



Augean PLC is a market-leading UK based specialist waste and resource management group delivering a broad range of services to the hazardous waste sector. The Group offers commercial and compliance led solutions in a complex, legislation driven market.



## Financial highlights

- > 2% increase in turnover to £26.6m (2005: £26.1m)
- > 14% increase in turnover excluding landfill tax to £21.4m (2005: £18.9m)
- > 24% increase in operating profit before goodwill amortisation and exceptional items to £4.6m (2005: £3.7m)
- > 4% increase in profit before tax, goodwill amortisation and exceptional items to £3.6m (2005: £3.4m)
- > 35% increase in adjusted earnings per share to 5.6p (2005: 4.1p)
- > 37% increase in operating cash flow before provisions to £10.3m (2005: £7.6m)

## Operational highlights

- > Appointment of Peter Worlledge as chief executive with significant sales and marketing skills
- > Strategic review complete – sector provides significant opportunity for organic and acquisitive growth
- > Hazardous void increased by 3.7m m<sup>3</sup> to 7.0m m<sup>3</sup> by re-designation of non-hazardous void as part of asset development strategy
- > Acquisition and integration of Credential hazardous waste treatment business
- > IMS accreditation achieved in the landfill division
- > Terramundo land remediation centre at Port Clarence under construction



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## At a glance

Augean PLC is a market-leading UK based specialist waste and resource management group delivering a broad range of services to the hazardous waste sector. The Group offers commercial and compliance led solutions in a complex, legislation driven market.

Augean provides an integrated service to clients in treatment, transfer, landfill disposal and recycling operations. These are organised into two principal divisions:

### Treatment division

The treatment division is operated from three specialist facilities providing a range of process and transfer solutions to a diverse range of clients. The sites are located at Cannock, Hinckley and Worcester and operate under strict PPC permits and waste management licences. The division has the capability to handle a wide range of material delivered in a variety of forms from containers or packaging through to bulk transport. The waste streams vary from wastes originating in schools and universities, such as redundant laboratory chemicals and fluorescent tubes, across the spectrum to wastes from the chemical and pharmaceutical industries, including waste solvents, distillation residues, contaminated packaging and PPE. The sites operate strict input and process control procedures to ensure that each waste received is handled in the safest manner and tracked through the facilities providing detailed technical data throughout the process.

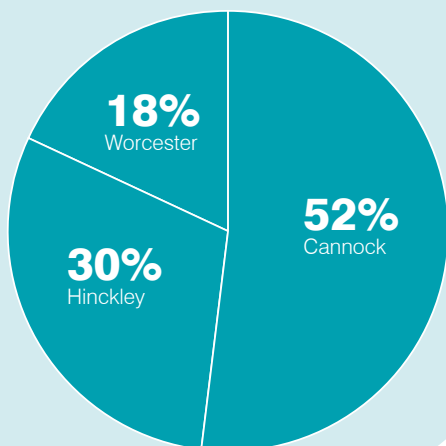


### Landfill division

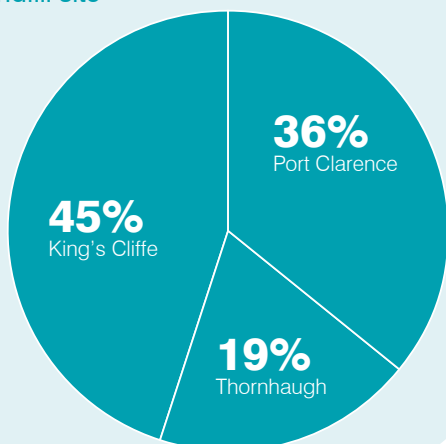
The landfill division operates three modern hazardous waste landfill installations. Each site is engineered to the prescribed standards and operated and monitored under strict PPC permits. The sites are strategically located with Port Clarence providing capacity in the North East of England near Middlesbrough and both King's Cliffe and Thornhaugh in the South East near Peterborough. The landfills are permitted to handle a wide variety of hazardous materials which comply with the site's waste acceptance procedures. The sites have the capability to accept a broad range of waste including contaminated soil, fibrous and bonded asbestos, treatment residues and filter cakes. The division is supported by the laboratory services team which operates an advanced laboratory at King's Cliffe providing waste testing and compliance services. The division is to broaden its services in 2007 with the development of the Terramundo joint venture, a land remediation and recycling facility under construction at Port Clarence.



### Treatment division turnover by site



### Hazardous waste volumes by landfill site



*"When we created this business barely two years ago it was in the expectation that we could develop a company within the hazardous waste sector which could, over time, become the leader in its sector. Like any new, developing business we have faced a number of challenges, not all of which had favourable outcomes. We have met those challenges head on and refined or adjusted our operations to best suit the way we can offer our customers a more effective service."*

**David Williams**  
Chairman

*"The landfill market is stabilising and with the introduction of complementary services such as the Terramundo facility and shipping logistics the outlook is more encouraging in 2007. The treatment division offers exciting growth opportunities as the market moves from a low technology base to one of sustainable process technology."*

**Peter Worlledge**  
Chief executive

## Chairman's statement



We believe that the market is now settling down after its initial rush of new legislation and this has given us time to understand it better and to make the adjustments which we believe are necessary for the future.

Turnover for the year ended 31 December 2006 increased from £26.1m to £26.6m. Excluding landfill tax, this represents a 14% increase year on year. Operating profit before the amortisation of goodwill increased by 7% from £3.7m to £4.0m and, if exceptional items are excluded, by 24% to £4.6m. Earnings per share, adjusted for the amortisation of goodwill and exceptional items, rose by 35% from 4.1p per share to 5.6p per share.

Landfill tax is charged on the basis of tonnage deposited in our landfill sites and increased in April 2006 from £18 per tonne to £21 per tonne; it will be increased again to £24 per tonne in April of this year. A small portion of the landfill tax we collect is retained for use on supporting local projects within the vicinity of our landfill sites. Much good work has been done in these areas.

The business review which follows my report gives you a good idea of what has been happening during the last year, both to our company and to the hazardous waste sector in general.

When we created this business barely two years ago it was in the expectation that we could develop a company within the hazardous waste sector which could, over time, become the leader in its sector.

This new sub-sector within the waste industry has been created as a result of changes in legislation by re-categorising certain types of waste such that they can only be disposed of in licensed hazardous landfill sites. Like any new, developing business we have faced a number of challenges, not all of which had favourable outcomes. We have met those challenges head on and refined or adjusted our operations to best suit the way we can offer our customers a more effective service. As an example we had not initially anticipated the need for so much pre-treatment of waste as new legislation was quickly introduced causing a demand for this. We moved swiftly to secure the acquisition of businesses in this area allowing us to offer this service to customers which had hitherto not been required. Our ability to move fast when new legislation is introduced is one of our strengths.

Similarly as the market place in our sector continued to change it was necessary to make changes to our board and key personnel. We now enter 2007 with a team with strong sales and marketing skills. In short we believe that the market is now settling down after its initial rush of new legislation and this has given us time to understand it better and to make the adjustments which we believe are necessary for the future.



*“Our objective of developing Augean as the leading company in the hazardous waste sector continues. We have now resolved the internal issues, the market for our services is more defined and our strong cash flow allows us the opportunity to pursue more acquisitions. We look forward to a good 2007 for your company.”*

The strong position we hold in the hazardous waste market coupled with our financial strength and future potential have not gone unrecognised during the year under review. One51 Limited, a company based in Dublin, acquired a significant equity stake in late 2006. This company has a waste division amongst its businesses and we welcome it as a shareholder.

Changes to our board have been dealt with in the business review but I would like to add my thanks to those departed and my wishes for much success to those joining us. A special thank you particularly to Clive Gilham, who did so much good work on an interim basis before handing over the financial reins to Peter Southby.

Our objective of developing Augean as the leading company in the hazardous waste sector continues. We have now resolved the internal issues, the market for our services is more defined and our strong cash flow allows us the opportunity to pursue more acquisitions. We look forward to a good 2007 for your company.

**David Williams**

Chairman

20 March 2007

## Business review



### Introduction

2006 proved to be a difficult year for Augean. Some of the challenges the group faced were market-driven but others should have been foreseen. Hindsight reveals shortcomings in the forecasting process which led to the trading statement issued in October 2006. In common with other parties in the sector, the group had failed to anticipate the impact of the further tightening of the regulatory regime in July 2006 which resulted in a significant downturn in volumes of chemical waste into landfill for the remainder of the year. Poor forward market visibility also handicapped the group's ability to anticipate reduced volumes of construction-related wastes in the second half. This led to a disappointing result for the full year which the board believes does not reflect the underlying capability of the business.

In October 2006 John Huntington stepped down and Roger McDowell moved from non-executive director to interim chief executive with a brief to undertake a review of the group's assets, improve the core business processes and lead the search for a new chief executive. The new executive team also includes Peter Southby who took up his appointment as finance director on the same day and Paul Blackler who subsequently joined the board as commercial director. Together the directors have made significant progress towards realising these goals. Specifically, the team has completed the asset review, concluded a rigorous budgeting round, improved processes around forecasting and successfully recruited Peter Worlledge whom the board welcomes as chief executive, further strengthening management capability to deliver future growth. Peter has impressive

Augean has made some real progress during the year, with strong cash generation, further development of treatment through the Credential acquisition, the Terramundo facility and confirmation of significant increase in the hazardous void space at Port Clarence.

experience in sales and marketing and will be focusing on driving volumes through our treatment and landfill businesses.

Notwithstanding the difficulties, Augean has made some real progress during the year, with a strong cash generation performance, further development of the treatment division through the acquisition of the Credential hazardous business, commencement of construction of the Terramundo facility and confirmation of significant increase in the hazardous void space at the Port Clarence site. These and other highlights are covered in more depth in this report.

Importantly 2006 also saw the last stage of implementation of the Hazardous Waste Regulations. This will greatly improve the predictability of the market and further reinforces enthusiasm for the sector.

### The hazardous waste market

Hazardous waste is a key issue for a number of different stakeholders including producers, contractors, regulators and indeed the wider community. High levels of regulation and enforcement are necessary to ensure that hazardous waste is managed safely and responsibly in an environment where export from the United Kingdom is not a practical possibility. Society is clearly prioritising sustainability in the management of waste and the government is focused on decoupling waste creation from economic growth. The government's Waste Strategy (2000) established a vision of sustainable waste management for the country looking forward to 2020. This strategy promotes the concept of a waste hierarchy with waste prevention as the first priority, followed by re-use, recycling, energy recovery and finally disposal.



The last two years have seen a significant step change in the management and disposal of hazardous waste as a result of changes to the law. The Environment Agency's priority has been to ensure the safe management of hazardous waste during this period of change.

During 2006 two significant changes affected the market. The first was the tightening of the limit values for Waste Acceptance Criteria (WAC) and the second was the development of treatment of hazardous waste.

In July 2006 the Environment Agency enforced a further tightening of the limit values set within the regulations for waste acceptance into landfill. The impact on the market was significant and materially reduced chemicals volumes into Auegan's landfill division. The diversion of wastes from direct landfill to treatment put pressure on the low technology infrastructure as the treatment sector is still coming to terms with the permitting regime under the Pollution Prevention Control (PPC) Regulations. The market is now stabilising and the regulator is seeking to provide specified timescales for operators to invest in the appropriate technologies to develop capacity and infrastructure to ensure that the gap between hazardous landfill and high temperature incineration is filled. This provides more certainty about investment

opportunities both in a clearer understanding of the wastes which are problematic and the size of the market. The waste market has traditionally been characterised by high volumes but low technology. When the Landfill Directive and Hazardous Waste Directives were adopted the regulator made clear the need for step change in the waste sector. Two years later, with all the Directive objectives now transposed into UK law, the industry is now being driven to achieve the standards.

Auegan is well placed to take advantage of these opportunities within the treatment sector as a continued tightening of regulation will favour responsible operators with the ability and vision to invest in new technologies.

The Hazardous Waste Regulations 2005 have changed the way waste movements are tracked. For the first time in the sector a much more robust reporting protocol has started to provide clearer statistics on types, quantities and disposal and recycling activities. The data has demonstrated that the overall UK hazardous waste market is in excess of four million tonnes per annum.

*"The market is now stabilising and the regulator is seeking to provide specified timescales for operators to invest in the appropriate technologies to develop capacity and infrastructure to ensure that the gap between hazardous landfill and high temperature incineration is filled."*



## Business review

### The hazardous waste market continued

The market for hazardous landfill is more clearly defined and data from the Environment Agency demonstrates that the underlying market is approximately one million tonnes per annum. However this does not take into account the enforcement position the regulator is seeking to take on mismanagement nor does it reflect the stabilising market which is becoming better educated about compliance and commercial implications.

### Strategy

In October 2006 the directors announced a strategic review to encompass a review of the group's assets and to set a clear direction for the group's future. That review is now complete and has confirmed the directors' belief that the sector provides significant opportunity for growth, both organically and by acquisition.

Within the landfill division, the group owns significant assets in the form of void space at its three operational sites. A full review of the void space by an external consultancy has confirmed that the currently owned and permitted void space amounts to 8.3 million cubic metres. Moreover, following a successful application

to re-designate some of the void at Port Clarence as hazardous, over 85% of the group's void is now permitted to take hazardous waste which commands a significant price premium over non-hazardous waste in the market. Furthermore, the group currently owns a number of pieces of land adjacent to existing operations which could potentially provide significant additional void in the future. The group continues to take the necessary steps to protect and develop its interests in this area, while maximising the value of the existing void through constant pricing and operational review.

Asset development continues to be at the centre of the group's strategy. In the context of a tightening regulatory environment, investment in facility upgrades and service enhancement is imperative. While the upgrading of treatment sites is a pre-requisite of the PPC regime, the group believes that there is a strategic benefit to the search for new technologies and their commercial application to the sector. Augean continues to seek out these opportunities.

While the rapid pace of change in the market provides scope for significant organic growth,



the board continues to believe that acquisitions will play an important part in the group's further development. The group's acquisition strategy is complementary to its drive for organic growth, as acquisitions may bring strategic advantage either by way of location, integration of services or new technologies. The treatment sector in particular is highly fragmented and undergoing considerable change at the current time and the group continues to pursue opportunities actively in this area. However, any acquisitions must demonstrably add value to the group and as it became clear during the course of 2006 that a number of potential targets would not meet the group's strategic requirements, the directors made the decision not to proceed with those projects. This resulted in exceptional costs being incurred of £0.2m. However, the board continues to believe that the right acquisitions at an appropriate price will deliver shareholder value.

### Principal risks and their mitigation

The performance of the business is linked to economic activity in the markets it serves, principally the industrial and construction sectors. Fluctuations in the economy in these sectors therefore affect group performance. This risk is mitigated by diversifying the customer base as far as possible. In addition to this general economic risk there are a number of risks specific to the waste industry:

#### Environmental legislation

Regulation is a key driver of the waste market. 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 technical management to interpret the evolving legislative framework and its impact on the group's operations. In addition, the group maintains a presence on a number of industry groups to have influence in the shaping of evolving policy.

#### 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 as withdrawal or temporary suspension could have a significant impact on the group's ability to operate.

## Case study

### Buncefield

*Three explosions at the Buncefield fuel depot near Hemel Hempstead on 11 December 2005 sent flames hundreds of feet into the sky. A total of 20 fuel tanks, each containing up to three million gallons of fuel, were involved in the fire. The incident was one of the most serious seen in Europe and it took significant time and resource to bring the fire under control.*

*Augean responded quickly by deployment of specialist personnel to the site and looked at the technical issues surrounding the clean up operation. Due to the specific contaminants present we engaged with the regulator to confirm a process to demonstrate the safe disposal protocols for the waste streams. This required the remodelling of the hydrogeological risk assessments for the King's Cliffe hazardous waste landfill site to assess the suitability and environmental controls required to dispose safely of the material. The modelling results, which were assessed over a 1,200 year period, demonstrated that the containment systems would give this assurance. This provided a solution to the problem of managing the clean up of the site.*

*Initial above ground wastes were moved into King's Cliffe during 2006 with further work anticipated as the below ground remediation project is initiated. The process demonstrated the highly technical and complex requirements for the management of hazardous wastes and the necessity for close engagement with the client and the regulator to deliver a sustainable solution to a high profile incident.*

*"In October 2006 the directors announced a strategic review to encompass a review of the group's assets and to set a clear direction for the group's future. That review is now complete and has confirmed the directors' belief that the sector provides significant opportunity for growth, both organically and by acquisition."*

## Business review

### Principal risks and their mitigation continued Environmental compliance continued

Adherence to the highest environmental standards is also important to ensure the maintenance of good relations with local communities and to satisfy customers. The group mitigates this risk through the employment of technical expertise throughout the group and through the provision of training to develop the group's staff to understand their role in ensuring compliance is maintained. Further details of how the group monitors and controls environmental compliance are given in the group's corporate social responsibility (CSR) report.

### Health and safety

By its nature, the waste industry has inherent risks in the area of health and safety. As employees are the group's most important and valuable assets, their health and safety is vital. The group continues to invest and resource the business to ensure that the highest health and safety standards are imposed and maintained. Further details of the group's approach to health and safety can be found in the CSR report.

### Price risk

The waste sector has experienced significant changes in the commercial framework for the management of hazardous waste. The group continues to review its pricing policies to ensure that it influences and stabilises the market. The group believes that the sector has aligned to the change in the commercial structure and envisages a more stable and stronger price driven sector going forward.

### Divisional review

#### Treatment

The acquisition of the Credential business in May 2006 brought two new transfer sites to the treatment division at Hinckley and Worcester. Following this acquisition, the group has appointed a divisional managing director to drive forward the development of the integrated treatment business. The performance of the division has been pleasing with the new centres complementing the existing treatment and transfer station at Cannock. Turnover for the enlarged division was £8.1m and operating profit was £1.4m, representing an operating margin of 17%. The division now provides a broader range of services to the sector.

All the sites are being incorporated into the PPC regulations and as a result an operational review is underway to deliver further enhanced management standards.

As the hazardous waste and landfill regulations are fully adopted the market has seen a shift in requirements for more sophisticated process technology to deliver infrastructure that is fit for purpose and sustainable. This is providing great opportunities within the division for asset upgrades to meet the market and the business is developing a range of new technologies to fulfil the opportunities. For example, at Cannock new plant has been installed to develop an enhanced treatment process. Testing and the building of technical data on the process technology and the market have continued during the latter half of 2006. The site is to be extended in early 2007 to provide further capacity whilst the full upgrade, which is subject to a revised planning consent, is nearing completion. Further enhancement of services is planned at the Hinckley site where adjoining land is to be developed in 2007 to enable the installation of value added technologies. At Worcester, the development programme is reviewing further treatment and recycling technologies to complement the existing services.

### Landfill

Excluding landfill tax, turnover for the landfill division decreased by 13% to £15.1m following the closure of the non-hazardous Mark's Quarry site. However, the group's focus on higher value hazardous waste resulted in an improvement in margin to 21%, with the division generating £3.2m of operating profit. Hazardous volumes increased by 34% to 241,000 tonnes but the reduced chemicals volumes in the second half of the year resulted in a less favourable sales mix, with average hazardous prices falling to £53 per tonne.

Operationally, the landfill division has delivered benchmark standards in 2006 which have been reflected in the attainment of Integrated Management System (IMS) accreditation. The achievement of the division in gaining accreditation to the standards ISO 14001, OHSAS 18001 and ISO 9001 has signalled the group's commitment to recognised business standards that demonstrate excellence in all facets of business operation. These standards are being rolled out across the whole group in 2007.

The market for hazardous waste landfill has seen further changes as the regulator implemented the full WAC. The consequence was a change in the dynamics of the landfill market with a progressive growth in the volumes of residues from the treatment of hazardous waste to hazardous landfill. The market is not yet fully stable as the regulator reviews its enforcement policy.

However it is clear that in the UK, as elsewhere in Europe, there will continue to be a requirement for hazardous waste landfill to underpin the rapidly developing treatment sector.

At Port Clarence the development of the hazardous void capacity has been concluded with a permit variation achieved to convert a significant change in the void use. The variation results in an uplift in hazardous void of approximately 3.7m cubic metres. The site continues to be a strong asset for the group and further build programmes to install additional technologies to meet the emerging markets are a strategic priority.

At King's Cliffe enhancement of the site has continued. A number of land bank opportunities are currently being prepared for consent applications. The site is also being considered for the possible future expansion of the Terramundo business to provide further strategic capacity. King's Cliffe also houses Augean's laboratory services division. Established in April 2006, the laboratory provides clients with a more focused and rapid testing service specifically for the onerous requirements of WAC. The merchant laboratories were delivering poor turnaround times with results taking up to four weeks to be issued with consequential delays to waste movements. The Augean facility achieves a turnaround time of seven days, significantly improving the waste producer's ability to assess the best options for the waste streams. Further upgrades are planned in 2007 to broaden the testing capacity so that all outsourcing of compliance monitoring can be handled in-house and to provide an enhanced service to clients.

The Thornhaugh site continues to be quarried under a sub-contract producing modest royalties for limestone. This process underpins the future development of valuable void which will be adopted under the new permit for Stable Non-reactive Hazardous Waste (SNRHW). As with King's Cliffe, a number of opportunities for extension of the site will be a key focus for the 2007 planning strategy. In particular Cook's Hole, the site adjacent to Thornhaugh, is under review to upgrade the existing consents for extraction. During the year, the group addressed an issue of overtipping inherited from the previous owners of the site. The group's pre-emptive approach to rectifying the problem unfortunately resulted in a prosecution by the Environment Agency. The resulting fines and costs totalled £0.2m and have been recognised in full during the year.

The remediation work in respect of the overtipping has now been fully concluded to the satisfaction of the Environment Agency.

The non-hazardous site at Mark's Quarry was completed and closed during the year. The plan for restoration of the site is now underway and progressing well. In the future, the site will continue to generate a modest level of royalties from a gas management plant.

### Terramundo

The Terramundo facility is an excellent example of strategic asset development. Terramundo is a joint venture between Augean and DEC NV (part of the DEME Group) to treat contaminated soils. Situated at Port Clarence, the soil treatment plant provided by DEC will provide complementary services to the landfill division and targets waste streams failing WAC along with providing clients with an enhanced sustainability offering. The residues from the process will be available for the Port Clarence landfill. The facility is due to be opened in April 2007. Great interest has been shown from the entire sector, particularly with the facility having access to sea transportation through a wharf on the River Tees. Further technologies are being reviewed to enhance the facility in 2007/8.

### Financial review Trading

Group turnover for the year ended 31 December 2006 increased by 2% to £26.6m (2005: £26.1m). This includes a contribution from the acquisition of the Credential hazardous business made in May 2006 of £3.2m and also includes landfill tax charged to customers, on which the group makes no margin, of £5.1m (2005: £7.2m). Excluding landfill tax, turnover increased by 14% in the year.

### Operating margin

In assessing operating margin, management excludes amortisation of goodwill as this assists in understanding the underlying business performance. Operating profit before the amortisation of goodwill increased by 7% to £4.0m (2005: £3.7m). Operating profit in the year was adversely affected by exceptional items relating to the departure of the previous chief executive, the imposition of a fine following action by the Environment Agency and costs incurred in respect of aborted acquisitions (each £0.2m). Excluding exceptional items, underlying operating profit increased by 24% to £4.6m.

# Business review

## Financial review continued

### Finance costs

In May 2006 the group extended its borrowing facilities in connection with the acquisition of the Credential hazardous business. As a result, net finance costs increased to £1.0m (2005: £0.3m), including £0.1m (2005: £0.1m) of unwinding of discount on provisions. Cash finance costs were covered 4.9 times (2005: 19.7 times) by underlying operating profit.

### Tax

The group has benefited in the year from the utilisation of tax losses in its landfill businesses. This has resulted in a tax credit of £0.1m (2005: charge of £1.4m). While there continues to be uncertainty over the extent and timing of the tax losses, the group believes that it will continue to benefit from a reduced tax rate in the short term.

### Dividend

The board does not recommend the payment of a dividend for the year ended 31 December 2006. It continues to review the group's financial situation in order to ensure that dividends are paid to shareholders at the earliest opportunity provided this is at an appropriate point in the group's development.

### Earnings per share

Basic earnings per share adjusted to exclude the impact of amortisation of goodwill and exceptional items increased by 35% to 5.6p (2005: 4.1p). The weighted average number of shares in issue increased to 65.5m (2005: 49.1m) as shares issued following the placing completed in the prior period were only in existence for part of that period. There was no increase in issued share capital during 2006.

### Cash flow

The group continued to be highly cash-generative during the year. Net cash inflow from operating activities was £6.3m (2005: £7.3m) but this was after spending £4.0m (as previously provided) on capping cells and remediation of landfill sites acquired in the prior period.

Excluding this expenditure, operating cash flow at £10.3m represented a conversion rate of 260% of operating profit before amortisation of goodwill (2005: 198%). After deducting capital expenditure, interest and tax, free cash flow was £3.8m (2005: £2.4m). Following the acquisition of the Credential hazardous business for £11.0m, net debt has increased to £10.9m (2005: £3.6m).

### Capital expenditure

Capital expenditure fell to £1.3m in the year (2005: £4.5m). The major ongoing areas of capital expenditure for the group are in landfill cell construction and in cell capping at the end of the cell's life. The timing of these costs is a function of the size of the cells and the rate of fill. During 2006 no additional cells were built but in 2007 an increase to a more normal level of capital expenditure is anticipated.

### Treasury operations

Details of the group's treasury risk management policies are set out in note 25. The group does not speculate in financial instruments.

### Accounting policies

During the year the group adopted FRS 20 on share-based payments. From 2006 the application of FRS 20 results in an additional charge to the profit and loss account in respect of share options issued as incentives to employees. This amounted to £0.1m in the year. Further details are provided in note 2.

### International Financial Reporting Standards (IFRS)

As an AIM-listed company, the group will be required to adopt IFRS in its financial statements for the year ending 31 December 2007. The group continues to prepare for this conversion and anticipates the major effects of adopting IFRS to be in the following areas:

- > the cessation of the routine amortisation of goodwill, which will become subject to a detailed annual test for impairment;
- > a detailed review of the intangible assets acquired as part of future acquisitions, and where such assets are identified, their amortisation over expected useful lives; and
- > the requirement to provide additional segmental information.

### The environment, employees and the community

The group recognises the important role it plays in the environment and communities within which it operates. This commitment is reflected in the detailed CSR report published alongside the annual report.

## The environment

All operating sites and activities are strictly regulated by environmental authorities through the PPC regulations. Their aim, based on the Integrated Pollution Prevention and Control (IPPC) Directive, is to provide an integrated approach to pollution control to prevent emissions into air, water or land. The waste sector is being developed from a low technology base to compliance with Best Available Technique (BAT). BAT focuses on a number of key areas including emissions to air, land and water, energy efficiency, waste reduction, raw materials consumption, noise, vibration and heat, accident prevention and the condition of the site.

The business continues to deliver the objectives of BAT through its operations and is working closely with the regulators to ensure that Augean is a leader in compliance in the sector.

## Employees

Augean continues to invest in its employees and listens to their concerns. The board recognises that motivated people deliver the business objectives and takes this opportunity to thank all the group's staff for their dedication during what has been a difficult year. The business has recently concluded an employee survey to consult with employees and to provide a focus on areas for improvement. A number of actions to develop the working environment are planned for 2007. In employment practices the business recognises the importance of equal opportunities and good communication standards.

## The community

Through the Landfill Tax Credit Scheme Augean contributes to many local initiatives and will continue to support the communities in the areas in which the group operates. Objectivity in decision-making and full accountability of the distribution of funds is maintained. One significant highlight in the year was a contribution of £291,000 to the Saltholme International Nature Reserve in the Tees Valley. The reserve has transformed a former industrial area into a wild flower meadow. Areas of wet derelict grassland have become a new wetland home for hundreds of birds with planted reed beds attracting new and exciting wildlife. During 2006 good progress has been made with architects preparing the working

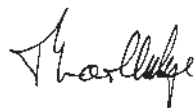
drawings for a new iconic visitor centre and associated facilities. Details of the other varied community projects with which Augean has been involved can be found in the CSR report.

Augean also ensures that it keeps the communities in which the group operates informed about the group's operations and plans through regular liaison committees and newsletters.

## Outlook

The changes in how the UK manages its waste have brought significant opportunities to develop sustainable solutions to the emerging hazardous waste sector. Consolidation, higher barriers to entry and the requirements to provide compliant and technically driven services have placed Augean in a favourable position to realise those opportunities. The landfill market is stabilising and with the introduction of complementary services such as the Terramundo facility and shipping logistics the outlook is more encouraging in 2007. The treatment division offers exciting growth opportunities as the market moves from a low technology base to one of sustainable process technology.

During the last few months Augean has rigorously reviewed its business. This has included a more searching approach to budgeting which, when coupled with an improved understanding of the market informed by new statistical data, gives a greater degree of confidence in expectations for the current year. Augean believes that the quality of its assets, the enthusiasm and commitment of the new management team with its focus on sales and marketing and the higher level of certainty in the marketplace will produce a result more in line with the group's capability and a significant improvement on 2006. Current trading is in line with management's expectations as the group will continue to strive towards this objective and looks forward to delivering a greater degree of success for all stakeholders in the year ahead.



**Peter Worledge**  
Chief executive  
20 March 2007



**Peter Southby**  
Finance director  
20 March 2007

## Directors



### **David Williams – Non-executive chairman, 54**

David has over 35 years' experience in the investment market. He is currently chairman of several AIM listed companies and was appointed chairman of Augean on its formation in 2004.



### **Peter Worledge – Chief executive, 40**

Peter joined Augean in March 2007 as chief executive from Waco UK Limited where he was managing director. Peter oversaw the merger of Premier Transline Limited and Interlink Building Systems Limited, where he had previously been managing director, successfully driving through the resultant change management programme. Prior to Interlink Building Systems, Peter was director of corporate finance at Deloitte, responsible for lead generation and deal execution within the Edinburgh office. Peter is a chartered accountant, having trained at Price Waterhouse in 1993.



### **Peter Southby – Finance director, 33**

Peter joined Augean in October 2006 as finance director. He qualified as a chartered accountant with Arthur Andersen and previously held senior positions with the acquisitive support services group White Young Green Plc and at Leeds United Plc.



### **Paul Blackler – Commercial director, 37**

Paul is a member of the Royal Society of Chemistry and has been at Augean since December 2004 when he took on the non-main board role of group operations director, becoming group development director in September 2005. Prior to joining the group, Paul held senior positions with Shanks Group Plc, Castle Environmental Limited and Mplus Recycling. He was appointed to the board of Augean in January 2007.





**Roger McDowell – Non-executive director, 51**

Roger is a seasoned senior manager of 30 years' standing. Having developed the Oliver Ashworth Group through dramatic growth, main market listing and sale to St. Gobain, he then took a number of non-executive roles including chairmanships in both public and private equity backed businesses. Roger is currently senior independent director at Intec Telecom Systems Plc, a non-executive director of Redhall Group Plc and a director of several private companies. He joined the board of Augean in 2004. During the period between the resignation of the previous chief executive, John Huntington, in October 2006 and the appointment of Peter Worledge in March 2007, Roger took on the role of acting chief executive. He has now reverted to his former non-executive position.



**Andrew Bryce – Non-executive director, 59**

Andrew has had a long career in environmental law in the UK and currently runs his own law firm, Andrew Bryce & Co, which specialises in personal legal consultancy and advising boards on strategic, environmental management and liability issues. He was previously an equity partner and head of environmental services at City law firm Cameron Markby Hewitt (now part of CMS Cameron McKenna). He has held the chairmanship and vice chairmanship of the United Kingdom Environmental Law Association and is currently convener of its Waste Working Party. He was appointed to the board of Augean in June 2005.



**Rory Macnamara – Non-executive director, 51**

Rory is a chartered accountant with a wide range of corporate finance transaction experience. He was previously head of mergers and acquisitions at Deutsche Morgan Grenfell and latterly a managing director at Lehman Brothers. He currently holds a number of directorships including Goshawk Insurance Holdings Plc, Izodia Plc, Raven Mount Plc, Dunedin Income Growth Investment Trust Plc and Private Equity Investor Plc. He was appointed to the board of Augean in November 2006.

## Corporate governance

Augean is committed to high standards of corporate governance in all its activities. While the company is not required under AIM rules to comply with the 2003 FRC Combined Code (the Code), the board recognises the value of the Code and has regard to its requirements as far as is practicable and appropriate for a public company of its size and nature.

### The board of directors

The board currently comprises a non-executive chairman, the chief executive, the finance and commercial directors and three independent non-executive directors. During part of the year under review and subsequently, Roger McDowell, a non-executive director, acted as chief executive for the period between the resignation of John Huntington and the appointment of Peter Worlledge.

The composition of the board is reviewed regularly. Appropriate training, briefings and induction are available to all directors on appointment and subsequently as necessary, taking into account existing qualifications and experience.

Executive directors' normal retirement age is 60 and non-executive directors' normal retirement age is 65. One-third of all directors are subject to annual re-appointment by shareholders.

The board meets approximately ten times a year but additional meetings are held to review and approve special matters if necessary. Each director is provided with sufficient timely information to enable full consideration of matters in advance of meetings and proper discharge of duties. There is a formal schedule of matters reserved for the board's decision.

All directors have access to the advice and services of the company secretary, who is also responsible for ensuring that board procedures are followed. Any director may take independent professional advice, if necessary, at the company's expense.

### Board committees

The company has established a number of committees, details of which are set out below:

#### Audit committee

The audit committee comprises the non-executive directors, is chaired by Rory Macnamara, and meets at least twice a year. The executive directors, if necessary, and the company's external auditors attend the meetings. The audit committee considers the adequacy and effectiveness of the risk management and control systems of the group. It reviews the scope and results of the external audit, its cost effectiveness and the objectivity of the auditors. It also reviews, prior to publication, the interim report, the preliminary announcement, the annual financial statements and other information included in the annual report.

#### Remuneration committee

The remuneration committee comprises the non-executive directors and is chaired by Roger McDowell. It meets at least twice a year and reviews and advises upon the remuneration and benefits packages of the executive directors. The remuneration of the chairman and non-executive directors is agreed upon by the full board.

#### Nomination committee

The nomination committee comprises the non-executive directors and is chaired by Andrew Bryce. It meets in order to review the structure, size and composition of the board and to identify and nominate candidates for appointment to the board.

## Internal controls

The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness, while the role of management is to implement board policies on risk management and control. Such a system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the group's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The group operates a series of controls to meet its needs. These controls include the following:

- > an annual review of business risks affecting the group which also identifies procedures to manage and mitigate those risks;
- > an annual strategic planning and budgeting process;
- > a clearly defined organisational structure with terms of reference for board committees and clearly defined responsibilities and authorisation limits for executive management; and
- > reviews by senior management and the board of monthly financial and operating information including comparisons with budgets and forecasts.

The audit committee receives reports from management and the auditors concerning the system of internal control and any control weaknesses.

The board does not believe it is currently appropriate to establish a separate, independent internal audit function given the size of the group but keeps this position under review.

## Investor relations

The board places significant importance on maintaining good communication with shareholders. The executive directors are available to meet with institutional shareholders and analysts following the announcement of interim and final results. Feedback on these meetings and copies of any analyst reports are provided to the board.

The chairman is available to shareholders at any time to discuss strategy and governance matters.

All shareholders receive the interim and annual reports and are invited to attend the annual general meeting at which all board directors are present.

## Directors' remuneration

The remuneration committee's principal function is to set the remuneration of the group's executive directors to attract, retain and motivate talented people.

Basic salaries for executive directors take into account the performance, experience and responsibilities of the individuals concerned, as well as the salaries of those with similar positions and responsibilities. External advice is taken as appropriate and basic salaries are reviewed annually. The executive directors participate in a bonus scheme applicable to all senior management based on annual profit growth targets. Pension provision is made at a rate of 10% of basic salary for executive directors, which is payable directly into a nominated pension fund. Other benefits for executive directors include a car allowance, life assurance and private healthcare.

Executive directors have rolling service contracts with notice periods of not more than twelve months in writing.

The remuneration committee is also responsible for ensuring the group's option schemes are operated properly. Details of directors' share options are disclosed in the directors' report. The committee is currently reviewing the group's schemes to ensure that they continue to provide an appropriate incentive for the group's people.

## Corporate governance

### Going concern

The directors have a reasonable expectation that the group as a whole has adequate resources to continue in operational existence for the foreseeable future. As the group has net current liabilities at 31 December 2006 the directors have further considered the company's ability to continue as a going concern. On the basis of detailed forecast cash flows for the next twelve months the directors are confident that the company will be able to meet its liabilities as they fall due. Consequently these financial statements have been prepared on a going concern basis.

### Annual general meeting

At the annual general meeting on 5 June 2007, Peter Southby, Rory Macnamara, Paul Blackler and Peter Worledge, who have been appointed since the last annual general meeting, will retire pursuant to article 103 of the articles of association of the company and in addition David Williams will retire by rotation. Being eligible, they all offer themselves for election or re-election. No director has a contract with an unexpired notice period of more than twelve months.

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2006.

### Principal activity and business review

The principal activity of the group is the provision of hazardous waste management services. These services include hazardous landfill and treatment services. The group operates within the United Kingdom.

The chairman's statement and business review on pages 4 to 13 provide a review of the business of the group together with an indication of future prospects.

### Results and dividends

The group's loss after tax for the year was £7.4m (2005: loss of £8.0m) on turnover of £26.6m (2005: £26.1m).

The directors have not recommended a dividend for the year (2005: £nil).

### Acquisitions

In May 2006 the group acquired the business and certain assets of Credential Hazardous Waste, the hazardous waste collection and transfer business of Credential Environmental Limited, for cash consideration of £10.7m. The activities of Credential Hazardous Waste are complementary to those of Proactive Waste Solutions which was successfully acquired by Augean in August 2005. Proactive was renamed Augean Treatment in May 2006 and the combined businesses now trade as one unit under that name.

The former Credential Hazardous Waste business collects, sorts and stores hazardous waste and prepares the materials collected for secure bulk transfer to the ultimate disposal site. The business includes two waste transfer stations at Hinckley, Leicestershire and Worcester. Both locations are licensed to take a broad range of hazardous wastes including liquids, sludges, alkalis and oil mixtures.

### Environmental policy

The quality of the environment is an important concern for the group, its employees, customers, suppliers and the communities in which the group operates. The group continues to adopt high standards of environmental practice and aims to minimise its impact on the environment wherever possible. Further details of the group's actions in this area can be found in the separately published CSR report.

### Payment of creditors

The group's policy is to settle invoices promptly according to terms and conditions as far as is practicable. Trade creditors at the balance sheet date represented 45 days' purchases (2005: 41 days).

### Employees

The group operates a policy of devolved management for the operating divisions. The success of the group depends on the skill and motivation of its workforce and it is the group's policy to ensure close consultation with employees on matters of concern to them.

In compliance with current legislation, the group encourages the employment of disabled persons wherever this is practicable. Every endeavour is made to ensure that disabled employees, and those who become disabled whilst in the group's employment, benefit from training and career development programmes in common with all employees.

## Directors' report

### Charitable and political donations

During the period the group contributed £383,000 (2005: £367,000) of its landfill tax liability to Entrust registered environmental bodies as permitted by government regulations. It also made other charitable donations amounting to £1,000 (2005: £5,000).

No political donations were made during the period (2005: £nil).

### Directors' remuneration

The aggregate emoluments of the directors of the company who served during the year were as follows:

Name	2006 Salaries/fees £'000	2006 Compensation for loss of office £'000	2006 Benefits £'000	2006 Pension contributions £'000	2006 Total £'000	2005 Total £'000
David Williams	90	—	—	—	90	90
Peter Southby (appointed 30 October 2006)	17	—	2	2	21	—
Roger McDowell	70	—	—	—	70	25
Andrew Bryce	25	—	—	—	25	15
Rory Macnamara (appointed 28 November 2006)	2	—	—	—	2	—
John Huntington (resigned 27 October 2006)	169	207	3	17	396	194
Gary Downey (resigned 18 December 2005)	—	—	—	—	—	329
Stephen Gutteridge (resigned 31 March 2005)	—	—	—	—	—	10
Keith Tozzi (resigned 31 March 2005)	—	—	—	—	—	17
	<b>373</b>	<b>207</b>	<b>5</b>	<b>19</b>	<b>604</b>	<b>680</b>

No remuneration is disclosed for Paul Blackler or Peter Worledge as they were appointed to the board after the year end. Marwyn Capital Limited (of which David Williams is chairman) was paid £570,000 for professional advice and £50,000 for temporary office accommodation in 2005 but no such payments were made during 2006.

## Directors

Those directors serving at the end of the year had interests in the share capital of the company at 31 December 2006 as stated below. There has been no change since 31 December 2006 to the date of this report.

Name of director	Ordinary shares	
	2006	2005
David Williams	480,000	480,000
Peter Southby (appointed 30 October 2006)	—	—
Roger McDowell	50,000	50,000
Andrew Bryce	—	—
Rory Macnamara (appointed 28 November 2006)	—	—

Neither Peter Southby nor Rory Macnamara held any shares on appointment.

Details of share options held by the current directors are as follows:

Name of director	Date of grant	Number of options	Exercise price	Exercise period
David Williams	15 December 2004	500,000	180.00p	0 – 10 years from issue
Peter Worledge	7 March 2007	281,800	127.75p	3 – 10 years from issue
Peter Southby	30 October 2006	144,665	138.25p	3 – 10 years from issue
Paul Blackler	14 December 2005	150,000	147.50p	3 – 10 years from issue

David Williams' share options were awarded in connection with the acquisitions of Atlantic Waste Holdings Limited and Zero Waste Holdings Limited. These share options have no performance criteria. The share options for Peter Worledge and Peter Southby were issued at the market price on their appointment. Paul Blackler's share options were issued at the market price on date of grant.

In addition to the share options listed above, Marwyn Capital Limited (of whom David Williams is chairman) has warrants over the share capital as described further in note 18.

The mid-market price of the company's shares at 31 December 2006 was 135.5p. The range of the share price during the year was 103p to 175p.

# Directors' report

## Substantial shareholdings

The company had been notified of the following interests of more than 3% in its shares as at 20 March 2007:

	Number of shares	%
One51	17,610,200	26.9
BlackRock Investment Management	4,049,630	6.2
Slater Investments	3,957,500	6.0
JO Hambro Capital Management	3,631,430	5.6
MPC Investors	3,592,800	5.5
Goldman Sachs Asset Management	3,474,925	5.3
Invesco Perpetual	3,393,599	5.2
Henderson Global Investors	2,699,043	4.1
Killik Stockbrokers	2,606,126	4.0
Cycladic Capital Management	2,446,414	3.7

## Corporate governance

A statement by the directors on corporate governance immediately precedes this report.

Qualifying third party indemnity provisions (as defined in Section 309B of the Companies Act 1985) have been entered into by the company for the benefit of all directors, which indemnify the directors against third party claims brought against them in their capacity as directors of the company to the extent permitted by law and such provisions continue in force at the date of this report.

## Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the profit or loss of the 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; and
- > state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.



### Statement of directors' responsibilities for the financial statements continued

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company 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 on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

### Financial risk management

The group's operations expose it to a variety of financial risks. These risks together with how the group mitigates them are set out in note 25.

### Statement of disclosure of information to the auditors

At the date of making this report each of the company's directors, as set out on pages 14 and 15, confirm the following:

- > so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware; and
- > each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

### Auditors

The auditors, RSM Robson Rhodes LLP, are willing to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board



**Peter Worlledge**

Chief executive  
20 March 2007

## Independent auditors' report to the shareholders of Augean PLC

We have audited the financial statements on pages 26 to 48. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information in the directors' report includes specific information presented in the chairman's statement and business review that is cross-referenced from the business review section in 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 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 chairman's statement, the business review, statement on corporate governance and the directors' 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2006 and of the group's loss for the year then ended; the financial statements have been properly prepared in accordance with the Companies Act 1985; and the information given in the directors' report is consistent with the financial statements.

## RSM Robson Rhodes LLP

Chartered accountants and registered auditors

Leeds, England

20 March 2007

## Consolidated profit and loss account for the year ended 31 December 2006

	Note	Before exceptional items 2006 £'000	Exceptional items 2006 £'000	Total 2006 £'000	2005* £'000
<b>Turnover</b>	3				
– Continuing operations		23,364	—	23,364	26,113
– Acquisitions		3,197	—	3,197	—
		26,561	—	26,561	26,113
Cost of sales		(16,942)	—	(16,942)	(18,025)
<b>Gross profit</b>		9,619	—	9,619	8,088
Administrative expenses excluding amortisation of goodwill		(5,042)	(623)	(5,665)	(4,400)
Amortisation of goodwill		(10,405)	—	(10,405)	(10,080)
Total administrative expenses		(15,447)	(623)	(16,070)	(14,480)
<b>Operating profit before amortisation of goodwill</b>	3	4,577	(623)	3,954	3,688
<b>Operating profit/(loss)</b>	4				
– Continuing operations		(6,188)	(623)	(6,811)	(6,392)
– Acquisitions		360	—	360	—
		(5,828)	(623)	(6,451)	(6,392)
Finance charges	5	(1,020)	—	(1,020)	(278)
<b>Loss before tax</b>		(6,848)	(623)	(7,471)	(6,670)
<b>Profit/(loss) before tax and amortisation of goodwill</b>		3,557	(623)	2,934	3,410
Tax	8	89	—	89	(1,380)
<b>Retained loss for the financial period</b>	19	(6,759)	(623)	(7,382)	(8,050)
<b>Earnings per share</b>					
Basic and diluted loss per share	9	(10.3p)	(1.0p)	(11.3p)	(16.4p)

\* The comparative period covers the statutory period from incorporation on 6 August 2004 and the trading period from the acquisition of Atlantic Waste Holdings and Zero Waste Holdings on 14 December 2004 until 31 December 2005. All references to 2005 in the notes to the accounts refer to this extended period.

The notes on pages 30 to 48 form an integral part of these financial statements.

There were no recognised gains or losses in the period other than the loss for the year and therefore no statement of total recognised gains and losses is presented.

## Consolidated balance sheet at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Intangible fixed assets	10	<b>84,390</b>	85,812
Tangible fixed assets	12	<b>28,963</b>	29,547
		<b>113,353</b>	115,359
<b>Current assets</b>			
Debtors	13	<b>6,034</b>	6,871
		<b>6,034</b>	6,871
<b>Creditors:</b> amounts falling due within one year	14	<b>(10,786)</b>	(9,838)
<b>Net current liabilities</b>		<b>(4,752)</b>	(2,967)
<b>Total assets less current liabilities</b>		<b>108,601</b>	112,392
<b>Creditors:</b> amounts falling due after more than one year	15	<b>(7,119)</b>	(335)
<b>Provisions for liabilities and charges</b>	16	<b>(4,084)</b>	(7,336)
<b>Net assets</b>		<b>97,398</b>	104,721
<b>Capital and reserves</b>			
Called up share capital	18	<b>6,549</b>	6,549
Share premium	19	<b>106,222</b>	106,222
Profit and loss account	19	<b>(15,373)</b>	(8,050)
<b>Equity shareholders' funds</b>	19	<b>97,398</b>	104,721

The notes on pages 30 to 48 form an integral part of these financial statements.

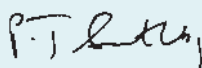
## Company balance sheet at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Tangible fixed assets	12	971	1,000
Fixed asset investments	11	116,498	116,404
		<b>117,469</b>	117,404
<b>Current assets</b>			
Debtors	13	10,672	388
<b>Creditors:</b> amounts falling due within one year	14	<b>(12,206)</b>	(5,683)
<b>Net current liabilities</b>		<b>(1,534)</b>	(5,295)
<b>Total assets less current liabilities</b>		<b>115,935</b>	112,109
<b>Creditors:</b> amounts falling due after more than one year	15	<b>(7,001)</b>	(8)
<b>Net assets</b>		<b>108,934</b>	112,101
<b>Capital and reserves</b>			
Called up share capital	18	6,549	6,549
Share premium	19	106,222	106,222
Profit and loss account	19	(3,837)	(670)
<b>Equity shareholders' funds</b>	19	<b>108,934</b>	112,101

The financial statements were approved by the board on 20 March 2007 and signed on its behalf by:



**Peter Worledge**  
Chief executive



**Peter Southby**  
Finance director

The notes on pages 30 to 48 form an integral part of these financial statements.

## Consolidated cash flow statement for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Net cash inflow from operating activities</b>	21	<b>6,269</b>	7,316
Returns on investments and servicing of finance	22	<b>(1,026)</b>	(278)
Tax paid		<b>(82)</b>	—
Capital expenditure and financial investment	22	<b>(1,345)</b>	(4,589)
Acquisitions and disposals	22	<b>(11,112)</b>	(64,674)
<b>Cash outflow before financing</b>		<b>(7,296)</b>	(62,225)
Financing	22	<b>6,389</b>	61,496
<b>Decrease in cash in the period</b>		<b>(907)</b>	(729)

	Note	2006 £'000	2005 £'000
<b>Reconciliation of net cash flow to movement in net debt</b>			
Decrease in cash in the period		<b>(907)</b>	(729)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		<b>(6,389)</b>	703
<b>Change in net debt arising from cash flows</b>		<b>(7,296)</b>	(26)
New finance leases and hire purchase agreements		—	(63)
Debt acquired with subsidiary		—	(3,502)
Movement in net debt in the period		<b>(7,296)</b>	(3,591)
Net debt at beginning of period		<b>(3,591)</b>	—
<b>Net debt at end of period</b>	23	<b>(10,887)</b>	(3,591)

# Notes to the financial statements for the year ended 31 December 2006

## 1 Accounting policies

### Basis of accounting

The group financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The company has taken advantage of Section 230 of the Companies Act 1985 and has not included a profit and loss account in these financial statements. The company's loss for the period is given in note 19.

### Basis of consolidation

The group financial statements incorporate the financial statements of the company and its subsidiary undertakings and the joint venture Terramundo. Acquisitions are accounted for under the acquisition method. The joint venture has not yet commenced trading but when it does so its results will be accounted for under the equity method. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

### Turnover

The group's responsibility for waste arises as soon as the waste is accepted into one of the disposal facilities. Revenue is therefore recognised at the point of acceptance. Turnover shown in the profit and loss account represents charges for all waste accepted, inclusive of landfill tax but exclusive of value added tax, relating to the principal activities of the group.

### Intangible assets

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight-line basis over its useful economic life, with specific account taken of the period of site licences (which currently expire between seven to ten years). Provision is made for any impairment.

### Investments

Investments held as fixed assets are stated at historic cost less any provision for impairment.

### Tangible fixed assets and depreciation

The acquisition, commissioning and site infrastructure costs for each landfill site are capitalised when incurred. These costs are then depreciated over the useful life of the site, which is assessed with reference to the usage of the void space available.

Cell engineering costs are capitalised when incurred. The depreciation charged to the profit and loss account is calculated with reference to actual costs to date and expected future costs for each cell including the cost of the future cap, the total of which is spread over the useful life of the cell. Useful life is again assessed by the usage of the void space available.

Other tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided evenly on all other tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its useful life as follows:

Freehold buildings	– 50 years
Plant and machinery	– two to ten years



## 1 Accounting policies continued

### Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets. The capital element of future payments is treated as a liability and the interest is charged to the profit and loss account so as to give an approximate constant rate of charge on the outstanding obligation.

### Leased assets

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account so as to give an approximate constant rate of charge on the outstanding obligation and the capital element which reduces the outstanding obligation for future instalments.

Rentals under operating leases are charged on a straight-line basis over the lease term.

### Tax

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Deferred tax is measured on an undiscounted basis using average rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Restoration and after-care provisions

The anticipated total cost of restoration and post-closure monitoring and after-care is charged to the profit and loss account over the expected useful life of the sites in proportion to the amount of void consumed at the sites during the period and a corresponding provision is recognised in the balance sheet. The costs of restoration and post-closure monitoring are charged to the provision when incurred. The provision has been estimated using current costs and is discounted.

### Retirement benefits

Contributions made by the group to individual money purchase pension schemes are charged to the profit and loss account as they fall due.

# Notes to the financial statements for the year ended 31 December 2006

## 1 Accounting policies continued

### Debt and finance costs

Debt is initially stated at the amount of the net proceeds of the debt after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Finance costs are recognised in the profit and loss account over the term of such instruments using the effective interest rate method.

### Share-based payments

The group issues share options to certain employees. Share options are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

The calculation of the fair values of the share options and warrants issued by the company have been based upon the binomial lattice model together with a number of subjective assumptions, the most significant of which is that the expected volatility of the company's shares will be 40%.

## 2 Changes to accounting policies

The group has applied the requirements of FRS 20 (Share-based payments) for the first time. In accordance with the transitional provisions of the standard, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that had not yet vested at 1 January 2006. The impact for the year ended 31 December 2006 has been to charge the profit and loss account in respect of share options relating to future performance with an amount of £59,000 and to credit this to reserves. There was no impact in 2005 on either the company or the group's balance sheets and their profit and loss accounts for the revised treatment of these share options.

## 3 Segmental analysis

	2006				2005			
	Turnover £'000	Adjusted operating profit* £'000	Operating (loss)/ profit £'000	Net assets £'000	Turnover £'000	Adjusted operating profit* £'000	Operating (loss)/ profit £'000	Net assets £'000
Landfill division	18,447	3,190	(7,414)	88,099	24,184	3,327	(6,568)	96,474
Treatment division	8,114	1,387	963	9,299	1,929	361	176	8,247
	<b>26,561</b>	<b>4,577</b>	<b>(6,451)</b>	<b>97,398</b>	<b>26,113</b>	<b>3,688</b>	<b>(6,392)</b>	<b>104,721</b>

\* Operating profit before exceptional items and the amortisation of goodwill.

All activities arise solely within the United Kingdom.

## 4 Operating loss

Operating loss is arrived at after charging:

	2006 £'000	2005 £'000
Fees payable to the company's auditor for the audit of the annual financial statements	51	67
Fees payable to the company's auditor for other services:		
– audit of the financial statements of the company's subsidiaries pursuant to legislation	9	10
– other services relating to tax – compliance and advice	7	40
– services relating to corporate finance transactions	62	281
– other services – accounting advice	20	11
	<b>149</b>	409
Amortisation of goodwill	<b>10,405</b>	10,080
Depreciation of tangible assets:		
– owned assets	<b>4,465</b>	4,867
– assets held under finance leases and hire purchase contracts	<b>109</b>	119
Operating leases:		
– land and buildings	<b>44</b>	15
– plant and machinery	<b>654</b>	268
Loss on sale of fixed assets	<b>100</b>	—
Exceptional items:		
– compensation for loss of office and related costs	<b>224</b>	—
– fines and costs relating to an Environment Agency prosecution	<b>218</b>	—
– costs of aborted acquisitions	<b>181</b>	—

Operating loss includes amounts relating to acquisitions in cost of sales of £2,041,000 and in administrative expenses of £796,000.

## 5 Finance charges

	2006 £'000	2005 £'000
<b>Interest payable</b>		
Interest and charges payable on bank loans, guarantees and overdrafts	<b>789</b>	157
Finance leases and hire purchase contracts	<b>27</b>	41
Interest and charges on debt factoring	<b>140</b>	276
Unwinding discount on provisions	<b>94</b>	91
	<b>1,050</b>	565
<b>Interest receivable</b>		
Bank and other interest receivable	<b>(30)</b>	(287)
	<b>1,020</b>	278

## Notes to the financial statements for the year ended 31 December 2006

### 6 Employees

The average monthly number of employees analysed by function was:

	2006 Number	2005 Number
Sales	18	10
Operations	72	48
Administration	21	20
	<b>111</b>	<b>78</b>

Their aggregate remuneration comprised:

	2006 £'000	2005 £'000
Wages and salaries	3,769	2,786
Social security costs	405	290
Other pension costs	92	67
	<b>4,266</b>	<b>3,143</b>

All the group's employees are employed by the holding company, Augean PLC.

### 7 Directors' emoluments

#### Directors' remuneration

	2006 £'000	2005 £'000
Executive directors' emoluments	447	517
Non-executive directors' fees	138	130
Company pension contributions to money purchase schemes	19	33
	<b>604</b>	<b>680</b>

#### Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2006 £'000	2005 £'000
Emoluments – salary and benefits	379	314
Company contributions to money purchase schemes	17	15
	<b>396</b>	<b>329</b>

Further details of directors' remuneration, including pension contributions, share options and compensation for loss of office are provided in the directors' report.

## 8 Tax

	2006 £'000	2005 £'000
<b>Current tax</b>		
UK corporation tax on loss for the period	—	1,380
Adjustments in respect of prior periods	(89)	—
<b>Tax charge on loss</b>	<b>(89)</b>	<b>1,380</b>

### Current tax reconciliation

	2006 £'000	2005 £'000
Loss before tax	(7,471)	(6,670)
Theoretical tax at UK corporation tax rate of 30%	(2,241)	(2,001)
Effects of:		
– expenses not deductible for tax purposes	122	105
– depreciation in excess of capital allowances	847	456
– goodwill amortised	3,032	3,024
– utilisation of tax losses	(600)	(190)
– other timing differences (mainly relating to specific tax rules for the timing of landfill deductions)	(1,160)	(14)
Actual current tax charge for period	—	1,380

No deferred tax asset has been recognised during the year in respect of timing differences and tax losses in certain of the group's subsidiaries as there is uncertainty over the extent and timing of its recovery. The potential asset is analysed as follows:

	2006 £'000	2005 £'000
Depreciation in excess of capital allowances	777	502
Unused tax losses carried forward	2,950	3,550
Other timing differences (mainly relating to specific tax rules for the timing of landfill deductions)	685	1,845
Unrecognised deferred tax asset	<b>4,412</b>	<b>5,897</b>

## Notes to the financial statements for the year ended 31 December 2006

### 9 Earnings per share

	2006 Pence	2005 Pence
Basic and diluted loss per share	(11.3)	(16.4)
Adjusted earnings per share	5.6	4.1

For the period ended 31 December 2006, the calculation of the basic loss per share was based on 65,488,892 shares (2005: weighted average of 49,065,022 shares) in issue during the period and the loss after tax of £7,382,000 (2005: £8,050,000). The adjusted earnings per share is based on the same numbers of shares and the loss after tax adjusted for amortisation of goodwill and exceptional items of £3,646,000 (2005: £2,030,000).

No diluted loss per share arises due to the loss in the year, resulting in no dilutive share options.

### 10 Intangible fixed assets

#### Group

	Goodwill £'000
<b>Cost</b>	
At 1 January 2006	95,892
Acquisitions – current year (note 24)	8,330
Changes on revision of fair values (note 24)	653
<b>At 31 December 2006</b>	<b>104,875</b>
<b>Amortisation</b>	
At 1 January 2006	10,080
Charge for the year	10,405
<b>At 31 December 2006</b>	<b>20,485</b>
<b>Net book value</b>	
<b>At 31 December 2006</b>	<b>84,390</b>
At 31 December 2005	85,812

### 11 Fixed asset investments

#### Company

	£'000
<b>Cost</b>	
At 1 January 2006	116,404
Changes on revision of fair values (note 24)	94
<b>At 31 December 2006</b>	<b>116,498</b>

## 11 Fixed asset investments continued

### Company continued

Details of the principal subsidiary companies are as follows:

Name of company	Country of registration or incorporation	Proportion held %	Nature of business
Atlantic Waste Limited	England and Wales	100	Dormant
Atlantic Freeholds Limited	England and Wales	100	Dormant
Atlantic Freeholds (No. 2) Limited	England and Wales	100	Dormant
Wastego Recycle Limited	England and Wales	100	Skip hire
Atlantic Waste (Thornhaugh) Limited	England and Wales	100	Landfill site
GCN Limited	England and Wales	77	Aggregate and minerals
Augean Treatment Limited*	England and Wales	100	Waste treatment
Augean North Limited*	England and Wales	100	Landfill site
Augean South Limited	England and Wales	100	Landfill site
Broomco (3611) Limited*	England and Wales	100	Receipt of royalties

\* Identifies those companies owned directly by the company.

In addition to the above, the company holds 50% of the issued share capital of Terramundo Limited, a joint venture with DEC NV, which did not trade during the year.

## 12 Tangible fixed assets

### Group

	Freehold land and buildings £'000	Engineered cells £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>				
At 1 January 2006	27,395	5,467	1,671	34,533
Acquisitions	2,450	—	238	2,688
Additions	510	340	723	1,573
Disposals	(1,759)	(1,530)	(573)	(3,862)
<b>At 31 December 2006</b>	<b>28,596</b>	<b>4,277</b>	<b>2,059</b>	<b>34,932</b>
<b>Accumulated depreciation</b>				
At 1 January 2006	2,521	2,210	255	4,986
Charged in the year	1,905	2,066	603	4,574
Disposals	(1,759)	(1,530)	(302)	(3,591)
<b>At 31 December 2006</b>	<b>2,667</b>	<b>2,746</b>	<b>556</b>	<b>5,969</b>
<b>Net book value</b>				
<b>At 31 December 2006</b>	<b>25,929</b>	<b>1,531</b>	<b>1,503</b>	<b>28,963</b>
At 31 December 2005	24,874	3,257	1,416	29,547

## Notes to the financial statements for the year ended 31 December 2006

### 12 Tangible fixed assets continued

Plant and machinery includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	<b>2006</b> <b>£'000</b>	2005 £'000
Cost	<b>517</b>	542
Accumulated depreciation	<b>(188)</b>	(119)
Net book value	<b>329</b>	423

### Company

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>			
At 1 January 2006	769	262	1,031
Additions	2	72	74
<b>At 31 December 2006</b>	<b>771</b>	<b>334</b>	<b>1,105</b>
<b>Depreciation</b>			
At 1 January 2006	5	26	31
Charged in the year	13	90	103
<b>At 31 December 2006</b>	<b>18</b>	<b>116</b>	<b>134</b>
<b>Net book value</b>			
<b>At 31 December 2006</b>	<b>753</b>	<b>218</b>	<b>971</b>
At 31 December 2005	764	236	1,000

Plant and machinery includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	<b>2006</b> <b>£'000</b>	2005 £'000
Cost	<b>22</b>	22
Accumulated depreciation	<b>(10)</b>	(4)
Net book value	<b>12</b>	18



### 13 Debtors Group

	2006 £'000	2005 £'000
Trade debtors	5,006	5,735
Other debtors	376	339
Prepayments and accrued income	652	797
	<b>6,034</b>	<b>6,871</b>

### Company

Other debtors	135	191
Amounts owed by group companies	10,223	—
Prepayments	314	197
	<b>10,672</b>	<b>388</b>

### 14 Creditors: amounts falling due within one year Group

	2006 £'000	2005 £'000
Bank overdraft (note 17)	1,636	729
Bank loan (note 17)	2,000	—
Obligations under finance leases and hire purchase contracts (note 17)	132	181
Debt factoring (note 17)	—	2,346
Trade creditors	2,833	2,235
Corporation tax	1,265	1,436
Other tax and social security	1,041	1,533
Accruals	1,879	1,378
	<b>10,786</b>	<b>9,838</b>

### Company

Bank overdraft	1,886	180
Bank loan (note 17)	2,000	—
Other tax and social security	161	—
Accruals	621	—
Amounts due to subsidiary undertakings	7,531	5,496
Obligations under finance leases and hire purchase contracts	7	7
	<b>12,206</b>	<b>5,683</b>

## Notes to the financial statements for the year ended 31 December 2006

### 15 Creditors: amounts falling due after more than one year

#### Group

	2006 £'000	2005 £'000
Bank loan (note 17)	7,000	—
Other loan	—	100
Obligations under finance leases and hire purchase contracts (note 17)	119	235
	<b>7,119</b>	<b>335</b>

#### Company

Bank loan	7,000	—
Obligations under finance leases and hire purchase contracts (note 17)	1	8
	<b>7,001</b>	<b>8</b>

### 16 Provisions for liabilities and charges

	2006		
	Restoration and after-care costs of landfill sites £'000	Other provisions £'000	Total £'000
At 1 January 2006	1,351	5,985	7,336
Changes on revision of fair values (note 24)	—	559	559
Charged to profit and loss account during the year	262	—	262
Utilised during the year	(49)	(4,024)	(4,073)
<b>At 31 December 2006</b>	<b>1,564</b>	<b>2,520</b>	<b>4,084</b>

The provision for restoration and after-care relates to closure and post-closure costs for all landfill sites, charged over the estimated active life of the landfill sites. The expenditure is incurred partially on completion of the landfill sites and in part after the closure of the landfill sites over a considerable period of years. The provision has been estimated using current costs and is discounted using a real rate of 3%.

Other provisions relate to the cost of capping cells acquired and for remediation of issues inherited on landfill sites acquired from Atlantic Waste Holdings Limited.

## 17 Analysis of debt

### Group

	2006 £'000	2005 £'000
Bank overdraft	1,636	729
Obligations under finance leases and hire purchase contracts	251	416
Bank loan	9,000	—
Other loan	—	100
Debt factoring	—	2,346
	<b>10,887</b>	<b>3,591</b>
Maturity of debt		
In one year or less or on demand	3,768	3,256
In more than one year but not more than two years	2,080	214
In more than two years but not more than five years	5,039	121
	<b>10,887</b>	<b>3,591</b>

Obligations under finance leases and hire purchase contracts are repayable as follows:

	2006 £'000	2005 £'000
Due within one year	132	181
Due between one to two years	80	114
Due between two to five years	39	121
	<b>251</b>	<b>416</b>

The group's debt factoring was secured upon the debtors of Atlantic Waste Services Limited, of Atlantic Waste (Thornhaugh) Limited and of Augean South Limited but following the termination of the factoring agreement all the securities have been released. The obligations under finance leases and hire purchase contracts are secured against the specific assets financed. The bank overdraft, bank loan and guarantees are secured by way of cross guarantees and indemnities across the group.

Further information on financial instruments is provided in note 25.

## Notes to the financial statements for the year ended 31 December 2006

### 18 Share capital

	2006 £'000	2005 £'000
Authorised – 100,500,000 shares of 10p	<b>10,050</b>	10,050
Allotted, called up and fully paid – 65,488,892 shares of 10p	<b>6,549</b>	6,549

There were no changes in the authorised share capital or in the issued share capital during the year.

At 31 December 2006 outstanding options to subscribe for shares, granted in accordance with the rules of the relevant share option schemes, were as follows:

Exercise date	Exercise price	At 1 January 2006	Lapsed	Awarded	At 31 December 2006
December 2004 – December 2014	180.0p	1,850,000	—	—	<b>1,850,000</b>
December 2008 – December 2015	147.5p	444,234	(104,406)	—	<b>339,828</b>
October 2009 – October 2016	138.25p	—	—	144,665	<b>144,665</b>
		2,294,234	(104,406)	144,665	<b>2,334,493</b>

Subsequent to the year end, a further 281,800 share options have been awarded to Peter Worledge.

The assumptions used in the calculation of the fair value of the share options and warrants are as follows:

	Share options	Share options
Grant date	14 December 2005	30 October 2006
Share price at grant date	£1.47	£1.38
Exercise price	£1.47	£1.38
Shares under option/warrant	339,828	144,665
Expected volatility	40%	40%
Expected life (years)	4.0	4.0
Risk-free rate	4.3%	4.3%
Expected dividend yield	2.3%	2.3%
Fair value per option/warrant	£0.49	£0.49

Expected volatility was determined by reviewing the historical volatility of the company's share price since its formation by comparison to the average volatility of comparable listed companies.

## 18 Share capital continued

The risk-free rate of return is the yield on zero coupon UK government bonds of a term equal to the expected term of the options.

The outstanding share options have been awarded to current directors (1,076,465 shares), former directors (1,350,000 shares) and employees (189,828 shares).

The share options have no performance criteria.

Warrants for conversion into a total of 1,309,776 new ordinary shares were issued in 2004 to both Marwyn Capital Limited (Marwyn) (of which David Williams is chairman) and Numis Securities Limited (Numis). Each warrant is over 1% of the issued share capital and is exercisable from 15 March 2005 until 14 December 2009, being the fifth anniversary of the date of admission of the ordinary shares. The exercise price for the warrants is 180p per share. The warrants lapse six weeks after a takeover if they have not then been exercised. In the event of any variation in the share capital of the company, the company, if requested by the warrant holder, is required to instruct the auditors of the company to determine what adjustment (if any) should be made to the number and nominal value of the shares subject to the warrants and/or the exercise price. The warrants granted to Marwyn and Numis are transferable by Marwyn and Numis to their respective shareholders, directors, officers and employees.

The total potential number of ordinary shares should all existing share options and warrants be exercised is as follows:

	Number
Ordinary shares in issue	65,488,892
Share options	2,616,293
Warrants	1,309,776
<b>Total potential issued share capital</b>	<b>69,414,961</b>

## 19 Combined reconciliation of movements in shareholders' funds and movement in reserves Group

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Shareholders' funds £'000
At January 2006	6,549	106,222	(8,050)	104,721
Share-based payment	—	—	59	59
Retained loss for the year	—	—	(7,382)	(7,382)
<b>At 31 December 2006</b>	<b>6,549</b>	<b>106,222</b>	<b>(15,373)</b>	<b>97,398</b>

### Company

At 1 January 2006	6,549	106,222	(670)	112,101
Share-based payment	—	—	59	59
Retained loss for the year	—	—	(3,226)	(3,226)
<b>At 31 December 2006</b>	<b>6,549</b>	<b>106,222</b>	<b>(3,837)</b>	<b>108,934</b>

## Notes to the financial statements for the year ended 31 December 2006

### 20 Operating lease commitments

The group has annual commitments under non-cancellable operating leases as follows:

	2006 £'000	2005 £'000
Plant and machinery		
Leases which expire:		
– within one year	24	86
– within two to five years	502	383
	<b>526</b>	469
Land and buildings		
Leases which expire:		
– after five years	44	44
	<b>44</b>	44

### 21 Reconciliation of operating loss to net cash inflow from operating activities

	2006 £'000	2005 £'000
Operating loss	<b>(6,451)</b>	(6,392)
Amortisation of goodwill	<b>10,405</b>	10,080
Depreciation	<b>4,574</b>	4,986
After-care provisions	<b>168</b>	235
Earnings before interest, tax, depreciation and amortisation (EBITDA)	<b>8,696</b>	8,909
Loss on sale of fixed assets	<b>100</b>	—
Share-based payments	<b>59</b>	—
Decrease in debtors	<b>1,012</b>	2,244
Increase/(decrease) in creditors	<b>475</b>	(3,602)
Provisions spent	<b>(4,073)</b>	(235)
Net cash inflow from operating activities	<b>6,269</b>	7,316

## 22 Gross cash flows

	2006 £'000	2005 £'000
<b>Returns on investment and servicing of finance</b>		
Interest paid and similar charges	1,056	565
Interest received	(30)	(287)
	<b>1,026</b>	<b>278</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire tangible fixed assets	1,516	4,589
Receipts from the sale of fixed assets	(171)	—
	<b>1,345</b>	<b>4,589</b>
<b>Acquisition of businesses</b>		
Payments to acquire businesses – current year acquisitions	11,018	65,832
Payments to acquire businesses – prior year acquisitions	94	—
Cash acquired with businesses	—	(1,158)
	<b>11,112</b>	<b>64,674</b>
<b>Financing</b>		
Net proceeds of share issue	—	97,821
Capital element of finance lease payments	(165)	(358)
Repayment of debt factor advances	(2,346)	(345)
Receipts/(repayment) of loans	8,900	(35,572)
Redemption of preference shares	—	(50)
	<b>6,389</b>	<b>61,496</b>

## 23 Analysis of changes in net debt

	31 December 2005 £'000	Cash flow £'000	31 December 2006 £'000
Overdraft	(729)	(907)	<b>(1,636)</b>
Debt due within one year	(2,346)	346	<b>(2,000)</b>
Debt due after one year	(100)	(6,900)	<b>(7,000)</b>
Finance leases/hire purchase	(416)	165	<b>(251)</b>
Net debt	<b>(3,591)</b>	<b>(7,296)</b>	<b>(10,887)</b>

## Notes to the financial statements for the year ended 31 December 2006

### 24 Acquisitions

#### Acquisition of the business of Credential Hazardous Waste

During the year the group acquired the trade and certain assets of Credential Hazardous Waste. Further details are provided in the directors' report. The assets of the acquired business have been recorded at their fair values as shown in the table below:

	Fair value £'000
Tangible fixed assets – plant	238
Tangible fixed assets – property	2,450
	2,688
Goodwill	8,330
	<b>11,018</b>
Satisfied by	
Cash paid	10,700
Acquisition expenses	318
	<b>11,018</b>

No adjustments were made to the book value of the plant acquired. It has not been possible to ascertain the book value of the property on acquisition. As the acquired business was previously a division of Credential Environmental Limited, it is not possible to extract historic trading information from statutory accounts. Unaudited EBITDA for the business for its last financial year ended 31 March 2006 was £750,000 and for the two month period prior to acquisition was £96,000.

Since acquisition the operations of the business acquired have been integrated into the group's existing operations. As a result it is impractical to isolate the cash flows of the acquired business.

#### Prior year acquisitions

The assessment of the fair values in relation to the acquisitions of Atlantic Waste Holdings Limited and Zero Waste Limited in the last period was complex. The final review has resulted in some revisions to the values reported last year as detailed below:

##### Atlantic Waste Holdings Limited

The 2005 financial statements included fair value adjustments for the estimated costs of capping cells of £1,743,000 and for site remediation of £4,176,000. The group now has further certainty of the likely final costs of meeting these obligations and has therefore increased its estimate by a further £701,000, with a corresponding increase in goodwill.

In addition, a further £67,000 of costs relating to the acquisition were incurred during the year, resulting in an increase in goodwill and in the cost of investment in the consolidated and company balance sheets respectively.

##### Zero Waste Holdings Limited

The 2005 financial statements included fair value adjustments for the estimated costs of capping cells of £1,152,000. The group now has further certainty of the likely final costs of meeting these obligations and has therefore reduced its estimate by £142,000, with a corresponding reduction in goodwill.

In addition, a further £27,000 of costs relating to the acquisition were incurred during the year, resulting in an increase in goodwill and in the cost of investment in the consolidated and company balance sheets respectively.



## 25 Financial instruments

The group's principal financial instruments during the period comprised bank loans, cash, debt factoring (repaid in July 2006), hire purchase and an interest-free loan (repaid in June 2006). The main purpose of these financial instruments is to finance the group's operations. The group has other financial instruments which include short term debtors and creditors which arise directly from its operations. As permitted under FRS 13, these short term instruments have been excluded from the following disclosures in this note. There was no material difference between the fair value of the assets and liabilities and their book value.

It is and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

As the group's transactions take place in sterling there is no foreign currency risk. The principal risks arising from the group's financial instruments are liquidity and interest rate risk.

### Liquidity risk

The group carries relatively low levels of debt, its cash generating and short term flexibility is achieved by overdraft facilities of up to £20m including the guarantees detailed in note 27. These facilities are on demand.

### Interest rate risk

The group finances its operations through a mixture of retained profits and bank borrowings, hire purchase and loans. Due to the relatively low level of the group's borrowings no interest rate swaps or other forms of risk management have been undertaken. The group regularly reviews its exposure to interest rate risk and will take future action if required to minimise the impact on the business of movements in interest rates.

The interest rate profile of the group's financial liabilities at 31 December 2006 was:

	Interest free £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Bank overdraft	—	—	1,636	1,636
Bank loan	—	—	9,000	9,000
Hire purchase	—	251	—	251
<b>At 31 December 2006</b>	<b>—</b>	<b>251</b>	<b>10,636</b>	<b>10,887</b>
At 31 December 2005	100	416	3,075	3,591

The interest rate on the floating rate borrowings is between 1.0% and 1.5% above LIBOR.

The hire purchase agreements have a weighted average interest rate of 7.6% and a weighted average duration of one year.

The maturity profile of the group's financial liabilities is shown in note 17.

## Notes to the financial statements for the year ended 31 December 2006

### 26 Post-balance sheet events

There have been no post-balance sheet events.

### 27 Contingent liabilities and cross guarantees

In accordance with Part II of the Environment Protection Act 1990, the group has to make such financial provision as is deemed adequate by the Environment Agency to discharge its obligations under the relevant waste management licence at its landfill sites. Consequently bank guaranteed bonds have been provided in favour of the Environment Agency in respect of the King's Cliffe, Thornhaugh, Port Clarence and Mark's Quarry landfill sites. Total bank guarantees outstanding at the year end were £9,583,000. Future site restoration costs for each landfill site have been provided as disclosed in note 16.

### 28 Related party disclosures

There were no transactions or contracts of significance with related parties, other than those disclosed in the directors' report and note 18. FRS 8 (Related party transactions) requires the disclosure of the details of material transactions between reporting entities and related parties. The group has taken advantage of exemptions under FRS 8 not to disclose transactions between subsidiaries, 90% or more of whose voting rights are controlled within the group.

## Notice of annual general meeting

Notice is hereby given that the annual general meeting of Augean PLC will be held at the offices of Mayer, Brown, Rowe & Maw LLP at 11 Pilgrim Street, London EC4V 6RW at 11.00 a.m. on Tuesday 5 June 2007 for the following business, resolutions 1 to 8 being proposed as ordinary resolutions and resolution 9 as a special resolution:

### Ordinary business

1. To receive and adopt the directors' report and the financial statements of the company for the year ended 31 December 2006.
2. To re-appoint RSM Robson Rhodes LLP as auditors and to authorise the directors to fix their remuneration.
3. To elect Peter Worlledge as a director.
4. To elect Peter Southby as a director.
5. To elect Paul Blackler as a director.
6. To elect Rory Macnamara as a director.
7. To re-elect David Williams as a director.
8. In substitution for all existing authorities (save to the extent already utilised), the directors of the company be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the Act) to exercise all the powers of the company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £327,445 provided that this authority (unless previously renewed, varied or revoked by the company in general meeting) shall expire at the end of the next annual general meeting of the company to be held after the date of the passing of this resolution or, 15 months from the date of the passing of this resolution, whichever is the earlier and that the directors shall be entitled under the authority conferred by Section 80(7) of the Act and this resolution to make at any time prior to the expiry of such authority any offer or agreement which would or might require securities of the company to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority hereby conferred had not expired.

### Special business

9. In substitution for all existing authorities (save to the extent already utilised), subject to the passing of resolution 8 above, the directors of the company be and they are hereby generally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act and/or where such an allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the Act) for cash pursuant to the authority conferred on them by resolution 8 above as if Section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to:
  - 9.1 the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or any territory; and

# Notice of annual general meeting

## Special business continued

9. continued

9.2 the allotment (otherwise than pursuant to paragraph 9.1 above) of equity securities for cash up to an aggregate nominal value not exceeding £327,445;

and this power (unless previously renewed, varied or revoked) shall expire at the end of the next annual general meeting of the company to be held after the date of the passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier but the company may make any offer or agreement which would or might require equity securities to be allotted after the expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement as if the authority hereby conferred had not expired.

By order of the board



**Peter Worlledge**

Chief executive  
20 March 2007

## Registered office

4 Rudgate Court  
Walton  
Wetherby  
LS23 7BF

## Notes

1. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the company gives notice that only those shareholders entered on the relevant register of members (the register) for certificated or uncertificated shares of the company (as the case may be) at 11.00 a.m. on 1 June 2007 (the specified time) will be entitled to attend or vote at the annual general meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register after the specified time will be disregarded in determining the rights of any person to attend or vote at the annual general meeting. Should the annual general meeting be adjourned to a time not more than 48 hours after the specified time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned annual general meeting. Should the annual general meeting be adjourned for a longer period, then to be so entitled, members must be entered on the register at the time which is 48 hours before the time fixed for the adjourned annual general meeting or, if the company gives notice of the adjourned annual general meeting, at the time specified in the notice.
2. Any member entitled to attend and vote at the annual general meeting may appoint one or more other persons as a proxy or proxies to attend and, in the event of a poll, to vote instead of him or her. A proxy need not be a member of the company. Shareholders will receive a proxy form with this document. Proxy forms should be lodged with the company's registrar or submitted not later than 48 hours before the time for which the annual general meeting is convened. Completion of the appropriate proxy form does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.

## Advisers and company information

### Secretary

Susan Fadil FCIS

### Registered office

4 Rudgate Court  
Walton  
Wetherby LS23 7BF

### Registered number

5199719  
(incorporated and registered in England and Wales)

### Website

[www.augeanplc.com](http://www.augeanplc.com)

### Nominated adviser

Bridgewell Securities Limited  
Old Change House  
128 Queen Victoria Street  
London EC4V 4BJ

### Auditors

RSM Robson Rhodes LLP  
St. George House  
40 Great George Street  
Leeds LS1 3DQ

### Solicitors

Walker Morris  
Kings Court  
12 King Street  
Leeds LS1 2HL

Mayer Brown Rowe & Maw LLP  
11 Pilgrim Street  
London EC4V 6RW

### Bankers

Bank of Scotland  
155 Bishopsgate  
London EC2M 3YB

### Registrars

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