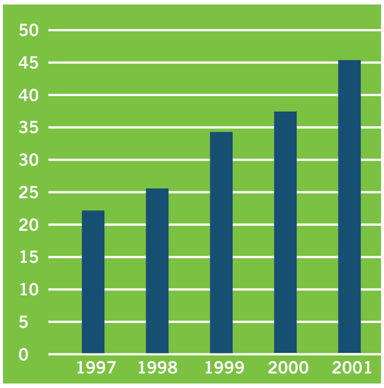
Financial Highlights

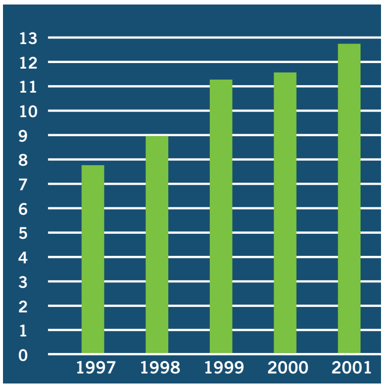
	2001	2000
Turnover	**£502m**	£314m
Headline profit*	**£45.1m**	£37.5m
Exceptional items	**£(0.1)m**	–
Goodwill amortisation	**£(9.4)m**	£(1.4)m
Profit on ordinary activities before taxation	**£35.6m**	£36.1m
Earnings per share before goodwill amortisation	**12.8p**	11.5p
Basic earnings per share	**8.8p**	10.8p
Dividend per share	**5.55p**	5.25p
Net debt	**£302m**	£273m
Interest cover	**3.5x**	8.6x

* Profit before exceptional items, goodwill amortisation and taxation.

Headline profit (£m)



Earnings per share before goodwill amortisation (pence)



Shanks locations

United Kingdom

Belgium

The Netherlands

Chairman's Statement

The Group grew considerably in the year to 31 March 2001, mainly as a result of the major Netherlands acquisition completed on the last day of the prior year. Headline profit, before taxation, exceptional items and goodwill amortisation increased by £7.6m to a record £45.1m (2000: £37.5m), an improvement of 20%. Group turnover rose by 60% to £502m, half of which is now derived from the Benelux countries.

The strong debut performance from the Dutch acquisition was a major success. The United Kingdom operations had a mixed year with disappointing results in hazardous waste, Scotland and the North more than offsetting good performances elsewhere. Belgium did well to improve its trading profits from the prior year's elevated level.

The Group's tax rate on profits before goodwill amortisation reduced to 34% from 36%. Profit after tax was £20.5m after goodwill amortisation of £9.4m (2000: £22.7m and £1.4m respectively).

Earnings per share before goodwill amortisation increased by 11% to 12.8 pence (2000: 11.5 pence) on the greater number of shares in issue. Your Board recommends a final dividend of 3.7 pence per share (2000: 3.5 pence per share). If approved by shareholders, aggregate dividends for the year will be 5.55 pence per share, an increase of 6%.

The Group's financial position remains strong with earnings before interest, taxation, depreciation and amortisation (EBITDA) rising to £106m (2000: £73m). Net debt has increased to £302m from £273m reflecting the continuing investment in tuck-in acquisitions and major capital projects to enhance long term shareholder value. Interest expense increased from £5.1m to £18.6m but interest cover was a satisfactory 3.5 times.

DIVISIONAL REVIEW

United Kingdom

UK trading profit fell by £1.7m to £30.7m (2000: £32.4m) as a result of difficult trading conditions in certain markets.

It has been a challenging year for Chemical Services with falling volumes and prices coupled with significant cost increases on natural gas and other consumables. Also, no meat and bone meal (MBM) material was received in the first quarter. However, in July 2000, the original MBM processing contract was extended until March 2002. The overseas incineration business remained steady. Faced with these conditions, a cost saving programme was implemented.

Waste Services' southern operations performed well with higher volumes and prices bolstering landfill profits. However, sludge to land operations were adversely affected by the bad weather and the foot and mouth crisis towards the end of the year. Recycling losses were eliminated and power benefited from new generating capacity. In contrast, lower landfill volumes, particularly contaminated spoil, were experienced in the North and Scotland.

Belgium

Trading profits from Belgian activities increased by £0.1m to £14.7m (2000: £14.6m) despite a 5% adverse currency movement. This is a good result in comparison with the prior year which benefited from temporarily enhanced volumes, as a result of various health concerns over food in Belgium. The De Paepe demolition and recycling business, which was acquired in May 2000 for £9m, produced trading profits of £0.8m. The industrial cleaning business remained difficult, but the recycling and landfill operations performed well.

The Netherlands

The first year Dutch trading profits of £24.1m were better than expected. All eight companies showed a material improvement in performance over the prior year. The original acquisition price of £210m represents a six times multiple of their first year EBITDA, which compares favourably with similar industry transactions.

The solid waste activities traded strongly as a result of the over threefold increase in Dutch landfill tax in January 2000. The computer recycling operation, Flection International, had an excellent year.

The hazardous waste ATM division has performed satisfactorily and its principal site at Moerdijk is currently being re-permitted. The Group still retains an indemnity against costs incurred relating to certain events which occurred under ATM's prior ownership.

Other

Central Services costs rose by £0.6m to £3.8m (2000: £3.2m), mainly due to tendering costs for local authority contracts. Operating exceptional costs of £0.8m were incurred as the Group restructured UK operations. An exceptional non-operating profit of £0.7m arose in Belgium on the disposal of a joint venture interest.

DEVELOPMENTS

United Kingdom

Preferred bidder status has been granted for the Argyll and Bute 25 year municipal contract. A replacement landfill site will open in Aberdeen during the autumn. However, a £2.5m revenue waste by rail contract was lost in April 2001. The £20m investment programme for further electricity generating stations is progressing.

Commissioning of the new £16m MBM plant is expected to start this summer, the full benefit of which will be seen in the 2002/03 year.

Benelux

The three Dutch tuck-in acquisitions made during the year for an aggregate £10m will supplement the organic growth of the solid waste businesses. In Belgium, the De Paepe acquisition will provide a base to expand the Group's presence in Flanders.

DIRECTORATE

I am pleased to welcome Mr P Delaunois, a Belgian national, who has been appointed to the Board as a Non-executive Director. He was until recently Chief Executive of Cockerill Sambre, the Belgian steel maker, and holds a number of other non-executive posts. He is familiar with the waste management industry and I am confident he will make a significant contribution to the conduct of the affairs of the Group.

OUTLOOK

The Group now has a substantial presence in continental Europe and will continue to benefit from this geographic spread and, in time, from the adoption in the UK of practices similar to those already in place in the Netherlands.

The Group is confident of progress in the current year as a whole and expects a more even performance between the two halves.

G H Waddell
Chairman

Operating Review

2000/01 was a landmark year for the Group with turnover exceeding £500m for the first time. The overwhelming majority of the turnover increase is derived from the major acquisition in the Netherlands completed at the very end of the prior year.

Turnover is now broadly split 50/50 between United Kingdom and Benelux; rapid progress indeed for a Group which only three years ago was entirely focused on the UK market.

Some 4,500 waste management professionals are now employed offering a portfolio of waste management services which firmly establishes the Group as an industry leader. Thanks are extended to all staff whose skill and commitment represent our finest asset.

United Kingdom

Trading profit declined by 5% to £30.7m on turnover which increased by 9% to £260m (2000: £32.4m and £239m respectively). The £21m turnover increase is largely accounted for by the full year effect of acquisitions completed in the prior year and the increase in landfill tax by £1 per tonne to £11 per tonne in April 2000.

The performance of the Group's hazardous waste activities has been the most disappointing feature of the year and has led to a significant reorganisation, grouping all of its activities under one management in order to provide focused attention. This new Chemical Services division, created in October last year, has already brought significant enhancements to customer service which, coupled with operational improvements, is expected to provide improved performance for the current year. Profits were also suppressed as no Meat and Bone Meal (MBM) from the BSE crisis was processed in the first three months of the year. The original contract was, however, renewed at the beginning of the second quarter and will now run until the end of 2001/02 year. High oil prices increased demand for solvents and fuels recovered from various liquid waste streams, leading to improved profits from this operation.

By contrast, trading profits in the non-hazardous activities of the Waste Services division improved slightly with fine performances coming from the core South East landfills and the activities assembled in recent years in South Wales. However, business in the Midlands and North England suffered from pressure on both price and volume, particularly in the area of contaminated land, where lower land values do not provide the same economic incentive for remediation as exists in the more buoyant South East. Operations in the central belt of Scotland suffered similarly and additionally from higher regulatory costs which can only be passed to the contracted local authority customers over time. Highland operations, however, showed an improved performance. The new joint venture landfill at Avondale near Falkirk provided an encouraging result in its first full year of operation.

Right: Monitoring and control of naturally occuring gas is central to the landfill process – and Shanks is further expanding its generation of electricity from landfill gas.

Below right, inset: Providing bespoke collection services for industry and commerce in the UK.

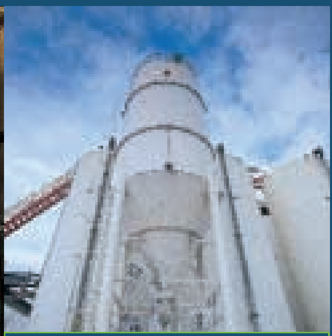
Right, main picture: Final stages of construction of electricity generating plant for the destruction of MBM at Fawley, Hampshire.

Above: Providing local recycling and disposal facilities.

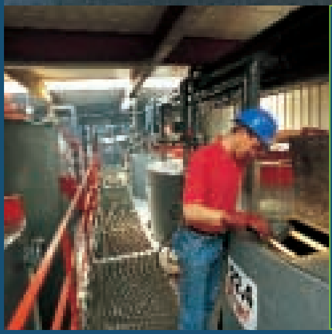
Right: Collecting and sorting paper, as well as an increasing amount of other recyclable materials.

Right: A wide range of industrial cleaning operations are carried out by Fusiman, part of Shanks Belgium.

Below, main picture: The sludge drying process at Sobry results in the recovery of waste into fuel pellets for the cement industry.



Above: Plant at the 100,000 tonne/year Sobry industrial waste treatment complex in Flanders.



Left: Bio-treatment of waste at the Sobry plant in Belgium.

Operating Review

continued

United Kingdom continued

The Group's first electricity generating stations fuelled by landfill gas now sell their output at pool prices, which have been lower during the year. Looking forward, this capacity has been resold at a fixed and better price under arrangements associated with the New Electricity Trading Arrangements (NETA). Total output generated under the Non Fossil Fuels Obligations (NFFO) scheme increased significantly as a result of capacity enhancements and operational improvements. None of these grants is due to expire in the short term.

Poor weather and, latterly, the foot and mouth outbreak greatly constrained the sludge to land operations. The exceptional rainfall also added to landfill costs.

Belgium

Trading profits increased marginally to £14.7m on turnover up 17% to £88m (2000: £14.6m and £76m respectively). Currency movements adversely affected comparative profits by £0.7m. Essentially the trading profit accruing from the De Paepe acquisition matched the one-off gain made last year from the temporary diversion of certain wastes to landfill from incineration as an indirect result of food scares in 1999. This acquisition provides a base for expansion in Gent, a new area for the division.

Elsewhere the major operating units delivered a similar performance to last year except for the industrial cleaning activities which experienced difficult market conditions. Similar unfavourable conditions caused the Group to sell its joint venture share in a glass recycling activity creating an exceptional gain of £0.7m.

Altogether the Group is delighted with progress made, and the returns earned, on the original £66m investment in the Spring of 1998.

The Netherlands

Debut trading profits were £24.1m on turnover of £155m with all eight operating units improving their performance. All units enjoy leading positions within the markets they serve, a key factor behind their superior results.

Within these companies, the Group is now operating a range of interesting and innovative technologies which can readily be used in other divisions as and when the appropriate regulatory framework is in place. These additions to the Group services ensure an unrivalled capability for the future.

Operating Review

continued

Prospects

The Group continues to invest to consolidate its position as one of Europe's leading waste management companies. During this summer significant progress is expected in the commissioning of the Fawley fluidised bed incineration plant being built to handle the next tranche of MBM work. Further electricity generating capacity under the NFFO scheme will also be added towards the end of the financial year. The full effect of these projects will appear in 2002/03.

The Private Finance Initiative represents a significant opportunity where it relates to the long term management of local authority waste. A number of projects are actively being pursued and are at different stages in the bidding process. Although tendering costs are high, the long term secure nature of the awards provides sound business if success can be achieved. The Group is already the preferred bidder for a contract with Argyll and Bute with a potential revenue of £5m per annum.

The implementation of the Landfill Directive in July this year will mark the start of regulatory change which, over a five year period, is expected to improve the market for UK Chemical Services.

Consolidation of the market and increased regulatory pressure continue to feature strongly together with higher environmental taxes. All these trends favour the development of the Group, in which confidence remains undiminished.

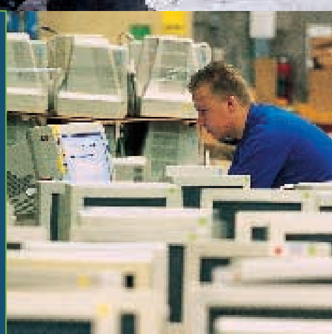
M C E Averill
Group Chief Executive

Below, main picture:
A storage tank-top view of the Shanks Nederlands pyrolysis plant operated by ATM.

Left: Use of water-based transport at the Van Vliet Groep complex.

Above: Icova's "Icopower" process produces 50,000 tonnes/year of pellets from selected waste, replacing coal as power station fuel.

Right: The Flection computer recycling operation at Culemborg.



Above: Residents are served by local collection points for various recyclables and wastes using Icova's small, underground Ecovision compactors.

Financial Review

Finance Function

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

The operating divisions are controlled against their headline profit and cash flow budgets. Headline profit is pre-tax profit before exceptional items and goodwill amortisation. The Group monitors its individual operations by comparing each profit centre's trading profit against its budget and prior year actuals.

Management of financial resources, particularly cash, working capital and capital expenditure, is key to the success of the Group's expansion strategy. All investment decisions are financially appraised by discounting the expected future cash flows at a risk adjusted weighted average cost of capital to assess the implications for long term shareholder value.

Accounting Policies

The Group's accounting policies are regularly reviewed in the light of new accounting standards and new acquisitions. There have been no changes this year.

Accounting for the long term liabilities of landfill sites is governed by FRS 12 – Provisions and Contingencies. A real discount factor of 2% has been used to assess the present value of the long term liabilities on landfill sites, which are expected to be incurred between now and circa 2050. The annual unwinding of this discount amounted to £1.5m (2000: £1.2m) and is included in other finance charges.

Financial Highlights

The financial highlights are shown on page 1 and the Profit and Loss Account is shown on page 32.

Group turnover has grown by £188m to £502m, an increase of 60%. The breakdown of the increase is: original Netherlands acquisition – £151m, net United Kingdom growth – £14m, new acquisitions – £16m and UK landfill tax – £7m.

The headline profit for the year grew by £7.6m from £37.5m to £45.1m. Operating profit before goodwill amortisation and exceptional costs increased by £21.9m. The original Netherlands acquisition contributed £23.6m, and a further £1.3m arose from other Group acquisitions in the year. However, trading profits from the other business segments fell: United Kingdom by £1.7m, Belgium by £0.7m (before acquisitions) and the costs of Central Services rose by £0.6m.

The Group made non-operating exceptional profits of £0.7m from the sale of its 50% interest in SO.GE.DI. in Belgium. Operating exceptional costs of £0.8m were incurred in the restructuring of UK operations in response to the difficult market conditions. Net exceptional costs were therefore £0.1m (2000: £Nil).

Finance charges are split between interest of £18.6m (including commitment fees of £0.2m) and other finance charges, which comprise £1.5m for discount unwind on long term landfill liabilities and amortisation of bank fees of £0.5m.

Goodwill amortisation rose by £8.0m to £9.4m (2000: £1.4m) as a result of the original Netherlands acquisition (£6.4m), new acquisitions (£0.6m) and the full year effect of prior year acquisitions (£1.0m).

Taxation

The average tax rate on profit before goodwill amortisation is 34%. This reflects the 35% rate of tax in Holland, 40% in Belgium and a United Kingdom charge of 32%. This higher than standard UK charge arises as landfill void expenditure does not qualify for capital allowances nor is its amortisation an allowable deduction for corporation tax. However the UK charge benefited from certain deferred tax provisions no longer being required.

Cash Flows

Year end net debt rose by £29m to £302m (2000: £273m) as analysed in the table below.

	2001	2000	Difference
	£m	£m	£m
Operating profit before goodwill amortisation	**65**	43	22
Depreciation/landfill provisions	**41**	30	11
EBITDA	**106**	73	33
Working capital movement	**(6)**	(7)	(1)
Interest, tax and dividends	**(44)**	(32)	(12)
Net capital expenditure	**(44)**	(30)	(14)
Acquisitions (including debt)	**(30)**	(280)	250
Issue of shares	**1**	59	(58)
Currency translation/other	**(12)**	1	(13)
Movement in borrowings	**(29)**	(216)	187

The Group's higher debt level should be viewed in the context of its strong and predictable cash flows. Earnings before tax, interest, depreciation and amortisation (EBITDA) grew 45% to £106m (2000: £73m). The net debt to EBITDA ratio remained comfortable at 2.85:1 and interest cover at 3.5:1 was at a satisfactory level.

Capital Expenditure

The Group spent £47m gross on capital expenditure which represented 124% of its £38m depreciation charge. Sales of fixed assets raised £3m. The major capital items were power generation equipment, the MBM plant and replacement of operating assets such as landfill cells, vehicles and containers. The Group had £14m of contracted capital commitments at the end of the year.

Acquisitions

a) The Netherlands:

The acquisition of the former Waste Management Nederland (now Shanks Nederland) was completed on the last day of the prior year. Additional consideration and costs of £4m were paid during the year which had been accrued in the prior year financial statements. Three small tuck-in acquisitions at a total cost of £10m were also made during the year.

b) Other:

The Group acquired two other significant businesses during the year. The De Paepe demolition and recycling business in Gent was acquired for £9m and assumed borrowings of £4m. The former 50% joint venture partner at the new Wester Hatton landfill site in Aberdeen was acquired for a cost of £3m.

Financial Review
continued

Treasury and Risk Management Policy
The high level of predictable inward cash flow leaves the Group well placed to service its debts. The net debt to EBITDA ratio of 2.85:1 at 31 March 2001 is expected to rise slightly with the Group's capital expenditure programme in the coming half year before falling to a long term level below 2.75:1.

The Group treasury policy is to use financial instruments with a spread of maturity dates and sources in order to reduce funding risk. Borrowings are drawn and repaid in the currencies in which the matching investment and working capital movements occur. No other currency hedging mechanisms are used. The Group maintains a proportion of debt with fixed rates of interest in order to protect its interest cover which forms a key covenant in its financing agreements. Where underlying interest rates are floating, swaps are used to achieve the desired level of fixed rates. The counterparties to these instruments are all AA rated banks and the contracts last between one and four years. Details of the Group's borrowings are shown in note 17 to the financial statements.

During the year under review, the Group's longest dated financial liabilities comprised the £300m two tranche floating rate credit facility with a syndicate of banks led by ABN AMRO and Royal Bank of Scotland. Tranche A of this is a £75m facility with a maximum duration of two years, which is being refinanced as detailed below. Tranche B is a €370m (£230m) multicurrency revolving credit facility expiring in March 2005. The Group also has £38m of working capital facilities with various banks.

The Group's existing £20m ten year private placement from Prudential Insurance Company of America (PRICOA) at the fixed rate of 8.93% is due to expire in June 2003. At the year end, agreement was reached with PRICOA for a $145m (£102m) multicurrency fixed or floating interest rate facility with note maturities of up to 15 years. This facility is to cover the refinancing of both tranche A of the syndicated loan during the coming year and, eventually, the existing PRICOA private placement. Immediately after the year end, £28m was drawn down in Euros for a ten year period at a fixed interest rate of 6.91% and used to repay part of tranche A of the syndicated bank loan.

The Group's insurance policy is to secure the maximum amount of 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.

Going Concern
The Directors have reviewed the Group's 2001/02 budget and medium term plans thereafter in the light of its financial position at 31 March 2001. The Directors are satisfied that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the accounts.

D J Downes
Group Finance Director

The Environment, the Community and the Group

A continuing commitment to high standards, especially with regard to health, safety and environmental protection, has accompanied the Group's development and its expansion into mainland Europe. Directors and employees in all countries are guided by the principles of the Corporate Environmental Policy, and the Group-funded independent Environmental Advisory Board continues to play a valuable role in the environmental risk management programme.

Corporate Environmental Policy

The Group remains proud of being the first waste management company in the UK to formulate and publish a Corporate Environmental Policy. Like all corporate publications, the policy document, recently revised by the Corporate Environmental Committee (CEC), is now additionally accessible via the Group's website at *www.shanks.co.uk*. Reflecting the Group's European presence, representatives from Belgium and the Netherlands are also included in the cross-sectional group of employees making up the CEC. This committee reviews and promotes the Corporate Environmental Policy internally.

Environmental Advisory Board

The establishment of an independent Environmental Advisory Board (EAB) was another industry first for the Group. Chaired by Lord Cranbrook and comprising experts of international standing, the EAB advises the Group on environmental standards and wider environmental issues. The EAB recently published its own annual report covering its activities during the year 2000, the 12th EAB annual report, which was also widely distributed. The report can be supplied on request as well as being available via the Group's website.

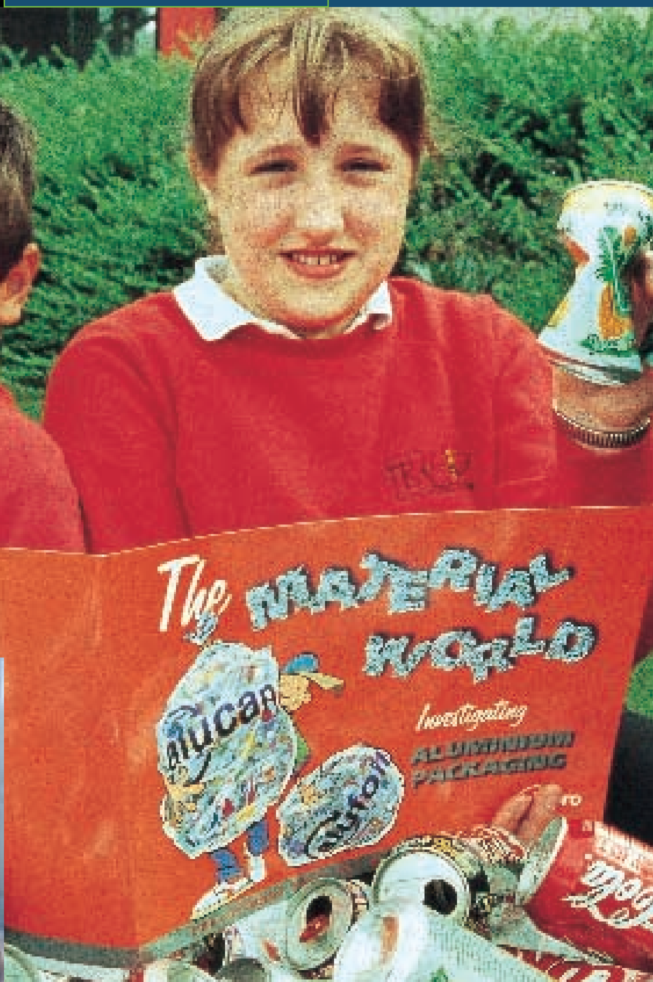
This is an independent (not a company) publication and reports both praise and criticism of the Group's environmental management practices and performance. In his introduction to this latest report, Lord Cranbrook refers to the European expansion to encompass Belgium and The Netherlands as well as the UK and comments: "Waste management systems in each of these countries are different and, therefore, the effect of recent and forthcoming European legislation will be different in each country. In this enlarged Group the EAB looks to each of these countries for best practice and the promotion of sustainable waste management practices."

Environmental Management

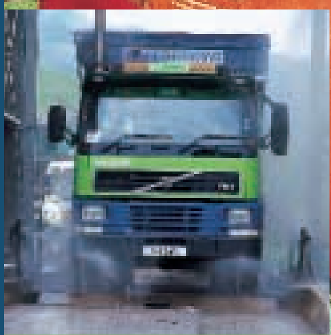
At the conclusion of the second year of a three-year programme to introduce an externally recognised Environmental Management System (EMS), a total of 14 sites across the international Group had achieved certification to ISO 14001. Within the UK the policy is to achieve certification for the most significant sites incorporating the various waste management operations conducted. Other, usually smaller, sites will operate under a non-certified EMS and a number of these "mirror systems" have already been implemented.

During the year, the Group published and distributed its inaugural annual Environmental Performance Indicators Report, initially covering UK activities only. Further development continues and the second report will be a Group-wide appraisal including operations in Belgium and The Netherlands.

Left: Investors in People is regarded as a best practice approach for all Group operations.



Below: Computer recycling by the Group helps towards achievement of environmental goals.



Above, inset: High priority is afforded to preventing operations impacting adversely on neighbours and the wider community.

Right: The Group continues to be committed to improving Health and Safety.

Above, main picture: Through Alupro and Score Environmental, and Landfill Tax Credit Scheme funding from the Group, more than 30,000 environmental education packs promoting recycling have been distributed to schools.

The Environment, the Community and the Group

continued

Health and Safety

Co-ordination and common high standards in health and safety are essential. The Group puts its performance on view in an annual Group Health and Safety Report, distributed to staff as well as regulators and other interested parties. It is also available on request and via the Group's website.

Overall, the Group's accident performance improved during 2000/01, despite the health and safety challenges accompanying sustained expansion. Once again the Group featured prominently in the Royal Society for the Prevention of Accidents (ROSPA) award scheme, collecting two gold medals and one gold award. During the year, in a comparison of independent safety audits carried out by the British Safety Council, the Group's operations were, on average, positioned 11% ahead of other companies. Further confirmation of high levels of safety management came with certification of the Group in the UK to the advisory OHSAS 18001 international safety standard. This is believed to be the first time a UK waste management company has achieved such certification.

The Group is proud of these achievements but is far from complacent. There are always improvements to be made and health and safety issues will continue to be afforded the highest priority.

Employees

The Group's recruitment policy is to search for the best possible candidate, regardless of sex, race, creed, disability or sexual orientation. This commitment to equal opportunities is applied to all employment practices. As a minimum standard, the Group is committed to meeting the core labour rights and legislative requirements for each of the countries in which it operates.

A culture of two-way communication between employer and employee is recognised as a central feature of the development strategy and, wherever appropriate, the company involves Trades Unions, Works Councils and other employee groups. Employee publications and bulletins are also regularly produced to ensure that employees are kept appraised of activities and developments throughout the Group. The Group's quarterly newspaper, which also enjoys an extensive external readership, won an Award of Excellence from the British Association of Communications in Business. The Group is also committed to the Investors in People scheme within the UK, demonstrating the priority afforded to training and personal development of all employees. Whilst this standard is not officially applicable outside the UK, it is recognised as a best practice approach to be applied to all Group operations.

Community Relations

Effective communications and good relations with neighbours of operational sites, the wider community and an extensive range of other interested parties are keenly sought and valued. Additional resource has been applied, keeping pace with the growth of the company, to service and monitor a wide variety of communication channels and activities. These encompass liaison groups, publications including occasional newsletters, site visits, exhibitions and informal discussions and meetings.

The Environment, the Community and the Group
continued

Community Relations continued
Data on the Group's operational performance is also held on various public registers maintained by regulatory agencies. However, the introduction of an annual Environmental Indicators Performance Report aims to improve both the available information on, and the clearer understanding of, the environmental impacts and contributions of the Group's activities. This report, along with all the Group's corporate publications, is now also accessible via the Group's website at *www.shanks.co.uk*.

Information on the environment and waste management, particularly recycling, is also presented, as appropriate, at Shanks-supported Environmental Education Centres and at the Group's Materials Recycling Facilities (MRFs). Specialist educational resources are provided at these locations for visiting school parties. All sites continue to encourage and welcome visitors, thousands of whom again accepted our invitation. As a member of the Industry and Parliament Trust (IPT – an educational charity promoting improved mutual understanding between the worlds of business and Westminster) the Group was pleased to welcome Jim Dobbin MP as part of his IPT Company Fellowship. This was completed during the year following a total of more than 25 days with the Group.

Since the introduction of the Landfill Tax Credit Scheme, the Group has provided support totalling some £38m for approved environmental projects, of which more than £12m came from tax during the year in review. In line with one of the originally stated aims of the Scheme, local amenity projects in the vicinity of landfill sites have been well supported, but so too have research and development in waste management, waste minimisation and recycling projects, and waste education initiatives. The **shanks.**f1RST family of Environmental Bodies (EB) has now published the first of what will be an annual report detailing the registered EB's receiving funding and the projects approved.

Summary
Openness and excellence will remain at the forefront as the Group continues to be an international champion of best practice in the waste management industry and particularly with regard to dealings with all its stakeholders.

Directors

at 30 May 2001

NON EXECUTIVE DIRECTORS

Gordon Waddell, BA, MBA (Age 64)*

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. He is a non-executive director of Dimension Data Holdings PLC.

Richard Biffa, MinstWM (Age 61)*

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.

Ian Clubb, CA (Age 60)*

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.

Philippe Delaunois, Ir, IC (Age 59)*

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

Barry Pointon, BSc (Age 54)*

Barry Pointon was appointed to the Board in 1999. He is an engineer with over thirty years experience in industry. He is an Executive Director of IMI plc with responsibility for business development.

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

EXECUTIVE DIRECTORS

Michael Averill, BSc, MBA, ARSM, MinstWM (Age 50)

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 Limited. He became Managing Director of Rechem in 1992. He was appointed Group Chief Executive in 1994.

David Downes, BSc, MBA, FCMA, FCT (Age 55)

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.

James Meredith, BSc, MSc, C.Eng, MBA, Dip.M, MinstWM (Age 40)

Managing Director Waste Services UK

James Meredith is a chartered engineer specialising in agricultural, soil and water engineering. He holds an MBA from Middlesex University and a Diploma in Marketing. He joined the Group in 1987 as an Operations Engineer and was appointed Managing Director of Shanks & McEwan (Southern) Limited in 1993. He was appointed an Executive Director of the Group in November 2000.

COMPANY SECRETARY

Paul Kaye, BSc, FCA (Age 53)

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.

Report of the Directors

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2001.

1 Annual General Meeting

The notice of the Annual General Meeting is set out on pages 58 to 60.

Resolution (8) - Authority to purchase own shares

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 (8) will be proposed as a special resolution seeking authority to make such purchases in the market. The Directors have no immediate intention of using such authority and would do so only when they consider it to be in the best interests of shareholders generally. Any ordinary shares purchased under this authority will be cancelled and the number of ordinary shares in issue will be reduced accordingly. Resolution (8) 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 30 May 2001 (being the latest practicable date prior to the printing of this document) there were outstanding options to subscribe for a total of 6,800,641 ordinary shares in the Company, representing 2.9% 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 30 May 2001 would represent 3.2% of the issued share capital of the Company.

Resolution (9) - Directors' authority to allot shares

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 26 October 2001. This authority will enable the Directors, at any time until 25 October 2002, to allot equity securities wholly for cash up to an aggregate nominal amount of £1,165,800 or otherwise in connection with a rights issue. This limited disapplication will allow the Directors to allot up to 11,658,000 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 30 May 2001. For this purpose a resolution will be proposed as a Special Resolution at the Annual General Meeting as set out in resolution (9) of the Notice of Meeting.

Resolution (10) - Amendments to Executive Share Option Scheme

The executive share option scheme is an effective tool in providing a long term incentive to directors and senior executives.
It comprises two elements, an Inland Revenue approved scheme and an unapproved scheme. It is proposed that the scheme be amended to reflect current guidelines for executive share incentive schemes issued by the Association of British Insurers (ABI) as detailed below.

It is proposed to change the present overall limit on the total value of options that may be granted under the unapproved scheme to any individual of four times remuneration, to an annual limit. In future, options may be granted to any eligible employee over shares with a market value of up to one and one third times their basic salary in the preceding period of twelve months.

It is also proposed to amend the performance condition for both schemes, achievement of which is a pre-requisite for exercise of options. The condition will be tested once only after a period of three years and if it is not achieved the relevant options will lapse. The Remuneration Committee continues to consider that growth in earnings per share is the appropriate performance condition. Options will only be exercisable if the Company's earnings per share, before taking into account goodwill and any extraordinary or exceptional items, for the three year measurement period, has increased by at least 9% over the increase in the Retail Price Index for the same period. In addition, option holders under both schemes will now be permitted to exercise options up to 10 years after the date of grant providing all relevant conditions are satisfied. Shareholder approval is not required, and is not being sought, for this change.

It is also proposed to simplify for the unapproved scheme, the maximum limits over the number of options that may be granted, so that there will only be two limits. These changes are again being made to reflect the current guidelines issued by the ABI. The first limit is that in any ten year period not more than 10% of the issued share capital of the Company may be issued or become issuable pursuant to the grant of options or subscription of shares under all employees' share schemes established by the Company. The second limit is that in the same period of ten years not more than 5% of the issued share capital of the company may be issued or become issuable pursuant to options granted under the executive scheme and any other share option scheme (other than the savings-related share option scheme). These limits are already included in the rules of the scheme.

The Directors believe that the proposal to amend the scheme as set out in resolution (10) is in the best interests of the Company and recommend that shareholders vote in favour of the resolution. Resolution (10) will be proposed as an Ordinary Resolution at the Annual General Meeting to authorise the Directors to make these changes.

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 12. The Group's Profit and Loss Account appears on page 32 and note 1 to the financial statements shows the contribution to turnover and profits made by the different classes of the Group's business. The Group's profit after tax amounted to £20.5m (2000: £22.7m).

3 Dividends

The Directors recommend a final dividend of 3.7 pence per share be paid on 6 August 2001 to ordinary shareholders whose names appear in the register at close of business on 13 July 2001. This dividend together with the interim dividend of 1.85 pence per share already paid, will make a total dividend for the year on the ordinary shares of 5.55 pence (2000: 5.25 pence).

4 Acquisitions

A number of smaller acquisitions have been made during the year at a total cost of £23.3m. The acquisitions are described in the Operating and Financial Reviews on pages 4 to 12 and in note 14 to the financial statements.

5 Directors

The composition of the Board of Directors at the date of this report is shown on page 17. All of the Directors except Mr P Delaunois and Mr J R Meredith served on the Board throughout the year under review. Mr P Delaunois was appointed by the Board on 30 May 2001 and Mr J R Meredith was appointed by the Board on 1 November 2000 and both will be offering themselves for election at the Annual General Meeting. Mr M C E Averill and Mr R B Pointon retire by rotation at the Annual General Meeting and will be offering themselves for re-election. Mr M C E Averill has a service contract terminable on 24 months' notice. Mr J R Meredith has a service contract which from 30 September 2001 is terminable on 12 months' notice. Mr P Delaunois and Mr R B Pointon do not have a service contract. Details of the Directors' Interests are shown in the Remuneration Report on pages 24 to 27.

6 Corporate Governance

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

7 Share Capital

During the year ended 31 March 2001 no ordinary shares were issued other than those issued in respect of exercises of options under the Company's share option schemes, details of which are given in note 20 to the accounts. At 31 March 2001 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 31 March 2001, 233,167,823 ordinary shares were in issue leaving an unissued balance of 66,832,177 ordinary shares of 10 pence each, representing 22.3% of the authorised ordinary share capital.

Report of the Directors
continued

8 Notifiable Interests

As at 30 May 2001, 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	12,665,604	5.43
CGNU plc	10,389,063	4.46
Prudential plc	9,485,869	4.06
Zurich Financial Services Group	7,732,150	3.32
Legal & General Investment Management Limited	7,292,325	3.13

The interests of the Directors are shown in the Remuneration Report on pages 24 to 27.

9 Research and Development

The Group spent £0.2m (2000: £0.2m) on research and development in the past year, which was charged to profits. In addition, the Company made available £0.8m (2000: £1.0m) 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 £0.2m which has not been included in expenditure disclosed. (See 'The Environment, the Community and the Group' section, pages 13 to 16).

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 13 to 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, pages 13 to 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 61 days (2000: 59 days) and for the Company was 30 days (2000: 39 days).

13 Charitable and Political Donations

During the period donations made by the Group for charitable purposes amounted to £5,950 (2000: £8,100). No donations were made for political purposes as defined by the Companies Act 1985.

14 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
30 May 2001

Corporate Governance Statement

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 provisions of the code of best practice in corporate governance as set out 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 five Non-executive Directors and three Executive Directors and their biographies are set out on page 17. 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 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 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 17). 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 including compliance with the Turnbull Committee's guidance, accounting policies, compliance with accounting standards and such other related functions as the Board may require.

Remuneration Committee

The Remuneration Committee is chaired by Mr I M Clubb and comprises the Non-executive Directors (see page 17). 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 the Group's shares.

Corporate Governance Statement

continued

Nomination Committee

The Nomination Committee is chaired by Mr G H Waddell and comprises the Non-executive Directors (see page 17). It is responsible for making recommendations to the Board on the appointment of Directors and succession planning.

Pensions

The Group operates pension arrangements for UK employees that provide benefits based on final pensionable salary. The assets are held separately from those of the Group, are invested by independent professional investment managers and cannot be invested directly in the Company. Three trustees have been appointed by the Company and, in addition, two member nominated trustees were appointed in 1998. Senior employees in Belgium are provided with defined contribution pension benefits. In The Netherlands, employees are participating in a compulsory collective Transport Industry Wide pension scheme which provides benefits up to a certain level of pay. Senior Dutch employees earning in excess of the maximum level of pay allowed for within the compulsory pension scheme also participate in a defined contribution arrangement for the excess amount.

Relationship with Investors

The Company has an active investor relations programme, with designated members of the Board regularly meeting institutional investors, analysts, press and other parties. The Company is pleased to welcome both private and institutional shareholders to its Annual General Meeting and to discuss any topic shareholders may wish to raise. The Company's web site *www.shanks.co.uk* provides additional information for shareholders and the general public.

Internal Control

Following publication of the Turnbull Committee's guidance for directors on internal control, the Turnbull requirements have been incorporated into an existing system of internal control already in place before January 2000. The Board confirms that a continuing formal process for identifying, evaluating and managing the material risks faced by the Group has been in place for the period from January 2000 to the date of approval of the annual report and accounts. This process is regularly reviewed by the Group and subsidiary boards and complies with the internal control guidance for directors in the Combined Code produced by the Turnbull working party. This approach ensures that internal control and risk management measures are embedded into the operations of the business and any areas requiring improvement are addressed.

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

i) regular visits by Executive Directors to key operating locations to attend local board or management meetings;

ii) regular Executive Committee meetings of the Group's most senior managers and Executive Directors;

iii) formal written financial policies and procedures applicable to all business units with procedures for reporting compliance therewith, for identifying weaknesses and for taking corrective action;

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

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

vi) identification and evaluation of key risks applicable to each area of business assessed on a continuing basis at both operating board and Group Board level;

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

viii) an internal Management Systems department which undertakes periodic examination of business processes and ensures management follow up recommendations to improve controls; and

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

During the year the Group appointed an executive with responsibility for compliance and risk management who reports to the Group Chief Executive.

The Group publishes separate annual reports on Health & Safety and on Environmental Performance Indicators. The independent Environmental Advisory Board also publishes its own annual report. Further details about these reports can be found on pages 13 to 16 and copies are also available on the Group's website *www.shanks.co.uk*.

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 31 March 2001 the Directors have:

i) used appropriate accounting policies, consistently applied;

ii) made judgements and estimates that are reasonable and prudent;

iii) ensured that all applicable accounting standards have been followed; and

iv) prepared the financial statements on the going concern basis.

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

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

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 which is based on corporate performance. They are not pensionable. For the year ended 31 March 2001, no bonus 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 UK employees including Executive Directors, subject to certain service conditions, may participate in an Inland Revenue approved Sharesave scheme. Senior executives are also able to participate in an executive share option scheme at the discretion of the Remuneration Committee. Normally, executive share options are granted on a phased basis over a number of years with a current 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 31 March 2001 options outstanding amounted to 2.5 million shares (see note 20).

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 although the Remuneration Committee has resolved that this performance condition will change to RPI plus nine percentage points for options granted in the future. Options are granted at the higher of the nominal value or the market value. At 31 March 2001 options outstanding amounted to 4.3 million shares (see note 20). There is a proposal to amend the Scheme at the forthcoming AGM (see page 18).

Pensions

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

- 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.

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 via his Funded Unapproved Retirement Benefits Scheme (FURBS). These unapproved benefits are included in the figures shown below.

Directors' Pension Benefits

	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	25	698	117
D J Downes	8	158	43
J R Meredith (from date of appointment)	1	5	32

(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, or date of appointment, 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 the earliest retirement age possible without the application of actuarial reduction factors i.e. 62 for Mr J R Meredith. The corresponding ages for Mr M C E Averill and Mr D J Downes are 57 and 60 respectively. In their cases the transfer value shown above includes some retrospective adjustment in relation to prior years' service, since in previous years their transfer values have been calculated assuming that their pensions were payable from age 62.

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

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	
	2001 £000	2000 £000	**2001 £000**	2000 £000	**2001 £000**	2000 £000	**2001 £000**	2000 £000
G H Waddell*	**100**	100	**–**	–	**–**	–	**100**	100
M C E Averill	**300**	250	**–**	70	**15**	16	**315**	336
R C Biffa*	**25**	25	**–**	–	**–**	–	**25**	25
I M Clubb*	**25**	25	**–**	–	**–**	–	**25**	25
D J Downes	**240**	216	**–**	60	**112**	31	**352**	307
J R Meredith+	**63**	–	**–**	–	**4**	–	**67**	–
B Pointon*	**25**	25	**–**	–	**–**	–	**25**	25
							909	818

*Non-executive Directors

+For the period following appointment as Director on 1 November 2000.

Remuneration Report

continued

Directors' Emoluments continued

(a) Other emoluments includes such items as company cars, medical insurance, relocation, payments relating to tax due on FURBS contributions 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) Mr R C Biffa was also a shareholder and director of Radstrong Limited. The fees in respect of Mr Biffa's services as a Director of the Group were paid to this company.

Directors' Service Contracts and Notice Periods

Mr M C E Averill and Mr D J Downes have service agreements which require one year's notice from the Director and two years' notice from the Company. Mr J R Meredith has a service agreement which requires six months' notice from the Director and one and a half year's notice from the Company at 31 March 2001 reducing each month down to one year's notice from 30 September 2001. 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, Mr P Delaunois and Mr R B Pointon do not have service contracts.

The Remuneration Committee does not believe that it would be reasonable to reduce the notice period already contained in the service agreements of Mr M C E Averill and Mr D J Downes. 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. Mr J R Meredith's notice period reduces to one year by 30 September 2001. The Committee recognises that a two year notice period is not in accordance with the relevant provision of the Combined Code.

The Board recognises that the indefinite period of the Chairman's appointment, subject to a notice period of six months and retirement at age 65, under his service contract, is not in accordance with the Combined Code, which recommends fixed periods of appointment for non-executive directors. The Chairman's service contract was put in place in 1992 when he joined the Group as Executive Chairman and the Board has not felt it desirable to seek an amendment of its terms so as to comply with the provisions of the Combined Code following its subsequent introduction.

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 31 March 2001 and 4 April 2000 were as follows:

	Ordinary Shares		Executive (E) and Savings Related (S) Share Options					
			Options	Options	Date of	Option	Normal Exercise Dates	
	2001	2000	**2001**	2000	grant	price (p)	From	To
G H Waddell	**201,000**	201,000	**–**	–	–	–	–	–
M C E Averill	**50,042**	49,938	**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)	150,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			150,000(E)	–	5.6.2000	180.0	6.6.2003	5.6.2007
			4,035(S)	4,035(S)	19.9.1996	85.5	1.11.2001	30.4.2002
			2,899(S)	2,899(S)	23.9.1997	119.0	1.11.2002	30.4.2003
			5,328(S)	5,328(S)	23.9.1999	190.0	1.11.2004	30.4.2005
R C Biffa	**9,173,666**	9,173,562	**–**	–	–	–	–	–
I M Clubb	**10,000**	10,000	**–**	–	–	–	–	–
D J Downes	**71,562**	71,562	**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)	100,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			100,000(E)	–	5.6.2000	180.0	6.6.2003	5.6.2007
			8,881(S)	8,881(S)	23.9.1999	190.0	1.11.2004	30.4.2005
J R Meredith	**3,000**	–	**10,000(E)**	–	13.7.1992	205.0	14.7.1995	13.7.2002
			60,000(E)	–	1.8.1996	110.0	2.8.1999	1.8.2003
			60,000(E)	–	12.3.1997	135.0	13.3.2000	12.3.2004
			75,000(E)	–	8.6.1998	199.0	9.6.2001	8.6.2005
			75,000(E)	–	2.6.1999	233.5	3.6.2002	2.6.2006
			75,000(E)	–	5.6.2000	180.0	6.6.2003	5.6.2007
R B Pointon	**3,000**	–	**–**	–	–	–	–	–

(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) No options were exercised by serving Directors during the year.

There have been no alterations in the above interests or options between 31 March 2001 and 30 May 2001.

The highest mid-market price of the ordinary shares of the Company during the year was 237.5p and the lowest mid-market price during the year was 152.5p. The mid-market price at the close of business on 31 March 2001 was 167.0p.

Other Interests

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

Independent Auditors' Report to the Members of Shanks Group plc

We have audited the financial statements on pages 32 to 54 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes 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' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law 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. The other information comprises only the Directors' Report, the Chairman's Statement, the Operating and Financial Reviews and the Corporate Governance Statement.

We review whether the Corporate Governance Statement on pages 21 to 23 reflects the Group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the Group at 31 March 2001 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
London
30 May 2001

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 subsidiary undertakings acquired or sold during the year are included in the consolidated financial statements up to, or from, the date control passes.

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 landfill tax but excluding sales taxes. Turnover is recognised at the time when processing occurs or the service is provided.

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

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

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

Accounting Policies

continued

Goodwill

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Goodwill is written off over its useful life in accordance with FRS 10. The useful life of goodwill is not expected to exceed 20 years. Prior to 28 March 1998, goodwill arising on consolidation was written off to reserves or to the share premium account (under the provisions of Section 131 of the Companies Act 1985). This goodwill has not been reinstated in the balance sheet, as permitted by FRS 10.

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

Fixed Assets

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

(a) Buildings, plant and equipment:

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

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

(b) Landfill sites:

Acquisition, commissioning costs and the discounted costs 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.

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 the payments during the lease term and the corresponding obligation is included in creditors. Depreciation is provided to write off the assets over the shorter of the lease term or expected useful life.

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

Site Restoration Provision
Full provision is made for the net present value (NPV) of the Group's unavoidable costs in relation to restoration liabilities at its landfill sites and this value is capitalised as a fixed asset. 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 site 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.

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.

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, together with the capitalised goodwill and goodwill previously written off to reserves, are translated into sterling at the balance sheet date. This exchange rate gain or loss is then offset by the translation gain or loss on borrowings to the extent that they have been taken out to fund the acquisition. The net gain or loss is dealt with through reserves.

Financial Instruments
The disclosures required by FRS 13 are shown in note 17 to the financial statements. The Group does not include short term debtors and creditors in these disclosures as permitted by FRS 13.

Consolidated Profit and Loss Account

year ended 31 March 2001

	Note	2000/01 Continuing Operations £m	2000/01 Acquisitions £m	2000/01 Total £m	1999/2000 Continuing Operations £m
Turnover: Group and share of joint ventures		492.9	16.0	508.9	320.6
Less: share of turnover of joint ventures		(6.5)	–	(6.5)	(6.1)
Group turnover	1	486.4	16.0	502.4	314.5
Cost of sales		(382.1)	(13.0)	(395.1)	(243.9)
Gross profit		104.3	3.0	107.3	70.6
Group operating profit before exceptional items and goodwill amortisation		63.3	1.3	64.6	43.0
Exceptional costs	2	(0.8)	–	(0.8)	(0.5)
Goodwill amortisation		(8.8)	(0.6)	(9.4)	(1.4)
Group operating profit	2	53.7	0.7	54.4	41.1
Share of operating profit of joint ventures		1.1	–	1.1	0.8
Total operating profit	1	54.8	0.7	55.5	41.9
Exceptional profit on disposal of operations	3	0.7	–	0.7	0.5
Profit before finance charges and taxation	1	55.5	0.7	56.2	42.4
Finance charges – interest	4			(18.6)	(5.1)
Finance charges – other	5			(2.0)	(1.2)
Profit on ordinary activities before taxation				35.6	36.1
Taxation	6			(15.1)	(13.4)
Profit on ordinary activities after taxation				20.5	22.7
Equity minority interests				–	(0.1)
Profit for the period				20.5	22.6
Equity dividends paid and proposed	7			(12.9)	(12.2)
Retained profit transferred to reserves	21			7.6	10.4
Earnings per share					
– basic	8			8.8p	10.8p
– adjusted basic before goodwill amortisation	8			12.8p	11.5p
– diluted	8			8.6p	10.7p
Dividend per share	7			5.55p	5.25p

Consolidated Balance Sheet

at 31 March 2001

	Note	2001 £m	2000 £m
Fixed assets			
Intangible assets	11	**185.9**	173.8
Tangible assets	12	**289.4**	271.1
Investments	13	**0.9**	0.3
Investments in joint ventures:			
Share of gross assets		**12.8**	12.9
Share of gross liabilities		**(9.3)**	(10.7)
Share of net assets	13	**3.5**	2.2
Loans to joint ventures	13	**3.8**	4.0
Total investment in joint ventures		**7.3**	6.2
		483.5	451.4
Current assets			
Stocks	15	**6.3**	4.4
Debtors	16	**145.8**	122.8
Cash at bank and in hand		**2.2**	9.3
		154.3	136.5
Creditors: amounts falling due within one year			
Borrowings	17	**(31.5)**	(14.3)
Other creditors	18	**(131.0)**	(112.1)
		(162.5)	(126.4)
Net current (liabilities) assets		**(8.2)**	10.1
Total assets less current liabilities		**475.3**	461.5
Creditors: amounts falling due after more than one year			
Borrowings	17	**(272.5)**	(267.8)
Other creditors	18	**(0.3)**	(1.1)
		(272.8)	(268.9)
Provisions for liabilities and charges	19	**(50.1)**	(50.1)
Net assets		**152.4**	142.5
Capital and reserves			
Called up share capital	20	**23.3**	23.2
Share premium account	21	**92.3**	91.7
Profit and loss account	21	**36.5**	27.3
Equity shareholders' funds		**152.1**	142.2
Equity minority interests		**0.3**	0.3
Total equity		**152.4**	142.5

The Financial Statements were approved by the Board on 30 May 2001 and were signed on its behalf by:

G H Waddell
Chairman

D J Downes
Group Finance Director

Consolidated Cash Flow Statement

year ended 31 March 2001

	Note	2001 £m	2000 £m
Net cash flow from operating activities	23(a)	**96.3**	63.0
Returns on investments and servicing of finance			
Interest paid		**(15.5)**	(5.4)
Interest received		**0.2**	0.3
Finance costs incurred when raising debt	23(d)	**–**	(1.8)
		(15.3)	(6.9)
Tax paid		**(16.2)**	(15.0)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(47.1)**	(33.1)
Sale of tangible assets		**3.2**	2.9
		(43.9)	(30.2)
Acquisitions and disposals			
Purchase of subsidiary undertakings and businesses	23(b)	**(27.1)**	(229.5)
Cash (overdrafts) acquired with purchase of subsidiary undertakings and businesses		**1.7**	(1.2)
Purchase of and advances to investments and joint ventures		**(0.8)**	(2.5)
Sale of subsidiaries and joint ventures	23(c)	**0.7**	0.5
		(25.5)	(232.7)
Equity dividends paid		**(12.5)**	(10.4)
Net cash flow before use of liquid resources and financing		**(17.1)**	(232.2)
Management of liquid resources			
Amounts returned from deposit		**–**	4.7
Financing			
Issue of ordinary share capital		**0.7**	22.8
Debt financing	23(d)	**(6.8)**	205.2
(Decrease) increase in cash		**(23.2)**	0.5
Reconciliation of net cash flow to movement in net debt	23(e)		
(Decrease) increase in cash in the year		**(23.2)**	0.5
Cash flow from change in liquid resources		**–**	(4.7)
Debt financing (including financing costs)	23(d)	**6.8**	(203.4)
Change in net debt resulting from cash flows		**(16.4)**	(207.6)
Financing acquired with subsidiaries		**(4.2)**	(3.1)
Loan notes issued		**–**	(8.8)
Amortisation of loan fees		**(0.5)**	–
Exchange rate (loss) gain on net debt		**(7.9)**	3.8
Movement in net debt in the year		**(29.0)**	(215.7)
Net debt at 4 April 2000		**(272.8)**	(57.1)
Net debt at 31 March 2001		**(301.8)**	(272.8)

Reconciliation of Movements in Shareholders' Funds

at 31 March 2001

	Note	2001 £m	2000 £m
Profit for the period		**20.5**	22.6
Equity dividends	7	**(12.9)**	(12.2)
		7.6	10.4
Issue of share capital		**0.7**	59.2
Currency translation gains (losses)		**3.2**	(4.1)
Currency translation adjustment on goodwill		**(1.6)**	4.6
Net addition to equity shareholders' funds		**9.9**	70.1
Opening equity shareholders' funds		**142.2**	72.1
Closing equity shareholders' funds		**152.1**	142.2

Statement of Total Recognised Gains and Losses

at 31 March 2001

	2001 £m	2000 £m
Profit for the period	**20.5**	22.6
Currency translation gains (losses) on net investments (including goodwill)	**11.1**	(7.9)
Currency translation (losses) gains on borrowings	**(7.9)**	3.8
Total recognised gains and losses relating to the period	**23.7**	18.5

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 31 March 2001

	Note	2001 £m	2000 £m
Fixed assets			
Tangible assets	12	**0.1**	0.1
Investments	13	**277.4**	277.6
		277.5	277.7
Current assets			
Debtors	16	**99.0**	89.8
Cash at bank and in hand		**48.8**	56.1
		147.8	145.9
Creditors: amounts falling due within one year			
Other creditors	18	**(13.8)**	(14.6)
Net current assets		**134.0**	131.3
Total assets less current liabilities		**411.5**	409.0
Creditors: amounts falling due after more than one year			
Borrowings	17	**(268.1)**	(262.5)
Provisions for liabilities and charges	19	**(0.4)**	(0.6)
Net assets		**143.0**	145.9
Capital and reserves			
Called up share capital	20	**23.3**	23.2
Share premium account	21	**116.3**	115.7
Profit and loss account	21	**3.4**	7.0
Equity shareholders' funds		**143.0**	145.9

The Financial Statements were approved by the Board on 30 May 2001 and were signed on its behalf by:

G H Waddell
Chairman

D J Downes
Group Finance Director

Notes to the Financial Statements

1 Segmental analysis

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

	2001 Continuing Operations £m	2001 Acquisitions £m	2001 Total £m	2000 Continuing Operations £m
(a) Turnover by origin of service				
United Kingdom	**259.6**	**–**	**259.6**	239.0
Belgium	**75.5**	**12.7**	**88.2**	75.5
The Netherlands	**151.3**	**3.3**	**154.6**	–
	486.4	**16.0**	**502.4**	314.5
Share of joint venture turnover	**6.5**	**–**	**6.5**	6.1
(b) Turnover by destination of service				
United Kingdom	**256.1**	**–**	**256.1**	236.7
Europe	**229.0**	**16.0**	**245.0**	76.7
Rest of the World	**1.3**	**–**	**1.3**	1.1
	486.4	**16.0**	**502.4**	314.5
(c) Operating profits				
Trading profits:				
United Kingdom	**30.7**	**–**	**30.7**	32.4
Belgium	**13.9**	**0.8**	**14.7**	14.6
The Netherlands	**23.6**	**0.5**	**24.1**	–
Central Services	**(3.8)**	**–**	**(3.8)**	(3.2)
Operating profit before exceptional items and goodwill amortisation	**64.4**	**1.3**	**65.7**	43.8
Exceptional costs	**(0.8)**	**–**	**(0.8)**	(0.5)
Goodwill amortisation	**(8.8)**	**(0.6)**	**(9.4)**	(1.4)
Total operating profit	**54.8**	**0.7**	**55.5**	41.9
United Kingdom	**27.5**	**–**	**27.5**	30.9
Belgium	**13.9**	**0.3**	**14.2**	14.6
The Netherlands	**17.2**	**0.4**	**17.6**	–
Central Services	**(3.8)**	**–**	**(3.8)**	(3.6)
Total operating profit	**54.8**	**0.7**	**55.5**	41.9
Exceptional profit on disposal of operations	**0.7**	**–**	**0.7**	0.5
Profit before finance charges	**55.5**	**0.7**	**56.2**	42.4
Finance charges – interest			**(18.6)**	(5.1)
Finance charges – other			**(2.0)**	(1.2)
Profit on ordinary activities before taxation			**35.6**	36.1
(d) Analysis of profit on ordinary activities before taxation				
Group			**34.8**	35.3
Joint ventures			**0.8**	0.8
Profit on ordinary activities before taxation			**35.6**	36.1

Notes to the Financial Statements
continued

1 Segmental analysis continued

	At 31 March 2001 £m	At 4 April 2000 £m
(e) Net assets		
United Kingdom	**180.6**	181.2
Belgium	**36.9**	25.0
The Netherlands	**229.3**	216.6
Net operating assets	**446.8**	422.8
Unallocated net assets (liabilities):		
Assets under the course of construction	**29.7**	16.8
Net debt	**(301.8)**	(272.8)
Other unallocated net liabilities	**(22.3)**	(24.3)
Net assets	**152.4**	142.5

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

2 Operating profit

	2001 £m	2001 £m	2000 £m	2000 £m
Gross profit		**107.3**		70.6
Exceptional reorganisation costs	**(0.8)**		(0.5)	
Goodwill amortisation	**(9.4)**		(1.4)	
Other administration expenses	**(42.7)**		(27.7)	
Total administration expenses		**(52.9)**		(29.6)
		54.4		41.0
Other operating income		**–**		0.1
Group operating profit		**54.4**		41.1

	2001 £m	2000 £m
Group operating profit is stated after charging (crediting):		
Depreciation of tangible fixed assets		
– owned	**37.3**	26.1
– held under finance leases and hire purchase contracts	**0.6**	0.2
Amortisation of goodwill	**9.4**	1.4
Total depreciation and amortisation	**47.3**	27.7
Government grants	**(0.5)**	(0.1)
Net profit on disposal of fixed assets	**(0.2)**	(0.3)
Hire of plant and machinery – operating leases	**9.8**	6.7
Property rents payable	**3.0**	1.4
Auditors' remuneration:		
– audit fees, including expenses (parent company £49,000 (2000: £39,000))	**0.3**	0.2
– non audit related fees (taxation services)	**0.3**	0.2

In addition to those fees charged in the profit and loss account, £Nil (2000: £0.6m) was charged by the auditors for tax and accounting work in connection with acquisitions.

3 Exceptional profit on disposal of operations

	2001 £m	2000 £m
Profit on sale of operations	**0.7**	0.5

The exceptional profit in 2001 arose on the sale of the Group's 50% stake in the SO.GE.DI s.a. joint venture in Belgium. The exceptional profit in 2000 comprised £0.3m on the final settlement of a claim remaining from the sale of the construction division in April 1995, and £0.2m on the sale of a 5% share in the Group's Silvamo joint venture landfill in Belgium. There is no tax effect or goodwill adjustment in either year as a result of these sales.

4 Finance charges – interest

	2001 £m	2000 £m
Net interest payable:		
Interest payable on bank loans and overdrafts repayable in five years	**16.2**	3.8
Interest payable on other loans	**2.3**	1.8
Share of joint ventures' interest payable	**0.3**	–
	18.8	5.6
Interest receivable	**(0.2)**	(0.5)
	18.6	5.1

5 Finance charges – other

Other finance charges relate to the unwinding of the discount on long term landfill liabilities of £1.5m (2000: £1.2m) and the amortisation of bank fees of £0.5m (2000: £Nil).

6 Taxation

The taxation charge based on the profits for the year is made up as follows:

		2001 £m	2000 £m
Corporation tax: current year	– UK 30% (2000: 30%)	**5.5**	7.3
	– Overseas	**10.4**	5.9
Deferred tax		**(1.0)**	(0.1)
Joint ventures		**0.2**	0.3
		15.1	13.4

7 Equity dividends

	2001 £m	2000 £m
Interim dividend of 1.85p per ordinary share (2000: 1.75p)	**4.3**	3.7
Proposed final dividend of 3.7p per ordinary share (2000: 3.5p)	**8.6**	8.2
Dividend not provided in preceding year's financial statements	**–**	0.3
	12.9	12.2

The £0.3m charged to the profit and loss account last year related to additional 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.

Notes to the Financial Statements

continued

8 Earnings per share

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

	2001	2000
Calculation of basic earnings per share		
Profit for the period (£m)	**20.5**	22.6
Goodwill amortisation (£m)	**9.4**	1.4
Earnings before goodwill amortisation (£m)	**29.9**	24.0
Average number of shares in issue during the period	**232.8m**	209.3m
Basic earnings per share (pence)	**8.8p**	10.8p
Adjusted basic earnings per share before goodwill amortisation (pence)	**12.8p**	11.5p
Calculation of diluted earnings per share		
Average number of shares in issue during the period	**232.8m**	209.3m
Effect of share options in issue	**5.0m**	1.9m
Total	**237.8m**	211.2m
Diluted earnings per share (pence)	**8.6p**	10.7p

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

9 Employees

	2001 Number	2000 Number
The average number of people employed by the Group during the year was as follows:		
United Kingdom	**1,929**	1,614
Belgium	**844**	730
The Netherlands	**1,635**	–
Central Services	**16**	15
	4,424	2,359

	2001 £m	2000 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	**81.8**	47.6
Employer's social security costs	**14.7**	7.9
Employer's pension costs	**3.1**	1.5
	99.6	57.0

10 Pensions

United Kingdom

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 £1.7m (2000: £1.4m).

The most recent actuarial valuation at 5 April 2000 showed that the market value of the Scheme's assets was £52.1m and that those assets represented 117% of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings. The actuarial surplus is being spread over the average remaining life of the current employees. There are two categories of employee benefits and contributions, known as '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 pension earned prior to 5 April 1997 and 2.6% per annum compound in respect of service after 5 April 1997. It was also assumed that the pensions in payment for the 'operatives' section would remain at the guaranteed minimum pension level for the period from 6 April 1988 to 5 April 1997 and would increase at 2.6% per annum in respect of service after 5 April 1997.

Overseas

As detailed on page 22, separate pension arrangements exist for employees in Belgium and The Netherlands. The total cost arising in the year for overseas pensions was £1.4m (2000: £0.1m).

11 Intangible fixed assets

	Goodwill £m
Cost	
At 4 April 2000	175.2
Goodwill arising on purchase of undertakings and business (see note 14):	
– in the year	17.5
– prior year acquisitions	(1.4)
Exchange movements	5.5
At 31 March 2001	**196.8**
Amortisation	
At 4 April 2000	1.4
Charge for the year	9.4
Exchange movements	0.1
At 31 March 2001	**10.9**
Net book value	
At 31 March 2001	**185.9**
At 4 April 2000	173.8

Notes to the Financial Statements

continued

12 Tangible fixed assets

Group	Land & Buildings £m	Landfill Sites £m	Plant & Machinery £m	Total £m
Cost:				
At 4 April 2000	83.4	109.2	259.3	451.9
Adjustment to cost in respect of prior year acquisitions	–	20.5	69.7	90.2
Restated cost at 4 April 2000	83.4	129.7	329.0	542.1
Additions	5.7	2.5	38.9	47.1
On purchase of subsidiary undertakings and businesses	–	3.2	9.1	12.3
Disposals	(1.9)	(9.9)	(9.9)	(21.7)
Reclassification	(5.0)	7.8	(2.8)	–
Exchange movements	2.1	0.8	5.8	8.7
At 31 March 2001	**84.3**	**134.1**	**370.1**	**588.5**
Depreciation:				
At 4 April 2000	11.5	47.3	122.0	180.8
Adjustment to depreciation in respect of prior year acquisitions	10.6	20.5	59.1	90.2
Restated depreciation at 4 April 2000	22.1	67.8	181.1	271.0
On purchase of subsidiary undertakings and businesses	–	–	4.4	4.4
Charge for the year	2.7	5.4	29.8	37.9
Disposals	(0.3)	(9.8)	(8.6)	(18.7)
Reclassification	(4.9)	0.4	4.5	–
Exchange movements	0.5	0.8	3.2	4.5
At 31 March 2001	**20.1**	**64.6**	**214.4**	**299.1**
Net book value:				
At 31 March 2001	**64.2**	**69.5**	**155.7**	**289.4**
At 4 April 2000 (restated)	61.3	61.9	147.9	271.1

The adjustment to cost and depreciation arises as a result of a change in accounting treatment relating to assets acquired on purchase of subsidiary undertakings. Previously the net book value of the assets acquired was included in cost only. The revised treatment, which reflects more appropriately the depreciation profile of the assets, shows both the original cost and accumulated pre-acquisition depreciation within the relevant headings.

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

Included in fixed assets are assets under construction costing £29.7m (2000: £16.8m). Included in plant and machinery are assets held under finance leases with a cost of £4.4m and accumulated depreciation of £2.5m (2000: cost £2.0m and accumulated depreciation £1.4m).

12 Tangible fixed assets continued

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

	2001 Land & Buildings £m	**2001 Landfill Sites £m**	2000 Land & Buildings £m	2000 Landfill Sites £m
Freehold	**54.6**	**67.2**	52.6	59.2
Long leasehold	**9.2**	**1.8**	8.3	1.9
Short leasehold	**0.4**	**0.5**	0.4	0.8
	64.2	**69.5**	61.3	61.9

	Plant & machinery £m
Company	
Cost:	
At 4 April 2000	0.6
Additions	0.1
Disposals	(0.2)
At 31 March 2001	**0.5**
Depreciation:	
At 4 April 2000	0.5
Charge for the year	0.1
Disposals	(0.2)
At 31 March 2001	**0.4**
Net book value:	
At 31 March 2001	**0.1**
At 4 April 2000	0.1

13 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 4 April 2000	0.3	2.2	4.0	206.5	71.1	277.6
Additions	0.6	0.7	–	70.9	–	70.9
Share of retained profits	–	0.6	–	–	–	–
Disposals	–	–	(0.2)	–	(71.1)	(71.1)
At 31 March 2001	**0.9**	**3.5**	**3.8**	**277.4**	**–**	**277.4**

Details of subsidiary undertakings and joint ventures are shown on page 55 and form part of these financial statements.

Notes to the Financial Statements

continued

14 Acquisitions

During the year the Group made the following acquisitions:

	Date	Activities and Geographical Area
Tawse Ellon (Haulage) Limited	May 2000	Waste Management – Aberdeen, UK
N.V. De Beer & Partners "De Paepe"	May 2000	Waste Management – Gent, Belgium
Gebr. de Wit	July 2000	Waste Management – The Hague, The Netherlands
P. van der Veldt	December 2000	Waste Management – Amsterdam, The Netherlands
Van der Stoel Containerservice BV	February 2001	Waste Management – Amsterdam, The Netherlands

The book values of net assets acquired and the provisional fair value to the Group were as follows:

	Book value at date of acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Provisional fair value to the Group £m
Tangible assets	8.7	–	–	8.7
Stocks	0.3	–	–	0.3
Debtors	7.0	–	(0.1)	6.9
Other liabilities	(6.9)	(0.7)	(0.5)	(8.1)
Long term provisions	–	0.4	0.1	0.5
Cash	1.7	–	–	1.7
Borrowings	(4.2)	–	–	(4.2)
	6.6	(0.3)	(0.5)	5.8
Capitalised goodwill				17.5
Cash consideration				23.3

The accounting policy adjustments comprise application of the Group's policy on revenue and profit recognition and provision for deferred tax on revalued assets not held for resale. The fair value adjustments principally comprise an estimate for the additional costs to dispose of certain unprocessed waste.

During the year, the Group completed the evaluation of the businesses acquired during the year ended 4 April 2000. This resulted in a net increase in fair values of £1.4m in respect of Shanks Nederland and the related goodwill has been revised accordingly (see note 11). No adjustment to goodwill arose on the other acquisitions during that year. Adjustments comprise the full application of the Group's policy on deferred tax, the write off of impaired fixed assets and the revaluation of an investment in a joint venture.

The increase in fair values is analysed as follows:

	Accounting policy adjustments £m	Fair value adjustments £m	Total £m
Tangible fixed assets	–	(0.8)	(0.8)
Investments in joint ventures	–	0.3	0.3
Long term provisions (deferred tax)	1.9	–	1.9
	1.9	(0.5)	1.4

15 Stocks

	Group 2001 £m	Group 2000 £m
Raw materials and consumables	**4.6**	3.3
Work in progress	**1.0**	1.0
Finished goods	**0.6**	–
Investment land and property	**0.1**	0.1
	6.3	4.4

16 Debtors

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts due within one year:				
Trade debtors	**116.2**	98.2	**–**	–
Amounts owed by joint ventures	**0.2**	0.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**94.7**	89.2
Other debtors	**8.0**	7.4	**0.4**	0.3
Prepayments and accrued income	**14.2**	11.0	**0.1**	0.1
Corporation tax	**–**	–	**3.8**	0.2
	138.6	116.8	**99.0**	89.8
Amounts due after more than one year:				
Deposits	**7.2**	6.0	**–**	–
Total	**145.8**	122.8	**99.0**	89.8

Deposits represent amounts placed as security for certain provisions and risks.

Notes to the Financial Statements

continued

17 Borrowings and financial instruments

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

		Group		Company
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Bank overdrafts and short term loans	**21.7**	5.2	**–**	–
Loan notes as deferred consideration	**8.8**	8.8	**–**	–
Finance lease obligations	**1.0**	0.3	**–**	–
	31.5	14.3	**–**	–
Amounts falling due after more than one year:				
Senior notes	**20.0**	20.0	**20.0**	20.0
Bank loans	**251.2**	247.7	**248.1**	242.5
Finance lease obligations	**1.3**	0.1	**–**	–
	272.5	267.8	**268.1**	262.5
Notes and loans due after more than one year are repayable as follows:				
Between one and two years	**2.8**	16.1	**–**	15.0
Between two and five years	**268.4**	251.6	**268.1**	247.5
	271.2	267.7	**268.1**	262.5

The finance lease obligations falling due after more than one year comprised £0.8m repayable between one and two years and £0.5m repayable between two and five years (2000: £0.1m and £Nil respectively).

Undrawn borrowing facilities

The Group has undrawn committed borrowing facilities as follows:

	2001	2000
	£m	£m
Expiring in one year or less	**15.8**	1.7
Expiring in more than one year but not more than two years	**–**	9.0
Expiring in more than two years	**62.4**	73.0
	78.2	83.7

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

17 Borrowings and financial instruments continued

Interest rate risk profile of financial assets

The financial assets held by the Group consisted of:

	2001			2000		
	Floating rate	**Non-interest bearing**	**Total**	Floating rate	Non-interest bearing	Total
Currency:	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**–**	**–**	**–**	–	4.9	4.9
Euro and Legacy Currencies	**9.4**	**–**	**9.4**	6.7	3.6	10.3
US Dollar	**–**	**–**	**–**	0.1	–	0.1
Total	**9.4**	**–**	**9.4**	6.8	8.5	15.3

Financial assets include cash at bank and in hand of £2.2m (2000: £9.3m) which were held on call periods of less than one month, and deposits placed as security for certain provisions and risks of £7.2m (2000: £6.0m).

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:

	2001			2000		
	Floating rate	**Fixed rate**	**Total**	Floating rate	Fixed rate	Total
Currency:	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**41.4**	**50.2**	**91.6**	31.5	50.0	81.5
Euro and Legacy Currencies	**100.4**	**112.7**	**213.1**	95.3	106.1	201.4
Total	**141.8**	**162.9**	**304.7**	126.8	156.1	282.9

The above analysis of financial liabilities includes the provision for onerous leases of £0.4m (2000: £0.6m, see note 19), which is a sterling financial liability at floating rate under the definitions of FRS 13 and the long term creditor for government grants of £0.3m (2000: £0.2m, see note 18). The liability has been calculated by discounting the expected cashflows at prevailing interest rates.

The 2001 floating rate financial liabilities include £41.0m (2000: £30.9m) of sterling denominated borrowings and £100.1m (2000: £95.1m) of Euro denominated borrowings which bear interest rates based on the LIBOR and EURIBOR.

In 2001, £138.8m (2000: £135.1m) 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 four years (2000: two and five years). Under the terms of these swaps, some £30m (2000: £30m) of Sterling interest swaps with a full term of four years (2000: five years) may be cancelled by the bank after one year (2000: two years). The Directors consider that these swaps will remain in place for the full term and have classified them accordingly.

Notes to the Financial Statements

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17 Borrowings and financial instruments continued

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:

	2001		2000	
	Interest rate	**Period**	Interest rate	Period
Currency:				
Sterling	**7.9%**	**3.3 years**	8.0%	4.3 years
Euro and Legacy Currencies	**5.5%**	**1.4 years**	5.7%	2.4 years

Currency exposures

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

	2001			2000		
	Euro based	**US Dollars**	**Total**	Euro based	US Dollars	Total
Functional currency:	**£m**	**£m**	**£m**	£m	£m	£m
Sterling	**0.2**	**–**	**0.2**	0.7	0.1	0.8

Fair values of financial assets and financial liabilities

	2001		2000	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Floating rate	**9.4**	**9.4**	15.3	15.3
Financial liabilities:				
Floating rate	**141.8**	**141.8**	126.8	126.8
Floating rate classified as fixed by matching interest swaps	**138.8**	**138.8**	135.1	135.1
Interest swaps	**–**	**1.8**	–	–
Fixed interest	**24.1**	**25.1**	21.0	21.2
	304.7	**307.5**	282.9	283.1

The difference between book and fair value of £2.8m (2000: £0.2m) has not been reflected in the results for the year as this will be matched against future borrowing costs. Of the £1.8m (2000: £Nil) loss on interest swaps unrecognised at 31 March 2001, £0.6m (2000: £Nil) is expected to be recognised within one year and £1.2m (2000: £Nil) is expected to be recognised after one year.

18 Other creditors

	Group		Company	
	2001	2000	**2001**	2000
	£m	£m	**£m**	£m
Amounts falling due within one year:				
Trade creditors	**58.5**	38.2	**–**	–
Corporation tax payable	**6.1**	6.4	**–**	–
Other creditors	**5.7**	5.2	**0.7**	0.3
Taxation and social security	**9.8**	8.9	**0.8**	–
Landfill tax	**8.6**	14.8	**–**	–
Accruals and deferred income	**26.9**	28.2	**3.7**	6.1
Unprocessed waste	**6.8**	2.2	**–**	–
Dividends payable	**8.6**	8.2	**8.6**	8.2
	131.0	112.1	**13.8**	14.6
Amounts due after more than one year:				
Government grants	**0.3**	0.2	**–**	–
Trade creditors	**–**	0.9	**–**	–
	0.3	1.1	**–**	–

19 Provisions for liabilities and charges

					Group	Company
	Site restoration	Aftercare	Onerous leases	Deferred taxation	Total	Onerous leases
	£m	£m	£m	£m	£m	£m
At 4 April 2000	15.7	20.9	0.6	12.9	50.1	0.6
Utilised	(1.5)	–	(0.2)	–	(1.7)	(0.2)
Acquired companies	–	–	–	(2.4)	(2.4)	–
Provided – cost of sales	1.2	1.9	–	–	3.1	–
– finance charges	0.7	0.8	–	–	1.5	–
– taxation	–	–	–	(1.0)	(1.0)	–
Exchange rate movements	0.1	0.1	–	0.3	0.5	–
At 31 March 2001	**16.2**	**23.7**	**0.4**	**9.8**	**50.1**	**0.4**

Site restoration

Site restoration provision relates to the cost of final capping and covering of the landfill sites. An element of the closing provision of £16.2m relates to costs of £5.3m that are expected to be paid over the next two to three years. The remaining part of the provision relates to restoration costs of £10.9m that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

Aftercare

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

Notes to the Financial Statements

continued

19 Provisions for liabilities and charges continued

Onerous leases

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

Deferred taxation

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

	Provision £m	**2001 Total potential liability £m**	Provision £m	2000 Total potential liability £m
Accelerated capital allowances	**4.2**	**11.0**	7.0	11.2
Other timing differences	**5.6**	**4.7**	5.9	2.8
	9.8	**15.7**	12.9	14.0

20 Called up share capital

	2001 £m	2000 £m
Group and Company		
Authorised 300 million (2000: 300 million) ordinary shares of 10p each	**30.0**	30.0
Allotted, called up and fully paid 233 million (2000: 232 million) ordinary shares of 10p each	**23.3**	23.2

During the year to 31 March 2001, 680,192 ordinary shares were allotted following the exercise of options under the Company's Executive and Savings Related Share Option Schemes for aggregate consideration of £695,086.

Options outstanding at 31 March 2001 and 4 April 2000:	**2001**	2000
Savings related share option schemes		
Number of shares under option	**2,452,104**	2,531,955
Normal dates exercisable	**1999-2006**	1998-2005
Price per share	**80p-190p**	80p-190p
Weighted average subscription price	**145p**	132p
Executive share option scheme		
Number of shares under option	**4,348,537**	3,443,613
Normal dates exercisable	**1994-2003**	1993-2002
Price per share	**99p-271p**	99p-279p
Weighted average subscription price	**175p**	172p

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	**1,954,683**	1,648,309
Options exercised	**680,192**	764,014
Options lapsed	**449,418**	245,684

21 Reserves and share premium account

	Group Share premium £m	Group Profit and loss account £m	Company Share premium £m	Company Profit and loss account £m
At 4 April 2000	91.7	27.3	115.7	7.0
Retained profit for the year	–	7.6	–	(3.6)
Premium on shares issued	0.6	–	0.6	–
Currency translation gains on net investments (including goodwill)	–	11.1	–	1.3
Currency translation losses on borrowings	–	(7.9)	–	(1.3)
Currency translation adjustment on goodwill	–	(1.6)	–	–
At 31 March 2001	**92.3**	**36.5**	**116.3**	**3.4**

The cumulative goodwill written off Group Reserves to 31 March 2001 on businesses continuing within the Group amounts to £39.9m (2000: £38.3m). £176.4m (2000: £176.4m) of goodwill has been eliminated against the share premium account by using the provisions of Section 131 of the Companies Act 1985 regarding merger relief.

22 Result for the year

The profit for the year in the financial statements of the Company is £9.3m (2000: £12.9m). As permitted by Section 230 of the Companies Act 1985, a profit and loss account for the Company has not been presented.

23 Notes to the cash flow statement

	2001 £m	2000 £m
(a) Net cash flow from operating activities		
Total operating profit	**55.5**	41.9
Amortisation of intangible assets	**9.4**	1.4
Depreciation of fixed assets	**37.9**	26.3
Provision for aftercare and site restoration	**3.1**	3.5
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**105.9**	73.1
Gain on sale of fixed assets	**(0.2)**	(0.3)
(Increase) decrease in stocks	**(1.6)**	0.1
Increase in debtors	**(13.5)**	(14.0)
Increase in creditors	**8.5**	7.0
Utilisation of provisions	**(1.7)**	(2.0)
Share of profits of joint ventures	**(1.1)**	(0.8)
Other non-cash movements	**–**	(0.1)
Net cash flow from operating activities	**96.3**	63.0

Notes to the Financial Statements

continued

23 Notes to the cash flow statement continued

	2001 £m	2000 £m
(b) Subsidiary undertakings and businesses purchased during the year (see note 14)		
Tangible fixed assets	**(8.7)**	(108.1)
Net liabilities assumed	**2.9**	6.7
Net assets acquired (including £2.5m net borrowings (2000: £1.0m net cash))	**(5.8)**	(101.4)
Goodwill capitalised	**(17.5)**	(173.3)
Total estimated consideration	**(23.3)**	(274.7)
Consideration in respect of prior year acquisitions	**(3.8)**	–
Fair value of shares issued	**–**	36.4
Fair value of loan notes issued	**–**	8.8
Net cash consideration	**(27.1)**	(229.5)

(c) Sale of subsidiaries and joint ventures (see note 3)

	2001 £m	2000 £m
Proceeds of sale less costs of sale	**0.7**	0.2
Claims received	**–**	0.3
	0.7	0.5

The settlements comprised cash.

(d) Analysis of financing

	2001 £m	2000 £m
Short term loan repayments	**(3.8)**	–
Long term loan advances	**–**	261.2
Long term loan repayments	**(4.9)**	(55.0)
Finance lease net advances (repayments)	**1.9**	(1.0)
Net cash flow from debt	**(6.8)**	205.2
Finance costs	**–**	(1.8)
Debt financing including finance costs	**(6.8)**	203.4

(e) Analysis of net debt in the balance sheet

	At 4 April 2000 £m	Cash flows £m	Acquisitions £m	Other non-cash changes £m	**At 31 March 2001 £m**
Cash at bank and in hand	9.3	(7.1)	–	–	**2.2**
Overdrafts	(4.0)	(16.1)	–	–	**(20.1)**
		(23.2)			
Debt due within one year	(10.0)	3.8	(4.2)	–	**(10.4)**
Debt due after more than one year	(267.7)	4.9	–	(8.4)	**(271.2)**
Finance leases	(0.4)	(1.9)	–	–	**(2.3)**
		6.8			
Total	(272.8)	(16.4)	(4.2)	(8.4)	**(301.8)**

Other non-cash changes comprise the amortisation of loan fees of £0.5m and exchange losses on translation of long term loans in currencies other than sterling of £7.9m.

24 Capital commitments

	2001 £m	2000 £m
Group		
The aggregate amount of contracted capital expenditure authorised by the Directors for which no provision is made in the accounts is:	**14.1**	16.5

25 Financial commitments

	2001		2000	
	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 leases expiring as follows:				
Within one year	**0.1**	**0.4**	0.3	0.3
Between one and five years	**0.5**	**1.1**	0.9	0.4
After five years	**2.0**	**0.1**	1.8	1.1
	2.6	**1.6**	3.0	1.8

26 Contingent liabilities

Group and Company

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

The Company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities totalling £49.4m (2000: £53.0m). In addition, the Company has a contingent liability under VAT and Inland Revenue group payment arrangements totalling £3.2m (2000: £3.2m) and £2.7m (2000: £5.5m) respectively.

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.

Notes to the Financial Statements

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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 (2000: £0.1m).

Shanks Avondale Limited

The Group holds 50% of the issued share capital of Shanks Avondale Limited, a company incorporated in Scotland. The principal activity of Shanks Avondale Limited is landfill operation. During the year, subsidiaries of the Group supplied services to Shanks Avondale Limited for a total of £0.1m (2000: £Nil) and received services for a total of £0.4m (2000: £Nil). At the end of the year loans of £2.2m (2000: £2.3m) were owed to subsidiaries of the Group from Shanks Avondale Limited.

Caird Bardon Limited

The Group holds 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. During the year, subsidiaries of the Group supplied services to Caird Bardon Limited for a total of £0.5m (2000: £Nil) and received services for a total of £0.6m (2000: £Nil). At the year end loans of £1.6m (2000: £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 landfill operation. During the year, subsidiaries of the group supplied engineering and other services to Silvamo n.v. for a total of £0.8m (2000: £1.3m). At the year end £0.2m (2000: £0.2m) was due to subsidiaries of the Group from Silvamo n.v. in respect of trading items.

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 (2000: £0.1m).

Group Companies and Joint Ventures

at 31 March 2001

Subsidiary Undertakings

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

	Country of incorporation
Shanks Waste Services Limited	UK
Shanks Northern Limited	UK
Shanks Midlands Limited	UK
Caird Environmental Limited	UK
Shanks Chemical Services Limited	UK
Shanks Chemical Services (Scotland) Limited	UK
Safewaste Limited	UK
Vale Collections and Recycling Limited	UK
Page s.a.	Belgium
Fusiman Industrial Cleaning s.a.	Belgium
B & P n.v. "Sobry"	Belgium
Vancoppenolle Invest. n.v.	Belgium
N.V. De Beer & Partners "de Paepe"	Belgium
Icova BV	The Netherlands
BV van Vliet Groep Milieudienstverleners	The Netherlands
Vliko BV	The Netherlands
Klok Containers BV	The Netherlands
Transportbedrifj van Vliet BV "Contrans"	The Netherlands
Reym BV	The Netherlands
Afvalstoffen Terminal Moerdijk BV "ATM"	The Netherlands
Flection International BV	The Netherlands
Van der Stoel Containerservice BV	The Netherlands

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

Andre de Vriendt s.a.	Belgium

Joint Ventures

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

	Issued share capital	Class of shares	% Group holding	Country of incorporation
Geohess (UK) Limited	£200	Ordinary	50%	UK
Shanks Avondale Limited	£2,000	Ordinary	50%	UK
Caird Bardon Limited	£850,002	Ordinary	50%	UK
Silvamo n.v.	BEF20 million	Ordinary	50%	Belgium
Marpos n.v.	BEF5 million	Ordinary	45%	Belgium

Five Year Financial Summary

at 31 March 2001

	2001 £m	2000 £m	1999 £m	1998 restated £m	1997 restated £m
Consolidated profit and loss account					
Turnover	**502.4**	314.5	260.7	176.7	144.1
Operating profit before exceptional items and goodwill amortisation	**65.7**	43.8	40.1	28.0	24.0
Finance charges – interest	**(18.6)**	(5.1)	(4.3)	(2.0)	(1.1)
Finance charges – other	**(2.0)**	(1.2)	(1.0)	(0.6)	(0.5)
Profit before taxation, exceptional items and goodwill amortisation ("Headline profit")	**45.1**	37.5	34.8	25.4	22.4
Exceptional items	**(0.1)**	–	0.3	(0.4)	0.5
Goodwill amortisation	**(9.4)**	(1.4)	–	–	–
Taxation	**(15.1)**	(13.4)	(12.6)	(8.7)	(8.7)
Profit after taxation	**20.5**	22.7	22.5	16.3	14.2
Minority interests	**–**	(0.1)	–	–	–
Dividends	**(12.9)**	(12.2)	(9.6)	(8.2)	(7.2)
Retained earnings	**7.6**	10.4	12.9	8.1	7.0
Consolidated balance sheet					
Fixed assets	**483.5**	451.4	163.7	163.5	129.9
Other assets less liabilities	**(29.3)**	(36.1)	(34.3)	(37.5)	(31.5)
Net borrowings	**(301.8)**	(272.8)	(57.1)	(64.3)	(23.3)
	152.4	142.5	72.3	61.7	75.1
Share capital	**23.3**	23.2	20.0	20.0	18.4
Reserves	**128.8**	119.0	52.1	41.7	56.7
Minority interests	**0.3**	0.3	0.2	–	–
	152.4	142.5	72.3	61.7	75.1
Financial ratios					
Earnings per share before goodwill amortisation	**12.8p**	11.5p	11.2p	8.9p	7.7p
Dividends per share	**5.55p**	5.25p	4.80p	4.20p	3.90p
Interest cover (note 2)	**3.5x**	8.5x	9.3x	14.0x	21.8x

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 total operating profit before goodwill amortisation and before non-operating exceptional items by the interest charge excluding commitment fees.*

Shareholder Information

at 31 March 2001

	Number of shareholders	Number of shares (thousands)	%
Range of shareholding			
1 – 5,000	2,228	3,674	1.6
5,001 – 25,000	528	5,288	2.3
25,001 – 50,000	81	2,850	1.2
50,001 – 100,000	77	5,256	2.3
100,001 – 250,000	71	11,082	4.7
250,001 – 500,000	33	11,076	4.7
over 500,000	98	193,942	83.2
	3,116	233,168	100.0
Analysis of shareholders			
Individuals	2,084	21,140	9.1
Banks and nominee companies	740	197,394	84.7
Other institutions and companies	292	14,634	6.2
	3,116	233,168	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 IBC). 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

13 July 2001	Record date for final dividend 2000/01
26 July 2001	Annual General Meeting
06 August 2001	Payment of final dividend 2000/01
November 2001	Announcement of interim results and dividends
January 2002	Payment of interim dividend
March 2002	2001/02 financial year ends
May 2002	Announcement of 2001/02 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 26 July 2001, at 11.00 a.m. for the purpose of transacting the following business:

Routine ordinary business

(1) To receive the reports of the Directors and auditors, the balance sheets of the Company and of the Group as at 31 March 2001 and the profit and loss account of the Group for the period ended 31 March 2001.

(2) To declare a final dividend.

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

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

(5) To elect Mr Delaunois as a Director.

(6) To elect Mr Meredith as a Director.

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

Special business

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

"THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) 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 23,310,000;

(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."

(9) 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 25 October 2002, 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; or

(b) the allotment (otherwise than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £1,165,800,

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."

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

"THAT the amendment of the Schedule to the Shanks & McEwan Approved Executive Share Option Scheme 1995 ("the Scheme") (which modifies the Rules of the Scheme to the extent that they apply to unapproved options) by the insertion of new paragraphs 2(d) and 2(e) in the Schedule (and the consequent re-lettering of existing paragraphs 2(d) to 2(f) (inclusive) of the Schedule) as follows:

"(d) Rules 2(c), 2(d) and 2(e) of the Rules of the Scheme shall be deleted.

(e) Rules 4(b) and 4(c) of the Rules of the Scheme shall be deleted and replaced with the following:

(b) On any date the number of Scheme Shares over which an Option to subscribe or otherwise acquire Scheme Shares may be granted to an Employee pursuant to Rule 5 shall be limited so that the aggregate Appropriation Value of Scheme Shares which may be acquired under that Option, when added to the aggregate Appropriation Value of all the shares over which rights to subscribe or otherwise acquire have been granted to or conferred on such Employee within the previous twelve months under this Scheme, and Any Other Scheme (excluding any savings-related share option scheme), shall not exceed one and one third times the higher of:

Notice of Annual General Meeting

continued

(i) the annual rate of the Employee's basic salary (exclusive of bonuses, commissions, overtime payments, pension contributions and benefits in kind) payable to the Employee by the Group as at the date immediately preceding the Date of Grant of the Option; and

(ii) the basic salary (exclusive of bonuses, commissions, overtime payments, pension contributions and benefits in kind) payable to the Employee by the Group in the twelve months ending on the last day of the month immediately preceding the month in which the Date of Grant falls."

be and hereby is approved."

By Order of the Board

P Kaye
Secretary

Dated 30 May 2001

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 0XG not later than 48 hours before the time appointed for the meeting.*

3. *The return of a completed form of proxy will not prevent a member from attending in person at the meeting should he/she so wish.*

4. *The register of interests of the Directors (and of their families) in the shares of the Company and copies of all service contracts under which Directors are employed by the Company or any of its subsidiaries will be available for inspection at the registered office of the Company at Shanks House, A8 Edinburgh Road, Coatbridge, Lanarkshire ML5 4UG during normal business hours, on any weekday (Saturday and public holidays excluded) from the date of this notice up to the date of the Annual General Meeting and at the Glasgow Hilton on 26 July 2001, at least 15 minutes prior to, and during, the meeting.*

Company Information

CORPORATE HEAD OFFICE
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Astor House
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Fax: 00 44 (0) 1628 524114
website: www.shanks.co.uk

REGISTERED OFFICE
Shanks Group plc
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Lanarkshire ML5 4UG

Registered in Scotland No. 77438

PRINCIPAL OFFICES

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

Shanks Chemical Services Limited
Charleston Road
Hardley
Hythe
Southampton
Hampshire SO45 3ZA
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Fax: 00 44 (0) 1495 757019

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

Corporate Advisers

Financial Advisers
Lazard Brothers & Co. Limited
Hoare Govett Limited

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

Solicitors
Ashurst Morris Crisp
Dickson Minto W.S.

Auditors
PricewaterhouseCoopers

Registrars
Computershare Services PLC
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