

**shanks. waste solutions.**

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**Shanks Group plc  
Annual Report  
and Accounts  
2004**



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## **shanks. waste solutions.**

One of Europe's largest independent waste management companies, Shanks Group plc has operations in the UK, Belgium and the Netherlands and is a leading player in each of these markets. Beyond Europe, Shanks also has activities through its environmental remediation services. In total, the Group employs 4,600 people, based at more than 120 sites involved in nearly 200 operations.

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

Further information about the Group and its activities is available on our website: [www.shanks.co.uk](http://www.shanks.co.uk)

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## financial highlights.

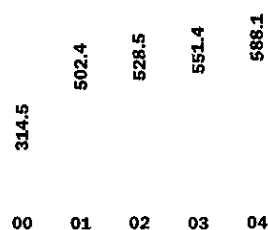
	2004	2003†
Turnover	£588m	£551m
Headline profit *	£30.3m	£34.3m
Exceptional items	-	£(5.5)m
Goodwill amortisation	£(11.6)m	£(10.6)m
Profit on ordinary activities before tax	£18.7m	£18.2m
Adjusted basic earnings per share **	8.9p	10.1p
Basic earnings per share	3.9p	3.9p
Dividend per share	5.7p	5.7p
Core Business net debt	£281m	£279m
PFI Companies net debt	£28m	£19m
Total Group net debt	£309m	£298m
EBITDA **	£104m	£100m

\* Before exceptional items, goodwill amortisation and tax

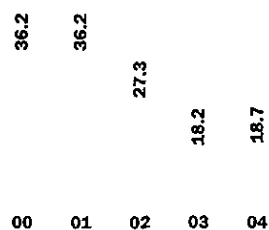
\*\* Before exceptional items and goodwill amortisation

† Restated (see note 1 (b) to the financial statements)

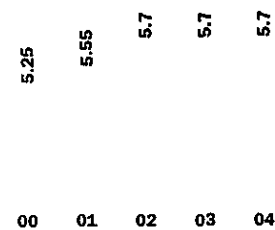
Turnover  
(£m)



Profit before tax  
(£m)



Dividends  
(pence per share)



## chairman's statement.

In the year to 31 March 2004, Group turnover increased by £37m (7%) to £588m (2003: £551m). Profit before tax, exceptional items and goodwill amortisation (Headline Profit) was 12% lower at £30.3m (2003: £34.3m - restated). However, following management action, the performance in the second half at £16.2m represented a 15% improvement versus the first half and 7% increase versus the comparable period last year. The main reasons for this recovery were better results from the UK landfill and power business and from hazardous waste processing in the Netherlands. Interest expense reduced slightly to £17.9m (2003: £18.7m). There were no exceptional charges (2003: £5.5m) and goodwill amortisation amounted to £11.6m (2003: £10.6m). The resulting profit before tax was slightly higher at £18.7m (2003: £18.2m - restated).

The tax rate on headline profit remained the same at 31%. Profit after tax, exceptional items and goodwill amortisation was therefore £9.2m (2003: £9.1m - restated). Earnings per share (eps) before exceptional items and goodwill amortisation fell by 12% to 8.9p (2003: 10.1p - restated). Basic eps was 3.9p (2003: 3.9p). Your Board recommends an unchanged final dividend of 3.8 pence per share

which, if approved by shareholders, brings the total dividend for the year to 5.7 pence per share (2003: 5.7p).

Cash generation remained strong with earnings before interest, tax, depreciation, amortisation and exceptional items (EBITDA) at £104m (2003: £100m). The core business net debt increased marginally by £2m to £281m (2003: £279m) and the Public Finance Initiative (PFI) companies' debt grew by £9m mainly due to capital expenditure relating to the East London Waste Authority (ELWA) contract. Group consolidated net borrowings therefore increased by £11m to £309m.

### Divisional Review

#### UK Waste Services

Trading profits in the year fell by £4.3m to £15.4m (2003: £19.7m). However, trading profits in the second half were £9.1m, which was £2.8m better than the first half. This encouraging turnaround has been due to the continued growth of the power business and higher volumes and better prices in landfill. Several loss making contracts in the collection and recycling business were cancelled. The losses incurred, together with exit costs, constrained performance.

The first full year of the ELWA contract,

which commenced in December 2002, had a positive impact. Both the ELWA and Argyll & Bute PFI contracts performed in line with their business plans.

#### UK Chemical Services

The improving trend continued with trading losses reducing by a further £1.2m to £0.2m (2003: £1.4m - restated). Better operating performance from the fluidised bed Waste to Energy plant at Fawley was the main contributor. The high temperature incineration market remained difficult with continuing downward price pressure.

The other hazardous waste treatment activities performed well, particularly in Scotland. The on-site treatment business benefited from overseas contracts in the Falklands.

#### Belgium

Trading profits in Belgium improved by £1.2m to £15.7m (2003: £14.5m). These better results were due to higher prices and increased capacity from power which more than offset the anticipated fall in landfill volumes due to the Landfill Directive. The contaminated land remediation activity performed well in contrast to the hazardous waste business at Sobry which had a difficult year.

### Netherlands

Trading profits reduced by £1.7m to £24.2m (2003: £25.9m). This decline was mainly due to lower volumes and prices in the solid waste business due to the economic slowdown, particularly in the construction industry. The hazardous waste business at ATM improved in the second half benefiting from the repermitting of the pyrolysis plant and the installation of additional soil cleaning capacity. The Reym industrial cleaning business continued to perform well.

### Central Services

Central Services costs increased by £0.7m as a result of a greater than expected pension charge partially offset by administrative cost savings.

### Developments

#### United Kingdom

The strategic alliance with our Italian partner Ecodeco has given the Group a viable deliverable solution to the municipal waste landfill diversion targets required of the UK by the EU Landfill Directive. The successful ELWA contract was the first of a select number of bids the Group is making in this burgeoning market. Dumfries & Galloway, where the Group remains preferred bidder, is the second such contract.

Since the year end the Waste Services and Chemical Services activities have been combined under a single management team to reduce administrative costs and to focus the sales operation on the opportunities arising from the changing legislative environment. There will also be benefits from withdrawal from the loss making contracts in the collection and recycling business.

#### Benelux

In the Netherlands, the expanded capacity of the ATM soil cleaner, the repermitting of the ATM pyrolysis plant and the new waste wood processing plant at Utrecht will provide growth.

The repermitting of the Group's major landfill in Belgium is a significant success and will underpin results in the Wallonia region. Other opportunities in Belgium, particularly in land remediation, are being pursued.

#### Outlook

The Directors remain confident that the performance problems of the past two years are now behind them and due to the actions taken, barring unforeseen circumstances, a period of recovery will ensue.

The disposal of the UK landfill and related power operations changes the character of the Group in the UK as described in the circular to shareholders to be dated 4 June 2004. The remainder of the UK business will benefit from their recent integration and current cost reduction programme.

The financial flexibility resulting from the disposal, together with the extensive range of technical capabilities assembled, leaves the Group well placed to compete in the changing European waste market, particularly when tendering for UK long term municipal contracts.



**I M Clubb**  
Chairman

## operating review.

In last year's review it was reported how the Group's continental businesses had performed robustly but that severe trading difficulties had negatively impacted UK trading results, particularly, within the Waste Services division. As a consequence of this underperformance significant management and organisational changes were made and it is pleasing to report that, as expected, they began to deliver improvements in the second half of the year under review. The Chemical Services division again improved in the year. The economic slowdown in the Netherlands, particularly in the construction industry, resulted in a 7% dip in trading profit but this shortfall was largely offset by a strong performance in Belgium.

*Our markets remain extremely*

competitive resulting in significant challenges for all staff. They have responded creditably during the year for which I thank them.

### **Group Turnover**

Total turnover for the year grew to £588m. In the UK, landfill turnover increased only as a result of higher landfill tax, whilst revenues from collection and recycling reduced as the Group strategically withdrew from several loss making activities. The ELWA PFI project, power and Chemical Services were therefore the principal contributors to UK growth. In the Netherlands growth accrued mainly from the full year effect of earlier acquisitions and from expansion at ATM. Belgium revenue was maintained by increased electricity revenues and by a good performance in

contaminated land remediation offset by reduced volumes at Sobry.

### **United Kingdom**

Throughout the year the Group traded with two divisions, Waste Services, which collects and manages municipal, commercial and industrial wastes, and Chemical Services which specialises in the treatment of hazardous chemical waste and related services including recovery. Since year end these two divisions have been rationalised into one under a new Managing Director, Ian Goodfellow. Increasingly advancing regulation rendered the distinction between these two divisions redundant. It is expected that the new organisation will bring greater customer focus at reduced cost, particularly, in the area of administration.

## Shanks in the UK

**In the face of the increasing impact of the European Landfill Directive, the UK Waste Strategy and the rising levels of landfill tax, the Group has risen to the challenge of positioning its business to match customer requirements within developing UK markets.**

about one third of the UK's municipal waste due to be put out to tender over the next five years, Shanks believes its strategic alliance with Italian partner Ecodeco gives the Group a viable and deliverable solution to the landfill diversion targets required of the UK by the EU Landfill Directive.

Shanks has already been successful with two PFI integrated waste management contracts, at Argyll and Bute and East London Waste Authority (ELWA) – both of

business plans, and the Group expects to close a contract with Dumfries and Galloway shortly.

The Chemical Services and collections and recycling businesses are being combined as a single UK operation. The are now positioned to concentrate on new opportunities arising from a fast changing regulatory environment with the benefit of greater customer focus at reduced cost.

## Shanks in Belgium

**Operating a suite of complementary businesses throughout the country, Shanks Belgium continues to perform robustly, with further growth opportunities being identified.**

Current operations in Belgium include specialist demolition, soil decontamination and highly developed industrial cleaning.

The ability to offer an integrated, complete service was demonstrated by Shanks Belgium companies combining to complete one of the largest demolition and site remediation contracts ever completed in the Wallonia region. Under a multi-million Euro contract a large, former coke works at Mons was

screened, factory installations cleaned and dismantled, buildings demolished, site cleared with materials recovery and contaminated ground excavated and treated; virtually all in-house.

The extension of the major landfill site at Mont St. Guibert has been repermited, subject to appeal, and waste deposited there now contributes to the generation of 9MW of green electricity after the additional installation of new capacity.



## operating review.

continued

Waste Services started the year at a low ebb before the benefit of the management actions reported earlier began to accrue. Trading profits were lower at £15.4m (2003: £19.7m) with the decline being overwhelmingly due to a reduced performance from landfill activities. The inability to increase prices at a rate consistent with rising costs has been the principal reason for the lower profits. Efficiency drives in the collection and recycling business are also bringing improved results.

Power generation activities continue to prosper with profits increasing by circa £3m as results benefited from enhanced capacity and the Renewables Order, which provides premium prices for electricity generated from renewable sources.

Both the Group's PFI contracts for Argyll & Bute and for the East London

Waste Authority (ELWA) performed according to their plans. Progress has been made building the composting plants for Argyll & Bute and, since year end, the orders for the construction of the first Mechanical Biological Treatment (MBT) units have been let for ELWA. The Group hopes to close a long term contract for Dumfries & Galloway shortly and is pursuing a number of similar opportunities with various local councils within the UK. The technology base assembled by the Group is well adapted to meeting the landfill diversion requirements currently in place on local authorities.

Chemical Services continued its improving trend in the year and, although trading losses were not totally eliminated (2004: £0.2m loss; 2003: £1.4m loss - restated) the division remained cash positive. The improved performance of the new fluidised bed

incineration plant at Fawley was the main contributor to progress.

Elsewhere the market for incineration at high temperature remains harsh but other activities showed modest improvements.

### Belgium

Operations in Belgium are similar to those in the UK but exclude high temperature incineration and include specialist demolition, soil decontamination and industrial cleaning.

Once more management has delivered a creditable result with trading profit improving by £1.2m to £15.7m. At the beginning of calendar year 2004 the Group succeeded in the repermitting of the extension to its landfill site at Mont St. Guibert. Although subject to appeal, confidence remains high that the site will continue to deliver good results in coming years.

## Shanks in the Netherlands

**Operations in the Netherlands are similar to those in Belgium but exclude landfill and include a computer refurbishment business.**

Although the solid waste business was adversely affected by economic slowdown, particularly in the division's most important customer segment, the construction industry, other operations performed well.

The hazardous waste business at the ATM site improved in the second half of the financial year following the re-permitting of the pyrolysis plant and the resumption of processing in September 2003. The division is now

rebuilding the market for this specialist treatment of solid oil and paint wastes. The capacity of the soil cleaning operation has also been expanded following regularisation of the national specifications for the re-use of such material.

A new waste wood processing plant at Utrecht was opened by van Vliet after the year end. This is identified, amongst other opportunities, as an area for further growth.

**The Netherlands and Belgian divisions contributed over 50 per cent of the total turnover and more than 75 per cent of operating profit of the Group during the 2003/04 financial year.**

## operating review.

continued

As in the UK, profits from electricity generation have also improved due to higher prices and capacity enhancements. Notable success has been achieved in the area of contaminated land remediation with further opportunities emerging.

The limited operations in the border area of Northern France have also performed broadly in line with our plans.

### Netherlands

The Netherlands operations are similar to those in Belgium but exclude landfill and include computer refurbishment.

Trading profit for the year, as expected, reduced by £1.7m to £24.2m. The general economic slowdown resulted in pressure on prices most markedly in the construction industry which remains the most important market segment for the division.

Good progress has been made during the year at ATM where a new permit has been received for the pyrolysis plant with processing restarted in September 2003. The division is now rebuilding the market for these services. Additionally, capacity in the soil cleaning installation has been expanded following the regularisation of national specifications for cleaned soils.

A new wood processing plant has been built at van Vliet Group near Utrecht with commissioning starting since year end. More generally, costs continue to be contained by sending certain waste streams for processing at lower cost in Germany.

### Prospects

The Group is currently being reshaped through the disposal of its UK landfill and electricity from landfill gas assets.

Further details will be contained in a Circular to the Shareholders. The remaining UK businesses have been restructured, refocused and will operate at lower cost. The continental businesses are performing well and have expansion potential.

The technology portfolio available to the Group together with improved financial flexibility leaves the Group well placed to exploit waste management markets, which are changing as a result of new regulations and fiscal measures.



**M C E Averill**

Group Chief Executive

## financial review.

### Finance function

The finance function continues to be proactively involved in all aspects of the business focusing on financial control, operating performance and business development opportunities.

All operating divisions are controlled against their headline profit and cash flow budgets. Headline profit is pre tax profit before exceptional items and goodwill amortisation. Management of financial resources, particularly cash, working capital and capital expenditure, is key to the success of the Group's strategy. All investment decisions are rigorously appraised.

### Accounting policies

The Group's accounting policies are heavily influenced by its PFI and landfill businesses. Bid costs are capitalised by the Group only after preferred bidder status has been achieved. In 2004 bid costs of £0.4m on PFI projects (2003: £0.1m) incurred prior to preferred bidder status were written off. At the year end post preferred bid costs amounted to £3.1m (2003: £1.2m). Directly attributable interest on separately identifiable major capital projects is capitalised. For this year end the interest capitalised totalled £0.2m (2003: £Nil).

Although debt in PFI companies is limited recourse to the Group, it is consolidated into net debt as the Group owns 100% of the equity of these companies.

Accounting for the long term liabilities on landfill sites is governed by FRS 12 - Provisions. A real discount factor of 2% has been used to assess the present value of these long term liabilities, which are expected to be incurred between now and circa 2050. The annual unwinding of this discount is shown in other finance charges.

### Financial results

The Operating Review on pages 4 to 9 covers the background to the Group's trading performance. Interest costs were slightly lower at £17.9m (2003: £18.7m) reflecting the profile of debt and the maturity of the 1993 £20m private placement with a coupon of 8.9%. Other finance charges comprise discount unwind on long term landfill liabilities of £2.1m (2003: £1.8m) and amortisation of bank fees of £0.7m (2003: £0.5m).

Headline profit benefited by £1.6m due to changes in the average euro exchange rate during the year.

Goodwill amortisation rose by £1.0m to £11.6m (2003: £10.6m) with £0.4m arising from the full year impact of ELWA, and £0.6m due to currency movements.

### Tax

The average tax rate on headline profit remained at 31% (2003: 31%) despite the growing proportion of profits from countries with higher tax rates. The underlying rates of tax in the countries where the Group operates were UK: 30%, Netherlands: 35% and Belgium: 34%. The Group suffers a higher charge in the UK as expenditure on landfill void does not attract capital allowances and in Belgium where landfill tax is non deductible for corporation tax.

### Cash flow

The underlying cash utilisation on the core business was £7m after net investments of £55m, but before the favourable effect of £5m on the translation of Euro denominated debt into its Sterling equivalent. Principal borrowings increased marginally by £2m to £281m. The limited recourse debt of the PFI companies which is consolidated into Group net debt increased by £9m to £28m.

**Table 1 – Group Cash Flow (£m)**

			2004	2003	Change
	Core Business	PFI Business	Total	Total	
Operating profit*	50	1	51	56	(5)
Depreciation and landfill provisions	52	1	53	44	9
<b>EBITDA</b>	<b>102</b>	<b>2</b>	<b>104</b>	<b>100</b>	<b>4</b>
Working capital	(9)	4	(5)	23	(28)
Net capital expenditure and acquisitions	(55)	(13)	(68)	(63)	(5)
Interest, tax, dividends and other	(45)	(2)	(47)	(46)	(1)
Underlying cash flow	(7)	(9)	(16)	14	(30)
Currency translation	5	-	5	(22)	27
<b>Group cash flow</b>	<b>(2)</b>	<b>(9)</b>	<b>(11)</b>	<b>(8)</b>	<b>(3)</b>

\*before goodwill amortisation and exceptional items

Details of the Group's cash flow performance are shown in Table 1.

#### Capital expenditure and acquisitions

The Group spent £68m gross on capital expenditure (2003: £63m). The major growth items were on PFI project expenditure, further landfill void at Calvert, expansion of the ATM soil cleaner and the wood plant at Utrecht. The replacement of operating assets, such as landfill cells, vehicles and containers amounted to £30m (2003: £35m). Sales of fixed assets, including surplus property raised £4m (2003: £7m).

Two small acquisitions at a total cost of £3.5m, of which £1.4m was

goodwill, were completed by Shanks Netherlands.

#### Post balance sheet event

On 25 May 2004, the Group reached agreement, subject to shareholders' approval, for the disposal of the UK landfill and power business for a consideration of £227.5m less costs.

The effect of the disposal on the Group's profit and loss account for the year ending 31 March 2005 is expected to generate an exceptional profit on disposal of approximately £56m, after charging £7m of goodwill previously written off to reserves. A pro forma statement of net assets illustrating the effects of the disposal

on the Group's net assets had the disposal taken place on 31 March 2004 is set out in Table 2. This shows a pro forma uplift in net assets of £63m to £200m.

Following completion of the disposal the Group will restructure its UK operations, for which a circa £10m exceptional charge will be taken. The immediate effect of the disposal is therefore expected to be earnings dilutive in the year ending 31 March 2005. However, the Group's financial flexibility will be substantially improved as the net proceeds will be used to repay debt. Of the net proceeds of £199.3m, £189.3m will be used to repay debt and £10.0m will be placed

## financial review.

continued

Table 2 – Pro forma statement of net assets as at 31 March 2004

		Adjustments		
	Shanks Group plc 31 March 2004 £m	Disposal activities' net assets £m	Net disposal proceeds £m	Pro forma Retained Group 31 March 2004 £m
Fixed assets	549.7	(177.1)	(10.9)	361.7
Net working capital	(20.1)	(2.9)	4.5	(18.5)
Long term creditors	(8.4)	8.3	-	(0.1)
Provisions for liabilities and charges	(74.8)	51.5	(10.0)	(33.3)
<b>Net operating assets</b>	<b>446.4</b>	<b>(120.2)</b>	<b>(16.4)</b>	<b>309.8</b>
<b>Net debt</b>	<b>(309.1)</b>	<b>-</b>	<b>199.3</b>	<b>(109.8)</b>
<b>Net assets</b>	<b>137.3</b>	<b>(120.2)</b>	<b>182.9</b>	<b>200.0</b>

in a cash escrow account to meet potential claims under the disposal agreement. The syndicated bank loan, of which £206m was drawn-down as at 31 March 2004, and the long term private placement facility with Prudential Insurance Company of America (PRICOA), under which £87m was drawn-down as at 31 March 2004, will be prepaid in proportion to the amounts committed and outstanding respectively. The actual amounts left outstanding will depend on how much is drawn down under the syndicated bank loan at the time of prepayment. There will be a make-whole payment under the terms of the facility with PRICOA which will be approximately £12m. On the basis of the 31 March

2004 figures, this will leave £68m drawn on the syndicated bank loan and £36m under the PRICOA facility.

### Treasury and risk management policy

The Group treasury policy is to use financial instruments with a spread of maturity dates and sources in order to reduce funding risk. Borrowings are drawn in the same currencies as the underlying investment to reduce cash and translation exposure on exchange rate movements. No other currency hedging mechanisms are used. The Group maintains a significant proportion of its debt on fixed rates of interest in order to protect interest cover. Where underlying interest rates are floating, swaps are used to achieve

the desired level of fixed rates. The counterparties to these instruments are all AA rated banks.

The core debt is provided by the €326m multicurrency revolving credit facility which was amended in May 2004 to expire in October 2005 and the \$145m multicurrency fixed or floating interest rate private placement facility from Prudential Insurance Company of America (PRICOA) which has various longer term maturity dates. The Group also has £32m of working capital facilities with various banks.

The limited recourse borrowings of the Group's two 100% owned PFI companies, created to finance the investment required to service these contracts, are separate from the Group's principal banking facilities. Typically the Group invests approximately 10-20% of the capital requirement from its core borrowings in the form of equity or subordinated debt with the remainder being provided by financial institutions secured on the project with limited recourse to the Group.

#### **Insurance**

The policy on insurance is to secure the maximum cover available in the market at reasonable prices. The Group therefore carries catastrophe insurance, including pollution cover, but self-insures up to a maximum aggregate level of £2m.

#### **Pensions**

The Group continues to use SSAP 24 – Pension Costs to account for pensions and has adopted the transitional arrangements permitted by FRS17 – Retirement Benefits. On the FRS17 basis, the net pension liability remained at £20m, as the partial recovery in equity values from their recent lows was matched by the increase in the scheme liabilities.

The UK defined benefit scheme was closed to new members in September 2002 and new employees are now offered a defined contribution arrangement. The triennial actuarial valuation, based on the assets and liabilities as at 5 April 2003 showed a smoothed funding deficit of £12m. The Group raised its annual pension cash contributions by £1.4m with effect from 1 April 2004. Under SSAP 24 the pension charge for year ended 31 March 2004 has increased by £2.0m to £5.1m (2003: £3.1m). The employee contribution increased from 5% to 7% of relevant earnings with effect from 1 May 2004.

#### **Going concern**

The Directors have reviewed the Group's 2004/05 budget and medium term plans thereafter in the light of its current financial position. The Directors are satisfied that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing its financial statements.



**D J Downes**

Group Finance Director

## the environment, the community and the Group.

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

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

The Group is committed to making a significant contribution to managing society's waste in a sustainable and acceptable manner. Actual performance is monitored and made publicly available annually within the Environmental Report, the Health and Safety Review and the Report of the Independent Environmental Advisory Board.

The Group was, once again, included within the FTSE4Good UK index; a measurement of corporate social responsibility administered by the independent FTSE Group. Shanks did not participate in the annual Business in the Environment (BiE) Index of Corporate Engagement during the period of the 2003/04 financial year, being outside the qualifying group of the UK's top 350 quoted companies.

### Environmental management

Externally accredited Environmental Management Systems, (ISO14001), together with a number of non-certified "mirror systems", are at the heart of the environmental management of a wide ranging waste and resource business with well over 100 locations in Northern Europe and many different service offerings.

During the review period the Group published its fourth annual Environmental Report, once again covering all operating divisions in the UK, Belgium and the Netherlands, in which performance is reported in a quantitative manner using a set of environmental performance indicators

and reflecting the UK Government's general guidelines for environmental reporting.

### Environmental Advisory Board

The independent Environmental Advisory Board (EAB) has recently published the 15th annual report on its activities. Shanks set up the EAB in 1989 to act as an independent assessor of the Group's environmental management and performance and to give advice on environmental and related matters. Chaired by Professor James Bridges, the President of the EU Committee on Toxicology, Ecotoxicology and the Environment, the EAB membership comprises a range of international environmental and technical specialists.

Their latest report, for the calendar year 2003, provides details of the EAB's site visits, the topics discussed and details of its 6th biennial conference. It also reports the Group's progress against a number of challenges set by the EAB to further encourage environmental improvement within the Group.



### Employees

Employees remain the Group's most important and valuable asset. The Group has a management philosophy aimed at ensuring all employees feel respected and able to fulfil their potential. Dignity at work is a fundamental principle, which underpins all of our employment policies. Equal opportunities is at the heart of recruitment and employment practices and the Group is committed to the principle that it must invest in its people to ensure that they have the business, commercial and technical skills appropriate to our industry to provide the best possible service to the customer.

Both verbal and written briefings, including company newsletters, e-mail communications and a quarterly Group publication, have been utilised to keep employees appraised of activities and developments. A culture of two-way communication is actively promoted and Trades Unions, Works Councils and other employee groups are involved wherever appropriate.

### Health and safety

The health, safety and welfare of its employees, and others who could be affected by its activities, remains a top priority for Shanks. Improvements in accident performance made during the previous year continued in 2003/04. Overall the Group reduced both its total

accident rate and the rate of more serious accidents. In particular, UK performance was outstanding, achieving a 16 per cent reduction in the rate of more serious accidents – more than meeting the 10 per cent target set for all Group operating companies.

Set against this gratifying general improvement in accident performance it is with sadness that the Group must report a fatal employee road traffic accident at one of the Group's Belgian waste collection operations. Working on the public road will always pose risks from traffic movements and improving safety in this area is an ongoing focus of attention.

At the very end of the 2003/04 year Shanks in the UK was prosecuted under the Health and Safety at Work Act relating to an incident in which one of the Group's lorries came into contact with an overhead power line. No injuries and only minor property damage was caused and the reduced level of fine imposed of £6,500 reflects Shanks safety performance. Indeed the judge in the case commented that Shanks had some excellent safety systems in place. Further details of the Group's safety performance and activities are available in the Shanks annual Health and Safety Review.

### The wider community

The Group strives to achieve effective communications with all stakeholders and seeks to secure good relations with operational site neighbours. Increasingly, the world wide web is utilised as a modern communications tool and the Group has continued to develop its website as a source of easily accessible and understandable information. However, informal discussions and meetings, newsletters, exhibitions and, where regarded as appropriate by interested parties, formal liaison groups, remain among the more traditional methods employed. All sites subscribe to the "open door" policy for pre-arranged visits and some also host additional educational resources for students or community groups.

Further support is provided to communities neighbouring Shanks sites, particularly through the Landfill Tax Credit Scheme (LTCS), which has been enthusiastically backed by the Group since its inception in late 1996. In 2003 the LTCS was revised by the Government and a new emphasis applied to focus on local community and environmental projects within a reduced Scheme. During the 2003/04 financial year a total of £3.9m – very close to the maximum allowed – was made available for the funding of qualifying projects via the Shanks First Fund charity.

## **directors.**

at 25 May 2004

### **Non Executive Directors**

#### **Ian Clubb, CA (Age 63)\***

##### **Chairman**

Ian Clubb was appointed Chairman in April 2002 and joined the Board in 1994. He is Chairman of the Nomination Committee and Chairman of the Trustees of the Company's Pension Scheme. He is a Non-executive director of Expro International Group plc. He retired as Chairman of First Choice Holidays PLC on 11 March 2004. He was previously a Non-executive Director of Marconi Corporation plc.

#### **Richard Biffa, MCIWM (Age 64)\***

##### **Deputy Chairman**

Richard Biffa joined the Board in 1991 following the merger with Rechem Environmental Services PLC of which he was previously Chairman. He is Chairman of the Audit Committee. He has had a long lasting association with, and a wide experience of, the waste management industry.

#### **Philippe Delaunois, Ir, IC (Age 62)\***

Philippe Delaunois, a Belgian national, was appointed to the Board in May 2001. He holds a degree in engineering from the State's University at Mons. He was Chief Executive until 1999 of Cockerill Sambre, a Belgian steel producing company with a turnover in excess of €5bn. He is currently a Non-executive director of a number of companies in Belgium.

#### **Barry Pointon, BSc (Age 57)\***

##### **Senior Independent Director**

Barry Pointon was appointed to the Board in 1999. He is the Senior Independent Director and is Chairman of the Remuneration Committee. He retired at the end of March 2004 as an Executive director of IMI plc after twenty two years service. He is an engineer with over thirty years experience in industry.

### **Executive Directors**

#### **Michael Averill, BSc, MBA, ARSM, FCIWM (Age 53)**

##### **Group Chief Executive**

Michael Averill holds an MBA from Cranfield Management School and a degree in metallurgy from Imperial College of Science and Technology. He joined the Group in 1989 as a Business Development Director for Rechem International Limited. He became Managing Director of Rechem in 1992. He was appointed Group Chief Executive in 1994. He is a Non-executive Director of TDG plc.

#### **David Downes, BSc, MBA, FCMA, FCT (Age 58)**

##### **Group Finance Director**

David Downes is a qualified accountant and holds an MBA from Stanford Business School and a degree in civil engineering from Kings College, University of London. He was appointed to the Board as Group Finance Director in 1993. He was previously Deputy Chief Executive of Hunter Saphir PLC and Group Finance Director of MBS plc. He is a Trustee of the Company's Pension Scheme.

*\*Member of the Audit, Nomination and Remuneration Committees*

## report of the directors.

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2004.

### 1 Annual general meeting

The notice of the Annual General Meeting is set out on pages 60 and 61.

#### Resolution (9) – Authority to purchase own shares

The Company has the authority to purchase up to 23,400,000 ordinary shares of 10 pence each. The authority remains valid until the next Annual General Meeting or, if earlier, 24 January 2005. The Directors recommend that shareholders renew the Company's authority to purchase its own ordinary shares as permitted under Article 10 of its Articles of Association. Accordingly, resolution (9) will be proposed as a special resolution seeking authority to make such purchases in the market. The Directors have no immediate intention of using such authority and would do so only when they consider it to be in the best interests of shareholders generally. Any ordinary shares purchased under this authority will be cancelled and the number of ordinary shares in issue will be reduced accordingly. The Company did not purchase any of its ordinary shares during the year.

Resolution (9) specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and the Financial Services Authority. The Directors intend to seek renewal of this power at subsequent Annual General Meetings. As at 25 May 2004 (being the latest practicable date prior to the printing of this document) there were outstanding options to subscribe for a total of 8,387,636 ordinary shares in the Company, representing 3.6% of the issued share capital of the Company at that date. If the share buy-back authority referred to above is exercised in full, the outstanding options as at 25 May 2004 would represent 4.0% of the issued share capital of the Company.

#### Resolution (10) – Disapplication of statutory pre-emption rights

The Directors consider it advisable to renew their authority to allot equity securities for cash, other than to existing shareholders pro-rata to their holdings, which is due to expire on 23 October 2004. This authority will enable the Directors, at any time until 28 October 2005, to allot equity securities wholly for cash up to an aggregate nominal amount of £1,170,000 or otherwise in connection with a rights issue. This limited disapplication will allow the Directors to allot up to 11,700,000 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 25 May 2004. Resolution (10) will be proposed as a special resolution.

### 2 Principal activities and group results

The principal activities of the Group and an indication of likely future developments are described in the Chairman's Statement on pages 2 and 3 and in the Operating and Financial Reviews on pages 4 to 13. The Group's Profit and Loss Account appears on page 30 and note 2 to the financial statements shows the contribution to turnover and profits made by the different classes of the Group's business. The Group's profit after tax amounted to £9.2m (2003: £9.1m – restated).

### 3 Dividends

The Directors recommend a final dividend of 3.8 pence per share be paid on 20 August 2004 to ordinary shareholders whose names appear in the register at close of business on 16 July 2004. This dividend together with the interim dividend of 1.9 pence per share already paid, will make a total dividend for the year on the ordinary shares of 5.7 pence (2003: 5.7 pence).

### 4 Acquisitions

Two small acquisitions have been made during the year at a total cost of £3.8m, including debt assumed. The acquisitions are described in the Financial Review on pages 10 to 13 and in note 16 to the financial statements.

## report of the directors.

continued

### 5 Directors

The composition of the Board of Directors at the date of this report is shown on page 16. All of the Directors served on the Board throughout the financial year under review. The Board is cognisant of the revisions that have been made to the Combined Code on Corporate Governance. Following a review, it is intended that procedures will be adopted which will ensure that the principles of the revised Code, where relevant, are put in place. It has been agreed that Non-executive Directors who have served for a period of nine years from initial appointment will submit themselves for annual re-election. Therefore, at this year's Annual General Meeting Mr R C Biffa and Mr I M Clubb will submit themselves for re-election. In addition, Mr M C E Averill and Mr P Delaunois retire by rotation at the Annual General Meeting and will be offering themselves for re-election. Mr M C E Averill has a service contract terminable on 24 months notice. Mr R C Biffa, Mr I M Clubb and Mr P Delaunois do not have a service contract. Details of the Directors' interests are shown in the Remuneration Report on pages 24 to 29.

### 6 Corporate governance

A report on Corporate Governance is given on pages 20 to 23.

### 7 Share capital

During the year ended 31 March 2004 no ordinary shares were issued. At 31 March 2004 and at the date of this report the authorised ordinary share capital was and is £35,000,000 represented by 350,000,000 ordinary shares of 10 pence each. At 31 March 2004, 234,047,224 ordinary shares were in issue. Since 31 March 2004, a further 918 shares were issued in respect of options exercised prior to 25 May 2004, leaving an unissued balance of 115,951,858 ordinary shares of 10 pence each, representing 33.1% of the authorised ordinary share capital.

### 8 Notifiable interests

As at 25 May 2004, the Company had been notified of the following interests, excluding interests of Directors, in 3% or more of the ordinary share capital of the Company:

	Number of Shares	Percentage
Prudential plc	9,302,496	3.97
Legal & General Investment Management Limited	7,593,607	3.24
AXA S.A.	7,236,480	3.09

The interests of the Directors are shown in the Remuneration Report on pages 24 to 29.

### 9 Research and development

The Group spent £0.1m (2003: £0.2m) on research and development in the past year, which was charged to profits. In addition, the Group made available £0.4m (2003: £1.5m) to environmental bodies under the Landfill Tax Credit Scheme for research and development projects. The net cost of this to the Group was less than £0.2m which has not been included in expenditure disclosed. (See "The Environment, the Community and the Group" section on pages 14 and 15).

### 10 Health and safety

The Group and the Board of Directors regard the provision of safe working conditions for all employees as a high priority and Health and Safety performance is quantified and published for stakeholder scrutiny. (See "The Environment, the Community and the Group" section on pages 14 and 15).

### 11 Employment policies

Group employees are recognised as a key asset and it is Group policy to ensure that effective employee communications are maintained at all times. (See "The Environment, the Community and the Group" section on pages 14 and 15).

**12 Payment of suppliers**

It is the Group's payment policy, in respect of all suppliers, to settle the terms of payment with suppliers when agreeing the terms and conditions under which business is to be transacted, to ensure that these suppliers are made aware of the terms of payment and to abide by these terms of payment. The amount owed by the Group to trade creditors at the year end in proportion to the amounts invoiced by suppliers during the year, expressed as a number of days, was 54 days (2003: 64 days) and for the Company was 76 days (2003: 55 days).

**13 Charitable and political donations**

During the period donations made by the Group for charitable purposes amounted to £5,374 (2003: £9,585). No donations for political purposes, as defined by the Companies Act 1985, were made during the year (2003: £Nil).

**14 Registered auditors**

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

By Order of the Board



**P Kaye**

Secretary

25 May 2004

## corporate governance.

### Combined code

The Group is committed to achieving high standards of corporate governance and to integrity and exemplary ethical standards in all its business dealings. This statement, together with the Remuneration Report on pages 24 to 29, explains how the Group has applied the provisions of the code of best practice in corporate governance as set out in Section 1 of *The Combined Code (1998) as incorporated in the UK Listing Authority Listing Code requirements*. The Board considers that it has complied with the Code's provisions throughout the year except in regard to the notice period of Executive Directors' service contracts as outlined on page 27. The Board has noted the release of a revised Combined Code (2003) which encompasses recommendations from the Higgs Report on corporate governance and the Smith Report in respect of audit committees. The Board's view is that the Group already largely complies with the principles set out in the revised Code. The new Combined Code is applicable for the 2004/05 financial year and the Board is in the process of establishing procedures to enable the Company to comply with the detailed provisions as far as it is practically possible.

### The Board of Directors

The Board currently comprises four Non-executive Directors and two Executive Directors and their biographies are set out on page 16. The roles of the Chairman and Chief Executive are held by separate individuals and the role of the Chairman is Non-executive. The Non-executive Directors bring a wide range of experience to the Group and are considered to be independent of management under the existing Combined Code and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Mr R C Biffa and Mr I M Clubb are not deemed to be independent in accordance with the criteria set out in the new Combined Code due to their length of service and Mr Biffa's shareholding in the Company. Notwithstanding this, their experience, strength of character, objectivity and robust contribution to board and committee discussions are fully consistent with those of an independent director. The Non-executive Directors make a significant contribution to the functioning of the Board, thereby ensuring that no one individual or group dominates the decision making process. Non-executive Directors are not eligible to participate in any of the Company's share option schemes. Mr R B Pointon is the Senior Independent Director.

The Board meets regularly, normally at least ten times a year, and, in addition, separate strategic discussions take place. Several meetings are held at subsidiaries in the United Kingdom and overseas where local operations are reviewed. The Board operates under agreed terms of reference, which may delegate certain powers to Committees of the Board. Amongst the matters reserved for decision by the full Board are published financial statements, strategic policy, acquisitions and disposals, capital projects over a defined limit, annual plans and new borrowing facilities. The Board is provided with appropriate information in a timely manner to enable it to effectively discharge its duties.

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

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

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

### Audit committee

The Audit Committee is formally constituted with written terms of reference. It is chaired by Mr R C Biffa and comprises the Non-executive Directors (see page 16). Normally, it meets three times a year. The external auditors and the Executive Directors are regularly invited to attend meetings and the Committee has access to the external auditors' advice without the presence of the Executive Directors. The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment, fees and independence of the external auditors, the nature and scope of the audit, reviews of the half-year and annual financial statements, internal control procedures including compliance with the Turnbull Committee's guidance, accounting policies, adherence with accounting standards and such other related functions as the Board may require. While the Committee has collectively the skills and experience required to fully discharge its duties, no single member has "recent and relevant financial experience" under the requirements of the new Combined Code. However, Mr I M Clubb, a member of the Committee, is a Chartered Accountant and has many years of financial experience at senior board level.

### Remuneration committee

The Remuneration Committee is chaired by Mr R B Pointon and comprises the Non-executive Directors (see page 16). The Committee determines the Company's policy on remuneration and on a specific package for each of the Executive Directors. It also determines the terms on which Long Term Incentive Plan (LTIP), Executive and SAYE share options are awarded to employees. In exercising its responsibilities the Committee has access to professional advice, both internally and externally, and may consult the Chief Executive about its proposals. The Remuneration Report on pages 24 to 29 contains particulars of Directors' remuneration and interests in the Group's shares.

### Nomination committee

The Nomination Committee is chaired by Mr I M Clubb and comprises the Non-executive Directors (see page 16). It meets as required and is responsible for making recommendations to the Board on the appointment of Directors and succession planning.

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

The table below details the number of Board and Committee Meetings attended by each Director. During the year ended 31 March 2004 there were ten Board meetings, two Audit Committee meetings and six Remuneration Committee meetings. There were no meetings of the Nomination Committee held in the year. In addition, there was one meeting of the Non-executive Directors without the presence of the Executive Directors.

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
M C E Averill	10	10	2	2*	6	N/A
R C Biffa	10	10	2	2	6	6
I M Clubb	10	8	2	2	6	5
P Delaunois	10	8	2	2	6	4
D J Downes	10	10	2	2*	6	N/A
R B Pointon	10	10	2	2	6	6

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

## corporate governance.

continued

### Pensions

The assets of both the final salary and money purchase schemes are held separately from those of the Group, are invested by independent professional investment managers and cannot be invested directly in the Company. Three trustees have been appointed by the Company and, in addition, two member nominated trustees were appointed in 2001. Senior employees in Belgium are provided with defined contribution pension benefits. In the Netherlands, employees participate in a compulsory collective transport industry wide pension scheme which provides benefits up to a certain level of pay. Senior employees in the Netherlands earning in excess of the maximum level of pay allowed for within the compulsory pension scheme also participate in a defined contribution arrangement for the excess amount.

### Relationship with investors

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

### Internal control

The Board confirms that a continuing formal process for identifying, evaluating and managing the material risks faced by the Group has been in place for the financial year 2003/04 and to the date of approval of the annual report and accounts. This includes reviewing financial, operational and compliance controls and risk management procedures. This process is regularly reviewed by both the Group and subsidiary boards and complies with the Turnbull guidance. This approach ensures that internal control and risk management measures are embedded into the operations of the business and any areas requiring improvement are addressed.

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

- (i) monthly visits by Executive Directors to key operating locations to attend local board or management meetings;
- (ii) regular Executive Committee meetings of the Group's most senior managers and Executive Directors;
- (iii) formal written financial policies and procedures applicable to all business units with procedures for reporting compliance therewith, for identifying weaknesses and for taking corrective action;
- (iv) comprehensive annual budgets, requiring Board and business sector approval, reviewed on a regular basis, with performance measured against budgets and explanations sought for significant variances;
- (v) a formal clearly defined framework for control and approval of capital expenditure and investment programmes, with cash authorisation limits and post investment appraisals along with contract authorisation levels;
- (vi) identification and evaluation of key risks applicable to each area of business assessed on a continuing basis at both operating board and Group Board level;
- (vii) appointment of experienced and professional staff of the necessary calibre to meet their responsibilities;
- (viii) an internal Management Systems department which undertakes periodic examination of written business and operational procedures and identifies non compliances; and



- (ix) an Audit Committee comprising Non-executive Directors, the responsibilities of which are set out on page 21.

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

#### **Statement of directors' responsibilities**

The following statement, which should be read in conjunction with the auditors' report on pages 58 and 59, is made to distinguish for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

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

In preparing the financial statements for the year ended 31 March 2004 the Directors have:

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

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

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

The auditors' report on the financial statements set out on pages 58 and 59 confirms that the scope of their report covers the provisions of the Combined Code (1998) that are specified for their review by the Financial Services Authority.

## remuneration report.

### Remuneration policy

The principal objectives of the Remuneration Committee, which is chaired by Mr R B Pointon and comprises the Non-executive Directors, are to attract, retain and motivate high quality senior management with a competitive package of incentives and awards linked to performance and the interests of shareholders. The Committee seeks to ensure that the Executive Directors are fairly rewarded taking into account all elements of their remuneration package in the light of the Group's performance.

The Committee has appointed Deloitte & Touche to provide independent market information and advice relating to executive remuneration and benefits.

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

### Basic salary

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

### Annual cash bonuses

Annual cash bonuses are payable at the discretion of the Remuneration Committee as a percentage of basic salary dependent on corporate performance compared to target. For the year to 31 March 2004, the Executive Director's potential cash bonus ranged from zero for a below target performance, 50% for achieving target, to a maximum bonus of 100%. Cash bonuses are not pensionable. No bonuses were earned for the year ended 31 March 2004.

### Long term incentive plan

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

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

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

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

The Shanks Group plc Employee Share Trust has been established for the purpose of granting awards under the LTIP and to hold shares in the Company either purchased in the market or new shares subscribed for, with funds provided by the Company or its subsidiaries. As at 31 March 2004 the Employee Share Trust did not hold any of the Company's shares.

Conditional awards were granted under the LTIP plan on 2 June 2003. The closing mid-market price of the ordinary shares of the Company on 2 June 2003 was 101p.

The Director's conditional beneficial interests under the LTIP in the ordinary shares of the Company were as follows:

	Balance at 31 March 2003	Awarded during year	Vested during year	Lapsed during year	Balance at 31 March 2004
M C E Averill	171,000	325,000	–	–	496,000
D J Downes	135,000	256,000	–	–	391,000
J R Meredith	91,000	–	–	91,000	–

Mr J R Meredith's LTIP award lapsed on 1 April 2003 following his resignation as a Director.

#### Share option schemes

The Committee believes that share ownership by employees encourages the matching of long term interests between employees and shareholders. All UK employees including Executive Directors, subject to certain service conditions, may participate in an Inland Revenue approved Sharesave scheme. Senior executives are also able to participate in an Executive Share Option Scheme at the discretion of the Remuneration Committee. With effect from 26 July 2001 unapproved executive share options may be granted annually up to a market value of one and a third times basic salary in the preceding period of twelve months.

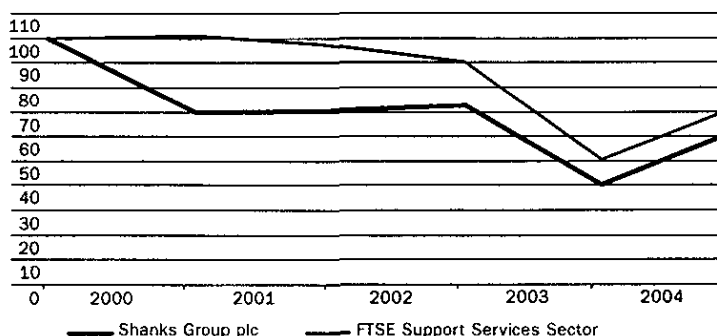
Under the terms of the Savings Related Share Option Scheme for employees, options may be granted during the ten year period to August 2005 to acquire up to 10% of the issued equity share capital of the Company, including options granted under the Executive Share Option Schemes. Options are granted at the higher of the nominal value and an amount determined by the Remuneration Committee being not less than 80% of the market value. At 31 March 2004 options outstanding in this scheme amounted to 3.0m ordinary shares (see note 22 to the financial statements).

Under the terms of the Executive Share Option Schemes, options may be granted during the ten year period to August 2005 to acquire up to 5% of the issued equity share capital of the Company. The exercise of options granted under the 1995 Executive Share Option Scheme, which is the only current scheme, is subject to a performance condition, achievement of which is a pre-requisite for exercise of options. The condition is tested once only after a period of three years and if it is not achieved the relevant options will lapse. Options granted after 26 July 2001 will only be exercisable if the Group's earnings per share, before taking into account goodwill amortisation and exceptional or extraordinary items and for the three year measurement period, have increased by at least nine percentage points over the increase in the Retail Price Index for the same period. The Remuneration Committee applied a different performance condition for options granted under the 1995 Executive Share Option Scheme prior to 26 July 2001. These options may not be exercised unless the growth in the Group's earnings per share over the period of any three consecutive years after the date of grant equals or exceeds the increase in the Retail Price Index over the same period plus six percentage points. Options are granted at the higher of the nominal value or the market value. At 31 March 2004 options outstanding in this scheme amounted to 5.4m ordinary shares (see note 22 to the financial statements).

#### Performance review

The following graph shows the Total Shareholder Return of the Company and that of the FTSE Support Services Sector Index over the five-year period to 31 March 2004. This index has been selected as it is a broad equity index of which Shanks Group plc is a constituent company.

Shanks Group plc Total Shareholder Return versus FTSE Support Services Sector Index



## remuneration report.

continued

### Pensions

Executive Directors are eligible for membership of the Shanks Group Pension Scheme, which is a funded, defined benefit scheme approved by the Inland Revenue. Under the terms of this scheme the Executive Directors have:

- at retirement, and subject to length of service, a pension of up to two thirds of basic salary subject to Inland Revenue limits;
- an employee contribution of 5% of basic salary which increased to 7% from 1 May 2004;
- a lump sum death in service benefit of four times basic salary; and
- a spouse's pension on death.

Mr D J Downes is subject to the Inland Revenue cap on approved pension benefits and is provided with comparable unapproved benefits for basic salary in excess of the cap via a Funded Unapproved Retirement Benefits Scheme (FURBS). These unapproved benefits are included in the Directors' pension benefits table shown below.

### Directors' pension benefits

The following table shows the Executive Director's pension entitlements:

	Age at 31.03.04	Increase in accrued pension during the year (i) £000 pa	Increase in accrued pension during the year net of inflation £000 pa	Accrued pension at 31.03.04 (ii) £000	Transfer value at 31.03.04 of pension benefits accrued at 31.03.04 (iii) £000	Transfer value at 31.03.03 of pension benefits accrued at 31.03.03 (iii) £000	Increase in transfer value less Director's contribution (iv) £000	Transfer value of increase in accrued pension during the year net of inflation less Director's contribution (iv) £000
M C E Averill	52	11	7	162	2,599	2,271	310	93
D J Downes	58	9	8	67	1,120	901	206	118
J R Meredith*	43	2	–	56	408	366	42	–

\*Mr J R Meredith resigned with effect from 1 April 2003.

- The increase in accrued pension during the year represents the difference between the total accrued pension at the end of the year and the equivalent amount at the beginning of the year.
- The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.
- The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The calculation is based on the assumption that pensions will be paid from the earliest retirement age possible without the application of actuarial reduction factors i.e. 57 for Mr M C E Averill, 60 for Mr D J Downes and 62 for Mr J R Meredith.
- The increase in transfer value has been calculated taking into account market conditions and the Director's age at 31 March 2004 and 31 March 2003.

**Directors' emoluments**

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

	Basic salary		Performance related bonus		Other emoluments		Compensation for loss of office		Total emoluments	
	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000	2004 £000	2003 £000
I M Clubb*	100	95#	-	-	-	-	-	-	100	95#
M C E Averill	330	330	-	-	25	24	-	-	355	354
R C Biffa*	28	28	-	-	-	-	-	-	28	28
P Delaunois*	28	28	-	-	-	-	-	-	28	28
D J Downes	260	260	-	-	39	135	-	-	299	395
J R Meredith	-	175^	-	-	-	12^	-	183^	-	370^
R B Pointon*	28	28	-	-	-	-	-	-	28	28
G H Waddell*+	-	7+	-	-	-	-	-	-	-	7+
									838	1,305

\* Non-executive Director

# Mr I M Clubb was appointed Chairman on 25 April 2002

+ Mr G H Waddell retired on 25 April 2002

^ Mr J R Meredith resigned on 1 April 2003

- (i) Other emoluments include such items as a company car or car allowance, medical insurance, payments relating to FURBS and life assurance. They are not pensionable.
- (ii) The Non-executive Directors do not participate in the annual bonus plan and do not receive any pension contributions from the Group.
- (iii) Mr R C Biffa was also a shareholder and director of Radstrong Limited. The fees in respect of Mr Biffa's services as a Director of the Group were paid to this company.
- (iv) Mr J R Meredith left the Company on 1 April 2003. He had a rolling service contract entered into on 2 July 2001 which required six months' notice from Mr Meredith and one year's notice from the Company. Previously Mr Meredith had a service contract which required one year's notice from Mr Meredith and two year's notice from the Company. Under the terms of his service contract the Company was obliged to compensate him for loss of office. The compensation payment in respect of his loss of office amounted to £183,000 and in addition, Mr Meredith's pension entitlement was enhanced by one year's service at a cost of £30,000. The figures for Mr Meredith in the Directors' pension benefits table include this enhancement. Mr Meredith purchased his company car from the Company at market value. Under the rules of the LTIP and the Executive Share Option Scheme both his LTIP awards and outstanding share options lapsed immediately after he left the Company. In July 2003, the Company received a payment of £45,000 from his new employer in order to release Mr Meredith from a non-competition clause.

**Directors' service contracts and notice periods**

Mr M C E Averill and Mr D J Downes have rolling service contracts dated 29 September 1994 confirming previous arrangements, which require one year's notice from the Director and two years' notice from the Company. Termination payments are limited to the Director's contractual remuneration including basic salary, any bonus earned and benefits for the unexpired portion of the notice period. Any entitlement to LTIP awards or exercise of share options upon termination of employment is governed by the rules of the relevant scheme. Pensionable service will also accrue for the unexpired portion of the notice period. In the event of early termination, the Remuneration Committee will consider carefully what compensation should be paid taking into account the circumstances of the particular case.

## remuneration report.

continued

The Remuneration Committee does not believe that it would be reasonable to reduce the notice period already contained in the service contracts of Mr M C E Averill and Mr D J Downes. However, the Committee has agreed that the notice period offered to new Executive Directors will be one year. The Committee recognises that a two year notice period is not in accordance with the relevant provision of the Combined Code. The Non-executive Directors do not have service contracts.

### External appointments

The Remuneration Committee acknowledges that executive directors may be invited to become non-executive directors of other quoted companies which have no business relationship with the Group and that these duties can broaden their experience and knowledge to the benefit of the Company. Executive directors are limited to hold one such position and the policy is that fees may be retained by the director, which reflects the personal risk assumed in such appointments. Mr M C E Averill was appointed to one such non-executive position in May 2003.

### Directors' interests in ordinary shares and share options

The Directors' interests, all beneficial, in the ordinary shares of the Company, including shares over which options have been granted under the terms of the Group's share option schemes (other than the LTIP), on 31 March 2004 and 31 March 2003 were as follows:

	Ordinary Shares		Executive (E) and Savings Related (S) Share Options					
	2004	2003	2004	2003	Date of grant	Option price (p)	Normal Exercise Dates From	To
I M Clubb	30,000	30,000	-	-	-	-	-	-
M C E Averill	75,060	74,651	-	120,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			-	125,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			150,000(E)	150,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			150,000(E)	150,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			150,000(E)	150,000(E)	5.6.2000	180.0	6.6.2003	5.6.2007
			150,000(E)	150,000(E)	31.7.2001	184.5	1.8.2004	31.7.2011
			114,000(E)	114,000(E)	30.7.2002	145.0	31.7.2005	30.7.2012
			-	2,899(S)	23.9.1997	119.0	1.11.2002	30.4.2003
			2,335(S)	2,335(S)	27.9.2001	144.5	1.11.2006	30.4.2007
			8,495(S)	8,495(S)	26.9.2002	116.0	1.11.2007	30.4.2008
			3,773(S)	-	25.9.2003	84.4	1.11.2008	30.4.2009
R C Biffa	9,174,647	9,174,241	-	-	-	-	-	-
P Delaunois	1,500	-	-	-	-	-	-	-
D J Downes	91,562	91,562	-	80,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			-	84,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			100,000(E)	100,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			100,000(E)	100,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			100,000(E)	100,000(E)	5.6.2000	180.0	6.6.2003	5.6.2007
			100,000(E)	100,000(E)	31.7.2001	184.5	1.8.2004	31.7.2011
			90,000(E)	90,000(E)	30.7.2002	145.0	31.7.2005	30.7.2012
			14,159(S)	14,159(S)	26.9.2002	116.0	1.11.2007	30.4.2008
J R Meredith*	-	23,000	-	60,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			-	60,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			-	75,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			-	75,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			-	75,000(E)	5.6.2000	180.0	6.6.2003	5.6.2007
			-	90,000(E)	31.7.2001	184.5	1.8.2004	31.7.2011
			-	60,000(E)	30.7.2002	145.0	31.7.2005	30.7.2012
R B Pointon	3,000	3,000	-	-	-	-	-	-
G H Waddell	-	201,000	-	-	-	-	-	-

\*Mr J R Meredith's options lapsed on 1 April 2003 following his resignation as Director.

- (i) The option price is the price at which the option was granted. The price is set by the Remuneration Committee but is not less than 80% (Savings Related Scheme) and 100% (Executive Scheme) of the average market price of the shares over the last three dealing days immediately preceding the date of the invitation to subscribe (Savings Related Scheme) or the date of grant (Executive Scheme). The performance conditions relating to the exercise of Executive Share Options are shown on page 25.
- (ii) No options were exercised by serving Directors during the year.
- (iii) The Executive options granted to Mr M C E Averill and to Mr D J Downes on 1 August 1996 and on 12 March 1997 at an option price of £1.10 and £1.35 respectively lapsed on 1 August 2003 and 12 March 2004.
- (iv) The highest closing mid-market price of the ordinary shares of the Company during the year was 132.5p and the lowest closing mid-market price during the year was 88p. The mid-market price at the close of business on 31 March 2004 was 125.75p.

There have been no alterations in the above interests or options between 31 March 2004 and 25 May 2004.

#### **Other interests**

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

#### **Auditable information**

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

## consolidated profit and loss account.

year ended 31 March 2004

		2004			2003
		Total	Before exceptional items restated*	Exceptional items	Total restated*
	Note	£m	£m	£m	£m
<b>Turnover: Group and share of joint ventures</b>		<b>596.7</b>	558.5	–	558.5
Less: Share of turnover of joint ventures		<b>(8.6)</b>	(7.1)	–	(7.1)
<b>Group turnover</b>	2	<b>588.1</b>	551.4	–	551.4
Cost of sales	3	<b>(482.3)</b>	(447.2)	(3.2)	(450.4)
<b>Gross profit</b>	3	<b>105.8</b>	104.2	(3.2)	101.0
<b>Group operating profit before goodwill amortisation</b>		<b>49.4</b>	53.9	(4.4)	49.5
Goodwill amortisation		<b>(11.6)</b>	(10.6)	–	(10.6)
<b>Group operating profit</b>	3	<b>37.8</b>	43.3	(4.4)	38.9
Share of operating profit of joint ventures		<b>1.6</b>	1.4	–	1.4
<b>Total operating profit</b>	2	<b>39.4</b>	44.7	(4.4)	40.3
Non-operating exceptional items – on disposal of operations	5	–	–	(0.6)	(0.6)
<b>Profit before finance charges and tax</b>	2	<b>39.4</b>	44.7	(5.0)	39.7
Finance charges – interest	6	<b>(17.9)</b>	(18.7)	–	(18.7)
Finance charges – other	7	<b>(2.8)</b>	(2.3)	(0.5)	(2.8)
<b>Profit on ordinary activities before tax</b>	2	<b>18.7</b>	23.7	(5.5)	18.2
Tax	8	<b>(9.5)</b>	(10.6)	1.5	(9.1)
<b>Profit on ordinary activities after tax and profit for the period</b>		<b>9.2</b>	13.1	(4.0)	9.1
Equity dividends paid and proposed	9	<b>(13.3)</b>			(13.3)
<b>Retained loss transferred to reserves</b>	23	<b>(4.1)</b>			(4.2)
<b>Earnings per share</b>					
– basic	10	<b>3.9p</b>			3.9p
– adjusted basic before exceptional items and goodwill amortisation	10	<b>8.9p</b>			10.1p
– diluted	10	<b>3.9p</b>			3.9p
<b>Dividend per share</b>	9	<b>5.7p</b>			5.7p

All of the above relates to continuing operations.

\*2003 figures have been restated following the change of accounting policy in respect of capitalisation of finance costs and the reclassification of certain cost of sales to administration costs. See note 1(b) for details.



## consolidated balance sheet.

at 31 March 2004

	Note	£m	2004 £m	2003 restated* £m
<b>Fixed assets</b>				
Intangible assets	13		183.8	198.0
Tangible assets	14		356.2	325.2
Investment in joint ventures:				
Share of gross assets		12.8	13.6	
Share of gross liabilities		(8.1)	(8.4)	
Share of net assets	15	4.7	5.2	
Loans to joint ventures	15	3.9	2.9	
Total investment in joint ventures			8.6	8.1
Other unlisted investments	15		1.1	1.1
<b>Total fixed assets</b>			<b>549.7</b>	<b>532.4</b>
<b>Current assets</b>				
Stocks	17	8.1	7.0	
Debtors	18	137.7	129.6	
Cash at bank and in hand		30.3	20.5	
		<b>176.1</b>	<b>157.1</b>	
<b>Creditors: amounts falling due within one year</b>				
Borrowings	19	(15.8)	(4.9)	
Other creditors	20	(165.9)	(159.1)	
		<b>(181.7)</b>	<b>(164.0)</b>	
<b>Net current liabilities</b>			<b>(5.6)</b>	<b>(6.9)</b>
<b>Total assets less current liabilities</b>			<b>544.1</b>	<b>525.5</b>
<b>Creditors: amounts falling due after more than one year</b>				
Borrowings	19	(323.6)	(313.1)	
Other creditors	20	(8.4)	(0.2)	
			<b>(332.0)</b>	<b>(313.3)</b>
<b>Provisions for liabilities and charges</b>	21		<b>(74.8)</b>	<b>(68.4)</b>
<b>Net assets</b>			<b>137.3</b>	<b>143.8</b>
<b>Capital and reserves</b>				
Called up share capital	22		23.4	23.4
Share premium account	23		93.1	93.1
Profit and loss account	23		20.8	27.3
<b>Equity shareholders' funds</b>			<b>137.3</b>	<b>143.8</b>

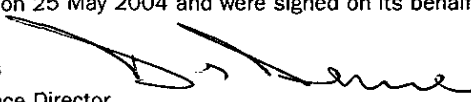
\*2003 figures have been restated following the change of accounting policy in respect of capitalisation of finance costs.  
See note 1(b) for details.

The Financial Statements were approved by the Board on 25 May 2004 and were signed on its behalf by:

I M Clubb  
Chairman



D J Downes  
Group Finance Director



## consolidated cash flow statement.

year ended 31 March 2004

	Note	2004 £m	2003 restated* £m
<b>Net cash flow from operating activities</b>	25(a)	<b>95.3</b>	<b>120.9</b>
<b>Returns from investments and servicing of finance</b>			
Interest paid		(21.2)	(20.5)
Interest received		<u>1.1</u>	<u>1.8</u>
		(20.1)	(18.7)
<b>Tax paid</b>		<b>(8.7)</b>	<b>(11.6)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(68.3)	(59.8)
Sale of tangible fixed assets		<u>4.1</u>	<u>6.9</u>
		(64.2)	(52.9)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary and other businesses	25(b)	(1.5)	(9.8)
Additional loans to joint ventures		-	(0.4)
Sale of subsidiaries and joint ventures		<u>-</u>	<u>0.4</u>
		(1.5)	(9.8)
<b>Equity dividends paid</b>		<b>(13.3)</b>	<b>(13.3)</b>
<b>Net cash flow before use of liquid resources and financing</b>		<b>(12.5)</b>	<b>14.6</b>
<b>Financing</b>			
Issue of ordinary share capital		-	0.1
Debt financing	25(c)	<b>13.0</b>	<b>11.2</b>
<b>Increase in cash</b>		<b>0.5</b>	<b>25.9</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash in the year		<b>0.5</b>	<b>25.9</b>
Debt financing	25(c)	<b>(13.0)</b>	<b>(11.2)</b>
<b>Change in net debt resulting from cash flows</b>		<b>(12.5)</b>	<b>14.7</b>
Inception of finance leases		(1.5)	-
Financing assumed with acquisitions	25(b)	(2.3)	-
Amortisation of loan fees		(0.7)	(0.5)
Exchange rate gain (loss) on net debt		<b>5.4</b>	<b>(22.2)</b>
<b>Movement in net debt in the year</b>		<b>(11.6)</b>	<b>(8.0)</b>
Net debt at 31 March 2003		<b>(297.5)</b>	<b>(289.5)</b>
<b>Net debt at 31 March 2004</b>	25(d)	<b>(309.1)</b>	<b>(297.5)</b>

Net debt represents total borrowings less cash at bank and in hand.

\*2003 figures have been restated following the change of accounting policy in respect of capitalisation of finance costs.

See note 1(b) for details.

## reconciliation of movements in shareholders' funds.

at 31 March 2004

	Note	2004 £m	2003 restated* £m
<b>Profit for the period</b>		<b>9.2</b>	9.1
Equity dividends	9	(13.3)	(13.3)
<b>Retained loss transferred to reserves</b>		<b>(4.1)</b>	(4.2)
Issue of share capital		–	0.1
Currency translation (loss) gain		(4.0)	12.4
Tax attributable to currency translation		–	(0.3)
Movements in goodwill: currency translation adjustment		1.6	(5.7)
<b>Net movement in equity shareholders' funds</b>		<b>(6.5)</b>	2.3
Opening equity shareholders' funds – as previously reported		143.2	140.7
Prior year adjustment (see Note 1(b))		0.6	0.8
Opening equity shareholders' funds – restated		143.8	141.5
<b>Closing equity shareholders' funds</b>		<b>137.3</b>	143.8

\*2003 figures have been restated following the change of accounting policy in respect of capitalisation of finance costs.  
See note 1(b) for details.

## statement of total recognised gains and losses.

at 31 March 2004

	2004 £m	2003 restated* £m
<b>Profit for the period</b>	<b>9.2</b>	9.1
Currency translation (loss) gain on net investments (including goodwill)	(9.4)	34.6
Currency translation gain (loss) on borrowings	5.4	(22.2)
Tax attributable to currency translation	–	(0.3)
<b>Total recognised gains and losses relating to the period</b>	<b>5.2</b>	21.2
Prior year adjustment	0.6	–
<b>Total recognised gains and losses since the end of the last reporting period</b>	<b>5.8</b>	21.2

\*2003 figures have been restated following the change of accounting policy in respect of capitalisation of finance costs.  
See note 1(b) for details.

## financial statements, accounting policies and directors' remuneration.

The accounting policies on pages 35 to 37 form part of these financial statements. The disclosures required by the Companies Act 1985 and those specified for audit by the Financial Services Authority relating to Directors' remuneration (including pension benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 24 to 29, and form part of these financial statements.

## company balance sheet.

at 31 March 2004

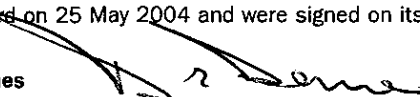
	Note	£m	2004 £m	£m	2003 £m
<b>Fixed assets</b>					
Tangible assets	14		0.6		0.1
Investments	15		329.8		270.3
<b>Total fixed assets</b>			<b>330.4</b>		<b>270.4</b>
<b>Current assets</b>					
Debtors	18	149.1		179.5	
Cash at bank and in hand		8.3		8.4	
		<u>157.4</u>		<u>187.9</u>	
<b>Creditors: amounts falling due within one year</b>					
Borrowings	19	(3.6)		-	
Other creditors	20	(21.8)		(16.0)	
		<u>(25.4)</u>		<u>(16.0)</u>	
<b>Net current assets</b>			<b>132.0</b>		<b>171.9</b>
<b>Total assets less current liabilities</b>			<b>462.4</b>		<b>442.3</b>
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings	19	(233.9)		(231.5)	
Other creditors	20	(86.2)		(61.7)	
			<b>(320.1)</b>		<b>(293.2)</b>
<b>Provisions for liabilities and charges</b>	21		<b>(0.4)</b>		<b>(0.4)</b>
<b>Net assets</b>			<b>141.9</b>		<b>148.7</b>
<b>Capital and reserves</b>					
Called up share capital	22		23.4		23.4
Share premium account	23		117.1		117.1
Profit and loss account	23		1.4		8.2
<b>Equity shareholders' funds</b>			<b>141.9</b>		<b>148.7</b>

The Financial Statements were approved by the Board on 25 May 2004 and were signed on its behalf by:

I M Clubb  
Chairman



D J Downes  
Group Finance Director



## notes to the financial statements.

### 1 Accounting policies

#### (a) Basis of presentation

The financial statements are prepared on the historical cost basis, consistent with prior years, and comply with applicable United Kingdom accounting standards. Where changes in policy or presentation are made, comparative figures are adjusted accordingly.

#### (b) Prior year adjustments

##### (i) Change in accounting policy

Following the Group's expansion through successful bidding for PFI contracts, the Group is now committed to a significant capital expenditure programme. Finance costs associated with such capital projects have been capitalised as part of the cost of construction as this will match the finance costs against the benefits obtained from increased revenues in the future. This change in accounting policy has been dealt with as a prior year adjustment as the Group has incurred finance costs on capital projects in earlier years. For the year ended 31 March 2003, the reported cost of sales have been increased and profit after tax have been reduced by £0.2m. Tangible fixed assets have been increased by £0.9m, the deferred tax provision increased by £0.3m and equity shareholders' funds by £0.6m.

##### (ii) Comparatives restatement

Following review by the Waste Services Division, the classification of costs between costs of sales and administration expenses has been revised. Comparative figures have been restated accordingly. The effect is to reduce cost of sales by £3.2m and to increase administration expenses by the same amount for 2003. Gross profit has increased by £3.2m whilst there is no effect on the Group operating profit for 2003.

#### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Shanks Group plc and all of its subsidiary undertakings (subsidiaries) together with their share of the results of joint ventures. The results of subsidiary undertakings acquired or sold during the year are included in the consolidated financial statements up to, or from, the date control passes. Acquisitions are accounted for using the acquisition accounting basis.

Wholly owned subsidiary companies set up under Private Finance Initiative (PFI) contracts are fully consolidated by the Group. However, in view of the specific arrangement issues arising under PFI contracts, the Group has provided additional information concerning the financing of PFI companies to improve understanding by readers of these financial statements.

#### (d) Joint ventures

The Group's share of joint ventures' results are included in the consolidated profit and loss account. The Group's share of gross assets and liabilities are shown in the consolidated balance sheet.

#### (e) Turnover

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

#### (f) Retirement benefits

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. For defined benefit schemes, any differences between the actuarial valuation of the schemes and the value of the assets in the schemes 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 defined benefit schemes are treated as assets or liabilities in the balance sheet.

The Group continues to apply SSAP 24 – Pension Costs and has adopted the transitional arrangements permitted by FRS 17 – Retirement Benefits. The disclosures required under FRS 17 are detailed in note 12 to the financial statements.

## notes to the financial statements.

continued

### 1 Accounting policies continued

#### (g) Exceptional items

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

#### (h) Goodwill

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Capitalised goodwill is written off over its useful life in accordance with FRS 10 – Intangible Fixed Assets. For goodwill arising in respect of businesses operating under long term Private Finance Initiative contracts the goodwill is written off over the term of the contract, which may exceed 20 years. The carrying value of any such goodwill is reviewed annually.

The profit or loss on disposal or closure of a business is calculated after taking into account any related goodwill including amounts previously written off to reserves prior to the adoption of FRS 10.

#### (i) Fixed assets

Tangible fixed assets are stated at cost less depreciation, except for freehold land, which is not depreciated, and less any write down for impairment.

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

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

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

##### (ii) Landfill sites:

Acquisition costs, commissioning costs, engineering works and the discounted cost of final site restoration are capitalised. These costs are written off over the operational life of each site based on the amount of void space consumed.

##### (iii) Capitalisation of finance costs

Finance costs directly attributable to separately identifiable major capital growth projects have been capitalised as part of the asset cost during the period of construction.

#### (j) Leased assets

##### (i) Finance leases:

Where the Group has substantially all the risks and rewards of ownership of a leased asset, the lease is treated as a finance lease. Leased assets are included in tangible fixed assets at the total of the capital elements of the payments during the lease term and the corresponding obligation is included in creditors. Depreciation is provided to write off the assets over the shorter of the lease term or expected useful life.

##### (ii) Operating leases:

All leases other than finance leases are treated as operating leases. Rentals paid under operating leases are charged to the profit and loss account in the year to which they relate. The obligation to pay future rentals on operating leases is shown in note 27 to the financial statements.

**(k) Government grants and subsidies**

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

**(l) Unprocessed waste**

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

**(m) Site restoration provision**

Full provision is made for the net present value (NPV) of the Group's unavoidable costs in relation to restoration liabilities at its landfill sites and this value is capitalised as a fixed asset. In addition the Group continues to provide for the NPV of intermediate restoration costs over the life of its landfill sites, based on the quantity of waste deposited in the year.

**(n) Aftercare provision**

Provision is made for the NPV of post closure costs based on the quantity of waste deposited in the year. Similar costs incurred during the operating life of the sites are written off directly to the profit and loss account and not charged to the provision.

**(o) Discounting**

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

**(p) Deferred tax**

Deferred tax is provided in full in respect of timing differences arising between the treatment of certain items for tax and accounting purposes. Deferred tax assets in respect of trading tax losses are only recognised where the tax losses are expected to be recovered. Deferred tax provisions have not been discounted.

**(q) Foreign currencies**

Foreign currency denominated assets and liabilities, including capitalised goodwill and goodwill written off to reserves, are translated into sterling at the year end exchange rate. Transactions and the results of overseas subsidiaries and joint ventures in foreign currencies are translated at the average rate of exchange for the year. Exchange rate gains or losses arising on translation are offset by the translation gain or loss on currency borrowings with the net gain or loss reflected in reserves.

**(r) Financial instruments**

The disclosures required by FRS 13 – Financial Instruments are shown in note 19 to the financial statements. The Group does not include short term debtors and creditors in these disclosures as permitted by FRS 13.

## notes to the financial statements.

continued

### 2 Segmental analysis

The Group operates in one segment, Waste Management, in the United Kingdom, Belgium and the Netherlands.

	2004 £m	2003 restated £m
<b>(a) Turnover by origin and by destination of service</b>		
United Kingdom:		
– Waste services	244.2	233.6
– Chemical services	40.8	36.6
United Kingdom	285.0	270.2
Belgium	102.7	95.2
The Netherlands	200.4	186.0
<b>Group turnover</b>	<b>588.1</b>	<b>551.4</b>
Share of joint venture turnover	8.6	7.1
<b>(b) Operating profits</b>		
<i>Trading profits:</i>		
United Kingdom:		
– Waste services	15.4	19.7
– Chemical services	(0.2)	(1.4)
United Kingdom	15.2	18.3
Belgium	15.7	14.5
The Netherlands	24.2	25.9
Central services	(4.1)	(3.4)
<b>Operating profit before exceptional items and goodwill amortisation</b>	<b>51.0</b>	<b>55.3</b>
Exceptional operating items	–	(4.4)
Goodwill amortisation	(11.6)	(10.6)
<b>Total operating profit</b>	<b>39.4</b>	<b>40.3</b>
United Kingdom:		
– Waste services	12.6	13.1
– Chemical services	(0.3)	(1.8)
United Kingdom	12.3	11.3
Belgium	15.1	13.9
The Netherlands	16.3	18.7
Central services	(4.3)	(3.6)
<b>Total operating profit</b>	<b>39.4</b>	<b>40.3</b>
Non-operating exceptional items	–	(0.6)
<b>Profit before finance charges and taxation</b>	<b>39.4</b>	<b>39.7</b>
Finance charges – interest	(17.9)	(18.7)
Finance charges – other	(2.8)	(2.3)
Finance charges – exceptional	–	(0.5)
<b>Profit on ordinary activities before taxation</b>	<b>18.7</b>	<b>18.2</b>
<b>(c) Analysis of profit on ordinary activities before taxation</b>		
Group	17.3	17.0
Joint ventures	1.4	1.2
<b>Profit on ordinary activities before taxation</b>	<b>18.7</b>	<b>18.2</b>



**2 Segmental analysis continued**

	At 31 March 2004 £m	At 31 March 2003 restated £m
<b>(d) Net assets</b>		
United Kingdom:		
– Waste services	176.5	158.3
– Chemical services	37.4	33.6
United Kingdom	213.9	191.9
Belgium	22.0	23.1
The Netherlands	229.6	237.9
Net operating assets	465.5	452.9
Unallocated net assets (liabilities):		
Assets under the course of construction	14.8	18.2
Net debt	(309.1)	(297.5)
Other unallocated net liabilities	(33.9)	(29.8)
<b>Net assets</b>	<b>137.3</b>	<b>143.8</b>

Other unallocated net liabilities include debtors and creditors relating to tax and dividends, and an element of capitalised goodwill.

**3 Operating profit**

	2004 £m	2003 restated £m
<b>Gross profit</b>	<b>105.8</b>	<b>101.0</b>
Exceptional reorganisation costs	–	(1.2)
Goodwill amortisation	(11.6)	(10.6)
Other administration expenses (see note 1(b))	(56.4)	(50.3)
Total administration expenses	(68.0)	(62.1)
<b>Group operating profit</b>	<b>37.8</b>	<b>38.9</b>
<b>Group operating profit is stated after charging (crediting):</b>		
Depreciation of tangible fixed assets		
– owned	46.4	41.9
– held under finance leases and hire purchase contracts	0.3	0.4
Amortisation of goodwill	11.6	10.6
Total depreciation and amortisation	58.3	52.9
Exceptional leachate treatment costs	–	3.2
Net (profit) loss on disposal of fixed assets	(0.6)	0.1
Hire of plant and machinery – operating leases	13.8	11.1
Property rents payable	4.0	3.5
Government grants	(0.1)	(0.2)
Auditors' remuneration:		
– audit fees, including expenses (parent company £68,000 (2003: £68,000))	0.4	0.4
– non audit related fees (tax services)	0.2	0.2

The exceptional leachate treatment costs of £3.2m in 2003 related to the regulatory requirement to reduce historic leachate levels at United Kingdom landfill sites. The exceptional reorganisation costs of £1.2m in 2003 related to United Kingdom restructuring costs. The tax effect of these exceptional costs was to reduce the current tax charge by £1.3m.

In addition to the above, fees paid to the auditors of £0.4m have not yet been charged to the profit and loss account. These fees relate to the proposed disposal of the United Kingdom landfill and power business. Please see note 29 for further information.

## notes to the financial statements.

continued

### 4 Employees

	2004 Number	2003 Number
The average number of persons employed by the Group during the year was as follows:		
United Kingdom	1,814	1,883
Belgium	958	901
Netherlands	1,800	1,803
Central Services	15	15
	<b>4,587</b>	<b>4,602</b>
	2004 £m	2003 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	102.8	95.1
Employer's social security costs	17.7	16.0
Employer's pension costs	8.6	6.2
	<b>129.1</b>	<b>117.3</b>

### 5 Non-operating exceptional items

	2004 £m	2003 £m
Loss on disposal of assets	–	(0.6)

The exceptional loss in 2003 arose on the disposal of non-performing assets and surplus property. There was no tax effect arising in respect of this loss.

### 6 Finance charges – interest

	2004 £m	2003 £m
Net interest payable:		
Interest payable on bank loans and overdrafts repayable within five years	12.0	12.4
Interest payable on other loans	7.0	7.9
Share of interest of joint ventures	0.2	0.2
	<b>19.2</b>	<b>20.5</b>
Interest receivable	(1.1)	(1.8)
Interest costs capitalised as part of tangible fixed assets	(0.2)	–
	<b>17.9</b>	<b>18.7</b>

### 7 Finance charges – other

Other finance charges relate to the unwinding of the discount on long term landfill liabilities of £2.1m (2003: £1.8m) and the amortisation of bank fees of £0.7m (2003: £0.5m). An exceptional finance cost of £Nil (2003: £0.5m) arose on the modification of the Group's banking covenants. The tax effect of the 2003 exceptional cost was to reduce the current tax charge by £0.2m.

**8 Tax**

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

	2004 £m	2003 £m
Current tax: United Kingdom Corporation tax at 30% (2003: 30%)		
– current year	2.7	3.7
– prior year	–	(1.8)
Double tax relief	(3.0)	(4.2)
Overseas	10.1	11.1
	9.8	8.8
Deferred tax	(0.7)	(0.1)
Joint ventures	0.4	0.4
	9.5	9.1

The tax assessed for the period is higher than the United Kingdom standard rate of tax of 30% (2003: 30%). The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before taxation	18.7	18.2
Tax charge based on UK tax rate	5.6	5.5
Tax effect of the following items:		
Expenses not deductible for tax purposes:		
– Goodwill amortisation	3.5	3.3
– Depreciation of land rights	1.3	1.1
– Other disallowed items	0.3	0.3
Profits taxed at overseas tax rates	(2.2)	0.5
Capital allowances and other timing differences	1.1	0.7
Losses carried forward	0.6	–
Utilisation of tax losses and ACT	–	(0.4)
Adjustment to tax charge in respect of prior periods	–	(1.8)
Joint ventures	(0.4)	(0.4)
Current tax charge for the period	9.8	8.8

**9 Equity dividends**

	2004 £m	2003 £m
Interim dividend of 1.9p per ordinary share (2003: 1.9p)	4.4	4.4
Proposed final dividend of 3.8p per ordinary share (2003: 3.8p)	8.9	8.9
Total dividend of 5.7p per ordinary share (2003: 5.7p)	13.3	13.3

## notes to the financial statements.

continued

### 10 Earnings per share

Basic earnings per share are calculated by dividing the profit after tax for the period by the weighted average number of shares in issue during the period.

	2004	2003
<b>Calculation of basic earnings per share</b>		
Profit for the period (£m)	9.2	9.1
Exceptional items (net of tax) (£m)	–	4.0
Goodwill amortisation (£m)	11.6	10.6
Earnings before exceptional items and goodwill amortisation (£m)	20.8	23.7
Average number of shares in issue during the period	234.0m	234.0m
Basic earnings per share (pence)	3.9p	3.9p
Adjusted basic earnings per share before exceptional items and goodwill amortisation (pence)	8.9p	10.1p
<b>Calculation of diluted earnings per share</b>		
Average number of shares in issue during the period	234.0m	234.0m
Effect of share options in issue	0.4m	0.2m
Total	234.4m	234.2m
Diluted earnings per share (pence)	3.9p	3.9p

The Directors believe that adjusting basic earnings per share for the effect of exceptional items and goodwill amortisation enables a comparison with historical data calculated on the same basis.

### 11 Pensions – current SSAP 24 basis

#### (a) United Kingdom

The Group's principal funded defined benefit scheme is the Shanks Group Pension Scheme (the Scheme) which covers eligible UK employees. Pension costs are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The Group pension cost for the year for United Kingdom pensions was £5.1m (2003: £3.1m). The increase in the pension charge reflects the impact of changes in market conditions and actuarial assumptions, including mortality rates, since the previous valuation of the scheme's assets and liabilities. Further information on the Group's pension costs are set out in the Financial Review on page 13.

The most recent actuarial valuation at 5 April 2003 showed that the market value of the Scheme's assets was £42m. The actuarial deficit for funding purposes was £12m and the Group plans to eliminate this deficit over the next twelve years. For SSAP 24 purposes the actuarial value of the scheme's assets represented 78% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The SSAP 24 deficit is being spread over the average remaining life of the current employees.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and to the rate of increase in salaries. It was assumed that the investment returns would be 1.1% per annum higher than the growth in pensionable pay for post retirement returns and 2.6% for pre retirement returns. It was further assumed that pensions in payment would increase at 2.6% per annum.

#### (b) Overseas

Local pension arrangements for employees exist in Belgium and the Netherlands. The total cost for the year for overseas pensions was £3.5m (2003: £3.1m).

**12 Pensions – FRS 17 basis**

Whilst the Group continues to account for pension costs in accordance with SSAP 24 – Pension Costs, under FRS 17 – Retirement Benefits the transitional disclosures set out below are required. Further information on the Group's pension costs are set out in the *Financial Review* on page 13.

**(a) United Kingdom****Assumptions**

The most recent actuarial valuations of the defined benefit pension schemes operated by the Group have been updated by independent qualified actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of these schemes at 31 March 2004. The main assumptions for FRS 17 purposes for the schemes were as follows:

	2004 % pa	2003 % pa
Discount rate	5.5	5.5
Future salary growth	4.4	4.1
Rate of increase in pensions payment	2.8 to 2.9	2.5 to 2.6
Rate of price inflation	2.9	2.6

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

**Profit and loss account**

	£m	2004 £m	£m	2003 £m
Operating profit: Current service cost		3.9		3.2
Other finance items: Interest on scheme liabilities	4.0		3.6	
Expected return on scheme assets	(3.1)		(3.9)	
		0.9		(0.3)
Net pension cost before tax		4.8		2.9

The schemes were closed to new members in September 2002 and consequently the current service cost as a percentage of pensionable payroll is expected to increase in future years.

**Statement of total recognised gains and losses**

	% of scheme assets/ liabilities	2004 £m	% of scheme assets/ liabilities	2003 £m
Gain (loss) on actual return less expected return on scheme assets	11.9	6.5	(35.6)	(15.2)
Experience loss arising on scheme liabilities	(0.4)	(0.3)	(0.3)	(0.2)
Loss arising on changes in assumptions underlying the present value of the scheme liabilities	(4.6)	(3.8)	(9.6)	(6.8)
Actuarial gain (loss) recognised in the statement of total recognised gains and losses	2.9	2.4	(31.2)	(22.2)

## notes to the financial statements.

continued

### 12 Pensions – FRS 17 basis continued

#### Balance sheet

The fair value of the defined benefit schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, are set out below:

	Expected long term rate of return		Net pension liability	
	2004 % pa	2003 % pa	2004 £m	2003 £m
Equities	7.8	7.6	41.6	35.5
Government bonds	4.8	4.6	11.2	5.0
Corporate bonds	5.2	4.9	0.1	1.0
Cash	4.4	3.6	1.5	1.2
Total market value of assets			54.4	42.7
Present value of schemes liabilities			(82.6)	(71.2)
Net deficit in the schemes			(28.2)	(28.5)
Related deferred tax asset			8.5	8.6
Net pension liability			(19.7)	(19.9)

If the net pension liability had been recognised in the financial statements, the Group's net assets and profit and loss reserve would be as follows:

	2004 £m	2003 £m
Net assets excluding pension liability	137.3	143.8
SSAP 24 pension creditor	0.8	–
Net pension liability	(19.7)	(19.9)
Net assets including pension liability	118.4	123.9
Profit and loss reserve excluding pension liability	20.8	27.3
SSAP 24 pension creditor	0.8	–
Net pension liability	(19.7)	(19.9)
Profit and loss reserve including pension liability	1.9	7.4

#### Movement in pension deficit during the year

The movement in the pension deficit during the year was as follows:

	2004 £m	2003 £m
At 31 March 2003	(28.5)	(5.5)
Movement in the year:		
– Current service cost	(3.9)	(3.2)
– Employer contributions	2.7	2.1
– Other net finance (expense) income	(0.9)	0.3
– Actuarial increase (reduction)	2.4	(22.2)
At 31 March 2004	(28.2)	(28.5)

#### (b) Overseas

In the Netherlands, employees are members of an industry wide defined benefit pension scheme. It is not possible to separately identify the Group's share of the assets and liabilities of that scheme and, as permitted by FRS 17, the scheme is treated as a defined contribution pension scheme. In Belgium, the Group operates a small defined contribution scheme.

**13 Intangible fixed assets**

Group	Goodwill £m
<b>Cost:</b>	
At 31 March 2003	231.9
Goodwill arising in the year on purchase of undertakings and business (see note 16):	1.7
Exchange movements	(5.3)
<b>At 31 March 2004</b>	<b>228.3</b>
<b>Amortisation:</b>	
At 31 March 2003	33.9
Charge for the year	11.6
Exchange movements	(1.0)
<b>At 31 March 2004</b>	<b>44.5</b>
<b>Net book value:</b>	
<b>At 31 March 2004</b>	<b>183.8</b>
At 31 March 2003	198.0

**14 Tangible fixed assets**

Group	Land & Buildings £m	Landfill Sites £m	Plant & Machinery £m	Total £m
<b>Cost:</b>				
At 31 March 2003 – as previously reported	95.4	185.4	424.0	704.8
Prior year adjustment – see note 1(b)	–	–	1.1	1.1
At 31 March 2003 – restated	95.4	185.4	425.1	705.9
On purchase of subsidiary undertakings and businesses	1.1	–	1.0	2.1
Additions	12.6	25.8	44.8	83.2
Disposals	(0.7)	–	(18.9)	(19.6)
Reclassification	7.8	2.4	(10.2)	–
Exchange movements	(2.5)	(0.8)	(7.1)	(10.4)
<b>At 31 March 2004</b>	<b>113.7</b>	<b>212.8</b>	<b>434.7</b>	<b>761.2</b>
<b>Depreciation:</b>				
At 31 March 2003 – as previously reported	28.4	92.7	259.4	380.5
Prior year adjustment – see note 1(b)	–	–	0.2	0.2
At 31 March 2003 – restated	28.4	92.7	259.6	380.7
Depreciation charge for the year	4.1	8.7	33.9	46.7
Disposals	(0.1)	–	(16.0)	(16.1)
Reclassification	2.6	1.2	(3.8)	–
Exchange movements	(0.8)	(0.8)	(4.7)	(6.3)
<b>At 31 March 2004</b>	<b>34.2</b>	<b>101.8</b>	<b>269.0</b>	<b>405.0</b>
<b>Net book value:</b>				
<b>At 31 March 2004</b>	<b>79.5</b>	<b>111.0</b>	<b>165.7</b>	<b>356.2</b>
At 31 March 2003 – restated	67.0	92.7	165.5	325.2

The reclassification of assets arises following a management review of the categorisation of certain assets during the year to reflect more accurately their usage in the business.

Included in fixed assets are assets under construction costing £14.8m (2003: £18.2m). Included in plant and machinery are assets held under finance leases with a cost of £2.9m and accumulated depreciation of £1.1m (2003: cost £3.3m and accumulated depreciation £2.4m).

## notes to the financial statements.

continued

### 14 Tangible fixed assets continued

The net book value of land and buildings and landfill sites comprises:

Group	2004		2003	
	Land & Buildings £m	Landfill Sites £m	Land & Buildings £m	Landfill Sites £m
Freehold	75.9	103.9	63.6	82.7
Long leasehold	0.6	–	0.7	–
Short leasehold	3.0	7.1	2.7	10.0
	<b>79.5</b>	<b>111.0</b>	<b>67.0</b>	<b>92.7</b>

Company	Freehold Land & Buildings £m	Plant & Machinery £m	Total £m
<b>Cost:</b>			
At 31 March 2003	–	0.4	0.4
Additions	0.5	–	0.5
<b>At 31 March 2004</b>	<b>0.5</b>	<b>0.4</b>	<b>0.9</b>
<b>Depreciation:</b>			
At 31 March 2003 and at 31 March 2004	–	0.3	0.3
<b>Net book value:</b>			
<b>At 31 March 2004</b>	<b>0.5</b>	<b>0.1</b>	<b>0.6</b>
At 31 March 2003	–	0.1	0.1

### 15 Fixed asset investments

	Group			Company
	Joint venture investments £m	Joint venture loans £m	Unlisted investments £m	Shares in subsidiary undertakings £m
At 31 March 2003	5.2	2.9	1.1	270.3
Additions	–	–	–	59.5
Share of retained profits	1.0	–	–	–
Dividend receivable transferred to loan account	(1.0)	1.0	–	–
Amounts written off	(0.5)	–	–	–
<b>At 31 March 2004</b>	<b>4.7</b>	<b>3.9</b>	<b>1.1</b>	<b>329.8</b>

Details of subsidiary undertakings and joint ventures are shown on page 56 and form part of these financial statements.

The additions for the Company during the year related to the capitalisation of intercompany loans to Shanks & McEwan (Overseas Holdings) Limited.



**16 Acquisitions**

During the year, the Group made two minor acquisitions in the Netherlands. The book values of net assets acquired and the provisional fair value to the Group were as follows:

	£m
Tangible assets	2.1
Financing assumed with acquisitions	(2.3)
Net liabilities acquired	(0.2)
Provisional goodwill	1.4
Cash consideration (including costs)	1.2

During the year the Group completed the evaluation of the businesses acquired in the year ended 31 March 2003. Additional goodwill of £0.3m arose in the year due to additional acquisition costs.

**17 Stocks**

Group	2004 £m	2003 £m
Raw materials and consumables	5.5	4.4
Work in progress	2.0	2.1
Finished goods	0.6	0.5
	8.1	7.0

**18 Debtors**

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>Amounts due within one year:</b>				
Trade debtors	111.8	114.0	-	-
Amounts owed by joint ventures	-	0.2	-	-
Amounts owed by subsidiary undertakings	-	-	144.0	179.1
Other debtors	17.1	5.7	0.3	0.2
Prepayments and accrued income	7.6	7.8	4.3	0.1
Corporation tax	1.2	1.9	-	0.1
Deferred tax asset (see note 21)	-	-	0.5	-
<b>Total</b>	<b>137.7</b>	<b>129.6</b>	<b>149.1</b>	<b>179.5</b>

## notes to the financial statements.

continued

### 19 Borrowings and financial instruments

The Group's policy on treasury management is referred to in the financial review on page 12.

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>Amounts falling due within one year:</b>				
Bank overdrafts and short term loans	15.3	3.7	3.6	-
Loan notes as deferred consideration	-	0.6	-	-
Other loans	0.3	-	-	-
Finance lease obligations	0.2	0.6	-	-
	15.8	4.9	3.6	-
<b>Amounts falling due after more than one year:</b>				
Senior notes	87.2	110.0	27.4	48.3
Bank loans	235.1	203.0	206.5	183.2
Finance lease obligations	1.3	0.1	-	-
	323.6	313.1	233.9	231.5
<b>Notes and loans due after more than one year are repayable as follows:</b>				
Between one and two years	206.5	183.3	206.5	183.2
Between two and five years	20.9	10.6	-	-
More than five years	94.9	119.1	27.4	48.3
	322.3	313.0	233.9	231.5

The finance lease obligations falling due after more than one year comprised £Nil repayable between one and two years (2003: £0.1m) and £1.3m due after more than five years (2003: £Nil).

#### Analysis of gross borrowings

The Group's total gross borrowings may be analysed as follows:

	2004 £m	2003 £m
Principal Group borrowings	311.2	298.9
Private Finance Initiative company borrowings	28.2	19.1
	339.4	318.0

Details of the companies included within the Principal Group and Private Finance Initiative (PFI) companies are shown on page 56.

#### Undrawn borrowing facilities

At 31 March 2004 the Group has undrawn committed borrowing facilities as follows:

	Principal Group		PFI companies		Total Group	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Expiring in one year or less	51.9	43.5	-	-	51.9	43.5
Expiring in two years	0.6	54.7	-	-	0.6	54.7
Expiring in more than two years	-	-	120.1	132.5	120.1	132.5
	52.5	98.2	120.1	132.5	172.6	230.7

#### Security of borrowing facilities

The Group's principal bank loans are unsecured but are subject to cross guarantees within the Group, excluding the PFI companies. These companies have loan facilities, which are secured by fixed and floating charges on the assets of the PFI company only.

**19 Borrowings and financial instruments****Interest rate risk profile of financial assets**

The financial assets held by the Group, all of which are held at floating rates based on short term market rates, consisted of:

Currency:	2004 £m	2003 £m
Sterling	8.2	4.1
Euro	22.0	15.5
Dollar	0.1	0.9
	<b>30.3</b>	<b>20.5</b>

Financial assets include cash at bank and in hand of £22.0m (2003: £20.5m) which were held on call periods of less than one month and £8.3m (2003: £Nil) which is held as security against certain long term liabilities.

**Interest rate risk profile of financial liabilities**

The interest rate profile of the Group's financial liabilities after taking the effect of hedging instruments into account was:

Currency:	2004			2003		
	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m	Total £m
Sterling	100.6	58.2	158.8	54.4	69.1	123.5
Euro	92.1	89.0	181.1	103.9	91.2	195.1
<b>Total</b>	<b>192.7</b>	<b>147.2</b>	<b>339.9</b>	<b>158.3</b>	<b>160.3</b>	<b>318.6</b>

The above analysis of financial liabilities includes the provision for onerous leases of £0.4m (2003: £0.4m, see note 21), which is a sterling financial liability at floating rate under the definitions of FRS 13 and the long term creditor for government grants of £0.1m (2003: £0.2m, see note 20). The liability has been calculated by discounting the expected cashflows at prevailing interest rates.

The 2004 floating rate financial liabilities include £100.2m (2003: £54.0m) of sterling denominated borrowings and £92.0m (2003: £103.7m) of euro denominated borrowings which bear interest rates based on the LIBOR and EURIBOR.

In 2004, £58.2m (2003: £49.1m) of floating rate financial liabilities have been classified as fixed rate because of interest swaps held which fix the interest rates for a period of up to twenty two years (2003: up to twenty three years).

The weighted average interest rate and weighted average period for which it is fixed in respect of fixed rate financial liabilities at each year end was:

Currency:	2004		2003	
	Interest rate	Period	Interest rate	Period
Sterling	6.6%	2.3 years	7.3%	2.6 years
Euro	6.9%	7.3 years	6.9%	8.2 years

**Currency exposures**

The net value of monetary assets held in currencies other than the functional currencies and not hedged amounted to:

Functional Currency:	2004			2003		
	Euro £m	US Dollars £m	Total £m	Euro £m	US Dollars £m	Total £m
Sterling	–	0.1	0.1	–	0.9	0.9

## notes to the financial statements.

continued

### 19 Borrowings and financial instruments continued

#### Fair values of financial assets and financial liabilities

	2004		2003	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Financial assets:</b>				
Floating rate	30.3	30.3	20.5	20.5
<b>Financial liabilities:</b>				
Floating rate	192.7	192.7	158.3	158.3
Floating rate classified as fixed by matching interest swaps	58.2	58.2	49.1	49.1
Interest swaps	–	3.4	–	6.5
Fixed interest	89.0	95.5	111.2	116.3
	<b>339.9</b>	<b>349.8</b>	<b>318.6</b>	<b>330.2</b>

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

The difference between book and fair value of £9.9m loss (2003: £11.6m loss) has not been reflected in the results for the year as this will be matched against future borrowing costs. Of the £3.4m loss (2003: £6.5m loss) on interest swaps unrecognised at 31 March 2004, £0.5m (2003: £0.9m) is expected to be recognised within one year and £2.9m (2003: £5.6m) is expected to be recognised after one year.

### 20 Other creditors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>Amounts falling due within one year:</b>				
Trade creditors	65.3	69.4	0.4	0.1
Corporation tax payable	2.4	2.0	3.1	–
Other creditors	5.2	1.8	1.4	0.4
Tax and social security	10.3	8.4	0.1	0.7
Landfill tax	16.5	14.4	–	–
Accruals and deferred income	49.2	45.3	7.9	5.9
Unprocessed waste	8.0	8.9	–	–
Government grants	0.1	–	–	–
Dividends payable	8.9	8.9	8.9	8.9
	<b>165.9</b>	<b>159.1</b>	<b>21.8</b>	<b>16.0</b>
<b>Amounts due after more than one year:</b>				
Amounts owed to group undertakings	–	–	86.2	61.7
Other creditors	8.3	–	–	–
Government grants	0.1	0.2	–	–
	<b>8.4</b>	<b>0.2</b>	<b>86.2</b>	<b>61.7</b>

**21 Provisions for liabilities and charges**

<b>Group</b>	Site restoration £m	Aftercare £m	Leachate £m	Reorgan- isation £m	Onerous leases £m	Deferred tax £m	Total £m
At 31 March 2003 – as previously reported	18.6	26.4	3.2	0.6	0.4	18.9	68.1
Prior year adjustment – see note 1(b)	–	–	–	–	–	0.3	0.3
At 31 March 2003 – restated	18.6	26.4	3.2	0.6	0.4	19.2	68.4
Provided – cost of sales	2.6	3.5	–	0.1	–	–	6.2
– finance charges	0.7	1.4	–	–	–	–	2.1
– tax	–	–	–	–	–	(0.7)	(0.7)
Utilised	(2.5)	(0.8)	(2.0)	(0.4)	–	–	(5.7)
Reassessment of costs	5.1	–	–	–	–	–	5.1
Exchange rate movements	(0.1)	(0.1)	–	–	–	(0.4)	(0.6)
<b>At 31 March 2004</b>	<b>24.4</b>	<b>30.4</b>	<b>1.2</b>	<b>0.3</b>	<b>0.4</b>	<b>18.1</b>	<b>74.8</b>
<b>Company</b>							Onerous leases £m
<b>At 31 March 2003 and at 31 March 2004</b>							<b>0.4</b>

**Site restoration**

Site restoration provision relates to the cost of final capping and covering of the landfill sites. In accordance with FRS 12 – Provisions, the Group's minimum unavoidable costs have been reassessed at 31 March 2004 and the net present value fully provided for with additional costs of £5.1m now capitalised within fixed assets.

An element of the closing provision of £24.4m relates to costs of £5.5m that are expected to be paid over the next two to three years. The remaining part of the provision relates to restoration costs of £18.9m that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

**Aftercare**

The total post closure costs of landfill sites, including such items as monitoring, gas and leachate management and licensing, have been estimated by management based on current best practice and technology available. These costs may be impacted by a number of factors including changes in legislation and technology. The dates of payments of these aftercare costs are uncertain but are anticipated to be over a period of approximately thirty years from closure of the relevant landfill site.

**Leachate**

The leachate provision arises on the regulatory requirement to reduce historic leachate levels at UK landfill sites. This provision will be utilised over the next year.

**Reorganisation**

Reorganisation costs relate to site closure and associated rationalisation costs and are expected to be utilised over a number of years.

**Onerous leases**

The net present value of the rental on vacant leasehold properties has been provided in full. These payments will be made over the next five years.

## notes to the financial statements.

continued

### 21 Provisions for liabilities and charges continued

#### Deferred tax

The deferred tax provision for the Group is made up as follows:

	2004 £m	2003 restated £m
Capital allowances	22.1	20.4
Other timing differences	(1.7)	(0.2)
Tax losses	(2.3)	(1.0)
	<b>18.1</b>	<b>19.2</b>

The Company has a deferred tax asset of £0.5m (2003: £Nil) which arises on other timing differences. This asset has been included in debtors (see note 18).

### 22 Called up share capital

Group and Company	2004 £m	2003 £m
Authorised 350 million (2003: 350 million) ordinary shares of 10p each	35.0	35.0
Allotted, called up and fully paid 234 million (2003: 234 million) ordinary shares of 10p each	23.4	23.4

During the year to 31 March 2004, no ordinary shares were allotted.

Options outstanding at 31 March 2004 and 31 March 2003:	2004	2003
<i>Savings related share option schemes</i>		
Number of shares under option	3,002,636	2,522,698
Normal dates exercisable	2003–2009	2002–2008
Price per share	84p to 190p	119p to 190p
Weighted average subscription price	112p	139p

<i>Executive share option scheme</i>		
Number of shares under option	5,385,000	6,315,574
Normal dates exercisable	2001–2006	1999–2012
Price per share	101.5p to 233.5p	110p to 233.5p
Weighted average subscription price	169p	173p

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	2,417,959	2,596,296
Options exercised	-	33,835
Options lapsed	2,868,595	1,119,064

**23 Share premium and profit and loss accounts**

	<b>Group</b>		<b>Company</b>	
	Share premium £m	Profit and loss £m	Share premium £m	Profit and loss £m
At 31 March 2003 – as previously reported	93.1	26.7	117.1	8.2
Prior year adjustment – see note 1(b)	–	0.6	–	–
At 31 March 2003 – restated	93.1	27.3	117.1	8.2
Retained loss for the year	–	(4.1)	–	(6.8)
Currency translation loss on net investments (including goodwill)	–	(9.4)	–	–
Currency translation gain on borrowings	–	5.4	–	–
Currency translation adjustment on goodwill	–	1.6	–	–
<b>At 31 March 2004</b>	<b>93.1</b>	<b>20.8</b>	<b>117.1</b>	<b>1.4</b>

The cumulative goodwill written off Group reserves to 31 March 2004 on businesses continuing within the Group amounts to £48.1m (2003: £49.7m). £176.4m (2003: £176.4m) of goodwill has been eliminated against the share premium account by using the provisions of Section 131 of the Companies Act 1985 regarding merger relief.

**24 Result for the year**

The profit for the year in the financial statements of the Company is £6.5m (2003: £15.7m). As permitted by Section 230 of the Companies Act 1985, a profit and loss account for the Company has not been presented.

**25 Notes to the cash flow statement**

	<b>2004</b>		<b>2003</b>	
	Total £m	Before exceptional costs £m	Exceptional costs £m	Total £m
<b>(a) Net cash flow from operating activities</b>				
Total operating profit	39.4	44.7	(4.4)	40.3
Amortisation of intangible assets	11.6	10.6	–	10.6
Depreciation of fixed assets included in operating profits	46.7	42.3	–	42.3
Amounts written off joint venture investments	0.5	–	–	–
Provision for aftercare and site restoration	6.1	2.8	–	2.8
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>104.3</b>	<b>100.4</b>	<b>(4.4)</b>	<b>96.0</b>
(Profit) loss on sale of fixed assets	(0.6)	0.1	–	0.1
Increase in stocks	(1.1)	(0.4)	–	(0.4)
(Increase) decrease in debtors	(8.8)	5.2	–	5.2
Increase in creditors	8.7	27.2	0.5	27.7
Exceptional provision cost	–	–	3.2	3.2
Other provision cost	0.1	–	–	–
Utilisation of provisions	(5.7)	(9.5)	–	(9.5)
Share of profits of joint ventures	(1.6)	(1.4)	–	(1.4)
<b>Net cash flow from operating activities</b>	<b>95.3</b>	<b>121.6</b>	<b>(0.7)</b>	<b>120.9</b>

## notes to the financial statements.

continued

### 25 Notes to the cash flow statement continued

#### (b) Subsidiary undertakings and businesses purchased during the year (see note 16)

Group	2004 Total £m	2003 Total £m
Tangible fixed assets	2.1	1.1
Financing assumed with acquisition	(2.3)	–
Net (liabilities) assets acquired	(0.2)	1.1
Provisional goodwill capitalised	1.7	8.7
Total estimated consideration	1.5	9.8

#### (c) Analysis of financing

Short term loan (repayments) advances	(0.3)	0.1
Long term loan advances	34.0	17.8
Long term loan repayments	(20.0)	(5.8)
Finance lease net repayments	(0.7)	(0.9)
Net cash flow from debt	13.0	11.2

#### (d) Analysis of net debt in the balance sheet

	At 31 March 2003 £m	Cash flows £m	Financing assumed £m	Non cash items £m	At 31 March 2004 £m
Cash at bank and in hand	20.5	9.8	–	–	30.3
Overdrafts	(3.7)	(9.3)	(2.3)	–	(15.3)
		0.5			
Debt due within one year	(0.6)	0.3	–	–	(0.3)
Debt due after more than one year	(313.0)	(14.0)	–	4.7	(322.3)
Finance leases	(0.7)	0.7	–	(1.5)	(1.5)
		(13.0)			
Total	(297.5)	(12.5)	(2.3)	3.2	(309.1)

Non cash items comprise the amortisation of loan fees of £0.7m and exchange gain on translation of long term loans in currencies other than sterling of £5.4m, and the inception of new finance leases of £1.5m.

### 26 Capital commitments

Group	2004 £m	2003 £m
The aggregate amount of contracted capital expenditure authorised by the Directors for which no provision is made in the accounts is:	98.4	99.1

The Company had no capital commitments (2003: £Nil).



**27 Financial commitments**

<b>Group</b>	<b>2004 £m</b>	<b>2003 £m</b>
At the end of the year the Group had annual commitments under non-cancellable leases expiring as follows:		
Within one year	<b>0.6</b>	0.4
Between one and five years	<b>5.1</b>	3.4
After five years	<b>5.3</b>	4.5
	<b>11.0</b>	8.3

The Company has annual commitments of £0.1m (2003: £0.1m) under non-cancellable leases expiring after five years.

**28 Contingent liabilities****Group**

The Group is subject to a claim for the use of mineral rights at the Group's Greengairs landfill site in Scotland, which was originally quantified at £25m. The Directors' of the Group continue to resist the magnitude of the claim. Negotiations are continuing between the Group and the claimant and in the event these are not successful a court hearing has been scheduled for June 2004. At the current time, it is not possible to quantify with reasonable accuracy the likely liability arising for the Group and accordingly no potential loss has been provided for at 31 March 2004.

**Group and Company**

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

The Company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities totalling £104.7m (2003: £102.1m). In addition the Company has a contingent liability in respect of both VAT and Inland Revenue group payment arrangements totalling £4.1m (2003: £4.2m) and £Nil (2003: £Nil) respectively.

**29 Post balance sheet event**

On 25 May 2004, the Group reached agreement, subject to shareholders' approval, for the disposal of the United Kingdom landfill and power business for a consideration of £227.5m less costs. Further information is set out in the Financial Review on page 11.

## subsidiary undertakings and joint ventures.

at 31 March 2004

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

Subsidiary undertakings	Country of incorporation
<b>Principal Group subsidiary undertakings</b>	
Shanks Waste Services Limited	UK
Shanks Midlands Limited	UK
Shanks Northern Limited	UK
Caird Environmental Limited	UK
Safewaste Limited	UK
Shanks Chemical Services Limited	UK
Shanks Chemical Services (Scotland) Limited	UK
Page s.a.	Belgium
Shanks Hainaut s.a.	Belgium
Shanks Liege Lux s.a.	Belgium
Shanks Vlaanderen n.v. "Sobry"	Belgium
Shanks Transport n.v.	Belgium
Icova BV	Netherlands
BV van Vliet Groep Milieudienstverleners	Netherlands
Vliko BV	Netherlands
Klok Containers BV	Netherlands
Transportbedrijf van Vliet BV "Contrans"	Netherlands
Afvalstoffen Terminal Moerdijk BV "ATM"	Netherlands
Reym BV	Netherlands
Flection International BV	Netherlands
Shanks Re	Luxembourg
<b>Subsidiary undertakings holding Private Finance Initiative contracts</b>	
Shanks Argyll & Bute Limited	UK
ELWA Limited	UK

### Joint ventures

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

	Issued share capital	Class of shares	% Group holding	Country of incorporation
Geohess (UK) Limited	£200	Ordinary	50%	UK
Shanks Avondale Limited	£2,000	Ordinary	50%	UK
Caird Bardon Limited	£850,002	Ordinary	50%	UK
Silvamo s.a.	€495,787	Ordinary	50%	Belgium
Marpos n.v.	€495,787	Ordinary	45%	Belgium

## five year financial summary.

at 31 March 2004

	2004 £m	2003 restated £m	2002 restated £m	2001 restated £m	2000 restated £m
<b>Consolidated profit and loss account</b>					
Turnover	588.1	551.4	528.5	502.4	314.5
Operating profit before exceptional items and goodwill amortisation	51.0	55.3	66.4	65.7	43.8
Finance charges – interest	(17.9)	(18.7)	(18.4)	(18.0)	(5.0)
Finance charges – other	(2.8)	(2.3)	(2.3)	(2.0)	(1.2)
Profit before tax, exceptional items and goodwill amortisation ("Headline Profit")	30.3	34.3	45.7	45.7	37.6
Exceptional items	–	(5.5)	(8.4)	(0.1)	–
Goodwill amortisation	(11.6)	(10.6)	(10.0)	(9.4)	(1.4)
Tax	(9.5)	(9.1)	(12.2)	(15.7)	(12.6)
Profit after tax	9.2	9.1	15.1	20.5	23.6
Minority interests	–	–	–	–	(0.1)
Dividends	(13.3)	(13.3)	(13.3)	(12.9)	(12.2)
Retained earnings	(4.1)	(4.2)	1.8	7.6	11.3
<b>Consolidated balance sheet</b>					
Fixed assets	554.8	532.4	491.5	488.3	453.8
Other assets less liabilities	(108.4)	(91.1)	(60.5)	(41.6)	(46.0)
Net borrowings	(309.1)	(297.5)	(289.5)	(301.8)	(272.8)
	137.3	143.8	141.5	144.9	135.0
Share capital and share premium	116.5	116.5	116.4	115.6	114.9
Reserves	20.8	27.3	25.1	29.0	19.8
Minority interests	–	–	–	0.3	0.3
	137.3	143.8	141.5	144.9	135.0
<b>Earnings per share and dividends</b>					
Adjusted basic earnings per share	8.9p	10.1p	13.3p	12.8p	11.9p
Basic earnings per share	3.9p	3.9p	6.4p	8.8p	11.2p
Dividends per share	5.7p	5.7p	5.7p	5.55p	5.25p

**Note:**

The restatements of prior years relate to the change in accounting policy to capitalise finance costs on capital projects in 2004 and the introduction of FRS 19 – Deferred Taxation in 2002. In addition in 2002 the net expenditure incurred on long term engineering work at United Kingdom landfill sites was reclassified as a fixed asset rather than as a prepayment.

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ("the auditable part").

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

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the operating and financial review and the corporate governance statement.

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

### **Basis of audit opinion**

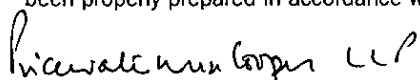
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' remuneration report. It also includes 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Directors' remuneration report 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 the Company and the Group at 31 March 2004 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

25 May 2004

## **notice of annual general meeting.**

Notice is hereby given that the Annual General Meeting of Shanks Group plc will be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday 29 July 2004, 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 31 March 2004 and the profit and loss account of the Group for the year ended 31 March 2004.
- (2) To approve the Remuneration Committee's report for the year ended 31 March 2004.
- (3) To declare a final dividend of 3.8 pence per ordinary share.
- (4) To re-elect Mr Clubb as a Director.
- (5) To re-elect Mr Averill as a Director.
- (6) To re-elect Mr Biffa as a Director.
- (7) To re-elect Mr Delaunois as a Director.
- (8) To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

### **Special business**

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

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

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

(10) 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 28 October 2005, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority available to the Directors under section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (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; or
- (b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £1,170,000,

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

By Order of the Board

**P Kaye**  
Secretary

25 May 2004



Registered office:  
Shanks House  
A8 Edinburgh Road  
Coatbridge  
Lanarkshire  
ML5 4UG

*The notes below form part of this notice.*

**Notes:**

1. A member entitled to attend and vote at the meeting convened by the foregoing Notice is entitled to appoint one or more proxies (who need not be a member or members) to attend and, on a poll, vote instead of him/her. A prepaid form of proxy accompanies this Notice.
2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, should be delivered to the Company's Registrar, Computershare Investor Services PLC, PO Box 1075, Bristol, BS99 3FA not later than 48 hours before the time appointed for the meeting.
3. The return of a completed form of proxy will not prevent a member from attending in person at the meeting should he/she so wish.
4. The register of interests of the Directors (and of their families) in the shares of the Company and copies of all service contracts under which Directors are employed by the Company or any of its subsidiaries will be available for inspection at the registered office of the Company at Shanks House, A8 Edinburgh Road, Coatbridge, Lanarkshire ML5 4UG during normal business hours, on any weekday (Saturday and public holidays excluded) from the date of this Notice up to the date of the Annual General Meeting and at the Glasgow Hilton on 29 July 2004, at least 15 minutes prior to, and during, the meeting.

## shareholder information.

at 31 March 2004

	Number of shareholders	Number of shares (thousands)	%
<b>Range of shareholding</b>			
1 – 5,000	2,401	4,185	1.8
5,001 – 25,000	697	6,814	2.9
25,001 – 50,000	92	3,236	1.4
50,001 – 100,000	60	4,113	1.8
100,001 – 250,000	63	10,092	4.3
250,001 – 500,000	37	13,020	5.5
over 500,000	87	192,587	82.3
	<b>3,437</b>	<b>234,047</b>	<b>100.0</b>
<b>Analysis of shareholders</b>			
Individuals	2,179	19,115	8.1
Banks and nominee companies	1,108	196,034	83.8
Other institutions and companies	150	18,898	8.1
	<b>3,437</b>	<b>234,047</b>	<b>100.0</b>

### Low cost share dealing service

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

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

### Registrar and Transfer Office

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

## financial calendar.

16 July 2004	Record date for final dividend 2003/04
29 July 2004	Annual General Meeting
20 August 2004	Payment of final dividend 2003/04
October 2004	Announcement of interim results and dividends
January 2005	Payment of interim dividend
March 2005	2004/05 financial year ends
May 2005	Announcement of 2004/05 results and recommended dividend



# Shanks Group plc

## form of proxy.

For the Shanks Group plc Annual General Meeting convened for 29 July 2004

I/We \_\_\_\_\_

of \_\_\_\_\_

being (a) member(s) of the Company, hereby appoint the Chairman of the meeting or

(see note 1) \_\_\_\_\_

of \_\_\_\_\_

as my/our proxy generally to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday 29 July 2004 at 11.00am and at any adjournment thereof. My/our proxy is to vote as indicated by an "X" below in respect of the resolutions set out in the notice of meeting (see note 2):

Resolutions:	For	Against
1 To receive the reports of the Directors and auditors, the balance sheets of the Company and of the Group as at 31 March 2004 and the profit and loss account of the Group for the year ended 31 March 2004.		
2 To approve the Remuneration Committee's report for the year ended 31 March 2004.		
3 To declare a final dividend of 3.8 pence per ordinary share.		
4 To re-elect Mr Clubb* as a director.		
5 To re-elect Mr Averill^ as a director.		
6 To re-elect Mr Biffa+ as a director.		
7 To re-elect Mr Delaunois# as a director.		
8 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration.		
9 To authorise the Company to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of Ordinary Shares of 10p each in the Company.		
10 To authorise the Directors to allot equity securities as if section 89(1) of the Companies Act 1985 did not apply.		

Date \_\_\_\_\_ 2004

Signed or sealed (see note 3) \_\_\_\_\_

\* Non-executive Director and Chairman

^ Executive Director

+ Non-executive Director and Chairman of the Audit Committee

# Non-executive Director

### Notes

- 1 A member entitled to attend and vote at the meeting is entitled to appoint one or more persons of his own choice to attend and, on a poll, vote instead of him. If it is desired to appoint any other person(s) as proxy, the words "the Chairman of the meeting or" should be struck out and the name(s) and address(es) of the other person(s) inserted in block letters in the space provided. A proxy need not be a member of the Company. Any alteration or deletion must be signed or initialled.
- 2 The manner in which the proxy is to vote should be indicated by inserting an "X" in the box marked "For" or "Against" (if no such indication is given, the proxy will vote or abstain at his discretion). The proxy will act at his discretion in relation to any other business arising at the meeting including any resolution to adjourn the meeting.
- 3 In the case of a corporation, this form of proxy should be either given under its seal or signed on its behalf by an attorney or duly authorised officer. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown.
- 4 Use of this form of proxy does not preclude a member from attending the meeting and voting in person.
- 5 To be valid this form of proxy must be lodged with the power of attorney or other authority (if any) under which it is signed, or an extract from the Books of Council and Session or a notarially certified copy of such power or authority, at the Company's Registrar, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA not later than 48 hours before the meeting.

THIRD FOLD & TUCK IN

BUSINESS REPLY SERVICE  
Licence No. SWB 1002



Computershare Investor Services PLC  
PO Box 1075  
Bristol, BS99 3FA

FIRST FOLD

SECOND FOLD

## company information.

### CORPORATE HEAD OFFICE

#### **Shanks Group plc**

Astor House  
Station Road  
Bourne End  
Buckinghamshire SL8 5YP

Tel: 00 44 (0) 1628 524523

Fax: 00 44 (0) 1628 524114

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

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

### REGISTERED OFFICE

#### **Shanks Group plc**

Shanks House  
A8 Edinburgh Road  
Coatbridge  
Lanarkshire ML5 4UG

Registered in Scotland No. 77438

### PRINCIPAL OFFICES

#### UNITED KINGDOM

##### **Shanks Waste Services**

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

##### **Shanks Chemical Services**

Charleston Road  
Hardley  
Hythe  
Southampton  
Hampshire SO45 3ZA  
Tel: 00 44 (0) 2380 883500  
Fax: 00 44 (0) 2380 897282

#### BELGIUM

##### **Shanks Belgium**

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

#### THE NETHERLANDS

##### **Shanks Nederland**

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

## corporate advisers.

### Financial Advisers

Lazard Brothers & Co. Limited  
Hoare Govett Limited

### Bankers

ABN AMRO Bank N.V.  
The Royal Bank of Scotland

### Solicitors

Ashurst  
Dickson Minto W.S.

### Auditors

PricewaterhouseCoopers LLP

### Registrars

Computershare Investor Services PLC  
Lochside House  
7 Lochside Avenue  
Edinburgh Park  
Edinburgh EH12 9DJ  
Tel: 0870 702 0010



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