shanks. waste solutions.

Shanks Group plc
Annual Report and Accounts 2007

shanks. waste solutions.

One of Europe's largest independent waste management companies, Shanks Group plc has operations in the United Kingdom, Belgium and the Netherlands and is a leading player in each of these markets.

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

Further information about the Group and its activities is available on our website.

Shanks Group plc
Registered in Scotland No.77438
Astor House, Station Road, Bourne End, Buckinghamshire, SL8 5YP
www.shanks.co.uk

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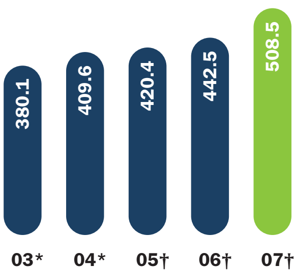
financial highlights.

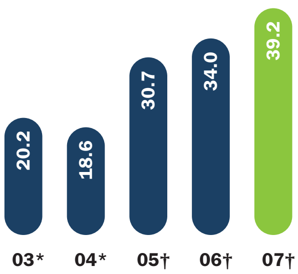
	2007	2006
Revenue	£509m	£442m
Headline profit[1]	£39.2m	£34.0m
Exceptional items		
- change in fair value of interest rate swaps[2]	£6.9m	£(3.7)m
Profit before tax from continuing operations	£46.1m	£30.3m
Adjusted basic earnings per share[3]	11.3p	9.6p
Basic earnings per share	13.3p	13.0p
Dividend per share	5.9p	5.7p
Core Business net debt	£134m	£76m
PFI Companies net debt[4]	£123m	£105m
Total Group net debt before fair value adjustment[4]	£257m	£181m
Fair Value of PFI interest rate swaps	£0m	£8m
Total Group net debt	£257m	£189m
EBITDA on continuing operations[5]	£80.6m	£68.6m

1 On continuing operations before exceptional items and tax
2 The Group considers these items as exceptional for the purposes of determining headline profit
3 On continuing operations before exceptional items, net of associated tax
4 Excluding fair value of interest rate swaps
5 Earnings before interest, tax, depreciation and amortisation (EBITDA), excluding exceptional items and discontinued operations

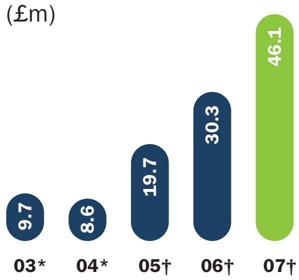
Revenue
(£m)



Headline profit
(£m)



Profit before tax from continuing operations
(£m)



* Figures reported under UK GAAP, using IFRS presentation
† Figures reported under IFRS

chairman's statement.

Financial Performance

I am pleased to report a significant improvement in performance for the year to 31 March 2007. Headline profit (profit from continuing operations before exceptional items and tax) rose 15% to £39.2m (2006: £34.0m) driven principally by a strong performance in the Netherlands following the Smink acquisition in June 2006. Adjusted basic earnings per share improved 18% to 11.3p from last year's 9.6p following a 1% reduction in the effective tax rate to 33% (2006: 34%). As a result your Board is recommending a 5% increase in final dividend to 4.0p per share (2006: 3.8p per share) which, if approved by shareholders, brings the total dividend for the year to 5.9p per share (2006: 5.7p per share).

Revenue from continuing operations increased 15% to £509m (2006: £442m) and profit before tax was £46.1m (2006: £30.3m) after a £6.9m non cash gain (2006: £3.7m charge) on the change in the fair value of interest rate swaps.

During the year borrowings relating to the core business increased by £58m to £134m (2006: £76m) after acquisition expenditure totalling £65m. Private Finance Initiative (PFI) company debt also increased by £18m to £123m (2006: £105m) following continued capital investment in the East London Waste Authority (ELWA) and Dumfries & Galloway (D&G) projects.

Divisional Review

United Kingdom

Operating profit from continuing operations decreased by £0.9m to £3.2m (2006: £4.1m) following lower contributions from PFI projects and Contaminated Land Services.

Phase I of the project at Frog Island on the north bank of the river Thames is now fully commissioned and operating at capacity. Phase II of the project suffered a delay caused by the insolvency of a subcontractor. The supplier has been rescued as a going concern and all equipment has now been delivered. Commissioning has commenced in line with the revised timetable with the objective of achieving full operations over the summer. As this is later than expected operating costs will be higher during the delay period. A programmed price increase in Summer 2007 will enhance profitability following recent higher costs associated with the operation of new facilities. Like the ELWA project, the D&G contract is serviced using the innovative Mechanical Biological Treatment (MBT) technology developed with Italian partner Ecodeco. The D&G plant is also fully commissioned and operating normally. There has been significant interest from the cement industry in the Solid Recovered Fuel (SRF) produced by the MBT process and large scale deliveries have commenced. Further increases are programmed when ELWA Phase II is commissioned.

As previously reported a stricter interpretation of landfill regulations by the Scottish Environment Protection Agency (SEPA) has caused substantially increased costs on the former local authority landfill sites within our Scottish PFI projects. A mitigation programme has commenced and is beginning to bear fruit.

The market for Contaminated Land Services in the year was significantly reduced from a particularly strong 2005/6. Nevertheless, a number of smaller projects have been completed making a positive contribution to results.

The logistics and recycling business has recorded substantial increases in trading profit fuelled in part by two acquisitions in the Central Belt of Scotland for a total consideration of £12m.

Our two landfill joint ventures have also traded well showing increases on the already strong performance recorded last year.

Belgium

Operating profit improved 10% to £17.3m (2006: £15.7m). All geographic regions recorded increased profits contributing to this pleasing result. In particular household waste diverted to our landfill from public sector incinerators, which were suffering temporary shut downs, prevented the expected decline in landfill performance.

The 10 year contract for municipal waste collection signed in July 2005 with the City of Liège is fully operational and contributing according to its plan.

The acquisition of Stordeur, a small waste collection company, in Wallonia was completed for a consideration of £0.6m.

The Netherlands

Netherlands activities delivered a strong performance with operating profits increasing 32% to £31.0m (2006: £23.5m).

The largest contribution to this improvement was the company Smink Beheer BV which was acquired by the Group for a net consideration of £43m at the end of June 2006. This acquisition extends our geographic coverage eastward from our strong presence in the Randstad area. The early performance has been in line with our plans and synergy opportunities with our existing business are now being exploited.

One further acquisition complementing our existing solid waste activities was completed for a consideration of £10m. The majority of these solid waste businesses enhanced their profits during the year as the programme of price and efficiency increases delivered improvements following the negative impact in 2005/6 accruing from the closing off of low cost recycling outlets in Germany.

Our hazardous waste divisions in total also delivered a better result than in the prior year.

Central Services

Central Services costs rose by 20% to £5.3m (2006: £4.4m). Higher recruitment costs and increase of National Insurance contributions on share options were the largest elements of the movement.

Developments

United Kingdom

In November 2006 the Group was appointed as preferred bidder for the 25 year contract to manage the waste of Cumbria County Council. Negotiations continue and it is expected that the contract will commence in 2008.

Offers are also being made for numerous similar local authority contracts as the Group seeks to capitalise on progress already made with the MBT technology in this market. The UK Government estimates that at least £10bn must be spent on new infrastructure to process municipal waste if the requirements of the European Union (EU) Landfill Directive are to be met. The March 2007 Budget announced an increase in the Landfill Tax escalator. From April 2008 it will increase from £3 per tonne per annum to £8 per tonne per annum. The Tax, currently £24 per tonne, will therefore rise to £32 per tonne in 2008 and continue with a £8 per tonne annual increase until a rate of £48 per tonne is reached in 2010. This change should accelerate the development of the local authority market.

The Tax will also provide a substantial disincentive for the landfilling of Industrial and Commercial (I&C) waste. This change together with the regulatory requirement from October 2007 to pre treat all waste prior to landfill will provide further stimulus to the Group's emerging I&C recycling activities.

Three recent Government policy proposals on Planning, Energy and Waste published in late May 2007 provide endorsement for the Shanks strategy. Household waste recycling is to be increased, landfill reduced and there will be greater emphasis on renewable energy, including, from SRF. Planning for these major items of infrastructure should also be simplified.

It is expected that the market for Contaminated Land Services will improve in 2007/8 particularly with opportunities to decontaminate sites which will be used for the 2012 London Olympic Games.

The Netherlands

Since the end of the year under review the Group has completed the acquisition of a Randstad solid waste business for a consideration of £3m. This company, Kluivers was purchased from its management.

More importantly, in mid April 2007, the company Orgaworld was purchased for £10m, £3m of which is deferred, with the potential for further payments up to £14m dependent on future profits growth. This company is involved in the composting and anaerobic digestion of biodegradable waste and brings a new technology and expertise which can be exploited Group wide over time.

Belgium

As landfill volumes are expected to decline the Group continues to search for acquisitions, particularly in recycling industries, which will provide new compensating revenue streams. A number of organic growth projects are also under consideration.

Directorate

Your Group Chief Executive, Michael Averill, has an agreement with the company whereby he could retire at age 57, an event now less than one year away. The Board therefore considered it prudent to commence a search for his replacement in good time and is delighted to announce the appointment to the Board of Tom Drury (age 45) as Group Chief Executive Designate, with effect from 3 September 2007. Michael Averill will stand down from his present position and resign from the Board on 30 September 2007, and at that time Tom Drury will assume Michael's role. Michael will however be retained in an advisory capacity until May 2008.

Following an early career with Unilever and PricewaterhouseCoopers, since 1991 Tom Drury has had a distinguished career with United Utilities plc, and was appointed a main Board director in 2005. In 1996 he was appointed Managing Director of Vertex, and until the recent sale of the business to US private equity, was responsible for taking Vertex to a leading position in the UK's highly competitive business process outsourcing market, with turnover of circa £400m, over 9,000 employees, and a blue chip client base.

The Board is delighted that Tom has agreed to accept the position of Group Chief Executive of Shanks, and we look forward to working with him.

During his 13 years as Group Chief Executive Michael has successfully overcome many challenges, and he will be delivering to his successor a strong company, which is well positioned to benefit from the rapid changes that are taking place in the waste management sector. The Board offers sincere thanks for his leadership and contribution over the years and wishes him every success for the future.

Ian Clubb retired as your Chairman at the 2006 AGM. At the 2007 meeting both Philippe Delaunois and Barry Pointon will also retire from the Group. I thank all retiring directors for their positive contributions and wise counsel and wish them well for the future.

I am also delighted to welcome Eric van Amerongen, a Dutch national, and Stephen Riley to the Board. They bring great international and electricity industry experience respectively.

Outlook

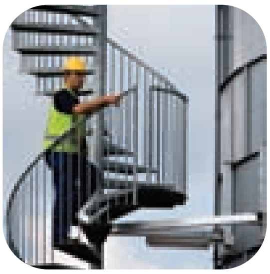
Recent changes across the Group have positioned Shanks within growth markets. It has a strong balance sheet, and the resources and skills are in place to capitalise on market opportunities. I am therefore confident of further progress in the current year and for the future.

A. Auer

A Auer
Chairman

business review.

Shanks Group plc is a modern waste and resource management group serving customers in the United Kingdom, Belgium and the Netherlands. The Group offers a wide and often innovative range of waste management solutions within its various collection, transport, recycling, treatment and disposal services.



Business Review

Much of the background information given in last year's Business Review remains valid but it has been updated where appropriate. An additional section has been included on the key performance indicators (KPIs) used by management to monitor the business.

The European Waste Market

Waste management is an essential service. In societies where there is a high level of regulation and enforcement, it is a sophisticated industry using advanced technologies. In societies with little or no regulation or enforcement, waste tends to be treated indiscriminately.

In the European Union (EU) the level of environmental regulation is high, however unlike trade regulations, there are no common standards for waste management. EU legislation on waste sets minimum standards which member nations must meet, however they are free to exceed these standards in order to follow their own political and environmental agendas. The result is that within the EU national regulations differ and there is no single market.

The waste management market can be subdivided into non-hazardous and hazardous waste. The former tends to be a local business, as the relatively low unit cost of treatment makes transport a significant part of the overall cost. Hazardous waste treatment costs tend to be higher making it a more regional business.

Both the public and the private sector are active in the waste market. The degree of privatisation varies across Europe; it is high in the United Kingdom and France but lower in Germany, the Netherlands and Belgium. Advancing EU legislation is necessitating substantial investment in new infrastructure. This investment combined with budgetary constraints is driving privatisation initiatives in many EU countries. Within the private sector, consolidation of the industry has been a feature for many years. The new infrastructure requirements and the long term nature of the business have recently attracted private equity groups.

Within the national markets a further distinction may be made between "collection, transfer and recycling" and "treatment and disposal". The former has historically had low barriers to entry and hence has been made up of many small participants. Increasing recycling requires greater investment in infrastructure which is moving this market towards the larger players. Treatment and disposal have high barriers to entry as facilities tend to be capital intensive and projects have long gestation periods. These activities are therefore the domain of well capitalised companies, and are populated by a few large players, often multinationals.

The markets may also be split between the industrial and commercial sector and the municipal sector. In most EU countries the municipalities have a statutory duty to deal with household waste, which they either do themselves or use private sector contractors. They have no such duty in respect of industrial and commercial waste. The municipal sector is therefore typified by long-term contracts which tend to be 5 to 10 years for collection and often in excess of 20 years for treatment and disposal. The industrial and commercial sector tends to be a much more short term market, with contracts in excess of a couple of years being rare.

Market Trends and Drivers

There is currently convergence between the waste, energy intensive and power industries. This is being driven by a number of factors:

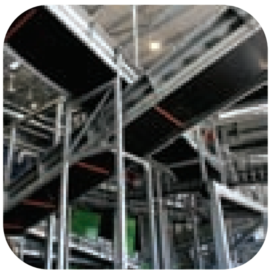
The European Landfill Directive - over time this directive seriously restricts the types and quantities of waste that may be landfilled by European member states.

Landfill tax is a significant mechanism being used by many European states to drive waste out of landfill to more environmentally acceptable options.

Soaring energy prices have increased the pressure to find alternative fuels; waste is one of these.

facilities

The Group's innovative Mechanical Biological Treatment process is a practical solution to the United Kingdom's landfill diversion requirements.



business review.

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Carbon emissions quotas have further increased the cost of using fossil fuels. Waste derived fuels can be exempt from carbon emissions calculations, increasing interest in this source of fuel.

Renewable electricity - many waste based electricity generation projects qualify for renewable electricity subsidies and credits, available in various forms across Europe.

The effects of these drivers vary from country to country.

United Kingdom

The UK's heavy reliance on landfill means that the imposition of the Landfill Directive is having a major impact, particularly on the municipal sector. Implementation of the directive implies that some 20 million tonnes per annum of biodegradable municipal waste needs to be diverted from landfill by 2020. DEFRA's website estimates that the investment in new infrastructure required to achieve this is between £600m and £700m per annum for the next 10 years. In an endeavour to secure least cost compliance the Government has introduced the Landfill Allowance Trading Scheme (LATS), a tradeable permit scheme between local authorities. Here authorities who overachieve against their landfill diversion requirements may sell their overachievement to an underachieving authority. Failure by an authority either to meet its diversion requirements or to secure the necessary LATS, results in a £150 per tonne penalty for the excess. In parallel, the government has stated that landfill tax will increase. Landfill tax is one of the primary drivers for diverting industrial and commercial waste. In the 2007 Budget the government increased the annual landfill tax escalator from £3 per tonne per annum to £8 starting in April 2008 and committed to keeping it at this level until April 2010. This means that UK landfill tax, which increased to £24 per tonne in April 2007, will rise to £48 per tonne in 2010, a similar amount to the tax on industrial and commercial waste in the Benelux. Another driver for the industrial and commercial waste market is restriction of the type of waste that can be landfilled. A significant milestone of the European Landfill Directive is the restriction on landfilling of untreated non-hazardous waste. The government has introduced new legislation which will require pre-treatment of non-hazardous waste prior to landfilling from October 2007.

The Netherlands

The Netherlands has had some of the most advanced environmental legislation in Europe in place for some time. They also have high levels of landfill tax. These, together with the geological characteristics of the country, have resulted in a low reliance on landfill, incineration being the predominant final disposal route. The higher cost and limited capacity of final disposal outlets has made sorting and recycling in the Netherlands more viable and it is not uncommon for recycling rates to be 70% or above. The Dutch market is therefore relatively stable and not subject to the major changes currently occurring in the UK. This said the significant restrictions imposed on landfilling in Germany in June 2005 closed off a cheap outlet for significant volumes of Dutch waste residues. The Dutch market has now been substantially realigned via higher prices and increased recycling.

Belgium

In Belgium, environmental responsibility is devolved to the three regions: Flanders, Wallonia and Brussels. The Flemish legislation is very similar to that in the Netherlands. In the Walloon Region a reasonable proportion of municipal waste is still landfilled as, unlike industrial and commercial waste, there is currently very little landfill tax on municipal waste. This is not an issue from the Landfill Directive perspective, as the Directive applies to entire member states and Belgium as a whole landfills very little municipal waste due to the low levels of landfilling in Flanders and Brussels. There is however a political move to reduce landfilling, and to this end the Walloon Region will introduce regional landfill tax on municipal waste in January 2008. This will start at €20 per tonne and rise to €60 per tonne by 2010. The effective cost of these taxes to private sector companies is increased by 52% as in Belgium regional environmental taxes are non-deductible for corporation tax purposes. Like the United Kingdom the Walloon Region has also introduced new legislation which will require pre-treatment of

people

Universally our greatest asset!

business review.

continued

non-hazardous waste prior to landfilling from October 2007 in order to comply with the Landfill Directive (the Flemish and Brussels Regions and the Netherlands are already substantially compliant with these requirements).

The Brussels Region has no landfills, it has its own incinerator but beyond that it is reliant on the other regions for final disposal.

Strategy

It is the Group's belief that to maximise the value generation it is necessary to be a top two player in a particular geographical market. This criterion applies to local markets, and is not important at a country or European level. The Group's strategy is to expand existing operations via a combination of organic growth and tuck-in acquisitions. Should an opportunity arise to move into a new market area we would only pursue it if it met this criterion.

The rapidly changing market in the United Kingdom presents some specific opportunities. In the next 5 years some 30% of the UK market for municipal waste treatment will be tendered as local authorities strive to meet the EU Landfill Directive targets. We have already secured three of these contracts, the ELWA contract being the largest PFI waste contract closed to date. The Group intends to pursue these opportunities vigorously using our innovative MBT technology where appropriate. Our goal is to secure contracts over the next five years which will increase the total waste under management to 2 million tonnes per annum.

It is strongly believed that advancing regulatory pressure from the EU Landfill Directive coupled with steeply rising landfill tax will drive industrial and commercial waste from landfill into the newer higher value added services on which the Group now concentrates. The business model already operating in our continental operations provides the example and much of the know-how for these developments.

Principal Risks and their mitigation

The performance of our commercial and industrial businesses is linked to the economic activity in the sectors we serve. We are therefore exposed to fluctuations in these sectors across our national markets. We mitigate this risk by diversifying our customer base where possible.

In addition to this general economic risk there are a number of waste industry specific risks:

Environmental Legislation and Its Interpretation

As already mentioned, regulation is a key driver of the waste market. The ability of individual countries, and indeed regions in the case of Belgium, to set their own legislation makes this a very complex field. This is further complicated by the rapid rate of change in legislation resulting from the increased profile of environmental issues. Changes in the legislation or its interpretation can have a significant and far reaching impact on markets. The Group endeavours to mitigate this risk by employing high quality management in each of our divisions to influence the evolving legislative framework. We therefore actively lobby for our interests at European, national and regional levels.

Environmental Compliance

All operating sites and activities are regulated by environmental authorities in line with the requirements set out within licences and permits. These licences and permits are required to carry on the business, therefore the negotiation of, and compliance with, their terms is of paramount importance. Maintaining the highest environmental standards is also important to ensure continuing acceptance of operations by host communities, and to satisfy customers.

Details of how the Group monitors and controls environmental compliance are given below in The Environment and The Community section of this report.

recyclate

More and more the 'use once' culture is discouraged.

Health and Safety

The waste management industry is recognised as one of the most hazardous sectors in which to work. Shanks employees are the Group's most important and valuable asset and their health and safety is paramount. As a result Shanks devotes considerable management resources to ensuring the highest health and safety practices are imposed and maintained. Details can be found below in the Health and Safety section of this report.

The Pace of the UK Municipal Waste Contracts Tender Process

Significant resources are devoted to the bidding process due to the size and complexity of these contracts. A consequence is that there are often unforeseen delays in, and in extreme cases cancellation of the process. As the investment in the bidding process is only recouped in the event a contract is won, the Group regularly reviews the risks and rewards. The Group also tries to have its advisors work on a contingency fee basis wherever possible, and restrict expenditure in the early stage of a bid when the certainty of success is less.

Activities and Structure

The Group is a major player in the United Kingdom, the Netherlands and Belgium. The Belgium activities also incorporate some small activities in France close to the Belgian border.

The Group's organisational structure reflects the national nature of the markets in which it operates, with divisions in the United Kingdom, the Netherlands and Belgium. Management of the Group is decentralised to ensure that the people making the decisions are close to, and understand, their markets. This structure is underpinned by strong central financial control. Throughout the organisation we employ high calibre management who are properly trained and motivated.

Table 1 summarises the Group's waste activities in each country. The acquisition of Smink Beheer BV in the Netherlands has added landfill disposal to the Dutch activities. The Dutch operations have also secured a small municipal collections

Table 1: Group Activities

	Industrial & Commercial	Municipal
Non-hazardous Waste		
Collection	UK, NL, BE	NL, BE
Transfer & recycling	UK, NL, BE	UK, BE
Treatment	NL, BE	UK
Landfill disposal	UK, NL, BE	UK, BE
Hazardous Waste		
Industrial cleaning & transport	NL, BE	
Treatment & disposal	NL, BE	
Land remediation	UK, NL, BE	

contract in The Hague area, their first involvement in this activity. In addition to these waste activities we also operate a sand quarry adjacent to our landfill site in Wallonia and have small infrastructure and groundworks operations in Ghent in Belgium and Amersfoort in the Netherlands.

Key Performance Indicators (KPIs)

The Group's KPIs can be divided into three categories, health and safety, environmental and operational.

Health and Safety

Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) is UK law which requires companies to report specified more serious accidents and incidents to the Health and Safety Executive. While RIDDOR is UK law the Group requires all of its operations, no matter which country they are based in, to report to this common format. Minor incidents are also reported. The minor and RIDDOR KPIs for the current and prior years are given in the Health and Safety section below.

Environmental

The Group closely monitors compliance with environmental permits at all locations. All issues are reviewed at monthly divisional meetings and, at least quarterly, at Group Board level.

business review.

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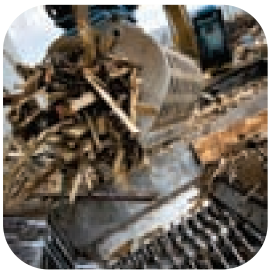


Details of prosecutions during 2007 are given in the Environmental Management section below.

Operational

The number of waste activities undertaken by the Group is significant, with each site involved in differing ranges of activities. The performance indicators used to monitor these activities are varied and range from lifts per day, lifts per kilometre and tonnes per lift for collection activities, to input and output tonnages and final elimination diversion rates for treatment and recycling activities. Also, even where two sites perform similar activities, the type of customer or urban characteristics of the area the site serves may be quite different. The result is that whilst non-financial measures are extremely important at an activity or site level, they are of very limited value when aggregated across sites or activities. For this reason the KPIs used at a regional or country level are financial in nature, being those common to most businesses namely revenue, operating profit, cash flows and return on capital employed. Details of these for the three business units are included in the Operating Review section below.

2007 Operating Review

Thanks are once again due to the staff who have responded superbly to the industry's rapidly changing conditions to deliver a 19% improvement in operating profit from continuing operations which increased £7.3m to £46.2m (2006: £38.9m). Chart 1 and Table 2 give an overview of the Group's operating returns by geographical region.

Chart 1: Operating Profit Split by Region

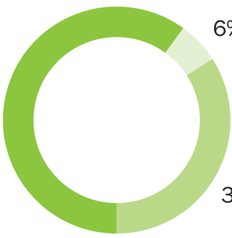


Table 2: Operating Returns by Geographical Region

Revenue	2007 £m	2006 £m	Variance £m	Variance %
United Kingdom	133	126	7	6%
Belgium	123	110	13	12%
Netherlands	253	206	47	23%
Continuing	509	442	67	15%
Discontinued	–	23		
Total	**509**	**465**		

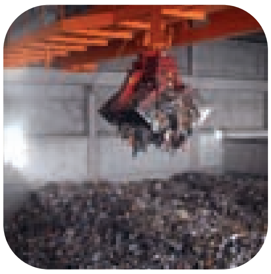
Operating Profit	2007 £m	2006 £m	Variance £m	Variance %
United Kingdom	3.2	4.1	(0.9)	-22%
Belgium	17.3	15.7	1.6	10%
Netherlands	31.0	23.5	7.5	32%
Central Services	(5.3)	(4.4)	(0.9)	20%
Continuing	46.2	38.9	7.3	19%
Discontinued	–	0.4		
Total	**46.2**	**39.3**		

Operating Cash Flow	2007 £m	2006 £m	Variance £m
United Kingdom	(14.3)	(0.5)	(13.8)
Belgium	21.8	16.1	5.7
Netherlands	33.2	20.6	12.6
Central Services	(5.6)	(4.4)	(1.2)
Total	**35.1**	**31.8**	**3.3**

Return on Capital Employed after PFI Project Financing	2007 %	2006 %	Variance %
United Kingdom	17	18	-1
Belgium	55	50	5
Netherlands	12	9	3
Group	**15**	**13**	**2**

materials processing

A wide variety of processes is used to separate waste streams into their recyclable fractions.



United Kingdom

Operating profit was down £0.9m at £3.2m (2006: £4.1m). The major factors behind this are summarised in Table 3 below.

Table 3:
United Kingdom Operating Profit Major Factor Analysis

	2007 £m	2006 £m	Change £m
Operating profit	3.2	4.1	(0.9)
Major factors:			
Solid Waste			1.8
Joint ventures			0.6
Contaminated Land Services			(1.2)
Scottish PFI contracts			(1.5)
Overheads and PFI bid team			0.5
Property disposals and other			(1.1)
Total			**(0.9)**

Solid Waste improved significantly on prior year aided by the acquisition and integration of Eden Recycling and the waste management and recycling activities of John W Hannay & Co Limited during the first half of the year. In the Central Belt of Scotland virtually all waste collected by our vehicles now passes through a recycling centre; there is very little that goes directly to landfill. Across the board recycling levels are increasing as we move towards our Benelux model of collection fleets feeding large regional recycling centres which allow waste to be diverted from landfill to more cost effective outlets. We see this as a significant competitive advantage as the market shifts to accommodate the ban on landfilling of untreated non-hazardous waste from October 2007 and the escalation in the rate of landfill tax; now scheduled to increase by £8 per tonne per annum.

Our joint venture landfills have improved due to increased waste inputs and, at the Avondale site, additional green electricity production.

Contaminated Land Services was down year on year due to a particularly large contract in the previous year and low market activity levels in 2007. The outlook is more promising with the potential of significant work from the clean up of the 2012 Olympics site in East London.

The first of our innovative Mechanical Biological Treatment (MBT) facilities used on the East London Waste Authority (ELWA) PFI contract and that used on the Dumfries and Galloway (D&G) contract are now operational. Construction of the second ELWA facility was interrupted by financial problems at a subcontractor during the second half. This has now been resolved and commissioning is underway, albeit a couple of months later than planned. This will not affect the scheduled price rise in summer 2007 which will address the current predicted squeeze in profits on the project.

Stricter interpretation of landfill regulations by the Scottish Environmental Protection Agency (SEPA) is causing costs to rise significantly on the former local authority landfill sites now managed by the Group within the D&G and Argyll & Bute (A&B) PFI contracts. Lower investment returns will result. The mitigation programme started early in the year is beginning to yield benefits. The MBT facility in the D&G contract is not affected by this issue.

Finally one-off profits from surplus property disposals were significantly lower than in 2006.

Belgium

Operating profit improved 10% on last year's already strong performance to £17.3m (2006: £15.7m). The major factors behind this are summarised in Table 4.

All three Belgian regions showed a marked improvement, particularly in the industrial and commercial sector. Our landfill in Wallonia continued to benefit from bonus volumes diverted from public sector incinerators experiencing operational difficulties. There was also a full year's benefit from the enlarged Liège municipal collection contract which commenced in July 2005.

business review.

continued

Table 4: Belgian Operating Profit Major Factor Analysis

	2007 £m	2006 £m	Change £m
Operating profit	17.3	15.7	1.6
Major factors:			
Industrial & commercial Solid Waste			1.7
Municipal collections			0.2
Other			(0.3)
Total			**1.6**

During the year one small tuck-in acquisition costing £0.6m was completed.

The outlook for the coming year is that the contribution from landfill will fall as the bonus volumes are unlikely to be repeated and restrictions on landfilling of non-hazardous waste from October 2007 and increased landfill tax on municipal waste from January 2008 divert waste away from landfill.

The Netherlands

Operating profit in the Netherlands improved 32% to £31.0m (2006: £23.5m). The key factors are summarised in Table 5.

Table 5:
The Netherlands Operating Profit Major Factor Analysis

	2007 £m	2006 £m	Change £m
Operating profit	31.0	23.5	7.5
Major factors:			
Smink (including synergies)			4.7
Solid Waste			2.5
Hazardous Waste			0.2
Other			0.1
Total			**7.5**

The acquisition of Smink Beheer BV on 30 June 2006 has expanded our geographical coverage eastwards from our strong presence in the Randstad area. The performance in the first nine months, which is in line with our acquisition plan, has significantly enhanced earnings.

In December 2006 we completed a second tuck-in acquisition for £10m which will augment our collection and recycling activities in The Hague.

Profits from the existing solid waste businesses have improved. In June 2005 disposal costs rose sharply as the result of the introduction of the landfill ban in Germany, depressing results. The effect of these cost increases had been substantially mitigated by the start of the current year by increased recycling and price increases. The construction industry, a major source of customers, is also buoyant boosting activity levels.

Our hazardous waste treatment activities performed well due in part to increased activity in the petrochemical sector, stimulated by high oil prices.

Central Services

Central Service costs increased by £0.9m to £5.3m (2006: £4.4m). The major elements within this were higher recruitment costs associated with the appointment of new Board Directors and increased provision for National Insurance on share options as the share price has risen.

processed material

There is a continuing quest to return high quality recyclates to the economy.

Financial Review

The background to the Group's trading performance is given in the Operating Review above. The contributions to revenue and operating profit from acquisitions during the year were £37.0m and £5.5m respectively, the majority being attributable to the Smink Beheer BV acquisition.

Finance charges for the continuing business increased £2.1m to £7.0m, before taking into account the International Accounting Standard (IAS) 39 change in market value of financial instruments (see below). This increase reflected interest rate rises since last year and the higher level of core borrowings, due to acquisitions.

The IAS 39 change in market value of financial instruments relates to interest rate swaps which fix the interest rate on PFI contract borrowing. At the financial close of a PFI contract the price of the service is determined by, inter alia, the long term interest rate available in the market. The Group therefore protects itself against future fluctuations in interest rates by entering into interest rate swaps to match its future cash inflows and outflows. Under IAS 39 these swaps must be valued at current market value irrespective of the commercial reasons for entering into them. Revaluation of these swaps can lead to large accounting gains or losses but does not affect the long term profitability of the contract as the Group has matched its long term revenue and costs. Whilst IAS 39 does allow these gains and losses to be taken directly to reserves, it is on the proviso that onerous verification requirements are fulfilled. The Group believes it is not worth expending significant resources fulfilling these requirements in respect of an item that does not reflect commercial reality. These changes in value are excluded from our Headline Profit. There was a £6.9m favourable (2006: £3.7m adverse) change in the market value of these swaps during the year.

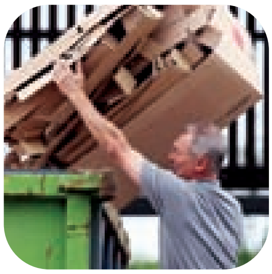
The average tax rate on Headline Profit fell to 33% (2006: 34%). This was attributable to a reduction in the Dutch headline rate from 29.6% to 25.5% in January 2007. The underlying rates of tax in the United Kingdom and Belgium remained unchanged at

Table 6: Summarised Group Income Statement

	2007 £m	2006 £m	Variance £m
Revenue	**509**	**442**	**67**
Operating profit	46.2	38.9	7.3
Finance charges	(7.0)	(4.9)	(2.1)
Headline profit	**39.2**	**34.0**	**5.2**
IAS 39 adjustment	6.9	(3.7)	10.6
Profit before tax from continuing operations	46.1	30.3	15.8
Tax - *Headline 33% (2006: 34%)*	(12.8)	(11.6)	(1.2)
Tax - IAS 39 adjustment	(2.0)	1.1	(3.1)
Profit after tax from continuing operations	31.3	19.8	11.5
Loss after tax discontinued - operations	–	(0.2)	0.2
Profit after tax discontinued - disposal	–	10.8	(10.8)
Profit for the year	**31.3**	**30.4**	**0.9**

business review.

continued



30% and 34% respectively. In Belgium the effective rate on landfill derived profits is higher as landfill tax is non-deductible for corporation tax. This is mitigated via a deduction for notional interest on Belgian equity introduced in January 2006.

Average Euro/Sterling exchange rates have been stable year on year and so have had little impact on reported profits. Small differences in year end rates have had a minor impact on the balance sheet.

Cash Flow

Details of the Group's cash flow performance are summarised in Table 7 below.

The underlying cash generated by the core business was £6m after net capital expenditure of £39m. The £65m outflow on acquisitions is the amount paid plus net debt in the acquired entities. In the case of Smink this was a significant positive cash balance. The discontinued and exceptional cash outflow of £3m comprises costs related to the UK reorganisation instigated in 2004 and the disposed of UK Landfill and Power and Hazardous Waste businesses. There was a £4m favourable movement on the translation of the Group's Euro denominated debt into Sterling, giving an increase in core net debt of £58m.

The non-recourse aggregated net debt in the PFI companies increased by £18m mainly due to the funding of the construction work in the ELWA and D&G contracts.

Capital Expenditure

The Group spent £69m net on capital expenditure (2006: £76m) of which £39m was in the core business and £30m on PFI contracts. The core business maintenance capital expenditure was £28m (2006: £23m), asset disposal proceeds were £2m and expenditure on growth projects was £13m. Major growth projects in the core business included the expansion of the sorting facilities at one of our Dutch Solid Waste sites, extra storage facilities at our ATM hazardous waste treatment facility in Moerdijk and additional green electricity generation at our joint venture landfill in Scotland.

The capital expenditure on PFI contracts relates principally to

Table 7: Summarised Group Cash Flow

	Core £m	PFI £m	2007 Total £m	2006 Total £m	Variance £m
Operating profit	47	(1)	46	39	7
Depreciation & landfill provisions	35	–	35	30	5
EBITDA	**82**	**(1)**	**81**	**69**	**12**
Working capital movement	9	(4)	5	(2)	7
Net capital expenditure	(39)	(30)	(69)	(76)	7
Interest, tax, dividends and other	(46)	17	(29)	(20)	(9)
Underlying cash flow	**6**	**(18)**	**(12)**	**(29)**	**17**
Acquisitions	(65)	–	(65)	(4)	(61)
Discontinued & exceptional	(3)	–	(3)	29	(32)
Exchange	4	–	4	(2)	6
Debt movement before fair value of interest rate swaps	**(58)**	**(18)**	**(76)**	**(6)**	**(70)**

public recycling facilities

High quality facilities make it easy for the public to recycle.

construction of MBT facilities at our ELWA and D&G contracts. This expenditure is treated as Financial Asset advances.

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

The Group's principal financing is a £250m multicurrency revolving credit facility with five major banks expiring in April 2010. Adjusting for cash, this facility was less than 50% utilised at 31 March 2007. The 2001 notes issued under the Group's private placement of £35m have maturity dates between 2009 and 2013. The Group also has £26m of working capital facilities with various banks.

Each of the Group's PFI projects has senior debt facilities which contribute approximately 85% of the capital funding required. These facilities are secured on the future cash flows of the PFI companies with no recourse to the Group as a whole. Repayment of these facilities, and any equity bridge facility in respect of the remaining capital funding, commences when construction is complete and concludes one to two years prior to the expiry of the PFI contract period. As the Group currently holds 100% of the equity in its PFI companies, the net debt of £123m is fully consolidated in the Group balance sheet. The maximum which could be drawn down under these facilities at 31 March 2007 is £155m.

Insurance
The Group places all its insurance with leading insurance companies with sound financial credentials. For obligatory insurances, the policy is to obtain the necessary cover at competitive rates. For other areas, regular risk assessments are undertaken to identify and assess risks; where appropriate insurance is then used to mitigate these risks. The level of cover put in place will depend on the nature of the risks and the cost and extent of cover available in the market. The majority of our insurances are renewed annually.

The Group uses renowned international brokers to advise on risk management, appropriate insurers, cover levels and benchmarking.

Insurance requirements for our UK PFI contracts are set out in the funding and project agreements.

Pensions
The Group uses IAS 19 – Employee Benefits to account for pensions. The pension charge for the continuing business for the year has increased to £6.6m (2006: £5.7m). The net retirement benefit obligations, which relate solely to the defined benefit section of our UK scheme, have reduced to £8.4m (2006: £10.3m). The majority of pension arrangements within our Belgian and Dutch operations are considered to be defined contribution in nature.

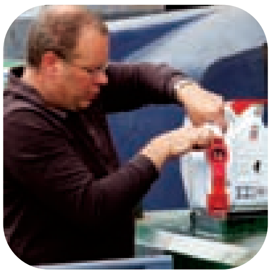
The defined benefit section of the UK scheme was closed to new members in September 2002 and new employees are now offered a defined contribution arrangement. During the year a triennial actuarial valuation was completed based on the assets and liabilities as at 5 April 2006. This showed a funding deficit of £2.5m, £19.2m less than the previous valuation. The main factors which have affected the funding position since the previous valuation are:

- favourably: the returns on the scheme assets and additional contributions over and above the ongoing service cost. The additional contributions include a total of £15m paid into the scheme following the sale of the UK Landfill and Power business in 2004 and the UK Hazardous waste activities in 2005 in respect of the residual liabilities of those employees who became deferred pensioners as a result of the sales;

- adversely: the reduction in gilt yields and increase in the life expectancy of the members.

business review.

continued



Going Concern

The Directors, having reviewed the Group's 2007/8 budget, its medium term plans and its banking arrangements 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 financial statements.

The Environment and the Community

The Group's approach to its business is clearly outlined in a 'Statement of Business Principles and Corporate Ethics' publicly available alongside all other corporate publications on our website at www.shanks.co.uk.

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

The Group is committed to making a significant contribution to managing society's waste in a sustainable and acceptable manner. All operating sites are regulated by environmental authorities against requirements set out within licences and permits for each facility. Data on emissions from our facilities is submitted to the regulators and is publicly available. In addition we report on our performance within our annual Safety, Health and Environment (SHE) Report. This document is available on our website.

The Group was, once again, included within the FTSE4Good UK index; a measurement of corporate social responsibility administered by EIRIS (Ethical Investment Research Service), for the independent FTSE Group. There are a number of other benchmarking initiatives such as the annual Business in the Environment (BiE) Index of Corporate Environmental Engagement. The Group participated in the 2006 BiE Index and was scored as a silver band achiever (83.1%). In 2006 a Sector Plan for the UK waste management industry was published which the Group helped prepare in conjunction with both the UK waste industry trade association (the Environmental Services Association) and the Environment Agency for England and Wales.

Environmental management

The Group is committed to setting high standards of waste management and to co-operating with all regulatory authorities in ensuring safe and environmentally acceptable working practices for all its activities. The Group aims to manage and reduce any negative impacts of its business on the environment, including the prevention of pollution. The Environmental Policy, available on our website, sets out principles applicable across the Group. Implementation of the policy is a line management responsibility within each of the separate operating companies of the Group, requiring participation of all employees.

All waste management facilities within the Group have a site licence, authorisation or permit, regulated by the relevant environmental regulators. Site managers are responsible for environmental issues, supported by various personnel such as environmental co-ordinators and management systems personnel.

The majority of sites across the Group have Environmental Management Systems (EMS) externally certified to ISO14001. Other certifications are also held, including the ISO9001 quality assurance system standard, and in Belgium and the Netherlands, the Veiligheids Checklist Aannemers (VCA) standard ("Contractor's Safety Checklist", a health and safety standard which also focuses on the environment).

The Group has a well developed system of environmental reporting at both operating board and Group Board level. Where appropriate the Group uses systems developed by the environmental regulators such as the risk based Operator and Pollution Risk Appraisal (OPRA) system developed by the Environment Agency in England and Wales. In the Netherlands, where environmental permits are of a more uniform type, we utilise a bespoke environmental software tool.

health & safety

Paramount in all that we do!

In our SHE Report we report against a range of indicators including full disclosure of any prosecutions or fines. Table 8 summarises the prosecutions and fines imposed on our operations during the 2007 financial year.

Table 8: Prosecutions and Fines 2007

	Fine (£k)	Details
UK	None	
Belgium	0.8	Deficiencies identified during environmental inspection
Belgium	0.4	Discharge of non-compliant effluent
Netherlands	6.8	Discharge of non-compliant effluent
Netherlands	2.0	Breach of hazardous waste transport regulations

Prosecutions and fines in previous years are reported in previous Environmental Reports available on our website.

During the year, the Group published its seventh annual Environmental Report, once again covering all three operating divisions: the United Kingdom, Belgium and the Netherlands. In the Report performance is measured in a quantitative manner using a set of environmental performance indicators developed by the Environmental Services Association in conjunction with the Green Alliance. The 2007 Environmental Report will be published later in the year. In 2006 we merged our Environmental Report and our Health and Safety Report into a single Safety, Health and Environment (SHE) document. Data for previous years is available on our website.

Environmental Advisory Board

The Group set up an Environmental Advisory Board (EAB) in 1989 to act as an independent assessor of its environmental management and performance and to give advice on environmental and related matters. Chaired by Professor James Bridges, the Emeritus Professor of Toxicology and Environmental Health at the University of Surrey, the EAB membership comprises a range of international environmental and technical specialists. A summary of their activities for the review period will be included in the SHE Report for 2007. The EAB meets the Group Chief Executive four times per year and the EAB Chairman presents to the Group Board annually. The EAB is free to visit any site within the Shanks Group and from time to time has also undertaken benchmarking visits to other waste management companies.

Employees

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

A culture of two-way communication is actively promoted and Trade Unions, Works Councils and other employee groups are involved wherever appropriate.

Health and Safety

Waste management is a hazardous industry. Waste industry figures for all of the countries the Group operates in, show sector accident rates well above the average and it is incumbent on waste management companies to rise to this challenge and place health and safety at the top of their agendas.
In addition, waste management is one of Europe’s fastest changing industries. New technologies and the increasing trend towards recycling and recovery both place pressures on safety performance. The Group’s health and safety performance record, set against this background of a challenging environment, is first class with an accident performance that is more than twice as good as the sector average.

All of the Group’s operations have comprehensive safety management systems. In the UK these are powered by a

business review.

continued

dedicated Safety Department staffed with qualified safety advisors. In the Netherlands and Belgium, because of the differing structure of the company in these countries, each operational unit has its own safety professional.

To ensure co-ordination between operations, nominated safety advisors from each country report statistics such as accident and incident performance into the UK Safety Department using a common system. In addition, the Group's Health and Safety Committee, consisting of safety advisors from each country of operation, meets regularly to spread good practice and share experience. This performance measurement and co-ordination system ensures that at a Group level management is both informed on safety risk issues and is able to intervene to produce improvement.

In June 2006 the Group held its first Group Health and Safety Conference. This was attended by 24 safety professionals from the operations in Belgium, the Netherlands and the United Kingdom. The major theme of the conference was risk control across the Group with the aim of spreading good practice and moving towards more common standards. Improvements and outcomes from this conference have already been implemented in the operations and it is planned to repeat the event in 2008. Table 9 below shows the accident performance for 2007 and 2006 by country of operation and overall. Of note is that the Group as a whole achieved a 9% reduction in its serious accident rate over the year, a more than creditable result.

The Wider Community

The Group strives to achieve effective communications with all stakeholders and seeks to secure good relations with operational site neighbours. Increasingly, the internet and intranet are utilised as modern communications tools and the Group has developed its website as a source of easily accessible and understandable information. Informal discussions, meetings, newsletters, exhibitions and, where regarded as appropriate by interested parties, formal liaison groups, remain among the more traditional methods employed. All sites subscribe to the 'open door' policy for pre-arranged visits and some also provide additional educational resources for students and community groups.

Table 9: Accident Numbers and Rates

	2007				2006			
	Minor	Minor rate	RIDDOR	RIDDOR rate	Minor	Minor rate	RIDDOR	RIDDOR rate
United Kingdom	109	10,400	27	2,500	133	12,700	28	2,700
Belgium*	100	11,050	42	4,600	92	10,200	46	5,100
The Netherlands	48	2,550	41	2,350	53	3,400	40	2,500
Group*	**257**	**6,700**	**110**	**2,900**	**278**	**7,700**	**114**	**3,200**

Reporting of Injuries Diseases and Dangerous Occurrences Regulations (RIDDOR) is UK law which requires companies to report specified more serious accidents and incidents to the Health and Safety Executive. While RIDDOR is UK law the Group requires all of its operations, no matter which country they are based in, to report to this common format.

* 2006 figures have been adjusted since last year's Annual Report following reclassification of incidents between minor and RIDDOR in Belgium.

directors.

at 30 May 2007

Non-executive Directors

Adrian Auer BA, MBA, ACT (58)*
Chairman
Adrian joined the Board in 2005 and was appointed Chairman in July 2006 following Ian Clubb's retirement. Adrian is also Chairman of Readymix plc, a Non-executive Director of Foseco plc and Filtrona plc. The Board re-affirms that it considers Adrian to be independent.

Philippe Delaunois, Ir, IC (Age 65)*
Philippe was appointed to the Board in 2001 and sits on the Audit, Remuneration and Nomination Committees. He is currently a Non-executive Director of a number of Belgian companies. Philippe is retiring from the Board and therefore will not be seeking re-election at the AGM in July.

Stephen Riley, B Eng, PhD (45)*
Steve was appointed to the Board as Non-executive Director on 29 March 2007 and is a member of the Audit, Remuneration and Nomination Committees. He is currently an Executive Director with International Power plc having joined that business in 1985. Steve has extensive operational experience in the power industry having held senior positions in the UK and Australia. Steve will be standing for election at the forthcoming AGM and is considered by the Board to be independent with relevant business experience.

Peter Johnson, BA, ACA (Age 53)*
Peter joined the Board in May 2005 and is the Chairman of the Audit Committee and also sits on the Remuneration and Nomination Committees. Peter is Finance Director of Taylor Woodrow plc and Non-executive Director of Oriel Securities Limited. Peter will be standing for re-election at the forthcoming AGM and is considered by the Board to be independent with recent and relevant financial experience. Following evaluation by the Chairman, Peter continues to be considered effective, whilst demonstrating commitment to the role, including time for board, committee meetings and any other duties.

Eric van Amerongen, (53)*
Eric was appointed to the Board on 9 February 2007 and sits on the Audit, Remuneration and Nomination Committees. On the retirement of Barry Pointon at the AGM in July he will be appointed Chairman of the Remuneration Committee and will be Senior Independent Director. Eric holds a number of other Non-executive and advisory positions amongst others he is Non-executive Director of Corus Group plc, a position he has held since 2001. Eric will be standing for election at the forthcoming AGM and is considered by the Board to be independent with extensive business experience.

Barry Pointon, BSc (Age 60)*
Senior Independent Director
Barry was appointed to the Board in January 1999. Having held the position of Senior Independent Director and latterly Chairman of the Remuneration Committee for over eight years Barry will be retiring from the Board and therefore will not be seeking re-election at the AGM in July.

Executive Directors

Michael Averill, BSc, MBA, ARSM, FCIWM (Age 56)
Group Chief Executive
Michael joined the Group in 1989 as Business Development Director for Rechem International Limited and became Managing Director of Rechem in 1992. Michael was appointed Group Chief Executive in 1994. Michael is a Non-executive Director of TDG plc and Care Group plc. As detailed in the Chairman's Statement, Michael will be standing down from the Board with effect from 30 September 2007, when he will be succeeded by Mr Tom Drury.

Fraser Welham, BSc, ACA (Age 42)
Group Finance Director
Fraser joined the Board in May 2005 and was appointed Group Finance Director in June of that year. He was previously Finance Director of Shanks Belgium for seven years and has held finance positions with the Group for over twelve years. Prior to joining the Company Fraser held finance positions with other leading waste management companies. Fraser will be standing for re-election at the forthcoming AGM.

*Member of the Audit, Nomination and Remuneration Committees

report of the directors.

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2007.

1 Annual General Meeting

The notice of the Annual General Meeting is set out on pages 77 to 79. Resolutions (1) to (8) to be proposed at this year's Annual General Meeting are concerned with routine ordinary business. The following special business will also be considered at the meeting. The Directors consider that the passing of all the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of the resolutions.

Resolution (9) – Authority to purchase own shares

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

Resolution (9) specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and the UK Listing Rules. The Directors intend to seek renewal of this power at subsequent Annual General Meetings. As at 30 May 2007 there were outstanding options to subscribe for a total of 2,755,842 ordinary shares in the Company, representing approximately 1.2% of the issued share capital of the Company at that date. If the share buy-back authority sought in terms of resolution (9) were exercised in full, the outstanding options as at 30 May 2007 would represent approximately 1.3% of the issued share capital of the Company.

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

The Directors consider it advisable to renew their authority to allot equity securities for cash, other than to existing shareholders pro-rata to their holdings, which is due to expire on 26 October 2007. This authority will enable the Directors, at any time until the conclusion of the next Annual General Meeting to be held in 2008, to allot equity securities or transfer equity securities from treasury wholly for cash up to an aggregate nominal amount of £1,170,000 or otherwise in connection with a rights issue. This limited disapplication will allow the Directors to allot up to 11,700,000 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 30 May 2007. Resolution (10) will be proposed as a special resolution.

Resolution (11) – Amendment to the Rules of the Shanks Group plc Savings Related Share Option Scheme 2005 ("the Scheme")

The Directors consider it advisable to amend the rules of the Scheme to extend the dates upon which invitations to apply for share options can be made to employees to include the period of 42 days commencing from the day of the Annual General Meeting. This amendment will give the Company increased flexibility to make share option awards to its employees at times when the Company is not prohibited from making such awards under established rules of good corporate governance. Resolution (11) will be proposed as a special resolution to approve this amendment to the rules of the Scheme.

Resolution (12) – Amendment of Articles of Association to enable the use of laser signatures

In order to tighten security procedures and to improve shareholder processing the Company's Registrar, Computershare, intends to cease the manual embossing of share certificates and to utilise a new system of laser signatures. The Directors consider it advisable to permit the use of laser signatures on the Company's share certificates and are therefore recommending that the Company's Articles of Association should be amended to authorise the use of laser signatures on the Company's share certificates. Resolution (12) will be proposed as a special resolution to approve this amendment.

Resolution (13) – Electronic communications
The Companies Act 2006 introduced new provisions (which became effective on 20 January 2007) which facilitate communications between companies and shareholders by electronic means and by means of a website. As a result of the implementation of those provisions and changes to the Disclosure and Transparency Rules for listed companies, the Directors consider it timely to seek a general authority from shareholders to enable communications between the Company and its shareholders to take place electronically. The passing of resolution (13) at the forthcoming Annual General Meeting will give the Company flexibility to supply notices, documents and other information, such as the annual report and accounts, in electronic form (for example, by email) or by means of a website in accordance with the provisions of the Companies Act 2006.

Existing company legislation permits companies to communicate with shareholders by electronic means in respect of certain types of information. However, the new legislation extends to all shareholder information (including company notices, documents and other information) and enables companies to invite shareholders to agree that shareholder information may be supplied by means of a website. Shareholders who do not respond within 28 days of any such invitation are deemed to have agreed to a company communicating with them by means of a website. Where shareholders agree (or are deemed to have agreed) to communication by means of a website, they must be notified by post (or, where applicable, by email) of the availability of the relevant document or information on the website, together with all relevant access details. Shareholders may, if they wish, continue to receive all company communications in hard copy form and a shareholder may, in relation to a particular communication, request a hard copy form of that communication or revoke his/her general consent to be provided with documentation in electronic form or by means of a website by delivering written notice of such revocation to the Company.

Shareholders should note that the Company has no present plans to alter its current methods of communicating with shareholders or inviting shareholders to consent to electronic communications. However, as the new legislation provides for increased flexibility in relation to electronic communications, resolution (13) is being proposed to confer the necessary authority on the Company to enable it to take advantage of this increased flexibility in the future if it so wishes. Shareholders should note that even if resolution (13) is passed, the Company cannot begin to communicate with shareholders by electronic means or through the use of a website unless and until shareholders have given individual consent.

2 Principal Activities and Business Review
The principal activities of the Group continue to be waste management in the United Kingdom, Belgium and the Netherlands. The Chairman's Statement on pages 2 and 3 and the Business Review on pages 4 to 18 refer to the following:

- objectives and strategy;
- competition and the markets in which the Group operates;
- the principal risks and uncertainties facing the Group;
- full review of the development and performance of the business for the year ended 31 March 2007;
- the financial position of the Group as at the financial year end;
- key performance indicators; and
- future prospects of the business.

report of the directors.
continued

3 Results and Dividends

The Group's Consolidated Income Statement appears on page 35 and note 3 to the financial statements shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's profit for the year amounted to £31.3m (2006: £30.4m).

The Directors recommend a final dividend of 4.0p per share be paid on 3 August 2007 to ordinary shareholders whose names appear on the register of members at close of business on 13 July 2007. This dividend, together with the interim dividend of 1.9p per share already paid, will make a total dividend for the year on the ordinary shares of 5.9p per share (2006: 5.7p per share).

4 Acquisitions and Disposals

Acquisitions have been made during the year at a total cost of £65.3m. There have been no disposals during the year (2006: £34.0m). The acquisitions are described 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 19. Mr M Averill, Mr A Auer, Mr P Delaunois, Mr B Pointon, Mr P Johnson and Mr F Welham all served on the Board throughout the financial year under review, while Mr E van Amerongen and Dr S Riley were appointed on 9 February 2007 and 29 March 2007 respectively. Mr E van Amerongen and Dr S Riley will be standing for election at the forthcoming Annual General Meeting. Mr F Welham and Mr P Johnson retire by rotation at the Annual General Meeting and will be offering themselves for re-election. Mr M Averill and Mr F Welham have service contracts terminable on 12 months notice. As detailed in the Chairman's statement Mr M Averill has an agreement with the Company that enables him to retire at age 57. It has been agreed that Mr M Averill will be stepping down from his role as Group Chief Executive and he will resign from the Board on 30 September 2007. In line with his service contract Mr M Averill will be retained to work for the Company on an advisory basis until the end of May 2008. Mr T Drury will be joining the Board on 3 September 2007 as Group Chief Executive Designate to take over this role with effect from 1 October 2007. Mr P Delaunois and Mr B Pointon will both be standing down from the Board immediately following the Annual General Meeting and therefore will not be seeking re-election.

Details of the Directors' interests are shown in the Remuneration Report on pages 29 to 34.

6 Corporate Governance

A report on Corporate Governance is given on pages 24 to 28.

7 Share Capital

During the year ended 31 March 2007 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 6 to the financial statements. As at 31 March 2007 and as at the date of this report the authorised ordinary share capital was and is £35,000,000 represented by 350,000,000 ordinary shares of 10 pence each. As at 31 March 2007, 234,930,581 ordinary shares were in issue.

8 Notifiable Interests

As at 30 May 2007, the Company had been notified of the following interests of 3% or more of the ordinary share capital of the Company:

	Number of shares	Percentage
Schroder Investment Management Limited	32,869,707	13.99
Legal & General Group plc	30,166,202	12.84
Aberforth Partners LLP	17,202,200	7.32
Artemis Investment Management Limited	7,363,438	3.13

9 Research and Development

The Group spent £Nil (2006: £Nil) on research and development during the year ended 31 March 2007.

10 Health and Safety

The Group and the Board of Directors regard the provision of safe working conditions for all employees as a high priority and health and safety performance is quantified and published for stakeholder scrutiny (see the Environment and the Community section of the Business Review on page 17).

11 Employment Policies

Group employees are recognised as a key asset and it is Group policy to ensure that effective employee communications are maintained at all times (see the Environment and the Community section of the Business Review on page 17).

12 Payment of Suppliers

It is the Group's payment policy to agree payment terms with all suppliers and to abide by them. The amount owed 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 53 days (2006: 62 days) for the Group and was 31 days (2006: 30 days) for the Company.

13 Charitable and Political Donations

During the period donations made by the Group for charitable purposes amounted to £2,980 (2006: £11,248). No donations were made for political purposes during the year (2006: £Nil), as defined by the Companies Act 1985.

14 Registered Auditors

In accordance with Section 234ZA of the Companies Act 1985, each of the Company's Directors in office as at the date of this report confirms that so far as he is aware, there is no relevant audit information in connection with preparing their report of which the Company's auditors are unaware. Each Director has taken all steps which he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

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

By Order of the Board

Carolyn Gibson
Secretary
30 May 2007

corporate governance.

Combined Code

The Group is committed to achieving high standards of corporate governance and to integrity and exemplary ethical standards in all its business dealings. This statement, together with the Remuneration Report on pages 29 to 34, explains how the Group has applied the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2003. The Board considers that it has complied with Section 1 of the Combined Code in all material respects throughout the year.

The Board of Directors

The Board currently comprises the Non-executive Chairman, the Group Chief Executive, five further Non-executive Directors and one Executive Director. Their brief biographies are set out on page 19. During the year to 31 March 2007, Mr A Auer, Mr M Averill, Mr B Pointon, Mr P Delaunois, Mr P Johnson and Mr F Welham all served on the Board. Mr E van Amerongen was appointed on 9 February 2007 and Dr S Riley was appointed on 29 March 2007, both as Non-executive Directors. The roles of the Chairman and Group Chief Executive are held by separate individuals and the role of the Chairman is Non-executive. The Chairman has primary responsibility for running the Board and the Group Chief Executive is responsible for the operations of the Group and for the development of strategic plans and initiatives for consideration by the Board. The division of responsibilities between the Chairman and the Group Chief Executive has been clearly established, set out in writing and agreed by the Board.

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 independent judgement. Mr P Delaunois is not deemed to be independent in accordance with the criteria set out in the Combined Code owing to Mr Delaunois receiving fees for providing consultancy advice to the Group's Belgian subsidiaries in addition to the fees received for acting as Director. Mr Delaunois will be stepping down from the Board at the forthcoming Annual General Meeting in July. The Non-executive Directors make a significant contribution to the functioning of the Board, thereby ensuring that no one individual or group dominates the decision making process. Non-executive Directors are not eligible to participate in any of the Company's share option schemes. Mr B Pointon is currently the Senior Independent Director, however, on Mr Pointon's retirement from the Board at the Annual General Meeting in July, Mr E van Amerongen will take over this role.

The Board meets regularly, normally at least ten times a year, and in addition, separate strategic discussions take place. Several meetings are held at subsidiaries in the United Kingdom and overseas where local operations are reviewed. The Board operates under agreed terms of reference, and may delegate certain powers to Committees of the Board. Amongst the matters reserved for decision by the full Board are published financial statements, strategic policy, acquisitions and disposals, capital projects over a defined limit, annual plans and new borrowing facilities. Matters not reserved for the Board may be delegated to senior management. The Board is provided with appropriate information in a timely manner to enable it to effectively discharge its duties.

The performance of the Board, its Committees and the Directors were evaluated during the year via the Company Secretary where questionnaires were completed and reviewed by the Chairman.

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

The Board confirms that it is satisfied that Mr F Welham and Mr P Johnson, who are proposed for re-election at the Annual General Meeting, continue to demonstrate the necessary commitment to be fully effective members of the Board.

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

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

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

The table below details the number of formal Board and Committee Meetings attended by each Director. During the year ended 31 March 2007 there were ten Board meetings, three Audit Committee meetings, five Remuneration Committee meetings and two Nomination Committee meetings. In addition, the Board held a two day strategy meeting with senior operations management attending for part of the time. There were two meetings of the Non-executive Directors without the presence of the Executive Directors during the year.

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
Director	Possible to attend	Attended	Possible to attend	Attended	Possible to attend	Attended	Possible to attend	Attended
A Auer	10	10	3	3	5	5	2	2
M Averill	10	10	3	3*	2	2+	n/a	n/a
I Clubb◊	3	3	1	1	2	2	1	1
P Delaunois	10	9	3	3	5	5	2	2
P Johnson	10	10	3	3	5	4	2	2
B Pointon	10	8	3	2	5	4	2	2
S Riley•	1	1	1	1	1	1	–	–
E van Amerongen•	2	2	1	1	1	1	–	–
F Welham	10	10	3	3*	n/a	n/a	n/a	n/a

* Invited by the Audit Committee to be in attendance for part of the meeting.
\+ Invited by the Remuneration Committee to be in attendance for part of the meeting.
◊ Data up until date of retirement.
• Data as from date of appointment.
n/a Not a member of the Committee

Audit Committee

The Audit Committee is formally constituted with written terms of reference and has been chaired by Mr P Johnson since taking on this role in July 2006. The Committee comprises the Non-executive Directors (see page 19). Normally, it meets three times a year. The external auditors and the Executive Directors are regularly invited to attend meetings and the Committee has access to the external auditors' advice without the presence of the Executive Directors. The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment, terms of engagement, objectivity and independence of the external auditors, the nature and scope of the audit, reviews of the interim and annual financial statements, internal control procedures, accounting policies, adherence with accounting standards and such other related functions as the Board may require. The Board considers that Mr P Johnson has recent and relevant financial experience under the requirements of the Combined Code.

There is a 'whistleblowing' and security reporting procedure which encourages a free and open culture within the Group in all its business dealings.

The policy on engagement of the external auditors for non-audit services is that where the work is closely related to the audit, or if the work requires a detailed understanding of the Group, or when a significant benefit can be obtained from work previously conducted, the work may be awarded to the auditors without compromising their independence and objectivity.

During the year the performance of the external auditors was formally reviewed.

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Remuneration Committee

The Remuneration Committee is chaired by Mr B Pointon and comprises the Non-executive Directors (see page 19). 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 the Long Term Incentive Plan (LTIP) and the Save As You Earn (SAYE) share options are awarded to employees. The Committee also determines the remuneration of the Group's senior management and that of the Chairman. It recommends the remuneration of the Non-executive Directors for determination by the Board. In exercising its responsibilities the Committee has access to professional advice, both internally and externally, and may consult the Group Chief Executive about its proposals. The Remuneration Report on pages 29 to 34 contains particulars of Directors' remuneration and interests in the Company's shares.

Nomination Committee

The Nomination Committee is chaired by Mr A Auer and comprises the Non-executive Directors (see page 19.) It meets as required and is responsible for making recommendations to the Board on the appointment of Directors and succession planning. During the year, the structure, composition and balance of skills of the Board were reviewed including ensuring that all members of the Board had devoted sufficient time and contributed adequately to the work of the Board. Following this review two new Non-executive Directors, Mr E van Amerongen and Dr S Riley, have been appointed to the Board both with recent and relevant experience and are standing for election at the forthcoming Annual General Meeting. In addition the Committee has had to consider and implement the succession planning required in respect of Mr M Averill's planned retirement in May 2008. As detailed in the Chairman's Statement, Mr T Drury has been appointed to succeed Mr M Averill with effect from 1 October 2007. All appointments were made using the services of an external executive search consultant.

Pensions

The assets of both the final salary and money purchase schemes in the United Kingdom are held separately from those of the Group. These 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 2004 for a period of three years. It is anticipated that a formal member nomination process will be carried out during 2007 in order to elect two new trustees as required under the Pensions Act 2004. Senior employees in Belgium are provided with defined contribution pension benefits. In the Netherlands, employees participate in compulsory collective transport industry wide pension schemes, or equivalent schemes operated by the Group, which provide benefits up to a certain level of pay. Senior employees in the Netherlands earning in excess of the maximum level of pay allowed for within the compulsory pension schemes 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 Board obtains feedback from its broker, Hoare Govett on the views of institutional shareholders and the Chairman attends meetings with major shareholders whose views are communicated to the Board as a whole. The Company is pleased to welcome both private and institutional shareholders to its Annual General Meeting and to discuss any topic shareholders may wish to raise. The Group's website *www.shanks.co.uk* provides additional information for shareholders and the general public. All interim, preliminary and final results together with other press releases are published on the website.

Risk Management

The Board confirms that processes for identifying, evaluating and managing the material risks faced by the Group have been in place for the financial year 2007 and to the date of approval of the annual report and accounts. These include a formal review by each business unit to identify and evaluate material strategic, operational, commercial and financial risks affecting the achievement of their objectives. This review also identifies key procedures and controls used to mitigate the risks to an acceptable level and, where appropriate, actions required to further manage and reduce them. In addition the Executive Directors consider those risks to the Group's strategic objectives that may not be identified and managed at the business unit level. The risk summaries developed out of this process are discussed with both the Board and the Audit Committee in accordance with Turnbull Guidance.

Risk management also forms part of major decision-making processes such as acquisitions or major contract tenders. It is also embedded in the day to day management of operations including health, safety and environmental compliance aspects.

Internal Control

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

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

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

iii) formal written financial policies and procedures applicable to all business units;

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

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

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

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

viii) annual peer reviews where the adequacy of the procedures and controls in each business unit's operations are reviewed by senior staff from elsewhere in the Group with the aid of extensive checklists. Summaries of findings from these reviews and the status on follow-up actions are discussed by the Group Board;

ix) a programme of internal site audits performed by senior finance staff. A selection of these audits is performed by individuals from other business units or, where language is an issue, by a local firm of external auditors. Findings from these audits are discussed at the monthly business unit board meetings. Summaries of audit findings and the status of follow-up actions are discussed at the Group Board and Audit Committee meetings on a regular basis;

x) a range of quality assurance and environmental management systems are used at the Group's sites. Where appropriate these are independently certified to internationally recognised standards including ISO 9001 and ISO 14001, and as such are subject to regular external audits;

xi) the Group maintains an Environmental Advisory Board which provides an independent assessment of the Group's health, safety and environmental performance. Further details of this board's activities are given in the Environment and Community section of the business review on pages 16 to 18; and

xii) an Audit Committee comprising Non-executive Directors, the responsibilities of which are set out on page 25.

In light of the assurance provided by the above the Board does not currently consider it is necessary to maintain a separate Internal Audit Department.

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Statement of directors' responsibilities in respect of the Annual Report, the Remuneration Report and the financial statements

The directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the company and the group and of the profit or loss of the company and group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 and the Remuneration Report comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. 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 pages 73 and 74 confirms that the scope of their report covers the 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, which is chaired by Mr B Pointon and comprises the Non-executive Directors set out on page 19 are to attract, retain and motivate high quality senior management with a competitive package of incentives and awards linked to performance and the interests of shareholders. The Committee seeks to ensure that the Executive Directors are fairly rewarded taking into account all elements of their remuneration package in the light of the Group's performance.

The Committee has appointed Deloitte & Touche LLP to provide independent market information and advice relating to executive remuneration and benefits. Deloitte & Touche LLP are considered to be independent as they provide only very limited other services to the Group.

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

As described below, a significant proportion of potential total remuneration is performance related and is built around annual and longer term incentives. For Directors achieving medium performance, performance related pay would represent approximately 35% of total remuneration. If performance were such that the maximum award available under each incentive scheme was paid, performance related pay would represent approximately 67% of total remuneration.

Basic Salary

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

Annual Cash Bonuses

Annual cash bonuses are payable at the discretion of the Remuneration Committee as a percentage of basic salary dependent on corporate performance compared to target. For the year to 31 March 2007, the Executive directors' potential cash bonus ranged from 20% for achieving target performance to a maximum bonus of 75% for achieving a performance of 17% above target performance. Cash bonuses are not pensionable.

Pending the conclusions of a comprehensive review of executive remuneration, for the year ended 31 March 2008 the Remuneration Committee has introduced an additional annual cash bonus (non pensionable), of up to 25% of basic salary, for the achievement of certain operating cashflow targets. The maximum bonus would be achieved for performance 18% above target.

Long Term Incentive Plan

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

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

The second performance condition is based on Earnings Per Share (EPS) and for an award to vest, the average growth in the Company's adjusted EPS calculated on a consistent basis must exceed the growth in Retail Price Index over the same period by at least nine percentage points.

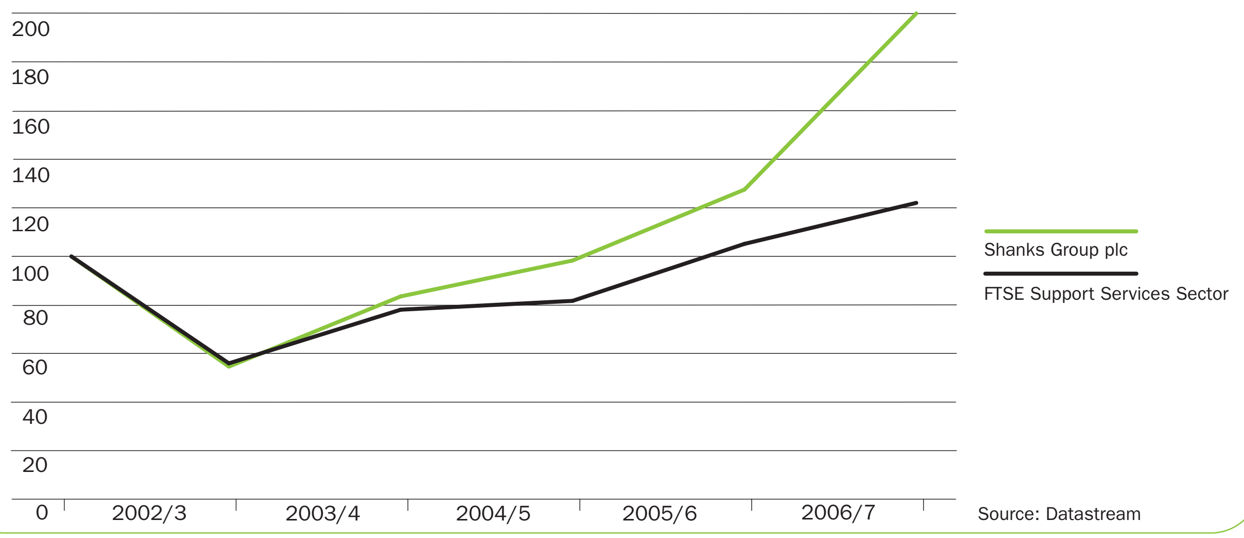
No amendment may be made to the performance conditions which would be to the material advantage of participants without the prior approval of shareholders in general meeting.

remuneration report.
continued

The Shanks Group plc Employee Share Trust has been established for the purpose of granting awards under the LTIP and to hold shares in the Company either purchased in the market or new shares subscribed for, with funds provided by the Company or its subsidiaries. As at 31 March 2007 the Employee Share Trust did not hold any of the Company's shares.

Performance Review

Figure 1: Shanks Group plc Total Shareholder Return versus FTSE Support Services Sector Index



The graph at Figure 1 shows the Total Shareholder Return of the Company and that of the FTSE Support Services Sector Index over the five-year period to 31 March 2007. This Index has been selected as it is a broad equity index of which Shanks Group plc is a constituent company.

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 HM Revenue & Customs approved Savings Related Share Option Scheme (SRSOS). Senior executives were also able to participate in an Executive Share Option Scheme (ESOS) at the discretion of the Remuneration Committee. The ESOS expired in August 2005 and after this date only awards under the LTIP scheme can be made to senior employees.

Under the terms of the SRSOS for employees, options may be granted during the ten year period to July 2015 to acquire up to 10% of the issued equity share capital of the Company, including options granted under the ESOS and LTIP. 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 2007 options outstanding amounted to 0.7m ordinary shares (see note 6 to the financial statements).

Under the terms of the expired ESOS, options could be granted during the ten year period to August 2005 to acquire up to 5% of the issued equity share capital of the Company. The exercise of options granted under the ESOS, is subject to a performance condition, achievement of which is a pre-requisite for exercise of options. The condition is tested once only after a period of three years and if it is not achieved the relevant options will lapse. Options granted after 26 July 2001 will only be exercisable if the Group's EPS, calculated on a consistent basis, exceeds the growth in Retail Price Index over the same period by at least nine percentage points.

The Remuneration Committee applied a different performance condition for options granted under the ESOS prior to 26 July 2001. These options may not be exercised unless the growth in the Group's EPS over the period of any three consecutive years after the date of grant equals or exceeds the increase in the Retail Price Index over the same period by at least six percentage points. Options were granted at the higher of the nominal value or the market value. At 31 March 2007 options outstanding amounted to 2.0m ordinary shares (see note 6 to the financial statements).

Performance Conditions

The performance conditions for the LTIP and ESOS schemes described above were chosen following recommendations from external remuneration advisers and remain consistent with market practice.

Directors' Service Contracts and Notice Periods

The Remuneration Committee has agreed that the policy with regard to the notice period for Executive Directors is one year. Accordingly, Mr M Averill and Mr F Welham have rolling service contracts dated 29 September 1994 and 21 July 2005, respectively, which require one year's notice from the Company and six month's notice from the Director. As has been detailed in the Chairman's Statement and the Directors' Report, Mr Averill will be standing down from his position as Group Chief Executive and Director with effect from 30 September 2007. However, in line with his notice period Mr Averill will continue to be employed by the Company on an advisory basis until the end of May 2008. Termination payments are limited to the director's contractual remuneration including basic salary, any bonus earned and benefits for the unexpired portion of the notice period. Any entitlement to LTIP awards or exercise of share options upon termination is governed by the rules of the relevant scheme. Pensionable service will also accrue for the unexpired portion of the notice period. In the event of early termination, the Remuneration Committee will consider carefully what compensation should be paid taking into account the circumstances of the particular case. The Non-executive Directors do not have service contracts. Mr P Delaunois has an agreement to provide consultancy services via his company, S.A. CGO, to the Group's Belgian subsidiary companies which is terminable on giving three month's notice by either party.

External Appointments

The Remuneration Committee acknowledges that executive directors may be invited to become Non-executive directors of other quoted companies which have no business relationship with the Group and that these duties can broaden their experience and knowledge to the benefit of the Company. Executive directors are limited to hold one such position and the policy is that fees may be retained by the director, which reflects the personal risk assumed in such appointments. In light of Mr M Averill's impending retirement from the Board, the Remuneration Committee permitted Mr Averill to take on an additional Non-executive position during the year. Accordingly Mr Averill has two Non-executive positions. The fees received from these appointments were £45,000.

Directors' Emoluments (Audited)

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

	Basic salary		Performance related bonuses		Other emoluments		Total emoluments	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
A Auer*	**78**	29	**–**	–	**–**	–	**78**	29
M Averill	**364**	353	**146**	130	**26**	26	**536**	509
I Clubb^*	**33**	100	**–**	–	**–**	–	**33**	100
P Delaunois*	**30**	30	**–**	–	**40**	41	**70**	71
P Johnson*	**33**	25	**–**	–	**–**	–	**33**	25
B Pointon*	**35**	35	**–**	–	**–**	–	**35**	35
S Riley*	**3**	–	**–**	–	**–**	–	**3**	–
E van Amerongen*	**6**	–	**–**	–	**–**	–	**6**	–
F Welham	**175**	114	**70**	48	**28**	13	**273**	175
							1,067	944

^ Up to date of retirement
* Non-executive Director

Mr E van Amerongen and Dr S Riley were appointed on 9 February 2007 and 29 March 2007 respectively.

(i) Other emoluments for Mr M Averill and Mr F Welham include such items as car allowance and medical insurance which are not pensionable. In the case of Mr Welham this also includes Company contributions to the Defined Contribution section of the Shanks Group Pension Scheme.

remuneration report.

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(ii) Other emoluments for Mr P Delaunois are for fees received amounting to £40,000 per annum for consultancy services provided to the Group's Belgian subsidiaries. Mr Delaunois is a shareholder and director of S.A. CGO and the fees were paid to this company.

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

Directors' Pension Benefits (audited)

Mr M Averill and Mr F Welham are both members of the Final Salary (Defined Benefit) section of the Shanks Group Pension Scheme, which is a funded scheme, approved by HM Revenue & Customs. In the case of Mr Welham, pension benefits are capped at the notional HM Revenue & Customs earnings cap, which is reviewed annually. For the year to 31 March 2007 the notional cap was £108,600. Under the terms of this scheme the Executive Directors have:

- at retirement, and subject to length of service, a pension of up to two thirds of basic salary;
- an employee contribution of 7% of basic salary;
- a lump sum death in service benefit of four times basic salary; and
- a spouse's pension on death.

The table below shows the movement in Directors' pension benefit during the year:

Directors' Final Salary Pension – Benefits

	Age at 31.03.07	Increase in accrued pension during the year (ii) £000 pa	Increase in accrued pension during the year net of inflation (ii) £000 pa	Accrued pension at 31.03.07 (iii) £000	Transfer value at 31.03.07 of pension benefits accrued at 31.03.07 (iv) £000	Transfer value at 31.03.06 of pension benefits accrued at 31.03.06 (iv) £000	Increase in transfer value less Directors' contributions (v) £000	Transfer value of increase in accrued pension during the year net of inflation less Directors' contributions (v) £000
M Averill	55	18	9	215	4,123	3,757	340	145
F Welham	42	3	2	27	221	189	24	8

(i) Mr F Welham was subject to the HM Revenue & Customs cap on approved pension benefits and was provided with additional pension benefits for basic salary in excess of the cap via the Defined Contribution section of the Shanks Group Pension Scheme. The Company contributed £13,000 into this section of Mr Welham's pension during the year and is included in the 'other emoluments' section of the Directors' remuneration table shown on page 31. The value of Mr Welham's fund in the Defined Contribution section as at 31 March 2007 including his own contributions was £16,000.

(ii) 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.

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

(iv) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The calculation is based on the assumption that pensions will be paid from the earliest retirement age possible without the application of actuarial reduction factors (at age of 57 for Mr M Averill and 62 for Mr F Welham).

(v) The increase in transfer value has been calculated taking into account market conditions and the Directors' ages at 31 March 2006 and 31 March 2007.

Directors' Interests under the LTIP (audited)

The Directors' conditional beneficial interests under the LTIP in the ordinary 10p shares of the Company as at 31 March 2007 were as follows:

LTIP	Outstanding awards at 31 March 2006	Awards made during the year	Awards lapsed during the year	Outstanding awards at 31 March 2007	Date of award	Share price on date of award (pence)	Performance period end	Restricted period end
M Averill	325,000	–	325,000	–	02.06.03	101.0	31.03.06	02.06.06
	290,000	–	–	290,000	02.08.04	115.0	31.03.07	02.08.07
	240,000	–	–	240,000	06.06.05	144.75	31.03.08	06.06.08
	–	213,000	–	213,000	05.06.06	170.0	31.03.09	05.06.09
F Welham	75,000	–	–	75,000	06.06.05	144.75	31.03.08	06.06.08
	–	94,000	–	94,000	05.06.06	170.0	31.03.09	05.06.09

Directors' Interests in Ordinary Shares and Share Options (audited)

The Directors' interests, all beneficial, in the ordinary shares of the Company, including shares over which options have been granted under the terms of the Group's share option schemes (other than the LTIP), on 31 March 2007 were as follows:

Ordinary Shares	2007	2006
A Auer	10,000	–
M Averill	78,206	75,666
P Delaunois	1,500	1,500
P Johnson	1,585	1,585
B Pointon	3,000	3,000
S Riley	–	–
E van Amerongen	–	–
F Welham	–	–

Share Options	Date of grant	*	Normal Exercise Dates From	To	Option price (pence)	Number at 1 April 2006	Granted in year	Lapsed in year	Exercised in year	Number at 31 March 2007
M Averill	02.06.99	E	03.06.02	02.06.06	233.5	150,000	–	150,000	–	–
	05.06.00	E	06.06.03	05.06.07	180.0	150,000	–	–	–	150,000
	27.09.01	S	01.11.06	30.04.07	144.5	2,335	–	–	2,335	–
	26.09.02	S	01.11.07	30.04.08	116.0	8,495	–	–	–	8,495
	25.09.03	S	01.11.08	30.04.09	84.0	3,773	–	–	–	3,773
	01.09.06	S	01.11.09	30.04.10	150.5	–	1,255	–	–	1,255
Total						314,603	1,255	150,000	2,335	163,523
F Welham	02.06.99	E	03.06.02	02.06.06	233.5	15,000	–	15,000	–	–
	05.06.00	E	06.06.03	05.06.07	180.0	20,000	–	–	–	20,000
	04.06.01	E	05.06.04	04.06.08	176.5	20,000	–	–	–	20,000
	02.06.03	E	03.06.06	02.06.13	101.5	25,000	–	25,000	–	–
	02.08.04	E	03.08.07	02.06.14	115.0	25,000	–	–	–	25,000
	25.09.03	S	01.11.08	30.04.09	84.0	18,869	–	–	–	18,869
Total						123,869	–	40,000	–	83,869

* Executive (E) and Savings Related (S) Share Options

(i) The option price is the price at which the option was granted. The price is set by the Remuneration Committee but is not less than 80% (Savings Related Scheme) and 100% (Executive Scheme) of the average market price of the shares over the last three dealing days immediately preceding the date of the invitation to subscribe (Savings Related Scheme) or the date of grant (Executive Scheme). The performance conditions relating to the exercise of Executive Share Options are shown on page 30.

remuneration report.

continued

(ii) The highest closing mid-market price of the ordinary shares of the Company during the year was 269.25p and the lowest closing mid-market price during the year was 158p. The mid-market price at the close of business on 30 March 2007 was 269.25p.

Other Interests

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

Auditable Information

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

consolidated income statement.

year ended 31 March 2007

	Note	2007 £m	2006 £m
Continuing operations			
Revenue	3(a)	**508.5**	442.5
Cost of sales		**(412.9)**	(358.6)
Gross profit		**95.6**	83.9
Administrative expenses		**(49.4)**	(45.0)
Operating profit	3(a),4	**46.2**	38.9
Finance charges:			
Interest payable		**(18.2)**	(12.7)
Interest receivable		**11.2**	7.8
Change in fair value of interest rate swaps		**6.9**	(3.7)
Total finance charges	7	**(0.1)**	(8.6)
Profit before tax from continuing operations	3(a)	**46.1**	30.3
Tax	8	**(14.8)**	(10.5)
Profit after tax for the year from continuing operations	3(a)	**31.3**	19.8
Discontinued operations			
Profit after tax for the year from discontinued operations	3(b)	**–**	10.6
Profit for the year		**31.3**	30.4
Dividend per share	9	**5.9p**	5.7p
Earnings per share			
– basic	10	**13.3p**	13.0p
– diluted	10	**13.3p**	12.9p
Earnings per share from continuing operations			
– basic	10	**13.3p**	8.5p
– diluted	10	**13.3p**	8.4p

consolidated statement of recognised income and expense.

year ended 31 March 2007

	Note	2007 £m	2006 £m
Exchange (loss) gain on translation of foreign operations	24	**(3.9)**	1.9
Actuarial gain (loss) on defined benefit pension schemes	22	**0.5**	(0.6)
		(3.4)	1.3
Deferred tax in respect of defined benefit pension schemes		**(0.1)**	0.2
Net (expense) income recognised directly in equity		**(3.5)**	1.5
Profit for the year		**31.3**	30.4
Total recognised income and expense for the year	24	**27.8**	31.9

consolidated balance sheet.

at 31 March 2007

	Note	At 31 March 2007 £m	At 31 March 2006 £m
Non-current assets			
Intangible assets	11	**198.3**	144.4
Property, plant and equipment	12	**209.0**	183.6
Other investments and loans to joint ventures	13	**1.8**	2.9
Trade and other receivables	17	**141.9**	120.1
Deferred tax assets	15	**10.8**	15.0
		561.8	466.0
Current assets			
Inventories	16	**5.4**	9.0
Trade and other receivables	17	**119.4**	97.3
Current tax receivable		**2.1**	1.4
Cash and cash equivalents	18	**42.7**	59.4
		169.6	167.1
Total assets		**731.4**	633.1
Current liabilities			
Borrowings	19	**(28.9)**	(10.9)
Trade and other payables	20	**(127.3)**	(114.1)
Current tax payable		**(13.4)**	(8.3)
Provisions	21	**(6.3)**	(9.1)
		(175.9)	(142.4)
Non-current liabilities			
Borrowings	19	**(271.2)**	(237.3)
Other non-current liabilities	20	**(2.3)**	(0.7)
Deferred tax liabilities	15	**(27.4)**	(17.5)
Provisions	21	**(22.5)**	(16.3)
Retirement benefit obligations	22	**(8.4)**	(10.3)
		(331.8)	(282.1)
Total liabilities		**(507.7)**	(424.5)
Net assets		**223.7**	208.6
Equity			
Share capital	23	**23.5**	23.5
Share premium	24	**94.0**	93.7
Exchange reserve	24	**1.1**	5.0
Retained earnings	24	**105.1**	86.4
Total equity	24	**223.7**	208.6

The Financial Statements were approved by the Board of Directors and authorised for issue on 30 May 2007.
They were signed on its behalf by:

A Auer
Chairman

F A N Welham
Group Finance Director

consolidated cash flow statement.

year ended 31 March 2007

	Note	2007 £m	2006 £m
Net cash from operating activities	25(c)	**71.3**	58.9
Investing activities			
Purchases of intangible assets		**(1.1)**	(0.2)
Purchases of property, plant and equipment		**(39.3)**	(31.9)
Disposal of property, plant and equipment		**2.7**	3.1
Financial asset capital advances		**(30.9)**	(48.8)
Financial asset capital repayments		**1.4**	1.9
Acquisition of subsidiary and other businesses	14	**(65.3)**	(4.2)
Net proceeds from disposal of subsidiary and other businesses		**–**	34.0
Income received from other investments		**1.1**	0.7
Net cash used in investing activities	25(c)	**(131.4)**	(45.4)
Financing activities			
Interest paid		**(17.1)**	(12.6)
Interest received		**11.2**	7.8
Proceeds from issue of shares		**0.3**	0.6
Dividends paid		**(13.4)**	(13.4)
Increase in borrowings		**64.6**	32.2
Increase in obligations under finance leases		**0.9**	1.8
Repayments of obligations under finance leases		**(3.0)**	(3.0)
Net cash flow from financing activities		**43.5**	13.4
Net (decrease) increase in cash and cash equivalents		**(16.6)**	26.9
Cash and cash equivalents at beginning of year		**59.4**	32.5
Cash and cash equivalents at end of year		**42.8**	59.4

consolidated movement in net debt.

year ended 31 March 2007

	2007 £m	2006 £m
Net (decrease) increase in cash and cash equivalents	**(16.6)**	26.9
Increase in borrowings and finance leases	**(62.5)**	(31.0)
Amortisation of loan fees	**(0.4)**	(0.4)
Exchange gain (loss)	**4.0**	(1.9)
Change in fair value of interest rate swaps	**6.9**	(3.7)
Movement in net debt	**(68.6)**	(10.1)
Net debt at beginning of year	**(188.8)**	(178.7)
Net debt at end of year	**(257.4)**	(188.8)

consolidated analysis of net debt.

at 31 March 2007

	At 31 March 2007 £m	At 31 March 2006 £m
Core Business net debt	**(134.0)**	(75.9)
Private Finance Initiative net debt	**(122.9)**	(105.5)
Total Group net debt before fair value of interest rate swaps	**(256.9)**	(181.4)
Fair value of Private Finance Initiative interest rate swaps	**(0.5)**	(7.4)
Total Group net debt	**(257.4)**	(188.8)

company income statement.

year ended 31 March 2007

	Note	2007 £m	2006 £m
Continuing operations			
Administrative expenses		**(2.3)**	(1.9)
Other operating (expense) income - exchange		**(1.3)**	0.9
Operating loss	3(a),4	**(3.6)**	(1.0)
Finance charges:			
Interest payable		**(10.2)**	(9.2)
Interest receivable		**2.5**	2.1
Total finance charges	7	**(7.7)**	(7.1)
Loss before tax from continuing operations		**(11.3)**	(8.1)
Tax credit	8	**4.6**	2.6
Loss for the year		**(6.7)**	(5.5)

company statement of recognised income and expense.

year ended 31 March 2007

	Note	2007 £m	2006 £m
Actuarial gain (loss) on defined benefit pension schemes	22	**0.5**	(0.6)
Deferred tax in respect of the above		**(0.1)**	0.2
Net income (expense) recognised directly in equity		**0.4**	(0.4)
Loss for the year		**(6.7)**	(5.5)
Total recognised income and expense for the year	24	**(6.3)**	(5.9)

company balance sheet.

at 31 March 2007

	Note	At 31 March 2007 £m	At 31 March 2006 £m
Non-current assets			
Property, plant and equipment	12	**0.2**	0.2
Investments in subsidiary undertakings	13	**379.8**	365.8
Deferred tax assets	15	**4.8**	6.5
		384.8	372.5
Current assets			
Trade and other receivables	17	**24.8**	41.0
Current tax receivable		**4.5**	3.0
Cash and cash equivalents	18	**38.6**	40.2
		67.9	84.2
Total assets		**452.7**	456.7
Current liabilities			
Borrowings	19	**(1.0)**	(6.5)
Trade and other payables	20	**(4.8)**	(3.1)
Provisions	21	**(3.9)**	(4.4)
		(9.7)	(14.0)
Non-current liabilities			
Borrowings	19	**(80.3)**	(95.5)
Other non-current liabilities	20	**(181.0)**	(144.3)
Provisions	21	**–**	(0.3)
Retirement benefit obligations	22	**(8.4)**	(10.3)
		(269.7)	(250.4)
Total liabilities		**(279.4)**	(264.4)
Net assets		**173.3**	192.3
Equity			
Share capital	23	**23.5**	23.5
Share premium	24	**118.0**	117.7
Retained earnings	24	**31.8**	51.1
Total equity	24	**173.3**	192.3

The Financial Statements were approved by the Board of Directors and authorised for issue on 30 May 2007.
They were signed on its behalf by:

A Auer
Chairman

F A N Welham
Group Finance Director

company cash flow statement.

year ended 31 March 2007

	2007 £m	2006 £m
Net cash from operating activities		
Operating loss	**(3.6)**	(1.0)
Gain on disposals of subsidiaries	**–**	(2.5)
Net decrease in provisions	**(2.7)**	(8.4)
Exchange loss (gain)	**1.3**	(0.9)
Share based payments	**0.6**	0.5
Operating cash flows before movements in working capital	**(4.4)**	(12.3)
Decrease in receivables	**3.4**	14.5
Increase in payables	**41.3**	49.8
Cash generated by operations	**40.3**	52.0
Income taxes received	**0.9**	0.4
Net cash from operating activities	**41.2**	52.4
Investing activities		
Purchases of property, plant and equipment	**–**	(0.1)
Net proceeds from disposal of subsidiary and other businesses	**–**	2.5
Net cash used in investing activities	**–**	2.4
Financing activities		
Interest paid	**(9.8)**	(10.0)
Interest received	**2.5**	2.1
Proceeds from issue of shares	**0.3**	0.6
Dividends paid	**(13.4)**	(13.4)
Repayment of borrowings	**(22.4)**	(9.8)
Net cash flow from financing activities	**(42.8)**	(30.5)
Net (decrease) increase in cash and cash equivalents	**(1.6)**	24.3
Cash and cash equivalents at beginning of year	**40.2**	15.9
Cash and cash equivalents at end of year	**38.6**	40.2

notes to the financial statements.

1 Accounting policies – Group and Company

(a) General information

Shanks Group plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 1985.

(b) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as required by Article 4 of the European Union IAS Regulation and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements are prepared on the historical cost basis, except for derivative financial instruments, which are stated at fair value. The policies set out below have been consistently applied.

During the year, the Group has early adopted IFRIC 12 Service Concession Arrangements for its Private Finance Initiative (PFI) contracts. Previously, the Group applied the principles of the relating draft interpretations D12-14. Accordingly, the adoption of IFRIC 12 has had no impact on the financial statements.

The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2006. IFRS 7 Financial Instruments: disclosures was issued in August 2005 and is required to be implemented from 1 April 2007. This new standard supersedes IAS 32 and incorporates its disclosure requirements as well as requiring further quantitative and qualitative disclosures in relations to financial instruments. Other than IFRS 7, accounting standards and interpretations in issue at the date of approval of these financial statements but not yet effective are not expected to have a material impact on the financial statements of the Group.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The most significant judgements made relate to assumptions concerning discount rates, future returns on assets and future contribution rates in connection with the Group's retirement benefit obligations (see note 22). In making these assumptions, the Group takes advice from qualified actuaries. Other significant judgements made relate to provisions (see notes 1(p) and (q)) and PFI contracts (see note 1(d)).

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Shanks Group plc and all its subsidiary undertakings (subsidiaries). Entities which are jointly controlled with another party or parties (joint ventures) are incorporated in the financial statements by proportional consolidation. The results of subsidiaries and joint ventures acquired or sold during the year are included in the consolidated financial statements up to, or from, the date control passes. Wholly owned subsidiary companies set up under PFI contracts are fully consolidated by the Group.

(d) PFI contracts

The Group's PFI contracts are all Integrated Waste Management contracts. In these contracts, the existing Local Authority waste management operations are operated by the Group from inception of the contract. The PFI contract requires the building of new infrastructure to add to that inherited from the previous service provider and all rights to the infrastructure pass to the Local Authority at the termination or expiry of the contract. The payments made to contractors for the construction of the infrastructure are accounted for as financial assets. The Group accounts for the service element as revenue and the repayment element is deducted from the financial asset. Interest receivable is added to the financial asset based on the rate implied in the contract payments from the Local Authority. Reviews are undertaken regularly to ensure that the financial asset will be recovered over the contract life.

Borrowing costs relating to contract specific external borrowings are expensed in the income statement.

Bid costs are expensed in the income statement until the Group is appointed preferred bidder and there is a high probability that a contract will be awarded. Bid costs incurred after this point are capitalised. When the contract is awarded, the costs are included in the relevant financial asset.

(e) Revenue

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

notes to the financial statements.

continued

1 Accounting policies – continued

(f) Share-based payments

IFRS 2 Share-based Payments has been applied to grants of equity instruments after 7 November 2002 which had not vested as of 1 April 2005. The fair value of options granted is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Adjustments to the amounts expensed are only made in respect of non-market related factors.

(g) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

(h) Intangible assets

(i) Goodwill

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Capitalised goodwill is reviewed for impairment on an annual basis. Any impairment is charged immediately to the income statement and is not subsequently reversed.

Goodwill arising on acquisitions prior to the date of transition to IFRS (31 March 2004) has been retained at the previous UK GAAP net book value following impairment tests. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

The profit or loss on disposal or closure of a business is calculated after taking into account any goodwill excluding amounts previously written off to reserves prior to 1998.

(ii) Landfill void

When landfill operations are acquired, landfill void is capitalised based on the fair value of the asset acquired and is amortised over the operational life based on the amount of void space consumed.

(iii) Other intangibles

Other acquired intangible assets are capitalised based on the fair value of the assets acquired or the costs incurred to purchase and bring the assets into use. These assets are amortised over their estimated useful lives on a straight line basis as follows:

Computer software	1 to 3 years
Waste permits	5 to 20 years
Other	5 to 10 years

(i) Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and provision for any impairment, except for freehold land which is not depreciated.

(i) Buildings, plant and machinery:

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

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

(ii) Landfill sites:

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

1 Accounting policies – continued

(j) Investments in subsidiary undertakings

Investments in subsidiary undertakings are held at cost less any provision for impairment.

(k) Impairment of assets and investments

Assets subject to amortisation or depreciation and investments are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount is estimated to be less than the carrying amount the asset is reduced to the recoverable amount.
An impairment loss is recognised immediately as an operating expense.

(l) Leased assets

(i) Finance leases:
Where the Group has substantially all the risks and rewards of ownership of a leased asset, the lease is treated as a finance lease. Leased assets are included in property, plant and equipment 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 expected useful life.

(ii) Operating leases:
All leases other than finance leases are treated as operating leases. Rentals paid under operating leases are charged to the income statement in the year to which they relate. The obligation to pay future rentals on operating leases is shown in note 27 to the accounts.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value and are measured on a first in first out basis.

(n) Government grants and subsidies

Capital related government grants are released to the income statement 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.

(o) Unprocessed waste

The accrual or deferred income relating to unprocessed waste is calculated at the higher of sales value or processing cost.

(p) 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. In addition the Group continues to provide for the NPV of intermediate restoration costs over the life of its landfill sites, based on the quantity of waste deposited in the year.

(q) Aftercare provision

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

(r) Discounting

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

(s) Retirement benefits

The Group accounts for pensions and similar benefits under the amended IAS 19 Employee Benefits. For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at market value. The operating and financing costs of the plans are recognised separately in the income statement and actuarial gains and losses are recognised in full through the statement of recognised income and expense. Payments to defined contribution schemes are charged to the income statement as they become due. The Group participates in several multi-employer schemes in the Netherlands. These are accounted for as defined contribution plans as it is not possible to split the assets and liabilities of the schemes between participating companies, and the Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit.

notes to the financial statements.

continued

1 Accounting policies – continued

(t) Tax

(i) Current tax

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax in the income statement because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted, or substantially enacted, by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised in full where the carrying value of assets and liabilities in the financial statements is different to the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited through the statement of recognised income and expense or directly to reserves, when it is charged or credited there.

(u) Foreign currencies

Foreign currency denominated monetary assets and liabilities are translated into sterling at the year end exchange rate. Transactions and the results of overseas subsidiary undertakings and joint ventures in foreign currencies are translated at the average rate of exchange for the year and the resulting exchange differences are recognised in the Group's exchange reserve. Cumulative exchange differences are recognised in the income statement in the year in which an overseas subsidiary undertaking is disposed of. The Group applies the hedge accounting principles of IAS 39 – Financial Instruments: Recognition and Measurement relating to net investment hedging to offset the exchange differences arising on foreign currency denominated borrowings with the translation of foreign operations. Net investment hedges are accounted for by recognising exchange rate movements in the exchange reserve, with any hedge ineffectiveness being charged to the income statement in the period the ineffectiveness arises.

(v) Financial instruments

(i) Trade receivables and other receivables

Trade and other receivables do not carry interest and are stated at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

(ii) Financial assets relating to PFI contracts

Financial assets relating to PFI contracts are classified as loans and receivables and are initially recognised at the fair value of the consideration paid and subsequently amortised using the effective interest rate method.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less.

(iv) External borrowings

Interest bearing bank loans are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest rate method and are added to the carrying amount of the borrowings to the extent that they are not settled in the period in which they arise.

(v) Trade payables and other payables

Trade and other payables on normal terms are not interest bearing and are stated at their nominal value.

(vi) Derivative financial instruments

As part of the Group's PFI contracts, the Group has a number of interest rate swaps. These swaps are measured at fair value at each reporting date with the gains or losses between period ends being taken to finance charges in the income statement.

(w) Dividends

Dividends are accounted for in the period in which they are paid or received.

1 Accounting policies – continued

(x) Segment reporting

The Group operates in one business, waste management, and is divided by geography for management reporting and control. Components that make up the primary segmental analysis provided in the financial statements are the United Kingdom, Belgium, the Netherlands and Central Services. No secondary segmental analysis is provided as the primary segmental analysis follows the geographical split.

2 Financial risk management objectives and policies

(a) Risk

The Group is exposed to a number of financial risks, of which the most significant are set out below. Risk management is carried out by Group Treasury under policies approved by the Board of Directors.

Foreign exchange risk

The Group operates in Europe and is exposed to foreign exchange risk for movements in the Euro and Sterling. Foreign exchange risk arises mainly from net investments in foreign operations. This exposure is managed primarily through Euro denominated borrowings. The Group applies hedge accounting principles to net investments in foreign operations and the related borrowings (see note 1(u)).

Cash flow and fair value interest rate risk

The Group's cash flow interest rate risk arises from long term borrowings issued at variable rates to finance PFI contracts. In order to reduce funding risk and maintain interest cover, the Group manages the risk by using floating-to-fixed interest rate swaps over the period of the borrowing. Under the swaps, the Group agrees to exchange, at specified intervals (mainly semi-annually), the difference between fixed contract rates and floating rate interest amounts, calculated by reference to the agreed notional principal amount. Whilst the interest rate swaps represent a hedge of the interest cash flows and hedge accounting under IAS 39 would allow changes in fair value of the interest rate swaps to be recognised directly in reserves, the Group believes that it is not worth expending significant resources fulfilling the onerous documentation requirements of IAS 39. The interest rate swaps are therefore classified as held for trading in accordance with IAS 39 (see accounting policy in note 1(v)). The swaps are presented in non-current liabilities together with the related long term borrowings since the Group believes this best reflects the commercial reality of the instruments.

The Group is exposed to fair value interest rate risk through the fixed interest rate on the Group's senior notes and the fixed interest rate on finance leases.

Credit risk

The Group is not exposed to significant credit risk.

(b) Fair value estimation

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

notes to the financial statements.

continued

3 Segmental reporting

Waste management business shown by management responsibility and geographical area:

		2007 £m	2006 £m
(a) Continuing operations			
Revenue	United Kingdom	**133.2**	126.1
	Belgium	**122.9**	110.2
	Netherlands	**252.4**	206.2
	Total revenue	**508.5**	442.5
	Group	**494.0**	429.9
	Share of joint ventures	**14.5**	12.6
Total revenue		**508.5**	442.5
Operating profit	United Kingdom	**3.2**	4.1
	Belgium	**17.3**	15.7
	Netherlands	**31.0**	23.5
	Central Services	**(5.3)**	(4.4)
	Total operating profit	**46.2**	38.9
	Group	**42.2**	35.7
	Share of joint ventures	**4.0**	3.2
Total operating profit		**46.2**	38.9
Finance charges	Interest payable	**(18.2)**	(12.7)
	Interest receivable	**11.2**	7.8
	Change in fair value of interest rate swaps	**6.9**	(3.7)
Total finance charges		**(0.1)**	(8.6)
Profit before tax from continuing operations		**46.1**	30.3
Tax		**(14.8)**	(10.5)
Profit after tax for the year from continuing operations		**31.3**	19.8

Intersegment sales are not significant.

The Company operates solely in the United Kingdom providing Central Services.

		2007 £m	2006 £m
(b) Discontinued operations			
Revenue	United Kingdom	**–**	18.4
	Netherlands	**–**	4.9
Total revenue		**–**	23.3
Operating profit	United Kingdom	**–**	0.7
	Netherlands	**–**	(0.3)
Total operating profit		**–**	0.4
Profit on disposal of operations (United Kingdom)		**–**	8.7
Finance charges	Interest payable	**–**	(0.6)
Profit before tax from discontinued operations		**–**	8.5
Tax		**–**	2.1
Profit after tax for the year from discontinued operations		**–**	10.6

3 Segmental reporting – continued

		At 31 March 2007 £m	At 31 March 2006 £m
(c) Analysis of net assets			
United Kingdom	Gross assets	**216.6**	175.0
	Gross liabilities	**(34.5)**	(50.9)
	Net operating assets	**182.1**	124.1
Belgium	Gross assets	**74.2**	73.8
	Gross liabilities	**(47.6)**	(42.4)
	Net operating assets	**26.6**	31.4
Netherlands	Gross assets	**384.0**	307.9
	Gross liabilities	**(67.3)**	(47.8)
	Net operating assets	**316.7**	260.1
Central Services	Gross assets	**0.9**	0.6
	Gross liabilities	**(17.3)**	(9.4)
	Net operating liabilities	**(16.4)**	(8.8)
Total	Gross assets	**675.7**	557.3
	Gross liabilities	**(166.7)**	(150.5)
Net operating assets		**509.0**	406.8
Current tax		**(11.3)**	(6.9)
Deferred tax		**(16.6)**	(2.5)
Net debt		**(257.4)**	(188.8)
Net assets		**223.7**	208.6

		2007 £m	2006 £m
(d) Other disclosures			
United Kingdom	Capital expenditure	**3.0**	4.3
	Depreciation	**3.4**	5.8
	Amortisation of intangibles	**–**	–
Belgium	Capital expenditure	**7.1**	6.8
	Depreciation	**6.3**	6.9
	Amortisation of intangibles	**–**	–
Netherlands	Capital expenditure	**26.1**	20.8
	Depreciation	**20.3**	18.1
	Amortisation of intangibles	**2.3**	0.5
Total	Capital expenditure	**36.2**	31.9
	Depreciation	**30.0**	30.8
	Amortisation of intangibles	**2.3**	0.5

notes to the financial statements.

continued

4 Profit for the year

Profit for the year is stated after charging (crediting):

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Costs and overheads:				
Staff costs (see note 5)	**118.7**	107.1	**2.3**	2.3
Depreciation of property, plant and equipment				
– Owned assets	**27.9**	28.7	**–**	–
– Held under finance leases	**2.1**	2.1	**–**	–
Amortisation of intangible assets	**2.3**	0.5	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**28.4**	25.5	**–**	–
Net profit on disposal of property, plant and equipment	**(1.0)**	(1.3)	**–**	–
Net profit on disposal of subsidiary undertakings	**–**	–	**–**	(2.5)
Trade receivables impairment	**0.8**	1.0	**–**	–
Government grants	**(0.1)**	(0.1)	**–**	–
Operating lease costs:				
– Minimum lease payments	**12.1**	11.3	**0.1**	–
– Less sublease rental income	**(0.2)**	(0.2)	**–**	–
	11.9	11.1	**0.1**	–
Represented by:				
– Operating lease rentals – Land and buildings	**3.2**	2.8	**0.1**	–
– Operating lease rentals – Plant and machinery	**8.7**	8.3	**–**	–
	11.9	11.1	**0.1**	–
Auditors' remuneration:				
– Audit of accounts of the Group's UK and overseas subsidiaries and related pension schemes	**0.2**	0.5	**0.1**	0.1
– Other assurance services	**0.2**	0.2	**0.1**	0.2
– Other tax services	**0.6**	0.5	**0.6**	0.5
– Other services not covered above	**–**	–	**–**	–
Total payments to auditors	**1.0**	1.2	**0.8**	0.8

At 31 March 2007 the amount due to PricewaterhouseCoopers LLP for fees yet to be invoiced was £0.2m.

5 Employees

	2007 Number	2006 Number
The average number of persons employed by the Group during the year was as follows:		
United Kingdom	**828**	706
Belgium	**1,019**	975
Netherlands	**1,974**	1,774
Central Services	**15**	15
	3,836	3,470

	2007 £m	2006 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	**95.0**	86.1
Employer's social security costs	**17.1**	14.8
Employer's pension costs (see note 22)	**6.6**	6.2
	118.7	107.1

The disclosure above relates to the Group. The average number of persons employed by the Company was 15 (2006: 15), with the related wages and salaries costs, employer's social security costs and employer's pension costs amounting to £1.6m (2006: £1.5m), £0.4m (2006: £0.3m) and £0.3m (2006: £0.5m) respectively.

6 Share-based payments

Group and Company

As described in the Remuneration Report, the Group issues equity-settled share-based payments under a Savings Related Share Option Scheme (SRSOS), an Executive Share Option Scheme (ESOS) and a Long Term Incentive Plan (LTIP) for key executives.

(a) Outstanding options

	SRSOS		ESOS		LTIP
	Options Number	Weighted average exercise price pence	Options Number	Weighted average exercise price pence	Options Number
Outstanding at 31 March 2005	1,952,309	108p	4,736,000	158p	1,527,000
Granted during the year	157,136	131p	615,000	144p	540,000
Forfeited during the year	(938,845)	117p	(1,580,000)	163p	(351,000)
Exercised during the year	(240,662)	107p	(216,000)	136p	–
Outstanding at 31 March 2006	929,938	103p	3,555,000	154p	1,716,000
Granted during the year	124,507	151p	–	–	682,500
Forfeited during the year	(42,476)	114p	–	–	–
Lapsed during the year	(82,742)	104p	(1,423,000)	155p	(666,000)
Exercised during the year	(188,385)	116p	(117,000)	129p	–
Outstanding at 31 March 2007	**740,842**	**83p**	**2,015,000**	**155p**	**1,732,500**
Exercisable at 31 March 2007	9,574	145p	1,005,000*	178p	
Exercisable at 31 March 2006	2,950	172p	1,708,000*	191p	

*Subject to performance conditions

	SRSOS	ESOS	LTIP
At 31 March 2007:			
Range of price per share	84p to 151p	115p to 180p	
Weighted average remaining contractual life	3 years	5 years	2 years

(b) Fair value of options granted during the year

	SRSOS		LTIP	
Valuation model	**2007 Black-Scholes**	2006 Black-Scholes	**2007 Binomial**	2006 Binomial
Weighted average fair value	**47p**	56p	**96p**	79p
Weighted average share price	**177p**	172p	**170p**	145p
Weighted average exercise price	**151p**	131p	**–**	–
Expected volatility	**33%**	35%	**33%**	35%
Expected life	**3 years**	3 years	**3 years**	3 years
Risk-free interest rate	**4.7%**	4.1%	**4.7%**	4.1%
Dividend yield	**4.0%**	3.4%	**–**	–
Expected dividends	**–**	–	**1.9p/3.8p**	1.9p/3.8p
Correlation	**–**	–	**14%**	6%

Expected volatility was determined by calculating the historical volatility of the Company's share price over 3, 5 and 7 years prior to the date of grant. The risk-free interest rate is based on the term structure of UK Government zero coupon bonds. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

(c) Charge for the year

The Group and the Company recognised total expenses of £0.6m (2006: £0.5m) related to equity-settled share-based payments.

notes to the financial statements.

continued

7 Finance charges

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Continuing operations				
Interest payable:				
Interest payable on borrowings wholly repayable within five years	**9.3**	6.2	**4.5**	5.4
Interest payable on other borrowings	**7.6**	5.7	**5.3**	3.4
Share of interest of joint ventures	**0.1**	0.1	**–**	–
Unwinding of discount on long term landfill liabilities	**0.8**	0.3	**–**	–
Amortisation of bank fees	**0.4**	0.4	**0.4**	0.4
Total interest payable	**18.2**	12.7	**10.2**	9.2
Interest receivable:				
Interest receivable	**(3.4)**	(2.2)	**(2.5)**	(2.1)
Interest receivable on financial assets relating to PFI contracts	**(7.8)**	(5.6)	**–**	–
Total interest receivable	**(11.2)**	(7.8)	**(2.5)**	(2.1)
Change in fair value of PFI interest rate swaps	**(6.9)**	3.7	**–**	–
Net finance charges	**0.1**	8.6	**7.7**	7.1

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Discontinued operations				
Interest payable:				
Interest payable on borrowings wholly repayable within five years	**–**	0.6	**–**	–
Total interest payable	**–**	0.6	**–**	–

8 Tax

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

		Group		Company	
		2007 **£m**	2006 £m	**2007** **£m**	2006 £m
Current tax:	UK corporation tax at 30% (2006: 30%)				
	– Current year	**5.2**	1.9	**(4.5)**	(2.5)
	– Prior year	**(0.4)**	(3.2)	**(1.5)**	(1.7)
	Double tax relief	**(2.0)**	(2.2)	**–**	–
	Overseas tax				
	– Current year	**8.0**	10.7	**–**	–
	– Prior year	**1.0**	(0.1)	**–**	–
Total current tax		**11.8**	7.1	**(6.0)**	(4.2)
Deferred tax (see note 15)					
– Current year		**2.1**	1.6	**1.4**	1.6
– Prior year		**0.9**	(0.3)	**–**	–
Total deferred tax		**3.0**	1.3	**1.4**	1.6
Tax charge (credit) for the year		**14.8**	8.4	**(4.6)**	(2.6)
Total tax charge (credit) – continuing operations		**14.8**	10.5	**(4.6)**	(2.6)
Total tax credit – discontinued operations		**–**	(2.1)	**–**	–
		14.8	8.4	**(4.6)**	(2.6)

The tax assessed for the year is higher than the United Kingdom standard rate of tax of 30% (2006: 30%). The differences are explained below:

	Group		Company	
	2007 **£m**	2006 £m	**2007** **£m**	2006 £m
Profit (loss) before tax – continuing operations	**46.1**	30.3	**(11.3)**	(8.1)
Profit before tax – discontinued operations	**–**	8.5	**–**	–
Total profit (loss) before tax	**46.1**	38.8	**(11.3)**	(8.1)
Tax charge (credit) based on UK tax rate	**13.8**	11.6	**(3.4)**	(2.4)
Effects of:				
Adjustment to tax charge in respect of prior periods	**1.5**	(3.9)	**(1.5)**	(1.7)
Profits taxed at overseas tax rates	**0.5**	1.8	**–**	–
Non-taxable items	**0.1**	(3.6)	**(0.1)**	(0.1)
Unrecognised tax losses	**0.4**	1.9	**0.4**	1.6
Other	**(1.5)**	0.6	**–**	–
Total tax charge (credit) for the year	**14.8**	8.4	**(4.6)**	(2.6)

For both the Group and the Company, in addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations and share-based payments amounting to £0.3m (2006: £0.1m) has been credited directly to equity.

On 1 January 2007 the statutory tax rate in the Netherlands decreased from 29.6% to 25.5%. As a consequence, deferred tax in the Netherlands has been calculated using the revised rate, which has resulted in a credit to the income statement of approximately £1.5m.

notes to the financial statements.

continued

9 Dividends

	Group and Company	
	2007 **£m**	2006 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2006 of 3.8p per ordinary share (2005: 3.8p)	**8.9**	8.9
Interim dividend paid for the year ended 31 March 2007 of 1.9p per ordinary share (2006: 1.9p)	**4.5**	4.5
	13.4	13.4
Proposed final dividend for the year ended 31 March 2007 of 4.0p per share (2006: 3.8p)	**9.4**	8.9

10 Earnings per share

	Group	
	2007	2006
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**234.8**	234.3
Effect of share options in issue	**0.8**	0.8
Weighted average number of ordinary shares for diluted earnings per share	**235.6**	235.1
Calculation of basic and adjusted basic earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**31.3**	30.4
Earnings from discontinued operations being profit for the year from discontinued operations (£m)	**–**	(10.6)
Earnings for basic earnings per share being profit for the year from continuing operations (£m)	**31.3**	19.8
Change in fair value of interest rate swaps (net of tax) (£m)	**(4.8)**	2.6
Earnings for adjusted basic earnings per share (£m)	**26.5**	22.4
Basic earnings per share (pence)	**13.3p**	13.0p
Basic earnings per share from continuing operations (pence)	**13.3p**	8.5p
Basic earnings per share from discontinued operations (pence)	**–**	4.5p
Adjusted basic earnings per share (pence) (see note below)	**11.3p**	9.6p
Calculation of diluted earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**31.3**	30.4
Effect of dilutive potential ordinary shares (£m)	**–**	–
Earnings for diluted earnings per share (£m)	**31.3**	30.4
Earnings from discontinued operations (£m)	**–**	(10.6)
Earnings for diluted earnings per share from continuing operations (£m)	**31.3**	19.8
Diluted earnings per share (pence)	**13.3p**	12.9p
Diluted earnings per share on continuing operations (pence)	**13.3p**	8.4p
Diluted earnings per share on discontinued operations (pence)	**–**	4.5p

The Directors believe that adjusting earnings per share to eliminate the effect of exceptional items enables comparison with historical data calculated on the same basis. Exceptional items are those items that need to be disclosed separately on the face of the income statement because of their size or incidence. Changes in fair values of interest rate swaps that the Group is required to enter into in relation to its PFI arrangements are excluded as they do not reflect commercial reality.

11 Intangible assets

Group	Goodwill £m	Landfill void £m	Other £m	Total £m
Cost				
At 31 March 2005	139.5	–	4.4	143.9
Additions	1.2	–	1.3	2.5
Disposals	–	–	(0.6)	(0.6)
Exchange	1.8	–	0.1	1.9
At 31 March 2006	142.5	–	5.2	147.7
On acquisition of businesses	31.6	20.3	7.3	59.2
Additions	–	–	1.1	1.1
Disposals	–	–	(0.3)	(0.3)
Exchange	(4.0)	–	(0.1)	(4.1)
At 31 March 2007	**170.1**	**20.3**	**13.2**	**203.6**
Accumulated impairment/amortisation				
At 31 March 2005	–	–	3.4	3.4
Amortisation charge for the year	–	–	0.5	0.5
Disposals	–	–	(0.6)	(0.6)
At 31 March 2006	–	–	3.3	3.3
Amortisation charge for the year	–	1.2	1.1	2.3
Disposals	–	–	(0.3)	(0.3)
At 31 March 2007	**–**	**1.2**	**4.1**	**5.3**
Net book value				
At 31 March 2007	**170.1**	**19.1**	**9.1**	**198.3**
At 31 March 2006	142.5	–	1.9	144.4
At 31 March 2005	139.5	–	1.0	140.5

Of the total goodwill of £170.1m (2006: £142.5m), £148.9m (2006: £129.9m) relates to the Netherlands.

Goodwill impairment

Impairment testing is carried out at segment level on an annual basis. The Group estimates the recoverable amount of goodwill using projected cashflows for the next twenty years discounted at the Group's estimated average cost of capital (9% after tax). The cash flows are based on projections prepared by management covering a five-year period and include no growth assumptions after the end of the current five-year plan. The projections also assume that the current five-year plan is achieved. The calculations use effective tax rates specific to each separate segment.

Other intangible assets impairment

During the year there has been no indication of any impairment. Accordingly, no impairment review has been carried out.

notes to the financial statements.

continued

12 Property, plant and equipment

Group	Land and buildings £m	Landfill sites £m	Plant and machinery £m	Total £m
Cost				
At 31 March 2005	102.1	40.6	368.6	511.3
On acquisition of businesses	–	–	0.9	0.9
Additions	6.4	1.0	24.5	31.9
On disposal of businesses	(5.3)	–	(84.9)	(90.2)
Disposals	(0.2)	–	(14.5)	(14.7)
Reclassification	0.1	0.9	1.5	2.5
Exchange	1.3	0.4	3.6	5.3
At 31 March 2006	104.4	42.9	299.7	447.0
On acquisition of businesses	16.8	2.5	6.6	25.9
Additions	5.7	1.6	28.9	36.2
Disposals	(0.7)	(0.1)	(24.9)	(25.7)
Reclassification	(4.8)	2.3	0.7	(1.8)
Exchange	(2.7)	(0.8)	(7.3)	(10.8)
At 31 March 2007	**118.7**	**48.4**	**303.7**	**470.8**
Accumulated depreciation				
At 31 March 2005	26.7	33.9	248.3	308.9
Depreciation charge for the year	3.8	1.0	26.0	30.8
On disposal of businesses	(2.6)	–	(65.7)	(68.3)
Disposals	(0.1)	–	(12.8)	(12.9)
Reclassification	0.2	(4.4)	5.9	1.7
Exchange	0.4	0.3	2.5	3.2
At 31 March 2006	28.4	30.8	204.2	263.4
Depreciation charge for the year	6.6	3.9	19.5	30.0
Disposals	(0.7)	(0.1)	(23.2)	(24.0)
Reclassification	(4.2)	2.3	0.7	(1.2)
Exchange	(0.8)	(0.8)	(4.8)	(6.4)
At 31 March 2007	**29.3**	**36.1**	**196.4**	**261.8**
Net book value				
At 31 March 2007	**89.4**	**12.3**	**107.3**	**209.0**
At 31 March 2006	76.0	12.1	95.5	183.6
At 31 March 2005	75.4	6.7	120.3	202.4

Included in plant and machinery are assets held under finance leases with a net book value of £10.3m (2006: £11.7m).

Depreciation expense of £29.1m (2006: £29.9m) has been charged in cost of sales and £0.9m (2006: £0.9m) in administrative expenses.

12 Property, plant and equipment – continued

Company	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 31 March 2005	0.1	0.4	0.5
Additions	–	0.1	0.1
At 31 March 2006	0.1	0.5	0.6
Additions	–	–	–
At 31 March 2007	**0.1**	**0.5**	**0.6**
Accumulated depreciation			
At 31 March 2005	–	0.4	0.4
Depreciation charge for the year	–	–	–
At 31 March 2006	–	0.4	0.4
Depreciation charge for the year	–	–	–
At 31 March 2007	**–**	**0.4**	**0.4**
Net book value			
At 31 March 2007	**0.1**	**0.1**	**0.2**
At 31 March 2006	0.1	0.1	0.2
At 31 March 2005	0.1	–	0.1

notes to the financial statements.

continued

13 Investments

	Group: Loans to joint ventures £m	Group: Other unlisted investments £m	Group: Total £m	Company: Investments in subsidiary undertakings £m
At 31 March 2005	1.6	1.3	2.9	365.8
Additions	–	1.0	1.0	–
Repayments	(1.0)	–	(1.0)	–
At 31 March 2006	0.6	2.3	2.9	365.8
Additions	–	–	–	27.3
Repayments or disposals	(0.6)	(0.5)	(1.1)	(13.8)
Provision release	–	–	–	0.5
At 31 March 2007	**–**	**1.8**	**1.8**	**379.8**

Details of subsidiary undertakings and joint ventures are shown on page 71 and form part of these financial statements.

In relation to the Group's interest in joint ventures, the assets, liabilities, income and expenses are shown below:

	2007 £m	2006 £m
Non-current assets	**12.1**	11.5
Current assets	**4.3**	4.4
Current liabilities	**(3.8)**	(7.1)
Non-current liabilities	**(4.3)**	(1.0)
Net assets	**8.3**	7.8
Income	**14.5**	12.6
Expenses	**(10.6)**	(9.5)
Profit before tax	**3.9**	3.1
Tax	**(1.2)**	(1.0)
Share of profit after tax for the year from joint ventures	**2.7**	2.1

The joint ventures have no significant contingent liabilities to which the Group is exposed nor has the Group any significant contingent liabilities in relation to its interest in joint ventures.

The share of capital commitments of the joint ventures are shown in note 26.

14 Business combinations

(a) On 30 June 2006 the Group acquired 100% of the share capital of Smink Beheer B.V., a waste management company in the Netherlands, for a total consideration of £60.8m. The goodwill recognised is attributable to Smink's strong position and profitability and the significant synergies expected to arise post acquisition. From acquisition to 31 March 2007, Smink Beheer B.V. has contributed £27.0m to revenue and £2.0m to profit after tax. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the business, were as follows:

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets	1.8	24.9	26.7
Property, plant and equipment	9.6	3.3	12.9
Other non-current receivables	–	1.5	1.5
Inventories	0.1	–	0.1
Trade receivables	6.0	–	6.0
Other current receivables	0.4	–	0.4
Cash	16.7	–	16.7
Trade payables	(2.1)	–	(2.1)
Other current payables	(3.8)	–	(3.8)
Current tax payable	(5.5)	3.3	(2.2)
Deferred tax liabilities	(1.1)	(9.9)	(11.0)
Provisions	(5.3)	(1.5)	(6.8)
	16.8	21.6	38.4
Provisional goodwill			22.4
			60.8
Satisfied by:			
Cash consideration			59.0
Deferred consideration			1.5
Costs incurred			0.3
Total consideration			60.8

(b) During the period the Group completed the acquisition of other tuck-in businesses. The goodwill recognised is attributable to synergy benefits through the amalgamation of the acquired businesses with existing businesses. From acquisition to 31 March 2007, the businesses contributed £10.0m to revenue and £0.1m to profit after tax. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the businesses, were as follows:

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets	–	1.1	1.1
Property, plant and equipment	8.6	4.4	13.0
Other current liabilities	(0.1)	–	(0.1)
Borrowings	(0.5)	–	(0.5)
Deferred tax liabilities	–	(0.4)	(0.4)
	8.0	5.1	13.1
Provisional goodwill			9.1
			22.2
Satisfied by:			
Cash consideration			21.8
Costs incurred			0.4
Total consideration			22.2

notes to the financial statements.

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14 Business combinations – continued

(c) If all of the acquisitions had been completed on 1 April 2006 instead of the dates above, total Group revenue and Group profit for the year would have been approximately £520.7m and £32.4m respectively on a pro-forma basis. The pro-forma amounts include the results of the acquired companies from the date of acquisition together with pre-acquisition results from 1 April 2006 to the acquisition date as adjusted for the effect of significant fair value adjustments. The pro-forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of the future results of the combined businesses.

15 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using applicable local tax rates. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Group	Retirement benefit obligations £m	Tax losses £m	Interest rate swaps £m	Capital allowances £m	Other timing differences £m	Total £m
At 31 March 2005	8.1	2.0	1.1	(19.0)	6.3	(1.5)
Disposals	–	–	–	0.3	–	0.3
(Charge) credit to income statement	(1.8)	4.3	1.1	(3.8)	(1.1)	(1.3)
(Charge) credit to equity	0.2	–	–	–	(0.1)	0.1
Exchange	–	–	–	(0.1)	–	(0.1)
At 31 March 2006	6.5	6.3	2.2	(22.6)	5.1	(2.5)
On acquisition of businesses	–	0.7	–	(8.9)	(3.1)	(11.3)
(Charge) credit to income statement	(1.6)	4.8	(2.0)	3.0	(7.2)	(3.0)
Charge to equity	(0.1)	–	–	–	(0.2)	(0.3)
Exchange	–	–	–	0.3	0.2	0.5
At 31 March 2007	**4.8**	**11.8**	**0.2**	**(28.2)**	**(5.2)**	**(16.6)**
Deferred tax assets	**4.8**	**3.8**	**0.2**	**(1.3)**	**3.3**	**10.8**
Deferred tax liabilities	**–**	**8.0**	**–**	**(26.9)**	**(8.5)**	**(27.4)**
At 31 March 2007	**4.8**	**11.8**	**0.2**	**(28.2)**	**(5.2)**	**(16.6)**
Deferred tax assets	6.5	3.3	2.2	0.9	2.1	15.0
Deferred tax liabilities	–	3.0	–	(23.5)	3.0	(17.5)
At 31 March 2006	6.5	6.3	2.2	(22.6)	5.1	(2.5)

As at 31 March 2007, the Group has unused trading losses (tax effect) of £20.4m (2006: £10.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £11.8m (2006: £6.3m) of such losses. No deferred tax asset has been recognised in respect of the remaining £8.6m (2006: £4.2m) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

No liability has been recognised on the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries because the Group is in a position to control the timing and method of the reversal of these differences and it is probable that such differences will not give rise to a tax liability in the foreseeable future.

As a result of changes announced in the United Kingdom budget, which are expected to be enacted in the Finance Act 2007, the UK corporation tax rate will reduce from 30% to 28%, which is expected to reduce deferred tax assets by approximately £0.6m in the year ending 31 March 2008. There will also be phased withdrawal of industrial buildings allowance which is expected to be enacted in the Finance Act 2008. As the rules on how this will be implemented are unclear the impact cannot be quantified, however it may have a material adverse effect on the tax charge in the year ending 31 March 2009.

15 Deferred tax – continued

Company	Retirement benefit obligations £m	Other timing differences £m	Total £m
At 31 March 2005	8.1	–	8.1
(Charge) credit to income statement	(1.8)	0.2	(1.6)
Credit (charge) to equity	0.2	(0.2)	–
At 31 March 2006	6.5	–	6.5
(Charge) credit to income statement	(1.6)	0.2	(1.4)
Charge to equity	(0.1)	(0.2)	(0.3)
At 31 March 2007	**4.8**	**–**	**4.8**

As at 31 March 2007, the Company has unused tax trading losses (tax effect) of £6.2m (2006: £4.2m) available for offset against future profits. No deferred tax asset has been recognised in respect of the losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

As a result of changes announced in the United Kingdom budget, which are expected to be enacted in the Finance Act 2007, the UK corporation tax rate will reduce from 30% to 28%. It is expected that deferred tax assets in the Company will reduce by approximately £0.3m in the year ending 31 March 2008.

16 Inventories

	Group	
	2007 £m	2006 £m
Raw materials and consumables	**5.2**	4.6
Work in progress	**–**	3.7
Finished goods	**0.2**	0.7
	5.4	9.0

17 Trade and other receivables

	Group		**Company**	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Non-current assets:				
Financial assets relating to PFI contracts	**141.7**	119.9	**–**	–
Other receivables	**0.2**	0.2	**–**	–
	141.9	120.1	**–**	–
Current assets:				
Trade receivables	**102.3**	88.2	**–**	–
Provision for impairment of receivables	**(4.2)**	(4.0)	**–**	–
Trade receivables – net	**98.1**	84.2	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**24.5**	40.8
Financial assets relating to PFI contracts	**8.2**	–	**–**	–
Other receivables	**4.0**	6.2	**0.2**	0.2
Prepayments and accrued income	**9.1**	6.9	**0.1**	–
	119.4	97.3	**24.8**	41.0

At 31 March 2007 the financial assets relating to PFI contracts bore interest at a weighted average interest rate of 5.6% (2006: 6.2%). The financial assets will be recovered over the term of the contracts with the latest repayment in November 2029. In the opinion of the Directors, the fair value of trade and other receivables is not materially different to their carrying values.

notes to the financial statements.

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18 Cash and cash equivalents

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Cash at bank and in hand	**17.6**	19.2	**13.5**	–
Short term deposits	**25.1**	40.2	**25.1**	40.2
	42.7	59.4	**38.6**	40.2

The effective interest rate on short term deposits was 5.3% (2006: 4.5%), and the deposits have an average maturity of 30 days (2006: 25 days). The fair value of cash and cash equivalents is not materially different to their carrying values.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

Currency	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Sterling	**30.7**	49.6	**38.2**	40.2
Euro	**11.7**	9.5	**0.4**	–
Dollar	**0.3**	0.3	**–**	–
	42.7	59.4	**38.6**	40.2

19 Borrowings and derivative financial instruments

(a) Borrowings

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Current borrowings:				
Bank overdrafts and short term loans	**2.2**	7.9	**1.0**	6.5
Bank loans	**24.0**	–	**–**	–
Finance lease obligations	**2.7**	3.0	**–**	–
	28.9	10.9	**1.0**	6.5
Non-current borrowings:				
Senior notes	**35.0**	36.0	**10.6**	10.9
Bank loans	**229.4**	185.7	**69.7**	84.6
Interest rate swaps	**0.5**	7.4	**–**	–
Finance lease obligations	**6.3**	8.2	**–**	–
	271.2	237.3	**80.3**	95.5
Maturity of non-current borrowings:				
Between one and two years	**6.5**	23.5	**–**	–
Between two years and five years	**166.4**	106.5	**80.3**	95.5
Over five years	**98.3**	107.3	**–**	–
	271.2	237.3	**80.3**	95.5

The Group's finance lease obligations are payable as follows:

Group	2007 Minimum lease payments £m	2007 Interest £m	2007 Principal £m	2006 Minimum lease payments £m	2006 Interest £m	2006 Principal £m
Less than one year	**3.1**	**(0.4)**	**2.7**	3.5	(0.5)	3.0
Between one and five years	**6.1**	**(0.6)**	**5.5**	8.1	(0.7)	7.4
More than five years	**0.9**	**(0.1)**	**0.8**	0.9	(0.1)	0.8
	10.1	**(1.1)**	**9.0**	12.5	(1.3)	11.2

The Group has an option to purchase leased assets at the end of the lease term. There are no restrictions imposed by lessors to take out other debt or leases.

19 Borrowings and derivative financial instruments – continued

The weighted average effective interest rates at the balance sheet dates were as follows:

Group	2007 Sterling %	2007 Euro %	2006 Sterling %	2006 Euro %
Bank overdraft (floating rate)	**6.3**	**4.8**	5.5	3.5
Senior notes (fixed rate)	**–**	**6.9**	–	6.9
Bank loans (floating rate)	**–**	**4.7**	–	3.4
Finance lease obligations	**5.2**	**4.7**	–	4.7

The weighted average effective interest rates relating to the Company were 0% (2006: 5.5%) for sterling bank overdrafts, 4.8% (2006: 0%) for Euro bank overdrafts, 6.9% (2006: 6.9%) for senior notes and 4.7% (2006: 3.3%) for bank loans.

Currency profile of borrowings

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Sterling	**125.0**	113.0	**–**	6.5
Euro	**175.1**	135.2	**81.3**	95.5
	300.1	248.2	**81.3**	102.0

Undrawn borrowing facilities

Group	Core Business 2007 £m	Core Business 2006 £m	PFI companies 2007 £m	PFI companies 2006 £m	Total 2007 £m	Total 2006 £m
Floating rate:						
Expiring within one year	**25.0**	24.5	**–**	–	**25.0**	24.5
Expiring between one and two years	**–**	–	**–**	–	**–**	–
Expiring in more than two years	**100.1**	137.8	**32.1**	53.7	**132.2**	191.5
	125.1	162.3	**32.1**	53.7	**157.2**	216.0

As at 31 March 2007, the Company had undrawn borrowing facilities at floating rates of £100.1m expiring in more than two years (2006: £137.8m).

Security of borrowing facilities

The Group's principal bank loans are unsecured but are subject to cross guarantees within the Group, excluding the PFI companies (see note 28). Each PFI company has loan facilities which are secured by fixed and floating charges on the future cash flows of PFI contracts.

Fair values of financial liabilities

Group	2007 Carrying amount £m	2007 Fair value £m	2006 Carrying amount £m	2006 Fair value £m
Bank overdrafts and short term loans	**2.2**	**2.2**	7.9	7.9
Bank loans	**253.4**	**253.4**	185.7	185.7
Trade and other payables	**127.3**	**127.3**	114.1	114.1
Senior notes	**35.0**	**35.9**	36.0	37.9
Interest rate swaps	**0.5**	**0.5**	7.4	7.4
Other non-current liabilities	**2.3**	**2.3**	0.7	0.7
	420.7	**421.6**	351.8	353.7

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

notes to the financial statements.

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19 Borrowings and derivative financial instruments – continued

The fair value of financial liabilities for the Company is not materially different to the carrying value, except for the senior notes, which have a fair value of £10.8m (2006: £11.4m) compared with a carrying value of £10.6m (2006: £10.9m).

(b) Derivative financial instruments – interest rate swaps

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2007 was £126.6m (2006: £128.2m). At 31 March 2007 the fixed interest rates varied from 5.1% to 5.8% (2006: 4.9% to 5.8%) and floating rates were 5.5% to 5.7%, 3 and 6 month LIBOR (2006: 4.6% for both 1 and 3 month LIBOR). The expiry dates of the swaps range from 16 April 2023 (earliest) to 31 March 2025 (latest).

(c) Hedge of net investment in foreign operations

The Group has Euro denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the Netherlands and Belgium. The fair value of Euro borrowings at 31 March 2007 was £80.5m (2006: £96.0m). The foreign exchange gain of £2.6m (2006: loss £1.3m) on translation of the borrowings into sterling has been recognised in the exchange reserve.

20 Trade and other payables and other non-current liabilities

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Current liabilities:				
Trade payables	**52.9**	52.6	**0.3**	0.2
Other tax and social security payable	**12.3**	10.3	**0.1**	–
Other payables	**5.8**	6.2	**0.5**	0.5
Accruals and deferred income	**44.8**	37.4	**3.9**	2.4
Unprocessed waste	**11.4**	7.5	**–**	–
Government grants	**0.1**	0.1	**–**	–
	127.3	114.1	**4.8**	3.1
Non-current liabilities:				
Amounts owed to group undertakings	**–**	–	**181.0**	144.3
Amounts owed by joint ventures	**–**	0.6	**–**	–
Deferred consideration	**2.2**	–	**–**	–
Government grants	**0.1**	0.1	**–**	–
	2.3	0.7	**181.0**	144.3

21 Provisions for liabilities and charges

	Group			Company
	Site restoration and aftercare £m	Other £m	Total £m	Other £m
At 31 March 2006	17.2	8.2	25.4	4.7
Provided – cost of sales	2.1	–	2.1	–
Provided – finance charges	0.8	–	0.8	–
Acquired with acquisitions of businesses	4.3	2.4	6.7	–
Utilised	(3.1)	(2.8)	(5.9)	(0.8)
Exchange	(0.3)	–	(0.3)	–
At 31 March 2007	**21.0**	**7.8**	**28.8**	**3.9**
Current	**0.8**	**5.5**	**6.3**	**3.9**
Non-current	**20.2**	**2.3**	**22.5**	**–**
At 31 March 2007	**21.0**	**7.8**	**28.8**	**3.9**
Current	2.3	6.8	9.1	4.4
Non-current	14.9	1.4	16.3	0.3
At 31 March 2006	17.2	8.2	25.4	4.7

Site restoration

Site restoration provision as at 31 March 2007 relates to the cost of final capping and covering of the landfill sites. The Group's minimum unavoidable costs have been reassessed at the year end and the net present value fully provided for.

An element of the closing provision relates to costs of £0.8m that are expected to be paid next year. The remaining part of the provision relates to restoration costs that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

Aftercare

The total post closure costs 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.

Other

Other provisions principally cover onerous leases, warranties and indemnities. The net present value of the rental on vacant leasehold properties has been provided in full. These payments will be made over the next five years. Under the terms of the agreements for the disposal of the United Kingdom landfill and power and other United Kingdom operations, the Company has given a number of warranties and indemnities to the purchasers which may give rise to payments.

notes to the financial statements.

continued

22 Retirement benefit obligations

	Group 2007 £m	Group 2006 £m
UK defined contribution schemes	**0.3**	0.3
UK funded defined benefit schemes	**1.4**	1.6
Overseas pension schemes	**4.9**	4.3
Total pension cost	**6.6**	6.2

(a) United Kingdom

The Group and Company's principal pension scheme is the Shanks Group Pensions Scheme which covers eligible United Kingdom employees and has both funded defined benefit and defined contribution sections. The Group also has two other small funded defined benefit schemes, which are included in the defined benefit disclosures below. Pension costs for the defined benefit section are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method.

Assumptions

The most recent actuarial valuations of the defined benefit pension schemes operated by the Group dated 5 April 2006 have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – Employee Benefits in order to assess the liabilities of these schemes at 31 March 2007. The main assumptions were as follows:

	2007 % pa	2006 % pa
Discount rate	**5.4**	4.9
Future salary growth	**4.7**	4.5
Rate of increase in pensions payment (cap 5%)	**3.2**	2.9
Rate of increase in pensions payment (cap 2.5%)	**2.4**	–
Rate of price inflation	**3.2**	3.0

Mortality rates used are based on the "00 series" of actuarial tables adjusted for Medium Cohort and assume an improvement in life expectancy of 1% per annum for males and 0.5% per annum for females.

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

Income statement

		2007 £m	2006 £m
Operating profit:	Current service cost	**1.4**	1.5
	Past service cost	**–**	0.1
	Curtailment gain	**–**	(1.2)
		1.4	0.4
Finance charges:	Interest charge on scheme liabilities	**5.1**	4.7
	Expected return on scheme assets	**(5.9)**	(5.0)
		(0.8)	(0.3)
Net pension cost before tax		**0.6**	0.1

22 Retirement benefit obligations – continued

Statement of recognised income and expense

	2007 £m	2006 £m
(Loss) gain on actual return less expected return on scheme assets	**(0.8)**	11.7
Experience gain arising on scheme liabilities	**1.5**	–
Loss arising on changes in assumptions underlying the present value of the scheme liabilities	**(0.2)**	(12.3)
Actuarial gain (loss)	**0.5**	(0.6)

Cumulative actuarial gains and losses recognised in the statement of recognised income and expense since 1 April 2004 are £Nil (2006: £0.5m loss).

History of experience gains and losses

	2007	2006	2005
Market value of scheme assets (£m)	**98.4**	94.1	71.6
Present value of scheme liabilities (£m)	**(106.8)**	(104.4)	(88.5)
Deficit in the scheme (£m)	**(8.4)**	(10.3)	(16.9)
Experience adjustments arising on scheme assets (£m)	**(0.8)**	11.7	1.8
% of scheme assets	**0.8%**	12.4%	2.5%
Experience adjustments arising on scheme liabilities (£m)	**1.5**	–	0.8
% of scheme liabilities	**1.4%**	–	0.9%

Balance Sheet

The aggregate fair values of the assets in the Group's defined benefit schemes, the aggregate net pension liabilities and their expected weighted average long term rates of return are set out below:

	Expected long term rate of return		Net pension liability		Plan assets as % of total assets	
	2007 %pa	2006 %pa	**2007 £m**	2006 £m	**2007 %**	2006 %
Equities	**8.7**	7.3	**65.9**	62.6	**67.0**	66.5
Government bonds	**4.7**	4.3	**30.7**	30.8	**31.2**	32.8
Corporate bonds	**5.4**	4.7	**0.4**	0.4	**0.4**	0.4
Cash	**5.5**	4.4	**1.4**	0.3	**1.4**	0.3
Total market value of assets			**98.4**	94.1	**100.0**	100.0
Present value of scheme liabilities			**(106.8)**	(104.4)		
Net deficit in the schemes			**(8.4)**	(10.3)		
Related deferred tax assets			**2.5**	3.1		
Net pension liability			**(5.9)**	(7.2)		

The overall expected rate of return on scheme assets is a weighted average of the expected rates on each asset class. The actual return on plan assets was £5.1m (2006: £16.7m).

notes to the financial statements.

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22 Retirement benefit obligations – continued

Movement in scheme assets during the year

	2007 £m	2006 £m
At 1 April 2006	**94.1**	71.6
Expected return on plan assets	**5.9**	5.0
Actual return less expected return on plan assets	**(0.8)**	11.7
Employer contributions – regular	**2.0**	2.3
Employer contributions – special	**–**	5.0
Member contributions	**0.4**	0.7
Benefits paid	**(3.2)**	(2.2)
At 31 March 2007	**98.4**	94.1

Movement in scheme liabilities during the year

	2007 £m	2006 £m
At 1 April 2006	**(104.4)**	(88.5)
Current service cost	**(1.4)**	(1.5)
Past service cost	**–**	(0.1)
Curtailment gains	**–**	1.2
Interest cost on plan liabilities	**(5.1)**	(4.7)
Experience gains	**1.5**	–
Changes in assumptions	**(0.2)**	(12.3)
Member contributions	**(0.4)**	(0.7)
Benefits paid	**3.2**	2.2
At 31 March 2007	**(106.8)**	(104.4)

The estimated contributions expected to be paid to the schemes in the year ending 31 March 2008 are £2.1m.

(b) Overseas

In the Netherlands, most employees are members of multi-employer pension schemes. These schemes are treated as defined contribution plans as it is not possible to separately identify the Group's share of the assets and liabilities of those schemes. The Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit. The Group also operates defined contribution schemes for a limited number of employees in the Netherlands and Belgium. The total cost in the year for overseas pensions was £4.9m (2006: £4.3m).

23 Called up share capital

Group and Company	2007 £m	2006 £m
Authorised 350 million (2006: 350 million) ordinary shares of 10p each	**35.0**	35.0
Allotted, called up and fully paid 235 million (2006: 235 million) ordinary shares of 10p each	**23.5**	23.5

During the year 305,385 (2006: 456,662) ordinary shares were allotted following the exercise of options under the Company's Executive and Savings Related Share Option Schemes for an aggregate consideration of £371,631 (2006: £557,227). Further disclosures relating to share-based payments are set out in note 6.

24 Statement of changes in shareholders' equity

Group	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Total £m
At 1 April 2005	23.4	93.2	3.1	69.3	189.0
Recognised income and expense for the year	–	–	1.9	30.0	31.9
Dividends paid	–	–	–	(13.4)	(13.4)
Share-based payments	–	–	–	0.5	0.5
Issue of share capital	0.1	0.5	–	–	0.6
At 31 March 2006	23.5	93.7	5.0	86.4	208.6
Recognised income and expense for the year	–	–	(3.9)	31.7	27.8
Dividends paid	–	–	–	(13.4)	(13.4)
Share-based payments	–	–	–	0.6	0.6
Tax on share-based payments	–	–	–	(0.2)	(0.2)
Issue of share capital	–	0.3	–	–	0.3
At 31 March 2007	**23.5**	**94.0**	**1.1**	**105.1**	**223.7**

The exchange reserve comprises all foreign exchange differences arising since 1 April 2005 from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign operations.

Company	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 1 April 2005	23.4	117.2	69.9	210.5
Recognised income and expense for the year	–	–	(5.9)	(5.9)
Dividends paid	–	–	(13.4)	(13.4)
Share-based payments	–	–	0.5	0.5
Issue of share capital	0.1	0.5	–	0.6
At 31 March 2006	23.5	117.7	51.1	192.3
Recognised income and expense for the year	–	–	(6.3)	(6.3)
Dividends paid	–	–	(13.4)	(13.4)
Share-based payments	–	–	0.6	0.6
Tax on share-based payments	–	–	(0.2)	(0.2)
Issue of share capital	–	0.3	–	0.3
At 31 March 2007	**23.5**	**118.0**	**31.8**	**173.3**

notes to the financial statements.

continued

25 Notes to the cash flow statement

	2007 £m	2006 £m
(a) Continuing operations		
Net cash from operating activities		
Operating profit from continuing operations	**46.2**	38.9
Amortisation of intangible assets	**2.3**	0.5
Depreciation of property, plant and equipment	**30.0**	28.7
Charge for long term landfill provisions	**2.1**	0.5
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	**80.6**	68.6
Gain on disposal of property, plant and equipment	**(1.0)**	(1.3)
Decrease in provisions	**(4.3)**	(4.4)
Share-based payments	**0.6**	0.5
Operating cash flows before movements in working capital	**75.9**	63.4
Decrease (increase) in inventories	**3.7**	(1.2)
(Increase) decrease in receivables	**(7.3)**	7.9
Increase (decrease) in payables	**8.9**	(10.9)
Cash generated by operations	**81.2**	59.2
Income taxes paid	**(9.9)**	(1.5)
Net cash from operating activities	**71.3**	57.7
Investing activities		
Purchases of intangible assets	**(1.1)**	(0.2)
Purchases of property, plant and equipment	**(39.3)**	(30.7)
Disposal of property, plant and equipment	**2.7**	3.1
Financial asset capital advances	**(30.9)**	(48.8)
Financial asset capital repayments	**1.4**	1.9
Acquisitions of subsidiary and other businesses	**(65.3)**	(4.2)
Net proceeds from disposal of subsidiary and other businesses	**–**	34.0
Income received from other investments	**1.1**	0.7
Net cash used in investing activities	**(131.4)**	(44.2)
(b) Discontinued operations		
Net cash from operating activities		
Operating profit from discontinued operations	**–**	0.4
Depreciation of property, plant and equipment	**–**	2.1
Decrease in provisions	**–**	(2.8)
Operating cash flows before movements in working capital	**–**	(0.3)
Increase in inventories	**–**	(0.4)
Decrease in receivables	**–**	1.4
Increase in payables	**–**	0.5
Cash generated by operations	**–**	1.2
Net cash from operating activities	**–**	1.2
Investing activities		
Purchases of property, plant and equipment	**–**	(1.2)
Net cash used in investing activities	**–**	(1.2)

25 Notes to the cash flow statement – continued

	2007 £m	2006 £m
(c) Total Group operations		
Net cash from operating activities		
Operating profit from all operations	**46.2**	39.3
Amortisation of intangible assets	**2.3**	0.5
Depreciation of property, plant and equipment	**30.0**	30.8
Charge for long term landfill provisions	**2.1**	0.5
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	**80.6**	71.1
Gain on disposal of property, plant and equipment	**(1.0)**	(1.3)
Decrease in provisions	**(4.3)**	(7.2)
Share-based payments	**0.6**	0.5
Operating cash flows before movements in working capital	**75.9**	63.1
Decrease (increase) in inventories	**3.7**	(1.6)
(Increase) decrease in receivables	**(7.3)**	9.3
Increase (decrease) in payables	**8.9**	(10.4)
Cash generated by operations	**81.2**	60.4
Income taxes paid	**(9.9)**	(1.5)
Net cash from operating activities	**71.3**	58.9
Investing activities		
Purchases of intangible assets	**(1.1)**	(0.2)
Purchases of property, plant and equipment	**(39.3)**	(31.9)
Disposal of property, plant and equipment	**2.7**	3.1
Financial asset capital advances	**(30.9)**	(48.8)
Financial asset capital repayments	**1.4**	1.9
Acquisitions of subsidiary and other businesses	**(65.3)**	(4.2)
Net proceeds from disposal of subsidiary and other businesses	**–**	34.0
Income received from other investments	**1.1**	0.7
Net cash used in investing activities	**(131.4)**	(45.4)

26 Capital commitments

Group	2007 £m	2006 £m
Contracts placed for future capital expenditure on financial assets not provided in the financial statements	**23.6**	38.6
Contracts placed for future capital expenditure on property, plant and equipment not provided in the financial statements	**4.9**	6.0
Share of joint venture future capital expenditure not provided in the financial statements	**2.4**	0.3

The Company had no capital commitments (2006: £Nil).

27 Financial commitments

Group	2007 £m	2006 £m
Commitments under non-cancellable operating leases expiring:		
Within one year	**5.0**	4.1
Later than one year and less than five years	**17.9**	19.5
After five years	**44.9**	40.6
	67.8	64.2
Future minimum lease payments expected to be received under non-cancellable sub-leases	**(2.9)**	–
	64.9	64.2

The Company has commitments under non-cancellable leases of £0.6m expiring after five years (2006: £0.7m).

notes to the financial statements.

continued

28 Contingent liabilities

Group and Company

Under the terms of the sale agreement with Terra Firma for the disposal of the Group's landfill and power operations, the Group has given a number of indemnities and warranties relating to the disposed operations.

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

The Company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities totalling £24.6m (2006: £25.1m).

Joint Ventures

The Group's joint ventures have no significant contingent liabilities.

29 Related party transactions

(a) Transactions between the Company and its subsidiaries

A list of the Company's principal subsidiaries is set out on page 71. Transactions with subsidiaries relate to interest on inter-company loans or receivables and management charges. Net interest expense was £4.9m (2006: £2.6m) and management charges received were £2.1m (2006: £Nil). Total outstanding balances are listed in notes 17 and 20.

(b) Remuneration of key management personnel

The disclosures required by the Companies Act 1985 and those specified 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 29 to 34, and form part of these financial statements.

During the year Mr P Delaunois, a non-executive Director of the Group, received £40,000 (2006: £41,000) for consultancy services provided to the Belgian subsidiaries. Mr P Delaunois is a shareholder and director of S.A. CGO and the fees were paid to this company.

30 Post balance sheet events

On 5 April 2007 the Group acquired 100% of the share capital of Kluivers Totaal Recycling en Vernietiging B.V., a company specialising in the collecting and recycling of wastepaper, for a cash consideration of £2.7m plus deferred consideration of £0.7m. The purchase price allocation, including the fair value of the individual assets and liabilities has not been finalised.

On 13 April 2007 the Group acquired 70% of the share capital of Orgaworld B.V. for an initial consideration of £7.3m and will acquire the remaining 30% over the next five years. A further £16.7m is payable of which £2.1m is deferred consideration and £14.6m is contingent on future events. Orgaworld is involved in the composting and anaerobic digestion of biodegradable waste. The purchase price allocation, including the fair value of the individual assets and liabilities has not been finalised.

subsidiary undertakings and joint ventures.

at 31 March 2007

Subsidiary undertakings

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

Subsidiary undertakings	Country of incorporation
Principal Group subsidiary undertakings	
Shanks Waste Management Limited	UK
Shanks s.a.	Belgium
Shanks Hainaut s.a.	Belgium
Shanks Liège-Luxembourg s.a.	Belgium
Shanks Bruxelles s.a.	Belgium
Shanks Vlaanderen n.v.	Belgium
Shanks Transport n.v.	Belgium
Shanks Nederland B.V.	Netherlands
Icova B.V.	Netherlands
BV van Vliet Groep Milieudienstverleners	Netherlands
Vliko B.V.	Netherlands
Klok Containers B.V.	Netherlands
Transportbedrijf van Vliet B.V. "Contrans"	Netherlands
Afvalstoffen Terminal Moerdijk B.V. "ATM"	Netherlands
Reym B.V.	Netherlands
Smink Beheer B.V.	Netherlands
Subsidiary undertakings holding Private Finance Initiative contracts	
Shanks Argyll & Bute Limited	UK
ELWA Limited	UK
Shanks Dumfries and Galloway Limited	UK

Joint ventures

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

	% Group holding	Most recent year end	Country of incorporation
Geohess (UK) Limited	50%	31 December 2006	UK
Avondale Environmental Limited	50%	31 March 2007	UK
Caird Bardon Limited	50%	31 December 2006	UK
Silvamo n.v.	50%	31 December 2006	Belgium
Marpos n.v.	45%	31 December 2006	Belgium

consolidated five year financial summary.

at 31 March 2007

	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2004 UK GAAP £m	2003 UK GAAP £m
Consolidated income statement					
Revenue	**508.5**	442.5	420.4	409.6	380.1
Operating profit from continuing operations before exceptional items	**46.2**	38.9	36.0	31.8	34.6
Finance charges – interest	**(5.8)**	(4.2)	(4.7)	(12.2)	(13.7)
Finance charges – other	**(1.2)**	(0.7)	(0.6)	(1.0)	(0.7)
Profit from continuing operations before exceptional items and tax (Headline Profit)	**39.2**	34.0	30.7	18.6	20.2
Exceptional items (see note 10)	**6.9**	(3.7)	(11.0)	–	(1.5)
Goodwill amortisation	**–**	–	–	(10.0)	(9.0)
Profit before tax from continuing operations	**46.1**	30.3	19.7	8.6	9.7
Tax	**(14.8)**	(10.5)	(7.1)	(5.0)	(6.8)
Profit after tax from continuing operations	**31.3**	19.8	12.6	3.6	2.9
Profit after tax from discontinued operations	**–**	10.6	65.0	5.6	6.2
Profit for the year	**31.3**	30.4	77.6	9.2	9.1
Consolidated balance sheet					
Non-current assets	**561.8**	466.0	433.7	549.7	532.4
Other assets less liabilities	**(80.7)**	(68.6)	(66.0)	(103.3)	(91.1)
Net debt	**(257.4)**	(188.8)	(178.7)	(309.1)	(297.5)
Net assets	**223.7**	208.6	189.0	137.3	143.8
Share capital and share premium	**117.5**	117.2	116.6	116.5	116.5
Reserves	**106.2**	91.4	72.4	20.8	27.3
Total equity	**223.7**	208.6	189.0	137.3	143.8
Financial ratios					
Adjusted basic earnings per share	**11.3p**	9.6p	8.7p	8.9p	10.1p
Basic earnings per share	**13.3p**	13.0p	33.1p	3.9p	3.9p
Dividends per share	**5.9p**	5.7p	5.7p	5.7p	5.7p

Note: Comparative figures for 2004 and 2003 are stated under UK GAAP. The consolidated income statement for those years has been re-presented in IFRS format, but with underlying figures accounted for under UK GAAP.

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

We have audited the group and parent company financial statements (the "financial statements") of Shanks Group plc for the year ended 31 March 2007 which comprise the Group and Parent Company Income Statements, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements. The information given in the Report of the Directors includes that specific information in the principal activities section which is cross referred to the Business Review.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the unaudited part of the Remuneration Report, the Chairman's Statement, the Business Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited 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 and the part of the Remuneration Report to be audited.

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

continued

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Parent Company's affairs as at 31 March 2007 and of the Group's profit and the Parent Company's loss and cash flows for the year then ended.

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Report of the Directors is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 May 2007

shareholder information.

at 31 March 2007

	Number of shareholders	Number of shares (thousands)	%
Range of shareholding			
1 – 5,000	2,161	3,540	1.5
5,001 – 25,000	452	4,370	1.9
25,001 – 50,000	88	3,056	1.3
50,001 – 100,000	62	4,179	1.8
100,001 – 250,000	64	10,656	4.5
250,001 – 500,000	33	11,820	5.0
over 500,000	85	197,309	84.0
	2,945	234,930	100.0
Analysis of shareholders			
Individuals	1,988	10,757	4.6
Banks and nominee companies	841	211,342	90.0
Other institutions and companies	116	12,831	5.4
	2,945	234,930	100.0

Low cost share dealing service

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

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

Potential Targeting of Shareholders

Over the last year many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turns out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. A 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offer of free company reports.

If you receive any unsolicited investment advice it is recommended that you:

- Make sure you get the correct name of the person and organisation;
- Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register;
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted UK investors. Any approach from such an organisation should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml; and
- Inform our registrar's Contact Centre on 0870 707 1290.

More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/consumer

shareholder information.

continued

Registrar and Transfer Office

Any enquiries relating to shareholdings such as lost certificates, dividend payments or a change of address should be made to the Registrar and Transfer Office (see address on page 80). 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 2007	Record date for final 2007 dividend
26 July 2007	Annual General Meeting
3 August 2007	Payment of final 2007 dividend
November 2007	Announcement of interim results and dividends
January 2008	Payment of interim dividend
March 2008	2008 financial year ends
June 2008	Announcement of 2008 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 26 July 2007 at 11.00 a.m. for the purpose of transacting the following business:

Routine ordinary business

(1) To receive the Company's annual accounts for the year ended 31 March 2007 together with the reports of the Directors and auditors thereon.

(2) To approve the Directors' Remuneration Report for the year ended 31 March 2007.

(3) To declare a final dividend of 4.0 pence per ordinary share for the year ended 31 March 2007.

(4) To elect Mr Eric van Amerongen as a Director.

(5) To elect Dr Stephen Riley as a Director.

(6) To re-elect Mr Fraser Welham as a Director.

(7) To re-elect Mr Peter Johnson as a Director.

(8) To re-appoint PricewaterhouseCoopers LLP as auditors of the Company until the conclusion of the next meeting at which accounts are laid before the Company and to authorise the Directors to determine their remuneration.

Special business

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

"THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (as amended and from time to time in force) (the "Act") to make one or more market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 10p each in the Company ("Ordinary Shares") provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 23,400,000;

(b) the maximum price which may be paid for any 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 Ordinary Share is 10 pence (in each case exclusive of associated expenses); and

(c) unless previously renewed, varied or revoked, 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 passing of this resolution, whichever is the earlier, but a contract of purchase may be made before such expiry which will or may be completed wholly or partly thereafter, and a purchase of Ordinary Shares may be made in pursuance of any such contract."

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

"THAT in substitution for any existing power under section 95 of the Companies Act 1985 (as amended and from time to time in force) (the "Act"), but without prejudice to the exercise of any such power prior to the passing of this resolution, the Directors be and they are hereby empowered until the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority available to the Directors under section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

(a) the allotment of equity securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the Directors in proportion (as nearly as practicable) to the respective numbers of such ordinary shares held by them on that date provided that the Directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to treasury shares, fractional entitlements or legal requirements or practical

notice of annual general meeting.

continued

problems arising under the laws of, or the regulations of any recognised regulatory body or stock exchange in, any territory; or

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

but so that this authority shall allow the Company, before the expiry of this authority, to make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offers or agreements as if the power conferred hereby had not expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority available to the Directors under section 80 of the Act" were omitted."

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

"THAT Section 4.1 of the rules of the Shanks Group plc Savings Related Share Option Scheme 2005 be amended to read:

"The Directors may, in their absolute discretion, within the period of 42 days commencing on any of the following:

(a) the day on which the Scheme is approved by the Inland Revenue; or

(b) an Announcement Date; or

(c) the day of the Annual General Meeting of the Company; or

(d) any day on which the Directors resolve that exceptional circumstances exist which justify the invitation of applications for Options,

invite applications for Options PROVIDED ALWAYS that no Option may be granted where the Market Value of the Scheme Shares subject to such option would fall to be determined by reference to a dealing day or days within a close period (as defined in the rules of the London Stock Exchange).""

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

"THAT the articles of association of the Company be amended by the insertion of the following new article 20A:

"20A Notwithstanding any other article or regulation or provision of these Articles, the Directors may from time to time determine, either generally or in any particular case, the method by which any certificate issued by the Company in respect of the Company's shares, stock, debentures or other securities shall be authenticated or executed by or on behalf of the Company and, in particular:

(a) the Directors may dispense with the need to affix the common seal, or any official seal, of the Company to such certificate;

(b) the Directors may determine the manner, and by whom, any such certificate is to be signed, and may dispense with the need for such certificate to be signed or executed in any way;

(c) the Directors may permit the signature or a facsimile of the signature of any person to be applied to such certificate by any mechanical or electronic means in place of that person's actual signature,

and any certificate issued in accordance with the requirements of the Directors shall, as against the Company, be *prima facie* evidence of the title of the person named in that certificate to the shares, stock, debentures or other securities comprised in it.""

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

"THAT the Company may send or supply any document or information that is required to be or authorised to be sent or supplied to a member, or any other person, by the Company by a provision of the Companies Acts (as defined in Section 2 of the Companies Act 2006 (the "2006 Act")), or pursuant to the Company's Articles of Association or to any other rules or regulations to which the Company may be subject, by sending or supplying it in electronic form or by making it available on a website, and the provisions of the 2006 Act which apply to sending or supplying a document or information required or authorised to be sent or supplied by the Companies Acts by sending or supplying it in electronic form or by making it available on a website shall also apply, mutatis mutandis, to any sending or supplying of any document or information required or authorised to be sent by the Company's Articles of Association or any other rules or regulations to which the Company may be subject ."

By Order of the Board

Carolyn Gibson
Secretary

30 May 2007

Registered office:
Shanks House
211 Blochairn Road
Blochairn
Glasgow
G21 2RL

Notes:

1. A member entitled to attend and vote at the meeting convened by the foregoing Notice is entitled to appoint one or more proxies (who need not be a member or members) to attend and, on a poll, vote instead of him/her. A prepaid form of proxy accompanies this Notice.

2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, should be delivered to the Company's Registrar, Computershare Investor Services PLC, PO Box 1075, Bristol, BS99 3FA not later than 48 hours before the time appointed for the meeting.

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

4. The register of interests of the Directors (and of their families) in the shares of the Company and copies of all service contracts under which Directors are employed by the Company or any of its subsidiaries and copies of the letter of appointment in respect of Non-executive Directors, will be available for inspection at the registered office of the Company at Shanks House, 211 Blochairn Road, Blochairn, Glasgow G21 2RL 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 2007, at least 15 minutes prior to, and during, the meeting.

5. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 11.00 a.m. on 24 July 2007 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

company information.

CORPORATE HEAD OFFICE

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

Tel: 00 44 (0) 1628 554920
Fax: 00 44 (0) 1628 524114
website: www.shanks.co.uk
e-mail: info@shanks.co.uk

REGISTERED OFFICE

Shanks Group plc
Shanks House
211 Blochairn Road
Blochairn
Glasgow G21 2RL

Registered in Scotland No. 77438

PRINCIPAL OFFICES

UNITED KINGDOM

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

BELGIUM

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

THE NETHERLANDS

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

corporate advisers.

Financial Advisers
Lazard Brothers & Co. Limited

Stockbrokers
Hoare Govett Limited

Bankers
ABN AMRO Bank n.v.
Barclays Bank plc
Fortis Bank s.a.
HSBC Bank plc
The Royal Bank of Scotland plc

Solicitors
Ashurst
Dickson Minto W.S.

Auditors
PricewaterhouseCoopers LLP

Registrars
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 707 1290

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