter Dilnot	7 June 2013	1,037,000	83.42p	£865,065
Toby Woolrych	7 June 2013	509,000	83.42p	£424,607

As in 2012/13, the same two performance conditions as those detailed on page 77 apply, i.e. EPS and share price.

Exit payments and payments to past directors made in the year (audited)

No exit payments or payments to past directors were made in the year.

Implementation of Remuneration Policy for 2014/15

Basic salary

Market positioning of basic salary is reviewed on an individual basis, taking account of the individual performance and experience of each executive director and advice received from the Committee's independent advisers on remuneration levels for similar roles in comparable companies.

The Committee approved the following basic salary increases with effect from 1 April 2014:

Executive director	Basic salary at 1 April 2013	Basic salary from 1 April 2014	Percentage increase
Peter Dilnot	£432,600	£443,415	2.5%
Toby Woolrych	£283,250	£290,350	2.5%

Pension

The Group Chief Executive and Group Finance Director will continue to receive a cash supplement of 25% and 20% of salary, respectively, or an equivalent pension contribution.

Annual bonus

Following a comprehensive review of the Group's remuneration arrangements (discussed in more detail in the Policy Report above), the maximum annual bonus opportunity for executive directors in 2014/15 will be increased from 100% of salary to 150% of salary, with one third of any bonus pay out deferred into shares vesting 50% after three years, 25% after four years and 25% after five years. Pay out for achievement of target performance will be 80% of maximum.

Bonuses will be based 50% on underlying profit before tax, 25% on underlying free cash flow and 25% on personal objectives. Proposed target levels have been set to be challenging relative to the 2014/15 business plan, although specific targets are deemed to be commercially sensitive and will not be published until such time that the Committee is confident there will be no adverse impact on the Group of such disclosure. At this time, the Committee believes that disclosure of targets within three years of the determination of bonuses, i.e. not later than the 2017 Directors' Remuneration Report, is appropriate.

LTIP

Following a comprehensive review of the LTIP (discussed in more detail in the Policy Report), the Committee proposed changes for awards ending in March 2017. Vesting is based on achievement of EPS, share price and ROCE targets (combined additively), as detailed in the table below. LTIP opportunities were reduced to 150% of salary for the Group Chief Executive and 120% of salary for the Group Finance Director.

Measure	Weighting	Targets
EPS CAGR	50%	0% vesting below 5% p.a. 25% vesting for 5% p.a. 50% vesting for 10% p.a. 100% vesting for 15% p.a. Straight-line vesting between these points
Share price CAGR	25%	0% vesting below 9% p.a. 25% vesting for 9% p.a. 50% vesting for 13% p.a. 100% vesting for 17% p.a. Straight-line vesting between these points
Improvement in ROCE	25%	0% vesting below +0.5% 25% vesting for +0.5% 100% vesting for +2.0% Straight-line vesting between these points

The proportion vesting for threshold performance for these awards is 25% of maximum.

The Committee reviews incentive targets prior to each cycle to ensure they remain stretching but achievable. In the past it has been difficult to set robust, credible long-term targets due to significant changes in growth expectations. For awards in 2014/15 (see table above for details), the Committee has set targets that are stretching and achievable and which will help the Group meet its long-term goals. For any shares to vest, the Committee will also need to satisfy itself that the recorded outcome is a fair reflection of the overall performance of Shanks over the period.

Chairman and non-executive director fees

In 2014, the Board undertook a review of non-executive director fees. Following consideration of actual and proposed salary increases across the Group and indicative fee increases at sector and FTSE comparators, the Board determined that the basic fee should be increased from £38,110 to £39,000 per annum and that additional fees should be increased by a similar rate. The Committee, in considering similar factors, determined that the fee payable to the Chairman of the Board should be increased from £113,300 per annum to £116,000 per annum. A summary of the fee increases, which were effective 1 April 2014, is set out in the table below. Fee levels will be subject to annual review going forward.

	2013/14 fees	2014/15 fees
Base fees		
Chairman	£113,300	£116,000
Non-executive director	£38,110	£39,000
Additional fees		
Audit Committee Chair	£6,890	£7,000
Remuneration Committee Chair	£7,000	£7,000
Senior Independent Director	£5,000	£5,000

Directors' Remuneration Report continued

Percentage change in Group Chief Executive's remuneration

The table below shows the percentage change in the Group Chief Executive's remuneration from the prior year compared to the average percentage change in remuneration for all UK-based employees. This group was selected because the Committee believes it provides a sufficiently large comparator group to give a reasonable understanding of underlying increases that are based on similar incentive structures, whilst on the other hand reducing any distortion arising from including all of the geographies in which the Group operates, with their different economic conditions. To provide a meaningful comparison, the analysis includes only salaried employees and is based on a consistent set of employees, i.e. the same individuals appear in the 2012/13 and 2013/14 populations.

	Group Chief Executive			Other employees
	2012/13 £000	2013/14 £000	% change	% change
Salary	433	433	0%	4%
Taxable benefits	27	27	0%	0%
Single-year variable	82	285	247%	170%
Total	542	745	37%	8%

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (i.e. dividends and share buy-backs) from the financial year ended 31 March 2013 to the financial year ended 31 March 2014.

	2013/14 £m	2012/13 £m	% change
Distribution to shareholders	13.7	13.7	0%
Employee remuneration	162.1	160.7	1%

The Directors are proposing a final dividend for the year ended 31 March 2014 of 2.35 pence per share (2013: 2.35 pence).

Pay for performance

The graph on page 81 shows the Total Shareholder Return (TSR) of the Group over the five-year period to 31 March 2014. Whilst there is no comparator index or group of companies that truly reflects the activities of the Group, the FTSE Support Services Sector has been selected as a comparator index as it is the sector in which Shanks is classified and tends to be the index against which analysts judge the performance of the Group. The Group is also a member of the FTSE All-Share Index. The table on page 81 details the Group Chief Executive's single figure remuneration and actual variable pay outcomes over the same period.

Peter Dilnot[1]	2009/10	2010/11	2011/12	2012/13	2013/14
Group Chief Executive single figure of remuneration (£000)			157	657	860
Annual bonus outcome (% of maximum)			87%	19%	66%
LTI vesting outcome (% of maximum)			–	0%	0%

Tom Drury[2]	2009/10	2010/11	2011/12	2012/13	2013/14
Group Chief Executive single figure of remuneration (£000)	663	840	284		
Annual bonus outcome (% of maximum)	38%	69%	0%		
LTI vesting outcome (% of maximum)	0%	0%	0%		

1. Peter Dilnot was appointed as Group Chief Executive on 1 February 2012.
2. Tom Drury resigned as Group Chief Executive on 30 September 2011.

Directors' interests

The interests of the directors and their families in the ordinary shares of the Group during the year and as at 15 May 2014 were as follows:

	Ordinary shares at 1 April 2013	Ordinary shares at 31 March 2014 and 15 May 2014
Peter Dilnot	72,191	72,191
Toby Woolrych	14,757	14,757
Adrian Auer	103,333	103,333
Jacques Petry	–	–
Stephen Riley	–	20,000
Eric van Amerongen	–	–
Marina Wyatt	–	–

Peter Johnson had an interest in 61,007 ordinary shares at 1 April 2013 and at the date of his resignation from the Board on 25 July 2013.

Details of directors' interests in shares and options under the long-term incentive schemes are set out in the sections below.

Directors' shareholding (audited)

The table below shows the shareholding of each executive director against their respective shareholding requirement as at 31 March 2014:

	Shares held			Options held				
	Owned outright or vested	Vested but subject to holding period	Unvested and subject to performance conditions	Vested but not exercised	Unvested and subject to continued employment	Shareholding requirement (% salary)	Current shareholding (% of salary/fee)	Requirement met?[1]
Peter Dilnot	72,191	-	2,128,000	–	12,328	100%	18%	No
Toby Woolrych	14,757	-	979,000	–	12,328	100%	6%	No

Shareholdings were calculated using the mid-market price at 31 March 2014 of 110.75 pence.

1. Share ownership guidelines of 100% of salary to be achieved over five years were introduced for executive directors during the year to further align their interests with those of shareholders. The executive directors are currently working towards meeting these guidelines.

Governance

Directors' Remuneration Report continued

Directors' interests in shares options and shares in our Long Term Incentive Plan and all-employee plans

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

	Outstanding awards at 31 March 2013	Awards made during the year	Awards lapsed during the year[1]	Awards exercised during the year	Outstanding awards at 31 March 2014[2]	Date of award	Share price on date of award (pence)	Performance period end	Restricted period end
Peter Dilnot	887,000	–	887,000	–	–	01.02.12	97.53	31.03.14	01.02.15
	1,091,000	–	–	–	1,091,000	01.08.12	79.27	31.03.15	01.08.15
	–	1,037,000	–	–	1,037,000	07.06.13	83.42	31.03.16	07.06.16
Toby Woolrych	470,000	–	–	–	470,000	28.08.12	90.33	31.03.15	28.08.15
	–	509,000	–	–	509,000	07.06.13	83.42	31.03.16	07.06.16

1. Performance conditions not met 31 March 2014.
2. The performance conditions relating to the vesting of outstanding awards are shown on page 77.

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

	Date of grant	Normal exercise dates from	Normal exercise dates to	Option price (pence)[1]	Number at 1 April 2013	Granted in year	Lapsed in year	Exercised in year	Number at 31 March 2014
Peter Dilnot	20.09.12	01.11.15	30.04.16	73.0	12,328	–	–	–	12,328
Toby Woolrych	20.09.12	01.11.15	30.04.16	73.0	12,328	–	–	–	12,328

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

The highest closing mid-market price of the ordinary shares of the Group during the year was 120.25 pence and the lowest closing mid-market price during the year was 73 pence. The mid-market price at the close of business on 31 March 2014 was 110.75 pence.

Other interests

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

By order of the Board

Eric van Amerongen
Chairman of the Remuneration Committee

15 May 2014

Directors' Report

The Board is fully committed to high standards of corporate governance

Directors

The composition of the Board at the date of this Report, together with directors' biographical details, is shown on pages 60 and 61. Adrian Auer, Eric van Amerongen, Jacques Petry, Stephen Riley, Peter Dilnot and Toby Woolrych all served on the Board throughout the financial year under review. Marina Wyatt was appointed as a non-executive director on 2 April 2013 and Peter Johnson retired as a non-executive director following the AGM on 25 July 2013. All directors will be offering themselves for annual re-election at the Company's 2014 AGM. The Board commends to shareholders the re-election of these directors, all of whom continue to demonstrate commitment to their respective roles and all of whose individual performance continues to be effective.

Directors' indemnities

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

Strategic report

The Strategic Report set out on pages 2 to 57 provides a fair review of the Group's business for the year ended 31 March 2014. It also explains the objectives and strategy of the Group, its competition and the markets in which it operates, the principal risks and uncertainties it faces, the Group's financial position, key performance indicators and likely future developments of the business.

Corporate governance

The Board is fully committed to high standards of corporate governance. Details relating to the Company's compliance with the UK Corporate Governance Code for the financial year are given in the Corporate Governance and Directors' Remuneration Reports on pages 62 to 82.

Corporate responsibility

Shanks Group plc is a sustainable waste management company. Information on Corporate Responsibility (CR) matters including those on the environment, employment policies and health and safety are set out on pages 52 to 57. These include disclosures on greenhouse gas reporting as well as human rights and gender diversity policies. Further details on the Company's approach to carbon avoidance and the benefits of sustainable waste management can also be found in the Group CR Report and CR Policy both of which are available on the Group website.

Results and dividends

The Group's Consolidated Income Statement appears on page 90 and note 3 to the financial statements shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's loss for the year was £28.2m (2013: loss of £35.2m).

The directors recommend a final dividend of 2.35 pence (2013: 2.35 pence) per share be paid on 1 August 2014 to ordinary shareholders on the register of members at the close of business on 4 July 2014. This dividend, if approved by shareholders, together with the interim dividend of 1.1 pence (2013: 1.1 pence) per share already paid on 10 January 2014, will make a total dividend for the year of 3.45 pence per share (2013: 3.45 pence).

Going concern

The Group has refinanced a substantial part of its core debt during the year, ensuring that there is sufficient headroom to meet all foreseeable needs at the date of this report. The refinancing has increased the weighted average maturity of the core debt to four years, and no committed debt facilities expire in less than one year. The directors consider that the Group has adequate headroom in the financial covenants of its core debt facilities for all reasonably foreseeable scenarios. The current financial models, including sensitivities of likely outcomes, show that the funding available from the non-recourse bank facilities is sufficient to enable the Group's PFI/PPP projects to complete construction and operate for the full contract term. After making enquiries, the directors have formed the view, at the time of approving the financial statements, that the Company and Group have adequate resources to continue in operational existence for the foreseeable future and that the Group's business is a going concern. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Governance

Directors' Report continued

Notifiable interests	Notifications received up to 31 March 2014		Notifications received between 31 March 2014 and 15 May 2014	
	Number of shares	Percentage	Number of shares	Percentage
Aberforth Partners LLP	20,482,329	5.15	–	–
Sterling Strategic Value Ltd	19,895,000	5.00	24,025,000	6.04
Schroders plc	19,398,311	4.88	–	–
Royal London Asset Management	15,952,727	4.01	–	–

Notifiable interests

The Company has been notified of direct and indirect interests in voting rights equal to or exceeding 3% of the ordinary share capital of the Company as set out in the table above.

Share capital

The Company's share capital comprises ordinary shares of 10 pence each par value. As at 31 March 2014 and as at the date of this Report there were 397,701,174 and 397,723,972 ordinary shares in issue respectively. During the year ended 31 March 2014 no ordinary shares were issued other than in respect of the exercise of options or awards under the Company's share schemes, details of which are given in note 7 to the financial statements. The principal rights and obligations attaching to the Company's ordinary shares are as follows:

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

Share restrictions

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

Employee share schemes – control rights

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

Retail bond
As at 31 March 2014 and as at the date of this Report, the Company had in issue two Retail Bonds: the first, comprising €100m 5% guaranteed notes due 22 October 2015; and the second, comprising €100m 4.23% guaranteed notes due 30 July 2019. There are no restrictions under the instruments governing these notes that restrict the rights of investors to hold or transfer them. The Company is not aware of any agreements between the holders of the notes that may result in restrictions on their transfer.

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

- the Company's members may, by ordinary resolution, appoint any person who is willing to act to be a director;
- the Board may appoint any person who is willing to act to be a director. Any director so appointed shall hold office only until the next AGM and shall then be eligible for election;
- each director shall retire from office at every AGM but he or she may be re-appointed by ordinary resolution if eligible and willing;
- the Company may, by special resolution, remove any director before the expiry of his or her period of office or may, by ordinary resolution, remove a director where special notice has been given and the necessary statutory procedures are complied with; and
- a director must vacate his or her office if any of the circumstances in Article 100 of the Articles of Association (Articles) of the Company arise.

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

- pre-emptive rights and new issues of shares – while holders of ordinary shares have no pre-emptive rights under the Articles, the ability of the directors to cause the Company to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employees share scheme, is restricted. Under the Companies Act 2006, (the Act), the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's Articles or given by its shareholders in general meeting, but which in either event cannot last for more than five years. Under the Act, the Company may not allot shares for cash (otherwise than pursuant to an employees share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the Company's shareholders. The Company received authority at the last AGM to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £1,987,695. This authority lasts until the earlier of the AGM in 2014 or 30 September 2014;
- repurchase of shares – subject to authorisation by shareholder resolution, the Company may purchase all or any of its own shares in accordance with the Act and the Listing Rules. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital. The Company received authority at the last AGM to purchase up to 39,753,907 ordinary shares. This authority lasts until the earlier of the AGM in 2014 or 30 September 2014; and
- borrowing powers – the directors are empowered to exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the Company's assets, provided that the aggregate amount of borrowings of the Group outstanding at any time does not exceed the limit set out in the Articles, unless sanctioned by an ordinary resolution of the Company's shareholders.

Amendment to Company's Articles
The Company may alter its Articles by special resolution passed at a general meeting.

Research and development
The Group spent £180,000 (2013: £190,000) on research and development during the year ended 31 March 2014. This was in relation to the development of technologies for mapping landfill sites, optimising waste decomposition processes and the recovery of energy and materials through excavation techniques and waste pre-treatment.

Political donations
No donations were made by the Group for political purposes during the financial year (2013: £nil).

Change of control – significant agreements
The Group's principal financing instrument at 31 March 2014, a €180m multicurrency revolving credit facility with seven major banks, contains an option for those banks to declare by notice that all sums outstanding under that agreement are repayable immediately in the event of a change of control of the Company. Any such notice may take effect no earlier than 30 days from the change of control and, if exercised at 31 March 2014, would have required the repayment of £51.9m (2013: £96.2m) in principal and interest.

Directors' Report continued

The Group's Retail Bonds issued in October 2010 and July 2013 require notice to be given to bondholders within seven business days of a change of control following which the holders have an option to seek repayment at a 1% premium, within 60 days of that notice. Such repayment must be made within 10 business days of the expiry of the option period. If exercised at 31 March 2014, repayment of £171.2m (2013: £87.3m) in principal and interest would have been required.

The notes issued under the Group's 24 March 2011 private placement contain an option for the noteholders to enforce prepayment between 30 and 60 days from a change of control of outstanding principal and interest which would have amounted in total at 31 March 2014 to £33.9m (2013: £50.4m). In addition, a make-whole payment amounting to £4.1m (2013: £6.6m) which is not provided for in these financial statements would be payable to private placement noteholders based on treasury yields at 31 March 2014.

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

Annual General Meeting
Notice of the AGM of the Company to be held at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA on Friday, 25 July 2014 at 11.00am will be made available to shareholders, together with a form of proxy, and will also be available on the Group website at www.shanksplc.com. The directors consider that all the AGM resolutions are in the best interests of the Company and they recommend unanimously that all shareholders vote in favour, as they intend to do in respect of their own shareholdings.

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

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

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

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

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

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

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Each of the directors, whose names and functions are listed on page 61 of the Annual Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss/profit of the Group;
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

P. Griffin-Smith

Philip Griffin-Smith
Company Secretary

15 May 2014

Shanks Group plc
Registered in Scotland no. SC077438

Independent Auditors' Report to the members of Shanks Group plc

Report on the Financial Statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2014 and of the Group's loss and of the Group's and Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Group financial statements and Company financial statements (the "financial statements"), which are prepared by Shanks Group plc, comprise:

- the Group and Company balance sheets as at 31 March 2014;
- the Consolidated Income Statement and Statement of Comprehensive Income for the year then ended;
- the Group and Company Statements of Changes in Equity and Statements of Cash Flows for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Act 2006.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts ("the Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality
We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £1.5 million representing approximately 5% of the Group's underlying pre-tax profits. Underlying profit is profit before tax excluding non-trading and exceptional items and we chose this benchmark because in our view it is the most appropriate indicator of the Group's underlying performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit
The Group financial statements are a consolidation of six reporting units being Solid Waste Benelux, UK Solid Waste, Hazardous Waste, Organics, UK Municipal and Group Central Services.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Accordingly, of the Group's six reporting units, we identified Hazardous Waste, Netherlands and Belgium Solid Waste (both part of the Solid Waste Benelux reporting unit), UK Solid Waste, UK Municipal and Group Central Services which, in our view, required an audit of

Governance

Independent Auditors' Report to the members of Shanks Group plc continued

their complete financial information, either due to their size or their risk characteristics. Specific audit procedures on certain balances and transactions were performed on the Organics reporting unit. This, together with additional procedures performed at the Group level, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus
In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the areas in the table below to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 65.

Going concern
Under the Listing Rules we are required to review the directors' statement, set out on page 83 of the Annual Report, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Area of focus	How the scope of our audit addressed the area of focus
Impairment of tangible and intangible assets We focused on this area because the determination of whether or not an impairment charge was necessary involved significant judgements about the future results of the relevant business units, in particular the Netherlands and Belgium Solid Waste reporting units. (Refer to note 14 to the financial statements.)	We evaluated the directors' future cash flow forecasts, and the process by which they were drawn up, including comparing them with the latest Board approved budgets, and testing the underlying calculations. We challenged: • the directors' key assumptions for long-term growth rates in the forecasts by comparing them with historical results, economic and industry forecasts; and • the discount rate by assessing the cost of capital for the Company and comparable organisations. We also performed sensitivity analysis on the discounted cash flow forecasts specifically on the ability of the Group to generate the forecast trading profits. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the tangible and intangible assets to be impaired, we considered the likelihood of such a movement in those key assumptions arising. Where the recoverable amount of assets or Cash Generating Units were calculated on a fair value less costs to sell basis we tested the appropriateness of the basis of these calculations and, where possible, obtained third party evidence to assess the reasonableness of the valuation.
Fraud in revenue recognition Auditing Standards (ISAs (UK & Ireland)) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the existence of revenue and the timing of recognition of revenue in those reporting units where the timing of revenue recognition involved subjective estimation with regard to stage of completion. Refer also to note 1 to the financial statements.	We evaluated and tested the relevant IT systems and internal controls over the existence and timing of revenue recognised in the financial statements. We substantively tested the existence and timing of revenue recognised in the financial statements which included journal entries posted to revenue accounts to identify unusual or irregular items and we attended counts of unprocessed waste at the balance sheet date to confirm the appropriateness of revenue cut off. We also performed work over key balance sheet controls including bank reconciliations.
Risk of management override of internal controls Auditing Standards (ISAs (UK & Ireland)) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. In particular, we assessed the appropriateness of the estimates and judgements that management have made in relation to impairment and provisions. We also tested journal entries and key reconciliations.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Corporate Governance Statement set out on pages 62 to 67 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement
Under the Companies Act 2006, we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 86 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 65 of the Annual Report, as required by C3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement set out on page 86 of the Annual Report, the directors are responsible for the preparation of the Group and Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

John Waters

John Waters
(Senior Statutory Auditor)
for and on behalf of

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London 15 May 2014

Financials

Consolidated Income Statement

For the year ended 31 March 2014

	Note	2014 Trading £m	2014 Non trading & exceptional items £m	2014 Total £m	2013 Restated* Trading £m	2013 Restated* Non trading & exceptional items £m	2013 Restated* Total £m
Revenue	3	**636.4**	**–**	**636.4**	614.6	–	614.6
Cost of sales	4	**(530.6)**	**(5.1)**	**(535.7)**	(511.6)	(11.7)	(523.3)
Gross profit (loss)		**105.8**	**(5.1)**	**100.7**	103.0	(11.7)	91.3
Administrative expenses	4	**(59.9)**	**(17.4)**	**(77.3)**	(58.1)	(28.7)	(86.8)
Operating profit (loss)	3,4,5	**45.9**	**(22.5)**	**23.4**	44.9	(40.4)	4.5
Finance income	8	**10.1**	**0.3**	**10.4**	6.2	0.1	6.3
Finance charges	8	**(26.1)**	**(0.3)**	**(26.4)**	(21.2)	–	(21.2)
Income from associates	16	**0.3**	**–**	**0.3**	0.3	–	0.3
Profit (loss) before taxation	3	**30.2**	**(22.5)**	**7.7**	30.2	(40.3)	(10.1)
Taxation	4,9	**(7.3)**	**1.4**	**(5.9)**	(7.7)	6.7	(1.0)
Profit (loss) for the year from continuing operations		**22.9**	**(21.1)**	**1.8**	22.5	(33.6)	(11.1)
Discontinued operations							
Loss for the year from discontinued operations	4,10	**(3.6)**	**(26.4)**	**(30.0)**	(2.8)	(21.3)	(24.1)
Profit (loss) for the year		**19.3**	**(47.5)**	**(28.2)**	19.7	(54.9)	(35.2)
Attributable to:							
Owners of the parent		**19.2**	**(47.5)**	**(28.3)**	19.6	(54.9)	(35.3)
Non-controlling interest		**0.1**	**–**	**0.1**	0.1	–	0.1
		19.3	**(47.5)**	**(28.2)**	19.7	(54.9)	(35.2)
Basic earnings (loss) per share attributable to owners of the parent (pence per share)							
Continuing operations	12	**5.7**	**(5.3)**	**0.4**	5.7	(8.5)	(2.8)
Discontinued operations	12	**(0.9)**	**(6.6)**	**(7.5)**	(0.7)	(5.4)	(6.1)
		4.8	**(11.9)**	**(7.1)**	5.0	(13.9)	(8.9)
Diluted earnings (loss) per share attributable to owners of the parent (pence per share)							
Continuing operations	12	**5.7**	**(5.3)**	**0.4**	5.7	(8.5)	(2.8)
Discontinued operations	12	**(0.9)**	**(6.6)**	**(7.5)**	(0.7)	(5.4)	(6.1)
		4.8	**(11.9)**	**(7.1)**	5.0	(13.9)	(8.9)

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

The notes on pages 95 to 137 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Note	2014 £m	Restated* 2013 £m
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign subsidiaries		**(4.8)**	5.4
Fair value movement on cash flow hedges	17	**14.5**	(13.8)
Deferred tax on fair value movement on cash flow hedges	19	**(3.8)**	3.0
		5.9	(5.4)
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension scheme	27	**(6.4)**	(4.2)
Deferred tax on actuarial loss on defined benefit pension scheme	19	**1.0**	0.9
		(5.4)	(3.3)
Other comprehensive income (loss) for the year, net of tax		**0.5**	(8.7)
Loss for the year		**(28.2)**	(35.2)
Total comprehensive loss for the year		**(27.7)**	(43.9)
Attributable to:			
Owners of the parent		**(27.4)**	(44.0)
Non-controlling interest		**(0.3)**	0.1
Total comprehensive loss for the year		**(27.7)**	(43.9)
Total comprehensive income (loss) attributable to owners of the parent arising from:			
Continuing operations		**2.6**	(19.9)
Discontinued operations		**(30.0)**	(24.1)
		(27.4)	(44.0)

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

The notes on pages 95 to 137 are an integral part of these consolidated financial statements.

Financials

Balance Sheets

As at 31 March 2014

		Group		Company	
	Note	**31 March 2014 £m**	31 March 2013 £m	**31 March 2014 £m**	31 March 2013 £m
Assets					
Non-current assets					
Intangible assets	14	**212.7**	251.8	**0.7**	0.7
Property, plant and equipment	15	**327.1**	375.3	**0.1**	0.1
Investments	16	**5.9**	5.6	**533.4**	466.9
Financial assets relating to PFI/PPP contracts	21	**187.4**	117.5	**–**	–
Trade and other receivables	22	**2.5**	5.9	**38.1**	–
Deferred tax assets	19	**12.7**	16.0	**3.5**	2.6
		748.3	772.1	**575.8**	470.3
Current assets					
Inventories	20	**9.4**	11.0	**–**	–
Financial assets relating to PFI/PPP contracts	21	**8.2**	8.0	**–**	–
Trade and other receivables	22	**139.4**	147.8	**217.7**	296.8
Current tax receivable		**1.9**	1.8	**1.4**	–
Cash and cash equivalents	23	**104.6**	75.4	**22.9**	19.3
		263.5	244.0	**242.0**	316.1
Assets classified as held for sale	10	**3.2**	3.3	**–**	–
		266.7	247.3	**242.0**	316.1
Total assets		**1,015.0**	1,019.4	**817.8**	786.4
Liabilities					
Non-current liabilities					
Borrowings – PFI/PPP non-recourse net debt	24	**(149.5)**	(87.5)	**–**	–
Borrowings – Other	24	**(256.9)**	(234.5)	**(164.3)**	(121.7)
Derivative financial instruments	17	**(15.0)**	(30.8)	**–**	(1.0)
Other non-current liabilities	25	**(1.2)**	(2.3)	**(215.3)**	(212.0)
Deferred tax liabilities	19	**(38.8)**	(41.6)	**–**	–
Provisions	26	**(34.0)**	(38.7)	**(0.1)**	(0.3)
Defined benefit pension scheme deficit	27	**(13.1)**	(8.8)	**(13.1)**	(8.8)
		(508.5)	(444.2)	**(392.8)**	(343.8)
Current liabilities					
Borrowings – PFI/PPP non-recourse net debt	24	**(1.7)**	(12.6)	**–**	–
Borrowings – Other	24	**(3.7)**	(18.2)	**–**	–
Derivative financial instruments	17	**(1.0)**	–	**(0.5)**	–
Trade and other payables	25	**(204.3)**	(202.2)	**(7.9)**	(4.3)
Current tax payable		**(10.7)**	(6.8)	**–**	(0.4)
Provisions	26	**(11.6)**	(18.4)	**(1.3)**	(2.2)
		(233.0)	(258.2)	**(9.7)**	(6.9)
Liabilities directly associated with assets classified as held for sale	10	**–**	(3.3)	**–**	–
		(233.0)	(261.5)	**(9.7)**	(6.9)
Total liabilities		**(741.5)**	(705.7)	**(402.5)**	(350.7)
Net assets		**273.5**	313.7	**415.3**	435.7
Equity					
Share capital	28	**39.8**	39.7	**39.8**	39.7
Share premium	28	**99.9**	99.8	**123.9**	123.8
Exchange reserve		**36.6**	41.4	**–**	–
Retained earnings		**97.4**	132.7	**251.6**	272.2
Equity attributable to owners of the parent		**273.7**	313.6	**415.3**	435.7
Non-controlling interest		**(0.2)**	0.1	**–**	–
Total equity		**273.5**	313.7	**415.3**	435.7

The notes on pages 95 to 137 are an integral part of these consolidated financial statements.

The Financial Statements on pages 90 to 137 were approved by the Board of Directors and authorised for issue on 15 May 2014. They were signed on its behalf by:

Adrian Auer
Chairman

Toby Woolrych
Group Finance Director

Statements of Changes in Equity

For the year ended 31 March 2014

Group	Note	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 April 2013		**39.7**	**99.8**	**41.4**	**132.7**	**0.1**	**313.7**
(Loss) profit for the year		–	–	–	**(28.3)**	**0.1**	**(28.2)**
Other comprehensive income (loss):							
Exchange loss on translation of foreign subsidiaries		–	–	**(4.8)**	–	–	**(4.8)**
Fair value movement on cash flow hedges	17	–	–	–	**15.0**	**(0.5)**	**14.5**
Actuarial loss on defined benefit pension scheme	27	–	–	–	**(6.4)**	–	**(6.4)**
Tax in respect of other comprehensive income items	19	–	–	–	**(2.9)**	**0.1**	**(2.8)**
Total comprehensive loss for the year		–	–	**(4.8)**	**(22.6)**	**(0.3)**	**(27.7)**
Share-based compensation	7	–	–	–	**0.7**	–	**0.7**
Movement on tax arising on share-based compensation	19	–	–	–	**0.3**	–	**0.3**
Proceeds from exercise of employee options	28	**0.1**	**0.1**	–	–	–	**0.2**
Dividends	11	–	–	–	**(13.7)**	–	**(13.7)**
Balance as at 31 March 2014		**39.8**	**99.9**	**36.6**	**97.4**	**(0.2)**	**273.5**
Balance at 1 April 2012		39.7	99.4	36.0	195.5	–	370.6
(Loss) profit for the year		–	–	–	(35.3)	0.1	(35.2)
Other comprehensive income (loss):							
Exchange gain on translation of foreign subsidiaries		–	–	5.4	–	–	5.4
Fair value movement on cash flow hedges		–	–	–	(13.8)	–	(13.8)
Actuarial loss on defined benefit pension scheme	27	–	–	–	(4.2)	–	(4.2)
Tax in respect of other comprehensive income items	19	–	–	–	3.9	–	3.9
Total comprehensive income (loss) for the year		–	–	5.4	(49.4)	0.1	(43.9)
Share-based compensation	7	–	–	–	0.5	–	0.5
Movement on tax arising on share-based compensation	19	–	–	–	(0.2)	–	(0.2)
Proceeds from exercise of employee options	28	–	0.4	–	–	–	0.4
Dividends	11	–	–	–	(13.7)	–	(13.7)
Balance as at 31 March 2013		39.7	99.8	41.4	132.7	0.1	313.7

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

Company	Note	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
Balance at 1 April 2013		**39.7**	**123.8**	**272.2**	**435.7**
Loss for the year	13	–	–	**(2.9)**	**(2.9)**
Other comprehensive income (loss):					
Fair value movement on cash flow hedges	17	–	–	**0.5**	**0.5**
Actuarial loss on defined benefit pension scheme	27	–	–	**(6.4)**	**(6.4)**
Tax in respect of other comprehensive income items		–	–	**0.9**	**0.9**
Total comprehensive loss for the year		–	–	**(7.9)**	**(7.9)**
Share-based compensation	7	–	–	**0.7**	**0.7**
Movement on tax arising on share-based compensation		–	–	**0.3**	**0.3**
Proceeds from exercise of employee options	28	**0.1**	**0.1**	–	**0.2**
Dividends	11	–	–	**(13.7)**	**(13.7)**
Balance at 31 March 2014		**39.8**	**123.9**	**251.6**	**415.3**
Balance at 1 April 2012		39.7	123.4	61.8	224.9
Profit for the year	13	–	–	226.9	226.9
Other comprehensive income (loss):					
Fair value movement on cash flow hedges		–	–	0.4	0.4
Actuarial loss on defined benefit pension scheme	27	–	–	(4.2)	(4.2)
Tax in respect of other comprehensive income items		–	–	0.7	0.7
Total comprehensive income for the year		–	–	223.8	223.8
Share-based compensation	7	–	–	0.5	0.5
Movement on tax arising on share-based compensation		–	–	(0.2)	(0.2)
Proceeds from exercise of employee options	28	–	0.4	–	0.4
Dividends	11	–	–	(13.7)	(13.7)
Balance as at 31 March 2013		39.7	123.8	272.2	435.7

The notes on pages 95 to 137 are an integral part of these consolidated financial statements.

Financials

Statements of Cash Flows

For the year ended 31 March 2014

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Cash flows from (used in) operating activities	30	**73.2**	67.7	**36.2**	(1.2)
Income tax (paid) received		**(1.6)**	1.9	**(0.8)**	3.5
Net cash generated from operating activities		**71.6**	69.6	**35.4**	2.3
Investing activities					
Purchases of intangible assets		**(1.3)**	(1.7)	**(0.1)**	–
Purchases of property, plant and equipment		**(36.6)**	(53.1)	**–**	–
Proceeds from exiting transport activities in Foronex in Belgium		**–**	6.2	**–**	–
Proceeds from exiting UK Solid Waste		**10.4**	–	**–**	–
Insurance proceeds in relation to fire in the Netherlands		**5.7**	–	**–**	–
Disposals of property, plant and equipment		**10.7**	4.7	**–**	–
Outflows in respect of PFI/PPP arrangements under the financial asset model		**(70.6)**	(57.2)	**–**	–
Capital received in respect of PFI/PPP financial assets		**4.2**	4.2	**–**	–
Finance income		**4.9**	6.1	**8.9**	11.0
Payment of deferred consideration		**–**	(13.2)	**–**	–
Receipt of deferred consideration		**0.4**	–	**–**	–
Investment in subsidiaries	16	**–**	–	**(66.5)**	–
Other unlisted investment purchase		**–**	(1.7)	**–**	–
Proceeds from disposal of joint venture and other assets		**1.3**	–	**–**	–
Repayment of loans granted to joint ventures	16	**–**	2.5	**–**	–
Net cash (used in) generated from investing activities		**(70.9)**	(103.2)	**(57.7)**	11.0
Financing activities					
Finance charges and loan fees paid		**(18.3)**	(17.6)	**(8.8)**	(11.9)
Return of restricted funds		**–**	5.6	**–**	–
Proceeds from issuance of ordinary shares	28	**0.2**	0.4	**0.2**	0.4
Dividends paid	11	**(13.7)**	(13.7)	**(13.7)**	(13.7)
Proceeds from issuance of retail bonds	24,30	**86.1**	–	**86.1**	–
Repayment of senior notes	24,30	**(15.2)**	–	**–**	–
(Repayment of)/proceeds from bank borrowings	30	**(52.4)**	27.6	**(37.9)**	5.6
Proceeds from PFI/PPP net debt	30	**60.2**	55.6	**–**	–
Repayment of PFI/PPP net debt	30	**(13.1)**	(0.9)	**–**	–
Repayments of obligations under finance leases	30	**(3.4)**	(2.8)	**–**	–
Net cash generated from (used in) financing activities		**30.4**	54.2	**25.9**	(19.6)
Net increase (decrease) in cash and cash equivalents		**31.1**	20.6	**3.6**	(6.3)
Effect of foreign exchange rate changes	30	**(1.9)**	0.6	**–**	–
Cash and cash equivalents at the beginning of the year		**75.4**	54.2	**19.3**	25.6
Cash and cash equivalents at the end of the year	23	**104.6**	75.4	**22.9**	19.3

The notes on pages 95 to 137 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. Accounting policies – Group and Company

General information
Shanks Group plc is a public limited company listed on the London Stock Exchange and is incorporated and domiciled in Scotland under the Companies Act 2006, registered number SC077438. The address of the registered office is given on page 140. The nature of the Group's operations and its principal activities are set out in note 3.

Basis of preparation
The financial statements have been prepared on the historical cost basis, except for derivative financial instruments, share-based payments and assets classified as held for sale, which are stated at fair value. The policies set out below have been consistently applied. The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2013. The set of financial statements included in this annual report have been prepared on a going concern basis as the Directors consider that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future.

Statement of compliance
The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations (IFRICs) adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Changes in presentation
On 15 October 2013 the Group signed a binding agreement to sell the majority of its UK Solid Waste business to Biffa Waste Services Limited (Biffa) and the transaction completed on schedule on 31 December 2013. It was also announced in October 2013 that the decision had been taken to sell the remaining UK Solid Waste facilities except for the Elstow facility which serves municipal customers in Bedfordshire. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the net result of these operations being sold are presented within discontinued operations in the Income Statement and the assets held for sale of the discontinued operations are presented separately in the Balance Sheet. See note 10 for further details.

Adoption of new and revised accounting standards and interpretations
The Group has adopted the following new standards, amendments to standards and interpretations for the first time for the Group's financial year beginning 1 April 2013:

Accounting Standard	Requirement	Impact on financial statements
IFRS 13 Fair value measurement	To improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements.	The adoption of the standard by the Group has led to enhanced disclosures in relation to financial instruments.
Amendment to IAS 1, Financial statement presentation	To group items presented in other comprehensive income on the basis of whether they may subsequently be reclassified to profit or loss or will not subsequently be reclassified.	The adoption of the standard by the Group has led to a change in the presentation of the Consolidated Statement of Comprehensive Income.
Amendment to IFRS 7, Financial Instruments: disclosures, on offsetting financial assets and financial liabilities	New disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements.	The adoption of the amendment by the Group has led to enhanced disclosures in relation to offsetting PFI cash balances and loan balances.
Amendment to IAS 36, Impairment of assets, regarding the recoverable amount disclosures for non-financial assets.	This amendment removed certain disclosures of the recoverable amount of cash generating units (CGUs) which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014; however the Group has decided to early adopt the amendment as of 1 April 2013.	The early adoption of this narrow scope amendment means the Group is not required to disclose the recoverable amount of assets or CGUs where no impairment loss has been recognised or reversed.

Other new standards and amendments had no significant impact on these financial statements.

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Notes to the Financial Statements

1. Accounting policies – Group and Company continued

New standards and interpretations not yet adopted
Standards and interpretations issued by the IASB are only applicable if endorsed by the European Union.

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

- IFRS 10 Consolidated Financial Statements effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IFRS 11 Joint Arrangements is effective for accounting periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IAS 27 Separate Financial Statements (revised 2011) effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- IAS 28 Investments in Associates and Joint Ventures (revised 2011) effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in December 2012 for annual periods beginning on or after 1 January 2014.
- Amendment to IAS 32 Financial Instruments: Presentation, on offsetting financial assets and financial liabilities effective for annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities effective for annual periods beginning on or after 1 January 2013, endorsed by the EU in April 2013 for annual periods beginning on or after 1 January 2014.
- Amendment to IFRS 10, Consolidated Financial Statements and IFRS 12 and IAS 27 for investment entities for annual periods beginning on or after 1 January 2014.
- Amendment to IAS 39, Financial Instruments: Recognition and measurement, effective for annual periods beginning on or after 1 January 2014, subject to EU endorsement.
- Amendment to IAS 19, effective for annual period beginning on or after 1 July 2014, subject to EU endorsement.
- Annual improvements 2012, effective for annual periods beginning on or after 1 July 2014, subject to EU endorsement.
- IFRIC 21 Levies effective for accounting periods beginning on or after 1 January 2014, subject to EU endorsement.
- IFRS 9 Financial Instruments – classification and measurement and amendments to IFRS 9 Financial Instruments regarding general hedge accounting, effective for annual periods beginning on or after 1 April 2018, subject to EU endorsement.

From adoption of IFRS 11 the impact on the year ended March 2014 comparatives will be to reduce revenue by £4.9m, profit after tax will be unchanged and investments will increase by £1.1m with no impact on total net assets. For all other items the Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

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

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

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

Entities which are jointly controlled with another party or parties (joint ventures) are currently incorporated in the financial statements by proportional consolidation. A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. Going forward from April 2014 joint arrangements which meet the definition of a joint operation will continue to be proportionately consolidated whereas joint ventures will be included in the Group's financial statements using the equity method.

1. Accounting policies – Group and Company continued

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

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

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

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

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

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

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

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

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

Unprocessed waste
Unprocessed waste may give rise to deferred revenue, where invoices to customers are raised in advance of performance obligations being completed, and an accrual for the costs of disposing of residual waste is created once the Group has an obligation for its disposal. These amounts are shown in deferred revenue or accruals in the financial statements as appropriate. In the current year we have reclassified unprocessed waste into the appropriate line items of accruals and deferred revenue.

PFI/PPP contracts
The Group's PFI/PPP contracts are either integrated or residual waste management contracts. The contracts require the building of new infrastructure and all rights to the infrastructure pass to the Local Authority at the termination or expiry of the contract. The Group applies IFRIC 12 (Service Concession Arrangements) which specifies the accounting treatment applied by concession operators. Under IFRIC 12, the operator's rights over infrastructure operated under concession arrangements should be accounted for based on the control of the grantor (the local authority), over what services the operator must provide with the infrastructure, to whom it must provide them and at what price. Accordingly the Group applies the 'financial asset' model as it has an unconditional right to receive cash for the infrastructure. The Group splits the local authority payment between a service element as revenue and a repayment element that is deducted from the financial asset. Interest receivable is added to the financial asset based on the rate implied in the contract payments. Reviews are undertaken regularly to ensure that the financial asset will be recovered over the contract life. Borrowing costs relating to contract specific external borrowings are expensed in the Income Statement.

Financials

Notes to the Financial Statements

1. Accounting policies – Group and Company continued

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

Win fees and other contract specific income are transferred to deferred income upon financial close and released to the Income Statement over the period of the delivery of the associated performance obligations.

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

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

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

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

Landfill void
Landfill void represents landfill operation acquisitions, landfill void was capitalised based on the fair value of the void acquired. This asset is amortised over its estimated useful life on a void usage basis and measured at cost less accumulated amortisation. The estimated remaining useful life is 19 to 25 years.

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

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

Property, plant and equipment
Property, plant and equipment, except for freehold land and assets under construction, is stated at cost less accumulated depreciation and provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Freehold land and assets under construction are not depreciated. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

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

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

1. Accounting policies – Group and Company continued

Impairment of assets
Assets other than goodwill are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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. An impairment loss is recognised immediately as an operating expense, and at each reporting date the impairment is reviewed for possible reversal.

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

Operating leases
All leases other than finance leases are treated as operating leases. Rentals payable under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease. The future aggregate minimum lease payments for operating leases are shown in note 32 to the accounts.

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

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

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

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

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

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

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

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

Financials

Notes to the Financial Statements

1. Accounting policies – Group and Company continued

Share-based payments

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

Taxation

Current tax

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

Deferred tax

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

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

Deferred income tax liabilities are not provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements as the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Foreign currencies

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

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

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

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

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

	Closing rates			Average rates		
Value of £1	**31 March 2014**	31 March 2013	Change	**31 March 2014**	31 March 2013	Change
Euro	**1.21**	1.18	2.3%	**1.18**	1.23	(3.9)%
Canadian Dollar	**1.84**	1.54	19.3%	**1.65**	1.59	4.3%

The Group applies the hedge accounting principles of IAS 39 Financial Instruments: Recognition and Measurement relating to net investment hedging to offset the exchange differences arising on foreign currency denominated borrowings with the translation of

1. Accounting policies – Group and Company continued

foreign operations. Net investment hedges are accounted for by recognising exchange rate movements in the exchange reserve, with any hedge ineffectiveness being charged to the Income Statement in the period the ineffectiveness arises.

Deferred consideration

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

Financial Instruments

Trade receivables

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

Financial assets relating to PFI/PPP contracts

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

Cash and cash equivalents

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

External borrowings

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

Trade payables

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

Derivative financial instruments and hedging activities

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

Such financial risk includes:

- Interest risk on the Group's variable-rate borrowings;
- Commodity risk in relation to diesel consumption and recyclate prices; and
- Foreign exchange risk on transactions.

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

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

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

Financials

Notes to the Financial Statements

1. Accounting policies – Group and Company continued

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

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

Details of the fair values of the derivative financial instruments used for hedging purposes are disclosed in note 17.

Other receivables and other payables
Other receivables and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

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

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

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

2. Key accounting judgements and estimates

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

Underlying business performance
The Group believes that trading profit, underlying profit before tax, underlying profit after tax, underlying free cash flow, underlying earnings per share and EBITDA (earnings before interest, tax, depreciation and amortisation) provide useful information on underlying trends to shareholders. These measures are used by the Group for internal performance analysis and incentive compensation arrangements for employees.

The terms 'trading profit', 'exceptional items' and 'underlying' are not defined terms under IFRS and may therefore not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measurements of profit.

The term 'underlying' refers to the relevant measure being reported for continuing operations excluding exceptional items, financing fair value remeasurements and amortisation of acquisition intangibles, excluding landfill void and computer software. 'Trading profit' is defined as continuing operating profit before amortisation of acquisition intangibles and exceptional items. EBITDA comprises trading profit before depreciation, amortisation and profit or loss on disposal of property, plant and equipment. Reconciliations are set out in note 4.

Non-trading and exceptional items
Items classified as non-trading and exceptional are disclosed separately due to their size or incidence to enable a better understanding of performance. These include, but are not limited to, significant impairments, restructuring of the activities on an entity including employee severance costs, aborted acquisition and disposal transaction costs, onerous contracts, significant provision releases and the profit or loss on disposal of properties. A full listing of those items presented as non-trading and exceptional is shown in note 4.

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

2. Key accounting judgements and estimates continued

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

The Group is the operator for one class of service concession arrangements, that of the provision of waste treatment and waste treatment facilities and these are classified as service concession arrangements in accordance with IFRIC. If the Group underperforms, including failure to divert waste from landfill, the contract can be terminated before the end of the 25 year period.

The table below sets out the Group's service concession arrangements as at 31 March 2014.

Contract	Financial close	Full Service Commencement	Contract Expiry	Owners of Special Purpose Vehicle
Argyll & Bute	September 2001	April 2003	September 2026	Shanks: 100%
East London Waste Authority	December 2002	August 2007	December 2027	Shanks: 20% John Laing Investments Limited: 80%
Dumfries and Galloway	November 2004	February 2007	September 2029	Shanks: 20% John Laing Investments Limited: 80%
Cumbria	June 2009	April 2013	June 2034	Shanks: 100%
Barnsley, Doncaster and Rotherham	March 2012	July 2015	June 2040	Shanks: 75% SSE Generation Limited: 25%
Wakefield	January 2013	September 2015	February 2038	Shanks: 100%

There were no changes in the arrangements for the provision of waste treatment and waste treatment facilities in the year ended 31 March 2014.

Further disclosures in respect of service concession arrangements as required by paragraph 6 SIC 29 are provided on page 42 of the operating review of UK Municipal.

Impairment of intangible assets
In conducting the impairment review on goodwill and intangibles, management is required to make estimates of pre-tax discount rates, future profitability and growth rates. Detailed descriptions of assumptions and values are given in note 14.

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

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

Taxation
The Group operates in the Netherlands, Belgium, the UK and Canada, all of which have their own tax legislation. Deferred tax assets and liabilities are recognised at the current tax rate which may not be the tax rate at which they unwind. The Group has available tax losses, some of which have been recognised as a tax asset and some have not based on management's best estimate of the ability of the Group to utilise those losses. Further information is set out in note 19.

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Notes to the Financial Statements

3. Segmental reporting

The Group's chief operating decision maker is considered to be the Board of Directors. The Group's operating segments are determined with reference to the information provided to the Board of Directors in order for it to allocate the Group's resources and to monitor the performance of the Group. The Group's UK Solid Waste operation has been treated as discontinued as described in more detail in note 1 and note 10. The segment measures do not included any amounts for this discontinued operation.

The operating segments are aligned with the core activities of the Group and are as follows:

Solid Waste Benelux The collection, recycling and treatment of non-hazardous waste in the Netherlands and Belgium. The other activities in Belgium include landfill disposal and power generation from landfill gas, industrial cleaning activities, biomass processing and the operation of a sand quarry.

Hazardous Waste The reprocessing and recycling of contaminated soil, water and other contaminated materials. Industrial cleaning of heavily contaminated industrial plant.

Organics The collection and treatment of food waste, garden waste and other organic materials.

UK Municipal Long-term PFI/PPP contracts providing recycling and waste management services to local authorities in the UK.

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

The segment results, which do not include any amounts for discontinued operations, are as follows:

Revenue

	2014 £m	Restated* 2013 £m
Netherlands Solid Waste	**188.2**	188.3
Belgium Solid Waste	**91.7**	89.0
Belgium Other	**59.7**	68.5
Intra-segment revenue	**(15.4)**	(14.9)
Solid Waste Benelux	**324.2**	330.9
Hazardous Waste	**148.2**	139.4
Netherlands	**15.9**	14.5
Canada	**13.5**	15.0
Other Organics	**6.8**	6.4
Organics	**36.2**	35.9
UK Municipal	**137.5**	115.3
Inter-segment revenue	**(9.7)**	(6.9)
Total revenue from continuing operations	**636.4**	614.6
Group	**630.6**	607.3
Share of joint ventures	**5.8**	7.3
Total revenue from continuing operations	**636.4**	614.6

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

3. Segmental reporting continued

Segment results

	2014 £m	Restated* 2013 £m
Netherlands Solid Waste	**12.0**	9.7
Belgium Solid Waste	**5.6**	6.9
Belgium Other	**9.7**	7.5
Divisional central services	**(7.6)**	(7.8)
Solid Waste Benelux	**19.7**	16.3
Hazardous Waste	**21.8**	20.6
Divisional central services	**(1.9)**	(1.5)
Hazardous Waste	**19.9**	19.1
Netherlands	**2.5**	2.6
Canada	**2.7**	3.7
Other Organics	**0.2**	–
Divisional central services	**(1.0)**	(1.0)
Organics	**4.4**	5.3
UK Municipal	**13.1**	14.4
Divisional central services	**(3.9)**	(4.8)
UK Municipal	**9.2**	9.6
Group central services	**(7.3)**	(5.4)
Total trading profit	**45.9**	44.9
Non-trading and exceptional items	**(22.5)**	(40.4)
Total operating profit from continuing operations	**23.4**	4.5
Group	**23.0**	4.2
Share of joint ventures	**0.4**	0.3
Total operating profit from continuing operations	**23.4**	4.5
Finance income	**10.4**	6.3
Finance charges	**(26.4)**	(21.2)
Income from associates	**0.3**	0.3
Profit (loss) before taxation and discontinued operations	**7.7**	(10.1)

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

Net Assets

	Operating Assets								
	Solid Waste Benelux £m	Hazardous Waste £m	Organics £m	UK Municipal £m	Group central services £m	Tax, net debt and derivatives £m	Total continuing operations £m	Discontinued operations £m	**Total £m**
31 March 2014									
Gross non-current assets	**271.5**	**162.4**	**103.5**	**195.6**	**1.2**	**12.7**	**746.9**	**1.4**	**748.3**
Gross current assets	**73.9**	**34.5**	**8.3**	**36.2**	**1.3**	**106.5**	**260.7**	**6.0**	**266.7**
Gross liabilities	**(120.0)**	**(43.3)**	**(8.1)**	**(66.0)**	**(23.5)**	**(477.3)**	**(738.2)**	**(3.3)**	**(741.5)**
Net assets	**225.4**	**153.6**	**103.7**	**165.8**	**(21.0)**	**(358.1)**	**269.4**	**4.1**	**273.5**
31 March 2013									
Gross non-current assets	322.2	159.1	109.3	127.0	1.3	16.0	734.9	37.2	772.1
Gross current assets	77.2	37.1	10.1	31.0	0.9	77.2	233.5	13.8	247.3
Gross liabilities	(121.0)	(46.7)	(18.1)	(59.0)	(15.6)	(432.0)	(692.4)	(13.3)	(705.7)
Net assets	278.4	149.5	101.3	99.0	(13.4)	(338.8)	276.0	37.7	313.7

Financials

Notes to the Financial Statements

3. Segmental reporting continued

Other disclosures

	Solid Waste Benelux £m	Hazardous Waste £m	Organics £m	UK Municipal £m	Group central services £m	Total continuing operations £m	Discontinued operations £m	Total £m
31 March 2014								
Capital expenditure:								
Property, plant and equipment	**20.1**	**11.6**	**8.0**	**0.6**	**–**	**40.3**	**1.1**	**41.4**
Intangible assets	**0.5**	**0.4**	**0.3**	**–**	**0.1**	**1.3**	**–**	**1.3**
Depreciation charge	**26.3**	**7.7**	**5.5**	**0.5**	**–**	**40.0**	**0.5**	**40.5**
Amortisation of intangibles	**3.9**	**0.2**	**0.8**	**–**	**0.2**	**5.1**	**0.5**	**5.6**
Impairment charge:								
Property, plant and equipment	**5.1**	**–**	**0.8**	**–**	**–**	**5.9**	**–**	**5.9**
Intangible assets	**14.7**	**–**	**–**	**0.6**	**–**	**15.3**	**–**	**15.3**
31 March 2013								
Capital expenditure:								
Property, plant and equipment	23.4	10.2	16.7	0.2	–	50.5	2.6	53.1
Intangible assets	0.9	0.7	0.1	–	–	1.7	–	1.7
Depreciation charge	27.4	7.6	6.0	0.5	–	41.5	1.7	43.2
Amortisation of intangibles	3.5	0.1	0.7	–	0.2	4.5	1.1	5.6
Impairment charge:								
Property, plant and equipment	8.4	–	0.6	–	–	9.0	11.0	20.0
Intangible assets	16.3	–	–	–	–	16.3	3.1	19.4

Geographical information – continuing operations

The Group's revenue from external customers and information about its segment assets (non-current assets excluding cash, financial instruments and deferred tax assets) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Netherlands	**343.9**	336.1	**436.7**	468.8
Belgium	**138.0**	145.1	**47.3**	65.2
UK	**141.0**	118.4	**222.6**	150.6
Canada	**13.5**	15.0	**27.6**	34.3
	636.4	614.6	**734.2**	718.9

4. Reconciliation of non-trading and exceptional items

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

	Note	2014 £m	Restated* 2013 £m
Continuing operations			
Impairment of goodwill and acquisition intangibles	14	**15.3**	16.3
Restructuring charge		**8.7**	10.8
Impairment of assets		**3.1**	9.0
Aborted bid costs		**2.9**	–
Amortisation of acquisition intangibles	14	**2.3**	2.5
Belgium waste disposal costs		**1.7**	–
Belgium litigation provision		**0.9**	–
Reassessment of contingent consideration		**(1.0)**	–
Hazardous Waste net litigation recovery		**(1.4)**	(6.0)
Insurance settlement net of impairment of assets in relation to a fire in the Netherlands		**(2.3)**	–
Net onerous contract provisions		**(7.7)**	5.8
Aborted project costs		**–**	2.0
Gain from exiting transport activities in Foronex in Belgium		**–**	(1.4)
UK Municipal unprocessed waste disposal costs		**–**	1.4
Total non-trading and exceptional items in operating profit		**22.5**	40.4
Change in fair value of derivatives		**(0.3)**	(0.1)
Exceptional interest charge in relation to the Belgium litigation		**0.3**	–
Tax on non-trading and exceptional items		**(1.4)**	(4.7)
Exceptional tax		**–**	(2.0)
Continuing non-trading and exceptional items in profit after tax		**21.1**	33.6
Discontinued operations (further details in note 10)		**24.4**	21.3
Credit issues with regard to deferred consideration		**2.0**	–
Total non-trading and exceptional items in profit after tax		**47.5**	54.9

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

The above non-trading and exceptional items include the following:

Goodwill and intangibles impairment charge of £15.3m (2013: £16.3m) relating principally to the Dutch Solid Waste activities and the Gent facility in Belgium.

Charges relating to a structural cost reduction programme of £8.7m (2013: £10.8m), including the introduction of shared service centres in the Netherlands and Belgium.

Impairment of assets £3.1m (2013: £9.0m) including plant and equipment in the Netherlands and Belgium of £2.5m.

Aborted bid costs of £2.9m (2013: £nil) principally relating to the write off of previously capitalised bid costs following the decision to exit bidding activity in South West Wales.

During the year the cost for treatment of a large quantity of old and unprocessed waste at the Gent site in Belgium was found to be under accrued and this resulted in a current year charge of £1.7m.

A total litigation provision of £1.2m (including interest payable of £0.3m) has been reflected for an ongoing legal issue in Belgium.

A release of £1.0m (2013: £nil) following the reassessment of the contingent consideration payable on a previous acquisition.

During the year ended March 2013 the Group recognised full provision for a claim from the authorities for operating outside of permitted volumes in the period 1997 to 1999 at a location in the Netherlands. The claim related to trading prior to the acquisition of the Netherlands group of companies in 2000 and during the year a settlement of £1.4m has been recovered from the previous owners under the sale and purchase agreements. In the prior year the £6.0m net credit arose following the final settlement of other legal cases in Hazardous Waste.

Financials

Notes to the Financial Statements

4. Reconciliation of non-trading and exceptional items continued

Net credit of £2.3m (2013: £nil) representing the impairment of assets in the Netherlands of £3.4m following a fire in August 2013 which has been offset by the insurance recovery relating to these assets of £5.7m.

A credit of £7.7m (2013: charge of £5.8m) in relation to onerous contract provisions in Belgium and the UK where performance issues have improved in the last 12 months.

The prior year exceptional tax credit of £2.0m related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

Trading profit from continuing operations to EBITDA	2014 £m	Restated* 2013 £m
Trading profit	**45.9**	44.9
Depreciation of property, plant and equipment	**40.0**	41.5
Amortisation of intangible assets (excluding acquisition intangibles)	**2.8**	2.0
Non-exceptional gains on disposal of property, plant and equipment	**(1.9)**	(1.3)
Non cash landfill related expense and provisioning	**0.9**	–
EBITDA from continuing operations	**87.7**	87.1

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

5. Operating profit

Operating profit for the year is stated after charging (crediting):

Continuing operations	Note	2014 £m	Restated* 2013 £m
Staff costs	6	**162.1**	160.7
Depreciation of property, plant and equipment	15	**40.0**	41.5
Amortisation of intangible assets	14	**5.1**	4.5
Repairs and maintenance expenditure on property, plant and equipment		**36.1**	37.0
Net profit on disposal of property, plant and equipment		**(1.9)**	(1.3)
Non-trading and exceptional items	4	**22.5**	40.4
Trade receivables impairment	22	**1.1**	2.3
Government grants		**(0.2)**	(0.1)
Operating lease costs:			
– Minimum lease payments		**13.6**	13.7
– Less sub-lease rental income		**(0.2)**	(0.3)
		13.4	13.4

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

	2014 £m	2013 £m
Remuneration of the Group's auditor, PricewaterhouseCoopers LLP and its associates:		
– Audit of parent company and consolidated accounts	**0.2**	0.2
– Audit of subsidiaries pursuant to legislation	**0.4**	0.4
Fees payable to the auditors pursuant to legislation	**0.6**	0.6
Total non-audit fees – Other services	**0.1**	0.1
Total fees	**0.7**	0.7

6. Employees

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

Continuing operations	Note	2014 £m	Restated* 2013 £m
The total remuneration of all employees comprised:			
Wages and salaries		**124.8**	124.3
Social security costs		**25.4**	25.1
Share-based benefits	7	**0.7**	0.5
Other pension costs	27	**11.2**	10.8
		162.1	160.7

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

	2014 Number	Restated* 2013 Number
The average monthly number of people by reportable segment employed by the Group during the year was:		
Solid Waste Benelux	**2,078**	2,359
Hazardous Waste	**766**	745
Organics	**96**	85
UK Municipal	**545**	482
Group central services	**16**	16
Total continuing operations	**3,501**	3,687
Discontinued operations – UK Solid Waste	**240**	399
Total	**3,741**	4,086

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

7. Share-based payments

Group and Company

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

Outstanding options

	SRSOS		ESOS		LTIP
	Options Number	Weighted average exercise price pence	Options Number	Weighted average exercise price pence	Options Number
Outstanding at 1 April 2012	1,331,228	80p	96,902	110p	4,920,000
Granted during the year	808,589	73p	–	–	4,943,500
Forfeited during the year	(163,390)	80p	(18,877)	114p	(2,355,500)
Expired during the year	(110,155)	80p	–	–	–
Exercised during the year	(606,201)	71p	–	–	–
Outstanding at 31 March 2013	1,260,071	76p	78,025	109p	7,508,000
Granted during the year	653,562	76p	–	–	4,913,500
Forfeited during the year	(144,671)	77p	(18,877)	114p	(1,132,500)
Expired during the year	(237,487)	75p	–	–	(930,000)
Exercised during the year	(237,761)	77p	–	–	–
Outstanding at 31 March 2014	1,293,714	76p	59,148	107p	10,359,000
Exercisable at 31 March 2014	20,503	79p	59,148	107p	
Exercisable at 31 March 2013	164,867	71p	78,025	109p	
Weighted average share price at date of exercise		97p			
At 31 March 2014:					
Range of price per share at exercise		73p to 92p		91p to 114p	
Weighted average remaining contractual life		1-2 years		Up to 1 year	

Financials

Notes to the Financial Statements

7. Share-based payments continued

Fair value of options granted during the year

	SRSOS		LTIP			
Valuation model	**2014 Black-Scholes**	2013 Black-Scholes	**2014 Discounted**	2013 Discounted	**2014 Monte Carlo**	2013 Monte Carlo
Weighted average fair value	**21p**	29p	**73p**	70p	**14p**	27p
Weighted average share price	**95p**	91p	**83p**	78p	**83p**	78p
Weighted average exercise price	**76p**	73p	**–**	–	**–**	–
Expected volatility	**28%**	46%	**–**	–	**28%**	46%
Expected life	**3 years**	3 years	**3 years**	3 years	**3 years**	3 years
Risk-free interest rate	**1.0%**	0.4%	**–**	–	**0.6%**	0.2%
Dividend yield	**4.1%**	3.6%	**4.1%**	3.5%	**4.1%**	3.5%

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

Expected volatility has been calculated using average volatility historical data over a three-year period (2013: five-year period) from the grant date. The risk-free interest rate is based on the implied yield of zero-coupon government bonds with a remaining term equal to the expected life. The expected life used in the models equals the vesting period as employees are expected to receive their vested shares on vesting or soon after vesting.

Charge for the year
The Group recognised a total charge of £0.7m (2013: £0.5m) relating to equity-settled share-based payments.

8. Net finance charges

Continuing operations	**2014 £m**	Restated* 2013 £m
Finance charges		
Interest payable on borrowings wholly repayable within five years	**10.8**	10.1
Interest payable on borrowings repayable after five years	**2.4**	1.6
Interest payable on PFI/PPP non-recourse net debt	**8.2**	5.1
Share of interest of joint ventures	**0.2**	0.1
Unwinding of discount on provisions (note 26)	**2.7**	2.9
Unwinding of discount on deferred consideration payable	**0.1**	0.1
Interest charge on the retirement pension scheme	**0.3**	0.3
Amortisation of loan fees	**1.4**	1.0
Total finance charges	**26.1**	21.2
Finance income		
Interest receivable on financial assets relating to PFI/PPP contracts	**(9.4)**	(5.1)
Unwinding of discount on deferred consideration receivable	**(0.1)**	(0.2)
Interest income on bank deposits	**(0.1)**	(0.2)
Interest receivable on other loans and receivables	**(0.5)**	(0.7)
Total finance income	**(10.1)**	(6.2)
Exceptional interest charge (note 4)	**0.3**	–
Change in fair value of derivatives at fair value through profit or loss	**(0.3)**	(0.1)
Net finance charges	**16.0**	14.9

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

9. Taxation

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

	2014 £m	Restated* 2013 £m
Current tax: UK corporation tax		
– Prior year	**(0.2)**	–
Overseas tax		
– Current year	**5.7**	1.9
– Prior year	**0.1**	(2.3)
Exceptional	**–**	(2.0)
Total current tax	**5.6**	(2.4)
Deferred tax (note 19)		
– Origination and reversal of temporary differences in the current year	**1.6**	4.8
– Adjustment in respect of prior year	**(1.3)**	(1.4)
Total deferred tax	**0.3**	3.4
Total tax charge for the year	**5.9**	1.0

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

The exceptional tax credit for the year ended March 2013 of £2.0m related to a favourable judgement issued with regard to certain tax liabilities in Belgium.

The tax on the Group's profit (loss) for the year from continuing operations differs from the UK standard rate of tax of 23% (2013: 24%), as explained below:

	2014 £m	Restated* 2013 £m
Total profit (loss) before taxation	**7.7**	(10.1)
Tax charge (credit) based on UK tax rate of 23% (2013: 24%)	**1.8**	(2.4)
Effects of:		
Adjustment to tax charge in respect of prior years	**(1.4)**	(3.7)
Profits taxed at overseas tax rates	**(0.5)**	(1.0)
Non deductible impairments of goodwill	**3.5**	3.9
Non deductible impairment of property, plant and equipment	**–**	0.2
(Non-taxable)/non-deductible other items	**(0.7)**	0.2
Unrecognised tax losses	**2.2**	5.1
Change in tax rate	**1.0**	0.7
Exceptional tax credit	**–**	(2.0)
Total tax charge for the year	**5.9**	1.0

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

The Finance Act 2012 included legislation to reduce the main rate of UK corporation tax from 24% to 23% from 1 April 2013. The March 2013 budget statement announced that the rate would be further reduced to 21% from 1 April 2014 and then 20% by 1 April 2015. These further reductions were substantially enacted in the Finance Act 2013 on 2 July 2013 and as a result the UK deferred tax at 31 March 2014 has been calculated based on the rate of 20% (2013: 23%).

Financials

Notes to the Financial Statements

10. Discontinued operations and assets classified as held for sale

Group	2014 £m	2013 £m
Assets classified as held for sale	**3.2**	3.3
Liabilities directly associated with assets classified as held for sale	**–**	(3.3)
	3.2	–

The assets classified as held for sale at 31 March 2014 relate to the exit from UK Solid Waste as further described below. The assets and liabilities held for sale at 31 March 2013 related to the joint venture, Caird Bardon Limited and the sale of this investment was completed on 21 April 2013.

Discontinued operations
On 15 October 2013 the Group signed a binding agreement to sell the majority of its UK Solid Waste business to Biffa Waste Services Limited (Biffa) and that transaction was completed on 31 December 2013. It also announced that the decision had been taken to sell the remaining UK Solid Waste facilities except for Elstow which serves municipal customers. In accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, the net results of these operations which have been sold and discontinued are presented within discontinued operations in the Income Statement and the assets which are still to be sold are presented separately in the Balance Sheet. Assets held for sale at 31 March 2014 were principally the material recycling facility at Kettering.

The tables below show the results of the discontinued operations which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement

	2014 £m	2013 £m
Revenue	**40.0**	55.4
Cost of sales	**(39.0)**	(54.5)
Administrative expenses	**(5.4)**	(4.5)
Trading loss before exceptional and non-trading items	**(4.4)**	(3.6)
Exceptional and non-trading items	**(24.5)**	(21.5)
Operating loss before finance costs and tax on discontinued operations	**(28.9)**	(25.1)
Finance charges	**(0.1)**	(0.1)
Loss before tax on discontinued operations	**(29.0)**	(25.2)
Taxation	**1.0**	1.1
Loss after tax on discontinued operations	**(28.0)**	(24.1)

The exceptional and non-trading items include a loss of £20.4m to recognise the loss on sale of assets to Biffa and the remeasurement of the disposal assets to their fair value less costs to sell. The taxation credit of £1.0m includes £0.1m in relation to the remeasurment to fair value less costs to sell. The prior year exceptional and non-trading charge included £3.0m impairment of property, plant and equipment, £8.3m impairment of goodwill and intangibles, £3.9m write down of the investment in Caird Bardon Limited and £1.9m restructuring charge.

In addition to the £28.0m, a £2.0m charge has been reflected in the year for credit issues with regard to deferred consideration.

The loss for the year is stated after charging:

	2014 £m	2013 £m
Wages and salaries	**6.9**	10.0
Social security costs	**0.7**	1.0
Other pension costs	**0.3**	0.4
Depreciation of property, plant and equipment	**0.5**	1.7
Amortisation of intangible assets	**0.5**	1.1
Repairs and maintenance expenditure on property, plant and equipment	**0.3**	0.4
Net profit on disposal of property, plant and equipment	**(0.2)**	(0.4)
Non-trading and exceptional items	**26.5**	21.5
Trade receivables impairment	**0.2**	0.1
Operating lease costs – minimum lease payments less sub-lease rental income	**3.4**	4.7

Balance Sheet

	2014 £m
Property, plant and equipment	**3.2**
Total assets classified as held for sale	**3.2**

10. Discontinued operations and assets classified as held for sale continued

At 31 March 2014 £3.2m of property, plant and equipment was classified as held for sale, following a remeasurement to their fair value less costs to sell. This is the non-recurring fair value measurement which has been measured using observable inputs, being the prices for recent sales of similar assets, and is therefore classified within level 2 of the fair value hierarchy.

Cash Flow Statement

	2014 £m	2013 £m
Net cash flows used in operating activities	**(4.9)**	(4.2)
Net cash flows from (used in) investing activities	**9.4**	(1.5)
Net cash flows used in financing activities	**(0.1)**	(0.1)
Net cash flows generated from (used in) discontinued operations	**4.4**	(5.8)

11. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2013 of 2.35p per share (2012: 2.35p)	**9.3**	9.3
Interim dividend paid for the year ended 31 March 2014 of 1.1p per share (2013: 1.1p)	**4.4**	4.4
	13.7	13.7
Proposed final dividend for the year ended 31 March 2014 of 2.35p per share (2013: 2.35p)	**9.3**	9.3
Total dividend per share	**3.45p**	3.45p

12. Earnings per share

	2014	Restated* 2013
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**397.6m**	397.1m
Effect of share options in issue	**0.3m**	0.1m
Weighted average number of ordinary shares for diluted earnings per share	**397.9m**	397.2m
Continuing operations		
Profit (loss) attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**1.7**	(11.2)
Non-trading and exceptional items (net of tax) (£m) (see note 4)	**21.1**	33.6
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**22.8**	22.4
Basic and diluted earnings (loss) per share	**0.4p**	(2.8)p
Underlying and underlying diluted earnings per share (see note below)	**5.7p**	5.7p
Discontinued operations		
Loss attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**(30.0)**	(24.1)
Non-trading and exceptional items (net of tax) (£m) (see note 4)	**26.4**	21.3
Loss attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**(3.6)**	(2.8)
Basic and diluted loss per share	**(7.5)p**	(6.1)p
Underlying and underlying diluted loss per share (see note below)	**(0.9)p**	(0.7)p
Total operations		
Loss attributable to owners of the parent used to determine basic and diluted earnings per share (£m)	**(28.3)**	(35.3)
Non-trading and exceptional items (net of tax) (£m) (see note 4)	**47.5**	54.9
Earnings attributable to owners of the parent for underlying basic and underlying diluted earnings per share (£m)	**19.2**	19.6
Basic and diluted loss per share	**(7.1)p**	(8.9)p
Underlying and underlying diluted earnings per share (see note below)	**4.8p**	5.0p

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

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

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13. Profit of parent company

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own Income Statement or Statement of Comprehensive Income. Shanks Group plc reported a loss for the year ended 31 March 2014 of £2.9m (2013: £226.9m profit). The Company operates solely in the UK providing central services.

14. Intangible assets

Group	Goodwill £m	Landfill void £m	Computer software and others £m	Acquisition related intangibles £m	Total £m
Cost					
At 1 April 2012	246.3	21.4	6.8	42.3	316.8
Additions	–	–	1.5	0.2	1.7
Exchange	3.3	0.3	0.2	0.5	4.3
At 31 March 2013	249.6	21.7	8.5	43.0	322.8
Additions	–	–	1.3	–	1.3
Disposals	(13.6)	–	(0.1)	(13.4)	(27.1)
Reclassification	–	–	0.6	(0.6)	–
Exchange	(5.1)	(0.5)	(0.3)	(0.8)	(6.7)
At 31 March 2014	**230.9**	**21.2**	**10.0**	**28.2**	**290.3**
Accumulated amortisation and impairment					
At 1 April 2012	14.0	6.4	5.2	19.8	45.4
Amortisation charge	–	1.3	0.7	3.6	5.6
Impairment charge	18.9	–	–	0.5	19.4
Exchange	–	0.1	0.1	0.4	0.6
At 31 March 2013	32.9	7.8	6.0	24.3	71.0
Amortisation charge	–	1.8	1.0	2.8	5.6
Impairment charge	14.9	–	–	0.4	15.3
Disposals	(6.1)	–	(0.1)	(6.7)	(12.9)
Reclassification	–	–	0.4	(0.4)	–
Exchange	(0.6)	(0.2)	(0.2)	(0.4)	(1.4)
At 31 March 2014	**41.1**	**9.4**	**7.1**	**20.0**	**77.6**
Net book value					
At 31 March 2014	**189.8**	**11.8**	**2.9**	**8.2**	**212.7**
At 31 March 2013	216.7	13.9	2.5	18.7	251.8
At 31 March 2012	232.3	15.0	1.6	22.5	271.4

Of the total £5.6m (2013: £5.6m) amortisation charge for the year, £2.8m (2013: £3.6m) related to intangible assets arising on acquisition including £0.5m (2013: £1.1m) relating to discontinued operations. Of the remaining amortisation expense of £2.8m (2013: £2.0m), £2.1m (2013: £1.5m) has been charged in cost of sales and £0.7m (2013: £0.5m) has been charged in administrative expenses.

The acquisition related intangibles net book value of £8.2m (2013: £18.7m) included customer lists of £4.6m (2013: £12.6m) and permits of £2.4m (2013: £4.4m).

Goodwill impairment

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

	2014 £m	2013 £m
Solid Waste Benelux	**72.9**	89.2
Hazardous Waste	**96.3**	98.5
Organics	**16.9**	17.2
UK Municipal	**3.7**	4.3
Total goodwill for continuing reporting segments	**189.8**	209.2
UK Solid Waste	**–**	7.5
Total goodwill	**189.8**	216.7

14. Intangible assets continued

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

- Pre-tax discount rate 9%-10% (2013: 9%-11%). This is derived from the Group's weighted average cost of capital of 8% (2013: 7%).
- Growth rate used in the annuity is 2% (2013: 2%). This does not exceed the long-term economic average growth of the territories that the Group operates in.

Impairment losses

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

	2014 £m	2013 £m
Solid Waste Benelux	**14.7**	16.3
UK Municipal	**0.6**	–
UK Solid Waste – Discontinued operations	**–**	3.1
	15.3	19.4

A goodwill impairment charge of £14.3m and acquisition intangible charge of £0.4m have been recognised in relation to the Netherlands Solid Waste CGU and the Gent site in Belgium. In the prior year £18.9m was recognised relating to goodwill in certain Scottish recycling assets, a Belgian sorting centre and a landfill site and a loss making ground works business in the Netherlands and £0.5m was recognised relating to acquisition intangibles in Benelux and the UK.

A significant part of the goodwill, £129.4m (2013: £137.9m) relates to the acquision of the business in the Netherlands in 2000 which included both Solid Waste and Hazardous Waste businesses. The carrying value allocated to the Netherlands Solid Waste CGU is stated net of an impairment of £5.4m in the current year. The carrying value of the goodwill of the Netherlands Solid Waste CGU was £70.7m following the impairment. The revenue growth in the impairment model for the Netherlands Solid Waste CGU is 1.5% over the 5 year period. Any decrease in the growth rate in revenue over this period without any further cost actions would mean that the carrying value of the CGU would exceed its recoverable amount. For our Hazardous Waste, Organics and UK Municipal segments it is considered unlikely that any reasonable change to key assumptions would result in an impairment charge.

Company	Computer software £m
Cost	
At 1 April 2012 and 31 March 2013	0.9
Additions	0.2
At 31 March 2014	**1.1**
Accumulated amortisation	
At 1 April 2012	0.1
Amortisation charge	0.1
At 31 March 2013	0.2
Amortisation charge	0.2
At 31 March 2014	**0.4**
Net book value	
At 31 March 2014	**0.7**
At 31 March 2013	0.7
At 31 March 2012	0.8

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Notes to the Financial Statements

15. Property, plant and equipment

Group	Land and buildings £m	Landfill sites £m	Plant and machinery £m	Total £m
Cost				
At 1 April 2012	273.0	52.2	509.0	834.2
Additions	13.5	–	39.6	53.1
Disposals	(5.8)	–	(20.1)	(25.9)
Transfer to assets held for sale (note 10)	(0.8)	(8.9)	(0.6)	(10.3)
Reclassifications	(2.3)	–	2.3	–
Exchange	4.7	0.6	7.1	12.4
At 31 March 2013	282.3	43.9	537.3	863.5
Additions	5.2	–	36.2	41.4
Disposals	(21.4)	–	(38.8)	(60.2)
Transfer to assets held for sale (note 10)	(7.1)	–	(8.7)	(15.8)
Exchange	(10.7)	(0.8)	(11.5)	(23.0)
At 31 March 2014	**248.3**	**43.1**	**514.5**	**805.9**
Accumulated depreciation and impairment				
At 1 April 2012	79.5	43.2	320.6	443.3
Depreciation charge	9.4	0.9	32.9	43.2
Impairment charge	8.7	–	11.3	20.0
Disposals	(2.0)	–	(17.0)	(19.0)
Transfer to assets held for sale (note 10)	(0.8)	(5.0)	(0.4)	(6.2)
Exchange	1.5	0.5	4.9	6.9
At 31 March 2013	96.3	39.6	352.3	488.2
Depreciation charge	8.3	0.8	31.4	40.5
Impairment charge	1.1	–	4.8	5.9
Remeasurement to fair value of assets held for sale	2.8	–	8.3	11.1
Disposals	(10.7)	–	(32.0)	(42.7)
Transfer to asset held for sale (note 10)	(3.9)	–	(8.7)	(12.6)
Exchange	(2.9)	(0.9)	(7.8)	(11.6)
At 31 March 2014	**91.0**	**39.5**	**348.3**	**478.8**
Net book value				
At 31 March 2014	**157.3**	**3.6**	**166.2**	**327.1**
At 31 March 2013	186.0	4.3	185.0	375.3
At 31 March 2012	193.5	9.0	188.4	390.9

Included in plant and machinery are assets held under finance leases with a net book value of £12.2m (2013: £8.0m).

Included above are plant and machinery assets under construction of £23.4m (2013: £24.6m) and land and buildings assets under construction of £9.4m (2013: £16.5m).

Depreciation expense of £38.7m (2013: £39.6m) has been charged in cost of sales, £1.3m (2013: £1.9m) in administrative expenses and £0.5m (2013: £1.7m) in discontinued operations.

The impairment charge includes £3.4m as a result of a fire in the Netherlands, £1.7m against assets at the Benelux Solid Waste Gent and Van Tuijl sites and £0.8m relating to the Belgium green energy site. As part of the structural cost programme in the previous year, there was an impairment of £20.0m of property, plant and equipment relating to recycling assets in Scotland, the write down of the Netherlands central offices as they have been sold and the impairment of the Foronex biomass production facility. The impairment of £5.9m (2013: £20.0m) was all charged to cost of sales (2013: £4.1m) and in the previous year £15.9m was charged to administrative expenses.

15. Property, plant and equipment continued

Company	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 April 2012 and 31 March 2013	0.1	0.4	0.5
Disposals	–	(0.3)	(0.3)
At 31 March 2014	**0.1**	**0.1**	**0.2**
Accumulated depreciation			
At 1 April 2012	–	0.3	0.3
Depreciation charge	–	0.1	0.1
At 31 March 2013	–	0.4	0.4
Disposal	–	(0.3)	(0.3)
At 31 March 2014	**–**	**0.1**	**0.1**
Net book value			
At 31 March 2014	**0.1**	**–**	**0.1**
At 31 March 2013	0.1	–	0.1
At 31 March 2012	0.1	0.1	0.2

16. Investments

	Group				Company
	Loans to joint ventures £m	Associates £m	Other unlisted investments £m	Total £m	Investments in subsidiary undertakings £m
At 1 April 2012	3.6	1.5	1.6	6.7	469.6
Additions	–	–	1.7	1.7	–
Repayment	(2.5)	–	–	(2.5)	–
Associate share of profit and loss	–	0.3	–	0.3	–
Impairment charge	–	(0.6)	–	(0.6)	(2.7)
At 31 March 2013	1.1	1.2	3.3	5.6	466.9
Additions	–	–	–	–	66.5
Associate share of profit and loss	–	0.3	–	0.3	–
At 31 March 2014	**1.1**	**1.5**	**3.3**	**5.9**	**533.4**

Details of principal subsidiary undertakings, joint ventures and investments in associates are shown in note 35.

The impairment in the previous year of £0.6m relates to an associate with an onerous long-term contract. The impairment charge in the previous year in the Company of £2.7m arose following the decision to sell the investment in Caird Bardon Limited. The additional £66.5m relates to the capitalisation of intercompany funding in certain UK and Belgium subsidiaries.

Joint ventures

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

	2014 £m	Restated* 2013 £m
Non-current assets	**5.0**	5.5
Current assets	**3.5**	3.3
Current liabilities	**(8.3)**	(5.1)
Non-current liabilities	**(0.8)**	(4.4)
Net liabilities	**(0.6)**	(0.7)
Income	**5.8**	6.6
Expenses	**(5.7)**	(6.6)
Loss before tax	**0.1**	–
Tax	**(0.1)**	(0.3)
Share of loss after tax for the year from joint ventures	**–**	(0.3)

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

Going forward from April 2014 joint arrangements which meet the definition of a joint operation will continue to be proportionately consolidated whereas joint ventures will be consolidated using the equity method. The impact will be that £0.5m of the current year net liabilities detailed above would be reclassified to Investment in joint venture.

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Notes to the Financial Statements

16. Investments continued

Investment in associates

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

	Assets £m	Liabilities £m	Revenues £m	Loss £m
31 March 2012 (Local GAAP)				
ELWA Limited	96.4	(106.3)	48.5	(1.4)
Shanks Dumfries and Galloway Limited	30.0	(28.8)	9.2	(0.3)
	126.4	(135.1)	57.7	(1.7)
31 March 2013 (Local GAAP)				
ELWA Limited	96.9	(107.6)	51.6	(0.8)
Shanks Dumfries and Galloway Limited	29.8	(29.4)	9.7	(0.8)
	126.7	(137.0)	61.3	(1.6)

Investments in associates at 31 March 2014 include goodwill of £1.6m (2013: £1.6m).

The associates prepare their statutory information to 31 March each year under local UK GAAP. Management information prepared in accordance with IFRS has been used to calculate the contribution to profit in the year of £0.3m being 20% of ELWA Holdings Limited profit of £1.0m (2013: £0.9m) and Shanks Dumfries and Galloway Holdings Limited profit of £0.6m (2013: £0.5m).

17. Derivative financial instruments

	2014		2013	
Group	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps – effective hedges	–	**15.2**	–	30.1
Interest rate swaps – at fair value through profit or loss	–	**0.4**	–	0.7
Forward foreign exchange contracts – effective hedges	–	**0.2**	–	–
Fuel derivatives – effective hedges	–	**0.2**	–	–
Total	–	**16.0**	–	30.8
Current	–	**1.0**	–	–
Non-current	–	**15.0**	–	30.8
Total	–	**16.0**	–	30.8

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than one year and as a current asset or liability when the remaining maturity is less than one year.

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2014 was £234.3m (2013: £172.8m). The expiry dates of the contracts range from 9 October 2014 (earliest) to 30 June 2037 (latest).

The notional principal amount of the forward foreign exchange contracts was £11.8m (2013: £17.8m). The hedged highly probable forecast transactions denominated in a foreign currency are expected to occur at various dates up to 30 June 2015.

The value of wholesale fuel covered by fuel derivatives at 31 March 2014 amounted to £5.0m (2013: £nil).

Cumulative losses recognised in equity on the derivative financial instruments as of 31 March 2014 were £15.6m (2013: £30.1m) with a gain of £14.5m recognised in the current period (2013: £13.8m loss).

The Company had current effective interest rate swap liabilities of £0.2m (2013: £1.0m non-current), current effective forward foreign exchange contracts of £0.1m (2013: £nil) and an effective fuel derivative current liability of £0.2m (2013: £nil). The notional principal amount of the outstanding interest rate swaps as at 31 March 2014 was £26.2m (2013: £40.5m). The notional principal amount of the forward foreign exchange contracts as at 31 March 2104 was £4.4m (2013: £nil) and the value of the wholesale fuel covered by fuel derivatives as at 31 March 2014 amounted to £5.0m (2013: £nil).

18. Business combinations

There have been no business combinations during the year.

19. Deferred tax

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

Group	Retirement benefit scheme £m	Tax losses £m	Derivative financial instruments £m	Capital allowances £m	Other timing differences £m	Total £m
At 1 April 2012	1.7	8.0	4.2	(33.0)	(7.1)	(26.2)
(Charge) credit to Income Statement (note 9)	(0.6)	(4.7)	–	(3.5)	6.5	(2.3)
Credit (charge) to equity	0.9	–	3.0	–	(0.2)	3.7
Exchange	–	(0.1)	–	(0.6)	(0.1)	(0.8)
At 31 March 2013	2.0	3.2	7.2	(37.1)	(0.9)	(25.6)
(Charge) credit to Income Statement (note 9)	(0.4)	0.3	(0.1)	2.4	(2.5)	(0.3)
Credit relating to discontinued operations	–	0.9	–	–	0.1	1.0
Credit (charge) to equity	1.0	–	(3.8)	–	0.3	(2.5)
Exchange	–	–	–	1.1	0.2	1.3
At 31 March 2014	**2.6**	**4.4**	**3.3**	**(33.6)**	**(2.8)**	**(26.1)**
Deferred tax assets	**2.6**	**0.6**	**3.3**	**3.9**	**2.3**	**12.7**
Deferred tax liabilities	**–**	**3.8**	**–**	**(37.5)**	**(5.1)**	**(38.8)**
At 31 March 2014	**2.6**	**4.4**	**3.3**	**(33.6)**	**(2.8)**	**(26.1)**
Deferred tax assets	2.0	1.3	7.2	3.0	2.5	16.0
Deferred tax liabilities	–	1.9	–	(40.1)	(3.4)	(41.6)
At 31 March 2013	2.0	3.2	7.2	(37.1)	(0.9)	(25.6)

At 31 March 2014, £12.7m (2013: £16.0m) of the deferred tax asset and £38.8m (2013: £41.6m) of the deferred tax liability is expected to be recovered after more than one year.

As at 31 March 2014 the Group has unused trading losses (tax effect) of £25.2m (2013: £20.4m) available for offset against future profits. A deferred tax asset has been recognised in respect of £4.4m (2013: £3.2m) of such losses and recognition is based on management's projections of future profits in the relevant companies. No deferred tax asset has been recognised in respect of the remaining £20.8m (2013: £17.2m) due to the uncertainty of future profit streams. Tax losses may be carried forward indefinitely in the relevant companies.

No liability has been recognised on the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries. This is because the Group is in a position to control the timing and method of the reversal of the differences and it is probable that such differences will not give rise to a tax liability in the foreseeable future. The total temporary difference at 31 March 2014 amounted to £138.7m (2013: £146.5m) and the unrecognised deferred tax on the unremitted earnings is estimated to be £0.5m (2013: £0.5m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exemptions.

Company	Retirement benefit schemes £m	Derivative financial instruments £m	Other timing differences £m	Total £m
At 1 April 2012	1.7	0.4	0.7	2.8
Charge to Income Statement	(0.6)	–	(0.1)	(0.7)
Credit (charge) to equity	0.9	(0.2)	(0.2)	0.5
At 31 March 2013	2.0	0.2	0.4	2.6
(Charge) credit to Income Statement	(0.4)	–	0.1	(0.3)
Credit (charge) to equity	1.0	(0.1)	0.3	1.2
At 31 March 2014	**2.6**	**0.1**	**0.8**	**3.5**

At 31 March 2014, £3.5m (2013: £2.6m) of the deferred tax asset is expected to be recovered after more than one year.

As at 31 March 2014, the Company has unused tax losses (tax effect) of £4.2m (2013: £4.6m) 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.

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20. Inventories

	Group 2014 £m	Group 2013 £m
Raw materials and consumables	**7.7**	7.9
Work in progress	**0.2**	0.3
Finished goods	**1.5**	2.8
	9.4	11.0

21. Financial assets relating to PFI/PPP contracts

Financial assets result from the application of IFRIC 12 on accounting for concession arrangements relating to the UK PFI/PPP Municipal contracts and they are measured initially at fair value of consideration receivable and subsequently at amortised cost. The movement in the carrying value of non-current and current financial assets is as follows:

Group	£m
At 1 April 2012	65.8
Income recognised in the income statement: Interest Income (note 8)	5.1
Advances	63.9
Repayments	(9.3)
At 31 March 2013	125.5
Income recognised in the income statement: Interest Income (note 8)	9.4
Advances	69.1
Repayments	(8.4)
At 31 March 2014	**195.6**
Current	**8.2**
Non-current	**187.4**
At 31 March 2014	**195.6**
Current	8.0
Non-current	117.5
At 31 March 2013	125.5

22. Trade and other receivables

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Non-current assets				
Amounts owed by subsidiary undertakings	–	–	**36.9**	–
Deferred consideration	**1.5**	2.2	–	–
Other receivables	**1.0**	3.7	**1.2**	–
	2.5	5.9	**38.1**	–
Current assets				
Trade receivables	**94.5**	103.2	–	–
Provision for impairment of receivables	**(5.6)**	(5.7)	–	–
Trade receivables – net	**88.9**	97.5	–	–
Accrued income	**18.9**	18.1	–	–
Amounts owed by subsidiary undertakings	–	–	**216.1**	295.9
Deferred consideration	**1.7**	1.7	–	–
Other receivables	**14.2**	13.7	**1.5**	0.8
Prepayments	**15.7**	16.8	**0.1**	0.1
	139.4	147.8	**217.7**	296.8

22. Trade and other receivables continued

Movement in the provision for impairment of receivables:

	Group	
	2014 £m	2013 £m
At 1 April	**5.7**	5.3
Charged to Income Statement	**1.3**	2.4
Utilised	**(1.3)**	(2.1)
Exchange	**(0.1)**	0.1
At 31 March	**5.6**	5.7

The allowance for bad and doubtful debts is equivalent to 5.9% (2013: 5.5%) of gross trade receivables.

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

	Group	
	2014 £m	2013 £m
Neither impaired nor past due	**55.0**	66.8
Not impaired but overdue by less than three months	**30.1**	28.9
Not impaired but overdue by between three and six months	**2.0**	0.7
Not impaired but overdue by more than six months	**1.8**	1.1
Impaired	**5.6**	5.7
Impairment provision	**(5.6)**	(5.7)
	88.9	97.5

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

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

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Sterling	**35.3**	38.5	**119.7**	130.7
Euro	**103.1**	111.1	**136.1**	164.7
Canadian Dollar	**3.5**	4.1	**-**	1.4
	141.9	153.7	**255.8**	296.8

23. Cash and cash equivalents

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash at bank and in hand	**51.0**	34.6	**6.4**	1.5
Short-term deposits	**53.6**	40.8	**16.5**	17.8
	104.6	75.4	**22.9**	19.3

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Sterling	**22.5**	42.1	**1.7**	19.1
Euro	**77.9**	31.0	**18.9**	0.1
Canadian Dollar	**4.2**	2.3	**2.3**	0.1
	104.6	75.4	**22.9**	19.3

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24. Borrowings

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Current borrowings				
Senior notes	**–**	15.3	**–**	–
Bank loans	**0.4**	0.1	**–**	–
Finance lease obligations	**3.3**	2.8	**–**	–
Core borrowings	**3.7**	18.2	**–**	–
PFI/PPP non-recourse net debt	**1.7**	12.6	**–**	–
	5.4	30.8	**–**	–
Non-current borrowings				
Senior notes	**32.9**	33.6	**–**	–
Retail bonds	**164.3**	83.8	**164.3**	83.8
Bank loans	**53.2**	112.2	**–**	37.9
Finance lease obligations	**6.5**	4.9	**–**	–
Core borrowings	**256.9**	234.5	**164.3**	121.7
PFI/PPP non-recourse net debt	**149.5**	87.5	**–**	–
	406.4	322.0	**164.3**	121.7

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Between one and two years	**120.2**	3.0	**82.2**	–
Between two years and five years	**129.9**	244.5	**–**	121.7
Over five years	**156.3**	74.5	**82.1**	–
	406.4	322.0	**164.3**	121.7

At 31 March 2014, the Group's core bank financing was a £148.8m (€180m) multi-currency revolving credit facility with seven major banks entered into on 31 January 2014 and expiring in January 2019. At 31 March 2014 £51.7m (€62.5m) of the revolving credit facility was drawn and the remaining £97.1m (€117.5m) funds were available for drawing by way of a revolving credit facility on a maximum of three days notice or for ancillary derivative facilities. At 31 March 2013 the Group's core financing was a £169.1m (€200m) facility, £56.7m (€67m) of term loans and £51.6m (€61m) of revolving facility were drawn.

At 31 March 2014, the Group had outstanding £33.1m (€40m) of seven-year Pricoa private placement senior notes issued in April 2011 at a fixed interest rate of 5.025%. On 13 September 2013, the Group repaid £15.2m (€18m) of senior notes at their maturity.

The Group has issued two tranches of retail bonds to investors in Belgium and Luxembourg which are listed on the London Stock Exchange. The five-year retail bonds of £82.7m (€100m) issued in October 2010 have an annual coupon of 5.0% and the six-year retail bonds of £82.7m (€100m) issued on 30 July 2013 have an annual coupon of 4.23%.

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

	2014			2013		
Group	**Minimum lease payments £m**	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Within one year	**3.8**	**(0.5)**	**3.3**	3.2	(0.4)	2.8
Between one and five years	**5.9**	**(0.6)**	**5.3**	5.0	(0.3)	4.7
More than five years	**1.3**	**(0.1)**	**1.2**	0.3	(0.1)	0.2
	11.0	**(1.2)**	**9.8**	8.5	(0.8)	7.7

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

24. Borrowings continued

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Sterling	**153.1**	155.6	**–**	37.9
Euro	**231.6**	165.0	**164.3**	83.8
Canadian Dollar	**27.1**	32.2	**–**	–
	411.8	352.8	**164.3**	121.7

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Current liabilities				
Trade payables	**82.0**	91.7	**0.4**	0.1
Other tax and social security payable	**15.5**	18.7	**0.4**	0.2
Other payables	**15.0**	12.9	**0.3**	0.2
Accruals	**72.9**	65.0	**6.8**	3.8
Deferred revenue	**18.9**	13.9	**–**	–
	204.3	202.2	**7.9**	4.3
Non-current liabilities				
Deferred consideration	**0.9**	1.8	**–**	–
Government grants	**0.3**	0.5	**–**	–
Amounts owed to Group undertakings	**–**	–	**215.3**	212.0
	1.2	2.3	**215.3**	212.0

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

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Sterling	**65.1**	69.0	**218.9**	214.3
Euro	**138.9**	133.3	**4.3**	2.0
Canadian Dollar	**1.5**	2.2	**–**	–
	205.5	204.5	**223.2**	216.3

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26. Provisions

Group	Site restoration and aftercare £m	Restructuring £m	Other £m	Total £m
At 1 April 2013	29.5	4.5	23.1	57.1
Provided in the year	1.1	3.0	4.1	8.2
Released in the year	–	(0.4)	(8.0)	(8.4)
Finance charges – unwinding of discount (note 8)	1.3	–	1.4	2.7
Utilised in the year	(0.2)	(3.8)	(9.2)	(13.2)
Exchange	(0.7)	–	(0.1)	(0.8)
At 31 March 2014	**31.0**	**3.3**	**11.3**	**45.6**
Current	**1.7**	**2.8**	**7.1**	**11.6**
Non-current	**29.3**	**0.5**	**4.2**	**34.0**
At 31 March 2014	**31.0**	**3.3**	**11.3**	**45.6**
Current	0.1	4.2	14.1	18.4
Non-current	29.4	0.3	9.0	38.7
At 31 March 2013	29.5	4.5	23.1	57.1

Site restoration
The site restoration provision as at 31 March 2014 related to the cost of final capping and covering of the landfill sites. The Group's minimum unavoidable costs have been reassessed at the year end and the net present value fully provided for. These costs are expected to be paid over a period of up to 25 years from the balance sheet date and may be impacted by a number of factors including changes in legislation and technology.

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

Restructuring
The restructuring provision relates to redundancy and related costs incurred in the structural cost reduction programme. Costs, net of releases, of £2.6m (2013: £10.6m) have been reflected and £3.8m (2013: £6.2m) has been utilised during the year. As at 31 March 2014 the majority of the affected employees had left the Group's employment with the remainder due to depart during the following year.

Other
Other provisions principally cover onerous contracts, onerous leases, warranties and indemnities. Onerous contracts are provided at the net present value of the operating losses of the onerous contracts, note 4 explains the releases in the year. The provision is to be utilised over the period of the contracts to which they relate with the latest date being 2029. Under the terms of the agreements for the disposal of the UK landfill and power and other UK operations, the Group has given a number of warranties and indemnities to the purchasers which may give rise to payments.

Company	Restructuring £m	Other £m	Total £m
At 1 April 2013	1.3	1.2	2.5
Utilised in the year	(1.0)	(0.1)	(1.1)
At 31 March 2014	**0.3**	**1.1**	**1.4**
Current	**0.2**	**1.1**	**1.3**
Non-current	**0.1**	**–**	**0.1**
At 31 March 2014	**0.3**	**1.1**	**1.4**
Current	1.0	1.2	2.2
Non-current	0.3	–	0.3
At 31 March 2013	1.3	1.2	2.5

27. Retirement benefit scheme

Retirement benefit costs	Group 2014 £m	2013 £m
UK defined contribution scheme	**1.0**	0.9
UK defined benefit scheme	**1.2**	0.5
Overseas pension schemes	**10.0**	9.8
	12.2	11.2

UK defined benefit scheme

The Group and Company's principal pension scheme is the Shanks Group Pension Scheme which covers eligible UK employees and has both funded defined benefit and defined contribution sections. The defined benefit plan provides benefits to members in the form of a guaranteed level of pension payable for life, the level of benefits provided depends on the members' length of service and salary. Plan assets are managed by the trustees. There are five trustees, three were appointed by the Company and two were nominated by members, who are responsible for ensuring the scheme is run in accordance with the members' best interests and the pension laws of the UK (which are overseen by The Pensions Regulator).

The most recently completed triennial actuarial valuation of the Scheme, which was performed by independent qualified actuaries for the trustees of the Scheme, was carried out as at 5 April 2012. The Group has agreed that it will aim to eliminate the pension plan deficit over seven years, with an agreed annual deficit contribution of £3.1m. This level of funding will be reassessed as part of the 5 April 2015 actuarial valuation. The total estimated contributions expected to be paid to the scheme in the year ending 31 March 2015 are £3.3m.

Income statement

	2014 £m	2013 £m
Current service cost	**0.5**	0.5
Interest expense on scheme net liabilities	**0.3**	0.3
Curtailment cost	**0.7**	–
Net retirement benefit charge before tax	**1.5**	0.8

The curtailment cost was incurred following the exit from UK Solid Waste which resulted in a 40% reduction in the active membership of the scheme. This has led to an increase in liabilities and the additional cost is reflected in non-trading and exceptional items within the discontinued operations.

Balance sheet

The amounts recognised in the balance sheet are as follows:

	2014 £m	2013 £m
Present value of funded obligations	**(148.0)**	(142.4)
Fair value of plan assets	**134.9**	133.6
Pension scheme deficit	**(13.1)**	(8.8)
Related deferred tax asset (note 19)	**2.6**	2.0
Net pension liability	**(10.5)**	(6.8)

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27. Retirement benefit scheme continued

The movement in the net defined benefit obligation over the year is as follows:

	Present value of obligations £m	Fair value of plan assets £m	Total £m
At 1 April 2012	(125.5)	117.9	(7.6)
Current service cost	(0.5)	–	(0.5)
Interest (expense) income	(5.9)	5.6	(0.3)
Remeasurements:			
Actuarial loss on scheme liabilities arising from changes in financial assumptions	(10.5)	–	(10.5)
Actuarial loss on scheme liabilities arising from changes in demographic assumptions	(0.4)	–	(0.4)
Actuarial loss on scheme liabilities arising from changes in experience	(3.5)	–	(3.5)
Return on plan assets excluding interest expense	–	10.2	10.2
Contributions from employer	–	3.8	3.8
Contributions from plan participants	(0.2)	0.2	–
Benefit payments	4.1	(4.1)	–
At 31 March 2013	(142.4)	133.6	(8.8)
Current service cost	(0.5)	–	(0.5)
Curtailment cost	(0.7)	–	(0.7)
Interest (expense) income	(6.2)	5.9	(0.3)
Remeasurements:			
Actuarial loss on scheme liabilities arising from changes in financial assumptions	(1.8)	–	(1.8)
Actuarial loss on scheme liabilities arising from changes in experience	(0.1)	–	(0.1)
Return on plan assets excluding interest expense	–	(4.5)	(4.5)
Contributions from employer	–	3.6	3.6
Contributions from plan participants	(0.1)	0.1	–
Benefit payments	3.8	(3.8)	–
At 31 March 2014	**(148.0)**	**134.9**	**(13.1)**

The weighted average duration of the defined benefit obligation is 18 years.

The assets held by the scheme were as follows:

	2014		2013	
	£m	%	£m	%
Equities	**36.3**	**26.9**	47.8	35.8
Index linked gilts	**40.4**	**29.9**	28.7	21.5
Corporate bonds	**27.9**	**20.7**	27.5	20.6
Newton Diversified Growth Fund	**29.8**	**22.1**	29.4	22.0
Cash	**0.5**	**0.4**	0.2	0.1
Total	**134.9**	**100.0**	133.6	100.0

Statement of comprehensive income

	2014 £m	2013 £m
Actuarial losses on scheme liabilities	**(1.9)**	(14.4)
Actuarial (losses) gains on scheme assets	**(4.5)**	10.2
Actuarial loss	**(6.4)**	(4.2)

Cumulative actuarial gains and losses recognised in the statement of comprehensive income since 1 April 2004 are losses of £23.1m (2013: £16.7m).

27. Retirement benefit scheme continued

Assumptions

The significant actuarial assumptions adopted at the balance sheet date were as follows:

	2014 % p.a.	2013 % p.a.
Discount rate	**4.3**	4.4
Rate of price inflation	**3.5**	3.5
Consumer price inflation	**2.5**	2.6

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 23 years if they are male and for a further 25 years if they are female. For a member who retires in 2034 at age 65 the assumptions are that they will live on average for around a further 24 years after retirement if they are male or for a further 27 years after retirement if they are female.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on net defined benefit obligation		
	Change in assumption %	**Increase in assumption £m**	**Decrease in assumption £m**
Discount rate	0.25	6.2	(6.7)
Rate of price inflation	0.25	(3.7)	3.4
Consumer price inflation	0.25	(3.7)	3.4

	Increase by 1 year in assumption £m	**Decrease by 1 year in assumption £m**
Life expectancy	(4.4)	4.4

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

Risks

Through its defined benefit pension scheme the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility
The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields and if plan assets underperform this yield, this will result in a deficit. The Group's pension scheme holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term although exposing the Group to volatility and risk in the short-term. The trustees have agreed an underlying strategy with the Company so that any ongoing improvements in the scheme's funding position would trigger movements from growth assets (equities and diversified growth) to non-growth assets (gilts and bonds) in order to protect and consolidate such improvements. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. The Group does not use derivatives to manage the risks of the scheme.

Changes in bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk
The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation.

Life expectancy
The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in the life of the member will result in an increase in the liabilities.

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27. Retirement benefit scheme continued

Overseas
In the Netherlands, employees are members of either a multi-employer pension scheme or other similar externally funded schemes. These schemes are treated as defined contribution plans as it is not possible to separately identify the Group's share of the assets and liabilities of those schemes. The Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit. In Belgium, the Group operates small defined contribution schemes. The total cost in the year for overseas pensions was £10.0m (2013: £9.8m).

28. Share capital and share premium

Group	Number	Ordinary shares of 10p each £m	Share premium £m
Share capital allotted, called up and fully paid			
At 1 April 2012	396,857,212	39.7	99.4
Issued under share option schemes	606,201	–	0.4
At 31 March 2013	397,463,413	39.7	99.8
Issued under share option schemes	237,761	0.1	0.1
At 31 March 2014	**397,701,174**	**39.8**	**99.9**

During the year 237,761 (2013: 606,201) ordinary shares were allotted following the exercise of share options under the Savings Related Share Option Schemes for an aggregate consideration of £182,570 (2013: £430,514). Further disclosures relating to share-based options are set out in note 7.

Company	Number	Ordinary shares of 10p each £m	Share premium £m
Share capital allotted, called up and fully paid			
At 1 April 2012	396,857,212	39.7	123.4
Issued under share option schemes	606,201	–	0.4
At 31 March 2013	397,463,413	39.7	123.8
Issued under share option schemes	237,761	0.1	0.1
At 31 March 2014	**397,701,174**	**39.8**	**123.9**

29. Financial instruments

Carrying value of financial assets and financial liabilities

		Group carrying value		Company carrying value	
Financial assets	Note	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Loans and receivables					
Financial assets relating to PFI/PPP contracts	21	**195.6**	125.5	**–**	–
Loans to joint ventures	16	**1.1**	1.1	**–**	–
Trade and other receivables excluding prepayments	22	**126.2**	136.9	**255.7**	296.7
Cash and cash equivalents	23	**104.6**	75.4	**22.9**	19.3
Available for sale financial assets					
Unlisted investments	16	**2.8**	2.8	**–**	–
		430.3	341.7	**278.6**	316.0

The Group considers that the fair value of financial assets is not materially different to their carrying value. For unlisted investments the carrying value is measured at cost as the range of possible fair values is significant. The Group has no plans to dispose of these investments.

29. Financial instruments continued

Financial liabilities	Notes	Group carrying value 2014 £m	Group carrying value 2013 £m	Company carrying value 2014 £m	Company carrying value 2013 £m
Financial liabilities at amortised cost					
Bank loans – core borrowings	24	**53.6**	112.3	**–**	37.9
Retail bonds	24	**164.3**	83.8	**164.3**	83.8
Senior notes	24	**32.9**	48.9	**–**	–
Finance lease obligations	24	**9.8**	7.7	**–**	–
Bank loans – PFI/PPP non-recourse net debt	24	**151.2**	100.1	**–**	–
Trade and other payables excluding non-financial liabilities	25	**169.9**	191.0	**222.8**	216.3
Derivative financial instruments					
Fuel derivatives	17	**0.2**	–	**0.2**	–
Forward foreign exchange contracts	17	**0.2**	–	**0.1**	–
Interest rate swaps	17	**15.6**	30.8	**0.2**	1.0
		597.7	574.6	**387.6**	339.0

Fair value hierarchy

The Group uses the following hierarchy of valuation techniques to determine the fair value of financial instruments:

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

The fair value of interest rate swaps, forward foreign exchange contracts and fuel derivatives are determined by discounting the future cash flows using the applicable period-end yield curve. They are considered to be level 2 in the fair value hierarchy. None of the changes in the fair value of interest rate swaps is attributable to changes in the Group's credit risk.

The fair values of the retail bonds and senior notes are based on cash flows discounted using a rate based on the effective interest rate of the borrowing; for 2010 retail bonds 3.3% (2013: 3.4%), 2013 retail bonds 3.8% and senior notes 2.3% (2013: 2.4%). They are all within level 2 of the fair value hierarchy.

The table below presents the Group's assets and liabilities measured at fair value:

	Level 2 2014 £m	Level 2 2013 £m
Liabilities		
Derivative financial instruments	**16.0**	30.8
Retail bonds	**168.6**	87.5
Senior notes	**36.3**	53.3
	220.9	171.6

The Group considers that the fair value of bank loans, trade and other payables, contingent consideration and finance lease obligations are not materially different to their carrying value.

During the year ended 31 March 2014, there were no transfers between level 1 and level 2 fair value measurements and no transfers into and out of level 3.

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29. Financial instruments continued

Offsetting financial assets

The following financial assets are subject to offsetting arrangements enforceable in the event of default on debt facilities:

	2014 Bank Loans – PFI/PPP non-recourse net debt £m	2013 Bank Loans – PFI/PPP non-recourse net debt £m
PFI/PPP non-recourse gross debt	**163.0**	111.5
PFI/PPP cash and cash equivalents	**(11.8)**	(11.4)
PFI/PPP non-recourse net debt	**151.2**	100.1

Risk management

The Group is exposed to market risk (interest rate risk and commodity price risk), foreign exchange risk, liquidity risk and credit risk. The Group's Treasury function is charged with managing and controlling risk relating to the financing and liquidity of the Group under policies approved by the Board of Directors. The Group does not enter into speculative transactions.

Interest rate risk

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

The PFI/PPP non-recourse borrowings are at floating rates and the Group has entered into interest rate swaps at the inception of each PFI/PPP contract. The interest rate swaps hedge the interest cash flows. The interest rate swaps entered into after 31 March 2009 are accounted for under IAS 39 hedge accounting with changes in the fair value of interest rate swaps being recognised directly in reserves as they are effective hedges. All earlier outstanding interest rate swaps have not previously been allocated as hedges by the Group and are therefore classified as held for trading in accordance with IAS 39. The interest rate swaps relating to the PFI/PPP non-recourse borrowings are presented in non-current liabilities as they are related to long-term borrowings and the Group believes this best reflects the commercial reality of the instruments.

Changes in interest rates could have a significant impact on core banking covenants relating to interest cover and on the interest charge in the Income Statement. In order to measure the risk, borrowings and the expected interest cost for the year are forecast on a quarterly basis and scenarios run using management's expectations of a reasonably possible change in interest rates. Interest expense volatility remained within acceptable limits throughout the year. The Group's exposure has not significantly changed.

The interest rate profile of financial assets and liabilities were as follows:

	2014			2013		
Group	Floating rate £m	Fixed rate £m	Weighted average interest rate %	Floating rate £m	Fixed rate £m	Weighted average interest rate %
Financial assets						
Financial assets relating to PFI/PPP contracts	–	**195.6**	**6.3**	–	125.5	5.1
Cash and cash equivalents	**51.0**	–	–	34.6	–	0.3
Short-term deposits	**53.6**	–	**0.3**	40.8	–	1.0
Financial liabilities						
Senior notes	–	**32.9**	**5.4**	–	48.9	5.6
Retail bonds	–	**164.3**	**4.6**	–	83.8	5.0
Bank loans – PFI/PPP non-recourse net debt	**151.2**	–	**3.6**	100.1	–	3.2
Bank loans – core borrowings	**53.6**	–	**2.5**	112.3	–	2.3
Interest rate swaps – notional principal	**(234.3)**	**234.3**	**3.2**	(172.8)	172.8	3.2

The weighted average interest rate for the interest rate swaps is the weighted average of the fixed interest rates which ranges from 0.70% to 5.79% (2013: 0.99% to 5.79%).

Excluded from the analysis above is £9.8m (2013: £7.7m) of amounts payable under finance leases as set out in note 24, which are subject to fixed rates of interest. In addition, trade and other receivables and payables have been excluded as they are not interest bearing.

The average term for short-term deposits is no more than three months.

29. Financial instruments continued

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

	2014		2013	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
1% increase in interest rates				
Derivatives	**1.8**	**42.1**	1.2	47.2
Non-derivatives	**(1.2)**	**(1.2)**	(1.3)	(1.3)
	0.6	**40.9**	(0.1)	45.9
1% decrease in interest rates				
Derivatives	**(1.8)**	**(26.8)**	(1.2)	(30.3)
Non-derivatives	**1.2**	**1.2**	1.3	1.3
	(0.6)	**(25.6)**	0.1	(29.0)

A 1% movement has been applied to interest rates for the year ended 31 March 2014, representing management's assessment of a reasonably possible change in interest rates (2013: 1%). The interest rate sensitivity is taken to occur from 31 March 2013 and so the change in the fair value of the borrowings and interest rate derivatives is shown as an equity sensitivity which results in an increase of £40.9m (2013: £45.9m) for a 1% increase in interest rate and a decrease of £25.6m (2013: £29.0m) for a 1% decrease in rates.

For the Company, there were £16.5m short-term deposits (2013: £17.8m) at an effective interest rate of 0.2% (2013: 0.4%). The effective interest rate on the Company's cash and cash equivalents was nil% (2013: nil%). The weighted average effective interest rate relating to the Company was 4.6% (2013: 5.0%) for the retail bonds. Interest on inter-company loan balances is charged at rates of between 0% and 12% (2013: 0% and 12%).

Foreign exchange risk

The Group operates in Europe and Canada and is exposed to foreign exchange risk for movements between the Euro, Canadian Dollar and Sterling. The majority of the Group's subsidiaries conduct their business in their respective functional currencies; therefore there is limited transaction risk. The Group mitigates some foreign exchange risk on financial assets and exports of processed waste arising in the UK but denominated in Euros through the use of forward exchange contracts. Foreign exchange risk arises mainly from net investments in foreign operations. This exposure is reduced by funding the investments as far as possible with borrowings in the same currency. The Group applies hedge accounting principles to net investments in foreign operations and the related borrowings.

The Group has designated the carrying value of Euro borrowings of £164.3m (2013: £83.8m) (fair value of £168.6m (2013: £87.5m)) as a net investment hedge of the Group's investments denominated in Euros. The hedge was 100% effective for the year ended 31 March 2014 (2013: 100%) and as a result the related exchange gain of £5.3m (2013: £1.2m loss) on translation of the borrowings into Sterling has been recognised in the exchange reserve.

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

	2014		2013	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
10% increase in foreign exchange rates against Sterling				
Euro	**(0.4)**	**18.1**	(0.2)	5.7
Canadian Dollar	**(0.1)**	**0.2**	(0.1)	0.2
	(0.5)	**18.3**	(0.3)	5.9

The table above details how the Group's income and equity would increase if there were a 10% increase in the respective currency against Sterling. A 10% decrease would have an equal and opposite effect. A 10% movement has been applied to each currency representing management's assessment of a reasonably possible change in foreign exchange currency rates (2013: 10%).

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Notes to the Financial Statements

29. Financial instruments continued

Commodity price risk

The Group is exposed to fuel price risk therefore management's risk strategy aims to provide protection against sudden and significant increases in oil prices whilst ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price of fuel. It is expected that part of this risk can be offset through customers paying fuel surcharges and recovery via escalation clauses linked to the price of fuel within contracts such as UK PFI/PPP.

To meet these objectives the fuel risk management programme allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties and within approved limits. There were £5.0m of fuel derivatives in place at 31 March 2014 (2013: £nil). The value of wholesale fuel covered by derivatives at 31 March 2014 amounted to £0.2m (2013: £nil) and these contracts were designated as cash flow hedges against highly probable future fuel purchase forecasts to occur over the following 12 months.

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

	2014 Income sensitivity £m	2013 Income sensitivity £m
10% increase in wholesale fuel price (excluding duty)	**1.2**	1.5
10% decrease in wholesale fuel price (excluding duty)	**(1.2)**	(1.5)

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due.

As well as term borrowings under a syndicated loan facility, the Group maintains uncommitted lending facilities with a range of banks for working capital purposes. The Group manages liquidity risk by monitoring forecast cash flows to ensure that facility drawdowns are arranged as necessary and an adequate level of headroom is maintained. The Group's exposure to and the way it manages liquidity risk has not changed from the previous year.

For more details of the Group's bank overdrafts, bank loans and senior notes see note 24.

Undrawn committed borrowing facilities:

	Core borrowings		PFI/PPP non-recourse net debt		Total Group	
Group	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Expiring within one year	**–**	–	**–**	–	**–**	–
Expiring between one and two years	**1.6**	–	**62.0**	–	**63.6**	–
Expiring in more than two years	**92.1**	54.3	**41.0**	167.7	**133.1**	222.0
	93.7	54.3	**103.0**	167.7	**196.7**	222.0

In addition, the Group had access to £27.3m (2013: £28.4m) of undrawn uncommitted working capital facilities.

As at 31 March 2014, the Company had undrawn committed borrowing facilities at floating rates of £92.1m (2013: £52.4m) expiring in more than two years.

The Group manages the liquidity risk of derivatives by entering into these only by way of hedging existing and projected exposures with counterparties of approved credit ratings for the OTC trades with no margin calls.

In the majority of cases subsidiary undertakings holding non-recourse PFI/PPP debt and financial assets are restricted in their ability to transfer funds to the parent in the form of cash dividends or to repay loans and advances. This is due to the terms of the financing facility agreements and require lender approval to make such transfers.

29. Financial instruments continued

The following table analyses the Group's financial liabilities and net settled derivative financial instruments into relevant maturity groupings. The maturities of the undiscounted cash flows, including interest and principal, at the balance sheet date are based on the earliest date on which the Group is obliged to pay:

	Within one year £m	Between one and five years £m	Over five years £m
At 31 March 2014			
Senior notes	**1.7**	**38.9**	**–**
Retail bonds	**7.6**	**100.8**	**86.2**
Bank loans – core borrowings	**1.9**	**59.8**	**–**
Bank loans – PFI/PPP non-recourse net debt	**7.3**	**93.4**	**100.5**
Finance lease liabilities	**3.8**	**5.9**	**1.3**
Net settled derivative financial instruments	**6.8**	**24.6**	**56.4**
Trade and other payables	**169.0**	**0.9**	**–**
	198.1	**324.3**	**244.4**
At 31 March 2013			
Senior notes	17.5	6.8	34.7
Retail bonds	4.2	93.0	–
Bank loans – core borrowings	3.3	117.5	–
Bank loans – PFI/PPP non-recourse net debt	15.9	59.8	62.6
Finance lease liabilities	3.2	5.0	0.3
Net settled derivative financial instruments	5.2	24.4	63.5
Trade and other payables	189.2	1.8	–
	238.5	308.3	161.1

Security of borrowing facilities

The Group's core bank loans, retail bonds and senior notes are unsecured but are subject to cross guarantees within the Group. Each PFI/PPP company has non-recourse loan facilities which are secured by a legal mortgage over any land and a fixed and floating charge over the assets of the PFI/PPP company.

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Surplus cash, when not used to repay borrowings, is placed on deposit with banks and money market funds in accordance with a policy that specifies the minimum acceptable credit rating and the maximum exposure to each counterparty. At 31 March 2014 the amount of credit risk on deposits totalled £104.6m (2013: £75.4m).

Trade and other receivables mainly comprise amounts due from customers for services performed. Management consider that the exposure to any single customer is not significant and that where credit quality is in doubt, adequate provision has been made for probable losses. At 31 March 2014 the amount of credit risk on trade and other receivables amounted to £141.9m (2013: £153.7m). The Group does not hold any collateral as security.

The financial assets relating to PFI/PPP contracts are recoverable from the future revenues relating to these contracts. Management consider that as the counterparties for the future revenues are UK local authorities or councils, there is minimal credit risk. At 31 March 2014 the amount of credit risk on financial assets amounted to £195.6m (2013: £125.5m).

Financials

Notes to the Financial Statements

29. Financial instruments continued

Capital management

The Group actively manages the capital available to fund the Group, comprising equity and reserves together with core debt funding. In order to make decisions over where capital is allocated, the Group monitors the return on capital employed. The Group has a funding strategy to ensure there is an appropriate debt to equity ratio as well as an appropriate debt maturity profile. The strategy is based on the requirements of the Company's Articles of Association, which state that core debt should be limited to three times the level of capital and reserves, which is the equity attributable to the owners of the parent. The Group's funding strategy has not changed from the previous year.

The Group has to comply with a number of banking covenants which are set out in the agreements for bank loans and senior notes. There are financial covenants which are measured using the performance of the core Group, excluding PFI companies and joint ventures, and relate to interest cover, the ratio of debt to EBITDA and the net worth of the Group. There are other restrictions in the loan documentation concerning acquisitions, disposals, security and other issues. The Group has complied with its banking covenants during the year.

30. Notes to the statements of cash flows

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Profit (loss) before tax	**7.7**	(10.1)	**(3.7)**	228.4
Fair value gain on financial instruments	**(0.3)**	(0.1)	**–**	–
Finance income	**(10.1)**	(6.2)	**(8.8)**	(7.4)
Finance charges	**26.4**	21.2	**11.2**	13.0
Income from associates	**(0.3)**	(0.3)	**–**	–
Operating profit (loss) from continuing operations	**23.4**	4.5	**(1.3)**	234.0
Operating loss from discontinued operations	**(30.9)**	(25.1)	**–**	–
Amortisation and impairment of intangible assets	**20.9**	25.0	**0.2**	0.2
Depreciation and impairment of property, plant and equipment	**46.4**	63.2	**–**	–
Fair value adjustments in relation to the UK Solid Waste exit	**20.4**	–	**–**	–
Impairment of investment	**–**	0.6	**–**	2.7
Exceptional gain from exiting transport activities in Foronex in Belgium	**–**	(1.4)	**–**	–
Exceptional gain of insurance proceeds in relation to fire in the Netherlands	**(5.7)**	–	**–**	–
Exceptional provisions/write off of investment in a joint venture arrangement	**–**	3.9	**–**	–
Pension curtailment	**0.7**	–	**0.7**	–
Non-exceptional gain on disposal of property, plant and equipment	**(2.1)**	(1.7)	**–**	–
Current asset write offs	**2.5**	0.5	**–**	–
Reassessment of contingent consideration	**(1.0)**	–	**–**	–
Exchange loss	**–**	–	**(1.4)**	(26.8)
Net (decrease) increase in provisions	**(13.4)**	(0.1)	**(1.1)**	0.3
Payments to fund defined benefit pension scheme deficit	**(3.1)**	(3.1)	**(3.1)**	(3.1)
Share-based compensation	**0.7**	0.5	**0.7**	0.5
Operating cash flows before movement in working capital	**58.8**	66.8	**(5.3)**	207.8
Decrease (increase) in inventories	**1.2**	(0.5)	**–**	–
Decrease (increase) in receivables	**8.7**	7.4	**38.5**	(6.6)
Increase (decrease) in payables	**4.5**	(6.0)	**3.0**	(202.4)
Cash flows from (used in) operating activities	**73.2**	67.7	**36.2**	(1.2)

30. Notes to the statements of cash flows continued

Consolidated movement in net debt

	2014 £m	2013 £m
Net increase in cash and cash equivalents	**31.1**	20.6
Net increase in borrowings and finance leases	**(62.2)**	(79.5)
Release of restricted funds	**–**	(5.6)
Capitalisation of loan fees	**2.4**	0.2
Total cash flows in net debt	**(28.7)**	(64.3)
Finance leases entered into during the year	**(5.8)**	(2.9)
Deferred interest of PFI/PPP non-recourse debt	**(4.0)**	–
Amortisation of loan fees	**(1.4)**	(1.0)
Exchange gain (loss)	**10.1**	(3.0)
Movement in net debt	**(29.8)**	(71.2)
Net debt at beginning of year	**(277.4)**	(206.2)
Net debt at end of year	**(307.2)**	(277.4)

	At 1 April 2013 £m	Cash flows £m	Other non-cash changes £m	Exchange movements £m	At 31 March 2014 £m
Cash and cash equivalents	75.4	31.1	–	(1.9)	**104.6**
Bank loans	(112.3)	54.1	(1.0)	5.6	**(53.6)**
Senior notes	(48.9)	15.2	–	0.8	**(32.9)**
Retail bonds	(83.8)	(85.4)	(0.4)	5.3	**(164.3)**
Finance leases	(7.7)	3.4	(5.8)	0.3	**(9.8)**
Total core net debt	(177.3)	18.4	(7.2)	10.1	**(156.0)**
PFI/PPP non-recourse net debt	(100.1)	(47.1)	(4.0)	–	**(151.2)**
Total net debt	(277.4)	(28.7)	(11.2)	10.1	**(307.2)**

On 30 July 2013 the Group issued €100m of six-year bonds to investors in Belgium and Luxembourg at an annual coupon of 4.23% and on 13 September 2013 the Group repaid €18m of senior notes at their maturity.

31. Capital commitments

Group	2014 £m	2013 £m
Contracts placed for future capital expenditure on financial assets	**69.9**	111.5
Contracts placed for future capital expenditure on property, plant and equipment	**16.4**	7.3
Contracts placed for future intangible assets	**0.2**	–
Share of joint venture future capital expenditure	**0.1**	–

32. Financial commitments

Group	2014 £m	Restated* 2013 £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**10.2**	12.3
Later than one year and less than five years	**23.0**	26.7
More than five years	**67.2**	69.7
	100.4	108.7
Future minimum lease payments expected to be received under non-cancellable sub-leases	**(0.1)**	(0.3)
	100.3	108.4

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

Future minimum rentals payable under non-cancellable operating leases associated with the discontinued operations in UK Solid Waste are excluded from the above table (2013: £19.6m) as these were transferred on disposal on 31 December 2013.

Financials

Notes to the Financial Statements

33. Contingent liabilities

Group and Company
Provision is made for the Directors' best estimate of all known claims and all legal actions in progress. The Group takes legal advice as to the likelihood of success of claims and actions and no provision is made where the Directors consider, based on that advice, that the action is unlikely to succeed or a sufficiently reliable estimate of the potential obligation cannot be made.

Under the terms of sale agreements, the Group gave a number of indemnities and warranties relating to the disposed operations for which appropriate provisions are held.

In respect of contractual liabilities the Company and its subsidiaries have given guarantees and entered into counter indemnities of bonds and guarantees given on their behalf by sureties and banks totalling £197.6m (2013: £197.6m). In addition, the Company has contingent liabilities in respect of both VAT and HM Revenue & Customs group payment arrangements of £1.3m (2013: £4.7m).

The Company has given guarantees in respect of the Group's subsidiary and joint venture undertakings' borrowing facilities totalling £91.8m (2013: £129.8m).

34. Related party transactions

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

	2014 £m	2013 £m
Sales	**43.8**	43.4
Management fees	**0.7**	0.6
Accounts receivable at 31 March	**11.0**	5.8

The receivables are due one month after the date of the invoice, they are unsecured in nature and bear no interest.

Remuneration of key management personnel
Key management personnel comprises the Board of Directors and the members of the Group's Executive Committee. The disclosures required by the Companies Act 2006 and those specified by the Financial Conduct Authority relating to Directors' remuneration (including retirement benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 68 to 82, and form part of these financial statements. The emoluments paid to key management personnel were:

	2014 £m	2013 £m
Short-term employee benefits	**3.1**	3.5
Post employment benefits	**0.2**	0.2
Share-based payments	**0.5**	0.3
	3.8	4.0

Transactions between the Company and its subsidiaries
A list of the Company's principal subsidiaries is set out in note 35. Transactions with subsidiaries relate to interest on intercompany loans and management charges. Net interest income was £5.7m (2013: £0.6m) and management charges were £6.9m (2013: £5.9m). Total outstanding balances are listed in notes 22 and 25.

35. Subsidiary undertakings and joint ventures and associates at 31 March 2014

Subsidiary undertakings

The Company held, through wholly-owned subsidiaries,100% of the issued share capital of the following principal trading subsidiaries (unless otherwise stated) all of which operate in the waste management sector, have a 31 March year end and have been consolidated in the Group's financial statements. The Group has taken exemption under Companies Act section 410 to list all subsidiaries, however a full list will be annexed to the next annual return.

	Country of incorporation
Principal Group subsidiary undertakings	
Shanks Nederland B.V.	Netherlands
Shanks Netherlands Holdings B.V.	Netherlands
Shanks B.V.	Netherlands
Icova B.V.	Netherlands
BV van Vliet Groep Milieu-dienstverleners	Netherlands
Viiko B.V.	Netherlands
Klok Containers B.V.	Netherlands
Smink Beheer B.V.	Netherlands
Transportbedrijf van Vliet B.V. (Contrans)	Netherlands
Afvalstoffen Terminal Moerdijk B.V. (ATM)	Netherlands
Reym B.V.	Netherlands
Orgaworld International B.V.	Netherlands
Orgaworld Nederland B.V.	Netherlands
Shanks s.a.	Belgium
Shanks Hainaut s.a.	Belgium
Shanks Liège-Luxembourg s.a.	Belgium
Shanks Brussels-Brabant s.a.	Belgium
Shanks Vlaanderen n.v.	Belgium
Shanks Wood Products n.v. (previously Foronex n.v.)	Belgium
Shanks Waste Management Limited	UK
Shanks PFI Investments Limited	UK
Shanks Waste Operations Limited	UK
Orgaworld Canada Limited	Canada
Subsidiary undertakings holding PFI/PPP contracts	
Shanks Argyll & Bute Limited	UK
Shanks Cumbria Limited	UK
Resource Recovery Solutions (Derbyshire) Limited	UK
3SE (Barnsley, Doncaster and Rotherham) Limited (75%)	UK
Wakefield Waste PFI Limited	UK

Joint ventures and associates

The Company held, through wholly-owned subsidiaries, the following interests in material joint venture companies and associates, all of which operate in the waste management sector.

	% Group holding	Most recent year end	Country of incorporation
Energen Biogas Limited	50%	31 March 2014	UK
ELWA Holdings Limited	20%	31 March 2014	UK
Shanks Dumfries and Galloway Holdings Limited	20%	31 March 2014	UK

Financials

Consolidated Five Year Financial Summary

	2014 £m	Restated* 2013 £m	Restated* 2012 £m	Restated* 2011 £m	Restated* 2010 £m
Consolidated income statement					
Revenue	**636.4**	614.6	675.2	633.8	609.9
Trading profit from continuing operations[1]	**45.9**	44.9	51.6	44.2	45.4
Finance charges – interest	**(11.9)**	(11.2)	(11.4)	(8.2)	(12.1)
Finance charges – other	**(4.1)**	(3.8)	(4.8)	(6.3)	(5.8)
Income from associates	**0.3**	0.3	0.1	–	–
Profit from continuing operations before exceptional items and tax (underlying profit)	**30.2**	30.2	35.5	29.7	27.5
Non-trading and exceptional items	**(22.5)**	(40.3)	(3.8)	(12.9)	(15.3)
Profit (loss) before tax from continuing operations	**7.7**	(10.1)	31.7	16.8	12.2
Taxation	**(7.3)**	(7.7)	(9.2)	(7.8)	(5.1)
Exceptional tax and tax on exceptional items	**1.4**	6.7	5.2	9.7	5.7
Profit (loss) after tax from continuing operations	**1.8**	(11.1)	27.7	18.7	12.8
(Loss) profit after tax from discontinued operations	**(30.0)**	(24.1)	(2.0)	3.2	24.8
(Loss) profit for the year	**(28.2)**	(35.2)	25.7	21.9	37.6
(Loss) profit attributable to:					
Owners of the parent	**(28.3)**	(35.3)	25.7	21.9	37.6
Non-controlling interest	**0.1**	0.1	–	–	–
	(28.2)	(35.2)	25.7	21.9	37.6
Consolidated balance sheet					
Non-current assets	**748.3**	772.1	751.6	767.9	878.7
Other assets less liabilities	**(167.6)**	(181.0)	(174.8)	(163.1)	(173.8)
Net debt	**(307.2)**	(277.4)	(206.2)	(207.4)	(319.7)
Net assets	**273.5**	313.7	370.6	397.4	385.2
Equity attributable to owners of the parent					
Share capital and share premium	**139.7**	139.5	139.1	139.1	139.0
Reserves	**134.0**	174.1	231.5	258.3	246.2
	273.7	313.6	370.6	397.4	385.2
Non-controlling interest	**(0.2)**	0.1	–	–	–
Total equity	**273.5**	313.7	370.6	397.4	385.2
Financial ratios					
Underlying earnings per share – continuing operations	**5.7p**	5.7p	6.6p	5.5p	5.8p
Basic earnings per share – continuing operations	**0.4p**	(2.8)p	7.0p	4.7p	3.9p
Dividend per share	**3.45p**	3.45p	3.45p	3.25p	3.0p

*The comparatives have been restated to classify the UK Solid Waste segment as a discontinued operation.

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

Additional information

Shareholder information

Analysis of shareholders as at 31 March 2014

	Holders	%	Shares held	%
Private shareholders	2,274	67.3	11,255,322	2.8
Corporate shareholders	1,103	32.7	386,443,358	97.2
Total	**3,377**	**100.0**	**397,698,680**	**100.0**

Size of shareholding	Holders	%	Shares held	%
1 – 5,000	2,249	66.6	4,408,993	1.1
5,001 – 25,000	759	22.5	8,196,171	2.1
25,001 – 50,000	104	3.1	3,754,807	0.9
50,001 – 100,000	65	1.9	4,643,978	1.2
100,001 – 250,000	61	1.8	10,535,750	2.6
250,001 – 500,000	26	0.8	9,381,781	2.4
over 500,000	113	3.3	356,777,200	89.7
Total	**3,377**	**100.0**	**397,698,680**	**100.0**

Financial calendar

2 July 2014	Ex-dividend date for final 2014 dividend
4 July 2014	Record date for final 2014 dividend
25 July 2014	Annual General Meeting
1 August 2014	Payment of final 2014 dividend
November 2014	Announcement of interim results and dividend
31 March 2015	2015 financial year end
May 2015	Announcement of 2015 results and dividend recommendation

For updates to the calendar during the year, please visit the Shanks Group website: www.shanksplc.com

Registrar services
Administrative enquiries concerning shareholdings in the Company should be made to the Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Computershare can also be contacted by telephone on 0870 707 1290. Shareholders can also manage their holding online by registering at www.investorcentre.co.uk.

Dividends
Shareholders are strongly encouraged to receive their cash dividends by direct transfer as this ensures dividends are credited promptly and efficiently. Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate form obtainable from Computershare. Overseas shareholders wishing to receive their dividend payment in local currency can now do so using Computershare's Global Payments Service.

ShareGift
If shareholders have only a small number of shares the value of which makes it uneconomic to sell, they may wish to consider donating them to the charity ShareGift (registered charity no. 1052686). Further information may be obtained from their website at www.sharegift.org or by calling 020 7930 3737.

Electronic shareholder communication
Shareholders may elect to receive future shareholder documents and information by email or via the Company's website. This is intended to help the environment by reducing paper and transport as well as enabling the Company to save on administration, printing and postage costs. Please contact the Company Registrar for details.

Share fraud warning
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. Whilst high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid fraud
- Keep in mind that firms authorised by the Financial Conduct Authority (FCA) are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember: if it sounds too good to be true, it probably is!

Report a scam
- If you are approached by a fraudster please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams, or call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Additional information

Company information

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Principal Bankers
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BNP Paribas Fortis Bank s.a./n.v.
HSBC Bank plc
ING Bank n.v.
KBC Bank n.v.
Rabobank International
The Royal Bank of Scotland plc

Financial Advisers
Greenhill & Co International LLP

Solicitors
Ashurst LLP
Dickson Minto W.S.

PR Advisers
Brunswick

Corporate Brokers
Investec

Glossary

A&B	Argyll and Bute
AD	Anaerobic Digestion
AGM	Annual General Meeting
BDR	Barnsley, Doncaster and Rotherham
Benelux	The economic union of Belgium, the Netherlands and Luxembourg
C&D	Construction and Demolition
CAGR	Compound Annual Growth Rate
CGU	Cash Generating Unit
CHP	Combined Heat and Power
ConnectUs	New Group-wide collaboration tool
Core Net Debt	Borrowings less cash from core facilities excluding PFI/PPP non-recourse debt
CR	Corporate Responsibility
D&G	Dumfries and Galloway
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELWA	East London Waste Authority
EPS	Earnings Per Share
EU	European Union
GHG	Greenhouse Gas
HWRC	Household Waste Recycling Centre
I&C	Industrial and Commercial
IFRS	International Financial Reporting Standards
IVC	In-Vessel Composting
JV	Joint Venture
KPI	Key Performance Indicator
LTIP	Long Term Incentive Plan
MBT	Mechanical Biological Treatment
MRF	Material Recycling Facility
MWH	Megawatt Hours of energy generated
PBT	Profit Before Tax
PDR	Performance Development Review
PFI	Private Finance Initiative
PPP	Public Private Partnership
P&L	Profit and Loss
RDF	Refuse Derived Fuel
ROC	Renewable Obligations Certificate
ROCE	Return on Capital Employed
SHE	Safety, Health & Environmental
SPV	Special Purpose Vehicle
SRF	Solid Recovered Fuel
SRSOS	Savings-Related Share Option Scheme
SSC	Shared Service Centre
SSO	Source Segregated Organics
TAG	Tar and Asphalt Granulate
Trading Profit	Operating profit before the amortisation of acquisition intangibles, exceptional items and discontinued operations
TSR	Total Shareholder Return
UK GAAP	UK Generally Accepted Accounting Practice
Underlying Free Cash Flow (UFCF)	Cash flow before dividends, growth capex, PFI funding, acquisitions, disposals and exceptional items
Underlying Free Cash Flow Conversion	Underlying free cash flow divided by trading profit
WACC	Weighted Average Cost of Capital

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Making more from waste

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