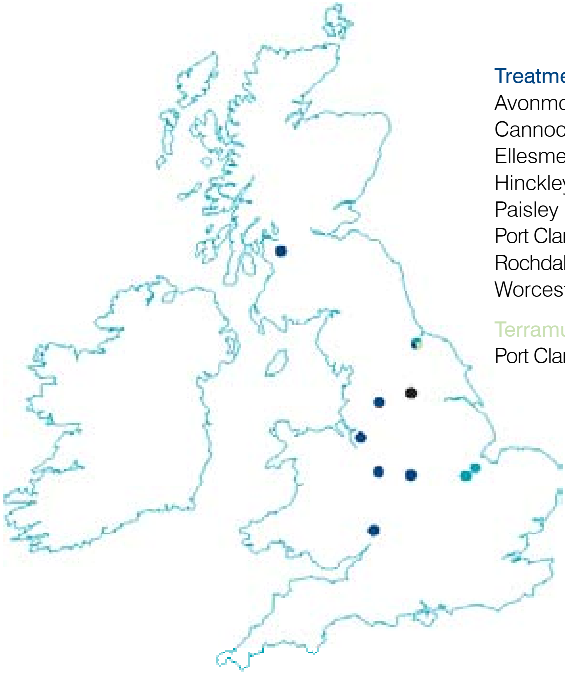
Augean PLC
specialists in waste management

Annual Report 2008

CORPORATE STATEMENT

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
Avonmouth
Cannock
Ellesmere Port
Hinckley
Paisley
Port Clarence
Rochdale
Worcester

Terramundo division
Port Clarence

Landfill division
King's Cliffe
Thornhaugh
Port Clarence

Head office
Wetherby

Financial highlights

- **61% increase** in revenue excluding landfill tax to £36.3m (2007: £22.6m)
- **25% increase** in underlying operating profit to £6.2m (2007: £4.9m)
- **9% increase** in underlying profit before tax to £4.0m (2007: £3.7m)
- **25% increase** in adjusted earnings per share to 7.1p (2007: 5.7p)
- **51% increase** in cash flow from operations to £11.6m (2007: £7.7m)
- **Net debt reduced** by £3.4m to £16.8m

Operational highlights

- **Construction** of first phase of Waste Recovery Park
- **Upgrade** of Cannock facility
- **Significant contract wins secured** and record hazardous tonnages in landfill division
- **Management team strengthened**
- **Economic downturn** affecting treatment division
- **Acquisition** of specialist laboratory chemicals business

AT A GLANCE

Augean has three divisions...

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The group’s comprehensive management service covers the collection, transfer, storage, treatment, recovery and final disposal of hazardous and difficult waste streams.

Treatment division

The treatment division operates from a nationwide network of treatment and transfer facilities, thus providing regionally important collection, and processing facilities tailored to meet our clients’ needs.

As a registered waste carrier with drivers fully ADR trained (Agreement on the International Transport of Dangerous Goods by Road), the group’s fleet of vehicles is able to collect and transport waste safely.

The treatment division is able to offer specialist services for all types of hazardous waste which are not suitable for direct disposal to landfill, including:

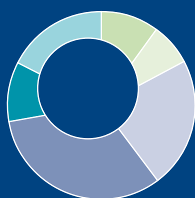
- Thermal desorption
- Bioremediation
- Aerobic and anaerobic digestion
- Solidification/stabilisation
- Physicochemical
- Infra-red

Each site provides specific treatment expertise in the following areas:

Avonmouth	Treatment, recycling, recovery
Cannock	Treatment, transfer
Ellesmere Port	Industrial services
Hinckley	Transfer, mobile technical services
Paisley	Treatment, recycling, recovery
Port Clarence	Thermal desorption, transfer
Rochdale	Mobile technical services
Worcester	Treatment, transfer, recycling

Turnover by site

- Hinckley 10%
- Ellesmere Port 7%
- Cannock 22%
- Avonmouth 32%
- Worcester 10%
- Paisley 17%



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.

The sites are strategically located with Port Clarence (near Middlesbrough) providing capacity for the North of England and both King's Cliffe and Thornhaugh (near Peterborough) providing capacity in the South.

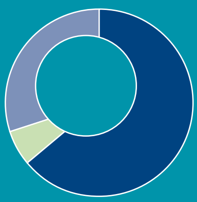
Each site is engineered to the prescribed standards, operated under strict Polution Prevention Control (PPC) permits and managed through an Integrated Management System (IMS) which delivers industry standards of excellence in health, safety and environmental controls.

The main waste streams managed by the landfill division are contaminated soils, fibrous and bonded asbestos, treatment residues and filtercakes and incinerator ash.

The division is supported by the laboratory services team which operates the latest technology to offer state of the art testing facilities.

Volumes by site

- King's Cliffe 64%
- Thornhaugh 6%
- Port Clarence 30%



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.

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.

Ownership structure

- Augean 50%
- DEC 50%

CHAIRMAN'S STATEMENT

I am pleased to be able to report that for the year ended 31 December 2008 revenue, excluding landfill tax, increased by 61% to £36.3m, with a 25% increase in both operating profit to £6.2m and in adjusted earnings per share to 7.1p. Importantly, in these times of global economic uncertainty, cash flow from operations increased by 51% to £11.6m allowing us to repay more debt than anticipated and reducing our net debt figure to under £17m by the year end, £2m better than our budget.

The team has been working hard to secure some significant contractual revenue streams and after a quiet first half of the year, we were very pleased to secure a number of contracts in the second six months, allowing us to achieve our budgeted level of profits; though as the economic downturn worsened towards the year end, we fell slightly short of our final forecasts. The waste solutions and technology market is still evolving and in order to maintain our market leading position we spend considerable time reviewing the new technologies being trialled globally to ascertain which ones will improve the service we can offer to our customers, as well as attracting new revenue streams.

Having shown that we can produce good returns and, more importantly, generate significant cash flow, we now face the challenge of tougher markets in a position of strength and stability as the business climate deteriorates around us. It remains to be seen how the downturn will affect waste streams but it is certain it will not be positive for the industry. However, we have expended capital required to provide the best facilities for our customers so we can be prudent where we utilise additional capital expenditure in the foreseeable future. Our valuable cash flow can therefore be retained to allow us to withstand the worst of the downturn and leave us positioned to benefit from the eventual improvement in market conditions.

We were very pleased to secure a number of contracts in the second six months, allowing us to achieve our budgeted level of profits.

> We now face the challenge of tougher markets in a position of strength and stability as the business climate deteriorates around us.

I wish to thank our non-executive directors for their work in ensuring that we comply with the ever increasing codes of conduct and corporate governance and of course our staff who continue to support our company with their hard work.

David Williams
Chairman
17 March 2009

NET REVENUE

£36.3m
(2007: £22.6m)

EARNINGS PER SHARE

7.1p
(2007: 5.7p)

OPERATING PROFIT

£6.2m
(2007: £4.9m)

BUSINESS REVIEW

Introduction

The board has maintained a focused strategic direction for the business and 2008 saw the start of the asset development programme, converting planning into new capacities and capabilities on the ground. The largest example of this is the Waste Recovery Park development at Port Clarence in the North East of England. Construction commenced in 2008, coinciding with the exclusive agreement with MECO for the thermal recovery process, which will provide services to the refinery and oil and gas markets. The year also saw success in securing some significant contracts which were awarded due to the group's unique asset base and service standards. Coupled with the strengthening of the management team, the business has delivered consistent cash generation, demonstrated by a reduction in the group net debt position, whilst maintaining capital investment programmes.

The group experienced a number of short term trading difficulties in the second half of the year, as business interruption affected certain parts of the treatment division. In particular the Cannock operation suffered due to construction works and waste stream restrictions as process modifications were installed. These short term issues will, in the long term, increase the group's capabilities beginning in 2009 as the new processes are introduced.

The current economic climate has affected so many markets that it has highlighted the importance of maintaining the group's focus on helping customers through these difficult times. In 2008, a specific business development team was established with a key focus on developing direct client relationships to create a balance between the important waste trading network and the site of waste origin, thus reducing further exposure to fluctuations in the markets. This has been a slow process but the group faces the current climate with a commercial structure capable of bringing sustained growth in the medium term at a regional level.

"The business has delivered consistent cash generation, demonstrated by a reduction in the group net debt position, whilst maintaining capital investment programmes."

In 2008, a specific business development team was established with a key focus on developing direct client relationships.

The group experienced a slowdown in trading towards the end of 2008 in the treatment division as the economic uncertainties impacted customers. This slowdown, coupled with the development disruption, has resulted in the profit for the full year being marginally lower than the forecast issued in October 2008. The business continues to review its cost base and is taking actions to ensure that it is appropriate for the current trading environment.

A core commercial strategy established in 2008 was a focus on winning contracts with key clients in the infrastructure and construction sectors. This strategy has been successful in securing a number of contract wins which have provided a sustained level of business. The group has recently commenced an application to gain authorisation to receive waste streams from large Government decommissioning projects. The timetable for these authorisations is pre-determined and therefore the group anticipates the consents being issued towards the final quarter of 2009, positioning the business to develop new long term secure markets. Further updates on progress on the authorisations will be provided in the coming months.

PROFIT BEFORE TAX

£4.0m

(2007: £3.7m)

OPERATING CASH FLOW

£11.6m

(2007: £7.7m)

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Augean has been at the forefront of leading the development of waste infrastructure to deliver the long term objectives of the legislative frameworks.

Introduction continued

The treatment division has been constructed to deliver an integrated network of services to the sector and offers solutions for a broad range of clients. The division operated through 2008 as a larger unit as integration of the acquired businesses continued. However, the development of certain key sites and a general weakening of the markets as the economic crisis took hold in the latter months of the year presented a difficult second half trading position. This trend has continued into 2009 as the impact of the global recession shocked certain markets, particularly where commodity prices fell rapidly as demand reduced. These markets are slowly recovering and trading in these areas has started to strengthen following the period end.

The hazardous waste market

The hazardous waste statistics generated by the Environment Agency for 2007 are the most recent data on the market in England and Wales. The statistics show growth in the production trends for hazardous waste between 2006 and 2007 of 7% to a total of 6.0 million tonnes per annum. The fate of wastes has seen a significant shift as more hazardous materials are being recycled or recovered with 1.2 million tonnes of hazardous waste treated in this way in 2007.

The hazardous waste market continues to evolve as the producers of waste and the bodies responsible for policy and implementation start to become effective. 2008 saw further policy impact with the cessation of mixing in open, below ground vessels; this ban came into effect in November 2008 and required all operators to build new and modern facilities. Augean was one of a select group of operators to construct a new process at its Cannock facility which has been authorised by the regulator. This investment positions the business to deliver new and sustainable long term services to clients.

The market continues to move towards more sustainable methods of managing waste and the development of treatment, recycling and recovery remains the key to the emerging market. Augean has been at the forefront of leading the development of waste infrastructure to deliver the long term objectives of the legislative frameworks.

The group continues to present a voice for the industry with the regulators and the Government and has continued to engage in the development of the Principles of Sustainable Hazardous Waste Management, together with the associated Road Map and proposals for a National Policy Statement.

Strategy

The board’s priority continues to be the creation of long term shareholder value. Augean is building infrastructure and delivering services in a market newly created through legislation. This business will modernise the sector and deliver long term income streams as the market matures and standards are raised.

The strategy is on a critical path, as the group has now established a UK wide network of specialist facilities which are to be further developed to enhance the solutions provided to regional markets. The group has moved its development position from one of strategic acquisitions to the process of asset development, creating new processes which will deliver long term income.

The most significant example of this development programme is the Waste Recovery Park at Port Clarence in Teesside, a site which clearly demonstrates the potential for the group to extract maximum value from its portfolio of assets. Construction of the first phase of the Park commenced in the second half of 2008 together with the completion of an exclusive agreement with the US based technologists MECO, to install an indirect thermal treatment process.

MIXING BAN FROM 10 NOVEMBER 2008

The regulatory position statement from the UK Environment Agency reinforced its decision to close hazardous waste ‘mixing pits’.

As part of our continuing drive to meet and exceed legal requirements we had already decided to phase out mixing pits and set a new standard for treatment of wastes at our Cannock site.

Setting the standard

We commissioned a number of consultancies to work with the company’s development team, ahead of legislative requirements, to devise a reliable, fully enclosed means of treating a range of solid and liquid wastes.

When the UK Environment Agency announced a ban on mixing pits to take effect in July 2008, the plant concept was already well advanced but the team was faced with a tight schedule to resolve outstanding technical problems, finance and build the plant by the deadline.

State of the art

This development encompasses a cement stabilisation process with a supporting liquid treatment tank farm; a unique process design application to waste solidification and stabilisation. We experimented with various treatment options in order to arrive at a process which gave us confidence in the treated waste reliably meeting Waste Acceptance Criteria (WAC) at the company’s hazardous landfills.

Process parameters were determined using a pilot plant and experimenting with various types of small scale replicas of the mixing vessel. This testing lead to a design based on batch mixing which allows a high degree of control but ensures greater flexibility of operation.

Two stage process

The mixing system utilises a touch screen computer that automatically controls each feed of the process. Chemists identify, model and analyse suitable solid and sludgy wastes for each batch. These containers are then loaded onto the shredder feed conveyor belt. At the same time a measured quantity of a treated processed liquid waste is introduced into the operating mixer. As the mixer turns, measured quantities of cement and Air Pollution Control Residues (APCr), which are one of the ash types produced by incinerators, are loaded through solid flow meters into the mixer. This process is one of only a handful of plants in the UK that utilises solid flow meters.

As the cement, APCr and aqueous waste are mixing the solid or sludgy hazardous wastes are introduced. The pre-loaded containers are passed up and into a shredder which is capable of processing intermediate bulk containers, drums or combinations. The shredder is specially designed to guarantee a shredding size no greater than 150mm to both improve homogeneity of the mix and prevent large objects entering conveyors or the mixer. After all material has been thoroughly mixed the discharge valve is opened and the resultant stabilised residue is guided onto a conveyor which discharges it into a waiting trailer for onward disposal at hazardous landfill.

Up and running

The new mixing plant is now up and running allowing us to process a greater range of difficult hazardous wastes, increasing our production efficiency and helping our chemists to handle wastes in a more controlled, safe and compliant manner. Construction of an associated tank farm is well underway with delivery expected towards the end of the second quarter of 2009. Once in position this will significantly expand Augean’s waste handling capabilities.

> A number of significant projects throughout 2008 delivered a strong second half to the year resulting in record tonnages into the group's landfill sites.

Strategy continued
The technology separates organic wastes such as oils from solids and provides a service to the oil and gas markets. The group anticipates the operation contributing to income and profits during 2009. The process is currently being commissioned with the environmental permit expected to be issued and operations planned to commence in the second quarter of 2009.

In order to support the development programme and operational challenges of the business, a number of senior appointments were made in 2008 which strengthened the group's management team. The group has invested in the sales and commercial teams to capitalise further on regional markets and to continue to work to the highest standards in providing the most cost effective and compliant waste management solution.

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

Environmental legislation
Regulation is a key driver of the waste market. This is further complicated by the rapid rate of change in legislation resulting from the increased profile of environmental issues. Changes in the legislation or its interpretation can have a significant and far reaching impact on markets. The group endeavours to mitigate this risk by employing high quality technical management to interpret the evolving legislative framework and its impact on the group's operations. In addition, the group maintains a presence on a number of industry groups to have influence in the shaping of 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.

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

Landfill division

Excluding landfill tax, revenue for the landfill division increased to £15.6m (2007: £13.8m) with hazardous waste volumes 37% higher than 2007 at 323,517 tonnes (2007: 235,461 tonnes). Operating profit increased to £4.9m (2007: £3.4m) and margin strengthened to 32% (2007: 25%).

A number of significant projects throughout 2008 delivered a strong second half to the year resulting in record tonnages into the group's landfill sites. One of the major successes in the year was an exclusive contract with Shanks group, which secured hazardous waste void for Shanks for the latter part of 2008 for significant contracted volumes. The group is continuing to work closely with its key customers in 2009.

The landfill division also established a new customer support centre in 2008 to deliver a rapid client facing service team, to provide effective solutions to the group's markets.

Terramundo

The joint venture between Augean and DEC NV continued to struggle to deliver volumes into the soil treatment centre in 2008 and also suffered from the deployment of the company's resources to the enabling works in Stratford for the Olympic site project. The business treated and recycled 20,480 tonnes of contaminated soil through the process but also provided an important capacity for filtercake residues arising from DEC's on-site treatment centres.

The future of the business is extremely important to the group as the market adapts to changes in the tax incentives for remediation of contaminated land. The phased removal of landfill tax exemptions by 2012 will put the permitted treatment operators at a competitive advantage against direct landfill. The Terramundo model, based on achieving planning and permitting consent to operate the treatment facility next to hazardous landfill, will further enhance the group's position as it results in effective treatment and disposal of the residues, which will enable growth in market share.

LANDFILL HAZARDOUS WASTE VOLUMES

323,517 tonnes

(2007: 235,461 tonnes)

AVERAGE LANDFILL HAZARDOUS WASTE PRICE

£42 per tonne

(2007: £51 per tonne)

Divisional review continued

Terramundo continued

A second soil treatment centre has been constructed at the group's East Northants site (King's Cliffe), to deliver capacity for the southern region markets.

Treatment division

The treatment division revenue increased to £22.3m (2007: £10.5m), though operating profit was relatively unchanged at £1.2m (2007: £1.5m). This was disappointing and does not reflect the true long term value of the division but was caused by a number of short term factors in 2008. Firstly, the Cannock operation suffered from ongoing business interruption throughout the whole year, as the site had to restrict certain inputs and waste types due to infrastructure developments. The fully integrated new process has been delayed in commissioning and has disrupted the income, mix and value from the new markets the site will serve. The Cannock operation will start to bring improved operating profit later in 2009. Secondly, the integration of the Paisley and Ellesmere Port sites has been slower than anticipated due to the impact of the earnout period in place until May 2009. Finally, in the latter months of 2008 there was an overall market downturn as the sector felt the repercussions of the recession and waste producers either simply produced less waste or held back on despatch to preserve cash.

Financial review

Trading

Net revenue excluding landfill tax for the year ended 31 December 2008 increased by 61% to £36.3m (2007: £22.6m). This includes a contribution from the business acquired in the year of £0.4m. With the inclusion of landfill tax charged to customers, on which the group makes no margin, of £3.8m (2007: £3.7m), total group revenue grew by 52% to £40.1m (2007: £26.3m).

Operating margin and exceptional items

Operating profit before exceptional items increased by 25% to £6.2m (2007: £4.9m). The reduction in operating margin on turnover excluding landfill tax to 17% (2007: 22%) reflected the impact of the introduction of lower margin treatment businesses into the group and the weaker performance of the treatment division in the latter part of the year.

Statutory operating profit of £5.2m is stated after exceptional items relating to costs associated with the offer period (£0.2m) and a charge in respect of tax losses from acquisitions used in the year which had not previously been recognised (£0.8m).

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 in 2008 increased to £1.8m (2007: £1.1m), including £0.1m (2007: £0.1m) of unwinding of discount on provisions. Cash finance costs were covered 3.5 times (2007: 4.9 times) by underlying operating profit.

Jointly controlled entity

The group's Terramundo joint venture with DEC NV completed its first full year of trading in 2008. Its financial performance has been disappointing as the market for its services is still developing. This resulted in Augean's share of its loss for the year totalling £0.3m (2007: £0.1m). Both joint venture parties remain committed to this strategic venture, but in recognition of the market conditions, steps were taken at the end of 2008 to reduce Terramundo's cost base. This will enable the venture to operate profitably at much lower volumes of business in the future.

Tax

The group has continued to benefit from the utilisation of tax losses in its landfill businesses. This has resulted in no overall current tax charge in the year as in 2007. As the group now believes there to be greater certainty over the extent and timing of the remaining tax losses, a deferred tax asset in respect of these losses has been recognised, resulting in a credit to the income statement in the year of £0.6m. The group expects that it will continue to benefit from a reduced current tax rate in the short term.

Dividend
The board does not recommend the payment of a dividend for the year ended 31 December 2008. 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 25% to 7.1p (2007: 5.7p). The weighted average number of shares in issue was unchanged at 65.5m. After exceptional items, earnings per share were 5.6p (2007: loss per share of 36.5p). There were no dilutive outstanding share options at either year end.

Cash flow
The group continued to be highly cash-generative during the year. Cash generated from operations was £11.6m (2007: £7.7m). This represented a conversion rate of 196% of operating profit before non-cash exceptional items (2007: 165%). After deducting capital expenditure, finance costs and tax, free cash flow was £4.2m (2007: £3.2m). Following expenditure on purchase of businesses of £0.8m, net debt reduced by £3.4m to £16.8m (2007: £20.2m).

Capital expenditure
As previously indicated, capital expenditure increased in the year to £5.4m (2007: £3.6m). The majority of this expenditure was accounted for by investment in the group's treatment sites, including significant upgrades at Cannock and Avonmouth, together with preliminary investment in the Port Clarence Waste Recovery Park. While mindful of the current difficult economic climate, the group will continue to invest in proven technology to develop its infrastructure.

CAPEX

£5.4m

(2007: £3.6m)

NET DEBT

£16.8m

(2007: £20.2m)

Financial review continued

Banking facilities

The group's funding is comprised of £17m term loan facilities repayable over five years and a £17m revolving credit, overdraft and guarantee facility agreed in August 2008. This latter facility was undrawn at 31 December 2008 except for £5.6m of guarantees and is committed until December 2009. The group will open renewal negotiations in due course but maintains an ongoing dialogue with its bankers about its borrowing requirements.

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.

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 £103,000 to the Saltholme International Nature Reserve in the Tees Valley during the year. The southern sites at King's Cliffe and Thornhaugh contributed over £113,000 to a variety of projects during 2008, including development of the King's Cliffe Community Sports Centre and continued funding to Resource who provide a drop in centre for members of the community so they can access and gain valuable training and skills.

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

The group has started 2009 with new operations, more capacity and the capability to deliver enhanced income and profit streams for the future. The current global recession has affected all businesses and Augean is not alone in feeling the impact from the downturn in markets. The board believes however, that the business is positioned to provide unique solutions to the hazardous waste market and is focused on managing the group to ensure the best possible operation in these challenging times.

2009 has presented unique trading difficulties driven by the recession and with the impact of the exceptional weather problems in February on the movement of waste. The group's operational teams deserve much credit for keeping all sites open for business through those snow-laden weeks. Landfill tonnages continue to be consistent with expectations but the treatment division downturn in the latter part of 2008 has continued into 2009.

The uncertainty in the UK markets and the slower start makes forecasting so early in the financial year extremely difficult. The board will make further announcements to update shareholders when the picture becomes clearer, but the board's current view is that the first half of the year will be materially below the board's previous expectations.

Paul Blackler
Chief executive
17 March 2009

Peter Southby
Finance director
17 March 2009

BOARD OF DIRECTORS

David Williams – Non-executive chairman, 56

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, 39

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, 35

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.

Roger McDowell – Non-executive director, 53

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 I S Solutions Plc and a director of several private companies. He joined the board of Augean in 2004.

Andrew Bryce – Non-executive director, 61

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 of the United Kingdom Environmental Law Association of which he is an honorary life member. He was appointed to the board of Augean in June 2005.

Rory Macnamara – Non-executive director, 54

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 Izodia Plc, Raven Mount Group Plc, Carpathian Plc, Dunedin Income Growth Investment Trust Plc and Private Equity Investor Plc. He was appointed to the board of Augean in November 2006.

CORPORATE GOVERNANCE

Augean is committed to high standards of corporate governance in all its activities. While the company is not required under AIM rules to comply with the 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 the year under review, 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 this director has not been compromised as a result of this additional service.

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 2008, no director was absent from more than one board meeting. 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 twice a year. The external auditors and the executive directors are regularly invited to attend the meetings but the committee also has access to the external auditor's 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 have access to 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.

Annual general meeting

At the annual general meeting on 2 June 2009, Peter Southby and Rory Macnamara 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 2008.

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 profit after tax for the year was £3.6m (2007: loss of £23.9m) on turnover of £40.1m (2007: £26.3m).

The directors have not recommended a dividend for the year (2007: £nil).

Acquisition

On 30 May 2008 the group acquired the entire share capital of Astec Chemical Waste Services Limited (Astec) for total initial cash consideration of £1.0m. Further cash consideration of up to £0.3m will be due in 2010 if certain performance criteria are met. Astec provides bespoke services in the collection, transport and disposal of chemical waste to a wide range of customers including educational establishments, chemical and pharmaceutical manufacturers, local authorities and research bodies. Astec operates from a permitted site in Rochdale in the North West of England and 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 41 days' purchases (2007: 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 year the group contributed £217,000 (2007: £251,000) of its landfill tax liability to Entrust registered environmental bodies as permitted by Government regulations. It also made other charitable donations amounting to £10,000 (2007: £25,000).

No political donations were made during the year (2007: £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 17 March 2009:

Fund manager	Number of shares	%
One 51	17,610,200	26.89
JO Hambro Capital Management	10,910,000	16.66
Henderson Global Investors	4,614,248	7.05
Goldman Sachs International	4,174,850	6.37
Invesco Perpetual	4,111,684	6.28
Slater Investments	3,980,293	6.08
Octopus Investments	3,832,296	5.85

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.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on pages 6 to 15. Details of the group's financial position, cash flows, liquidity position and borrowing facilities are included in the financial review section of the business review. Further information on the group's financial risks and their management is given in note 24.

As highlighted in note 24 the group meets its short term working capital requirements through an overdraft facility which is due for renewal on 30 December 2009. The current economic conditions create uncertainty over the level of demand for the group's services and the availability of bank finance in the foreseeable future.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance and market value of the group's assets, show that the group should be able to operate within the level of its current facility. The group will open renewal negotiations with the bank in due course but maintains an ongoing dialogue with its bankers about its borrowing requirements. No matters have been drawn to the group's attention to suggest that renewal may not be forthcoming on acceptable terms.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. As the group has net current liabilities at 31 December 2008 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.

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 group and company 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.

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 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

Grant Thornton UK LLP has expressed willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006, a resolution to reappoint Grant Thornton UK LLP will be proposed at the annual general meeting.

By order of the board

Paul Blackler
Chief executive
17 March 2009

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 uses the services of independent external advisers as required.

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.

(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) Long Term Incentive Plan

Under the Long Term Incentive Plan (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 2008 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 2010 increases by at least 24% compound per annum. No award will vest unless the annual compound growth rate is at least 14%, 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 2008	Beneficial shares Number	Share options Number	LTIP Number	Total shares Number
David Williams	480,000	500,000	—	980,000
Paul Blackler	—	150,000	268,285	418,285
Peter Southby	15,000	144,665	212,799	372,464
Roger McDowell	60,000	—	—	60,000
Andrew Bryce	7,500	—	—	7,500
Rory Macnamara	10,000	—	—	10,000

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

Directors' emoluments

The emoluments of the directors were as follows:

	2008 Basic fee/salary £'000	2008 Bonus £'000	2008 Other emoluments £'000	2008 Total £'000	2007 Total £'000
Current directors					
David Williams	90	—	—	90	90
Paul Blackler	180	35	30	245	142
Peter Southby	140	27	25	192	122
Roger McDowell	28	—	—	28	90
Andrew Bryce	28	—	9	37	40
Rory Macnamara	28	—	—	28	27
Former director					
Peter Worledge (resigned 30 November 2007)	—	—	—	—	367
	494	62	64	620	878

Other emoluments for Paul Blackler and Peter Southby include car allowance, pension contributions and other benefits such as medical insurance. 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 2007	Granted in year	Number of shares 2008
Paul Blackler	05.07.2007	05.07.2010	130.25p	74,403	—	74,403
	29.04.2008	29.04.2011	78.50p	—	193,882	193,882
Peter Southby	05.07.2007	05.07.2010	130.25p	62,002	—	62,002
	29.04.2008	29.04.2011	78.50p	—	150,797	150,797
				136,405	344,679	481,084

Share option scheme	Award date	Earliest exercise date	Market price at award date	Number of shares 2007	Granted in year	Number of shares 2008
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 2008 was 75.0p. The range of the share price during the year was 58.0p to 108.5p.

On behalf of the remuneration committee

Roger McDowell
Chairman of the remuneration committee
17 March 2009

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 2008 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 and notes 1 to 27. 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 International Financial Reporting Standards (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-referred from the business review section of 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's 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 2008 and of its profit 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 2008;
- 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
17 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	Before exceptional items 2008 £'000	Exceptional items 2008 £'000	Total 2008 £'000	Before exceptional items 2007 £'000	Exceptional items 2007 £'000	Total 2007 £'000
Revenue							
– continuing operations		39,676	—	39,676	26,302	—	26,302
– acquisitions		405	—	405	—	—	—
	2	40,081	—	40,081	26,302	—	26,302
Operating expenses	3	(33,924)	(996)	(34,920)	(21,378)	(27,617)	(48,995)
Operating profit/(loss)							
– continuing operations		6,051	(996)	5,055	4,924	(27,617)	(22,693)
– acquisitions		106	—	106	—	—	—
	2	6,157	(996)	5,161	4,924	(27,617)	(22,693)
Finance charges	4	(1,844)	—	(1,844)	(1,096)	—	(1,096)
Share of loss of jointly controlled entity	8	(292)	—	(292)	(124)	—	(124)
Profit/(loss) before tax		4,021	(996)	3,025	3,704	(27,617)	(23,913)
Tax	6	621	—	621	—	—	—
Profit/(loss) for the year attributable to equity shareholders	19	4,642	(996)	3,646	3,704	(27,617)	(23,913)
Earnings per share							
Basic and diluted	7	7.1p	(1.5p)	5.6p	5.7p	(42.2p)	(36.5p)

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 2008

	Note	Group 2008 £'000	Group 2007* £'000	Company 2008 £'000	Company 2007 £'000
Non-current assets					
Goodwill	9	77,768	77,494	—	—
Other intangible assets	10	217	380	25	70
Investments	11	—	—	98,278	96,813
Property, plant and equipment	12	33,176	31,500	842	828
Deferred tax asset	6	413	—	80	—
		111,574	109,374	99,225	97,711
Current assets					
Inventories		138	94	—	—
Trade and other receivables	13	8,546	8,246	769	583
Cash and cash equivalents		765	401	—	—
		9,449	8,741	769	583
Current liabilities					
Trade and other payables	14	(10,232)	(7,821)	(10,643)	(6,725)
Current tax liabilities		(1,540)	(1,570)	—	—
Financial liabilities	15	(4,652)	(4,056)	(5,409)	(3,662)
		(16,424)	(13,447)	(16,052)	(10,387)
Net current liabilities		(6,975)	(4,706)	(15,283)	(9,804)
Non-current liabilities					
Financial liabilities	15	(12,894)	(16,524)	(12,600)	(16,000)
Provisions	16	(3,885)	(3,680)	—	—
Trade and other payables	14	(300)	(750)	(300)	(750)
Share of losses of jointly controlled entity	8	(416)	(124)	—	—
Deferred tax liabilities	6	—	(208)	—	—
		(17,495)	(21,286)	(12,900)	(16,750)
Net assets		87,104	83,382	71,042	71,157
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	(25,667)	(29,389)	(41,729)	(41,614)
Total shareholders' equity	19	87,104	83,382	71,042	71,157

* restated (note 23)

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

The financial statements were approved by the board on 17 March 2009 and signed on its behalf by:

Paul Blackler
Chief executive

Peter Southby
Finance director

CASH FLOW STATEMENTS

For the year ended 31 December 2008

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Operating activities	21				
Cash generated from operations		11,631	7,714	5,039	3,514
Interest paid		(2,031)	(909)	(2,129)	(890)
Tax paid		(99)	(59)	—	—
Net cash generated from operating activities		9,501	6,746	2,910	2,624
Investing activities					
Proceeds on disposal of property, plant and equipment		55	58	—	—
Purchases of property, plant and equipment		(5,366)	(3,578)	(81)	(33)
Purchases of intangible assets		(22)	(17)	(11)	(15)
Purchase of businesses		(770)	(11,708)	(1,165)	(11,344)
Net cash used in investing activities		(6,103)	(15,245)	(1,257)	(11,392)
Financing activities					
Repayments of borrowings		(2,000)	(2,000)	(2,000)	(2,000)
Drawdown of loan facilities		1,000	11,000	1,000	11,000
Repayments of obligations under finance leases and hire purchase contracts		(347)	(151)	(1)	(7)
Net cash (used in)/generated from financing activities		(1,347)	8,849	(1,001)	8,993
Net increase in cash and cash equivalents		2,051	350	652	225
Cash and cash equivalents at beginning of period		(1,286)	(1,636)	(1,661)	(1,886)
Cash and cash equivalents at end of period		765	(1,286)	(1,009)	(1,661)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

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. 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 an income statement 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 joint control 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, except when contractual agreements provide for specific services in which case revenue is recognised at point of delivery of each separate service. 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) 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.

(d) 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.

(e) 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.

(f) Investments

Investments are, in respect of subsidiaries, a jointly controlled entity. Investments held as non-current assets are stated at historic cost less any provision for impairment.

1 Accounting policies continued

(g) 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 property, plant and equipment 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 property, plant and equipment 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

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 and the asset is capitalised. 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 property, plant and equipment 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. When the effect is material, the expected future cash flows required to settle the obligation are discounted at the pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

1 Accounting policies continued

(h) Impairment of non-current assets

At each balance sheet date, 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.

(i) 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.

(j) 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 on temporary differences associated with shares in subsidiaries and jointly controlled entities is not provided if reversal of these temporary differences can be controlled by the group and it is probable that the reversal will not occur in the foreseeable future.

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.

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.

1 Accounting policies continued

(k) Retirement benefits

Contributions made by the group to individual money purchase pension schemes are charged to the income statement during the period to which they relate.

(l) 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.

(m) Cash and cash equivalents

Cash and cash equivalents comprise demand deposits and cash in hand together with short term highly liquid deposits with a maturity of three months or less which are subject to an insignificant risk of change in value.

(n) Financial instruments

(i) Financial assets

Financial assets are categorised as other loans and receivables. The group's trade and other receivables fall in the 'loans and receivables' category. Financial assets are assigned to this category 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 the income statement or directly in equity.

Augean recognises all financial assets when the group becomes party to the contractual provisions of the instrument. Financial assets are recognised at fair value plus transaction costs. An annual assessment is made to ascertain whether there is objective evidence that the financial assets are impaired. All income and expense relating to financial assets are recognised in the income statement.

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 any provision for impairment. Any change in their value is recognised in the income statement. Discounting, however, is omitted where the effect 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. Provision against trade receivables is made when there is objective evidence that the group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the impairment is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(ii) Financial liabilities

The group's financial liabilities include trade payables, debt and finance costs and derivatives. Trade payables are not interest-bearing and are recognised at fair value and carried at amortised cost. Debt is initially recognised at fair value and carried at amortised cost. 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 under 'finance charges'.

1 Accounting policies continued

(o) Equity

Equity comprises share capital, share premium and retained losses. 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. Retained losses represent retained losses and equity-settled share-based payment employee remuneration until such share options are exercised.

(p) 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 of £33.2m (note 12) and goodwill with a carrying value of £77.8m (note 9). These assets are reviewed annually for impairment as described on page 34 to ensure that goodwill and property, plant and equipment 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 impairment. For further details of assumptions see note 9.

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 2008, the net liability for current income tax is £1.5m. A deferred tax asset of £0.4m has also been recognised. 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.

1 Accounting policies continued

(q) 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 Payment – Vesting Conditions and Cancellations' (effective 1 January 2009)
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate' (effective 1 January 2009)
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Eligible Hedged Items' (effective 1 July 2009)
- Improvements to IFRS (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 'Business Combinations' (Revised 2008) (effective 1 July 2009)
- IFRS 8 'Operating Segments' (effective 1 January 2009)
- IFRIC 15 'Agreements for the Construction of Real Estate' (effective 1 January 2009)
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' (effective 1 October 2008)
- IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective 1 July 2009)
- IFRIC 18 'Transfers of Assets from Customers' (effective prospectively for transfers on or after 1 July 2009)

IAS 1 – This amendment affects the presentation of other changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the group's consolidated financial statements.

IAS 23 – The amendment to this standard no longer permits a choice between recognising borrowing costs as an expense and the allowed alternative which is to capitalise those costs that are directly attributable to the acquisition, construction and production of a qualifying asset. The amendment will mandate the requirement to capitalise borrowing costs specific to the qualifying asset. Management is currently reviewing the impact of this standard.

IFRS 8 – This IFRS specifies how an entity should report information about its operating segments in its consolidated financial statements. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. Implementation of this standard is not expected to increase the number of reporting segments.

IFRS 3 and IAS 27 – The revised standards introduce major changes to the accounting requirements for business combinations, transactions with non-controlling interests and loss of control of a subsidiary. Management is currently assessing the detailed impact of this amendment on the group's consolidated financial statements.

The revised standards will be adopted in the group's consolidated financial statements for the period beginning 1 January 2009.

2 Segmental analysis

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.

2 Segmental analysis continued

	2008			2007*		
	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	13,993	22,260	36,253	12,091	10,474	22,565
Landfill tax	3,828	—	3,828	3,737	—	3,737
External sales	17,821	22,260	40,081	15,828	10,474	26,302
Inter-segment sales	1,616	—	1,616	1,756	—	1,756
Total revenue	19,437	22,260	41,697	17,584	10,474	28,058
Result						
Operating profit before exceptional items	4,923	1,234	6,157	3,445	1,479	4,924
Exceptional items	(996)	—	(996)	(27,617)	—	(27,617)
Operating profit/(loss)	3,927	1,234	5,161	(24,172)	1,479	(22,693)
Finance charges			(1,844)			(1,096)
Share of loss of jointly controlled entity			(292)			(124)
Profit/(loss) before tax			3,025			(23,913)
Tax			621			—
Profit/(loss) for the year attributable to equity shareholders			3,646			(23,913)
Other information						
Additions to property, plant, equipment and intangible assets	1,768	4,211	5,979	2,825	835	3,660
Depreciation and amortisation	(3,336)	(1,088)	(4,424)	(3,185)	(333)	(3,518)
Balance sheet						
Assets						
Segment assets	78,976	41,282	120,258	80,236	37,478	117,714
Unallocated segment assets						
Cash and cash equivalents			765			401
Group total assets			121,023			118,115
Liabilities						
Segment liabilities	(10,621)	(5,882)	(16,503)	(9,882)	(4,832)	(14,714)
Unallocated segment liabilities						
Bank overdraft and loans			(17,000)			(19,687)
Share of losses in jointly controlled entity			(416)			(124)
Deferred tax liabilities			—			(208)
Group total liabilities			(33,919)			(34,733)

*restated (note 23)

All activities arise solely within the United Kingdom. Inter-segment trading is undertaken on normal commercial terms.

3 Operating profit

Operating profit is arrived at after charging:

	2008 £'000	2007 £'000
Fees payable to the company's auditor for the audit of the annual financial statements	48	53
Fees payable to the company's auditor for other services:		
– audit of the financial statements of the company's subsidiaries pursuant to legislation	10	12
– other services relating to tax – compliance and advice	34	23
– services relating to corporate finance transactions	28	10
– other services	12	7
	132	105
Amortisation of intangible assets	185	113
Depreciation of property, plant and equipment:		
– owned assets	3,937	3,307
– assets held under finance leases and hire purchase contracts	302	98
Operating leases:		
– land and buildings	104	60
– plant and machinery	524	424
Profit on sale of property, plant and equipment	(13)	(4)
Exceptional items:		
– goodwill tax adjustment	765	533
– goodwill impairment (note 9)	—	26,846
– compensation for loss of office and related costs	—	238
– costs of offer period	231	—

4 Finance charges

	2008 £'000	2007 £'000
Interest payable		
Interest and charges payable on bank loans, guarantees and overdrafts	1,737	996
Interest on finance leases and hire purchase contracts	25	16
Unwinding discount on provisions	100	96
	1,862	1,108
Interest receivable		
Bank and other interest receivable	(18)	(12)
	1,844	1,096

5 Group and company employees

The average monthly number of employees analysed by function was:

	2008 Number	2007 Number
Sales	27	18
Operations	161	84
Administration	33	30
	229	132

Their aggregate remuneration comprised:

	2008 £'000	2007 £'000
Wages and salaries	6,807	4,585
Social security costs	721	489
Other pension costs	198	85
	7,726	5,159

Details of other statutory directors' remuneration disclosures are given in the directors' remuneration report on pages 23 to 25 under directors' emoluments and directors' share plans.

The directors have identified 6 (2007: 7) key management personnel whose compensation was as follows:

	2008 Number	2007 Number
Short term employment benefits	811	849
Post employment benefits	46	57
	857	906

6 Tax

	2008 £'000	2007 £'000
Current tax		
UK corporation tax on profit/(loss) for the period	—	—
Adjustments in respect of prior periods	—	—
	—	—
Deferred tax		
Credit in respect of the current period	(621)	—
Adjustment in respect of prior periods	—	—
	(621)	—
Tax credit on profit/(loss) for the period	(621)	—

6 Tax continued

Current tax reconciliation

	2008 £'000	2007 £'000
Profit/(loss) before tax	3,025	(23,913)
Theoretical tax at UK corporation tax rate of 28% (2007: 30%)	847	(7,174)
Effects of:		
– expenses not deductible for tax purposes	75	11
– depreciation in excess of capital allowances	418	438
– goodwill impairment	—	7,904
– utilisation of tax losses	(1,529)	(595)
– other temporary differences (mainly relating to specific tax rules for the timing of landfill deductions)	189	(584)
Actual current tax charge for period	—	—
Adjustments in respect of prior periods	—	—
Tax charge on profit/(loss)	—	—

Deferred tax has been recognised during the year in respect of tax losses in certain of the group's subsidiaries as the directors believe there is sufficient certainty over the extent and timing of their recovery to do so. The deferred tax asset recognised is analysed as follows:

	2008 £'000	2007 £'000
Unused tax losses carried forward	413	—
Capital allowances in excess of depreciation	—	(208)
Recognised deferred tax asset/(liability)	413	(208)

No deferred tax has been recognised during the year in respect of temporary differences as there is uncertainty over the extent and timing of their recovery. The potential deferred tax assets in respect of the temporary differences are analysed as follows:

	2008 £'000	2007 £'000
Depreciation in excess of capital allowances	2,786	1,190
Unused tax losses carried forward	—	2,007
Other temporary differences (mainly relating to specific tax rules for the timing of landfill deductions)	116	117
Unrecognised deferred tax asset	2,902	3,314

7 Earnings per share

	2008 £'000	2007 £'000
Profit/(loss) after tax for the purposes of basic and diluted earnings per share	3,646	(23,913)
Exceptional items	996	27,617
Profit after tax for the purposes of basic and diluted adjusted earnings per share	4,642	3,704

	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	—	—
Weighted average number of shares for diluted earnings per share	65,488,892	65,488,892
Earnings per share		
Basic and diluted	5.6p	(36.5p)
Adjusted earnings per share		
Basic and diluted	7.1p	5.7p

8 Jointly controlled entity

Terramundo Limited is a 50:50 jointly controlled entity between Augean PLC and DEC NV. 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 2008 was £100 (2007: £100).

During the period ended 31 December 2008 the jointly controlled entity generated the following revenue and costs:

	2008 £'000	7 months 2007 £'000
Revenue	1,241	637
Costs	(1,825)	(885)
Loss	(584)	(248)

At 31 December 2008 the jointly controlled entity held net liabilities of £832,000 (2007: £248,000), of which the group's 50% share was £416,000 (2007: £124,000). The net liabilities of the jointly controlled entity are analysed below:

	2008 £'000	2007 £'000
Non-current assets	55	100
Current assets	379	527
Current liabilities	(1,116)	(725)
Non-current liabilities	(150)	(150)
Net liabilities	(832)	(248)

9 Goodwill

	Total £'000
Cost	
At 1 January 2007	94,079
Acquired on business combinations	10,530
Goodwill adjustment on the recognition of deferred tax	(533)
Revision to fair values (note 23)	264
At 1 January 2008 (restated)	104,340
Acquired on business combinations (note 23)	1,039
Goodwill adjustment on the recognition of deferred tax	(765)
At 31 December 2008	104,614
Provision for impairment	
At 1 January 2007	—
Impairment loss for the year	(26,846)
At 1 January 2008	(26,846)
Impairment loss for the year	—
At 31 December 2008	(26,846)
Net book value	
At 31 December 2008	77,768
At 31 December 2007 (restated)	77,494
At 1 January 2007	94,079

Goodwill is allocated to the group's Cash-Generating Units (CGUs) 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:

	2008 £'000	2007 (restated) £'000
Landfill division	50,124	50,889
Treatment division	27,644	26,605
Total	77,768	77,494

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.

9 Goodwill continued

Cash flow projections for the landfill division are based on approved budgets and plans for 2009 (which take into account historic trading) 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 2009 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 9% (2007: 12%) which reflects the overall business risks associated with waste management activities.

10 Other tangible assets

	Group			Company
	Customer contracts £'000	Computer software £'000	Total £'000	Computer software £'000
Cost				
At 1 January 2007	116	206	322	180
Additions	—	18	18	15
Acquired on business combinations (note 23)	258	—	258	—
At 1 January 2008	374	224	598	195
Additions	—	22	22	11
At 31 December 2008	374	246	620	206
Amortisation				
At 1 January 2007	23	82	105	64
Charge for year	45	68	113	61
At 1 January 2008	68	150	218	125
Charge for year	125	60	185	56
At 31 December 2008	193	210	403	181
Net book value				
At 31 December 2008	181	36	217	25
At 31 December 2007	306	74	380	70
At 1 January 2007	93	124	217	116

11 Investments

Company

	£'000
Cost	
At 1 January 2007	116,498
Additions	12,914
At 1 January 2008	129,412
Additions	1,465
At 31 December 2008	**130,877**
Provision for impairment	
At 1 January 2007	—
Impairment loss for year	(32,599)
At 1 January 2008	(32,599)
Impairment loss for the year	—
At 31 December 2008	**(32,599)**
Net book value	
At 31 December 2008	**98,278**
At 1 January 2008	96,813
At 1 January 2007	116,498

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 jointly controlled entity 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 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 1 January 2008	29,738	4,754	5,287	39,779
Additions	2,429	22	3,506	5,957
Disposals	—	—	(62)	(62)
At 31 December 2008	32,167	4,776	8,731	45,674
Accumulated depreciation				
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 1 January 2008	3,883	3,250	1,146	8,279
Charged for year	1,583	1,315	1,341	4,239
Disposals	—	—	(20)	(20)
At 31 December 2008	5,466	4,565	2,467	12,498
Net book value				
At 31 December 2008	26,701	211	6,264	33,176
At 1 January 2008	25,855	1,504	4,141	31,500
At 1 January 2007	25,929	1,531	1,379	28,839

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

	2008 £'000	2007 £'000
Cost	1,529	1,480
Accumulated depreciation	(588)	(286)
Net book value	941	1,194

12 Property, plant and equipment continued

Company

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 2007	771	154	925
Additions	—	33	33
At 1 January 2008	771	187	958
Additions	—	81	81
At 31 December 2008	**771**	**268**	**1,039**
Accumulated depreciation			
At 1 January 2007	18	52	70
Charged for year	13	47	60
At 1 January 2008	31	99	130
Charged for year	14	53	66
At 31 December 2008	**45**	**152**	**196**
Net book value			
At 31 December 2008	**726**	**116**	**842**
At 1 January 2008	740	88	828
At 1 January 2007	753	102	855

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

	2008 £'000	2007 £'000
Cost	22	22
Accumulated depreciation	(18)	(16)
Net book value	4	6

13 Trade and other receivables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade receivables	7,130	7,043	—	—
Other receivables	345	426	189	87
Prepayments and accrued income	1,071	777	580	496
	8,546	8,246	769	583

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 £298,000 (2007: £467,000) has been recorded accordingly.

14 Trade and other payables

	Group		Company	
Current	2008 £'000	2007 (restated) £'000	2008 £'000	2007 £'000
Trade payables	3,349	3,786	450	268
Amounts due to subsidiary undertakings	—	—	7,758	5,234
Other taxes and social security	2,277	1,418	1,098	—
Accruals and deferred revenue	3,856	2,617	587	1,223
Deferred consideration	750	—	750	—
	10,232	7,821	10,643	6,725
Non-current				
Deferred consideration (note 23)	300	750	300	750

Accruals and deferred revenue have been restated due to revisions in the fair values relating to the Hitech Equipment Limited acquisition for 2007 (see note 23).

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

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

15 Financial liabilities

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Current				
Bank overdraft	—	1,687	1,009	1,661
Bank loans	4,400	2,000	4,400	2,000
Obligations under finance leases and hire purchase contracts	252	369	—	1
	4,652	4,056	5,409	3,662
Non-current				
Bank loans	12,600	16,000	12,600	16,000
Obligations under finance leases and hire purchase contracts	294	524	—	—
	12,894	16,524	12,600	16,000
Analysis of total financial liabilities				
Bank overdraft	—	1,687	1,009	1,661
Bank loans	17,000	18,000	17,000	18,000
Obligations under finance leases and hire purchase contracts	546	893	—	1
	17,546	20,580	18,009	19,662
Total financial liabilities are repayable as follows:				
On demand or within one year	4,652	4,056	5,409	3,662
In the second year	4,652	4,528	4,400	4,200
In the third to fifth years inclusive	8,242	9,796	8,200	9,600
In more than five years	—	2,200	—	2,200
	17,546	20,580	18,009	19,662
Obligations under finance leases and hire purchase contracts are repayable as follows:				
On demand or within one year	252	369	—	1
In the second year	252	328	—	—
In the third to fifth years inclusive	42	196	—	—
	546	893	—	1

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 2007	1,564	2,520	4,084
Charged to income statement during the year – unwinding of discount provisions	96	—	96
Charged/(released) to income statement during the year – other	117	(200)	(83)
Utilised during the year	(18)	(399)	(417)
At 1 January 2008	1,759	1,921	3,680
Charged to income statement during the year – unwinding of discount provisions	100	—	100
Charged to income statement during the year – other	148	—	148
Utilised during the year	(18)	(25)	(43)
At 31 December 2008	1,989	1,896	3,885

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

	2008 £'000	2007 £'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 2008 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 LTIP were as follows:

Exercise or vesting date	Exercise price	At 1 January 2008	Exercised	Lapsed	Awarded	At 31 December 2008
Augean Share Option Scheme						
December 2004 – December 2014	180.0p	1,200,000	—	—	—	1,200,000
December 2008 – December 2015	147.5p	339,828	—	—	—	339,828
October 2009 – October 2016	138.25p	144,665	—	—	—	144,665
		1,684,493	—	—	—	1,684,493
Warrants						
March 2005 – December 2009	180.0p	1,309,776	—	—	—	1,309,776
		1,309,776	—	—	—	1,309,776
Augean LTIP						
5 July 2010	10.0p	236,050	—	—	—	236,050
29 April 2011	10.0p	—	—	—	513,429	513,429
		236,050	—	—	513,429	749,479
		3,230,319	—	—	513,429	3,743,748

Share options

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

At 31 December 2008 outstanding options to subscribe for shares, granted in accordance with the rules of the Augean Share Option Scheme, are presented in the table above.

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

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 2008 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 2010 increases by at least 24% compound per annum. No award will vest unless the annual compound growth rate is at least 14%, 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 £76,000 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	Income statement £'000	Shareholders' equity £'000
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 1 January 2008	6,549	106,222	(29,389)	83,382
Share-based payments	—	—	76	76
Retained profit for the year	—	—	(3,646)	(3,646)
At 31 December 2008	6,549	106,222	(25,667)	(87,104)

Company	Share capital £'000	Share premium account £'000	Income statement £'000	Shareholders' equity £'000
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 1 January 2008	6,549	106,222	(41,614)	71,157
Share-based payments	—	—	76	76
Retained loss for the year	—	—	(191)	(191)
At 31 December 2008	6,549	106,222	(41,729)	71,042

20 Operating lease commitments

The group has commitments to make minimum lease payments under non-cancellable operating leases as follows:

	2008 £'000	2007 £'000
Plant and machinery		
Leases which expire:		
– within one year	329	481
– within two to five years	47	376
– after five years	—	—
	376	857
Land and buildings		
Leases which expire:		
– within one year	116	44
– within two to five years	358	176
– after five years	260	264
	734	484

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

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Operating profit/(loss)	5,161	(22,693)	1,573	(36,680)
Other non-cash charge – goodwill tax adjustment	765	533	—	—
Goodwill impairment	—	26,846	—	—
Investments impairment	—	—	—	32,599
Amortisation of intangible assets	185	113	56	61
Depreciation	4,239	3,405	66	60
Aftercare provisions	148	127	—	—
Earnings before interest, tax, depreciation and amortisation (EBITDA)	10,498	8,331	1,695	(3,960)
Profit on sale of property, plant and equipment	(13)	(4)	—	—
Share-based payments	76	115	76	115
(Increase)/decrease in inventories	(42)	21	—	—
Decrease/(increase) in trade and other receivables	32	86	(4)	(134)
Decrease in net receivables from subsidiary undertakings	—	—	2,524	6,336
Increase/(decrease) in trade and other payables	1,123	(213)	748	1,157
Decrease in provisions	(43)	(622)	—	—
Cash generated from operations	11,631	7,714	5,039	3,514
Interest paid	(2,031)	(909)	(2,129)	(890)
Tax paid	(99)	(59)	—	—
Net cash generated from operating activities	9,501	6,746	2,910	2,624

22 Analysis of changes in net financial liabilities

	31 December 2007 £'000	Cash flow £'000	Acquisitions £'000	31 December 2008 £'000
Cash and cash equivalents	401	(33)	397	765
Overdraft	(1,687)	1,687	—	—
Bank loans due within one year	(2,000)	(2,400)	—	(4,400)
Bank loans due after one year	(16,000)	3,400	—	(12,600)
Finance leases and hire purchase contracts	(893)	347	—	(546)
Net financial liabilities	(20,179)	3,001	397	(16,781)

23 Business combinations

Acquisition of Astec Chemical Waste Services Limited

On 31 May 2008 the group acquired the entire share capital of Astec Chemical Waste Services Limited. 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
Trade and other receivables	151	(5)	146
Cash and cash equivalents	397	—	397
Trade and other payables	(76)	(5)	(81)
Current tax liabilities	(44)	(25)	(69)
Net assets acquired	428	(35)	393
Goodwill			1,039
			1,432
Satisfied by:			
Cash (including directly attributable costs)			1,132
Deferred consideration			300
Total consideration payable			1,432

All assets and liabilities including intangible assets were recognised at their respective provisional 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 accounting policies of the acquired business with those of the group. The assets and liabilities have been recorded at their provisional fair values due to uncertainties which may potentially arise as the acquisition is integrated into the group.

The deferred consideration relates to an earnout agreement based on the trading results of the acquired site for the year to 31 December 2009.

23 Business combinations continued

Acquisition of Astec Chemical Waste Services Limited continued

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 company were transferred into Augean Treatment Limited. The acquisition contributed £405,000 to the group's revenue and £106,000 to the group's operating profit in the year.

Had the acquisition been made at the beginning of the year, the group's revenue and operating profit before exceptional items would have been reported as £40.3m and £6.3m 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.

Prior year acquisitions

Acquisition of Hitech Equipment Limited

The assessment of the fair values in relation to the acquisition of Hitech Equipment Limited in the prior year was complex and the final review has resulted in some revisions to the values reported last year.

The 2007 financial statements included an estimate for the cost of disposing of waste held on the Paisley site at acquisition of £130,000. The group now has further certainty of the likely costs of meeting these obligations and has therefore increased its estimate by a further £87,000, with a corresponding increase in goodwill.

In addition, deferred revenue of £147,000 has been recognised to align the recognition of revenue relating to the sale of hi-pods with the group's revenue recognition policy. This has resulted in an increase of goodwill of £147,000 in the period.

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

Acquisition of RNA Limited and Chemical Recoveries Limited

A further £3,000 of costs relating to the acquisition were incurred during the year resulting in an increase in goodwill and in the cost of investment in the consolidated and company balance sheets respectively.

24 Financial instruments

The financial assets of the group and company are categorised as follows:

As at 31 December 2008	Group Loans and receivables £'000	Group Non-financial assets £'000	Group Balance sheet total £'000	Company Loans and receivables £'000	Company Non-financial assets £'000	Company Balance sheet total £'000
Goodwill	—	77,768	77,768	—	—	—
Other intangible assets	—	217	217	—	25	25
Investments	—	—	—	—	98,278	98,278
Property, plant and equipment	—	33,176	33,176	—	842	842
Deferred tax asset	—	413	413	—	80	80
Inventories	—	138	138	—	—	—
Trade and other receivables	7,693	853	8,546	190	579	769
Cash and cash equivalents	765	—	765	—	—	—
	8,458	112,565	121,023	190	99,804	99,994

As at 31 December 2007	Group Loans and receivables £'000	Group Non-financial assets £'000	Group Balance sheet total £'000	Company Loans and receivables £'000	Company Non-financial assets £'000	Company Balance sheet total £'000
Goodwill (restated)	—	77,494	77,494	—	—	—
Other intangible assets	—	380	380	—	70	70
Investments	—	—	—	—	96,813	96,813
Property, plant and equipment	—	31,500	31,500	—	828	828
Deferred tax asset	—	—	—	—	—	—
Inventories	—	94	94	—	—	—
Trade and other receivables	8,246	—	8,246	583	—	583
Cash and cash equivalents	401	—	401	—	—	—
	8,647	109,468	118,115	583	97,711	98,294

24 Financial instruments continued

The financial liabilities of the group and company are categorised as follows:

As at 31 December 2008	Group: Financial liabilities at amortised cost £'000	Group: Liabilities not within scope of IAS 39 £'000	Group: Balance sheet total £'000	Company: Financial liabilities at amortised cost £'000	Company: Liabilities not within scope of IAS 39 £'000	Company: Balance sheet total £'000
Trade and other payables – current	7,938	2,294	10,232	9,517	1,127	10,644
Current tax liabilities	—	1,540	1,540	—	—	—
Financial liabilities – current	4,400	252	4,652	5,409	—	5,409
Financial liabilities – non-current	12,600	294	12,894	12,600	—	12,600
Provisions	—	3,885	3,885	—	—	—
Trade and other payables – non-current	300	—	300	300	—	300
Share of losses of jointly controlled entity	—	416	416	—	—	—
Deferred tax liabilities	—	—	—	—	—	—
	25,238	8,681	33,919	27,826	1,127	28,953

As at 31 December 2007	Group: Financial liabilities at amortised cost £'000	Group: Financial liabilities not within scope of IAS 39 £'000	Group: Balance sheet total £'000	Company: Financial liabilities at amortised cost £'000	Company: Financial liabilities not within scope of IAS 39 £'000	Company: Balance sheet total £'000
Trade and other payables – current (restated)	7,821	—	7,821	6,725	—	6,725
Current tax liabilities	—	1,570	1,570	—	—	—
Financial liabilities – current	3,687	369	4,056	3,661	1	3,662
Financial liabilities – non-current	16,000	524	16,524	16,000	—	16,000
Provisions	—	3,680	3,680	—	—	—
Trade and other payables – non-current	750	—	750	750	—	750
Share of losses of jointly controlled entity	—	124	124	—	—	—
Deferred tax liabilities	—	208	208	—	—	—
	28,258	6,475	34,733	27,136	1	27,137

24 Financial instruments continued

The group and company's financial liabilities have contractual maturities (including interest payments where applicable) which are summarised below:

Group

As at 31 December 2008	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Amounts greater than five years £'000	Financial liabilities £'000
Trade and other payables – current	10,232	—	—	10,232
Financial liabilities – current	5,339	—	—	5,339
Financial liabilities – non-current	—	13,945	—	13,945
Trade and other payables – non-current	—	300	—	300
	14,884	13,194	—	28,078

As at 31 December 2007	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Amounts greater than five years £'000	Financial liabilities £'000
Trade and other payables – current	7,821	—	—	7,821
Financial liabilities – current	5,422	—	—	5,422
Financial liabilities – non-current	—	16,940	2,283	19,223
Trade and other payables – non-current	—	750	—	750
	13,243	17,690	2,283	33,216

Company

As at 31 December 2008	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Amounts greater than five years £'000	Financial liabilities £'000
Trade and other payables – current	9,516	—	—	9,516
Financial liabilities – current	6,156	—	—	6,156
Financial liabilities – non-current	—	13,651	—	13,651
Trade and other payables – non-current	—	300	—	300
	15,672	13,951	—	29,623

As at 31 December 2007	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Amounts greater than five years £'000	Financial liabilities £'000
Trade and other payables – current	6,725	—	—	6,725
Financial liabilities – current	5,028	—	—	5,028
Financial liabilities – non-current	—	16,416	2,283	18,699
Trade and other payables – non-current	—	750	—	750
	11,753	17,166	2,283	31,202

24 Financial instruments continued

Risk management objectives and policies

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.

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

Liquidity risk

The group seeks to maintain a balance between continuity of funding and flexibility. The objective is to maintain sufficient resource to meet the funding needs for the foreseeable future. At 31 December 2008 the group carried relatively low levels of debt, is cash-generating and short term flexibility is achieved by bank facilities comprising loans and a £17m revolving credit, overdraft and guarantee facility. The revolving credit facility includes the guarantees detailed in note 26.

The bank loans are repayable in equal quarterly instalments over a five year period from date of draw down. The revolving credit, overdraft and guarantee facility is committed until 30 December 2009. Negotiations to renew and extend the revolving credit facility are expected to commence well in advance of the expiry of the existing facility.

Credit risk

The group has a customer credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The group has standard credit terms of 30 days from date of invoice. Invoices greater than 30 days old are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the balance sheet as summarised below:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash and cash equivalents	765	401	—	—
Trade and other receivables	8,546	8,246	769	583
	9,311	8,647	769	583

At 31 December 2008, £3.9m (2007: £4.0m) of trade receivables were past due. A provision of £0.3m (2007: £0.5m) is held to mitigate the exposure to potential bad and doubtful debts.

24 Financial instruments continued

Risk management objectives and policies continued

Credit risk continued

The ageing of the group's trade receivables past their due date but not impaired is as follows:

	2008 £'000	2007 £'000
Greater than one but not more than four months old	3,052	3,809
More than four months old	861	180
Total past due trade receivables	3,913	3,989
Trade receivables not yet past due – less than one month old	3,515	3,521
Total gross trade receivables	7,428	7,510
Bad debt provision	(298)	(467)
Total net trade receivables	7,130	7,043

The group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good quality.

The company has no trade receivables.

The movement on the bad debt provision in the period is analysed below:

	£'000
Bad debt provision as at 31 December 2007	467
Amounts utilised	(81)
Acquired with subsidiary	5
Amounts released	(93)
Bad debt provision as at 31 December 2008	298

Interest rate risk

The group finances its operations through a mixture of retained profits, bank borrowings and hire purchase leasing. 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 and company's financial liabilities at 31 December 2008 was:

Group	Interest free £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Bank overdraft	—	—	—	—
Bank loans	—	—	17,000	17,000
Finance leases and hire purchase contracts	—	546	—	546
At 31 December 2008	—	546	17,000	17,546
At 31 December 2007	—	893	19,687	20,580

24 Financial instruments continued
Risk management objectives and policies continued
Interest rate risk continued

Company	Interest free £'000	Fixed rate £'000	Floating rate £'000	Total £'000
Bank overdraft	—	—	1,009	1,009
Bank loans	—	—	17,000	17,000
Finance leases and hire purchase contracts	—	—	—	—
At 31 December 2008	—	—	18,009	18,009
At 31 December 2007	—	1	19,661	19,662

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 for both the group and company by approximately £0.1m.

Total interest payable over the term of the bank loans and the forecast repayment profile of the interest on the bank loans is analysed below:

	2008 £'000
Interest payable on bank loans – within one year	747
Interest payable on bank loans – year two	521
Interest payable on bank loans – year three	310
Interest payable on bank loans – year four	173
Interest payable on bank loans – year five	47
Interest payable on bank loans – year six	—
Total interest payable on bank loans	1,798

The hire purchase agreements of the group have a weighted average interest rate of 6.6% (2007: 6.7%) and a weighted average duration of two years (2007: 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 PPC permitting, the group has to make such financial provision as is deemed adequate by the Environment Agency to discharge its obligations under the relevant site permits for its landfill sites. Consequently bank guaranteed bonds have been provided in favour of the Environment Agency in respect of the group's landfill sites. Total bank guarantees outstanding at the year end were £5.6m. Future site restoration costs for each landfill site have been provided as disclosed in note 16.

The group is currently being prosecuted by the Environment Agency in relation to events at its Cannock site in 2006. At this stage there is insufficient information available to conclude on the validity of the claims brought against the group, both in terms of whether the claims will be successful or the quantum of any liability resulting from the claim.

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:

Group	2008 £'000	2007 £'000
Transactions with Terramundo Limited:		
– revenue	647	110
– costs	(66)	(110)

	2008 £'000	2007 £'000
Amounts owed to Terramundo Limited:		
– less than one year	137	—
Amounts owed by Terramundo Limited:		
– less than one year	667	102
– more than one year	75	75
`	742	177

27 Related party disclosures continued

Related party transactions of the company are noted below:

Transactions and balances with jointly controlled entity

Company	2008 £'000	2007 £'000
Transactions with Terramundo Limited:		
Revenue	—	110
Costs	—	(110)
Amounts owed from Terramundo Limited:		
Less than one year	—	102
More than one year	75	75
	75	177

Transactions and balances with subsidiary undertakings

Included within current trade and other receivables are amounts owed by 100% subsidiary undertakings of £nil (2007: £nil).

Included within current trade and other payables are amounts owed to 100% subsidiary undertakings of £7.8m (2007: £5.2m).

GUIDANCE FOR SHAREHOLDERS

We are pleased to confirm the details of our annual general meeting (AGM) which we are holding at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF on Tuesday 2 June 2009, at 10.00am The formal notice of AGM is set out on pages 65 to 67 of this document.

If you would like to vote on the resolutions but cannot come to the AGM, please fill in the proxy form sent to you with this notice and return it to our registrars as soon as possible. They must receive it by 10.00am on 31 May 2009.

In addition to the routine business of the AGM, there are a number of items of special business to be transacted, as summarised and explained below:

1 General authority to allot shares (resolution 6)

This resolution renews the existing authority of the directors to exercise the power of the company to allot shares pursuant to Section 80 of the Companies Act 1985.

The effect of this resolution is to permit the directors to allot relevant securities until the AGM in 2010 or 2 September 2010 whichever occurs the earlier, up to a nominal value of £2,182,963.00. This represents one-third of the company's issued share capital as at 17 March 2009.

2 Authority to allot shares for cash and to disapply pre-emption rights (resolution 7)

This resolution, which will be proposed as a special resolution, renews the directors' authority to allot, grant options over or otherwise deal with equity securities in the company for cash other than pro-rata to existing shareholders until the earlier of the AGM in 2010 or 2 September 2010, up to an aggregate nominal amount of £327,445.00. This is equal to approximately 5% of the issued share capital of the company as at 17 March 2009.

The directors would principally intend using this authority in an institutional placing of shares for the purposes of funding or assisting in the funding of any cash acquisition opportunities which present themselves. The directors believe that this authority will enable them to raise funds quickly and efficiently should market conditions permit and allow them to pursue any acquisition opportunities should any arise. The directors intend to seek the renewal of this authority at future AGMs.

3 Electronic proxy appointment

Electronic proxy appointment (EPA) will be available for the AGM. EPA enables shareholders to submit their proxy appointment by electronic means via a website provided by Computershare Investor Services plc at www.eproxyappointment.com. This facility provides for the electronic appointment of a proxy but not direct electronic voting so the person appointed as proxy will be required to attend the meeting in person and, on a poll, vote on your behalf. Further details of EPA are set out in the notes to the proxy form.

4 Action to be taken by shareholders

Shareholders will find enclosed with this document a form of proxy for use at the AGM. Whether or not you intend to be present at the AGM (or any adjournment thereof) you are requested to complete, sign and return the form of proxy in accordance with the instructions printed on it so as to be received by the company's registrars, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, as soon as possible but in any event not later than 10.00am on 31 May 2009. The completion and return of the form of proxy will not preclude you from attending and voting at the meeting, should you so wish.

5 Recommendation

The directors consider that all the resolutions to be put to the AGM are in the best interests of the company and its shareholders as a whole. They recommend that you vote in favour of the resolutions set out in the notice of meeting as they intend to do in respect of their own beneficial holdings.

Inspection of documents

The following documents will be available for inspection at the offices of Mayor Brown International LLP, 201 Bishopsgate, London EC2M 3AF until the time of the AGM and at the AGM location from 15 minutes before the AGM until it ends:

- copies of the executive directors' service contracts

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the AGM of Augean PLC will be held at offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF on Tuesday 2 June 2009, at 10.00am for the purpose of considering and, if thought fit, passing the resolutions set out below. Resolution 7 will be proposed as a special resolution. All other resolutions will be proposed as ordinary resolutions.

Ordinary resolutions

1. THAT the report of the directors and the financial statements for the year ended 31 December 2008 be received.
2. THAT Rory Macnamara be re-elected as a director of the company.
3. THAT Peter Southby be re-elected as a director of the company.
4. THAT Grant Thornton UK LLP be re-appointed auditor of the company to hold office until the next general meeting at which accounts are laid.
5. THAT the directors be authorised to determine the auditor's remuneration.
6. THAT the authority to allot relevant securities conferred on the directors by Article 4.6(a) of the company's Articles of Association be and is hereby granted for the period ending on 2 September 2010 or at the conclusion of the AGM of the company to be held after the date of the passing of this resolution (whichever is the earlier) and for that period the Section 80 amount is £2,182,963.

Special resolution

7. THAT subject to the passing of resolution 6, the power to allot equity securities as if s89(1) did not apply to any such allotment conferred on the directors by Article 4.6(b) of the company's Articles of Association be and is hereby granted for the period ending on 2 September 2010 or at the conclusion of the AGM of the company to be held after the date of the passing of this resolution (whichever is the earlier) and for that period the Section 89 amount is £327,445.

By order of the board

Susan Fadil, FCIS
Company Secretary
17 March 2009

Registered Office:
4 Rudgate Court
Walton
Wetherby
West Yorkshire
LS23 7BF

Notes:

(a) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the company gives notice that only those shareholders entered on the relevant register of members (the "Register") for certificated or uncertificated shares of the company (as the case may be) at 10.00am on Sunday 31 May 2009 (the "Specified Time") will be entitled to attend or vote at the AGM in respect of the number of shares registered in their name at the time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend or vote at the AGM. Should the AGM be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned AGM. Should the AGM be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned AGM or, if the company gives notice of the adjourned AGM, at the time specified in the notice.

(b) Any member may appoint a proxy to attend, speak and vote on their behalf. A member may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares of the member, but must attend the meeting in person. A proxy need not be a member. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. The return of a completed proxy form will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.

(c) To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY no later than 10.00am on Sunday 31 May 2009.

(d) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directors of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

Notes: continued

(e) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (Euroclear) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the company's agent (ID 3RA50) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the company's agent is able to retrieve the message by the enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, Crest members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(f) As at 17 March 2009 (being the last business day prior to the publication of this notice) the company's issued share capital consists of 65,488,892 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 17 March 2009 are 65,488,892.

ADVISERS AND COMPANY INFORMATION

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Susan Fadil, FCIS

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Walker Morris
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155 Bishopsgate
London EC2M 3YB

Registrars
Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

GLOSSARY OF TERMS

ADR
Agreement on the International Transport of Dangerous Goods by Road

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

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