Interim Report 2010

Augean PLC
specialists in waste management

AUGEAN PLC

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

ABOUT US

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

HIGHLIGHTS

FINANCIAL

- Revenue including landfill tax of £16.3m (2009: £16.8m)
- Revenue excluding landfill tax of £13.8m (2009: £15.0m)
- Underlying operating profit at breakeven (2009: £1.5m)
- Underlying loss before tax of £0.3m (2009: profit of £1.0m)
    - Operating loss impacted by severe weather; loss for January and February £0.5m
    - 2009 operating profit included one-off items
- Adjusted loss per share of 0.3p (2009: earnings of 1.5p)
- Cash flow from operations of £2.6m (2009: £3.0m)
- Net debt of £4.9m (2009: £18.0m)
- Landfill tax rebate remains on balance sheet

OPERATIONAL

- Results in line with the board's expectations
- January and February trading hampered by extreme weather conditions
- Encouraging signs of business recovery from Q2 continuing into H2
- Landfill volumes on an improving trend
- Treatment business stable
- Low Level Waste (LLW) appeal scheduled for October 2010
- Appointment of Richard Allen from Kelda group as group finance director
- Appointment of Jim Meredith as non-executive director
- Offshore drill cuttings contract commenced in April with growing volumes into H2
- Continued management focus on cost discipline to adapt to challenging trading environment
- Strict capital programme focused on asset development

CHIEF EXECUTIVE'S REVIEW

Paul Blackler
Chief executive

Overview

Results for the first half of the year were in line with board expectations, despite being impacted by the January and February trading difficulties caused by the extreme weather. The outcome at the end of June demonstrates a recovery in our core business and with our strategic opportunities still to fully impact on the group's trading we remain well positioned to deliver improvements in performance as our markets recover.

We have focused on costs and have taken appropriate action to reduce costs further whilst ensuring that our teams were suitably resourced for recovery; these actions have resulted in some exceptional restructuring costs in the period. The strategy of creating value through the invested platform has focused our capital expenditure on the planning and permitting processes which allow the group to open new markets and develop new income streams off the back of our unique assets. As a result capital expenditure has been significantly reduced in the first half and, with consistent cash flow from operations, has allowed us to manage the net debt position in line with expectations. The continued development of our client base through the creation of our business development team is showing encouraging signs of traction as we convert the pipelines into long term direct clients with a clear focus on the development of our treatment and recycling services. The landfill markets have been challenging, but whilst the start to the new year was negatively affected by extreme weather there are encouraging signs of improvements in outputs from land remediation and construction related projects. The board has been strengthened with both a new group finance director, Richard Allen, who joins us from Kelda group, and new non-executive director, Jim Meredith, who brings with him a wealth of sector experience.

Operations

Within the landfill division hazardous volumes were 95,053 tonnes (2009 H1: 108,523 tonnes; 2009 H2: 87,220 tonnes) in the absence of any significant projects and following a challenging start to the year due to the extreme weather conditions in January and February. As anticipated, average hazardous gate fees were slightly lower in the period at £44 per tonne (2009 H1: £46 per tonne; 2009 H2: £48 per tonne).

Performance in the treatment division was similar to the first half of 2009 despite the disruption in the early months, but marked an improvement from the second half of the prior year, with revenue growing by 5% and losses narrowing by £0.2m. Further progress towards the short term break even target for the division is expected in the remainder of the year, whilst it continues to provide an integrated service platform alongside landfill operations.

Strategy

The board's priority is the creation of long term shareholder value. The group strategy is aligned to delivering earnings growth from the invested platform as our markets recover coupled with strategic focus on the four identified business opportunities.

“Results for the first half of the year were in line with board expectations, despite being impacted by the January and February trading difficulties.”

Low Level Waste (LLW)

We set out in 2009 to develop our capabilities to handle LLW at our East Northants Resource Management Facility (ENRMF). The public consultation process, planning and extensive technical work concluded by the end of the year and our efforts were rewarded with the issuing of the draft permit by the Environment Agency in February 2010. Following further consultation the chief planning officer recommended to the Northamptonshire planning committee that the application be approved. The planning committee determined the application on 16 March 2010 and overturned the recommendations and technical advice of the professional officers and refused the application. After taking further legal and technical advice we have initiated an appeal process. The appeal will be heard by the Planning Inspectorate with a three week public enquiry starting in late October. The outcome of the appeal will be determined by the Secretary of State in the new year. The board has reviewed both the likelihood of a positive outcome and the value in the market for LLW through direct consultation with potential clients and key stakeholders and remains confident of a successful appeal and of significant future opportunities.

Offshore

We are delighted to have secured a contract to handle wastes derived from the offshore drilling markets with SCOMI Oiltools, the leading cutting fluids management company. The contract secures drill cuttings wastes into the Waste Recovery Park at our Port Clarence facility. The contract commenced in April and secures a minimum tonnage.

Net revenue[1]

£13.8m

(2009: £15.0m)

Earnings per share[2]

(0.3)p

(2009: 1.5p)

Operating profit[2]

breakeven

(2009: £1.5m)

[1] Excluding landfill tax.
[2] Before exceptional items.

"With our continued focus on cash generation and a strong capital structure the group is well positioned as our markets recover from the economic downturn."

Refineries

Our ability to access the oil refinery market required the development of new technologies in the UK. We have constructed our thermal treatment process at the Waste Recovery Park at Port Clarence and initiated income streams into the facility. Updated demand forecasts for the facility coupled with capacity constraints on the process have led to a programme to upgrade the capacity. The upgrade will be completed at the end of October with the enhanced capacity delivering new income streams to the group into the new year. Further development opportunities are under review to strengthen our position in these markets.

Energy and minerals

The development of the group's assets has been focused on gaining the necessary consents to convert land banks into assets capable of being developed into income streams, either through asset sales, development of process infrastructure or royalty schemes, which will extract value for the group. The first phase of the development of this business unit has commenced with grid connection being installed at the Port Clarence facility; this will enable the first power generation facility to come on line in the new year following completion of the landfill gas plant installation. Further options for gasification, anaerobic digestion, wind generation and mineral extraction are being evaluated and will form future development opportunities. The extraction of value through the group's land bank is evident in the planning process underway to renew the mineral extraction permission at our Cook's Hole site adjacent to our Thornhaugh landfill site. The permission is expected during 2011 and will enable the extraction of circa 3m tonnes of minerals from the site for sale in the aggregates market.

Results

Net revenue excluding landfill tax for the six months ended 30 June 2010 fell by 8% to £13.8m (2009: £15.0m). With the inclusion of landfill tax charged to customers of £2.4m (2009: £1.8m), on which the group makes no margin, total group revenue was £16.3m (2009: £16.8m).

The underlying operating result before exceptional costs was in line with expectations at break even (2009: profit of £1.5m) despite a reduced contribution from the landfill division in January and February. The first half of 2009 had benefited from £0.5m in respect of the group's landfill tax claim and the recognition of £0.7m of revenue previously deferred following revised Environment Agency guidance.

After exceptional costs of £0.2m (2009: £0.3m) relating to restructuring charges, the operating result was a loss of £0.2m (2009: profit of £1.2m). The underlying loss before tax was £0.3m (2009: profit of £1.0m) following reduced finance charges of £0.3m (2009: £0.6m). After exceptional costs, the loss before tax was £0.4m (2009: profit of £0.7m).

The adjusted loss per share before exceptional costs was 0.3p (2009: earnings of 1.5p). The basic loss per share was 0.4p (2009: earnings of 1.0p). The board does not recommend the payment of an interim dividend.

The group generated cash flow from operations of £2.6m (2009: £3.0m). After deducting a reduced level of capital expenditure of £1.0m (2009: £3.5m), finance charges and tax, net debt at 30 June 2010 decreased by £1.0m from 31 December 2009 to £4.9m (2009: £18.0m), equating to a gearing level of 11% (2009: 21%). The group continues to operate comfortably within its banking facilities, which are committed until November 2012.

Outlook

With our continued focus on cash generation and a strong capital structure the group is well positioned as our markets recover from the economic downturn. Whilst we continue to review our cost base the business is structured to deliver a quality service and add value to its customers and therefore management is focused on driving revenue to improve operating profits throughout all business units.

Trading in the months since the period end has indicated an improving trend as the early signs of a recovery in our markets have continued into the early part of the second half of the year.

Paul Blackler
Chief executive
28 September 2010

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Note	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Continuing operations				
Revenue	3	16,257	16,767	31,540
Operating expenses		(16,312)	(15,267)	(29,213)
Exceptional costs		(179)	(281)	(55,665)
Operating (loss)/profit		(159)	1,219	(53,338)
Operating profit before exceptional costs		20	1,500	2,327
Finance charges		(266)	(558)	(995)
Exceptional finance charges		—	—	(189)
Share of result of jointly controlled entity		(6)	12	(30)
(Loss)/profit before tax		(431)	673	(54,552)
(Loss)/profit before tax and exceptional costs		(252)	954	1,302
Tax	4	—	—	—
(Loss)/profit attributable to equity shareholders		(431)	673	(54,552)
Total comprehensive income attributable to equity holders of the parent company		(431)	673	(54,552)
(Loss)/earnings per share				
Basic and diluted	5	(0.4p)	1.0p	(74.8p)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

	30 June 2010 £'000	30 June 2009 £'000	31 December 2009 £'000
Non-current assets			
Goodwill	21,705	77,768	21,705
Other intangible assets	79	177	130
Property, plant and equipment	35,192	34,452	36,133
Deferred tax asset	121	413	121
	57,097	112,810	58,089
Current assets			
Inventories	147	121	130
Trade and other receivables	7,623	7,040	7,538
Cash and cash equivalents	160	129	335
	7,930	7,290	8,003
Current liabilities			
Trade and other payables	(8,076)	(8,628)	(7,809)
Current tax liabilities	(495)	(1,346)	(561)
Financial liabilities	(452)	(6,498)	(450)
	(9,023)	(16,472)	(8,820)
Net current liabilities	(1,093)	(9,182)	(817)
Non-current liabilities			
Financial liabilities	(4,644)	(11,677)	(5,864)
Provisions	(6,502)	(3,743)	(6,191)
Share of losses of jointly controlled entity	(452)	(404)	(446)
	(11,598)	(15,824)	(12,501)
Net assets	44,406	87,804	44,771
Shareholders' equity			
Share capital	9,970	6,549	9,970
Share premium account	114,960	106,222	114,960
Retained losses	(80,524)	(24,967)	(80,159)
Total shareholders' equity	44,406	87,804	44,771

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Note	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Operating activities				
Cash generated from operations	6	2,607	2,964	3,990
Finance charges paid		(292)	(544)	(757)
Tax paid		(66)	(194)	(199)
Net cash generated from operating activities		2,249	2,226	3,034
Investing activities				
Proceeds on disposal of property, plant and equipment		—	23	49
Purchases of property, plant and equipment		(988)	(3,480)	(5,131)
Purchases of intangible assets		(14)	(34)	(44)
Proceeds on disposal of subsidiary undertaking		—	—	735
Purchase of businesses		(204)	—	—
Net cash used in investing activities		(1,206)	(3,491)	(4,391)
Financing activities				
Proceeds on issue of shares		—	—	12,159
Repayments of borrowings		(996)	(2,200)	(12,286)
Repayments of obligations under finance leases		(222)	(193)	(475)
Drawdown under finance leases		—	1,368	1,529
Net cash (used in)/generated from financing activities		(1,218)	(1,025)	927
Net decrease in cash and cash equivalents		(175)	(2,290)	(430)
Cash and cash equivalents at beginning of period		335	765	765
Cash and cash equivalents at end of period		160	(1,525)	335

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Share capital £'000	Share premium £'000	Retained earnings £'000	Shareholders' equity £'000
At 1 January 2009	6,549	106,222	(25,667)	87,104
Share-based payments	—	—	27	27
Retained profit and total comprehensive income for the period	—	—	673	673
At 30 June 2009	6,549	106,222	(24,967)	87,804
Shared issued in the period	3,421	8,738	—	12,159
Share-based payments	—	—	33	33
Retained loss and total comprehensive income for the period	—	—	(55,225)	(55,225)
At 1 January 2010	9,970	114,960	(80,159)	44,771
Share-based payments	—	—	66	66
Retained loss and total comprehensive income for the period	—	—	(431)	(431)
At 30 June 2010	**9,970**	**114,960**	**(80,524)**	**44,406**

NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

1 Statutory information
The financial information for the period ended 30 June 2010 set out in this interim report does not constitute statutory accounts as defined by Section 240 of the Companies Act 2006. The financial information relating to the year ended 31 December 2009 is an extract from the latest published financial statements on which the auditors gave an unqualified report that did not contain statements under Section 498 (2) or (3) of the Companies Act 2006 and which have been filed with the Registrar of Companies.

These interim financial statements are available from the registered office at 4 Rudgate Court, Walton, Wetherby, West Yorkshire LS23 7BF or from our website at www.augeanplc.com.

2 Accounting policies
The interim financial statements have been prepared in accordance with the AIM Rules for Companies and on a basis consistent with the accounting policies and methods of computation as published by the Group in its annual report for the year ended 31 December 2009, which is available on the Group's website.

The following accounting standards, none of which have an impact on the financial statements presented, have been adopted by the Group since preparing its last annual report:

- IFRS 3 'Business Combinations' (revised 2008);
- IAS 27 'Consolidated and Separate Financial Statements' (revised 2008); and
- Improvements to IFRS 2009.

The Group has chosen not to adopt IAS 34 'Interim Financial Statements' in preparing these interim financial statements and therefore the interim financial information is not in full compliance with International Financial Reporting Standards.

3 Segmental information
The Group's business segments provide services which are subject to risks and returns which are different from each other. The Group's internal organisation and management structure and its system of internal financial reporting are based primarily on business segments. The business segments comprise the landfill division and the treatment division. Segmental revenue, expense and results include transactions between businesses, undertaken on normal commercial terms, which are eliminated on consolidation. There are no geographical business segments as all the Group's activities take place within the United Kingdom.

The segmental results for the six months ended 30 June 2010 were as follows:

	Landfill division £'000	Treatment division £'000	Group £'000
Revenue			
External sales net of landfill tax	5,248	8,582	13,830
Landfill tax	2,427	—	2,427
External sales	7,675	8,582	16,257
Inter-segment sales	435	—	435
Total revenue	8,110	8,582	16,692
Result			
Operating profit/(loss) before exceptional costs	998	(978)	20
Exceptional costs	(50)	(129)	(179)
Operating profit/(loss)	948	(1,107)	(159)
Share of result of jointly controlled entity			(6)
Finance charges			(266)
Loss before tax			(431)
Tax			—
Loss attributable to equity shareholders			(431)

Exceptional costs totalling £179,000 were incurred in respect of restructuring charges.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED
FOR THE SIX MONTHS ENDED 30 JUNE 2010

3 Segmental information continued
The segmental results for the six months ended 30 June 2009 were as follows:

	Landfill division £'000	Treatment division £'000	Group £'000
Revenue			
External sales net of landfill tax	6,463	8,552	15,015
Landfill tax	1,752	—	1,752
External sales	8,215	8,552	16,767
Inter-segment sales	874	—	874
Total revenue	9,089	8,552	17,641
Result			
Operating profit/(loss) before exceptional costs	2,585	(1,085)	1,500
Exceptional costs	(118)	(163)	(281)
Operating profit/(loss)	2,467	(1,248)	1,219
Share of result of jointly controlled entity			12
Finance charges			(558)
Profit before tax			673
Tax			—
Profit attributable to equity shareholders			673

Exceptional costs comprised costs of the offer period of £118,000 and fines and costs relating to an Environment Agency prosecution of £163,000.

4 Tax
No tax charge has been included for the six months ended 30 June 2010. This is consistent with current projections for the year ending 31 December 2010.

5 (Loss)/earnings per share

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
(Loss)/profit after tax for the purposes of basic and diluted earnings per share	(431)	673	(54,552)
Exceptional costs	179	281	55,854
(Loss)/profit after tax for the purposes of basic and diluted adjusted earnings per share	(252)	954	1,302
	Number	Number	Number
Number of shares			
Weighted average number of shares for basic and diluted earnings per share	99,699,414	65,488,892	72,976,669
(Loss)/earnings per share			
Basic and diluted	(0.4p)	1.0p	(74.8p)
Adjusted (loss)/earnings per share			
Basic and diluted	(0.3p)	1.5p	1.8p

6 Reconciliation of operating profit to cash generated from operations

	Six months ended 30 June 2010 £'000	Six months ended 30 June 2009 £'000	Year ended 31 December 2009 £'000
Operating (loss)/profit	(234)	1,219	(53,338)
Goodwill impairment	—	—	55,217
Amortisation of intangible assets	65	74	131
Depreciation	2,232	1,834	3,697
After-care provisions	62	101	79
Earnings before interest, tax, depreciation and amortisation (EBITDA)	2,125	3,228	5,786
Loss/(profit) on sale of property, plant and equipment	—	2	(15)
Profit on disposal of subsidiary undertaking	—	—	(702)
Share-based payments	66	27	60
(Increase)/decrease in inventories	(17)	17	8
(Increase)/decrease in trade and other receivables	(205)	1,506	634
Increase/(decrease) in trade and other payables	660	(1,523)	(1,781)
Decrease in provisions	(22)	(293)	—
Cash generated from operations	2,607	2,964	3,990

7 Analysis of changes in net financial liabilities

	31 December 2009 £'000	Cash flow £'000	30 June 2010 £'000
Cash and cash equivalents	335	(175)	160
Bank loans due after one year	(4,714)	996	(3,718)
Finance leases and hire purchase contracts	(1,600)	222	(1,378)
Net financial liabilities	(5,979)	1,043	(4,936)

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75%

Augean's commitment to environmental issues is reflected in this interim report, which has been printed on Core Silk comprising of paper from well managed forests and other controlled sources certified by the FSC and produced at mills with ISO 14001 environmental management systems.

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