

# Biffa Financial Publication

December 2009

## Walker Guidelines: Biffa Group Limited 2009/10 Mid-Year Update

This is the second mid-year update Biffa has published. The year since the last one has been characterised by very challenging economic conditions which I and my leadership team have been strenuous in confronting. Our efforts to reduce our cost base with a view to preserving profitability have been matched by the progress we have made in pursuing our strategy for growth particularly in the areas of bringing new capital assets on stream.

Biffa is the leading nationwide integrated waste management business in the UK. We operate across the breadth of the waste management value chain, a position which we are reinforcing as we change the way we look at waste and move the business to focus on resource management and energy generation.

The business provides waste collection, transfer and logistics, recycling, treatment, recovery and disposal services, together with the management of hazardous waste and the provision of a range of environmental services, details of which can be found at [www.biffa.co.uk](http://www.biffa.co.uk). We provide these services to almost 65,000 local, regional and national customers across the full range of business sectors in the UK. We also have a significant presence in the public sector, providing street cleansing, waste collection, recycling, recovery and disposal services to over 30 local authorities and a wide range of other public bodies. We also continue to be a significant producer of renewable energy with over 100MW of installed capacity.

The management of waste in the United Kingdom has experienced significant change, with the UK government supporting stronger regulation over the treatment of waste within the waste management sector driven by EU legislation and committing to increases in landfill taxes.

Our overall strategy is to focus on the future growth areas of recycling, alternative disposal and energy generation facilities, while also utilising the transfer of know how from our existing facilities that we have developed, in order to meet landfill diversion targets.

### Strategy

The period since Biffa was taken private (on April 7th 2008 by a consortium led by Montagu Private Equity and Global Infrastructure Partners in a £1.7bn transaction) has been dominated by structural change and accelerated business development, in an economic climate dominated by recession and significant reductions in the quantities of waste generated across all sectors of the economy. This has created an added urgency to put in place cost reductions and efficiency improvements designed to sustain the existing business whilst creating a platform for growth as economic conditions improve in 2010 and beyond.

Our focus is to create an organisation founded on recovering the intrinsic value of waste, through recycling and energy recovery. We will deliver this through the provision of new services to our customers that are designed to facilitate recycling within all business sectors and at all scales of operation; from major nationwide multi-location organisations to the smallest SME. After recycling, we will recover energy from residual wastes, maximizing the recovery through anaerobic digestion, advanced conversion processes and energy from waste facilities.

We will seek to become a business that is easy to do business with and will strive to deliver customer centricity throughout the organisation. We will provide a range of services that reflect and deliver the needs of business and local government in a carbon and resource constrained economy, and seek to make these the best in class in terms of performance, efficiency and sustainability.

**the  
Power  
behind  
Waste**

**Biffa**

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Reflecting this strategic change we have adopted the slogan: "**the power behind waste**" and this will become increasingly visible in our marketing, product literature, web site and activities from the beginning of 2010.

## Current developments

We have restructured our waste collection operations, creating a hub and spoke structure that now enables us to optimize the route efficiencies of our 1,400 trucks, organise the management of waste containers through regional centres, and deliver best in class service to our customers; currently running at an average of 99%. We are seeking to repeat this success of hub and spoke on our Resource Recovery and Landfill Division.

We have increased the size of our sales force and customer support functions, both designed to win and retain more business, and have integrated all of our waste transfer operations in order to optimise logistical control over material and resource flows. We continue to pursue our policy of internalisation thereby maximising the proportion of waste we collect going to our own landfills.

Through the deployment of robust and systematic assessment criteria we have secured a number of strategic partnerships with technology providers; recycling and mechanical processing of waste, anaerobic digestion, gasification and energy from waste. In each case we have selected the best possible partner, based on performance, delivery and engineering capability. We are now positioned to deliver a very wide range of technologies, in a variety of combinations and scales that will maximise recycling and energy recovery rates, and minimise the future need for wastes to be landfilled.

We are now actively seeking out new opportunities across a significantly wider range of business and local government sectors than ever before. This is alongside the development of new merchant facilities which will be fed from waste already managed on behalf of our customers. We are close to completing the construction of a 200,000 tonnes per annum materials recycling facility at Trafford Park, Manchester. This state of the art plant will be the largest in the UK and will operate with the minimum levels of manual sorting and achieve recycling rates in excess of 90%. This coincides well with the growth in the value of commodities that we have seen over the past few months and as parts of the global economy come out of recession and return to growth.

We are commencing the development of an 80,000 tonnes per annum anaerobic digestion plant in Cannock, Staffordshire, which will receive source segregated food and organic wastes. We have announced plans to develop energy from waste plants in Leicestershire and Hertfordshire, with a combined capacity of 700,000 tonnes per annum.

Our renewable energy generation business remains highly profitable and despite decreases in gas production from our landfill sites, an inevitable consequence of the reduction in the quantities of waste received and the removal of food waste for recycling, we are on target to achieve the generation of close to 700,000 MWh of renewable electricity this year. Future growth will come from the development of more anaerobic digestion capacity, and ultimately from the use of advanced conversion processes including gasification.

We have also set about restructuring our Chemical Treatment business, integrating the transport elements within our collection and logistics business, and the chemical waste treatment activities into our growing waste treatment operations. The majority of the structural change has been completed and the management systems and processes are being refined and improved.

Alongside all of these exciting developments, we remain focused on managing income and cash generation, a key element of our ability to continue to invest in new infrastructure.

The economic conditions have had a significant effect on the company, as the quantities of waste generated by our business and local government customers have declined; in some sectors by up to 30%, reflecting the depth of the recession and their individual focus on cutting waste and costs. For the less fortunate there have been many business liquidations. However, we are starting to see these

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downward trends beginning to arrest particularly within the local account customer arena and expect to see some slow recovery in 2010. We remain committed to driving costs out of the business, through a combination of smart and green procurement, which will see benefits for many years to come.

## Financial Results

In the year ending 27 March 2009, Biffa Group Limited achieved revenue of £788.4m and EBITDAP<sup>1</sup> of £184.0m, up 1.5% and 3.9% respectively on previous year.

The full audited Annual Accounts of Biffa Group Limited, including a business review, for the year ending 27 March 2009 can be found on our website at [www.biffa.co.uk/docs/BGL\\_2009\\_ACCOUNTS\\_signed.pdf](http://www.biffa.co.uk/docs/BGL_2009_ACCOUNTS_signed.pdf).

Revenue and EBITDAP declined in the first half due to the severe economic conditions. Our financial results for the six months to the end of September 2009 reflect this downturn in the economy, with revenue and EBITDAP lower than last year's levels principally lead by weaker volumes offset partially by early management actions delivered on cost reduction programmes.

While I expect recovery to be slow in 2010, I remain confident of the medium and long-term growth opportunities for the Group, supported by our cost reduction plans which are yielding good results and the benefits expected from the roll-out of our strategic capital investment programmes.

## People

The primary focus in the 6 months since April 2009 has been the recruitment of additional sales resource. The last cohort of recruits entered the business in September and following induction and intensive training are helping us to recover the ground lost in the first half year.

We are also continuing to recruit into our development and engineering teams but elsewhere in the organisation there has inevitably been redundancies and headcount reductions in response to efficiency improvements and declining waste volumes. It has been a period of considerable change in the organisation to which our staff have had to respond. However, in these very extreme economic conditions the changes made have been essential for the well-being of the business and we will be well placed to drive growth as conditions improve and this will in-turn improve job confidence and security.

The individuals from the private equity consortium who oversee Biffa as board members of Biffa Group Limited are Jason Gatenby and Heidi Duckworth until December 17th 2009 and thereafter, following her departure on maternity leave, Mark Dunfoy from Montagu Private Equity and Matthew Harris and Bill Woodburn from Global Infrastructure Partners.

## Environment, Health & Safety

Protection of the environment is a key parameter in the business and through a scorecard of metrics we continuously monitor performance across all of our activities. We have seen significant improvements in our performance as measured by the Environment Agency this year. However, in the half year we have been prosecuted twice by the Environment Agency for earlier offences; at our chemical treatment plant at Wednesbury, and at our now closed and former landfill site at Elvaston, Derbyshire. We therefore need to do more in this area so that we place protection of the environment at the centre of our decision making with the objective of raising further our standards of performance to become best in class. In so doing we will provide confidence and reassurance to both our regulators and those who live in the communities in which we operate, now and in the future.

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The health and safety of our employees and all those affected by the way we conduct our operations is paramount. In the first half of the year RIDDORs (Reportable Injuries) were reduced by nearly 40% on the previous year. We strive to improve this further across all our business units.

## Prospects

My thanks go to our staff for the dedication they show to Biffa's business. With their help, management focus on performance improvement and the right strategy which we have in place, I am confident of continuing progress for the Biffa Group.

**Andre Horbach**  
**Chief Executive Officer**

<sup>1</sup> EBITDAP represents earnings before interest, tax, depreciation, amortisation, environmental provisions includes dividends from joint venture arrangements and excludes the effects of exceptional costs.