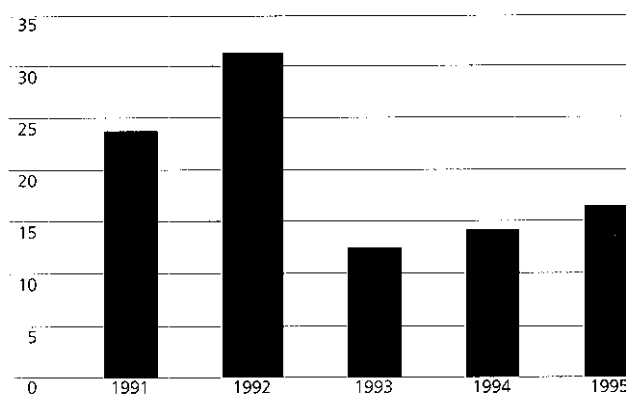


FINANCIAL HIGHLIGHTS

	1995	1994
Turnover	£139m	£120m
Profit before tax and exceptional items	£16.3m	£14.0m
Exceptional items	£(1.8)m	£(20.1)m
Profit (loss) before tax	£14.5m	£(6.1)m
Earnings (loss) per share	4.2p	(5.0)p
Earnings per share before exceptional items	5.5p	3.6p
Earnings per share from continuing operations before exceptional items	5.9p	4.1p
Dividend	3.30p	3.24p
Net debt	£7m	£31m
Gearing	11%	46%
Net asset value per share	37p	37p
Interest cover before exceptional items	8x	7x

PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS (£m)



CHAIRMAN'S STATEMENT

It is encouraging that Shanks & McEwan Group PLC returned to profitability during the financial year to 1 April 1995. The Group has recovered from its loss of £6m after exceptional items in the previous year. Profits before taxation and exceptional items have risen to £16.3m from £14.0m, an increase of £2.3m (16%).

RESULTS

Group turnover during the year to 1 April 1995 rose by £19.6m (16%) to £139.1 from £119.5. Substantially higher revenues were achieved at both Waste Services and Construction, more than offsetting the decline at Rechem, to which I refer later.

The increase of £2.3m of profits from normal trading before taxation were the results of mixed fortunes within the various divisions. The performance of Southern Waste Services was excellent and that of Northern Waste Services creditable, particularly after increased provisions for aftercare at their sites. However, the trading conditions in the hazardous waste market were difficult throughout the year.

As a result of the Government's policy to restrict imports, together with its failure to regulate that certain hazardous wastes should be incinerated at high temperature as happens in neighbouring EU states, Rechem, despite drastic management action to reduce its cost base, incurred operating losses of £0.4m compared with an operating profit of £4.9m in 1994.

Earnings per share from continuing operations before exceptional items were 5.9 pence, an increase of 44% on the comparable figure of 4.1 pence for 1994. Your Board recommends the payment of a final dividend of

2.2 pence net per share. Dividends in the aggregate for the year will then be 3.3 pence net per share. As such they represent only a very modest but nevertheless first increase on the 3.24 pence net per share declared in 1994.

There has been a substantial improvement in the finances of the Group due to cash generated primarily from operations but also recovered from the Scottish Office and other parties against whom the Construction division had outstanding claims. Indeed the net debt of the Group fell by no less than £23.6m to stand at £7.3m at the end of the financial year. That represents gearing of only 11% (1994: 46%) and the Group has now clearly restored its ability to invest in new business opportunities for growth in the future.

DEVELOPMENTS

It was announced on 21 March 1995 that the Group had reached agreement with the Scottish Office to settle its outstanding claims on the M74 and A1 contracts. The monies due in terms of that agreement have now been received. That and the subsequent sale of the Construction division on 12 April 1995 to Jarvis plc brings to an end an extremely unhappy chapter for the Group where very heavy losses were suffered in recent years. The latter would have been substantially higher but for the efforts of Mr A J Rush who conducted the protracted negotiations with the Scottish Office and the various other parties against whom the Group had outstanding claims. Mr Rush was appointed to take charge of the Construction division as the extent of its losses began to unfold and he has carried out his unenviable task with distinction. The Group is very grateful to him.

It was also announced on 31 March 1995 that the Group had sold its London fleet of collection vehicles. That was never a major part of the Group's business and had incurred small losses.

There will be expenditure over the next two and a half years to install the additional nineteen megawatts of generating capacity to fulfill grants awarded to the Group from the third tranche of the Non Fossil Fuel Obligation. These grants last for fifteen years and should prove to be attractive business.

The Group is positive about the recently announced landfill tax which is due to be levied from 1996 although it is lobbying hard to change the *ad valorem* tax proposed to a weight based system which we believe to be of greater environmental benefit. A weight based system will not give advantage to poorly engineered cheaper landfill sites.

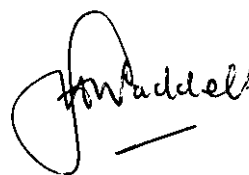
At Rechem both much greater volumes and higher prices are required if profitability is to be restored to anything like the levels earned in the past and justify the substantial expenditure already incurred to meet standards imposed by the Government. If the Government continues to fail to take appropriate action then the responsibility for putting in jeopardy what has been described by Her Majesty's Inspectorate of Pollution as a strategic national resource, will lie squarely at its door.

DIRECTORATE

At the Annual General Meeting on 3 August 1995, Mr D M Munro who was appointed on 13 July 1982 will retire as a director. The Group is very grateful to him for the wise advice given to the conduct of its affairs. Mr I M Clubb was appointed to the Board and Chairman of the Audit Committee on 29 September 1994. He was formerly Finance Director of the BOC Group and is Chairman of the CTR Group and a director of a number of other public companies. He has already made a valuable contribution and I am confident he will continue to do so in the future.

SUMMARY

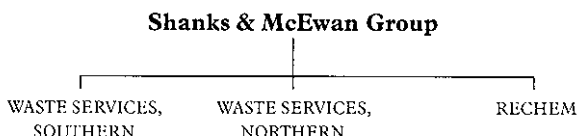
Much remains to be done but the partial recovery in Group profitability is encouraging as is the restoration of a sound financial position. The emphasis will now change from the problems of the past which, with the exception of Rechem, are behind the Group, to a focus on the new opportunities for attractive business in the waste disposal industry of which there are many.



G H Waddell
Chairman

OPERATING REVIEW

Since early 1994 the focus of management attention has been inward. During this period the Shanks & McEwan Group has been considerably rationalised and, with the disposal of the construction activities to Jarvis plc, has the following simple structure:



The Group is now entirely focused on Waste Management, has a streamlined organisation and a greatly reduced cost base. Decision making is faster and is devolved to the relevant management level resulting in faster communication and greatly improved morale. Recent times have been challenging for the Group's staff and my thanks go to the entire team who have embraced cultural changes with enthusiasm and commitment. The result is a more flexible and responsive customer driven organisation of which

we can all be justifiably proud. This has contributed substantially towards the healthy increase in trading profits and strong cash generation shown during the year under review.

This phase of the Group's development is now substantially complete therefore the focus in the current year must be outward and forward looking such that the most exciting and profitable opportunities are exploited for the future.

WASTE SERVICES, SOUTHERN

Nowhere have the benefits of the recent organisational changes been more evident than in Southern Waste Services. Its managing director Jim Meredith and his team have delivered an outstanding result.

A concerted effort aimed at increasing landfill prices has succeeded in not only covering greater engineering and aftercare costs which resulted from the new Waste



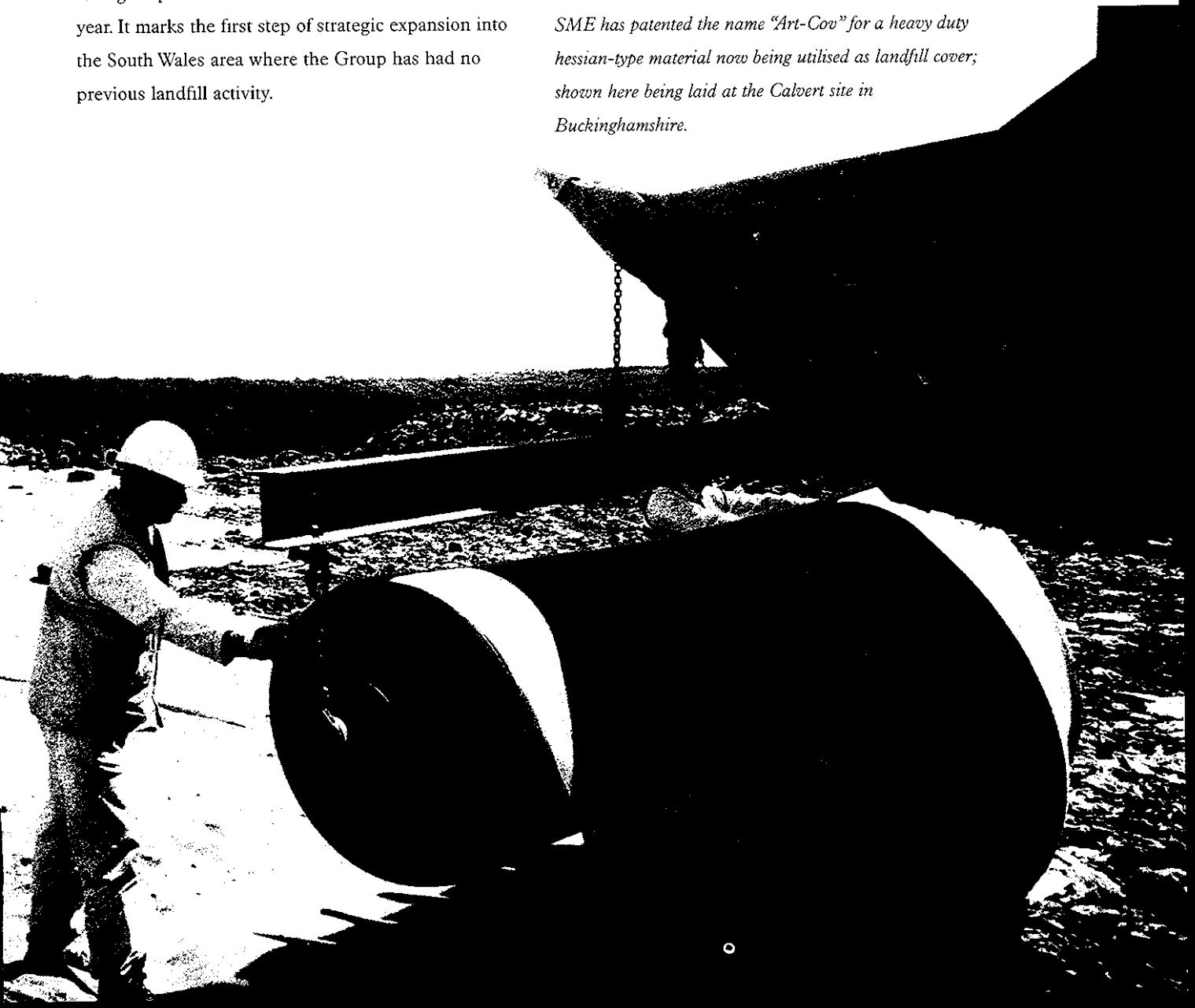
Management Licensing regime but also in restoring some of the profitability lost during the worst of the recessionary period.

Another feature of this period was the dearth of contaminated spoil contracts but, during 1994/95, a number of small such contracts made a strong contribution to profits.

During the year a new landfill site was acquired at Pwllfawatkin in South Wales. Preparatory engineering works are now well underway and the site is expected to begin operations in the second half of the current year. It marks the first step of strategic expansion into the South Wales area where the Group has had no previous landfill activity.

At the end of the 1994/5 year the company sold its London vehicle waste collection fleet to Cleanaway Ltd. The operation was too small to be profitable in this fiercely competitive market and it was decided that the capital funds necessary to secure adequate profitability would be better used elsewhere. The remaining core of the Southern Collection activity has traded well and shown an improvement on the previous year. The management of this activity will now be able to concentrate on its significant development potential.

SME has patented the name "Art-Cov" for a heavy duty hessian-type material now being utilised as landfill cover; shown here being laid at the Calvert site in Buckinghamshire.



OPERATING REVIEW

continued

The performance of the Energy department is worthy of particular note. Not only have profits increased substantially but the team successfully bid for grants under the third tranche of the Non Fossil Fuels Obligation. As a consequence Southern Waste Services will be investing some £10m over the next two years in a further 15MW of generating capacity to supplement the existing 22MW. It is expected that significant profits from these activities will commence in the 1997/8 year.

As part of the recent reorganisation of the Environmental Services division, the Stewartby and Teesside hazardous waste treatment plants have been absorbed into Southern Waste Services. This change has been completed with the minimum of disruption and has secured considerable cost reductions in response to this most difficult market.

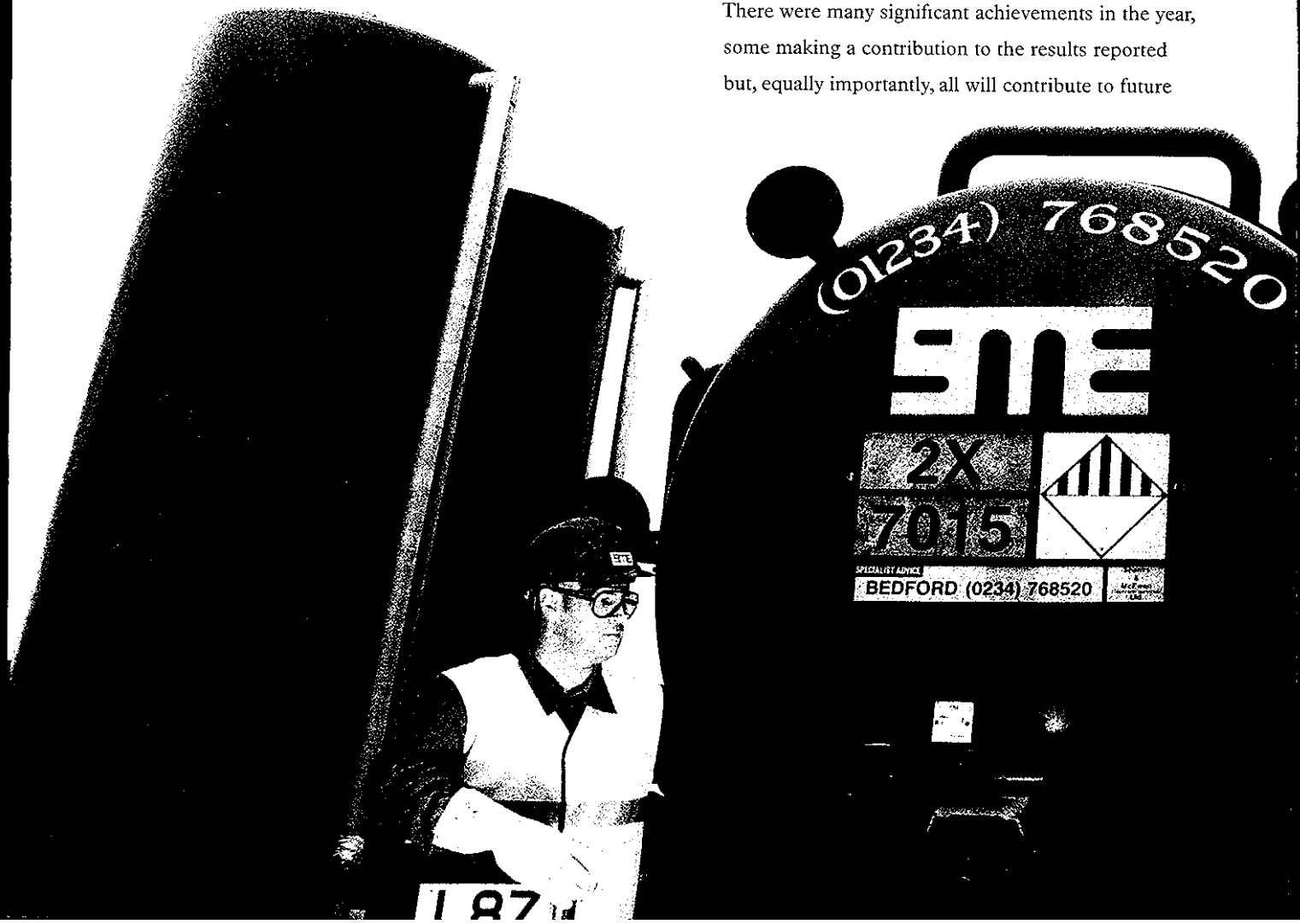
To support this rapid progress a new finance and information technology team has been created to devise and implement an improved management information system. Timely and concise information is now available.

Southern Waste Services has emerged from a period of introspective rebuilding as a robust and flexible unit. Its challenge now is to adapt and expand in the rapidly changing environment of our industry, a task for which the team is well motivated and confident.

WASTE SERVICES, NORTHERN

For many years Ken Morin and his colleagues have delivered increased sales and profits and I am pleased to report that 1994/5 was no exception.

There were many significant achievements in the year, some making a contribution to the results reported but, equally importantly, all will contribute to future



performance. These include new transfer station contracts for the district councils of both Renfrew and Eastwood, a disposal contract with Cumbernauld and Kilsyth District Council and a new recently won ten year contract with Gordon District Council which is expected to commence in July 1995.

In common with their colleagues in the South, a new 15 year "energy from landfill gas" grant has been secured from the Scottish Renewables Office, the first such scheme in Scotland. This £2m project is in two broadly equal phases totalling 4MW and will be fully operational by the end of 1997.

The year has seen increases in landfill costs resulting from the new Waste Management Licensing regime with parallel and continuing efforts to recover these costs from our customers. This has been a

challenging task when economic growth in the region has been fragile, particularly in the construction sector.

Concurrent with the reorganisation described in the South, the Tullos treatment plant and transfer station were consolidated into Northern operations from Shanks & McEwan (Technical Services) Ltd. Again this integration was achieved with little or no disruption and now enables the division to offer its customers the added value of genuine integrated waste management. This capability will soon be augmented by the addition of a new transfer station at Polmadie, Glasgow.

The hazardous waste transfer station and treatment plant at Hartlepool, Teesside; now integrated into Southern Waste Services operations.



OPERATING REVIEW

continued

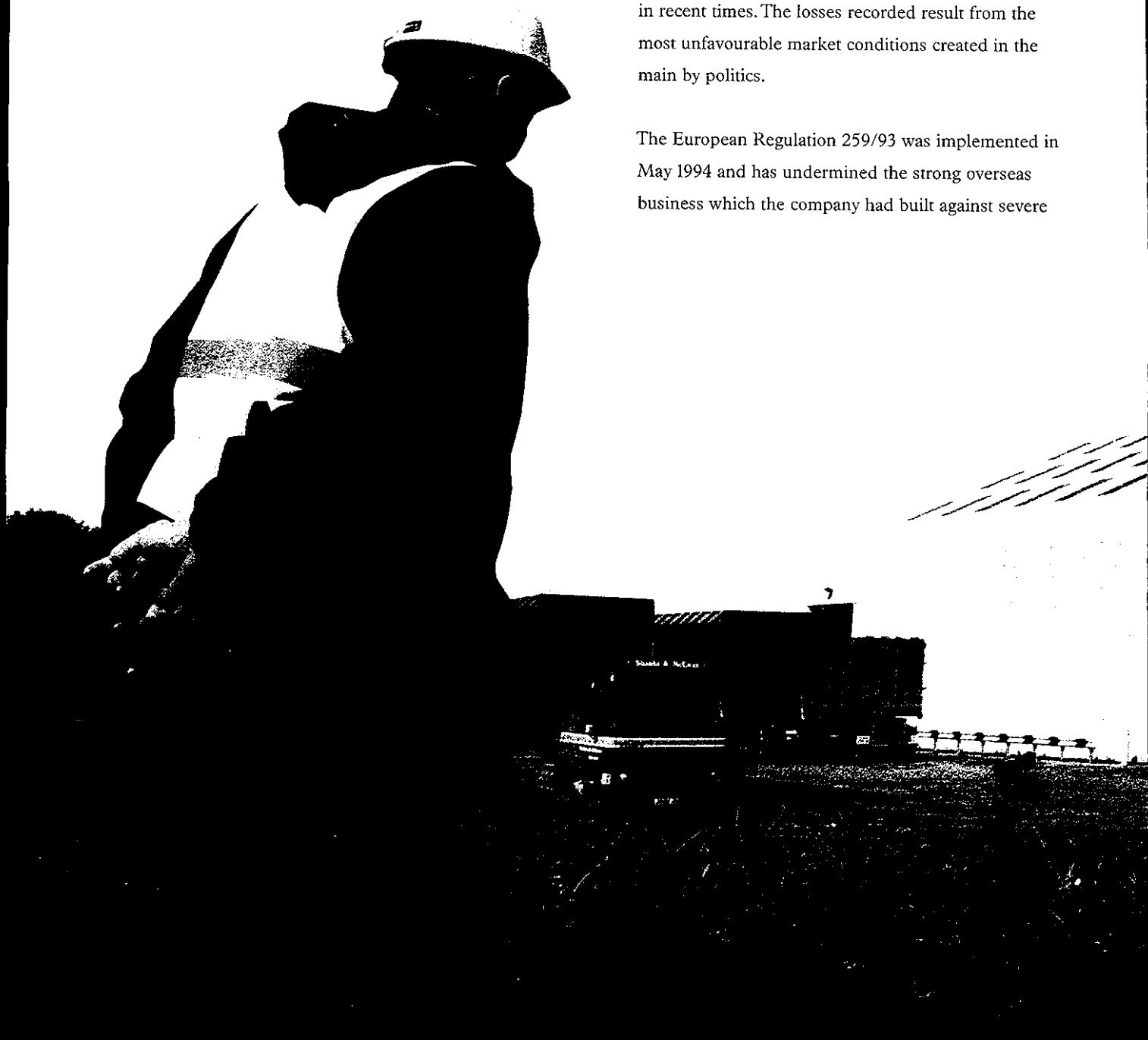
The new Linwood transfer station in Renfrewshire represents one of a number of new and renewed local authority contracts won by Northern Waste Services.

The division has responded to the challenge of decentralised control with management and structural changes combined with staff training. These initiatives coupled with a far reaching customer care programme provide the enthusiasm and optimism which are so important in the maintenance of the enviable record of the past. In all a most creditable performance.

RECHEM

Rechem has experienced its most difficult trading year in recent times. The losses recorded result from the most unfavourable market conditions created in the main by politics.

The European Regulation 259/93 was implemented in May 1994 and has undermined the strong overseas business which the company had built against severe



foreign competition. These imports are generally highly priced wastes and therefore the effect on profitability following their curtailment is severe.

Currently the DoE is considering comments on the draft plan on the import and export of waste issued in February 1995. Unless these comments succeed in altering the thrust of the draft then the outlook for waste imports for high temperature incineration will become even more restricted.

At the same time there is increasing encroachment into the UK market for our services by cement kilns which burn hazardous waste to less rigorous standards. Initially this activity was justified in terms of substitution of fossil fuels but presently the trend is to blend low calorific value and other more hazardous

waste into the mix which is burnt. Government action is required if the strategically important high temperature incineration capacity is to be preserved. In particular if the standards covering landfill set by our near European neighbours were followed demand would increase substantially and the environment would be better protected. Government created the market for high temperature incineration by regulation. If it seeks to maintain this valuable and environmentally sound resource it must realise that only regulation will preserve it.

The Rechem management has responded well to reduced business levels with an improvement programme which has introduced new working practices, removed layers of management and supervision and improved information flow.



OPERATING REVIEW

continued

An unfortunate consequence was the declaration of 60 redundancies.

A major element of the programme was the disbandment of the Environmental Services Division which previously included Rechem International Ltd and Shanks & McEwan (Technical Services) Ltd.

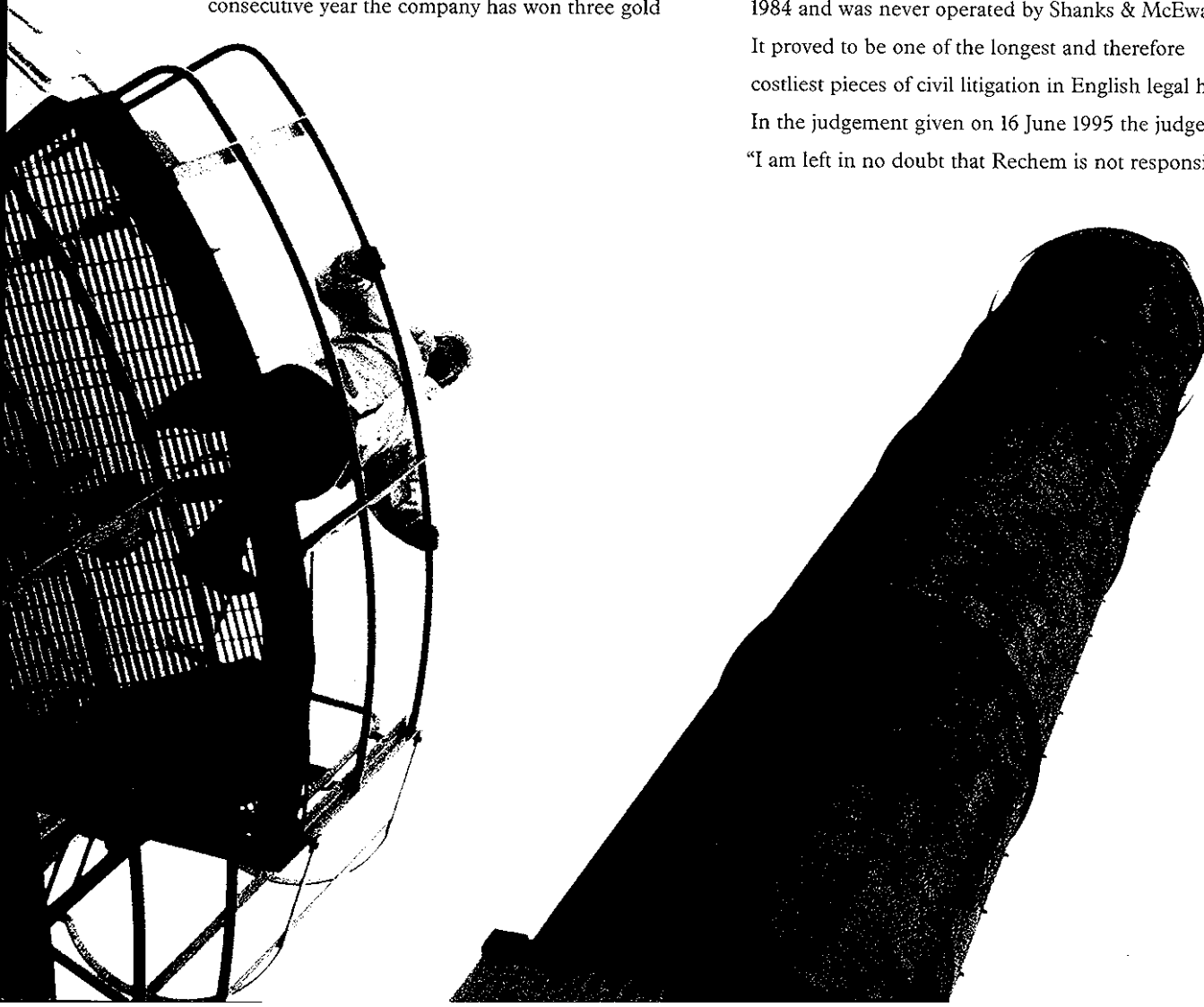
Rechem now exists as a stand alone company and the former Technical Services businesses have been absorbed into Northern or Southern operations according to geography. These measures have brought very substantial cost savings which have ensured that, despite the poor results, the business remains cash generative.

Rechem has excelled in other areas. For the third consecutive year the company has won three gold

awards from RoSPA for its safety record. The Pontypool plant in particular achieved a land mark safety performance of one million man hours and five years without a lost time injury. In addition the environmental laboratory has followed the lead set by the two incineration plants with its accreditation to BS5750.

Further reports commissioned by the Welsh Office were published by the University of East Anglia, again confirming the integrity of the operations at Pontypool.

The High Court case brought against the company by Scottish farming couple Mr and Mrs Graham relating to losses suffered amongst their cattle herd in the vicinity of a former Rechem incinerator near Falkirk ended on 16 December 1994. This plant was closed in 1984 and was never operated by Shanks & McEwan. It proved to be one of the longest and therefore costliest pieces of civil litigation in English legal history. In the judgement given on 16 June 1995 the judge said, "I am left in no doubt that Rechem is not responsible in



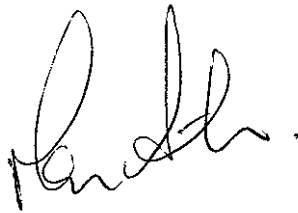
any way for the ill health that afflicted the Graham's dairy herd in the 1980's". The judgement is a complete vindication of the Company's position.

CONSTRUCTION SERVICES

As previously reported the Construction debtors were thoroughly reviewed at the end of 1993/4 and those relating to old contracts were written down to £8.9m. At the time it was stated that great efforts would be made to collect these monies during 1994/5 following which it would be appropriate to review the division's future within the Group.

Sums in excess of the £8.9m have now been recovered mainly from the A1 and M74 road contracts although this figure was only passed close to the end of the year. During this period the division managed to reduce its losses, largely through securing extra contribution from increased turnover. The Braehead retail development and Heritage Loch submarine dock contracts were particularly successful.

On 12 April this year the division was sold to Jarvis plc for a nominal consideration. We extend our best wishes to Jarvis and all our former employees for a successful future together. It is right that they should be managed by a company committed to their industry.



M C E Averill
Group Chief Executive

*A view of the stack rising above the gas cleaning plant
at the Rechem high temperature incinerator site at
Pontypool, Gwent.*



FINANCIAL REVIEW

FINANCE FUNCTION

The finance function has been reorganised to be more proactive in its support of operating management in addition to improving its historical responsibility for accounting, control and treasury. Financial planning analysts have been appointed in each major profit centre to provide an added value service in the planning and analysis of that business unit. Management control has been enhanced by the decentralisation of computer systems and by additional accounting professionals, who provide more relevant information on business performance. The management of cash has been a major priority this year.

ACCOUNTING POLICY

It continues to be the Group's policy to follow best practice in terms of prudent accounting, to provide shareholders with relevant information and to comply with the pronouncements of the Accounting Standards Board, including the early adoption of new standards.

This Report includes full disclosure of Board remuneration and a comprehensive statement on internal controls. The business segmentation analysis has been presented on the basis of the Group's current organisation structure with comparisons restated accordingly.

TREASURY AND RISK MANAGEMENT

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

All the Group's debt is denominated in sterling. Its long term debt is a ten year £20m fixed rate (8.9%) private placement. The Group also has a short term multi-option facility. Any credit balances are lodged with its clearing bank or placed in the sterling money market.

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

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

KEY FINANCIAL FIGURES

	1994/95	1993/94
Turnover	£139m	£120m
Profit before tax and exceptionals	£16.3m	£14.0m
Exceptional items	£(1.8)m	£(20.1)m
Effective tax rate	38%	52%
Net debt	£7m	£31m
Gearing	11%	46%
Earnings (loss) per share	4.2p	(5.0)p
Earnings per share from continuing operations before exceptional items	5.9p	4.1p
Dividend	3.30p	3.24p

TURNOVER

Turnover grew by £19.6m (16%) due principally to Waste Services (£16.8m) and the recently disposed Construction Services (£10.4m). However, Rechem had a difficult year with turnover falling by £6.8m reflecting poor UK prices and import restrictions. Waste Services' turnover benefited from contaminated spoil contracts and the higher prices necessary to recover the increased regulatory costs of landfill.

OPERATING RESULTS

Profit before tax and exceptional items rose £2.3m to £16.3m, an increase of 16%. The improved trading performance of Waste Services (up £6.1m) was due to higher volumes, better margins and cost savings resulting from last year's reorganisation, which more than offset the increase of £1.6m in aftercare provisions relating to the Group's long term liability at its landfill sites. The deterioration at Rechem (down £5.3m) due to reduced margins, has been partially offset by a major cost cutting programme. Although Rechem continues to operate at around breakeven, it is expected to be cash generative in 1995/96.

The central costs were reduced by £1.0m reflecting the smaller head office arising from the decentralisation of the Group.

The discontinued loss-making business of Construction Services showed an improvement of £0.4m due to increased turnover.

EXCEPTIONAL ITEMS

There are three non-recurring items this year, two of which are classified as FRS 3 exceptional items. The other item, which is shown in the operating results as exceptional, is the £1.9m over-recovery of unpaid old Construction debtors for which an exceptional provision of £10.7m was made in last year's operating results.

The Construction Services business was sold on 12 April 1995, after the year end, to Jarvis plc for a nominal consideration. This resulted in a loss on disposal of £4.3m but the Group has retained the right to recover further monies up to £1.1m if certain unpaid claims are realised.

The London Collection business was sold on 31 March 1995 to Cleanaway realising a profit on disposal of £0.6m.

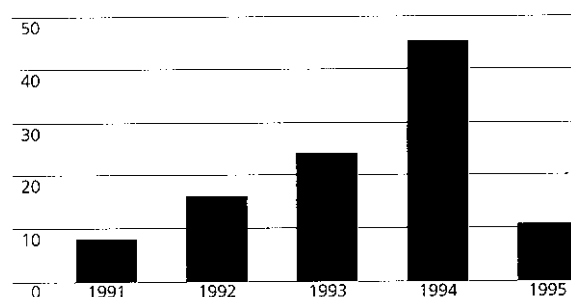
TAXATION

The Group's tax charge of 38% on profit before exceptional items is higher than the standard UK rate of 33% principally due to the non-deductibility of landfill void amortisation. This is becoming more significant as volumes increase and more expensive void is utilised. In previous years, the tax charge has been lowered by the non-provision for deferred tax at Rechem. As the prospects for substantial future investment at Rechem are remote, provision is now being made for its deferred tax liabilities.

NET DEBT

The group net debt has dramatically improved from £30.9m to £7.3m during the year. This reversed a four year trend of increased borrowings and has been achieved primarily by rigorous control of working capital, the collection of outstanding Construction claims and constraints on capital expenditure. However, the net interest cost remained essentially the same at £2.2m which reflected the profile of the Group's net debt over the two year period and the lack of capitalised interest in the latter year. The interest expense is covered a healthy eight times by profits before exceptional items.

GEARING %

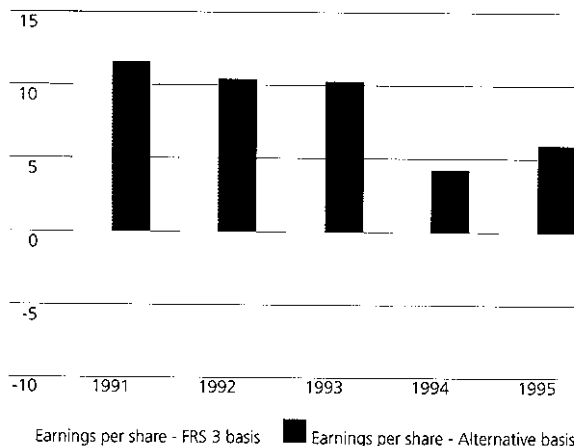


Since the year end the cash position has been adversely affected by the sale of Construction to Jarvis plc. The Construction division operated with negative working capital. It was therefore necessary to inject some £2.7m cash into the business to increase its net assets to zero which was the basis of its sale as shown in note 25 to the accounts. This increases gearing on a pro-forma basis from 11% to 15%.

EARNINGS PER SHARE (EPS)

An Alternative EPS has been shown which excludes the discontinued business and exceptional items in order to assist the understanding of earnings arising from ongoing trading activities. The Alternative EPS on this basis amounts to 5.9p compared with the FRS 3 EPS of 4.2p. Note 10 to the accounts details the derivation of these figures.

EARNINGS PER SHARE (pence)



DIVIDEND

The proposed final dividend of 2.2p per share reflects the 1:2 ratio of interim to final dividend stated in last year's Chairman's Statement. The proposed annual dividend of 3.3p per share is covered 1.8 times by the Alternative EPS.

INVESTMENT

During the year, the Group has spent £11m on capital expenditure which represents 81% of its depreciation charge. This lower level of investment was necessary to improve the cash position of the Group and is not forecast to recur in the future. Capital expenditure is expected to rise in 1995/96 and will include the start of the £12m investment in power generation projects which was announced in December 1994.

GOING CONCERN

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

D J Downes
Group Finance Director

CORPORATE GOVERNANCE

Code of Best Practice

The Board is pleased to report that it complies fully with the provisions of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) for which guidance has been formally issued. Our auditors, Price Waterhouse, have reported to the Board that in their opinion the directors' statement on going concern on page 14, has provided the disclosures required in paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and is not inconsistent with the information which came to the auditors' attention as a result of their audit work on the financial statements; and that the directors' statement above appropriately reflects the Group's compliance with the other paragraphs of the Code specified for their review. The auditors were not required to perform the additional work necessary to, and did not express any opinion on the Group's corporate governance procedures. External guidance has not yet been finalised on the remaining provision regarding reporting by directors on internal control. However, a summary of the Group's established system of internal controls is set out in the Directors' Report.

Board Committees

Two Board committees are required by the Code:

The Audit Committee is formally constituted with written terms of reference. It is chaired by Mr I M Clubb and comprises the non-executive directors and the Chairman (see page 16). The Committee meets at least twice a year and is attended for part or all of each meeting by the external auditors. The executive board members are also invited to attend its meetings from time to time and the external auditors have access to the Audit Committee without the presence of the executive board members for independent discussion.

The Audit Committee has authority to examine any matters relating to the financial affairs of the Group and to the Group's external audit. This includes the appointment and fees of the external auditors and discussions with the external auditors about the nature and scope of the audit including the management letter, reviews of the half-year and annual financial statements, internal control procedures, accounting policies, compliance with accounting standards and such other related functions as the Board may require.

The Remuneration Committee is chaired by Mr D M Munro and comprises the non-executive directors, the Chairman and the Group Chief Executive (see page 16). The Committee recommends to the Board the terms and conditions including annual remuneration of the executive directors. No executive directors have service contracts in excess of two years.

DIRECTORS

G H WADDELL, BA, MBA

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

***A G L ALEXANDER, FCA**

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

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

Group Chief Executive
Joined the Group in 1989

***R C BIFFA, MInstWM**

Non-executive Deputy Chairman
Joined the Board in 1991

***I M CLUBB, CA**

Chairman of Central Transport Rental
Group PLC
Director of Fenchurch PLC
Director of First Choice Travel plc
Joined the Board in 1994

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

Group Finance Director
Joined the Group in 1993

***D M MUNRO, CA**

Chairman of Pittencreiff Resources plc
Director of Quayle Munro Holdings PLC
Joined the Board in 1982

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

Group Commercial Director
Joined the Group in 1986

**Non-Executive Directors*

Board Audit Committee

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

Board Remuneration Committee

D M Munro (Chairman)
A G L Alexander
M C E Averill
R C Biffa
I M Clubb
G H Waddell

Secretary

S B J Hodge, CA

ADVISERS

Joint Financial Advisers:

Hoare Govett Corporate Finance Ltd
Kleinwort Benson Ltd
Quayle Munro Ltd

Bankers:

The Royal Bank of Scotland plc

Solicitors:

Dickson Minto WS

Auditors:

Price Waterhouse

Registrar and Transfer Office:

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

Tel: 0131-556 8555

Fax: 0131-442 4924

ENVIRONMENTAL ADVISORY BOARD

The Environmental Advisory Board was set up by Shanks & McEwan to help the Group operate to the highest environmental standards and to advise on environmental issues. The Board reviews our operations and recommends improvements where necessary.

The Board's membership consists of environmental specialists of high standing, under the chairmanship of the Earl of Cranbrook, Chairman of English Nature, and one of Britain's leading environmentalists.

The Board's views and recommendations are circulated and acted on within the Group. It publishes an Annual Report which is widely distributed to interested individuals and organisations outside Shanks & McEwan.

Chairman's Statement from the Sixth Report (1994) of the Environmental Advisory Board:*

In January 1994 the Government published the White Paper, CM 2426, 'Sustainable Development: The UK Strategy', in which chapter 23 is devoted to waste management, outlining a sustainable framework and proposing future action. At the same time companies are increasingly under pressure to 'service the bottom line' rather than aspire to potentially costly environmental targets.

This paradox was not resolved during 1994, which saw the continuing introduction of higher environmental standards through legislation and regulation, such as the new waste licensing regulations, initial proposals for a landfill tax and prolonged debate in anticipation of a Paving Bill which would establish a framework for an integrated Environment Agency. The regulatory environment thus remained active throughout the year. In particular, controls on the importation of hazardous wastes, coupled with increased acceptance of the use of combustible liquid wastes in cement kilns, radically altered the markets for specialised high temperature hazardous waste incinerators, such as those operated by Rechem International Ltd – part of the Shanks & McEwan Group.

Shanks & McEwan was affected by these changes in the economic and regulatory environment. The Group underwent an upheaval in its structure during 1994 with inevitable staff reductions and reorganisations. These continue into 1995 with the recent news of restructuring at Rechem.

The Environmental Advisory Board was pleased to note that throughout these changes Shanks & McEwan maintained its commitment to the environment. Environmental care was not viewed as an expendable cost. Indeed the Group has restated its belief that an independent Environmental Advisory Board is a key part of its environmental policy.

This is now the sixth annual report the Board has produced. It covers meetings in 1994 plus site visits to Pwllfawtkin Landfill in South Wales, Rechem's high temperature incinerator at Pontypool, Calvert Landfill in Buckinghamshire and Brogborough Landfill in Bedfordshire. While only a short synopsis of the Environmental Advisory Board's activities, the report illustrates the role it plays in Shanks & McEwan's development of the Group's environmental policy and site management by the individual waste management companies.

*(*Copies of the EAB Annual Report are available, on request, from the Corporate Head Office of Shanks & McEwan.)*

Members of Shanks & McEwan's Environmental Advisory Board:

Lord Cranbrook
Professor Jim Bridges

Dr. Keith Duff
Professor William Howarth
Graham Searle
Professor Dr-Ing Rainer Stegmann
John Newman
Mike Philpott

Chairman of the Board
Professor of Toxicology and Director, Robens Institute of Industrial and Environmental Health and Safety
Chief Scientist, English Nature
Professor of Environmental Law, University of Kent
Environmental Consultant
Professor of Solid Waste Management at the Technical University of Hamburg-Harburg
Group Commercial Director, Shanks & McEwan Group PLC
Technical Director, Shanks & McEwan (Southern Waste Services) Ltd.

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited accounts for the year ended 1 April 1995.

1 Annual General Meeting

The notice of the Annual General Meeting, is set out on pages 51 and 52. A letter is enclosed explaining the business of this meeting which includes, in addition to routine ordinary business, resolutions to introduce new executive and savings related share option schemes, and updated articles of association.

2 Principal Activities and Group Results

The principal activities of the Group, significant changes in those activities and an indication of likely future developments are described in the Chairman's Statement on pages 2 and 3 and in the Operating and Financial Reviews on pages 4 to 14. The Group Profit and Loss Account appears on page 26 and note 1 to the accounts shows the contribution to turnover and profits made by the different classes of the Group's business. The Group profit after tax amounted to £7.7m.

3 Dividends

The Directors recommend that a final dividend of 2.2 pence per share be paid on 15 August 1995 to ordinary shareholders whose names appear in the register at close of business on 18 July 1995. That dividend together with the interim dividend of 1.1 pence per share already paid, will make a total dividend on the ordinary shares of 3.30 pence (1994: 3.24 pence).

4 Directors

The composition of the Board of Directors, including short biographical notes, at the date of this report is shown on page 16. With the exception of Mr M C E Averill who was appointed a Director on 28 April 1994, and Mr I M Clubb who was appointed a Non-Executive Director on 29 September 1994, all of the Directors served on the Board throughout the year under review. Mr J E Boyd and Professor N Hood retired on 11 August 1994. In terms of the Company's Articles of Association, Mr Clubb will only hold office as a Director until the Annual General Meeting but, being eligible, offers himself for re-election at that Meeting. Mr Clubb does not have a service contract with the Company or any of its subsidiaries. Mr D M Munro retires by rotation at the Annual General Meeting and will not be seeking re-election. Details of the Directors' interests are shown in note 5 to the accounts.

5 Corporate Governance

The company's compliance with the Code of Best Practice of the Committee on the Financial Aspects of Corporate Governance is reported on page 15.

6. Internal Control

The Directors' responsibilities in respect of the accounting records, the safeguarding of assets, and the prevention and detection of fraud and other irregularities are set out in the Statement of Directors' Responsibilities for Preparation of the Financial Statements on page 21. As part of the process to satisfy these obligations the Group has an established system of internal control which the Directors believe to be appropriate to the business. This includes:

- i) formal written policies and procedures applicable to all business units with procedures for reporting compliance therewith, for identifying weaknesses and for taking corrective action;
- ii) comprehensive budgets, requiring Board and business sector approval, reviewed and revised on a regular basis, with performance measured against them and explanations sought for significant variances;

6 Internal Control (continued)

- iii) control over capital expenditure and investment programmes, and cash authorisation limits supplemented by post investment appraisals and daily cash reviews;
- iv) appointment of experienced and professional staff of the necessary calibre to meet their responsibilities;
- v) an internal Quality Assurance department which undertakes periodic examination of business processes and ensures management follow up recommendations to improve controls; and
- vi) an Audit Committee comprising non-executive Directors, the responsibilities of which are set out on page 15.

7 Notifiable Interests

As at 20 June 1995, the Company had been notified of the following interests, excluding interests of Directors, of more than 3 per cent of the ordinary share capital of the Company

	Number of Shares	Percentage
FMR Corp. and Fidelity International Ltd	17,496,500	9.50
The Prudential Assurance Company Limited	11,572,700	6.28
Hanson PLC	8,729,389	4.74
The Shell Petroleum Company Limited (Pensions)	7,367,400	4.00

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

8 Share Capital

During the year ended 1 April 1995 and from that date until 20 June 1995 no ordinary shares have been issued. At 1 April 1995 and at the date of this report the authorised ordinary share capital was and is £25,000,000 represented by 250,000,000 ordinary shares of 10 pence each. At 1 April 1995 184,190,471 ordinary shares were in issue leaving an unissued balance of 65,809,529 ordinary shares of 10 pence each, representing 26% of the authorised ordinary share capital.

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

9 Acquisitions and Disposals

There were no acquisitions in the year.

On 31 March 1995 the Group disposed of the London-based collection business for a consideration of £1.1m.

On 12 April 1995 the Group disposed of Shanks & McEwan (Contractors) Ltd and Shanks & McEwan Construction Ltd for a nominal consideration of £1. Further details of both disposals are provided in notes 6 and 25 to the accounts.

10 Fixed Assets

During the year, the Group acquired tangible fixed assets at a cost of £10.8m. There were also outstanding contracts valued at approximately £1.3m at 1 April 1995 and the Directors had authorised additional expenditure of £2.6m at that date.

Property or other assets surplus to requirements or which yield an inadequate return continue to be sold when the opportunity permits.

REPORT OF THE DIRECTORS

continued

11 Research and Development

The Group spent £252,000 (1994: £432,000) on research and development in the past year, which was charged to profits. Research continued during the year into a wide range of subjects including lining materials for landfill sites and methods of leachate treatment and testing permeability. Much of this work programme will continue into and through the new year. Reports on several leachate treatment studies, as well as on projects concerning the permeability of capping materials and the impact of leachates on minerals, are now in the final stages of preparation. It is evident that the results will be of substantial benefit to the Group in determining both policy, and engineering and operating practice for the future. A number of new projects were started during the year including investigation of the use of various geophysical techniques in landfill site assessment, and further studies on clay minerals; the latter work is being co-funded by Shanks & McEwan and others. The Group continues to maintain links with eminent academics associated with waste management and to develop MSc, PhD and post-doctoral projects which provide substantial benefit at relatively low cost.

12 Employment Policies

Employees throughout the Group are kept informed and consulted on matters of concern to them and to ensure an awareness of the financial, economic and operational factors affecting performance. Procedures generally involve both formal and informal meetings with employees or their representatives at individual locations. A regular employee newspaper, *SME World*, is also distributed.

Training, career development and promotion of employees is addressed by the individual companies within the Group. It is the Group's policy to treat equally all job applicants and employees regardless of sex, race, ethnic origin or disability. The Group and the Board of Directors are firmly committed to the provision of safe working conditions for all employees. A Group Health and Safety Policy – reviewed regularly, together with respective working practices and procedures which are an integral part of the Quality Assurance system – ensures consistency throughout all companies.

13 Charitable and Political Donations

During the period donations made by the Group for charitable purposes amounted to £23,000 (1994: £24,000). No donations were made for political purposes as defined by the Companies Act 1985.

14 Directors' and Officers' Liability Insurance

The Group has maintained insurance to cover Directors' and Officers' liability.

15 Status of the Company

The Directors believe that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988 and that there has been no change in that status since 1 April 1995.

16 Registered Auditors

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

By order of the Board

S B J Hodge

Secretary

20 June 1995



DIRECTORS' RESPONSIBILITIES FOR PREPARATION OF 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 for that period.

In preparing the financial statements on pages 26 to 48 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.

The Directors are also responsible for safeguarding the assets of the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE SHAREHOLDERS

To the Shareholders of Shanks & McEwan Group PLC

We have audited the financial statements on pages 26 to 48 which have been prepared under the historical cost convention, and the accounting policies set out on pages 23 to 25.

Respective responsibilities of Directors and Auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 1 April 1995 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Price Waterhouse 

Chartered Accountants and
Registered Auditors
London

20 June 1995

ACCOUNTING POLICIES

Basis of presentation

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

Basis of consolidation

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

Assets and liabilities are recognised in the financial statements where the Group has rights or other access to future economic benefits controlled by the Group, or obligations to transfer economic benefits.

Discontinued operations

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

Turnover

(a) Waste Services and Rechem

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

(b) Construction Services

Long term contracts are included in turnover on the basis of the sales value of work performed during the year by reference to the total sales value and stage of completion of these contracts.

Fixed assets

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

(a) Buildings, plant and equipment

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

The expected lives are:

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

(b) Landfill sites

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

(c) Capitalisation of interest

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

ACCOUNTING POLICIES

continued

Leased assets

(a) Finance leases

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

(b) Operating leases

All leases other than finance leases are treated as operating leases. Rentals paid under operating leases are charged to the profit and loss account in the year to which they relate. The obligation to pay future rentals on operating leases is shown in note 23.

Goodwill

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

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

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

Stocks

Stocks and work in progress are valued at the lower of cost (on a first in first out basis) and net realisable value. The cost of work in progress comprises materials, direct wages and any overheads incurred in the normal course of business in bringing the work in progress to its existing location and condition.

Debtors – amounts recoverable on contracts

For long term contracts where the outcome can be assessed with reasonable certainty, an appropriate proportion of the estimated profits earned to date is recognised and the balance taken on completion. Full provision is made for anticipated losses. Amounts recoverable on long term contracts are included in debtors net of payments received from the customer.

Advance payments and deposits are included in creditors.

Exceptional items

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

Deferred taxation

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

Environmental provision

Provision is made for closure and post closure costs over the operating life of disposal sites, based on the quantity of waste deposited in the year. The costs of final capping and covering are charged to the provision when incurred. All other costs such as monitoring and management of gas and leachate are written off directly and not charged to the provision unless incurred after site closure.

Government grants

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

Unprocessed waste

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

Pensions

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

Research and development

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

Foreign currencies

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 1 April 1995

	Note	Before Exceptional Items £'000	Exceptional Items £'000	Total 1995 £'000	Before Exceptional Items £'000	Exceptional Items £'000	Total 1994 £'000
Turnover	1&2						
Continuing operations		114,896	-	114,896	105,789	-	105,789
Discontinued operations		24,172	-	24,172	13,746	-	13,746
		<u>139,068</u>	<u>-</u>	<u>139,068</u>	<u>119,535</u>	<u>-</u>	<u>119,535</u>
Operating Profit	1,2&3						
Continuing operations		19,529	-	19,529	17,707	(4,400)	13,307
Discontinued operations		(988)	1,886	898	(1,429)	(10,700)	(12,129)
		<u>18,541</u>	<u>1,886</u>	<u>20,427</u>	<u>16,278</u>	<u>(15,100)</u>	<u>1,178</u>
Loss on disposal of operations	6	-	(3,678)	(3,678)	-	-	-
Cost of reorganisation	6	-	-	-	-	(5,000)	(5,000)
Profit (loss) before interest		<u>18,541</u>	<u>(1,792)</u>	<u>16,749</u>	<u>16,278</u>	<u>(20,100)</u>	<u>(3,822)</u>
Interest	7	(2,230)	-	(2,230)	(2,233)	-	(2,233)
Profit (loss) on ordinary activities before taxation		<u>16,311</u>	<u>(1,792)</u>	<u>14,519</u>	<u>14,045</u>	<u>(20,100)</u>	<u>(6,055)</u>
Taxation	8	(6,198)	(612)	(6,810)	(7,376)	4,300	(3,076)
Profit (loss) on ordinary activities after taxation	11	<u>10,113</u>	<u>(2,404)</u>	<u>7,709</u>	<u>6,669</u>	<u>(15,800)</u>	<u>(9,131)</u>
Dividends paid and proposed	9			(6,078)			(5,965)
Retained profit (loss) transferred to reserves	20			<u>1,631</u>			<u>(15,096)</u>
Earnings (loss) per share	10	5.5p	(1.3)p	4.2p	3.6p	(8.6)p	(5.0)p
Earnings per share – continuing operations before exceptional items	10			5.9p			4.1p

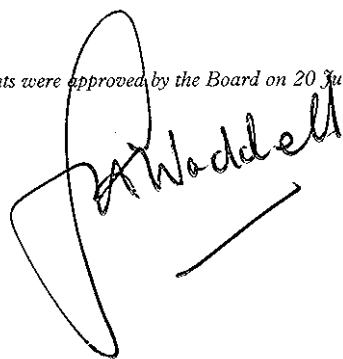
CONSOLIDATED BALANCE SHEET

At 1 April 1995

	Note	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	12	95,433	99,778
Investments	13	198	38
		<u>95,631</u>	<u>99,816</u>
Current assets			
Stocks	14	1,320	1,039
Debtors	15	33,244	35,502
Short term deposits and cash		12,922	15
		<u>47,486</u>	<u>36,556</u>
Creditors: amounts falling due within one year			
Borrowings	16	348	10,623
Other creditors	17	36,072	26,187
		<u>36,420</u>	<u>36,810</u>
Net current assets (liabilities)		<u>11,066</u>	<u>(254)</u>
Total assets less current liabilities		<u>106,697</u>	<u>99,562</u>
Creditors: amounts falling due after more than one year			
Borrowings	16	19,869	20,245
Other creditors	17	261	394
Provisions for liabilities and charges	18	17,522	11,509
		<u>69,045</u>	<u>67,414</u>
Capital and reserves			
Called up share capital	19	18,419	18,419
Share premium account	20	34,357	34,357
Profit and loss account	20	15,055	13,424
Merger reserve	20	1,214	1,214
		<u>69,045</u>	<u>67,414</u>

The Financial Statements were approved by the Board on 20 June 1995 and were signed on its behalf by:

G H Waddell
Chairman



D J Downes
Group Finance Director



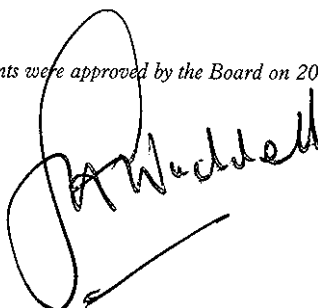
COMPANY BALANCE SHEET

At 1 April 1995

	Note	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	12	546	26,012
Investments	13	<u>22,736</u>	<u>22,736</u>
		23,282	48,748
Current assets			
Debtors	15	<u>42,186</u>	<u>19,867</u>
Investment in subsidiary undertaking at cost		<u>1,129</u>	<u>1,129</u>
Short term deposits and cash		<u>56,996</u>	<u>48,914</u>
		100,311	69,910
Creditors: amounts falling due within one year			
Borrowings	16	<u>348</u>	<u>932</u>
Other creditors	17	<u>17,651</u>	<u>14,302</u>
		17,999	15,234
Net current assets		82,312	54,676
Total assets less current liabilities		105,594	103,424
Creditors: amounts falling due after more than one year			
Borrowings	16	<u>19,869</u>	<u>20,245</u>
Provisions for liabilities and charges	18	<u>24,961</u>	<u>22,192</u>
		60,764	60,987
Capital and reserves			
Called up share capital	19	<u>18,419</u>	<u>18,419</u>
Share premium account	20	<u>34,357</u>	<u>34,357</u>
Profit and loss account	20	<u>7,988</u>	<u>8,211</u>
		60,764	60,987

The Financial Statements were approved by the Board on 20 June 1995 and were signed on its behalf by:

G H Waddell
Chairman



D J Downes
Group Finance Director



CONSOLIDATED CASH FLOW STATEMENT

Year ended 1 April 1995

	Note	1995 £'000	1994 £'000
Net cash inflow from operating activities	21(a)	39,610	25,928
Returns on investments and servicing of finance			
Interest paid		(1,926)	(1,931)
Interest element of finance lease rental payments		(269)	(473)
Dividends paid		(3,868)	(10,455)
Net cash outflow from returns on investments and servicing of finance		(6,063)	(12,859)
Tax paid		(1,579)	(5,599)
Investing activities			
Purchase of tangible fixed assets		(10,862)	(17,598)
Purchase of business	21(c)	-	(200)
Sale of business	21(c)	1,100	-
Sale of tangible assets		943	1,075
Loan to associated undertaking		428	(428)
Net cash outflow from investing activities		(8,391)	(17,151)
		23,577	(9,681)
Financing	21(d)		
Issue of ordinary share capital		-	(142)
Loan issue expenses		-	194
New unsecured loan repayable in 2003		-	(20,000)
Capital element of finance lease rental payments		1,281	2,068
Net cash outflow (inflow) from financing		1,281	(17,880)
Increase in cash and cash equivalents	21(b&e)	22,296	8,199
		23,577	(9,681)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 1 April 1995

	Note	1995 £'000	1994 £'000
Profit (loss) on ordinary activities after taxation		7,709	(9,131)
Dividends	9	(6,078)	(5,965)
New share capital subscribed		-	142
Goodwill written off to merger reserve		-	(376)
Net addition to (reduction of) shareholders' funds		1,631	(15,330)
Opening shareholders' funds		67,414	82,744
Closing shareholders' funds		69,045	67,414

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

NOTE OF HISTORICAL COST PROFITS AND LOSSES

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

NOTES TO THE ACCOUNTS

1 Segmental analysis

(a) The segmental results and net assets for previous periods have been restated to reflect the new operating structure.

	Turnover		Operating profit		Net assets	
	1995	1994	1995	1994	1995	1994
	£'000	Restated £'000	£'000	Restated £'000	£'000	Restated £'000
Waste Services	96,156	79,364	21,537	15,420	57,970	66,567
Exceptional items			-	(3,300)		
			21,537	12,120		
Rechem	20,640	27,451	(388)	4,919	29,716	29,867
Exceptional items			-	(1,100)		
			(388)	3,819		
Central Services	-	-	(1,620)	(2,632)		
Intersegmental turnover	(1,900)	(1,026)	-	-		
Continuing operations	114,896	105,789	19,529	13,307	87,686	96,434
Construction Services (discontinued – note 2)	24,172	13,746	(988)	(1,429)	360	3,638
Exceptional items			1,886	(10,700)		
			898	(12,129)		
	139,068	119,535	20,427	1,178	88,046	100,072
Unallocated net assets (liabilities):						
Assets under the course of construction					1,359	1,767
Other					(20,360)	(34,425)
					69,045	67,414

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

	1995	1994
	£'000	£'000
(b) Geographical analysis of turnover		
Turnover by customer location:		
United Kingdom	130,459	106,250
Europe	7,033	11,231
Rest of World	1,576	2,054
	139,068	119,535

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

Turnover between segments is not material.

NOTES TO THE ACCOUNTS

*continued***2 Continuing and discontinued operations**

Discontinued operations represent the Construction Services operation which was disposed of on 12 April 1995 (see notes 6 and 25 further).

	Continuing operations £'000	Discontinued operations £'000	Total 1995 £'000	Continuing operations £'000	Discontinued operations £'000	Total 1994 £'000
Turnover	114,896	24,172	139,068	105,789	13,746	119,535
Cost of sales	(72,427)	(21,526)	(93,953)	(71,445)	(24,022)	(95,467)
Gross profit	42,469	2,646	45,115	34,344	(10,276)	24,068
Administrative expenses	(23,118)	(1,748)	(24,866)	(21,558)	(1,853)	(23,411)
Other operating income	178	-	178	521	-	521
Operating profit (loss)	19,529	898	20,427	13,307	(12,129)	1,178
Profit (loss) on disposal of operations	572	(4,250)	(3,678)	-	-	-
Cost of reorganisation	-	-	-	(5,700)	700	(5,000)
Profit (loss) before interest	20,101	(3,352)	16,749	7,607	(11,429)	(3,822)

Cost of sales of discontinued operations includes exceptional profits of £1,886,000 (1994: continuing operations includes exceptional losses of £1,330,000; discontinued operations includes exceptional losses of £10,700,000). Administrative expenses of continuing operations includes exceptional losses of £nil (1994: £3,070,000).

3 Operating profit

	1995 £'000	1994 £'000
This is stated after charging:		
Depreciation of tangible fixed assets		
- owned	12,219	12,728
- held under finance leases and hire purchase contracts	1,148	1,727
Net loss on disposal of fixed assets	-	163
Hire of plant and machinery - operating leases	7,415	5,993
Property rents payable	1,030	715
Research and development	252	432
Auditors' remuneration - audit fees	110	183
- non audit related fees	56	224
and after crediting:		
Government grants	57	55
Share of profits of associated undertakings	94	38
Net profit on disposal of fixed assets	269	-
Foreign exchange gains	119	-

4 Employees

	1995 Number	1994 Number
The average number of persons employed by the Group during the year was as follows:		
Waste Services	813	839
Rechem	206	235
Central Services	21	56
	1,040	1,130
Discontinued operations	177	188
	1,217	1,318
The total remuneration of all employees comprised:	£'000	£'000
Wages and salaries	24,896	24,826
Employer's social security costs	2,012	2,295
Employer's pension costs	1,118	1,225
	28,026	28,346

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

Savings Related Share Option Schemes

Under the terms of the Savings Related Share Option Schemes for employees, options could have been granted up to November 1994 to acquire 20 million shares or, if less, 10% of the issued equity share capital of the Company (including options granted under the Executive Share Option Schemes). Options are granted at the higher of the nominal value and an amount determined by the Directors being not less than 80% of the market value. At 1 April 1995 options outstanding amounted to 2.1 million shares. A resolution to introduce a new scheme will be proposed at the Annual General Meeting as described in the accompanying letter.

Executive Share Option Schemes

Under the terms of the Executive Share Option Schemes, options could have been granted up to November 1994 to acquire up to 10 million shares or, if less, 5% of the issued equity share capital. Options are granted at the higher of the nominal value or the market value. At 1 April 1995 options outstanding amounted to 1.4 million shares. A resolution to introduce a new scheme will be proposed at the Annual General Meeting as described in the accompanying letter.

Pension Commitments

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

Pension costs are determined by a qualified actuary on the basis of triennial valuations using the Projected Unit Method. The most recent valuations were at 6 April 1992. Valuations as at April 1995 are currently being prepared.

NOTES TO THE ACCOUNTS

*continued***4 Employees (continued)***Pension Commitments (continued)*

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

The most recent actuarial valuation showed that the market value of the Retirement Benefits Scheme's assets was £12.4 million and that the actuarial value of those assets represented 114% of the benefits that had accrued to members, after allowing for expected future increases in earnings. For the Retirement Benefits Scheme for Operatives the corresponding figures were £0.96 million and 138% respectively. The actuarial surpluses are being spread over the average remaining service lives of the current employees.

The Group pensions charge for the year was £1,118,000 (1994: £1,652,000).

5 Directors

The Remuneration Committee, membership of which includes all the non-executive directors, set the executive directors' remuneration by reference to the individual's experience and responsibilities and to relevant market data. An annual bonus plan has been approved by the Committee under which payments are based on the Group achieving and exceeding the annual budgeted profit determined at the beginning of the year. The bonus plan is capped at 50% of base salary. The structure of the plan and awards under it are decided by the Committee which is also responsible for recommending grants under the executive share option scheme.

(i) Emoluments

	1995 £'000	1994 £'000
The total emoluments of the directors, including pension contributions, were as follows:		
Fees	49	60
Remuneration including bonuses	576	401
Pension scheme costs	37	35
Compensation payments in respect of termination of service agreements including pension augmentation	—	761
	<u>662</u>	<u>1,257</u>

5 Directors (continued)

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

	Basic salary		Performance related bonus		Taxable benefits		Total	
	1995	1994	1995	1994	1995	1994	1995	1994
G H Waddell	75,000	75,000	-	-	-	-	75,000	75,000
A G L Alexander	13,500	11,000	-	-	-	-	13,500	11,000
M C E Averill	111,255	-	46,250	-	28,169	-	185,674	-
R C Biffa	13,125	10,000	-	-	-	-	13,125	10,000
I M Clubb	7,615	-	-	-	-	-	7,615	-
D J Downes	115,008	34,944	42,550	-	9,018	1,366	166,576	36,310
D M Munro	14,625	14,000	-	-	-	-	14,625	14,000
G J Newman	100,008	92,500	37,000	-	11,381	11,782	148,389	104,282

- (a) The Chairman and non-executive directors do not participate in the annual bonus plan and do not receive any pension contributions from the Group.
- (b) Taxable benefits include such items as company cars, external pension contributions, medical insurance, life insurance and relocation benefits. Relocation benefits estimated at £7,981 (1994: £nil) were provided to M C E Averill as a director of the Group as part of his agreement with the Group prior to his appointment as a director.
- (c) M C E Averill was appointed a director on 28 April 1994; D J Downes was appointed a director on 14 December 1993 and I M Clubb was appointed a director on 29 September 1994. J E Boyd and Professor N Hood who retired on 11 August 1994 were paid £5,250 and £4,125 respectively.
- (d) The executive directors are members of the Group pension scheme. A charge was made during the year in respect of the Group pension scheme equivalent to 11.4% (1994: 11.4%) of the basic salary of the executive directors in line with the recommendations of the most recent actuarial valuation of the scheme (see note 4 further). M C E Averill and D J Downes, who are limited by the Inland Revenue earnings cap on approved pension benefits, have been provided with top up benefits approximately equivalent in cost to the other executive director.
- (e) On promotion from Chief Operating Officer to Group Chief Executive the salary of M C E Averill increased by £9,996 p.a. (8.7%). The salary of G J Newman increased by £7,508 p.a. (8.1%) to reflect additional responsibilities undertaken in the period.

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

	1995 Number	1994 Number		1995 Number	1994 Number
£0 - £5,000	1	-	£100,001 - £105,000	-	1
£5,001 - £10,000	2	1	£135,001 - £140,000	-	1
£10,001 - £15,000	3	4	£145,001 - £150,000	1	-
£35,001 - £40,000	-	1	£165,001 - £170,000	1	-
£45,001 - £50,000	-	1	£185,001 - £190,000	1	-
£70,001 - £75,000	1	1			

NOTES TO THE ACCOUNTS

*continued***5 Directors (continued)****(ii) Interests in ordinary shares and share options**

The directors' interests (all beneficial) in the ordinary 10p shares of the Group, including shares over which options have been granted under the terms of the Group's share option schemes, on 1 April 1995 and 26 March 1994 (or date of appointment) were as follows:-

	Ordinary Shares of 10p each		Executive (E) and Savings Related (S) Share Options					
	at 1.4.95	at 26.3.94	Options at 1.4.95	Options at 26.3.94	Date of grant	Option price (p)	Normal Exercise Dates From To	
G H Waddell	201,000	1,000	-	-	-	-	-	-
A G L Alexander	5,000	5,000	-	-	-	-	-	-
M C E Averill	3,492	3,500	20,000(E)	20,000(E)	19.6.90	208.8	20.6.93	19.6.2000
			10,000(E)	10,000(E)	10.7.91	270.6	11.7.94	10.7.2001
			40,000(E)	40,000(E)	13.7.92	205.0	14.7.95	13.7.2002
			200,000(E)	-	6.7.94	88.0	7.7.97	6.7.2004
			1,549(S)	1,549(S)	26.9.91	242.0	1.11.96	30.4.97
			2,929(S)	2,929(S)	24.9.92	128.0	1.11.97	30.4.98
			12,937(S)	-	22.9.94	80.0	1.11.99	30.4.2000
R C Biffa	9,171,131	9,121,046	-	-	-	-	-	-
I M Clubb	10,000	-	-	-	-	-	-	-
D J Downes	15,000	-	200,000(E)	-	6.7.94	88.0	7.7.97	6.7.2004
			21,562(S)	-	22.9.94	80.0	1.11.99	30.4.2000
D M Munro	-	-	-	-	-	-	-	-
G J Newman	54,356	54,208	15,000(E)	15,000(E)	23.7.88	173.5	24.7.91	23.7.98
			21,700(E)	21,700(E)	7.7.90	279.4	8.7.93	7.7.2000
			25,000(E)	25,000(E)	10.7.91	270.6	11.7.94	10.7.2001
			1,505(S)	1,505(S)	22.9.89	239.0	1.11.94	30.4.95
			3,099(S)	3,099(S)	26.9.91	242.0	1.11.96	30.4.97
			5,859(S)	5,859(S)	24.9.92	128.0	1.11.97	30.4.98

- (a) No options lapsed or were exercised during the year. There have been no alterations in the shares or options shown above between 1 April 1995 and 20 June 1995.
- (b) The option price is the price at which the option was granted. The price is set by the directors but is not less than 100% (Executive Scheme) and 80% (Savings Related Scheme) of the average market price of the shares over the last three dealing days of the week immediately preceding the invitation to subscribe.
- (c) The highest mid-market price of the shares during the year was 108p and the lowest mid-market price during the year was 74p. The mid-market price at the close of business on 1 April 1995 was 91p.

5 Directors (continued)

(iii) Other interests

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

	Cost of sales £'000	Total 1995 £'000	Cost of sales £'000	Administra- tive expenses £'000	Total 1994 £'000
6 Exceptional items					
a) Operating exceptional items:					
Profit (loss) on long term construction contracts	1,886	1,886	(10,700)	-	(10,700)
Permanent diminution in property values	-	-	(1,330)	(1,970)	(3,300)
Legal costs	-	-	-	(1,100)	(1,100)
	<u>1,886</u>	<u>1,886</u>	<u>(12,030)</u>	<u>(3,070)</u>	<u>(15,100)</u>

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

	1995 £'000	1994 £'000
b) Other exceptional items:		
Profit on disposal of operations	572	-
Provision for loss on disposal of Construction Services	(4,250)	-
Group reorganisation	-	(5,700)
Construction Services reorganisation	-	700
	<u>(3,678)</u>	<u>(5,000)</u>

The profit on disposal of operations relates to the London-based waste collections business which was disposed of on 31 March 1995. Provision has been made for the loss on disposal of Construction Services which was sold on 12 April 1995. The effect of the disposal on the Group's balance sheet is shown in Note 25.

	1995 £'000	1994 £'000
7 Interest payable		
Interest payable on bank loans and other borrowings repayable within five years	218	796
Interest payable on all other loans	1,815	1,356
Interest payable on finance leases	<u>269</u>	<u>473</u>
	<u>2,302</u>	<u>2,625</u>
Interest capitalised during year	-	(331)
	<u>2,302</u>	<u>2,294</u>
Interest receivable	<u>(72)</u>	<u>(61)</u>
	<u>2,230</u>	<u>2,233</u>

NOTES TO THE ACCOUNTS

continued

8 Taxation	1995 £'000	1994 £'000
Taxation charge based on the profits (losses) for the year is made up as follows:		
UK Corporation tax at 33% – current year	4,430	2,130
– prior year	(15)	(54)
Deferred tax	2,395	1,000
	6,810	3,076
 9 Dividends	 1995 £'000	 1994 £'000
Interim dividend of 1.10p per ordinary share (1994: 2.24p)	2,026	4,123
Proposed final dividend of 2.20p per ordinary share (1994: 1.0p)	4,052	1,842
	6,078	5,965
 10 Earnings per share	 1995 £'000	 1994 £'000
Profit (loss) after taxation	7,709	(9,131)
add (deduct):		
operating exceptional items	(1,886)	15,100
net loss on disposal of operations	3,678	–
reorganisation costs	–	5,000
taxation relating to these items	612	(4,300)
Earnings after exceptional items	10,113	6,669
discontinued operations	988	1,429
taxation thereon	(325)	(472)
Earnings from continuing operations	10,776	7,626
 Average number of shares in issue during the year	 184.2m	 184.1m
 Earnings per share – ordinary basis (i)	 4.2p	 (5.0)p
Earnings per share – excluding exceptional items (ii)	5.5p	3.6p
Earnings per share – continuing operations (iii)	5.9p	4.1p

(i) Earnings per share are calculated by dividing the profit or loss after taxation by the average number of shares in issue during the year.

(ii) Earnings per share excluding exceptional items are calculated before reorganisation costs, net loss on disposal of operations and operating exceptional items.

(iii) Earnings per share from continuing operations are calculated before exceptional items and excluding Construction Services.

Earnings per share (ii) and (iii) above are shown as the directors consider that they give the user of the accounts a more useful indication of underlying performance from ongoing trading activities.

11 Result for the year

The profit for the year after tax in the financial statements of the parent company is £5,855,000 (1994: loss £2,864,000).

As permitted by Section 230 of the Companies Act 1985, a profit and loss account for the parent company is not presented.

12 Tangible fixed assets

Group

Cost:

	Land & buildings £'000	Landfill sites £'000	Plant & equipment £'000	Total £'000
At 26 March 1994	14,464	37,118	109,453	161,035
Additions	523	1,499	8,749	10,771
Disposals	(1,409)	(127)	(10,365)	(11,901)
Reclassification	5,761	(447)	(5,314)	-
At 1 April 1995	<u>19,339</u>	<u>38,043</u>	<u>102,523</u>	<u>159,905</u>

Depreciation:

At 26 March 1994	5,695	5,776	49,786	61,257
Disposals	(1,201)	(23)	(8,928)	(10,152)
Charge for the year	779	1,463	11,125	13,367
Reclassification	3,166	(938)	(2,228)	-
At 1 April 1995	<u>8,439</u>	<u>6,278</u>	<u>49,755</u>	<u>64,472</u>

Net book value:

At 1 April 1995	<u>10,900</u>	<u>31,765</u>	<u>52,768</u>	<u>95,433</u>
Net book value of assets held under finance leases included above	<u>-</u>	<u>-</u>	<u>546</u>	<u>546</u>
At 26 March 1994	<u>8,769</u>	<u>31,342</u>	<u>59,667</u>	<u>99,778</u>
Net book value of assets held under finance leases included above	<u>-</u>	<u>-</u>	<u>2,540</u>	<u>2,540</u>

Included in fixed assets are assets under construction costing £1,359,000 (1994: £1,767,000). Interest amounting to £2,592,000 (1994: £2,592,000) is included in the cost of fixed assets.

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

	1995		1994	
	Land & buildings £'000	Landfill sites £'000	Land & buildings £'000	Landfill sites £'000
Freehold	8,020	8,843	7,082	7,909
Long leasehold	1,141	7,155	1,165	14,800
Short leasehold	1,739	15,767	522	8,633
	<u>10,900</u>	<u>31,765</u>	<u>8,769</u>	<u>31,342</u>

NOTES TO THE ACCOUNTS

continued

12 Tangible fixed assets (continued)	Short leasehold land & buildings £'000	Landfill sites £'000	Plant & equipment £'000	Total £'000
Company				
Cost:				
At 26 March 1994	222	24,706	7,275	32,203
Additions	5	-	7	12
Transfers to other Group companies	-	(24,706)	(1,913)	(26,619)
Disposals	(227)	-	(2,835)	(3,062)
At 1 April 1995	-	-	2,534	2,534
Depreciation:				
At 26 March 1994	39	1,833	4,319	6,191
Transfers to other Group companies	-	(2,319)	(1,179)	(3,498)
Disposals	(39)	-	(2,247)	(2,286)
Charge for the year	-	486	1,095	1,581
At 1 April 1995	-	-	1,988	1,988
Net book value:				
At 1 April 1995	-	-	546	546
Net book value of assets held under finance leases included above	-	-	546	546
At 26 March 1994	183	22,873	2,956	26,012
Net book value of assets held under finance leases included above	-	-	1,886	1,886
The net book value of landfill sites comprises:			1995	1994
			£'000	£'000
Long leasehold			-	14,800
Short leasehold			-	8,073
			-	22,873

	Group	Company
	Associated undertakings £'000	Shares in subsidiary undertakings £'000
13 Fixed asset investments		
At 26 March 1994	38	22,736
Share of movement on reserves	160	-
At 1 April 1995	<u>198</u>	<u>22,736</u>

Details of subsidiary and associated undertakings are shown on page 48.

	1995 £'000	1994 £'000
14 Stocks		
Group		
Raw materials and consumables	1,216	935
Investment land and property	104	104
	<u>1,320</u>	<u>1,039</u>

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

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
15 Debtors				
Amounts falling due within one year				
Trade debtors	26,749	26,244	-	-
Amounts recoverable on long term construction contracts	2,998	6,060	-	-
Amounts owed by subsidiary undertakings	-	-	39,618	16,205
Amounts owed by associated undertakings	117	-	-	-
Other debtors	249	599	187	87
Prepayments and accrued income	2,118	1,710	36	90
Advance corporation tax	-	-	1,332	3,024
	<u>32,231</u>	<u>34,613</u>	<u>41,173</u>	<u>19,406</u>
Amounts falling due after more than one year				
Advance corporation tax	1,013	461	1,013	461
Loan to associated undertaking	-	428	-	-
	<u>1,013</u>	<u>889</u>	<u>1,013</u>	<u>461</u>
Total	<u>33,244</u>	<u>35,502</u>	<u>42,186</u>	<u>19,867</u>

NOTES TO THE ACCOUNTS

continued

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
16 Borrowings				
Amounts falling due within one year				
Bank overdraft	-	9,389	-	-
Finance lease obligations	348	1,234	348	932
	<u>348</u>	<u>10,623</u>	<u>348</u>	<u>932</u>
Amounts falling due after more than one year				
Senior notes	19,840	19,821	19,840	19,821
Finance lease obligations	29	424	29	424
	<u>19,869</u>	<u>20,245</u>	<u>19,869</u>	<u>20,245</u>
Repayable as follows:				
Between one and two years	29	390	29	390
Between two and five years	-	34	-	34
After five years	19,840	19,821	19,840	19,821
	<u>19,869</u>	<u>20,245</u>	<u>19,869</u>	<u>20,245</u>

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

The Group had unused committed bank facilities at 1 April 1995 of £30 million (1994: £20.6 million).

	Group		Company	
	1995 £'000	1994 £'000	1995 £'000	1994 £'000
17 Other creditors				
Amounts falling due within one year				
Payments on account	464	299	-	-
Trade creditors	10,368	13,004	-	98
Amounts owed to subsidiary undertakings	-	-	9,788	8,796
Amounts owed to associated undertakings	-	236	-	-
Other creditors	901	678	216	-
Unprocessed waste	1,799	2,669	-	-
Corporation tax payable	4,140	686	1,744	1,848
Taxation and social security	2,657	2,481	-	550
Accruals	11,691	4,292	1,851	1,168
Dividends payable	4,052	1,842	4,052	1,842
	<u>36,072</u>	<u>26,187</u>	<u>17,651</u>	<u>14,302</u>
Amounts falling due after more than one year				
Government grants	121	234	-	-
Deferred consideration	140	160	-	-
	<u>261</u>	<u>394</u>	<u>-</u>	<u>-</u>

In previous years, provisions for unprocessed waste and government grants were shown separately on the face of the balance sheet.

	At 26 March 1994 £'000	Provided in year £'000	Utilised in year £'000	At 1 April 1995 £'000
18 Provision for liabilities and charges				
Group				
Provision for loss on disposal of Construction Services	-	4,250	-	4,250
Group reorganisation	3,550	-	(2,726)	824
Construction Services reorganisation	792	-	(792)	-
Deferred taxation	2,170	2,395	-	4,565
Environmental provision	4,277	3,207	(397)	7,087
Pension	283	76	-	359
Site clearance costs	437	-	-	437
	<u>11,509</u>	<u>9,928</u>	<u>(3,915)</u>	<u>17,522</u>

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

	1995		1994	
	Provision £'000	Total potential liability £'000	Provision £'000	Total potential liability £'000
Accelerated capital allowances	4,471	6,761	3,730	6,222
Other timing differences	94	(1,274)	(1,560)	(2,949)
	<u>4,565</u>	<u>5,487</u>	<u>2,170</u>	<u>3,273</u>

	At 26 March 1994 £'000	Provided in year £'000	Utilised in year £'000	At 1 April 1995 £'000
Company				
Provision for loss on disposal of Construction Services	-	5,128	-	5,128
Reorganisation provision	3,187	-	(2,435)	752
Pension	283	76	-	359
Reduction in value of subsidiary undertakings	18,722	-	-	18,722
	<u>22,192</u>	<u>5,204</u>	<u>(2,435)</u>	<u>24,961</u>

NOTES TO THE ACCOUNTS

continued

19 Called up share capital	1995	1994
	£'000	£'000
Group and Company		
Authorised 250 million (1994: 250 million) ordinary shares of 10p	25,000	25,000
Allotted, called up and fully paid 184.2 million (1994: 184.2 million) ordinary shares of 10p	18,419	18,419
No ordinary shares were allotted during the year.		
 Options outstanding at 1 April	1995	1994
<i>Savings related share option schemes</i>		
Number of shares under option	2,102,275	2,080,913
Normal dates exercisable	1992-2001	1991-2000
Price per share	80p-242p	54p-242p
Weighted average subscription price	124p	155p
<i>Executive share option schemes</i>		
Number of shares under option	1,395,230	1,289,175
Earliest dates exercisable	1991-1997	1990-1995
Price per share	88p-315p	122p-315p
Weighted average subscription price	171p	233p

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

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

New options issued	1,691,623	568,367
Options exercised	-	248,855
Options lapsed	1,564,206	776,168

20 Reserves	Share premium	Profit & loss account	Merger reserve
	£'000	£'000	£'000
Group			
At 26 March 1994	34,357	13,424	1,214
Retained profit for the year	-	1,631	-
At 1 April 1995	34,357	15,055	1,214

The cumulative goodwill written off Group reserves to 1 April 1995, net of merger relief, on businesses continuing within the Group amounts to £7,992,000 (1994: £7,992,000).

Company	Share premium	Profit & loss account
	£'000	£'000
At 26 March 1994	34,357	8,211
Retained profit for the year	-	(223)
At 1 April 1995	34,357	7,988

	1995 £'000	1994 £'000
21 Notes to the cash flow statement		
(a) Net cash inflow from operating activities		
Operating profit	20,427	1,178
Share of profit of associated undertakings	(94)	(38)
(Profit) loss on long term construction contracts	(1,886)	10,700
Other operating exceptional items	-	4,021
Reorganisation costs	(3,143)	(2,958)
Depreciation of fixed assets	13,367	14,455
(Gain) loss on sale of tangible fixed assets	(269)	163
(Increase) decrease in stocks	(281)	121
Decrease in debtors	4,417	4,132
Increase (decrease) in creditors	4,096	(5,991)
Environmental provision movement	2,810	46
Other non cash movements	166	99
Net cash inflow from operating activities	<u>39,610</u>	<u>25,928</u>

(b) Analysis of changes in cash and cash equivalents

Balance at 26 March 1994	(9,374)	(17,573)
Increase in cash and cash equivalents	<u>22,296</u>	<u>8,199</u>
Balance at 1 April 1995	<u>12,922</u>	<u>(9,374)</u>

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

	1995 £'000	1994 £'000
(c) Sale and purchase of businesses		
Net assets (sold) acquired:		
Tangible fixed assets	(528)	100
Goodwill written off against merger reserve	-	276
	<u>(528)</u>	<u>376</u>
Profit on disposal of operations	(572)	
	<u>(1,100)</u>	
Satisfied by:		
Cash	(1,100)	200
Deferred consideration	-	176
	<u>(1,100)</u>	<u>376</u>
Analysis of the (inflow) outflow of cash and cash equivalents in respect of the sale/purchase of businesses:		
Cash consideration	<u>(1,100)</u>	<u>200</u>

NOTES TO THE ACCOUNTS

continued

	Share capital and share premium £'000	Loans and finance leases £'000
21 Notes to the cash flow statement (continued)		
(d) Analysis of changes in financing during the year		
At 26 March 1994	52,776	21,479
Net cash inflow (outflow) from financing	-	(1,281)
Amortisation of loan issue expenses	-	19
At 1 April 1995	<u>52,776</u>	<u>20,217</u>

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

	1995 £'000	1994 £'000	Change in year £'000
(e) Analysis of the balances in cash and cash equivalents as shown in the balance sheet			
Cash at bank and in hand	12,922	15	12,907
Bank overdrafts	-	(9,389)	9,389
	<u>12,922</u>	<u>(9,374)</u>	<u>22,296</u>

	1995 £'000	1994 £'000
22 Capital commitments		
Group		
The aggregate amount of capital expenditure authorised by the directors for which no provision has been made in the accounts is:		
Expenditure contracted for	1,300	1,653
Expenditure authorised but not contracted for	2,641	3,088
	<u>3,941</u>	<u>4,741</u>

	1995		1994	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
23 Financial commitments				
Group				
At 1 April 1995 the Group had annual commitments under operating leases expiring as follows:				
Within one year	42	8	21	21
Between one and five years	8	119	97	32
After five years	512	-	509	-
	<u>562</u>	<u>127</u>	<u>627</u>	<u>53</u>

24 Contingent liabilities**Group and Company**

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

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

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

25 Post balance sheet events

On 12 April 1995 the Group disposed of Construction Services for a nominal consideration. The unaudited proforma balance sheet shown below reflects the impact of the disposal as if it had taken place on 1 April 1995.

	At 1 April 1995 £m	Adjustment for disposal of Construction Services £m	Unaudited proforma £m
Fixed assets	95.6	(0.2)	95.4
Other assets less liabilities	(15.0)	(1.4)	(16.4)
Provision for loss on disposal	(4.3)	4.3	-
Net borrowings	<u>(7.3)</u>	<u>(2.7)</u>	<u>(10.0)</u>
	<u>69.0</u>	<u>-</u>	<u>69.0</u>
Shareholders' funds	<u>69.0</u>		<u>69.0</u>
Gearing (net borrowings divided by shareholders' funds)		10.6%	14.5%

SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

At 1 April 1995

Subsidiary Undertakings

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

Registered in Scotland	Nature of business
Shanks & McEwan (Northern) Limited*	Waste management
Shanks & McEwan (Midlands) Limited*	Waste management
Shanks & McEwan (Contractors) Limited (<i>disposed 12 April 1995</i>)	Construction services
Shanks & McEwan Limited	Property services
Registered in England	
Shanks & McEwan (Southern Waste Services) Limited*	Waste management
Clear Waste Limited*	Waste management
Shanks & McEwan (Technical Services) Limited*	Waste management
Rechem International Limited*	Waste management
Shanks & McEwan (Teesside) Limited*	Waste management
Shanks & McEwan (Energy Services) Limited	Energy services
Shanks & McEwan (Gas) Limited*	Energy services
Land Fill Gas Limited*	Energy services
Shanks & McEwan Construction Limited (<i>disposed 12 April 1995</i>)	Construction services
Shanks & McEwan (Camden) Limited	Property services

The Company also holds 100% of the allotted deferred shares of Shanks & McEwan Limited.

A full list of subsidiary companies will be annexed to the next annual return to the Registrar of Companies.

Associated Undertaking

The following company is an associated undertaking of the Group:

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

The country of registration is also the principal country of operation except Shanks & McEwan (Midlands) Limited which operates in England.

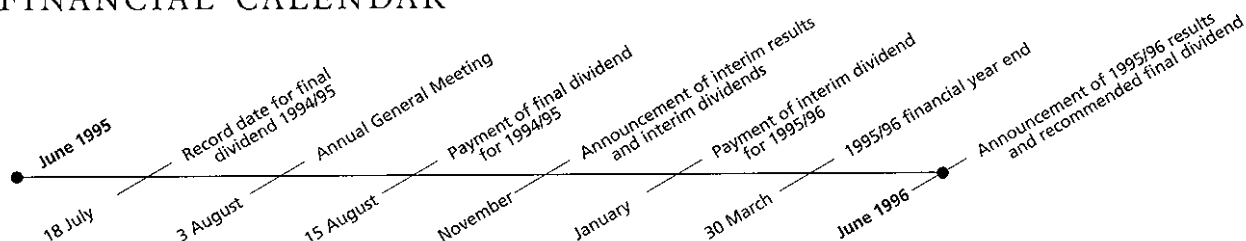
*held by a subsidiary company

SHAREHOLDER INFORMATION

At 1 April 1995

	Number of shareholders	Number of shares (thousands)	%
Range of shareholding			
1 - 5,000	3,093	5,046	3
5,001 - 25,000	767	6,869	4
25,001 - 50,000	92	2,972	2
50,001 - 100,000	79	5,359	3
100,001 - 250,000	90	13,778	7
250,001 - 500,000	39	12,819	7
Over 500,000	76	137,347	74
	<u>4,236</u>	<u>184,190</u>	<u>100</u>
Analysis of shareholders			
Individuals	3,049	35,742	19
Banks and nominee companies	944	105,167	57
Other institutions and companies	243	43,281	24
	<u>4,236</u>	<u>184,190</u>	<u>100</u>

FINANCIAL CALENDAR



Personal Equity Plan (PEP) Scheme

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

Low Cost Share Dealing Service

The Company has arranged for Hoare Govett Corporate Finance Limited to provide a separate low-cost share dealing service which will enable investors to buy or sell shares by post for a brokerage fee of 1% (plus 0.5% Stamp Duty on purchase) with a minimum charge of £10.

Further information on both arrangements may be obtained from:

James Finlay Investment Management Limited (Shanks & McEwan Group PEP Scheme).

FREEPOST GW903, GLASGOW, G1 2BR.

Approved by James Finlay Investment Management Limited who are regulated by IMRO.

Registrar and Transfer Office

Any enquiries relating to shareholdings such as lost certificates, dividend payments or a change of address should be made to the Registrar and Transfer Office (see address on page 16). Subject to adoption of the new articles of association and with effect from January 1996, the company intends to pay mandated dividends using BACS (Bankers Automated Clearing System) which credits shareholders' bank/building society accounts on the payment date. The appropriate tax voucher will be sent direct to the registered address. Further information on this facility can be obtained from the Registrar.

FIVE YEAR FINANCIAL SUMMARY

	1995 £'000	1994 £'000	1993 £'000	1992 £'000	1991 £'000
Consolidated profit and loss account					
Turnover					
Continuing operations	114,896	105,789	107,495	97,356	75,433
Discontinued operations (note 1)	24,172	13,746	23,548	48,424	42,547
	<u>139,068</u>	<u>119,535</u>	<u>131,043</u>	<u>145,780</u>	<u>117,980</u>
Operating profit before exceptional items					
Continuing operations	19,529	17,707	26,865	27,819	21,669
Discontinued operations	(988)	(1,429)	(12,823)	4,066	2,726
	<u>18,541</u>	<u>16,278</u>	<u>14,042</u>	<u>31,885</u>	<u>24,395</u>
Interest	(2,230)	(2,233)	(1,514)	(800)	(467)
Exceptional items (note 2)	(1,792)	(20,100)	(2,300)	(3,967)	(532)
Profit (loss) before taxation	14,519	(6,055)	10,228	27,118	23,396
Taxation	(6,810)	(3,076)	(3,003)	(10,056)	(8,147)
Profit (loss) after taxation	7,709	(9,131)	7,225	17,062	15,249
Dividends	(6,078)	(5,965)	(10,255)	(9,924)	(8,171)
Retained earnings (loss)	<u>1,631</u>	<u>(15,096)</u>	<u>(3,030)</u>	<u>7,138</u>	<u>7,078</u>
Consolidated balance sheet					
Fixed assets	95,631	99,816	100,354	74,061	70,657
Other assets less liabilities	(19,291)	(1,549)	2,840	5,879	(7,206)
Net borrowings	(7,295)	(30,853)	(20,450)	(11,554)	(4,861)
	<u>69,045</u>	<u>67,414</u>	<u>82,744</u>	<u>68,386</u>	<u>58,590</u>
Share capital	18,419	18,419	18,394	17,457	17,322
Reserves	50,626	48,995	64,350	50,929	41,268
	<u>69,045</u>	<u>67,414</u>	<u>82,744</u>	<u>68,386</u>	<u>58,590</u>
Financial ratios					
Earnings per share	4.2p	(5.0)p	4.1p	9.9p	12.8p
Earnings per share from continuing operations and excluding exceptional items (note 3)	5.9p	4.1p	10.2p	10.3p	11.6p
Dividends per share	3.30p	3.24p	5.68p	5.68p	5.48p
Net assets per share	37.5p	36.6p	45.0p	39.2p	33.8p
Gearing (note 4)	10.6%	45.8%	24.7%	16.9%	8.3%

Notes

1 Discontinued operations represents Construction Services.

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

3 Earnings per share from continuing operations and excluding exceptional items has been calculated after excluding Construction Services and exceptional items.

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Shanks & McEwan Group PLC will be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday, 3 August, 1995 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 1 April, 1995 and the profit and loss account of the group for the period ended 1 April, 1995.
- (2) To declare a final dividend.
- (3) To re-elect Mr Clubb as a director.
- (4) To re-appoint Price Waterhouse as auditors of the Company and to authorise the directors to fix their remuneration.

Special business

- (5) 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, 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 granted in accordance with 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 where the equity securities respectively attributable to the interests of all the holders of ordinary shares are proportionate (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 problems under the laws of, or the requirements of any recognised regulatory body or stock exchange in, any territory; and/or
- (b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £920,952,

and shall expire on 2 November, 1996 save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired."

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

"THAT, subject to the approval of the Board of Inland Revenue, the Shanks & McEwan Approved Executive Share Option Scheme 1995 (the "New Executive Scheme") outlined in Appendix I to the letter to shareholders dated 7 July, 1995, and constituted according to the rules produced to the meeting and signed for identification by the Chairman, be and is hereby approved and that the directors be and are hereby authorised to do all acts and things as they may consider necessary or desirable to establish and carry the New Executive Scheme into effect, including the making of any alterations necessary to obtain the approval of the Board of Inland Revenue to the New Executive Scheme under the Income and Corporation Taxes Act 1988."

NOTICE OF ANNUAL GENERAL MEETING

continued

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

"THAT, subject to the approval of the Board of Inland Revenue, the Shanks & McEwan Approved Savings Related Share Option Scheme 1995 (the "New SRSO Scheme") outlined in Appendix II to the letter to shareholders dated 7 July, 1995, and constituted according to the rules produced to the meeting and signed for identification by the Chairman, be and is hereby approved and that the directors be and are hereby authorised to do all acts and things as they may consider necessary or desirable to establish and carry the New SRSO Scheme into effect, including the making of any alterations necessary to obtain the approval of the Board of Inland Revenue to the New SRSO Scheme under the Income and Corporation Taxes Act 1988."

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

"THAT the regulations contained in the document produced to the meeting and initialled by the Chairman for the purpose of identification be and are hereby approved and adopted as the articles of association of the Company in substitution for, and to the exclusion of, all existing articles of association of the Company."

By Order of the Board

S.B.J. Hodge
Secretary



Dated: 7 July, 1995

Registered office:
22 Woodside Place
Glasgow
G3 7QY

Notes

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. 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 of attorney, should be delivered to the Company's Registrar, The Royal Bank of Scotland plc, Securities Services-Registrars, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR not later than 48 hours before the time appointed for the meeting.
3. The return of a completed form of proxy will not prevent a member from attending in person at the meeting should he/she so wish.
4. The accompanying letter from the Chairman dated 7 July, 1995 and the financial statements are sent to all members and option holders of the Company, but only the ordinary shareholders are entitled to attend and vote at the meeting.
5. The register of interests of the directors (and of their families) in the shares of the Company and copies of all service contracts under which directors are employed by the Company or any of its subsidiaries will be available for inspection at the registered office of the Company at 22 Woodside Place, Glasgow G3 7QY, during normal business hours, on any weekday (Saturdays and public holidays excluded) from the date of this notice up to and including the date of the annual general meeting and at the Glasgow Hilton on 3 August, 1995 at least 15 minutes prior to, and during, the meeting.
6. Copies of the rules of the Shanks & McEwan Approved Executive Share Option Scheme 1995 and the Shanks & McEwan Approved Savings Related Share Option Scheme 1995, proposed to be adopted under resolutions (6) and (7) respectively, and copies of the Existing Articles and the New Articles, proposed to be adopted under resolution (8), will be available for inspection at the times and places referred to in note 5 above and at the offices of Dickson Minto W.S., Royal London House, 22/25 Finsbury Square, London EC2A 1DS during normal business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice up to and including the date of the annual general meeting.
7. An explanation of the special business is given in the letter from the Chairman dated 7 July, 1995.