YORWASTE AND SJB RECYCLING TRADING UPDATE

Sandy Boyle, Managing Director, will be in attendance to present this report.

Yorwaste Limited Shareholder Committee

17th December 2019

1. Introduction

Yorwaste is a Teckal Company owned by North Yorkshire County Council (NYCC 77%) and City of York Council (CYC 23%), operating over 30 sites, and employing around 300 staff who manage over 400,000 tons p.a. of waste and recyclate.

Yorwaste operates Waste Transfer Stations (WTS), Materials Recycling Facilities (MRF), Green Waste Composting, and HWRCs for both NYCC and CYC. It also manages the closed landfill aftercare obligations at a number of sites including Harewood Landfill (which closed to general waste in March of this year).

Yorwaste also operates a commercial waste collection business, generating contribution to the operating costs of the WTSs and MRFs. This is in addition to the shareholder benefit from maximising the Tier Band 2 tonnage to Allerton Waste Recover Park (AWRP).

This report provides an update on progress against the current year's financial plan, the highlights of the current year, and the challenges the Company faces over the period of the next financial plan.

2. Current Year Financial Performance

Unaudited Year to Date financial performance for 7 months to October 2019:

£'000s	ACTUAL	BUDGET	*Variance*
GROSS REVENUE	**26,365**	**24,983**	***1,382***
Disposal Costs	(12,668)	(10,562)	*(2,106)*
NET REVENUE	**13,697**	**14,421**	***(724)***
Operating Costs	(13,539)	(13,858)	*319*
PROFIT BEFORE TAX & INTEREST	**158**	**563**	***(405)***
Interest & FRS12 Unwind	(462)	(451)	*(11)*
PROFIT BEFORE TAX	**(304)**	**112**	***(416)***

Yorwaste core operations generally performed well, however, due to the impact of a facility closure; external commodity prices; and two waste fires; the company is currently showing a loss, a position that is forecast to worsen over the remainder of the year.

The performance in the Transfer Segment has been strong with additional tonnage and improved gross margin, bulk haulage has also performed in line with budget which is a major improvement compared to recent years.

Harewood MRF has performed above budget with significant improvement in recycling recovery following the recent investment; however, performance at Harewood compost has been less favourable due to problems in producing PAS100 that were exacerbated by equipment failures.

HWRC activity has been broadly on budget and central costs have been tightly controlled. Commercial Transport has been performing well in a challenging market and is currently broadly on budget despite increasing competition, however the out-turn for the rest of the year is less certain.

Unfortunately, this positive picture has been negated by the poor performance of the Seamer MRF where excessive downtime from outdated equipment has forced its early closure. The full year positon will also carry an adverse cost for sub-contracting existing contracts till the end of March which will also see an end to the adverse impact of the facility.

The business also experienced two waste fires, one at Seamer Carr, the other at Tancred and whilst both sites were up and running within 24 hours, there have been significant costs in repairing damage. Both fires are thought to have resulted from Lithium Ion batteries combined with bulky storage and plans to reduce the risk are underway.

Whilst the day-to-day operations of the Landfill, Restoration and Aftercare (LRA) segment have been broadly in line with budget, the revenues from gas production are significantly down against budget due primarily to the budget assuming higher volumes from the recently completed phases. Market prices are also below budget expectations and neither these, nor volumes, and expected to improve for the remainder of the year (ie the variance against budget will increase). Next year’s budget will be more modest in its assumptions and has been informed by an independent external assessment of future gas volumes.

3. Highlights of the current year

"Stabilise, Optimise, and Prepare" well underway

Last year's business plan outlined the priorities for Yorwaste as stabilise, optimise, and prepare and we are pleased to report progress on these.

This year has seen a return to stability following two years of significant and destabilising change (including transition from landfill operator to transfer operator, Todd's acquisition, departure of MD and FD, management rationalisation and restructure, and implementation of new operational IT system).

Health & Safety has improved and the company was awarded a ROSPA Silver award and is currently focused on achieving ISO 45001. This is supported with the rollout of the current best practice behavioural approach to safety management.

Operational uptime has improved across almost all of the Company (with the notable exception of Seamer MRF), and operational delivery is far better and more consistent than in 2018/19.

In parallel, the completion of Purgo phase 1 (the new operational IT system) has provided the management information required for the optimisation of sales activity, pricing, and operational delivery in route optimisation. Combined with the roll-out of c-track vehicle monitoring we are also improving transport efficiency and safety.

The "Race for Waste" is gathering pace.

Whilst internally the company is now on a more stable operational footing, the external market environment continues to intensify. Over the past 6 months, we have seen incursions into our territory from new players on many sides. The "Race for Waste" nationally is symptomatic of increasing industry consolidation and on a local basis the need to secure fuel for the significant increase in regional EfW capacity.

Within the CYC area, Yorwaste partnered with the CYC led tender to win the York BID business. Unfortunately, this was awarded to Forge, a relatively small operator with aggressive pricing. This has the potential to impact the commercial collections volumes of both CYC and Yorwaste but especially CYC where retention of a significant number of customers may be at risk. This level of commercial pressure is unlikely to abate anytime in the near future.

Impact of Government Waste Strategy slowly evolving.

Last December the Government unveiled its new waste strategy and consultations are continuing. The impact of the Government Waste Strategy is still unclear with differing views on the likelihood of separate food waste collections, and the viability of a common recycling collection process.

Yorwaste has been working closely with Local Authority customers to identify the issues, model options, and ensure we have plans in place to respond to the outcome of those consultations.

4. Challenges for the next Financial Plan.

Defend and expand Commercial Collection volumes

In response to the Race for Waste, Yorwaste needs to both defend and expand it's commercial collections volumes. As a result, it plans to increase its sales force and target new areas adjacent to its Teckal boundaries.

Review of the current Teckal funding arrangement

With the transition to the new operating model complete, the loss of landfill represents both a profit and cash challenge to the business that needs addressing. This is exacerbated by the reduction in landfill gas revenues, which will continue to decline significantly over the next couple of years, and is expected to be of no economic value by 2027.

Whilst the immediate liquidity of the Company is not a concern, Yorwaste needs to increase revenue over the coming years and this is the key challenge being discussed at Board level and with both Shareholders and both Local Authority clients.

Sjb Recycling Limited Shareholder Committee

17th December 2019

1. Introduction

SJB currently operates three sites (based at Yorkshire Water waste plants) providing green waste composting services to local authorities. This report provides an update on progress against the current year's financial plan, and the challenges the Company currently faces.

2. Current Year Financial Performance

Unaudited Year to Date financial performance for 7 months to October 2019:

£'000s	ACTUAL	BUDGET	*Variance*
GROSS REVENUE	**1,567**	**2,040**	***(473)***
Disposal Costs	(420)	(652)	*232*
NET REVENUE	**1,146**	**1,388**	***(242)***
Operating Costs	(986)	(948)	*(38)*
PROFIT BEFORE TAX & INTEREST	**160**	**440**	***(280)***
Interest & FRS12 Unwind	(1)	-	*(1)*
PROFIT BEFORE TAX	**159**	**440**	***(281)***

The assumptions underpinning the have fundamentally changed and whilst it had been expected that two of the largest contracts would be out for re-tender in fiscal Q1 (April to June), neither have yet been concluded nor are likely to conclude before fiscal Q4. As a results assumptions tied to those retenders, which included significant price increases, are no longer valid.

3. Future Challenges

In previous reports, we advised that the change to the EA guidelines have ceased the use of co-composting of greenwaste with sewerage sludge, which has effectively undermined the SJB operating model. Previously the co-composting allowed a lower processing and disposal cost, but now compost needs around 50% more processing time and has to comply with PAS 100 in order to be sold as a product. This increases processing costs and reduces the throughout at sites.

The combination of increased costs and reduced throughput has made two of the three sites commercially unviable and they are now in the process of closing. This third site is still commercially viable but is heavily reliant on the retendering of major contracts in fiscal Q4.