

Operating Review

DCC Environmental

DCC Environmental is a leading British and Irish provider of recycling, waste management and resource recovery services to the industrial, commercial, construction and public sectors, operating in both the non-hazardous and hazardous segments of the market. In the last year DCC Environmental handled approximately 1.3 million tonnes of waste through its twenty one facilities in Britain and Ireland.

Markets and Market Position

Britain

Operating under the William Tracey brand in Scotland, Wastecycle in the East Midlands and Oakwood Fuels nationally in waste oil collection, DCC Environmental collects and processes a broad range of non-hazardous and hazardous waste.

DCC Environmental is a market leader in non hazardous waste management in Scotland operating a comprehensive infrastructure across the central belt, including one of the largest material recycling facilities in Britain in Linwood, close to Glasgow airport. The facilities process waste collected by both company owned and third party vehicles into valuable commodities which can be used as a substitute for virgin materials. Whilst residual material continues to be sent to landfill, DCC Environmental is constantly looking to reduce the proportion of waste that cannot be recycled or utilised for its energy content. In that regard, DCC Environmental has recently commenced the export of processed material to Sweden for energy recovery and, as highlighted in the case study, is continuously investing in its recycling infrastructure to ensure the highest level of recycling.

DCC Environmental is also a market leader in non-hazardous waste management in the East Midlands where it operates three material recycling facilities in Nottingham and Leicester along with a civic amenity site on behalf of Nottingham City Council. Similarly to Scotland, the business processes a broad range of waste streams with the added capacity to process waste not suitable for recycling into a fuel which is used by the cement industry. In hazardous waste management, DCC Environmental is a market leader in

Scotland and the north of England with three dedicated facilities providing a wide range of treatment solutions for hazardous waste. In addition, DCC Environmental is a leading national collector of waste oils, which are brought back to its facility in Nottinghamshire where they are converted into a fuel which can be used as a substitute for heavy fuel oil.

Overall, the British business handles 1.2 million tonnes of material, the majority of which is collected by its own fleet of 236 vehicles, and 72% of all waste volumes are diverted from landfill. Recovery percentages depend on the mix of material with the highest percentage achieved from construction material.

The British waste market has been challenging over the past year, with the recessionary environment resulting in a decline in waste volumes and the wider global malaise driving down recycle prices. However, the backdrop for DCC Environmental remains positive, with both the British Government and the EU striving for continuous improvement in waste management, which ideally suits DCC Environmental with its comprehensive recycling infrastructure and absence of any landfill capacity. In 2011, the most recent year for pan European statistics, the United Kingdom landfilled 49% of municipal waste, well ahead of many of its peers, and the EU is striving to totally eliminate landfill as an option for the disposal of waste. This was illustrated in a European Parliament debate in May 2012 when MEP's voted overwhelmingly in favour of proposals contained in the 'Report on a Resource-Efficient Europe', which articulated plans put forward by the European Commission to entirely phase out landfill.

There is an excellent regulatory backdrop in Scotland with the devolved Government leading the way in advanced waste policy as articulated in the Zero Waste Scotland plans. From January 2014, all business in Scotland must present metals, plastics, glass and card for separate collection. In addition, businesses in non-rural areas which produce over 50kg of foodwaste a week must also present this for separate collection. This will broaden to include all businesses producing 5kg of food waste from January 2016. DCC Environmental sees exciting opportunities arising from these new regulations and is active in ensuring that it is appropriately resourced to capitalise on the regulations.

Ireland

DCC Environmental's Irish business operates under the Enva brand which is recognised as Ireland's leading hazardous waste treatment company. Enva operates from six EPA/NIEA licensed sites in both the Republic of Ireland and Northern Ireland, offering technically innovative solutions to a wide range of waste streams for both multinational and indigenous clients. It has an in-house infrastructure to treat a broad range of materials including waste oil, contaminated soils, bulk chemicals and contaminated packaging. In cases where it is unable to treat the waste itself, it has relationships with a network of European based companies to provide a range of solutions for hazardous waste which are not available in Ireland.

Enva's water treatment division provides specialty chemicals, equipment and professional services to the drinking, industrial and waste water sectors. The division operates an in-house manufacturing facility as well as an INAB accredited laboratory to support these services.



Revenue

€142.4m

2012: €132.7m

Change on prior year

Reported: +7.3%

Constant currency: +1.6%

Operating profit

€13.4m

2012: €14.2m

Change on prior year

Reported: -6.0%

Constant currency: -11.7%

Return on total capital employed

8.3%

2012: 10.2%

Brands

Enva*, Wastecycle*, Tracey*, Oakwood*.

* DCC owned brands



Operating Review

DCC Environmental (continued)



Case Study

WASTECYCLE'S UPGRADED MATERIAL RECYCLING LINE

Nottingham City Council collects recyclable waste from households and delivers to Wastecycle who sort the material and identify outlets for the sale of the recyclable materials. During the year, Wastecycle invested in new equipment which has allowed for the processing of a broader range of materials. The equipment includes infrared optical sorters to separate paper and plastic, ballistic separators to separate 2 and 3 dimensional material, eddy current separators to separate aluminium and steel in addition to traditional magnets. Many trade waste customers (offices, retail) segregate their waste into recyclable and non recyclable waste but many others for a variety of reasons, such as lack of space, are unable to do so and historically little value was extracted from these customers' waste. Wastecycle is pioneering the split of these customers into 'clean' and 'dirty' collection rounds and are now processing the clean rounds through the same infrastructure as the local authority recyclable material, thereby greatly reducing the proportion of waste sent to landfill.

The Irish waste market is valued at approximately €1 billion. The economic recession, and the collapse in activity in the construction sector, has seen significant contraction particularly in the non-hazardous market but DCC Environmental's Irish business has been protected through its focus on the niche hazardous sector and through developing innovative solutions for hazardous waste.

Strategy and Development

DCC Environmental's strategy continues to be to grow its position as a leading broadly based waste management and recycling business in Britain and Ireland by positioning the business to take advantage of the trend towards more sustainable waste management, with a particular emphasis on resource recovery and recycling. The strategy includes delivering superior value adding services to all its customers by way of a deep understanding

of their requirements and the development of innovative solutions to their problems. Furthermore, DCC Environmental is aligning its business to support the transition to a low carbon economy through a focus on resource rather than waste, developing internal climate change expertise and continually improving its recycling capability.

Customers

DCC Environmental provides recycling, waste management and resource recovery services to the industrial and commercial, construction and public sectors.

Revenue split by customer

Industrial and commercial	67%
Construction and demolition	19%
Public sector	14%



The customer base is quite fragmented, with the ten largest customers accounting for approximately 19% of total revenue in the year ended 31 March 2013. Many of the customers have been with DCC Environmental for a long time, in some cases over 30 years, and the business has developed a deep understanding of their requirements.

Our People

DCC Environmental's management have deep industry knowledge with the former owners of the businesses still with the Group. Each company seeks to develop their employees as illustrated by a policy of promoting from within the organisation wherever possible. Employee engagement is critical and employee surveys are undertaken. In addition the businesses are constantly striving for excellence in health and safety to ensure that a safe place of work is provided to all employees. Each company has a dedicated human resources department.

DCC Environmental currently employs 893 people.

Key Risks

Similar to all businesses within the Group, DCC Environmental faces a number of strategic, operational, compliance and financial risks.

The construction sector is an important market for DCC Environmental and this sector is particularly sensitive to changes in the economic backdrop, as has been the case in recent years.

DCC Environmental has an exposure to movements in both recycle and oil commodity prices.

Every effort is made to minimise the interaction of heavy plant and people but given the nature of its operations, it is impossible to eliminate entirely and this gives rise to the risk of accidents.

Sustainability

Noting its position at the heart of society's move to a more sustainable future, DCC Environmental is constantly seeking ways to reposition itself from a linear to

DCC Environmental: Key Financial Performance Indicators

Strategic objective	KPI	Performance		
Drive for enhanced operational performance	Revenue growth (constant currency)	<div><div></div></div> €142.4m 2013	<div><div></div></div> €132.7m 2012	
		Constant currency 2013 v 2012: +1.6%		
Drive for enhanced operational performance	Operating profit growth (constant currency)	<div><div></div></div> €13.4m 2013	<div><div></div></div> €14.2m 2012	
		Constant currency 2013 v 2012: -11.7%		
Grow operating margin	Operating margin	<div><div></div></div> 9.4% 2013	<div><div></div></div> 10.7% 2012	
Deliver superior shareholder returns	Return on capital employed ('ROCE')	<div><div></div></div> 8.3% 2013	<div><div></div></div> 10.2% 2012	
Drive for enhanced margins	Recycling/recovery %	<div><div></div></div> 69% 2013	<div><div></div></div> 74% 2012	
Generate cash flows to fund organic and acquisition growth and dividends	Operating cash flow	<div><div></div></div> €21.5m 2013	<div><div></div></div> €21.7m 2012	
Deliver superior shareholder returns	10 year operating profit CAGR	<div><div></div></div> 14.9% 2013	<div><div></div></div> 22.3% 2012	

circular economy where resources are continuously reused thereby reducing the need for virgin materials and reducing carbon emissions.

During the year there has been an increase in focus on energy efficiency across the companies, including the sharing of best practice between the businesses, possibly best illustrated by a carbon reduction day in Scotland with some excellent suggestions coming from employees.

Disappointingly a prohibition notice was issued by the HSE in the course of a routine visit to one of Wastecycle's Leicester facilities. Corrective action was immediately taken and the notice was lifted within 24 hours. Lessons have been learned and actions taken to prevent a reoccurrence.

Within our Scottish business, a number of infringements of environmental licence conditions resulted in a downgrading of our 'excellent' regulatory rating. Steps have been put in place to ensure that there

will be no infringements of environmental licence conditions in the future.

Performance For The Year Ended 31 March 2013

DCC Environmental experienced a decline in operating profit with difficult market conditions in both Britain and Ireland.

In Britain, the non hazardous waste business was impacted by increased price competition driven by a reduction in the volume of waste nationally and also by a reduction in income from the sale of recyclates as commodity prices fell. Notwithstanding this difficult backdrop, the business in Scotland performed well with operating profit ahead of the prior year. Price competition was also intense in the hazardous sector, which suffered from a reduction in demand due to the challenging economic climate.