shanks. waste solutions.

Shanks Group plc
Annual Report and Accounts 2000

shanks. waste solutions.

Contents

Cover picture: Waste treatment plant at Roeselare, Belgium.

Shanks Group plc, Astor House, Station Road, Bourne End, Buckinghamshire, SL8 5YP

www.shanks.co.uk

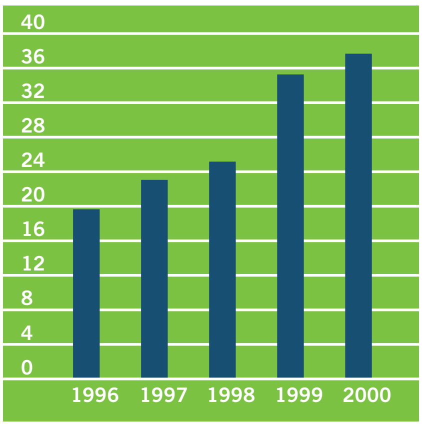
Shanks Group plc is now one of Europe's largest independent waste management companies. A total of 4,300 people are employed by the Group in the UK, Belgium and Holland. In each of these countries Shanks is a major player in the waste management industry.

Shanks offers a wide and often innovative range of waste management solutions within its various collection, transport, recycling, treatment and disposal services. The Group is one of the largest generators of electricity from landfill gas and produces a number of fuel-from-waste products. A range of industrial cleaning operations also features amongst Shanks activities in all three countries.

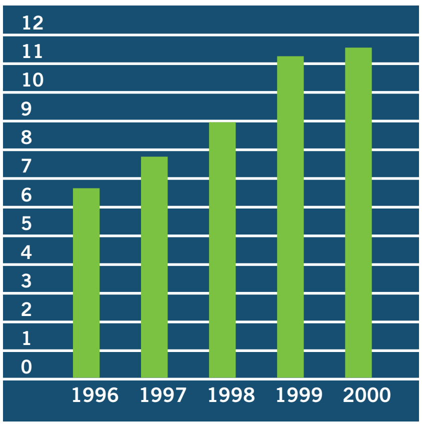
Financial Highlights

	2000	1999
Turnover	**£315m**	£261m
Profit before taxation and goodwill amortisation	**£37.5m**	£35.1m
Basic earnings per share before goodwill amortisation	**11.5p**	11.2p
Dividend	**5.25p**	4.80p
Net debt	**£273m**	£57m
Interest cover	**8x**	9x
Net asset value per share	**61p**	36p

Profit before taxation and goodwill amortisation (£m)



Basic earnings per share before goodwill amortisation (pence)



Chairman's Statement

The Group continued to make encouraging progress in the year to 4 April 2000. Profits before taxation and goodwill amortisation rose to £37.5m (1998/9 : £35.1m), an improvement of 7%. Group turnover increased by £54m to £315m as a result of organic growth, acquisitions and the higher rate of UK landfill tax. Profit after taxation and goodwill amortisation amounted to £22.7m (1998/9 : £22.5m).

A strong trading performance in Belgium, growth from acquisitions, and contract gains were the major successes. Together these more than offset the £3.2m loss of profits from expired contracts. Growth in profits, excluding these contracts, would have been 18%. Caird Group PLC, acquired in June 1999 for £53m, has been successfully integrated.

Earnings per share before the amortisation of goodwill increased by 3% to 11.5 pence (1998/9 : 11.2 pence) on the greater number of shares in issue. Your Board recommends a final dividend of 3.5 pence per share (1998/9 : 3.2 pence per share). If approved by shareholders, aggregate dividends for the year will be 5.25 pence per share, an increase of 9% on the 4.8 pence per share declared last year.

The Group again generated a healthy cash flow from its operating activities of £63.0m (1998/9 : £61.5m). Interest expense increased from £4.3m to £5.1m but interest cover remained strong at eight times.

These results exclude any trading from the acquisition of the former Waste Management Nederland B.V. (WMN) which was completed on the last working day of the year and to which I refer below. However, the Group balance sheet reflects the impact of the transaction and the debt of the Group at the year end was £273m (1998/9 : £57m). This higher level of debt should be viewed within the context of the enlarged Group's strong, and to a substantial degree, predictable cash flows.

I am pleased to report that the Group was not affected by the millennium computer issue.

DIVISIONAL PERFORMANCE

Waste Services - UK

UK Waste Services operating profit from continuing operations remained steady at £30.2m, before the impact of acquisitions, despite the contract expiries. New contract gains benefited landfill profit, and both recycling losses and administration costs were reduced. However, contributions from contaminated land remediation and Scottish activities were lower than last year. Good performances were achieved from acquisitions, notably Caird and Whites.

Chemical Services - UK

UK Chemical Services made an operating loss of £0.2m (1998/9 : £1.5m profit), before the impact of the Caird acquisition. It has been a challenging year with the UK hazardous waste market being particularly difficult with falling volumes and prices. The original contract for the processing of meat and bone meal (MBM) was extended for three months until March 2000. The overseas incineration business was steady despite the ban on imports of hazardous waste for disposal from most developed countries coming into full effect from June 1999. Faced with these adverse market conditions, a number of cost saving programmes have been initiated.

Waste Management - Belgium

Operating profits from our Belgium activities have grown in all three geographic regions to £14.6m (1998/9 : £11.7m), an increase of 25%. Belgium suffered from various health concerns over food which temporarily and indirectly enhanced volumes, which have now ceased. Recycling activities have benefited from higher commodity prices and inputs. The contract to collect waste in Liège was renewed and its scope extended.

Other

Acquisitions, mainly Caird, contributed £2.4m before the amortisation of £1.4m goodwill and £0.5m of exceptional costs. Exceptional profits of £0.5m from a long outstanding claim and the disposal of a JV interest offset these exceptional costs. Joint ventures, particularly Caird Bardon, performed well. Central Services costs remained steady.

NETHERLANDS ACQUISITION

The acquisition of the former WMN represents a major step for the Group and will expand its geographic presence in the Benelux.

The purchase price of £209m, subject to final closing balance sheet adjustments, was financed by a vendor placement of 21m shares raising £36m net and debt of £173m from a new banking facility.

The eight businesses purchased provide solid and hazardous waste collection, treatment, recycling and industrial cleaning services to a wide range of customers. It is expected that changes in the UK and Belgian regulations will represent an opportunity to apply these acquired advanced technologies across the Group.

These companies have a successful record of developing their activities and are expected to expand further.

DEVELOPMENTS

In addition to the major WMN and Caird acquisitions, five smaller acquisitions were completed during the year at a total cost of £13m. Since the year end, the Group has acquired, subject to competition clearance, a waste business in Belgium for £9m cash.

The £20m investment in 32MW of further electricity generating contracts (NFFO5) underway at six locations is expected to be substantially completed during 2000/1. Profits will begin to flow as each plant is commissioned.

The new £16m waste to energy plant to fulfil the contract for a further 190,000 tonnes of MBM is under construction at Fawley. This plant is expected to be on stream in the 2001/2 year.

OUTLOOK

The strategic moves made by the Group during the year are entirely consistent with European Union waste policies and clearly anticipated the recently published National Waste Strategy for England and Wales. The Group now has a substantial presence in mainland Europe and should benefit significantly from these initiatives in the current year and for many years to come.

G H Waddell
CHAIRMAN

Operating Review

Shanks Group plc has continued to develop in the 1999/2000 year. Although remaining exclusively focused on waste management and allied activities, the Group now offers an unprecedented number of services to a market which is demanding ever greater sophistication from its vendors. Comprehensive customer service remains a priority and is a source of competitive advantage. The acquisition of Caird Group PLC and, on the last day of the financial year, the activities of Waste Management International in the Netherlands, have greatly enhanced our capabilities.

Staff from these and other acquisitions are welcomed to the Group. Thanks are extended to all employees for the commitment and professionalism throughout the year. I am confident that the Shanks team is the finest in our industry.

Our commitment to Health and Safety continues and is recognised by prestigious awards from the Royal Society for the Prevention of Accidents (RoSPA) and pleasing results from audits of certain operating sites by the British Safety Council. This focus has been accepted by our Belgian companies which have seen significant progress in the year.

The Landfill Tax Credit Scheme allows donations to approved environmental projects to be partially offset against landfill tax. Donations totalling £12m were made in the year and total £26m in the three and a half years since the scheme's inception.

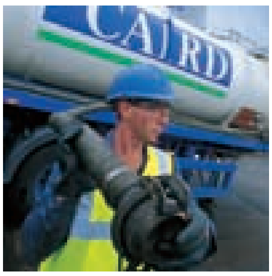
UK Waste Services

UK Waste Services collects and manages household, commercial and industrial wastes throughout Britain. Revenue increased from £170m to £217m. Approximately £16m of the increase accrued from the rise in landfill tax in April 1999 from £7 to £10 per tonne. Acquisitions accounted for a further £15m. Operating profits before acquisitions are unchanged at £30.2m, a fine achievement considering the £3.2m lower contribution from the original Hendon transfer station contract and the Group's first tranche electricity from landfill gas contracts under the NFFO (Non Fossil Fuels Obligation) scheme. Apart from these NFFO1 stations, profits from electricity sales have increased significantly, as have profits from the collections activity. Landfill profits were buoyed by a full year contribution of a waste by rail contract which commenced in January 1999, although volumes of waste from the remediation of contaminated land declined. Recycling losses have been considerably reduced but the contribution from Special Waste activities has slightly declined.

Acquisitions have again been a major feature in the year with the appropriate parts of Caird now fully integrated into the division. Approximately £0.75m of annual administrative cost savings have already been made with a similar quantum of operating synergies expected now integration is complete.

The programme of tuck-in acquisitions has continued with five further transactions concluded for an aggregate of £13m. The collection acquisitions, mainly in W Yorkshire and Aylesbury, expand our geographic coverage and augment the performance of our disposal activities. The Bio-Logic acquisition gives the Group the capability to bio-remediate certain contaminated land.

The investment in 32MW of electricity generating capacity under NFFO and SRO continues apace and will represent a source of secure future profits.



Left: The Rossett landfill site in North Wales: Shanks now has a landfill bank of c. 130 million cubic metres of void.

Right: A tanker and driver at the Liverpool waste treatment plant. The business of Caird and five other smaller acquisitions made during the year have been integrated within the Shanks Group.

High-tech flares at the new 2.3 MW electricity from landfill gas station at Brogborough, Beds: One of the six generating plants being constructed under a £20 million electricity generation expansion programme.

Cleaning up contaminated soil using a natural solvent derived from the skins of oranges: One of the innovative waste management solutions now on offer from Shanks.

Operating Review
continued

Chemical Services

Chemical Services specialises in the high temperature incineration of hazardous organic chemical waste, solvent recycling and recovery together with related services.

Chemical Services operated in a difficult market in the UK where both prices and volumes declined for incineration services. Revenue from continuing operations therefore reduced by £3m to £20m bringing the division to an operating loss before acquisitions of £0.2m (1998/9 : operating profit of £1.5m). A positive contribution of £0.3m was made from the acquired Caird operations, where good performance at Hirt Combustion more than offset disappointment at Atlas Clensol.

Imports of waste having declined markedly over recent years should now be at steady state with the UK Government currently allowing imports from Ireland, Portugal and non OECD countries. The Field Services arm which specialises in on-site treatment of hazardous waste has also experienced a poor year with no notable contracts from abroad or from home. A number of further cost reduction programmes have been successfully implemented.

The original contract to incinerate MBM (meat and bone meal) from the BSE crisis continued until the end of the financial year. In October, the division was awarded a £16m contract to dispose of a further 190,000 te of MBM between 2001 and 2004. This new contract necessitates the construction of a new 60,000 te/year fluidised bed incinerator which will also generate some 7MW of electrical power. Construction is in progress and the plant should commence operations in the 2001/2 year.

The solvent recovery operations improved as the year progressed following the general rebound in oil prices. A new effluent treatment plant has been commissioned leading to significant cost savings which, coupled with a new contract from a major customer, improves the outlook for the coming year.

The Pontypool plant succeeded in gaining accreditation for its environmental management system to ISO 14001, the first such plant to gain accreditation in the UK.

Belgium

Belgium significantly improved its performance during the year with revenue rising some £7m to £76m and operating profit by £2.9m to £14.6m. This excellent result represents progress in all three Belgian regions of Wallonia, Flanders and Brussels. Increases in paper volumes and prices have lead to a substantially improved performance in paper recycling whilst additional waste collection contracts have buoyed performance. Special Waste performance has also been strong.

Left: Industrial cleaning in action at a cement-manufacturing complex in Belgium.

Right: Biological and chemical treatment of waste and the production of fuel pellets from industrial waste are some of the activities at this Shanks site in Flanders.

Operating Review
continued

In particular, however, certain food scares alerted the populace and authorities to dioxins leading to a temporary diversion of certain household waste from incineration to landfill. The exceptional extra volumes, which have now ceased, contributed significantly.

Although the outlook in Belgium remains favourable, the exceptional gains reported will not be repeated in the current year.

Post year end, the Group, subject to competition clearance, completed its first acquisition in Belgium since entering the market in 1998. De Paepe, a leading recycler of construction waste and remediator of contaminated land headquarted in Ghent, with a turnover of c £12m and some one hundred employees will join the Group. This new addition complements existing operations and establishes the Group in this important geographic area.

Prospects

On the last day of the year under review, the Group concluded the acquisition of Waste Management International's interests in the Netherlands. The now renamed Shanks Nederland B V comprises eight operating units which are all leaders in their areas. Together they represent the largest waste management grouping in the Randstad region of the Netherlands. This area is the economic heartland of the country containing the major population concentrations. Overseas activities now represent approximately one half of the Group total.

A number of new technologies were acquired with the transaction including pyrolysis, high temperature soil cleaning and soil washing techniques, and a refuse derived fuel capability. These business units have a history of consistent growth which should continue. Additionally, scope is foreseen to apply these new technologies elsewhere in the Group as new European regulations are applied in the UK and Belgium.

This event, coupled with those described elsewhere in this review, establish Shanks as one of Europe's leading waste management companies with over 4,000 employees. This strong position should lead to a further year of solid progress for the Group.

M C E Averill
GROUP CHIEF EXECUTIVE

A group of eight business made up Waste Management Nederland BV which, at £209 million, is the largest acquisition in the history of the Shanks Group.

Municipal waste management, increasingly in the corporate livery of Shanks Belgium, in the Wallonia region.

Financial Review

Finance Function

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

Management of the Group's financial resources, particularly its cash, working capital and capital expenditure is key to the Group's continued successful expansion. All investments are financially appraised by discounting the expected future cash flows at the Group's weighted average cost of capital, as a minimum, to assess the creation of long term shareholder value.

Accounting Issues

Since last year the Accounting Standards Board has issued FRS 15 - Tangible Fixed Assets and FRS 16 - Current Tax. Neither of these accounting standards has had a material impact on the Group's results.

FRS 12 - Provisions and Contingencies, introduced into last year's accounts, affects the Group's presentation of its long term landfill site liabilities, see note 20. A real discount factor of 2% has been used to calculate the present value of these future liabilities, which are expected to be incurred between now and circa 2050. The annual unwinding of this discount of £1.2m is shown as a finance charge and has been separately disclosed from interest on the face of the P & L as it is so material.

Key Performance Data

The key figures showing the performance of the Group have been extracted from the accounts and are shown below.

	2000	1999	Change	%
Turnover	£315m	£261m	£54m	21
Trading Profit*	£37.5m	£35.1m	£2.4m	7
EBITDA	£71m	£69m	£2m	3
Earnings per share*	11.5p	11.2p	0.3p	3
Dividend per share	5.25p	4.80p	0.45p	9
Dividend Cover*	2.0x	2.3x	(0.3x)	N/A
Net debt	£273m	£57m	£216m	N/A
Interest cover	8x	9x	(1x)	N/A

*Before goodwill amortisation

Turnover

Group turnover has grown by £54m to £315m, an increase of 21%. The reasons for this increase were net organic growth - £21m, acquisitions - £17m and UK landfill tax - £16m. Caird Group PLC was the major contributor - £14m to the acquisition growth. Net organic growth mainly occurred in UK Waste Services - £17m and Belgium - £7m which more than offset the decline in UK Chemical Services - (£3m). The share of turnover from joint ventures has almost doubled to £6.1m (1998/9 : £3.2m), mainly from Caird Bardon.

Trading Results

The Group controls its performance by comparing its trading profit and cash flows against its budget and quarterly forecasts. Trading profit is defined as profit on ordinary activities before taxation and goodwill amortisation. The trading profit figures shown in the table have been calculated on that basis.

The trading profit of the year shows a growth of £2.4m from £35.1m to £37.5m. If the £3.2m earned last year on the expired contracts were excluded, the underlying growth would have been £5.6m, a 18% improvement. Trading profit before interest increased by £3.7m of which £2.4m arose from acquisitions in the year. The net improvement from continuing operations of £1.3m was split as follows: Belgium (+£2.9m), Central Services (£+0.1m), UK Waste Services (Nil) less the reduction in UK Chemical Services (-£1.7m).

The Group made exceptional profits of £0.3m from an old construction claim and £0.2m from the sale of 5% of Silvamo landfill in Belgium. Exceptional costs of £0.5m were incurred in the integration of Caird into the appropriate UK division. Net exceptional items were therefore nil (1998/9 : £0.3m). Finance charges, including the unwind of discount, increased by £1.0m.

The goodwill amortisation of £1.4m is principally due to the Caird acquisition.

Taxation

The average tax rate charged on profit before goodwill amortisation is 36%. This reflects the 40% rate of tax on Belgian earnings and a UK charge of 33%. This high UK charge arises as landfill void expenditure does not qualify for capital allowances nor is its amortisation an allowable deduction for corporation tax.

Year End Balance Sheet

The Dutch acquisition was completed on 4 April 2000, the last working day of the year and so its full effect is included in the year end balance sheet. The following illustrative pro forma statement shows the effect of the acquisition on that balance sheet.

	1999 Group £m	2000 Group £m	2000 Holland £m	2000 Adjustments £m	2000 Enlarged Group £m
Fixed Assets	160	192	86	-	278
Goodwill	2	48	-	126	174
Debtors & stock	77	94	33	-	127
Creditors	(74)	(85)	(28)	-	(113)
Long term provisions	(36)	(41)	(9)	-	(50)
Net borrowings	(57)	(101)	1	(173)	(273)
Capital & Reserves	72	107	83	(47)	143

The consideration of £209m was funded by a vendor placement of 21m shares at 175p raising £36m net and £173m of debt. The goodwill arising, estimated at £126m, will be amortised over twenty years. This estimate will be reviewed after finalisation of the purchase price and a detailed assessment of the fair values of assets.

Cash Flows

Year end net debt rose by £216m to £273m (1998/9 : £57m) and is analysed in the table below.

	2000	1999	Difference
Operating Profit	43	40	3
Depreciation/Landfill Provisions	28	29	(1)
EBITDA	71	69	2
Working Capital Movement	(7)	(8)	1
Interest, Tax and Dividends	(32)	(28)	(4)
Net Capex	(30)	(20)	(10)
Acquisitions (inc Debt)	(281)	(5)	(276)
Issue of Shares (inc Vendor Placement)	59	1	58
Currency Translation	4	(2)	6
(Inc)/Dec in Borrowings	(216)	7	(223)

The debt of the enlarged Group should be viewed in the context of its strong cash flow, profitability and stock market value. In the year the Group's earnings before tax, interest, depreciation, amortisation and landfill provisions, defined as EBITDA, grew to £71m. In the twelve months to December 1999, WMN reported an EBITDA of £30m. On an unaudited pro forma basis therefore the enlarged Group generated an annualised EBITDA of £101m.

Treasury and Risk Management Policy

The Group has a new circa £300m two tranche revolving credit facility with a syndicate of banks arranged by ABN-AMRO and the Royal Bank of Scotland. Tranche A consists of a £75m 364 day sterling denominated multicurrency facility with one year extension or term out option. Tranche B is a €370m five year Euro denominated multicurrency facility.

The key financial covenants relate to the ratio of Net Borrowings to EBITDA and interest cover. The performance against these two ratios determines the applicable margin on the facility. In order to protect the Group's interest cover, forward fixed interest contracts have been established for a proportion of both sterling and Euro borrowings. The Euro fixed rates average 4.6% and the sterling rate is 6.4%. These contracts last between one and five years. Details are shown in note 18.

The Group also has £30m working capital facilities with various banks and the £20m ten year (1993-2003) private placement at the fixed rate of 8.93% remains in place.

The Group's policy regarding other risks is to take the maximum amount of insurance cover available in the market at reasonable prices. It therefore carries catastrophe insurance, including pollution cover but self-insures up to a maximum level of £1m in order to minimise the cost of its risk management programme.

Acquisitions

a) Caird

The acquisition of Caird Group PLC was completed in June 1999 for a total consideration of £53m. The net asset adjustments for accounting policies and fair value amounted to £2m and £7m respectively. The goodwill arising of £37m will be written off over twenty years.

b) Waste Management Nederlands

The total consideration is likely to be £209m and the estimated fair value of assets acquired, excluding existing goodwill is £83m. The total goodwill arising of £126m will be written off over twenty years.

c) Other

The Group acquired five other smaller businesses during the year for a total consideration of £13m. These businesses comprise a number of tuck-in collection businesses, the largest being in Aylesbury, and a bio-remediation business. The total goodwill arising amounted to £10m which will be amortised over twenty years.

Capital Expenditure

During the year, the Group spent £33m on capital expenditure which represented 126% of its depreciation charge. The major capital items were the NFFO5 power generation equipment, the new MBM plant and replacement of vehicles. The Group will continue its investment programme into the new year and £17m has already been committed.

D J Downes
GROUP FINANCE DIRECTOR

The Environment, the Community and the Group

In a year in which Shanks again grew significantly, both within the UK and further into continental Europe, commitment to high standards in health, safety and environmental protection has remained constant. Such commitment is immediately applied to all new acquisitions and activities which, subsequently, also come under the independent 'microscope' of the Group funded Environmental Advisory Board (EAB).

Corporate Environmental Policy

Compliance with all relevant laws, regulations and appropriate codes of practice is regarded as the minimum requirement by Shanks. This is one of the stated principles of the Corporate Environmental Policy which was revised and republished during the year by the Corporate Environmental Committee, a cross sectional group of employees reporting directly to the Chief Executive. As well as being distributed externally, copies of the full document were given to every employee within the UK and translations of the principles of the Policy, into French and Flemish, were made available in Belgium.

Environmental Advisory Board

Not only was Shanks the first company in the UK waste management industry to publish a Corporate Environmental Policy, it was also the first to establish an independent Environmental Advisory Board. Chaired by Lord Cranbrook and comprised of experts of international standing, the EAB is in its second decade of maintaining its independent scrutiny of the Group's sites, operations, policies and environmental systems.

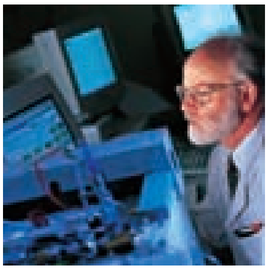
The eleventh annual report of the EAB has been published and widely distributed. It covers the activities and discussions of the EAB during 1999 including site visits in Belgium for the first time, and the latest in the series of biennial conferences attended by both company and external delegates. The company has no editorial control over the publication, which includes largely positive but also some constructively critical comments on the Group's environmental practices and performance. It also lays down future challenges. Copies of the annual report are available on request.

Environmental Management

In 1999 the Group committed a significant number of operational sites to registration to a recognised Environmental Management System, such as ISO 14001, within three years. Four sites are now accredited but as this current second year of the programme progresses this number is scheduled to increase substantially.

Health and Safety

The incidence of more serious accidents suffered by Shanks employees, both in the UK and Belgium, fell significantly by some ten per cent during 1999/2000. This achievement is all the more creditable against a background of company expansion with in excess of 25 new operations and more than 400 employees added during the review period.



Left: Efficient and suitably branded company travel in the Belgian City of Liège. Shanks has also trialed an electric van for paper collections in Aberdeen.

Right: Waste management activities are carefully monitored and controlled.

Clockwise from top left:

Shanks is a leader in the generation of "green" electricity from landfill gas.

More than 21,000 tonnes of green waste was processed for composting in the UK alone.

The company now operates an extensive network of Materials Recycling Facilities and other recovery operations.

Protection of the environment and health and safety are at the heart of all company operations.

The Environment, the Community and the Group

continued

During the year under review Shanks contracted the British Safety Council to carry out 35 independent audits at a variety of its operations in the UK. The average score from these audits was in excess of 90 per cent and more than two thirds of the operations audited scored maximum 'Five Star' awards. This audit system is now also being used to good effect in Belgium. Shanks also continued with its entries for the Royal Society for the Prevention of Accidents (RoSPA) awards achieving two gold medals, one gold award and a silver award.

Co-ordination and common high standards in health and safety are an essential prerequisite for the Group. To enhance this approach the individual safety departments within the three operating companies were amalgamated during the year to form one Group Health and Safety function.

The annual Group Health and Safety review distributed to all staff, as well as regulators and other interested parties, gives a detailed breakdown of company performance and is available on request.

Employees

The recruitment and selection policy of the Group is to search for the best possible person, regardless of sex, race, creed or disability. Two way communication between employer and employee is recognised as a core feature of the Group's development strategy. An employee newspaper is also published regularly to ensure staff are kept appraised of activities and developments throughout the Group.

Commitment to accreditation to the Investors in People scheme continues to demonstrate the priority afforded to training and personal development of all employees within UK companies. A significant proportion of the Company has achieved accreditation and the programme continues towards a target of attaining the award throughout the UK.

Community Relations

The Group maintains its commitment to seeking effective communications and good relationships with operational site neighbours and with the wider community. Additional effort and resources are being applied, keeping pace with the growth of the company, to ensure the continuing effectiveness of a wide range of communication channels and activities. These include Liaison Groups, publications including occasional newsletters, site visits, exhibitions and informal discussions and meetings.




Clockwise from top left:

Commercial collection on Merseyside.

Household collection in Flanders.

Shanks sites again welcomed thousands more visitors interested in its waste management activities.

Villagers of Newton Longville in Bucks, celebrate the opening of their new £380,000 village hall complex funded via the Landfill Tax Credit Scheme with support from Shanks.

Data on the Group's operational performance is also held on various public registers maintained by the regulatory agencies. However, to further the free flow of information and promote a clearer understanding of the environmental impact of the Group's activities, the Group's first quantitative report on environmental performance is now being compiled and will be made widely available. An internet web site *(www.shanks.co.uk)* has also been established and is currently being extended to include downloadable versions of more company publications, Group information and announcements and further details of the various waste management services offered within the Group.

UK Landfill Tax Credit Scheeme

Group support for approved environmental projects has totalled £26m since the introduction of the Landfill Tax Credit Scheme, of which about £12m came from tax during the year under review. A non-profit making company has been set up to handle the Group's growing support of the Scheme and is responsible for ensuring that the environmental bodies to which contributions are awarded comply fully with the regulations.

In support of the original stated aims of the Scheme, the majority of the year's awards (55%) went towards local amenity projects, including £2.2 million donated to the Marston Millennium Country Park project. A further 37% of the year's donations went to support research and development in waste management, waste minimisation and recycling projects and waste education initiatives. Such donations include £0.2 million (bringing the total donated to £0.5 million) to the partnership 'Polsco' project in Scotland investigating 'polymer cracking' plastics recycling. For a Bristol-based initiative encouraging community participation in waste issues, 'Action on Waste', a further £0.3 million for the next three years has been granted following earlier support which helped pioneer the scheme.

Summary

The Group remains an international champion of best practice in the waste management industry and continues to place great importance on its care of people and the environment while providing all its services.

Directors

at 31 May 2000

NON-EXECUTIVE DIRECTORS

Gordon Waddell, BA MBA (Age 63)*
Chairman
Gordon Waddell was appointed Chairman in 1992 and is Chairman of the Nomination Committee. He is Chairman of Mersey Docks and Harbour Company and of Gartmore Scotland Investment Trust Plc.

Ian Clubb, CA (Age 59)*
Senior Independent Director
Ian Clubb was appointed to the Board in 1994 and is Chairman of the Audit and Remuneration Committees. He is Chairman of the Trustees of the Company's Pension Scheme. He is Chairman of First Choice Holidays PLC and is also a non-executive director of Expro International Group plc.

Richard Biffa, MinstWM (Age 60)*
Deputy Chairman
Richard Biffa joined the Board in 1991 following the merger with Rechem Environmental Services PLC of which he was previously Chairman. He has had a long lasting association with, and a wide experience of, the waste industry. He is a Director of Try Group PLC.

Barry Pointon, BSc (Age 53)*
Barry Pointon was appointed to the Board in January 1999. He is an engineer with over thirty years experience in industry. He is an Executive Director of IMI plc with responsibility for IMI's Hydronic Controls business.

EXECUTIVE DIRECTORS

Michael Averill, BSc, MBA, ARSM, MinstWM (Age 49)
Group Chief Executive
Michael Averill holds an MBA from Cranfield Management School and a degree from Imperial College of Science and Technology. He joined the Group in 1989 as a Business Development Director for Rechem International Ltd. He became Managing Director of Rechem in 1992. He was appointed Group Chief Executive in 1994.

David Downes, BSc, MBA, FCMA, FCT (Age 54)
Group Finance Director
David Downes is a qualified accountant and holds an MBA from Stanford Business School and a degree in civil engineering from Kings College, University of London. He was appointed to the Board as Group Finance Director in 1993. He was previously Deputy Chief Executive of Hunter Saphir PLC and Group Finance Director of MBS plc. He is a Trustee of the Company's Pension Scheme.

COMPANY SECRETARY

Paul Kaye, BSc, FCA, age 52
Paul Kaye was appointed Company Secretary in 1996. He is a qualified accountant and was previously Finance Director of a Group subsidiary. He is a Trustee of the Company's Pension Scheme.

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

Report of the Directors

The Directors present their annual report together with the audited financial statements for the year ended 4 April 2000.

1 Annual General Meeting
The notice of the Annual General Meeting is set out on pages 58 and 59.

The Directors recommend that shareholders authorise the Company to purchase its own ordinary shares as permitted under Article 10 of its Articles of Association. Accordingly, resolution (6) will be proposed as a special resolution seeking authority to make such purchases in the market. The Directors have no immediate intention of using such authority and would do so only when they consider it is to be in the best interests of shareholders generally. Any ordinary shares purchased under this authority will be cancelled and the number of ordinary shares in issue will be reduced accordingly. Resolution (6) specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and the Financial Services Authority. The Directors intend to seek renewal of this power at subsequent Annual General Meetings. As at 31 May 2000 (being the latest practicable date prior to the printing of this document) there were outstanding options to subscribe for a total of 5,963,493 ordinary shares in the Company, representing 2.6% of the issued share capital of the Company at that date. If the share buy-back authority referred to above is exercised in full, the outstanding options as at 31 May 2000 would represent 2.8% of the issued share capital of the Company.

The Directors consider it advisable to renew their authority to allot equity securities for cash, other than to existing shareholders *pro-rata* to their holdings, which is due to expire on 21 October 2000. This authority will enable the Directors, at any time until 26 October 2001, to allot equity securities wholly for cash up to an aggregate nominal amount of £1,162,000 or otherwise in connection with a rights issue. This limited disapplication will allow the Directors to allot up to 11,620,000 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 31 May 2000. For this purpose a resolution will be proposed as a Special Resolution at the Annual General Meeting as set out in resolution (7) of the Notice of Meeting.

2 Principal Activities and Group Results
The principal activities of the Group and an indication of likely future developments are described in the Chairman's Statement on pages 2 and 3 and in the Operating and Financial Reviews on pages 4 to 13. The Group's Profit and Loss Account appears on page 32 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's profit after tax amounted to £22.7m (1999: £22.5m).

3 Dividends
The Directors recommend a final dividend of 3.5 pence per share be paid on 7 August 2000 to ordinary shareholders whose names appear in the register at close of business on 14 July 2000. This dividend together with the interim dividend of 1.75 pence per share already paid, will make a total dividend for the year on the ordinary shares of 5.25 pence (1999: 4.80 pence).

4 Directors
The composition of the Board of Directors at the date of this report is shown on page 18. All of the Directors served on the Board throughout the year under review. Mr I M Clubb, and Mr D J Downes retire by rotation at the Annual General Meeting and will be offering themselves for re-election. Mr Downes has a service contract terminable on 24 months' notice. Mr Clubb does not have a service contract. Details of the Directors' Interests are shown in the Remuneration Report.

5 Corporate Governance
A report on Corporate Governance is given on pages 21 to 23.

6 Share Capital
On 31 May 1999 9,988,400 shares were issued for cash to partly finance the offer to acquire Caird Group PLC and a further 21,134,000 were issued on 4 April 2000 for cash to partly finance the acquisition of Waste Management Nederland BV. Apart from this no ordinary shares were issued during the year ended 4 April 2000 other than those issued in respect of exercises of options under the Company's share option schemes, details of which are given in note 21 to the accounts. At 4 April 2000 and at the date of this report the authorised ordinary share capital was and is £30,000,000 represented by 300,000,000 ordinary shares of 10 pence each. At 4 April 2000 232,487,631 ordinary shares were in issue. Prior to 31 May 2000 a further 12,075 shares have been issued in respect of options exercised, leaving an unissued balance of 67,500,294 ordinary shares of 10 pence each, representing 22.5% of the authorised ordinary share capital.

7 Notifiable Interests

As at 31 May 2000, 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
Lloyds TSB Group plc	12,554,318	5.40
Fidelity International Limited	10,097,017	4.34
Zurich Financial Services Group	7,732,150	3.33

The interests of the Directors are shown in the Remuneration Report on page 27.

8 Acquisitions

During the year Caird Group PLC and Waste Management Nederland BV were acquired for a consideration of £53m and £209m respectively. A number of smaller acquisitions have also been made during the year at a total cost of £13m. The acquisitions are described in the Operating and Financial Reviews on pages 4 to 13 and in note 16 to the financial statements.

9 Research and Development

The Group spent £0.2m (1999: £0.2m) on research and development in the past year, which was charged to profits. In addition, the Company made available £1.0m (1999: £0.3m) to environmental bodies under the Landfill Tax Credit Scheme for research and development projects. The net cost of this to the Company was less than £0.1m which has not been included in expenditure disclosed. (See 'The Environment, the Community and the Group' section, page 17).

10 Health and Safety

The Group and the Board of Directors regard the provision of safe working conditions for all employees as a high priority and Health and Safety performance is quantified and now published for stakeholder scrutiny. (See 'The Environment, the Community and the Group' section, pages 14 and 16).

11 Employment Policies

Group employees are recognised as an asset and it is Group policy to ensure that effective employee communications are maintained at all times. (See 'The Environment, the Community and the Group' section, page 16).

12 Payment of Suppliers

It is the Group's payment policy, in respect of all suppliers, to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders. The Group will abide by these terms of payment. The amount owed by the Group to trade creditors at the year end in proportion to the amounts invoiced by suppliers during the year, expressed as a number of days, was 59 days (1999: 52 days). (Company 39 days, 1999: 37 days).

13 Charitable and Political Donations

During the period donations made by the Group for charitable purposes amounted to £8,100 (1999: £8,000). No donations were made for political purposes as defined by the Companies Act 1985.

14 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 4 April 2000.

15 Registered Auditors

A resolution re-appointing PricewaterhouseCoopers as the Company's auditors will be proposed at the Annual General Meeting.

By Order of the Board
P Kaye
Secretary
31 May 2000

Corporate Governance

Combined Code

The Group is committed to achieving high standards of corporate governance and to integrity and high ethical standards in all its business dealings. This statement, together with the Remuneration Report on pages 24 to 27, explains how the Group has applied the principles of good practice in corporate governance as set out by the Financial Services Authority in Section 1 of The Combined Code. The Board considers that it has complied with the Code provisions throughout the financial period except in regard to the notice period of Directors' service contracts as outlined on page 26.

The Board of Directors

The Board currently comprises four Non-executive Directors and two Executive Directors and their biographies are set out on page 18. The roles of the Chairman and Chief Executive are held by separate individuals and the role of the Chairman is Non-executive. The Non-executive Directors bring a wide range of experience to the Group and are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their judgement. The Non-executive directors make a significant contribution to the functioning of the Board, thereby helping to ensure that no one individual or group dominates the decision making process. Non-executive Directors are not eligible to participate in any of the Company's share option schemes. Mr I M Clubb is the Senior Independent Director.

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

All Directors submit themselves for re-election by shareholders every three years if eligible, and all Non-executive Directors are appointed initially for a three year term. Any Director appointed by the Board will be subject to election by shareholders at the first opportunity.

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

Audit Committee

The Audit Committee is formally constituted with written terms of reference. It is chaired by Mr I M Clubb and comprises the Non-executive Directors (see page 18). It meets at least three times a year. The external auditors and the Executive Directors are regularly invited to attend meetings and the Committee has access to the external auditors' advice without the presence of the Executive Directors. The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment and fees of the external auditors, the nature and scope of the audit including the management letter, reviews of the half-year and annual financial statements, internal control procedures, accounting policies, compliance with accounting standards and such other related functions as the Board may require.

Nomination Committee
The Nomination Committee is chaired by Mr G H Waddell and comprises the Non-executive Directors (see page 18). It is responsible for making recommendations to the Board on the appointment of Directors and succession planning.

Remuneration Committee
The Remuneration Committee is chaired by Mr I M Clubb and comprises the Non-executive Directors (see page 18). The Committee determines the Company's policy on remuneration and on a specific package for each of the Executive Directors. It also determines the terms on which executive and SAYE share options are awarded to employees. In exercising its responsibilities the Committee has access to professional advice, both internally and externally, and may consult the Chief Executive about its proposals.

The Remuneration Report on pages 24 to 27 contains particulars of Directors' remuneration and interests in shares.

Pensions
The Group operates pension arrangements in respect of UK employees, providing benefits based on final pensionable salary. The assets are held separately from those of the Group, are invested by professional investment managers and cannot be invested directly in the Company. Three trustees have been appointed by the Company and, in addition, two member nominated trustees were appointed in 1998. Senior employees in Belgium are provided with defined contribution pension benefits. Contributions are held by independent insurance companies.

Relationship with Investors
The Company has an active investor relations programme, with designated members of the Board regularly meeting institutional investors, analysts, press and other parties. The Company is pleased to welcome both private and institutional shareholders to its Annual General Meeting and to discuss any topic shareholders may wish to raise.

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

Internal Control
Guidance for directors 'Internal Control: Guidance for Directors on the Combined Code' (the Turnbull guidance) was published in September 1999. In accordance with the Financial Services Authority's transitional rules which apply in respect of compliance with principle D.2.1 of the Code on internal control, the Board has decided that for the year ended 4 April 2000 it will continue to report on internal financial control pursuant to the guidance for directors on internal control and financial reporting that was issued by the Rutteman Working Group in December 1994.

During the year management has reviewed the whole system of internal control to ensure that the procedures necessary to achieve full compliance with the guidance of the Turnbull Committee are in place for the financial year commencing 5 April 2000.

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

i) 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 annual budgets, requiring Board and business sector approval, reviewed on a regular basis, with performance measured against them and explanations sought for significant variances;

iii) formal clearly defined framework for controlling and approval of capital expenditure and investment programmes, with cash authorisation limits supplemented by post investment appraisals;

iv) appointment of experienced and professional staff of the necessary calibre to meet their responsibilities;

v) an internal Quality Management 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 21.

Statement of Directors' Responsibilities
The following statement, which should be read in conjunction with the auditors' report on page 28, is made to distinguish for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

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

In preparing the financial statements for the year ended 4 April 2000 the Directors have:

• used appropriate accounting policies, consistently applied;

• made judgements and estimates that are reasonable and prudent;

• ensured that all applicable accounting standards have been followed; and

• prepared the financial statements on the going concern basis.

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

The auditors' report on the financial statements set out on page 28 confirms that the scope of their report covers provisions of the Combined Code that are specified for their review by the Financial Services Authority.

Remuneration Report

Remuneration Policy
The principal objectives of the Remuneration Committee are to attract, retain and motivate high quality senior management with a competitive package of incentives and awards linked to performance and the interests of shareholders. The Committee seeks to ensure that the Executive Directors are fairly rewarded taking into account all elements of their remuneration package in the light of the Group's performance.

Basic Salary
The basic salary element is determined after evaluating the executive's responsibilities and is based on the complexity, know-how, decision-making involved and the overall impact on the business. Comparison is made with published external surveys that provide information to assist in the deliberations.

Annual Cash Bonuses
Annual cash bonuses are payable at the discretion of the Remuneration Committee as a percentage of basic salary up to a maximum of 50% of applicable salary based on corporate performance. They are not pensionable. For the year ended 4 April 2000, a bonus of 28% has been earned by the Executive Directors.

Share Option Schemes
The Committee believes that share ownership by employees encourages the matching of long-term interests between employees and shareholders. All employees including Executive Directors, subject to certain service conditions, may participate in an Inland Revenue approved Sharesave scheme. Senior executives are also able to participate in an executive share option scheme at the discretion of the Remuneration Committee. Normally executive share options are granted on a phased basis over a number of years with a maximum option value of four times remuneration.

Under the terms of the Savings Related Share Option Schemes for employees, options may be granted up to August 2005 to acquire up to 10% of the issued equity share capital of the Company, including options granted under the Executive Share Option Schemes. Options are granted at the higher of the nominal value and an amount determined by the Remuneration Committee being not less than 80% of the market value. At 4 April 2000 options outstanding amounted to 2.5 million shares (see note 21).

Under the terms of the Executive Share Option Schemes, options may be granted up to August 2005 to acquire up to 5% of the issued equity share capital. Under the 1995 Executive Share Option Scheme which is the only current scheme, the Remuneration Committee may apply performance conditions which must be met for options to be exercised. The exercise of options granted under this Scheme since 1995 is subject to a performance condition. These options may not be exercised (except in the case of redundancy or death) unless the growth in the Group's earnings per share over the period of three consecutive years after the grant equals or exceeds the increase in the Retail Price Index over the same period plus six percentage points. Options are granted at the higher of the nominal value or the market value. At 4 April 2000 options outstanding amounted to 3.4 million shares (see note 21).

Pensions

Executive Directors are eligible for membership of the Group Pension Scheme, which is a funded, defined benefits scheme approved by the Inland Revenue. The key elements of the scheme are:

• a normal retirement age of 62;

• at retirement, and subject to length of service, a pension of up to two thirds of basic salary subject to Inland Revenue Limits;

• an employee contribution of 5% of basic salary;

• a lump sum death in service benefit of four times basic salary;

• a spouse's pension on death.

Directors' Pension Benefits (under the defined benefits scheme)

	Increase in accrued pension during the year(i) £000 per annum	Transfer value of increase (ii) £000	Total accrued pension at year end (iii) £000 per annum
M C E Averill	22	255	90
D J Downes	9	114	34

(i) The increase in accrued pension during the year represents the difference between the total accrued pension at the end of the year and the equivalent amount at the beginning of the year, adjusted to allow for inflation during the year.

(ii) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less Director's contributions. The calculation is based on the assumption that pensions will be paid from age 62, the normal retirement age.

(iii) The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.

(iv) The pension of Mr M C E Averill has been enhanced to allow early retirement without the application of actuarial reduction factors between the age of 57 and 62.

(v) Mr D J Downes is subject to the Inland Revenue cap on approved pensions benefits and is provided with comparable unapproved benefits for basic salary in excess of the cap. Mr Downes' pension has been enhanced to allow early retirement without the application of actuarial reduction factors between the age of 60 and 62.

DIRECTORS' EMOLUMENTS

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

	Basic salary		Performance related bonus		Other emoluments		Total	
	2000 £000	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000
G H Waddell*	**100**	90	**–**	–	**–**	–	**100**	90
A G L Alexander*	**–**	21	**–**	–	**–**	–	**–**	21
M C E Averill	**250**	207	**70**	103	**16**	13	**336**	323
R C Biffa*	**25**	22	**–**	–	**–**	–	**25**	22
I M Clubb*	**25**	22	**–**	–	**–**	–	**25**	22
D J Downes	**216**	180	**60**	90	**31**	21	**307**	291
B Pointon*	**25**	6	**–**	–	**–**	–	**25**	6
Total							**818**	775

*Non-executive Directors

(a) Other emoluments includes such items as company cars, medical insurance, relocation, payments relating to funded unapproved retirement benefit schemes (FURBS) and life assurance.

(b) The Non-executive Directors do not participate in the annual bonus plan and do not receive any pension contributions from the Group.

(c) The Executive Directors are members of the Group pension scheme. A charge relating to the Executive Directors was made in the profit and loss account during the year in respect of the Group pension scheme equivalent to 7.9% (1999: 7.9%) of basic salary or the Inland Revenue earnings cap on approved pension benefits where this applies. This charge is in line with the recommendations of the most recent actuarial valuation of the scheme (see note 5 to the accounts).

(d) R Biffa is also a shareholder and director of Radstrong Limited. The fees in respect of Mr Biffa's services as a Director of the Group were paid to this company.

(e) A G L Alexander retired as a Director of the Group on 25 February 1999.

Directors' Service Contracts and Notice Periods

The Executive Directors have service agreements which require one year's notice from the Director and two years' notice from the Company. The Chairman has a service agreement which requires six months' notice from both the Chairman and the Company. In the event of early termination, the Remuneration Committee will consider carefully what compensation should be paid taking into account the circumstances of the particular case. Mr R C Biffa, Mr I M Clubb and Mr R B Pointon do not have service contracts.

The Remuneration Committee do not believe that it would be reasonable to reduce the notice period contained in the service agreements of existing Executive Directors. However, the Committee will carefully consider the notice periods offered to new Executive Directors in the light of the Best Practice Provisions of the Combined Code. The Committee recognises that a two year notice period is not in accordance with the relevant provision of the Combined Code.

Directors' 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 4 April 2000 and 27 March 1999 were as follows:

	Ordinary Shares		Executive (E) and Savings Related (S) Share Options					
	at 4.4.00	at 27.3.99 or retirement	Options at 4.4.00	Options at 27.3.99	Date of grant	Option price (p)	Normal Exercise Dates From	To
G H Waddell	201,000	201,000	—	—	—	—	—	—
A G L Alexander	—	5,000	—	—	—	—	—	—
M C E Averill	49,938	36,899	10,000(E)	10,000(E)	10.7.1991	270.6	11.7.1994	10.7.2001
			40,000(E)	40,000(E)	13.7.1992	205.0	14.7.1995	13.7.2002
			150,000(E)	150,000(E)	10.8.1995	99.0	11.8.1998	10.8.2002
			120,000(E)	120,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			125,000(E)	125,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			150,000(E)	150,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			150,000(E)	—	2.6.1999	233.5	3.6.2002	2.6.2006
			—	12,937(S)	22.9.1994	80.0	1.11.1999	30.4.2000
			4,035(S)	4,035(S)	19.9.1996	85.5	1.11.2001	30.4.2002
			2899(S)	2,899(S)	23.9.1997	119.0	1.11.2002	30.4.2003
			5,328(S)	—	23.9.1999	190.0	1.11.2004	30.4.2005
R C Biffa	9,173,562	9,173,461	—	—	—	—	—	—
I M Clubb	10,000	10,000	—	—	—	—	—	—
D J Downes	71,562	50,000	100,000(E)	100,000(E)	10.8.1995	99.0	11.8.1998	10.8.2002
			80,000(E)	80,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			84,000(E)	84,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			100,000(E)	100,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			100,000(E)	—	2.6.1999	233.5	3.6.2002	2.6.2006
			—	21,562(S)	22.9.1994	80.0	1.11.1999	30.4.2000
			8,881(S)	—	23.9.1999	190.0	1.11.2004	30.4.2005
R B Pointon	—	—	—	—	—	—	—	—

(a) The option price is the price at which the option was granted. The price is set by the Remuneration Committee but is not less than 80% (Savings Related Scheme) and 100% (Executive Scheme) of the average market price of the shares over the last three dealing days immediately preceding the date of the invitation to subscribe (Savings Related) or the date of grant (Executive). The performance conditions relating to the exercise of Executive Share Options are shown on page 24.

(b) The following options were exercised by serving Directors during the year:

	Type of option	Options Exercised Number	Options exercised price £	Market Price at date of exercise £	Potential pre-tax gain at date of exercise £000
M C E Averill	SAYE	12,937	0.80	2.415	21
D J Downes	SAYE	21,562	0.80	2.415	35

The potential pre-tax gain on exercise of share options by Directors for the year ended 27 March 1999 amounted to £333,000.

(c) There have been no alterations in the above interests or options between 4 April 2000 and 31 May 2000.

(d) The highest mid-market price during the year was 259.5p and the lowest mid-market price during the year was 172.5p. The mid-market price at the close of business on 4 April 2000 was 172.5p.

Other Interests

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

Report of the Auditors to the Members of Shanks Group plc

We have audited the financial statements on pages 32 to 54 which have been prepared under the historical cost convention and the accounting policies set out on pages 29 to 31.

Respective Responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report. As described on page 23, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 22 and 23 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 Group at 4 April 2000 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.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6NN
31 May 2000

Accounting Policies

Basis of Presentation

The financial statements are prepared on the historical cost basis, consistent with prior years, 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 Group plc and all its subsidiary undertakings (subsidiaries) together with their share of the results of joint ventures. 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.

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 and the results of overseas subsidiaries and joint ventures 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 other trading transactions in foreign currency are dealt with in the profit and loss account. The balance sheets of overseas subsidiaries and joint ventures are translated into sterling at the rate ruling at the balance sheet date. The exchange rate gain or loss is offset against the translation gain or loss on currency borrowings to the extent that they have been taken out to fund the acquisition. The net gain or loss is dealt with through reserves.

Joint Ventures

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

Discontinued Operations

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

Turnover

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

Exceptional Items

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

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. For defined benefit schemes, any differences between the actuarial valuation of the schemes and the value of assets in the schemes are also charged or credited to the profit and loss account over the expected working lives of the scheme members. Differences between the amount charged in the profit and loss account and payments to the defined benefit schemes are treated as assets or liabilities in the balance sheet.

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

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 the expected useful economic lives.

The expected life of buildings is:	25 to 50 years		
Plant and equipment lives are:			
Computer equipment	1 to 3 years		
Mobile plant	5 years	Generation equipment	8 to 15 years
Heavy goods vehicles	8 to 10 years	Other items	3 to 20 years

The Directors have reviewed the replacement cycle of certain heavy goods vehicles and have extended their economic lives by two years, leading to a £0.8m reduction in depreciation charge for the year.

(b) Landfill sites

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

(c) Capitalisation of interest

The Group has not capitalised interest on any assets under construction or in the pre-trading phase since the year ended March 1994. Following the introduction of FRS 15, 'Tangible Fixed Assets', the Group has eliminated the capitalised interest in tangible fixed assets. The effect of the change is not material on the Group's balance sheet or profit and loss account. The effect of restatements on prior years have not been separately identified as a consequence.

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 25 to the accounts.

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

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

Unprocessed Waste

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

Deferred Taxation

Provision is made for deferred taxation 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.

Site Restoration Provision

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

Aftercare Provision

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

Onerous Leases Provision

Where the Group has leased property which is surplus to current requirements and it is unable to reassign the benefits of the lease, a provision is made for the NPV of the future cash flows relating to the property. Future income is only incorporated in the cash flows to the extent that it is virtually certain.

Discounting

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

Goodwill

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Goodwill is now written off over its useful life in accordance with FRS 10. The useful life of goodwill is not expected to exceed 20 years. As permitted by FRS 10 the goodwill previously written off to reserves has not been reinstated in the balance sheet.

Prior to 28 March 1998, goodwill arising on consolidation was written off directly to reserves in the year of acquisition. If the consideration for companies acquired included the issue of shares, relief was taken when available, under section 131 of the Companies Act 1985. This allowed 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 were recognised at their nominal value. Where the fair value of the net assets acquired exceeds the consideration, the balance arising was treated as a capital reserve against which goodwill on other acquisitions was 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

Financial Instruments

The disclosures required by Financial Reporting Standard 13 'Derivatives and other financial instruments: Disclosures' are shown in note 18 to the accounts. The Group does not include short term debtors and creditors in these disclosures as permitted by the Standard.

Consolidated Profit and Loss Account

Year ended 4 April 2000

	Note	1999/2000 Continuing Operations £m	1999/2000 Acquisitions £m	1999/2000 Total £m	1998/1999 Continuing Operations £m
Turnover: Group and share of joint ventures		**302.5**	**18.1**	**320.6**	263.9
Less: share of turnover of joint ventures		**(5.0)**	**(1.1)**	**(6.1)**	(3.2)
Group turnover	1	**297.5**	**17.0**	**314.5**	260.7
Cost of sales		**(231.6)**	**(15.0)**	**(246.6)**	(195.6)
Gross profit		**65.9**	**2.0**	**67.9**	65.1
Group operating profit before goodwill and exceptional items		**41.3**	**1.7**	**43.0**	39.9
Exceptional costs	2	**—**	**(0.5)**	**(0.5)**	—
Goodwill amortisation		**—**	**(1.4)**	**(1.4)**	—
Group operating profit	2	**41.3**	**(0.2)**	**41.1**	39.9
Share of operating profit of joint ventures		**0.1**	**0.7**	**0.8**	0.2
Total operating profit	1	**41.4**	**0.5**	**41.9**	40.1
Exceptional profit on disposal of operations	3			**0.5**	0.3
Profit before finance charges				**42.4**	40.4
Finance charges - interest	6			**(5.1)**	(4.3)
Finance charges - unwinding of discount	7			**(1.2)**	(1.0)
Profit on ordinary activities before taxation				**36.1**	35.1
Taxation	8			**(13.4)**	(12.6)
Profit on ordinary activities after taxation				**22.7**	22.5
Equity minority interests				**(0.1)**	—
Profit for the period				**22.6**	22.5
Equity dividends paid and proposed	10			**(12.2)**	(9.6)
Retained profit transferred to reserves	22			**10.4**	12.9
Earnings per share					
- basic	11			**10.8p**	11.2p
- basic before goodwill amortisation	11			**11.5p**	11.2p
- diluted	11			**10.7p**	11.1p
Dividends per share	10			**5.25p**	4.80p

Consolidated Balance Sheet

At 4 April 2000

	Note	2000 £m	1999 £m
Fixed assets			
Intangible assets	12	**173.8**	1.9
Tangible assets	13	**271.1**	160.6
Investments	14	**0.3**	0.2
Investments in joint ventures:	14		
Share of gross assets		**12.9**	3.2
Share of gross liabilities		**(10.7)**	(3.2)
		2.2	—
Loans to joint ventures		**4.0**	—
Total investment in joint ventures		**6.2**	—
		451.4	162.7
Current assets			
Stocks	15	**4.4**	3.0
Debtors	17	**122.8**	74.0
Cash at bank and in hand		**9.3**	11.5
		136.5	88.5
Creditors: amounts falling due within one year			
Borrowings	18	**14.3**	2.7
Other creditors	19	**112.1**	72.1
		126.4	74.8
Net current assets		**10.1**	13.7
Total assets less current liabilities		**461.5**	176.4
Creditors: amounts falling due after more than one year			
Borrowings	18	**267.8**	65.9
Other creditors	19	**1.1**	1.8
		268.9	67.7
Provisions for liabilities and charges	20	**50.1**	36.4
		142.5	72.3
Capital and reserves			
Called up share capital	21	**23.2**	20.0
Share premium account	22	**91.7**	35.7
Profit and loss account	22	**27.3**	16.4
Equity shareholders' funds		**142.2**	72.1
Equity minority interests		**0.3**	0.2
		142.5	72.3

The Financial Statements were approved by the Board on 31 May 2000 and were signed on its behalf by:

G H Waddell
Chairman

D J Downes
Group Finance Director

Consolidated Cash Flow Statement

Year ended 4 April 2000

	Note	2000 £m	1999 £m
Net cash inflow from operating activities	23(a)	**63.0**	61.5
Returns on investments and servicing of finance			
Interest paid		**(5.4)**	(3.4)
Interest received		**0.3**	0.3
Finance costs incurred in raising debt		**(1.8)**	—
Net cash outflow from returns on investments and servicing of finance		**(6.9)**	(3.1)
Tax paid		**(15.0)**	(15.8)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(33.1)**	(21.2)
Sale of tangible assets		**2.9**	1.7
Net cash outflow from capital expenditure and financial investment		**(30.2)**	(19.5)
Acquisitions and disposals			
Purchase of subsidiary undertakings and businesses	23(b)	**(229.5)**	(5.7)
Overdrafts acquired with purchase of subsidiary undertakings		**(1.2)**	—
Purchase of and investment in joint venture undertakings		**(2.5)**	—
Sale of subsidiaries and joint ventures	23(c)	**0.5**	0.4
Net cash outflow from acquisitions and disposals		**(232.7)**	(5.3)
Equity dividends paid		**(10.4)**	(8.8)
Net cash (outflow) inflow before use of liquid resources and financing		**(232.2)**	9.0
Management of liquid resources			
Amounts returned from (placed on) deposit		**4.7**	(4.7)
Financing			
Issue of ordinary share capital		**22.8**	0.9
Debt financing	23(d)	**205.2**	(3.8)
Increase in cash		**0.5**	1.4

	Note	2000 £m	1999 £m
Reconciliation of net cash flow to movement in net debt	23(e)		
Increase in cash in the year		**0.5**	1.4
Cash inflow (outflow) from decrease (increase) in liquid resources		**(4.7)**	4.7
Debt financing (including finance costs)	23(d)	**(203.4)**	3.8
Change in net debt resulting from cash flows		**(207.6)**	9.9
Financing acquired with subsidiaries		**(3.1)**	—
Loan notes issued		**(8.8)**	—
Finance leases entered into		**—**	(0.7)
Exchange rate gain (loss) on net debt		**3.8**	(2.0)
Movement in net debt in the year		**(215.7)**	7.2
Net debt at 27 March 1999		**(57.1)**	(64.3)
Net debt at 4 April 2000		**(272.8)**	(57.1)

Reconciliation of Movements in Shareholders' Funds

At 4 April 2000

	Note	2000 £m	1999 £m
Profit on ordinary activities after taxation		**22.7**	22.5
Equity minority interests		**(0.1)**	—
Equity dividends	10	**(12.2)**	(9.6)
		10.4	12.9
Currency translation (losses) gains		**(4.1)**	0.9
Issue of share capital		**59.2**	0.8
Goodwill written off to reserves on acquisitions	22	**—**	(2.4)
Currency translation adjustment		**4.6**	(1.8)
Movements in goodwill		**4.6**	(4.2)
Net addition to equity shareholders' funds		**70.1**	10.4
Opening equity shareholders' funds		**72.1**	61.7
Closing equity shareholders' funds		**142.2**	72.1

Statement of Total Recognised Gains and Losses

	2000 £m	1999 £m
Profit on ordinary activities after taxation	**22.7**	22.5
Currency translation (losses) gains on net investments (including goodwill)	**(7.9)**	2.5
Currency translation gains (losses) on borrowings	**3.8**	(1.6)
Total recognised gains and losses relating to the period	**18.6**	23.4

Financial Statements, Accounting Policies and Directors' Remuneration

The accounting policies on pages 29 to 31 form part of these financial statements. The disclosures required by the Companies Act 1985 and those specified for audit by the Financial Services Authority relating to Directors' remuneration (including pension benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 24 to 27, and form part of these financial statements.

Company Balance Sheet

At 4 April 2000

	Note	**2000 £m**	1999 £m
Fixed assets			
Tangible assets	13	**0.1**	0.1
Investments	14	**277.6**	15.6
		277.7	15.7
Current assets			
Debtors	17	**89.8**	100.8
Cash at bank and in hand		**56.1**	42.3
		145.9	143.1
Creditors: amounts falling due within one year			
Other creditors	19	**14.6**	11.3
		14.6	11.3
Net current assets		**131.3**	131.8
Total assets less current liabilities		**409.0**	147.5
Creditors: amounts falling due after more than one year			
Borrowings	18	**262.5**	62.0
Provisions for liabilities and charges	20	**0.6**	0.7
		145.9	84.8
Capital and reserves			
Called up share capital	21	**23.2**	20.0
Share premium account	22	**115.7**	59.7
Profit and loss account	22	**7.0**	5.1
		145.9	84.8

The Financial Statements were approved by the Board on 31 May 2000 and were signed on its behalf by:

G H Waddell
Chairman

D J Downes
Group Finance Director

Notes to the Accounts

1 Segmental analysis

The Group operates in one segment, Waste Management, in the UK, Belgium, and from 4 April 2000, the Netherlands. As in previous years, the Directors are of the opinion that it is beneficial for the user of these financial statements to disclose the UK Waste Services and Chemical Services businesses separately.

			1999/2000	1998/1999
	Continuing Operations £m	**Acquisitions £m**	**Total £m**	Continuing Operations £m
(a) Turnover				
Waste Services - UK	**202.3**	**14.8**	**217.1**	169.5
Chemical Services - UK	**20.4**	**2.2**	**22.6**	23.4
Waste Management - Belgium	**75.5**	**—**	**75.5**	68.7
	298.2	**17.0**	**315.2**	261.6
Intersegmental turnover	**(0.7)**	**—**	**(0.7)**	(0.9)
	297.5	**17.0**	**314.5**	260.7
Share of joint venture turnover	**5.0**	**1.1**	**6.1**	3.2
(b) Geographical analysis of turnover by customer location				
United Kingdom	**219.7**	**17.0**	**236.7**	189.6
Europe	**75.5**	**—**	**75.5**	68.7
Europe and Rest of World sales by UK Chemical Services	**2.3**	**—**	**2.3**	2.4
	297.5	**17.0**	**314.5**	260.7
(c) Operating profits				
Waste Services - UK	**30.2**	**2.1**	**32.3**	30.2
Chemical Services - UK	**(0.2)**	**0.3**	**0.1**	1.5
Waste Management - Belgium	**14.6**	**—**	**14.6**	11.7
Central Services	**(3.2)**	**—**	**(3.2)**	(3.3)
Total operating profit before goodwill and exceptional costs	**41.4**	**2.4**	**43.8**	40.1
Exceptional costs	**—**	**(0.5)**	**(0.5)**	—
Goodwill amortisation	**—**	**(1.4)**	**(1.4)**	—
Total operating profit	**41.4**	**0.5**	**41.9**	40.1
Waste Services - UK	**30.2**	**0.7**	**30.9**	30.2
Chemical Services - UK	**(0.2)**	**0.2**	**—**	1.5
Waste Management - Belgium	**14.6**	**—**	**14.6**	11.7
Central Services	**(3.2)**	**(0.4)**	**(3.6)**	(3.3)
Total operating profit	**41.4**	**0.5**	**41.9**	40.1

Notes to the Accounts
Continued

1 Segmental analysis (continued)

(d) Net assets	**At 4 April 2000 £m**	At 27 March 1999 £m
Waste Services - UK	155.8	92.6
Chemical Services - UK	25.4	22.0
Waste Management - Belgium	25.0	27.5
Waste Management - Netherlands	216.6	—
Net operating assets	422.8	142.1
Unallocated net assets (liabilities):		
Assets under course of construction	16.8	6.2
Net debt	(272.8)	(57.1)
Other unallocated net liabilities	(24.3)	(18.9)
	142.5	72.3

Other unallocated net liabilities include debtors and creditors relating to taxation and dividends, and an element of goodwill relating to the Caird acquisition.

2 Operating profit

	2000 £m	**2000 £m**	1999 £m	1999 £m
Gross Profit		**67.9**		65.1
Exceptional costs on integration of Caird Group PLC	**0.5**		—	
Goodwill amortisation	**1.4**		—	
Other administration expenses	**25.0**		25.3	
Total administration expenses		**26.9**		25.3
		41.0		39.8
Other operating income		**0.1**		0.1
Group operating profit		**41.1**		39.9
Group operating profit is stated after charging:				
Depreciation of tangible fixed assets				
- owned		**26.1**		25.2
- held under finance leases and hire purchase contracts		**0.2**		0.6
Amortisation of goodwill		**1.4**		—
Total depreciation and amortisation		**27.7**		25.8
Hire of plant & machinery - operating leases		**6.7**		8.8
Property rents payable		**1.4**		1.1
Research & development		**0.2**		0.2
Auditors' remuneration - audit fees (Parent Company £39,000, 1999: £38,000)		**0.2**		0.1
non audit related fees (taxation services)		**0.2**		0.2

In addition to those fees charged to the profit & loss account £0.6m (1999: nil) was billed by the auditors for tax and accounting work in connection with acquisitions.

Group operating profit is after crediting:	**2000 £m**	1999 £m
Government grants	**0.1**	0.1
Net profit on disposal of fixed assets	**0.3**	0.3

3 Exceptional profit on disposal of operations

	2000 £m	1999 £m
Profit on sale of operations	**0.5**	0.3

The exceptional profit in 2000 comprises £0.3m in relation to the final settlement of a claim remaining from the sale of the construction division in April 1995, and £0.2m in relation to the sale of a 5% share in the Group's Silvamo joint venture landfill in Belgium. The Group continues to account for Silvamo as a joint venture and now holds 50% of the equity.

The 1999 disposal relates to the sale of Ecoterres s.a., a joint venture (50% owned), on 1 October 1998.

There is no tax effect or goodwill adjustment in either year as a result of these sales.

4 Employees

	2000 Number	1999 Number
The average number of persons employed by the Group during the year was as follows:		
Waste Services	**1,368**	1,172
Chemical Services	**246**	223
Belgium	**730**	669
Central Services	**15**	15
	2,359	2,079

	2000 £m	1999 £m
The total remuneration of all employees comprised:		
Wages and salaries	**47.6**	39.7
Employer's social security costs	**7.9**	6.5
Employer's pension costs	**1.5**	1.1
	57.0	47.3

5 Pensions

The Group's defined benefit scheme is the Shanks Group Pension Scheme ('the Scheme') which covers eligible UK employees. Pension costs are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The Group pensions charge for the year was £1.4m (1999: £1.1m).

The most recent actuarial valuation at 5 April 1997 showed that the market value of the Scheme's assets was £31.0m and that the actuarial value of those assets represented 118% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The actuarial valuation took account of the changes in Advance Corporation Tax announced in 1997. The actuarial surplus is being spread over the average remaining service lives of the current employees. There are two categories of employees benefits and contributions, known as the 'staff' and 'operatives' sections.

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 rate of increase in salaries. It was assumed that the investment returns would be 2% per annum higher than the growth in pensionable pay. It was further assumed that pensions in payment for the 'staff' section would increase at 3% per annum compound in respect of pensions earned prior to 5 April 1997 and 4% per annum compound in respect of service after 5 April 1997. In respect of the 'operatives' section, the guaranteed minimum pension element from 6 April 1988 to 5 April 1997 was assumed to increase at 3% per annum compound and the whole pension to increase at 4% in respect of service after 5 April 1997.

6 Net interest payable

	2000 £m	1999 £m
Interest payable on bank loans and overdrafts repayable within 5 years	**3.8**	2.6
Interest payable on other loans	**1.8**	1.8
	5.6	4.4
Interest receivable	**(0.5)**	(0.1)
	5.1	4.3

7 Unwinding of discount

The unwinding of discount of £1.2m (1999: £1.0m) relating to long term landfill liabilities (see note 20) is separately disclosed on the face of the profit and loss account as required by FRS 12.

8 Taxation

		2000 £m	1999 £m
The taxation charge based on the profits for the year is made up as follows:			
Corporation tax - current year	- UK 30% (1999: 31%)	**7.3**	7.6
	- Overseas 40% (1999: 40%)	**5.9**	4.6
Deferred tax - current year		**(0.1)**	0.3
Joint ventures		**0.3**	0.1
		13.4	12.6

9 Result for the year

The profit for the year in the financial statements of the Company is £12.9m (1999: £7.4m). As permitted by Section 230 of the Companies Act 1985, a profit and loss account for the Company is not presented.

10 Equity dividends

	2000 £m	1999 £m
Interim dividend of 1.75p per ordinary share (1999: 1.6p)	**3.7**	3.2
Proposed final dividend of 3.5p per ordinary share (1999: 3.2p)	**8.2**	6.4
Dividend not provided in previous year's financial statements	**0.3**	—
	12.2	9.6

The £0.3m charge to the profit and loss account relates to last year's final dividend on the shares issued to fund the Caird acquisition. This dividend was not provided in the financial statements to 27 March 1999 as at that date the shares had not been allotted.

11 Earnings per share

Basic earnings per share are calculated by dividing the profit for the year by the average number of shares in issue during the year

Calculation of basic earnings per share	**2000**	1999
Average number of shares in issue during the year	**209.3m**	200.0m

Basic earnings per share (eps)

	£m	**eps**	£m	eps
Profit for the year	**22.6**	**10.8p**	22.5	11.2p
Goodwill amortisation	**1.4**	**0.7p**	—	—
Adjusted earnings for basic eps before goodwill amortisation	**24.0**	**11.5p**	22.5	11.2p

The Directors believe that adjusting the earnings per share (eps) for the effect of goodwill amortisation enables a comparison of eps with historical data calculated on the same basis under the accountancy policy for goodwill prior to the introduction of FRS 10.

Calculation of diluted earnings per share	**2000** **£m**	1999 £m
Profit for the year	**22.6**	22.5
Average number of shares in issue	**209.3m**	200.0m
Effect of share options in issue	**1.9m**	2.9m
	211.2m	202.9m
Diluted earnings per share	**10.7p**	11.1p

12 Intangible assets

	2000 **£m**	1999 £m
Goodwill		
Brought forward	**1.9**	—
Goodwill arising on purchase of undertakings and businesses in the year (see note 16):		
- Caird Group PLC	**37.2**	
- Waste Management Nederland B.V.	**126.0**	
- Other acquisitions	**9.7**	
- Prior year acqusitions	**0.4**	
	173.3	1.9
Amortisation for the year	**(1.4)**	—
Carried forward	**173.8**	1.9

13 Tangible fixed assets

	Land & Buildings £m	Landfill Sites £m	Plant & Machinery £m	Total £m
Group				
Cost:				
At 27 March 1999	32.8	102.1	188.7	323.6
Additions	1.7	1.0	30.6	33.3
On purchase of subsidiary undertakings and businesses	50.4	9.4	48.3	108.1
Disposals	(0.5)	—	(4.2)	(4.7)
Exchange movements	(1.0)	(3.3)	(4.1)	(8.4)
At 4 April 2000	83.4	109.2	259.3	451.9
Depreciation:				
At 27 March 1999	10.5	43.0	109.5	163.0
Charge for the year	1.2	6.8	18.3	26.3
Disposals	—	—	(3.1)	(3.1)
Exchange movements	(0.2)	(2.5)	(2.7)	(5.4)
At 4 April 2000	11.5	47.3	122.0	180.8
Net book value:				
At 4 April 2000	**71.9**	**61.9**	**137.3**	**271.1**
At 27 March 1999	22.3	59.1	79.2	160.6

Included in fixed assets are assets under construction costing £16.8m (1999: £6.2m).

Included in plant and machinery are assets held under finance leases with a cost of £2.0m and accumulated depreciation of £1.4m (1999: cost £2.3m and accumulated depreciation £1.5m).

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

	2000		1999	
	Land & Buildings £m	**Landfill Sites £m**	Land & Buildings £m	Landfill Sites £m
Freehold	**52.6**	**54.4**	20.8	51.1
Long leasehold	**5.2**	**7.4**	1.2	7.4
Short leasehold	**14.1**	**0.1**	0.3	0.6
	71.9	**61.9**	22.3	59.1

13 Tangible fixed assets (continued)

Company

	Plant & Machinery £m
Cost:	
At 27 March 1999 and 4 April 2000	0.6
Depreciation:	
At 27 March 1999 and at 4 April 2000	0.5
Net book value:	
At 27 March 1999 and at 4 April 2000	**0.1**

14 Fixed asset investments

	Group			Company		
	Unlisted investments £m	Joint venture investments £m	Joint venture loans £m	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
At 27 March 1999	0.2	—	—	15.6	—	15.6
Additions	0.1	1.8	4.0	190.9	71.1	262.0
Share of retained profits	—	0.4	—	—	—	—
At 4 April 2000	**0.3**	**2.2**	**4.0**	**206.5**	**71.1**	**277.6**

Unlisted investments relate to participations in operations where the Group's involvement falls below that for associated companies or joint ventures. Details of subsidiary undertakings and joint ventures are shown on page 55 and form part of these financial statements.

15 Stocks

	2000 £m	1999 £m
Group		
Raw materials and consumables	**3.3**	2.9
Work in progress	**1.0**	—
Investment land and property	**0.1**	0.1
	4.4	3.0

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

16 Acquisitions

During the year the Group made the following acquisitions:

		Activities & Geographical Area
Waste business assets of A.G. Bevan	18 April 1999	Waste collection - S. Wales
Caird Group PLC	24 June 1999	Waste management - throughout UK
Waste business assets of Muktubs	4 August 1999	Waste transfer & collection - West Yorkshire
Waste business assets of Westhill Transport	2 September 1999	Waste collection - Aberdeen
Bio-logic Remediation Limited	7 February 2000	Biological soil remediation - throughout UK
ASM Waste Services Limited	14 February 2000	Waste transfer and collection - Buckinghamshire
Waste Management Nederland B.V	4 April 2000	Waste management - throughout the Netherlands

The net assets acquired and the provisional fair value adjustments are as follows:

Caird Group PLC

	Book value at date of acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Provisional fair value to the Group £m
Tangible assets	25.1	—	(5.2)	19.9
Investments in joint ventures	3.2	(0.1)	(0.8)	2.3
Stock	0.8	—	(0.3)	0.5
Debtors	7.6	—	(0.3)	7.3
Other liabilities	(7.0)	—	(0.4)	(7.4)
Long term provisions	(0.8)	(1.4)	—	(2.2)
Overdrafts	(2.2)	—	—	(2.2)
Bank Loans	(2.7)	—	—	(2.7)
	24.0	(1.5)	(7.0)	15.5
Capitalised Goodwill				37.2
Cash consideration				52.7

The accounting policy adjustments comprise the provision for landfill aftercare costs, and the write off to the profit and loss account of pre-trading losses on joint ventures. Provisional fair value adjustments relate to the revaluation of tangible assets in the Caird Group and its joint ventures. Other fair value adjustments relate to the reduction of the values of certain stocks and debtors to net realisable values. Recoverable amounts in respect of disposals of land in prior years have been increased to current estimates and costs incurred by Caird Group PLC in relation to its acquisition by Shanks Group plc have been recognised. Other liabilities have been increased to reflect the full disposal cost of waste stocks on hand and other costs not provided for.

The results for the Caird Group PLC for the last period for which audited figures are available, the year ended 31st December 1998, are as follows:
Turnover £20.0m, Operating Profit £4.1m, Profit before tax £3.5m, Taxation £0.5m and Profit after tax and minority interests £3.0m.

The profit after taxation for the six months prior to acquisition on 24th June 1999 amounted to £1.0m before the effect of fair value adjustments.

16 Acquisitions (continued)

Waste Management Nederland B.V.

	Book value at date of acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Provisional fair value to the Group £m
Intangible assets (Goodwill)	27.3	(23.2)	(4.1)	—
Tangible assets	86.4	(0.7)	—	85.7
Investments in joint ventures	0.4	—	—	0.4
Stock	1.0	—	—	1.0
Debtors	32.8	(1.1)	—	31.7
Cash	0.8	—	—	0.8
Other liabilities	(28.1)	0.7	—	(27.4)
Long term provisions	(10.9)	1.9	—	(9.0)
	109.7	(22.4)	(4.1)	83.2
Capitalised Goodwill				126.0
Total consideration				209.2
Discharged by:				
Shares issued				36.4
Cash consideration				172.8
				209.2

The accounting policy adjustments on intangible assets relate to the writing off of goodwill to reserves prior to the introduction of FRS 10. The adjustment to tangible assets is in respect of the elimination of capitalised interest. The adjustments to debtors and other liabilities are for differences in revenue recognition policies and the reduction in long term provisions relates to the write back of the provision for deferred tax on revalued assets not held for resale.

The provisional fair value adjustment relates to the non-recognition of goodwill in the acquired companies.

The results for the Waste Management Nederland BV for the last period for which audited figures are available, the year ended 31st December 1999, are as follows:

Turnover £124.4m, Operating Profit £18.7m, Profit before tax £16.0m, Taxation £5.5m and Profit after tax and minority interests £10.5m.

The profit after taxation for the three months prior to acquisition on 4th April 2000 amounted to £2.1m.

16 Acquisitions (continued)

Other acquisitions

Net Assets	3.1
Capitalised Goodwill	9.7
Total consideration	12.8
Loan notes issued	8.8
Cash consideration	4.0
	12.8

There were no fair value or acounting policy adjustments in respect of these acquisitions.

Fair value adjustments of £0.4m were made to the value of fixed assets within businesses acquired in prior years.This resulted in a further £0.4m of goodwill as shown in note 12.

17 Debtors

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Amounts due within one year:				
Trade debtors	**98.2**	52.8	**—**	—
Amounts owed by joint ventures	**0.2**	1.0	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**89.2**	97.0
Other debtors	**7.4**	7.0	**0.3**	1.0
Prepayments and accrued income	**11.0**	4.1	**0.1**	0.1
Corporation tax	**—**	—	**0.2**	—
Advance corporation tax	**—**	3.5	**—**	2.7
	116.8	68.4	**89.8**	100.8
Amounts due after more than one year:				
Deposits	**6.0**	5.6	**—**	—
Total	**122.8**	74.0	**89.8**	100.8

Deposits - amounts due in more than one year comprise deposits placed as security for provisions and risks. The timing of recovery of these sums depends on the incurring of relevant expenditure.

18 Borrowings and financial instruments

The Group's policy on treasury management is referred to in the financial review on page 13.

	Group		Company	
	2000	1999	**2000**	1999
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Bank overdrafts and short term loans	**5.2**	2.0	**—**	—
Loan notes as deferred consideration	**8.8**	—	**—**	—
Finance lease obligations	**0.3**	0.7	**—**	—
	14.3	2.7	**—**	—
Amounts falling due after more than one year:				
Senior notes	**20.0**	19.9	**20.0**	19.9
Bank loans	**247.7**	45.7	**242.5**	42.1
Finance lease obligations	**0.1**	0.3	**—**	—
	267.8	65.9	**262.5**	62.0
Notes and loans due after more than one year:				
Repayable as follows:				
Between one and two years	**16.1**	2.0	**15.0**	—
Between two and five years	**251.6**	63.6	**247.5**	62.0
After five years	**—**	—	**—**	—
	267.7	65.6	**262.5**	62.0

The finance lease obligations falling after more than one year comprised £0.1m repayable between one and two years (1999:£0.2m and £0.1m repayable between two and five years).

Undrawn borrowing facilities

The Group has undrawn committed borrowing facilities. The facilities available at 4 April 2000 in respect of which all conditions precedent had been met were as follows:

	2000	1999
	£m	£m
Expiring in one year or less	**1.7**	28.9
Expiring in more than one year but not more than two years	**9.0**	0.6
Expiring in more than two years	**73.0**	—
	83.7	29.5

Bank loans and overdrafts are unsecured but are subject to cross guarantees within the Group (see note 26).

18 Borrowings and financial instruments (continued)

Interest rate risk profile of financial assets

The financial assets held by the Group consisted of:

	2000			1999		
	Floating rate	**Non-interest Bearing**	**Total**	Floating rate	Non-interest Bearing	Total
Currency	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**—**	**4.9**	**4.9**	—	2.5	2.5
Euros and Legacy Currencies	**0.7**	**3.6**	**4.3**	7.8	0.6	8.4
US Dollars	**0.1**	**—**	**0.1**	0.6	—	0.6
Total	**0.8**	**8.5**	**9.3**	8.4	3.1	11.5

No financial assets were held on call periods of longer than one month and there are no fixed rate financial assets.

Interest rate risk profile of financial liabilities

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

	2000			1999		
	Floating rate financial liabilities	**Fixed rate financial liabilities**	**Total**	Floating rate financial liabilities	Fixed rate financial liabilities	Total
Currency	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**14.7**	**66.8**	**81.5**	0.7	20.2	20.9
Euros and Legacy Currencies	**44.2**	**157.0**	**201.2**	47.7	0.7	48.4
Total	**58.9**	**223.8**	**282.7**	48.4	20.9	69.3

The above analysis of financial liabilities includes the provision for onerous leases of £0.6m (1999:£0.7m, see note 20), which is a sterling financial liability at floating rate under the definitions of FRS13 (Derivatives and other financial instruments:disclosures). The liability has been calculated by discounting the expected cashflows at prevailing interest rates.

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

	2000		1999	
Currency	**Interest rate**	**Period**	Interest rate	Period
Sterling	**7.9%**	**2.01 years**	8.9	4.25 years
Euros and Legacy Currencies	**5.5%**	**1.95 years**	6.0	1.00 years

The 2000 floating rate financial liabilities include £14.1m of sterling denominated borrowings and £44.2m of Euro denominated borrowings which bear interest rates based on the LIBOR and EURIBOR.
The 1999 floating rate financial liabilities include £47.7m Belgian Franc denominated bank borrowings which bear interest rates based on the EURIBOR.

In 2000, £180m of floating rate financial liabilities have been classified as fixed rate because of interest swaps held which fix the interest rates for periods of between one and three years. No interest swaps were in place prior to 4 April 2000.

18 Borrowings and financial instruments (continued)

Currency exposures

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

	2000			1999		
	Euro based	**US Dollars**	**Total**	Euro based	US Dollars	Total
Functional currency	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**0.7**	**0.1**	**0.8**	0.1	0.6	0.7

Fair values of financial assets and financial liabilities

The fair value of cash at bank and in hand and borrowings was equal to the book value at 4 April 2000 and at 27 March 1999.

The Group entered into interest rate swaps on principal sums of £180m on 4 April 2000. The book value and fair value of these were nil at 4 April 2000. No previous hedging transactions had been entered into and there were no unrealised gains or losses on hedging instruments.

19 Other creditors

	Group		**Company**	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Amounts falling due within one year:				
Trade creditors	**38.2**	17.0	**—**	—
Corporation tax payable	**6.4**	9.9	**—**	1.2
Other creditors	**5.2**	3.0	**0.3**	0.1
Taxation and social security	**8.9**	8.1	**—**	0.4
Landfill tax	**14.8**	9.2	**—**	—
Accruals and deferred income	**28.2**	17.0	**6.1**	3.2
Unprocessed waste	**2.2**	1.5	**—**	—
Dividends payable	**8.2**	6.4	**8.2**	6.4
	112.1	72.1	**14.6**	11.3
Amounts falling due after more than one year:				
Government grants	**0.2**	0.1	**—**	—
Trade creditors	**0.9**	1.7	**—**	—
	1.1	1.8	**—**	—

20 Provision for liabilities and charges

Group	Site restoration £m	Aftercare £m	Onerous lease £m	Deferred taxation £m	Total £m
At 27 March 1999	14.0	16.7	0.7	5.0	36.4
Utilised	(1.9)	—	(0.1)	—	(2.0)
Acquired companies	1.9	1.4	—	8.1	11.4
Provided - cost of sales	1.3	2.2	—	—	3.5
- financial items	0.4	0.8	—	—	1.2
- taxation	—	—	—	(0.1)	(0.1)
Exchange rate movements	—	(0.2)	—	(0.1)	(0.3)
At 4 April 2000	**15.7**	**20.9**	**0.6**	**12.9**	**50.1**

Site restoration

Site restoration provision relates to the cost of final capping and covering of the landfill sites. An element of the year-end restoration provision (£5.6m) relates to costs that are expected to be paid over the next two to three years. The remaining element of the restoration provision (£10.1m) relates to restoration costs that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

Aftercare

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

Onerous lease

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

Deferred taxation

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

	2000		1999	
	Provision £m	**Total potential liability £m**	Provision £m	Total potential liability £m
Accelerated capital allowances	**7.0**	**11.2**	5.4	9.7
Other timing differences	**5.9**	**2.8**	(0.4)	(2.6)
	12.9	**14.0**	5.0	7.1

Company

	At 27 March 1999 £m	Provided in year £m	Utilised in year £m	**At 4 April 2000 £m**
Onerous lease	0.7	—	(0.1)	**0.6**

21 Called up share capital

	2000 £m	1999 £m
Group and Company		
Authorised 300 million (1999: 270 million) ordinary shares of 10p	**30.0**	27.0
Allotted, called up and fully paid 232 million (1999: 200 million) ordinary shares of 10p	**23.2**	20.0

During the year to 4 April 2000, 764,014 ordinary shares were allotted following the exercise of options under the Company's Executive and Savings Related Share Option Schemes for aggregate consideration of £737,000. On 27 May 1999 9,988,400 ordinary shares were allotted as part of the funding of the acquisiiton of Caird Group PLC, raising some £22.1m net of expenses. On 4 April 2000, 21,134,000 ordinary shares were allotted as consideration to the vendors of Waste Management Nederland BV, raising £36.4m net of expenses.

Options outstanding at 4 April 2000 and 27 March 1999:	2000	1999
Savings related share option schemes		
Number of shares under option	**2,531,955**	2,458,242
Normal dates exercisable	**1998-2005**	1996-2004
Price per share	**80p-190p**	80p-242p
Weighted average subscription price	**132p**	103p
Executive share option scheme		
Number of shares under option	**3,443,613**	2,878,715
Earliest dates exercisable	**1993-2002**	1992-2001
Price per share	**99p-279p**	99p-279p
Weighted average subscription price	**172p**	148p

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	**1,648,309**	1,373,647
Options exercised	**764,014**	840,475
Options lapsed	**245,684**	214,928

22 Reserves and share premium account

	Group		Company	
	Share premium £m	Profit & loss account £m	Share premium £m	Profit & loss account £m
At 27 March 1999	35.7	16.4	59.7	5.1
Currency translation adjustment on goodwill	—	4.6	—	—
Premium on shares issued	56.0	—	56.0	—
Currency translation gains (losses) net investments (including goodwill)	—	(7.9)	—	(2.6)
Currency translation gains (losses) on borrowings	—	3.8	—	3.8
Retained profit for the year	—	10.4	—	0.7
At 4 April 2000	**91.7**	**27.3**	**115.7**	**7.0**

The cumulative goodwill written off Group Reserves to 4 April 2000, on businesses continuing within the Group amounts to £38.3 (1999: £42.9m). £174.2m (1999: £174.2m) of goodwill has been eliminated against the share premium account by using the provisions of s131 Companies Act 1985 regarding merger relief.

23 Notes to the cash flow statement

	2000 £m	1999 £m
a) Net cash inflow from operating activities		
Operating profit	**41.1**	39.9
Amortisation of intangible assets	**1.4**	—
Depreciation of fixed assets	**26.3**	25.8
Gain on sale of fixed assets	**(0.3)**	(0.3)
Decrease (increase) in stocks	**0.1**	(0.2)
(Increase) in debtors	**(14.0)**	(4.4)
Increase (decrease) in creditors	**7.0**	(3.1)
Increase in aftercare and site restoration provision	**1.6**	3.5
Other non cash movements	**(0.2)**	0.3
Net cash inflow from operating activities	**63.0**	61.5
b) Subsidiary undertakings and businesses purchased during year (see note 16)		
Tangible fixed assets	**(108.1)**	(3.8)
Net liabilities assumed	**6.7**	—
Net assets acquired (including £1.0m cash balances)	**(101.4)**	(3.8)
Goodwill capitalised	**(173.3)**	(1.9)
Total estimated consideration	**(274.7)**	(5.7)
Fair value of shares issued	**36.4**	—
Fair value of loan notes issued	**8.8**	—
Net cash consideration	**(229.5)**	(5.7)
c) Sale of subsidiaries and joint ventures (see note 3)		
Proceeds of sale less costs of sale	**0.2**	0.4
Claims received	**0.3**	—
	0.5	0.4

The settlements comprised cash.

	2000 £m	1999 £m
d) Analysis of financing		
Long term loan advances	**261.2**	—
Long term loan repayments	**(55.0)**	(3.6)
Finance lease net repayments	**(1.0)**	(0.2)
Net cash inflow (outflow) from debt	**205.2**	(3.8)
Finance costs	**(1.8)**	—
Debt financing including finance costs	**203.4**	(3.8)

23 Notes to the cash flow statement (continued)

e) Analysis of net debt in the balance sheet

	At 27 March 1999 £m	Cash flows £m	Acquisitions £m	Other non cash changes £m	**At 4 April 2000 £m**
Cash at bank and in hand	6.8	2.5	—	—	**9.3**
Overdrafts	(2.0)	(2.0)	—	—	**(4.0)**
		0.5			
Short term deposits	4.7	(4.7)	—	—	**—**
Debt due within one year	—	—	(1.2)	(8.8)	**(10.0)**
Debt due after one year	(65.6)	(204.4)	(1.5)	3.8	**(267.7)**
Finance leases	(1.0)	1.0	(0.4)	—	**(0.4)**
		(203.4)			
Total	(57.1)	(207.6)	(3.1)	(5.0)	**(272.8)**

Acquisitions represent the financing acquired with the purchase of subsidiaries. Non cash changes comprise the issue of short term loan notes (£8.8m) as part consideration for the acquisition of a subsidiary and exchange gains on translation of loans in currencies other than sterling.

24 Capital commitments

	2000 £m	1999 £m
Group		
The aggregate amount of contracted capital expenditure authorised by the Directors for which no provision is made in the accounts is:	**16.5**	5.8

25 Financial commitments

	2000		1999	
	Land & buildings £m	**Other £m**	Land & buildings £m	Other £m
Group				
At the end of the year the Group had annual commitments under non-cancellable operating leases expiring as follows:				
Within one year	**1.7**	**1.4**	—	0.3
Between one and five years	**1.5**	**1.5**	0.1	1.3
After five years	**1.7**	**1.1**	0.7	—
	4.9	**4.0**	0.8	1.6

26 Contingent liabilities

Group and Company

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

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

A number of 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.

27 Related party transactions

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

Geohess (UK) Limited

The Group holds 50% of the issued share capital of Geohess (UK) Limited, a company incorporated in England and Wales. The principal activity of Geohess (UK) Limited is the sale of landfill technology and products. Sales by Geohess (UK) Limited to the Group for the year were £0.1m (1999: £0.1m).

Shanks Avondale Limited

The Group holds 50% of the issued share capital of Shanks Avondale Limited, a company incorporated in Scotland. Shanks Avondale Limited commenced to trade as a landfill operator in January 2000. At the year end loans of £2.3m were owed to subsidiaries of the Group from Shanks Avondale Limited (1999: nil).

Caird Bardon Limited

As part of the acquisition of the Caird Group PLC, the Group acquired 50% of the issued share capital of Caird Bardon Limited, a company incorporated in England and Wales. The principal activity of Caird Bardon Limited is landfill operation. At the year end loans of £1.7m were owed to subsidiaries of the Group from Caird Bardon Limited.

Silvamo n.v.

The Group holds 50% of the issued share capital of Silvamo n.v., a company incorporated in Belgium. The principal activity of Silvamo n.v. is the operation of a landfill in Flanders. During the year, subsidiaries of the group supplied engineering and other services to Silvamo n.v. for a total of £1.3m (1999: 1.1m). At the year end £0.2m was due to subsidiaries of the Group from Silvamo in respect of trading items (1999: £0.3m).

Marpos n.v.

The Group holds 45% of the issued share capital of Marpos n.v., a company incorporated in Belgium. The principal activity of Marpos n.v. is the management of port waste. During the year, subsidiaries of the group supplied services to Marpos n.v. for a total of £0.1m (1999: nil). At the year end £nil was due to subsidiaries of the Group from Marpos n.v. in respect of trading items (1999: nil).

SO.GE.DI. s.a.

The Group holds 50% of the issued share capital of SO.GE.DI. s.a., a company incorporated in Belgium. SO.GE.DI. s.a. is a holding company for the Group's interests in Minerale s.a. and NRG n.v., both companies incorporated in Belgium. These are accounted for as joint ventures in which the Group's effective interest is 33% and 31% respectively. The principal activity of Minerale s.a. and NRG n.v. is glass recycling. At the year end £nil was due to subsidiaries of the Group from SO.GE.DI. s.a. (1999: £0.6m)

28 Post balance sheet events

On 12 May 2000, the Group acquired the share capital of NV De Beer & Partners, a company incorporated in Belgium, for a consideration of circa £9 million. The company specialises in demolition, construction waste and soil remediation from an extensive facility in Ghent and trades under the De Paepe name. The turnover of this company in 1999 was circa £12 million.

Subsidiary Undertakings and Joint Ventures

At 4 April 2000

Subsidiary Undertakings

The Company held, through wholly owned subsidiaries, 100% of the issued share capital of the following trading subsidiary companies, all of which have been consolidated in the Group's accounts:

	Nature of business	Country of incorporation
Shanks Waste Services Limited	Waste Services	UK
Shanks Northern Limited	Waste Services	UK
Shanks Midlands Limited	Waste Services	UK
Caird Environmental Limited	Waste Services	UK
Shanks Chemical Services Limited	Chemical Services	UK
Shanks Chemical Services (Scotland) Limited	Chemical Services	UK
Safewaste Limited	Waste Services	UK
ASM Waste Services Limited	Waste Services	UK
Page s.a.	Waste Management	Belgium
Fusiman Industrial Cleaning s.a.	Waste Management	Belgium
B & P n.v. ''Sobry''	Waste Management	Belgium
Vancoppenolle Invest. n.v.	Waste Management	Belgium
Icova BV	Waste Management	Netherlands
BV van Vliet Groep Milieudienstverleners	Waste Management	Netherlands
Vliko BV	Waste Management	Netherlands
Klok Containers BV	Waste Management	Netherlands
Transportbedrifj van Vliet BV "Contrans"	Waste Management	Netherlands
Reym BV	Waste Management	Netherlands
Afvalstoffen Terminal Moerdijk BV "ATM"	Waste Management	Netherlands
Flection International BV	Waste Management	Netherlands

The Company held, through wholly owned subsidiaries, 60% of the issued share capital of the following trading subsidiary company which has been consolidated in the Group's accounts:

Andre De Vriendt s.a.	Waste Management	Belgium

Joint Ventures

The Company held, through wholly owned subsidiaries, the following interests in material joint venture companies. The Group's share of profits and gross assets and liabilities have been incorporated in the Group's accounts:

	Issued share capital	Class of shares	% Group holding	Nature of business	Country of incorporation
Geohess (UK) Limited	£200	Ordinary	50%	Waste Services	UK
Shanks Avondale Limited	£2,000	Ordinary	50%	Waste Management	UK
Caird Bardon Limited	£850,002	Ordinary	50%	Waste Management	UK
Silvamo s.a.	BEF20 million	Ordinary	50%	Waste Management	Belgium
Marpos n.v.	BEF5 million	Ordinary	45%	Waste Management	Belgium
SO.GE.DI. s.a.	BEF20 million	Ordinary	50%	Waste Management	Belgium

Five Year Financial Summary

At 4 April 2000

	2000	1999	1998 restated	1997 restated	1996 restated
	£m	£m	£m	£m	£m
Consolidated profit and loss account					
Turnover	**314.5**	260.7	176.7	144.1	114.2
Profit before finance charges and goodwill amortisation	**43.8**	40.4	27.6	24.5	20.7
Finance charges	**(6.3)**	(5.3)	(2.6)	(1.6)	(1.2)
Profit before taxation and goodwill amortisation	**37.5**	35.1	25.0	22.9	19.5
Goodwill amortisation	**(1.4)**	—	—	—	—
Taxation	**(13.4)**	(12.6)	(8.7)	(8.7)	(7.4)
Profit after taxation	**22.7**	22.5	16.3	14.2	12.1
Dividends	**(12.2)**	(9.6)	(8.2)	(7.2)	(6.6)
Minority interests	**(0.1)**	—	—	—	—
Retained earnings	**10.4**	12.9	8.1	7.0	5.5
Consolidated balance sheet					
Fixed assets	**451.6**	163.7	163.5	129.9	100.3
Other assets less liabilities	**(36.3)**	(34.3)	(37.5)	(31.5)	(27.3)
Net borrowings	**(272.8)**	(57.1)	(64.3)	(23.3)	(3.2)
	142.5	72.3	61.7	75.1	69.8
Share capital	**23.2**	20.0	20.0	18.4	18.4
Reserves	**119.0**	52.1	41.7	56.7	51.4
Minority interests	**0.3**	0.2	—	—	—
	142.5	72.3	61.7	75.1	69.8
Financial ratios					
Basic earnings per share before goodwill amortisation	**11.5p**	11.2p	8.9p	7.7p	6.6p
Dividends per share	**5.25p**	4.80p	4.20p	3.90p	3.60p
Interest Cover (note 2)	**8.4x**	9.2x	13.5x	21.8x	25.4x

Notes

1 The restatements of prior years relate to the introduction of FRS 12. This has resulted in the reclassification of amounts relating to inflation and unwinding of discounts from cost of sales to financial items. Profit before taxation is unaffected by these reclassifications. There has been a grossing up of fixed assets and provisions as a result of the introduction of FRS 12. Shareholders' funds remain unaffected by these changes.

2 Interest cover is calculated by dividing the profit before goodwill and after other finance charges by the interest charge.

Shareholder Information

At 4 April 2000

	Number of shareholders	Number of shares (thousands)	%
Range of shareholding			
1 - 5,000	1,923	2,927	1.3
5,001 - 25,000	420	4,297	1.8
25,001 - 50,000	80	2,784	1.2
50,001 - 100,000	74	5,119	2.2
100,001 - 250,000	70	11,408	4.9
250,001 - 500,000	37	14,036	6.0
over 500,000	94	191,917	82.6
	2,698	232,488	100.0
Analysis of shareholders			
Individuals	1,821	19,277	8.3
Banks and nominee companies	666	193,257	83.1
Other institutions and companies	211	19,954	8.6
	2,698	232,488	100.0

Low Cost Share Dealing Service

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

Further information may be obtained from:

Hoare Govett Limited

250 Bishopsgate, London EC2M 4AA

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 60). Mandated dividends are paid by BACS (Bankers Automated Clearing System) which credits shareholders' bank or building society accounts on the payment date. The appropriate tax voucher will be sent to the registered address. Further information on this facility can be obtained from the Registrar.

Financial Calendar

14 JULY 2000	Record date for final dividend 1999/2000
27 JULY 2000	Annual General Meeting
07 AUGUST 2000	Payment of final dividend 1999/2000
NOVEMBER 2000	Announcement of interim results and dividends
JANUARY 2001	Payment of interim dividend
MARCH 2001	2000/01 financial year ends
MAY 2001	Announcement of 2000/01 results and recommended dividend

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shanks Group plc will be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday 27 July 2000, 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 4 April 2000 and the profit and loss account of the Group for the period ended 4 April 2000.

(2) To declare a final dividend.

(3) To re-elect Mr. Clubb as a Director.

(4) To re-elect Mr. Downes as a Director.

(5) To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the Directors to determine their remuneration.

Special business

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

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

(a) the maximum number of Ordinary Shares hereby authorised to be acquired is 23,240,000;

(b) the maximum price which may be paid for any such Ordinary Share is an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased, and the minimum price which may be paid for any such share is 10p (in each case exclusive of associated expenses); and

(c) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 18 months from the date of this resolution, whichever is the earlier, but a contract of purchase may be made before such expiry which will or may be completed wholly or partly thereafter, and a purchase of Ordinary Shares may be made in pursuance of any such contract."

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

"THAT, in substitution for any existing power under section 95 of the Companies Act 1985 (as amended and from time to time in force) (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered until 26 October 2001, pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the Directors in proportion (as nearly as practicable) to the respective numbers of such ordinary shares held by them on that date provided that the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal requirements under the laws of, or the regulations of any recognised regulatory body or stock exchange, in any territory; and/or

(b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £1,162,000,

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

By Order of the Board

P Kaye
Secretary

Dated 31 May 2000

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

The notes below form part of this notice.

Notes

1. *A member entitled to attend and vote at the meeting convened by the foregoing Notice is entitled to appoint one or more proxies (who need not be a member or members) to attend and, (on a poll) vote instead of him/her. A prepaid form of proxy accompanies this Notice.*
2. *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, should be delivered to the Company's Registrar, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 ORG not later than 48 hours before the time appointed for the meeting.*
3. *The return of a completed form of proxy will not prevent a member from attending in person at the meeting should he/she so wish.*
4. *The register of interests of the Directors (and of their families) in the shares of the Company and copies of all service contracts under which Directors are employed by the Company or any of its subsidiaries will be available for inspection at the registered office of the Company at Shanks House, A8 Edinburgh Road, Coatbridge, Lanarkshire ML5 4UG during normal business hours, on any weekday (Saturday and public holidays excluded) from the date of this notice up to and including the date of the Annual General Meeting and at the Glasgow Hilton on 27 July 2000, at least 15 minutes prior to, and during, the meeting.*

Company Information

CORPORATE HEAD OFFICE
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Astor House
Station Road
Bourne End
Buckinghamshire SL8 5YP
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Fax: 00 44 (0) 1628 524114

REGISTERED OFFICE
Shanks Group plc
Shanks House
A8 Edinburgh Road
Coatbridge
Lanarkshire ML5 4UG

Registered in Scotland No. 77438

PRINCIPAL OFFICES

UNITED KINGDOM
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Mount Farm
Milton Keynes
Buckinghamshire MK1 1BU
Tel: 00 44 (0) 1908 650650
Fax: 00 44 (0) 1908 650699

Shanks Chemical Services Ltd
Charleston Road
Hardley
Hythe
Southampton
Hampshire SO4 6ZA
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Fax: 00 44 (0) 1495 757019

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Shanks Belgium
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Fax: 00 32 (0) 71 256015

NETHERLANDS
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P.O. Box 171
3000 AD Rotterdam
Netherlands
Tel: 00 31 (0) 10 280 5300
Fax: 00 31 (0) 10 280 5311

Corporate Advisers

Financial Advisers
Lazard Brothers & Co. Limited
Hoare Govett Limited

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

Solicitors
Ashurst Morris Crisp
Dickson Minto W.S.

Auditors
PricewaterhouseCoopers

Registrars
Computershare Services PLC
PO Box 435
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Edinburgh EH11 4BR
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