



Specialist services focused on  
managing hazardous wastes



# ANNUAL REPORT & ACCOUNTS

**Annual Report & Accounts**  
for the year ended 31 December 2018

Stock Code: AUG





**Augean is one of the UK's leading waste management businesses, providing specialist services focused on managing hazardous wastes.**

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# Executive Chairman's Statement

During 2018, the Group continued to make significant changes to streamline activities, enhance performance and focus on both cash generation and retention. As a result, the adjusted profit before tax (note 29) increased 69% to £11.4m due to strong trading in the Group's underlying business, the exit from unprofitable businesses, cost savings which exceeded target and good cash control (capex and working capital).

The Group is currently trading in line with expectations for 2019 with a continued focus on cash control being reflected in our net cash position.

At an operational level, the Group has achieved a number of key strategic goals including the disposal of the AIS business for a final consideration of £4.0m and the closure of the loss-making Colt business with the sale of the associated assets for a total of £2.2m. Post year end, in January, the Group also disposed of its site at East Kent, shown as an asset held for sale in this report, for £3.35m. The Group continues to secure further contracts with top-tier customers and maintained double digit growth in Energy from Waste (EFW) volumes despite some delays in plants coming online. The Group has maintained its investment in processing solutions to generate the most environmentally beneficial outcomes for our customers while ensuring that the associated cost base has been balanced to generate appropriate cash and profit.

Health and safety continues to remain the highest priority for the Board, management and employees across the Group. The management team has continually improved the safety environment by enhancing hazard recognition, risk evaluation and learning from incidents. As such, the number of accidents resulting in injuries in 2018 has reduced by 41%. The Board continues to recognise the risks faced by our people, who work in environments moving, treating and disposing of hazardous waste.

Protecting the environment is not only a matter of compliance with permits but encompasses our broader responsibilities to society and future generations. The Group diligently monitors its performance in this regard, the results of which are regularly reported to the Board. The majority of our sites in England are ranked by the Environment Agency as Category A or as 'Excellent' by the Scottish Environmental Protection Agency.

The Board recognises that our business success is dependent on the quality, diligence and hard work of all Augean's employees and I would like to take this opportunity on behalf of the Board to thank everyone who has contributed to the Group's strong progress during a challenging year.

Although the Group's balance sheet and operating cash flow have strengthened considerably in 2018 the Board will maintain its position of not paying a dividend for 2018 (2017 final: nil) while the HMRC matter is being resolved. The Group maintains its dialogue with HMRC with respect to landfill tax and has received final assessments in respect of two Group companies.

We maintain our position that we have correctly collected and paid the appropriate landfill tax, based on legal advice received and will robustly defend against the assessments. We have not provided against the assessments and have received notification, in relation to the final assessment which has been issued for Augean North, that we will not need to make a cash payment until the outcome of the tax tribunal is known. I look forward to giving Shareholders further clarity and certainty with respect to the Group's position in 2019.

As in previous years, I am pleased to note the addition of new shareholders to our register during the year and again I am thankful for the continued support from all of our investors. After making significant contribution to the Board, Rod Holdsworth leaves the Board in 2019. I thank him for his contribution while with the Group.

The Group set ambitious targets for the 2018 year which it met, and indeed in many instances pleasingly exceeded. Undoubtedly 2019 contains uncertainties for the UK economy as a whole while the Brexit scenario plays out, but with limited direct exposure to EU, coupled with a strong start to 2019 trading, the Board feels confident in the Group's prospects for the forthcoming year.

I look forward to updating Shareholders on our progress during the current financial year.



**Jim Meredith**  
Executive Chairman  
25 February 2019

# Strategic Report

## Marketplace

### Treatment & Disposal and Discontinued Operations

The Group's Treatment & Disposal and discontinued segments faced several different waste markets in the year:

#### Hazardous waste overview

The market for hazardous waste in the UK is based on a legislative environment underpinned by the implementation of the European Union's Waste Framework Directive and the UK's own hazardous waste National Policy Statement (NPS), which encourage sustainable methods of managing waste and the development of treatment, recycling and recovery facilities as the key focus of future waste management activities. NPS confirmed the need for the portfolio of treatment and disposal facilities and services developed by Auegan. Importantly, the Group plays an active part in five of the eight sectors identified as essential for the management of hazardous wastes in the UK. The Waste Hierarchy provides a framework for waste management and implementation of infrastructure which will allow sustainable waste management solutions. However, the Waste Hierarchy is a simplification of Best Overall Environmental Outcome, which is the goal of environmental strategy, policy and regulation, and for hazardous wastes there is a particular need to consider the fate of the persistent and toxic pollutants in the waste.

The hazardous waste market is highly segmented with a total volume of approximately 5 million tonnes (Environment Agency) of waste handled in the UK each year. Within this arena Auegan continues to focus on the treatment and disposal of waste from the growth areas of construction and demolition activities, Oil & Gas, energy from waste operators, specialist manufacturers and other industrial producers.

#### Hazardous landfill

Approximately 0.9 million tonnes of Hazardous waste are disposed per annum to hazardous landfill sites and the total UK capacity for hazardous landfill is at most 14 million cubic metres and declining as hazardous landfills are closing and new hazardous landfills are not being permitted (source: Environment Agency and management estimates). Auegan's Energy & Construction business continues to be a leading provider within this market, holding in excess of 40% of the UK's remaining and reducing scarce hazardous landfill capacity.

#### Energy-from-Waste and Biomass Energy waste market

Auegan's treatment and disposal to landfill includes the management of certain by-products from energy-from-waste (EfW) plants, required to deliver the UK's obligation to significantly reduce the landfilling of municipal solid waste by 2020, and from biomass energy plants. These facilities produce air pollution control residues (APCR) and intermediate bottom ash (IBA), also known as fly ash. The Group has developed the capability to treat and dispose of these ashes and residues at our sites at Port Clarence and East Northants Resource Management Facility (ENRMF), handling approximately a 40% market share (2017: approximate 40% share). This market

is expected to grow at 9% compound average growth rate through to 2022. Disappointingly, due to operational issues, no new incinerators came on line in 2018. Despite this, it is pleasing that the Group was able to grow ash volumes by double digit percentage in 2018. The Group actively monitors technological developments in the treatment and recycling of this material to ensure its long term competitive position in this market. The Group's overall volumes from this market increased 14% in 2018.

#### Construction waste market

Construction soils are a key input to the Group's landfill sites. In 2018, the Group received volumes of this waste into its sites at ENRMF and Port Clarence where contaminated soils are treated and disposed to landfill. The volume of these soils available to the Group is variable and linked to activity in the construction sector, including the progress of large-scale infrastructure projects. The market for these soils, by nature, is not operated on a long term contracted basis. It is sensitive to the prevailing market spot price, influenced by haulage costs and thus proximity to the disposal site.

The Group has also invested in soil washing and treatment equipment to promote recycling of a proportion of such materials, as required by the market. During 2018, the Group reassembled a construction sales team which resulted in construction waste volumes being up over 140% in the second half of the year. Overall construction volumes were increased by 24% over 2017.

#### Radioactive waste market

The Group's key radioactive waste market is the nuclear decommissioning market, relating to the closure and dismantling of the UK's redundant nuclear power and research facilities. This is managed on behalf of the UK government by the Nuclear Decommissioning Authority (NDA). The disposal of naturally occurring radioactive material (NORM) generated principally from the Oil and Gas industry is the second key radioactive waste market for the Group. Auegan has planning permission and environmental permits in place to dispose of low activity low level waste (LLW), very low level waste (VLLW) and NORM. The NDA publishes regular forecasts on the volumes of radioactive wastes requiring disposal and treatment.

During 2018 the volumes of radioactive waste processed by the Group increased by 82%

#### Industrial waste market

The waste market has again remained stable as a result of shutdown and maintenance work being carried out across a broad range of sectors and overall growth in the UK manufacturing sector. During 2018 the Group grew its share in this market with sales increasing by 39%.

As large energy-intensive industries have moved production out of the UK, the demand for organic waste derived fuels in the UK market has reduced. The market has some reliance on facilities in mainland Europe for the recovery of energy from these fuels. The opportunity to send waste to energy recovery routes within mainland Europe has remained stable and Augean benefits from these disposal routes. The impact of Brexit on these routes is difficult to predict but the position is being closely monitored with the Group Board having access to expert advice. The Group has established additional disposal routes outside of Europe, which it believes will ensure business continuity in this regard. Additionally, inventories will be managed down to reduce risk as we progress towards the planned exit date.

### **North Sea Services**

#### **North Sea Oil & Gas waste services market**

The markets for waste produced in the exploration, appraisal, development, production and decommissioning of North Sea oil & gas are centred on Aberdeen, extend to the Shetland Isles for the northern sector, and Great Yarmouth for the Southern sector. Augean North Sea Services (ANSS) provide a full range of services, equipment rental and manpower provision for the containment, treatment and associated specialised industrial cleaning of all Oil & Gas offshore and terminal wastes. These include the cuttings and slop waters from drilling, contaminated waters from the production process, production wastes, oil sludges, including those contaminated with low level naturally occurring radioactive material (NORM), swarf containment from abandonment activities, as well as a more general range of industrial general and hazardous wastes. In addition, ANSS now provide full NORM decontamination of wellbore and topside production equipment in their new decommissioning Centre in the Port of Dundee.

The dependence of the UK's energy sector on oil and gas will continue over several decades, leading to increased levels of demand for specialised industrial service related waste management for offshore production facilities and onshore terminals, as the sector, depending on economics, extends the life of, or begins decommissioning the assets in the North Sea.

The market has seen an upturn in Decommissioning related plug and abandonment activities. NORM builds up over time on the downhole production equipment, processing lines and topside equipment, which requires decontamination with specialised industrial jetting equipment resulting in the generation of NORM scale. The volume of downhole and topside equipment requiring decontamination is rising rapidly alongside plug and abandonment decommissioning activities, requiring specialised decontamination, treatment and disposal.

The Group's sales in this market increased by 19% in 2018.

The above segments represent the Group's targeted growth markets. Each has shown growth during 2018, proving the Group's strategic choices.

## Business Model and Strategy

The strategy of the Group previously set out is focused on growing Shareholder value by developing sustainable market positions. The business currently has two short term objectives against which progress has been made in 2018. After further progress has been achieved a revised long term strategy will be presented to Shareholders.

Strategic focus	Description	KPIs
Resolve HMRC position	HMRC has issued the Group with assessments in relation to its treatment and disposal of hazardous waste. Based on the legal and other advice received by the Group over several years, Augean is very confident that the Group has met its obligations in respect of landfill tax, consistent with the law and official guidance at the time.	Resolution of issue
Maximise profitability and cash generation of business	The Board has implemented several rounds of cost reduction including a management reorganisation, which have resulted in a significant cost saving and increase in profitability.	Year on year profit growth Increase in cash balance

# Operating Review

## Introduction

The Group's core strategic markets within its reported segments are Energy from Waste, treatment, nuclear decommissioning and North Sea decommissioning. As previously announced, in order to facilitate cost savings and to focus on profitable cash generative growth in these core markets the Group has amended its business unit infrastructure for 2018 as follows:

	Adjusted continuing revenues (£'m)		Adjusted operating profit before PLC costs (£'m)	
	2018	2017	2018	2017
Treatment and Disposal	47.1	38.1	10.9	7.9
North Sea Services	21.7	18.2	2.1	0.7
Revenues	68.8	56.3	–	–
Operating profit pre-PLC costs	–	–	13.0	8.6
PLC costs	–	–	(0.8)	(1.0)
Operating profit post-PLC costs	–	–	12.2	7.6

Adjusted revenues exclude intra segment trading, discontinued operations and landfill tax. Adjusted operating profit excludes exceptional items, share based payment charges and loss from discontinued operations. A reconciliation of these adjusted metrics is shown in note 29.

## Business performance

The Group operated through two business units during 2018 being Treatment & Disposal and North Sea Services; a change from the five business units reported on in 2017. The new structure reflects the operational management of the business subsequent to the reduction in cost base implemented in 2017.

### Treatment and Disposal

The principal activity of this business unit is the treatment and disposal of waste from Energy from Waste (EfW) incinerators, construction and industrial sites. The largest waste stream by revenue and profit is the disposal of ash from EfW sites which comprises bottom ash and ash from the burning of biomass and municipal waste to generate energy. The largest waste stream by tonnage is contaminated waste materials and soils (including asbestos), mainly from the manufacturing and construction sectors. A key growth market in Treatment and Disposal is low level radioactive waste decommissioning.

Adjusted revenues, excluding landfill tax, increased by 24% to £47.1m (2017: £38.1m), with growth across landfill and treatment inputs. Ash inputs increased 29% to 189,000 tonnes (2017: 147,000). This was despite no new municipal EfW plants coming online in the year and the high downtime experienced by some EfW customers due to operational challenges. Radioactive waste volumes were improved on 2017 with an increase from 6,000 tonnes to 10,600 tonnes.

The adjusted operating profit of Treatment and Disposal increased to £10.9m (2017: £7.9m) due to the increased sales as well as previously announced cost savings.

The Treatment and Disposal strategy is to continue to win new treatment contracts, optimise the use of our treatment plants, and maximise the market opportunity from growth in EfW ash waste volumes, nuclear decommissioning and construction sector wastes. As announced, the Group signed

a three-year framework agreement with Land & Water Ltd, the market leading specialist for dredging of inland waterways, to preferentially treat and landfill hazardous materials arising from their dredging activities in February 2019.

### North Sea Services (NSS)

The NSS business unit operates in the North Sea Oil & Gas market. The primary revenue streams are from drilling waste management (DWM), including the rental of offshore engineers and equipment to customers, production waste management, onshore and marine industrial services, decommissioning and water treatment.

NSS revenue increased by 19% to £21.7m (2017: £18.2m) on new customer wins in Industrial Services and Waste Management. This segment saw an increase in adjusted operating profit to £2.1m (2017: £0.7m) due to revenue increase, cost savings, better mix and the impact of increased decommissioning activity in the North Sea. Reduced drilling volumes were more than offset by diversification into industrial services, decommissioning and waste management.

The NSS strategy continues to gain traction as the business moves up the supply chain, dealing directly with Oil & Gas operators and top-tier customers, so providing opportunities to widen its service scope more directly with those customers. The NSS facility at the Port of Dundee for the management of waste arising onshore from the decommissioning of offshore assets is now fully operational. This enhances the opportunity for Augean to service the growing North Sea decommissioning market, a multi-billion pound programme decommissioning hundreds of offshore assets which is expected to be active for over 20 years. NSS actively markets these facilities alongside other operators at the port, which in turn cements its international position as a decommissioning facility for the North Sea. At the end of 2018 the Group was awarded a decommissioning contract with Shell for the Curlew vessel, a significant milestone for both Dundee Port and Augean.



## Discontinued operations

### Augean Integrated Services (AIS) and Colt Industrial Services

AIS was sold on 16 March 2018 to Regen Holdings for total cash consideration of £4.0m. The fixed assets of the Colt business were sold to Future Industrial on 22 June 2018 for £1.0m and the freehold land and buildings associated with the Colt business was sold for £1.2m on 21 December 2018 in cash consideration. The total consideration of £6.2m has been used to reduce net debt.

### East Kent Incinerator

A review of this asset was completed in 2018 and the Group decided that the facility would be mothballed early in the New Year. The assets associated with the facility less committed costs to prepare for sale are therefore classified as an asset held for sale in this report. The previously recognised impairment to the assets associated with this site has been reversed in 2018. On 25 January 2019 the Group sold the land, buildings and plant associated with East Kent High Temperature Incinerator for a total cash consideration of £3.35m.

### HMRC assessment

Two Group companies are currently in receipt of final assessments from HMRC for Landfill tax (LFT). As previously announced, Augean has maintained positive discussions with HMRC in an effort to resolve the matter and since the initial pre-assessment notifications the quantum of the assessment has reduced significantly although the basis for assessment is not entirely clear. The amounts for which Augean has been assessed (excluding interest and penalties) total approximately £30.0m.

The Group will now robustly challenge the LFT Assessments that it has or may receive from HMRC, through the tax tribunal system. No payments have been made as a result of the assessments and hardship has been granted in relation to the received final assessment for Augean North, meaning that no payments will fall due for this Company until the outcome of the tax tribunal is completed. The Group remains hopeful that any application for hardship in relation to Augean South Limited will be similarly granted.

The Group intends to account for the legal costs of the dispute with HMRC as an exceptional item but does not intend to make a provision for assessments received to date based on the strength of independent legal and professional advice.

Augean continues to work with stakeholders in the waste and other affected industry sectors on the broader adverse implications for the treatment of hazardous waste. Further announcements will be made at the appropriate time.

## Legislative environment

Regulation underpins the demand for Augean's services and accordingly the business follows closely the development of legislation and guidance and engages proactively with policy makers and regulators. The Department for Environment, Food and Rural Affairs (DEFRA) confirmed in 2017 that there is no clear justification or environmental benefit for removal of the derogations supporting the Augean practice for safe treatment of air pollution control residues. This means that the Group continues to treat and landfill these residues in the safest and most appropriate manner.

## Planning and permitting

The current site planning permissions extend to 2026 in the case of East Northants Resource Management Facility (ENRMF), 2034 for the Thornhaugh site and for a period of more than 50 years in the case of Port Clarence.

# Financial Performance

## Group overview

A summary of the Group's financial performance, from continuing operations and excluding exceptional items, is as follows. The 2017 comparative has been restated where appropriate to exclude operations discontinued in 2018.

£'m except where stated	2018	2017
Adjusted Revenue	<b>68.8</b>	56.3
Adjusted Operating profit	<b>12.2</b>	7.6
Adjusted Profit before taxation	<b>11.4</b>	6.8
Adjusted Profit after taxation	<b>9.4</b>	6.4
Net operating cash flow	<b>17.2</b>	12.6
Basic adjusted earnings per share	<b>8.52p</b>	5.47p
Return on capital employed	<b>22.1%</b>	9.4%

Adjusted metrics exclude intra segment trading, discontinued operations and landfill tax. Adjusted operating profit excludes share based payments, exceptional items and loss from discontinued operations. A reconciliation between the adjusted and statutory metrics is shown in note 10 to the accounts.

A consideration of the operational factors affecting performance is included in the operating review.

Exceptional items are detailed below.

## Trading, adjusted operating profit and EBITDA

Adjusted revenue from continuing operations, excluding landfill tax, for the 12 months ended 31 December 2018 increased by 22% to £68.8m (2017: £56.3m).

Adjusted operating profit increased by 60% to £12.2m (2017: £7.6m) and adjusted profit before tax increased by 69% to £11.4m (2017: £6.8m), on the same basis.

Adjusted earnings before interest, taxation, depreciation and amortisation (EBITDA), from continuing operations and before exceptional items, is determined as follows:

	2018 £'m	2017 £'m
Adjusted Operating profit	<b>12.2</b>	7.6
Depreciation from continuing operations	<b>6.7</b>	6.9
EBITDA	<b>18.9</b>	14.5

## Exceptional items

Exceptional items in 2018 totalled a net profit of £3.3m before taxation. £0.3m exceptional expense related to continuing operations, being £0.2m of net landfill tax legal costs and £0.1m of other costs. £3.6m exceptional profit related to discontinued operations, being the profit on the sale of AIS after fees and internal costs of £0.7m, a profit on disposal of Colt assets of £0.2m and a reversal of impairment in relation to the held for sale East Kent incinerator assets of £2.7m.

## Finance costs

Total finance charges were £0.7m (2017: £0.9m) including the interest on bank debt, other financial liabilities and the non-cash unwinding of discounts on provisions.

## Earnings per share

Adjusted basic earnings per share (EPS), from continuing operations and excluding exceptional items, increased by 56% to 8.52 pence (2017: 5.47 pence) due to the increased sales and lower costs.

The Group made an adjusted profit after taxation of £9.4m (2017: £6.4m), all of which was attributable to equity shareholders.

The total number of ordinary shares in issue increased during the period from 102,948,036 to 103,786,792 with the weighted average number of shares in issue increasing from 102,808,863 to 103,408,043 for the purposes of basic EPS due to the issue of share to satisfy options granted in previous years.

## Dividend

Due to the HMRC position, the Board has decided not to declare a dividend (2017 interim and final: Nil).

## Cash flow and net debt

Adjusted net operating cash flows were generated from continuing trading as follows:

	2018 £'m	2017 £'m
EBITDA from continuing operations and before exceptional items	<b>18.9</b>	14.5
Net working capital movements from continuing operations	<b>(0.3)</b>	(0.8)
Interest and taxation payments	<b>(1.4)</b>	(1.1)
<b>Net operating cash flows from continuing operations and before exceptional items</b>	<b>17.2</b>	12.6

The cash flow of the Group is summarised as follows:

	2018 £'m	2017 £'m
Net operating cash flows from continuing operations	<b>17.2</b>	12.6
Net operating cash flows from continuing adjusted items	<b>(0.3)</b>	(1.3)
Net operating cash flows from discontinued operations	<b>(0.9)</b>	(1.9)
<b>Total net operating cash flows</b>	<b>16.0</b>	9.4
Maintenance capital expenditure	<b>(2.0)</b>	(4.5)
<b>Post-maintenance free cash flow</b>	<b>14.0</b>	4.9
Development capital expenditure	<b>(1.4)</b>	(4.3)
<b>Free cash flow</b>	<b>12.6</b>	0.6
Sale of Business and assets	<b>6.2</b>	–
Net cash generation before dividends	<b>18.8</b>	0.6
Dividend payments	<b>–</b>	(1.0)
<b>Net cash generation</b>	<b>18.8</b>	(0.4)

Adjusted net operating cash flow as a percentage of EBITDA was 84% in 2018 (2017: 87%).

The operating cash flow of the Group of £16.0m was used to pay down debt and fund the future growth of the Group, with Capital investment in property, plant & equipment and intangible assets made by the Group totalling £3.4m (2017: £8.8m), split between maintenance capital (to lengthen the productive life of existing assets) of £2.0m and expansion capital (for targeted future growth) of £1.4m.

Post-maintenance free cash flow, as set out in the table above, represents the underlying cash generation of the Group, before any investment in future growth or the payment of dividends to shareholders.

As a result of the above net cash inflow, net cash was at £8.2m at 31 December 2018 compared with net debt of £10.8m at 31 December 2017. Gearing, defined as net debt divided by net assets, is therefore nil (31 December 2017: 22%). The ratio of net debt to EBITDA, from continuing operations and before exceptional items, was negative 0.4 times (2017: 0.8 times).

### Financing

During 2018, the activities of the Group were substantially funded by a bank facility, comprising a revolving credit facility and bank overdraft. That facility was renewed on 21 March 2016 with HSBC Bank plc at a level of £20m. The maturity of the facility is October 2020 and the overdraft is reviewed annually. HSBC has, at 31 December 2017 and without expiry, waived breach of the taxation clause of the bank credit facility which requires potential liabilities associated with tax disputes to be less than £0.1m.

### Balance sheet and return on capital employed

Consolidated net assets were £60.3m on 31 December 2018 (2017: £50.1m) and net tangible assets, excluding goodwill and other intangible assets, were £40.5m (2017: £30.0m), of which all was attributable to equity shareholders of the Group in both years.

Return on capital employed, defined as adjusted operating profit divided by average capital employed, where capital employed is net assets excluding net cash or net debt, increased to 21.6% in 2018 (2017: 9.4%).

### Impairment reviews

In accordance with IAS36 'Impairment of Assets', an annual impairment review was carried out for each cash-generating unit (CGU) to which significant goodwill is allocated and also any other CGU where management believed there may have been an indication of potential impairment to the carrying values of assets in those CGUs.

For the continuing operations of the Group, this exercise was completed for the CGUs within the Treatment & Disposal and North Sea Services reportable segments.

Based on these reviews, no impairments were noted and no reversal of prior year impairments was required.

The cash flows for all CGUs were discounted using a pre-tax discount rate of 8.0% (2017: 8.2%).

### Employees

The Group employed an average of 385 staff (2017: 469) over the course of the year. The number of employees in the Group has declined during 2018 reflecting the full year impact of the repositioning of the cost base of the Group and elimination of the business unit structure.

### Brexit

The Group is focussed on trading in Britain and uses disposal infrastructure almost entirely based in the UK. Where disposal routes in mainland Europe are used the financial impact of different scenarios which could result from this external change have been modelled. The impact of Brexit on these routes is difficult to predict but the position is being closely monitored with the Group Board having access to expert advice. Coupled with UK Government advice that current waste movement structures will be rolled over in most EU States and the Group's work to establish alternatives, the risk of significant business disruption as a result is thought limited.

### Outlook

The Group made significant progress against delivering its strategy during 2018 including generating £18.8m of cash and growing Profit before tax 69%, therefore providing a stable platform for future growth. A strong start to initial trading has been made in the first months of 2019 with results well ahead of prior year. The Board is confident in the prospects of the Group for the full year.

# Key Performance Indicators

The Augean PLC Board of Directors, Group Management Board and local management teams regularly review the performance of the Group as a whole along with the performance of individual business units. This includes the use of a balanced scorecard for applicable key performance indicators (KPIs) to monitor progress towards delivery of the Group's principal targets. These KPIs are consistent with those reported in 2017. The Group regards the performance in 2018 compared to its benchmark, which is the prior year performance, to be satisfactory.

The focus of the Group is in three priority areas:

1. Health & safety: monitored through near miss incidents and the number of accidents incurred;
2. Compliance with regulations, in particular Environment Agency and Scottish Environment Protection Agency audit results; and
3. Financial performance.

KPI	2018 Outcome	2017 Outcome
Number of incidents <sup>(1)</sup>	16	27
Number of near misses reported <sup>(2)</sup>	2,320	2,935
Compliance scores <sup>(3)</sup>	<b>Landfill &amp; Treatment: Excellent/A-B ANSS: Excellent/E Discontinued operation: E</b>	E&C: A RWS: A I&I: B/Excellent AIS: B ANSS: Excellent
Adjusted profit before taxation <sup>(4)</sup>	£11.4m	£6.8m
Post-maintenance free cash flow <sup>(5)</sup>	£14.0m	£4.9m
Return on capital employed <sup>(6)</sup>	21.6%	9.4%
Volumes of waste disposed to our landfill sites	523,000t	458,000t
Ash Volumes treated	189,000t	147,000t
Amount of North Sea Oil & Gas revenue generated directly from operators and Top-Tier customers	87% of ANSS revenue	89% of ANSS revenue

1. The number of total reported accidents, that has resulted in injury, including those resulting in damage to plant or equipment. This is an absolute figure which has not been normalised for changes in employee numbers.
2. The total number of incidents reported which could have resulted in an accident or injury or damage to property.
3. The average of audit scores notified during the year by the Environment Agency (EA) in England or the Scottish Environment Protection Agency (SEPA) in Scotland. The EA notifies results on the scale A-F and SEPA notifies on the scale Excellent-Very Poor.
4. Group profit before taxation, from continuing operations and excluding exceptional items and IFRS 2 charges.
5. Net operating cash flows, from continuing operations and excluding exceptional items, less maintenance capital expenditure.
6. Calculated as operating profit, from continuing operations and excluding exceptional items, divided by average capital employed, where capital employed is the consolidated net assets of the Group excluding net debt.

# Managing Risk

Risk description	Mitigation
<p><b>General Economic risk</b></p> <p>The performance of the business is linked to economic activity in the waste markets it serves, including the manufacturing, construction, nuclear decommissioning, Energy-from-waste and oil &amp; gas sectors. Fluctuations in the UK economy in general and these sectors in particular affect Group performance, as do inflationary and other cost pressures.</p>	<ul style="list-style-type: none"> <li>○ Diversification of customer base</li> <li>○ Linking gate fees and other customer charges, wherever possible, to prevailing operating costs and commodity prices, including the costs of waste disposal outside of the Group</li> </ul>
<p><b>Health and safety</b></p> <p>The activities of the Group involve a range of health and safety risks, from offshore operations to the handling of hazardous wastes.</p>	<ul style="list-style-type: none"> <li>○ Health and safety is the first priority for all directors, managers and employees across the Group</li> <li>○ Investments in relevant assets and resources are made on an ongoing basis to ensure that the highest health and safety standards are applied</li> <li>○ Health and safety performance is constantly monitored and reviewed, including formal reviews at each Augean PLC Board meeting and in-depth quarterly reviews by the Group's Management Board. These mechanisms also include detailed reviews of any relevant incidents, which allow the lessons learnt from such incidents to be fed back to local teams, in order to reduce the likelihood of recurrence</li> <li>○ The Group employs suitably qualified professionals to advise, monitor and assist all elements of the business to ensure risks to our employees are appropriately assessed and mitigated.</li> <li>○ H&amp;S training is carried out as a matter of normal business, from policy workshops through to individual employees including via online material to facilitate ease of access.</li> </ul>
<p><b>Environmental legislation</b></p> <p>Regulation is a key driver of the hazardous waste market. Changes in legislation (including tax legislation with environmental goals) or its interpretation can have a significant and far-reaching impact on waste markets.</p> <p>The simplistic application of the waste hierarchy to the markets in which the Group operates, with its focus on reducing the volume of waste disposed to landfill, could be perceived as a threat to the business in the long term.</p>	<ul style="list-style-type: none"> <li>○ Employ high quality technical management to interpret the evolving legislative framework and its potential and current impact on the Group's operations</li> <li>○ Maintain a presence on a number of industry groups to influence the shaping of policy and liaises regularly with relevant regulators and legislative bodies, including the Environment Agency (EA), the Scottish Environment Protection Agency (SEPA), the Department for Environment, Food &amp; Rural Affairs (DEFRA) and the Department for Business Energy and Industrial Strategy (BEIS).</li> <li>○ Develop treatment solutions for customers which utilise landfill when this is the most appropriate commercial and environmental solution, but provide alternative approaches whenever they are suitable</li> <li>○ Highlight the importance of Best Overall Environmental Outcome (BOEO) in moderating the simplistic application of the waste hierarchy by regulators</li> </ul>

# Managing Risk

(continued)

Risk description	Mitigation
<p><b>Tax legislation</b></p> <p>The use of tax legislation to drive environmental objectives, particularly the diversion of wastes away from landfill disposal and towards greater treatment and recycling, represents a risk in all time horizons. Landfill tax guidance (LFT1) was last updated in November 2018. LFT is not totally prescriptive on the tax treatment of the many alternate types of waste received by the Group. This could lead to differences in opinion on the treatment and the applicable tax rate. The standard rate of landfill tax rose to £88.95 per tonne on 1 April 2018 and will continue to rise in line with the retail price index. While European and national legislation encourages 'zero landfill' solutions for a range of waste streams, disposal in properly engineered and permitted landfills continues to be the most appropriate waste management solution for many hazardous wastes. The Group is in ongoing discussions with HMRC with respect to whether it has paid the correct amount of landfill tax.</p>	<ul style="list-style-type: none"><li>○ Develop a range of waste treatment solutions for customers</li><li>○ Broaden capabilities to ensure the Group's sites are able to accept all those wastes which do require landfill disposal</li><li>○ Maintain specialist testing facilities and seek appropriate external chemical, engineering, taxation and legal advice</li><li>○ Modelling of the financial impact under different external legislative positions</li><li>○ Specialist legal and environmental advice</li><li>○ Landfill tax internal audits and external assurance on processes</li></ul>
<p><b>Environmental compliance</b></p> <p>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 of the Group and compliance with their terms is essential to its success. Withdrawal or temporary suspension could have a significant impact on the Group's ability to operate.</p>	<ul style="list-style-type: none"><li>○ Adherence to the highest environmental standards</li><li>○ Maintenance of good relations with local communities and to satisfy customers that the techniques, practices and procedures adopted by the Group are consistent with those of a responsible business.</li><li>○ Employment of technical experts who work to well-established policies and procedures described in the Group's Integrated Management System</li><li>○ Provision of training to develop the knowledge and competence of its staff</li><li>○ Regular monitoring and review of compliance performance</li><li>○ Production of the Group's corporate social responsibility (CSR) report</li></ul>
<p><b>Price risk</b></p> <p>Price pressure remains a key feature of the hazardous waste market, where customers often have a range of options for the ultimate disposal of their wastes and access to several companies competing to service their needs.</p>	<ul style="list-style-type: none"><li>○ Review pricing policies on an ongoing basis to ensure that the Group influences and stabilises the market</li><li>○ Respond to emerging trends and customer needs</li><li>○ Specialist in-house resource to assess and price waste consignments in line with market rates and available disposal solutions</li><li>○ Regular review of all services to ensure that price changes in the market do not lead to uneconomic activities being undertaken by the Group</li></ul>

Risk description	Mitigation
<p><b>Economic growth</b></p> <p>The Group relies on economic activity in the UK, which in turn leads to production of the hazardous wastes which form the basis of its sales revenues. Any downturn in the UK economy may restrict the volume of hazardous wastes produced and therefore constrain the Group's revenues.</p>	<ul style="list-style-type: none"> <li>○ Develop positions in a range of markets requiring specialist waste management capabilities and which have high barriers to entry</li> <li>○ Identify and invest in the techniques, assets and resources to provide a broad range of services to customers, diversifying the revenue base of the Group</li> </ul>
<p><b>Technological factors</b></p> <p>Technological risk factors may cause treatment technology in use to become obsolete or too costly to maintain.</p>	<ul style="list-style-type: none"> <li>○ Monitor the development and application of the waste hierarchy vs Best Overall Environmental Outcome</li> <li>○ Invest selectively in development</li> <li>○ Employ strategic planning to make timely investments in existing and new equipment</li> <li>○ Evaluation of operational costs and market environment is made before investment</li> </ul>
<p><b>North Sea oil and gas investment</b></p> <p>With a well-established business focused on providing waste management services to North Sea oil and gas operators, the Group has some exposure to any fall in investment for oil and gas exploration activity in the North Sea. This may in turn reduce the volume of waste available for management by Augean North Sea Services.</p>	<ul style="list-style-type: none"> <li>○ Maintain a comparatively low level of operational gearing, with the business therefore able to adjust its significant direct cost base in the event of a significant and permanent reduction in revenues</li> <li>○ Diversify North Sea activities across a number of revenue-generating streams, with services provided to production customers offshore and onshore</li> <li>○ Pursue North Sea decommissioning as new market opportunities for ANSS that would further mitigate against risk</li> </ul>
<p><b>Transport disruption</b></p> <p>The Group relies on the delivery of wastes to its sites to secure revenues and any disruption to local or national networks, for example in severe weather conditions, can cause delays or lost revenue for the Group.</p>	<ul style="list-style-type: none"> <li>○ Outsourcing of the majority of the Group's haulage requirement, augmented with the use of the Group's own fleet where appropriate</li> <li>○ Maintenance of ability to accept wastes into sites in different geographical locations before onward transfer to their final treatment or disposal destination</li> </ul>
<p><b>Brexit risk</b></p> <p>Although the Group is focused on wastes arising in Britain and uses disposal infrastructure almost entirely based in the UK, the Group may fail to anticipate and manage the potential impact of Britain leaving the European Union, notably potential increases in interest rates.</p>	<ul style="list-style-type: none"> <li>○ Engage with trade association (Environmental Services Association) to anticipate and attempt to influence Government plans</li> <li>○ Monitor market conditions to allow appropriate investment in infrastructure and management of costs</li> <li>○ Maintenance of ability to accept wastes into sites in different geographical locations before onward transfer to their final treatment or disposal destinations outside of Europe</li> <li>○ Modelling of the financial impact of different scenarios which could result from this external change</li> </ul>

The Group uses a range of resources to manage and mitigate its risks, including the adoption of a broad range of internal controls, the use of risk registers and regular reporting, monitoring and feedback of risks through the business.

# Corporate Social Responsibility (CSR) Performance

The Board recognises the important role played by the Group in the environment and communities within which it operates. The health & safety of our employees and compliance with regulations are two of the Group's top three business priorities. Augean is committed to conducting its business operations in an open and responsible manner and we recognise the need to continually improve our operations where practical to do so, in order to reduce our impact on the environment, to continuously improve assets and processes to ensure the safety and welfare of our employees and to act as a good neighbour, minimising the impact of our operations on the wider community.

The Group has a commitment to mitigating any adverse effects of its operations and this is explained further in the detailed CSR report, which will be published alongside the Annual Report & Accounts.

## The environment

All operating sites and activities are strictly regulated by environmental authorities through a range of regulations set out in the permits for each site. In the context of hazardous waste, the principal instruments driving standards are the Waste Framework Directive and the Industrial Emissions Directive, which provide an integrated approach to pollution control to prevent emissions into air, land or water. The standards expect the techniques and procedures adopted by the Group to represent the 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 Group 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. Activities are delivered subject to well-developed environmental controls and compliance systems (as defined in the Integrated Management System), involving suitably competent people in the management of all aspects of its operations. Environmental reports are prepared and monitored within the Group and supplemented by information from regulators. This includes the Environment Agency's own review of companies operating in the waste sector which are subject to their account management regime, of which Augean is one. The information available for 2018 indicates that the Group's operations do not result in a significant impact on the local environment and in general our environmental performance continues to be one of the top three in the sector. The results of inspections and audits received from the Environment Agency (EA) in England and the Scottish Environmental Protection Agency (SEPA) in Scotland demonstrate high standards and low environmental impact.

As part of our commitment to implement the elements of the waste hierarchy relevant to the hazardous sector, the Group continues to take a strong role in the development of regulation and policy for hazardous waste. By engaging with Government departments, local authorities and regulators, we promote the profile of the industry and modernisation of the sector, seeking to establish a positive regulatory and policy framework for the business. In previous years, representatives from the Group took a high profile role in the development of the National Policy Statement for hazardous waste (NPS), directly engaging with Government departments and giving evidence at the Parliamentary Select Committee inquiry. We also have continued to engage throughout 2018 on topics such as Best Overall Environmental Option, substances of concern, radioactive materials liability insurance, planning and Brexit.

## Employees

The Group's employees are vital to its success and during the year made a significant contribution to the performance improvements outlined in this report. A 3% aggregate general pay increase was awarded to staff and Directors in 2018, in view of general inflationary conditions in the UK.

The Group is committed to the principle of equal opportunity in employment and to creating a harmonious working environment which is free from harassment and bullying and in which every employee is treated with respect and dignity. Accordingly, well-established policies are in place to ensure that recruitment, selection, training, development and promotion procedures result in no job applicant or employee receiving less favourable treatment on the grounds of race, colour, nationality, ethnic or national origin, religion or belief, disability, trade union membership or non-membership, sex, sexual orientation, gender, marital status, age or status as a part-time or fixed-term employee. The Group's objective is to ensure that individuals are selected, promoted and otherwise treated solely on the basis of their relevant aptitudes, skills and abilities.

These equal opportunity policies are set out in the Group's Employee Handbook, a copy of which is provided to each employee on joining the Group and made available electronically. The Handbook is updated periodically for changes in policy and regulations. The Group also operates a clear whistle-blowing policy, providing every employee the opportunity to raise concerns directly with an impartial Director, without the intervention of line management. Once an issue is reported the Director is required to undertake a thorough investigation and make recommendations.

In order to provide a formal, recorded, regular review of an individual's performance, and a plan for future development, all staff undertake an annual or bi-annual Performance Appraisal with their line manager. Appraisals assist in the development of individuals and establish individual training needs, improve organisational performance, and feed into business planning. Where appropriate, the appraisal process establishes specific training plans for each individual.



Training and development activity during the year built on the progress made during 2017 and investment was made to ensure that all employees had the knowledge, qualifications and skills to operate safely and compliantly within their specific role and in the broader waste management sector.

### **Safety**

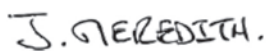
Health and safety and compliance are priorities for the business and it is therefore pleasing to see a decrease in workplace injuries of 41% in 2018 compared with 2017. It is considered that this is in response to a campaign enhancing hazard recognition, risk evaluation and learning from incidents. To support commitment to health and safety improvements, reporting of near miss incidents continued to be a key part of the health and safety programme during the year, supplemented with safe act reporting designed to applaud and encourage safe working practice.

### **The community**

Augean recognises the important role that it has within local communities and aims to maintain an open dialogue with its neighbours about its activities and plans. This is achieved through regular liaison committees, newsletters and open days. The establishment of new businesses, changes in the waste streams managed and active planning processes during the year led to a high level of interaction with local communities in some areas. As in previous years the Group maintained a programme of consultation in these localities to ensure that its plans were well known and understood.

The Group continued to contribute to the communities around its landfill sites through the Landfill Tax Credit Scheme and the Low Level Waste Fund. A total of £0.6m (2017: £0.5m) was contributed through these schemes during the year, providing funds for community projects including sports facilities and a wildlife reserve.

The strategic report on pages 3 to 15 of this report was approved and signed on behalf of the Board.



**Jim Meredith**

Executive Chairman  
25 February 2019

# Directors' Report

The Directors present their report and the audited financial statements for the Group and Company for the year ended 31 December 2018.

## Principal activity and business review

The principal activity of the Group is the provision of specialist services focused on hazardous waste. These services include waste treatment, recovery, recycling and secure disposal. The Group operates substantially within the United Kingdom. The Strategic Report provides a review of the business of the Group, key performance indicators and an indication of future prospects.

## Results and dividends

The Profit after tax of the Group for the year from continuing operations was £8.6m (2017: £4.0m) from revenue of £79.7m (2017: £67.0m). The loss included exceptional items totalling a charge of £0.3m (2017: £2.0m charge). The Board has recommended no dividend be paid for the year (2017: no dividend).

## Environmental policy

The quality of the environment is at the core of Group's operations and the Board recognises its importance to employees, customers, suppliers and the communities in which the Group operates. Augean continues to adopt high standards of environmental practice and aims to minimise its impact on the environment wherever possible and to support this publishes a clear Environmental Policy, which is updated every 12 months. Further details of the Group's actions in this area can be found in the separately published Corporate Social Responsibility (CSR) report and on pages 14 and 15 of this report.

## Our Vision and Values

Our vision is to create value for our customers through innovative services that protect future generations. We hope to achieve this by:

- Demonstrating Customer Focus – understanding what drives value for our customers and offering resilient compliant solutions.
- Delivering Service Solutions – committed to developing innovative and more sustainable approaches to all the critical activities around the management of hazardous waste.
- Developing Specialist Waste Expertise – nurturing the capabilities and assets that ensure hazardous and low level radioactive wastes entrusted to us are dealt with safely and compliantly, so earning the support of all our stakeholders.

Our core values have been developed to help us to shape the way we all work together:

- Respect – We show we value our people and others we work with
- Integrity – We demonstrate we can be trusted
- Teamwork – We work better together
- Excellence – We strive to achieve our ambition

## Management of risks

The Group has developed procedures for the management of risks relating to price, credit, liquidity and cash flow.

The management of the Group's financial risks and the related objectives and policies are the responsibility of the Executive Directors. The Directors regularly review the Group's financial risk management policies and procedures to ensure that they appropriately reflect the changing nature of the market and business. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. A risk register is maintained and regularly reviewed by the Board.

The Group has maintained its policy that no trading in financial instruments shall be undertaken. The Group's principal financial instruments during the period comprised bank loans, cash and cash equivalents and finance leases. 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 financial assets and financial liabilities and their book value.

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group seeks to maintain a balance between continuity of funding and flexibility. The objective is to maintain sufficient resources to meet the Group's funding needs for the foreseeable future.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group has a robust customer credit policy in place and the exposure to credit risk is monitored on a daily basis. The Group's standard credit terms are 30 days from date of invoice, with longer terms granted to certain customers. Invoices older than agreed terms are assessed for recoverability.

Further identified risks are presented within the Operating Review on pages 6–19.

## 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. Health and safety is the first priority of the Group and to support this all accidents are reported and thoroughly investigated and all employees are encouraged to contribute to reporting of 'near miss' incidents and 'safe acts' to promote greater awareness and proactive safety behaviours and, therefore, accident reduction.

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. Regular newsletters and briefings are provided to employees and announcements and notices are provided on the Group's intranet website and also directly through regular team briefings. The Group produces a monthly 'Augean Update' newsletter, available to all employees, which sets out a summary of the performance of the Group and the key activities taking place at each site. The Group aims to recruit and retain people with the appropriate skills and behaviours to fully contribute to the future success of the business. All new employees are provided with an appropriate induction, ensuring that they have the knowledge required to perform their role, and ongoing training is provided to ensure that skills and experience are kept up to date.

## Policy on disabled employees and employee involvement

The Group encourages the employment of disabled persons wherever this is practicable. The Group has a clear policy on employment of disabled persons and ensures that disabled employees, and those who become disabled while in the Group's employment, benefit from training and career development programmes in common with all employees (please see the CSR section for more details). In the event that changes are required to the operations or structure of the Group, including closure or sale of businesses, the Group has well-established procedures for consultation with individuals and, where required, groups of employees. Consultation involves clear, ongoing communication of factors affecting individuals and teams, regular consultation meetings with line management and internally published announcements of significant decisions and updates.

Employees are included in bonus or incentive schemes designed to align the Group's priorities in safety, regulatory compliance and profit generation to the rewards available to individuals. Monthly and annual bonuses are made available. Certain senior employees are also eligible to join the Group's share options scheme and long term incentive plans, aligning personal performance with strategic plans and targets and ensuring that management is incentivised to deliver improving returns for shareholders.

## Charitable and political donations

During the year the Group contributed £561,000 (2017: £542,000) of its landfill tax liability to registered environmental bodies as permitted by Government regulations. No political donations were made during the year (2017: £nil).

## Post balance sheet events

On 25 January 2019 the Group disposed of the Land and Buildings related to its site at East Kent for a consideration of £3,350,000.

## Directors

The composition of the Board of Directors is shown on pages 20 to 21. Details of the Directors' interests and remuneration are given in the Directors' Remuneration Report on pages 24 to 26. On 8 January 2019 Rod Holdsworth retired from the Board. All other Directors have served throughout the year and since the Balance Sheet date.

# Directors' Report

(continued)

## Substantial shareholdings

The number of shares issued by the Company increased during the year, from 102,948,036 as at 1 January 2018 to 103,785,792 at 31 December 2018. The Company had been notified of the following interests of more than 3% in its shares as at 15 February 2019:

	Number of shares	% of total
Harwood Capital	26,068,499	25.12%
Cannacord Genuity Wealth Management	10,478,624	10.09%
Schroder Investment Management Ltd	10,008,512	9.61%
Gresham House	7,255,166	6.99%
Close Asset Management	4,878,667	4.70%
Roger McDowell	4,000,000	3.85%
Unicorn Asset Management	3,173,731	3.06%

One of the Company's Directors, Christopher Mills, is a partner and Chief Investment Officer of Harwood Capital LLP. Other Directors' shareholdings are disclosed in the Directors' remuneration report.

## Corporate governance

A separate corporate governance report is included within the annual report.

Qualifying third party indemnity provisions (as defined in the Companies Act 2006) 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.

## Contact with investors

All Shareholders have access to the interim and annual reports and are invited to attend the Annual General Meeting (AGM) at which all Board Directors are present. The Group periodically hosts presentations at its sites and capital markets events for the investor community and provides detailed information for shareholders and the general public on its website [www.augeanplc.com](http://www.augeanplc.com).

## 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 Strategic Report. Details of the Group's financial position, cash flows, liquidity position and borrowing facilities are included in the financial review section and further information on the Group's financial risks and their management is given in note 23 to the financial statements.

As highlighted in note 23, the Group met its short term working capital requirements during 2018 through its cash balances and an overdraft and revolving loan facility (the Facility), which was renewed and increased with HSBC Bank plc in March 2016, providing access to a term loan and revolving loan facility

to a total level of £20m until October 2020. The overdraft is reviewed annually. This facility, along with the underlying cash generation of the Group, is expected to provide the required funds to support further growth of the business over that period. The provision of the Facility is subject to certain covenants, focused on the cover of interest costs and the ratio of net debt to EBITDA.

As a result of the assessment received from HMRC, previously communicated to shareholders and detailed in note 25, a representation required by the facility agreement which related to a requirement for no ongoing tax investigations with possible liabilities of over £100k in relation to the Group was not made. An indefinite letter of waiver has been obtained from the lender in relation to this.

Cash flow forecasts for the 12 months from the date of approval of the financial statements indicate the Group's ability to operate within these covenants.

During 2018, the Group demonstrated its ability to generate cash flow from operating activities at a higher level than the previous year. The single greatest influence on free cash flow over recent years has been the level of capital investment required to maintain the Group's asset base which has been reduced to a level appropriate to sustain the business. The Group retains some discretion over the nature and timing of significant capital expenditure, allowing future liquidity to be managed, with the only exception to this being the need to engineer new landfill cells as available void space nears exhaustion. Landfill cell engineering is aligned with cash flows through a comprehensive capital planning process. Other capital expenditure includes that needed to maintain the existing asset base and that deployed in the development of the Group's businesses (the table in the financial review shows expenditure during 2018 in each of these categories). Given the discretion available, the Board remains confident that capital expenditure can be controlled and cash generation can be expected in the future.

Impairment reviews have been performed for each of the Group's cash-generating units which include goodwill balances, the details of which are disclosed in note 9 to the financial statements. In addition, the tangible asset base of the Group has been reviewed for impairment. No impairments were recognised in 2018 and the disposal of underperforming assets has improved the Group's ability to continue operating in its current structure and form for the foreseeable future.

Financial forecasts and projections, taking account of reasonably possible changes in trading performance and the market value of the Group's assets, have been prepared and show that the Group is expected to be able to operate within its cash balance and the level of available Facility, both for ongoing working capital funding and any capital investment expenditure, during the life of the Facility.

The results have been prepared taking into account the Group's net cash, available headroom on bank facilities, the continuing

support of the Group bankers HSBC, as well as noting the significant uncertainty around the HMRC issue. Reliance is being taken that HMRC has not required the Group to pay any of the assessments levied to date which has been confirmed by HMRC's acceptance of the Group's first hardship application which defers any payment until after a tribunal has been heard. The tribunal date is not set but expected to be in early 2020.

The Directors note the net current liability position of the Company. However, as the liabilities of the Company represent debt due to other Group companies which will not be called, this does not impact on the appropriateness of Going Concern.

Having considered the items set out above and after making further 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. The Directors are confident that the Company will be able to meet its liabilities as they fall due over the next 12 months. As a result the financial statements have been prepared on a going concern basis.

Each of the persons who is a Director at the date of approval of this annual report confirms that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Directors' responsibilities statement

The Directors are responsible for preparing the Strategic report, the Directors' report, the Remuneration 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 to prepare the Group's financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The Directors have elected to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 'The Reduced Disclosure Framework' (FRS 101) (UK Accounting standards). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and parent Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;

- for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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.

### Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Auditor

After a tender process, Grant Thornton UK LLP resigned as auditor on 4 October 2018. On 19 October 2018 BDO LLP were appointed as the Group's auditor.

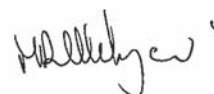
In accordance with Section 489(4) of the Companies Act 2006, a resolution to appoint BDO LLP will be proposed at the Annual General Meeting.

### Annual General Meeting

The Annual General Meeting (AGM) will be held on 20 June 2019. Jim Meredith and Mark Fryer will offer themselves for re-election as Directors at the AGM.

No Director has a contract with an unexpired notice period of more than 12 months.

By order of the Board



### Mark Fryer

Group Finance Director  
25 February 2019

# The Board of Directors

The Board of Directors is responsible for ensuring the Group is appropriately governed and led. This includes ensuring that the Executive has formulated and implemented a business strategy while also holding the Executive to account in delivering such strategy and results. This involves maintaining relevant internal control mechanisms and sound risk management within the business, while also establishing the values and behaviours the Group needs to ensure its business performance is sustainable within its sector.

At 31 December 2018 the Board comprised seven members: An Executive Chairman, Group Finance Director and five further Non-executive Directors, including John Grant as the Senior Independent Director. The Executive Chairman has responsibility for the overall leadership, effectiveness and governance of the Board and of the Executive Management, along with the strategic and operational running of the Group. The Senior Independent Director supports the Executive Chairman and leads the Non-executive Directors in reviewing the performance of the Executive Chairman. The Non-Executive Directors have been appointed to the Board for their specific areas of knowledge and expertise and exercise their duties in good faith based on judgements informed by their professional and personal experience to provide rigour to Board decisions. The Skills and background for each Director set out in their biographies on pages 20 to 21 make for a well-balanced and experienced Board in terms of skills, prior experience and personal qualities. The Board does not currently have a female Director; however, the current composition of the Board is based on a broad variety of factors and as and when a new Director is needed, it would not discriminate against the appointment of a new female Director. The Board recognises the benefits of diversity at all levels of its organisation.

In 2018 the Board was constituted of a majority of Non-executive Directors. This comprised five Non-executive Directors, three of whom were deemed by the Board to be independent (John Grant, Rod Holdsworth and Roger McDowell).

The composition and effectiveness of the Board and its Committees are regularly reviewed to reflect the skills and resources needed to assist the Group in delivering its strategic plan. An internal review took place in 2017 which resulted in the current composition of the Board. The last external review took place in 2016, when Linstock Limited, a corporate advisory firm that provide objective and independent counsel to leading companies, carried out a full Board evaluation. This evaluation covered the following areas: board composition, relationship between the Board and management, the Board's role in and oversight of strategy, risk management and internal control, succession planning and human resource management and priorities for change. Each Committee was also extensively reviewed along with the Chairman and Chief Executive Officer. The proposal is to carry out another external review once the current Board has been in place for at least a year.

Appropriate training, briefings and inductions are available to all Directors on appointment and subsequently where necessary, taking into account the existing qualifications and experience of each individual Director. All Directors have access to the

Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Group complies with all applicable rules, regulations and obligations governing its operations. Since 2016 the company secretary role has been separated out from the finance director role and is held by the Group General Counsel. The Directors also have access to the advice and services of the Group's company secretarial partner, Addleshaw Goddard LLP. In addition, any Director may take independent professional advice, where necessary, at the Company's expense. The Board meets formally at least nine times a year and additional meetings are held where necessary to review and approve specific matters where a decision is required more urgently.

The Non-executive Directors have undertaken to devote sufficient time to their duties as a Non-executive Director in order to discharge their responsibilities effectively. This amounts to an average time commitment of two working days per month; however, Non-executive Directors regularly give more time commitment than this in the form of additional calls, emails and contributions throughout the month.

Each Director is provided with sufficient timely information in the form of Board papers, to enable full consideration of matters in advance of meetings in order to properly discharge their duties. There is a formal schedule of Matters Reserved for the Board which includes strategy and management, structure and capital, financial reporting and controls, internal controls, contracts, communication, Board membership and other appointments, remuneration, delegation of authority, corporate governance matters, and policies and this is displayed on the Company's website [Augeanplc.com](http://Augeanplc.com). Under the Company's articles of association one third of all Directors are required to retire from office at each Annual General Meeting and may stand for re-election by Shareholders. In addition, each Director is required to retire in the third calendar year following his last appointment and may stand for re-election. Any Director appointed to the Board during the year is subject to election by Shareholders at the following Annual General Meeting. The Board is satisfied that all the Directors standing for election or re-election (as appropriate) perform effectively and have demonstrated commitment to their roles.

In line with the Companies Act 2006 and the Company's Articles of Association, approved at the 2008 AGM, the Company has strict procedures in place to capture the disclosure and subsequent consideration and potential authorisation of any Director's interest which may conflict with those of the Company.

## **Jim Meredith** Executive Chairman

Jim has considerable experience in the waste sector (since *circa* 1997) and has also worked within manufacturing, having held several senior roles within these sectors. He has been Chairman of RiverRidge Recycling since September 2016 and became Chairman of Uform Holdings Limited in December 2018, both investments supported by the Business Growth Fund. Jim has also been a Non-executive Director of Mar City Homes, since July 2016. He was CEO of the UK business of FCC, a leading Spanish construction business, following its acquisition of Waste Recycling Group (WRG) in 2006 from TerraFirma Capital

Partners whom Jim worked with from 2003 during their initial acquisition of WRG. Jim was an Executive Director of Shanks plc and also CEO of SCAID Capital, whose main business was Willerby Holiday Homes, a manufacturer of holiday homes for the leisure sector.

Jim has been Executive Chairman of Augean plc since October 2017, having previously been Non-executive Chairman from June 2012 and a member of the Board from December 2010. Jim had 100% attendance in 2018 for all Board meetings.

### **Mark Fryer**

#### **Executive Director and Group Finance Director**

Mark joined Augean in December 2016 bringing a significant breadth of financial expertise across a broad range of both listed and private companies having been Group Finance Director of Dialight PLC from 2010 to 2014, an innovative LED technology company and previously of Manganese Bronze Holdings PLC from 2002 to 2010, the company that built London taxis.

Prior to joining Augean, Mark had been Interim Chief Finance Officer of two private equity owned businesses, Bridon International Ltd, the global technology leader in the manufacture of wire and fibre rope, and Nualight Limited, a specialist LED technology company. Before this, Mark held senior finance positions at GKN plc and Cable & Wireless plc after qualifying as a Chartered Accountant with Ernst & Young in 1991. While at GKN plc, Mark gained specialist waste experience having been Finance Director for GKN Industrial Services division which included Cleanaway waste management.

He was appointed to the Board and became Group Finance Director on 14 December 2016. Mark had 100% attendance in 2018 for all Board meetings.

### **John Grant**

#### **Non-executive Director and Chairman of the Remuneration Committee in 2018 and of the Audit Committee from December 2018**

John has significant experience across a number of sectors, including working for Ford for 25 years, where he held a number of senior positions including Director of corporate strategy in the USA, and then Executive Deputy Chairman at Jaguar after it was purchased by Ford in 1990. John later joined Lucas Industries plc from 1992 to 1996 as Group Finance Director and was Chief Executive of Ascot plc from 1997 to 2000. He was until May 2017, Senior Independent Director of Melrose Industries plc, a FTSE 350 acquisitive international engineering group and is currently Senior Independent Director of MHP SE, a UK listed Ukrainian agro-industrial group, and Chairman of the British Racing Drivers Club Limited.

He was appointed to the Board in August 2015 and became Senior Independent Director in November 2015. John was Chairman of the Remuneration Committee from June 2016 till December 2018 and has been Chairman of the Audit Committee since December 2018. John had 100% attendance in 2018 for all Board and Committee meetings.

### **Roger McDowell**

#### **Non-executive Director. Chairman of the Nominations Committee and Chairman of the Remuneration Committee from December 2018**

Roger returned to Augean in October 2017 having previously been a Board member of the Group for 11 years between November 2004 and June 2015. Roger brings valuable experience as a successful businessman and entrepreneur, with a strong record of driving shareholder value and serving on the boards of public companies across a range of sectors. During his previous tenure on Augean's Board, Roger held the position of Interim CEO from 2006 to 2007 and Chairman from 2010 to 2012. Roger was Managing Director of Oliver Ashworth for 18 years before its sale to St. Gobain and he is currently serving as Non-executive Chairman of Avingtrans plc and Hargreaves Services plc. Roger is also Senior Independent Director at Tribal Group plc and a Non-Executive Director of ThinkSmart plc, Proteome Sciences plc, D4t4 Solutions plc and Swallowfield plc.

Roger tendered his apologies for two Board meetings in 2018 and had 100% attendance at all Committee meetings.

### **Christopher Mills**

#### **Non-executive Director**

Christopher founded Harwood Capital Management Group in 2011 and was the Chief Investment Officer of its former parent company J O Hambro Capital Management, which he co-founded in 1993. He is Investment Manager of North Atlantic Smaller Companies Investment Trust plc and Non-Executive Chairman of EKF Diagnostics Holdings plc. He is also a Non-Executive Director of several publicly quoted companies, including Goals Soccer Centres plc, Bigblu Broadband plc, Renalytix AI plc, Gabelli Value Plus + Trust plc and Ten Entertainment Group plc. Christopher was a Director of Invesco MIM, where he was head of North American investments and venture capital, and of Samuel Montagu International.

Christopher joined the Board in October 2017. Christopher had 100% attendance in 2018 for all Board and Committee meetings.

### **Andrew Bryce**

#### **Non-executive Director**

Andrew has had a long career and established reputation as a leading UK environmental lawyer and until very recently ran his own law firm, Andrew Bryce & Co, which specialised in regulatory defence. He now runs his own consultancy providing board level advice on environmental strategy and compliance. Andrew has extensive experience in both regulatory and transactional work and was previously an equity partner and head of environmental services at City law firm Cameron Markby Hewitt (now part of CMS Cameron McKenna). A Founder Member of the UK Environmental Law Association (UKELA) and its Chairman for three years, Andrew is now an Honorary Life Member and is a member of its Brexit Task Force.

He was originally appointed to the Board of Augean in June 2005, before stepping down and being reappointed, and until recently was Chairman of the Nominations Committee. Andrew had 100% attendance in 2018 for all Board and Committee meetings.

# Chairman's Corporate Governance Letter

I am pleased to introduce the corporate governance section of our report.

Augean remains committed to high standards of corporate governance in all of its activities and reports against the Quoted Companies Alliance Corporate Governance Code, a full version of which is available at the QCA website <http://qca.com>. The Board recognises the value of the Code and good governance and as far as is practicable and appropriate for a public company of the size and nature of Augean plc, adheres to it. The Board regularly reviews guidance from regulatory bodies, supported by its Nominated Adviser, and responds as appropriate. As a business traded on the Alternative Investment Market of the London Stock Exchange and operating in markets based on regulatory frameworks, the Group is familiar with the benefits and challenges associated with maintaining strong and effective governance. In this regard the Board remains focused on the need for a system of corporate governance which delivers compliance with regulation while enhancing the performance of the Group. This includes recognising the need to manage and mitigate the risks faced by the business across all of its activities.

The Board embodies and promotes the vision and values of the Company set out on page 16. The Group operates on the premise that best practice is normal practice striving to ensure that regulatory standards are met and, where possible, exceeded. The Company sets clear policy and objectives on its expectations on corporate social responsibility from the Board, to the top of the management team and throughout the organisation. We are proud of our culture, where all staff feel responsible for making a difference in delivering high standards within the organisation and to our customers, stakeholders and local communities. To ensure that the business achieves its objectives we invest in people and the business. We recognise the need for continual development and improvement in all our standards and measure performance year-on-year.

Each of the Board's standing Committees (Audit, Remuneration and Nominations) continued to be active during the year. A report from each Committee chairman follows, and I am grateful to each for their diligence and skill in ensuring that the Board plays an effective role in the proper management of the Company and the wider Group.

As Chairman, one of my principal concerns is to maintain excellent relationships with our Shareholders. During the year I continued to make myself available to Shareholders to discuss strategy and governance matters and was pleased to again have individual meetings with some of the Group's major Shareholders.

The Board has a proactive investor relations programme and believes in maintaining good communication with all stakeholders including institutional and private Shareholders, analysts and the press. This includes making the Executive Directors available to meet with institutional Shareholders and analysts following the announcement of interim and final results. The Board receives feedback from these meetings and uses this to refine its approach to investor relations.

The QCA Code is constructed around ten broad principles which focus on the pursuit of medium to long term value for Shareholders without stifling the entrepreneurial spirit in which the company was created. These ten principles are:

#### **To Deliver Growth:**

1. Establish a strategy and business model which promotes long term value for Shareholders.
2. Seek to understand and meet Shareholder needs and expectations.
3. Take into account wider stakeholder and social responsibilities and their implications for long term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.

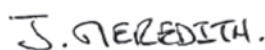
#### **Maintain a Dynamic Framework:**

5. Maintain the Board as a well-functioning, balanced team led by the chair.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promote a corporate culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

#### **Build Trust:**

10. Communicate how the Company is governed and is performing by maintaining a dialogue with Shareholders and other relevant stakeholders.

As a Company we strive to fulfil these ten broad principles, and our website and this Annual Report and Accounts cover this.



**Jim Meredith**  
Executive Chairman  
25 February 2019



# Risk Management and Control

The Board has overall responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness, while the role of management, through the Management Board, is to implement Board policies on risk management and control. The day-to-day activities of the Group are managed by the Executive Chairman through the Management Board, whose membership includes:

- Executive Chairman;
- Group Finance Director;
- Group Operating Officer;
- Corporate Stewardship Director;
- Commercial Director;
- Technical Supply Chain Director;
- Managing Director of ANSS;
- Group General Counsel.

The Management Board meets to formally review performance and risk once each month and maintains regular dialogue between these meetings.

The Management Board regularly reviews the control environment of the Group and is responsible for managing and mitigating commercial, operational, safety, compliance and financial risks. This 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:

- maintenance of an operational risk register, covering the key health and safety, regulatory and operating risks faced by the Group;
- maintenance of a register of the major financial risks faced by the Group;
- monthly reviews of business risks affecting the Group, identifying procedures and action required to manage and mitigate those risks;
- reports provided to the Board at every meeting setting out the key risks and their management;
- a clearly defined organisational structure with terms of reference for Board Committees and responsibilities and authorisation limits for executive and senior management;
- regular visits by the Executive Directors and senior management to operating locations to meet with local management and staff and to review business performance;
- regular visits by the Group's technical team to all sites to identify risks and propose improvements to be implemented by senior management. This includes powers to stop activities if they are deemed to represent a danger, or are inappropriate in the context of proper compliance;

- a range of compliance management systems at the Group's sites subject to external review, including certification to ISO 9001:2015; 14001:2015; 18001:2007 and the Publicly Available Specification of common management system requirements PAS 99:2015;
- an annual strategic planning and budgeting process;
- reviews by senior management, the Management Board and the Board of monthly financial and operating information, including comparisons with budgets and forecasts. The Group uses balanced scorecard reports, containing key performance indicator targets, as a mechanism for monitoring and managing the monthly performance of key operations;
- maintenance of a comprehensive insurance programme, agreed with insurers following a detailed annual review of the risks faced by the Group's businesses.

To provide an overview of the risks faced by the Group, the Audit Committee undertakes a six-monthly review of the corporate risk register, which considers a broad range of risk items. This takes account of the control environment and may lead to recommendations which are implemented through the Management Board.

## Audit Committee Report

The Audit Committee comprises the Non-Executive Directors. It was chaired by Rod Holdsworth throughout 2018 and following his resignation is now chaired by John Grant. The external auditor and the Executive Directors are regularly invited to attend the meetings and the Committee also has access to the external auditor's advice without the presence of the Executive Directors. The Committee met on five separate occasions during the year.

During the year the Committee considered the adequacy and effectiveness of the risk management and control systems of the Group and requested updates to the Group's corporate risk register. It also reviewed the scope and results of the annual external audit, its cost-effectiveness and the objectivity and independence of the external auditor.

In 2018 a tender process took place to review the external auditor and following the results of this process, a new external auditor was appointed. The Committee has reviewed the new auditor's audit plan and considered the final Audit report. In 2018 a landfill tax manager was appointed by the Company in order to provide an internal audit process to ensure landfill tax compliance.

# Risk Management and Control

The Committee monitored the integrity of the financial statements of the Company, including its annual financial statements for 2017 and other information included in the 2017 Annual Report, the interim financial statements for 2018, all formal announcements relating to results and all significant financial reporting issues and judgements contained therein. The Committee have reviewed, in depth, the key assumptions around goodwill and other non-current asset impairment reviews, provisions, accounting for landfill tax assessments, deferred tax asset recognition, key assumptions around provisioning and adoption of the going concern assumption.

During the year the Audit Committee reviewed its own performance, its constitution and its terms of reference to ensure it was operating at maximum effectiveness. Recommendations were made to the Board for any changes it considered necessary.

## **Nominations Committee Report**

The Nominations Committee comprises the Non-Executive Directors and is chaired by Roger McDowell. 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 and for ensuring that there is a formal, rigorous and transparent procedure for the appointment of all new Directors to the Board. During the year the Nominations Committee kept under review the leadership and governance needs of the organisation, both Executive and Non-executive. This was done with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace, giving full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills, experience, independence, knowledge and diversity needed on the Board in the future.

During 2018 the activities of the Committee focused on ensuring the composition of the Board remained effective.

## **Remuneration Committee Report**

The Remuneration Committee comprises the Non-executive Directors and was chaired by John Grant throughout 2018. Roger McDowell replaced John as Chairman in December 2018. The principal objective of the Committee is to attract, retain and motivate talented people with a competitive package of incentives and awards linked to Group performance and aligned with Shareholders' interests.

The Committee met on three occasions during 2018, with business including reviews of the remuneration for Executive Directors, decisions relating to bonus awards and attainment, Long Term Incentive Plans awards and attainment and the award of a new cash Long Term Incentive Plan. The Directors' Remuneration Report includes the outcome of these considerations.

The Committee uses the services of independent external advisers as required. During 2018 the Remuneration Committee received advice on the new Cash Long Term Incentive Plan (referenced below) from Walker Morris LLP. It also received advice on the vesting of the 2016 and 2017 LTIPs from Deloitte LLP.

# Directors' Remuneration Report

## Non-executive Directors

Remuneration of the Non-executive Directors, including base fees and fees for acting as chair of a relevant committee, is determined by the Board as a whole.

## Executive Directors

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.

In 2018, a 3.0% salary increase was awarded to Mark Fryer and Jim Meredith.

### (ii) Performance related bonus

The Executive Directors participate in a bonus scheme based on the achievement of annual profit targets approved by the Remuneration Committee, as well as minimum targets in respect of safety and regulatory compliance. For 2018, these targets were achieved.

### (iii) Other benefits

Benefits provided to Directors can include a car allowance, life assurance, private medical insurance, permanent disability insurance, personal accident insurance and pension contributions.

### (iv) New Cash Long Term Incentive Plan

The Executive Directors, along with the Group's senior management team, were awarded a new cash settled LTIP scheme (the 'Plan') during the year. The Plan is designed to align Shareholders and management to optimise the performance of the Company for the benefit of all Shareholders, with the management team sharing in the incremental value generated. The performance target for the Plan is therefore based on the Company's share price on the cessation of the Plan in five years, or on a sale of the Company should this occur earlier.

The Plan will be funded through the incremental value generated by the management team, from a base of 35p (being the average share price for April 2018). Under the Plan, up to a maximum of 13% of this incremental value will be capable of being paid out, with the total amount payable subject to an appropriate cap. The maximum value payable to all participants under the Plan, in the event the performance criteria are met in full, would be £7.0 million, of which £3.1 million would be attributable to Jim Meredith and £1.0 million would be attributable to Mark Fryer.

### (v) 2016 LTIP Scheme

For the third performance period of the 2016 LTIP Scheme (announced in the Annual Report and Accounts for 2016) 100% attainment was achieved. As previously announced, 13.2% attainment was achieved for the first performance period and 0% for the second performance period of this Scheme.

### (vi) 2017 LTIP Scheme

For the second performance period of the 2017 LTIP Scheme (announced in the Annual Report and Accounts for 2017) 100% attainment was achieved. As previously announced, 0% attainment was achieved for the first performance period of this Scheme.

### (vii) Share options

Under the share options scheme the Remuneration Committee may annually grant options of up to 100% of basic salary, allowing participants to purchase shares in the Company at a future date. These options may be subject to the attainment of pre-determined performance conditions but this is not an absolute requirement. No awards were made during 2018.

### (viii) Service contracts

Executive Directors have rolling service contracts with notice periods of not more than 12 months.

## Directors' interests

The beneficial, family and contingent interests of the Directors in the share capital of the Company are shown in the table below.

At 31 December 2018	Beneficial shares Number	LTIP Number	Total shares Number
Christopher Mills*	26,068,499	–	26,068,499
Roger McDowell	4,000,000	–	4,000,000
Jim Meredith	2,500,000	–	2,500,000
Mark Fryer	–	203,908	203,908
John Grant	100,000	–	100,000
Andrew Bryce	11,419	–	11,419
Rod Holdsworth	–	–	–

\*Christopher Mills is a partner and Chief Investment Officer of Harwood Capital LLP and these shares are held in or managed by Harwood Capital LLP (shares held through Harwood Capital LLP, Oryx International Growth Fund Limited and North Atlantic Smaller Companies Investment Trust).

# Directors' Remuneration Report

## Directors' emoluments

The emoluments of the Directors during 2018 were as follows:

	2018 Basic fee/ salary £'000	2018 Bonus £'000	2018 Other emoluments £'000	2018 Total £'000	2017 Total £'000
Mark Fryer	200	141	13	354	210
Jim Meredith	153	118	–	271	80
Andrew Bryce	34	–	–	34	31
John Grant	34	–	–	34	33
Rod Holdsworth	34	–	–	34	33
Christopher Mills	31	–	–	31	6
Roger McDowell	34	–	–	34	6
Stewart Davies	–	–	–	–	312
	520	259	13	792	711

Fees for Andrew Bryce, John Grant, Rod Holdsworth and Roger McDowell include £3,000 per annum for acting as Chairman of various Board committees.

Other emoluments for Mark Fryer includes a car allowance and medical insurance.

During the Year, Stewart Davies, a former Director of the Company, was paid £147,000. This was fully provided for in 2017 and had no P&L impact in 2018.

Nil Directors (2017: nil) are members of a pension scheme and £nil (2017: £nil) contributions were paid by the Company to a pension scheme. Equivalent sums to the pension contribution that Mark Fryer was entitled to were paid as additional salary in 2018.

## Directors' share plans

	Award date	Earliest vesting date	Market price at award date	Number of shares 2017	Granted in year	Lapsed in year	Number of shares 2018
<b>2017 LTIP</b>							
Mark Fryer	31/10/2016	24/03/2019	51.75p	203,908	–	–	203,908

Options outstanding under the Share Option Scheme are exercisable, once the vesting date is reached and assuming the vesting criteria are achieved. The option price is 10p per share.


There are no options held by Executive Directors of Augean plc in the extant Share Option Scheme. There are a further 257,703 options held by other participants in the Share Option Scheme, none of whom are directors of Augean plc.

Other than options held by Executive Directors of Augean plc, set out in the table above, there are a further 948,497 exercisable options held by other participants in the 2014 LTIP, none of whom are directors of Augean plc.

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 2018 was 73.5p. The range of the share price during the year was 25.0p to 73.5p.

On behalf of the Remuneration Committee



### John Grant

Chairman of the Remuneration Committee during 2018

25 February 2019

# Independent Auditor's Report

to the members of Augean PLC

## Opinion

We have audited the financial statements of Augean plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the Group Statement of Comprehensive Income, Group and Company Statements of Financial Position, Group Statement of Cash Flow, Group and Company Statements of Changes in Equity, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

# Independent Auditor's Report

to the members of Augean PLC

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter in the audit of the Group

### How our audit addressed the key audit matter

#### Revenue recognition

The Group's revenue recognition policy is set out in note 1 to these financial statements.

In common with other entities there is a significant risk of fraud in relation to revenue recognition.

We have considered the application of the Group revenue recognition policies and determined that, given the volume of transactions, the significant risk in the period is that of potential cut-off and accuracy error.

Waste treatment and disposal revenues, which account for the majority of Group revenue, are recognised upon acceptance of waste deposits into landfill or treatment sites.

These are high volume transactions but with relatively low individual value, hence a significant amount of audit resource was utilised on this area.

We have reviewed the revenue recognition accounting policy to ensure this has been applied consistently and is in line with applicable accounting standards.

To provide assurance over the high volume of transactions we utilised data analytics procedures in this area, supplemented by certain substantive procedures.

IT audit specialists obtained data extractions from both the weighbridge management system, which records individual transactions at the point of waste acceptance, and the accounting system. We then reconciled individual weighbridge transactions to revenue lines in the general ledger.

This provided reasonable assurance for the whole accounting period over the cut-off and treatment of waste revenues recorded in the financial statements, as well as accuracy over the recording of transactions between the two systems.

To further verify existence of the transactions extracted from the weighbridge management system we reconciled the total revenue identified through data analytic procedures to cash receipts into the Group through the sales ledger. We also performed substantive procedures to confirm that there were no material journal postings to revenue or other anomalous transactions.

## Key audit matter in the audit of the Group

### Landfill tax assessment

The Group has received notice of assessment for landfill tax from HMRC during the year in respect of Augean North Limited and Augean South Limited, resulting in a potential liability to the Group of up to £30.0m before interest and penalties.

Management has taken appropriate legal advice on the matter and consequently appealed the assessment; however, there remains a significant degree of judgement in the outcome and therefore associated accounting treatment.

In accordance with IAS 37, *Provisions, contingent liabilities and contingent assets*, a provision is recognised only where it is probable that an outflow of economic resources will result from settlement of the matter, and that outflow can be reliably measured.

The scale of the assessment is such that there is a potential for some degree of economic outflow; however, the Board considers that it is not possible to estimate a reliable measure at this stage given the level of uncertainty involved and range of potential outcomes.

The Board therefore considers this to be a contingent liability at the year end based on the strength of legal opinion received, as the likelihood of defending the case successfully is considered to be probable.

A contingent liability disclosure has been included in note 25 to the financial statements, and identified as a significant judgement and key source of estimation uncertainty in the accounting policies.

As the assessment contains multiple components requiring different landfill tax treatments, there is inherent complexity in the conclusion being drawn, hence we identified this area as a key audit matter.

## How our audit addressed the key audit matter

We reviewed the correspondence between the Group and HMRC, as well as the professional advice obtained by management from an independent legal adviser and specialist in landfill tax.

In assessing this we challenged the conclusions made in the Board's paper on the matter, and in particular the conclusions drawn in the context of IAS 37 between recognition of a provision and disclosure of a contingent liability.

We consider the assessment to be at a relatively early stage, with tribunal not expected until mid-2020, such that when considering alongside the legal advice, there is sufficient evidence at the balance sheet date to conclude that it is probable that the Group will be able to defend the case.

Furthermore, the complexity of the assessment and range of waste types involved means that, even if some level of settlement was agreed between parties in the future, a reliable measure for provision purposes could not be made at the current financial year end.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning purposes, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We have set materiality for Augean PLC based upon profit before tax. We have used 5% of Group profit before tax which is a judgement determined by the size, nature and audit risk within the Group, and considering the market and shareholder interest. The application of this materiality basis gives a Group materiality of £530,000. The parent Company materiality level for Augean PLC is £175,000, which was based upon 0.5% of assets.

Component materiality levels for the subsidiary undertakings have been calculated and apportioned on the same basis as, but not exceeding an aggregated measure of 2.5 times, the Group materiality. The materiality levels applied to individual components ranged from £20,000 to £274,000.

# Independent Auditor's Report

to the members of Augean PLC

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at 65% of the above materiality. This has been assessed on criteria such as complexity, the assessed control environment of the Group and the fact that we have not audited the Group before and therefore do not have a track record for identified misstatements or errors.

We agreed with the Audit Committee that we would report to those charged with governance all individual audit differences in excess of £10,600 (being 2% of materiality above). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

We assessed and concluded on the scope of the Group audit by obtaining an understanding of the Group structure and the nature and size of each entity within. We considered the Group's system of internal control, and assessed the risks of material misstatement in the financial statements at the Group level.

Financial information relating to the Parent Company and all six significant components within the Group were subject to a full scope audit by the Group audit team.

Those entities disposed of during the financial year have been reviewed at a desktop level to Group materiality for the period of trade included within the consolidation.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.



### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Use of our report**

This report is made solely to the parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent 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 parent Company and the parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Mark Langford**  
**(Senior Statutory Auditor)**

For and on behalf of BDO LLP,  
Statutory Auditor  
Leeds  
25 February 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Revenue</b>		<b>79,749</b>	67,036
Operating expenses		<b>(67,563)</b>	(59,416)
<b>Adjusted Operating profit</b>	3	<b>12,186</b>	7,620
Share based payments		<b>(523)</b>	(194)
Exceptional items	3	<b>(322)</b>	(2,021)
<b>Operating profit</b>	3	<b>11,341</b>	5,405
Net finance charges	4	<b>(748)</b>	(850)
<b>Profit before tax</b>		<b>10,593</b>	4,555
Taxation	6	<b>(2,043)</b>	(563)
<b>Profit from continuing operations</b>		<b>8,550</b>	3,992
<i>Discontinued operations</i>			
Profit / (loss) from discontinued operations	27	<b>1,389</b>	(7,486)
<b>Profit / (loss) for the year and total comprehensive income attributable to equity shareholders of Augean plc</b>	3	<b>9,939</b>	(3,494)
<b>Earnings per share</b>			
Basic	8	<b>9.61p</b>	(3.40)p
Diluted	8	<b>9.55p</b>	(3.40)p
<b>Earnings per share (continuing operations)</b>			
Basic	8	<b>8.27p</b>	3.88p
Diluted	8	<b>8.21p</b>	3.82p

The notes on pages 37 to 71 form an integral part of these financial statements.

The prior year comparative has been restated to include the result for operations which were discontinued in 2018 within the loss from discontinued operations.

# Statements of Financial Position

As at 31 December 2018

	Note	Group		Company	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Non-current assets</b>					
Goodwill	9	19,757	19,757	–	–
Other intangible assets	10	66	323	66	96
Investments in subsidiaries	11	–	–	50,768	57,346
Property, plant and equipment	12	40,373	46,678	1,121	1,272
Deferred tax asset	6	1,781	1,243	–	–
		<b>61,977</b>	<b>68,001</b>	<b>51,955</b>	<b>58,714</b>
<b>Current assets</b>					
Inventories		277	440	–	–
Trade and other receivables	13	18,628	19,570	708	761
Asset held for sale	27	3,304	–	–	–
Cash and cash equivalents		11,162	6,579	3,263	699
		<b>33,371</b>	<b>26,589</b>	<b>3,971</b>	<b>1,460</b>
<b>Current liabilities</b>					
Trade and other payables	14	(21,222)	(18,287)	(23,999)	(8,080)
Current tax liabilities		(1,863)	(652)	–	–
Provisions	16	(500)	(50)	–	–
		<b>(23,585)</b>	<b>(18,989)</b>	<b>(23,999)</b>	<b>(8,080)</b>
<b>Net current assets / (liabilities)</b>		<b>9,786</b>	<b>7,600</b>	<b>(20,028)</b>	<b>(6,620)</b>
<b>Non-current liabilities</b>					
Borrowings	15	(2,922)	(17,378)	(2,922)	(17,378)
Employee benefit liability	19	(351)	–	(351)	–
Provisions	16	(8,190)	(8,118)	–	–
		<b>(11,463)</b>	<b>(25,496)</b>	<b>(3,273)</b>	<b>(17,378)</b>
<b>Net assets</b>		<b>60,300</b>	<b>50,105</b>	<b>28,654</b>	<b>34,716</b>
<b>Shareholders' equity</b>					
Share capital	17	10,379	10,295	10,379	10,295
Share premium account	18	757	757	757	757
Retained earnings	18	49,164	39,053	17,518	23,664
<b>Total equity</b>		<b>60,300</b>	<b>50,105</b>	<b>28,654</b>	<b>34,716</b>

The Company made a loss of £6,318,000 (2017: loss of £3,602,000).

The notes on pages 37 to 71 form an integral part of these financial statements.

The financial statements were approved by the Board on 25 February 2019 and authorised for issue on its behalf by:



**M Fryer**

Group Finance Director

Augean PLC Registered number: 05199719

# Statement of Cash Flow

For the year ended 31 December 2018

	Note	Group	
		2018 £'000	2017 £'000
<b>Operating activities</b>			
Cash generated from operations	21	17,413	10,530
Finance charges paid		(360)	(429)
Tax paid		(1,063)	(650)
<b>Net cash generated from operating activities</b>		<b>15,990</b>	<b>9,451</b>
<b>Investing activities</b>			
Proceeds on disposal of property, plant and equipment		36	62
Purchases of property, plant and equipment		(3,407)	(8,457)
Purchases of intangible assets		(6)	(373)
Sale of business	27	6,176	–
<b>Net cash generated from / (used in) investing activities</b>		<b>2,799</b>	<b>(8,768)</b>
<b>Financing activities</b>			
Dividends paid	7	–	(1,027)
Issue of equity	17	84	28
(Repayment) / drawdown of loan facilities		(14,290)	3,711
Repayments of obligations under finance leases		–	(4)
<b>Net cash (used in) / generated from financing activities</b>		<b>(14,206)</b>	<b>2,708</b>
Net increase in cash and cash equivalents		4,583	3,391
Cash and cash equivalents at beginning of year		6,579	3,188
<b>Cash and cash equivalents at end of year</b>		<b>11,162</b>	<b>6,579</b>

# Statements of Changes in Shareholders' Equity

For the year ended 31 December 2018

Group	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
<b>At 1 January 2017</b>	10,275	748	43,544	54,567
Total comprehensive income for the year				
Retained loss	–	–	(3,494)	(3,494)
Total comprehensive income for the year	–	–	(3,494)	(3,494)
<b>Transactions with the owners of the Company</b>				
Dividend	–	–	(1,027)	(1,027)
Issue of equity	20	9	–	29
Share-based payments	–	–	194	194
Tax relating to transactions with owners of the Company	–	–	(164)	(164)
Total transactions with the owners of the Company	20	9	(997)	(968)
At 31 December 2017	10,295	757	39,053	50,105
Total comprehensive income for the year				
Retained profit	–	–	9,939	9,939
Total comprehensive income for the year	–	–	9,939	9,939
<b>Transactions with the owners of the Company</b>				
Issue of equity	84	–	–	84
Share-based payments	–	–	172	172
Total transactions with the owners of the Company	84	–	172	256
<b>At 31 December 2018</b>	<b>10,379</b>	<b>757</b>	<b>49,164</b>	<b>60,300</b>

# Statements of Changes in Shareholders' Equity

For the year ended 31 December 2018

<b>Company</b>	Share capital £'000	Share premium account £'000	Retained earnings £'000	Shareholders' equity £'000
At 1 January 2017	10,275	748	28,263	39,286
<b>Total comprehensive income for the year</b>				
Retained loss	–	–	(3,602)	(3,602)
Total comprehensive income for the year	–	–	(3,602)	(3,602)
<b>Transactions with the owners of the Company</b>				
Dividend	–	–	(1,027)	(1,027)
Issue of equity	20	9	–	29
Share-based payments	–	–	194	194
Tax relating to transactions with owners of the Company	–	–	(164)	(164)
Total transactions with the owners of the Company	20	9	(997)	(968)
At 1 January 2018	10,295	757	23,664	34,716
<b>Total comprehensive income for the year</b>				
Retained loss	–	–	(6,318)	(6,318)
Total comprehensive income for the year	–	–	(6,318)	(6,318)
<b>Transactions with the owners of the Company</b>				
Issue of equity	84	–	–	84
Share-based payments	–	–	172	172
Total transactions with the owners of the Company	84	–	172	256
<b>At 31 December 2018</b>	<b>10,379</b>	<b>757</b>	<b>17,518</b>	<b>28,654</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1 Accounting policies

### (a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union and those parts of the Companies Act 2006 that remain applicable to companies reporting under IFRS. The Company has elected to prepare its parent Company financial statements in accordance with Financial Reporting Standard 101 (FRS 101). 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 408 of the Companies Act 2006 and has not included its individual statement of comprehensive income in these financial statements. The Company's overall result for the year is given in the statement of changes in shareholders' equity. The company has taken advantage of all available disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include: a statement of cash flows and related disclosures, IAS 24 related party disclosures, capital management disclosures and the effect of future standards not adopted.

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences to the date on which control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### (ii) Business combinations

The acquisition method is used to account for all acquisitions. The cost of an acquisition is measured at the fair values on the acquisition date, which is the date on which control is transferred to the Group. The consideration is calculated as the sum of fair value of assets transferred and liabilities incurred. In assessing control, the Group, takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; less
- the net recognised amount of the identifiable assets acquired, and liabilities assumed, measured at their fair value.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

#### (iii) Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Directors' Report.

### (b) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in accordance with the Group's primary revenue streams as set out below. Revenue is shown net of Value Added Tax and inclusive of landfill tax where appropriate.

#### *Treatment & Disposal and North Sea Services*

Waste revenue is recognised at the point of acceptance of that waste into one of the Group's facilities, being consistent with the point where the Group's responsibility for this waste arises and therefore reflecting fulfilment of the sole performance obligation to the customer.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1 Accounting policies continued

Contracts with customers are typically fixed price based on agreed weights and specifications and invoiced upon acceptance of waste into one of the Group's facilities. Landfill Tax revenue is recognised as revenue at the point of acceptance and an appropriate liability is recognised at the same time with other tax and social security liabilities.

Service revenue is recognised at point of delivery of each separate service or where the right to invoice a customer for that revenue is met. Contract assets and liabilities may arise where there is a short term timing difference between recognition and invoicing.

The Group's standard payment terms are 30 days from the provision of the service. There are no long term contract or financing arrangements in place across the Group.

The Group is assessed operationally and financially under the two primary revenue streams outlined above. The Directors do not therefore consider there to be a lower relevant level of revenue disaggregation than that disclosed in Note 2, Operating Segments. There are no material concentrations of revenue by customer or from countries outside of the United Kingdom.

### (c) Exceptional items

Items that are significant and outside the normal course of business are presented as exceptional items in the statement of comprehensive income. The Directors believe the separate recording of the 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, acquisition costs, compensation for loss of office, impairment of fixed assets 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. On capitalisation the goodwill is allocated to the specific Cash Generating Unit (CGU) to which it relates. It is tested for impairment at least annually by reference to this CGU and is carried at cost less accumulated impairment losses. Any impairment is recognised immediately in profit or loss 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 and on an annual basis going forward.

### (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. This is charged to operating expenses over the asset's 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 to the profit and loss account which are 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 statement of financial position date.

### (f) Investments

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

### (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 capitalised where the cost is directly attributable to the property, plant or equipment being purchased. Freehold land and buildings are recognised at historical cost.

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 profit or loss 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.



## 1 Accounting policies continued

The depreciation charged to profit or loss 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 economic 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.

Freehold land which is not part of a landfill site is not depreciated. Depreciation is provided evenly or on a reducing balance 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
Leasehold land and buildings	– 20 years or length of lease
Plant, machinery and motor vehicles	– two to ten years

Methods of depreciation, residual values and useful lives are reviewed and adjusted, if appropriate, at each statement of financial position 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 profit or loss.

### *Finance leases and hire purchase arrangements*

Where the Group enters into a lease which entails taking on substantially all of 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 profit or loss 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.

The asset and associated liability are recorded in the statement of financial position within property, plant and equipment and financial liabilities respectively 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 profit or loss on a straight-line basis over the lease term.

### *Restoration, capping and after-care provisions*

The anticipated total cost of restoration, capping, post-closure monitoring and after-care is capitalised and charged to profit or loss over the expected useful life of the sites or cells to which the provision relates in proportion to the amount of void consumed at the sites during the period. The costs of restoration and post-closure monitoring are charged against the provision when incurred. The provision has been estimated using current costs and is discounted except for the capping element of the provision which is not discounted due to the near term nature of the expenditure. 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.

### **(h) Impairment of non-current assets**

At each statement of financial position 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 a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or 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.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1 Accounting policies continued

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

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 profit or loss. Any impairments of goodwill cannot be subsequently reversed.

### (i) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### (j) Inventories

Inventories are stated at the lower of cost (measured on a first in, first out basis) and net realisable value and, where appropriate, are stated net of provisions for impairment.

### (k) Tax

#### *Current tax*

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income 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 statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the statement of financial position liability method.

Using the 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 future 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 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 statement of financial position date.

Current and deferred tax are recognised in profit or loss except when they relate to items recognised in other comprehensive income or equity, where they are similarly recognised in other comprehensive income or equity.

### (l) Retirement benefits

Contributions made by the Group to individual money purchase pension schemes are charged to profit or loss during the period to which they relate.

## 1 Accounting policies continued

### (m) Share-based payments

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 based on the number of instruments expected to vest. The fair value of employee services is determined by reference to the fair value of the awarded grant calculated using the Black-Scholes model or Monte Carlo model, excluding the impact of any non-market vesting conditions.

At the statement of financial position 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 on non-market based elements of these incentives, if any, is recognised in profit or loss, with a corresponding adjustment to equity or the statement of financial position, over the remaining vesting period. Management has elected to disclose the share based payment charge separately on the Income Statement to allow users of the accounts to better understand the underlying trading performance of the Group.

### (n) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on revaluation are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

### (o) 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, from the date of acquisition, which are subject to an insignificant risk of change in value.

### (p) Financial instruments

#### (i) Financial assets

Financial assets that are held to collect are categorised as amortised cost under IFRS 9. This includes the Group's trade and other receivables, and cash and cash equivalents. Financial assets are assigned to this category on initial recognition, depending on the characteristics of the instrument and the corresponding business model. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or other comprehensive income.

Augean recognises all financial assets when the Group becomes party to the contractual provisions of the instrument. Financial assets are recognised initially at fair value plus transaction costs, and subsequently at amortised cost using the effective interest method, less any allowance for impairment. Financial assets are reviewed for impairment under the simplified approach to the expected credit loss model under IFRS 9. This is calculated through the use of a provision matrix by considering default rates by receivable age. A historic two year actual impairment loss on receivables, adjusted for management's expectation of future market conditions is utilised within this matrix. The movement in allowances for receivables is charged or credited through the income statement. Discounting of long term receivables is omitted where the effect is immaterial.

#### (ii) Financial liabilities

The Group's financial liabilities include trade payables, debt and finance lease liabilities and are all categorised under amortised cost in accordance with IFRS 9. Trade payables are not interest bearing and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. Debt is initially recognised at fair value less transaction costs and carried at amortised cost. The Group's policy is that no trading in financial instruments or derivatives shall be undertaken; therefore, the fair value through profit and loss classification under IFRS 9 is not used for any financial liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions 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 statement of comprehensive income under 'finance charges'.

#### (iii) Free cash flow

Free cash flow is a non-IFRS measure used by management defined as net operating cash flow less purchase of property, plant and equipment. It is determined as part of the capital management assessment and is reconciled in note 23.

#### (iv) EBITDA

EBITDA is a non-IFRS measure used by management as a tool for approximating operating cash flows. It represents Earnings before Interest, Tax, Depreciation, Amortisation and Impairment. It is determined as part of the cash flow reconciliation shown in note 21.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1 Accounting policies continued

### (q) Equity

Equity comprises share capital, share premium and retained profit and 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 profit and losses represent retained profit and losses and equity-settled share-based payment employee remuneration.

### (r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A contingent liability is disclosed if there is a possible obligation from a past event and the outflow is not probable or unable to be measured.

### (s) 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, the best available information 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 is 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 12 months are set out below.

#### *Impairment of goodwill, other intangible assets, investments and fixed assets (judgement and estimate)*

The Group has property, plant and equipment with a carrying value of £40,373,000 (note 12) and goodwill with a carrying value of £19,757,000 (note 9). These assets are reviewed annually for impairment as described in these financial statements 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 property, plant and equipment, closure of facilities, or lower than anticipated revenues could result in impairment.

#### *Site development and cell engineering/capping (estimate)*

Total anticipated site development and cell engineering/capping costs are charged to profit or loss 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.

See note 16 for further details of calculation methodology, assumptions used and potential sensitivities to these calculations.

#### *After-care costs (estimate)*

Provision is made for after-care costs as soon as the obligation arises and is charged to profit or loss as void usage progresses. After-care 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. See note 16 for further details of calculation methodology, assumptions used and potential sensitivities to these calculations.

## 1 Accounting policies continued

### *Other provisions (estimate)*

Other provisions are made where management judges that a probable future outflow of resources will occur, which can be reliably estimated, arising from a past event. Estimates are based on the work of internal experts and previous operational and commercial experience. See note 16 for further details of calculation methodology, assumptions used and potential sensitivities to these calculations.

### *Income taxes (judgement)*

At 31 December 2017, the net liability relating to current income tax is £1,863,000 (2017: £652,000). A deferred tax asset of £1,781,000 (2017: £1,243,000) 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.

### *Contingent liability (judgement)*

The Group has made no provision (2017: £nil) for assessments relating to unpaid landfill taxes received from HMRC. This is based on the legal and other advice received by the Group over several years. This is detailed further in note 25.

## (t) Format of Consolidated Statement of Comprehensive Income

The format of the Consolidated Statement of Comprehensive Income has been altered in 2018 to separately disclose the share based payment charge, including the re-presentation of the comparatives. This is to provide more relevant information to the users of the statements.

## (u) New IFRS standards and interpretations not applied

The following new standards, amendments to standards and interpretations will be mandatory for the first time in this financial year:

	Issued date	IASB mandatory effective date	EU endorsement status
IFRS 15 Revenue from Contracts with Customers	28 May 14	1 Jan 18	Endorsed
IFRS 9 Financial Instruments	Various	1 Jan 18	Endorsed

The Group has considered the impact of these changes and noted no material impact on previously applied policies. The policies are explained in this note. Revenue disaggregation, as explained previously in this note, is included in note 2.

The Group has applied IFRS 9 for the first time in the current year, in replacement of IAS 39. The Group applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade and other receivables. This resulted in greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions.

In applying IFRS 9 the Group considered the probability of a default occurring over the contractual life of its trade receivables and contract asset balances on initial recognition of those assets. Under the previous incurred loss model, the historical loss rate has typically been between 0% and 1% of the gross carrying amount of receivables over the last two years, and at 31 December 2018 this provision amounted to £159,000, being an increase against the previous methodology of £100,000.

The Group has chosen not to restate comparatives on adoption of IFRS 9 given the immaterial nature of the transitional impacts and, therefore, these changes have been processed in the current year.

The classification of certain financial instruments was also affected on initial application of IFRS 9. Financial assets previously categorised as Loans and receivables under IAS 39 are now classified as Amortised cost; however, the measurement remains consistent subject to the application of the expected credit loss model outlined above. Financial liabilities continue to be recognised and measured under the Amortised cost category. Refer to note 1(p) for further detail.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 1 Accounting policies continued

The following new standards, amendments to standards and interpretations will be mandatory for the first time in future financial years:

	Issued date	IASB mandatory effective date	EU endorsement status
IFRS 16 Leases	13 Jan 16	1 Jan 19	Endorsed
IFRIC 23 Uncertainty over Income Tax Treatments	7 Jun 17	1 Jan 19	Endorsed
Amendments to IFRS 9: Prepayment Features with Negative Compensation	12 Oct 17	1 Jan 19	Endorsed
Amendments to IAS 28: Long term interests in Associates and Joint Ventures	12 Oct 17	1 Jan 19	Expected Q1 2019
Annual Improvements to IFRSs (2015–2017 Cycle)	12 Dec 17	1 Jan 19	Expected Q1 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	7 Feb 18	1 Jan 19	Expected Q1 2019
Amendments to References to the Conceptual Framework in IFRS Standards	7 Feb 19	1 Jan 20	Expected 2019
Amendments to IAS 3 Business Combinations – definition of a business	22 Oct 18	1 Jan 20	Expected 2019
Definition of Material – Amendments to IAS 1 and IAS 8	31 Oct 18	1 Jan 20	Expected 2019

Other than in respect of IFRS 16 Leases, the application of these standards and interpretations is not expected to have a material impact on the Group's reported financial performance or position.

IFRS 16 will come into effect for the Group's 2019 year end. The Group will apply the modified retrospective approach with opening balance adjustments being recognised on 1 January 2019. All operating leases will be brought on balance sheet except those with a lease term of under 12 months or where the underlying asset is of low value. A discount rate of 3% has been applied to the liability, reflecting the Group's incremental cost of borrowing, and no extensions to original lease periods have been assumed.

The contingent rent associated with two property leases within the Group has not been recognised although will continue to be included within the operating lease commitment note as the Group believe that the criteria for paying these amounts will be reached.

An asset of £4,886,000 and a liability of £4,882,000 are expected to be recognised. In 2019 it is expected that lease costs will decrease by £1,393,000, depreciation will increase by £1,292,000 and the interest charge will increase by £130,000.

## 2 Operating segments

The Group has two reportable segments. The two segments are the Group's strategic business units. This is a change from the five segments reported in 2017 and reflects the Group's revised operating structure as it has operationally restructured and disposed of non-core businesses.

These business units are monitored and strategic decisions are made on the basis of each business unit's operating performance. The Group's business units provide different services to their customers and are managed separately as they are subject to different risks and returns. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on these operating business units. For each of the business units, the Group's Executive Chairman (the chief operating decision-maker) reviews internal management reports on at least a monthly basis. The following summary describes the operations of each of the Group's reportable segments:

- Treatment and disposal: Augean provides waste remediation, management, treatment and disposal services through its six sites across the UK.
- North Sea Services: Augean provides waste management and waste processing services to oil and gas operators.

Information regarding the results of each reportable segment is included below. Performance is measured based on the segment operating profit, as included in the internal management reports that are reviewed by the Group's Executive Chairman. This profit measure for each business unit is used to measure performance as management believes that such information is the most relevant in evaluating the results of each of the business units relative to other entities that operate within these sectors.

Materially all activities arise almost exclusively within the United Kingdom. Inter-segment trading is undertaken on normal commercial terms.

The 2017 comparative has been restated due to the change in reportable segments. This note includes information in relation to the disaggregation of revenue as described in note 1.

## 2 Operating segments continued

### Information about reportable segments

	2018			Group £'000
	Treatment & disposal £'000	North Sea Services £'000	Discontinued Operations £'000	
<b>Assets</b>				
Segment assets	66,633	12,366	3,406	82,405
<b>Unallocated segment assets</b>				
Deferred tax asset				1,781
Cash and cash equivalents				11,162
<b>Group total assets</b>				<b>95,348</b>
<b>Liabilities</b>				
Segment liabilities	(20,026)	(8,519)	(1,718)	(30,263)
<b>Unallocated segment liabilities</b>				
Bank overdraft and loans				(2,922)
Current tax liabilities				(1,863)
<b>Group total liabilities</b>				<b>(35,048)</b>
	2017			Group £'000
	Treatment & disposal £'000	North Sea Services £'000	Discontinued Operations £'000	
<b>Assets</b>				
Segment assets	65,049	11,147	10,572	86,768
<b>Unallocated segment assets</b>				
Deferred tax asset				1,243
Cash and cash equivalents				6,579
<b>Group total assets</b>				<b>94,590</b>
<b>Liabilities</b>				
Segment liabilities	(20,272)	(1,872)	(4,311)	(26,455)
<b>Unallocated segment liabilities</b>				
Bank overdraft and loans				(17,378)
Current Tax Liabilities				(652)
<b>Group total liabilities</b>				<b>(44,485)</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

## 2 Operating segments continued

	2018		
	Treatment & disposal £'000	North Sea Services £'000	Group £'000
<b>Revenue</b>			
Incinerator Ash and APCr management	12,461	–	12,461
Other landfill activities	14,301	–	14,301
Waste treatment activities	20,664	–	20,664
Radioactive waste management	3,517	–	3,517
Services to Oil production and exploration customers	–	21,669	21,669
<b>Total revenue net of landfill tax</b>	<b>50,943</b>	<b>21,669</b>	<b>72,612</b>
Landfill tax	10,991	–	10,991
<b>Total revenue including inter-segment sales</b>	<b>61,934</b>	<b>21,669</b>	<b>83,603</b>
Inter-segment sales	(3,853)	(1)	(3,854)
<b>Revenue</b>	<b>58,081</b>	<b>21,668</b>	<b>79,749</b>
<b>Result</b>			
<b>Operating profit before exceptional items</b>	<b>10,410</b>	<b>2,062</b>	<b>12,472</b>
Exceptional items (note 3)	(322)	–	(322)
<b>Operating profit from continuing operations</b>	<b>10,088</b>	<b>2,062</b>	<b>12,150</b>
Net finance charges			(749)
Central costs			(808)
<b>Profit before tax from continuing operations</b>			<b>10,593</b>
Tax (note 6)			(2,043)
<b>Profit after tax from continuing operations</b>			<b>8,550</b>
Profit after tax from discontinued operations (note 27)			1,389
<b>Profit for the year attributable to equity shareholders of Augean PLC</b>			<b>9,939</b>

Central costs relate to the costs of operating as a plc and are not allocated between the business units.



**2 Operating segments** continued

	2017		
	Treatment & disposal £'000	North Sea Services £'000	Group £'000
<b>Revenue</b>			
Incinerator Ash and APCr management	10,821	–	10,821
Other landfill activities	13,050	–	13,050
Waste treatment activities	13,492	–	13,492
Radioactive waste management	3,068	–	3,068
Services to Oil production and exploration customers	–	18,251	18,251
<b>Total revenue net of landfill tax</b>	40,431	18,251	58,682
Landfill tax	10,697	–	10,697
<b>Total revenue including inter-segment sales</b>	51,128	18,251	69,379
Inter-segment sales	(2,341)	(2)	(2,343)
<b>Revenue</b>	48,787	18,249	67,036
<b>Result</b>			
<b>Operating profit before exceptional items from continuing operations</b>	7,736	656	8,392
Exceptional items (note 3)	(1,853)	(168)	(2,021)
<b>Operating profit from continuing operations</b>	5,883	488	6,371
Net finance charges			(850)
Central costs			(966)
<b>Profit before tax from continuing operations</b>			4,555
Tax (note 6)			(563)
<b>Profit after tax from continuing operations</b>			3,992
Loss after tax from discontinued operations (note 27)			(7,486)
<b>Loss for the year attributable to equity shareholders of Augean PLC</b>			(3,494)

Central costs relate to the costs of operating as a plc and are not allocated between the business units.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 3 Operating profit

Total operating profit for the year is arrived at after charging the following.

	2018 £'000	2017 £'000
<b>Fees payable to the Company's auditor for the audit of the annual financial statements</b>	<b>57</b>	74
<b>Fees payable to the Company's auditor for other services:</b>		
– audit of the financial statements of the Company's subsidiaries pursuant to legislation	<b>33</b>	33
– other assurance services	<b>3</b>	5
Total audit fees	<b>93</b>	107
Total non-audit fees	–	5
	<b>93</b>	112
<b>Amortisation of intangible assets</b>	<b>65</b>	447
<b>Depreciation of property, plant and equipment:</b>		
– owned assets	<b>7,032</b>	5,907
– assets held under finance leases and hire purchase contracts	–	31
<b>Operating leases:</b>		
– land and buildings	<b>270</b>	296
– plant and machinery	<b>2,209</b>	1,417
<b>Exceptional items:</b>		
<i>Continuing operations</i>		
Restructuring and similar charges	<b>166</b>	928
Costs associated with Landfill tax dispute	<b>156</b>	1,093
<b>Exceptional charge</b>	<b>322</b>	2,021

## 4 Net finance charges

	2018 £'000	2017 £'000
Interest payable		
Interest and charges payable on bank loans and overdrafts	<b>598</b>	665
Interest on finance leases and hire purchase contracts	–	2
Unwinding of discount on provisions (note 16)	<b>150</b>	183
	<b>748</b>	850

## 5 Group and Company employees

The average monthly number of employees analysed by function was:

	2018 Number	2017 Number
Sales	<b>23</b>	31
Operations	<b>296</b>	349
Administration	<b>66</b>	89
	<b>385</b>	469

**5 Group and Company employees** continued

	2018 £'000	2017 £'000
Wages and salaries	14,342	17,375
Social security costs	1,222	1,639
Other pension costs	483	702
	<b>16,047</b>	19,716

Details of other statutory Directors' remuneration disclosures, as required by the AIM rules, are given in the Directors' remuneration report under Directors' emoluments and Directors' share plans.

The Company employed an average of 244 (2017:341) people in the year. The total employee costs to the Company were £8,946,000 (2017: £12,310,000).

The total remuneration of the Directors of the Company was £792,000 (2017: £711,000). The highest paid Director received total emoluments of £342,000 (2017: total emoluments of £312,000 including £147,000 severance and pension contributions of £15,000).

No Directors exercised share options during the year (2017: none).

The Directors have identified 9 (2017: 16) key management personnel. The total key management personnel compensation, including the Non-executive Directors, presented below, was as follows:

	2018 £'000	2017 £'000
Short term employment benefits	1,523	2,264
Post-employment benefits	18	55
Share-based payments	454	194
	<b>1,995</b>	2,513

**6 Taxation**

Group	2018			2017		
	£'000 Continuing operations	£'000 Discontinued operations	£'000 Total	£'000 Continuing operations	£'000 Discontinued operations	£'000 Total
<b>Current tax</b>						
UK corporation tax on profit / (loss) for the year	2,665	(554)	2,111	775	(38)	737
Adjustments in respect of prior years	(102)	439	337	(100)	–	(100)
	<b>2,563</b>	<b>(115)</b>	<b>2,448</b>	675	(38)	637
<b>Deferred tax</b>						
Charge / (credit) in respect of the current year	(493)	16	(477)	(15)	(106)	(121)
Adjustments in respect of prior years	(27)	(207)	(234)	(97)	(18)	(115)
	<b>(520)</b>	<b>(191)</b>	<b>(711)</b>	(112)	(124)	(236)
<b>Tax charge / (credit) on the result for the year</b>	<b>2,043</b>	<b>(306)</b>	<b>1,737</b>	563	(162)	401

# Notes to the Financial Statements

For the year ended 31 December 2018

## 6 Tax continued

### Tax reconciliation – continuing operations

	2018		2017	
	£'000	%	£'000	%
Profit before tax	<b>10,593</b>		4,555	
Tax at theoretical rate	<b>2,013</b>	<b>19</b>	877	19.25
Effects of:				
– expenses not deductible for tax purposes	<b>158</b>	<b>1</b>	244	5
– change in tax rate	<b>51</b>	<b>0</b>	47	1
– effect of share options	<b>(50)</b>	<b>0</b>	(5)	0
– adjustments in respect of prior years	<b>(129)</b>	<b>(1)</b>	(112)	(2)
<b>Tax charge on results</b>	<b>2,043</b>	<b>19</b>	563	12

The main rate of corporation tax in the UK was 19.00% (2017: 19.25%).

### Deferred tax

All deferred tax assets and liabilities have arisen on the temporary timing differences between the tax base of the assets and their carrying value in the statement of financial position.

IAS 12 (Income Taxes) permits the offsetting of tax assets and liabilities within the same tax jurisdiction and which the Company has the intention to realise and settle simultaneously. All of the deferred tax assets were available for offset against deferred tax liabilities and as such have been presented net in the statement of financial position.

The movement in the net deferred tax asset during the year was as follows:

Group	Goodwill intangible election £'000	Capital allowances £'000	Share options £'000	Acquired intangible asset £'000	Other provisions £'000	Total £'000
<b>At 1 January 2017</b>	299	268	216	(361)	754	1,176
Credited / (charged) to the income statement	(181)	(77)	5	–	23	(230)
Charged to equity	–	–	(164)	–	–	(164)
Impairment of goodwill	–	–	–	361	–	361
Adjustment in respect of prior years	–	168	(8)	–	(60)	100
<b>At 31 December 2017</b>	118	359	49	–	717	1,243
Credited / (charged) to the income statement	3	721	(19)	–	16	721
Adjustment in respect of prior years	–	(183)	–	–	–	(183)
<b>At 31 December 2018</b>	<b>121</b>	<b>897</b>	<b>30</b>	<b>–</b>	<b>733</b>	<b>1,781</b>
Deferred tax assets	121	897	30	–	733	1,781
<b>At 31 December 2018</b>	<b>121</b>	<b>897</b>	<b>30</b>	<b>–</b>	<b>733</b>	<b>1,781</b>

Company	2018 £'000	2017 £'000
At beginning of the year	–	295
(Charged) / credited to the income statement during the year	–	(295)
<b>At end of the year</b>	<b>–</b>	<b>–</b>

The reduction in the main rate of corporation tax to 17% from 1 April 2021 has been substantively enacted at the balance sheet date. Accordingly, deferred tax balances have been valued at the lower rate of 17% in these accounts to the extent that timing differences are expected to reverse after this date. £51,000 (2017: £47,000 charge) relates to changes in tax rates during the year.

## 6 Tax continued

No deferred tax has been recognised during the year in respect of certain temporary differences of £5,383,000 (2017: £3,814,000). In the judgement of management, it is not probable that taxable income will be generated against which those deductions may be recovered. The potential deferred tax assets in respect of those temporary differences arising on an election made in relation to a goodwill balance and to certain long dated general provisions are analysed as follows:

	2018 £'000	2017 £'000
Unrecognised deferred tax asset	915	663

There are no unrecognised deferred tax assets in the Company (2017: nil).

## 7 Dividends

	2018 £'000	2017 £'000
Proposed final dividend for the year ended 31 December 2018 of nil pence per share (2017: nil pence per share)	-	-
Total	-	-

## 8 Earnings per share

The calculation of basic earnings per share (EPS) is based on the profit attributable to ordinary shareholders of £9,761,000 (2017: loss of £3,494,000) and a weighted average number of ordinary shares outstanding of 103,408,043 (2017: 102,808,863), calculated as follows:

	2018 £'000	2017 £'000
<b>Profit / (loss) after tax for the purposes of basic and diluted earnings per share</b>	<b>9,939</b>	(3,494)
Exceptional items net of tax	(3,155)	8,163
<b>Adjusted profit after tax for the purposes of basic and diluted earnings per share</b>	<b>6,784</b>	4,669
Loss after tax from discontinued operations before exceptional items	2,026	956
<b>Adjusted earnings for the purposes of basic and diluted EPS for continuing operations only</b>	<b>8,810</b>	5,625
Loss after tax from continuing exceptional items	(260)	(1,633)
<b>Earnings for the purposes of basic and diluted EPS for continuing operations only</b>	<b>8,550</b>	3,992

Exceptional items above are stated net of a tax charge of £120,000 (2017: £442,000). Loss after tax from discontinued operations is stated net of a tax credit of £487,000 (2017: £109,000). Loss after tax from continuing exceptional items is stated net of a tax credit of £61,000 (2017: £389,000). Pre-tax adjusting items are detailed in notes 3 and 27. The exceptional items have been adjusted, in the adjusted earnings per share, to better reflect the underlying performance of the business, when presenting the basic and diluted earnings per share.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 8 Earnings per share continued

	2018 Number	2017 Number
<b>Number of shares</b>		
Weighted average number of shares for basic earnings per share	<b>103,408,043</b>	102,808,863
Effect of dilutive potential ordinary shares from share options	<b>709,119</b>	1,790,587
Weighted average number of shares for diluted earnings per share	<b>104,117,162</b>	104,599,450
<b>Earnings per share</b>		
Basic	<b>9.61p</b>	(3.40)p
Diluted	<b>9.55p</b>	(3.40)p
<b>Adjusted earnings per share</b>		
Basic	<b>6.56p</b>	4.54p
Diluted	<b>6.52p</b>	4.46p
<b>Adjusted earnings per share – continuing operations</b>		
Basic	<b>8.52p</b>	5.47p
Diluted	<b>8.46p</b>	5.38p
<b>Adjusted earnings per share – discontinued operations</b>		
Basic	<b>(1.96)p</b>	(0.93)p
Diluted	<b>(1.96)p</b>	(0.93)p
<b>Earnings per share – continuing operations</b>		
Basic	<b>8.27p</b>	3.88p
Diluted	<b>8.21p</b>	3.82p

## 9 Goodwill

	£'000
<b>Cost</b>	
At 1 January 2017, 1 January 2018, 31 December 2018	108,163
Acquisition	–
<b>At 1 January 2018</b>	<b>108,163</b>
<b>Accumulated impairment</b>	
At 1 January 2017	(84,166)
Impairment charge	(4,240)
At 1 January 2018 and 31 December 2018	(88,406)
Impairment charge	–
<b>At 31 December 2018</b>	<b>(88,406)</b>
<b>Net book value</b>	
<b>At 31 December 2018</b>	<b>19,757</b>
At 1 January 2018	19,757
At 1 January 2017	23,997

The goodwill arose on the acquisition of subsidiary undertakings and businesses and represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. The goodwill which arose before the date of transition to IFRS has been retained at the previous UK GAAP amounts.

Goodwill has been allocated to the Group's Cash Generating Units (CGUs) which are defined as the Group's reportable segments.

The Group has two CGUs as at 31 December 2018 compared to five CGUs at 31 December 2017.

## 9 Goodwill continued

The allocation of goodwill by CGU is as follows:

	2018 £'000	2017 £'000
Treatment and Disposal	<b>19,757</b>	19,757

The comparative has been restated for the change in reportable segments in the current year. Goodwill is tested for impairment annually at the balance sheet date and as and 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 net book value of the goodwill and other non-current assets for a particular CGU to its value in use estimated on a discounted cash flow basis.

Discounted cash flows have been prepared separately for each CGU tested. The cash flows for all CGUs have been discounted using a pre-tax discount rate representing the Group's Weighted Average Cost of Capital (WACC) of 8.0% (2017: 8.2%), which reflects management's best estimate of the current market's assessment of the time value of money and the business, operational and financial risks specific to the CGUs. The same discount rate has been used for all CGUs as any risks, specific to those CGUs, are reflected in the projected cash flows.

The discount rate has been determined using the Capital Asset Pricing Model.

The key assumptions for the Treatment and Disposal CGU's cash flows are:

- based on approved budgets and plans for 2019 and, beyond this period, have been forecast for a total period of 20 years, being the shortest potential life associated with any of the CGU's operations in their current form;
- revenue growth over the time horizon is expected to achieve 1% per annum;
- 1% increase in maintenance capital expenditure from 2020 onwards; and
- cash operating costs and maintenance capital expenditure are expected to increase by 1% per annum, reflecting the impact of cost inflation offset by effective underlying cost control.

Using the discount rate described above there is no indication of impairment with headroom of £137,860,000 against the CGU Goodwill and asset balance. Sensitivity analysis has been performed over the key assumptions which indicate the following impact, meaning reduction or increase in headroom:

	Sensitivity	Impact in 2018
Discount factor	1%	£13.6m
EBITDA margin	1%	£4.0m
Revenue growth rate	1%	£2.9m

EBITDA means earnings before interest, tax, depreciation and amortisation.

# Notes to the Financial Statements

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## 10 Other intangible assets

	Group			Company
	Computer software £'000	Customer relationships £'000	Total £'000	Computer software and total £'000
<b>Cost</b>				
At 1 January 2017	905	2,262	3,167	861
Additions	373	–	373	13
<b>At 1 January 2018</b>	<b>1,278</b>	<b>2,262</b>	<b>3,540</b>	<b>874</b>
Additions	10	–	10	5
Disposals relating to discontinued operations	(409)	(2,262)	(2,671)	–
<b>At 31 December 2018</b>	<b>879</b>	<b>–</b>	<b>879</b>	<b>879</b>
<b>Amortisation</b>				
At 1 January 2017	770	132	902	726
Charge for the year	185	262	447	52
Impairment loss	–	1,868	1,868	–
<b>At 1 January 2018</b>	<b>955</b>	<b>2,262</b>	<b>3,217</b>	<b>778</b>
Charge for the year	65	–	65	35
Disposals relating to discontinued operations	(207)	(2,262)	(2,469)	–
<b>At 31 December 2018</b>	<b>813</b>	<b>–</b>	<b>813</b>	<b>813</b>
<b>Net book value</b>				
<b>At 31 December 2018</b>	<b>66</b>	<b>–</b>	<b>66</b>	<b>66</b>
At 1 January 2018	323	–	323	96
At 1 January 2017	135	2,130	2,265	135

## 11 Investments in subsidiaries

	£'000
<b>Cost</b>	
At 1 January 2017	147,272
At 1 January 2018	147,272
<b>At 31 December 2018</b>	<b>147,272</b>
<b>Provision for impairment</b>	
At 1 January 2017	(82,676)
Impairment	(7,250)
At 1 January 2018	(89,926)
Impairment	(6,578)
<b>At 31 December 2018</b>	<b>(96,504)</b>
<b>Net book value</b>	
<b>At 31 December 2018</b>	<b>50,768</b>
At 1 January 2018	57,346
At 1 January 2017	64,596



**11 Investments in subsidiaries** continued

The subsidiary companies of the Group are as follows:

Name of company	Country of registration or incorporation	Registered address	Proportion held at balance sheet date %	Nature of business
Augean Treatment Limited	England and Wales	4 Rudgate Court, Wetherby LS23 7BF	100	Waste treatment
Augean North Limited	England and Wales	4 Rudgate Court, Wetherby LS23 7BF	100	Landfill operations
Augean South Limited	England and Wales	4 Rudgate Court, Wetherby LS23 7BF	100	Landfill operations
Augean North Sea Services Limited	Scotland	2 Woodside Road Bridge of Don Industrial Estate, Aberdeen AB23 8EF	100	Waste treatment
Augean Property Limited	England and Wales	4 Rudgate Court, Wetherby LS23 7BF	100	Dormant
Colt Industrial Services Limited	England and Wales	4 Rudgate Court, Wetherby LS23 7BF	100 (indirect)	Industrial Services
RNA Investments Limited	England and Wales	4 Rudgate Court, Wetherby LS23 7BF	100	Dormant
Hitech Equipment Limited	Scotland	36 Clark Street, Paisley, Renfrewshire PA3 1RB	100	Dormant

These companies are owned directly by Augean except where noted. The principal place of business for all companies is the United Kingdom. The only change in 2018 was the sale of Augean Integrated Services Ltd which was previously 100% owned by the Group.

The impairment loss in 2018 relates to the Company's investment in Colt Holdings Limited. The assets and property relating to the Colt business have been sold resulting in a full impairment of the remaining carrying value of the investment. The carrying value of this investment is now £nil. The Impairment loss in 2017 relates to the investment in ASB Environmental Limited and the impairment of the Company's investment in Colt Holdings Limited.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 12 Property, plant and equipment Group

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Engineered cells £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>					
<b>At 1 January 2017</b>	46,560	1,448	12,598	32,847	93,453
Additions	1,159	8	2,374	5,237	8,778
Release of provisions	–	–	(379)	–	(379)
Disposals	–	–	–	(180)	(180)
<b>At 1 January 2018</b>	47,719	1,456	14,593	37,904	101,672
Additions	351	50	1,688	1,759	3,858
Reclassification as held for sale	–	–	–	(714)	(714)
Disposals	(1,211)	–	–	(7,011)	(8,222)
<b>At 31 December 2018</b>	<b>46,859</b>	<b>1,506</b>	<b>16,281</b>	<b>31,948</b>	<b>96,584</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2017</b>	12,820	327	11,999	23,832	48,978
Charge for year	615	104	1,691	3,528	5,938
Impairment loss (note 9)	–	–	–	200	200
Disposals	–	–	–	(122)	(122)
<b>At 1 January 2018</b>	13,435	431	13,690	27,438	54,994
Charge for year	1,877	112	2,174	2,870	7,033
Reclassifications	408	–	–	(619)	(211)
Disposals	(43)	–	–	(5,562)	(5,605)
<b>At 31 December 2018</b>	<b>15,677</b>	<b>543</b>	<b>15,864</b>	<b>24,127</b>	<b>56,211</b>
<b>Net book value</b>					
<b>At 31 December 2018</b>	<b>31,182</b>	<b>963</b>	<b>417</b>	<b>7,811</b>	<b>40,373</b>
At 1 January 2018	34,284	1,025	903	10,466	46,678
At 1 January 2017	33,740	1,121	599	9,015	44,475

There were outstanding contractual commitments for acquisitions of property, plant or equipment of £309,000 at 31 December 2018 (2017: £1,105,000). Plant and machinery includes assets held under finance lease agreements with a carrying value at 31 December 2018 of £Nil (2017: £Nil). Materially all of the disposals in the period related to the trade and asset sales relating to the Group's discontinued operation.

Certain assets are pledged as security for loans as disclosed in note 15.

## 12 Property, plant and equipment continued

### Company

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>			
<b>At 1 January 2017</b>	778	1,681	2,459
Additions	64	109	173
<b>At 1 January 2018</b>	842	1,790	2,632
Additions	98	–	98
Disposals	(12)	(62)	(74)
<b>At 31 December 2018</b>	<b>928</b>	<b>1,728</b>	<b>2,656</b>
<b>Accumulated depreciation</b>			
<b>At 1 January 2017</b>	143	1,056	1,199
Charge for year	8	153	161
At 1 January 2018	151	1,209	1,360
Charge for year	8	193	201
Disposals	–	(26)	(26)
<b>At 31 December 2018</b>	<b>159</b>	<b>1,376</b>	<b>1,535</b>
<b>Net book value</b>			
<b>At 31 December 2018</b>	<b>769</b>	<b>352</b>	<b>1,121</b>
At 1 January 2018	691	581	1,272
At 1 January 2017	635	625	1,260

## 13 Trade and other receivables

### Current assets

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Trade receivables	14,515	15,561	–	–
Prepayments and other debtors	1,661	2,738	708	761
Contract assets	2,452	1,271	–	–
	<b>18,628</b>	19,570	<b>708</b>	761

All amounts are anticipated to be recoverable in the short term. The carrying amount of trade receivables is considered a reasonable approximation of fair value.

All contract assets are invoiced within 12 months. The movement in the asset between years is due to the invoicing of all prior year assets and the accrual of amounts relating to the current year.

## 14 Trade and other payables

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Current</b>				
Trade payables	4,102	6,332	333	516
Amounts due to subsidiary undertakings	–	–	22,373	6,704
Other taxes and social security	5,299	5,575	–	362
Accruals	11,821	6,380	1,293	498
	<b>21,222</b>	18,287	<b>23,999</b>	8,080

All amounts are anticipated to be payable in the short term. The carrying values are considered to be a reasonable approximation of fair value.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 15 Borrowings

This note provides information about the Group's and Company's interest bearing borrowings which are carried at amortised cost.

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
<b>Current</b>				
Bank overdraft	–	–	–	–
Bank loans	–	–	–	–
Obligations under finance leases and hire purchase contracts	–	–	–	–
	–	–	–	–
<b>Non-current</b>				
Bank loans	2,922	17,378	2,922	17,378
Obligations under finance leases and hire purchase contracts	–	–	–	–
	2,922	17,378	2,922	17,378
<b>Analysis of total borrowings</b>				
Bank overdraft	–	–	–	–
Bank loans	2,922	17,378	2,922	17,378
Obligations under finance leases and hire purchase contracts	–	–	–	–
	2,922	17,378	2,922	17,378
Total borrowings are repayable as follows:				
– on demand or within one year	–	–	–	–
– in the second year	2,922	–	2,922	–
– in the third to fifth years inclusive	–	17,378	–	17,378
	2,922	17,378	2,922	17,378

The bank overdraft, bank loan and guarantees are secured by way of a first legal charge over certain freehold properties, debentures, cross guarantees and indemnities across the Group.

During the year the Group, following on from the HMRC dispute regarding landfill tax, breached its loan agreement with HSBC Bank plc in respect of the taxation clause of the bank credit facility which requires tax disputes to be less than £0.1m. HSBC has, at 31 December 2018 and through to the facility expiry, waived this breach.

For more information about the Group's exposure to interest rate, credit risk and liquidity risk, see note 23.

## 16 Provisions

	Group			
	Restoration and after-care costs of landfill sites £'000	Capping provision £'000	Other provisions £'000	Total £'000
<b>At 1 January 2017</b>	3,208	4,236	76	7,520
<b>Charged to profit or loss during the year</b>				
– unwinding of discount	183	–	–	183
– provision in the year	387	142	–	529
Utilised during the year	(64)	–	–	(64)
<b>At 1 January 2018</b>	3,714	4,378	76	8,168
<b>Charged to profit or loss during the year</b>				
– unwinding of discount	150	–	–	150
– provision in the year	50	395	–	445
Utilised during the year	(73)	–	–	(73)
<b>At 31 December 2018</b>	<b>3,841</b>	<b>4,773</b>	<b>76</b>	<b>8,690</b>

## 16 Provisions continued

The provision for restoration and after-care relates to closure and post-closure costs for all landfill sites, charged over the estimated active life of the sites. The expenditure is incurred partially on completion of the landfill sites (restoration) and in part after the closure of the landfill sites (after-care) over a period up to 60 years from the site closure dates. After-care expenditure relates to items such as monitoring, gas and leachate management and may be influenced by changes in legislation and technology. The provision is based on management's best estimate of the annual costs associated with these activities over the 60 year period, using current costs and discounted using a discount rate of 3%. £50,000 of this provision is expected to be utilised within 12 months of the balance sheet date.

The capping provision reflects the expected costs of capping established and active landfill cells. Capping is required following the end of a cell's useful economic life and the build-up of the provision is based on the rate of use of the available void space within each cell. This provision is not discounted as the costs are expected to be incurred shortly after consumption of the void. £450,000 (2017: £50,000) of this provision is expected to be utilised within 12 months of the balance sheet date.

The other provision relates to a tyre provision which is anticipated to be utilised during future landfill cell construction.

A change of 1% in the discount rate applied to the provision would in a change in the amount provided of £969,000. A reduction in the assumed costs of 1% would result in a change in the amount provided of £35,000.

## 17 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid – 103,786,792 (2017: 102,948,036) shares of 10p	<b>10,379</b>	10,295

During the year, 839,000 shares (2017: 199,653) were issued as a result of the exercise of share options. The total proceeds were £84,000 (2017: £28,000).

## 18 Reserves

	Group		
	Share premium £'000	Retained earnings £'000	Total £'000
At 31 December 2017	757	39,053	39,810
Total comprehensive income for the year	–	9,939	9,939
Share based payments	–	172	172
<b>At 31 December 2018</b>	<b>757</b>	<b>49,164</b>	<b>49,921</b>

	Company		
	Share premium £'000	Retained earnings £'000	Total £'000
At 31 December 2017	757	23,664	24,421
Total comprehensive income for the year	–	(6,318)	(6,318)
Share based payments	–	172	172
<b>At 31 December 2018</b>	<b>757</b>	<b>17,518</b>	<b>18,275</b>

# Notes to the Financial Statements

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## 19 Share-based payments

At 31 December 2018, outstanding awards to subscribe for ordinary shares of 10p each in the Company, granted in accordance with the rules of the Augean share option schemes and the Augean LTIP, were as follows:

Exercise date	Exercise price	At 1 January 2018	Granted	Exercised	Lapsed	At 31 December 2018
<b>Augean Share Option Schemes</b>						
December 2013 – December 2019	39.5p	202,531	–	–	–	202,531
May 2011 – May 2021	29p	55,172	–	–	–	55,172
		257,703	–	–	–	257,703
<b>Augean LTIP Scheme</b>						
April 2020 – September 2027	10p	678,929	–	–	(202,242)	476,687
April 2019 – September 2026	10p	298,082	–	–	(191,582)	106,500
April 2017 – September 2024	10p	1,183,708	–	(837,756)	–	345,952
		2,418,422	–	(837,756)	(393,824)	1,186,842
<b>Weighted average exercise price</b>		<b>12.9p</b>	<b>10p</b>	<b>10p</b>	<b>10p</b>	<b>18.1p</b>
<b>Of which exercisable</b>		<b>1,441,411</b>				<b>948,497</b>
Weighted average exercise price		14.9p				20.1p

Outstanding awards at 31 December 2017 were as follows:

Exercise date	Exercise price	At 1 January 2017	Granted	Exercised	Lapsed	At 31 December 2017
<b>Augean Share Option Schemes</b>						
December 2013 – December 2019	39.5p	202,531	–	–	–	202,531
May 2011 – May 2021	29p	55,172	–	–	–	55,172
August 2016 – August 2023	40.25p	1,000,000	–	–	(1,000,000)	–
		1,257,703	–	–	(1,000,000)	257,703
<b>Augean LTIP Scheme</b>						
April 2020 – September 2027	10p	–	1,580,535	–	(901,606)	678,929
April 2019 – September 2026	10p	1,015,369	–	–	(717,287)	298,082
April 2017 – September 2024	10p	1,932,694	–	(199,653)	(549,333)	1,183,708
		4,205,766	1,580,535	(199,653)	(3,168,226)	2,418,422
<b>Weighted average exercise price</b>		<b>19.2p</b>	<b>10p</b>	<b>10p</b>	<b>19.5p</b>	<b>12.9p</b>
<b>Of which exercisable</b>		<b>1,257,703</b>				<b>1,441,411</b>
Weighted average exercise price		39.6p				14.9p

### LTIP Scheme

In 2018, the Group established a cash settled LTIP which entitled Executive Directors and senior managers in the Company to receive cash awards upon the fulfilment of certain performance criteria. The performance target for the Plan is based on the Company's share price on the cessation of the Plan in five years, or on a sale of the Company should this occur earlier. The maximum value payable to all participants under the Plan, in the event the performance criteria are met in full, would be £7m.

## 19 Share-based payments continued

The fair value of remaining share options has been calculated using the Black–Scholes method for the prior year LTIP and the Monte Carlo model for the cash settled LTIP. The assumptions used in the calculation of the fair value of the share options for which charge has been accrued during the year were:

	2017 LTIP	2016 LTIP	Cash LTIP
Grant or valuation date	<b>28 April 2017</b>	31 October 2016	31 December 2018
	<b>April 2020 –</b>	April 2019 –	
	<b>September 2027</b>	September 2026	
Exercise period			–
Date of vesting	–	–	1 May 23 or earlier
Share price at grant or valuation date	<b>65.0p</b>	52.5p	73.5p
Exercise price	<b>10p</b>	10p	nil
Expected share price volatility	<b>25.03%</b>	21.18%	40.0%
Expected life or term (years)	<b>2.7 years</b>	2.5 years	0.3–4.3 years
Risk-free rate	<b>0.1%</b>	0.3%	0.84%
Expected dividend yield	<b>1.54%</b>	1.24%	0.00%
Fair value per option (pence)	<b>52</b>	27–41	–
Fair value of scheme (£m)	–	–	2.6

Expected volatility was determined by reviewing the historical volatility of the Company's share price over a period commensurate with the expected life of the options.

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.

For options outstanding at 31 December 2018, the weighted average remaining contractual life is 6.2 years (2017: 8.2 years).

The Group recognised a total expense of £523,000 (2017: £194,000) related to equity settled share-based payment transactions, of which £172,000 (2017: £194,000) related to share based LTIP schemes and £351,000 (2017: £nil) related to the cash settled LTIP scheme.

## 20 Operating lease commitments

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

	2018 £'000	2017 £'000
<b>Plant and machinery</b>		
Payments due:		
– within one year	<b>1,343</b>	1,457
– within two to five years	<b>2,120</b>	2,319
– after five years	–	2
	<b>3,463</b>	3,778
<b>Land and buildings</b>		
Payment due:		
– within one year	<b>351</b>	217
– within two to five years	<b>1,276</b>	314
– after five years	<b>1,519</b>	899
	<b>3,146</b>	1,430

The operating lease commitments relating to Land and buildings leases have been discounted at a rate of 3% in both years.

Two Land and Buildings leases include rent contingent on turnover. Management expects these amounts will be payable and they have been included in the above numbers. Plant operating leases typically relate to on site plant or vehicles and generally have a life of three years with option to extend.

# Notes to the Financial Statements

For the year ended 31 December 2018

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

	Group	
	2018 £'000	2017 £'000
Operating profit	11,341	5,405
Operating profit / (loss) from discontinued operations	1,083	(7,648)
Amortisation of intangible assets	58	447
Depreciation	7,032	5,938
Impairment (reversal) / charge	(2,644)	6,307
Earnings before interest, tax, depreciation and amortisation (EBITDA)	16,870	10,449
Share based payments	523	194
Decrease / (increase) in inventories	162	(59)
(Increase) in trade and other receivables	(2,473)	(1,109)
Increase in trade and other payables	4,372	474
(Profit) / loss on disposal of property, plant and equipment	(1,969)	61
(Decrease) / increase in provisions	(72)	520
Cash generated from operations	17,413	10,530
Finance charges paid	(360)	(429)
Tax paid	(1,063)	(650)
<b>Net cash generated from operating activities</b>	<b>15,990</b>	<b>9,451</b>

The above EBITDA and net cash generated from operating activities includes a total net cash outflow of £322,000 relating to exceptional items (2017: outflow of £1,602,000).

## 22 Analysis of changes in net debt

The table below presents the net debt of the Group at the balance sheet date.

	1 January 2018 £'000	Cash flow £'000	Other movement £'000	31 December 2018 £'000
Cash and cash equivalents	6,579	4,583	–	11,162
Bank loans	(17,378)	14,290	166	(2,922)
<b>Net (debt) / cash</b>	<b>(10,799)</b>	<b>18,873</b>	<b>166</b>	<b>8,240</b>

The other movement relates to the amortisation of the fees incurred to set up the bank facility.

## 23 Financial instruments

The financial assets of the Group and Company are categorised as follows:

	Group and total Amortised costs £'000	Company and total Loans and receivables £'000
<b>As at 31 December 2018</b>		
Trade receivables	14,515	–
Contract asset	2,452	–
Cash and cash equivalents	11,162	3,263
	<b>28,129</b>	<b>3,263</b>



**23 Financial instruments** continued

	Group and total Loans and receivables £'000	Company and total Loans and receivables £'000
As at 31 December 2017		
Trade receivables	15,561	–
Contract asset	1,271	–
Cash and cash equivalents	6,579	699
	23,411	699

The financial liabilities of the Group and Company are categorised as follows:

	Group and total Amortised costs £'000	Company and total Financial liabilities at amortised cost £'000
<b>As at 31 December 2018</b>		
Trade payables – current	4,102	333
Accruals	11,821	1,293
Borrowings – non-current	2,922	2,922
Amounts owed to subsidiary undertakings	–	22,373
	18,845	26,921

	Group and total Financial liabilities at amortised cost £'000	Company and total Financial liabilities at amortised cost £'000
As at 31 December 2017		
Trade payables – current	6,332	516
Accruals	6,380	498
Borrowings – non-current	17,378	17,378
Amounts owed to subsidiary undertakings	–	6,704
	30,090	25,096

The Group and Company's financial liabilities have contractual maturities (including interest payments where applicable) which are summarised below. As these amounts are the contractual undiscounted amounts they do not agree with the amounts shown in the balance sheet for financial liabilities.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 23 Financial instruments continued Group

	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Total financial liabilities £'000
<b>As at 31 December 2018</b>			
Trade and other payables – current	15,923	–	15,923
Borrowings – current	–	–	–
Borrowings – non-current	–	2,922	2,922
<b>Total</b>	<b>15,923</b>	<b>2,922</b>	<b>18,845</b>
	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Total financial liabilities £'000
As at 31 December 2017			
Trade and other payables – current	12,712	–	12,712
Borrowings – current	–	–	–
Borrowings – non-current	–	17,378	17,378
<b>Total</b>	<b>12,712</b>	<b>17,378</b>	<b>30,090</b>

The Group's borrowings are under a revolving credit arrangement; therefore, the amount of interest paid is dependent upon the level of drawdown throughout the year. If the balance at 31 December 2018 remained consistent throughout the following 12 month period, the amount of interest payable would be £80,000 (2017: £450,000).

## Company

	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Total financial liabilities £'000
<b>As at 31 December 2018</b>			
Trade and other payables – current	22,769	–	22,769
Borrowings – non-current	–	2,922	2,922
	<b>22,769</b>	<b>2,922</b>	<b>25,691</b>
	Amounts due in less than one year £'000	Amounts due in second to fifth year £'000	Total financial liabilities £'000
As at 31 December 2017			
Trade and other payables – current	7,718	–	7,718
Borrowings – non-current	–	17,378	17,378
	<b>7,718</b>	<b>17,378</b>	<b>25,096</b>

**23 Financial instruments** continued**Financial risk management objectives and policies***Overview*

The Group has exposure to the following risks arising from financial instruments:

- liquidity risk;
- credit risk; and
- interest rate risk.

The majority of the Group's transactions take place in Pounds Sterling, with levels of transactions in Euros and US Dollars not considered significant.

The management of the Group's financial risks and the related objectives and policies are the responsibility of the Executive Directors. The Directors regularly review the Group's financial risk management policies and procedures to ensure that they appropriately reflect the changing nature of the market and business. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group has maintained its policy that no trading in financial instruments shall be undertaken.

The Group's principal financial instruments during the period comprised bank loans & cash and cash equivalents. 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, including contract assets, which arise directly from its operations. There was no material difference between the fair value of the financial assets and financial liabilities and their book value.

*Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group seeks to maintain a balance between continuity of funding and flexibility. The objective is to maintain sufficient resources to meet the Group's funding needs for the foreseeable future.

At 31 December 2018, the Group carried net cash of £8,240,000 (2017: £10,799,000 debt) and short term flexibility is achieved through bank facilities comprising of a £20m revolving credit, accordion and overdraft facility.

*Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group has a robust customer credit policy in place and the exposure to credit risk is monitored on a daily basis. The Group's standard credit terms are 30 days from date of invoice but non-standard terms may be agreed with certain customers. Invoices greater than agreed terms are assessed as overdue. The maximum exposure to credit risk is the carrying value of each financial asset included on the statement of financial position as summarised below:

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Cash and cash equivalents	11,162	6,579	3,263	699
Contract assets	2,452	1,271	–	–
Trade receivables	14,515	15,561	–	–
	<b>28,129</b>	23,411	<b>3,263</b>	699

At 31 December 2018, £5.7m (2017: £7.4m) of the Group's trade receivables were past due. A credit loss provision of £0.2m (2017: £0.8m) is held to mitigate the exposure to potential bad and doubtful debts.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 23 Financial instruments continued

The ageing of the Group's trade receivables is as follows:

	2018 £'000	2017 £'000
Not more than four months past due	5,658	6,311
More than four months past due	84	1,095
Total past due trade receivables	5,742	7,406
Trade receivables not yet past due	8,932	8,953
Total gross trade receivables	14,674	16,359
Expected credit loss	(159)	(798)
<b>Total net trade receivables (note 13)</b>	<b>14,515</b>	<b>15,561</b>

The Group's management considers that all the above financial assets for each of the reporting dates under review are of good quality. The ageing profile above is the profile used by management in reviewing the ledger; however, it is the expected credit loss model which is used to calculate the provision as 31 December 2018.

The Company has no trade receivables (2017: £nil).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts. The expected loss rates are based on the Group's historical credit losses experienced over the two year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

A reconciliation of the movement in the impairment allowance for receivables under the expected credit loss model is shown below.

	£'000
Provision for bad and doubtful debts as at 31 December 2017	798
Amounts released	(699)
Amounts provided	60
<b>Expected credit loss provision as at 31 December 2018</b>	<b>159</b>

The movement in the provision in the year relates to the release of an impairment provision recognised through exceptional costs in the prior year. This provision was released in the year in exceptional costs as the matter was commercially resolved and related primarily to the recovery of a landfill tax related payment from a customer.

### Interest rate risk

The Group finances its operations through a mixture of free cash flow, overdraft facilities, 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 interest risk management has been undertaken. The Group regularly reviews its exposure to fluctuations in underlying interest rates and will take appropriate action if required to minimise any impact on the performance and financial position of the Group.

The interest rate profile of the Group and Company's borrowings at 31 December 2018 was:

	Floating rate £'000
<b>Group</b>	
Bank loans	2,922
Finance leases	–
<b>At 31 December 2018</b>	<b>2,922</b>
At 31 December 2017	17,378
<b>Company</b>	
Bank loans	2,922
Finance leases	–
<b>At 31 December 2018</b>	<b>2,922</b>
At 31 December 2017	17,378

### 23 Financial instruments continued

The Group met its short term working capital requirements during 2018 through an overdraft and revolving loan facility with HSBC Bank plc renewed in March 2016 consisting of an overdraft, revolving credit facility and accordion facility. The £1m overdraft and a £19m revolving credit facility attract an interest charge varying between 1.75% and 2.5% above LIBOR. This facility matures in October 2020. An additional £10m accordion facility is also available to the Group subject to certain conditions set out in the agreement.

Although the Group is currently in credit, it maintains a level of drawn debt to ensure liquidity. A change in interest rate of 0.5% affects the annual interest cost for both the Group and Company by approximately £15,000 (2017: £65,000).

The Group has no hire purchase agreements. The maturity profile of the Group's financial liabilities is shown in note 15.

The Board has determined that the current risk management policies described above continue to be appropriate but that they will be regularly assessed to ensure this remains the case.

#### Capital management policies and procedures

The Group defines the capital that it manages as the Group's share capital, share premium account and financial liabilities, as shown in the table below:

	Note	2018 £'000	2017 £'000
Share capital	17	10,379	10,295
Share premium	18	757	757
Borrowings	15	2,922	17,378
		<b>14,058</b>	28,430

The Group's capital management objectives which have remained unchanged during the year are:

- to ensure the Group's ability to continue as a going concern; and
- to provide a strong financial base to deliver growth and adequate return to Shareholders.

The Group's primary sources of capital are equity (statement of changes in Shareholders' equity) and bank debt (note 15) secured against certain assets. By pricing products and services commensurately with the level of risk and focusing on the effective collection of cash from customers, the Group aims to maximise revenues and operating cash flows. Cash flow is further controlled by ongoing justification, monitoring and reporting of capital investment expenditures and regular monitoring and reporting of operating costs. Working capital fluctuations are managed through employing the overdraft facility available, which at the year-end was £1,000,000 (2017: £1,000,000).

The Group considers that the current capital structure will provide sufficient flexibility to ensure that appropriate investment can be made, if required, to implement and achieve the longer term growth strategy of the Group. The primary source of funding would be achieved through drawing on the loan facility, which has £25.2m of headroom at 31 December 2018 (2017: £8.9m).

Management sets targets against the following measures and monitors the Group's performance against each throughout the year:

- bank facility covenants, which include Net debt to EBITDA and EBIT to net debt costs;
- net debt to equity ratio; and
- free cash flow generated.

The performance against each of these capital measures is shown in the table below:

	2018 Actual	2018 Target	2017 Actual
Net debt to EBITDA*	(0.4)	<2.5	1.0
EBIT* to net bank debt cash costs	20.4	>3.5	9.5
Net debt to equity ('gearing') (%)	–	prior year	20.9%
Free cash flow (£'000s)	12,583	prior year	994

\*From continuing operations and excluding exceptional items.

# Notes to the Financial Statements

For the year ended 31 December 2018

## 23 Financial instruments continued

*The value of net debt and free cash flow is monitored on a daily basis.*

Free cash flow represents net operating cash flows adjusted for capital investment. This is reconciled to the statement of cash flows as follows.

	2018 £'000	2017 £'000
Net operating cash flow (note 21)	15,990	9,451
Purchase of property, plant and equipment	(3,407)	(8,457)
Free cash flow	12,583	994

## 24 Retirement benefit obligations

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £483,000 (2017: £702,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2018, contributions of £nil (2017: £7,000) due in respect of the current reporting period had not been paid over to the schemes.

## 25 Contingent liabilities

In accordance with Environmental 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, guarantees have been provided, by certain subsidiaries of the Company, in favour of the Environment Agency in respect of the Group's landfill sites. Total guarantees outstanding at the year-end were £9.3m (2017: £8.9m). Future site restoration costs for each landfill site have been provided as disclosed in note 16.

From August 2017, the Group has been in discussions with HMRC as to whether it has paid sufficient landfill tax in relation to its treatment and disposal of hazardous waste.

Based on the legal and other advice received by the Group over several years, Augean is confident that the Group has met its obligations in respect of landfill tax, consistent with the law and official guidance at the time.

The Group is in receipt of final assessments in the name of two Group companies for a total of approximately £30.0m before interest and penalties. We will robustly challenge this landfill tax assessment and any other subsequent assessment which may be received from HMRC, through the tax tribunal system.

The Group has been accounting for the legal costs of the dispute with HMRC as an exceptional item but has not made a provision for this assessment based on the strength of independent legal and professional advice received. The estimated cash outflow is £nil.

## 26 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:

There are no related party transactions within the Group which are not eliminated on consolidation.

### *Transactions and balances with subsidiary undertakings – Company*

Included within current trade and other payables (note 14) are amounts payable to 100% subsidiary undertakings of £22.4m (2017: £6.7m payable). These amounts are repayable on demand.

The movement in the Company's balances with its subsidiaries reflects the Group's banking facilities and inter-company arrangements operating during the year.

## 27 Discontinued operations

On 16 March 2018 the Group sold its total waste management business, Augean Integrated Services, for a consideration of £3,998,000.

On 22 June 2018 the Property, Plant and Equipment of the Colt business was disposed of for £928,000 and the freehold land and buildings associated with the Colt business were subsequently sold for £1,250,000 on 21 December 2018. During the year there was a total £6,176,000 cash inflow associated with investing activities (2017: £nil).

A review of the East Kent asset was completed in the year and the Group has decided and announced to the market that the Facility will be mothballed early in the New Year with the Board seeking a buyer. As this asset is available for immediate sale and the plan to mothball has been publicly announced and initiated this asset is classified as 'held for sale' and the associated result is therefore disclosed as discontinued.

The AIS and East Kent businesses were previously included in the Group's AIS business unit. The Colt business was part of the Group's Industry and Infrastructure business unit. Neither of these business units exists under the Group's current operating structure.

The analysis below shows the result from these operations:

	2018			
	AIS £'000	Colt £'000	East Kent £'000	Total £'000
Revenue	2,053	2,592	2,893	7,538
Operating expenses	(1,923)	(4,339)	(3,788)	(10,050)
<b>Profit / (loss) before tax and exceptional items</b>	<b>130</b>	<b>(1,747)</b>	<b>(895)</b>	<b>(2,512)</b>
Exceptional items	728	223	2,644	3,595
<b>Profit / (loss) before tax</b>	<b>858</b>	<b>(1,524)</b>	<b>1,749</b>	<b>1,083</b>
Taxation				306
<b>Loss after tax</b>				<b>1,389</b>

	2017			
	AIS £'000	Colt £'000	East Kent £'000	Total £'000
Revenue	7,687	6,834	3,134	17,655
Operating expenses	(7,931)	(7,546)	(3,242)	(18,719)
<b>Loss before tax and exceptional items</b>	<b>(244)</b>	<b>(712)</b>	<b>(108)</b>	<b>(1,064)</b>
Exceptional items	(313)	(6,271)	–	(6,584)
<b>Loss before tax</b>	<b>(557)</b>	<b>(6,983)</b>	<b>(108)</b>	<b>(7,648)</b>
Taxation				162
<b>Loss after tax</b>				<b>(7,486)</b>

# Notes to the Financial Statements

For the year ended 31 December 2018

## 27 Discontinued operations continued

During the year these businesses contributed a net cash outflow of £665,000 (2017: outflow of £3,473,000) to the Group's net operating cash flow.

The exceptional items in 2018 represent the gain for selling discontinued operations before tax. The gain on selling the AIS business after tax is £550,000. The gain on selling the Colt assets and Freehold property after tax is £180,000. A reversal of impairment of £2,644,000 on the East Kent site assets has also been recognised in exceptional costs. The balance of the asset held for sale relates to amounts reclassified from Property Plant and Equipment, as shown in note 18.

The cash flows associated with these discontinued operations and reconciliation to total exceptional charge can be determined as follows:

	2018 Total £'000
Proceeds	6,176
Net assets disposed of:	
Property, plant and equipment	(2,648)
Intangible assets	(337)
Trade and other receivables	(3,096)
Trade and other payables	1,730
Other	(874)
<b>Gain on disposal before tax</b>	<b>951</b>
Reversal of impairment (non cash)	2,644
<b>Total exceptional income</b>	<b>3,595</b>

Other costs represent cash outflows in relation to the arrangement of the sales of discontinued operations.

The reversal of impairment relates to the incinerator at East Kent which was originally impaired in 2016. Market conditions indicated that the asset's value on the open market is in excess of its current carrying value. Therefore, income at a level equal to the depreciated historical cost of the impaired assets has been recognised in exceptional items and an equivalent asset has been recognised and classified as an asset held for sale.

## 28 Post balance sheet events

On 25 January 2019 the Group sold the land, buildings and plant associated with East Kent High Temperature Incinerator for a total consideration of £3.35m. £2.35m of the consideration is deferred and payable within three months of completion. As noted in note 27, a profit as a result a reversal of impairment of £2.6m was recognised in 2018 as an exceptional credit to the Income Statement.



## 29 Reconciliation of performance metrics

The adjusted metrics referred to in the Operating review are derived as follows.

### Revenue

	2018			2017		
	Revenue (note 2) £'000	Landfill Tax £'000	Adjusted Revenue £'000	Revenue (note 2) £'000	Landfill Tax £'000	Adjusted Revenue £'000
Treatment & disposal segment	58,081	(10,991)	47,090	48,787	(10,697)	38,090
North Sea Services segment	21,668	–	21,668	18,249	–	18,249
<b>Continuing operations</b>	<b>79,749</b>	<b>(10,991)</b>	<b>68,758</b>	67,036	(10,697)	56,339
Discontinued operations	7,062	–	7,062	17,655	–	17,655
<b>Total Group</b>	<b>86,811</b>	<b>(10,991)</b>	<b>75,820</b>	84,691	(10,697)	73,994

### EBIT

	2018			
	Statutory £'000	Share based payments £'000	Exceptional items £'000	Adjusted £'000
Treatment & disposal segment	10,087	523	322	10,932
North Sea Services segment	2,062	–	–	2,062
Central costs	(808)	–	–	(808)
<b>Operating profit from continuing operations</b>	<b>11,341</b>	<b>523</b>	<b>322</b>	<b>12,186</b>
Finance charges	(748)	–	–	(748)
<b>Profit before tax from continuing operations</b>	<b>10,593</b>	<b>523</b>	<b>322</b>	<b>11,438</b>
Taxation	(2,043)	–	–	(2,043)
<b>Profit after tax from continuing operations</b>	<b>8,550</b>	<b>523</b>	<b>322</b>	<b>9,395</b>
Discontinued operations	1,389	–	(3,595)	(2,206)
<b>Total Group Operating profit</b>	<b>9,939</b>	<b>523</b>	<b>(3,273)</b>	<b>7,189</b>

	2017			
	Statutory £'000	Share based payments £'000	Exceptional items £'000	Adjusted £'000
Treatment & disposal segment	5,883	194	1,853	7,930
North Sea Services segment	488	–	168	656
Central costs	(966)	–	–	(966)
<b>Operating profit from continuing operations</b>	<b>5,405</b>	<b>194</b>	<b>2,021</b>	<b>7,620</b>
Finance charges	(850)	–	–	(850)
<b>Profit before tax from continuing operations</b>	<b>4,555</b>	<b>194</b>	<b>2,021</b>	<b>6,770</b>
Taxation	(401)	–	–	(401)
<b>Profit after tax from continuing operations</b>	<b>4,154</b>	<b>194</b>	<b>2,021</b>	<b>6,369</b>
Discontinued operations	(7,648)	–	6,584	(1,064)
<b>Total Group Operating profit</b>	<b>(3,494)</b>	<b>194</b>	<b>8,605</b>	<b>5,305</b>

# Notice of Annual General Meeting

We are pleased to write to you with details of our 2019 Annual General Meeting (AGM) which will be held at 12 noon at 6 Stratton Street, Mayfair, London W1J 8LD on Thursday, 20 June 2019. The formal notice of Annual General Meeting is set out on page 74 to 75 of this document.

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

## **Authority to allot shares (Resolution 6)**

Article 4.6(a) of the Company's Articles of Association contains a general authority for the Directors to allot shares in the Company for a period (not exceeding five years) (the Section 551 prescribed period) and up to a maximum aggregate nominal amount (the Section 551 amount) approved by a special or ordinary resolution of the Company.

The existing authority to allot shares granted at the Company's last annual general meeting is due to expire at the AGM.

Resolution 6, which will be proposed as an ordinary resolution, seeks to renew the allotment authority so that the Section 551 amount shall be £3,459,526 (being an amount equal to one-third of the issued ordinary share capital of the Company at the date of this document) and the Section 551 prescribed period shall be the period from the date Resolution 6 is passed to 30 June 2020 or the conclusion of the Company's next Annual General Meeting, whichever is earlier.

## **Authority to purchase own shares (Resolution 7)**

Article 4.4 of the Company's Articles of Association provides that the Company may, subject to statutory requirements and the resolution of the Company's Shareholders in general meeting, purchase its own shares.

Resolution 7, which will be proposed as a special resolution, seeks to grant the Directors the authority, for the period from the date Resolution 7 is passed to the conclusion of the Company's next Annual General Meeting (unless such authority is revoked or renewed prior to such time), to make market purchases of the Company's own Ordinary shares, up to a maximum amount of 10,378,579 Ordinary shares, being an amount equal to approximately 10% of the issued share capital of the Company (as at the 14 February 2019, being the latest practicable date prior to publication of this document). The maximum price payable for the purchase by the Company of its Ordinary shares will be limited to 5% above the average of the middle market quotations for an Ordinary share in the Company (as derived from The London Stock Exchange's Daily Official List) for the five business days immediately preceding the day on which such share is contracted to be purchased or, in the case of a tender offer, the terms of the tender offer are announced. The minimum price payable by the Company for the purchase of its Ordinary shares will be 10 pence, being the nominal value of an Ordinary share. The Directors consider that it is in the best interests of the Company and its Shareholders to have the ability to make market purchases of the Company's own shares in appropriate

circumstances, without the cost and delay of calling a separate general meeting. The authority will be kept under review and the Directors will only exercise the power of purchase after careful consideration and when the Directors are satisfied that the purchase would be in the best interests of the Company and its Shareholders. The Directors' intention is to use this authority to purchase shares to satisfy the exercise of the share options granted under employee share schemes.

## **Disapplication of pre-emption rights (Resolution 8)**

Article 4.6(b) of the Company's Articles of Association empowers the Directors for a period (not exceeding five years) (the Section 561 prescribed period) to allot shares for cash in connection with a rights issue and also to allot shares in any other circumstances up to a maximum aggregate nominal amount approved by a special resolution of the Company (the Section 561 amount) without having to comply with statutory pre-emption rights.

The existing authority to disapply pre-emption rights granted at the Company's last annual general meeting is due to expire at the AGM.

Resolution 8, which will be proposed as a special resolution and which will only be effective if Resolution 7 is passed, seeks to renew the disapplication authority so that the Section 561 amount shall be £518,929 (representing approximately 5% of the Company's issued share capital at the date of this document) and the Section 561 prescribed period shall be the period from the date Resolution 8 is passed to 30 June 2020 or the conclusion of the Company's next Annual General Meeting, whichever is earlier.

## **Political donations (Resolution 9)**

Although the policy of the Company is not to make political donations or to incur political expenditure as those expressions are normally understood, the definitions of political donations, political organisations and political expenditure used in the Companies Act 2006 are very wide. Shareholder approval is therefore being sought on a precautionary basis only, to allow the Company (and any companies that are subsidiaries of the Company at any time during the period for which Resolution 9 has effect) to continue to support the community and participate in public debate on matters which affect its business without running the risk of inadvertently breaching the legislation. The authority sought will permit the Company and its subsidiaries to make donations to political parties and independent election candidates not exceeding £50,000 in aggregate, to make donations to political organisations other than political parties not exceeding £50,000 in aggregate, and to incur political expenditure not exceeding £50,000 in aggregate.

**Action to be taken by Shareholders**

Whether or not you intend to be present at the AGM you are requested to complete and submit a proxy appointment in accordance with the notes to the Notice of AGM set out on page 75. To be valid, the proxy appointment must be received at the address for delivery specified in the notes by no later than 12 noon on Tuesday, 18 June 2019. The completion and return of a proxy appointment form will not preclude you from attending and voting at the meeting, should you so wish. A hard copy proxy appointment form is enclosed for your use.

**Recommendation**

The Directors consider that the proposals set out above 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 other than in respect of those resolutions in which they are interested.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2019 Annual General Meeting of Augean plc (the 'Company') will be held at 12 noon at 6 Stratton Street, Mayfair, London W1J 8LD on Thursday, 20 June 2019 for the purpose of considering and, if thought fit, passing the resolutions set out below. Resolutions 7 and 8 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

1. THAT the reports of the Directors and the auditor and the audited financial statements for the year ended 31 December 2018 be received.
2. THAT Jim Meredith be re-elected as a Director of the Company.
3. THAT Mark Fryer be re-elected as a Director of the Company.
4. THAT BDO UK LLP be appointed auditor of the Company, to hold office until the next meeting at which accounts are laid before the Company.
5. THAT the Directors be authorised to determine the auditor's remuneration.
6. THAT the authority to allot shares and grant rights to subscribe for or to convert any security into shares, conferred on the Directors by Article 4.6(a) of the Company's articles of association, be granted for the period commencing on the date of the passing of this resolution and expiring on 30 June 2020 or at the conclusion of the Company's next Annual General Meeting (whichever is the earlier) and for that period the Section 551 amount is £3,459,526.
7. THAT the Company be generally and unconditionally authorised, pursuant to section 701 of the Companies Act 2006, to make market purchases (within the meaning of s693 of that Act) of Ordinary shares of 10p each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine, provided that:
  - (a) the maximum number of Ordinary shares hereby authorised to be acquired is 10,378,579;
  - (b) the minimum price (excluding expenses) which may be paid for any such Ordinary share is its nominal value of 10p;
  - (c) the maximum price (excluding expenses) which may be paid for any such Ordinary share is an amount equal to 105% of the average of the middle market quotations for an Ordinary share in the Company (as derived from The London Stock Exchange's Daily Official List) for the five business days immediately preceding the day on which such share is contracted to be purchased or, in the case of a tender offer, the terms of the tender offer are announced;
  - (d) the authority hereby conferred shall expire at the end of the next Annual General Meeting of the Company after the passing of this resolution unless previously renewed, varied or revoked by the Company in general meeting; and
  - (e) the Company may make a contract to purchase its Ordinary shares under the authority hereby conferred prior to the expiry of such authority, which contract will or may be executed wholly or partly after the expiry of such authority, and which contract will or may require a purchase of its Ordinary shares in pursuance of any such authority to be completed after such expiry.
8. THAT, subject to the passing of resolution 6, the power to allot equity securities as if s561(1) of the Companies Act 2006 did not apply to any such allotment conferred on the Directors by Article 4.6(b) of the Company's articles of association be granted for the period commencing on the date of the passing of this resolution and expiring on 30 June 2020 or at the conclusion of the Company's next Annual General Meeting (whichever is the earlier) and for that period the Section 561 amount is £518,929.
9. That the Company and all companies that are its subsidiaries at any time during the period for which this resolution is effective are hereby authorised to:
  - (a) make political donations to political parties and/or to independent election candidates, not exceeding £50,000 in aggregate;
  - (b) make political donations to political organisations other than political parties, not exceeding £50,000 in aggregate; and
  - (c) incur political expenditure, not exceeding £50,000 in aggregate, in each case, during the period ending on the date of the Company's next Annual General Meeting. The aggregate amount of political donations and political expenditure made or incurred under this authority shall not exceed £150,000.

For the purposes of this resolution, the terms 'political donations', 'political parties', 'independent election candidates', 'political organisation' and 'political expenditure' have the meanings set out in sections 363 to 365 of the Act.

By order of the Board



**Angela McGhin**  
Company Secretary  
25 February 2019  
Registered Office  
4 Rudgate Court  
Walton  
Near Wetherby  
West Yorkshire  
LS23 7BF

**NOTES:**

- (a) 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 6pm on Tuesday, 18 June 2019 (the 'Specified Time') will be entitled to attend and 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 and vote at the AGM.
- (b) Any member may appoint a proxy to attend, speak and vote on his/her 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. Completion of a proxy appointment form does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.
- (c) Hard copy appointment of proxies: A hard copy proxy appointment form is enclosed for use at the AGM. To be valid, it must be completed in accordance with the instructions that accompany it and delivered, together with any authority under which it is executed or a copy of the authority certified notarially, by post or (during normal business hours only) by hand to Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY so as to be received no later than 12 noon on Tuesday, 18 June 2019.
- To appoint more than one proxy you may photocopy the hard copy proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
- (d) Electronic appointment of proxies: As an alternative to completing the hard-copy proxy form, you can appoint a proxy electronically by going to [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). You will be asked to enter the Control Number, the Shareholder Reference Number and PIN, all found on the front sheet of your hard copy proxy form. For an electronic proxy appointment to be valid, your electronic message confirming the details of the appointment in accordance with the relevant instructions must be transmitted so as to be received by Computershare Investor Services plc no later than 12 noon on Tuesday, 18 June 2019.
- (e) Appointment of proxies through CREST: CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) of it by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EUI>). 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 made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ('EUI') specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Computershare Investor Services plc as the issuer's agent (ID Reference: 3RA50) by 12 noon on Tuesday, 18 June 2019. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI 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 providers 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) Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. Any such representative should bring to the meeting written evidence of his appointment, such as a certified copy of a Board resolution of, or a letter from, the corporation concerned confirming the appointment.
- (g) Website giving information regarding the AGM is available from [www.augeanplc.com](http://www.augeanplc.com). A member may not use any electronic address provided by the Company in this document or with any Proxy Form or in any website for communicating with the Company for any purpose in relation to the AGM other than as expressly stated in it.

# Advisers and Company Information

## Secretary

A McGhin

## Registered office

4 Rudgegate Court  
Walton  
Wetherby  
West Yorkshire  
LS23 7BF

## Registered number

05199719  
(incorporated and registered in England and Wales)

## Website

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

## Broker and nominated adviser

N+1 Singer Capital Markets  
One Bartholomew Lane  
London  
EC2N 2AX

## Auditor

BDO UK LLP  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

## Bankers

HSBC Bank PLC  
City Point  
29 King Street  
Leeds  
LS1 2HL

## Legal

Womble Bond Dickinson  
St Anns Wharf  
112 Quayside  
Newcastle upon Tyne  
NE1 3DX

## Registrars

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol  
BS13 8AE



**Augean PLC**

4 Rudgate Court  
Walton  
Wetherby  
West Yorkshire  
LS23 7BF  
Tel: 01937 844980  
[www.augeanplc.com](http://www.augeanplc.com)  
[contact@augeanplc.com](mailto:contact@augeanplc.com)

**Contacting Augean**

To find out about how Augean can help your business call us on 01937 844980 or email us at [contact@augeanplc.com](mailto:contact@augeanplc.com) to arrange for a sales adviser to call you.

