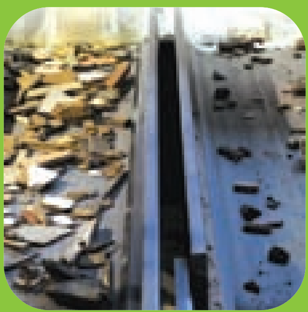
shanks. waste solutions.



Shanks Group plc Annual Report and Accounts 2008

shanks group is europe's largest listed independent waste management company operating in the Netherlands, Belgium, UK and Canada

shanks at a glance

	Netherlands	Belgium	UK	Canada	**Group**
Employees at year end	2,074	1,016	943	7	**4,040**
Total operating centres	35	18	43	1	**97**
Operating centres with recycling/recovery	26	10	35	1	**72**
Operational landfill sites	1	2	6	–	**9**
Collection and transport lorries	940	350	270	–	**1,560**
Tonnes waste handled (million tonnes)	4.3	1.5	2.8	0.1	**8.7**
Tonnes materials recovered (million tonnes)	3.55	0.76	0.62	0.02	**4.95**
Overall recycling and recovery rate	83%	51%	22%	50%	**58%**
Energy generated (megawatt hours)	8,789	58,222	28,873	–	**95,884**

Contents

Shanks is a leading European waste processing and resource management company providing its customers with sustainable solutions to their waste and environmental obligations

our vision is to be europe's leading provider of sustainable waste management solutions

Our Strategy

1 Invest to drive **organic growth** where returns are greatest

2 Develop our **infrastructure** further to support **sustainable waste management** and conversion of **waste to renewable energy**

3 **Share** core capabilities and technologies across the Group

4 Maximise asset utilisation and **minimise unit costs**

5 Continue to use **acquisitions** to improve asset utilisation and re-orient the portfolio to high growth markets

growth on 2007

11% Revenue

11% Headline Profit

15% EBITDA

10% Adjusted EPS

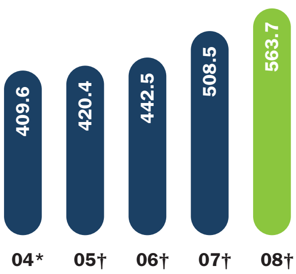
5% Dividend

financial highlights

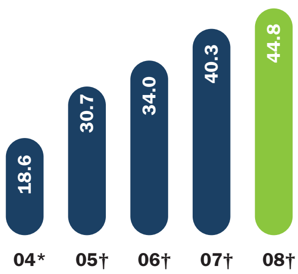
	2008	2007
Revenue	**£564m**	£509m
Headline profit[1]	**£44.8m**	£40.3m
Amortisation of acquisition intangibles[2]	**£(2.5)m**	£(1.1)m
Exceptional items		
- profit on disposal of properties[3]	**£1.9m**	£0.0m
- change in fair value of PFI interest rate swaps[3]	**£(2.9)m**	£6.9m
Profit before tax	**£41.3m**	£46.1m
Adjusted basic earnings per share[4]	**12.9p**	11.7p
Basic earnings per share	**12.0p**	13.3p
Dividend per share	**6.2p**	5.9p
EBITDA[5]	**£92.7m**	£80.6m
Core Business net debt	**£212m**	£134m
PFI Companies net debt[6]	**£111m**	£123m
Total Group net debt before fair value adjustment	**£323m**	£257m
Fair Value of PFI interest rate swaps	**£4m**	£0m
Total Group net debt	**£327m**	£257m

1 Before amortisation of acquisition intangibles, exceptional items and tax
2 Acquisition intangibles comprise intangible assets arising on acquisitions excluding landfill void and computer software
3 The Group considers these items as exceptional for the purposes of determining headline profit
4 Before amortisation of acquisition intangibles and exceptional items, net of associated tax
5 Earnings before interest, tax, depreciation and amortisation (EBITDA)
6 Non-recourse net debt in the PFI companies excluding fair value of interest rate swaps

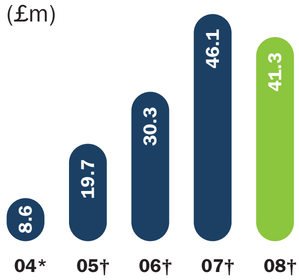
Revenue
(£m)



Headline profit
(£m)



Profit before tax from continuing operations
(£m)



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

We have a clear strategy for growing the business to create long term value for all our stakeholders

chairman's statement

Financial Performance
I am pleased to be able to report upon another good set of financial results for the year to 31 March 2008. Group revenue increased by 11% to £564m and headline profit rose 11% to £44.8m. This improvement reflects strong trading in the majority of our businesses, the principal exception being landfill in Belgium which, as expected, reported a reduced contribution as new legislative restrictions came into effect. Adjusted basic earnings per share improved by 10% to 12.9p after a reduction in the headline tax rate of 1% to 32%.

Recognising the improving long term growth prospects of the Group the Board in future intends to follow a progressive dividend policy, which balances earnings growth and cash generation with the future investment needs of the Group. This year your Board is recommending a final dividend of 4.2p per share which together with the interim dividend produces a total dividend of 6.2p, a 5% increase on last year.

People
The good results for the year reflect the efforts of all our employees across the Group. Shanks is a service business and delivering consistently high levels of customer service in such an environment is only possible with a highly committed workforce. On behalf of the Board I would like to thank them for their hard work and commitment.

During the year Tom Drury took over from Michael Averill as Group Chief Executive. The Board is very pleased with the smooth transition and the fresh perspective that he has brought to the Group. At the Board's request Tom undertook a thorough review of the Group's activities and we believe that this has provided us with clarity of direction and focus for our investment plans going forward. This is described in the Chief Executive's statement and the Business Overview.

At the end of March 2008 the Head of our Dutch business Fred Knitel retired from the Group after 14 years of dedicated service to Shanks and its predecessor companies. Fred led the development of our Dutch business as managing director from 2000 and was successful in positioning Shanks as one of the leading waste management companies in the Netherlands with a clear market focus and strong financial performance. We would like to thank Fred for his contribution to the Group and wish him well for the future.

I am delighted that we were able to replace Fred through an internal appointment and on 1 April 2008 Michael van Hulst was appointed managing director of the Netherlands. Michael was previously general manager of Icova, one of our largest companies in the Netherlands and has 17 years experience in the waste industry.

Corporate Responsibility
Shanks operates in a highly regulated industry which rightly requires high standards of health and safety and environmental compliance. It is also an industry that is undergoing considerable change and is increasingly seen as an important contributor to supporting governments' efforts to manage resources and control climate change. Shanks is committed to playing its fullest part in this challenge and achieving the highest professional standards in all its operations. Whilst we have a proud record in this area we will continue to examine ways to improve further our performance and measure our contribution to a society based upon more sustainable waste management techniques. We will be setting specific targets during 2008.

It was pleasing during the year to report a 21% reduction in reportable accident rate, with particular improvements in our Belgian business. Whilst there were some enforcement actions by regulators relating to our environmental permits, these were relatively minor and our performance remains good in this area compared to our peers. Finally, last year we submitted a response to the Business in the Environment (BiE) index of corporate environmental engagement and I am pleased that we improved our assessment from a silver to a gold band.

Outlook
The Board is confident concerning the future prospects for the Group. The full year effect of the recent decline in landfill volumes in Belgium should be more than compensated by improved performances in the rest of the Group. As a result the Board continues to expect a good overall performance in 2009 with increasing growth thereafter as the Group benefits from its more focused investment plans.

A. Auer

Adrian Auer
Chairman

Our vision is to be Europe's leading provider of sustainable waste management solutions

chief executive's statement

I joined as Group Chief Executive on 1 October 2007 and since then have managed to visit all of our major sites in the Netherlands, Belgium, Canada and the UK and met many of the people upon whom we rely for our success. My overall impression is that Shanks is a great company to be joining at an exciting time for the industry. Governments across the world are urging the waste industry to support them in recovering more resources and energy from the things that society throws away. They are providing economic incentives to increase recycling through taxation on landfill and in some cases incineration, alongside subsidies for treatment processes that support the production of renewable energy from waste. The new European Directive on Waste currently moving through the European Parliament will provide further legislative support for this trend.

Shanks is well placed to prosper in this changing environment. Our Group operates in countries with the highest recycling rates in Europe and has experience of a number of treatment processes capable of producing renewable energy from waste. We have set ourselves the aspiration to be regarded as Europe's leading sustainable waste management company and will be working hard over the coming years to achieve this goal.

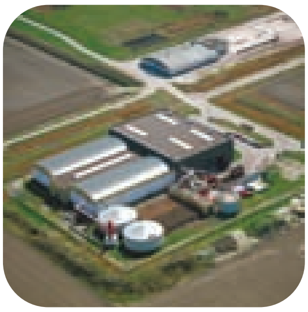
Strategy

Having reviewed the business during my first six months I believe there is an exciting opportunity to generate attractive returns for investors by focusing our investment around sustainable waste management in all of the countries in which we operate. There is sufficient market opportunity for us to generate high organic growth rates from such investment with a lower risk profile than a growth strategy based solely on acquisitions.

Our Group strategy going forward is therefore a simple one: to deliver organic growth by investing in assets that support sustainable waste management and are capable of delivering attractive returns on capital. Alongside this we will actively share expertise and technology across the Group whilst retaining a very strong focus on keeping our unit costs amongst the lowest in the industry. Finally, we will use acquisitions to improve capacity utilisation (our "tuck-in" model) or to secure capabilities that re-orient the Group to higher growth activities.

The potential for this growth strategy was shown in this year's financial results with all major business units growing well ahead of inflation other than our Belgian landfill which, as expected, delivered a reduced contribution.

Our investments in each of our country operations during the year reflected the strategic intent highlighted above.



The Netherlands

Strategy

Maintain our premium margins and grow our Solid and Hazardous Waste businesses ahead of GDP with higher growth coming from Orgaworld and tuck-in acquisitions.

Our Dutch business generated a trading margin of 13% in 2008, a performance which compares favourably with its peers. Our goal is to maintain this premium position whilst growing the business.

The acquisition of Orgaworld in April 2007 for €30m plus a five year earn-out of up to €20m provides the Group with strong capabilities to process source segregated organic waste using advanced composting or anaerobic digestion technologies. These are technologies that have very attractive growth potential in a number of international markets. Already a leading player in the Dutch organics market serving both municipal and commercial customers, we have been able to achieve a strong market position in the Canadian market through the application of Orgaworld's composting product. Long term contracts in Toronto and Ottawa with a total contract value of approximately Can$250m were secured during the year. We are also actively looking to introduce its products into the UK and Belgian markets.

We invested a further €18m (including €3m of deferred payments) in 4 small tuck-in acquisitions in the Netherlands aimed at improving capacity utilisation and increasing our local market share. Our commitment to keeping at the forefront of recycling in the Dutch market was demonstrated by the completion of an investment of €3m in the latest recycling technology at our Vliko plant in Leiderdorp.

Belgium

Strategy

Grow our Industrial & Commercial (I&C) Solid Waste business to replace declining landfill profits by securing competitive disposal outlets and through renewable energy production.

In 2008 landfill accounted for around a third of the Belgian profits, already down from nearly 50% in 2007. The contribution from this activity is falling as the government seeks to ban municipal biodegradable waste from going to landfill and we are therefore creating profitable alternatives by focusing on processing I&C, organic and wood waste in a way that creates a fuel source or renewable energy at a lower overall cost than traditional alternatives.

We invested in organic growth projects to produce solid recovered fuel (SRF) from I&C customers at our Ghent plant and in the provision of anaerobic digestion and wastewater treatment at our Roeselare plant. Both of these will generate energy from waste and support strong growth for our non-landfill I&C business in Belgium.

Shortly after the year end we announced the acquisition of the Foronex Group for a consideration of €23m. Foronex is a leading player in the wood waste and by-products market in the Benelux and a significant provider of wood based products to the rapidly growing energy from biomass marketplace. We see good opportunities to support the continued growth of this exciting business and to access more profitable outlets for the 230,000 tonnes of waste wood we currently process each year in the Benelux.

UK

Strategy

Make Shanks the preferred alternative to landfill. By establishing a network of processing centres based on the Shanks Benelux model.

Having sold its landfill assets in 2004, Shanks is well positioned to take advantage of rising landfill taxation to divert waste we collect to processing centres that we will create similar to those in our Benelux businesses. We will continue to grow our municipal treatment business through participation in Public Finance Initiative (PFI) projects.

In November 2007 we completed the acquisition of Wastecom for £11m to provide us with advanced recycling capability in the Kettering area. Building on the success of recent investments in Scotland, this further supports our belief that there is a profitable opportunity in the UK to develop a strong recycling business using our expertise from the Benelux. In April 2008 landfill tax rose by the highest amount ever (£8 per tonne) on its way to a target of £48 per tonne by 2010. The government has confirmed its commitment to further increases beyond this point and this provides the right incentive for investment in recycling and reprocessing centres. We have targeted three regions in the UK which in the short to medium term will provide the geographic focus to build our business. These are the Central Belt of Scotland, the East Midlands and the Northern Home Counties. We have identified the sites that we would like to develop and will be applying for planning permission shortly. These, together with continued tuck-in acquisitions, will support the development of a profitable UK recycling business.

chief executive's statement continued

We continue to believe that the UK PFI market offers attractive opportunities for Shanks. Over the next ten years the government estimates £10bn of funding will be required to upgrade the infrastructure needed to divert the biodegradable municipal solid waste away from landfill. Shanks has taken a strong position in the market through its proposition based upon the innovative EcoDeco mechanical biological treatment (MBT) technology. We believe this remains a very attractive solution to the needs of local authorities and so creates a strong pipeline of opportunities as authorities move to meet their 2010 and 2013 reduction targets. We continue our negotiations with Cumbria County Council where we are preferred bidder and expect this opportunity to reach financial closure during the current financial year.

Culture

Shanks has a highly decentralised structure that has allowed it to keep its central overheads low and maintain an entrepreneurial culture in its operating units. This, in my view, has been a strength of Shanks and one which I intend to retain. Waste collection and processing remains essentially a local business and it is important that decision making is as close to the customer as possible. It has also proved an important factor in persuading entrepreneurial managers who join the Group through acquisition to remain with us.

This said however, our strategy going forward will be to focus on building recycling and energy recovery activities across the Group and it makes good sense to share the technologies and years of expertise that we have within the Group. The Executive Committee, which consists of the managing directors of the three countries together with myself and the Group Finance Director, meets regularly and part of its remit is to ensure that such knowledge transfer takes place. We will focus on specific projects and opportunities and will not seek to centralise activities that are best done locally, thereby avoiding the build-up of unnecessary overhead.

Performance

We are committed to producing attractive returns for the owners of the business. We have analysed our portfolio and have identified where the best opportunities for maximising returns on capital employed (ROCE) are. Whilst our current overall ROCE of 12% is ahead of our weighted average cost of capital (WACC), we believe that we can and should generate greater returns from our capital base and will be looking for our new investments to contribute to this improvement alongside improving the cash generation and profitability of our underlying existing businesses.

T. Drury

Tom Drury
Group Chief Executive

business overview

As last year much of the background information remains unchanged. This is repeated below, updated where appropriate.

Each year the Group reviews its strategy. This year, following the appointment of Tom Drury as Group Chief Executive in October 2007, a more in depth exercise was undertaken. In order to give a clearer understanding of the Group's strategy this section has been expanded.

The European Waste Market

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

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

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

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

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

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

Market Trends and Drivers

In Europe, and indeed elsewhere in the world, the general market trend can be summarised as:

"Less waste, more materials recovery, energy from waste and much less landfill"

The high level factors behind this are climate change, soaring fossil fuel prices and increasing environmental awareness, specifically an increasing appreciation within society of the need to develop sustainable waste solutions. These factors are driving a convergence between the waste, energy intensive and power industries.

In terms of specific legislative and market drivers these can be summarised as follows:

The European Landfill Directive – biodegradable waste in landfill is a major source of methane emissions to the atmosphere. Methane is a potent greenhouse gas with 25 times the impact of a carbon dioxide emission of the same mass. A key objective of this directive is to significantly reduce the landfilling of biodegradable waste, a major component of municipal waste, that is landfilled by European member states. The directive also aims to reduce the polluting impact of landfills by substantially restricting other types of waste that may be landfilled.

business overview continued

Landfill tax is a significant mechanism being used by many European states to drive waste out of landfill to more environmentally acceptable options such as recycling and energy recovery.

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

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

Renewable electricity – many waste based electricity generation projects qualify for renewable electricity subsidies and credits, available in various forms across Europe. This is because a major component of waste derived fuels comprises renewable short carbon cycle materials, e.g. wood, paper, and other vegetable matter.

European Waste Directive – this is currently being revised and the changes should be endorsed by the European Parliament during the course of 2008. It is likely this will impose even higher targets on recycling and energy recovery from waste on European member states going forwards.

The effects of these drivers vary from country to country.

The Netherlands
The Netherlands has had some of the most advanced environmental legislation in Europe in place for some time. They also have high levels of landfill tax (currently €88 per tonne). These, together with the geological characteristics of the country, have resulted in a low reliance on landfill, incineration being the predominant final disposal route. The higher cost and limited capacity of final disposal outlets has made sorting and recycling in the Netherlands more viable and it is not uncommon for recycling rates to be 70% or above. The Dutch market is therefore relatively stable and not subject to major changes.

Belgium
In Belgium, environmental responsibility is devolved to the three Regions: Flanders, Wallonia and Brussels. Flemish environmental legislation and landfill tax levels are very similar to those in the Netherlands resulting in similar market characteristics; high levels of recycling, a reliance on incineration for final disposal and very little landfill.

In the Walloon Region landfill tax on I&C waste at an effective rate of €53 per tonne is sufficient to drive reasonable high levels of recycling. This rate will rise to €90 per tonne in 2010, which combined with a lack of incineration capacity will promote increased recycling and other forms of energy recovery. The effective cost of landfill tax is 52% higher than the actual tax because it is non-deductible for corporation tax purposes.

In January 2008 new legislation was introduced which has had a major impact on the municipal waste treatment sector. Prior to January 2008 a reasonable proportion of municipal waste was still landfilled as, unlike I&C waste, it attracted very little landfill tax. In January 2008 the Walloon Region adopted a strict interpretation of the Landfill Directive requirement for pre-treatment of non-hazardous waste which stopped residual waste collected from households from being landfilled without pre-treatment. At the same time landfill tax was introduced on other municipal waste streams at €20 per tonne. This is scheduled to rise to €60 per tonne in 2010.

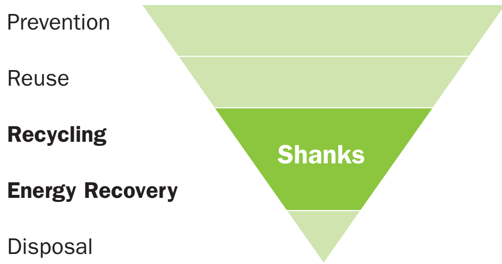
The Brussels Region has little landfill capacity. It has its own incinerator but beyond that it is reliant on the other Regions for final disposal.

UK
The UK's historical heavy reliance on landfill means that the imposition of the European Landfill Directive is having a major impact, particularly on the municipal sector. Implementation of the directive implies that some 14 million tonnes per annum of biodegradable municipal waste needs to be diverted from landfill between 2006 and 2020. In November 2006 DEFRA estimated that the investment in new infrastructure required to achieve this is between £9bn and £11bn. In an endeavour to secure least cost compliance the Government has introduced the Landfill Allowance Trading Scheme (LATS), a tradeable permit scheme between local authorities. Here authorities who overachieve against their landfill diversion requirements may sell their overachievement to an underachieving authority. Failure by an authority either to meet its diversion requirements or to secure the necessary LATS, results in a £150 per tonne penalty for the excess.

In parallel, the government has stated that landfill tax will increase. Landfill tax is one of the primary drivers for diverting I&C waste. In the 2007 Budget the Government increased the annual landfill tax escalator from £3 per tonne per annum to £8 starting in April 2008 and committed to keeping it at this level until April 2010. In the 2008 Budget it was indicated that landfill tax may continue to rise post 2010. This means that UK landfill tax, which increased to £32 per

Figure 1

Waste Hierarchy



tonne in April 2008, will rise to £48 per tonne in 2010, a similar amount to the tax on I&C waste in the Benelux.

Another driver for the I&C waste market is restriction of the type of waste that can be landfilled. A significant milestone of the European Landfill Directive is the restriction on landfilling of untreated non-hazardous waste. The government has introduced new legislation which required pre-treatment of non-hazardous waste prior to landfilling from October 2007. Whilst the authorities have taken a fairly soft handed approach to the enforcement of this legislation initially, it is expected it will become more assiduous in the future.

Canada

As part of the Orgaworld acquisition completed in April 2007 the Group acquired a start up operation in Canada. In Canada there is strong public opinion against landfill, which in some areas has led to a shortage of consented capacity. Like in Europe therefore there is a drive to reduce waste going to landfill. Orgaworld identified an opportunity in the Canadian market to offer biological treatment of source segregated organic municipal waste, a market which has significant potential in terms of volumes and to date has few competitors.

Strategy

Group Vision

"To be Europe's leading provider of sustainable waste management solutions."

This will be achieved by firmly positioning the Group in the Recycling and Energy Recovery area of the Waste Hierarchy (see Figure 1).

Corporate strategy

- Invest to drive organic growth where returns are greatest.
- Develop our infrastructure further to support sustainable waste management and conversion of waste to renewable energy.
- Share core capabilities and technologies across the Group.
- Maximise asset utilisation and minimise unit costs.
- Continue to use acquisitions to improve asset utilisation and re-orient the portfolio to high growth markets.

This provides a strong corporate framework for clear individual country strategies.

Dutch Strategy

The strategic goal for the Dutch operations is to maintain the premium operating margins we currently enjoy and to grow both the Solid and Hazardous Waste businesses ahead of gross domestic product. This will be achieved by:

- maintaining the current decentralised structure and culture but seeking out greater benefits from collaboration between the business units;
- upgrading existing recycling facilities to improve their efficiency and thereby maintain our market leadership in processing costs;
- focusing on new niche mono-stream markets such as the depleted growth media from the Dutch greenhouse industry we already process;
- continue the successful track record of tuck-in acquisitions;
- maintain the current strong cash generation from the business.

In addition the recent Orgaworld acquisition provides significant opportunities for higher rates of growth in the organic waste treatment sector not only in the Netherlands, but also in the UK, Belgium and Canada.

Belgian Strategy

In Belgium the strategy is to grow the I&C Solid Waste business to replace the declining contribution from landfill. By focusing on solid recovered fuel (SRF) production from I&C waste we will be able to create sustainable competitive advantage by securing long term energy from waste outlets at lower costs than landfill or mass burn incineration (€120-€130/tonne).

The recent acquisition of Foronex builds on this strategy by moving us into the European waste wood processing market which creates further opportunities in the biomass and co-generation areas with the potential for Shanks to both supply and invest in energy from waste projects. There are also further opportunities to invest in additional green energy production at our landfill and hazardous waste plants.

UK Strategy

In the UK the aim is to make Shanks the preferred alternative to landfill. In the I&C waste area we will build a resource management and reprocessing business with improved margins by importing more than ten years of Dutch know-how in this area. Initially we will focus on building density in the three regions where we already have critical mass, Scotland, the East Midlands and the Northern Home Counties.

We will continue to bid for PFI residual waste contracts, using those that we win as a base from which to expand our I&C business. At the same time we intend to secure a share of the significant UK demand for anaerobic digestion and

business overview continued

composting both in the municipal and I&C sectors using the Orgaworld and other technologies as appropriate.

Having established an enabling platform of a strong regional business with a differentiated and profitable business model, we may then consider more aggressive consolidation options.

Key Objectives
The key objectives over the coming three years are:

- Grow UK Solid Waste trading margins (post overheads) to a high single digit percentage;
- Launch Orgaworld in the UK;
- Grow trading profit from non-landfill Belgium business by an average of 15% per annum;
- Win PFI contracts in the UK increasing residual municipal waste under management to 1.5m tonnes per annum (currently 0.6m tonnes).

By achieving the above the Group will maintain strong underlying organic growth.

Principal Risks and their Mitigation

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

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

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

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

Details of how the Group monitors and controls environmental compliance are given in the Corporate Responsibility section.

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

Details can be found in the Corporate Responsibility section under Health and Safety.

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

Activities and Structure

The Group is a major player in the Netherlands, Belgium and the UK. There are also some operations in France close to the Belgian border which are managed from Belgium. Due to their small size these are combined with the Belgian operations.

In April 2007 the Group acquired Orgaworld, a Dutch business specialising in the treatment of source segregated organic waste streams from both the municipal and I&C sectors. The business uses in-house tunnel composting and anaerobic digestion technologies some of which are patented. The acquisition also included a start up operation in Canada, which is currently small but has significant growth potential. This has therefore expanded our geographical presence to Canada.

The Group's organisational structure reflects the national nature of the markets in which it operates, with divisions in the Netherlands, Belgium, UK and Canada. Management of the Group is decentralised to ensure that the people making the decisions are close to, and understand, their markets. This structure is underpinned by strong central financial

control. Throughout the organisation we employ high calibre management who are properly trained and motivated.

Table 1 summarises the Group's waste activities in each country and table 2 shows how these activities are grouped in the segmental reporting.

In addition to the waste activities detailed above we also operate a sand quarry adjacent to our landfill site in Wallonia and have small infrastructure and groundworks operations in Ghent in Belgium and Amersfoort in the Netherlands. Due to their small size the infrastructure and groundworks activities are reported as part of the Solid Waste activities.

Key Performance Indicators (KPIs)

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

Health and Safety

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

Environmental

The Group closely monitors compliance with environmental permits at locations. All issues are reviewed at monthly divisional meetings and, at least quarterly, at Group Board level. Details of convictions during 2008 are given in the Environment section.

Operational

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

Table 1

Group Activities	Industrial & Commercial	Municipal
Non-hazardous Solid Waste		
Collection	NL, BE, UK	NL, BE
Transfer & recycling	NL, BE, UK	NL, BE, UK
Treatment	NL, BE	NL, UK, CA
Landfill disposal & power	UK, NL, BE	UK, BE
Hazardous Waste		
Industrial cleaning and transport	NL, BE	
Treatment and disposal	NL, BE	
Contaminated land remediation	NL, BE, UK	

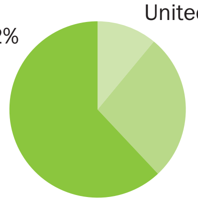
Table 2

Waste Activities in Segmental Reporting

Solid Waste	Non-hazardous solid waste collections, transfer and recycling
Landfill and Power	Landfill disposal (including contaminated soils) and power generation from landfill gas.
Hazardous Waste	Industrial cleaning, hazardous waste transport, treatment (including contaminated soils) and disposal and contaminated land remediation
Organic Treatment	Anaerobic digestion and tunnel composting of source segregated organic waste streams
PFI contracts	Long term UK municipal waste treatment contracts

Chart 1

Trading Profit split by region



operating review

Table 3

Revenue and Trading Profit by Geographical Region

	Revenue				Trading Profit			
	2008	2007	Variance		**2008**	2007	Variance	
	£m	£m	£m	%	**£m**	£m	£m	%
Netherlands	**295**	253	42	17%	**37.7**	32.0	5.7	18%
Belgium	**125**	124	1	1%	**16.2**	17.3	(1.1)	-6%
United Kingdom	**145**	133	12	9%	**6.9**	3.3	3.6	109%
Canada	**1**	-	1	n/a	**0.1**	-	0.1	n/a
Central Services	**(2)**	(1)	(1)	-100%	**(5.0)**	(5.3)	0.3	6%
Total	**564**	509	55	11%	**55.9**	47.3	8.6	18%

Table 4

Operating Cashflow and Return on Capital Employed net of PFI Project Financing

	Operating Cashflow[1]			Return on Capital Employed[2]		
	2008	2007	Variance	**2008**	2007	Variance
	£m	£m	£m	**%**	%	%
Netherlands	**36.2**	33.2	3.0	**10**	11	(1)
Belgium	**18.6**	21.8	(3.2)	**60**	60	-
United Kingdom	**(15.0)**	(14.3)	(0.7)	**11**	10	1
Canada	**(1.9)**	-	(1.9)	**3**	n/a	n/a
Central Services	**(4.6)**	(5.6)	1.0	**n/a**	n/a	n/a
Total	**33.3**	35.1	(1.8)	**12**	13	(1)

1 Net cashflow after project financing before core financing, tax and acquisitions.
2 Trading profit divided by average net assets excluding core debt, tax and pension obligations.

In order to come into line with general practice amongst listed companies we have redefined our headline profit to exclude amortisation of intangible assets, excluding landfill void and computer software, arising on acquisition. This charge is also excluded from operating profit in the derivation of trading profit. The definitions of these two financial measures therefore become:

Trading Profit – operating profit before amortisation of acquisition intangibles and exceptional items;

Headline Profit – profit before tax, amortisation of acquisition intangibles and exceptional items, where the latter includes the IAS 39 finance income or charge relating to the mark to market of interest rate swaps on PFI borrowings.

In the years prior to 2007 the impact of this reclassification is immaterial.

Due to the significant impact of movements in foreign currency exchange rates, commentary on the operating performance of the Netherlands and Belgium businesses has been given in Euros to demonstrate the underlying trading performance.

Thanks are once again due to the staff who have responded superbly to the industry's rapidly changing conditions to deliver a 18% improvement in trading profit which increased £8.6m to £55.9m (2007: £47.3m). Tables 3 and 4 and chart 1 give an overview of the Group's operating returns by geographical region.



The Netherlands

Trading profit in the Netherlands improved 18% to £37.7m (2007: £32.0m) of which £1.4m (4%) is attributable to exchange. Tables 5 and 6 provide a breakdown by activity of the key financial performance indicators.

In Solid Waste four tuck-in acquisitions were completed during the year for a total gross consideration of €18m (including €3m of deferred payments). These combined with the full year effect of last year's acquisitions contributed some €2.9m of additional trading profit. The full year effect of the acquisition of Smink Beheer BV on 30 June 2006 was relatively modest as last year's result benefited from a large job during the months immediately following the acquisition.

Profits from the existing Solid Waste businesses have improved slightly by 1%. There have been a number of factors contributing to this performance. In May 2007 the Amsterdam municipal incinerator commissioned an additional 0.6m tonnes per annum of capacity. A significant proportion of this capacity has been taken by the major waste companies, including Shanks, on long term agreements at a rate below current market rates. This has increased competitive pressure for commercial volumes in the market place. The construction industry, a major source of customers, remains buoyant although competition for volumes has also increased here as operators from outside the Randstad area, attracted by the new lower incineration prices in Amsterdam, backload construction and demolition waste for recycling. Spiralling fuel costs and increasing labour costs have also put pressure on margins.

Our Hazardous Waste activities performed extremely well during the year showing a 9% year on year improvement. Our industrial cleaning business Reym continued to benefit from increased activity in the petrochemical sector, stimulated by ever increasing oil prices. ATM, our one million tonne per annum treatment facility in the south of the Netherlands, benefited from buoyant market conditions with increases in both volumes and prices.

In April 2007 the Group acquired the organic waste treatment business, Orgaworld, for a gross consideration of €30m, €5m of which is deferred, with the potential for further payments up to €20m dependent on future profits growth. The bulk of the business is in the Netherlands, however it also included a start up operation in Canada more detail of which is given below. The Dutch operations have performed slightly below the acquisition plan following the contamination of a batch of inputs at one of its anaerobic digestion plants. This issue has now been resolved and performance is back in line with our acquisition plan.

Table 5

Netherlands Revenue and Trading Profit by Activity

	Revenue				Trading Profit			
	2008	2007	Variance		**2008**	2007	Variance	
	€m	€m	€m	%	**€m**	€m	€m	%
Solid Waste	**269**	249	20	8%	**42.6**	39.3	3.3	8%
Hazardous Waste	**143**	127	16	13%	**13.4**	12.3	1.1	9%
Organic Treatment	**10**	-	10	n/a	**2.3**	-	2.3	n/a
Country Central Services	**(4)**	(3)	(1)	33%	**(4.9)**	(4.4)	(0.5)	-11%
Total (€m)	**418**	373	45	12%	**53.4**	47.2	6.2	13%
Total (£m at avge FX rate)	**295**	253	42	17%	**37.7**	32.0	5.7	18%

Table 6

Netherlands Trading Margins and Return on Capital Employed by Activity

(after allocation of Country Central Services)

	Trading Margin			ROCE		
	2008	2007	Variance	**2008**	2007	Variance
	%	%	%	%	%	%
Solid Waste	**15**	15	-	**10**	11	(1)
Hazardous Waste	**8**	8	-	**13**	12	1
Organic Treatment	**21**	n/a	n/a	**7**	n/a	n/a
Total	**13**	**13**	**-**	**10**	**11**	**(1)**

operating review continued

Table 7

Belgium Revenue and Trading Profit by Activity

	Revenue				Trading Profit			
	2008	2007	Variance		**2008**	2007	Variance	
	€m	€m	€m	%	**€m**	€m	€m	%
Solid Waste	**109**	104	5	5%	**10.4**	8.6	1.8	21%
Landfill & Power	**26**	31	(5)	-16%	**11.9**	16.3	(4.4)	-27%
Hazardous Waste	**58**	64	(6)	-9%	**4.7**	5.0	(0.3)	-6%
Sand Quarry	**3**	4	(1)	-25%	**1.0**	1.2	(0.2)	-17%
Country central services	**(19)**	(21)	2	-10%	**(5.0)**	(5.7)	0.7	12%
Total (€m)	**177**	182	(5)	-3%	**23.0**	25.4	(2.4)	-9%
Total (£m at avge FX rate)	**125**	124	1	1%	**16.2**	17.3	(1.1)	-6%

Table 8

Belgium Trading Margins and Return on Capital Employed by Activity

(after allocation of Country Central Services)

	Trading Margin			ROCE		
	2008	2007	Variance	**2008**	2007	Variance
	%	%	%	**%**	%	%
Solid Waste	**7**	5	2	**18**	13	5
Landfill & Power	**44**	50	(6)	**n/a[1]**	n/a[1]	n/a
Hazardous Waste	**5**	5	-	**20**	22	(2)
Sand Quarry	**30**	30	-	**n/a[1]**	n/a[1]	n/a
Total	**13**	14	(1)	**60**	60	-

1 Due to provisions for environmental liabilities these activities have net liabilities so ROCE is not a valid measure.

Belgium

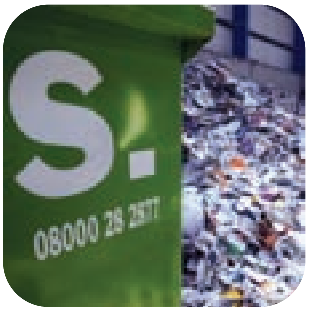
Trading profit reduced 6% on last year to £16.2m (2007: £17.3m). This reduction is net of a £0.6m (3%) increase due to exchange. Tables 7 and 8 provide a breakdown by activity of the key financial performance indicators.

Solid Waste has performed extremely well during the period aided by a significant industrial disposal contract and progress on prices. During the year two small tuck-in acquisitions with a combined gross consideration of €1m were completed. These together with the full year effect of last year's acquisition account for €0.5m (6%) of the trading profit increase.

As predicted in previous reports, the contribution from our Landfill & Power business has declined sharply in the year ended 31 March 2008. Several factors contributed to this: bonus volumes received in the prior year did not repeat; increased competition from other landfills in the region resulted in lost inputs and finally, from January 2008 the Walloon Region introduced new restrictions on the landfilling of municipal waste further reducing inputs in the last quarter. Landfill volumes are now believed to have stabilised, however next year is likely to show a further decline in profitability due to the full year effect of the current reduced inputs. In the longer term we expect a further decline in landfill profits as landfill tax is increased and further restrictions come into force from 2010.

Hazardous Waste, whilst still generating reasonable returns on invested capital, had a difficult start to the year due to stiff competition. In the last quarter this has eased and the outlook is now more promising.

At the sand quarry volumes were down due to reduced construction activities in the surrounding area.



UK

Trading profit in the UK improved 109% to £6.9m (2007: £3.3m). £3.4m of this increase is attributable to the operations which increased 77% to £7.8m, the remaining £0.2m is due to lower PFI bidding costs. Tables 9 and 10 provide a breakdown by activity of the key financial performance indicators.

Solid Waste improved significantly on prior year with £1.3m (28%) of the increase coming from organic growth mainly driven by pricing. Acquisitions contributed a further £0.5m (11%) with a full year's contribution from the 2007 Scottish acquisitions and four months of contribution from the current year acquisition of Wastecom Ltd, a recycling business in the East Midlands acquired for a gross consideration of £11m.

Across the board recycling levels are increasing as we move towards our Benelux model of collection fleets feeding large regional recycling centres which allow waste to be diverted from landfill to more cost effective outlets. We see this as a significant competitive advantage as the market shifts to accommodate the escalation in the rate of landfill tax; now at £32 per tonne and scheduled to increase by £8 per tonne per annum for at least the next two years.

Landfill & Power improved due to increased waste inputs and additional green electricity production at our Avondale joint venture, in Scotland.

Hazardous Waste, which comprises our Contaminated Land Services business, improved due to the contribution from our "soil hospital" outside Edinburgh, which opened in May 2007. The performance fell short of expectations due to a delay in work from the clean up of the sites for the 2012 London Olympics which has started in the final quarter but only contributed £0.1m of trading profit in the year.

The innovative Mechanical Biological Treatment (MBT) facilities used at two sites on the East London Waste Authority (ELWA) PFI contract and one on the Dumfries and Galloway (D&G) contract are now fully operational. At ELWA the scheduled significant increase in gate fee came into effect in July 2007, which substantially increased the cash inflows from the contract. This only produced a limited uplift on trading profit as under IFRS accounting most of the increased income is allocated to repayment of the financial asset and the interest thereon. Interest from the cement and other energy intensive industries in the SRF produced by the MBT process continues to increase and we have a secured long term outlet contract for 50,000 tonnes per annum, with negotiations at an advanced stage for a further 150,000 tonnes. Whilst profits on our ELWA and Argyll and Bute (A&B) contracts are improving, these increases have been offset by a set back at D&G due to an interruption of inputs to a cement kiln in North Wales following a problem at the plant unrelated to the processing of SRF. This has resulted in a temporary increase

Table 9

United Kingdom Revenue and Trading Profit by Activity

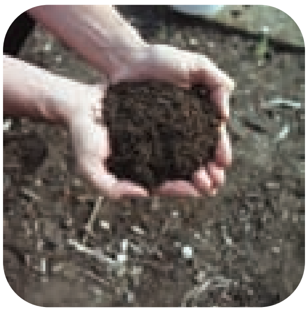
	Revenue				Trading Profit			
	2008	2007	Variance		**2008**	2007	Variance	
	£m	£m	£m	%	**£m**	£m	£m	%
Solid Waste	**75**	70	5	7%	**6.4**	4.6	1.8	39%
Landfill & Power	**16**	13	3	23%	**5.0**	3.8	1.2	32%
Hazardous Waste	**11**	10	1	10%	**1.7**	1.2	0.5	42%
PFI Contracts	**43**	40	3	8%	**0.4**	0.2	0.2	100%
Country Central Services					**(5.7)**	(5.4)	(0.3)	-6%
UK Operations	**145**	133	12	9%	**7.8**	4.4	3.4	77%
PFI Bid Team					**(0.9)**	(1.1)	0.2	18%
Total	**145**	133	12	9%	**6.9**	3.3	3.6	109%

Table 10

United Kingdom Trading Margins and Return on Capital Employed by Activity

(after allocation of Country Central Services)

	Trading Margin			ROCE		
	2008	2007	Variance	**2008**	2007	Variance
	%	%	%	**%**	%	%
Solid Waste	**3**	-	3	**5**	1	4
Landfill & Power	**33**	28	5	**48**	37	11
Hazardous Waste	**11**	8	3	**47**	86	(39)
PFI Contracts	**(2)**	(2)	-	**(1)**	(5)	4
Total	**5**	3	2	**11**	10	1



financial review

in disposal costs for the contract. The operators of the facility in North Wales have made significant progress with repairs and it is expected that the kiln will be functioning again during the first quarter of the 2009 financial year. At the same time we are also pursuing alternative outlets for this SRF stream.

Country Central Services costs of £5.7m were net of disposal profits totalling £0.6m relating to several small surplus property sales. A similar amount was included in the 2007 cost of £5.4m.

Canada

As mentioned above the acquisition of Orgaworld in the Netherlands included a start up operation in Canada. At the time of the acquisition in April 2007 Orgaworld had already secured a 10 year contract with the City of York in Ontario to treat 33,000 tonnes per annum of source segregated organic municipal waste using tunnel composting. Since acquisition two further contracts have been won, a five year contract for Toronto for 70,000 tonnes per annum and a 20 year contract for Ottawa for 100,000 tonnes per annum. The construction of a facility in London Ontario to process York's waste was underway at the time of acquisition and started accepting waste in June 2007. This facility is currently being extended to handle the Toronto waste resulting in a combined facility capable of processing 150,000 tonnes per annum. The Ottawa contract will be serviced from a second Can$15m facility capable of processing 100,000 tonnes per annum in the outskirts of Ottawa. This is scheduled to be operational in summer 2009.

Group Central Services

Group Central Services costs reduced by £0.3m to £5.0m (2007: £5.3m) due to the non repeat of recruitment costs experienced last year associated with the appointment of new Board Directors.

The major factors impacting revenue, trading and headline profit are summarised in table 12. Operating profit, which includes exceptional property disposals in the UK of £1.9m and amortisation of acquisition intangibles has increased 20% to £55.3m (2007: £46.2m).

Details of the Group's trading performance and acquisitions are given in the Operating Review.

Table 11

Summarised Group Income Statement

	2008	2007	Variance	
	£m	£m	£m	%
Revenue	**564**	**509**	**55**	**11**
Operating profit	**55.3**	**46.2**	**9.1**	**20**
Exceptional profits on disposals	(1.9)	-	(1.9)	n/a
Amortisation of acquisition intangibles	2.5	1.1	1.4	127
Trading profit	**55.9**	**47.3**	**8.6**	**18**
Net financial income from PFI	0.7	0.1	0.6	>100
Core finance charges	(11.8)	(7.1)	(4.7)	-66
Headline Profit	**44.8**	**40.3**	**4.5**	**11**
Tax - Headline 32% (2007: 33%)	(14.4)	(12.9)	(1.5)	-12
Headline profit after tax	**30.4**	**27.4**	**3.0**	**11**
Exceptional profits on disposals	1.9	-	1.9	
Amortisation of acquisition intangibles (net of tax)	(1.9)	(0.9)	(1.0)	
IAS 39 adjustment (net of tax)	(2.1)	4.8	(6.9)	
Profit for the year	**28.3**	**31.3**	**(3.0)**	

Table 12

Revenue, Trading and Headline Profit Bridge

	Revenue		Trading Profit		Headline profit	
	£m		£m		£m	
2007	509	100%	47.3	100%	40.3	100%
Current year acquisitions	16	3%	2.9	6%	0.8	2%
Full year of prior year acquisitions	7	1%	1.5	3%	0.7	2%
Belgium landfill decline	(4)	-1%	(3.0)	-6%	(3.0)	-7%
Organic growth (excluding Belgium landfill)	21	4%	5.2	11%	4.4	11%
Exchange	15	3%	2.0	4%	1.6	4%
2008	**564**	**111%**	**55.9**	**118%**	**44.8**	**111%**

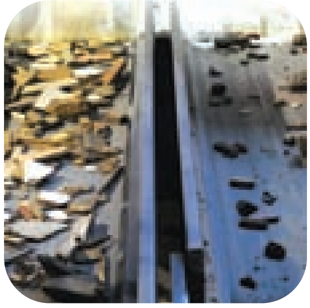


Table 13 shows the average and year end exchange rates used to translate our foreign currency denominated results. The Euro has strengthened significantly versus Sterling particularly in the latter part of our financial year. This has caused a moderate 4% enhancement to Euro denominated profits; the impact on the Euro denominated year end balances is much more substantial at 17%. The Group only entered Canada during the current year so there has been no impact year on year.

Table 13
Exchange Rates

	2008	2007	Change
Euro			
Average	1.419	1.473	4%
Closing	1.254	1.474	17%
Canadian Dollar			
Average	2.044	n/a	n/a
Closing	2.039	n/a	n/a

Table 14
Net Financial Income from PFI

	2008	2007	Variance	
	£m	£m	£m	%
Interest income from financial assets	8.8	7.7	1.1	14
Interest charge on PFI net debt[1]	(8.1)	(7.6)	(0.5)	-7
Net Financial Income from PFI	**0.7**	**0.1**	**0.6**	**>100**

1 PFI net debt is the external net debt in the Special Purpose Vehicles set up to project finance the UK PFI contracts.

Table 15
Core Finance Charges

	2008	2007	Change
	£m	£m	£m
Finance charge on core borrowings	(10.7)	(6.8)	(3.9)
Discount unwind on deferred consideration	(0.9)	(0.1)	(0.8)
Loan fee amortisation	(0.9)	(0.4)	(0.5)
Discount unwind on other long term provisions	(0.7)	(0.6)	(0.1)
Finance income from defined benefit pension schemes	1.4	0.8	0.6
Core Finance Charges	**(11.8)**	**(7.1)**	**(4.7)**

Net Financial Income from PFI increased to £0.7m (2007: £0.1m). As shown in table 14 this comprises interest income on financial assets arising on the UK PFI contracts net of the interest charge on the PFI net debt before taking into account the International Financial Reporting Standard IAS 39 change in market value of financial instruments.

The £1.1m increase in interest income from financial assets results from the increase in the financial asset value driven by ongoing capital expenditure, principally on the ELWA project. The £0.5m increase in interest charge on PFI net debt reflects the higher average level of debt during 2008 than during 2007, despite the balance being lower at the year end than at the start of the year. PFI net debt rose during the first nine months as it funded the ongoing PFI capital expenditure, then in December 2007, the Group injected £23m of subordinated debt and equity into the ELWA PFI company which was used to repay project funding causing the fall at the year end.

Core Finance Charges increased £4.7m to £11.8m (2007: £7.1m), the main components of which are given in table 15. The major factors behind the increase in the finance charge on core borrowings are detailed in table 16.

The factors behind the increase in the level of core borrowing are covered in the cash flow section below. For reasons explained in the Treasury section, a significant proportion of the Group's borrowings is in Euros and therefore attracts Euro denominated interest. The Sterling value of this has therefore increased due to the strengthening of the Euro. Over the last two years the Group has opted to leave a significant proportion of the debt on variable interest rates due to the forward profile of interest rate curves. The variable rate borrowings

financial review continued

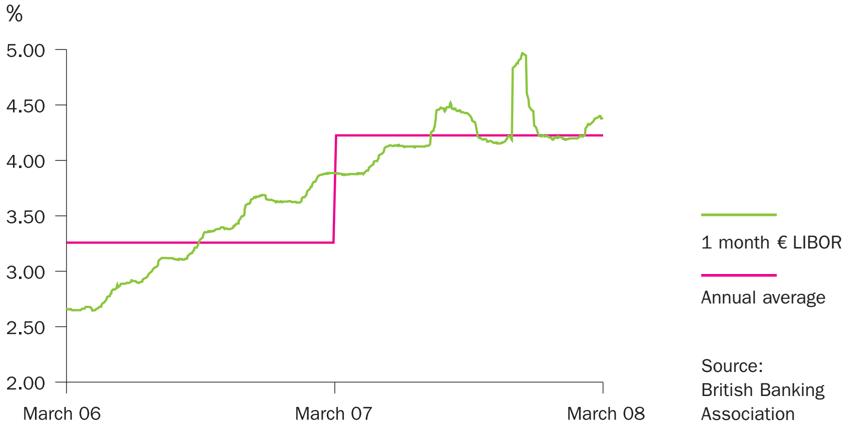
Table 16

Finance Charge on Core Borrowings Major Factor Analysis

	2008 £m	2007 £m	Change £m
Finance Charge on Core Borrowings	(10.7)	(6.8)	(3.9)
Major Factors:			
Increase in core borrowing levels			(2.5)
Increase in bank interest rates			(1.0)
Exchange			(0.4)
Total			(3.9)

Chart 2

One month € LIBOR



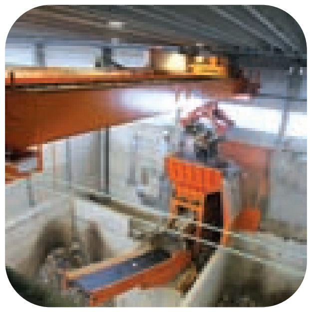
Source:
British Banking
Association

are at a margin over the London Inter Bank Offer Rates (LIBOR) the annual averages of which have risen by nearly 30% over the last two years as demonstrated in chart 2.

Under IFRS all long term liabilities and provisions, except for deferred tax, have to be stated at current value. This involves discounting the nominal value of a future liability which then unwinds as time progresses. The Group uses a 5% discount rate, this being an estimate of long term interest rates. The acquisition of Orgaworld in April 2007 included a €25m deferred element, €20m of which is dependent on achieving future profitability targets. The conditional element has been recognised in full at the acquisition date so is generating a significant finance charge even though the trading profits on which it depends will only arise in the future.

The average tax rate on headline profit fell to 32% (2007: 33%). This was attributable to a full year of the reduction in the Dutch headline rate from 29.6% to 25.5% in January 2007. The underlying rates of tax in the UK and Belgium remained unchanged at 30% and 34% respectively. In Belgium the effective rate on landfill derived profits is higher as landfill tax is non-deductible for corporation tax. This is mitigated via a deduction for notional interest on Belgian equity.

The exceptional disposal profits of £1.9m relate to the disposal of two surplus properties in the UK. These have been excluded from headline profit due to their exceptional size. There was no tax payable on these disposals as the capital gains arising were sheltered by significant brought forward capital tax losses within the Group.



The IAS 39 change in market value of financial instruments relates to interest rate swaps which fix the interest rate on PFI contract borrowing. At the financial close of a PFI contract the price of the service is determined by, inter alia, the long term interest rate available in the market. The Group therefore protects itself against future fluctuations in interest rates by entering into interest rate swaps to match its future cash inflows and outflows. Under IAS 39 these swaps must be valued at current market value irrespective of the commercial reasons for entering into them. Revaluation of these swaps can lead to large accounting gains or losses but does not affect the long term profitability of the contract as the Group has matched its long term revenue and costs. Whilst IAS 39 does allow these gains and losses to be taken directly to reserves, it is on the proviso that onerous verification requirements are fulfilled. The Group believes it is not worth expending significant resources fulfilling these requirements in respect of an item that does not reflect commercial reality. These changes in value are excluded from our headline profit. There was a £2.9m adverse (2007: £6.9m favourable) change in the market value of these swaps during the year.

Cash Flow

Details of the Group's cash flow performance are summarised in Table 17 below.

The underlying cash generated by the core business was £21m after net capital expenditure of £42m. The £22m cross funding represents the net cash flow between the core and PFI activities (including the PFI bid team) the major element of this was the injection of £23m of subordinated debt and equity into the ELWA PFI company mentioned above. The £48m outflow on acquisitions is the amount paid plus £21m of net debt in the acquired entities. There was a £32m adverse movement on the translation of Group's Euro denominated debt into Sterling, giving an overall increase in core net debt of £79m.

The non-recourse aggregated net debt in the PFI companies, excluding fair value of interest rate swaps, reduced by £12m to £111m (2007: £123m); increases due to funding of ongoing capital investment principally at ELWA being offset by a repayment resulting from the £23m equity and subordinated debt injection into the ELWA PFI company.

Capital Expenditure

The Group spent £51m net on capital expenditure (2007: £66m) of which £42m was in the core business and £9m on PFI contracts. The core business maintenance capital expenditure was £32m, net of disposal proceeds of £2m from assets being replaced. Gross expenditure on growth projects was £14m and proceeds from sale of surplus assets was £4m. Major projects in the core business included the installation of SRF production facilities in Belgium, construction of tunnel composting facilities in Canada, the expansion of a

Table 17

Summarised Group Cashflow

	2008			2007	
	Core £m	PFI £m	Total £m	Total £m	Difference £m
Trading profit	57	(1)	56	47	9
Depreciation & landfill provisions	37	-	37	34	3
EBITDA	**94**	**(1)**	**93**	**81**	**12**
Working capital movement and other[1]	3	-	3	3	-
Net capital expenditure	(42)	(9)	(51)	(66)	15
Interest, tax & dividends	(34)	-	(34)	(30)	(4)
Underlying cashflow	**21**	**(10)**	**11**	**(12)**	**23**
Cross funding	(22)	22	-	-	-
Acquisitions	(48)	-	(48)	(65)	17
Discontinued / restructuring	-	-	-	(3)	3
Issue of shares	2	-	2	-	2
Net cashflow	(47)	12	(35)	(80)	45
Exchange	(32)	-	(32)	4	(36)
Debt Movement	(79)	12	(67)	(76)	9

1 Other comprises non-landfill provision movements and add back of share based payments and non-exceptional disposal profits.

financial review continued

recycling centre in the Netherlands and the installation of additional green energy generation at our joint venture landfill in Scotland.

The capital expenditure on PFI contracts comprised £17m (2007: £31m) of financial asset advances net of £9m (2007: £1m) of financial asset repayments and £1m of capitalised bid costs relating to the Cumbria contract where we are preferred bidder. The financial asset advances related principally to the completion of the MBT facilities at our ELWA and D&G contracts. The £8m increase in the repayments reflected the step up in the ELWA gate fee in July 2007 mentioned in the Operating Review above.

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

The Group's principal financing is a £250m multicurrency revolving credit facility with five major banks expiring in April 2010. Adjusting for cash on deposit, this facility was less than 65% utilised at 31 March 2008. The 2001 notes issued under the Group's private placement of £41m have maturity dates between 2009 and 2013. The Group also has £27m of working capital facilities with various banks.

Each of the Group's PFI projects has senior debt facilities which contribute approximately 85% of the capital funding required. These facilities are secured on the future cash flows of the PFI companies with no recourse to the Group as a whole. Repayment of these facilities, and any equity bridge facility in respect of the remaining capital funding, commences when construction is complete and concludes one to two years prior to the expiry of the PFI contract period. As the Group currently holds 100% of the equity in its PFI companies, the net debt of £111m is fully consolidated in the Group balance sheet. The maximum which could be drawn down under these facilities at 31 March 2008 is £18m.

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

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

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

Pensions
The Group uses IAS 19 Employee Benefits to account for pensions. The pension charge for the year has increased to £7.7m (2007: £6.6m). Using assumptions laid down in IAS 19 there was a net retirement benefit surplus of £9.4m (2007: £8.4m deficit). This relates solely to the defined benefit section of our UK schemes. The defined benefit section of the UK scheme was closed to new members in September 2002 and new employees are now offered a defined contribution arrangement.

The pension arrangements within our Belgian and Dutch operations are considered to be defined contribution in nature.

corporate responsibility

Environmental legislation, both European and national, plays a critical role in determining how all companies operate. This is particularly so for waste management companies and large portions of environmental law are aimed specifically at the industry. Such legislation does not only pose a threat in terms of penalties, but also shapes the commercial environment within which the Group operates. Few other industries can see such a direct link between the law and how they run their business.

Waste management, whilst an essential service, is not always a popular industry and companies which operate in the sector have to be conscious of public and political perception. Simply complying with legislation is not sufficient and we consider it a minimum requirement rather than an ultimate goal.

While the Group is subject to the same health and safety and employment law as other companies, the potential impacts for those involved in waste management are higher than for most other industry sectors. Waste management is acknowledged to be one of the highest risk industries a company can operate in, with fatal and serious accident rates at least as high as those for construction, agriculture and other sectors with known elevated risk profiles.

Virtually all of Shanks operations need to hold local licences, permits and other permissions to operate. These permissions determine the basic criteria under which a waste management site can operate, such as how much and what types of waste a site is allowed to accept, its opening and closing times, restrictions on noise, emissions and other key parameters. Failure to abide by the conditions of local permissions can result in them being withdrawn and the site being closed or restricted in its operations.

Beyond the potential closure of existing facilities, each time the Group wishes to expand a site's operations, such as by accepting greater volumes of waste or a different waste type, it must apply for a variation to that facility's local permissions. The same applies to new sites which must obtain the appropriate local permissions before being allowed to operate.

Waste management companies with a poor enforcement record or those which have attracted public or political concern will find it more difficult to obtain and revise local permissions than businesses which have a more positive image. Of course new or expanded waste management facilities will never be popular; at best they are often viewed as a necessary evil. However, a waste management concern with a positive image is far more likely to be successful in gaining the permissions it needs to operate and expand.

One of the greatest potential impacts on image for a waste management company is the attitudes displayed and approach taken by its local employees. A company may have high quality management systems and good intentions, but if local management and operational employees do not reflect this corporate ethic the outcome will be poor local image. The development, training, competence and attitudes of local employees is therefore of crucial importance to the Group to ensure we maintain highly motivated

corporate responsibility continued

employees who understand clearly the effect they can have on the environment, health and safety and the Group's public image.

The above gives an insight into the complex and changing web of law, regulation and perception the Group operates within. The Group considers legal compliance as an absolute minimum requirement but understands that going beyond simple compliance is critical to the Group's continued development.

There is currently no requirement on companies to calculate their carbon footprint, but the Group has already done so for its UK operations and is in the process of extending this to cover its other areas of activity. The Group understands that it must be prepared for future developments in carbon trading and charging and that being ahead of the pack is critical to the Group's development. Notwithstanding any financial impact, managing our carbon footprint responsibly makes good sense and is supportive of our brand positioning.

Equally there is no obligation on companies to publicly declare accidents and incidents suffered by its employees, but the Group firmly believes that it must make clear and unambiguous statements to all stakeholders, internal and external, of the standards it expects and the extent to which they are attained.

There is also no legislation which requires companies to engage with local populations around their sites and operations, but the Group does so through liaison groups, education centres and direct contact. The importance of a good local image is well appreciated by the Group.

It is only by taking such a pro-active approach, going beyond simple compliance, that the Group will fulfil its ambitions as a sustainable and developing waste management company.

The Environment

Waste management and the environment are intrinsically linked not only in public and political perception, but in reality as this is an industry whose actions can have a direct and serious impact on the environment. The Group aims to minimise any detrimental impact its activities may have on the environment. The Group's over-arching environmental policy is available on the Group's web site and further details of individual environmental management systems are available by contacting the Group.

All of the Group's sites operate under strict environmental management systems, many of which have been accredited to the international ISO14001 environmental management standard. Reporting of key environmental performance indicators is Group-wide and communicated to all levels of management and to the Group Board. Any failings are addressed through country-based specialist departments and review and improvement of systems is a key area of activity.

The Group benchmarks its environmental performance against its peers using techniques such as the annual Business in the Environment (BiE) Index of corporate environmental engagement. In 2007 the Group scored in excess of 92 per cent in this index (compared to 83 per cent in 2006), a score well above the sector average and one achieved by targeted improvement in specific areas identified by analysis of previous index assessments.

Due to the Group's size and the highly regulated environment in which it operates it is almost inevitable that there will be some level of enforcement action by regulators. Table 18 shows environmental convictions against the Group during the 2008 financial year. Whilst any enforcement action is disappointing the number of incidents is low compared to our peers. Where these incidents do arise they are thoroughly investigated, the issues addressed and the lessons learnt incorporated into the ongoing management systems.

Table 18

Environmental Convictions in 2008

	Fine (£k)	Details
Netherlands	2.3	Four breaches of hazardous waste transport regulations
Netherlands	1.0	Breach of fire incident reporting deadlines
Belgium	None	
United Kingdom	None	

Enforcement actions are, by their nature, a reactive measure of environmental performance. The Group believes it has a positive role to play in improving the environmental performance of both itself and its stakeholders, such as its customers. Recycling rates are one measure of this. By encouraging customers to recycle and by providing the services and operations to allow recycling rates to improve, the Group is making a significant and beneficial impact on the environment. Table 19 illustrates this point and shows a synopsis of recycling rates achieved by the Group.

Table 19

Overall Recycling and Recovery Rate

Netherlands	83%
Belgium	51%
United Kingdom	22%
Canada	50%
Group	58%

Recycling also has positive benefits in reducing carbon emissions. Our commitment to finding innovative and significant ways of efficiently generating energy from waste is another way in which we can help society reduce its overall carbon emissions.

Carbon management is a key future area for development and one which the Group is committed to being involved in. For 2009 the Group has set itself the qualitative target of calculating its carbon footprint (a task which has already commenced). Based on these calculations quantitative targets will be set to stimulate reductions in the Group's carbon impact in the future. This aspect of the Group's activities will be reported on in the 2009 Annual Report.

Health and Safety

The health, safety and wellbeing of its employees is a prime consideration for the Group. Companies which have a poor record in this area are unlikely to have the highly motivated employees they need to ensure good risk management and to allow the development of their facilities.

For the past five years the Group has set itself the quantified target of improving its RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) employee injury rate by 10% year-on-year. RIDDOR is UK law, but the Group has applied it across all of its operations no matter which country they are in. This is just one example of the setting of common and quantifiable targets for key performance indicators across the Group.

During 2008 the Group improved its overall RIDDOR rate by more than 21%. In addition, each country of operation showed improvement, although this varied across the Group. For 2009 the Group will maintain its 10% overall improvement target and is also seeking to develop additional quantifiable goals during the coming year.

Employees and Business Ethics

All of the Group's employment and training policies are compliant with relevant employment legislation and regulatory obligations. The Group is an equal opportunities employer. Full and fair consideration is given to applications from, and the continuing employment, career development and training of disabled people. A culture of two way communications is actively promoted and trade unions, works councils and other employee groups are involved wherever appropriate.

The Group's approach to its business is clearly outlined in its Statement of Business Principles and Corporate Ethics. This is publicly available alongside other corporate publications on the Group's web site.

Table 20

Accident Numbers and Rates

	2008				2007			
	Minor	Minor rate	RIDDOR	RIDDOR rate	Minor	Minor rate	RIDDOR	RIDDOR rate
Netherlands	51	2,800	35	1,900	48	2,550	41	2,350
Belgium*	113	11,900	39	4,100	89	9,800	57	6,300
United Kingdom	101	9,100	27	2,400	109	10,400	27	2,500
Group*	**265**	**6,800**	**101**	**2,600**	**246**	**6,700**	**125**	**3,300**

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

* 2007 figures have been adjusted since last year's Annual Report following correction of incident numbers in Belgium due principally to reclassification of incidents between minor and RIDDOR.

corporate responsibility continued

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

This statement is communicated directly to all managers within the Group and through documents such as employee handbooks to other personnel. The Group is committed to ensuring that this statement of ethics is a living document and monitors its application at operational level and has an established 'whistle-blowing' system.

The Wider Community

Because of the nature and extent of its activities, the Group understands that it is essential to keep good communication lines open with its neighbours and other stakeholders. More than this the Group has a positive role to play in promoting recycling and other more environmentally sustainable waste management practices to the public and its closer stakeholders such as customers.

The Group has an open door policy and encourages visits from local communities and other interested persons and parties. Open days are held at some sites, while at others education centres have been established for the use of local schools and other bodies. Formal liaison groups are encouraged at high-profile sites and engagement with local political systems is a direct duty of operational management.

The Group cannot rely on its regulators and internal monitoring systems completely when assessing the potential impacts of its operations. It is essential that local populace opinion and concerns are accounted for. The Group has put in place complaint and comment tracking and response systems at all of its sites. Trends in complaints are tracked centrally with the aim of addressing any issues before they either come to the regulator's attention or start to impact significantly on the Group's image and reputation. We are more than aware that local perception is a critical factor which can have a direct effect on site development and success.

Corporate Responsibility Data-Set

It is not practical to include here all the environmental, health and safety and other corporate responsibility measures the Group uses to assess its performance. However, we understand that some stakeholders may wish access to a more complete analysis and spread of indicators. To address this need we have produced a corporate responsibility data-set. **The data-set is available on the Group's web site (www.shanks.co.uk) for any interested party to view.**

In addition, each of the Group's three main countries of operation is producing its own corporate responsibility report within the country concerned. These reports will be available in September 2008.

board of directors

Non-executive Directors

Adrian Auer BA, MBA, ACT (Age 59)
Chairman
Adrian joined the Board in 2005 and was appointed Chairman in July 2006. He chairs the Nomination Committee and is also a member of the Remuneration Committee. Adrian is also Chairman of Readymix plc and a Non-executive Director of Filtrona plc. Previously he has held the position of Finance Director in a number of major companies, notably in the building materials and construction sectors, as well as senior finance positions with BP and ICI. In September 2007 he was appointed Chairman of Addaction, Britain's largest specialist drug and alcohol treatment charity. Adrian will be standing for re-election at the forthcoming AGM and is considered by the Board to be independent.

Peter Johnson, BA, ACA (Age 54)
Peter joined the Board in May 2005 and is the Chairman of the Audit Committee and also sits on the Remuneration and Nomination Committees. Peter is a chartered accountant and Finance Director of Taylor Wimpey plc and a Non-Executive Director of Oriel Securities Limited. Previously he has held a number of senior positions in the Financial Services sector including those of Group Finance Director of Henderson plc, Chief Financial Officer for Pearl Assurance and Finance Director of Norwich Union Life.

Eric van Amerongen, (Age 54)
Senior Independent Director
Eric was appointed to the Board in February 2007 and sits on the Audit, Remuneration and Nomination Committees. In July 2007 he was appointed Chairman of the Remuneration Committee and Senior Independent Director. He was until March 2008 a Non-executive Director of Corus Group plc, a position he held for seven years. Eric also has wide ranging European business experience and holds a number of Non-executive and advisory positions.

Stephen Riley, B Eng, PhD (Age 46)
Steve was appointed to the Board in March 2007 and is a member of the Audit, Remuneration and Nomination Committees. He is currently an Executive Director with International Power plc having joined that business in 1985. Steve has extensive operational experience in the power industry having held senior positions in the UK and Australia.

Executive Directors

Tom Drury, MA, ACMA (Age 46)
Group Chief Executive
Tom joined the Company as Group Chief Executive Designate in September 2007 and succeeded Michael Averill as Group Chief Executive in October of that year. Following an early career with Unilever and PricewaterhouseCoopers he went on to a distinguished career with United Utilities plc, being appointed a main Board Director in 2005. In 1996 he was appointed Managing Director of a new commercial enterprise, Vertex, which grew to become the second largest firm in the UK's business process outsourcing sector until the sale of that business in March 2007 to US private equity. Tom will be standing for election at the forthcoming AGM.

Fraser Welham, BSc, ACA (Age 43)
Group Finance Director
Fraser joined the Board in May 2005 and was appointed Group Finance Director in June of that year. He was previously Finance Director of Shanks Belgium for seven years and has held finance positions with the Group for over twelve years. Fraser is a chartered accountant and prior to joining the Company he held finance positions with other leading waste management companies.

directors' report

The Directors present their Annual Report together with the audited financial statements for the year ended 31 March 2008.

Directors

The composition of the Board of Directors at the date of this report is shown on the previous page together with their biographical details. Mr A Auer, Mr E van Amerongen, Mr P Johnson, Dr S Riley and Mr F Welham all served on the Board throughout the financial year under review, while Mr T Drury joined the Company on 3 September 2007 and was appointed to the Board as Group Chief Executive on 1 October 2007. Non-executive Directors Mr P Delaunois and Mr B Pointon retired from the Board at the conclusion of the AGM on 26 July 2007. Mr M Averill stepped down from his position as Group Chief Executive on 30 September 2007 and was retained to work for the Company on an advisory basis until the end of May 2008. Mr T Drury will be standing for election at the forthcoming AGM and Mr A Auer, who will be retiring by rotation, will be offering himself for re-election. Mr T Drury has a service contract terminable on twelve months notice. The Board commends to shareholders the election of both Mr A Auer and Mr T Drury both of whom they regard as possessing the requisite skills and attributes to continue making significant contributions in their respective roles as Chairman and Group Chief Executive.

Details of the Directors' interests are shown in the Remuneration Report.

Principal Activities and Business Review

The principal activities of the Group continue to be waste processing and waste management in the Netherlands, Belgium, UK, and since April 2007, Canada.

The Chairman's Statement, Chief Executive's Statement, Business Overview, Operating Review, Financial Review and Corporate Responsibility on pages 3 to 24 refer to the objectives and strategy, competition and the markets in which the Group operates, the principal risks and uncertainties facing the Group, a review of the development and performance of the business for the year ended 31 March 2008, the financial position of the Group as at the financial year end, key performance indicators and likely future developments of the business.

The information referred to above fulfills the requirements of the business review provisions in section 234ZZB of the Companies Act 1985 and is incorporated by reference into, and shall be deemed to form part of, this report together with the other information referred to in this Directors' Report.

Acquisitions and Disposals

Acquisitions have been made during the year at a total cost of £47.5m (2007: £65.3m) and are described in note 13 to the financial statements. There have been no disposals during the year (2007: £Nil). Subsequent to the year end the Group announced in April 2008 that it had acquired the Belgian Foronex Group for a cash consideration of £10.4m.

Research and Development

The Group spent £Nil (2007: £Nil) on research and development during the year ended 31 March 2008.

Results and Dividends

The Group's Consolidated Income Statement appears on page 43 and note 2 to the financial statements shows the contribution to revenue and profits made by the different segments of the Group's business. The Group's profit for the year amounted to £28.3m (2007: £31.3m).

The Directors recommend a final dividend of 4.2p (2007: 4.0p) per share be paid on 1 August 2008 to ordinary shareholders whose names appear on the register of members at close of business on 11 July 2008. This dividend, together with the interim dividend of 2.0p (2007: 1.9p) per share already paid on 9 January 2008, if approved by shareholders, will make a total dividend for the year of 6.2p per share (2007: 5.9p).

Statement of Going Concern

After making enquiries the Directors have formed the view, at the time of approving the financial statements, that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Notifiable Interests

As at 27 May 2008, the Company had been notified of the following direct and indirect interests in voting rights equal to or exceeding 3% of the ordinary share capital of the Company:

	Number of shares	Percentage
Legal & General Group plc	41,705,994	17.60
Schroder Investment Management Limited	30,983,387	13.08
Aberforth Partners LLP	17,202,200	7.32
Liontrust Investment Services Limited	11,682,512	4.92
Artemis Investment Management Limited	10,337,324	4.38
Credit Suisse Securities (Europe) Limited	9,947,564	4.22

Share Capital

During the year ended 31 March 2008 no ordinary shares were issued other than those issued in respect of exercises of options under the Company's share option schemes and long term incentive plan, details of which are given in note 5 to the financial statements. As at 31 March 2008 and as at the date of this report the authorised ordinary share capital was and is £35,000,000 represented by 350,000,000 ordinary shares of 10 pence each. As at 31 March 2008 and as at the date of this report there were 236,928,379 ordinary shares in issue. The rights and obligations attaching to the shares are:

- Dividend rights – holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the Directors. The Directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Payment or satisfaction of a dividend may be made wholly or partly by distribution of specific assets, including fully paid shares or debentures of any other company. Such action must be directed by the general meeting which declared the dividend and upon the recommendation of the Directors.

- Voting rights – voting at any general meeting is by a show of hands unless a poll is duly demanded. On a show of hands every shareholder who is present in person at a general meeting (and every proxy appointed by a shareholder and present at a general meeting) has one vote regardless of the number of shares held by the shareholder (or represented by the proxy). On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder (the deadline for exercising voting rights by proxy is set out in the form of proxy). A poll may be demanded by any of the following: (a) the chairman of the meeting; (b) at least 5 shareholders entitled to vote and present in person or by proxy at the meeting; (c) any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to attend and vote at the meeting; or (d) any shareholder or shareholders present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting is entitled to cast the deciding vote in addition to any other votes he may have.

- Return of capital – in the event of the liquidation of the Company, after payment of all liabilities and deductions taking priority in accordance with statute, the balance of assets available for distribution will be distributed among the holders of ordinary shares according to the amounts paid up on the shares held by them. A liquidator may with the sanction of a special resolution of the shareholders and any other sanction required by the Companies Acts, divide among the shareholders the whole or any part of the Company's assets. Alternatively, a liquidator may, upon the adoption of a special resolution of the shareholders, vest the assets in whole or in part in trustees upon such trusts for the benefit of shareholders, but no shareholder is compelled to accept any assets upon which there is a liability.

directors' report

continued

Powers of Directors

The Memorandum and Articles of Association of the Company provides that the business of the Company shall be managed by the Board which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. This power is subject to any limitations imposed on the Company by legislation. It is also limited by the provisions of the Memorandum and Articles of Association of the Company and any directions given by special resolution of the members of the Company which are applicable on the date that any power is exercised. Specific provisions relevant to the exercise of power by the Directors include:

- Pre-emptive rights and new issues of shares – while holders of ordinary shares have no pre-emptive rights under the Articles of Association, the ability of the Directors to cause the Company to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted. Under the Companies Acts, the Directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's Articles of Association or given by its shareholders in general meeting, but which in either event cannot last for more than five years. Under the Companies Acts, the Company may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

- Repurchase of shares – subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital.

- Borrowing powers – the Directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all net external borrowings of the Group outstanding at any time shall not exceed an amount equal to three times the aggregate of the Group's adjusted capital and reserves calculated in the manner prescribed in the Articles of Association, unless sanctioned by an ordinary resolution of the Company's shareholders.

Amendment to Company's Articles

The Company may alter its Articles of Association by special resolution passed at a general meeting.

Corporate Governance

The Board is fully committed to high standards of corporate governance. Details relating to the Company's compliance with the Combined Code on Corporate Governance for the financial year are given in the Corporate Governance and Remuneration Reports on pages 30 to 39. These sections contain details of Directors' service contracts and further information on the appointment of Directors and the responsibilities of the Board. Subject to the provisions of the Companies Acts, the Memorandum and Articles of Association and directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company.

Corporate Responsibility

Information on Corporate Responsibility matters including the environment, employment policies, health and safety and community relations are set out on pages 21 to 24.

Charitable and Political Donations

During the period donations made by the Group for charitable purposes amounted to £2,430 (2007: £2,980). No donations were made for political purposes during the year (2007: £Nil).

Payment of Suppliers

It is the Group's payment policy to agree payment terms with all suppliers and to abide by them. The amount owed to trade creditors at the year end in proportion to the amounts invoiced by suppliers during the year, expressed as a number of days, was 65 days (2007: 53 days) for the Group and was 25 days (2007: 31 days) for the Company.

Significant Agreements

The Group's principal financing instrument, the multicurrency £250m revolving credit facility with five major banks, contains an option for those banks to declare that all sums outstanding under that agreement are repayable immediately in the event of a change of control. This notice takes effect no earlier than thirty days from change of control and, if exercised at 31 March 2008, would have required the repayment of £211.7m in principal and interest.

The 2001 notes issued under the Group's private placement contain an option for the noteholders to enforce prepayment between thirty days and sixty days from change of control of outstanding principal and interest which would have amounted in total at 31 March 2008 to £41.8m. In addition, an amount of make-whole amounting to £6.9m which is not provided for in these accounts would be payable to private placement noteholders based on treasury yields at 31 March 2008.

Disclosure of information to the Company's auditors

In accordance with section 418 of the Companies Act 2006, each of the Company's Directors in office as at the date of this report confirms that, so far as he is aware, there is no relevant audit information in connection with preparing their report of which the Company's auditors are unaware. Each Director has taken all steps which he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual General Meeting

The AGM will be held on 24 July 2008, the notice for which is set out on pages 86 to 93. A form of proxy has also been included in a separate document sent to shareholders with this report. Resolutions will be proposed to declare a final dividend, receive the 2008 report and accounts, approve the 2008 Remuneration Report, elect Directors, reappoint PricewaterhouseCoopers LLP as auditors of the Company and authorise the Directors to determine the auditors' remuneration. Shareholders will also be asked to renew the general authority of the Directors to issue shares, together with the authority to disapply pre-emption rights and authorise the Company to make purchase of its own shares. In addition, a resolution will be proposed to revise the Articles of Association to reflect some of the new provisions of the Companies Act 2006 and to reflect a number of other legislative, regulatory and best practice developments which are explained further in the appendix to the notice of the AGM.

The Directors consider that all the resolutions proposed at the AGM to be held on 24 July 2008 are in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of the resolutions, as they intend to do in respect of their own shareholdings.

By Order of the Board

P. Griff St

Philip Griffin-Smith
Company Secretary
29 May 2008

corporate governance

Combined Code

The Group is committed to achieving high standards of corporate governance and integrity and exemplary ethical standards in all its business dealings. This statement, together with the Remuneration Report on pages 34 to 39, explains how the Group has applied the provisions of the Combined Code on Corporate Governance published in 2003 by the Financial Reporting Council and updated subsequently in 2006. The Board considers that it has complied with Section 1 of the Combined Code in all material respects throughout the year.

The Board of Directors

The Board currently comprises the Chairman, a further three independent Non-executive Directors, the Group Chief Executive and Group Finance Director. The Chairman has primary responsibility for running the Board and the Group Chief Executive is responsible for the operations of the Group and for the development of strategic plans and initiatives for consideration by the Board. The division of responsibilities between the Chairman and the Group Chief Executive has been clearly established, set out in writing and agreed by the Board.

The Non-executive Directors bring a wide range of experience to the Group and are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. During the year, until his retirement in July 2007, Mr P Delaunois was not deemed to be independent in accordance with the criteria set out in the Combined Code owing to his receiving fees for providing consultancy advice to the Group's Belgian subsidiaries in addition to the fees received for acting as a Director. The Non-executive Directors make a significant contribution to the functioning of the Board, thereby ensuring that no one individual or group dominates the decision making process. Non-executive Directors are not eligible to participate in any of the Company's share option or pension schemes. The Chairman also meets as necessary with the other Non-executive Directors without the executives present.

The Combined Code also recommends that the Board appoints one of its independent Non-executive Directors to be the Senior Independent Director. This Director is available to shareholders should they have concerns which contact through the normal channels of Chairman, Group Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate. During the year this role was fulfilled by Mr B Pointon until his retirement in July 2007 and thereafter by Mr E van Amerongen.

The Board meets regularly, having met nine times during the year. In addition, separate strategic discussions take place. Several meetings are held at subsidiary company sites in the UK and overseas where local operations are reviewed. In line with the requirement of sound corporate governance, there is a formal schedule of matters reserved specifically for the Board's decision. These include approval of financial statements, strategic policy, acquisitions and disposals, capital projects over defined limits, annual plans and new borrowing facilities.

The Board operates under agreed terms of reference, which together with those of its Committees are documented formally and updated as necessary. The Board is provided with appropriate information in a timely manner to enable it to effectively discharge its duties. All Directors have access to the Company Secretary whose role includes ensuring that Board procedures and regulations are followed. In addition, Directors are entitled, if necessary, to seek independent professional advice in the furtherance of their duties at the Company's expense.

Performance evaluation of the Board, its Committees and individual Directors during the year was undertaken through the mechanism of formalised self assessment questionnaires. Key results, all of which were positive and constructive, continue to be acted on by the Chairman and the Board. The performance evaluation of the Chairman was undertaken by the Non-executive Directors, led by the Senior Independent Director.

All Directors submit themselves for re-election by shareholders in accordance with the Company's Articles of Association, 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. It has been agreed that any Non-executive Directors who have served for a period greater than nine years from initial appointment will submit themselves for annual re-election.

On appointment, Directors are given an introduction to the Group's operations, including visits to principal sites and meetings with operational management. Specific training requirements of Directors are met either directly or by the Company through legal/regulatory updates. Board succession planning is kept under review by the Nomination Committee.

The table below details the number of formal Board and Committee meetings held in the year and the attendance of each Director. In addition, the Board held a two day strategy meeting with senior management attending for part of the time. There was also regular communication between the Non-executive Directors without the presence of the Executive Directors.

Director	Group Board	Audit Committee	Remuneration Committee	Nomination Committee
A Auer	9 (9)	n/a	4 (4)	2 (2)
M Averill (retired 30 September 2007)	5 (5)	n/a	n/a	n/a
P Delaunois (retired 26 July 2007)	3 (4)	1 (1)	2 (2)	2 (2)
T Drury (appointed 1 October 2007)	4 (4)	n/a	n/a	n/a
P Johnson	9 (9)	3 (3)	4 (4)	2 (2)
B Pointon (retired 26 July 2007)	4 (4)	1 (1)	2 (2)	2 (2)
S Riley	9 (9)	3 (3)	4 (4)	2 (2)
E van Amerongen	7 (9)	3 (3)	3 (4)	1 (2)
F Welham	9 (9)	n/a	n/a	n/a

Figures in brackets indicate maximum number of meetings during the period in which each individual was a Board/Committee member.

Audit Committee

The Audit Committee, which met three times in the year, is formally constituted with written terms of reference which are available on the Group's website. The Committee is comprised solely of Non-executive Directors; Mr P Johnson, Dr S Riley and Mr E van Amerongen. Mr P Johnson, who continues to have current and relevant financial experience under Combined Code requirements, chaired the Committee throughout the year. During the year both Mr P Delaunois and Mr B Pointon also served on the Committee until their retirement in July 2007. The external auditors, the Chairman and the Executive Directors are regularly invited to attend meetings and the Committee has access to the external auditors' advice without the presence of the Executive Directors. The Audit Committee has the authority to examine any matters relating to the financial affairs of the Group. This includes the appointment, terms of engagement, objectivity and independence of the external auditors, the nature and scope of the audit, reviews of the interim and annual financial statements, internal control procedures, accounting policies, adherence with accounting standards and such other related functions as the Board may require. The Committee also considers and reviews other risk management and control documentation, including the Group's policy on 'whistleblowing' and security reporting procedures.

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

During the year the performance of the external auditors was formally reviewed. A resolution proposing the re-appointment of PricewaterhouseCoopers LLP as Group auditors will be put to shareholders at the forthcoming AGM.

corporate governance
continued

Remuneration Committee

The Remuneration Committee, which met four times in the year, is formally constituted with written terms of reference which are available on the Group's website. The Committee is comprised solely of Non-executive Directors; Mr E van Amerongen, Mr A Auer, Mr P Johnson and Dr S Riley and has been chaired since July 2007 by Mr E van Amerongen. During the year Mr P Delaunois served on and Mr B Pointon chaired the Committee until their retirement in July 2007. The Committee determines the Company's policy on remuneration and on a specific package for each of the Executive Directors. It also determines the terms on which the Long Term Incentive Plan (LTIP) and the Save As You Earn (SAYE) share options are awarded to employees. The Committee also determines the remuneration of the Group's senior management and that of the Chairman. It recommends the remuneration of the Non-executive Directors for determination by the Board. In exercising its responsibilities the Committee has access to professional advice, both internally and externally, and may consult the Group Chief Executive about its proposals. The Remuneration Report on pages 34 to 39 contains particulars of Directors' remuneration and interests in the Company's shares.

Nomination Committee

The Nomination Committee is chaired by Mr A Auer and is comprised solely of Non-executive Directors; Mr E van Amerongen, Mr P Johnson and Dr S Riley. During the year both Mr P Delaunois and Mr B Pointon also served on the Committee until their retirement in July 2007. The Committee is formally constituted with written terms of reference which are available on the Group's website. It met twice during the year and is responsible for making recommendations to the Board on the appointment of Directors and succession planning. During the year, the structure, composition and balance of skills of the Board were reviewed including ensuring that all members of the Board had devoted sufficient time and contributed adequately to the work of the Board. During the year the Committee implemented succession planning in respect of Mr M Averill's retirement in September 2007 and the appointment of Mr T Drury as successor to the position of Group Chief Executive. All appointments were made using the services of an external executive search consultant.

Pensions

The assets of both the final salary and money purchase schemes in the UK are held separately from those of the Group. These are invested by independent professional investment managers and cannot be invested directly in the Company. There are two member nominated trustees and three trustees appointed by the Company. Senior employees in Belgium are provided with defined contribution pension benefits. In the Netherlands, employees participate in compulsory collective transport industry wide pension schemes, or equivalent schemes, which provide benefits up to a certain level of pay. Senior employees in the Netherlands earning in excess of the maximum level of pay allowed for within the compulsory pension schemes also participate in a defined contribution arrangement for the excess amount.

Investor Relations

The Company has an active investor relations programme, with designated members of the Board regularly meeting institutional investors, analysts, press and other parties. The Board obtains feedback from its broker, Hoare Govett on the views of institutional shareholders and the Chairman attends meetings with major shareholders whose views are communicated to the Board as a whole. The Group also communicates with private and institutional investors through its AGM. The Group's website www.shanks.co.uk provides additional information for shareholders and the general public.

Risk Management

The Board confirms that processes for identifying, evaluating and managing the material risks faced by the Group have been in place for the financial year 2008 and to the date of approval of the annual report and accounts. These include a formal review by each business unit to identify and evaluate material strategic, operational, commercial and financial risks affecting the achievement of their objectives. This review also identifies key procedures and controls used to mitigate the risks to an acceptable level and, where appropriate, actions required to further manage and reduce them. In addition the Executive Directors consider those risks to the Group's strategic objectives that may not be identified and managed at the business unit level. The risk summaries developed out of this process are discussed with both the Board and the Audit Committee in accordance with Turnbull Guidance.

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

Internal Control

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

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

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

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

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

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

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

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

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

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

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

(xi) an Environmental Advisory Board which during the year provided an independent assessment of the Group's health, safety and environmental performance; and

(xii) an Audit Committee comprising Non-executive Directors, the responsibilities of which are set out on page 31.

To strengthen the controls provided by the above the Audit Committee recommended and the Board agreed to the establishment of an independent internal audit function in February 2008. A Group Risk Management and Internal Audit Manager has been recruited to head up this function. He will join the Group in June 2008.

remuneration report

Remuneration Policy

The principal objectives of the Remuneration Committee, which is chaired by Mr E van Amerongen 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 LLP to provide independent market information and advice relating to executive remuneration and benefits. Deloitte & Touche LLP are considered to be independent as they provide only very limited other services to the Group. The Committee also engaged the services of an independent consultant, B Partridge Consulting Ltd, to assist in the review of executive remuneration for the year to 31 March 2008.

As described below, a significant proportion of potential total remuneration is performance related and is built around annual and longer term incentives. For Directors achieving median performance, performance related pay would represent approximately 40% of total remuneration. If performance were such that the maximum award available under each incentive scheme was paid, performance related pay would represent approximately 67% of total remuneration.

Basic Salary

The basic salary element is determined primarily by reference to external data which takes into account the Executive Director's duties and responsibilities. Basic salary is generally reviewed on an annual basis or following a significant change in responsibilities. During the year Mr F Welham's basic salary was increased from £220,000 to £250,000 per annum and from 1 April 2008 to £257,500. Mr T Drury's basic salary of £375,000 was increased from 1 April 2008 to £390,000.

Annual Cash Bonuses

Annual cash bonuses are payable at the discretion of the Remuneration Committee as a percentage of basic salary dependent on corporate profit and operating cash flow performance compared to target. For the year to 31 March 2008, the Executive Directors' potential cash bonus ranged from 30% for achieving target performance to a maximum bonus of 100% for achieving a performance of approximately 15% above target performance. Cash bonuses are not pensionable.

For the year ending 31 March 2009, the component of the annual bonus relating to operating cash flow targets has been replaced by individual personal objectives. The maximum bonus for this component remains 25% of basic salary. The maximum total bonus for the Group Chief Executive will be 125% and 100% for the Group Finance Director.

Long Term Incentive Plan

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

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

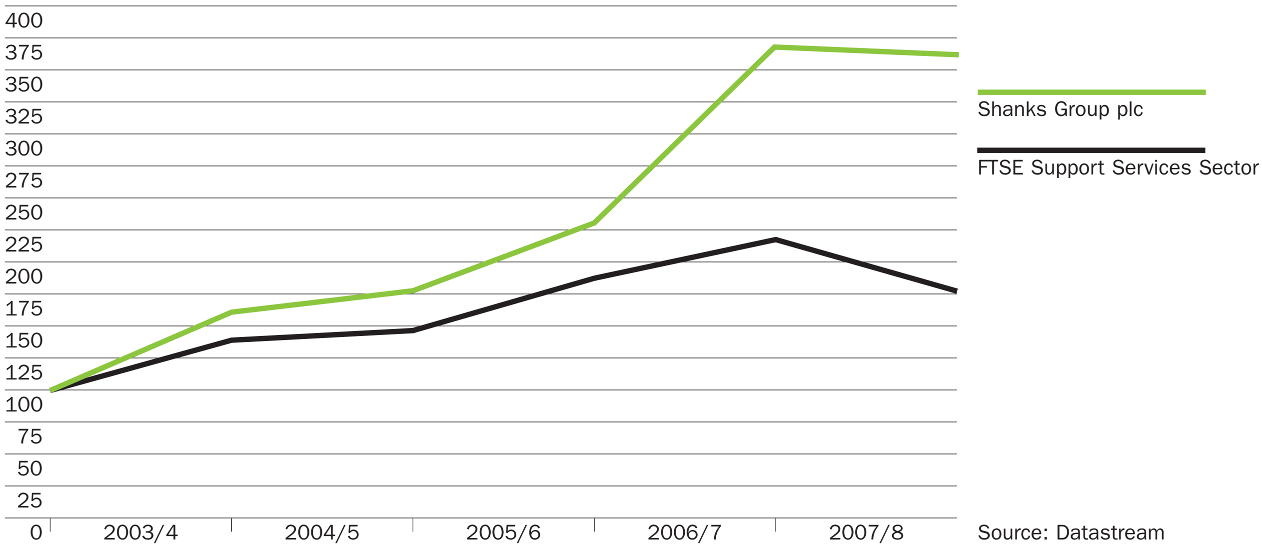
The second performance condition is based on Earnings Per Share (EPS) and for an award to vest, the average growth in the Company's adjusted EPS calculated on a consistent basis must exceed the growth in the Retail Price Index over the same period by at least nine percentage points. Having reviewed this performance condition and in light of market conditions the Remuneration Committee has decided to increase this to at least 12 percentage points for any grants awarded during the financial year 2008/9 and thereafter. This condition will be kept under review for future awards.

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.

During the year the Committee confirmed the performance conditions for the LTIPs granted in 2004 had been partially achieved and were available for exercise. At a meeting of the Committee on 27 May 2008 the performance conditions for the financial year ended 31 March 2008 were determined to have been achieved, resulting in the vesting in full of the LTIPs granted in 2005.

The Shanks Group plc Employee Share Trust has been established for the purpose of granting awards under the LTIP and to hold shares in the Company either purchased in the market or new shares subscribed for, with funds provided by the Company or its subsidiaries. As at 31 March 2008 the Employee Share Trust did not hold any of the Company's shares.

Figure 1: Shanks Group plc Total Shareholder Return versus FTSE Support Services Sector Index for the period 1 April 2003 to 31 March 2008



The graph shows the Total Shareholder Return of the Company and that of the FTSE Support Services Sector Index over the five-year period to 31 March 2008. This Index has been selected as it is a broad equity index of which Shanks Group plc is a constituent member.

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 HM Revenue & Customs approved Savings Related Share Option Scheme (SRSOS). Senior executives were also able to participate in an Executive Share Option Scheme (ESOS) at the discretion of the Remuneration Committee. Grants of options under the ESOS were discontinued in August 2005 when this scheme was replaced by the LTIP.

Under the terms of the SRSOS for UK employees, options may be granted during the ten year period to July 2015 to acquire up to 10% of the issued equity share capital of the Company, including options granted under the ESOS and LTIP. Options are granted at the higher of the nominal value of an ordinary 10 pence share and an amount determined by the Remuneration Committee being not less than 80% of the market value. Employees held options over nearly 0.7m shares under the SRSOS as at 31 March 2008. At the AGM held on 26 July 2007 the shareholders approved an amendment to the SRSOS rules to extend the dates upon which invitations to apply for share options could be made to employees to include the period forty two days commencing from the AGM.

Under the terms of the discontinued ESOS, options could be granted during the ten year period to August 2005 to acquire up to 5% of the issued equity share capital of the Company. The exercise of options granted under the ESOS, is subject to a performance condition, achievement of which is a pre-requisite for exercise of options. The condition is tested once only after a period of three years and if it is not achieved the relevant options will lapse. Options granted after 26 July 2001 will only be exercisable if the Group's EPS, calculated on a consistent basis, exceeds the growth in Retail Price Index over the same period by at least nine percentage points. During the year the Committee confirmed the performance conditions for the ESOS granted in 2004 had been met and therefore was available for exercise. At a meeting of the Committee on 27 May 2008 the performance conditions for the financial year ended 31 March 2008 were determined to have been achieved resulting in the vesting of the final tranche of executive options granted in 2005.

The Remuneration Committee applied a different performance condition for options granted under the ESOS prior to 26 July 2001. These options may not be exercised unless the growth in the Group's EPS over the period of any three consecutive years after the date of grant equals or exceeds the increase in the Retail Price Index over the same period by at least six percentage points. During the year the Committee re-tested the performance conditions for the ESOS granted in 2000 and 2001 and confirmed these had been achieved and as a result these options were available for exercise.

Directors' Service Contracts and Notice Periods

The Remuneration Committee has agreed that the policy with regard to the notice period for Executive Directors is one year. Accordingly, Mr T Drury and Mr F Welham have rolling service contracts dated 3 September 2007 and 21 July 2005, respectively, which require one year's notice from the Company. In the case of notice from the Director, Mr T Drury is required to give one year's notice and Mr F Welham, six months. 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.

As has been detailed in the Directors' Report, Mr Averill stood down from his position as Group Chief Executive and Director with effect from 30 September 2007. However, in line with his notice period Mr Averill continued to be employed by the Company on an advisory basis until the end of May 2008. Payments from that date were limited to the Director's contractual remuneration including basic salary and benefits for the unexpired portion of the notice period, being a salary of £187,000 and car allowance/medical insurance benefit of £14,000 for the period 1 October 2007 to 31 March 2008. Any entitlement to the exercise of LTIPs awarded previously is governed by the rules of the relevant scheme. Pensionable service is accrued for the unexpired portion of the notice period.

The Non-executive Directors do not have service contracts as their terms of engagement are governed by letters of appointment. Mr P Delaunois had and, post his retirement from the Board in July 2007, continues to have an agreement to provide consultancy services to the Group's Belgian subsidiary companies which can be terminated on giving three month's notice by either party.

	Date of appointment as Director	Date of initial letter of appointment	Term of appointment
A Auer	16 May 2005	10 May 2005	Renewable three year term
P Johnson	16 May 2005	10 May 2005	Renewable three year term
E van Amerongen	9 February 2007	12 January 2007	Renewable three year term
S Riley	29 March 2007	12 January 2007	Renewable three year term

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, reflecting the personal risk assumed in such appointments. Mr M Averill had Board approval for two Non-executive positions during his last year in office. The fees received from these appointments until his retirement from the Board were £35,000.

Directors' Interests in Ordinary Shares

The Directors' interests in the ordinary shares of the Company both during the year and at 27 May 2008 were as follows:

	As at 1 April 2007 or date of appointment If later	As at 31 March 2008 and 27 May 2008 or date of retirement if earlier
M Averill	78,206	229,637
A Auer	10,000	10,000
P Delaunois	1,500	–
T Drury	–	15,000
P Johnson	1,585	1,585
B Pointon	3,000	3,000
S Riley	–	–
E van Amerongen	–	–
F Welham	–	–

The auditors are required to report on the information contained in the remaining section of the Remuneration Report.

Directors' Remuneration

	Basic salary/fees £000	Performance related bonus £000	Other emoluments £000	2008 Total £000	2007 Total £000
Chairman					
A Auer	100	–	–	100	78
I Clubb (retired 27 July 2006)	–	–	–	–	33
Executive Directors					
M Averill (retired 30 September 2007)	187	–	14	201	536
T Drury (appointed 1 October 2007)	187	136	86	409	–
F Welham	235	146	37	418	273
Non-executive Directors					
P Delaunois (retired 26 July 2007)	12	–	14	26	70
P Johnson	40	–	–	40	33
B Pointon (retired 26 July 2007)	13	–	–	13	35
S Riley (appointed 9 February 2007)	35	–	–	35	3
E van Amerongen (appointed 29 March 2007)	38	–	–	38	6
Total	847	282	151	1,280	1,067

Notes

(i) Other emoluments for Mr M Averill and Mr F Welham include such items as car allowance and medical insurance which are not pensionable. In the case of Mr F Welham this also includes Company contributions to the Defined Contribution section of the Shanks Group Pension Scheme. Other emoluments for Mr T Drury include relocation assistance, a car allowance, medical insurance and a cash element, paid in lieu of pension scheme contributions, equating to 25% of salary. All of these items are non pensionable.

(ii) Other emoluments for Mr P Delaunois are for fees relating to consultancy services provided to the Group's Belgian subsidiaries by S.A. CGO of which Mr P Delaunois is a shareholder and director. As at the date of his retirement from the Board these fees amounted to £14,000, although these fees continue to be paid for ongoing consultancy services at a rate of £42,000 per annum.

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

Directors' Pension Benefits

Mr M Averill and Mr F Welham are both members of the Final Salary (Defined Benefit) section of the Shanks Group Pension Scheme, which is a funded scheme, approved by HM Revenue & Customs. In the case of Mr Welham, pension benefits are capped at the notional HM Revenue & Customs earnings cap, which is reviewed annually. For the year to 31 March 2008 the notional cap was £112,800. Under the terms of this scheme the Executive Directors have:

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

remuneration report

continued

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

Directors' Final Salary Pension – Benefits

	Age at 31.03.08	Increase in accrued pension during the year (ii) £000 pa	Increase in accrued pension during the year net of inflation (ii) £000 pa	Accrued pension at 31.03.08 (iii) £000	Transfer value at 31.03.08 of pension benefits accrued at 31.03.08 (iv) £000	Transfer value at 31.03.07 of pension benefits accrued at 31.03.07 (iv) £000	Increase in transfer value less Directors' contributions (v) £000	Transfer value of increase in accrued pension during the year net of inflation less Directors' contributions (v) £000
M Averill	56	19	11	234	4,830	4,123	681	208
F Welham	43	3	2	31	355	221	126	21

Notes

(i) Mr F Welham was subject to the HM Revenue & Customs cap on approved pension benefits and was provided with additional pension benefits for basic salary in excess of the cap via the Defined Contribution section of the Shanks Group Pension Scheme. The Company contributed £21,000 into this section of Mr Welham's pension during the year and is included in the 'other emoluments' section of the Directors' remuneration table shown on page 37. The value of Mr Welham's fund in the Defined Contribution section as at 31 March 2008 including his own contributions was £40,000.

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

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

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

Mr Averill resigned as a Director on 30 September 2007. His transfer value has been calculated on his pensionable pay as at 30 September 2007. He remained a member of the Scheme to the year end, and the increase in accrued pension and transfer value reflects accrual of benefits over the whole year.

(v) The increase in transfer value has been calculated taking into account market conditions and the Directors' ages at 31 March 2007 and 31 March 2008.

Directors' Interests in Share Options

The following Directors held options to subscribe for ordinary shares of the Company:

Share Options	*	Date of grant	Normal Exercise Dates From	To	Option price (pence)	Number at 1 April 2007	Granted in year	Lapsed in year	Exercised in year	Number at 31 March 2008#
M Averill	E	05.06.00	06.06.03	05.06.07	180.0	150,000	–	–	150,000	–
	S	26.09.02	01.11.07	30.04.08	116.0	8,495	–	–	8,495	–
	S	25.09.03	01.11.08	30.04.09	84.0	3,773	–	–	–	3,773
	S	01.09.06	01.11.09	30.04.10	150.5	1,255	–	–	–	1,255
F Welham	E	05.06.00	06.06.03	05.06.07	180.0	20,000	–	–	20,000	–
	E	04.06.01	05.06.04	04.06.08	176.5	20,000	–	–	20,000	–
	E	02.08.04	03.08.07	02.06.14	115.0	25,000	–	–	–	25,000
	S	25.09.03	01.11.08	30.04.09	84.0	18,869	–	–	–	18,869

* (E) Executive Share Option Scheme and (S) Savings Related Share Option Scheme.

or at date of retirement if earlier

Notes

(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 pages 35 and 36.

(ii) The market price of the shares on 1 June 2007 when Mr M Averill and Mr F Welham exercised their executive share options was 271.27 pence whilst the price on 16 November 2007 when Mr M Averill exercised his savings related share option was 208.87 pence.

Directors' Interests in Long Term Incentive Plan

The following Directors have been made notional allocations of shares under the Company's Long Term Incentive Plan:

	Outstanding awards at 31 March 2007	Awards made during the year	Awards lapsed during the year	Awards exercised during the year	Outstanding awards at 31 March 2008#	Date of award	Share price on date of award (pence)	Performance period end	Restricted period end
M Averill	290,000	–	4,350	285,650	–	02.08.04	115.0	31.03.07	02.08.07
	240,000	–	–	–	240,000	06.06.05	144.75	31.03.08	06.06.08
	213,000	–	–	–	213,000	05.06.06	170.0	31.03.09	05.06.09
T Drury	–	150,000	–	–	150,000	28.09.07	233.0	31.03.10	28.09.10
F Welham	75,000	–	–	–	75,000	06.06.05	144.75	31.03.08	06.06.08
	94,000	–	–	–	94,000	05.06.06	170.0	31.03.09	05.06.09
	–	75,000	–	–	75,000	05.06.07	273.5	31.03.10	05.06.10

or at date of retirement if earlier

Notes

(i) The performance conditions relating to the vesting of the Long Term Incentive Plan awards are shown on pages 34 and 35.

(ii) The market price of the shares on 3 August 2007 on the vesting of Mr M Averill's 2004 Long Term Incentive Plan was 232.4 pence.

The highest closing mid-market price of the ordinary shares of the Company during the year was 281 pence and the lowest closing mid-market price during the year was 195 pence. The mid-market price at the close of business on 31 March 2008 was 260 pence.

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.

By order of the Board

Eric van Amerongen
Chairman of the Remuneration Committee
29 May 2008

statement of directors' responsibilities

in respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Company and Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business; and
- include a fair review of the development, performance and position of the business, together with a description of the principal risks and uncertainties.

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration Report comply with the requirements of the Companies Act 1985 and as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

independent auditors' report to the members of Shanks Group plc

We have audited the group and parent company financial statements (the 'financial statements') of Shanks Group plc for the year ended 31 March 2008 which comprise the Consolidated Group and Parent Company Income Statements, the Consolidated Group and Parent Company Balance Sheets, the Consolidated Group and Parent Company Cash Flow Statements, the Consolidated Group and Parent Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, Chief Executive's Statement, Business Overview, Operating Review, Financial Review and Corporate Responsibility that is cross referred from the Business Review section of the Directors' Report.

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Financial Highlights, Chairman's Statement, Chief Executive's Statement, the Business Overview, Operating Review, Financial Review, Corporate Responsibility, Corporate Governance Statement, Consolidated Five Year Summary and all other information as referenced by the contents page of the Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

independent auditors' report to the members of Shanks Group plc

continued

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 March 2008 and of the group's and parent company's profits and cash flows for the year then ended;

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

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 May 2008

consolidated income statement

year ended 31 March 2008

	Note	2008 £m	2007 £m
Continuing operations			
Revenue	2	**563.7**	508.5
Cost of sales		**(458.5)**	(412.9)
Gross profit		**105.2**	95.6
Administrative expenses before exceptional items		**(51.8)**	(49.4)
Exceptional profit on disposal of properties		**1.9**	–
Total administrative expenses		**(49.9)**	(49.4)
Operating profit	2,3	**55.3**	46.2
Finance charges:			
Interest payable		**(23.8)**	(18.2)
Interest receivable		**12.7**	11.2
Change in fair value of interest rate swaps		**(2.9)**	6.9
Total finance charges	6	**(14.0)**	(0.1)
Profit before tax	2	**41.3**	46.1
Tax	7	**(13.0)**	(14.8)
Profit for the year		**28.3**	31.3
Dividend per share	8	**6.2p**	5.9p
Earnings per share			
– basic	9	**12.0p**	13.3p
– diluted	9	**12.0p**	13.3p

consolidated statement of recognised income and expense

year ended 31 March 2008

	Note	2008 £m	2007 £m
Exchange gain (loss) on translation of foreign operations	24	**28.1**	(3.9)
Actuarial gain on defined benefit pension schemes	22	**16.0**	0.5
		44.1	(3.4)
Deferred tax in respect of defined benefit pension schemes		**(4.7)**	(0.1)
Net income (expense) recognised directly in equity		**39.4**	(3.5)
Profit for the year		**28.3**	31.3
Total recognised income and expense for the year	24	**67.7**	27.8

consolidated balance sheet

at 31 March 2008

	Note	At 31 March 2008 £m	At 31 March 2007 £m
Non-current assets			
Intangible assets	10	**273.7**	198.3
Property, plant and equipment	11	**287.5**	209.0
Other investments and loans to joint ventures	12	**1.6**	1.8
Trade and other receivables	17	**150.7**	141.9
Retirement benefit assets	22	**9.4**	–
Deferred tax assets	14	**3.7**	10.8
		726.6	561.8
Current assets			
Inventories	15	**7.7**	5.4
Trade and other receivables	17	**152.8**	119.4
Current tax receivable		**1.4**	2.1
Cash and cash equivalents	18	**53.2**	42.7
		215.1	169.6
Total assets		**941.7**	731.4
Current liabilities			
Borrowings	19	**(8.1)**	(28.9)
Trade and other payables	20	**(175.5)**	(127.3)
Current tax payable		**(16.2)**	(13.4)
Provisions	21	**(4.1)**	(6.3)
		(203.9)	(175.9)
Non-current liabilities			
Borrowings	19	**(371.8)**	(271.2)
Other non-current liabilities	20	**(18.5)**	(2.3)
Deferred tax liabilities	14	**(39.1)**	(27.4)
Provisions	21	**(28.3)**	(22.5)
Retirement benefit obligations	22	**–**	(8.4)
		(457.7)	(331.8)
Total liabilities		**(661.6)**	(507.7)
Net assets		**280.1**	223.7
Equity			
Share capital	23	**23.7**	23.5
Share premium	24	**97.4**	94.0
Exchange reserve	24	**29.2**	1.1
Retained earnings	24	**129.8**	105.1
Total equity	24	**280.1**	223.7

The Financial Statements on pages 43 to 84 were approved by the Board of Directors and authorised for issue on 29 May 2008.

They were signed on its behalf by:

A Auer
Chairman

F A N Welham
Group Finance Director

consolidated cash flow statement

year ended 31 March 2008

	Note	2008 £m	2007 £m
Net cash from operating activities	25	**87.1**	71.3
Investing activities			
Purchases of intangible assets		**(0.5)**	(1.1)
Purchases of property, plant and equipment		**(47.7)**	(39.3)
Disposals of property, plant and equipment		**5.3**	2.7
Financial asset capital advances		**(17.1)**	(30.9)
Financial asset capital repayments		**8.8**	1.4
Acquisitions of subsidiary and other businesses		**(47.5)**	(65.3)
Income received from other investments		**0.4**	1.1
Net cash used in investing activities		**(98.3)**	(131.4)
Financing activities			
Interest paid		**(21.1)**	(17.1)
Interest received		**10.6**	11.2
Proceeds from issue of shares		**2.3**	0.3
Dividends paid		**(14.3)**	(13.4)
Increase in borrowings		**38.5**	64.6
Increase in obligations under finance leases		**3.8**	0.9
Repayments of obligations under finance leases		**(2.7)**	(3.0)
Net cash flow from financing activities		**17.1**	43.5
Net increase (decrease) in cash and cash equivalents		**5.9**	(16.6)
Effect of foreign exchange rate changes		**4.6**	(0.1)
Cash and cash equivalents at beginning of year		**42.7**	59.4
Cash and cash equivalents at end of year		**53.2**	42.7

company income statement

year ended 31 March 2008

	Note	2008 £m	2007 £m
Continuing operations			
Administrative expenses		**(3.4)**	(2.3)
Administrative expenses – exceptional	3	**(137.0)**	–
Total administrative expenses		**(140.4)**	(2.3)
Other operating expense – exchange		**(17.7)**	(1.3)
Operating loss	2,3	**(158.1)**	(3.6)
Income from shares in subsidiary undertakings		**187.5**	–
Finance charges:			
Interest payable		**(19.8)**	(10.2)
Interest receivable		**6.1**	2.5
Total finance charges	6	**(13.7)**	(7.7)
Profit (loss) before tax		**15.7**	(11.3)
Tax credit	7	**6.9**	4.6
Profit (loss) for the year		**22.6**	(6.7)

company statement of recognised income and expense

year ended 31 March 2008

	Note	2008 £m	2007 £m
Actuarial gain on defined benefit pension schemes	22	**16.0**	0.5
Deferred tax in respect of the above		**(4.7)**	(0.1)
Net income recognised directly in equity		**11.3**	0.4
Profit (loss) for the year		**22.6**	(6.7)
Total recognised income and expense for the year	24	**33.9**	(6.3)

company balance sheet

at 31 March 2008

	Note	At 31 March 2008 £m	At 31 March 2007 £m
Non-current assets			
Property, plant and equipment	11	**0.2**	0.2
Investments in subsidiary undertakings	12	**469.6**	379.8
Retirement benefit assets	22	**9.4**	–
Deferred tax assets	14	**–**	4.8
		479.2	384.8
Current assets			
Trade and other receivables	17	**184.0**	24.8
Current tax receivable		**8.1**	4.5
Cash and cash equivalents	18	**37.6**	38.6
		229.7	67.9
Total assets		**708.9**	452.7
Current liabilities			
Borrowings	19	**–**	(1.0)
Trade and other payables	20	**(3.5)**	(4.8)
Provisions	21	**(3.1)**	(3.9)
		(6.6)	(9.7)
Non-current liabilities			
Borrowings	19	**(128.5)**	(80.3)
Other non-current liabilities	20	**(376.3)**	(181.0)
Deferred tax liabilities	14	**(1.6)**	–
Retirement benefit obligations	22	**–**	(8.4)
		(506.4)	(269.7)
Total liabilities		**(513.0)**	(279.4)
Net assets		**195.9**	173.3
Equity			
Share capital	23	**23.7**	23.5
Share premium	24	**121.4**	118.0
Retained earnings	24	**50.8**	31.8
Total equity	24	**195.9**	173.3

The Financial Statements on pages 46 to 84 were approved by the Board of Directors and authorised for issue on 29 May 2008.
They were signed on its behalf by:

A Auer
Chairman

F A N Welham
Group Finance Director

company cash flow statement

year ended 31 March 2008

	2008 **£m**	2007 £m
Net cash from operating activities		
Operating loss	**(158.1)**	(3.6)
Net increase (decrease) in provisions	**130.8**	(2.7)
Exchange loss	**17.7**	1.3
Share-based payments	**0.8**	0.6
Operating cash flows before movements in working capital	**(8.8)**	(4.4)
(Increase) decrease in receivables	**(159.2)**	3.4
Increase in payables	**100.5**	41.3
Cash generated by operations	**(67.5)**	40.3
Income taxes received	**4.8**	0.9
Net cash from operating activities	**(62.7)**	41.2
Investing activities		
Dividend received	**57.8**	–
Net cash from investing activities	**57.8**	–
Financing activities		
Interest paid	**(18.9)**	(9.8)
Interest received	**6.1**	2.5
Proceeds from issue of shares	**2.3**	0.3
Dividends paid	**(14.3)**	(13.4)
Increase (repayment) of borrowings	**28.7**	(22.4)
Net cash flow from financing activities	**3.9**	(42.8)
Net decrease in cash and cash equivalents	**(1.0)**	(1.6)
Cash and cash equivalents at beginning of year	**38.6**	40.2
Cash and cash equivalents at end of year	**37.6**	38.6

notes to the financial statements

1 Accounting policies – Group and Company

General information

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

Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as required by Article 4 of the European Union IAS Regulation and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements are prepared on the historical cost basis, except for derivative financial instruments, which are stated at fair value. The policies set out below have been consistently applied. The Group has applied all accounting standards and interpretations issued relevant to its operations and effective for accounting periods beginning on 1 April 2007.

During the year, the Group has adopted IFRS 7 Financial Instruments: Disclosures and the related amendment to IAS 1 Presentation of Financial Statements which are required to be implemented from 1 April 2007. Other than increased disclosure concerning financial instruments and management of capital, IFRS 7 has not had an impact on reported profits or net assets.

During the year, the Group has early adopted IFRS 8 Operating Segments in order to facilitate a greater understanding and improve the transparency of the Group's reported results. Accordingly, the Group has restated its segmental information in note 2. There has been no impact on reported profits or net assets.

In July 2007 IFRIC 14 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction was issued. It limits the recognition of a defined benefit asset when minimum funding requirements exist within a retirement benefit plan. IFRIC 14 was implemented by the Group from 1 April 2007 and this has had no impact on reported profits or net assets.

Other accounting standards and interpretations in issue at the date of approval of these financial statements but not yet effective are not expected to have a material impact on the financial statements.

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

Basis of consolidation

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

PFI contracts

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

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

1 Accounting policies continued

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

Revenue

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

Exceptional items

Items are classified as exceptional and disclosed separately due to their size or incidence to enable a better understanding of performance. These include but are not limited to the change in fair value of financial instruments and the profit or loss on disposals of properties.

Share-based payments

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

Discontinued operations

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

Intangible assets

(i) Goodwill

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

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

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

(ii) Landfill void

When landfill operations are acquired, landfill void is capitalised based on the fair value of the void acquired and is amortised over its estimated useful life on a void usage basis.

(iii) Other intangibles

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

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

1 Accounting policies continued

Property, plant and equipment

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

(i) Buildings, plant and machinery

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

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

(ii) Landfill sites

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

Impairment of assets

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

Leased assets

(i) Finance leases

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

(ii) Operating leases

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

Inventories

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

Government grants and subsidies

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

Unprocessed waste

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

Site restoration provision

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

1 Accounting policies continued

Aftercare provision

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

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%.

Retirement benefits

The Group accounts for pensions and similar benefits under the amended IAS19 Employee Benefits. For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at market value. The operating and financing costs of the plans are recognised separately in the income statement and actuarial gains and losses are recognised in full through the statement of recognised income and expense. Surpluses on defined benefit plans are recognised only to the extent that they are recoverable. Movements in irrecoverable surpluses are recognised immediately in the statement of recognised income and expense.

Payments to defined contribution schemes are charged to the income statement as they become due. The Group participates in several multi-employer schemes in the Netherlands. These are accounted for as defined contribution plans as it is not possible to split the assets and liabilities of the schemes between participating companies, and the Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit.

Tax

(i) Current tax

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

(ii) Deferred tax

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

Foreign currencies

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

1 **Accounting policies** continued

Financial instruments

(i) Trade receivables

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

(ii) Financial assets relating to PFI contracts

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

(iii) Cash and cash equivalents

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

(iv) External borrowings

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

(v) Trade payables

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

(vi) Derivative financial instruments

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

(vii) Other receivables and other payables

Other receivables and other payables are measured at amortised cost using the effective interest rate method.

Dividends

Dividends are accounted for on a cash basis and are not accrued in the balance sheet.

Segmental reporting

The Group's organisational structure reflects the national nature of markets in which it operates, with divisions in the Netherlands, Belgium, the United Kingdom and Canada.

2 Segmental reporting

The Group operates in the Netherlands, Belgium, the United Kingdom and Canada. As discussed in the Business Overview on pages 7 to 11 the waste markets are different in each member state of the European Union. As a result, the Group is organised and managed mainly by geographical location. Each geographical location can be analysed according to the following types of activity:

Solid Waste	Non-hazardous solid waste collections, transfer and recycling
Landfill and Power	Landfill disposal (including contaminated soils) and power generation from landfill gas
Hazardous Waste	Industrial cleaning, hazardous waste transport, treatment (including contaminated soils) and disposal and contaminated land remediation
Organic Treatment	Anaerobic digestion and tunnel composting of source segregated organic waste streams
PFI Contracts	Long term United Kingdom municipal waste treatment contracts
Sand Quarry	Mineral extraction

The accounting policies of the reportable segments are the same as those described in note 1, except that pension expense for the United Kingdom is recognised and measured on the basis of cash payments to the pension plan. The profit measure the Group uses to evaluate performance is trading profit. Trading profit is operating profit before the amortisation of acquisition intangibles excluding landfill void and computer software and exceptional items. The Group accounts for inter-segment trading on an arm's length basis. The information for the 2007 comparatives has been restated in the new format.

Revenue		**2008 £m**	2007 £m
Netherlands	Solid Waste	**189.5**	169.1
	Hazardous Waste	**100.6**	85.8
	Organic Treatment	**7.2**	–
	Intra-segment revenue	**(2.6)**	(1.9)
		294.7	253.0
Belgium	Solid Waste	**77.2**	70.9
	Landfill and Power	**18.0**	20.9
	Hazardous Waste	**40.9**	43.8
	Sand Quarry	**2.2**	2.5
	Intra-segment revenue	**(13.2)**	(14.5)
		125.1	123.6
United Kingdom	Solid Waste	**75.1**	69.6
	Landfill and Power	**15.2**	13.5
	Hazardous Waste	**10.9**	10.1
	PFI Contracts	**43.2**	40.0
	Intra-segment revenue	**–**	–
		144.4	133.2
Canada	Organic Treatment	**1.4**	–
Inter-segment revenue		**(1.9)**	(1.3)
Total revenue		**563.7**	508.5
Group		**547.3**	494.0
Share of joint ventures		**16.4**	14.5
Total revenue		**563.7**	508.5

2 Segmental reporting continued

Profit before tax		2008 £m	2007 £m
*Trading Profit**			
Netherlands	Solid Waste	**30.0**	26.6
	Hazardous Waste	**9.5**	8.4
	Organic Treatment	**1.6**	–
	Country Central Services	**(3.4)**	(3.0)
		37.7	32.0
Belgium	Solid Waste	**7.4**	5.8
	Landfill and Power	**8.3**	11.1
	Hazardous Waste	**3.3**	3.4
	Sand Quarry	**0.7**	0.8
	Country Central Services	**(3.5)**	(3.8)
		16.2	17.3
United Kingdom	Solid Waste	**6.4**	4.6
	Landfill and Power	**5.0**	3.8
	Hazardous Waste	**1.7**	1.2
	PFI Contracts	**0.4**	0.2
	PFI Bid Team	**(0.9)**	(1.1)
	Country Central Services	**(5.7)**	(5.4)
		6.9	3.3
Canada	Organic Treatment	**0.1**	–
Group Central Services		**(5.0)**	(5.3)
Total trading profit		**55.9**	47.3
Amortisation of acquisition intangibles		**(2.5)**	(1.1)
Exceptional profit on disposal of properties		**1.9**	–
		(0.6)	(1.1)
Total operating profit		**55.3**	46.2
Group		**50.1**	42.2
Share of joint ventures		**5.2**	4.0
Total operating profit		**55.3**	46.2
Finance charges	Interest payable	**(23.8)**	(18.2)
	Interest receivable	**12.7**	11.2
	Change in fair value of interest rate swaps	**(2.9)**	6.9
Total finance charges		**(14.0)**	(0.1)
Profit before tax		**41.3**	46.1

* Trading profit is operating profit before amortisation of acquisition intangibles excluding landfill void and computer software and exceptional items.

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

notes to the financial statements

continued

2 Segmental reporting continued

Net assets		2008 £m	2007 £m
Netherlands	Gross non-current assets	**451.3**	329.1
	Gross current assets	**78.8**	54.9
	Gross liabilities	**(117.6)**	(67.3)
		412.5	316.7
Belgium	Gross non-current assets	**55.0**	41.9
	Gross current assets	**37.5**	32.4
	Gross liabilities	**(62.6)**	(47.7)
		29.9	26.6
United Kingdom	Gross non-current assets	**199.8**	179.6
	Gross current assets	**43.5**	37.0
	Gross liabilities	**(37.0)**	(34.5)
		206.3	182.1
Canada	Gross non-current assets	**7.2**	–
	Gross current assets	**0.4**	–
	Gross liabilities	**(0.5)**	–
		7.1	–
Group Central Services	Gross non-current assets	**9.6**	0.4
	Gross current assets	**0.3**	0.5
	Gross liabilities	**(8.7)**	(17.3)
		1.2	(16.4)
Total	Gross non-current assets	**722.9**	551.0
	Gross current assets	**160.5**	124.8
	Gross liabilities	**(226.4)**	(166.8)
Net operating assets		**657.0**	509.0
Current tax		**(14.8)**	(11.3)
Deferred tax		**(35.4)**	(16.6)
Net debt		**(326.7)**	(257.4)
Net assets		**280.1**	223.7

2 Segmental reporting continued

Other disclosures		2008 £m	2007 £m
Netherlands	Capital expenditure	**31.8**	26.1
	Depreciation	**23.2**	20.3
	Amortisation of intangibles	**3.5**	2.3
Belgium	Capital expenditure	**11.8**	7.1
	Depreciation	**7.1**	6.3
	Amortisation of intangibles	**–**	–
United Kingdom	Capital expenditure	**5.6**	3.0
	Depreciation	**3.8**	3.4
	Amortisation of intangibles	**0.4**	–
Canada	Capital expenditure	**2.1**	–
	Depreciation	**0.2**	–
	Amortisation of intangibles	**0.1**	–
Total	Capital expenditure	**51.3**	36.2
	Depreciation	**34.3**	30.0
	Amortisation of intangibles	**4.0**	2.3

3 Profit for the year

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Staff costs (see note 4)	**131.6**	118.7	**2.5**	2.3
Depreciation of property, plant and equipment				
– Owned assets	**32.1**	27.9	**–**	–
– Held under finance leases	**2.2**	2.1	**–**	–
Amortisation of intangible assets (charged to cost of sales)	**4.0**	2.3	**–**	–
Repairs and maintenance expenditure on property, plant and equipment	**31.6**	28.4	**–**	–
Net profit on disposal of property, plant and equipment	**3.1**	(1.0)	**–**	–
Impairment of investment in subsidiary undertakings (note 12)	**–**	–	**133.4**	–
Make-whole payment relating to amounts owed to subsidiary undertakings	**–**	–	**3.6**	–
Trade receivables impairment	**0.8**	0.8	**–**	–
Government grants	**(0.1)**	(0.1)	**–**	–
Operating lease costs:				
– Minimum lease payments	**15.3**	12.1	**0.1**	0.1
– Less sublease rental income	**(0.2)**	(0.2)	**–**	–
	15.1	11.9	**0.1**	0.1
Represented by:				
– Operating lease rentals – Land and buildings	**4.9**	3.2	**0.1**	0.1
– Operating lease rentals – Plant and machinery	**10.2**	8.7	**–**	–
	15.1	11.9	**0.1**	0.1
Auditors' remuneration:				
– Audit of parent company and consolidated accounts	**0.1**	0.1	**0.1**	0.1
– Audit of subsidiaries pursuant to legislation	**0.4**	0.3	**0.1**	0.1
– Tax services	**0.5**	0.6	**0.5**	0.6
Total payments to auditors	**1.0**	1.0	**0.7**	0.8

At 31 March 2008 the amount due to PricewaterhouseCoopers LLP for fees not yet invoiced was £0.1m.

notes to the financial statements

continued

4 Employees

	2008 Number	2007 Number
The average number of persons employed by the Group during the year was as follows:		
Netherlands	**2,161**	1,974
Belgium	**1,031**	1,019
United Kingdom	**914**	828
Canada	**5**	–
Group Central Services	**14**	15
	4,125	3,836

	2008 £m	2007 £m
The total remuneration of all employees comprised:		
Wages and salaries costs	**105.7**	95.0
Employer's social security costs	**18.2**	17.1
Employer's pension costs (see note 22)	**7.7**	6.6
	131.6	118.7

The disclosure above relates to the Group. The average number of persons employed by the Company was 14 (2007: 15), with the related wages and salaries costs, employer's social security costs and employer's pension costs amounting to £1.8m (2007: £1.6m), £0.3m (2007: £0.4m) and £0.4m (2007: £0.3m) respectively.

5 Share-based payments

Group and Company

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

Outstanding options

	SRSOS		ESOS		LTIP
	Options Number	Weighted average exercise price pence	Options Number	Weighted average exercise price pence	Options Number
Outstanding at 31 March 2006	929,938	103p	3,555,000	154p	1,716,000
Granted during the year	124,507	151p	–	–	682,500
Forfeited during the year	(42,476)	114p	–	–	–
Expired during the year	(82,742)	104p	(1,423,000)	155p	(666,000)
Exercised during the year	(188,385)	116p	(117,000)	129p	–
Outstanding at 31 March 2007	740,842	107p	2,015,000	155p	1,732,500
Granted during the year	104,630	186p	–	–	751,400
Forfeited during the year	(43,995)	131p	–	–	–
Expired during the year	(17,493)	130p	(125,000)	141p	(7,725)
Exercised during the year	(100,523)	111p	(1,390,000)	161p	(507,275)
Outstanding at 31 March 2008	**683,461**	**117p**	**500,000**	**141p**	**1,968,900**
Exercisable at 31 March 2008	17,557	116p	55,000	115p	
Exercisable at 31 March 2007	9,574	145p	1,005,000*	178p	

*Subject to performance conditions

	SRSOS	ESOS	LTIP
At 31 March 2008:			
Range of price per share	84p to 186p	113p to 144p	
Weighted average remaining contractual life	3 years	3 years	2 years

5 Share-based payments continued

Fair value of options granted during the year

	SRSOS		LTIP	
Valuation model	**2008 Black-Scholes**	2007 Black-Scholes	**2008 Binomial**	2007 Binomial
Weighted average fair value	**66p**	47p	**147p**	96p
Weighted average share price	**233p**	177p	**265p**	170p
Weighted average exercise price	**186p**	151p	**–**	–
Expected volatility	**31%**	33%	**33%**	33%
Expected life	**3 years**	3 years	**3 years**	3 years
Risk-free interest rate	**5.1%**	4.7%	**5.6%**	4.7%
Dividend yield	**4.0%**	4.0%	**–**	–
Expected dividends	**–**	–	**2.0p/4.0p**	1.9p/3.8p
Correlation	**–**	–	**21%**	14%

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

Charge for the year

The Group and the Company recognised total expenses of £0.8m (2007: £0.6m) relating to equity-settled share-based payments.

6 Finance charges

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Interest payable:				
Interest payable on borrowings wholly repayable within five years	**12.8**	9.3	**5.0**	4.5
Interest payable on other borrowings	**8.1**	7.6	**13.9**	5.3
Share of interest of joint ventures	**0.3**	0.1	**–**	–
Unwinding of discount on long term landfill liabilities	**0.8**	0.7	**–**	–
Unwinding of discount on deferred consideration	**0.9**	0.1	**–**	–
Amortisation of bank fees	**0.9**	0.4	**0.9**	0.4
Total interest payable	**23.8**	18.2	**19.8**	10.2
Interest receivable:				
Interest receivable	**(3.8)**	(3.4)	**(6.1)**	(2.5)
Interest receivable on financial assets relating to PFI contracts	**(8.9)**	(7.8)	**–**	–
Total interest receivable	**(12.7)**	(11.2)	**(6.1)**	(2.5)
Change in fair value of PFI interest rate swaps	**2.9**	(6.9)	**–**	–
Net finance charges	**14.0**	0.1	**13.7**	7.7

7 Tax

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

		Group		Company	
		2008 £m	2007 £m	**2008** £m	2007 £m
Current tax:	UK corporation tax at 30% (2007: 30%)				
	– Current year	**5.5**	5.2	**(7.0)**	(4.5)
	– Prior year	**(1.6)**	(0.4)	**(1.4)**	(1.5)
	Double tax relief	**(2.9)**	(2.0)	**–**	–
	Overseas tax				
	– Current year	**10.8**	8.0	**–**	–
	– Prior year	**(2.1)**	1.0	**–**	–
Total current tax		**9.7**	11.8	**(8.4)**	(6.0)
Deferred tax (see note 14)					
– Current year		**2.7**	2.1	**1.5**	1.4
– Prior year		**0.6**	0.9	**–**	–
Total deferred tax		**3.3**	3.0	**1.5**	1.4
Total tax charge (credit) for the year		**13.0**	14.8	**(6.9)**	(4.6)

The tax assessed for the year is higher than the United Kingdom standard rate of tax of 30% (2007: 30%). The differences are explained below:

	Group		Company	
	2008 £m	2007 £m	**2008** £m	2007 £m
Total profit (loss) before tax	**41.3**	46.1	**15.7**	(11.3)
Tax charge (credit) based on UK tax rate	**12.4**	13.8	**4.7**	(3.4)
Effects of:				
Adjustment to tax charge in respect of prior periods	**(3.1)**	1.5	**(1.4)**	(1.5)
Profits taxed at overseas tax rates	**0.1**	0.5	**–**	–
Non-taxable items	**(1.5)**	0.1	**(12.1)**	(0.1)
Unrecognised tax losses	**2.9**	0.4	**1.9**	0.4
Other	**2.2**	(1.5)	**–**	–
Total tax charge (credit) for the year	**13.0**	14.8	**(6.9)**	(4.6)

For both the Group and the Company, in addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations and share-based payments amounting to £4.9m (2007: £0.3m) has been credited directly to equity.

As a result of changes announced in the 2007 Budget, UK corporation tax will reduce from 30% to 28% effective from April 2008 and the deferred tax impact of this has been included above. There will also be a phased withdrawal of industrial buildings allowances over a period of 4 years and a reduction in general pool writing down allowances from 25% to 20% which will be enacted in the Finance Act 2008. It is estimated that this will result in a £25m exceptional tax charge in the year ending 31 March 2009. This principally relates to the non discounted value of tax relief that would have been available on the PFI infrastructure towards the end of the 25 year PFI contracts.

8 Dividends

	Group and Company	
	2008 **£m**	2007 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend paid for the year ended 31 March 2007 of 4.0p per share (2006: 3.8p)	**9.5**	8.9
Interim dividend paid for the year ended 31 March 2008 of 2.0p per share (2007: 1.9p)	**4.8**	4.5
	14.3	13.4
Proposed final dividend for the year ended 31 March 2008 of 4.2p per share (2007: 4.0p)	**9.9**	9.4

9 Earnings per share

	Group	
	2008	2007
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	**236.2**	234.8
Effect of share options in issue	**0.5**	0.8
Weighted average number of ordinary shares for diluted earnings per share	**236.7**	235.6
Calculation of basic and adjusted basic earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**28.3**	31.3
Change in fair value of interest rate swaps (net of tax) (£m)	**2.1**	(4.8)
Amortisation of acquisition intangibles (net of tax) (£m)	**1.9**	0.9
Exceptional profit on disposal of properties (net of tax) (£m)	**(1.9)**	–
Earnings for adjusted basic earnings per share (£m)	**30.4**	27.4
Basic earnings per share (pence)	**12.0p**	13.3p
Adjusted basic earnings per share (pence) (see note below)	**12.9p**	11.7p
Calculation of diluted earnings per share		
Earnings for basic earnings per share being profit for the year (£m)	**28.3**	31.3
Effect of dilutive potential ordinary shares (£m)	**–**	–
Earnings for diluted earnings per share (£m)	**28.3**	31.3
Diluted earnings per share (pence)	**12.0p**	13.3p

The Directors believe that adjusting earnings per share for the effect of the amortisation of acquisition intangibles excluding landfill void and computer software and exceptional items enables comparison with historical data calculated on the same basis. Adjusting for amortisation of acquisition intangibles brings the Group's adjusted measure into line with general practice. Exceptional items are those items that need to be disclosed separately on the face of the income statement because of their size or incidence. Changes in fair values of interest rate swaps that the Group is required to enter into in relation to its PFI arrangements are considered to be exceptional items.

10 Intangible assets

Group	Goodwill £m	Landfill void £m	Other £m	Total £m
Cost				
At 31 March 2006	142.5	–	5.2	147.7
On acquisition of businesses	31.6	20.3	7.3	59.2
Additions	–	–	1.1	1.1
Disposals	–	–	(0.3)	(0.3)
Exchange	(4.0)	–	(0.1)	(4.1)
At 31 March 2007	170.1	20.3	13.2	203.6
On acquisition of businesses	24.9	–	17.4	42.3
Additions	–	–	0.4	0.4
Exchange	30.8	3.6	3.5	37.9
At 31 March 2008	**225.8**	**23.9**	**34.5**	**284.2**
Accumulated impairment/amortisation				
At 31 March 2006	–	–	3.3	3.3
Amortisation charge for the year	–	1.2	1.1	2.3
Disposals	–	–	(0.3)	(0.3)
At 31 March 2007	–	1.2	4.1	5.3
Amortisation charge for the year	–	1.1	2.9	4.0
Exchange	–	0.3	0.9	1.2
At 31 March 2008	**–**	**2.6**	**7.9**	**10.5**
Net book value				
At 31 March 2008	**225.8**	**21.3**	**26.6**	**273.7**
At 31 March 2007	170.1	19.1	9.1	198.3
At 31 March 2006	142.5	–	1.9	144.4

Of the total goodwill of £225.8m (2007: £170.1m), £200.5m (2007: £148.9m) relates to the Netherlands.

Goodwill impairment

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

Other intangible assets impairment

Other intangible assets includes site or waste permits, customer lists and other acquired intangible assets as well as computer software. During the year there has been no indication of any impairment. Accordingly, no impairment review has been carried out.

notes to the financial statements

continued

11 Property, plant and equipment

Group	Land and buildings £m	Landfill sites £m	Plant and machinery £m	Total £m
Cost				
At 31 March 2006	104.4	42.9	299.7	447.0
On acquisition of businesses	16.8	2.5	6.6	25.9
Additions	5.7	1.6	28.9	36.2
Disposals	(0.7)	(0.1)	(24.9)	(25.7)
Reclassification	(4.8)	2.3	0.7	(1.8)
Exchange	(2.7)	(0.8)	(7.3)	(10.8)
At 31 March 2007	118.7	48.4	303.7	470.8
On acquisition of businesses	20.9	–	7.0	27.9
Additions	9.5	2.9	38.9	51.3
Disposals	(1.4)	(0.1)	(9.6)	(11.1)
Exchange	32.2	5.5	52.5	90.2
At 31 March 2008	**179.9**	**56.7**	**392.5**	**629.1**
Accumulated depreciation				
At 31 March 2006	28.4	30.8	204.2	263.4
Depreciation charge for the year	6.6	3.9	19.5	30.0
Disposals	(0.7)	(0.1)	(23.2)	(24.0)
Reclassification	(4.2)	2.3	0.7	(1.2)
Exchange	(0.8)	(0.8)	(4.8)	(6.4)
At 31 March 2007	29.3	36.1	196.4	261.8
Depreciation charge for the year	5.9	1.5	26.9	34.3
Disposals	(0.5)	–	(8.4)	(8.9)
Exchange	14.8	4.9	34.7	54.4
At 31 March 2008	**49.5**	**42.5**	**249.6**	**341.6**
Net book value				
At 31 March 2008	**130.4**	**14.2**	**142.9**	**287.5**
At 31 March 2007	89.4	12.3	107.3	209.0
At 31 March 2006	76.0	12.1	95.5	183.6

Included in plant and machinery are assets held under finance leases with a net book value of £12.0m (2007: £10.3m).

Depreciation expense of £33.4m (2007: £29.1m) has been charged in cost of sales, and £0.9m (2007: £0.9m) in administrative expenses.

Company	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 31 March 2008, 31 March 2007 and 31 March 2006	**0.1**	**0.5**	**0.6**
Accumulated depreciation			
At 31 March 2008, 31 March 2007 and 31 March 2006	**–**	**0.4**	**0.4**
Net book value			
At 31 March 2008	**0.1**	**0.1**	**0.2**
At 31 March 2007	0.1	0.1	0.2
At 31 March 2006	0.1	0.1	0.2

12 Investments

	Group			Company
	Loans to joint ventures £m	Other unlisted investments £m	Total £m	Investments in subsidiary undertakings £m
At 31 March 2006	0.6	2.3	2.9	365.8
Additions	–	–	–	27.3
Repayments or disposals	(0.6)	(0.5)	(1.1)	(13.8)
Provision movement	–	–	–	0.5
At 31 March 2007	–	1.8	1.8	379.8
Additions	–	–	–	223.2
Repayments or disposals	–	(0.4)	(0.4)	–
Provision movement	–	0.2	0.2	(133.4)
At 31 March 2008	**–**	**1.6**	**1.6**	**469.6**

Details of subsidiary undertakings and joint ventures are shown on page 84 and form part of these financial statements.

During the year the Company acquired Shanks Investments from other Group companies in exchange for intercompany loans. Following the acquisition and subsequent dividend distribution, an impairment provision of £134.6m was considered necessary.

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

	2008 £m	2007 £m
Non-current assets	**13.7**	12.1
Current assets	**4.8**	4.3
Current liabilities	**(5.1)**	(3.8)
Non-current liabilities	**(4.2)**	(4.3)
Net assets	**9.2**	8.3
Income	**16.4**	14.5
Expenses	**(11.5)**	(10.6)
Profit before tax	**4.9**	3.9
Tax	**(1.4)**	(1.2)
Share of profit after tax for the year from joint ventures	**3.5**	2.7

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

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

notes to the financial statements

continued

13 Business combinations

(a) On 13 April 2007 the Group entered into a contract to acquire 100% of the share capital of Orgaworld B.V. in the Netherlands, for an initial consideration of £7.3m and with deferred consideration payable over the next five years. Orgaworld is involved in the composting and anaerobic digestion of biodegradable waste. The goodwill recognised is attributable to Orgaworld's strong market position and technological know-how. From acquisition to 31 March 2008, Orgaworld has contributed £7.2m to revenue and £0.4m to profit after tax. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the business, were as follows:

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets	–	6.7	6.7
Property, plant and equipment	13.9	1.0	14.9
Trade receivables	0.8	–	0.8
Current tax receivable	0.3	–	0.3
Cash	0.7	–	0.7
Trade payables	(2.3)	–	(2.3)
Borrowings	(12.6)	–	(12.6)
Deferred tax liabilities	(1.0)	(1.9)	(2.9)
Provisions	(0.1)	–	(0.1)
Net assets acquired	(0.3)	5.8	5.5
Provisional goodwill			14.6
			20.1
Satisfied by:			
Cash consideration			7.3
Deferred consideration (including £10.6m which is conditional)			12.5
Costs incurred			0.3
Total consideration			20.1

(b) On 12 December 2007 the Group acquired 100% of the share capital of Tammer Beheermaatschappij B.V. in the Netherlands, for an initial consideration of £5.6m. Tammer is involved in industrial and commercial waste collection and recycling. The goodwill recognised is attributable to synergies expected to arise post acquisition. From acquisition to 31 March 2008, Tammer has contributed £2.0m to revenue and £0.1m to profit after tax. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the business, were as follows:

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets	–	1.9	1.9
Property, plant and equipment	3.9	1.8	5.7
Trade receivables and other receivables	1.7	–	1.7
Current tax receivable	0.1	–	0.1
Cash	0.4	–	0.4
Trade payables and other payables	(1.2)	–	(1.2)
Borrowings	(5.0)	–	(5.0)
Deferred tax liabilities	(0.5)	(0.9)	(1.4)
Net assets acquired	(0.6)	2.8	2.2
Provisional goodwill			5.4
			7.6
Satisfied by:			
Cash consideration			5.6
Deferred consideration			1.7
Costs incurred			0.3
Total consideration			7.6

13 Business combinations – continued

(c) On 7 November 2007 the Group acquired 100% of the share capital of Wastecom Limited in the United Kingdom, for a consideration of £6.4m. Wastecom is a recycling and waste transfer business. The goodwill recognised is attributable to expected long term synergy benefits from the amalgamation of operations. From acquisition to 31 March 2008, Wastecom has contributed £1.3m to revenue and reduced profit after tax by £0.1m. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the business, were as follows:

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets	–	5.6	5.6
Property, plant and equipment	4.1	1.0	5.1
Trade receivables and other receivables	0.6	(0.1)	0.5
Trade payables and other payables	(0.3)	–	(0.3)
Borrowings	(3.6)	(1.1)	(4.7)
Deferred tax liabilities	–	(1.4)	(1.4)
Net assets acquired	0.8	4.0	4.8
Provisional goodwill			1.6
			6.4
Satisfied by:			
Cash consideration			6.4
Total consideration			6.4

(d) During the period the Group completed the acquisition of five other tuck-in businesses. The goodwill recognised is attributable to synergy benefits through the amalgamation of the acquired businesses with existing businesses. From acquisition to 31 March 2008, the businesses contributed £5.9m to revenue and £0.4m to profit after tax. The aggregate book value of the assets and liabilities acquired and the provisional fair value to the Group, pending completion of the evaluation of the businesses, were as follows:

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Intangible assets	–	3.2	3.2
Property, plant and equipment	1.2	0.1	1.3
Trade receivables and other receivables	0.7	–	0.7
Cash	0.2	–	0.2
Trade payables and other payables	(1.1)	0.1	(1.0)
Deferred tax liabilities	–	(0.6)	(0.6)
Net assets acquired	1.0	2.8	3.8
Provisional goodwill			3.0
			6.8
Satisfied by:			
Cash consideration			6.5
Deferred consideration			0.3
Total consideration			6.8

(e) If all of the acquisitions had been completed on 1 April 2007 instead of the dates above, total Group revenue and Group profit for the year would have been approximately £575.3m and £28.4m respectively on a pro forma basis. The pro forma amounts include the results of the acquired companies from the date of acquisition together with pre-acquisition results from 1 April 2007 to the acquisition date as adjusted for the effect of significant fair value adjustments. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies and businesses.

(f) For acquisitions completed in the year ended 31 March 2007 there have been no amendments to the provisional fair values.

notes to the financial statements

continued

14 Deferred tax

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

Group	Retirement benefit schemes £m	Tax losses £m	Interest rate swaps £m	Capital allowances £m	Other timing differences £m	Total £m
At 31 March 2006	6.5	6.3	2.2	(22.6)	5.1	(2.5)
Acquisitions	–	0.7	–	(8.9)	(3.1)	(11.3)
(Charge) credit to income statement	(1.6)	4.8	(2.0)	3.0	(7.2)	(3.0)
Charge to equity	(0.1)	–	–	–	(0.2)	(0.3)
Exchange	–	–	–	0.3	0.2	0.5
At 31 March 2007	4.8	11.8	0.2	(28.2)	(5.2)	(16.6)
Acquisitions	–	0.1	–	(6.1)	(0.4)	(6.4)
(Charge) credit to income statement	(1.7)	(2.1)	0.8	1.6	(1.9)	(3.3)
Charge to equity	(4.7)	–	–	–	–	(4.7)
Exchange	–	0.5	–	(3.1)	(1.8)	(4.4)
At 31 March 2008	**(1.6)**	**10.3**	**1.0**	**(35.8)**	**(9.3)**	**(35.4)**
Deferred tax assets	**(1.6)**	**2.4**	**1.0**	**(1.8)**	**3.7**	**3.7**
Deferred tax liabilities	**–**	**7.9**	**–**	**(34.0)**	**(13.0)**	**(39.1)**
At 31 March 2008	**(1.6)**	**10.3**	**1.0**	**(35.8)**	**(9.3)**	**(35.4)**
Deferred tax assets	4.8	3.8	0.2	(1.3)	3.3	10.8
Deferred tax liabilities	–	8.0	–	(26.9)	(8.5)	(27.4)
At 31 March 2007	4.8	11.8	0.2	(28.2)	(5.2)	(16.6)

As at 31 March 2008, the Group has unused trading losses (tax effect) of £17.9m (2007: £20.4m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.3m (2007: £11.8m) of such losses. No deferred tax asset has been recognised in respect of the remaining £7.6m (2007: £8.6m) due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

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

Company	Retirement benefit schemes £m	Other timing differences £m	Total £m
At 31 March 2006	6.5	–	6.5
(Charge) credit to income statement	(1.6)	0.2	(1.4)
Charge to equity	(0.1)	(0.2)	(0.3)
At 31 March 2007	4.8	–	4.8
(Charge) credit to income statement	(1.7)	0.2	(1.5)
Charge to equity	(4.7)	(0.2)	(4.9)
At 31 March 2008	**(1.6)**	**–**	**(1.6)**

As at 31 March 2008, the Company has unused tax trading losses (tax effect) of £7.1m (2007: £6.2m) available for offset against future profits. No deferred tax asset has been recognised in respect of the losses due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

15 Inventories

	Group 2008 £m	Group 2007 £m
Raw materials and consumables	**6.6**	5.2
Work in progress	**0.5**	–
Finished goods	**0.6**	0.2
	7.7	5.4

16 Financial instruments

Carrying value and fair value of financial assets and financial liabilities

		Group		Company	
		Carrying value		Carrying value	
Financial assets	Note	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Loans and receivables:					
Financial assets relating to PFI contracts	17	**158.7**	149.9	**–**	–
Trade and other receivables	17	**144.8**	111.4	**184.0**	24.8
Cash and cash equivalents	18	**53.2**	42.7	**37.6**	38.6
		356.7	304.0	**221.6**	63.4

The Group considers that the fair value of financial assets is not materially different to their carrying value.

		Group				Company			
		Carrying value		Fair value		Carrying value		Fair value	
Financial liabilities	Note	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Loans and payables:									
Bank overdrafts and short term loans	19	**–**	2.2	**–**	2.2	**–**	1.0	**–**	1.0
Bank loans	19	**325.2**	253.4	**325.2**	253.4	**116.0**	69.7	**116.0**	69.7
Senior notes	19	**41.1**	35.0	**42.0**	35.9	**12.5**	10.6	**12.6**	10.8
Finance lease obligations	19	**10.1**	9.0	**10.1**	9.0	**–**	–	**–**	–
Trade and other payables	20	**194.0**	129.6	**194.0**	129.6	**379.8**	185.8	**379.8**	185.8
Derivative financial instruments:									
Interest rate swaps	19	**3.5**	0.5	**3.5**	0.5	**–**	–	**–**	–
		573.9	429.7	**574.8**	430.6	**508.3**	267.1	**508.4**	267.3

The fair value of the senior notes is measured by discounting the future cash flows at the market interest rate set by swaps with an equivalent interest pattern. The fair value of interest swaps is measured by reference to the cost of foreclosing the swap position at the year end. None of the change in fair value of interest rate swaps is attributable to changes in the Group's credit risk.

Risk management

The Group is exposed to market risk (interest rate risk and foreign exchange risk), liquidity risk and credit risk. Group Treasury is charged with managing and controlling risk relating to the financing and liquidity of the Group under policies approved by the Board of Directors. Group Treasury does not enter into speculative transactions.

notes to the financial statements

continued

16 Financial instruments continued

Interest rate risk

A substantial part of the Group's borrowings are at floating rates which exposes the Group to interest rate risk. The Group's core borrowings are mainly at floating rates except for the senior notes which are at fixed rates. The debt relating to PFI non-recourse borrowings is at floating rates and the Group has entered into interest rate swaps as a condition of the related debt. The interest rate swaps represent a hedge of the interest cash flows and although hedge accounting under IAS 39 would allow changes in the fair value of interest rate swaps to be recognised directly in reserves, the Group believes that it is not worth expending significant resources fulfilling the onerous documentation requirements of IAS 39. The interest rate swaps are therefore classified as held for trading in accordance with IAS 39. The swaps are presented in non-current liabilities together with the related long term borrowings since the Group believes this best reflects the commercial reality of the instruments.

Changes in interest rates could have a significant impact on banking covenants relating to interest cover and on the interest charge in the income statement. The Group manages this risk by fixing the interest rates on a proportion of its total borrowings. The proportion of borrowings fixed at any one time is dependent on forecast interest rate cover.

In order to measure the risk, borrowings and the expected interest cost for the year are forecast on a quarterly basis and scenarios run using management's expectations of a reasonably possible change in interest rates.

Interest expense volatility remained within acceptable limits throughout the year. The Group's exposure to, and the way it manages interest rate risk has not changed from the previous year.

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

Group	**2008** Floating rate £m	Fixed rate £m	Weighted average interest rate %	2007 Floating rate £m	Fixed rate £m	Weighted average interest rate %
Financial assets:						
Financial assets relating to PFI contracts	**–**	**158.7**	**5.6**	–	149.9	5.6
Cash and cash equivalents	**34.3**	**–**	**–**	17.6	–	–
Short term deposits	**18.9**	**–**	**5.4**	25.1	–	5.3
Financial liabilities:						
Bank overdrafts and short term loans	**–**	**–**	**–**	2.2	–	4.8
Senior notes	**–**	**41.1**	**6.9**	–	35.0	6.9
Bank loans	**325.2**	**–**	**5.5**	253.4	–	5.1
Interest rate swaps	**(123.8)**	**123.8**	**5.3**	(126.6)	126.6	5.3

Excluded from the analysis above is £10.1m (2007: £9.0m) of amounts payable under finance leases as set out in note 19, which are subject to fixed rates of interest. In addition, trade and other receivables and payables have been excluded as they are not interest bearing.

The average term for short-term deposits is no more than seven days.

For the Company, the effective interest rate on short term deposits was 5.4% (2007: 5.3%) with an average term of 1 day (2007: 30 days). The effective interest rate on the Company's cash and cash equivalents was 5.0% (2007: nil). The weighted average effective interest rates relating to the Company were nil (2007: 4.8%) for Euro bank overdrafts, 6.9% (2007: 6.9%) for senior notes and 5.4% (2007: 4.7%) for bank loans.

16 Financial instruments continued

Derivative financial instruments – interest rate swaps

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2008 was £123.8m (2007: £126.6m). The expiry dates of the contracts range from 16 April 2023 (earliest) to 31 March 2025 (latest).

Interest rate sensitivity (assuming all other variables remain constant):

	2008		2007	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
1% increase in interest rates				
Derivatives	**1.3**	**10.0**	1.4	10.5
Non derivatives	**(2.5)**	**(2.5)**	(1.9)	(1.9)
	(1.2)	**7.5**	(0.5)	8.6
1% decrease in interest rates				
Derivatives	**(1.3)**	**(11.2)**	(1.4)	(11.7)
Non derivatives	**2.5**	**2.5**	1.9	1.9
	1.2	**(8.7)**	0.5	(9.8)

Foreign exchange risk

The Group operates in Europe and Canada and is exposed to foreign exchange risk for movements between the Euro, Canadian Dollar and Sterling. The majority of the Group's subsidiaries conduct their business in their respective functional currencies, therefore there is limited transaction risk. Foreign exchange risk arises mainly from net investments in foreign operations. This exposure is reduced by funding the investments as far as possible with borrowings in the same currency. The Group applies hedge accounting principles to net investments in foreign operations and the related borrowings. During the year, the Group acquired Orgaworld which has operations in Canada, exposing the Group to movements in the Canadian Dollar. This foreign investment is hedged through borrowings in Canadian Dollars.

The Group has designated the carrying value of Euro borrowings of £113.5m (2007: £80.3m) (fair value of £113.6m (2007: £80.5m)) as a net investment hedge of the Group's investments denominated in Euros. The hedge was 100% effective (2007: 100%) for the year ended 31 March 2008 and as a result the related exchange loss of £17.1m (2007: £2.6m gain) on translation of the borrowings into Sterling has been recognised in the exchange reserve.

Foreign exchange rate sensitivity (assuming all other variables remain constant):

The following table details how the Group's income and equity would increase if there were a 10% increase in the respective currency against sterling. A 10% decrease would have an equal and opposite effect.

	2008		2007	
	Income sensitivity £m	**Equity sensitivity £m**	Income sensitivity £m	Equity sensitivity £m
10% increase in foreign exchange rates against sterling				
Euro	**3.4**	**8.2**	3.3	7.0
Canadian dollar	**–**	**–**	–	–
	3.4	**8.2**	3.3	7.0

Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due. As well as term borrowing under a syndicated loan facility, the Group maintains uncommitted lending facilities with a range of banks for working capital purposes. The Group manages liquidity risk by monitoring forecast cash flows to ensure that facility draw-downs are arranged as necessary and an adequate level of headroom is maintained. The Group's exposure to, and the way it manages liquidity risk has not changed from the previous year.

16 Financial instruments continued

Undrawn committed borrowing facilities

Group	Core 2008 £m	Core 2007 £m	PFI companies 2008 £m	PFI companies 2007 £m	Total Group 2008 £m	Total Group 2007 £m
Expiring within one year	**–**	–	**–**	–	**–**	–
Expiring between one and two years	**–**	–	**–**	–	**–**	–
Expiring in more than two years	**39.5**	100.1	**18.1**	32.1	**57.9**	132.2
	39.5	100.1	**18.1**	32.1	**57.9**	132.2

In addition, the Group had access to £27.3m (2007: £25.0m) of undrawn uncommitted working capital facilities.

As at 31 March 2008, the Company had undrawn committed borrowing facilities at floating rates of £39.5m expiring in more than two years (2007: £100.1m).

Maturity profile of non-current borrowings

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Between one and two years	**21.1**	6.5	**12.5**	–
Between two years and five years	**246.6**	166.4	**116.0**	80.3
Over five years	**104.1**	98.3	**–**	–
	371.8	271.2	**128.5**	80.3

Security of borrowing facilities

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

Credit risk

Credit risk is the risk of financial loss where counterparties are not able to meet their obligations.

Surplus cash, when not used to repay borrowings, is placed on deposit with banks and money market funds in accordance with a policy that specifies the minimum acceptable credit rating and the maximum exposure to each counterparty. At 31 March 2008 the amount of credit risk totalled £53.2m (2007: £42.7m).

Credit risk on derivatives where the fair value is positive is closely monitored to ensure that it remains within the limits set for each counterparty. At 31 March 2008 the credit risk was £Nil (2007: £0.4m).

Trade and other receivables comprise mainly amounts due from customers for services performed. Management consider that the exposure to any single customer is not significant and that where credit quality is in doubt, adequate provision has been made for probable losses. At 31 March 2008 the credit risk amounted to £144.8m (2007: £111.4m). The Group does not hold any collateral as security.

The financial assets relating to PFI contracts are recoverable from the future revenues relating to the PFI contracts. Management consider that as the counterparties for the future revenues are UK local authorities or councils, there is minimal credit risk. At 31 March 2008, the credit risk was £158.7m (2007: £149.9m).

Capital risk management

The Group maintains a group funding strategy to ensure that the Group maintains an appropriate debt to equity ratio as well as an appropriate debt maturity profile. The strategy is based on the requirements of the Company's Articles of Association, which state that debt should be limited to three times the level of capital and reserves.

The Group's funding strategy has not changed from the previous year.

16 Financial instruments continued

The Group has to comply with a number of banking covenants which are set out in the agreements for bank loans and senior notes. There are financial covenants which are measured using the performance of the Core Group, excluding PFI companies, and relate to interest cover, the ratio of debt to EBITDA and the net worth of the Group. There are other restrictions in the loan documentation concerning acquisitions, disposals, security and other issues. The Group has complied with its banking covenants.

17 Trade and other receivables

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Non-current assets:				
Financial assets relating to PFI contracts	**148.8**	141.7	**–**	–
Other receivables	**1.9**	0.2	**–**	–
	150.7	141.9	**–**	–
Current assets:				
Trade receivables	**129.1**	102.3	**–**	–
Provision for impairment of receivables	**(4.4)**	(4.2)	**–**	–
Trade receivables – net	**124.7**	98.1	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**183.7**	24.5
Financial assets relating to PFI contracts	**9.9**	8.2	**–**	–
Other receivables	**8.5**	4.0	**0.2**	0.2
Prepayments and accrued income	**9.7**	9.1	**0.1**	0.1
	152.8	119.4	**184.0**	24.8

Movement in the provision for impairment of receivables:

	Group	
	2008 £m	2007 £m
At 1 April 2007	**4.2**	4.0
Charged to income statement	**0.8**	0.8
Utilised	**(0.6)**	(0.6)
At 31 March 2008	**4.4**	4.2

Ageing of trade receivables that are past due but not impaired:

	Group	
	2008 £m	2007 £m
Neither impaired nor past due	**57.4**	46.0
Not impaired but overdue by less than 3 months	**64.1**	50.3
Not impaired but overdue by between 3 and 6 months	**2.8**	1.6
Not impaired but overdue by more than 6 months	**0.4**	0.2
Impaired	**4.4**	4.2
Impairment provision	**(4.4)**	(4.2)
	124.7	98.1

notes to the financial statements

continued

17 Trade and other receivables continued

The carrying amounts of trade and other receivables are denominated in the following currencies:

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Sterling	**191.7**	178.2	**84.0**	24.8
Euro	**111.4**	83.1	**99.5**	–
Canadian Dollar	**0.4**	–	**0.5**	–
	303.5	261.3	**184.0**	24.8

18 Cash and cash equivalents

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Cash at bank and in hand	**34.3**	17.6	**32.0**	13.5
Short term deposits	**18.9**	25.1	**5.6**	25.1
	53.2	42.7	**37.6**	38.6

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

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Sterling	**12.4**	30.7	**17.9**	38.2
Euro	**39.6**	11.7	**19.7**	0.4
Canadian Dollar	**1.0**	–	**–**	–
US Dollar	**0.2**	0.3	**–**	–
	53.2	42.7	**37.6**	38.6

19 Borrowings

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Current borrowings:				
Bank overdrafts and short term loans	**–**	2.2	**–**	1.0
Bank loans	**4.5**	24.0	**–**	–
Finance lease obligations	**3.6**	2.7	**–**	–
	8.1	28.9	**–**	1.0
Non-current borrowings:				
Senior notes	**41.1**	35.0	**12.5**	10.6
Bank loans	**320.7**	229.4	**116.0**	69.7
Interest rate swaps	**3.5**	0.5	**–**	–
Finance lease obligations	**6.5**	6.3	**–**	–
	371.8	271.2	**128.5**	80.3

19 Borrowings continued

The carrying amounts of borrowings are denominated in the following currencies:

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Sterling	**133.7**	125.0	**15.0**	–
Euro	**239.3**	175.1	**113.5**	81.3
Canadian Dollar	**6.9**	–	**–**	–
	379.9	300.1	**128.5**	81.3

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

	2008			2007		
Group	**Minimum lease payments £m**	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**4.4**	**(0.8)**	**3.6**	3.1	(0.4)	2.7
Between one and five years	**5.8**	**(0.7)**	**5.1**	6.1	(0.6)	5.5
More than five years	**1.7**	**(0.3)**	**1.4**	0.9	(0.1)	0.8
	11.9	**(1.8)**	**10.1**	10.1	(1.1)	9.0

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

20 Trade and other payables and other non-current liabilities

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Current liabilities:				
Trade payables	**79.9**	52.9	**0.2**	0.3
Other tax and social security payable	**14.1**	12.3	**0.1**	0.1
Other payables	**10.4**	5.8	**0.7**	0.5
Accruals and deferred income	**57.0**	44.8	**2.5**	3.9
Unprocessed waste	**14.1**	11.4	**–**	–
Government grants	**–**	0.1	**–**	–
	175.5	127.3	**3.5**	4.8
Non-current liabilities:				
Amounts owed to group undertakings	**–**	–	**376.3**	181.0
Deferred consideration	**18.2**	2.2	**–**	–
Government grants	**0.3**	0.1	**–**	–
	18.5	2.3	**376.3**	181.0

The carrying amounts of trade and other payables and other non-current liabilities are denominated in the following currencies:

	Group		Company	
	2008 £m	2007 £m	**2008 £m**	2007 £m
Sterling	**33.1**	33.2	**82.8**	66.4
Euro	**160.4**	96.4	**297.0**	119.4
Canadian Dollar	**0.5**	–	**–**	–
	194.0	129.6	**379.8**	185.8

notes to the financial statements

continued

21 Provisions

	Group			Company
	Site restoration and aftercare £m	Other £m	Total £m	Other £m
At 31 March 2007	21.0	7.8	28.8	3.9
Provided – cost of sales	1.2	–	1.2	–
Provided – finance charges	0.8	–	0.8	–
On acquisition of businesses	–	0.1	0.1	–
Utilised	(0.4)	(1.5)	(1.9)	(0.8)
Exchange	3.0	0.4	3.4	–
At 31 March 2008	**25.6**	**6.8**	**32.4**	**3.1**
Current	**0.5**	**3.6**	**4.1**	**3.1**
Non-current	**25.1**	**3.2**	**28.3**	**–**
At 31 March 2008	**25.6**	**6.8**	**32.4**	**3.1**
Current	0.8	5.5	6.3	3.9
Non-current	20.2	2.3	22.5	–
At 31 March 2007	21.0	7.8	28.8	3.9

Site restoration

Site restoration provision as at 31 March 2008 relates to the cost of final capping and covering of the landfill sites. The Group's minimum unavoidable costs have been reassessed at the year end and the net present value fully provided for.

An element of the closing provision relates to costs of £0.5m that are expected to be paid next year. The remaining part of the provision relates to restoration costs that are expected to be paid over a period of up to twenty five years from today. These costs may be impacted by a number of factors including changes in legislation and technology.

Aftercare

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

Other

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

22 Retirement benefit schemes

	Group 2008 £m	Group 2007 £m
UK defined contribution schemes	**0.5**	0.3
UK funded defined benefit schemes	**1.5**	1.4
Overseas pension schemes	**5.7**	4.9
Total pension cost	**7.7**	6.6

(a) United Kingdom

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

Assumptions

The most recent actuarial valuation of the principal funded defined benefit pension scheme operated by the Group dated 5 April 2006 have been updated by independent qualified actuaries to take account of the requirements of IAS 19 Employee Benefits in order to assess the liabilities of these schemes at 31 March 2008. The main assumptions were as follows:

	2008 % p.a.	2007 % p.a.
Discount rate	**6.9**	5.4
Future salary growth	**5.2**	4.7
Rate of increase in pensions payment (fixed 3%)	**3.0**	3.0
Rate of increase in pensions payment (cap 5%)	**3.6**	3.2
Rate of increase in pensions payment (cap 2.5%)	**2.4**	2.4
Rate of price inflation	**3.7**	3.2

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 22 years if they are male and for a further 24 years if they are female. The assumptions used by the independent qualified actuaries are the best estimates chosen from a range of possible actuarial assumptions.

Income statement

		2008 £m	2007 £m
Operating profit	Current service cost	**1.5**	1.4
Other finance items	Interest charge on scheme liabilities	**5.8**	5.1
	Expected return on scheme assets	**(7.2)**	(5.9)
		(1.4)	(0.8)
Net pension cost before tax		**0.1**	0.6

22 Retirement benefit schemes continued

Statement of recognised income and expense

	2008 £m	2007 £m
Loss on actual return less expected return on scheme assets	**(7.6)**	(0.8)
Experience gain arising on scheme liabilities	**0.3**	1.5
Gain (loss) arising on changes in assumptions underlying the present value of the scheme liabilities	**23.3**	(0.2)
Actuarial gain	**16.0**	0.5

Cumulative actuarial gains and losses recognised in the statement of recognised income and expense since 1 April 2004 are £16.0m (2007: £Nil).

History of experience gains and losses

	2008	2007	2006	2005
Market value of scheme assets (£m)	**97.4**	98.4	94.1	71.6
Present value of scheme liabilities (£m)	**(88.0)**	(106.8)	(104.4)	(88.5)
Surplus (deficit) in the schemes (£m)	**9.4**	(8.4)	(10.3)	(16.9)
Experience adjustments arising on scheme assets (£m)	**(7.6)**	(0.8)	11.7	1.8
% of scheme assets	**7.8%**	0.8%	12.4%	2.5%
Experience adjustments arising on scheme liabilities (£m)	**0.3**	1.5	–	0.8
% of scheme liabilities	**0.3%**	1.4%	–	0.9%

Balance Sheet

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

	Expected long term rate of return		Net pension fund		Plan assets as % of total assets	
	2008 % p.a.	2007 % p.a.	2008 £m	2007 £m	2008 %	2007 %
Equities	**8.6**	8.7	**61.9**	65.9	**63.6**	67.0
Government bonds	**4.6**	4.7	**34.8**	30.7	**35.7**	31.2
Corporate bonds	**5.3**	5.4	**0.4**	0.4	**0.4**	0.4
Cash	**6.0**	5.5	**0.3**	1.4	**0.3**	1.4
Total market value of assets			**97.4**	98.4	**100.0**	100.0
Present value of scheme liabilities			**(88.0)**	(106.8)		
Net surplus (deficit) in the schemes			**9.4**	(8.4)		
Related deferred tax (liability) asset			**(2.6)**	2.5		
Net pension asset (liability)			**6.8**	(5.9)		

The overall expected rate of return on scheme assets is 7.1% (2007: 7.4%) and is a weighted average of the expected rates of return on each asset class. The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the schemes as at 31 March 2008.

At 31 March 2008 the IAS 19 net retirement benefit surplus was £9.4m (2007: deficit £8.4m). The change is due to a £19m decrease in liabilities mainly as a result of the increase in discount rate used to calculate the liability at the year end in accordance with the accounting standard. The year end discount rate of 6.9% (2007: 5.4%) reflects corporate bond rates at the year end and has led to a significant movement in the IAS 19 calculation for accounting purposes at 31 March 2008. The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased or decreased by 0.1% the IAS 19 asset would increase or decrease by circa £1.5m.

22 Retirement benefit schemes continued

Movement in scheme assets during the year

	2008 £m	2007 £m
At 1 April 2007	**98.4**	94.1
Expected return on plan assets	**7.2**	5.9
Actual return less expected return on plan assets	**(7.6)**	(0.8)
Employer contributions	**1.9**	2.0
Member contributions	**0.4**	0.4
Benefits paid	**(2.9)**	(3.2)
At 31 March 2008	**97.4**	98.4

Movement in scheme liabilities during the year

	2008 £m	2007 £m
At 1 April 2007	**(106.8)**	(104.4)
Current service cost	**(1.5)**	(1.4)
Interest cost on plan liabilities	**(5.8)**	(5.1)
Experience gains	**0.3**	1.5
Changes in assumptions	**23.3**	(0.2)
Member contributions	**(0.4)**	(0.4)
Benefits paid	**2.9**	3.2
At 31 March 2008	**(88.0)**	(106.8)

The estimated contributions expected to be paid to the schemes in the year ending 31 March 2009 are £2.0m.

(b) Overseas

In the Netherlands, employees are members of either a multi-employer pension scheme or other similar externally funded schemes. These schemes are treated as defined contribution plans as it is not possible to separately identify the Group's share of the assets and liabilities of those schemes. The Group has been informed by the schemes that it has no obligation to make additional contributions in the event that the schemes have an overall deficit. In Belgium, the Group operates small defined contribution schemes. The total cost in the year for overseas pensions was £5.7m (2007: £4.9m).

23 Called up share capital

Group and Company	2008 £m	2007 £m
Authorised 350 million (2007: 350 million) ordinary shares of 10p each	**35.0**	35.0
Allotted, called up and fully paid 237 million (2007: 235 million) ordinary shares of 10p each	**23.7**	23.5

During the year 1,997,798 (2007: 305,385) ordinary shares were allotted following the exercise of options under the Company's Long Term Incentive Plan and Executive and Savings Related Share Option Schemes for an aggregate consideration of £2,346,545 (2007: £371,631). Further disclosures relating to share-based payments are set out in note 5.

notes to the financial statements

continued

24 Statement of changes in shareholders' funds

Group	Share capital £m	Share premium £m	Exchange reserve £m	Retained earnings £m	Total £m
At 31 March 2006	23.5	93.7	5.0	86.4	208.6
Recognised income and expense for the year	–	–	(3.9)	31.7	27.8
Dividends paid	–	–	–	(13.4)	(13.4)
Share-based payments	–	–	–	0.6	0.6
Tax on share-based payments	–	–	–	(0.2)	(0.2)
Issue of share capital	–	0.3	–	–	0.3
At 31 March 2007	23.5	94.0	1.1	105.1	223.7
Recognised income and expense for the year	–	–	28.1	39.6	67.7
Dividends paid	–	–	–	(14.3)	(14.3)
Share-based payments	–	–	–	0.8	0.8
Tax on share-based payments	–	–	–	(0.2)	(0.2)
Other reserves movement	–	–	–	(1.2)	(1.2)
Issue of share capital	0.2	3.4	–	–	3.6
At 31 March 2008	**23.7**	**97.4**	**29.2**	**129.8**	**280.1**

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

Company	Share capital £m	Share premium £m	Retained earnings £m	Total £m
At 31 March 2006	23.5	117.7	51.1	192.3
Recognised income and expense for the year	–	–	(6.3)	(6.3)
Dividends paid	–	–	(13.4)	(13.4)
Share-based payments	–	–	0.6	0.6
Tax on share-based payments	–	–	(0.2)	(0.2)
Issue of share capital	–	0.3	–	0.3
At 31 March 2007	23.5	118.0	31.8	173.3
Recognised income and expense for the year	–	–	33.9	33.9
Dividends paid	–	–	(14.3)	(14.3)
Share-based payments	–	–	0.8	0.8
Tax on share-based payments	–	–	(0.2)	(0.2)
Other reserves movement	–	–	(1.2)	(1.2)
Issue of share capital	0.2	3.4	–	3.6
At 31 March 2008	**23.7**	**121.4**	**50.8**	**195.9**

25 Notes to the cash flow statement

Group	2008 £m	2007 £m
Net cash from operating activities		
Operating profit	**55.3**	46.2
Amortisation of intangible assets	**4.0**	2.3
Depreciation of property, plant and equipment	**34.3**	30.0
Charge for long term landfill provisions	**1.0**	2.1
Exceptional gain on disposal of property, plant and equipment	**(1.9)**	–
Earnings before interest, tax, depreciation and amortisation ("EBITDA")	**92.7**	80.6
Non-exceptional gain on disposal of property, plant and equipment	**(1.2)**	(1.0)
Decrease in provisions	**(1.7)**	(4.3)
Share-based payments	**0.8**	0.6
Operating cash flows before movements in working capital	**90.6**	75.9
(Increase) decrease in inventories	**(1.3)**	3.7
Decrease in receivables	**(14.0)**	(7.3)
Increase in payables	**20.2**	8.9
Cash generated by operations	**95.5**	81.2
Income taxes paid	**(8.4)**	(9.9)
Net cash from operating activities	**87.1**	71.3

Consolidated movement in net debt

	2008 £m	2007 £m
Net increase (decrease) in cash and cash equivalents	**5.9**	(16.6)
Increase in borrowings and finance leases	**(39.6)**	(62.5)
Amortisation of loan fees	**(0.9)**	(0.4)
Exchange (loss) gain	**(31.8)**	4.0
Change in fair value of interest rate swaps	**(2.9)**	6.9
Movement in net debt	**(69.3)**	(68.6)
Net debt at beginning of year	**(257.4)**	(188.8)
Net debt at end of year	**(326.7)**	(257.4)

Analysis of net debt

	At 31 March 2008 £m	At 31 March 2007 £m
Cash and cash equivalents	**53.2**	42.7
Current borrowings	**(8.1)**	(28.9)
Non-current borrowings	**(371.8)**	(271.2)
Total Group net debt	**(326.7)**	(257.4)

	At 31 March 2008 £m	At 31 March 2007 £m
Core Business net debt	**(211.7)**	(134.0)
PFI companies net debt	**(111.5)**	(122.9)
Total Group net debt before fair value of interest rate swaps	**(323.2)**	(256.9)
Fair value of PFI interest rate swaps	**(3.5)**	(0.5)
Total Group net debt	**(326.7)**	(257.4)

notes to the financial statements

continued

26 Capital commitments

Group	2008 £m	2007 £m
Contracts placed for future capital expenditure on financial assets	**11.0**	23.6
Contracts placed for future capital expenditure on property, plant and equipment	**15.5**	4.9
Share of joint venture future capital expenditure	**0.6**	2.4

The Company had no capital commitments (2007: £Nil).

27 Financial commitments

Group	2008 £m	2007 £m
Commitments under non-cancellable operating leases expiring:		
Within one year	**6.8**	5.0
Later than one year and less than five years	**33.0**	17.9
After five years	**48.9**	44.9
	88.7	67.8
Future minimum lease payments expected to be received under non-cancellable sub-leases	**(1.4)**	(2.9)
	87.3	64.9

The Company has commitments under non-cancellable leases of £0.5m expiring after five years (2007: £0.6m).

28 Contingent liabilities

Group and Company

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

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

The Company has given guarantees in respect of the Group's and subsidiary undertakings' bank borrowing facilities totalling £28.6m (2007: £24.6m).

Joint Ventures

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

29 Related party transactions

(a) Transactions between the Company and its subsidiaries

A list of the Company's principal subsidiaries is set out on page 84. Transactions with subsidiaries relate to interest on intercompany loans and management charges. Net interest expense was £11.2m (2007: £4.9m) and management charges received were £2.0m (2007: £2.1m). Total outstanding balances are listed in notes 17 and 20.

(b) Remuneration of key management personnel

Key management comprises the Board of Directors. The disclosures required by the Companies Act 1985 and those specified by the Financial Services Authority relating to Directors' remuneration (including pension benefits and incentive plans), interests in shares, share options and other interests, are set out within the Remuneration Report on pages 34 to 39, and form part of these financial statements.

During the year Mr P Delaunois, a non-executive Director of the Group, received £14,000 (2007: £40,000) for consultancy services provided to the Belgian subsidiaries. Mr P Delaunois is a shareholder and director of S.A. CGO and the fees were paid to this company.

30 Post balance sheet events

On 1 April 2008 the Group acquired 100% of the share capital of the Foronex group for a cash consideration of £10.4m. Foronex is a leading player in the wood waste and by-products market in the Benelux. The purchase price allocation, including the fair value of the individual assets and liabilities has not been finalised.

subsidiary undertakings and joint ventures

at 31 March 2008

Subsidiary undertakings

The Company held, through wholly owned subsidiaries, 100% of the issued share capital of the following principal trading subsidiaries, all of which have been consolidated in the Group's financial statements.

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

Joint Ventures

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

	% Group holding	Most recent year end	Country of incorporation
Avondale Environmental Limited	50%	31 March 2008	UK
Caird Bardon Limited	50%	31 December 2007	UK
Geohess (UK) Limited	50%	31 December 2007	UK
Silvamo n.v.	50%	31 December 2007	Belgium
Marpos n.v.	45%	31 December 2007	Belgium

consolidated five year financial summary

at 31 March 2008

	2008 IFRS £m	2007 IFRS £m	2006 IFRS £m	2005 IFRS £m	2004 UK GAAP £m
Consolidated income statement					
Revenue	**563.7**	508.5	442.5	420.4	409.6
Trading profit from continuing operations before exceptional items	**55.9**	47.3	38.9	36.0	31.8
Finance charges – interest	**(8.5)**	(5.8)	(4.2)	(4.7)	(12.2)
Finance charges – other	**(2.6)**	(1.2)	(0.7)	(0.6)	(1.0)
Profit from continuing operations before exceptional items and tax (Headline Profit)	**44.8**	40.3	34.0	30.7	18.6
Amortisation of acquisition intangibles	**(2.5)**	(1.1)	–	–	–
Exceptional items	**(1.0)**	6.9	(3.7)	(11.0)	–
Goodwill amortisation	**–**	–	–	–	(10.0)
Profit before tax from continuing operations	**41.3**	46.1	30.3	19.7	8.6
Tax	**(13.0)**	(14.8)	(10.5)	(7.1)	(5.0)
Profit after tax from continuing operations	**28.3**	31.3	19.8	12.6	3.6
Profit after tax from discontinued operations	**–**	–	10.6	65.0	5.6
Profit for the year	**28.3**	31.3	30.4	77.6	9.2
Consolidated balance sheet					
Non-current assets	**726.6**	561.8	466.0	433.7	549.7
Other assets less liabilities	**(119.8)**	(80.7)	(68.6)	(66.0)	(103.3)
Net debt	**(326.7)**	(257.4)	(188.8)	(178.7)	(309.1)
Net assets	**280.1**	223.7	208.6	189.0	137.3
Share capital and share premium	**121.1**	117.5	117.2	116.6	116.5
Reserves	**159.0**	106.2	91.4	72.4	20.8
Total equity	**280.1**	223.7	208.6	189.0	137.3
Financial ratios					
Adjusted basic earnings per share	**12.9p**	11.7p	9.6p	8.7p	8.9p
Basic earnings per share	**12.0p**	13.3p	13.0p	33.1p	3.9p
Dividends per share	**6.2p**	5.9p	5.7p	5.7p	5.7p

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

notice of annual general meeting

Notice is hereby given that the Annual General Meeting of Shanks Group plc will be held at the offices of Royal Bank of Scotland/ABN Amro, 250 Bishopsgate, London, EC2M 4AA on 24 July 2008 at 11.00 a.m. for the purpose of transacting the following business:

Ordinary business

Resolutions 1 to 6 will be proposed as ordinary resolutions.

(1) To receive the audited accounts for the year ended 31 March 2008 together with the Directors' and Auditors' Reports thereon.

(2) To approve the Directors' Remuneration Report for the year ended 31 March 2008.

(3) To declare a final dividend of 4.2 pence per ordinary share of the Company for the year ended 31 March 2008.

(4) To elect Mr Tom Drury as a Director of the Company.

(5) To re-elect Mr Adrian Auer as a Director of the Company.

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

Special business

Resolutions 7 and 12 will be proposed as ordinary resolutions and resolutions 8 to 11 as special resolutions.

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

"THAT, in substitution for any previous authority under section 80 of the Companies Act 1985 (the "Act"), the Directors be generally and unconditionally authorised, pursuant to section 80 of the Act, to exercise all the powers of the Company to allot relevant securities (within the meaning of that section of the Act) up to an aggregate nominal amount of £7,896,000 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) on the date being fifteen months from the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company next held following the passing of this resolution, save that the Company may make an offer or agreement before such expiry which would or might require relevant securities to be allotted after the expiry of this authority and the Directors may allot relevant securities pursuant to such offer or agreement as if the authority conferred hereby had not expired."

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

"THAT, subject to the passing of resolution 7 set out in the notice of the annual general meeting of the Company convened for 24 July 2008, the Directors be empowered, pursuant to section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (within the meaning of section 94 of the Act) wholly for cash pursuant to the authority conferred on them by such resolution 7 and/or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act, as if section 89(1) of the Act did not apply to any such allotment, provided that this power is limited to:

(a) the allotment of equity securities in connection with a rights issue, open offer or other pre-emptive offer in favour of holders of ordinary shares in the capital of the Company (excluding any holder holding shares as treasury shares) on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date subject to such exclusions or other arrangements in connection with the rights issue or other offer as the Directors deem necessary or expedient:

(i) to deal with equity securities representing fractional entitlements; or

(ii) to deal with treasury shares; or

(iii) to deal with legal or practical problems arising in any overseas territory, the requirements of any regulatory body or any stock exchange or any other matter whatsoever; and

(b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal amount of £1,184,000;

but so that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on the date being fifteen months from the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company next held following the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after the expiry of this power and the Directors may allot equity securities pursuant to such offer or agreement as if the power conferred hereby had not expired".

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

"THAT the Company be and is generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of section 163(3) of the Act of ordinary shares in the capital of the Company provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased shall be 23,690,000 (being approximately 10% of the Company's issued ordinary share capital at the date of passing of this resolution);

(b) the maximum price which may be paid for an 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 ordinary share is purchased, and the minimum price which may be paid for an ordinary share is an amount equal to the nominal value of the share (in each case exclusive of associated expenses); and

(c) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or on 23 January 2010, whichever is the earlier, but a contract of purchase may be made before such expiry which will or may be completed wholly or partly thereafter, and a purchase of ordinary shares may be made in pursuance of any such contract."

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

"THAT the Articles of Association produced to the meeting, marked "A" and initialled by the Chairman of the meeting for the purpose of identification, be adopted as the Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association of the Company."

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

"THAT, subject to resolution 10 set out in the notice of annual general meeting of the Company convened for 24 July 2008 being passed and with effect from 12.01 a.m. on 1 October 2008 (or such later date as section 175 of the Companies Act 2006 shall be brought into force), Article 99 of the Company's Articles of Association adopted pursuant to such resolution 10 be deleted in its entirety and replaced by Article 99 as set out in the document produced to the meeting marked "B" and, for the purposes of identification, initialled by the Chairman of the meeting."

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

“THAT in accordance with section 366 of the Companies Act 2006 the Company and its subsidiaries be and are hereby authorised:

(i) to make political donations to political parties, political organisations and/or independent election candidates, not exceeding £25,000 in total; and
(ii) to incur political expenditure, not exceeding £25,000 in total,

during the period beginning on the date of the passing of this resolution and ending on the earlier of eighteen months from the date of this resolution and the conclusion of the Company’s annual general meeting to be held in 2009”.

For the purpose of this resolution the terms “political donation”, “political parties”, “independent election candidates”, “political organisation” and “ political expenditure” have the meanings given by sections 363 to 365 of the Companies Act 2006.

By Order of the Board

Philip Griffin-Smith
Company Secretary
29 May 2008

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

Appendix to the notice of annual general meeting

Allotment of Shares (Resolutions 7 and 8)

The Directors may not allot new shares in the Company unless authorised by shareholders in general meeting. Resolution 7 seeks authority to allot new shares up to the maximum nominal value of £7,896,000 representing approximately 33.33% of the nominal value of the Company’s issued share capital (excluding treasury shares) as at the close of business on 27 May 2008, being the latest practicable date prior to the publication of this document. The Company does not currently hold any shares in treasury and there are no plans at present to issue new shares, except as needed to satisfy the exercise of options under the Company’s employee share schemes. If the Directors wish to allot new shares for cash, the Companies Act 1985 states that the new shares must be offered first to existing shareholders in proportion to their existing shareholdings. An offer of this type is called a ‘rights issue’ or an ‘open offer’ and the shareholders’ entitlement to be offered the new shares is known as a ‘pre-emption right’. For legal, regulatory and practical reasons, however, it might not be possible or desirable for new shares allotted by means of a rights issue or open offer to be offered to certain shareholders, particularly those resident overseas. Furthermore, it might in some circumstances be in the Company’s interests for the Directors to be able to allot some shares for cash without having to offer them first to existing shareholders. To enable this to be done, shareholders’ statutory pre-emption rights must be disapplied.

Accordingly resolution 8 seeks to empower the Directors to allot equity securities as if shareholders’ statutory pre-emption rights did not apply to such allotment:

(a) sub-paragraph (a) of resolution 8 seeks authority for the Directors to make any arrangements which may be necessary to deal with any legal, regulatory or practical problems arising from a rights issue, open offer or other pre-emptive offer in favour of ordinary shareholders, for example, by excluding certain overseas shareholders from such issue or offer; and

(b) sub-paragraph (b) of resolution 8 seeks the disapplication of shareholders’ statutory pre-emption rights by empowering the Directors to allot shares for cash on a non-pre-emptive basis but only for new shares with a maximum aggregate nominal value of £1,184,000 which is equivalent to approximately 5% of the Company’s issued share capital prior to the publication of this document. The authority under resolution 8 would also cover the sale of treasury shares for cash.

Both resolutions 7 and 8 are in line with standard practice and the guidelines issued by the Investment Committees of the Association of British Insurers and the National Association of Pension Funds. Resolution 8 also has regard to the Pre-Emption Group's 2006 Statement of Principles on Disapplying Pre-Emption Rights.

The proposed authorities under resolutions 7 and 8, if granted, will apply until the date being fifteen months from the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company next held following the passing of these resolutions.

Purchase of Own Shares (Resolution 9)

The Companies Act 1985 permits a company to purchase its own shares provided the purchase has been authorised by shareholders in general meeting. Resolution 9, if passed, would give the Company the authority to purchase its own issued ordinary shares at a price of not less than ten pence per share and not more than 5% above the average of the middle market quotations of the Company's ordinary shares as shown on the London Stock Exchange Daily Official List for the five dealing days before the purchase is made. The authority would be to purchase a maximum of approximately 10% of the Company's ordinary share capital in issue on 27 May 2008, being the latest practicable date prior to the publication of this document, and would expire at the end of the next annual general meeting or on 23 January 2010, whichever is the earlier. The Directors' present intentions are that in certain circumstances it may be advantageous for such purchases to be made if they believe that they are generally in the best interests of the shareholders and (except in the case of purchases intended to satisfy obligations under share schemes) the expected effect of any purchase would be to increase earnings per share of the remaining shares.

The Directors would only exercise the authority after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, the expected effect on the return on embedded value and the overall financial position of the Group. Purchases would be financed out of distributable profits and shares purchased would either be cancelled and the number of shares in issue reduced accordingly or held as treasury shares. As at 27 May 2008, there were options and LTIP awards over 3.1m ordinary shares in the capital of the Company which represent 1.3% of the Company's issued ordinary share capital (excluding treasury shares). If the authority to purchase the Company's ordinary shares were exercised in full, those options would represent 1.5% of the Company's issued ordinary share capital (excluding treasury shares). As at 27 May 2008, being the latest practicable date prior to the publication of this document, the Company did not hold any treasury shares and no warrants over ordinary shares in the capital of the Company existed.

Adoption of new Articles of Association (Resolutions 10 and 11)

The Directors believe that the Articles of Association of the Company should be updated to reflect and take full benefit of some of the new provisions of the Companies Act 2006 Act (the "2006 Act") which have been brought in to effect to date. There have also been a number of other legislative, regulatory and best practice developments since the Company's Articles of Association were adopted that the Board believes should be reflected in the Company's Articles of Association. Accordingly, the Board considers it prudent to replace the Company's existing Articles of Association with new Articles which take account of those developments (the "New Articles").

The 2006 Act represents a major reform of UK companies' legislation and is being brought into force in stages, beginning in January 2007 with full implementation scheduled by October 2009. Over the course of the next year the Company intends to conduct a further review of the New Articles in order to identify any additional amendments that might be necessary following the full implementation of the 2006 Act in October 2009. It is the Board's intention that any further amendments will be put to shareholders at the annual general meeting in 2009. A copy of the New Articles and a copy of Article 99 identified in resolution 11 will be available for inspection from the date of this document until the conclusion of the annual general meeting during normal business hours on any weekday at the registered office of the Company and at the offices of Dickson Minto WS at Royal London House, 22-25 Finsbury Square, London EC2A 1DX. The New Articles will also be available for inspection at any time until the conclusion of the annual general meeting on the Company's website www.shanks.co.uk and shall be available at the venue of the annual general meeting from 15 minutes prior to and until the conclusion of the meeting. The principal changes arising from the adoption of the New Articles, other than changes which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act, are set out below. References to Article numbers are references to a particular Article in the New Articles.

notice of annual general meeting

continued

Articles that duplicate statutory provisions

Certain provisions in the current Articles which replicate provisions contained in companies legislation are in the main amended to bring them into line with the 2006 Act. Certain examples of such provisions, including provisions as to convening general meetings and proxies, are detailed below.

Treasury Shares

Since 1 December 2003, listed companies that buy back shares out of distributable profits have been able to hold up to 10% of the nominal value of their issued share capital in treasury, rather than having to cancel them. Treasury shares can provide some useful flexibility to companies as they may sell treasury shares in small amounts and without the need to incur the costs of a new share issue in order to raise additional capital. Consequential amendments have been made in the New Articles to reflect the treasury shares regime.

Uncertificated Shares

The existing Articles do not contain detailed provisions dealing with the holding of shares in uncertificated form and the rules governing the CREST uncertificated securities system set out in the Uncertificated Securities Regulations 2001 (the "2001 Regulations"). Various provisions are therefore included in the New Articles to accommodate this matter (in particular, Articles 14 and 34). However, there is nothing in the New Articles which obliges shareholders to hold their shares through CREST and shareholders may continue to hold their shares in certificated form should they so wish.

Electronic Communications and CREST

The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems for communication with shareholders and for dealing in shares through CREST. Companies have been able to communicate with shareholders by electronic means (i.e. email) in respect of certain types of information for some years. However, the 2006 Act extends this to all shareholder information (including company notices, documents and other information) and enables a company to invite shareholders to agree that information may be supplied by means of a website. The New Articles allow the Company to take advantage of the changes in the 2006 Act which may lead to administrative cost savings in the future. The 2006 Act enables the Company to use electronic communications with shareholders as the default position by placing documents on the Company's website unless shareholders expressly elect to receive hard copy documents. It is important to note that before implementing the default position the Company is required to write to all shareholders to give them the opportunity to decide whether they would prefer to receive documentation in hard copy form. Various provisions are included in the New Articles to allow the Company to communicate with shareholders via electronic means and to give the Directors the discretion to use electronic communications to distribute notices of meetings, annual reports, accounts and summary financial statements. The New Articles also reflect the 2001 Regulations and the 2006 Act by permitting members holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

In addition, the New Articles simplify procedures for transacting the business of the Board by permitting the convening of meetings, serving of notice of resignation, appointment of alternates and execution of Directors' resolutions by electronic means.

Form of resolutions

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished under the 2006 Act. Meetings of shareholders other than annual general meetings are referred to simply as "general meetings". Any resolution requiring a 75% majority will be a "special" resolution. Where for any purpose an ordinary resolution is required a special resolution shall also be effective.

Convening of general meetings and annual general meetings

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. An annual general meeting still requires 21 clear days' notice.

Votes of members

Under the 2006 Act proxies are entitled to vote on a show of hands whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so that weekends and bank holidays do not need to be counted in determining the time limits for lodging of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or class of shares held by the shareholder.

Corporate representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. However, where multiple corporate representatives exercise votes in different ways, the 2006 Act provides that no votes have been exercised. The New Articles reflect the provisions of the 2006 Act.

Age restriction on directors

The existing Articles provide that no person shall be appointed or reappointed to the Board once they have attained the age of 65 years and any person attaining such age shall vacate his or her office at the next annual general meeting held after his or her 65th birthday. This has been deleted in the New Articles as it may fall foul of age discrimination legislation.

Retirement of directors by rotation

The Combined Code on Corporate Governance recommends that all Directors must submit themselves for election at every third annual general meeting following the meeting at which they were elected or last re-elected. The New Articles reflect this position and delete reference to retirement by rotation.

Conflicts of interest

The New Articles retain the provisions of the existing Articles in relation to Directors' conflicts of interest. However, it is intended that with effect from 1 October 2008 these provisions will be amended to reflect new provisions of the 2006 Act in relation to Directors' conflicts of interests which are expected to come into force on that date. The 2006 Act sets out Directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a Director of another company or a trustee of another organisation. The 2006 Act allows Directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. The 2006 Act also allows articles to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision, the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate. It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at Board meetings and the availability of Board papers to protect a Director being in breach of duty if a conflict of interest or a potential conflict of interest arises. Resolution 11 proposes that the New Articles will, with effect from 1 October 2008, contain provisions giving the Directors authority to approve situations involving Directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board.

Borrowing Powers

The New Articles contain (at Article 101) a provision regulating the Board's authority to authorise the Company to borrow money. It permits borrowing of up to 3 times the level of the Company's "adjusted capital and reserves" without further shareholder approval. A similar provision is set out in the current Articles. However, the method of calculating the "adjusted capital and reserves" and the definition of "borrowings" has been updated in the New Articles to reflect current practice. The updates are generally of a technical nature although there are some commercial changes. For example, in calculating the reserves no account will be taken of any retirement scheme surplus or deficit. The calculation of the limit of borrowings is also adjusted so that items such as cash in hand, cash deposits, short term assets and any security deposit in the nature of cash or short term assets lodged in security of the obligations of a member of the Group are credited against the amount of borrowings when determining whether the relevant limit has been exceeded.

notice of annual general meeting

continued

Indemnity

The 2006 Act allows companies to indemnify their Directors and other officers and to provide to their Directors funds to cover the costs of defending legal proceedings brought against them on an "as incurred" basis. In addition, a company may indemnify the Directors of an associated company (including directors of an associated company that is a trustee of an occupational pension scheme in respect of any liability incurred by the Director in connection with the company's activities as trustee of the scheme). Since Directors are increasingly being added as defendants in actions against companies and litigation is often very lengthy and expensive, the Board believes the risk of Directors being placed under significant financial strain is increasing. This may impact on the ability of the Company to recruit and retain members of the Board of an appropriate calibre. Accordingly, the New Articles take advantage of the new law. The Board believes that the power of the Company to indemnify its Directors in the manner described above is fair and reasonable and introduces a more appropriate balance of risk and reward.

Political donations (Resolution 12)

The majority of the Companies Act 2006 provisions on political donations, sections 362-379, came into force on 1 October 2007. As with the Companies Act 1985, a company may not make a political donation or incur political expenditure unless it has been authorised by ordinary resolution or the political donation does not exceed £5,000 when aggregated with all Group political donations in the past twelve months. Whilst it remains the Company's policy not to make political donations or to incur political expenditure the terms "political donation", "political parties", "independent election candidates", "political organisation" and "political expenditure" are widely defined in the Companies Act 2006, and it is possible that the definitions may include activities which the Company might carry on in the ordinary course of its business, such as participation in functions attended by politicians or participation in review of Governmental policy or law reform. Therefore, in common with other companies, the Company is seeking shareholder approval, on a precautionary basis and to avoid unwitting contravention of the Companies Act 2006, to incur a level of expenditure to cover these activities. Any donations made or expenditure incurred under the authority will be disclosed in the Company's next annual report.

Notes:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he/she is the holder. A form of proxy for use by shareholders in connection with the meeting is enclosed with this document. The form of proxy should be deposited with the Company's registrar, Computershare Investors Services PLC at PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ no later than 11.00 am on 22 July 2008.

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

3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

4. The statement of the rights of shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons.

5. To be entitled to attend and vote at the Annual General Meeting, and for the purpose of the determination by the Company of the votes they may cast, shareholders must be registered in the Register of Members of the Company by 6.00pm on 22 July 2008 (or, in the event of any adjournment, 6pm on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

6. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that corporate shareholder present at the meeting then, on a poll, those corporate representatives will give voting directions to the chairman of the meeting and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting to be held on 24 July 2008 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provide(s), should refer to their CREST sponsor or voting service providers, who will be able to take appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) takes such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular times. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the uncertificated Securities Regulations 2001.

8. As at 27 May 2008 (being the latest practicable date prior to the publication of this document), the Company's issued capital consisted of 236,928,379 ordinary shares, carrying one vote each. Therefore, the total number of voting rights in the Company as at 27 May 2008 was 236,928,379 votes.

Documents on display

Copies of the following documents are available for inspection at the registered office of the Company and at the offices of Dickson Minto W.S, 22/25 Finsbury Square, London, EC2A 1DX during normal business hours, Monday to Friday (public holidays excepted) up to and including the date of the annual general meeting and at the place of the annual general meeting from fifteen minutes prior to and until the close of the meeting: (i) executive directors' contracts of service; (ii) non-executive directors' letters of appointment; (iii) current Articles of Association of the Company; (iv) a draft of the proposed New Articles of Association of the Company; (v) a draft of proposed replacement Article 99.

shareholder information

at 31 March 2008

Analysis of shareholders as at 31 March 2008

	Holders	%	Shares held	%
Private shareholders	2,012	62.1	10,070,467	4.3
Corporate shareholders	1,229	37.9	226,857,912	95.7
	3,241	100.0	236,928,379	100.0

Size of shareholding	Holders	%	Shares held	%
1 – 5,000	2,472	76.3	4,284,045	1.8
5,001 – 25,000	439	13.5	4,600,220	1.9
25,001 – 50,000	77	2.4	2,879,488	1.2
50,001 – 100,000	61	1.9	4,324,434	1.8
100,001 – 250,000	76	2.3	12,684,846	5.4
250,001 – 500,000	39	1.2	13,749,995	5.8
over 500,000	77	2.4	194,405,351	82.1
	3,241	100.0	236,928,379	100.0

Registrar services

Administrative enquiries concerning shareholdings in the Company should be made to the Registrar, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Computershare can also be contacted by telephone on 0870 707 1290.

Shareholders can also manage their holding online by registering at www-uk.computershare.com/investor.

Shareholders who do not currently have their dividends paid directly to a bank or building society account and who wish to do so should complete a mandate form obtainable from Computershare. Tax vouchers are sent to the shareholder's registered address under this arrangement, unless requested otherwise. Shareholders are strongly encouraged to receive their cash dividends by direct transfer as this ensures dividends are credited promptly and efficiently.

If you receive more than one copy of our Annual Report, it may be that your shares are registered under two or more names. Should you wish to combine such holdings into a single account please contact Computershare.

Low cost share dealing service

Pershing Securities Limited offer an execution only, low cost postal share dealing service for UK resident investors, should they so wish, to buy or sell small certificated holdings of Shanks Group plc ordinary 10 pence shares. Further information may be obtained from the Pershing Securities telephone helpline on: 020 7661 6617.

Shareholder warning – unsolicited mail

In recent years many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turns out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offer of free company reports.

If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation and make a record of any information they give you;
- check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register;
- the FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted UK investors. Any approach from such an organisation should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml or if you do not have internet access, on 0845 606 1234; and
- inform our Registrars on 0870 707 1290.

Details of any sharedealing facilities that the Company endorses will be included in Company mailings. More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/consumer

Share price information

On 31 March 2008, the middle market price of Shanks Group plc ordinary 10 pence shares was 260 pence per share, having varied during the year between a low of 195 pence and a high of 281 pence.

The ISIN code for the Company's ordinary shares is GB0007995243 and the SEDOL (Stock Exchange Official Daily List) number is 0799524. Share price information on Shanks Group plc is widely available in the financial press and on financial websites.

ShareGift

If shareholders have only a small number of shares whose value makes it uneconomic to sell, they may wish to consider donating them to the charity ShareGift (registered charity no. 1052686). Further information may be obtained from their website at www.sharegift.org or by calling 020 7930 3737.

Company Websites

The Shanks Group plc website, containing Company details, financial information and current news can be found at www.shanks.co.uk. The website for Shanks companies within Belgium can be found at www.shanks.be and that for the Netherlands at www.shanks.nl

financial calendar

9 July 2008	Ex-dividend date for final 2008 dividend
11 July 2008	Record date for final 2008 dividend
24 July 2008	Annual General Meeting
1 August 2008	Payment of final 2008 dividend
November 2008	Announcement of interim results and dividends
January 2009	Payment of interim dividend
31 March 2009	2009 financial year ends
June 2009	Announcement of 2009 results and dividend recommendation

company information

CORPORATE HEAD OFFICE*

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

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

REGISTERED OFFICE

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Shanks House
211 Blochairn Road
Blochairn
Glasgow G21 2RL

Registered in Scotland No. 77438

GROUP COMPANY SECRETARY

Philip Griffin-Smith, FCIS

*Corporate Head Office relocating to Dunedin House, Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire, MK1 1BU in Summer 2008.

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Fax: 00 44 (0) 1908 650699

corporate advisers

Auditors
PricewaterhouseCoopers LLP

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

Financial Advisers
Greenhill & Co International LLP

Solicitors
Ashurst LLP
Dickson Minto W.S.

Corporate Brokers
Hoare Govett Limited

Financial Public Relations Advisers
Citigate Dewe Rogerson

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