shanks. waste solutions.

Shanks Group plc
Annual Report and Accounts 2003

shanks. waste solutions.

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

The Group provides an extensive range of waste and resource management solutions and handles a wide variety of wastes, including domestic refuse, commercial waste, contaminated spoils and hazardous waste. Services offered include collections, domestic and commercial waste recycling, resource recovery, composting, mechanical biological treatment, thermal treatment, industrial cleaning, special waste treatment and modern landfill. Shanks also produces a range of fuel-from-waste products and is amongst Europe's largest producers of electricity from landfill gas.

Further information about the Group and its activities is available on our website: www.shanks.co.uk

contents.

financial highlights.

	2003	2002
Turnover	£551m	£529m
Headline profit*	£34.5m	£45.3m
Exceptional items	£(5.5)m	£(8.4)m
Goodwill amortisation	£(10.6)m	£(10.0)m
Profit on ordinary activities before tax	£18.4m	£26.9m
Adjusted basic earnings per share**	10.2p	13.2p
Basic earnings per share	4.0p	6.3p
Dividends per share	5.7p	5.7p
Core Business net debt	£279m	£289m
PFI Companies net debt	£19m	£1m
Total Group net debt	£298m	£290m
EBITDA**	£100m	£113m

* Before exceptional items, goodwill amortisation and tax
** Before exceptional items and goodwill amortisation

chairman's statement.

In the year to 31 March 2003, the Group's turnover increased by 4% to £551m (2002: £529m), mainly due to the 10% growth achieved in the Benelux region. However headline profit before tax, exceptional items and goodwill amortisation fell by £10.8m to £34.5m (2002: £45.3m) in line with the Group's pre-close trading statement released on 28 March 2003. The decline in UK Waste Services more than offset improvements in the Group's other three operations: UK Chemical Services, Belgium and the Netherlands. In addition, there were exceptional charges totalling £5.5m (2002: £8.4m) and goodwill amortisation amounted to £10.6m (2002: £10.0m). The resulting profit before tax was £18.4m (2002: £26.9m).

The tax rate on headline profit was lower at 31% (2002: 32%). Profit after tax, exceptional items and goodwill amortisation was therefore £9.3m (2002: £14.8m). Earnings per share (eps) before exceptional items and goodwill amortisation fell by 23% to 10.2p (2002: 13.2p). Basic eps was 4.0p (2002: 6.3p). Your Board recommends an unchanged final dividend of 3.8 pence per share which, if approved by shareholders, brings the total dividend for the year to 5.7 pence per share (2002: 5.7p).

The exceptional charges of £5.5m arose from a provision of £3.2m relating to the regulatory requirement to reduce historical leachate levels at UK landfill sites, and £2.3m to cover UK restructuring costs and net losses on the disposal of underperforming businesses and non-core assets.

The cash generation of the Group remains strong with earnings before interest, tax, depreciation, amortisation and exceptional items (EBITDA) at £100m (2002: £113m). The Group net debt reduced by £32m, before additional Public Finance Initiative (PFI) companies' debt of £18m and an adverse currency translation effect of £22m. Group consolidated net borrowings therefore increased by £8m to £298m (2002: £290m).

Net capital expenditure on the core business was £48m and on PFI companies was £5m. Acquisitions in the core business were £3m and in PFI companies were £7m. Interest expense remained broadly steady at £18.7m (2002: £18.8m) with interest cover before exceptional items at 3 times.

Divisional Review

UK Waste Services

Trading profits fell by £16.4m to £19.7m (2002: £36.1m). In part this reflects the loss of the £5m benefit last year from wastes arising from the Foot and Mouth crisis. The balance of this disappointing performance mainly resulted from a decline in the landfill activity. Both collections and recycling were also adversely affected by the difficult trading environment. In response, the division has been substantially restructured with four members of the senior management team changed. The new organisation has a sharper operational focus and, as a result of headcount reductions, a lower overall cost. All underperforming units are in the process of review.

Landfill volumes were 13% down due to diversion of special waste as a result of the Landfill Directive and the policy of sacrificing volumes in the pursuit of higher prices. Prices have been increased to recover higher regulatory, insurance and other costs but overall margins declined. The Collections and Recycling unit suffered from lower volumes and recyclate prices. Power, produced from landfill gas, increased profits due to the premium prices now available from the Renewables Order and the installation of new capacity late in the year.

The East London Waste Authority (ELWA) PFI contract, worth in excess of £1bn in revenues over 25 years, commenced in December 2002 and is performing according to its business plan, as is the Argyll & Bute PFI contract which started in September 2001.

UK Chemical Services

Trading losses reduced by £2.8m to £1.2m loss (2002: £4.0m loss). The cessation of operations at the Pontypool high temperature incinerator delivered the expected savings of £4m in the year. This decrease in available UK incineration capacity appears to have stabilised prices in the sector.

The first contract to process Bone Meal (MBM) from the BSE crisis expired at the start of the year. The new, fluidised bed plant which processes MBM under a second contract has not been operating as planned. It was extensively modified by the responsible contractor during the last quarter and since then, its performance has been encouraging.

Other waste treatment activities have benefited from the diversion of special wastes from landfill with both volume and prices increasing. On-site services, including overseas field services delivered an improved performance.

Belgium
Trading profits in Belgium increased by £1.4m to £14.5m (2002: £13.1m). Profits benefited by £0.6m from the stronger Euro but the enhancement was mainly due to improvements at De Paepe, Gent. As expected landfill volumes reduced and the re-permitting application for additional void at our major site is progressing, albeit slowly. Other operations including electricity from landfill gas have performed well and have more than offset the reduced activity levels in Liege and the start up costs of new municipal collection contracts, including the first in Northern France.

The Netherlands
Trading profits increased by £0.9m to £25.9m (2002: £25.0m). These results benefited by £1.1m from the stronger Euro but were adversely affected by higher insurance and one-off pension costs totalling £1.2m.

The solid waste business performed satisfactorily but in the last quarter felt the effects of a weakening market. Reym industrial cleaning continued to prosper and the results from the Flection computer refurbishment business were steady.

ATM, the hazardous waste activity, increased its profits despite difficulties with both the re-permitting of its pyrolysis plant and changes to the Dutch specification of cleaned soil. Its oil/water separation business had an excellent year, which offset these two issues.

Developments

United Kingdom
The Group continues to bid on a selected number of long term local authority waste disposal tenders based on the mechanical biological treatment (MBT) technology provided by our Italian partner Ecodeco for the ELWA contract. It remains preferred bidder at Dumfries & Galloway, which is expected to financially close later this year. Planning permission has also been granted for a green centre for the pre-processing of municipal waste using MBT at our Bletchley site. The Group intends to build a select portfolio from similar opportunities, mainly through PFI. This will provide a high degree of predictability over long term cash flows and earnings.

The Power business will benefit from the recent increase in capacity and is also a dependable source of low risk income.

Benelux
Three small tuck-in acquisitions were completed during the year which will expand the business base. There are also a number of opportunities in Northern France. The recent State Council decision regarding the ATM pyrolysis plant should result in a permit being granted in the coming months.

Outlook

The poor performance reported at UK Waste Services is expected to continue although the reorganisation of this division together with the growth in its Power and PFI businesses will partially mitigate the effects. The current Euro/Sterling exchange rate will benefit the translation of earnings from the Benelux region, where there are signs of a general economic slow down. Successful resolution of the permit problems at ATM should benefit the financial results later in the year.

The Group has assembled a wide range of capabilities to meet the changing market conditions resulting from the implementation of European legislation and increases in environmental taxes, especially in the UK. The longer term prospects for the Group remain good but the continuing UK Waste Services difficulties are expected to restrict overall growth in the current year.

I M Clubb
Chairman

operating review.

2003 has been a year of contrast with our Continental businesses performing creditably whilst severe trading difficulties have substantially reduced operating profits in the UK. Notwithstanding these difficulties staff throughout the Group have worked hard particularly to ensure a good cash flow result for the year. I thank each one for their individual contribution.

Although minimum standards of waste management are governed by the European Union, each country of operation is at a different stage of development. Each business is therefore managed on an individual country basis. Each country management contributes to proposed changes in the rapidly evolving regulatory framework which defines the market for our services.

Group turnover

Turnover rose by 4% to £551m. UK Waste Services revenue was static despite the effect of £1 per tonne increment in landfill tax, mainly due to the 13% decline in landfill volumes. In contrast PFI projects and Power showed good growth. As expected, UK Chemical Services turnover declined as the cessation of operations at Pontypool more than offset the growth in other services. Benelux sales increased by 10%, partially as a result of the stronger Euro which contributed 4% with the balance from the organic growth of the businesses in both countries.

United Kingdom

The UK operations consist of two divisions – Waste Services, which collects and manages municipal, commercial and industrial wastes, and Chemical Services, which specialises in the treatment of hazardous chemical waste and related services including recovery.

The results at UK Waste Services were disappointing with trading profits falling by £16.4m from £36.1m to £19.7m. Landfill activities with profits down by £16m have fared particularly poorly due to the end of Foot and Mouth inputs (-£5m), steeply rising regulatory costs (-£7m) and lower core business volumes (-£7m) offset by price increases (+£3m). The volume reduction was due to diversion of waste from landfill as a result of the Landfill Directive, lower contaminated spoil inputs and a campaign to increase prices to recover additional costs. Results in the Collection and Recycling sector have also been unsatisfactory with profits falling by £4m. As a consequence, Waste Services has been substantially reorganised. Senior changes have been made and new analytical skills are being brought to bear, particularly on profitability.

More encouragingly the activities which the Group has been developing for the future have performed much better. Profits from the generation of electricity from landfill gas have increased by £3m because of higher prices on 15MW of output under the Renewables Order and capacity increases of 16MW under the old NFFO scheme.

The existing PFI project for Argyll & Bute to dispose of its municipal waste continued to perform to its plan and, in December 2002, the Group brought the ELWA contract to financial close. The profit improvement from these two projects amounted to £0.8m.

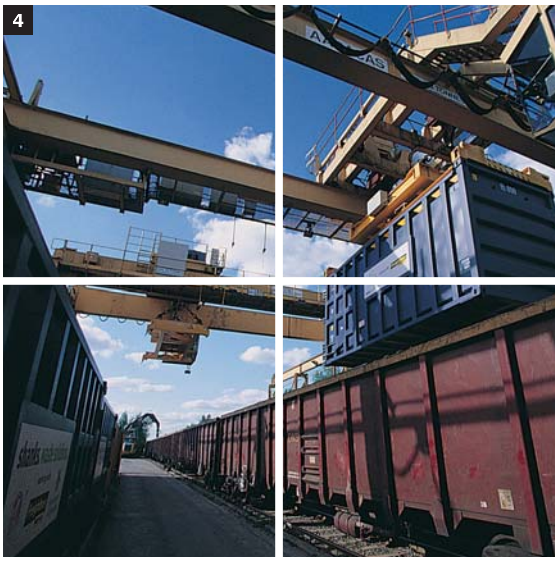
Shanks has been working in partnership with local authorities for over 20 years and continues to develop new integrated solutions to help manage waste.

In the UK, the Group already has contracts with over 40 local authorities. Increasingly, local authorities need expert industry partners to address recent changes in waste management legislation requiring greater recycling, recovery and diversion of waste from landfill.

As part of an integrated approach, with proven Italian technology from Ecodeco, Shanks is promoting its mechanical biological treatment technology (MBT) to assist authorities in meeting and beating these targets.

The first of these units in the UK, subject to planning permission, are scheduled for East London where Shanks has now taken over the management of an annual 500,000 tonnes of rubbish on behalf of four local authorities under a 25-year PFI contract.

In Dumfries & Galloway in Scotland, Shanks is the PFI contract preferred bidder. The MBT solution has attracted widespread interest from local authorities.



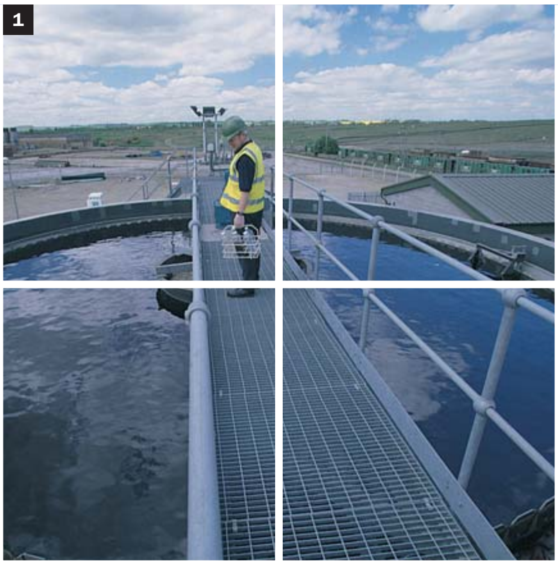
1. Artist's impression of one of the enclosed and low-impact MBT units proposed for East London.
2. Composting of green waste is a growing activity throughout the Group.
3. Recycling facilities, such as this one, separate materials for future re-use.
4. Shanks promotes rail travel, where practicable, for waste which has to be landfilled.
5. Innovative solutions, such as these sub-ground recycling bins, are used by residents in parts of the Netherlands.

With long experience of working with local authorities Shanks is now promoting innovative partnerships for the needs of today - and years to come.

solutions for municipal waste.

solutions for industry.

From small businesses to giant industrial installations, Shanks is offering tailor-made solutions in waste and resource management

1


2


3


4


5


6


1. A new physical, chemical and biological treatment plant has been installed at Stewartby.
2. On-site Shanks installation at a UK chemicals plant.
3. Sobry, in Belgium, is a leader in industrial waste treatment.
4. Commercial waste is sorted and processed for re-use at Icova in the Netherlands.
5. Shanks' expertise is delivered to small and large customers.
6. Specialist collection and treatment at Shanks' Liverpool plant.

operating review.

continued

Collection and safe, secure, disposal remains a valid and valued service for many customers. In today's marketplace this is only a small part of a vast spectrum of customer requirements.

Bespoke solutions, often incorporating treatment or recycling, continue to be developed throughout the Group's operations.

Offering advice and practical waste reduction solutions to industrial clients is increasingly common. At some locations Shanks' staff are on-site, managing specific outputs or even a whole range of waste.

Design, build and operation of on-site treatment facilities is now also an option.

ATM in the Netherlands and Sobry in Belgium are leaders in treatment technologies for difficult and hazardous wastes. Their specialist plants offer a wide range of physical, chemical or biological processes. In the UK Shanks Chemical Services continues to grow its own extensive transfer and treatment capabilities, in line with evolving legislation and demand.

The ELWA project provides a showcase for the new mechanical biological treatment technology developed with our Italian partners Ecodeco. The Group is currently examining the longer term prospect of using the output of this process as a fuel to generate electricity. If successful the value of the technology is further greatly enhanced giving it the potential to be the method of choice for the disposal of municipal waste. Already several local authorities are expressing keen interest.

Despite recording a loss of £1.2m (2002: £4.0m loss) the Chemical Services division was cash positive in the year. Although these results remain unsatisfactory considerable progress has been made. Savings resulting from the cessation of operations at the Pontypool incinerator amount to £4.1m which more than offset the £2.0m reduction from the expiry of the first contract to process MBM. Prices for the remaining Fawley incineration plant have stabilised and better capacity utilisation has resulted in an enhanced contribution. In aggregate all other activities recorded an improvement of £0.7m.

Although the new fluidised bed plant to process MBM from the second contract functioned for most of the year, its operations were characterised by capacity restrictions and frequent stops to address shortcomings. The contractor responsible executed major modifications to the plant in January and February 2003 since when its performance has greatly improved. Providing this improvement is sustained results in 2003/4 should reflect this progress.

During the year the Prime Minister’s Strategy Unit completed an extensive study of waste management in England and published its findings in late 2002 under the title “Waste not, Want not”. Several recommendations were made to the Government which has recently responded, both through the Chancellor’s annual budget and through a formal response from the Department for Environment, Food and Rural Affairs (DEFRA) published as this report is being written. Crucially it is now known that Landfill Tax will increase from £15 per tonne in £3 per tonne annual increments commencing in April 2005. This policy will continue until a longer term rate of circa £35 per tonne is reached. This charge, coupled with other initiatives, will greatly enhance the opportunity for the technology successfully developed with our Italian partner Ecodeco for municipal wastes, as typified by the ELWA project. Similarly a market will be created for the recycling of industrial and commercial wastes similar to that found in the Netherlands where the current landfill tax rate is already above £40 per tonne.

The House of Commons EFRA standing committee examined the issue of hazardous waste during the year. As a result of its recommendations a national Hazardous Waste Forum has been established. High among its priorities is to ensure the safe disposal of hazardous waste following the ending of landfill co-disposal practice in July 2004. This can only further expand the market for Chemical Services.

operating review.
continued

Belgium
Belgium operations are similar to those in the UK but include specialist demolition and soil cleaning at De Paepe and an industrial cleaning activity.

The management team in Belgium has delivered a creditable performance with trading profit increasing by £1.4m to £14.5m. Better results at De Paepe in Gent and in the Brabant district of Wallonia have been the principal drivers of the underlying improvement of £0.8m.

Progress in the re-permitting of the extension to the Mont St. Guibert landfill remains slow. Maximum efforts are being made given the value of success to the Group. The division is also having some notable successes in the area of remediation of contaminated land. Several operating units provide synergistic skills critical to the serving of this growing market. Opportunities just over the border in Northern France are also being exploited to good effect.

Netherlands
Netherland operations are similar to those in Belgium but include a computer refurbishment operation and exclude any landfill activity.

Trading profit in the year improved by £0.9m to £25.9m which was almost entirely due to the strengthening Euro. However, the operations performed well to substantially recover cost increases in insurance and pension costs, lower soil volumes due to uncertainty regarding cleaned soil specifications and reduced economic activity. The industrial cleaning unit Reym fittingly celebrated its 50th anniversary in 2003 with a strong performance.

The Group remains pleased with these acquisitions made in 2000, where the management team continues to build on its strong franchise particularly in the Randstad area of the country. Success in the appeal to the State Council concerning the permits for the ATM hazardous waste processing unit should lead to a regularising of these problems and a resumption of third party waste inputs into the pyrolysis plant in the second half of 2003/4. Recent clarification on the specification for cleaned soils should also lead to an improvement in the ATM soil processing facility. The export of certain waste streams for further processing in Germany has also helped to contain costs.

Further initiatives including new waste wood processing capacity and the full year effect of a recent acquisition in the Rotterdam area will further complement the range of activities.

Prospects
The economies in the low countries are showing definite signs of slowing particularly in the all important construction sector. With full use of the pyrolysis plant and other capacity enhancements at ATM, this downturn should be mitigated. Success in the re-permitting of the Mont St. Guibert landfill will ensure the continuation of the service to our important municipal customers in Belgium. Opportunities continue to emerge in Northern France.

Improvements in UK performance remain the major challenge. Progress is being made within Chemical Services and it is expected that recent actions taken within Waste Services will begin to bear fruit later in the current year. In the longer term initiatives already outlined in this report provide a strong foundation for market leadership in our chosen sectors.

M C E Averill
Group Chief Executive

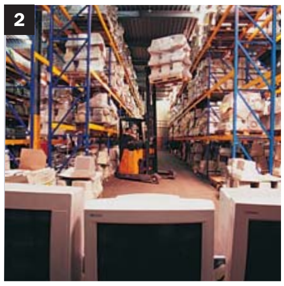
In the Netherlands and Belgium commercial and industrial waste recycling has advanced in line with regulatory and taxation policies. Shanks has a growing portfolio of expertise in all its operational areas.

Land re-use in the form of soil remediation features in the UK and Belgium, with physical and biological treatment and, in the Netherlands, with ATM's high temperature soil-cleaning.

Railway development, such as the Brussels-Amsterdam high-speed line expansion and the Channel Tunnel Rail Link contract around London, has also involved Shanks in projects; including provision of recovered soil and clay for earthworks and providing clean ballast material for re-use.

Computers are refurbished at Flection in the Netherlands and a number of fuel-from-waste products are produced within the Group. Selected wastes from offices, shops and schools in the western Netherlands are processed into fuel pellets, partially replacing power station fossil fuels. At various specialist Shanks plants, solvents are recovered and resold, oil and water are separated and waste chemicals are blended into fuel for cement kilns.

Electricity from landfill gas also contributes enough power to run well over 100,000 average homes.



1. The 'Goliath' earth-turning soil aerator in action.
2. Refurbished computers at Flection.
3. Re-usable ballast in store at Stewartby.
4. Preparing concrete for re-use in Belgium.
5. The latest landfill gas electricity plant at Calvert.
6. High temperature soil cleaning at ATM.

Managing resources - through recycling, recovery and re-use - is increasingly the focus of waste management. Tomorrow, even more so.

solutions for resource management.

financial review.

Finance function

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

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

Accounting policies

Given the high level of capital expenditure planned on PFI projects such as ELWA, the Group is amending its accounting policy on capitalisation of finance costs. With effect from 1 April 2003, the Group will capitalise directly attributable finance costs on separately identifiable major capital projects. The effect of this new policy on the results under review is not material.

The Group continues to defer the expensing of costs relating to the acquisition of long term municipal waste contracts where it has attained preferred bidder status. At the year end, these costs amounted to £1.2m (2002: £1.6m).

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

Financial results

The Operating Review on pages 4 to 9 covers the background to the Group's trading performance.

Interest costs remained steady at £18.7m (2002: £18.8m) reflecting the profile of debt and interest rates during the year. Other finance charges comprise discount unwind on long term landfill liabilities of £1.8m and amortisation of bank fees of £0.5m. In addition, an exceptional finance charge of £0.5m arose on the modification of the Group's banking covenants.

Goodwill amortisation rose by £0.6m to £10.6m (2002: £10.0m) with £0.3m arising on Benelux tuck-in acquisitions and £0.3m due to currency movements.

Tax

The average tax rate on headline profit was lower at 31% (2002: 32%) despite the growing proportion of profits from countries with higher tax rates. The underlying rates of tax for the year under review in the countries where the Group operates were UK: 30%, Netherlands: 35% and Belgium: 40%. The Group suffers a higher charge on its UK landfill business as expenditure on void does not attract capital allowances.

Cash flow

The underlying cash generation on the core business was £32m after net investments of £51m, but before the adverse effect of £22m on the translation of Euro denominated debt into its sterling equivalent. Principal borrowings were therefore reduced by £10m to £279m. The limited recourse debt of the PFI companies which is consolidated into Group net debt increased by £18m to £19m.

Details of the Group's cash flow performance are shown in the table below:

	Core Business	PFI Business	2003 Total	2002 Total	Change
Operating profit*	**55**	**1**	**56**	66	(10)
Depreciation and landfill provisions	**44**	**-**	**44**	47	(3)
EBITDA	**99**	**1**	**100**	113	(13)
Working capital movement	**29**	**(6)**	**23**	(2)	25
Net capex and acquisitions	**(51)**	**(12)**	**(63)**	(55)	(8)
Interest, tax, dividends and other	**(45)**	**(1)**	**(46)**	(47)	1
Underlying	**32**	**(18)**	**14**	9	5
Currency translation	**(22)**	**-**	**(22)**	3	(25)
Group cash flow	**10**	**(18)**	**(8)**	12	(20)

*before exceptional items and goodwill amortisation

Capital expenditure and acquisitions

The Group spent £60m gross on capital expenditure (2002: £58m) and £10m on acquisitions (2002: £3m). The major capital items in the year were power generation equipment and the replacement of operating assets such as landfill cells, vehicles and containers. Sales of fixed assets, including surplus property, raised £7m (2002: £6m).

Three small tuck-in acquisitions at a total cost of £3m, of which £2m was goodwill, were completed in the Benelux region. The acquisition of the ELWA business for £7m gave rise to £7m of goodwill which will be amortised over its 25 year contract life.

Treasury and risk management policy

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

The core debt is provided by the €346m multicurrency revolving credit facility which is due to expire in March 2005 and the $145m multicurrency fixed or floating interest rate private placement facility from Prudential Insurance Company of America (PRICOA) which has various longer term maturity dates. The Group also has £47m of working capital facilities with various banks. Since the year end, the credit facility has been voluntarily reduced by €20m to €326m in order to save commitment fees.

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

financial review.
continued

Insurance
The policy on insurance is to secure the maximum cover available in the market at reasonable prices. The Group therefore carries catastrophe insurance, including pollution cover, but self-insures up to a maximum aggregate level of £2m. The current difficult insurance market conditions have resulted in considerably higher costs for the Group's risk management programme, particularly in the Netherlands.

Pensions
The Group continues to use SSAP24 – Pension Costs to account for pensions and has adopted the transitional arrangements permitted by FRS17 – Retirement Benefits. On the snapshot FRS17 basis, the net pension liability has increased to £20m (2002: £4m) due to the general fall in equity values and a substantial increase in the net present value of the liabilities of the UK defined benefit scheme. The assumption on longevity of members and the fall in UK gilt market rates are the major causes for the increase.

The UK defined benefit scheme has been closed to new members from September 2002 and new employees are now offered a defined contribution arrangement. The triennial actuarial valuation, which determines the long term funding rate, is currently underway based on the assets and liabilities as at 5 April 2003. However, given the likely deficit arising from the valuation, the Group has decided to increase its annual pension contributions by approximately £1.5m with effect from 1 April 2003.

The Netherlands industry wide pension scheme has already seen increased costs of £1.0m in 2003 of which £0.4m is a one-off charge. There are no current plans for further rate increases.

Going concern
The Directors have reviewed the Group's 2003/4 budget and medium term plans thereafter in the light of its current financial position. The Directors are satisfied that the Group has sufficient resources to continue operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing its financial statements.

D J Downes
Group Finance Director

the environment, the community and the Group.

The Group is strongly committed to the principle that our business goals are best achieved by acting with honesty, integrity, openness and fairness in all dealings with stakeholders. This commitment is detailed in a "Statement of Business Principles and Corporate Ethics", which is published, along with all other corporate publications, on the Shanks website at *www.shanks.co.uk*. Together with a clear and public definition of acceptable Business Conduct, the Statement also provides a charter for personnel; giving vision and guidance on dealings with shareholders, employees, customers, suppliers and contractors, as well as in the specific areas of health and safety and environmental protection.

Continued participation in the annual Business in the Environment (BiE) Index of Corporate Engagement resulted, once again, in the Group achieving top ten rankings in both Sector and Economic Group results. The BiE Index tracks how the UK's top 350 quoted companies make environmental issues an integral part of business strategy, management and performance. Since September 2001 the Group has also been included within the FTSE4Good UK index, a measurement of corporate social responsibility administered by the independent FTSE Group.

Environmental management

Following the previous successful completion of a three-year corporate commitment to implement externally accredited Environmental Management Systems (ISO14001) at appropriate sites, the programme of installing non-certified "mirror systems" elsewhere has continued, alongside further ISO14001 certification of additional sites within the Group.

Actual environmental performance is detailed in a published and widely distributed Environmental Report. The third such annual, quantitative report, covering all Group companies, was published during the year, both on-line and in hard copy.

Environmental Advisory Board

The independent Environmental Advisory Board (EAB) underwent a change in leadership during the year with the retirement of Lord Cranbrook, who was instrumental in helping Shanks establish the then unique body back in 1988. He is succeeded as chairman of the EAB by Professor James Bridges, another founder member, who is Professor of Toxicology and Environmental Health at the University of Surrey and President of the EU Committee on Toxicology, Ecotoxicology and the Environment among a number of UK Government and EU appointments. Describing Lord Cranbrook's leadership of the EAB as "outstanding", Prof. Bridges said: "It is a privilege to succeed such an illustrious founder chairman." The Group extends its thanks to Lord Cranbrook for his fourteen years of exemplary work in leading this ground-breaking initiative.

The EAB continues to provide independent assessment of the Group's environmental management and performance and encourages further development of environmental standards. Its 14th annual report has recently been published and, although not a company publication, it is accessible via the Shanks website.

Employees

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

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

1. New leachate treatment plant at Stewartby.
2. Country park area beside Greengairs landfill.
3. Office paper recycling in Glasgow city centre.

Health and safety

Significant improvements in accident performance were recorded during 2002/3. Overall the total number of accidents suffered by Group employees fell by 9%, while the number of serious accidents fell by more than 10%. This is the first time since the target was set three years ago that Shanks has achieved a 10% reduction in more serious accidents. In particular, the performance of the Shanks Netherlands operation stands out with a more than 30% reduction in serious accidents.

While the above overall performance is more than creditable, it is with sadness that the Group must report a fatal employee accident at a recycling site in the Netherlands during the year. As recorded in the previous annual report, a UK employee suffered a fatal accident at the Bunny recycling operation in January 2002. Shanks subsequently admitted two charges brought by the Health and Safety Executive and was fined £200,000. Both the judge in the case and the HSE praised Shanks for its reaction to the accident and the remedial works conducted and stated that the company had a good safety record. However, the level of fine reflects current public concern with workplace safety. As the waste management industry moves more and more into the recycling arena a series of new health and safety challenges is presented. UK accident statistics, for example, show that recycling operations experience more than twice the accident rate suffered at landfill sites. Rapid movements in technology must be accompanied by equally swift improvements in safety. Shanks has already pursued a range of actions to further improve its recycling safety record and continues to do so.

The safety and wellbeing of its employees remains a top priority for the Group and targeted actions to address the areas of highest risk are an ongoing activity. Further details of the Group's safety performance and activities are available in the annual Health and Safety Review, which is available on request and on the Group's website.

The wider community

In recent years and in line with generally widening internet access, the Group has increasingly utilised the world wide web to enhance the availability of information about the Group, its activities and its performance, to a diverse range of stakeholders.

The completion of an upgraded and bespoke Investor Relations section of the Shanks website recently resulted in a special commendation being made to the Group at the annual Investor Relations Best Practice Website Awards, presented by the Investor Relations Society.

However, the web can only complement other activities, such as effective communications and good relations with operational site neighbours. Informal discussions and meetings, newsletters, exhibitions, site visits and, where appropriate, formal liaison groups are among the tools employed in the spirit of honesty, integrity, openness and fairness. All sites subscribe to an 'open door' policy for pre-arranged visits and some also host additional educational resources for schools and community groups.

The Group has continued to participate positively in the Landfill Tax Credit Scheme (LTCS) by making funds available for approved projects via the ***shanks first fund***, which is managed by an independent company. In the year under review nearly £15m was made available for project funding. Of the funds allocated to date, and in line with government targets, 65% has been to sustainable waste management projects and 35% to public amenity projects.

Government planned reform to the LTCS is being implemented in 2003, with new emphasis proposed to address environmental community issues within a reduced Scheme. In future years Shanks will continue to support this source of funding, which has proved vital for many community projects.

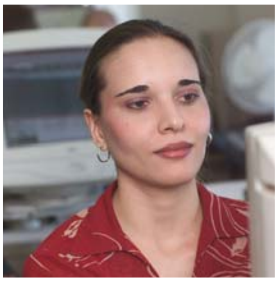
Shanks Group Environmental Policy.

The Group is committed to setting high standards of waste management and cooperates 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.

Our Environmental Policy sets principles applicable across the Group, with which the separate operating companies are required to comply. Implementation of the policy is a line management responsibility within each of the separate operating companies of the Group, requiring participation of all employees.

The Group's Corporate Environmental Committee (CEC) is responsible for regularly reviewing and updating the policy to ensure that it remains relevant to current legislation and the Group's operations.

The Shanks Group Environmental Policy is available on request or via the Shanks website.



1. The maturing Marston Vale Forest Centre, funded from Landfill Tax Credits.
2. Health and safety is a high-profile priority throughout the Group.
3. Aftercare continues at this restored landfill in North Wales.

A focus on the environment and honesty, integrity, openness and fairness for all Shanks stakeholders.

solutions in the community.

directors.

Non Executive Directors

Ian Clubb, CA (Age 62)*
Chairman
Ian Clubb was appointed Chairman in April 2002 and joined the Board in 1994. He is Chairman of the Nomination Committee and Chairman of the Trustees of the Company's Pension Scheme. He is also Chairman of First Choice Holidays PLC and is also a Non-executive director of Expro International Group plc and Marconi Corporation plc.

Richard Biffa, MinstWM (Age 63)*
Deputy Chairman
Richard Biffa joined the Board in 1991 following the merger with Rechem Environmental Services PLC of which he was previously Chairman. He is Chairman of the Audit Committee. He has had a long lasting association with, and a wide experience of, the waste management industry.

Philippe Delaunois, Ir, IC (Age 61)*
Philippe Delaunois, a Belgian national, was appointed to the Board in May 2001. He holds a degree in engineering from the State's University at Mons. He was Chief Executive of Cockerill Sambre, a Belgian steel producing company with a turnover in excess of €5bn until 1999. He is currently a Non-executive director of a number of companies in Belgium.

Barry Pointon, BSc (Age 56)*
Senior Independent Director
Barry Pointon was appointed to the Board in 1999. He is the Senior Independent Director and is Chairman of the Remuneration Committee. He is an engineer with over thirty years experience in industry. He is an Executive Director of IMI plc with responsibility for business development.

Executive Directors

Michael Averill, BSc, MBA, ARSM, MinstWM (Age 52)
Group Chief Executive
Michael Averill holds an MBA from Cranfield Management School and a degree from Imperial College of Science and Technology. He joined the Group in 1989 as a Business Development Director for Rechem International Limited. He became Managing Director of Rechem in 1992. He was appointed Group Chief Executive in 1994. He is a Non-executive director of TDG plc.

David Downes, BSc, MBA, FCMA, FCT (Age 57)
Group Finance Director
David Downes is a qualified accountant and holds an MBA from Stanford Business School and a degree in civil engineering from Kings College, University of London. He was appointed to the Board as Group Finance Director in 1993. He was previously Deputy Chief Executive of Hunter Saphir PLC and Group Finance Director of MBS plc. He is a Trustee of the Company's Pension Scheme.

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

report of the directors.

The Directors present their annual report together with the audited financial statements for the year ended 31 March 2003.

1 Annual General Meeting

The notice of the Annual General Meeting is set out on pages 52 and 53.

Resolution (7) – Authority to purchase own shares

The Company has the authority to purchase up to 23,400,000 ordinary shares of 10 pence each. The authority remains valid until the next Annual General Meeting or, if earlier, 25 January 2004. 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 (7) 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 (7) specifies the maximum number of ordinary shares which may be purchased (representing approximately 10% of the Company's existing issued ordinary share capital) and the minimum and maximum prices at which they may be bought, reflecting the requirements of the Companies Act 1985 and the Financial Services Authority. The Directors intend to seek renewal of this power at subsequent Annual General Meetings. As at 28 May 2003 (being the latest practicable date prior to the printing of this document) there were outstanding options to subscribe for a total of 8,231,957 ordinary shares in the Company, representing 3.5% of the issued share capital of the Company at that date. If the share buy-back authority referred to above is exercised in full, the outstanding options as at 28 May 2003 would represent 3.9% of the issued share capital of the Company.

Resolution (8) – 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 24 October 2003. This authority will enable the Directors, at any time until 23 October 2004, to allot equity securities wholly for cash up to an aggregate nominal amount of £1,170,000 or otherwise in connection with a rights issue. This limited disapplication will allow the Directors to allot up to 11,700,000 ordinary shares, representing just under 5% of the issued equity share capital of the Company as at 28 May 2003. Resolution (8) will be proposed as a special resolution.

2 Principal activities and group results

The principal activities of the Group and an indication of likely future developments are described in the Chairman's Statement on pages 2 and 3 and in the Operating and Financial Reviews on pages 4 to 12. The Group's Profit and Loss Account appears on page 28 and note 2 to the financial statements shows the contribution to turnover and profits made by the different classes of the Group's business. The Group's profit after tax amounted to £9.3m (2002: £14.8m).

3 Dividends

The Directors recommend a final dividend of 3.8 pence per share be paid on 4 August 2003 to ordinary shareholders whose names appear in the register at close of business on 18 July 2003. This dividend together with the interim dividend of 1.9 pence per share already paid, will make a total dividend for the year on the ordinary shares of 5.7 pence (2002: 5.7 pence).

4 Acquisitions

A number of smaller acquisitions have been made during the year at a total cost of £9.8m. The acquisitions are described in the Financial Review on pages 10 to 12 and in note 16 to the financial statements.

5 Directors

The composition of the Board of Directors at the date of this report is shown on page 16. All of the Directors served on the Board throughout the financial year under review. Mr J R Meredith resigned as a Director with effect from 1 April 2003. Mr I M Clubb and Mr R B Pointon retire by rotation at the Annual General Meeting and will be offering themselves for re-election. Mr I M Clubb and Mr R B Pointon do not have a service contract. Details of the Directors' interests are shown in the Remuneration Report on pages 22 to 26.

6 Corporate governance

A report on Corporate Governance is given on pages 19 to 21.

7 Share capital

During the year ended 31 March 2003 no ordinary shares were issued other than those issued in respect of exercise of options under the Company's share option schemes, details of which are given in note 22 to the financial statements. At 31 March 2003 and at the date of this report the authorised ordinary share capital was and is £35,000,000 represented by 350,000,000 ordinary shares of 10 pence each. At 31 March 2003 and at the date of this report, 234,047,224 ordinary shares were in issue, leaving an unissued balance of 115,952,776 ordinary shares of 10 pence each, representing 33.1% of the authorised ordinary share capital.

8 Notifiable interests

As at 28 May 2003, the Company had been notified of the following interests, excluding interests of Directors, of more than 3% of the ordinary share capital of the Company:

	Number of Shares	Percentage
Scottish Widows Investment Partnership Limited	13,786,026	5.89
Prudential plc	9,302,496	3.97
Fidelity International Limited	8,775,624	3.75
Legal & General Investment Management Limited	7,593,607	3.24

The interests of the Directors are shown in the Remuneration Report on pages 22 to 26.

9 Research and development

The Group spent £0.2m (2002: £0.3m) on research and development in the past year, which was charged to profits. In addition, the Group made available £1.5m (2002: £1.3m) to environmental bodies under the Landfill Tax Credit Scheme for research and development projects. The net cost of this to the Group was less than £0.2m which has not been included in expenditure disclosed. (See "The Environment, the Community and the Group" section on pages 13 to 15).

10 Health and safety

The Group and the Board of Directors regard the provision of safe working conditions for all employees as a high priority and health and safety performance is quantified and published for stakeholder scrutiny. (See "The Environment, the Community and the Group" section on pages 13 to 15).

11 Employment policies

Group employees are recognised as a key asset and it is Group policy to ensure that effective employee communications are maintained at all times. (See "The Environment, the Community and the Group" section on pages 13 to 15).

12 Payment of suppliers

It is the Group's payment policy, in respect of all suppliers, to settle the terms of payment with suppliers when agreeing the terms and conditions under which business is to be transacted, to ensure that these suppliers are made aware of the terms of payment and to abide by these terms of payment. The amount owed by the Group to trade creditors at the year end in proportion to the amounts invoiced by suppliers during the year, expressed as a number of days, was 64 days (2002: 55 days) and for the Company was 55 days (2002: 24 days).

13 Charitable and political donations

During the period donations made by the Group for charitable purposes amounted to £9,585 (2002: £9,978). No donations were made for political purposes during the year (2002: £Nil), as defined by the Companies Act 1985.

14 Registered auditors

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned as auditors on 30 January 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

P Kaye
Secretary
28 May 2003

corporate governance.

Combined code

The Group is committed to achieving high standards of corporate governance and to integrity and high ethical standards in all its business dealings. This statement, together with the Remuneration Report on pages 22 to 26, explains how the Group has applied the provisions of the code of best practice in corporate governance as set out in Section 1 of The Combined Code. The Board considers that it has complied with the Code provisions throughout the year except in regard to the notice period of Executive Directors' service contracts as outlined on page 25.

The board of directors

The Board currently comprises four Non-executive Directors and two Executive Directors and their biographies are set out on page 16. The roles of the Chairman and Chief Executive are held by separate individuals and the role of the Chairman is Non-executive. The Non-executive Directors bring a wide range of experience to the Group and are considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Non-executive Directors make a significant contribution to the functioning of the Board, thereby helping to ensure that no one individual or group dominates the decision making process. Non-executive Directors are not eligible to participate in any of the Company's share option schemes. Mr R B Pointon is the Senior Independent Director.

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

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

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

Audit committee

The Audit Committee is formally constituted with written terms of reference. It is chaired by Mr R C Biffa and comprises the Non-executive Directors (see page 16). Normally, it meets three times a year. The external auditors and the Executive Directors are regularly invited to attend meetings and the Committee has access to the external auditors' advice without the presence of the Executive Directors. The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment, fees and independence of the external auditors, the nature and scope of the audit, reviews of the half-year and annual financial statements, internal control procedures including compliance with the Turnbull Committee's guidance, accounting policies, compliance with accounting standards and such other related functions as the Board may require.

Remuneration committee

The Remuneration Committee is chaired by Mr R B Pointon and comprises the Non-executive Directors (see page 16). The Committee determines the Company's policy on remuneration and on a specific package for each of the Executive Directors. It also determines the terms on which Long Term Incentive Plan (LTIP), executive and SAYE share options are awarded to employees. In exercising its responsibilities the Committee has access to professional advice, both internally and externally, and may consult the Chief Executive about its proposals. The Remuneration Report on pages 22 to 26 contains particulars of Directors' remuneration and interests in the Group's shares.

Nomination committee

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

corporate governance.

continued

Pensions

During the year the pension arrangements for UK employees were changed. The final salary scheme was closed to new members with effect from 1 September 2002 and new money purchase arrangements have been provided in its place. The benefits for existing final salary scheme members were not changed. The assets of both the final salary and money purchase schemes are held separately from those of the Group, are invested by independent professional investment managers and cannot be invested directly in the Company. Three trustees have been appointed by the Company and, in addition, two member nominated trustees were appointed in 2001. Senior employees in Belgium are provided with defined contribution pension benefits. In the Netherlands, employees participate in a compulsory collective transport industry wide pension scheme which provides benefits up to a certain level of pay. Senior Dutch employees earning in excess of the maximum level of pay allowed for within the compulsory pension scheme also participate in a defined contribution arrangement for the excess amount.

Relationship with investors

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

Internal control

The Board confirms that a continuing formal process for identifying, evaluating and managing the material risks faced by the Group has been in place for the financial year 2002/3 and to the date of approval of the annual report and accounts. This includes reviewing financial, operational and compliance controls and risk management procedures. This process is regularly reviewed by the Group and subsidiary boards and complies with the Turnbull guidance. This approach ensures that internal control and risk management measures are embedded into the operations of the business and any areas requiring improvement are addressed.

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

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

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

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

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

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

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

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

(viii) an internal Management Systems department which undertakes periodic examination of written business and operational procedures and identifies non-compliances; and

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

The Group publishes separate annual reports on Health and Safety and on Environmental Performance. The independent Environmental Advisory Board also publishes its own annual report. Further details about these reports can be found on pages 13 to 15 and copies are also available on the Group's website *www.shanks.co.uk*.

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the auditors' report on page 27, is made to distinguish for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

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

In preparing the financial statements for the year ended 31 March 2003 the Directors have:

(i) used appropriate accounting policies, consistently applied;

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

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

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

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

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

The auditors' report on the financial statements set out on page 27 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 R B Pointon and comprises the Non-executive Directors, are to attract, retain and motivate high quality senior management with a competitive package of incentives and awards linked to performance and the interests of shareholders. The Committee seeks to ensure that the Executive Directors are fairly rewarded taking into account all elements of their remuneration package in the light of the Group's performance.

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

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

Basic salary

The basic salary element is determined after evaluating the Executive Director's responsibilities and is based on the complexity, know-how, decision-making involved and the 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. No increase was awarded to the Executive Directors on 1 April 2003.

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 2003, the Executive Directors' potential cash bonus ranged from zero for a below target performance, 50% for achieving target, to a maximum bonus of 100%. Cash bonuses are not pensionable. No bonuses were earned for the year ended 31 March 2003.

Long term incentive plan

Under the Long Term Incentive Plan (LTIP) approved by shareholders at the Annual General Meeting held on 25 July 2002, 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 and for an award to vest, the average growth in the Company's Earnings Per Share, before taking into account goodwill and extraordinary or exceptional items, for the three year performance period, must exceed the growth in the Retail Price Index over the same period by at least nine percentage points.

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

The Shanks Group plc Employee Share Trust has been established for the purpose of granting awards under the LTIP and to hold the Company's shares either purchased in the market or new shares subscribed for, with funds provided by the Company or its subsidiaries. As at 31 March 2003 the Employee Share Trust did not hold any of the Company's shares.

After approval of the LTIP by shareholders on 25 July 2002, conditional awards were granted under the LTIP plan on 5 August 2002. The closing mid-market price of the ordinary shares of the Company on 5 August 2002 was 134.5p.

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

	Balance at 31 March 2002	Awarded during year	Vested during year	Lapsed during year	Balance at 31 March 2003
M C E Averill	–	171,000	–	–	171,000
D J Downes	–	135,000	–	–	135,000
J R Meredith	–	91,000	–	–	91,000

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

Share option schemes

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

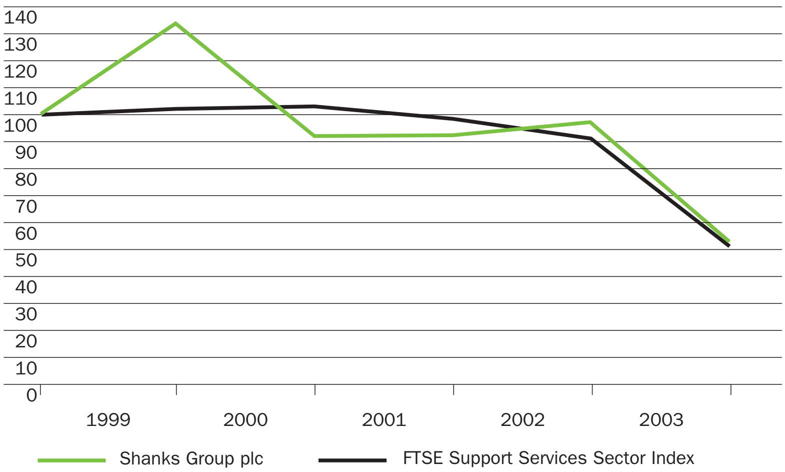
Under the terms of the Savings Related Share Option Scheme for employees, options may be granted during the ten year period to August 2005 to acquire up to 10% of the issued equity share capital of the Company, including options granted under the Executive Share Option Schemes. Options are granted at the higher of the nominal value and an amount determined by the Remuneration Committee being not less than 80% of the market value. At 31 March 2003 options outstanding amounted to 2.5m ordinary shares (see note 22 in the financial statements).

Under the terms of the Executive Share Option Schemes, options may be granted during the ten year period to August 2005 to acquire up to 5% of the issued equity share capital of the Company. The exercise of options granted under the 1995 Executive Share Option Scheme, which is the only current scheme, is subject to a performance condition, achievement of which is a pre-requisite for exercise of options. The condition is tested once only after a period of three years and if it is not achieved the relevant options will lapse. Options granted after 26 July 2001 will only be exercisable if the Group's earnings per share, before taking into account exceptional and extraordinary items and goodwill amortisation for the three year measurement period, have increased by at least nine percentage points over the increase in the Retail Price Index for the same period. The Remuneration Committee applied a different performance condition for options granted under the 1995 Executive Share Option Scheme prior to 26 July 2001. These options may not be exercised unless the growth in the Group's earnings per share over the period of any three consecutive years after the date of grant equals or exceeds the increase in the Retail Price Index over the same period plus six percentage points. Options are granted at the higher of the nominal value or the market value. At 31 March 2003 options outstanding amounted to 6.3m ordinary shares (see note 22 to the financial statements).

Performance review

The following graph shows the Total Shareholder Return performance of the Company and that of the FTSE Support Services Sector Index over the five year period to 31 March 2003. This index has been selected as it is a broad equity index of which Shanks Group plc is a constituent company.

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



Pensions

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

(i) at retirement, and subject to length of service, a pension of up to two thirds of basic salary subject to Inland Revenue limits;

(ii) an employee contribution of 5% of basic salary;

(iii) a lump sum death in service benefit of four times basic salary; and

(iv) a spouse's pension on death.

Mr D J Downes is subject to the Inland Revenue cap on approved pension benefits and is provided with comparable unapproved benefits for basic salary in excess of the cap via a Funded Unapproved Retirement Benefits Scheme (FURBS). These unapproved benefits are included in the Directors' pension benefits table shown on page 24.

remuneration report.

continued

Directors' pension benefits

	Age at 31.03.03	Increase in accrued pension during the year (i) £000 pa	Increase in accrued pension during the year (net of inflation) £000 pa	Accrued pension at 31.03.03 (ii) £000	Transfer value at 31.03.03 of pension benefits accrued at 31.03.03 (iii) £000	Transfer value at 31.03.02 of pension benefits accrued at 31.03.02 (iii) £000	Increase in transfer value less Directors' contributions (iv) £000	Transfer value of increase in accrued pension during the year (net of inflation) less Directors contributions (iv) £000
M C E Averill	51	17	15	151	2,271	1,829	426	205
D J Downes	57	7	6	57	901	720	168	77
J R Meredith	42	11	10	54	366	274	83	59

(i) The increase in accrued pension during the year represents the difference between the total accrued pension at the end of the year and the equivalent amount at the beginning of the year.

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

(iii) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The calculation is based on the assumption that pensions will be paid from the earliest retirement age possible without the application of actuarial reduction factors i.e. 57 for Mr M C E Averill, 60 for Mr D J Downes and 62 for Mr J R Meredith.

(iv) The increase in transfer value has been calculated taking into account market conditions and the Directors' ages as at 31 March 2003 and at 31 March 2002.

Directors' emoluments

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

	Basic salary		Performance related bonus		Other emoluments		Compensation for loss of office		Total	
	2003 £000	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000	**2003 £000**	2002 £000
I M Clubb*	**95#**	25	**–**	–	**–**	–	**–**	–	**95#**	25
M C E Averill	**330**	315	**–**	79	**24**	14	**–**	–	**354**	408
R C Biffa*	**28**	25	**–**	–	**–**	–	**–**	–	**28**	25
P Delaunois*	**28**	21^	**–**	–	**–**	–	**–**	–	**28**	21^
D J Downes	**260**	250	**–**	63	**135**	95	**–**	–	**395**	408
J R Meredith++	**175**	160	**–**	91	**12**	7	**183**	–	**370**	258
R B Pointon*	**28**	25	**–**	–	**–**	–	**–**	–	**28**	25
G H Waddell*+	**7**	100	**–**	–	**–**	–	**–**	–	**7**	100
									1,305	1,270

* Non-executive Director
\# Mr I M Clubb was appointed Chairman on 25 April 2002.
^ For the period following appointment on 30 May 2001.
\+ Mr G H Waddell retired on 25 April 2002.
++ Mr J R Meredith resigned on 1 April 2003.

(i) Other emoluments includes such items as a company car or car allowance, medical insurance, payments relating to FURBS and life assurance. They are not pensionable.

(ii) Mr M C E Averill and Mr D J Downes purchased their respective company car from the Company with effect from 1 April 2002 at market value and received a cash allowance instead of a company expensed car.

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

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

(v) Mr J R Meredith left the Company on 1 April 2003. He had a rolling service contract entered into on 2 July 2001 which required six months' notice from Mr Meredith and one year's notice from the Company. Previously Mr Meredith had a service contract which required one year's notice from Mr Meredith and two year's notice from the Company. Under the terms of his service contract the Company was obliged to compensate him for loss of office. The termination payment in respect of this compensation for loss of office amounted to £183,000 and, in addition, Mr Meredith's pension entitlement was enhanced by one year's service at a cost of £30,000. The figures for Mr Meredith in the Directors' pension benefits table above include this enhancement. Mr Meredith purchased his company car from the Company at market value. Under the rules of the LTIP and the Executive Share Option Scheme both his LTIP awards and outstanding share options lapsed immediately after he left the Company.

Directors' service contracts and notice periods

Mr M C E Averill and Mr D J Downes have rolling service contracts dated 29 September 1994 confirming previous arrangments, which require one year's notice from the Director and two years' notice from the Company. Termination payments are limited to the Director's contractual remuneration including basic salary, any bonus earned and benefits for the unexpired portion of the notice period. Any entitlement to LTIP awards or exercise of share options upon termination 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 Remuneration Committee does not believe that it would be reasonable to reduce the notice period already contained in the service contracts of Mr M C E Averill and Mr D J Downes. However, the Committee has agreed that the notice period offered to new Executive Directors will be one year. The Committee recognises that a two year notice period is not in accordance with the relevant provision of the Combined Code. The Non-executive Directors do not have service contracts.

External appointments

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

Directors' interests in ordinary shares and share options

The Directors' interests, all beneficial, in the ordinary 10p 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 2003 and 31 March 2002 were as follows:

	Ordinary Shares		Executive (E) and Savings Related (S) Share Options					
					Date of	Option	Normal Exercise Dates	
	2003	2002	**2003**	2002	grant	price (p)	From	To
I M Clubb	**30,000**	10,000	**–**	–	–	–	–	–
M C E Averill	**74,651**	54,340	**–**	40,000(E)	13.7.1992	205.0	14.7.1995	13.7.2002
			120,000(E)	120,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			125,000(E)	125,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			150,000(E)	150,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			150,000(E)	150,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			150,000(E)	150,000(E)	5.6.2000	180.0	6.6.2003	5.6.2007
			150,000(E)	150,000(E)	31.7.2001	184.5	1.8.2004	31.7.2011
			114,000(E)	–	30.7.2002	145.0	31.7.2005	30.7.2012
			2,899(S)	2,899(S)	23.9.1997	119.0	1.11.2002	30.4.2003
			–	5,328(S)	23.9.1999	190.0	1.11.2004	30.4.2005
			2,335(S)	2,335(S)	27.9.2001	144.5	1.11.2006	30.4.2007
			8,495(S)	–	26.9.2002	116.0	1.11.2007	30.4.2008
R C Biffa	**9,174,241**	9,173,930	**–**	–	–	–	–	–
P Delaunois	**–**	–	**–**	–	–	–	–	–
D J Downes	**91,562**	71,562	**80,000(E)**	80,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			84,000(E)	84,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			100,000(E)	100,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			100,000(E)	100,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			100,000(E)	100,000(E)	5.6.2000	180.0	6.6.2003	5.6.2007
			100,000(E)	100,000(E)	31.7.2001	184.5	1.8.2004	31.7.2011
			90,000(E)	–	30.7.2002	145.0	31.7.2005	30.7.2012
			–	8,881(S)	23.9.1999	190.0	1.11.2004	30.4.2005
			14,159(S)	–	26.9.2002	116.0	1.11.2007	30.4.2008
J R Meredith*	**23,000**	3,000	**–**	10,000(E)	13.7.1992	205.0	14.7.1995	13.7.2002
			60,000(E)	60,000(E)	1.8.1996	110.0	2.8.1999	1.8.2003
			60,000(E)	60,000(E)	12.3.1997	135.0	13.3.2000	12.3.2004
			75,000(E)	75,000(E)	8.6.1998	199.0	9.6.2001	8.6.2005
			75,000(E)	75,000(E)	2.6.1999	233.5	3.6.2002	2.6.2006
			75,000(E)	75,000(E)	5.6.2000	180.0	6.6.2003	5.6.2007
			90,000(E)	90,000(E)	31.7.2001	184.5	1.8.2004	31.7.2011
			60,000(E)	–	30.7.2002	145.0	31.7.2005	30.7.2012
R B Pointon	**3,000**	3,000	**–**	–	–	–	–	–
G H Waddell	**201,000#**	201,000	**–**	–	–	–	–	–

* Mr J R Meredith's options lapsed on 1 April 2003 following his resignation as Director.
\# As at 25 April 2002, the date Mr G H Waddell retired.

(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 23.

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

(iii) The Executive options granted to Mr M C E Averill and to Mr J R Meredith on 13 July 1992 at an option price of 205p lapsed on 14 July 2002. Mr M C E Averill and Mr D J Downes cancelled their SAYE options granted on 23 September 1999 at a price of 190p on 4 and 10 September 2002 respectively.

(iv) The highest closing mid-market price of the ordinary shares of the Company during the year was 177.5p and the lowest closing mid-market price during the year was 73.5p. The mid-market price at the close of business on 31 March 2003 was 87.0p.

There have been no alterations in the above interests or options between 31 March 2003 and 28 May 2003 with the exception that all of Mr J R Meredith's options lapsed immediately after he left the Company on 1 April 2003 and Mr M C E Averill's SAYE options granted on 23 September 1997 at a price of 119p lapsed on 1 May 2003.

Other interests

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

Auditable information

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

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

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

Respective responsibilities of Directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2003 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 May 2003

consolidated profit and loss account.

year ended 31 March 2003

	Note	2003 Before exceptional items £m	2003 Exceptional items £m	2003 Total £m	2002 Before exceptional items £m	2002 Exceptional items £m	2002 Total £m
Turnover: Group and share of joint ventures:							
Continuing operations		**551.8**	**–**	**551.8**	535.7	–	535.7
Acquisitions		**6.7**	**–**	**6.7**	–	–	–
		558.5	**–**	**558.5**	535.7	–	535.7
Less: share of turnover of joint ventures		**(7.1)**	**–**	**(7.1)**	(7.2)	–	(7.2)
Group turnover	2	**551.4**	**–**	**551.4**	528.5	–	528.5
Cost of sales	3	**(450.2)**	**(3.2)**	**(453.4)**	(420.8)	–	(420.8)
Gross profit	3	**101.2**	**(3.2)**	**98.0**	107.7	–	107.7
Group operating profit before goodwill amortisation		**54.1**	**(4.4)**	**49.7**	64.8	–	64.8
Goodwill amortisation		**(10.6)**	**–**	**(10.6)**	(10.0)	–	(10.0)
Group operating profit	3	**43.5**	**(4.4)**	**39.1**	54.8	–	54.8
Share of operating profit of joint ventures		**1.4**	**–**	**1.4**	1.6	–	1.6
Total operating profit	2	**44.9**	**(4.4)**	**40.5**	56.4	–	56.4
Non–operating exceptional items:							
– on disposal of operations	5	**–**	**(0.6)**	**(0.6)**	–	–	–
– on closure of operations	5	**–**	**–**	**–**	–	(8.4)	(8.4)
Profit before finance charges and tax	2	**44.9**	**(5.0)**	**39.9**	56.4	(8.4)	48.0
Finance charges – interest	6	**(18.7)**	**–**	**(18.7)**	(18.8)	–	(18.8)
Finance charges – other	7	**(2.3)**	**(0.5)**	**(2.8)**	(2.3)	–	(2.3)
Profit on ordinary activities before tax	2	**23.9**	**(5.5)**	**18.4**	35.3	(8.4)	26.9
Tax	8	**(10.6)**	**1.5**	**(9.1)**	(14.6)	2.5	(12.1)
Profit on ordinary activities after tax and profit for the period		**13.3**	**(4.0)**	**9.3**	20.7	(5.9)	14.8
Equity dividends paid and proposed	9			**(13.3)**			(13.3)
Retained (loss) profit transferred to reserves	23			**(4.0)**			1.5
Earnings per share							
– basic	10			**4.0p**			6.3p
– adjusted basic before exceptional items and goodwill amortisation	10			**10.2p**			13.2p
– diluted	10			**4.0p**			6.3p
Dividends per share	9			**5.7p**			5.7p

consolidated balance sheet.

at 31 March 2003

	Note	£m	2003 £m	£m	2002 £m
Fixed assets					
Intangible assets	13		**198.0**		183.6
Tangible assets	14		**324.3**		298.6
Investments	15		**1.1**		1.0
Investments in joint ventures:					
Share of gross assets		**13.6**		13.5	
Share of gross liabilities		**(8.4)**		(8.9)	
Share of net assets	15	**5.2**		4.6	
Loans to joint ventures	15	**2.9**		2.6	
Total investment in joint ventures			**8.1**		7.2
Total fixed assets			**531.5**		490.4
Current assets					
Stocks	17	**7.0**		6.6	
Debtors	18	**129.6**		132.9	
Cash at bank and in hand		**20.5**		3.7	
		157.1		143.2	
Creditors: amounts falling due within one year					
Borrowings	19	**(4.9)**		(14.3)	
Other creditors	20	**(159.1)**		(131.6)	
		(164.0)		(145.9)	
Net current liabilities			**(6.9)**		(2.7)
Total assets less current liabilities			**524.6**		487.7
Creditors: amounts falling due after more than one year					
Borrowings	19	**(313.1)**		(278.9)	
Other creditors	20	**(0.2)**		(0.3)	
			(313.3)		(279.2)
Provisions for liabilities and charges	21		**(68.1)**		(67.8)
Net assets			**143.2**		140.7
Capital and reserves					
Called up share capital	22		**23.4**		23.4
Share premium account	23		**93.1**		93.0
Profit and loss account	23		**26.7**		24.3
Equity shareholders' funds			**143.2**		140.7

The Financial Statements were approved by the Board on 28 May 2003 and were signed on its behalf by:

I M Clubb
Chairman

D J Downes
Group Finance Director

consolidated cash flow statement.

year ended 31 March 2003

	Note	£m	2003 £m	£m	2002 £m
Net cash flow from operating activities	25(a)		**120.9**		109.0
Returns from investments and servicing of finance					
Interest paid		**(20.5)**		(17.3)	
Interest received		**1.8**		0.7	
			(18.7)		(16.6)
Tax paid			**(11.6)**		(15.4)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(59.8)**		(57.7)	
Sale of tangible fixed assets		**6.9**		5.8	
			(52.9)		(51.9)
Acquisitions and disposals					
Purchase of subsidiary and other businesses	25(b)	**(9.8)**		(3.8)	
Purchase of and movements in loans with investments and joint ventures		**(0.4)**		0.9	
Sale of subsidiaries and joint ventures		**0.4**		–	
			(9.8)		(2.9)
Equity dividends paid			**(13.3)**		(13.0)
Net cash flow before use of liquid resources and financing			**14.6**		9.2
Financing					
Issue of ordinary share capital			**0.1**		0.8
Debt financing	25(c)		**11.2**		(1.2)
Increase in cash			**25.9**		8.8

	Note	2003 £m	2002 £m
Reconciliation of net cash flow to movement in net debt	25(d)		
Increase in cash in the year		**25.9**	8.8
Debt financing	25(c)	**(11.2)**	1.2
Change in net debt resulting from cash flows		**14.7**	10.0
Amortisation of loan fees		**(0.5)**	(0.5)
Exchange rate (loss) gain on net debt		**(22.2)**	2.8
Movement in net debt in the year		**(8.0)**	12.3
Net debt at 31 March 2002		**(289.5)**	(301.8)
Net debt at 31 March 2003		**(297.5)**	(289.5)

reconciliation of movements in shareholders' funds.

year ended 31 March 2003

	Note	2003 £m	2002 £m
Profit for the period		**9.3**	14.8
Equity dividends	9	**(13.3)**	(13.3)
Retained (loss) profit transferred to reserves		**(4.0)**	1.5
Issue of share capital		**0.1**	0.8
Goodwill written off (see below)		**–**	(4.6)
Currency translation gain (loss)		**12.4**	(1.6)
Tax attributable to currency translation		**(0.3)**	–
Movements in goodwill: currency translation adjustment		**(5.7)**	0.5
Net movement in equity shareholders' funds		**2.5**	(3.4)
Opening equity shareholders' funds		**140.7**	144.1
Closing equity shareholders' funds		**143.2**	140.7

The goodwill written off to reserves in 2002 related to the final determination of the consideration on the Group's acquisition of Page s.a. in 1998. The original goodwill on this acquisition was written off to reserves in that year, before the introduction of FRS 10 – Goodwill and Intangible Assets.

statement of total recognised gains and losses.

year ended 31 March 2003

	2003 £m	2002 £m
Profit for the period	**9.3**	14.8
Currency translation gain (loss) on net investments (including goodwill)	**34.6**	(4.4)
Currency translation (loss) gain on borrowings	**(22.2)**	2.8
Tax attributable to currency translation	**(0.3)**	–
Total recognised gains and losses relating to the period	**21.4**	13.2

financial statements, accounting policies and directors' remuneration.

The accounting policies on pages 33 and 34 form part of these financial statements. The disclosures required by the Companies Act 1985 and those specified for audit by the Financial Services Authority relating to Directors' remuneration (including pension benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 22 to 26, and form part of these financial statements.

company balance sheet.

at 31 March 2003

	Note	£m	2003 £m	£m	2002 £m
Fixed assets					
Tangible assets	14		**0.1**		0.1
Investments	15		**270.3**		271.9
Total fixed assets			**270.4**		272.0
Current assets					
Debtors	18	**179.5**		157.3	
Cash at bank and in hand		**8.4**		9.4	
		187.9		166.7	
Creditors: amounts falling due within one year					
Other creditors	20	**(16.0)**		(15.9)	
Net current assets			**171.9**		150.8
Total assets less current liabilities			**442.3**		422.8
Creditors: amounts falling due after more than one year					
Borrowings	19	**(231.5)**		(221.4)	
Other creditors	20	**(61.7)**		(54.8)	
			(293.2)		(276.2)
Provisions for liabilities and charges	21		**(0.4)**		(0.4)
Net assets			**148.7**		146.2
Capital and reserves					
Called up share capital	22		**23.4**		23.4
Share premium account	23		**117.1**		117.0
Profit and loss account	23		**8.2**		5.8
Equity shareholders' funds			**148.7**		146.2

The Financial Statements were approved by the Board on 28 May 2003 and were signed on its behalf by:

I M Clubb
Chairman

D J Downes
Group Finance Director

notes to the financial statements.

1 Accounting policies

(a) Basis of presentation

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

(b) Basis of consolidation

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

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

(c) Joint ventures

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

(d) Turnover

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

(e) Retirement benefits

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

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

(f) Exceptional items

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

(g) Goodwill

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

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

(h) Fixed assets

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

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

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

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

1 Accounting policies continued

(i) Leased assets

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

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

(j) Government grants and subsidies

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

(k) Unprocessed waste

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

(l) Site restoration provision

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

(m) Aftercare provision

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

(n) 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%.

(o) Deferred tax

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

(p) Foreign currencies

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

(q) Financial instruments

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

2 Segmental analysis

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

				2003	2002
		Continuing £m	**Acquisitions £m**	**Total £m**	Total £m
(a)	**Turnover by origin and by destination of service**				
	United Kingdom:				
	– Waste services	**227.5**	**6.1**	**233.6**	233.5
	– Chemical services	**36.6**	**–**	**36.6**	38.7
	United Kingdom	**264.1**	**6.1**	**270.2**	272.2
	Belgium	**95.0**	**0.2**	**95.2**	88.4
	The Netherlands	**185.6**	**0.4**	**186.0**	167.9
	Group turnover	**544.7**	**6.7**	**551.4**	528.5
	Share of joint venture turnover	**7.1**	**–**	**7.1**	7.2
(b)	**Operating profits**				
	Trading profits:				
	United Kingdom:				
	– Waste services	**19.4**	**0.3**	**19.7**	36.1
	– Chemical services	**(1.2)**	**–**	**(1.2)**	(4.0)
	United Kingdom	**18.2**	**0.3**	**18.5**	32.1
	Belgium	**14.5**	**–**	**14.5**	13.1
	The Netherlands	**25.8**	**0.1**	**25.9**	25.0
	Central services	**(3.4)**	**–**	**(3.4)**	(3.8)
	Operating profit before exceptional items and goodwill amortisation	**55.1**	**0.4**	**55.5**	66.4
	Exceptional operating items	**(4.4)**	**–**	**(4.4)**	–
	Goodwill amortisation	**(10.5)**	**(0.1)**	**(10.6)**	(10.0)
	Total operating profit	**40.2**	**0.3**	**40.5**	56.4
	United Kingdom:				
	– Waste services	**12.9**	**0.2**	**13.1**	33.9
	– Chemical services	**(1.6)**	**–**	**(1.6)**	(4.1)
	United Kingdom	**11.3**	**0.2**	**11.5**	29.8
	Belgium	**13.9**	**–**	**13.9**	12.5
	The Netherlands	**18.6**	**0.1**	**18.7**	18.2
	Central services	**(3.6)**	**–**	**(3.6)**	(4.1)
	Total operating profit	**40.2**	**0.3**	**40.5**	56.4
	Non–operating exceptional items			**(0.6)**	(8.4)
	Profit before finance charges and tax			**39.9**	48.0
	Finance charges – interest			**(18.7)**	(18.8)
	Finance charges – other			**(2.3)**	(2.3)
	Finance charges – exceptional			**(0.5)**	–
	Profit on ordinary activities before tax			**18.4**	26.9
(c)	**Analysis of profit on ordinary activities before tax**				
	Group			**17.2**	25.6
	Joint ventures			**1.2**	1.3
	Profit on ordinary activities before tax			**18.4**	26.9

notes to the financial statements.

continued

2 Segmental analysis continued

	At 31 March 2003 £m	At 31 March 2002 £m
(d) Net assets		
United Kingdom:		
– Waste services	**158.3**	162.5
– Chemical services	**32.7**	36.1
United Kingdom	**191.0**	198.6
Belgium	**23.1**	34.6
The Netherlands	**237.9**	220.2
Net operating assets	**452.0**	453.4
Unallocated net assets (liabilities):		
Assets under the course of construction	**18.2**	8.0
Net debt	**(297.5)**	(289.5)
Other unallocated net liabilities	**(29.5)**	(31.2)
Net assets	**143.2**	140.7

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

3 Operating profit

	2003 £m	2003 £m	2002 £m	2002 £m
Gross profit		**98.0**		107.7
Exceptional reorganisation costs	**(1.2)**		–	
Goodwill amortisation	**(10.6)**		(10.0)	
Other administration expenses	**(47.1)**		(42.9)	
Total administration expenses		**(58.9)**		(52.9)
Group operating profit		**39.1**		54.8
Group operating profit is stated after charging (crediting):				
Depreciation of tangible fixed assets				
– owned		**41.7**		42.6
– held under finance leases and hire purchase contracts		**0.4**		0.6
Goodwill amortisation		**10.6**		10.0
Total depreciation and amortisation		**52.7**		53.2
Exceptional leachate treatment costs		**3.2**		–
Net loss (profit) on disposal of fixed assets		**0.1**		(0.7)
Hire of plant and machinery – operating leases		**11.1**		10.2
Property rents payable		**3.5**		3.3
Government grants		**(0.2)**		(0.3)
Auditors' remuneration:				
– audit fees, including expenses (parent company £68,000 (2002: £64,000))		**0.4**		0.3
– non audit related fees (tax services)		**0.2**		0.6

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

Group operating profit is also stated after charging £0.2m (2002: £Nil) for fines paid in respect of breaches of the Health and Safety at Work, etc., Act 1974.

4 Employees

	2003 Number	2002 Number
The average number of persons employed by the Group during the year was as follows:		
United Kingdom	**1,883**	1,963
Belgium	**901**	884
The Netherlands	**1,803**	1,747
Central services	**15**	16
	4,602	4,610

	2003 £m	2002 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	**95.1**	88.2
Employer's social security costs	**16.0**	15.4
Employer's pension costs	**5.2**	4.2
	116.3	107.8

5 Non-operating exceptional items

	2003 £m	2002 £m
Loss on disposal of assets	**(0.6)**	–
Site closure provision	**–**	(3.0)
Impairment of tangible fixed assets	**–**	(5.4)
	(0.6)	(8.4)

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

The exceptional costs in 2002 arose on the closure of operations at the Pontypool site in the United Kingdom. The tax effect of these costs was to reduce the current tax charge by £0.4m and the deferred tax charge by £2.1m.

6 Finance charges - interest

	2003 £m	2002 £m
Net interest payable:		
Interest payable on bank loans and overdrafts repayable within five years	**12.4**	13.6
Interest payable on other loans	**7.9**	5.6
Share of interest of joint ventures	**0.2**	0.3
	20.5	19.5
Interest receivable	**(1.8)**	(0.7)
	18.7	18.8

7 Finance charges - other

Other finance charges relate to the unwinding of the discount on long term landfill liabilities of £1.8m (2002: £1.8m) and the amortisation of bank fees of £0.5m (2002: £0.5m). An exceptional finance cost of £0.5m (2002: £Nil) arose on the modification of the Group's banking covenants. The tax effect of this exceptional cost is to reduce the current tax charge by £0.2m.

8 Tax

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

	2003 £m	2002 £m
Current tax: UK corporation tax at 30% (2002: 30%)		
– current year	**3.7**	3.1
– prior year	**(1.8)**	(1.1)
Double tax relief	**(4.2)**	–
Overseas	**11.1**	9.5
	8.8	11.5
Deferred tax	**(0.1)**	0.2
Joint ventures	**0.4**	0.4
	9.1	12.1

The tax assessed for the period is higher than the United Kingdom standard rate of tax of 30% (2002: 30%). The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**18.4**	26.9
Tax charge based on UK tax rate	**5.5**	8.1
Tax effect of the following items:		
Expenses not deductible for tax purposes:		
– Goodwill amortisation	**3.3**	3.0
– Land depreciation	**1.1**	1.4
– Other disallowed items	**0.3**	–
Profits taxed at overseas tax rates	**0.5**	1.0
Capital allowances and other timing differences	**0.7**	–
Utilisation of tax losses and ACT	**(0.4)**	(0.5)
Adjustment to tax charge in respect of prior periods	**(1.8)**	(1.1)
Joint ventures	**(0.4)**	(0.4)
Current tax charge for the period	**8.8**	11.5

9 Equity dividends

	2003 £m	2002 £m
Interim dividend of 1.9p per ordinary share (2002: 1.9p)	**4.4**	4.4
Proposed final dividend of 3.8p per ordinary share (2002: 3.8p)	**8.9**	8.9
Total dividend of 5.7p per ordinary share (2002: 5.7p)	**13.3**	13.3

10 Earnings per share

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

	2003	2002
Calculation of basic earnings per share		
Profit for the period (£m)	**9.3**	14.8
Exceptional items (net of tax) (£m)	**4.0**	5.9
Goodwill amortisation (£m)	**10.6**	10.0
Earnings before exceptional items and goodwill amortisation (£m)	**23.9**	30.7
Average number of shares in issue during the period	**234.0m**	233.4m
Basic earnings per share (pence)	**4.0p**	6.3p
Adjusted basic earnings per share before exceptional items and goodwill amortisation (pence)	**10.2p**	13.2p
Calculation of diluted earnings per share		
Average number of shares in issue during the period	**234.0m**	233.4m
Effect of share options in issue	**0.2m**	0.5m
Total	**234.2m**	233.9m
Diluted earnings per share (pence)	**4.0p**	6.3p

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

11 Pensions – current SSAP 24 basis

(a) UK

The Group's principal funded defined benefit scheme is the Shanks Group Pension Scheme (The Scheme) which covers eligible UK employees. Pension costs are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The Group pension cost for the year for United Kingdom pensions was £2.1m (2002: £2.2m).

The most recent actuarial valuation at 5 April 2000 showed that the market value of the Scheme's assets was £52.1m and that the actuarial value of those assets represented 117% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The actuarial surplus was being spread over the average remaining life of the current employees and reflected in the Company contribution rate. From 1 April 2003, given the uncertainty arising over the next valuation, the Group has decided to revert to the long term funding rate. There are two categories of employee benefits and contributions, known as 'staff' and 'operatives' sections.

The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and to the rate of increase in salaries. It was assumed that the investment returns would be 2% per annum higher than the growth in pensionable pay. It was further assumed that pensions in payment for the 'staff' section would increase at 3% per annum compound in respect of pension earned prior to 5 April 1997 and 2.6% per annum for later service. It was also assumed that the pensions in payment for the 'operatives' section would remain level for pensions earned before 5 April 1997 (except for guaranteed minimum pensions for the period 6 April 1988 to 5 April 1997) and would increase at 2.6% per annum for service thereafter.

(b) Overseas

Local pension arrangements for employees exist in Belgium and the Netherlands. The total cost in the year for overseas pensions was £3.1m (2002: £2.0m).

12 Pensions – FRS 17 basis

Whilst the Group continues to account for pension costs in accordance with SSAP 24 – Accounting for Pension Costs, under FRS 17 – Retirement Benefits the transitional disclosures set out below are required.

(a) United Kingdom

Assumptions

The most recent actuarial valuations of the defined benefit pension schemes operated by the Group have been updated by independent qualified actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of these schemes at 31 March 2003. The main assumptions for FRS 17 purposes for the schemes were as follows:

	2003 % pa	2002 % pa
Discount rate	**5.5**	6.1
Future salary growth	**4.1**	4.3
Rate of increase of pensions in payment (earned after 5 April 1997)	**2.5**	2.7
Rate of price inflation	**2.6**	2.8

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

Profit and loss account		**£m**	**2003 £m**
Operating profit:	Current service cost		**3.2**
Other finance items:	Interest on scheme liabilities	**3.6**	
	Expected return on scheme assets	**(3.9)**	
			(0.3)
Net pension cost before tax			**2.9**

Statement of total recognised gains and losses	% of scheme assets/liabilties	**2003 £m**
Loss on actual return less expected return on scheme assets	(35.6)	**(15.2)**
Experience loss arising on scheme liabilities	(0.3)	**(0.2)**
Loss arising on changes in assumptions underlying the present value of the scheme liabilities	(9.6)	**(6.8)**
Actuarial loss recognised in the statement of total recognised gains and losses	(31.2)	**(22.2)**

12 Pensions – FRS 17 basis continued

Balance sheet

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

	Expected long term rate of return		Pension schemes' balance sheet	
	2003 % pa	2002 % pa	**2003 £m**	2002 £m
Equities	**7.6**	8.0	**35.5**	39.9
Government bonds	**4.6**	5.3	**5.0**	6.7
With-profits insurance contract	**–**	7.1	**–**	3.2
Corporate bonds	**4.9**	–	**1.0**	–
Cash	**3.6**	3.5	**1.2**	2.9
Total market value of assets			**42.7**	52.7
Present value of scheme liabilities			**(71.2)**	(58.2)
Net deficit in the schemes			**(28.5)**	(5.5)
Related deferred tax asset			**8.6**	1.7
Net pension liability			**(19.9)**	(3.8)

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

	2003 £m	2002 £m
Net assets excluding pension liability	**143.2**	140.7
Net pension liability	**(19.9)**	(3.8)
Net assets including pension liability	**123.3**	136.9
Profit and loss reserve excluding pension liability	**26.7**	24.3
Net pension liability	**(19.9)**	(3.8)
Profit and loss reserve including pension liability	**6.8**	20.5

Movement in pension deficit during the year

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

	2003 £m
At 31 March 2002	(5.5)
Movement in the year:	
– Current service cost	(3.2)
– Employer contributions	2.1
– Other net finance income	0.3
– Actuarial reduction	(22.2)
At 31 March 2003	**(28.5)**

(b) Overseas

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

13 Intangible fixed assets

Group	Goodwill £m
Cost:	
At 31 March 2002	204.4
Goodwill arising in the year on purchase of subsidiary undertakings and businesses (see note 16)	8.7
Exchange movements	18.8
At 31 March 2003	**231.9**
Amortisation:	
At 31 March 2002	20.8
Charge for the year	10.6
Exchange movements	2.5
At 31 March 2003	**33.9**
Net book value:	
At 31 March 2003	**198.0**
At 31 March 2002	183.6

14 Tangible fixed assets

Group	Land & Buildings £m	Landfill Sites £m	Plant & Machinery £m	Total £m
Cost:				
At 31 March 2002	84.8	167.0	389.3	641.1
On purchase of subsidiary undertakings and businesses	–	–	1.1	1.1
Additions	5.7	10.4	43.7	59.8
Disposals	(3.4)	–	(28.0)	(31.4)
Reclassification and transfers	0.2	4.9	(4.8)	0.3
Exchange movements	8.1	3.1	22.7	33.9
At 31 March 2003	**95.4**	**185.4**	**424.0**	**704.8**
Depreciation:				
At 31 March 2002	23.4	80.6	238.5	342.5
Depreciation charge for the year	3.2	8.9	30.0	42.1
Disposals	(0.5)	–	(23.3)	(23.8)
Reclassification and transfers	–	0.1	–	0.1
Exchange movements	2.3	3.1	14.2	19.6
At 31 March 2003	**28.4**	**92.7**	**259.4**	**380.5**
Net book value:				
At 31 March 2003	**67.0**	**92.7**	**164.6**	**324.3**
At 31 March 2002	61.4	86.4	150.8	298.6

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

Included in fixed assets are assets under construction costing £18.2m (2002: £8.0m). Included in plant and machinery are assets held under finance leases with a cost of £3.3m and accumulated depreciation of £2.4m (2002: cost £3.7m and accumulated depreciation £2.5m).

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

	2003		2002	
Group	**Land & Buildings £m**	**Landfill Sites £m**	Land & Buildings £m	Landfill Sites £m
Freehold	**55.5**	**91.6**	50.7	84.6
Long leasehold	**9.6**	**1.1**	8.8	1.8
Short leasehold	**1.9**	**–**	1.9	–
	67.0	**92.7**	61.4	86.4

14 Tangible fixed assets continued

Company	Plant & machinery £m
Cost:	
At 31 March 2002	0.5
Disposals	(0.1)
At 31 March 2003	**0.4**
Depreciation:	
At 31 March 2002	0.4
Disposals	(0.1)
At 31 March 2003	**0.3**
Net book value:	
At 31 March 2003	**0.1**
At 31 March 2002	0.1

15 Fixed asset investments

	Group			Company
	Unlisted investments £m	Joint venture investments £m	Joint venture loans £m	Shares in subsidiary undertakings £m
At 31 March 2002	1.0	4.6	2.6	271.9
Additions	–	0.1	0.3	5.5
Share of retained profits	–	0.8	–	–
Disposals	–	(0.4)	–	(7.1)
Exchange	0.1	0.1	–	–
At 31 March 2003	**1.1**	**5.2**	**2.9**	**270.3**

Details of subsidiary undertakings and joint ventures are shown on page 50 and form part of these financial statements.

16 Acquisitions

During the year the Group made the following acquisitions:

	Date	Activities and Geographical Area
Watco's Stavelot business	June 2002	Waste Management – Belgium
De Smul	December 2002	Waste Management – Belgium
ELWA Limited	December 2002	Waste Management – United Kingdom
Van Leeuwen	February 2003	Waste Management – The Netherlands

The book values of net assets acquired and the provisional fair value to the Group, pending completion of the evaluation of the businesses acquired, were as follows:

	£m
Tangible fixed assets	**1.1**
Goodwill	**8.7**
Cash consideration (including costs)	**9.8**

During the year the Group completed the evaluation of the businesses acquired in the year ended 31 March 2002. No adjustments arose in respect of acquisitions during that year.

17 Stocks

Group	2003 £m	2002 £m
Raw materials and consumables	**4.4**	4.3
Work in progress	**2.1**	1.8
Finished goods	**0.5**	0.4
Investment land and property	**–**	0.1
	7.0	6.6

18 Debtors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts due within one year:				
Trade debtors	**114.0**	115.0	**–**	–
Amounts owed by joint ventures	**0.2**	0.3	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**179.1**	149.8
Other debtors	**5.7**	3.0	**0.2**	0.3
Prepayments and accrued income	**7.8**	6.4	**0.1**	0.1
Corporation tax	**1.9**	–	**0.1**	7.1
	129.6	124.7	**179.5**	157.3
Amounts due after more than one year:				
Deposits	**–**	8.2	**–**	–
Total	**129.6**	132.9	**179.5**	157.3

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

19 Borrowings and financial instruments

The Group's policy on treasury management is referred to in the financial review on page 11.

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year:				
Bank overdrafts and short term loans	**3.7**	13.3	**–**	–
Loan notes as deferred consideration	**0.6**	–	**–**	–
Finance lease obligations	**0.6**	1.0	**–**	–
	4.9	14.3	**–**	–
Amounts falling due after more than one year:				
Senior notes	**110.0**	99.8	**48.3**	45.0
Bank loans	**203.0**	178.5	**183.2**	176.4
Finance lease obligations	**0.1**	0.6	**–**	–
	313.1	278.9	**231.5**	221.4
Notes and loans due after more than one year are repayable as follows:				
Between one and two years	**183.3**	0.6	**183.2**	–
Between three and five years	**10.6**	176.5	**–**	176.4
More than five years	**119.1**	101.2	**48.3**	45.0
	313.0	278.3	**231.5**	221.4

The finance lease obligations falling due after more than one year comprised £0.1m repayable between one and two years and £Nil repayable between three and five years (2002: £0.4m and £0.2m respectively).

19 Borrowings and financial instruments continued

Analysis of gross borrowings

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

	2003 £m	2002 £m
Principal Group borrowings	**298.9**	291.9
Private Finance Initiative company borrowings	**19.1**	1.3
	318.0	293.2

Details of the companies included within the Principal Group and Private Finance Initiative (PFI) companies are shown on page 50.

Undrawn borrowing facilities

The Group has undrawn committed borrowing facilities as follows:

	Principal Group		PFI companies		Total Group	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Expiring in one year or less	**43.5**	32.6	**–**	–	**43.5**	32.6
Expiring in two years	**54.7**	–	**–**	–	**54.7**	–
Expiring in more than two years	**–**	37.8	**132.5**	11.2	**132.5**	49.0
	98.2	70.4	**132.5**	11.2	**230.7**	81.6

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). These companies have loan facilities which are secured by fixed and floating charges on the assets of the PFI company only.

Interest rate risk profile of financial assets

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

Currency:	2003 £m	2002 £m
Sterling	**4.1**	–
Euro	**15.5**	11.9
Dollar	**0.9**	–
	20.5	11.9

Financial assets include cash at bank and in hand of £20.5m (2002: £3.7m) which were held on call periods of less than one month, and deposits placed as security for certain provisions and risks of £Nil (2002: £8.2m).

Interest rate risk profile of financial liabilities

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

	2003			2002		
Currency:	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m	Total £m
Sterling	**54.4**	**69.1**	**123.5**	35.3	51.3	86.6
Euro	**103.9**	**91.2**	**195.1**	78.9	128.4	207.3
Total	**158.3**	**160.3**	**318.6**	114.2	179.7	293.9

The above analysis of financial liabilities includes the provision for onerous leases of £0.4m (2002: £0.4m, see note 21), which is a sterling financial liability at floating rate under the definitions of FRS 13 and the long term creditor for government grants of £0.2m (2002: £0.3m, see note 20). The liability has been calculated by discounting the expected cashflows at prevailing interest rates.

19 Borrowings and financial instruments continued

Interest rate risk profile of financial liabilities continued

The 2003 floating rate financial liabilities include £54.0m (2002: £34.8m) of sterling denominated borrowings and £103.7m (2002: £78.6m) of euro denominated borrowings which bear interest rates based on the LIBOR and EURIBOR.

In 2003, £49.1m (2002: £76.0m) of floating rate financial liabilities have been classified as fixed rate because of interest swaps held which fix the interest rates for periods of up to twenty years (2002: three years).

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

	2003		2002	
Currency:	**Interest rate**	**Period**	Interest rate	Period
Sterling	**7.3%**	**2.6 years**	7.8%	2.9 years
Euro	**6.9%**	**8.2 years**	6.4%	6.2 years

Currency exposures

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

	2003			2002		
Functional currency:	**Euro £m**	**US Dollars £m**	**Total £m**	Euro £m	US Dollars £m	Total £m
Sterling	**–**	**0.9**	**0.9**	0.1	0.1	0.2

Fair values of financial assets and financial liabilities

	2003		2002	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Floating rate	**20.5**	**20.5**	11.9	11.9
Financial liabilities:				
Floating rate	**158.3**	**158.3**	114.2	114.2
Floating rate classified as fixed by matching interest swaps	**49.1**	**49.1**	76.0	76.0
Interest swaps	**–**	**6.5**	–	1.7
Fixed rate	**111.2**	**116.3**	103.7	101.7
	318.6	**330.2**	293.9	293.6

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

The unrealised loss between book and fair value of £11.6m (2002: £0.3m gain) has not been reflected in the results for the year as this will be matched against future borrowing costs. Of the £6.5m (2002: £1.7m) loss on interest swaps unrecognised at 31 March 2003, £0.9m (2002: £1.1m) is expected to be recognised within one year and £5.6m (2002: £0.6m) is expected to be recognised after one year.

20 Other creditors

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Amounts falling due within one year:				
Trade creditors	**69.4**	55.2	**0.1**	0.1
Corporation tax payable	**2.0**	2.6	**–**	–
Other creditors	**1.8**	3.4	**0.4**	0.5
Tax and social security	**8.4**	8.0	**0.7**	0.6
Landfill tax	**14.4**	11.3	**–**	–
Accruals and deferred income	**45.3**	33.4	**5.9**	5.8
Unprocessed waste	**8.9**	8.8	**–**	–
Dividends payable	**8.9**	8.9	**8.9**	8.9
	159.1	131.6	**16.0**	15.9
Amounts due after more than one year:				
Amounts owed to group undertakings	**–**	–	**61.7**	54.8
Government grants	**0.2**	0.3	**–**	–
	0.2	0.3	**61.7**	54.8

21 Provisions for liabilities and charges

Group	Site restoration £m	Aftercare £m	Leachate £m	Reorgan–isation £m	Onerous leases £m	Deferred tax £m	Total £m
At 31 March 2002	22.3	25.3	–	1.9	0.4	17.9	67.8
Provided – cost of sales	2.2	0.6	–	–	–	–	2.8
– finance charges	0.7	1.1	–	–	–	–	1.8
– exceptional costs	–	–	3.2	–	–	–	3.2
– tax	–	–	–	–	–	(0.1)	(0.1)
Utilised	(7.2)	(1.0)	–	(1.3)	–	–	(9.5)
Transfer with fixed assets	0.2	–	–	–	–	–	0.2
Exchange rate movements	0.4	0.4	–	–	–	1.1	1.9
At 31 March 2003	**18.6**	**26.4**	**3.2**	**0.6**	**0.4**	**18.9**	**68.1**

Company	Onerous leases £m
At 31 March 2002 and at 31 March 2003	**0.4**

Site restoration
Site restoration provision relates to the cost of final capping and covering of the landfill sites. An element of the closing provision of £18.6m relates to costs of £3.9m that are expected to be paid over the next two to three years. The remaining part of the provision relates to restoration costs of £14.7m that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

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

Leachate
The leachate provision arises on the regulatory requirement to reduce historical leachate levels at UK landfill sites (see note 3). This provision will be utilised over the next two years.

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

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

21 Provisions for liabilities and charges continued

Deferred tax

The deferred tax provision is made up as follows:

	2003 £m	2002 £m
Capital allowances	**20.1**	19.4
Other timing differences	**(0.2)**	(1.5)
Tax losses	**(1.0)**	–
	18.9	17.9

22 Called up share capital

Group and Company	**2003 £m**	2002 £m
Authorised 350 million (2002: 300 million) ordinary shares of 10p each	**35.0**	30.0
Allotted, called up and fully paid 234 million (2002: 234 million) ordinary shares of 10p each	**23.4**	23.4

At the Annual General Meeting held on 25 July 2002, the authorised share capital of the company was increased from £30.0m to £35.0m by the creation of an additional 50,000,000 ordinary shares of 10p each.

During the year to 31 March 2003, 33,835 ordinary shares were allotted following the exercise of options under the Company's Executive and Savings Related Share Option Schemes for aggregate consideration of £40,266.

Options outstanding at 31 March 2003 and 31 March 2002:	**2003**	2002
Savings related share option schemes		
Number of shares under option	**2,522,698**	2,263,338
Normal dates exercisable	**2002–2008**	2001–2007
Price per share	**119.0p to 190p**	85.5p to 190p
Weighted average subscription price	**139p**	153p
Executive share option scheme		
Number of shares under option	**6,315,574**	5,131,537
Normal dates exercisable	**1999–2012**	1995–2011
Price per share	**110p to 233.5p**	110p to 233.5p
Weighted average subscription price	**173p**	181p
Executive share options were all granted three years before the earliest date of exercise.		
The movement in the number of all options in the year comprises:		
New options issued	**2,596,296**	2,190,051
Options exercised	**33,835**	845,566
Options lapsed	**1,119,064**	750,251

The mid market price of the ordinary shares of 10p each at 31 March 2003 was 87.0p (2002: 167.0p) and the average value for the year was 128.0p (2002: 172.0p).

23 Share premium and profit and loss accounts

	Group		Company	
	Share premium £m	Profit and loss £m	Share premium £m	Profit and loss £m
At 31 March 2002	93.0	24.3	117.0	5.8
Retained (loss) profit for the year	–	(4.0)	–	2.4
Premium on shares issued	0.1	–	0.1	–
Currency translation gain on net investments (including goodwill)	–	34.6	–	22.5
Currency translation loss on borrowings	–	(22.2)	–	(22.5)
Tax attributable to currency translation	–	(0.3)	–	–
Currency translation adjustment on goodwill	–	(5.7)	–	–
At 31 March 2003	**93.1**	**26.7**	**117.1**	**8.2**

The cumulative goodwill written off Group reserves to 31 March 2003 on businesses continuing within the Group amounts to £49.7m (2002: £44.0m). £24.0m (2002: £24.0m) of goodwill has been eliminated against the share premium account and £152.4m (2002: £152.4m) of goodwill has been eliminated against a merger reserve of £152.4m (2002: £152.4m) by using the provisions of Section 131 of the Companies Act 1985 regarding merger relief.

24 Result for the year

The profit for the year in the financial statements of the Company is £15.7m (2002: £15.7m). As permitted by Section 230 of the Companies Act 1985, a profit and loss account for the Company has not been presented.

25 Notes to the cash flow statement

	2003			2002
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Total £m
(a) Net cash flow from operating activities				
Total operating profit	**44.9**	**(4.4)**	**40.5**	56.4
Amortisation of intangible assets	**10.6**	**–**	**10.6**	10.0
Depreciation of tangible fixed assets included in operating profits	**42.1**	**–**	**42.1**	43.2
Provision for aftercare and site restoration	**2.8**	**–**	**2.8**	3.2
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**100.4**	**(4.4)**	**96.0**	112.8
Loss (profit) on sale of fixed assets	**0.1**	**–**	**0.1**	(0.7)
(Increase) decrease in stocks	**(0.4)**	**–**	**(0.4)**	1.5
Decrease (increase) in debtors	**5.2**	**–**	**5.2**	3.8
Increase (decrease) in creditors	**27.2**	**0.5**	**27.7**	(1.6)
Exceptional provision cost	**–**	**3.2**	**3.2**	–
Utilisation of provisions	**(9.5)**	**–**	**(9.5)**	(5.2)
Share of profits of joint ventures	**(1.4)**	**–**	**(1.4)**	(1.6)
Net cash flow from operating activities	**121.6**	**(0.7)**	**120.9**	109.0

	2003 £m	2002 £m
(b) Subsidiary undertakings and businesses purchased during the year (see note 16)		
Tangible fixed assets	**1.1**	1.0
Net liabilities assumed	**–**	(6.3)
Buy–out of minority interest	**–**	0.3
Net assets (liabilities) acquired	**1.1**	(5.0)
Goodwill capitalised	**8.7**	8.8
Total estimated consideration	**9.8**	3.8
(c) Analysis of financing		
Short term loan advances (repayments)	**0.1**	(9.9)
Long term loan advances	**17.8**	79.8
Long term loan repayments	**(5.8)**	(70.4)
Finance lease net repayments	**(0.9)**	(0.7)
Net cash flow from debt	**11.2**	(1.2)

(d) Analysis of net debt in the balance sheet

	At 31 March 2002 £m	Cash flows £m	Non cash items £m	**At 31 March 2003 £m**
Cash at bank and in hand	3.7	16.8	–	**20.5**
Overdrafts	(12.8)	9.1	–	**(3.7)**
		25.9		
Debt due within one year	(0.5)	(0.1)	–	**(0.6)**
Debt due after more than one year	(278.3)	(12.0)	(22.7)	**(313.0)**
Finance leases	(1.6)	0.9	–	**(0.7)**
		(11.2)		
Total	(289.5)	14.7	(22.7)	**(297.5)**

Non cash items comprise the amortisation of loan fees of £0.5m and exchange loss on translation of long term loans in currencies other than sterling of £22.2m.

26 Capital commitments

Group	2003 £m	2002 £m
The aggregate amount of contracted capital expenditure authorised by the Directors for which no provision is made in the accounts is:	**99.1**	18.3

The Company had no capital commitments (2002: £Nil).

27 Financial commitments

Group	2003 £m	2002 £m
At the end of the year the Group had annual commitments under non–cancellable leases expiring as follows:		
Within one year	**0.4**	0.4
Between two and five years	**3.4**	1.6
After five years	**4.5**	3.6
	8.3	5.6

The Company has annual commitments of £0.1m (2002: £0.1m) under non-cancellable leases expiring after five years.

28 Contingent liabilities

Group

The Group has received a claim for £25m in respect of the use of minerals at the Greengairs landfill site in Scotland. Two smaller claims on unrelated matters have also been received. The Directors are strongly resisting these claims. At the present time the outcome to the Group cannot be determined and the potential liability cannot be quantified. However, it is the opinion of the Directors that the outcome of these disputes is unlikely to have a material effect on the Group's financial position.

Group and Company

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

The Company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities totalling £102.1m (2002: £96.8m). In addition the Company has a contingent liability in respect of both VAT and Inland Revenue group payment arrangements totalling £4.2m (2002: £3.2m) and £Nil (2002: £Nil) respectively.

subsidiary undertakings and joint ventures.

at 31 March 2003

Subsidiaries

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

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

Joint Ventures

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

	Issued share capital	Class of shares	% Group holding	Country of incorporation
Geohess (UK) Limited	£200	Ordinary	50%	UK
Shanks Avondale Limited	£2,000	Ordinary	50%	UK
Caird Bardon Limited	£850,002	Ordinary	50%	UK
Silvamo s.a.	€495,787	Ordinary	50%	Belgium
Marpos n.v.	€495,787	Ordinary	45%	Belgium
Econergy Produktie Moerdijk B.V.	€18,151	Ordinary	50%	The Netherlands

five year financial summary.

at 31 March 2003

	2003 £m	2002 £m	2001 restated £m	2000 restated £m	1999 restated £m
Consolidated profit and loss account					
Group turnover	**551.4**	528.5	502.4	314.5	260.7
Operating profit before exceptional items and goodwill amortisation	**55.5**	66.4	65.7	43.8	40.1
Finance charges – interest	**(18.7)**	(18.8)	(18.6)	(5.1)	(4.3)
Finance charges – other	**(2.3)**	(2.3)	(2.0)	(1.2)	(1.0)
Profit before tax, exceptional items and goodwill amortisation ("Headline Profit")	**34.5**	45.3	45.1	37.5	34.8
Exceptional items	**(5.5)**	(8.4)	(0.1)	–	0.3
Goodwill amortisation	**(10.6)**	(10.0)	(9.4)	(1.4)	–
Tax	**(9.1)**	(12.1)	(15.5)	(12.6)	(13.9)
Profit after tax	**9.3**	14.8	20.1	23.5	21.2
Minority interests	**–**	–	–	(0.1)	–
Dividends	**(13.3)**	(13.3)	(12.9)	(12.2)	(9.6)
Retained (loss) profit	**(4.0)**	1.5	7.2	11.2	11.6
Consolidated balance sheet					
Fixed assets	**531.5**	490.4	487.6	453.7	166.2
Other assets less liabilities	**(90.8)**	(60.2)	(41.4)	(46.0)	(45.2)
Net borrowings	**(297.5)**	(289.5)	(301.8)	(272.8)	(57.1)
	143.2	140.7	144.4	134.9	63.9
Share capital and share premium	**116.5**	116.4	115.6	114.9	55.7
Reserves	**26.7**	24.3	28.5	19.7	8.0
Minority interests	**–**	–	0.3	0.3	0.2
	143.2	140.7	144.4	134.9	63.9
Financial ratios					
Adjusted basic earnings per share	**10.2p**	13.2p	12.6p	11.9p	10.5p
Basic earnings per share	**4.0p**	6.3p	8.6p	11.2p	10.6p
Dividends per share	**5.70p**	5.70p	5.55p	5.25p	4.80p
Interest cover (note 2)	**3.0x**	3.6x	3.5x	8.6x	9.3x

Notes

1 The restatements of prior years relate to the introduction of FRS 19 – Deferred Taxation in 2002 and FRS 12 – Provisions, Contingencies and Commitments in 1999. In addition, in 2002 the net expenditure incurred on long term engineering work at United Kingdom landfill sites has been reclassified as a fixed asset rather than as prepayments.

2 Interest cover is calculated by dividing the total operating profit before exceptional items and goodwill amortisation by the interest charge excluding commitment fees.

notice of annual general meeting.

Notice is hereby given that the Annual General Meeting of Shanks Group plc will be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday 24 July 2003, at 11.00 a.m. for the purpose of transacting the following business:

Routine ordinary business

(1) To receive the reports of the Directors and auditors, the balance sheets of the Company and of the Group as at 31 March 2003 and the profit and loss account of the Group for the year ended 31 March 2003.

(2) To approve the Remuneration Committee's report for the year ended 31 March 2003.

(3) To declare a final dividend.

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

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

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

Special business

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

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

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

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

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

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

"THAT in substitution for any existing power under section 95 of the Companies Act 1985 (as amended and from time to time in force) (the "Act"), but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered until 23 October 2004, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority available to the Directors under section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

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

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

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

By Order of the Board

P Kaye
Secretary

28 May 2003

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

The notes overleaf form part of this notice.

Notes:

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

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

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

4. The register of interests of the Directors (and of their families) in the shares of the Company and copies of all service contracts under which Directors are employed by the Company or any of its subsidiaries will be available for inspection at the registered office of the Company at Shanks House, A8 Edinburgh Road, Coatbridge, Lanarkshire ML5 4UG during normal business hours, on any weekday (Saturday and public holidays excluded) from the date of this Notice up to the date of the Annual General Meeting and at the Glasgow Hilton on 24 July 2003, at least 15 minutes prior to, and during, the meeting.

shareholder information.

at 31 March 2003

	Number of shareholders	Number of shares (thousands)	%
Range of shareholding			
1 – 5,000	2,290	3,800	1.6
5,001 – 25,000	591	5,876	2.5
25,001 – 50,000	86	3,079	1.3
50,001 – 100,000	68	4,780	2.0
100,001 – 250,000	65	10,452	4.5
250,001 – 500,000	40	14,276	6.1
over 500,000	95	191,784	82.0
	3,235	234,047	100.0
Analysis of shareholders			
Individuals	2,180	20,345	8.7
Banks and nominee companies	890	203,643	87.0
Other institutions and companies	165	10,059	4.3
	3,235	234,047	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

Registrar and Transfer Office

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

financial calendar.

18 July 2003	Record date for final dividend 2002/3
24 July 2003	Annual General Meeting
4 August 2003	Payment of final dividend 2002/3
October 2003	Announcement of 2003/4 interim results and dividends
January 2004	Payment of 2003/4 interim dividend
March 2004	2003/4 financial year ends
May 2004	Announcement of 2003/4 results and recommended dividend

Shanks Group plc

Form of Proxy

For the Shanks Group plc Annual General Meeting convened for 24 July 2003

I/We

of

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

(see note 1)

of

as my/our proxy generally to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the Glasgow Hilton, 1 William Street, Glasgow on Thursday 24 July 2003 at 11.00am and at any adjournment thereof. My/our proxy is to vote as indicated by an “X” below in respect of the resolutions set out in the notice of meeting (see note 2):

Resolutions:	**For**	**Against**
1 To receive the reports of the Directors and auditors, the balance sheets of the Company and of the Group as at 31 March 2003 and the profit and loss account of the Group for the year ended 31 March 2003.		
2 To approve the Remuneration Committee’s report for the year ended 31 March 2003.		
3 To declare a final dividend.		
4 To re-elect Mr Clubb as a Director.*		
5 To re-elect Mr Pointon as a Director.#		
6 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Directors to determine their remuneration.		
7 To authorise the Company to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of Ordinary Shares of 10p each in the Company.		
8 To authorise the Directors to allot equity securities as if section 89(1) of the Companies Act 1985 did not apply.		

Date ______________________ 2003

Signed or sealed (see note 3) ______________________

*Non-executive Director and Chairman.
#Non-executive Director, Senior Independent Director and Chairman of the Remuneration Committee.

Notes:

1 A member entitled to attend and vote at the meeting is entitled to appoint one or more persons of his own choice to attend and, on a poll, vote instead of him. If it is desired to appoint any other person(s) as proxy, the words “the Chairman of the meeting or” should be struck out and the name(s) and address(es) of the other person(s) inserted in block letters in the space provided. A proxy need not be a member of the Company. Any alteration or deletion must be signed or initialled.

2 The manner in which the proxy is to vote should be indicated by inserting an “X” in the box marked “For” or “Against” (if no such indication is given, the proxy will vote or abstain at his discretion). The proxy will act at his discretion in relation to any other business arising at the meeting including any resolution to adjourn the meeting.

3 In the case of a corporation, this form of proxy should be either given under its seal or signed on its behalf by an attorney or duly authorised officer. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown.

4 Use of this form of proxy does not preclude a member from attending the meeting and voting in person.

5 To be valid this form of proxy must be lodged with the power of attorney or other authority (if any) under which it is signed, or an extract from the Books of Council and Session or a notarially certified copy of such power or authority, at the Company’s Registrar, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA not later than 48 hours before the time appointed for the meeting.

THIRD FOLD & TUCK IN

BUSINESS REPLY SERVICE
Licence No. SWB 1002

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

FIRST FOLD

SECOND FOLD

company information.

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

Tel: 00 44 (0) 1628 524523
Fax: 00 44 (0) 1628 524114
website: www.shanks.co.uk
e-mail: info@shanks.co.uk

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

Registered in Scotland No. 77438

PRINCIPAL OFFICES

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

Shanks Chemical Services
Charleston Road
Hardley
Hythe
Southampton
Hampshire SO45 3ZA
Tel: 00 44 (0) 1495 756231
Fax: 00 44 (0) 1495 757019

BELGIUM
Shanks Belgium
Avenue Jean Mermoz 1
B 6041 Gosselies
Belgium
Tel: 00 32 (0) 71 256010
Fax: 00 32 (0) 71 256015

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

corporate advisers.

Financial Advisers
Lazard Brothers & Co. Limited
Hoare Govett Limited

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

Solicitors
Ashurst Morris Crisp
Dickson Minto W.S.

Auditors
PricewaterhouseCoopers LLP

Registrars
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Tel: 0870 702 0010

NORDIC ENVIRONMENTAL LABEL

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

Designed by CV&Co   Printed by Park Communications Limited, England