

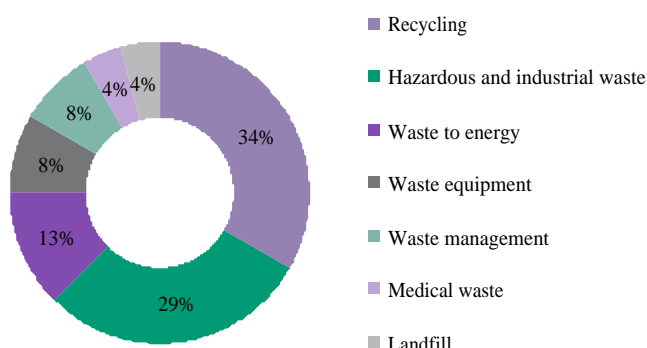
Waste Sector M&A update, Summer 2009

The six months to June 2009 have seen an encouraging level of M&A activity, despite the challenging economic environment, with the level of transactions on a par with the first half of 2008. Despite the challenging economic climate during 2009, the number of deals to date is already at 2007 levels.

Key Highlights

- Deal numbers have remained strong despite the economic downturn, an impressive credential for the resilience of the waste sector.
- Despite deal volumes remaining strong, deal values have declined.
- Recycling deals continue to account for the majority of deals by volume, although closely followed by hazardous and industrial waste.
- Within recycling deals, the majority of deals are in the organic recycling sub-sector.

Number of deals by sub-sector Jan-Jun 2009



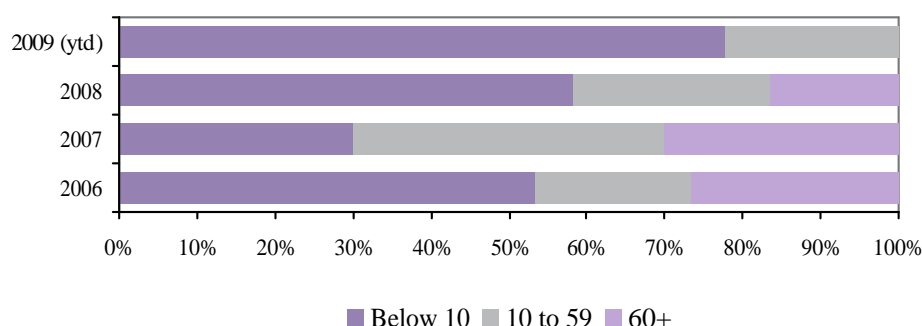
Number of waste sector deals 2006 –2009 (YTD)



Deal Values

- Almost 80% of deals seen in 2009 are in the sub £10 million valuation range, compared to circa 60% in 2008.
- There were no deals in the £60 million plus range, whilst in 2008 15% of deals were in this category.
- Deal values at the lower end of the spectrum have been driven by an increase in distressed businesses in the sector.
- Inappropriate capital structures can be a key driver of this distress.
- There is a clear opportunity for acquirers with cash to buy good underlying businesses at lower prices than in previous years.

Disclosed deal segmentation by value (£ million) 2006 –2009 (YTD)



Looking to raise finance...?



As waste businesses feel the strain of the economic downturn, with low commodity prices compared with previous years and an increasing need for operational efficiency and sustained volumes, there may be a need for further finance to fund working capital gaps. In addition, some other waste businesses may want to grow as they see the downturn provide them with opportunities.

It can be a challenging environment in which to raise funds, but **there are solutions** available for businesses.

- **Asset Based Lending**
 - This form of finance is suitable for those businesses with more **solid balance sheets** who are seeking funding for **working capital purposes**.
- **Enterprise Finance Guarantee Scheme**
 - Government backed scheme to provide loans of **up to £1 million** for businesses with turnover of up to £25 million, with terms ranging **from three months to 10 years**.
- **Capital for Enterprise Fund**
 - Government backed fund designed to **bridge the funding gap** for small and medium sized enterprises by providing equity or quasi-equity investments of **£250,000 to £2 million**.
- **Private Equity**
 - Legislation, increasing social awareness and recognition of the value in waste continue to drive the sectors resilience and will lead to **increased private equity interest**.
 - The UK waste management market has shown **significant growth** since the turn of the millennium and it is anticipated for many sub-sectors that this growth will continue.
 - We expect private equity interest to continue, although transactions are likely to be smaller strategic deals, until the limited availability of debt funding eases.

Changes to the landfill tax regime



The decision in the case of **Waste Recycling Group Limited (WRG) v HM Revenue & Customs Commissioners** has important ramifications for operators of landfill sites and may mean that their liability to this duty is **materially reduced**.

WRG sought a refund of landfill tax paid over six years from 1996, in relation to inert materials used for the construction of roads at its sites, as well as for daily cover for the active waste disposed of, under the terms of its license. WRG argued that these materials did not constitute "a disposal of material as waste". The Court of Appeal held that, in the circumstances of the case:

- the disposal was made by WRG, on its own behalf
- WRG did not intend to "discard" the inert materials as waste but to re-use them for construction and as cover for active waste
- it was the intention of WRG, as the landfill operator, which determined the tax treatment (and not that of the original producer of the materials).

Consequently, the Court determined that landfill tax was not due.

The Court's decision was dependent on the specific circumstances of the case and may not apply to all landfill operators. Operators of landfill sites should therefore carefully consider the means by which their trading activities are carried out and seek appropriate taxation advice to determine whether the nature of their business allows scope to exempt some of their materials from the charge to landfill tax, or whether they could restructure their activities in such a way as to achieve this in future.