

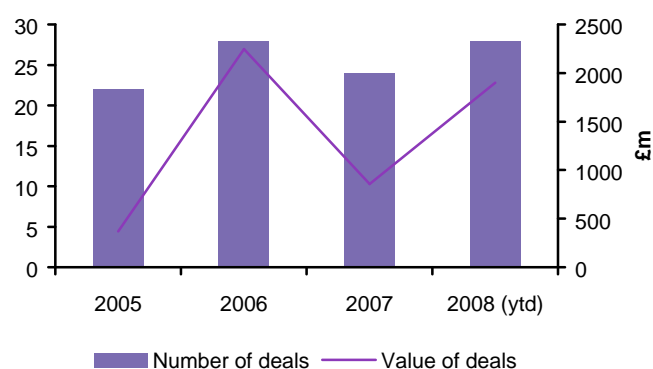
Waste Sector M&A update, Winter 2008

The third quarter of 2008 has seen sustained momentum in M&A activity, with the number of deals to date already reaching 2006 levels. Assuming this level of activity continues, 2008 is set to be a record year. In the year to date there have been 28 deals in the sector, with a total value of £1.88bn disclosed, compared to £858m for the whole of 2007. The acquisition of Biffa in early 2008 with a disclosed value of £1.23bn has been the largest deal by value this year.

Key highlights:

- 2008 is on track to be a record year in terms of the number of transactions, which given the current economic downturn is an impressive credential for the robustness of the sector.
- There have been 28 disclosed deals, in the nine months to the end of September 08, compared with 24 deals in the same period in 2007.
- Recycling deals have accounted for the majority of deals by volume at 68%.
- The increase in the proportion of recycling deals by volume in the current year has largely been driven by high commodity prices and changes in legislation.
- Metals recycling deals account for the majority of recycling deals in 2008 at 42%, followed by WEEE at 26%. See chart below.

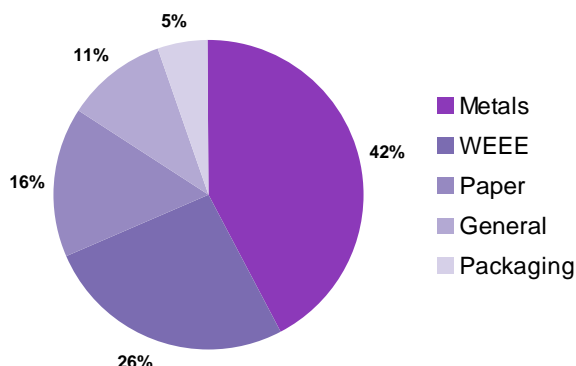
Summary of deal activity 2005 to date



Key deals in 2008:

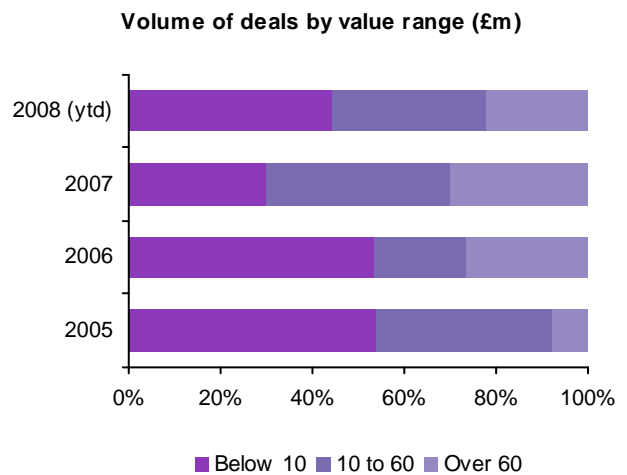
- Acquisition of Biffa Plc by a consortium including Montagu Private Equity and Global Infrastructure Partners for £1.23bn. This is the largest deal seen in the sector since the acquisition of WRG by FCC in 2006.
- Acquisition of Safety Kleen Europe by EM Warburg Pincus & Co LLC for a reported £565m.
- One51 continued their acquisition growth strategy with the acquisition of two metal recyclers in January 2008. It has been reported that they also recently made an approach to Augean that could potentially lead to a takeover bid. One51 currently owns 27% of Augean's shares. According to press reports Augean is in talks with a 'number of interested parties.'
- Sims also continued their acquisition trail - picking up C. Herring & Son in September 08. This is their fourth acquisition in metals/WEEE recycling in 2008.

Recycling deals by volume



Valuation trends

- There has been an increasing proportion of deals with values in excess of £10m. Deals over £10m account for 56% of all disclosed deals so far in 2008.
- Specialist technical capabilities, strong management teams and the ability to secure feedstock and "control the waste stream" remain key value drivers.
- Disclosed deals to date suggest that there has been a **drop in the average sector EBITDA multiple to 7.7x**, compared to the 8.9x average, recorded in the period September 04 to March 08.



Tax

The green issue and related sectors, such as waste, are highly topical at the moment. As demonstrated by the deals being completed, this sector is a growth area that the Government hopes will help the economy out of its current difficulties. As a result the green issue is being used to increase tax revenues not only in terms of "green taxes" but also through the more traditional means of taxing businesses and individuals who operate in this sector. Good tax advice can ensure that your transactions are as tax efficient as possible, waste is minimised and should allow you to take advantage of the benefits available.

Some of the benefits:

- 150% deductions for eligible expenditure and possible cash credits for preventing or repairing contamination to land, buildings or controlled waters used in a trade, under the land remediation scheme
- initial allowances of up to 100% of the costs that qualify under the Business Premium Renovation allowance scheme, for expenditure on renovation of property in certain areas
- accelerated deductions, of up to 100% of cost in the year of purchase, for capital expenditure on approved energy efficient or environmentally beneficial plant and machinery

- Share schemes or phantom share schemes can offer a tax efficient way for employees to participate in the ownership of a business, thereby motivating them to grow the business. If planned correctly they can also result in significant corporation tax deductions
- Salary sacrifice schemes and flexible benefit programmes could allow you to incentivise your employees in a cost effective manner and, if properly planned, could result in significant NIC savings

Watch out for:

- changes to the landfill tax regime could see significant cost increase to businesses that dispose of waste in landfill sites. **The current exemption for contaminated land is due to be withdrawn from 1 April 2012 and no new certificates will be issued after 1 December 2008**
- tax charges on land and property transaction which can result in significant capital gains or stamp duty land tax costs. Planning can be undertaken to shelter gains and minimise exposures on movements of land, property and shares
- unwanted tax costs associated with raising and obtaining finance. Tax charges can arise under the transfer pricing legislation, the loan relationship rules or as a withholding charge to name a few. Planning can minimise these