Augean PLC

the hazardous waste specialist

Annual Report 2007

Augean PLC is a market-leading, UK-based specialist waste and resource management group focused on providing a broad range of services to the hazardous waste sector. The group is at the forefront of developing innovative process and technological solutions, has permitted strategic locations throughout the UK and is positioned to lead the modernisation of the UK specialist waste infrastructure.

Treatment division
Paisley
Ellesmere Port
Avonmouth
Cannock
Hinckley
Worcester

Terramundo division
Port Clarence

Landfill division
King's Cliffe
Thornhaugh
Port Clarence

Head office
Wetherby

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Financial highlights

- 5% increase in revenue excluding landfill tax to £22.6m (2006: £21.4m)
- 8% increase in operating profit before exceptional items to £4.9m (2006: £4.6m)
- 8% increase in profit before tax, joint venture and exceptional items to £3.8m (2006: £3.5m)
- 2% increase in adjusted earnings per share to 5.7p (2006: 5.5p)
- 23% increase in cash flow from operations to £7.7m (2006: £6.3m)
- Exceptional goodwill impairment charge recognised of £26.8m

Operational highlights

- Paul Blackler appointed CEO
- Acquisition and successful integration of two strategic recycling and treatment businesses
- Planning permission granted for Port Clarence Waste Recovery Park
- Approval for construction of advanced in-vessel treatment facility at Cannock
- Full IMS accreditation received across group
- Laboratory services phase 2 operational
- Terramundo land remediation centre opened
- Planning permission granted for second Terramundo facility at King's Cliffe

At a glance

Augean has three divisions....

Treatment division

The treatment division operates from a number of strategic locations around the UK thus providing regionally important collection, process and transfer facilities tailored to meet our clients' needs.

The sites all operate under strict PPC permits and are managed through an Integrated Management System (IMS)

Landfill division

The landfill division operates three modern hazardous waste landfill installations providing over 50% of the permitted hazardous waste landfill void in the UK. Each site is engineered to the prescribed standards and operated and monitored under strict PPC permits. The sites are strategically located with Port Clarence (near Middlesborough)

Terramundo division

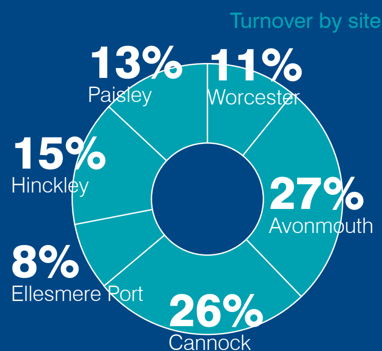
The Terramundo facility situated at Port Clarence is the UK's largest fixed contaminated soil treatment and recycling centre. The Terramundo brand was formed with the development of a joint venture company with DEC (part of the DEME Group), a Belgium based specialist treatment contractor.

which delivers industry standards of excellence in health, safety and environmental controls married with a bespoke IT management system (SWOPS) which tracks all movements through each facility.

Each site provides specific treatment expertise in the following areas:

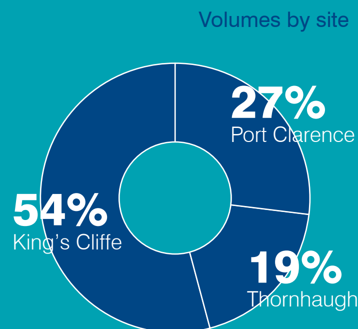
Cannock	–	treatment, transfer
Hinckley	–	transfer, mobile technical services
Worcester	–	treatment, transfer, recycling
Avonmouth	–	treatment, recycling, recovery
Paisley	–	treatment, recycling, recovery
Ellesmere Port	–	industrial services

Turnover by site



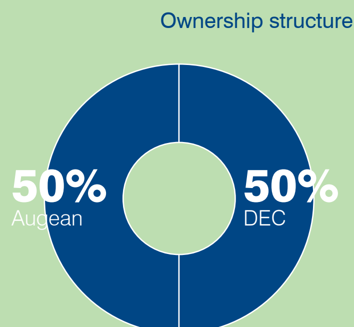
providing capacity in the North of England, and both King's Cliffe and Thornhaugh (near Peterborough) providing capacity in the South. The landfills are permitted to handle a broad range of hazardous materials which comply with the sites' waste acceptance procedures. The main waste streams which are managed by the landfill division are contaminated soils from industrial land remediation work, fibrous and bonded asbestos, treatment residues and filtercakes. The division is supported by the laboratory services team which operates an advanced laboratory at King's Cliffe providing waste testing and compliance services.

Volumes by site



The facility operates a number of specialist processes; the primary process is soil washing which is a technique applicable to both organic and inorganic contaminants. Bioremediation (a form of composting) is suitable for soils contaminated with organic pollutants, such as mineral oil, petrol or diesel. Cement stabilisation is used to solidify soils and encapsulate contaminants to render those materials that cannot be recovered suitable for landfill.

Ownership structure



Chairman's statement

DAVID WILLIAMS

We have reported results broadly in line with expectations. Net revenue excluding landfill tax for the year ended 31 December 2007 increased by 5% to £22.6m (2006: £21.4m). Including landfill tax, total group revenue was broadly flat at £26.3m (2006: £26.6m).

Operating profit before exceptional items increased by 8% to £4.9m (2006: £4.6m). The statutory results include a number of exceptional items, the most significant of which relates to a £26.8m impairment charge for goodwill in the landfill division. This accounting charge has been calculated according to the requirements of International Financial Reporting Standards (IFRS) and does not affect the cash flow of the business. Earnings per share adjusted for exceptional items were 5.7p per share versus 5.5p per share in 2006.

...good cash flow has meant we are still only modestly geared and therefore in a good position to take advantage of any further deals that could be appropriate for us.

Net revenue[1]

£22.6m

(2006: £21.4m)

Paul Blackler and Peter Worlledge joined our board as executive directors in the first quarter of 2007, with Paul moving up to the role of chief executive upon Peter's resignation at the end of November 2007. Paul's experience in this sector of the waste market is second to none and your directors, as well as our customers, see this as a very positive move.

Paul describes in the business review how he sees our market developing and what his plans are to take advantage of the opportunities as they arise. We have been active on the acquisition front during the year as we have moved the business further into the treatment market. Despite the acquisition activity, good cash flow has meant we are still only modestly geared and therefore in a good position to take advantage of any further deals that could be appropriate for us.

The hazardous waste market continues to evolve and we have placed more emphasis on the treatment of waste, where the growth opportunities are greater than in just pure landfill. Substantial funds have been invested to provide our customers with the best facilities possible. We have refined our team to meet our customers' demands and are now satisfied that all the necessary changes have been made to deal with the evolving marketplace we serve.

Your directors wish to thank all our staff for their hard work throughout the year.

We intend to consolidate our leading position within the hazardous waste market and anticipate further profitable times ahead in 2008 with strong cash flow.

David Williams
Chairman
18 March 2008

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Earnings per share[2]

5.7p

(2006: 5.5p)

Operating profit[2]

£4.9m

(2006: £4.6m)

[1] Excluding landfill tax

[2] Before exceptional items

Business review

PAUL BLACKLER, CHIEF EXECUTIVE
PETER SOUTHBY, FINANCE DIRECTOR

Introduction

The board has set out to ensure that the resources and expertise are now in place to take the business through the current transitional phase to a period of stability, opportunity and growth, through the development of strong strategic assets and a business plan to create further value through growth in market share and client relationships.

2007 provided encouragement in pursuing this vision, as the business further developed its position in the market by enhancing its locations and services through asset development and acquisitions. However, short term performance was hindered by a number of issues, the most significant of which was the downturn in volumes from remediation projects over the unseasonably wet summer months, which affected the performance of the landfill division.

The treatment division also had a mixed year driven in part by an inconsistent regulatory approach which resulted in Augean's sites finding it, on occasion, difficult to compete with those operating at a lower standard, and in part by management changes within the group. The ongoing implementation of the Pollution Prevention Control (PPC) regime has seen a positive

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Profit before tax[1]

£3.8m

(2006: £3.5m)

Operating cash flow

£7.7m

(2006: £6.3m)

[1] Before exceptional items

impact on the standards required to operate treatment and transfer facilities but the certainty of consistent regulatory enforcement and control has not always been fully effective. Augean is proud to have maintained excellent operating standards at its sites which have resulted in the attainment of Integrated Management System (IMS) accreditation.

The group has continued to maintain strong cash generation, which has allowed for continued investment in developing the group's position in the market. The group has pursued opportunities with its assets to achieve the change of use to deliver further enhanced services to its clients. Along with two important strategic acquisitions, Augean's strategy of delivering enhanced services, locations and development opportunities has seen a further expansion of the group.

In the market there has been some improvement in stability as the significant regulatory and process change has become progressively integrated throughout the sector. In addition there is growing evidence of the market shift and the full effect of the Landfill Directive implementation, which is changing the profile of the

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waste streams for the group. As a result of this change, Augean has focused on ensuring that the right resources are in place, including a thorough review of the group's structure, resources and skills, to create a strong working environment for the business to deliver success. The group's staff have been exceptional in their response to embracing these changes and this provides a solid foundation for the further challenges ahead.

The hazardous waste market

The government updated its Waste Strategy in 2007 with clear objectives to change the way the United Kingdom manages its waste. The Waste Strategy sets a number of core objectives for the future:

- decouple waste growth from economic growth and put more emphasis on prevention and re-use;
- meet and exceed the Landfill Directive diversion targets for biodegradable municipal waste in 2010, 2013 and 2020;
- increase diversion from landfill of non-municipal waste and secure better integration of treatment;
- secure the investment in infrastructure needed to divert waste from landfill and for the management of hazardous waste; and
- get the most environmental benefit from that investment, through increased recycling of resources and recovery of energy from residual waste using a mix of technologies.

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The hazardous waste market continued

With particular focus on hazardous waste, the strategy clearly defines the climate and market which the board recognises creates opportunities now and for the future. Augean is one of only a relatively small number of businesses that has sought and received approval for permissions to construct a modern waste infrastructure in line with the government's core waste objectives.

The board has continually reviewed market trends as new information provides more transparency about the origin, quantities and management of wastes in the United Kingdom. This has brought more confidence in the investment climate as the sector realises the key areas in need of change.

Whilst Augean has aligned its business to the fundamental objectives of the developing market, it should be noted that level and consistent regulatory standards have not yet been fully achieved. Regional differences in standards accepted within the sector persist, though the expectation has to be that this will improve in time and further benefit the market position for the group.

Strategy

The board has maintained a focused strategic direction for the business. Asset development continues to be at the centre of the group's strategy and in 2007 the group achieved significant success in obtaining planning permissions to allow the asset development programmes to proceed. This puts Augean in a position to build new infrastructure to bring on line new revenue and profit streams to the group.

Within the landfill division the group owns significant assets in the void space at its three operational sites. Following the re-assignment of void at Port Clarence from non-hazardous to hazardous in March 2007 the group now enjoys 6.8m cubic metres of hazardous void space, representing over half of the country's permitted merchant hazardous landfill void. In addition the land banks within the group ownership boundaries on all the sites are being reviewed to ensure that at the appropriate time they can be programmed to deliver additional void for the future.

The ongoing strategy of developing rapidly towards a modern and fit-for-purpose waste infrastructure ensures that the growth in the business is underpinned by the regulatory guidance and compliance position. The group continues to play an important role in the development of the regulatory framework for the sector. Augean engages constructively and proactively at all levels with the regulators promoting the high standards and regulatory clarification necessary for the modernisation of the sector.

Whilst organic growth is an important element to the business's progression, it will be supplemented by acquisitions. The acquisition strategy will be guided by the principles of location, barriers to entry, growth and market.

The Waste Strategy has continued to provide a framework to direct the business to deliver the most appropriate methods of handling wastes with the objective of delivering enhanced shareholder value through long term strategic developments. Specifically the Waste Strategy has identified a clear need for a range of hazardous waste treatment capacity which has become an important signpost for the development strategy of the business. The group is in advanced negotiations to bring to the market further technologies which are energy focused and target the principles of the waste hierarchy and carbon management. This will increase Augean's exposure to new and exciting long term energy markets to complement the existing disciplines and services.

The review of the waste framework directive with member states is further developing the concept of legal support for the waste hierarchy. This will enable the regulator to enforce standards and methods of waste management through the hierarchy; the work to date puts the business in an ideal position to meet the challenges ahead.

> "The Waste Strategy has continued to provide a framework to direct the business to deliver the most appropriate methods of handling wastes with the objective of delivering enhanced shareholder value through long term strategic developments.

Augean has reviewed its core disciplines and defined its key competencies as being in the operation of hazardous landfills, the treatment and recycling of hazardous wastes, the client service vision for delivering complex solutions in a highly regulated business and the development of value added technologies to lead the modernisation of the waste infrastructure in the United Kingdom.

Augean's strategy to deliver value may therefore be summarised as follows:

- maximise value of the hazardous landfill void;
- operate compliant and competitive treatment and recycling operations;
- capitalise on strong asset-backed business;
- pursue profitable contracts for the group's services;
- achieve planning and permitting status for the future developments in the market; and
- implement proven technological solutions to modernise the United Kingdom's waste infrastructure.

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.

Case study
Site enabling works – Stratford, East London

Our services are often intrinsically linked to other sub-sectors of the market, this was clearly demonstrable when DEC, our joint venture partners with Terramundo, were working on the on-site remediation contract being tendered on behalf of the Olympic Delivery Authority. The tender required DEC to provide a broad range of on-site contractor services to meet the project objectives of ground remediation to enable the large construction projects to commence. Therefore cost, time and deliverables were at the forefront of a successful bid.

Augean worked directly with DEC at this bidding stage to comply with the strict tendering process and underpinned the bid by providing DEC with all the hazardous waste management support and a competitive commercial position relating to all wastes which would require removal from site following the DEC remediation works. DEC was successful in winning the largest portion of on-site remediation on the project and with this brought the waste arising from the project to be managed and handled by Augean. Augean handled over 12,000 tonnes from the project in 2007.

Principal risks and their mitigation continued

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 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. 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.

> "The group is in advanced negotiations to bring to the market further technologies which are energy focused and target the principles of the waste hierarchy and carbon management. This will increase Augean's exposure to new and exciting long term energy markets to complement the existing disciplines and services.

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 year began with an emerging treatment division, still new in its creation from acquisitions over the preceding 18 months, to which the group has further added with the acquisition of Chemical Recoveries at the end of October 2007 and Hitech in December 2007. Turnover for the enlarged division was £10.5m and operating profit was £1.5m.

The acquisition of Chemical Recoveries has expanded the group's capacity in the processing of waste liquids. Its site in Avonmouth specialises in the recycling and recovery of contaminated industrial solvents, oils, sludges and wastewaters. The 3.4 acre facility is operated under a modern PPC permit and has a range of process options for different waste streams ranging from physicochemical and phase separation techniques, aerobic and anaerobic biological treatment, thermal recovery including steam distillation to bulking, blending and transfer activities. The site currently processes approximately 70,000 tonnes of waste per annum.

The Hitech business brought the group a fully permitted hazardous waste treatment and recycling facility in Paisley, Glasgow and an industrial services operation in Ellesmere Port in the North West of England. Hitech has developed innovative solutions for the management of hazardous wastes and additionally specialises in both industrial services and branded collection systems.

The existing management teams of both Chemical Recoveries and Hitech have joined Augean following the respective acquisitions and their expertise will support further the development of the treatment division. The new businesses provide greater geographical coverage and provide a range of opportunities for the future. Development plans are already underway to enhance the new sites' services and capacities.

Alongside the acquisitions, organic development has continued to be a key feature of the period. In June 2007 the planning application was submitted for the development of the Cannock hazardous waste facility. This development will deliver enhanced technologies to the site and will increase the capacity from 17,000 tonnes per annum to 30,000 tonnes and also broaden the range of wastes which can be treated.

In September 2007 the group submitted the most significant application to the planning authorities with the proposal to construct the Port Clarence Waste Recovery Park. The design criteria for the facility is to bring to the market a range of new, innovative but proven technologies to treat, recycle and recover, including energy, hazardous and non-hazardous wastes. The facility will be constructed over 13 hectares of available land at the Port Clarence site making it the largest single site waste facility in the UK. The design concept is consistent with the established facilities in mainland Europe and North America. The planning application was subsequently approved in January 2008.

In December 2007 the group's treatment division delivered benchmark standards which were reflected in the attainment of IMS accreditation ISO 14001, OHSAS 1800, ISO 9001 and PAS 99 (Publicly Available Specification).

In September 2007 the group submitted the most significant application to the planning authorities with the proposal to construct the Port Clarence Waste Recovery Park. The design criteria for the facility is to bring to the market a range of new, innovative but proven technologies to treat, recycle and recover, including energy, hazardous and non-hazardous wastes.

Divisional review continued

Landfill

Excluding landfill tax, turnover for the landfill division decreased by 9% to £13.8m following the completion of the non-hazardous Mark's Quarry site in 2006. However, the group's focus on higher value hazardous waste resulted in an improvement in margin to 25%, with the division generating £3.4m of operating profit. Hazardous volumes were little changed at 235,000 tonnes after a difficult summer period, with average hazardous prices also broadly unchanged at £51 per tonne.

In March 2007 the group received the permit variation for Port Clarence to increase the site's hazardous void by re-designation of non-hazardous void. At the year end, the group's permitted hazardous void space totalled 6.8m cubic metres.

In October 2007 the landfill division obtained accreditation to PAS 99. This is the world's first IMS developed by the BSI Group. The board wishes to thank the staff and recognises their commitment in achieving the standards which merit this award.

Terramundo

The group concluded the development phase of the joint venture company in early 2007 to create the Terramundo brand and initiate the construction of the treatment and recycling facility for contaminated soils at Port Clarence. Construction works were started in May 2007 with the facility being completed and the process being delivered the following month. A number of marketing and client presentations were well received by the sector and the facility welcomed its first loads through the second half of the year, achieving 12,000 tonnes by the year end.

Further planning development was completed with the planning application submitted for the installation of a soil treatment facility at the King's Cliffe site, with the project objectives to bring on line a second Terramundo treatment and recycling facility in the south of England. This application was approved subsequent to the year end.

Financial review

IFRS

These are the group's first consolidated financial statements prepared under IFRS. The comparative information for the year ended 31 December 2006 has been restated accordingly. Details of the impact of IFRS on the group's financial statements are included in the group's conversion announcement on 5 July 2007 and in the annual report.

Trading

Net revenue excluding landfill tax for the year ended 31 December 2007 increased by 5% to £22.6m (2006: £21.4m). This includes a contribution from the businesses acquired in late 2007 of £0.9m. With the inclusion of landfill tax charged to customers, on which the group makes no margin, of £3.7m (2006: £5.1m), total group revenue fell by 1% to £26.3m (2006: £26.6m).

Landfill hazardous waste volumes

235,461 tonnes

(2006: 241,346 tonnes)

Average landfill hazardous waste price

£51 per tonne

(2006: £53 per tonne)

Operating margin and exceptional items

Operating profit before exceptional items increased by 8% to £4.9m (2006: £4.6m), of which acquisitions contributed £0.1m. This represents an improved operating margin on turnover excluding landfill tax of 22% (2006: 21%), achieved despite the introduction of lower margin treatment businesses into the group.

Operating profit in the year was adversely affected by exceptional items relating to the departure of the previous chief executive (£0.2m), a charge in respect of tax losses from acquisitions used in the year which had not previously been recognised (£0.5m) and the recognition of an impairment loss of £26.8m in the landfill division.

Under IFRS, an annual impairment review must be performed for each cash-generating unit in accordance with IAS 36 'Impairment of Assets'. The group has completed this exercise with the advice of external experts and determined that, given the continued uncertainty in the hazardous landfill market, it would be prudent to recognise an impairment of goodwill in the landfill division. This does not affect the cash flow of the business.

After including the impact of these exceptional items, the group's operating loss was £22.7m (2006: profit of £3.3m).

Finance costs

In October 2007 the group extended its borrowing facilities in connection with the acquisition of treatment businesses. As a result, net finance costs increased to £1.1m (2006: £1.0m), including £0.1m (2006: £0.1m) of unwinding of discount on provisions. Cash finance costs were covered 4.9 times (2006: 4.9 times) by underlying operating profit.

Joint venture

In June 2007 the group's Terramundo joint venture with DEC NV commenced trading. As Terramundo is the first fixed ground remediation centre in the United Kingdom, the market for its services is still developing. During its first months of commissioning, testing and operation, Augean's share of the joint venture's losses was £0.1m.

Tax

The group has benefited in the year from the utilisation of tax losses in its landfill businesses. This has resulted in no overall tax charge in the year (2006: credit of £0.1m). 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 2007. It continues to review the group's financial situation in order to ensure that dividends are paid to shareholders at an appropriate point in the group's development.

Earnings per share

Basic earnings per share adjusted to exclude the impact of exceptional items increased by 2% to 5.7p (2006: 5.5p). The weighted average number of shares in issue was unchanged at 65.5m. After exceptional items, the loss per share was 36.5p (2006: earnings per share of 3.7p). The dilutive effect of outstanding share options was minimal in both years.

Cash flow

The group continued to be highly cash-generating during the year. Cash generated from operations was £7.7m (2006: £6.3m). This represented a conversion rate of 165% of operating profit before non-cash exceptional items (2006: 159%). After deducting capital expenditure, interest and tax, free cash flow was £3.2m (2006: £3.8m). Following the acquisition of the treatment businesses for £11.7m, net debt has increased to £20.2m (2006: £10.9m).

In March 2007 the group received the permit variation for Port Clarence to increase the site's hazardous void by re-designation of non-hazardous void. At the year end, the group's permitted hazardous void space totalled 6.8m cubic metres.

Financial review continued

Capital expenditure

Capital expenditure increased to £3.6m in the year (2006: £1.5m). 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 a more normal level of capital expenditure was experienced with the engineering of a new phase at Port Clarence and the capping of a number of cells at the group's sites.

Treasury operations

Details of the group's treasury risk management policies are set out in note 24. The group does not speculate in financial instruments.

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 to mitigating any adverse effects of its operations is explained further in the detailed CSR report published alongside the annual report.

The environment

All operating sites and activities are strictly regulated by environmental authorities through a range of regulations. In the context of hazardous waste the principal instrument driving standards is the Integrated Pollution Prevention and Control Directive, which provides an integrated approach to pollution control to prevent emissions into air, land or water. The implementation of the standards is taking the waste sector from a low technology base to compliance with Best Available Technique (BAT). BAT requires a review of each activity and the implementation of the highest standards to minimise emissions, be energy efficient, reduce waste and consumption of raw materials, manage noise, vibration and heat loss and ensure accident prevention is in place.

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

Employees

The group's employees are without doubt its greatest asset. Augean continues to invest in its employees and listen to their concerns. The board recognises that motivated and empowered people deliver the business objectives and would like to take the opportunity to thank the entire group's staff for their ongoing dedication to making Augean a great company, both in culture and success. Following consultation with staff, the group has recently introduced a range of improved employee benefits, including a pension scheme accessible to all staff. In employment practices the business recognises the importance of equal opportunities and good communication standards.

Capex

£3.6m

(2006: £1.5m)

Net debt

£20.2m

(2006: £10.9m)

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.

The Port Clarence site contributed £124,000 to the Saltholme International Nature Reserve in the Tees Valley during the year. The southern sites at King's Cliffe and Thornhaugh contributed over £127,000 to a variety of projects during 2007, including repairs to King's Cliffe Memorial Hall, work on the development of the King's Cliffe Community Sports Centre, continuing funding towards the Bedford Purlieus Forestry Commission Nature Reserve and ongoing support for the 'Return of the Osprey' project based at Rutland Water.

As part of the Port Clarence Waste Recovery Park development further links have been forged with Teesside University. The development offers excellent opportunities for research projects, graduate projects, graduate employment and waste consultancy.

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

Outlook

Whilst the board recognises that change brings challenge, your directors have invested in the long term with a management team capable of delivering against clear objectives as the market embraces the changes in benchmark standards.

The review of the Waste Strategy in 2007 signals further changes in the way in which the United Kingdom manages its waste. In particular, there is real focus on encouraging social and economic responsibility for the waste that society generates and examining the mechanisms to reuse, recycle or recover the value of waste in order to mitigate the exhaustion of natural resources. Augean has been developing its business strategy over the past three years to position the group to be capable of rewarding its shareholders with strong, predictable performance in the environmental sector strategically secured by being closely aligned to the objectives of the government's waste aims and policies.

Augean's success in overcoming the complex barriers to entry (by obtaining the permissions to construct the infrastructure necessary to embrace the market opportunities) has now created the platform to enhance the revenues and profits of the group in the medium term. The business has operated diligently through significant legislative change, completed acquisitions which always bring integration challenges and searched to find the most appropriate technological solutions to bring to market. Against this background, the outlook for the group is challenging but positive as Augean continues to lead the sector in both its standards of operation and the services delivered to clients.

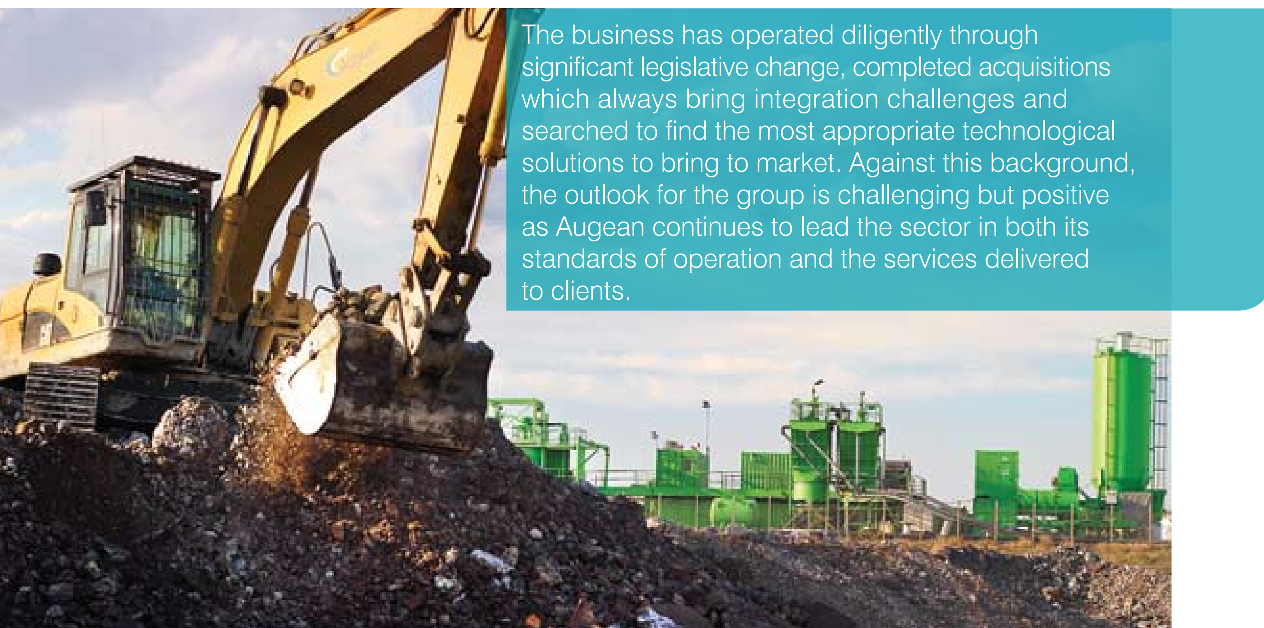
The board believes that the market has reached a bench position and therefore any further improvement in regulatory consistencies and enforcement can only benefit the group. The new asset development projects will single out Augean as the deliverer of the modernisation of the country's hazardous waste infrastructure and therefore challenge those who do not operate to the required standards.

Current trading in landfill is flat year on year and the treatment division has started the year strongly with the recent acquisitions having been fully integrated. The board looks forward to a year of further progress and to enhancing its unique strategic position to the benefit of all stakeholders.

Paul Blackler
Chief executive
18 March 2008

Peter Southby
Finance director
18 March 2008

> The business has operated diligently through significant legislative change, completed acquisitions which always bring integration challenges and searched to find the most appropriate technological solutions to bring to market. Against this background, the outlook for the group is challenging but positive as Augean continues to lead the sector in both its standards of operation and the services delivered to clients.



Board of directors

David Williams – Non-executive chairman, 55

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.

Paul Blackler – Chief executive, 38

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 as commercial director and promoted to chief executive in December 2007.

Peter Southby – Finance director, 34

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.

Rory Macnamara – Non-executive director, 53

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.

Roger McDowell – Non-executive director, 52

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 chairman of Avingtrans Plc, a non-executive director of IDMoS Plc, a non-executive director of I S Solutions 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 Worlledge in March 2007, Roger took on the role of acting chief executive.

Andrew Bryce – Non-executive director, 60

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 a member of its Waste Working Party. He was appointed to the board of Augean in June 2005.

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 2006 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 director and three independent non-executive directors. During part of the year under review, Roger McDowell, a non-executive director, acted as interim chief executive until a permanent appointment was made. In addition, Andrew Bryce, a non-executive director and environmental lawyer, provided specialist assistance to the board in connection with certain legal matters. Further details are provided in the remuneration report but the board confirms that, in its opinion, the independence of these directors has not been compromised as a result of these additional services.

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. 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.

The board meets formally nine times a year but additional meetings are held to review and approve special matters if necessary. During 2007, no director was absent from more than two board meetings. 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 which includes published financial statements, strategy, acquisitions, significant capital projects, budgets and borrowing facilities.

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.

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 three times a year. The external auditors and the executive directors are regularly invited to attend the meetings and the committee has access to the external auditors' advice without the presence of the executive directors. 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 and independence 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 and other senior management of the group, including the Long Term Incentive Plan (LTIP). The remuneration of the chairman and non-executive directors is agreed upon by the full board. The directors' remuneration report on pages 23 to 25 contains details of directors' remuneration and interests in the company's shares.

Nomination committee

The nomination committee comprises the non-executive directors and is chaired by Andrew Bryce. It meets as required in order to review the structure, size and composition of the board. It is responsible for the selection and recommendation of suitable 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. The system is designed to provide reasonable but not absolute assurance against material misstatement or loss.

The group operates a series of controls to meet its needs. Key features of the control system include the following:

- an annual review of business risks affecting the group which also identifies procedures to manage and mitigate those risks;
- monthly reports to the board on key risks and their management;
- an annual strategic planning and budgeting process;
- a clearly defined organisational structure with terms of reference for board committees and responsibilities and authorisation limits for executive management;
- monthly visits by the executive directors and group senior management to key operating locations to meet with local management and review business performance;
- a range of compliance management systems at the group's sites subject to external review, including certification to ISO 9001, ISO 14001 and OHSAS 18001; 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 has an active investor relations programme and believes in maintaining good communication with all stakeholders including institutional and private shareholders, analysts and the press. The executive directors are available to meet with institutional shareholders and analysts following the announcement of interim and final results. The group's brokers and financial PR advisers provide feedback from these meetings 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. The group also periodically hosts presentations at its sites for the investor community.

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 2007 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 3 June 2008, Andrew Bryce and Roger McDowell will retire by rotation in accordance with the articles of association and being eligible, they offer themselves for 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 2007.

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 15 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 £23.9m (2006: profit of £2.4m) on turnover of £26.3m (2006: £26.6m).

The directors have not recommended a dividend for the year (2006: £nil).

Acquisitions

On 31 October 2007 the group acquired the entire share capital of RNA Investments Limited and its trading subsidiary Chemical Recoveries Limited for total cash consideration of £6.3m. The business processes waste liquids and specialises in recycling contaminated industrial solvents, oils and water. It is based in Avonmouth, Bristol on a 3.4 acre long-leasehold site and, serving a broad client base, is permitted to process, recover and dispose of a wide range of hazardous wastes. It has been integrated into the group's treatment division.

On 19 December 2007 the group acquired the entire share capital of Hitech Equipment Limited and the freehold of its Paisley site for total initial cash consideration of £5.8m. Further cash consideration of up to £0.75m will be due in 2009 if certain performance criteria are met. Hitech operates from two strategic locations with a fully permitted, two acre hazardous waste treatment and recycling facility in Paisley, Glasgow, and a specialist industrial services operation in Ellesmere Port in the North West of England. The business provides a broad range of services including hazardous waste treatment, recycling and recovery and specialist collection systems. It has been integrated into the group's treatment division.

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 (2006: 45 days).

Employees

The group's policy is to ensure the adequate provision for the health, safety and welfare of its employees and of other people who may be affected by its activities. 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.

Charitable and political donations

During the period the group contributed £251,000 (2006: £383,000) of its landfill tax liability to Entrust registered environmental bodies as permitted by government regulations. It also made other charitable donations amounting to £25,000 (2006: £1,000).

No political donations were made during the period (2006: £nil).

Directors
The composition of the board of directors is shown on pages 16 and 17. Details of the directors' interests and remuneration are given in the directors' remuneration report on pages 23 to 25.

Substantial shareholdings
The company had been notified of the following interests of more than 3% in its shares as at 18 March 2008:

Fund manager	Number of shares	%
One 51	17,610,200	26.89
JO Hambro Capital Management	8,221,869	12.55
BlackRock Investment Management	5,018,713	7.66
Henderson Global Investors	4,827,202	7.37
Slater Investments	4,122,695	6.30
Invesco Asset Management	3,320,159	5.07
Octopus Investments	3,194,220	4.88
MPC Investors	2,044,506	3.12

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 IFRS as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and 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 IFRS 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.

Statement of disclosure of information to the auditors

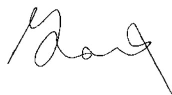
At the date of making this report each of the company's directors, as set out on pages 16 and 17, confirm the following:

- 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

RSM Robson Rhodes LLP (Robson Rhodes) merged its audit practice with that of Grant Thornton UK LLP (Grant Thornton) with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 20 July 2007, creating a casual vacancy which the directors have filled by appointing Grant Thornton. A resolution to re-appoint Grant Thornton as auditors of the company will be proposed at the annual general meeting.

By order of the board



Paul Blackler
Chief executive
18 March 2008

Directors' remuneration report

Remuneration committee

The remuneration committee comprises the non-executive directors and is chaired by Roger McDowell. The principal objective of the remuneration committee is to attract, retain and motivate talented people with a competitive package of incentives and awards linked to performance and the interests of shareholders.

The committee appointed New Bridge Street Consultants LLP to provide independent advice during the year, in particular in connection with the establishment of a Long Term Incentive Plan (LTIP).

Current remuneration package

The current remuneration package of the executive directors comprises:

(i) Basic salaries

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.

(ii) Performance related bonus

The executive directors participate in a bonus scheme applicable to all senior management based on annual profit targets approved by the remuneration committee. The achievement of these targets would result in a bonus of 50% of basic salary. In 2007, no bonus was payable to executive directors under this scheme.

(iii) Pension provision and other benefits

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.

(iv) LTIP

During the year under review, the remuneration committee introduced an LTIP, following consultation with institutional shareholders and external advice on executive remuneration. Under the LTIP senior employees may be granted an award annually of up to 100% of basic salary. The award vests in the form of shares in the company and is subject to the attainment of pre-determined performance conditions over a three year period. For the 2007 award, participants will receive 100% of the award if the group's normalised pre-tax earnings per share over the three year period to 31 December 2009 increases by at least 30% compound per annum. No award will vest unless the annual compound growth rate is at least 15%, at which level 30% of the award would apply.

(v) Share options

Before the introduction of the LTIP, share options were granted to directors and senior management. These share options have no performance criteria. It is not the intention of the remuneration committee to grant share options on a regular basis in the future.

Service contracts

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

Directors' interests

The beneficial, family and contingent interests of the directors in the share capital of the company were as follows:

At 31 December 2007	Beneficial shares Number	Share options Number	LTIP Number	Total shares Number
David Williams	480,000	500,000	—	980,000
Paul Blackler	—	150,000	74,403	224,403
Peter Southby	15,000	144,665	62,002	221,667
Roger McDowell	60,000	—	—	60,000
Andrew Bryce	7,500	—	—	7,500
Rory Macnamara	10,000	—	—	10,000

At 31 December 2006	Beneficial shares Number	Share options Number	LTIP Number	Total shares Number
David Williams	480,000	500,000	—	980,000
Paul Blackler	—	150,000	—	150,000
Peter Southby	—	144,665	—	144,665
Roger McDowell	50,000	—	—	50,000
Andrew Bryce	—	—	—	—
Rory Macnamara	—	—	—	—

Directors' emoluments

The emoluments of the directors were as follows:

	2007 Basic fee/salary £000	2007 Other emoluments £000	2007 Compensation for loss of office £000	2007 Total £000	2006 Total £000
Current directors					
David Williams	90	—	—	90	90
Paul Blackler (appointed 16 January 2007)	125	17	—	142	—
Peter Southby (appointed 30 October 2006)	100	22	—	122	21
Roger McDowell	21	69	—	90	70
Andrew Bryce	27	13	—	40	25
Rory Macnamara (appointed 28 November 2006)	27	—	—	27	2
Former directors					
Peter Worlledge (appointed 5 March and resigned 30 November 2007)	132	24	211	367	—
John Huntington (resigned 27 October 2006)	—	—	—	—	396
	522	145	211	878	604

Other emoluments for Paul Blackler, Peter Southby and Peter Worlledge include car allowance, pension contributions and other benefits such as medical insurance. For Roger McDowell they relate to payments made in respect of the period during which he acted as interim chief executive for the group. For Andrew Bryce they relate to specialist assistance provided to the board in connection with certain legal matters.

Directors' share plans

LTIP	Award date	Earliest vesting date	Market price at award date	Number of shares 2006	Granted in year	Number of shares 2007
Paul Blackler	05.07.2007	05.07.2010	130.25p	—	74,403	74,403
Peter Southby	05.07.2007	05.07.2010	130.25p	—	62,002	62,002
				—	136,405	136,405

Share option scheme	Award date	Earliest exercise date	Market price at award date	Number of shares 2006	Granted in year	Number of shares 2007
David Williams	15.12.2004	15.12.2004	180.00p	500,000	—	500,000
Paul Blackler	14.12.2005	14.12.2008	147.50p	150,000	—	150,000
Peter Southby	30.10.2006	30.10.2009	138.25p	144,665	—	144,665
				794,665	—	794,665

The latest date for exercise of all share options is ten years after the award date. The mid market price of the company's shares at 31 December 2007 was 100.0p. The range of the share price during the year was 87.5p to 150.0p.

On behalf of the remuneration committee

Roger McDowell
Chairman of the remuneration committee
18 March 2008

Report of the independent auditor

TO THE MEMBERS OF AUGEAN PLC

We have audited the group and parent company financial statements (the financial statements) of Augean PLC for the year ended 31 December 2007 which comprise the principal accounting policies, the group income statement, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of changes in members' equity and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, 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 members those matters we are required to state to them in an auditor's 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 members 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 IFRS as adopted by the European Union 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 whether the financial statements 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 given in the directors' report includes that 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, the corporate governance statement, the directors' report and the directors' remuneration 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group and company'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 group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- 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.

Grant Thornton UK LLP
Registered auditor
Chartered accountants
Leeds
18 March 2008

Consolidated income statement

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000	Before exceptional items 2006 £'000	Exceptional items 2006 £'000	Total 2006 £'000
Revenue							
– continuing operations		25,370	—	25,370	26,561	—	26,561
– acquisitions		932	—	932	—	—	—
	2	26,302	—	26,302	26,561	—	26,561
Operating expenses	3	(21,378)	(27,617)	(48,995)	(22,007)	(1,223)	(23,230)
Operating profit/(loss)							
– continuing operations		4,834	(27,617)	(22,783)	4,554	(1,223)	3,331
– acquisitions		90	—	90	—	—	—
	2	4,924	(27,617)	(22,693)	4,554	(1,223)	3,331
Net finance charges	4	(1,096)	—	(1,096)	(1,020)	—	(1,020)
Share of loss of jointly controlled entity	8	(124)	—	(124)	—	—	—
Profit/(loss) before tax		3,704	(27,617)	(23,913)	3,534	(1,223)	2,311
Tax	6	—	—	—	89	—	89
Profit/(loss) for the year attributable to equity shareholders	19	3,704	(27,617)	(23,913)	3,623	(1,223)	2,400
Earnings per share							
Basic and diluted	7	5.7p	(42.2p)	(36.5p)	5.5p	(1.9p)	3.7p

The notes on pages 31 to 63 form an integral part of these financial statements.

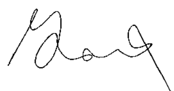
There were no other items of recognised income and expense in the year other than the loss for the year and therefore no statement of recognised income and expense has been prepared.

Balance sheets
AT 31 DECEMBER 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Non-current assets					
Goodwill	9	77,230	94,079	—	—
Other intangible assets	10	380	217	70	116
Investments	11	—	—	96,813	116,498
Property, plant and equipment	12	31,500	28,839	828	855
		109,110	123,135	97,711	117,469
Current assets					
Inventories		94	—	—	—
Trade and other receivables	13	8,246	6,034	583	10,672
Cash and cash equivalents		401	—	—	—
		8,741	6,034	583	10,672
Current liabilities					
Trade and other payables	14	(7,557)	(5,753)	(6,725)	(8,313)
Current tax liabilities		(1,570)	(1,265)	—	—
Financial liabilities	15	(4,056)	(3,768)	(3,662)	(3,893)
		(13,183)	(10,786)	(10,387)	(12,206)
Net current liabilities		(4,442)	(4,752)	(9,804)	(1,534)
Non-current liabilities					
Financial liabilities	15	(16,524)	(7,119)	(16,000)	(7,001)
Provisions	16	(3,680)	(4,084)	—	—
Trade and other payables	14	(750)	—	(750)	—
Share of losses of jointly controlled entity	8	(124)	—	—	—
Deferred tax liabilities	6	(208)	—	—	—
		(21,286)	(11,203)	(16,750)	(7,001)
Net assets		83,382	107,180	71,157	108,934
Shareholders' equity					
Share capital	17	6,549	6,549	6,549	6,549
Share premium account	19	106,222	106,222	106,222	106,222
Retained losses	19	(29,389)	(5,591)	(41,614)	(3,837)
Total shareholders' equity	19	83,382	107,180	71,157	108,934

The notes on pages 31 to 63 form an integral part of these financial statements.

The financial statements were approved by the board on 18 March 2008 and signed on its behalf by:



Paul Blackler
Chief executive

Peter Southby
Finance director

Cash flow statements

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Operating activities	21				
Cash generated from operations		7,714	6,269	3,514	(9,735)
Interest paid		(909)	(1,026)	(890)	(796)
Tax paid		(59)	(82)	—	—
Net cash generated from operating activities		6,746	5,161	2,624	(10,531)
Investing activities					
Proceeds on disposal of property, plant and equipment		58	171	—	—
Purchases of property, plant and equipment		(3,578)	(1,475)	(33)	(168)
Purchases of intangible assets		(17)	(41)	(15)	—
Purchase of businesses		(11,708)	(11,112)	(11,344)	—
Net cash used in investing activities		(15,245)	(12,457)	(11,392)	(168)
Financing activities					
Repayment of borrowings		(2,000)	(3,446)	(2,000)	—
Drawdown of loan facilities		11,000	10,000	11,000	9,000
Repayments of obligations under finance leases and hire purchase contracts		(151)	(165)	(7)	(7)
Net cash from financing activities		8,849	6,389	8,993	8,993
Net increase/(decrease) in cash and cash equivalents		350	(907)	225	(1,706)
Cash and cash equivalents at beginning of period		(1,636)	(729)	(1,886)	(180)
Cash and cash equivalents at end of period		(1,286)	(1,636)	(1,661)	(1,886)

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with IFRS, International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union and those parts of the Companies Act 1985 that remain applicable to companies reporting under IFRS.

These are the group and company's first annual financial statements prepared under IFRS.

The financial statements have been prepared on the historical cost basis with the exception of certain items which are measured at fair value as disclosed in the principal accounting policies set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

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 year is given in note 19.

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Results of subsidiary undertakings acquired or sold during the year are consolidated from or to the date on which control passes. The trading results of companies acquired during the year are accounted for under the purchase method of accounting.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(ii) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control exists where the strategic, financial and operating decisions relating to the activity require the unanimous consent of the parties. Jointly controlled entities are accounted for using the equity method under which the carrying value of the group's investment is made up of the cost plus the group's share of post-acquisition profits and less equivalent losses as recognised in the income statement. Should a jointly controlled entity result in losses in excess of the group's interest they will be recognised where the group has a legal or constructive obligation to fund those losses.

Unrealised gains on transactions with jointly controlled entities are eliminated to the extent of the group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the asset transferred.

The group ceases to use the equity method of accounting on the date from which it no longer has significant influence in the jointly controlled entity or when the interest becomes held for sale.

(iii) Business combinations

The purchase method is used to account for all acquisitions. The cost of an acquisition is measured at the fair values on the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued, together with any costs directly attributable to the acquisition.

At the date of acquisition, the identifiable assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

1 Accounting policies continued

(b) Revenue recognition

The group's responsibility for waste arises as soon as the waste is accepted into one of its facilities. Revenue is therefore recognised at the point of acceptance. Revenue shown in the income statement represents charges for all waste accepted, inclusive of landfill tax, where appropriate, but exclusive of value added tax, relating to the principal activities of the group.

(c) Segmental reporting

The group's business segments provide services which are subject to risks and returns which are different from each other. The group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. The business segments comprise the landfill division and the treatment division. Segmental revenue, expense and results include transactions between businesses. Inter-segmental transactions are eliminated on consolidation. There are no geographical business segments as all the group's activities take place within the same economic environment. Accordingly there are no secondary reporting segments.

(d) Exceptional items

Items that are material in size and non-recurring in nature are presented as operating exceptional items in the income statement within operating profit. The directors are of the opinion that the separate recording of the operating exceptional items provides helpful information about the group's underlying business performance. Examples of events which may give rise to the classification of items as exceptional include restructuring of the business, gains and losses on disposal of properties, compensation for loss of office, impairment of goodwill and non-recurring income or expenditure.

(e) Goodwill

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 as an intangible asset. It is tested for impairment at least annually by reference to the relevant Cash-generating Unit (CGU) and is carried at cost less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Where deferred tax assets such as tax losses, which were not recognised at the acquisition date due to uncertainty over their recovery, are subsequently utilised or recognised, goodwill is reduced by an amount equivalent to the deferred tax assets calculated at the relevant tax rate and a charge made to the income statement.

(f) Other intangible assets

Intangible assets purchased separately, such as software licences that do not form an integral part of related hardware, are capitalised at cost and amortised on a straight-line basis over their useful economic life of three years.

Intangible assets acquired through a business combination such as customer contracts are initially measured at fair value and amortised on a straight-line basis over their useful economic lives which is taken to be the length of the contract. An intangible asset is considered identifiable only if it is separable or if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations. After initial recognition assets acquired as part of a business combination are carried at cost less accumulated amortisation and any impairment losses.

Methods of amortisation, residual value and useful lives are reviewed, and if necessary adjusted, at each balance sheet date.

(g) Investments

Investments held as non-current assets are stated at historic cost less any provision for impairment.

1 Accounting policies continued

(h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset into use. Borrowing costs related to the purchase of fixed assets are not capitalised.

Subsequent costs are included in an asset's carrying value or recognised as a separate asset, when it is probable that future economic benefits associated with the additional expenditure will flow to the group and the cost of the item can be measured reliably. All other costs are charged to the income statement when incurred.

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 income statement 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 assessed by reference to the usage of the void space available and the rate at which the void space is filled.

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Freehold land which is not part of a landfill site is not depreciated. 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

Methods of depreciation, residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Assets held under finance leases are depreciated over the shorter of their expected useful lives or, where there is no reasonable certainty that title will be obtained at the end of the lease term, the term of the relevant lease.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is included in the income statement.

Leases and hire purchase contracts

Assets held under hire purchase agreements are capitalised. The capital element of future payments is treated as a liability and the interest is charged to the income statement so as to give an approximate constant rate of charge on the outstanding obligation.

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. Future instalments under such leases, net of finance charges, are recognised as a liability. Rentals payable are apportioned between the finance element, which is charged to the income statement 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.

In both cases the asset and associated liability is recorded in the balance sheet as a tangible fixed asset and liability at their fair value or, if lower, at the present value of the minimum lease payments, both determined at the inception of the lease.

Depreciation is calculated in accordance with the above depreciation policies.

Other leases are treated as operating leases, the rentals for which are charged to the income statement on a straight-line basis over the lease term.

Restoration and aftercare provisions

The anticipated total cost of restoration and post-closure monitoring and aftercare is charged to the income statement over the expected useful life of the sites in proportion to the amount of void consumed at the sites during the period. 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.

1 Accounting policies continued

(i) Impairment of non-current assets

At each balance sheet sate, the group assesses whether there is any indication that its assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the CGU to which the asset belongs is determined.

The recoverable amount is defined as the higher of fair value less costs to sell and value in use at the date the impairment review is undertaken. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the CGU. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss.

An impairment loss relating to assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the income statement.

Goodwill is tested for impairment on an annual basis. An impairment loss is recognised for CGUs if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit by first reducing the carrying amount of any goodwill allocated to the CGU, and then reducing the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the income statement. Any impairments of goodwill cannot be subsequently reversed.

(j) Inventories

Inventories are stated at the lower of cost (measured on a first-in first-out basis) and net realisable value and where appropriate are stated net of provisions for slow moving and obsolete inventories.

(k) Tax

Current 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. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method.

Using the balance sheet liability method, deferred tax liabilities are recognised in full for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, if the deferred tax asset or liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit, it is not recognised.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised, or the liability settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Current and deferred tax are recognised in the income statement except when they relate to items recognised directly in equity, when they are similarly taken to equity.

1 Accounting policies continued

(k) Tax continued

Deferred tax continued

Where deferred tax assets such as tax losses, which were not recognised at the acquisition date due to uncertainty over their recovery, are subsequently utilised or recognised, goodwill is reduced by an amount equivalent to the deferred tax assets calculated at the relevant tax rate with an equivalent credit to the tax account in the income statement.

(l) Retirement benefits

Contributions made by the group to individual money purchase pension schemes are charged to the income statement as they fall due.

(m) Equity-settled share-based payments

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 January 2006 are recognised in the financial statements.

IFRS 2 'Share-based Payments' requires that an expense for equity instruments granted is recognised in the financial statements based on their fair values at the date of the grant. This expense, which is in relation to employee share options and executive LTIP schemes, is recognised over the vesting period of the scheme. The fair value of employee services is determined by reference to the fair value of the awarded grant calculated using the binomial lattice model, excluding the impact of any non-market vesting conditions.

At the balance sheet date, the group revises its estimate of the number of share incentives that are expected to vest.

The impact of the revisions of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity, over the remaining vesting period.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with a maturity of three months or less. Bank overdrafts are shown within current liabilities. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(o) Financial instruments

(i) Financial assets

Financial assets other than hedging instruments are divided into the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss;
- available-for-sale financial assets; and
- held-to-maturity investments.

Augean's trade and all other receivables fall into the 'loans and receivables' category.

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity.

Generally, Augean recognises all financial assets using settlement day accounting. An assessment of whether a financial asset is impaired is made at least at each reporting date. All income and expense relating to financial assets are recognised in the income statement line item 'net finance charges'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Discounting, however, is omitted where the effect of discounting is immaterial.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write down is then based on expected counterparty default rates for each identified group.

1 Accounting policies continued

(o) Financial instruments continued

(ii) Financial liabilities

The group's financial liabilities include:

- Trade payables

Trade payables are not interest-bearing and are stated at their invoiced value.

- 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 income statement over the term of such instruments using the effective interest rate method.

- Derivatives

The group's policy is that no trading in financial instruments or derivatives shall be undertaken.

Financial liabilities are recognised when the group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line item 'net finance charges'.

(p) Equity

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares;
- 'Share premium account' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue; and
- 'Profit and loss account' represents retained losses and equity-settled share-based payment employee remuneration until such share options are exercised.

(q) Significant judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. This forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may however differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or further information. Such changes are recognised in the period in which the estimate is revised.

Certain accounting policies are particularly important to the preparation and explanation of the group's financial information. Key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities over the next twelve months are set out below.

Impairment of goodwill and fixed assets

The group has property, plant and equipment with a carrying value £31.5m (note 12) and goodwill with a carrying value of £77.2m (note 9). These assets are reviewed annually for impairment as described on page 34 to ensure that goodwill and fixed assets are not carried above their estimated recoverable amounts. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows. Factors such as changes in expected use of buildings, plant and machinery, closure of facilities, or lower than anticipated sales could result in shortened useful lives or impairment.

1 Accounting policies continued

(q) Significant judgements and key sources of estimation uncertainty continued

Site development and cell engineering/capping

Total anticipated site development and cell engineering/capping costs are charged to the income statement as void usage progresses. Costs of site development and cell engineering/capping are estimated using either the work of external consultants or internal experts. Management uses its judgement and experience to provide for these estimated costs over the life of the site and cell.

Aftercare costs

Provision is made for aftercare costs as soon as the obligation arises and is charged to the income statement as void usage progresses. Aftercare costs are estimated using either the work of external consultants or internal experts. Management uses its judgement and experience to provide for these estimated costs over the life of the site.

Income taxes

At 31 December 2007, the net liability for current and deferred income taxes is £1.6m and £0.2m respectively. Estimates may be required in determining the level of current and deferred income tax assets and liabilities, which the directors believe are reasonable and adequately recognise any income tax related uncertainties. Various factors may have favourable or adverse effects on the income tax assets or liabilities. These include changes in tax legislation, tax rates and allowances, future levels of spending and the group's level of future earnings.

(r) New IFRS standards and interpretations not applied

The IASB and IFRIC have issued additional standards and interpretations which are effective for periods starting after the date of these financial statements. The following standards and interpretations have yet to be adopted by the group:

- IAS 1 'Presentation of Financial Statements' (revised 2007) (effective 1 January 2009);
- IAS 23 'Borrowing Costs' (revised 2007) (effective 1 January 2009);
- Amendment to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation' (effective 1 January 2009);
- IAS 27 'Consolidated and Separate Financial Statements' (Revised 2008) (effective 1 July 2009);
- Amendment to IFRS 2 'Share-based Payments – Vesting Conditions and Cancellations' (effective 1 January 2009);
- IFRS 3 'Business Combinations' (Revised 2008) (effective 1 July 2009);
- IFRS 8 'Operating Segments' (effective 1 January 2009);
- IFRIC 11 IFRS 2 'Group and Treasury Share Transactions' (effective 1 March 2007);
- IFRIC 12 'Service Concession Arrangements' (effective 1 January 2008);
- IFRIC 13 'Customer Loyalty Programmes' (effective 1 July 2008); and
- IFRIC 14 IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective 1 January 2008).

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group except for additional disclosures that may be required on financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2008.

2 Segmental analysis

	2007			2006		
	Landfill division £'000	Treatment division £'000	Group £'000	Landfill division £'000	Treatment division £'000	Group £'000
Income statement						
Revenue						
External sales net of landfill tax	12,091	10,474	22,565	13,330	8,114	21,444
Landfill tax	3,737	—	3,737	5,117	—	5,117
External sales	15,828	10,474	26,302	18,447	8,114	26,561
Inter-segment sales	1,756	—	1,756	1,816	—	1,816
Total revenue	17,584	10,474	28,058	20,263	8,114	28,377
Result						
Operating profit before exceptional items	3,445	1,479	4,924	3,190	1,364	4,554
Exceptional items	(27,617)	—	(27,617)	(1,223)	—	(1,223)
Operating (loss)/profit	(24,172)	1,479	(22,693)	1,967	1,364	3,331
Net finance charges			(1,096)			(1,020)
Share of loss of jointly controlled entity			(124)			—
(Loss)/profit before tax			(23,913)			2,311
Tax			—			89
(Loss)/profit for the year attributable to equity shareholders			(23,913)			2,400
Other information						
Additions to property, plant, equipment and intangible assets	2,825	835	3,660	1,155	418	1,573
Depreciation and amortisation	(3,185)	(333)	(3,518)	(4,442)	(155)	(4,597)
Balance sheet						
Assets						
Segment assets	80,236	37,214	117,450	107,901	21,268	129,169
Unallocated corporate assets						
Cash and cash equivalents			401			—
Group total assets			117,851			129,169
Liabilities						
Segment liabilities	(9,882)	(4,568)	(14,450)	(9,571)	(1,782)	(11,353)
Unallocated segment liabilities						
Bank overdraft and loans			(19,687)			(10,636)
Share of losses in joint venture			(124)			—
Deferred tax liabilities			(208)			—
Group total liabilities			(34,469)			(21,989)

All activities arise solely within the United Kingdom.

3 Operating profit

Operating profit is arrived at after charging:

	2007 £'000	2006 £'000
Fees payable to the company's auditor for the audit of the annual financial statements	53	51
Fees payable to the company's auditor for other services:		
– audit of the financial statements of the company's subsidiaries pursuant to legislation	12	9
– other services relating to tax – compliance and advice	23	7
– services relating to corporate finance transactions	10	62
– other services – accounting advice	7	20
	105	149
Amortisation of intangible assets	113	85
Depreciation of property, plant and equipment:		
– owned assets	3,307	4,403
– assets held under finance leases and hire purchase contracts	98	109
Operating leases:		
– land and buildings	60	44
– plant and machinery	424	654
(Profit)/loss on sale of property, plant and equipment	(4)	100
Exceptional items:		
– goodwill tax adjustment	533	600
– goodwill impairment (note 9)	26,846	—
– compensation for loss of office and related costs	238	224
– fines and costs relating to an Environment Agency prosecution	—	218
– costs of aborted acquisitions	—	181

4 Net finance charges

	2007 £'000	2006 £'000
Interest payable		
Interest and charges payable on bank loans, guarantees and overdrafts	996	789
Interest on finance leases and hire purchase contracts	16	27
Interest and charges on debt factoring	—	140
Unwinding discount on provisions	96	94
	1,108	1,050
Interest receivable		
Bank and other interest receivable	(12)	(30)
	1,096	1,020

5 Employees

The average monthly number of employees analysed by function was:

	2007 Number	2006 Number
Sales	18	18
Operations	84	72
Administration	30	21
	132	111

Their aggregate remuneration comprised:

	2007 £'000	2006 £'000
Wages and salaries	4,585	3,769
Social security costs	489	405
Other pension costs	85	92
	5,159	4,266

Details of other statutory directors' remuneration disclosures are given in the directors' remuneration report on pages 24 to 25 under directors' emoluments and directors' share plans.

The directors have identified 7 (2006: 6) key management personnel whose compensation was as follows:

	2007 Number	2006 Number
Short term employment benefits	849	735
Post employment benefits	57	30
	906	765

6 Tax

	2007 £'000	2006 £'000
Current tax		
UK corporation tax on (loss)/profit for the period	—	—
Adjustments in respect of prior periods	—	(89)
Tax credit on (loss)/profit	—	(89)

6 Tax continued

Current tax reconciliation

	2007 £'000	2006 £'000
(Loss)/profit before tax	(23,913)	2,311
Theoretical tax at UK corporation tax rate of 30%	(7,174)	693
Effects of:		
– expenses not deductible for tax purposes	11	122
– depreciation in excess of capital allowances	438	847
– goodwill impairment	7,904	—
– utilisation of tax losses	(595)	(600)
– other temporary differences (mainly relating to specific tax rules for the timing of landfill deductions)	(584)	(1,062)
Actual current tax charge for period	—	—
Adjustments in respect of prior periods	—	(89)
Tax credit on (loss)/profit	—	(89)

No deferred tax asset has been recognised during the year in respect of temporary 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:

	2007 £'000	2006 £'000
Depreciation in excess of capital allowances	1,190	777
Unused tax losses carried forward	2,007	2,950
Other temporary differences (mainly relating to specific tax rules for the timing of landfill deductions)	117	685
Unrecognised deferred tax asset	3,314	4,412

A deferred tax liability of £0.2m has been recognised in respect of accelerated capital allowances on assets acquired as part of the business combinations.

7 Earnings per share

	2007 £'000	2006 £'000
(Loss)/profit after tax for the purposes of basic and diluted earnings per share	(23,913)	2,400
Exceptional items	27,617	1,223
Profit after tax for the purposes of basic and diluted adjusted earnings per share	3,704	3,623

	Number	Number
Number of shares		
Weighted average number of shares for basic earnings per share	65,488,892	65,488,892
Effect of dilutive potential ordinary shares from share options	—	2,533
Weighted average number of shares for diluted earnings per share	65,488,892	65,491,425
Earnings per share		
Basic and diluted	(36.5p)	3.7p
Adjusted earnings per share		
Basic and diluted	5.7p	5.5p

8 Jointly controlled entity

During the year, Terramundo Limited, a 50:50 joint venture with DEC NV, commenced trading. Terramundo is a ground remediation facility which uses various techniques to clean contaminated soils of both organic and inorganic contaminants. The Terramundo facility is based at Port Clarence, Middlesbrough.

The cost of investment held by the company at 31 December 2007 was £100 (2006: £100).

During the period ended 31 December 2007 the joint venture generated the following revenue and costs:

	£'000
Revenue	637
Costs	(885)
Loss	(248)

At 31 December 2007 the joint venture held net liabilities of £248,000, of which the group's 50% share was £124,000.

9 Goodwill

	Total £'000
Cost	
At 1 January 2006	85,812
Acquired on business combinations	8,214
Changes on revision of fair values	653
Goodwill tax adjustment	(600)
At 1 January 2007	94,079
Acquired on business combinations (note 23)	10,530
Goodwill tax adjustment	(533)
At 31 December 2007	**104,076**
Provision for impairment	
At 1 January 2006	—
Charge for year	—
At 1 January 2007	—
Charge for year	(26,846)
At 31 December 2007	**(26,846)**
Net book value	
At 31 December 2007	**77,230**
At 31 December 2006	94,079
At 1 January 2006	85,812

9 Goodwill continued

Goodwill is allocated to the group's Cash-generating Units (CGU) which are defined as the group's primary business segments and are the lowest level at which goodwill is monitored for internal management purposes. The allocation of goodwill by CGU is as follows:

	2007 £'000	2006 £'000
Landfill division	50,889	78,268
Treatment division	26,341	15,811
Total	77,230	94,079

Goodwill is tested for impairment annually or when other events or changes in circumstance indicate that the carrying amount may not be fully recoverable. The goodwill impairment test is performed by comparing the carrying value of the CGU and associated goodwill with the aggregate recoverable amount. The recoverable amount is estimated by calculating value in use on a discounted cash flow basis.

The key assumptions used in this calculation are estimates of volume, price, operating margin, compaction rates (landfill only) and discount rate.

Cash flow projections for the landfill division are based on approved budgets and plans for 2008 and, beyond this period, have been forecast until site closure assuming steady revenue streams to reflect expected volume decreases offset by increases in average price, as the availability of landfill resource becomes more scarce. Forecast margin was determined based upon past performance and expectations for the market development.

Cash flow projections for the treatment division are based on approved budgets and plans for 2008 and beyond this period have been forecast into the future with growth in gross profit assumed to be lower than 5%. This growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

The cash flows have been discounted using a pre-tax discount rate of 12% which reflects the overall business risks associated with waste management activities.

The impairment charge recognised in the year of £26,846,000 arises solely in the landfill division, principally due to changes in assumptions regarding the long term growth of the hazardous waste landfill sector. The circumstances around the recognition of this impairment loss are discussed further in the business review.

10 Other intangible assets

	Group			Company
	Customer contracts £'000	Computer software £'000	Total £'000	Computer software £'000
Cost				
At 1 January 2006	—	164	164	139
Additions	—	42	42	41
Acquired on business combinations	116	—	116	—
At 1 January 2007	116	206	322	180
Additions	—	18	18	15
Acquired on business combinations (note 23)	258	—	258	—
At 31 December 2007	**374**	**224**	**598**	**195**
Amortisation				
At 1 January 2006	—	20	20	10
Charge for year	23	62	85	54
At 1 January 2007	23	82	105	64
Charge for year	45	68	113	61
At 31 December 2007	**68**	**150**	**218**	**125**
Net book value				
At 31 December 2007	**306**	**74**	**380**	**70**
At 31 December 2006	93	124	217	116
At 1 January 2006	—	144	144	129

Where appropriate, intangible assets identified in business combinations have been recognised in accordance with the provisions of IFRS 3 'Business Combinations' and IAS 38 'Intangible Assets'. Intangible assets have only been recognised where they have identifiable future economic benefits that are controlled by the entity, it is probable that these benefits will flow to the entity and their fair value can be measured reliably.

The useful lives of the intangible assets acquired during the year were assessed to be as follows:

Customer contracts – three years
Computer software – three years

11 Investments

Company

	£'000
Cost	
At 1 January 2006	116,404
Changes on revision of fair values	94
At 1 January 2007	116,498
Additions	12,914
At 31 December 2007	**129,412**
Provision for impairment	
At 1 January 2006	—
Charge for year	—
At 1 January 2007	—
Charge for year	(32,599)
At 31 December 2007	**(32,599)**
Net book value	
At 31 December 2007	**96,813**
At 1 January 2007	116,498
At 1 January 2006	116,404

The impairment charge recognised in the year of £32,599,000 arises solely in the landfill division, principally due to changes in assumptions regarding the long term growth of the hazardous waste landfill sector. The circumstances around the recognition of this impairment loss are discussed further in the business review and in note 9.

The principal trading subsidiary companies of the group are as follows:

Name of company	Country of registration or incorporation	Proportion held %	Nature of business
Augean Treatment Limited	England and Wales	100	Waste treatment
Augean North Limited	England and Wales	100	Landfill operations
Augean South Limited	England and Wales	100	Landfill operations

These companies are owned directly by Augean PLC with the exception of Augean South Limited.

In addition to the above, the company holds 50% of the issued share capital of Terramundo Limited, a joint venture with DEC NV (note 8).

12 Property, plant and equipment

Group

	Freehold land and buildings £'000	Engineered cells £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2006	27,395	5,467	1,507	34,369
Acquired on business combinations	2,450	—	238	2,688
Additions	510	340	681	1,531
Disposals	(1,759)	(1,530)	(573)	(3,862)
At 1 January 2007	28,596	4,277	1,853	34,726
Acquisitions	449	—	2,029	2,478
Additions	693	1,470	1,479	3,642
Disposals	—	(993)	(74)	(1,067)
At 31 December 2007	**29,738**	**4,754**	**5,287**	**39,779**
Accumulated depreciation				
At 1 January 2006	2,521	2,210	235	4,966
Charged for year	1,905	2,066	541	4,512
Disposals	(1,759)	(1,530)	(302)	(3,591)
At 1 January 2007	2,667	2,746	474	5,887
Charged for year	1,216	1,497	692	3,405
Disposals	—	(993)	(20)	(1,013)
At 31 December 2007	**3,883**	**3,250**	**1,146**	**8,279**
Net book value				
At 31 December 2007	**25,855**	**1,504**	**4,141**	**31,500**
At 1 January 2007	25,929	1,531	1,379	28,839
At 1 January 2006	24,874	3,257	1,272	29,403

12 Property, plant and equipment continued

Group continued

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

	2007 £'000	2006 £'000
Cost	1,480	517
Accumulated depreciation	(286)	(188)
Net book value	1,194	329

Company

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2006	769	123	892
Additions	2	31	33
At 1 January 2007	771	154	925
Additions	—	33	33
At 31 December 2007	**771**	**187**	**958**
Depreciation			
At 1 January 2006	5	16	21
Charged for year	13	36	49
At 1 January 2007	18	52	70
Charged for year	13	47	60
At 31 December 2007	**31**	**99**	**130**
Net book value			
At 31 December 2007	**740**	**88**	**828**
At 1 January 2007	753	102	855
At 1 January 2006	764	107	871

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

	2007 £'000	2006 £'000
Cost	22	22
Accumulated depreciation	(16)	(10)
Net book value	6	12

13 Trade and other receivables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade receivables	7,043	5,006	—	—
Amounts due from subsidiary undertakings	—	—	—	10,223
Other receivables	426	376	87	135
Prepayments and accrued income	777	652	496	314
	8,246	6,034	583	10,672

With the exception of amounts due from subsidiary undertakings, all amounts are short term. The carrying amount of trade receivables is considered a reasonable approximation of fair value.

All of Augean's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £467,000 (2006: £504,000) has been recorded accordingly.

14 Trade and other payables

	Group		Company	
Current	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade payables	3,786	2,833	268	—
Amounts due to subsidiary undertakings	—	—	5,234	7,531
Other taxes and social security	1,418	1,041	—	161
Accruals	2,353	1,879	1,223	621
	7,557	5,753	6,725	8,313
Non-current				
Deferred consideration (note 23)	750	—	750	—

With the exception of deferred consideration and amounts due to subsidiary undertakings, all amounts are short term. The carrying values are considered to be a reasonable approximation of fair value.

Current trade and other payables and current tax liabilities are due within one year. Non-current trade and other payables are due in the second year.

15 Financial liabilities

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Current				
Bank overdraft	1,687	1,636	1,661	1,886
Bank loans	2,000	2,000	2,000	2,000
Obligations under finance leases and hire purchase contracts	369	132	1	7
	4,056	3,768	3,662	3,893
Non-current				
Bank loans	16,000	7,000	16,000	7,000
Obligations under finance leases and hire purchase contracts	524	119	—	1
	16,524	7,119	16,000	7,001
Analysis of total financial liabilities				
Bank overdraft	1,687	1,636	1,661	1,886
Bank loans	18,000	9,000	18,000	9,000
Obligations under finance leases and hire purchase contracts	893	251	1	8
	20,580	10,887	19,662	10,894
Total financial liabilities are repayable as follows:				
On demand or within one year	4,056	3,768	3,662	3,893
In the second year	4,528	2,080	4,200	1,962
In the third to fifth years inclusive	9,796	5,039	9,600	5,039
In more than five years	2,200	—	2,200	—
	20,580	10,887	19,662	10,894
Obligations under finance leases and hire purchase contracts are repayable as follows:				
On demand or within one year	369	132	1	7
In the second year	328	80	—	1
In the third to fifth years inclusive	196	39	—	—
	893	251	1	8

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 24.

16 Provisions

	Group		
	Restoration and aftercare 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	—	559	559
Charged to profit and loss account during the year	262	—	262
Utilised during the year	(49)	(4,024)	(4,073)
At 1 January 2007	1,564	2,520	4,084
Charged/(released) to profit and loss account during the year	213	(200)	13
Utilised during the year	(18)	(399)	(417)
At 31 December 2007	1,759	1,921	3,680

The provision for restoration and aftercare 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 Share capital

	2007 £'000	2006 £'000
Authorised – 100,500,000 shares of 10p	10,050	10,050
Allotted, called up and fully paid – 65,488,892 shares of 10p	6,549	6,549

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

18 Share-based payments

At 31 December 2007 outstanding awards to subscribe for ordinary shares of 10p each in the company, granted in accordance with the rules of the Augean share options scheme and the Augean Long Term Incentive Plan (LTIP) were as follows:

Exercise or vesting date	Exercise price	At 1 January 2007	Exercised	Lapsed	Awarded	At 31 December 2007
Augean Share Option Scheme						
December 2004 – December 2014	180.0p	1,850,000	—	(650,000)	—	1,200,000
December 2008 – December 2015	147.5p	339,828	—	—	—	339,828
October 2009 – October 2016	138.25p	144,665	—	—	—	144,665
		2,334,493	—	(650,000)	—	1,684,493
Warrants						
March 2005 – December 2009	180.0p	1,309,776	—	—	—	1,309,776
		1,309,776	—	—	—	1,309,776
Augean Long Term Incentive Plan						
5 July 2010	10.0p	—	—	(104,921)	340,971	236,050
		—	—	(104,921)	340,971	236,050
		3,644,269	—	(754,921)	340,971	3,230,319

Share options

The Augean Share Option Scheme is for the benefit of the group's directors and senior management.

At 31 December 2007 outstanding options to subscribe for shares, granted in accordance with the rules of the Augean Share Option Scheme, are presented in the table above. In addition to these awards, a further 281,800 options were awarded in the year to Peter Worlledge. These options lapsed during the year upon his resignation.

The fair value of outstanding share options has been calculated using the Binomial Lattice model. The assumptions used in the calculation of the fair value of the share options are as follows:

	Share options	Share options
Grant date	14 December 2005	30 October 2006
Exercise period	December 2008 – December 2015	October 2009 – October 2016
Share price at grant date	£1.47	£1.38
Exercise price	£1.47	£1.38
Shares under option	339,828	144,665
Expected volatility	40%	40%
Expected life (years)	4.0	4.0
Risk-free rate	4.3%	4.8%
Expected dividend yield	2.3%	2.2%
Fair value per option/warrant	£0.49	£0.47

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.

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 share options have no performance criteria.

Rights under the share option scheme are forfeited if the employee leaves the group of his own accord before the rights vest.

18 Share-based payments continued

Warrants

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.

LTIP

During the year under review, the remuneration committee introduced a LTIP, following consultation with institutional shareholders and external advice on executive remuneration. Under the LTIP senior employees may be granted an award annually of up to 100% of basic salary. The award vests in the form of shares in the company and is subject to the attainment of pre-determined performance conditions over a three year period. For the 2007 award, participants will receive 100% of the award if the group's normalised pre-tax earnings per share over the three year period to 31 December 2009 increases by at least 30% compound per annum. No award will vest unless the annual compound growth rate is at least 15%, at which level 30% of the award would apply.

Rights under the LTIP scheme are forfeited if the employee leaves the group of his own accord before the rights vest.

The fair value of rights to acquire shares has been calculated based on the value of the shares on grant adjusted for future dividend streams. No performance conditions were included in the fair value calculations. During the year the group recognised total expenses of £115,000 related to equity-settled share-based payment transactions. No options under either the share option or LTIP schemes were exercised or vested during the period.

19 Combined statement of changes in shareholders' equity and movement in reserves

Group

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Shareholders' equity £'000
At 1 January 2006	6,549	106,222	(8,050)	104,721
Share-based payments	—	—	59	59
Retained profit for the year	—	—	2,400	2,400
At 1 January 2007	6,549	106,222	(5,591)	107,180
Share-based payments	—	—	115	115
Retained loss for the year	—	—	(23,913)	(23,913)
At 31 December 2007	**6,549**	**106,222**	**(29,389)**	**83,382**

Company

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Shareholders' equity £'000
At 1 January 2006	6,549	106,222	(670)	112,101
Share-based payments	—	—	59	59
Retained loss for the year	—	—	(3,226)	(3,226)
At 1 January 2007	6,549	106,222	(3,837)	108,934
Share-based payments	—	—	115	115
Retained loss for the year	—	—	(37,892)	(37,892)
At 31 December 2007	**6,549**	**106,222**	**(41,614)**	**71,157**

20 Operating lease commitments

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

	2007 £'000	2006 £'000
Plant and machinery		
Leases which expire:		
– within one year	481	526
– within two to five years	376	814
– after five years	—	—
	857	1,340
Land and buildings		
Leases which expire:		
– within one year	44	44
– within two to five years	176	176
– after five years	264	308
	484	528

21 Reconciliation of operating (loss)/profit to net cash generated from/(used by) operating activities

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Operating (loss)/profit	(22,693)	3,331	(36,680)	(2,430)
Other non-cash charge – goodwill tax adjustment	533	600	—	—
Goodwill impairment	26,846	—	—	—
Investments impairment	—	—	32,599	—
Amortisation of intangible assets	113	85	61	54
Depreciation	3,405	4,512	60	49
Aftercare provisions	127	168	—	—
Earnings before interest, tax, depreciation and amortisation (EBITDA)	8,331	8,696	(3,960)	(2,327)
(Profit)/loss on sale of property, plant and equipment	(4)	100	—	—
Share-based payments	115	59	115	59
Decrease in inventories	21	—	—	—
Decrease/(increase) in trade and other receivables	86	1,012	(134)	(61)
Decrease/(increase) in net receivables from subsidiary undertakings	—	—	6,336	(8,188)
(Decrease)/increase in trade and other payables	(213)	475	1,157	782
Decrease in provision	(622)	(4,073)	—	—
Cash generated from/(used by) operations	7,714	6,269	3,514	(9,735)
Interest paid	(909)	(1,026)	(890)	(796)
Tax paid	(59)	(82)	—	—
Net cash generated from/(used by) operating activities	6,746	5,161	2,624	(10,531)

22 Analysis of changes in net financial liabilities

	31 December 2006 £'000	Cash (inflow)/ outflow £'000	Acquisitions £'000	31 December 2007 £'000
Cash and cash equivalents	—	(419)	820	401
Overdraft	(1,636)	(51)	—	(1,687)
Debt due within one year	(2,000)	—	—	(2,000)
Debt due after one year	(7,000)	(9,000)	—	(16,000)
Finance leases/hire purchase	(251)	151	(793)	(893)
Net financial liabilities	(10,887)	(9,319)	27	(20,179)

23 Business combinations

Acquisition of RNA Investments Limited and Chemical Recoveries Limited

On 31 October 2007 the group acquired the entire share capital of RNA Investments Limited and its trading subsidiary Chemical Recoveries Limited. Further details are provided in the directors' report.

The assets of the acquired businesses have been recorded at their provisional fair values as shown in the table below:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Intangible assets	—	125	125
Property, plant and equipment	881	—	881
Current assets	1,850	(76)	1,774
Current liabilities	(1,251)	(105)	(1,353)
Non-current liabilities	(42)	(21)	(63)
Net assets acquired	1,438	(77)	1,361
Goodwill			5,135
			6,496
Satisfied by:			
Cash (including directly attributable costs)			6,496

All assets and liabilities including intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements. The fair value adjustments made on acquisition relate to alignments of the acquired businesses' accounting policies with those of the group.

Included within goodwill are the following assets which are specifically excluded by IFRS 3 in the identification of intangible assets on acquisition:

- staff acquired as part of the business; and
- strategic acquisition synergies.

Immediately following acquisition the trade and assets of the acquired companies were transferred into Augean Treatment Limited. The acquisition contributed £65,000 to the group's profit in the year.

23 Business combinations continued

Acquisition of Hitech Equipment Limited

On 19 December 2007 the group acquired the entire share capital of Hitech Equipment Limited and the freehold property of its Paisley site. Further details are provided in the directors' report.

The assets of the acquired business have been recorded at their provisional fair values as shown in the table below:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Intangible assets	—	133	133
Property, plant and equipment	1,597	—	1,597
Current assets	1,580	(122)	1,458
Current liabilities	(1,100)	(86)	(1,186)
Non-current liabilities	(618)	—	(618)
Net assets acquired	1,459	(75)	1,384
Goodwill			5,395
			6,779
Satisfied by:			
Cash (including directly attributable costs)			6,029
Deferred consideration			750
Total consideration payable			6,779

All assets and liabilities including intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements. The fair value adjustments made on acquisition relate to alignments of the acquired businesses' accounting policies with those of the group.

Included within goodwill are the following assets which are specifically excluded by IFRS 3 in the identification of intangible assets on acquisition:

- staff acquired as part of the business; and
- strategic acquisition synergies.

Deferred consideration is contingent on the future performance of the business acquired. It is assumed the performance targets will be achieved and therefore the maximum consideration payable is included as deferred consideration.

Following the acquisition, the trade and assets of the acquired company were transferred into Augean Treatment Limited. The acquisition contributed £25,000 to the group's profit in the year.

Had all acquisitions been made at the beginning of the year, the group's revenue and operating profit before exceptional items would have been reported as £36.0m and £5.9m respectively. This information is not necessarily indicative of the results of the operations that would have occurred had the purchase been made at the beginning of the year or the future results of the combined operations.

24 Financial instruments

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

The group's principal financial instruments during the period comprised bank loans, cash, finance leases and hire purchase contracts. The main purpose of these financial instruments is to finance the group's operations. The group's other financial instruments include short term receivables and payables which arise directly from its operations. There was no material difference between the fair value of the assets and liabilities and their book value.

All financial assets are classed as loans and receivables within the financial instruments classifications and all financial liabilities are classed as other financial liabilities within the financial instruments classifications. Financial assets total £8.6m and include trade and other receivables of £8.2m and cash of £0.4m. Financial liabilities total £34.4m and include current trade and other payables (£7.6m), current tax liabilities (£1.6m), bank overdraft, bank loans and obligations under finance leases and hire purchase contracts totalling £20.6m, provisions (£3.7m), non-current trade and other payables (£0.7m) and non-current deferred tax liabilities (£0.2m).

The group has maintained its policy that no trading in financial instruments shall be undertaken.

Liquidity risk

The group carries relatively low levels of debt, is cash-generating and short term flexibility is achieved by overdraft facilities of up to £20m including the guarantees detailed in note 26. These facilities are on demand.

Credit risk

The group has a customer credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is the carrying value of each financial asset included on the balance sheet.

At 31 December 2007, £4.0m (2006: £3.1m) of receivables were past due. A provision of £0.5m (2006: £0.5m) is held to mitigate the exposure to potential bad and doubtful debts. At 31 December 2007 and 31 December 2006 all the receivables past due but not provided were not more than six months overdue.

Interest rate risk

The group finances its operations through a mixture of retained profits, bank borrowings and hire purchase. 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 2007 was:

	Interest free £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Bank overdraft	—	—	1,687	1,687
Bank loans	—	—	18,000	18,000
Finance leases and hire purchase contracts	—	893	—	893
At 31 December 2007	—	893	19,687	20,580
At 31 December 2006	—	251	10,636	10,887

The interest rate on the floating rate borrowings is between 1% and 1.75% above LIBOR. A change in interest rate by 0.5% affects the interest cost by approximately £0.1m. Interest of £4.6m in total is forecast to be payable over the term of the bank loans. The forecast repayment profile of the interest on the bank loans is expected to be £1.4m in less than one year, £1.1m in the second year, £1.5m in total for the third to fifth years and £0.1m in greater than five years.

The hire purchase agreements have a weighted average interest rate of 6.7% and a weighted average duration of two years.

The maturity profile of the group's financial liabilities is shown in note 15.

25 Post-balance sheet events

There have been no post-balance sheet events.

26 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 £8.5m. Future site restoration costs for each landfill site have been provided as disclosed in note 16.

27 Related party disclosures

IAS 24 'Related Party Transactions' requires the disclosure of the details of material transactions between reporting entities and related parties. The group has taken advantage of the exemption under IAS 24 not to disclose transactions between subsidiaries which are eliminated on consolidation.

Related party transactions of the group which are not eliminated on consolidation and related party transactions of the company are both as follows:

	2007 £'000	2006 £'000
Transactions with Terramundo Limited:		
Revenue	110	—
Costs	(110)	—

	2007 £'000	2006 £'000
Amounts owed by Terramundo Limited:		
Less than one year	102	—
More than one year	75	25
	177	25

Related party transactions of the company are noted below:

Transactions and balances with jointly controlled entity

	2007 £'000	2006 £'000
Transactions with Terramundo Limited:		
Revenue	110	—
Costs	(110)	—
Amounts owed by Terramundo Limited:		
Less than one year	102	—
More than one year	75	25
	177	25

Transactions and balances with subsidiary undertakings

Included within current trade and other receivables are amounts owed by 100% subsidiary undertakings of £nil (2006: £10.2m).

Included within current trade and other payables are amounts owed to 100% subsidiary undertakings of £5.2m (2006: £7.5m).

28 Explanation of transition to IFRS

The group has prepared its accounts for the year ended 31 December 2007 in accordance with IFRS and IFRIC interpretations endorsed by the EU and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

Previously, the group prepared accounts in accordance with UK Generally Accepted Accounting Principles (UK GAAP). These are the first annual accounts prepared under IFRS and the following disclosures are required in the year of transition. The last accounts under UK GAAP were for the year ended 31 December 2006 and the date of transition to IFRS was 1 January 2006.

IFRS 1 'First-time Adoption of International Financial Reporting Standards' determines that the transition date for Augean will be 1 January 2006. It permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS during the transition period.

Augean has taken the following key exemptions in accordance with IFRS 1 'First-time adoption of International Financial Reporting Standards':

- Business combinations – the group has elected not to apply IFRS 3 'Business Combinations' retrospectively and restate business combinations completed prior to the date of transition. As a result, in the opening balance sheet, goodwill arising from past business combinations of £85.8m remains as stated under UK GAAP at 1 January 2006.
- Share-based payments – the group has elected to apply IFRS 2 'Share-based Payments' only to awards of equity instruments made after 7 November 2002, which had not vested by 1 January 2006.

The group's underlying cash position is unaffected by the transition to IFRS. However, there are a number of presentational differences arising in the cash flows reported under IAS 7 'Cash Flow Statements'. The cash flows themselves relate to movements in cash and cash equivalents (rather than simply cash) and are classified under three headings (operating, investing and financing) which results in the reordering of entries from their UK GAAP format.

Reconciliation of reported profits for the year ended 31 December 2006
Group

	As reported under UK GAAP £'000	Goodwill amortisation (i) £'000	Goodwill tax adjustment (ii) £'000	Other (iii) £'000	As reported under IFRS £'000
Continuing operations					
Revenue	26,561	—	—	—	26,561
Operating expenses	(33,012)	10,405	(600)	(23)	(23,230)
Operating profit/(loss)	(6,451)	10,405	(600)	(23)	3,331
Finance costs	(1,020)	—	—	—	(1,020)
Profit/(loss) before tax	(7,471)	10,405	(600)	(23)	2,311
Tax	89	—	—	—	89
Profit/(loss) for the year	(7,382)	10,405	(600)	(23)	2,400
Earnings/(loss) per share					
Basic and diluted	(11.3p)	15.9p	(0.9p)	—	3.7p

As at 31 December 2006, for the company, there was no difference between the profit reported under UK GAAP and the profit reported under International Accounting Standards.

28 Explanation of transition to IFRS continued

Reconciliation of equity and net assets as at 1 January 2006

Group

	As reported under UK GAAP £'000	Goodwill amortisation (i) £'000	Goodwill tax adjustment (ii) £'000	Other (iii) £'000	As reported under IFRS £'000
Non-current assets					
Goodwill	85,812	—	—	—	85,812
Other intangible assets	—	—	—	144	144
Property, plant and equipment	29,547	—	—	(144)	29,403
	115,359	—	—	—	115,359
Current assets					
Trade and other receivables	6,871	—	—	—	6,871
Cash and cash equivalents	—	—	—	—	—
	6,871	—	—	—	6,871
Current liabilities					
Trade and other payables	(3,613)	—	—	—	(3,613)
Tax liabilities	(2,969)	—	—	—	(2,969)
Debt factoring	(2,346)	—	—	—	(2,346)
Obligations under finance leases and hire purchase contracts	(181)	—	—	—	(181)
Bank overdraft and loans	(729)	—	—	—	(729)
	(9,838)	—	—	—	(9,838)
Net current liabilities	(2,967)	—	—	—	(2,967)
Non-current liabilities					
Bank and other loans	(100)	—	—	—	(100)
Provisions	(7,336)	—	—	—	(7,336)
Obligations under finance leases and hire purchase contracts	(235)	—	—	—	(235)
	(7,671)	—	—	—	(7,671)
Net assets	104,721	—	—	—	104,721
Shareholders' equity					
Share capital	6,549	—	—	—	6,549
Share premium account	106,222	—	—	—	106,222
Retained losses	(8,050)	—	—	—	(8,050)
Total shareholders' equity	104,721	—	—	—	104,721

28 Explanation of transition to IFRS continued

Reconciliation of equity and net assets as at 31 December 2006

Group

	As reported under UK GAAP £'000	Goodwill amortisation (i) £'000	Goodwill tax adjustment (ii) £'000	Other (iii) £'000	As reported under IFRS £'000
Non-current assets					
Goodwill	84,390	10,405	(600)	(116)	94,079
Other intangible assets	—	—	—	217	217
Property, plant and equipment	28,963	—	—	(124)	28,839
	113,353	10,405	(600)	(23)	123,135
Current assets					
Trade and other receivables	6,034	—	—	—	6,034
Cash and cash equivalents	—	—	—	—	—
	6,034	—	—	—	6,034
Current liabilities					
Trade and other payables	(4,712)	—	—	—	(4,712)
Tax liabilities	(2,306)	—	—	—	(2,306)
Obligations under finance leases and hire purchase contracts	(132)	—	—	—	(132)
Bank overdraft and loans	(3,636)	—	—	—	(3,636)
	(10,786)	—	—	—	(10,786)
Net current liabilities	(4,752)	—	—	—	(4,752)
Non-current liabilities					
Bank loans	(7,000)	—	—	—	(7,000)
Provisions	(4,084)	—	—	—	(4,084)
Obligations under finance leases and hire purchase contracts	(119)	—	—	—	(119)
	(11,203)	—	—	—	(11,203)
Net assets	97,398	10,405	(600)	(23)	107,180
Shareholders' equity					
Share capital	6,549	—	—	—	6,549
Share premium account	106,222	—	—	—	106,222
Retained losses	(15,373)	10,405	(600)	(23)	(5,591)
Total shareholders' equity	97,398	10,405	(600)	(23)	107,180

28 Explanation of transition to IFRS continued

Reconciliation of equity and net assets as at 1 January 2006 and 31 December 2006

Company

	As reported under UK GAAP 1 January 2006 £'000	Other (iii) £'000	As reported under IFRS 1 January 2006 £'000	As reported under UK GAAP 31 December 2006 £'000	Other (iii) £'000	As reported under IFRS 31 December 2006 £'000
Non-current assets						
Other intangible assets	—	129	129	—	116	116
Investments	116,404	—	116,404	116,498	—	116,498
Property, plant and equipment	1,000	(129)	871	971	(116)	855
	117,404	—	117,404	117,469	—	117,469
Current assets						
Trade and other receivables	388	—	388	10,672	—	10,672
Cash and cash equivalents	—	—	—	—	—	—
	388	—	388	10,672	—	10,672
Current liabilities						
Trade and other payables	—	—	—	(782)	—	(782)
Amounts due to subsidiary undertakings	(5,496)	—	(5,496)	(7,531)	—	(7,531)
Tax liabilities	—	—	—	—	—	—
Obligations under finance leases and hire purchase contracts	(7)	—	(7)	(7)	—	(7)
Bank overdraft and loans	(180)	—	(180)	(3,886)	—	(3,886)
	(5,683)	—	(5,683)	(12,206)	—	(12,206)
Net current liabilities	(5,295)	—	(5,295)	(1,534)	—	(1,534)
Non-current liabilities						
Bank loans	—	—	—	(7,000)	—	(7,000)
Provisions	—	—	—	—	—	—
Obligations under finance leases and hire purchase contracts	(8)	—	(8)	(1)	—	(1)
	(8)	—	(8)	(7,001)	—	(7,001)
Net assets	112,101	—	112,101	108,934	—	108,934
Shareholders' equity						
Share capital	6,549	—	6,549	6,549	—	6,549
Share premium account	106,222	—	106,222	106,222	—	106,222
Retained losses	(670)	—	(670)	(3,837)	—	(3,837)
Total shareholders' equity	112,101	—	112,101	108,934	—	108,934

28 Explanation of transition to IFRS continued

Reconciliation of equity and net assets as at 1 January 2006 and 31 December 2006 continued

Company continued

(i) Under UK GAAP, goodwill is amortised on a straight-line basis over the useful economic life of the acquired asset, up to a maximum of 20 years. Provision is made when impairment is indicated by external business factors and is considered against the value of all businesses acquired as part of each single acquisition. This is in accordance with FRS 10 'Goodwill and Intangible Assets'. Under IFRS 3 'Business Combinations' annual amortisation is no longer required. Instead goodwill must be allocated to each income generating unit expected to benefit from the synergies of the combination, and an annual impairment review must be performed for each discrete unit in accordance with IAS 36 'Impairment of Assets'.

Impact on income statement for the year ended 31 December 2006

Amortisation of goodwill is reduced from £10.4m under UK GAAP to £nil under IFRS.

Impact on net assets at 1 January 2006

No impact noted.

Impact on net assets at 31 December 2006

The closing balance sheet for 2006 is subject to an increase in the value of non-current assets of £10.4m.

(ii) Under UK GAAP deferred tax is recognised on the basis of timing differences, being the difference between accounting profit and taxable profit. IFRS requires deferred tax to be based on temporary differences, being the difference between the carrying value of an asset or liability and its tax base. Of itself this has no impact on the group's figures but IAS 12 'Income Taxes' also requires that when deferred tax assets such as losses have not been recognised on acquisition and are subsequently utilised, both deferred tax assets and goodwill are adjusted with corresponding entries to operating expense and tax in the income statement. During 2006 the group utilised tax losses that had previously not been recognised on the acquisition of Atlantic Waste Holdings Limited and Zero Waste Holdings Limited. As the related tax credit had already been recorded in the UK GAAP accounts, a charge has been recorded as an exceptional operating expense.

Impact on income statement for the year ended 31 December 2006

An exceptional charge of £0.6m for the reduced value of goodwill is recognised in the income statement.

Impact on net assets at 1 January 2006

No impact noted.

28 Explanation of transition to IFRS continued

Impact on net assets at 31 December 2006

The closing balance sheet for 2006 is subject to a decrease in the value of non-current assets of £0.6m.

(iii) Various reclassifications are required in order to comply with the disclosure requirements of IFRS and IAS.

The most significant of these are:

Computer software

Under UK GAAP, all capitalised software is included within tangible fixed assets as plant and equipment. Under IFRS, only computer software that is integral to a related item of hardware should be included as plant and equipment. All other computer software should be recorded as an intangible asset.

Accordingly, a reclassification of the net book value of capitalised software of £144,000 has been made in the transition balance sheet and £124,000 in the balance sheet as at 31 December 2006 between property, plant and machinery and intangible assets. In the company balance sheet a reclassification of the net book value of capitalised software of £129,000 has been made in the transition balance sheet and £116,000 in the balance sheet as at 31 December 2006 between property, plant and machinery and intangible assets.

There is no impact on the income statement as a result of the reclassification since, under both UK GAAP and IFRS, computer software is written down over its estimated useful life.

Intangible assets

During the year ended 31 December 2006 the group acquired the assets and business of Credential Hazardous. IFRS 3 'Business Combinations' requires that for all business combinations completed after the date of transition to IFRS, separately identified intangible assets should be valued and are subject to amortisation.

As a result, £116,000 of amounts previously classified as goodwill under UK GAAP in relation to acquired order books and contracts has been reclassified as an intangible asset. This will be amortised over a three year period from the date of acquisition which results in a £23,000 charge to the income statement in the year ended 31 December 2006.

Company information and advisers

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

Broker and nominated adviser
Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Auditors
Grant Thornton UK LLP
No 1 Whitehall Riverside
Whitehall Road
Leeds LS1 4BN

Solicitors
Walker Morris
Kings Court
12 King Street
Leeds LS1 2HL

Bankers
Bank of Scotland
155 Bishopsgate
London EC2M 3YB

Registrars
Computershare Investor Services Plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Glossary of terms

BAT
Best Available Technique

BS EN
British Standard European Norm

BSI
British Standards Institute

CCS
Compliance Classification Scheme

COSHH
Control of Substances Hazardous to Health

COTC
Certificate of Technical Competence

CPD
Continuing Professional Development

CSR
Corporate Social Responsibility

CSS
Corporate Safe System

DGSA
Dangerous Goods Safety Advisor

DSEAR
Dangerous Substances and Explosive Atmosphere Regulations

EPIC
Extractive Processing Industries Companies

EMS
Environmental Management System

EWC codes
European Waste Catalogue codes

GA
Green Alliance

GRI
Global Reporting Initiative

HSE
Health and Safety Executive

IMS
Integrated Management System

INCA
Industry Nature Conservation Association

IPPC
Integrated Pollution Prevention Control

ISO (9001; 14001)
International Standards Organisation

LSE
London School of Economics

LTCS
Landfill Tax Credit Scheme

MRes
Master of Research

OHSAS (18001)
Occupational Health and Safety Accreditation Scheme

OPRA
Operator Performance Risk Appraisal

PFA
Pulverised Fuel Ash

PPC
Pollution Prevention Control

PPE
Personal Protective Equipment

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

SNRHW
Stable Non-reactive Hazardous Waste

UKAS
United Kingdom Accreditation Service

WAC
Waste Acceptance Criteria

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

Augean PLC
4 Rudgate Court
Walton
Wetherby LS23 7BF
Tel: 01937 844980
Fax: 01937 844241
www.augeanplc.com
contact@augeanplc.com

Contacting Augean

To find out about how Augean can help your business call us on 01937 844980, fax us on 01937 844241 or email us at contact@augeanplc.com to arrange for a sales adviser to call you.

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