

CRN: 77438

Shanks & McEwan Group PLC

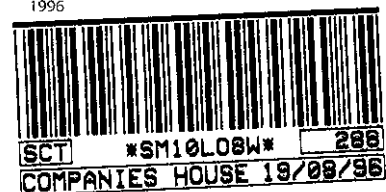
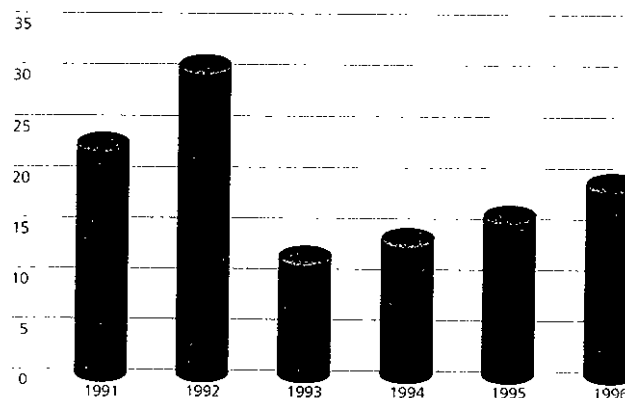
Financial Highlights

Certified that this and the following 5.1 pages
are a true copy of the Directors Report and
audited Accounts of SHANKS & MCEWAN
Group Plc ~~limited~~
for the Year Ended 30 MARCH 1996.

[Signature] Secretary

	1996	1995
Turnover	£114m	£139m
Profit before tax and exceptional items	£19.5m	£16.3m
Profit before tax	£19.5m	£14.5m
Earnings per share	6.6p	4.2p
Earnings per share before exceptional items	6.6p	5.5p
Dividend	3.6p	3.3p
Net debt	£3m	£7m
Gearing	5%	11%
Net asset value per share	38p	37p
Interest cover before exceptional items	24x	8x

PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (£m)



Chairman's Statement

I am pleased to announce that the Group has made further progress during the financial year to 30 March 1996. Profits before taxation were £19.5m, an increase of 34% over the £14.5m after exceptional items and 20% higher than the £16.3m before exceptional items, earned in the year to 1 April 1995. The Group's financial position has continued to strengthen with net debt of £3.2m at the end of the financial year representing gearing of 5%.

Earnings per share were 6.6 pence, that is 57% better than the 4.2 pence per share after exceptional items and 20% higher than the 5.5 pence per share before exceptional items in the previous year.

Your Board recommends the payment of a final dividend of 2.4 pence net per share. If approved, dividends in the aggregate for the year will be 3.6 pence per share, which is an increase of 9% on those paid last year.

RESULTS

Group turnover at £114.2m was slightly below the £114.9m of the continuing businesses last year due to a further decline in Rechem revenues.

The £3.2m increase in profits before exceptional items reflected creditable performances by both Rechem and Waste Services, and the reduction in interest expense. At Rechem, cost reductions and tight control by management resulted in a substantial improvement in the year. Indeed, a small operating profit was achieved for the year as a whole compared to losses both in the first half of the year and in the second half of the last year. Rechem continues to be strongly cash generative.

This achievement by Rechem was in spite of Government policy restricting imports of waste for incineration, irrespective of the merits of where they should best be treated, and despite Government failure to compel certain UK hazardous waste to be incinerated at high temperature as happens elsewhere in the European Union, rather than be disposed of to landfill.

Waste Services' results were all the more creditable in that they were achieved after absorbing an additional £4m of landfill costs relating to the amortisation of void space purchased from Hanson PLC in 1993 and higher provisions for aftercare. The marketing policy of raising landfill prices to defray these costs was successful but resulted in a loss of volume. The hazardous and liquid waste markets, however, remained extremely difficult and this sector contributed lower profits. In contrast, there has been improved performance from both the waste collection activities and the new plant which generated additional power from landfill gas.

DEVELOPMENTS

Waste Services strengthened its position by the purchase from Leigh Interests plc of its Scottish dry waste business in March 1996, for the sum of £5.2m. There should be benefits from rationalisation, economies of scale and internalisation of the disposal of the acquired waste stream. Waste Services also retained a contract from Hamilton District Council to dispose of its waste for a further ten years.

Several Materials Recycling Facility (MRF) projects are under evaluation including projects where the Group is a private sector partner with a local authority.

The new landfill site at Pwllfawr in Wales was opened in Autumn 1995.

The £12m capital programme associated with grants awarded under the third phase of the Non Fossil Fuel Obligation (NFFO3) and Scottish Renewables Obligation (SRO1), is progressing well. This entails the installation of a total of 19 MW of generating capacity from methane gas at five of the Group's landfill sites. Three power stations generating a total of 5 MW are already on stream and a further 2 MW will be commissioned this year. The remaining 12 MW will be completed in the 1997/98 year.

The imposition of Landfill Tax will be a feature of the second half of the current year. It is to be welcomed that Government has accepted that the tax should be based on weight rather than ad valorem.

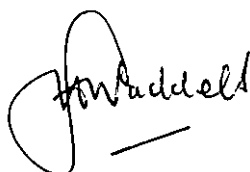
The cost reduction programme at Rechem continues with the relocation of remaining divisional staff to the Fawley plant and with certain limited capital programmes which will further reduce operating costs.

DIRECTORATE

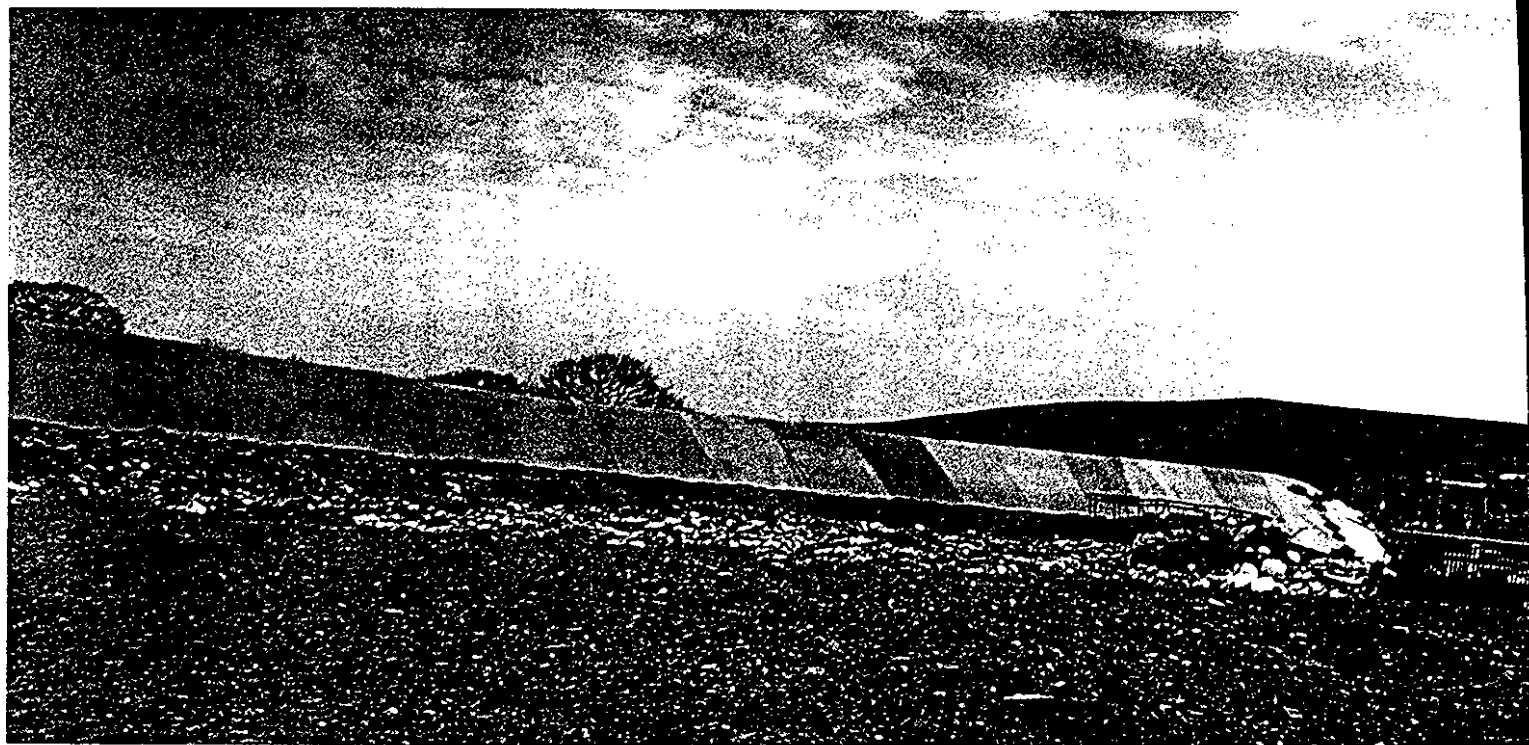
At the Annual General Meeting on 25 July 1996, Mr G J Newman, who was appointed to the Board in October 1990, will retire as a Director and will subsequently retire from the Group on 30 August 1996. Mr Newman has made a substantial contribution over those years to the development of the Group's business and in particular over the last couple of years, to its recovery. For that we are indebted to him.

SUMMARY

The increase in profits is encouraging, as is the sound financial position. The latter has already allowed the developments to which I have referred and will facilitate further expansion during the current year. Greater use of the 1993 Hanson void will add significant cost which can only be recovered in prices over a period of time. Government policies continue to restrict Rechem to, at best, marginal profitability. Nevertheless, I am confident that, in the absence of unforeseen circumstances, the Group will continue to grow.



G H Waddell
Chairman



Operating Review

Shanks & McEwan's newest site; Pwllfawatkin landfill in the Lliw Valley, South Wales, was opened for business during the year. The more recent acquisition of a controlling interest in waste collection and recycling company, Greenacres Waste Management, of Pembrokeshire, is designed to complement the Pwllfawatkin activity.

The Shanks & McEwan Group has completed a full year as a dedicated waste management concern following the disposal of the construction activities. The benefits of this clear focus are evident in the substantially improved profits reported and my thanks go to all staff whose efforts made this result possible.

The very strong financial position created in the last two years has enabled the Group to commence expansion upon the foundations laid during the reorganisation. The new lower overhead company we have today, together with the team of high quality professionals, is well placed to exploit the many opportunities before us typified by the recent acquisition of the Scottish dry waste business from Leigh Interests plc.

The regulatory regime under which the Group operates continues to change rapidly. With the commencement of the 1996/7 fiscal year we see the birth of the new integrated Environment Agency in England and Wales and the Scottish Environmental Protection Agency. The Group welcomes this change and looks forward to the benefit of uniformly high



regulatory standards in our markets. Additionally, the new landfill tax will commence in October 1996. The deposit of waste into landfill will then incur a levy of £7/tonne for most waste received by the Group but with a lower £2/tonne band for inert materials and certain limited categories being exempt. The imposition of this tax will render previously uneconomic waste treatment methods viable, creating new opportunities for the Group.

WASTE SERVICES, SOUTHERN

For the second successive year there has been considerable attention paid to landfill margins. The result has been an improvement in the quality of our business with higher average prices, offset by lower volumes. The achievement of this continuing improvement is of paramount importance as greater use is made in the current year of the more expensive landfill void acquired from Hanson PLC in 1993. The recovery of these higher costs will be a critical feature of the 1996/7 year.

The new landfill site in Pwllfawtkin, near Swansea, opened during the year and revenues are now growing satisfactorily. To complement this activity the

Group has just acquired a controlling interest in Greenacres, a waste collection and recycling company, in Pembrokeshire.

Technical Services activity has been integrated successfully into the Landfill division with the benefit of lower overheads. Despite the extremely difficult conditions prevailing in the liquid waste treatment market, it continues to trade profitably albeit at a lower level than last year.

The waste collection and transfer activity not only enjoyed a record year but also has recently completed a number of small acquisitions which will contribute towards future growth. These acquisitions, Charles Brown and Son, Melton Mowbray (December 95), Goodwin's Mini Skips, Hitchin (April 1996) and 51% of Greenacre Waste Management, Pembrokeshire (May 1996), will enable the collection activity to exploit our strong regional landfill reserves on a 'hub and spoke' basis.

Considerable opportunity is also presented by the forthcoming landfill tax to expand recycling activities. Southern Waste Services has several Materials



Operating Review

continued

Khan the Eagle Owl on bird scaring patrol at the Greengairs landfill site near Airdrie in Lanarkshire. Greengairs has now become the site of Scotland's first Landfill Gas Power Station since the commissioning of the first half of the 4 MW electricity generating scheme approved under the Scottish Renewables Obligation (SRO1).

Recycling Facility (MRF) projects under evaluation. These projects coupled with new specific collection rounds for recyclables will facilitate growth in this exciting new market. Managing the risk of the greatly fluctuating prices for recyclable commodities will, however, be the essential feature of the success of the new initiative.

It has also been a record year for Energy from Landfill Gas. The investment programme for NFFO 3 announced last year continued with the commissioning of Power Stations at Dogsthorpe (2 MW) in September 1995 and Bletchley (1 MW) in November 1995. Both projects were completed on time and within budget and are now operating to plan. The major 11 MW unit at Stewartby is programmed for commissioning in the first half of the 1997/8 year and a 1 MW station at Arlesey will complete the NFFO3 programme. The Group is currently preparing bids for the fourth tranche of the NFFO programme.

Southern is forging ahead with its investment in IT systems and customer care training with the clear objective of delivering high quality services to our



markets. The response from our staff is particularly encouraging.

WASTE SERVICES, NORTHERN

Although turnover increased during the year, margins were reduced by additional environmental and operating costs resulting from legislative pressure and the extreme weather experienced in January and February of 1996. The economic outlook in the region remains depressed especially in the all important construction sector.

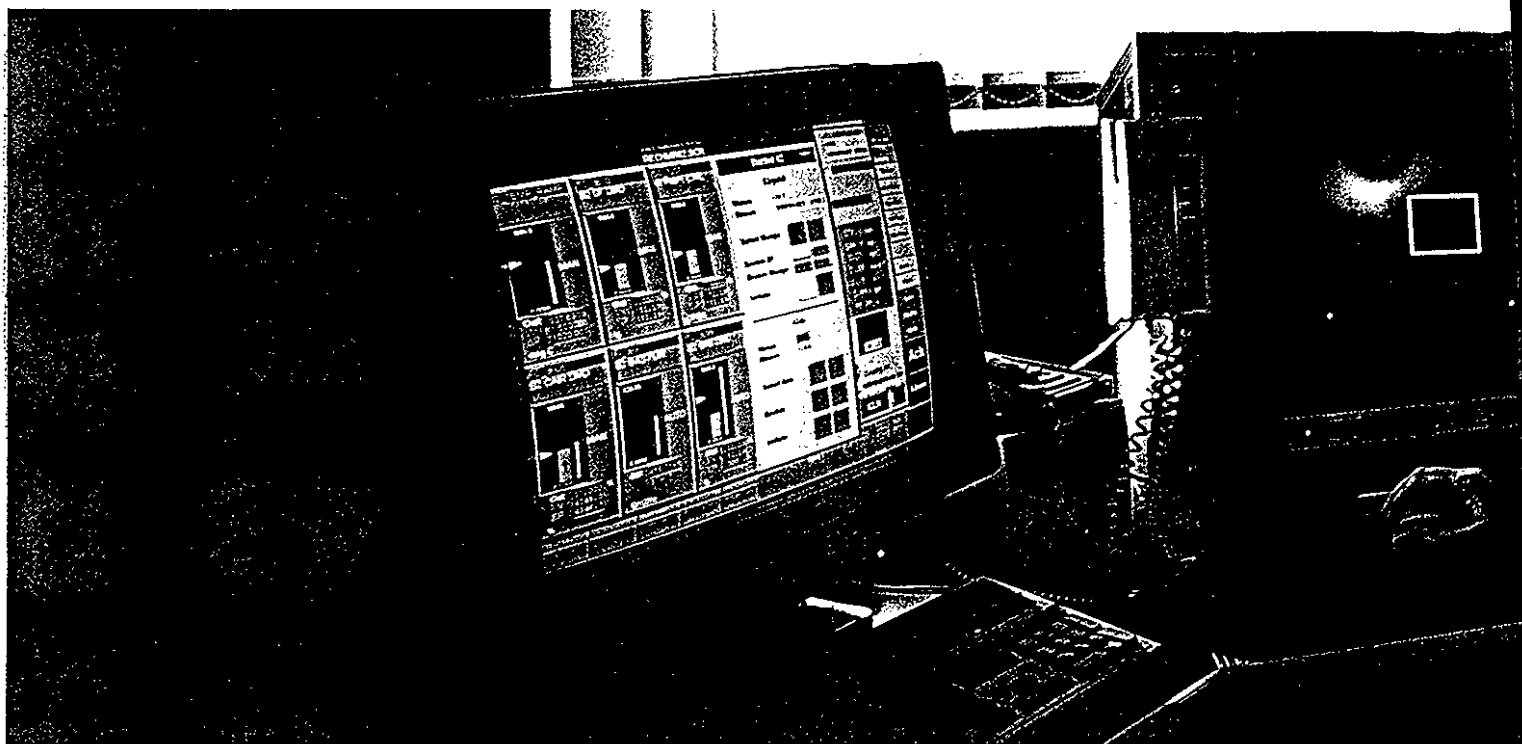
At the end of the period under review a significant expansion step was made with the purchase for £5.2m of the dry waste collection business operated by Leigh Interests plc in the central belt of Scotland. This not only expands our collection capability but provides the opportunity to internalise the disposal of part of the waste arising into our landfill site at Greengairs, near Airdrie. Our presence in this area is additionally strengthened with the opening at the end of 1995 of the new special waste transfer station at Polmadie, Glasgow and the renewal, for ten years, of the Hamilton District Council waste disposal contract. In addition, since period end a small Glasgow waste

collection business, D & D Environmental Services, was purchased in May 1996.

Planning permission has been obtained for a new transfer station in Liverpool to replace an existing facility which is subject to a compulsory purchase order.

In common with their colleagues in Southern two projects for MRF plants are under evaluation which will allow the division to exploit opportunities in the emerging recycling market.

The initial 2 MW phase of the first electricity generating scheme from landfill gas in Scotland has been commissioned since the year end, following the award under the first tranche of the Scottish Renewables Obligation (SRO). A second 2 MW phase will follow by the end of the current financial year. Further bids for the second tranche of SRO are currently under preparation and for NFFO 4 in North Wales.



Operating Review

continued

A duplicated network of control and safety is at the heart of the high temperature incineration operations of Rechem International Limited. This central control room at Rechem's Pontypool plant in South Wales incorporates technology developed for use in the hazardous waste industry for the first time.

RECHEM

The entire Rechem team has delivered a creditable result under the harshest of market conditions.

The operating profit of £0.4m achieved reverses the £0.4m loss last year despite a reduction in turnover of £1.6m, accruing from the broadly similar volume of waste processed. The cost reduction programme has proved extremely effective and further measures to reduce the division's cost base are underway.

During the year four cement kilns were authorised to burn liquid hazardous wastes as a fuel substitute at more lenient emission standards than those which apply to hazardous waste incinerators. The House of Commons Select Committee on the Environment published a report on this subject in summer 1995 to which the Government has yet to respond in detail. In addition, Government action has further reduced the flow of imported waste for no environmental benefit. The Government also proposes further restrictions in this area and, therefore, it is essential that it delivers on its promise to raise



UK landfill standards by prohibiting the disposal to land of a broad range of hazardous wastes, particularly solid wastes.

Despite this harsh treatment by the UK Government, Rechem continues to make a substantial contribution to environmental improvement in many areas of the world. In particular, two aid agency funded projects for the removal of redundant pesticides and other chemicals were undertaken in Zanzibar and the Yemen.

Rechem also excels in other areas winning a Gold Award from the Royal Society for the Prevention of Accidents for the fourth consecutive year for its safety performance and the Rechem Environmental Research Laboratory winning National Accreditation of Measurement and Sampling (NAMAS) accreditation for its dioxin and furan analysis.

PROSPECTS

The Group is now exclusively focused on waste management, a market which it profoundly understands. The achievements of the last two years have generated a financial strength which leaves the Group well placed to continue and expand the development activity commenced in 1995/96. This challenge is greeted with enthusiasm and commitment by the entire staff.

M C E Averill
Group Chief Executive

Financial Review

FINANCE FUNCTION

The Finance function is actively involved in all aspects of the business. It supports operating management by the provision of timely and relevant information on performance and developments as well as ensuring high standards in accounting and control. The decentralised computer systems have been upgraded to ensure a continuation of this focus. The management of cash continues to be a major priority in order to provide resources for the Group's expansion plans.

ACCOUNTING POLICY

It continues to be Group policy to follow best practice in prudent accounting, to provide shareholders with relevant information and to comply with the

pronouncements of the Accounting Standards Board, including the early adoption of new standards.

The Directors' report includes full disclosure of Board remuneration and a comprehensive statement on internal controls. The business segmentation analysis has been presented on the basis of the Group's current organisation structure.

TREASURY AND RISK MANAGEMENT

The Group has no foreign currency or interest rate hedging agreements and does not trade in derivatives.

All the Group's debt is denominated in sterling. Its long term debt is a ten year £20m fixed rate (8.93%) private placement. The Group also has a short term

KEY FINANCIAL DATA	1995/96	1994/95	Improvement/ (Decline)
Turnover	£114.2m	£139.1m	(17.9)%
Turnover (Continuing Operations)	£114.2m	£114.9m	(0.6)%
Profit before tax (FRS3 Basis)	£19.5m	£14.5m	34.5%
Profit before tax (before Exceptional Items)	£19.5m	£16.3m	19.6%
Tax Rate (before Exceptional Items)	38%	38%	-
Net debt	£3.2m	£7.3m	N/A
Gearing	5%	11%	N/A
Earnings per share (FRS3 basis)	6.6p	4.2p	57.1%
Earnings per share (before Exceptional Items)	6.6p	5.5p	20.0%
Dividend	3.6p	3.3p	9.1%

£30m multi-option facility. The Group's net cash has been lodged with its clearing bank or placed in the sterling money market.

Exposure to foreign currency liabilities (usually arising from capital equipment purchases) is reduced by retaining revenue earned in foreign currencies or with a series of forward purchases. The total foreign currency retained (mainly DM or US\$) rarely exceeds £1m.

The policy regarding insurance is to take the maximum amount of cover available in the market at reasonable prices. The Group self-insures certain risks up to £100,000.

KEY FINANCIAL DATA

The year ended 30 March 1996 consisted of only continuing operations and there were no exceptional items.

The figures in the table opposite reflect both data based on the FRS3 accounting standard and those which relate to the continuing business and exclude exceptional items as stated. The most relevant comparisons are as shown in the table in bold type.

TURNOVER

Turnover on continuing operations at £114m was substantially the same as the previous year. Waste Services revenue was flat at £96m despite a 17% reduction in landfill volumes. Improved prices and growth both in collection activities and power generation made up this volume shortfall. Rechem had another difficult year with turnover falling by £1.6m to £19m, reflecting the Government's import restrictions on hazardous waste.

OPERATING RESULTS

Operating profit on continuing operations rose by £0.8m to £20.4m. The trading performance of Waste Services improved by £0.5m, mainly due to higher

profits in collection and the increased capacity of landfill gas power generation, which more than offset reduced landfill volumes. Landfill void costs have risen due to the amortisation of the more expensive landfill void acquired from Hanson PLC in 1993, the payment of royalties to Hanson PLC and an increase of £1.3m in the aftercare provisions relating to the Group's long term liability at landfill sites. These adverse 1993 Hanson void related effects will become more pronounced in the current year. Prices are expected to rise to recover these costs and the Group is prepared to accept some reduction in volumes as a result.

The £0.8m turnaround at Rechem from a loss of £0.4m to a profit of £0.4m was achieved, despite lower prices and reduced gross margins, by the successful major cost cutting programme. Rechem was a substantial generator of cash in the year under review and it is expected to continue to be so in 1996/97.

The central service costs increased by £0.4m as a result of the increased activity associated with the development of the Group.

DISPOSAL OF CONSTRUCTION SERVICES

As outlined in last year's report, the construction services business was sold on 12 April 1995, to Jarvis plc for a nominal consideration. This resulted in a loss on disposal of £4.4m of which £4.2m was provided in last year's accounts.

ACQUISITIONS

The Scottish dry waste business of Leigh Interests plc was purchased for £5.2m in March 1996. The fair value of assets was £0.6m. The goodwill arising of £4.6m was written off to reserves. Other minor acquisitions and price adjustments on prior year acquisitions resulted in additional goodwill write offs of £0.1m. Since the year end there have been three small acquisitions: Goodwin's Mini Skips (Hitchin), D & D Environmental (Glasgow) and a controlling interest in Greenacres (Pembrokeshire).

Financial Review

continued

TAXATION

The tax rate charge of 38% reflects the non-deductibility of landfill void amortisation which adds approximately 4% to the tax rate. The Group's balance sheet reflects a 100% deferred tax provision at Rechem and a provision of about 33% at Waste Services in line with the SSAP15 requirement for partial provision of deferred tax. If full provisioning were imposed, as proposed by the recent ASB discussion paper, an additional provision of £1.4m would be required.

NET DEBT

The Group net debt has improved by £4.1m. This is despite the cash outflows of £5.2m for the purchase of Leigh's Scottish dry waste business and £3.0m on the sale of construction services. This good performance was achieved from continuing tight control of working capital and capital expenditure. Net interest cost has dropped from £2.2m to £0.8m which reflects the profile of the Group's net debt over the two year period. The interest cover is a healthy 24 times.

EARNINGS PER SHARE (EPS)

This year's EPS on the FRS3 basis amounts to 6.6p which shows an increase of 57% versus the equivalent 1994/95 figure of 4.2p. EPS calculated on a more comparable basis excluding exceptional items shows a 20% increase from 5.5p to 6.6p. Note 10 to the accounts details the derivation of these figures.

DIVIDEND

The proposed final dividend of 2.4p net per share reflects a continuation of the policy of a 1:2 ratio of interim to final dividend. The proposed annual dividend of 3.6p net per share is covered 1.8 times.

INVESTMENT

During the year, the Group has spent £12m on capital expenditure excluding the Leigh acquisition which represents 84% of its depreciation charge. Capital expenditure is expected to rise in 1996/97 and will include the next tranche of the landfill gas power generation projects and investments in Materials Recycling Facilities.

GOING CONCERN

The Directors, having reviewed the Group's cash needs and its available borrowing facilities, consider that the Company and the Group, barring unforeseen circumstances, have adequate resources to continue to trade for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements contained in the report.



D J Downes
Group Finance Director

Corporate Governance

Code of Best Practice

The Board has complied fully throughout the year with the provisions of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) for which guidance has been formally issued. Our auditors, Price Waterhouse, have reported to the Board that in their opinion the directors' statements on internal financial controls on page 21 and on going concern on page 12, have provided the disclosures required in paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and is consistent with the information which came to the auditors' attention as a result of their audit work on the financial statements; and that the directors' statement above appropriately reflects the Group's compliance with the other paragraphs of the Code specified for their review. The auditors are not required by the Code to perform the additional work necessary to, and do not, express any opinion on the Group's corporate governance procedures, the effectiveness of the system of internal financial control or the ability to continue in operational existence. The details of the two Board committees required by the code are as follows.

Audit Committee

The Audit Committee is formally constituted with written terms of reference. It is chaired by Mr I M Clubb and comprises the non-executive directors (see page 14). The committee meets at least three times a year. The external auditors are regularly invited to attend meetings and the committee has access to their advice without the presence of executive directors. The executive board members may be invited to attend meetings. The Audit Committee has authority to examine any matters relating to the financial affairs of the Group and to the Group's external audit. This includes the appointment and fees of the external auditors, the nature and scope of the audit including the management letter, reviews of the half-year and annual financial statements, internal control procedures, accounting policies, compliance with accounting standards and such other related functions as the Board may require.

Remuneration Committee

The Remuneration Committee has complied fully throughout the year with Section A of the Best Practice Provisions (the Greenbury Report) annexed to the Listing Rules issued by the London Stock Exchange in framing its remuneration policy and has given consideration to the matters raised in Section B of these Provisions.

The Remuneration Committee is chaired by Mr A G L Alexander and comprises the non-executive directors (see page 14). The Committee recommends to the Board the terms and conditions including annual remuneration of the executive directors. The members of the committee have access to independent advice.

REPORT OF THE REMUNERATION COMMITTEE

It is the aim of the committee to reward executive directors competitively having regard to remuneration paid to the senior management of comparable public companies. The annual bonuses and benefits in kind for the executive directors are not pensionable except in the case of Mr G J Newman whose pensionable salary is calculated including bonus, medical insurance and car benefit. In the case of executive directors subject to the Inland Revenue pensions cap, a funded unapproved retirement benefit scheme has been introduced to compensate for the reduction in pension entitlement. Short term incentives are provided to all salaried employees including executive directors by bonuses linked to the achievement of annual targets. Longer term incentives are provided to senior management including executive directors by share option schemes and to all employees with two years service by savings related share option schemes, the details of which are set out in note 4 to the accounts. The full disclosure of directors remuneration and share options as presently recommended by the Greenbury Report is set out in note 5 to the accounts.

No director has a service contract in excess of two years. Mr Waddell, who is being proposed for re-election, has a service contract terminable on 6 months notice. Mr Biffa, who is also being proposed for re-election, has no contract.

Directors

At 5 June 1996

***G H WADDELL, BA, MBA**

Chairman

Chairman of Fairway Group Plc
Chairman of Mersey Docks and
Harbour Company
Director of Cadbury Schweppes PLC
Joined the Board in 1992

***A G L ALEXANDER, FCA**

Director of Hanson PLC
Director of Inchcape PLC
Director of Misys plc
Joined the Board in 1986

**M C E AVERILL, BSc(Eng) Hons,
MBA, ARSM**

Group Chief Executive
Joined the Group in 1989

***R C BIFFA, MInstWM**

Deputy Chairman
Joined the Board in 1991

***I M CLUBB, CA**

Chairman of Central Transport
Rental Group PLC
Chairman Elect of B Elliott plc
Director of Fenchurch PLC
Deputy Chairman of
First Choice Holidays PLC
Joined the Board in 1994

**D J DOWNES, BSc(Eng) Hons,
MBA, MCT**

Group Finance Director
Joined the Group in 1993

**G J NEWMAN, BSc(Eng) Hons.
C ENG, MICE, MInstWM**

Group Commercial Director
Joined the Group in 1986

**Non Executive Directors*

Board Audit Committee

I M Clubb (Chairman)
A G L Alexander
R C Biffa
G H Waddell

**Board Remuneration
Committee**

A G L Alexander (Chairman)
R C Biffa
I M Clubb
G H Waddell

Secretary

S B J Hodge, CA

Advisers

Joint Financial Advisers:

Hoare Govett Corporate Finance
Limited
Kleinwort Benson Limited

Bankers:

The Royal Bank of Scotland plc

Solicitors:

Dickson Minto WS

Auditors:

Price Waterhouse

Registrar and Transfer Office

The Royal Bank of Scotland plc
Securities Services – Registrars
P O Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Tel: 0131 556 8555

Tel: 0131 442 4924

Subsidiary and Associated Undertakings

At 30 March 1996

Subsidiary Undertakings

The Company held 100% of the issued share capital of the following trading subsidiary companies:

	Nature of business
Shanks & McEwan (Northern) Limited*	Waste management
Shanks & McEwan (Midlands) Limited*	Waste management
Shanks & McEwan Limited*	Property services
Shanks & McEwan (Southern Waste Services) Limited*	Waste management
Rechem International Limited*	Waste management
Land Fill Gas Limited*	Energy services
Shanks & McEwan (Camden) Limited*	Property services

A full list of subsidiary companies, all of which have been consolidated, will be annexed to the next annual return to the Registrar of Companies.

Associated Undertaking

The following company is an associated undertaking of the Group:

	Issued share capital	Class of shares	Proportion held	Nature of business
Norweb Land Fill Gas Limited*	£20,002	Ordinary	50%	Energy services

*held by a subsidiary company

Environmental Advisory Board

The Environmental Advisory Board was established by Shanks & McEwan to help the Group to operate to the highest environmental standards and to advise on environmental issues. The EAB reviews the operations of the Group, recommends further improvements which can be made and takes a robust and independent stance on the implementation of Shanks & McEwan's Corporate Environmental Policy. Under the Chairmanship of the Earl of Cranbrook, the Board's membership consists of environmental specialists of high standing.

Membership of the Environmental Advisory Board:

The Earl of Cranbrook (Chairman): MA (Cambridge), PhD (Birmingham), DSc (Hon) (Aberdeen), C Biol, Hon FIWM, Hon FCIWEM, DL: Chairman of English Nature.

Professor James Bridges: BSc, PhD, DSc (London), FRSC, CChem, FIBiol, CBiol, FIOSH, MInstEnvSci, FRSA, MRC Path: Professor of Toxicology, Research Director of the Robens Institute of Industrial and Environmental Health and Safety.

Dr Keith Duff: BSc Geology (Cardiff), PhD (Leicester), Chartered Geologist, FGS: Chief Scientist for English Nature.

Ms Julie Hill: MSc (London School of Economics): Director of The Green Alliance.

Professor William Howarth: BA (Keele), LL M (Wales), FRSA, FCIWEM: Cripps Harries Hall/Saur (UK) Professor of Environmental Law, University of Kent at Canterbury.

Mr Graham Searle: BSc (Hons), FGS: Environmental Consultant.

Professor Dr-Ing Rainer Stegmann: Professor of Solid Wastes Management at the Technical University of Hamburg.

Mr G John Newman: BSc (Hons) Eng (London), CEng, MICE, MInsWM: Group Commercial Director, Shanks & McEwan Group PLC.

Mr Michael Philpott: AKC, BSc (Hons) Eng Civil Engineering (London), CEng MICE, MInsWM: Technical Director, Shanks & McEwan (Southern Waste Services) Limited.

**During 1995 two members resigned from the Board: Graham Searle, through illness and Michael Philpott, who has become Chief Executive of the Institute of Wastes Management. Julie Hill joined the EAB in October 1995.*

Extract from the 1995 Report of the Environmental Advisory Board

'I am delighted to present the seventh annual report of the Shanks & McEwan Group PLC Environmental Advisory Board. Once again, this summary account of our affairs during the past year illustrates the Board's role as an independent provider of advice on a wide range of environmental issues affecting the waste management activities of Shanks & McEwan. As usual some 600 copies will be sent to people who may be interested to read our report. Further copies are available on request.....' *Cranbrook*

Report of the Directors

The Directors present their annual report together with the audited accounts for the year ended 30 March 1996.

1 Annual General Meeting

The notice of the Annual General Meeting, is set out on pages 51 and 52. The business of the meeting includes, in addition to routine ordinary business, a resolution to renew the directors' authority to allot equity securities for cash, other than to existing shareholders pro-rata to their holdings, which is due to expire on 2 November 1996, to enable the directors, at any time until 24 October 1997 to allot equity securities wholly for cash up to an aggregate nominal amount of £920,964. This limited disapplication will allow the directors to allot up to 9,209,640 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 5 June 1996. The directors consider it advisable that they continue to have the power to make allotments of shares for cash to persons other than existing shareholders.

As a further item of special business, resolutions will be proposed to approve the amendments to the Shanks & McEwan Approved Executive Share Option Scheme 1995 outlined in paragraph 2 below and to adopt the Unapproved Schedule to that Scheme, the terms of which are also outlined in paragraph 2 below.

2 Amendment to Approved Executive Share Option Scheme 1995 ('the Scheme')

It is proposed that amendments be made to the Scheme, approved at last year's AGM, to take account of the recent changes made by the Finance Act 1996. The Finance Act 1996 limits to £30,000 the market value of all options over shares in the Company granted to any individual under Inland Revenue approved schemes (other than a savings-related share option scheme). The rule limiting the market value of such options granted to an individual to the greater of £100,000 or four times salary will be replaced by the £30,000 limit.

In addition, in order to enable your directors, where they consider it appropriate to grant unapproved options above this £30,000 limit, it is also proposed to add a schedule to the Scheme ('the Schedule') under which unapproved options may be granted to individuals who have already reached this limit. Options granted under the Schedule will be subject to the rules of the Scheme other than the rule specifying the £30,000 limit and other rules which are only applicable to approved options.

These amendments will have no effect on the overall limit on the number of shares that may be granted under option to an individual under the Scheme. Copies of the Scheme, together with the proposed amendments and the Schedule, will be available for inspection at the registered office of the Company at 22 Woodside Place, Glasgow G3 7QY and at the offices of Dickson Minto WS, Royal London House, 22/25 Finsbury Square, London EC2A 1DS during normal business hours, on any weekday (Saturdays and public holidays excluded) from the date of this report up to and including the date of the annual general meeting, and at the Glasgow Hilton, 1 William Street, Glasgow on 25 July for at least 15 minutes prior to and during the meeting.

Your directors believe that the amendments to the Scheme outlined above and the adoption of the Schedule are in the best interests of the shareholders as a whole. Your directors unanimously recommend shareholders to vote in favour of these amendments and the adoption of the Schedule, as they intend to do in respect of their own beneficial holdings, at the Annual General Meeting.

Report of the Directors

continued

3 Principal Activities and Group Results

The principal activities of the Group, significant changes in those activities and an indication of likely future developments are described in the Chairman's Statement on pages 2 and 3 and in the Operating and Financial Reviews on pages 4 to 12. The Group Profit and Loss Account appears on page 26 and note 1 to the accounts shows the contribution to turnover and profits made by the different classes of the Group's business. The Group profit after tax amounted to £12.1m.

4 Dividends

The directors recommend that a final dividend of 2.4 pence per share be paid on 2 August 1996 to ordinary shareholders whose names appear in the register at close of business on 16 July 1996. That dividend together with the interim dividend of 1.2 pence per share already paid, will make a total dividend on the ordinary shares of 3.6 pence (1995: 3.3 pence).

5 Directors

The composition of the Board of Directors, including short biographical notes, at the date of this report is shown on page 14. All of the Directors served on the Board throughout the year under review. In terms of his Contract of Service with the Company, Mr Waddell will retire at the Annual General Meeting but, being eligible, offers himself for re-election at that Meeting. Mr Waddell has a service contract with the Company, which was amended during the year to reflect the 'non executive' status of his role as Chairman. Mr R C Biffa and Mr G J Newman retire by rotation at the Annual General Meeting. Mr Biffa will offer himself for re-election. Details of the Directors' Interests are shown in note 5 to the accounts.

6 Corporate Governance

The company's compliance with the Code of Best Practice of the Committee on the Financial Aspects of Corporate Governance is reported on page 13.

7 Internal Control

The Directors' responsibilities in respect of the accounting records, the safeguarding of assets, and the prevention and detection of fraud and other irregularities are set out in the Statement of Directors' Responsibilities for Preparation of the Financial Statements and Internal Financial Control on page 21. The Group has an established system of internal control which the Directors have reviewed. This system includes:

- i) formal written policies and procedures applicable to all business units with procedures for reporting compliance therewith, for identifying weaknesses and for taking corrective action;
- ii) comprehensive budgets, requiring Board and business sector approval, reviewed and revised on a regular basis, with performance measured against them and explanations sought for significant variances;
- iii) control over capital expenditure and investment programmes, and cash authorisation limits supplemented by post investment appraisals and daily cash reviews;
- iv) appointment of experienced and professional staff of the necessary calibre to meet their responsibilities;
- v) an internal Quality Assurance department which undertakes periodic examination of business processes and ensures management follow up recommendations to improve controls; and
- vi) an Audit Committee comprising non-executive Directors, the responsibilities of which are set out on page 13.

8 Notifiable Interests

As at 5 June 1996, the Company had been notified of the following interests, excluding interests of Directors, of more than 3 per cent of the ordinary share capital of the Company

	Number of Shares	Percentage
FMR Corp and Fidelity International Ltd	18,381,850	9.98
The Prudential Assurance Company Limited	11,458,700	6.22
The Shell Pensions Investments	9,517,400	5.17
Norwich Union Life Insurance Society	5,611,986	3.05

The interests of the Directors are shown in note 5 to the accounts.

9 Share Capital

During the year ended 30 March 1996, 2,336 ordinary shares were issued. From that date until 5 June 1996 no further shares have been issued. At 30 March 1996 and at the date of this report the authorised ordinary share capital was and is £25,000,000 represented by 250,000,000 ordinary shares of 10 pence each. At 30 March 1996, 184,192,807 ordinary shares were in issue leaving an unissued balance of 65,807,193 ordinary shares of 10 pence each, representing 26% of the authorised ordinary share capital.

At the Annual General Meeting of the Company held on 26 July 1993 an ordinary resolution was passed authorising the Directors to allot unissued shares up to a maximum aggregate nominal amount of £6,593,838. This authority expires on 25 July 1998.

10 'CREST' Uncertificated Trading

CREST will be a voluntary system of trading in shares for all concerned. Whilst the Board intends to make the ordinary shares in the Company eligible for uncertificated trading through CREST, it will be up to each shareholder to decide whether or not to hold and transfer shares in uncertificated form in CREST. Shareholders will be able, if they wish, to continue to hold their shares in the traditional way, with share certificates. A leaflet on CREST is enclosed. Formal notification of the directors' resolution relating to the CREST system is on page 49.

11 Research and Development

The Group spent £258,000 (1995: £252,000) on research and development in the past year, which was charged to profits. Investigations again covered a variety of waste-related subjects, including alternative methods of leachate treatment and of testing permeability, and alternative lining materials. The co-funded study of clay minerals has moved forward quickly and is producing interesting and potentially valuable results. Investigation of the use of geophysical techniques in landfill site assessment has also continued during the year.

The leachate treatment studies begun in 1994 are complete and it is clear that the company will be able to use variants of conventional techniques to achieve the exacting standards of leachate treatment required into the next century. Research into the impact of leachates on clay minerals was also completed during the year and the results are assisting company policy, and engineering and operating practice.

New projects started during the year include an investigation of the estimation of landfill gas potential. In addition, the Group will be providing input to at least two of the four projects accepted for the EPSRC's Waste & Pollution Management research programme. The Group has been strengthening its links with eminent academics associated with waste management, as well as the relevant research councils (BBSRC, EPSRC, and NERC) and Technology Foresight, and continued to develop post-graduate projects at all levels which will provide substantial benefit at relatively low cost.

Report of the Directors

continued

12 Employment Policies

It is the Group's policy that all employees should be informed and consulted on all matters of concern to them, and also to ensure that they are made aware of the financial, economic and operational factors, affecting their performance. Communications have been further improved as part of divisional continuous improvement strategies, and both formal and informal meetings with employees or their representatives take place at the individual locations. A regular employee newspaper, *SME World*, is widely distributed and each division produces its own internal newsletter.

13 Health and Safety

The Group and the Board of Directors are firmly committed to the provision of safe working conditions for all employees. Health and Safety policy is reviewed regularly, together with respective working practices and procedures, which are an integral part of the Quality Assurance System, ensuring high standards and consistency throughout all companies.

Health and Safety is organised and managed within the divisional operating companies. Policy and aspects of Health and Safety development are co-ordinated by a Group Board Director. Emphasis is given to conforming with best practice and to staff training, motivation and systems. Divisional Health and Safety statistics are consolidated within an annual report and distributed to staff, stakeholders and regulators. In 1995/96 the Group's performance was marked by three Gold Awards and one Silver Award from RoSPA.

14 Payment of Suppliers

It is the Group's payment policy for the year ending 29 March 1997, in respect of all suppliers, to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders. The Group will abide by these terms of payment.

15 Charitable and Political Donations

During the period donations made by the Group for charitable purposes amounted to £31,000 (1995: £23,000). No donations were made for political purposes as defined by the Companies Act 1985.

16 Status of the Company

The Directors believe that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988 and that there has been no change in that status since 30 March 1996.

17 Registered Auditors

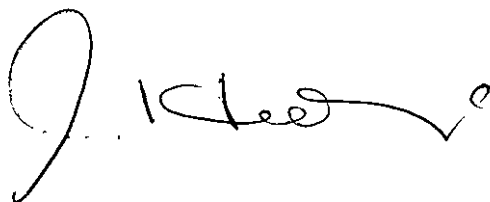
Price Waterhouse have expressed their willingness to be re-appointed as auditors in accordance with the provisions of the Companies Act 1985.

By order of the Board

S B J Hodge

Secretary

5 June 1996



Directors' Responsibilities for Preparation of the Financial Statements and for Internal Financial Control

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

In preparing the financial statements on pages 23 to 47 the Directors have:

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

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

The Directors are also responsible for the Group's system of internal control. A selection of the most important processes in the control environment are detailed in the Directors' Report on page 18. The system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss.

Auditors' Report to the Shareholders

To the Shareholders of Shanks & McEwan Group PLC

We have audited the financial statements on pages 26 to 47 which have been prepared under the historical cost convention, and the accounting policies set out on pages 23 to 25.

Respective responsibilities of Directors and Auditors

As described on page 21 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 March 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse 

Chartered Accountants
and Registered Auditors
London

5 June 1996

Accounting Policies

Basis of presentation

The financial statements are prepared on the historical cost basis and comply with applicable UK accounting standards. Where changes in presentation are made comparative figures are adjusted accordingly.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Shanks & McEwan Group PLC and all its subsidiary undertakings (subsidiaries) together with their share of the results of associated undertakings. The results of subsidiaries acquired or sold during the year are included in the consolidated financial statements up to, or from, the date control passes.

Associated undertakings

Associated undertakings are undertakings in which the Group has a long term participating interest and over which it exercises a significant influence. The Group's share of associated undertakings' profit and taxation are included in the consolidated profit and loss account. Investments in associated undertakings are shown in the consolidated balance sheet at the amount of the Group's share of their net assets at the year end.

Discontinued operations

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and its sale is completed prior to the approval of the financial statements.

Turnover

Turnover represents the invoiced value of waste streams processed and other services provided, excluding value added tax. Turnover is recognised when processing occurs or the service is provided.

Fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation, except for freehold land which is not depreciated, and less permanent reductions in value.

(a) Buildings, plant and equipment

Depreciation is provided on these assets to write off their cost by equal annual instalments over their expected useful economic lives.

The expected lives are:

Buildings	25 to 50 years
Plant and equipment	3 to 20 years

(b) Landfill sites

Acquisition and commissioning costs are capitalised and written off over the operational life of each site based on the amount of void space consumed.

(c) Capitalisation of interest

The interest attributable to the financing of separately identifiable major capital projects prior to their date of completion is capitalised as part of the cost of the assets.

Accounting Policies

continued

Leased assets

(a) 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 tangible fixed assets at the total of the capital elements of payments during the lease term and the corresponding obligation is included in creditors. Depreciation is provided to write off the assets over the shorter of the lease term or expected useful life.

(b) Operating leases

All leases other than finance leases are treated as operating leases. Rentals paid under operating leases are charged to the profit and loss account in the year to which they relate. The obligation to pay future rentals on operating leases is shown in note 24.

Goodwill

Goodwill arising on consolidation is written off directly to reserves in the year of acquisition. Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. If the consideration for companies acquired includes the issue of shares, relief is taken when available, under Section 131 of the Companies Act 1985. This allows the difference between the fair value of the shares issued and their nominal value to be used for the write off of goodwill on consolidation, so that the shares issued are recognised at their nominal value.

Where the fair value of net assets acquired exceeds the consideration, the balance arising is treated as a capital reserve against which goodwill on other acquisitions is written off.

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

Stocks

Stocks are valued at the lower of cost (on a first in first out basis) and net realisable value.

Exceptional items

Exceptional items are those items that need to be disclosed because of their size or incidence. Such items are included in operating profit unless they represent profits or losses on the sale or closure of an operation, costs of a fundamental reorganisation or restructuring, or profits or losses on the disposal of fixed assets. In these cases, the items are shown separately in the profit and loss account after operating profit.

Deferred taxation

Provision is made for deferred tax because of timing differences between the treatment of certain items for taxation and accounting purposes. Taxation is provided only to the extent that it is thought reasonably probable that a liability will arise in the foreseeable future as a result of these differences.

Environmental provisions

Provision is made for post closure costs during the operating life of disposal 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 and not charged to the provision.

Site restoration provisions

Provision is made for closure costs over the operating life of disposal sites based on the quantity of waste deposited in the year. The costs of final capping and covering are charged to the provision when incurred.

Government grants

Government grants are released to profit evenly over the expected useful lives of the assets to which they relate.

Unprocessed waste

The provision for unprocessed waste is calculated at the higher of sales value and process cost.

Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the expected working lives of the pension scheme members currently in service. Any differences between the actuarial valuation of the scheme and the value of assets in the scheme are also charged or credited to the profit and loss account over the expected working lives of the scheme members. Differences between the amount charged in the profit and loss account and payments to the scheme are treated as assets or liabilities in the balance sheet.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Foreign currencies

Foreign currency assets and liabilities are translated into sterling at the year end exchange rates or at the rate contracted if forward cover has been arranged. Transactions in foreign currencies are recorded at the average rate of exchange for the year or at the rate of exchange at the date of the transaction. Exchange differences on these and any other trading transactions in foreign currency are dealt with in the profit and loss account.

Consolidated Profit and Loss Account

Year ended 30 March 1996

		1996	1996	1995 Before Exceptional Items	1995 Exceptional Items	1995 Total
	Note	£'000	£'000	£'000	£'000	£'000
Turnover	1&2					
Continuing operations			114,235	114,896	-	114,896
Discontinued operations			-	24,172	-	24,172
			114,235	139,068	-	139,068
Operating Profit	1,2&3					
Continuing operations			20,515	19,529	-	19,529
Discontinued operations			-	(988)	1,886	898
			20,515	18,541	1,886	20,427
Loss on disposal of operations	6	(4,414)				
Less 1995 provision		4,250				
			(164)	-	(3,678)	(3,678)
Profit (loss) before interest			20,351	18,541	(1,792)	16,749
Interest	7		(844)	(2,230)	-	(2,230)
Profit (loss) on ordinary activities before taxation			19,507	16,311	(1,792)	14,519
Taxation	8		(7,419)	(6,198)	(612)	(6,810)
Profit (loss) on ordinary activities after taxation	11		12,088	10,113	(2,404)	7,709
Dividends paid and proposed	9		(6,630)			(6,078)
Retained profit transferred to reserves	21		5,458			1,631
Earnings (loss) per share	10		6.6p	5.5p	(1.3)p	4.2p

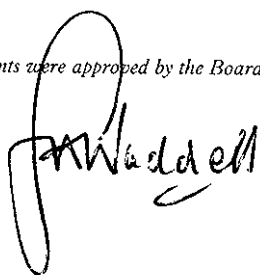
Consolidated Balance Sheet

At 30 March 1996

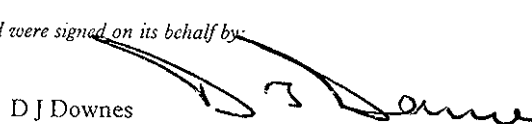
	Note	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	12	93,850	95,433
Investments	13	176	198
		<u>94,026</u>	<u>95,631</u>
Current assets			
Stocks	15	1,348	1,320
Debtors	16	26,633	33,847
Short term deposits and cash		16,696	12,922
		<u>44,677</u>	<u>48,089</u>
Creditors: amounts falling due within one year			
Borrowings	17	19	348
Other creditors	18	31,934	36,675
		<u>31,953</u>	<u>37,023</u>
Net current assets		<u>12,724</u>	<u>11,066</u>
Total assets less current liabilities		<u>106,750</u>	<u>106,697</u>
Creditors: amounts falling due after more than one year			
Borrowings	17	19,859	19,869
Other creditors	18	204	261
Provisions for liabilities and charges	19	16,871	17,522
		<u>69,816</u>	<u>69,045</u>
Capital and reserves			
Called up share capital	20	18,419	18,419
Share premium account	21	34,357	34,357
Profit and loss account	21	17,040	15,055
Merger reserve	21	-	1,214
		<u>69,816</u>	<u>69,045</u>

The Financial Statements were approved by the Board on 5 June 1996 and were signed on its behalf by:

G H Waddell
Chairman



D J Downes
Group Finance Director



Company Balance Sheet

At 30 March 1996

	Note	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	12	128	546
Investments	13	<u>15,605</u>	<u>22,736</u>
		15,733	23,282
Current assets			
Debtors	16	<u>38,518</u>	<u>42,186</u>
Investment in subsidiary undertaking at cost		<u>1,129</u>	<u>1,129</u>
Short term deposits and cash		<u>35,920</u>	<u>56,996</u>
		75,567	100,311
Creditors: amounts falling due within one year			
Borrowings	17	<u>19</u>	<u>348</u>
Other creditors	18	<u>8,316</u>	<u>17,651</u>
		8,335	17,999
Net current assets		67,232	82,312
Total assets less current liabilities		82,965	105,594
Creditors: amounts falling due after more than one year			
Borrowings	17	<u>19,859</u>	<u>19,869</u>
Provisions for liabilities and charges	19	<u>1,050</u>	<u>24,961</u>
		62,056	60,764
Capital and reserves			
Called up share capital	20	<u>18,419</u>	<u>18,419</u>
Share premium account	21	<u>34,357</u>	<u>34,357</u>
Profit and loss account	21	<u>9,280</u>	<u>7,988</u>
		62,056	60,764

The Financial Statements were approved by the Board on 5 June 1996 and were signed on its behalf by:

G H Waddell
Chairman

D J Downes
Group Finance Director

Consolidated Cash Flow Statement

Year ended 30 March 1996

	Note	1996 £'000	1995 £'000
Net cash inflow from operating activities	22(a)	34,597	40,038
Returns on investments and servicing of finance			
Interest paid		(990)	(1,926)
Interest element of finance lease rental payments		(42)	(269)
Dividends paid		(6,262)	(3,868)
Net cash outflow from returns on investments and servicing of finance		(7,294)	(6,063)
Tax paid		(4,555)	(1,579)
Investing activities			
Purchase of tangible fixed assets		(11,853)	(10,862)
Sale of subsidiary undertaking and business	22(c)	(3,042)	1,100
Purchase of business	22(d)	(5,254)	-
Sale of tangible assets		1,533	943
Net cash outflow from investing activities		(18,616)	(8,819)
		4,132	23,577
Financing			
Capital element of finance lease rental payments	22(e)	358	1,281
Net cash outflow from financing		358	1,281
Increase in cash and cash equivalents	22(b&f)	3,774	22,296
		4,132	23,577

Reconciliation of Movements in Shareholders' Funds

Year ended 30 March 1996

	Note	1996 £'000	1995 £'000
Profit on ordinary activities after taxation		12,088	7,709
Dividends	9	(6,630)	(6,078)
Goodwill written off to reserves	21	(4,687)	-
Net addition to shareholders' funds		771	1,631
 Opening shareholders' funds		 69,045	 67,414
 Closing shareholders' funds		 69,816	 69,045

Statement of Total Recognised Gains and Losses

The profit for the year for the Group and the Company represents the total recognised gains and losses.

Note of Historical Cost Profits and Losses

There are no material differences between the profit on ordinary activities for the year as disclosed in the profit and loss account of the Group and the Company and the results stated on an unmodified historical cost basis.

Notes to the Accounts

1 Segmental analysis

(a)	Turnover		Operating profit		Net assets	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Waste Services	95,696	96,156	22,088	21,537	56,613	57,970
Rechem	19,038	20,640	418	(388)	26,910	29,716
Central Services			(1,991)	(1,620)		
Intersegmental turnover	(499)	(1,900)				
Continuing operations	114,235	114,896	20,515	19,529	83,523	87,686
Construction Services (discontinued - note 2)	-	24,172	-	(988)	-	360
Exceptional items			-	1,886		
			-	898		
	114,235	139,068	20,515	20,427	83,523	88,046
Unallocated net assets:						
Assets under the course of construction					1,754	1,359
Other					(15,461)	(20,360)
					69,816	69,045

Other unallocated net liabilities include net borrowings, dividends, and debtors and creditors relating to taxation.

(b) Geographical analysis of turnover	1996 £'000	1995 £'000
Turnover by customer location:		
United Kingdom	108,031	130,459
Europe	4,986	7,033
Rest of World	1,218	1,576
	114,235	139,068

All turnover derives from companies based in the United Kingdom as there are no overseas trading subsidiaries.

Turnover between segments is not material.

Notes to the Accounts

continued

2 Continuing and discontinued operations

Discontinued operations represent the Construction Services operation which was disposed of on 12 April 1995 (see note 6 further).

	1996	1995 Continuing Operations	1995 Discontinued Operations	1995 Total
	£'000	£'000	£'000	£'000
Turnover	114,235	114,896	24,172	139,068
Cost of sales	<u>(81,031)</u>	<u>(80,743)</u>	<u>(21,526)</u>	<u>(102,269)</u>
Gross profit	33,204	34,153	2,646	36,799
Administrative expenses	(12,863)	(14,802)	(1,748)	(16,550)
Other operating income	<u>174</u>	<u>178</u>	<u>-</u>	<u>178</u>
Operating profit	20,515	19,529	898	20,427
Profit (loss) on disposal of operations	<u>(164)</u>	<u>572</u>	<u>(4,250)</u>	<u>(3,678)</u>
Profit (loss) before interest	<u>20,351</u>	<u>20,101</u>	<u>(3,352)</u>	<u>16,749</u>

1995: Cost of sales of discontinued operations includes exceptional profits of £1,886,000 (Note 6 refers)

3 Operating profit

This is stated after charging:

	1996 £'000	1995 £'000
Depreciation of tangible fixed assets		
- owned	13,975	12,219
- held under finance leases and hire purchase contracts	111	1,148
Hire of plant and machinery - operating leases	4,877	7,415
Property rents payable	761	1,030
Research and development	258	252
Auditors' remuneration - audit fees	96	105
- non audit related fees	<u>233</u>	<u>56</u>
and after crediting:		
Government grants	56	57
Share of profits of associated undertakings	137	94
Net profit on disposal of fixed assets	661	269
Foreign exchange gains	<u>10</u>	<u>119</u>

4 Employees

The average number of persons employed by the Group during the year was as follows:

	1996 Number	1995 Number
Waste Services	818	813
Rechem	174	206
Central Services	<u>17</u>	<u>21</u>
	1,009	1,040
Discontinued operations	<u>-</u>	<u>177</u>
	<u>1,009</u>	<u>1,217</u>

The total remuneration of all employees comprised:

	£'000	£'000
Wages and salaries	21,103	24,896
Employer's social security costs	1,842	2,012
Employer's pension costs	<u>947</u>	<u>1,118</u>
	<u>23,892</u>	<u>28,026</u>

The Group operates a Savings Related Share Option Scheme and an Executive Share Option Scheme. The full-time executive directors are eligible to participate in both Schemes.

Savings Related Share Option Schemes

Under the terms of the Savings Related Share Option Schemes for employees, options may be granted up to August 2005 to acquire up to 10% of the issued equity share capital of the Company (including options granted under the Executive Share Option Schemes). Options are granted at the higher of the nominal value and an amount determined by the Directors being not less than 80% of the market value. At 30 March 1996 options outstanding amounted to 2.1 million shares.

Executive Share Option Schemes

Under the terms of the Executive Share Option Schemes, options may be granted up to August 2005 to acquire up to 5% of the issued equity share capital. Options are granted at the higher of the nominal value or the market value. At 30 March 1996 options outstanding amounted to 2.0 million shares.

Pension Commitments

The Group also operates pension arrangements providing benefits based on final pensionable salary. The assets are held separately from those of the Group and are invested by professional investment managers.

Pension costs are determined by a qualified actuary on the basis of triennial valuations using the Projected Unit Method. The most recent valuations were at 6 April 1995.

Notes to the Accounts

continued

4 Employees (continued)

Pension Commitments (continued)

The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and to the rates of increase in salaries. It was assumed that the investment returns would be 2% p.a. higher than the growth in pensionable pay. It was further assumed that pensions in payment under the Shanks & McEwan Group PLC Retirement Benefits Scheme would increase at 3% p.a. compound.

The most recent actuarial valuation showed that the market value of the Retirement Benefits Scheme's assets was £20.4 million and that the actuarial value of those assets represented 110% of the benefits that had accrued to members, after allowing for expected future increases in earnings. For the Retirement Benefits Scheme for Operatives the corresponding figures were £2.05 million and 109% respectively. The actuarial surpluses are being spread over the average remaining service lives of the current employees.

The Group pensions charge for the year was £665,000 (1995: £1,118,000).

5 Directors

The remit and composition of the Remuneration Committee, together with the criteria on which they set Directors Remuneration, are set out on page 13.

(i) Emoluments

	1996 £'000	1995 £'000
The total emoluments of the directors, including pension contributions, were as follows:		
Fees	134	49
Remuneration including bonuses	773	576
Pension scheme costs	29	37
	<u>936</u>	<u>662</u>

The following table shows a breakdown of the remuneration of the individual directors excluding pension contributions to the Group scheme, for the period of time during which they were directors of the Group:

	Basic salary		Performance related bonus		Other		Total	
	1996	1995	1996	1995	1996	1995	1996	1995
G H Waddell	85,000	75,000	-	-	-	-	85,000	75,000
A G L Alexander	15,000	13,500	-	-	-	-	15,000	13,500
M C E Averill	150,000	111,255	43,500	46,250	159,006	28,169	352,506	185,674
R C Biffa	15,000	13,125	-	-	-	-	15,000	13,125
I M Clubb	15,000	7,615	-	-	-	-	15,000	7,615
D J Downes	135,000	115,008	39,150	42,550	99,900	9,018	274,050	166,576
D M Munro	3,750	14,625	-	-	-	-	3,750	14,625
G J Newman	105,000	100,008	30,450	37,000	11,242	11,381	146,692	148,389

5 Directors (continued)

- (a) The Chairman and non-executive directors do not participate in the annual bonus plan and do not receive any pension contributions from the Group.
- (b) The executive directors are members of the Group pension scheme. M C E Averill and D J Downes are limited by the Inland Revenue earnings cap on approved pension benefits. A charge was made during the year in respect of the Group pension scheme equivalent to 9.5% (1995: 11.4%) of the pensionable salary (except where capped) of the executive directors in line with the recommendation of the most recent actuarial valuation of the scheme (see note 4 further). M C E Averill and D J Downes have been provided with comparable unapproved benefits for basic salary in excess of the cap, the costs of which are included in other remuneration above and detailed below.
- (c) The analysis of other remuneration in the table above is as follows:

	Pension Payments		Pension Arrears		Relocation Payments		Other Benefits	
	1996 £	1995 £	1996 £	1995 £	1996 £	1995 £	1996 £	1995 £
M C E Averill	39,697	14,300	101,498	-	8,697	7,981	9,114	5,888
D J Downes	38,362	-	47,953	-	-	-	13,585	9,018
G J Newman	-	-	-	-	-	-	11,242	11,381

Pension arrears arise from additional contributions required in respect of past service. The arrears cover 3 years for M C E Averill and 15 months in respect of D J Downes.

Other benefits include such items as company cars, medical insurance, and life insurance.

- (d) D M Munro retired as a director on 3 August 1995.

The following table shows the number of directors whose emoluments excluding contributions to the company scheme fell into the ranges below:

	1996 Number	1995 Number		1996 Number	1995 Number
£0 - £5,000	1	1	£145,001 - £150,000	1	1
£5,001 - £10,000	-	2	£165,001 - £170,000	-	1
£10,001 - £15,000	3	3	£185,001 - £190,000	-	1
£170,001 - £225,000	-	1	£270,001 - £275,000	1	-
£80,001 - £85,000	1	-	£350,001 - £355,000	1	-

The remuneration of the highest paid director and chairman, including all pension contributions was as follows:

	1996 £	1995 £
Chairman	85,000	75,000
Highest Paid Director	360,298	194,506

Notes to the Accounts

continued

5 Directors (continued)

(ii) Interests in ordinary shares and share options

The directors' interests (all beneficial) in the ordinary 10p shares of the Group, including shares over which options have been granted under the terms of the Group's share option schemes, on 30 March 1996 and 1 April 1995 were as follows:-

	Ordinary Shares of 10p each		Executive (E) and Savings Related (S) Share Options					
	at 30.3.1996	at 1.4.1995	Options at 30.3.1996	Options at 1.4.1995	Date of grant	Option price (p)	Normal Exercise Dates From	To
G H Waddell	201,000	201,000	-	-	-	-	-	-
A G L Alexander	5,000	5,000	-	-	-	-	-	-
M C E Averill	3,620	3,492	20,000(E)	20,000(E)	19.6.1990	208.8	20.6.1993	19.6.2000
			10,000(E)	10,000(E)	10.7.1991	270.6	11.7.1994	10.7.2001
			40,000(E)	40,000(E)	13.7.1992	205.0	14.7.1995	13.7.2002
			200,000(E)	200,000(E)	6.7.1994	88.0	7.7.1997	6.7.2004
			150,000(E)	-	10.8.1995	99.0	11.8.1998	10.8.2002
			1,549(S)	1,549(S)	26.9.1991	242.0	1.11.1996	30.4.1997
			2,929(S)	2,929(S)	24.9.1992	128.0	1.11.1997	30.4.1998
			12,937(S)	12,937(S)	22.9.1994	80.0	1.11.1999	30.4.2000
R C Biffa	9,171,338	9,171,131	-	-	-	-	-	-
I M Clubb	10,000	10,000	-	-	-	-	-	-
D J Downes	15,000	15,000	200,000(E)	200,000(E)	6.7.1994	88.0	7.7.1997	6.7.2004
			100,000(E)	-	10.8.1995	99.0	11.8.1998	10.8.2002
			21,562(S)	21,562(S)	22.9.1994	80.0	1.11.1999	30.4.2000
D M Munro	-	-	-	-	-	-	-	-
G J Newman	54,701	54,356	15,000(E)	15,000(E)	23.7.1988	173.5	24.7.1991	23.7.1998
			21,700(E)	21,700(E)	7.7.1990	279.4	8.7.1993	7.7.2000
			25,000(E)	25,000(E)	10.7.1991	270.6	11.7.1994	10.7.2001
			80,000(E)	-	10.8.1995	99.0	11.8.1998	10.8.2002
			3,099(S)	3,099(S)	26.9.1991	242.0	1.11.1996	30.4.1997
			5,859(S)	5,859(S)	24.9.1992	128.0	1.11.1997	30.4.1998
			4,181(S)	-	21.9.1995	82.5	1.11.2000	30.4.2001

(a) No options were exercised by directors during the year. Savings Related Options held by G J Newman on 1,505 shares lapsed during the year. There have been no alterations in the above interests or options between 30 March 1996 and 5 June 1996.

(b) 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 100% (Executive Scheme) and 80% (Savings Related Scheme) of the average market price of the shares over the last three dealing days immediately preceding the date of the invitation to subscribe (Savings Related) or the date of grant (Executive).

5 Directors (continued)

- (c) The highest mid-market price during the year was 110p and the lowest mid-market price during the year was 85p.
The mid-market price at the close of business on 30 March 1996 was 99p.

(iii) Other interests

- (a) None of the directors has an interest in the shares of any subsidiary.
- (b) A G L Alexander is a director of Hanson PLC in which capacity he has an interest in the contracts of the Group to acquire rights to landfill void from Hanson subsidiaries.
- (c) D M Munro was a shareholder and director of Quayle Munro Holdings PLC whose wholly-owned subsidiary Quayle Munro Limited provided merchant banking services to the Group. Apart from fees in respect of Mr Munro's services as a director, no fees were paid to Quayle Munro Limited during the year.
- (d) Other than the service contracts between the Company and G H Waddell, M C E Averill, D J Downes and G J Newman, none of which exceed two years, no other director had an interest in any significant contract with the Company during the year.

	1996	1995	Total
	£'000	Cost of sales £'000	£'000
6 Exceptional Items			
a) Operating exceptional items:			
Profit on long term construction contracts	-	1,886	1,886

The profit on long term construction contracts relates to the recovery of claims in excess of the amounts provided in prior years.

	1996	1995
	£'000	£'000
b) Other exceptional items:		
Profit on disposal of operations	-	572
Provision for loss on disposal of Construction Services	-	(4,250)
	-	(3,678)

The 1995 provision of £4,250,000 relates to the loss on disposal of Construction Services which was sold on 12 April 1995.

The 1995 profit on disposal of operations relates to the London-based waste collections business which was disposed of on 31 March 1995.

	1996	1995
	£'000	£'000
7 Interest payable		
Interest payable on bank loans and other borrowings	-	218
Interest payable on all other loans	1,781	1,815
Interest payable on finance leases	42	269
	1,823	2,302
Interest receivable	(979)	(72)
	844	2,230

Notes to the Accounts

continued

	1996 £'000	1995 £'000
8 Taxation		
Taxation charge based on the profits for the year is made up as follows:		
UK Corporation tax at 33% – current year	6,951	4,496
– prior year	(424)	(15)
Deferred tax	733	2,395
Associated undertakings	159	(66)
	<u>7,419</u>	<u>6,810</u>
9 Dividends		
Interim dividend of 1.20p per ordinary share (1995: 1.10p)	2,210	2,026
Proposed final dividend of 2.40p per ordinary share (1995: 2.20p)	4,420	4,052
	<u>6,630</u>	<u>6,078</u>
10 Earnings per share		
Profit after taxation	12,088	7,709
add (deduct):		
operating exceptional items	–	(1,886)
net loss on disposal of operations	–	3,678
taxation relating to these items	–	612
Earnings excluding exceptional items	<u>12,088</u>	<u>10,113</u>
Average number of shares in issue during the year	184.2m	184.2m
Earnings per share – ordinary basis (i)	6.6p	4.2p
Earnings per share – excluding exceptional items (ii)	6.6p	5.5p
(i) Earnings per share are calculated by dividing the profit or loss after taxation by the average number of shares in issue during the year.		
(ii) Earnings per share excluding exceptional items are calculated before reorganisation costs, net loss on disposal of operations and operating exceptional items.		
Earnings per share (ii) above is shown as the Directors consider that it gives the user of the accounts a more useful indication of underlying performance from trading activities.		

11 Result for the year

The profit for the year in the financial statements of the parent company is £7,923,000 (1995: £5,855,000). As permitted by Section 230 of the Companies Act 1985, a profit and loss account for the parent company is not presented.

12 Tangible fixed assets	Land & buildings £'000	Landfill sites £'000	Plant & machinery £'000	Total £'000
Group				
Cost:				
At 1 April 1995	19,339	38,043	102,523	159,905
Additions	415	1,043	11,840	13,298
Disposals	(144)	-	(6,136)	(6,280)
At 30 March 1996	<u>19,610</u>	<u>39,086</u>	<u>108,227</u>	<u>166,923</u>
Depreciation:				
At 1 April 1995	8,439	6,278	49,755	64,472
Disposals	(30)	-	(5,455)	(5,485)
Charge for the year	<u>734</u>	<u>3,069</u>	<u>10,283</u>	<u>14,086</u>
At 30 March 1996	<u>9,143</u>	<u>9,347</u>	<u>54,583</u>	<u>73,073</u>
Net book value:				
At 30 March 1996	<u>10,467</u>	<u>29,739</u>	<u>53,644</u>	<u>93,850</u>
At 1 April 1995	<u>10,900</u>	<u>31,765</u>	<u>52,768</u>	<u>95,433</u>

Included in fixed assets are assets under construction costing £1,633,000 (1995: £1,359,000).

Included in Plant & Machinery are assets held under finance leases with a cost of £213,000 and accumulated depreciation of £177,000 (1995 cost £1,726,000 accumulated depreciation £1,222,000)

Interest amounting to £2,397,000 (1995: £2,397,000) is included in the cost of fixed assets.

The net book value of Land & Buildings and Landfill sites comprises:

	1996		1995	
	Land & buildings £'000	Landfill sites £'000	Land & buildings £'000	Landfill sites £'000
Freehold	6,751	8,746	6,902	8,843
Long leasehold	1,402	7,155	1,141	7,155
Short leasehold	<u>2,314</u>	<u>13,838</u>	<u>2,857</u>	<u>15,767</u>
	<u>10,467</u>	<u>29,739</u>	<u>10,900</u>	<u>31,765</u>

Notes to the Accounts

continued

	Plant & machinery £'000	Total £'000
12 Tangible fixed assets (continued)		
Company		
Cost:		
At 1 April 1995	2,534	2,534
Additions	97	97
Disposals	(1,716)	(1,716)
At 30 March 1996	<u>915</u>	<u>915</u>
Depreciation:		
At 1 April 1995	1,988	1,988
Disposals	(1,556)	(1,556)
Charge for the year	<u>355</u>	<u>355</u>
At 30 March 1996	<u>787</u>	<u>787</u>
Net book value:		
At 30 March 1996	<u>128</u>	<u>128</u>
At 1 April 1995	<u>546</u>	<u>546</u>

Included in Plant & Machinery are assets held under finance leases with a cost of £213,000 and accumulated depreciation of £177,000 (1995 cost £1,726,000 accumulated depreciation £1,222,000)

	Group	Company
	Associated undertakings £'000	Shares in subsidiary undertakings £'000
13 Fixed asset investments		
At 1 April 1995	198	22,736
Sale of subsidiary companies	-	(7,131)
Share of movement on reserves	<u>(22)</u>	<u>-</u>
At 30 March 1996	<u>176</u>	<u>15,605</u>

Details of subsidiary and associated undertakings are shown on page 15.

14 Acquisitions

On 15 March 1996, the Group acquired the Scottish dry waste collection business of Leigh Interests plc. The fair value of the tangible fixed assets was considered to be £620,000 which equated to their book value. The total consideration paid was £5,200,000. The goodwill arising of £4,580,000 has been written off against reserves.

On 17 January 1996, the Group acquired the commercial waste business of Charles Brown & Son Ltd. The fair value of the tangible fixed assets was considered to be £8,000 which equated to their book value. The total consideration paid was £54,000. The goodwill arising of £46,000 has been written off against reserves.

The post acquisition profits of the businesses are not considered to be material to the results of the Group.

Adjustments to consideration for previous acquisitions amounting to £61,000 have been written off to reserves as goodwill in addition to the above amounts.

15 Stocks	1996	1995
	£'000	£'000
Group		
Raw materials and consumables	1,249	1,216
Investment land and property	99	104
	<u>1,348</u>	<u>1,320</u>

The replacement cost of stocks is not materially different from the values shown above.

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
16 Debtors				
Amounts due within one year				
Trade debtors	20,341	26,749	-	-
Amounts recoverable on long term construction contracts	-	2,998	-	-
Amounts owed by subsidiary undertakings	-	-	34,829	39,618
Amounts owed by associated undertakings	427	292	-	-
Other debtors	318	249	282	187
Prepayments and accrued income	2,565	2,118	18	36
Advance corporation tax	1,449	-	2,284	1,332
	<u>25,100</u>	<u>32,406</u>	<u>37,413</u>	<u>41,173</u>
Amounts due in more than one year				
Advance corporation tax	1,105	1,013	1,105	1,013
Loan to associated undertaking	428	428	-	-
	<u>1,533</u>	<u>1,441</u>	<u>1,105</u>	<u>1,013</u>
Total	<u>26,633</u>	<u>33,847</u>	<u>38,518</u>	<u>42,186</u>

Notes to the Accounts

continued

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
17 Borrowings				
Amounts falling due within one year				
Finance lease obligations	<u>19</u>	<u>348</u>	<u>19</u>	<u>348</u>
Amounts falling due after more than one year				
Senior notes	19,859	19,840	19,859	19,840
Finance lease obligations	<u>-</u>	<u>29</u>	<u>-</u>	<u>29</u>
	<u>19,859</u>	<u>19,869</u>	<u>19,859</u>	<u>19,869</u>
Repayable as follows:				
Between one and two years	-	29	-	29
Between two and five years	-	-	-	-
After five years	<u>19,859</u>	<u>19,840</u>	<u>19,859</u>	<u>19,840</u>
	<u>19,859</u>	<u>19,869</u>	<u>19,859</u>	<u>19,869</u>

The overdraft bears interest at rates which fluctuate in line with market rates. The senior notes are due for repayment on 25 June 2003 at £20 million and bear interest at 8.93%.

The Group had unused committed bank facilities at 30 March 1996 of £30 million (1995: £30 million).

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
18 Other creditors				
Amounts falling due within one year				
Payments on account	-	464	-	-
Trade creditors	5,471	10,368	-	-
Amounts owed to subsidiary undertakings	-	-	-	9,788
Amounts owed to associated undertakings	722	603	-	-
Corporation tax payable	7,655	4,140	2,163	1,744
Other creditors	869	901	385	216
Taxation and social security	1,802	2,657	-	-
Accruals and deferred income	9,415	11,691	1,348	1,851
Unprocessed waste	1,580	1,799	-	-
Dividends payable	<u>4,420</u>	<u>4,052</u>	<u>4,420</u>	<u>4,052</u>
	<u>31,934</u>	<u>36,675</u>	<u>8,316</u>	<u>17,651</u>
Amounts falling due after more than one year				
Government grants	64	121	-	-
Deferred consideration	<u>140</u>	<u>140</u>	<u>-</u>	<u>-</u>
	<u>204</u>	<u>261</u>	<u>-</u>	<u>-</u>

	At 1 April 1995 £'000	Provided in year £'000	Utilised in year £'000	At 30 March 1996 £'000
19 Provision for liabilities and charges				
Group				
Provision for loss on disposal of Construction Services	4,250	164	(4,286)	128
Group reorganisation	824	-	(403)	421
Deferred taxation	4,565	736	-	5,301
Environmental provision	2,244	3,257	-	5,501
Site Restoration provision	5,280	1,056	(1,335)	5,001
Pension	359	160	-	519
	<u>17,522</u>	<u>5,373</u>	<u>(6,024)</u>	<u>16,871</u>

The deferred taxation provision together with the full potential liability for timing differences is made up as follows:

	1996		1995	
	Provision £'000	Total potential liability £'000	Provision £'000	Total potential liability £'000
Accelerated capital allowances	5,484	7,872	4,471	6,761
Other timing differences	(183)	(1,149)	94	(1,274)
	<u>5,301</u>	<u>6,723</u>	<u>4,565</u>	<u>5,487</u>

	At 1 April 1995 £'000	Provided in year £'000	Utilised in year £'000	At 30 March 1996 £'000
Company				
Provision for loss on disposal of Construction Services	5,128	164	(5,164)	128
Reorganisation provision	752	-	(349)	403
Pension	359	160	-	519
Reduction in value of subsidiary undertakings	18,722	-	(18,722)	-
	<u>24,961</u>	<u>324</u>	<u>(24,235)</u>	<u>1,050</u>

	1996 £'000	1995 £'000
20 Called up share capital		
Group and Company		
Authorised 250 million (1995: 250 million) ordinary shares of 10p	<u>25,000</u>	<u>25,000</u>
Allotted, called up and fully paid 184.2 million (1995: 184.2 million) ordinary shares of 10p	<u>18,419</u>	<u>18,419</u>

2,336 Ordinary shares with a nominal value of £234 were allotted during the year. The shares were issued under the terms of the Savings-Related Share Option Scheme and the total consideration received in respect of these allotments was £1,869.

Notes to the Accounts

continued

20 Called up share capital (continued)

Options outstanding at 30 March 1996 and 1 April 1995	1996	1995
<i>Savings related share option schemes</i>		
Number of shares under option	2,111,015	2,102,275
Normal dates exercisable	1993-2002	1992-2001
Price per share	80p-242p	80p-242p
Weighted average subscription price	91p	124p
<i>Executive share option schemes</i>		
Number of shares under option	1,972,210	1,395,230
Earliest dates exercisable	1991-1998	1991-1997
Price per share	88p-315p	88p-315p
Weighted average subscription price	129p	171p

Executive Share Options were all granted three years before the earliest date of exercise.

The movement in the number of all options in the year comprises:

New options issued	1,453,666	1,691,623
Options exercised	2,336	-
Options lapsed	865,610	1,564,206

21 Reserves

Group

	Share premium £'000	Profit & loss account £'000	Merger reserve £'000
At 1 April 1995	34,357	15,055	1,214
Goodwill written off	-	(3,473)	(1,214)
Retained profit for the year	-	5,458	-
At 30 March 1996	34,357	17,040	-

The cumulative goodwill written off Group Reserves to 30 March 1996, net of merger relief, on businesses continuing within the Group amounts to £12,679,000 (1995: £7,992,000).

Company

	Share premium £'000	Profit & loss account £'000
At 1 April 1995	34,357	7,988
Retained profit for the year	-	1,292
At 30 March 1996	34,357	9,280

	1996 £'000	1995 £'000
22 Notes to the cash flow statement		
(a) Net cash inflow from operating activities		
Operating profit	20,515	20,427
Share of profit of associated undertakings	(137)	(94)
(Profit) on long term construction contracts	-	(1,886)
Reorganisation costs	(403)	(3,143)
Depreciation of fixed assets	14,086	13,367
(Gain) on sale of tangible fixed assets	(661)	(269)
(Increase) in stocks	(28)	(281)
Decrease in debtors	8,843	4,845
(Decrease) increase in creditors	(9,475)	4,096
Environmental and site restoration provisions movement	2,978	2,810
Other non cash movements	(1,121)	166
Net cash inflow from operating activities	<u>34,597</u>	<u>40,038</u>
(b) Analysis of changes in cash and cash equivalents during the year		
Balance at start of year	12,922	(9,374)
Net cash inflow	<u>3,774</u>	<u>22,296</u>
Balance at end of year	<u>16,696</u>	<u>12,922</u>

Cash and cash equivalents comprise cash at bank and in hand, less borrowings due within one year with an original maturity of less than 90 days (including borrowings repayable on demand).

	1996 £'000	1995 £'000
(c) Sale of subsidiary undertaking and business (see note 6)		
Net assets sold		
Tangible fixed assets	-	528
Profit on disposal of operations	-	572
Settlement of liabilities and costs re sale	(3,042)	-
	<u>(3,042)</u>	<u>1,100</u>
Analysis of the net (outflow) inflow of cash and cash equivalents in respect of the sale of subsidiary undertaking and business		
Cash consideration	(3,042)	1,100
	<u>(3,042)</u>	<u>1,100</u>

Notes to the Accounts

continued

22 Notes to the cash flow statement (continued)

	1996 £'000	1995 £'000
(d) Businesses purchased during the year (see note 14)		
Net assets purchased		
Tangible fixed assets	(628)	-
Goodwill written against reserves	(4,626)	-
	<u>(5,254)</u>	<u>-</u>
Analysis of the net (outflow) of cash and cash equivalents in respect of the purchase of businesses		
Cash consideration	<u>(5,254)</u>	<u>-</u>
	Share capital and share premium £'000	Loans and finance leases £'000
(e) Analysis of changes in financing during the year		
At 1 April 1995	52,776	20,217
Cash (outflow) from financing	-	(358)
Amortisation of loan issue expenses	-	19
At 30 March 1996	<u>52,776</u>	<u>19,878</u>

Financing comprises share capital, share premium, the merger reserve and borrowings due after more than one year, together with finance lease obligations and borrowings due within one year with an original maturity date of more than 90 days.

(f) Analysis of the balances in cash and cash equivalents as shown in the balance sheet	1996 £'000	1995 £'000	Change in year £'000
Cash at bank and in hand	<u>16,696</u>	<u>12,922</u>	<u>3,774</u>

23 Capital commitments

Group

The aggregate amount of contracted capital expenditure authorised by the directors for which no provision has been made in the accounts is:

	1996 £'000	1995 £'000
	<u>3,875</u>	<u>1,300</u>

	1996		1995	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
24 Financial commitments				
Group				
At 30 March 1996 the Group had annual commitments under operating leases expiring as follows:				
Within one year	8	5	42	8
Between one and five years	-	227	8	119
After five years	499	-	512	-
	<u>507</u>	<u>232</u>	<u>562</u>	<u>127</u>

25 Contingent liabilities

Group and Company

The company and certain subsidiary undertakings have, in the normal course of business, given guarantees and performance bonds relating to the Group's own contracts.

Claims for compensation made against the Group by third parties are outstanding. However no provision has been made in the accounts as the directors are of the opinion that the claims have no foundation. The Group will continue to resist vigorously all such claims.

The company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities.

26 Related party transactions

The Group has identified the following transactions which fall to be disclosed under the terms of FRS 8 following the early adoption of the standard:

Pension fund

The company leases offices at 22/23 Woodside Place, Glasgow from the Shanks & McEwan Group PLC Retirements Benefit Scheme. Normal commercial terms, including the current rent payable of £61,500 per annum, apply to the lease which runs for 25 years to 2015. Independent advice was taken regarding the terms of the lease at inception.

Joint venture and associated company

The Group, through the subsidiary company Land Fill Gas Ltd, participates in a joint venture with Norweb Generation Ltd and holds a 50% shareholding in the associated company Norweb Land Fill Gas Ltd where the remaining shares are owned by Norweb Generation Ltd. The purpose of the joint venture and the associated companies is the exploitation of landfill gas for power generation at third party landfill sites. In the year ended 30 March 1996, Group companies supplied gas field services at normal commercial rates to the associated company, Norweb Land Fill Gas Ltd, which were included in turnover for the year ended 30 March 1996 at £139,000 (1995 £344,000).

Shareholder Information

At 30 March 1996

Range of shareholding	Number of shareholders	Number of shares (thousands)	%
1 - 5,000	2,707	4,422	2
5,001 - 25,000	629	5,733	3
25,001 - 50,000	82	2,737	1
50,001 - 100,000	92	6,497	4
100,001 - 250,000	85	12,958	7
250,001 - 500,000	42	14,141	8
Over 500,000	70	137,705	75
	<u>3,707</u>	<u>184,193</u>	<u>100</u>
Analysis of shareholders			
Individuals	2,612	35,111	19
Banks and nominee companies	886	133,570	73
Other institutions and companies	209	15,512	8
	<u>3,707</u>	<u>184,193</u>	<u>100</u>

Personal Equity Plan (PEP) Scheme

The Shanks & McEwan Group PEP Scheme incorporates both Single Company and General PEPs with annual investment limits of £3,000 and £6,000 respectively. Investment may be by cash purchase, share exchange or in the case of the Single Company PEP, by the transfer of shares emerging from the SAYE Share Option Schemes.

Further information may be obtained from:

Brewin Dolphin Bell Lawrie Limited, (Shanks & McEwan Group PEP Scheme), FREEPOST GW903, Glasgow G1 2BR.

Low Cost Share Dealing Service

Hoare Govett Corporate Finance Limited has arranged a separate low-cost share dealing service which will enable investors to buy or sell shares for a brokerage fee of 1% commission (minimum charge £10). Transactions will be executed and settled by Pershing Securities Limited.

Further information on both arrangements may be obtained from:

Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Registrar and Transfer Office

Any enquiries relating to shareholdings such as lost certificates, dividend payments or a change of address should be made to the Registrar and Transfer Office (see address on page 14). Mandated dividends are paid by BACS (Bankers Automated Clearing System) which credits shareholders' bank or building society accounts on the payment date. The appropriate tax voucher will be sent direct to the registered address. Further information on this facility can be obtained from the Registrar.

Notification of directors' resolution relating to the CREST system

This is to give notice, in accordance with the Uncertificated Securities Regulations 1995 ("the Regulations"), that on 30 May 1996 the Company resolved by a resolution of its directors that title to the ordinary shares of 10 pence each in the capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The resolution of the directors will become effective immediately prior to CRESTCo Limited granting permission for the shares concerned to be transferred by means of the CREST system.

Explanatory note

The above notice is the notice that the Company is obliged to give to its members, under the Regulations, of the passing of a "directors' resolution" (as defined in the Regulations) in relation to its ordinary shares. The directors' resolution will enable the Company's ordinary shares to join CREST in due course. The shares have not become transferable by means of the CREST system merely by virtue of the passing of the directors' resolution; the permission of the Operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable. It is expected that entry of the Company's ordinary shares into CREST will commence in October 1996.

The effect of the directors' resolution is to disapply, in relation to the ordinary shares, those provisions of the Company's articles of association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.

Shareholders should note that, under the Regulations, they have the right by ordinary resolution:

- (a) until the directors' resolution referred to above comes into effect in accordance with its terms, to resolve that it shall not come into effect;
- (b) if the directors' resolution referred to above is effective in accordance with its terms but the permission of the Operator of the system, CRESTCo Limited, has not yet been given to the shares concerned becoming transferable by means of the CREST system, to resolve that the directors' resolution shall cease to have effect; and
- (c) once the directors' resolution referred to above is effective in accordance with its terms and the permission of the Operator of the system, CRESTCo Limited, has been given to the shares concerned becoming transferable by means of the CREST system, to resolve that the directors of the Company shall take the necessary steps to ensure that title to the shares concerned shall cease to be transferable by means of the CREST system or any other relevant system and that the directors' resolution shall cease to have effect.

Five Year Financial Summary

	1996 £'000	1995 £'000	1994 £'000	1993 £'000	1992 £'000
Consolidated profit and loss account					
Turnover					
Continuing operations	114,235	114,896	105,789	107,495	97,356
Discontinued operations	—	24,172	13,746	23,548	48,424
	<u>114,235</u>	<u>139,068</u>	<u>119,535</u>	<u>131,043</u>	<u>145,780</u>
Operating profit before exceptional items					
Continuing operations	20,515	19,529	17,707	26,865	27,819
Discontinued operations	—	(988)	(1,429)	(12,823)	4,066
	<u>20,515</u>	<u>18,541</u>	<u>16,278</u>	<u>14,042</u>	<u>31,885</u>
Interest	(844)	(2,230)	(2,233)	(1,514)	(800)
Exceptional items (note 1)	(164)	(1,792)	(20,100)	(2,300)	(3,967)
Profit (loss) before taxation	<u>19,507</u>	<u>14,519</u>	<u>(6,055)</u>	<u>10,228</u>	<u>27,118</u>
Taxation	(7,419)	(6,810)	(3,076)	(3,003)	(10,056)
Profit (loss) after taxation	<u>12,088</u>	<u>7,709</u>	<u>(9,131)</u>	<u>7,225</u>	<u>17,062</u>
Dividends	(6,630)	(6,078)	(5,965)	(10,255)	(9,924)
Retained earnings (loss)	<u>5,458</u>	<u>1,631</u>	<u>(15,096)</u>	<u>(3,030)</u>	<u>7,138</u>
Consolidated balance sheet					
Fixed assets	94,026	95,631	99,816	100,354	74,061
Other assets less liabilities	(21,028)	(19,291)	(1,549)	2,840	5,879
Net borrowings	(3,182)	(7,295)	(30,853)	(20,450)	(11,554)
	<u>69,816</u>	<u>69,045</u>	<u>67,414</u>	<u>82,744</u>	<u>68,386</u>
Share capital	18,419	18,419	18,419	18,394	17,457
Reserves	51,397	50,626	48,995	64,350	50,929
	<u>69,816</u>	<u>69,045</u>	<u>67,414</u>	<u>82,744</u>	<u>68,386</u>
Financial ratios					
Earnings per share	6.6p	4.2p	(5.0)p	4.1p	9.9p
Earnings per share excluding exceptional items	6.6p	5.5p	4.1p	10.2p	10.3p
Dividends per share	3.60p	3.30p	3.24p	5.68p	5.68p
Net assets per share	37.9p	37.5p	36.6p	45.0p	39.2p
Gearing (note 2)	4.6%	10.6%	45.8%	24.7%	16.9%

Notes

1 Exceptional items include those items charged both before and after operating profit in the financial statements.

2 Gearing is calculated as net borrowings divided by total shareholders' funds.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, solicitor, accountant or other independent financial adviser authorised under the Financial Services Act 1986 immediately. If you have sold or transferred all your Ordinary Shares in Shanks & McEwan Group PLC please send this document with its accompanying enclosures at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of Shanks & McEwan Group PLC will be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday, 25 July, 1996 at 11.00 a.m. for the purpose of transacting the following business.

Routine ordinary business

- (1) To receive the reports of the directors and auditors, the balance sheets of the Company and of the Group as at 30 March, 1996 and the profit and loss account of the Group for the period ended 30 March, 1996.
- (2) To declare a final dividend.
- (3) To re-elect Mr Waddell as a director.
- (4) To re-elect Mr Biffa as a director.
- (5) To re-appoint Price Waterhouse as auditors of the Company and to authorise the directors to fix their remuneration.

Special business

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

"THAT, in substitution for any existing power under section 95 of the Companies Act 1985 (as amended and from time to time in force) (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered until 24 October 1997, pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) ("Equity Securities") for cash pursuant to the authority under section 80 of the Act granted at the annual general meeting of the Company held on 26 July 1993 and expiring on 25 July 1998, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (a) the allotment of Equity Securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the directors in proportion (as nearly as practicable) to the respective numbers of such ordinary shares held by them on that date provided that the directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal requirements under the laws of, or the regulations of any recognised regulatory body or stock exchange in, any territory; and/or
- (b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of Equity Securities up to an aggregate nominal value of £920,964,

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

Notice of Annual General Meeting

continued

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

"THAT, subject to the approval of the Board of Inland Revenue, the amendments to the Shanks & McEwan Approved Executive Share Option Scheme 1995 (the "Executive Scheme") outlined in the section headed 'Amendments to Approved Executive Share Option Scheme 1995' on page 17 of the attached Annual Report and Accounts of the Company for 1996 and constituted according to the amended rules of the Executive Scheme produced to the meeting and signed for identification by the Chairman be and are hereby approved and that the directors be and are hereby authorised to do all acts and things as they may consider necessary or desirable to establish and carry the Executive Scheme as amended into effect, including the making of any alterations necessary to obtain the approval of the Board of Inland Revenue to the amendments to the Executive Scheme under the Income and Corporation Taxes Act 1988."

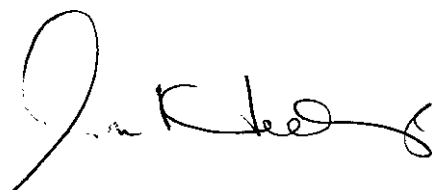
- (8) To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:

"THAT the proposed unapproved schedule ("the Schedule") to the Shanks & McEwan Approved Executive Share Option Scheme 1995 ("the Executive Scheme") as proposed to be amended by resolution 7 set out in the Notice of Annual General Meeting ("the Notice") dated 20 June 1996 the terms of which Schedule are outlined in the section headed 'Amendment to Approved Executive Share Option Scheme 1995' on page 17 of the attached Annual Report and Accounts of the Company for 1996 and constituted according to the Schedule produced to the Meeting and signed for identification by the Chairman be and is hereby approved and adopted, subject to the approval by the Board of Inland Revenue of the amendments to the Executive Scheme outlined in resolution 7 of the Notice and that the Directors be and are hereby authorised to do all acts and things as they may consider necessary or desirable to carry the Schedule into effect."

By Order of the Board

S.B.J. Hodge

Secretary



Registered office:

22 Woodside Place

Glasgow

G3 7QY

Dated: 20 June, 1996

Notes

1. A member entitled to attend and vote at the meeting convened by the foregoing Notice is entitled to appoint one or more proxies (who need not be a member or members) to attend and, (on a poll) vote instead of him/her. A prepaid form of proxy accompanies this Notice.
2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, should be delivered to the Company's Registrar, The Royal Bank of Scotland plc, Securities Services-Registrars, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR not later than 48 hours before the time appointed for the meeting.
3. The return of a completed form of proxy will not prevent a member from attending in person at the meeting should he/she so wish.
4. The register of interests of the directors (and of their families) in the shares of the Company and copies of all service contracts under which directors are employed by the Company or any of its subsidiaries will be available for inspection at the registered office of the Company at 22 Woodside Place, Glasgow G3 7QY, during normal business hours, on any weekday (Saturdays and public holidays excluded) from the date of this notice up to and including the date of the annual general meeting and at the Glasgow Hilton on 25 July, 1996 at least 15 minutes prior to, and during, the meeting.
5. Copies of the rules of the Shanks & McEwan Approved Executive Share Option Scheme 1995 together with the proposed amendments and Schedule to be approved and adopted subject to Inland Revenue approval at the annual general meeting under Resolutions (7) and (8) will be available for inspection at the times and places referred to in Note 4 above and at the offices of Dickson Minto W.S., Royal London House, 22/25 Finsbury Square, London EC2A 1DS during office hours on any weekday (Saturdays and public holidays excluded) from the date of this Notice up to and including the date of the annual general meeting.
6. An explanation of the special business is given in the Report of the Directors' on page 17.