

Refers to viridor waste kent  
2751074  
Pg 98.

Registered number: 02456473

**VIRIDOR LIMITED**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 MARCH 2019**



**Directors**

P C Piddington

E A J Rees

P M Ringham

**Joint Company Secretaries**

K Senior

S Pugsley (appointed 22 November 2018)

S Massie (appointed 22 November 2018)

H P Barrett-Hague (resigned 22 November 2018)

**Registered Office**

Peninsula House

Rydon Lane

Exeter EX2 7HR

**Independent auditors**

Ernst & Young LLP

Statutory Auditor

The Paragon

Counterslip

Bristol BS1 6BX

## Strategic report

### STRATEGIC OVERVIEW

Viridor Limited ("the Company") and its subsidiary companies (together "the Group" or "Viridor") is at the forefront of the resource sector in the UK, transforming waste into energy, high quality recyclates and raw materials. We provide services to more than 150 local authorities and major corporate clients in addition to 32,000 customers. Our activity supports growth of a regenerative circular economy that seeks to keep resources in use for as long as possible and recover and regenerate materials at the end of their service life.

### Financial Highlights

#### Revenue

Statutory £852.7 (2018: £788.9m)

Underlying £852.7m (2018: £785.7m)

#### EBITDA

Statutory £149.3m (2018: £153.4m)

Underlying £178.9m (2018: £150.2m)

Adjusted £225.4m (2018: £202.9m)

#### Profit before tax

Statutory £58.9m (2018: £77.3m)

Underlying £88.5m (2018: £70.8m)

Underlying earnings are presented alongside statutory results as the Directors believe they provide a more useful comparison on business trends and performance. Note 5 to the financial statements provides further detail on non-underlying items.

Earnings before interest, tax, depreciation, amortisation (EBITDA) are adjusted to include IFRIC 12 interest receivable and share of joint venture EBITDA.

### Operational Highlights

- EBITDA growth supported by the build out and performance of our Energy Recovery Facilities (ERFs)
- Continued strong performance from ERFs with availability again >90% on operational assets (weighted by capacity, excludes Bolton, includes JVs at 100%)
- Operational ramp up for Glasgow, Dunbar and Beddington ERFs progressing well
- Construction at Avonmouth ERF well advanced
- Commitment to recycling resulting in £65 million plastics plant and refurbished materials recycling facility supported by 10-year local authority contract

## **Strategic report (continued)**

### **MARKET OVERVIEW**

With clear market opportunities for the waste business, Viridor is in a strong position to deliver growth through its increasing market share of the UK's energy recovery operations.

#### **Recycled waste materials**

There is increased public awareness around the importance of recycling following high profile documentaries and media campaigns. In 2018 the Government launched its 25 year Resources and Waste Strategy for England to minimise waste, promote resource efficiency and move towards a circular economy. The most recent statistics published by the UK Government show that UK households produce 27 million tonnes of waste annually, with 12.3 million tonnes being recycled; a rate of 45.7%.

Viridor is a founder signatory to the UK Plastic Pact, an initiative to create a circular economy for plastics. We are upgrading our existing sites, investing in a new plastics recycling facility and exploring options to invest in a further two facilities. We also work closely with our customers to maximise the quality of recycle material inputs and seek to share the pricing risk with them.

#### **Residual waste**

Waste that cannot be reused or recycled is typically recovered and converted to energy via energy recovery facilities (ERFs) or disposed of at landfill sites.

In 2018, UK household and commercial and industrial waste activities produced an estimated 54m tonnes of non-recyclable waste. 27.9 million tonnes was combustible waste of which approximately 11.5 million tonnes was processed by ERFs (11 million tonnes in 2017), demonstrating a continued capacity gap in the UK market. In addition to inert and other residual waste, 10.5 million tonnes of active waste was also sent to landfill a slight decrease on 2017 (11 million tonnes).

Viridor's programme of investment in ERFs continues as planned with 11 facilities due to be operational by 2020/21. We are also exploring opportunities for a further three ERF facilities. We continue to maximise gas yields from the landfills and our external grid connections. Mothballed sites are reopened as demand requires and we maintain sites in areas of landfill scarcity.

### **STRATEGIC PRIORITIES**

Our strategic priorities are leading in the UK's waste infrastructure sector, cost base efficiency and driving sustainable growth.

#### **Delivering sustainability**

We have expertise in, and understanding of, sustainability and we follow the Pennon Group-wide sustainability strategy. This will ensure we continue to build on our strengths and achievements in sustainability under a unifying framework built on environment, social and governance (ESG) principles. Environmental sustainability is fundamentally important to us. Our waste operations have a potential (positive or negative) impact on the environment and we recognise our responsibility to act in a benign manner. The latest sustainability report for Viridor, which contains information on our performance against the sustainability development goals, is available on our website [www.viridor.co.uk](http://www.viridor.co.uk).

## Strategic report (continued)

### Leading in waste infrastructure

Our fleet of energy recovery facilities (ERFs), which transform waste into electricity and heat, performed well during the year. The build out of our ERF portfolio is supporting growth. By year end, we had three ERFs at Glasgow, Beddington and Dunbar in operational ramp up and our facility at Avonmouth near Bristol under construction. We increased our holding in the TPSCo joint venture, which owns the Runcorn I ERF, from 37.5% to 75%. The operational ERF portfolio achieved availability from current operational assets in excess of 90%, including joint ventures, during the year. The work on our portfolio of eleven ERFs is a significant achievement for the Group and we expect them to support our earnings growth to 2020 and beyond.

In recycling, the market dynamics are favourable with the 'Blue Planet' effect prompting support from the UK Government. We believe the Government's Resources and Waste Strategy, published at the end of 2018, will bring positive changes. The strategy sets out a framework for minimising waste, promoting resource efficiency and moving towards a circular economy. Our recycling activities have shown strong recovery from the challenging position we experienced in the second half of last year. We are investing in a new plastics recycling facility, co-located with our ERF in Avonmouth, and are refurbishing our materials recycling facility in Suffolk, supported by long-term contracts. The forecast for landfill demand is robust into the medium term. Volumes and gate fees were stable over the year. We are forecasting that six sites will remain open into the medium term.

### Health and safety

*We are committed to showing leadership in improving safety by using concepts and learnings from a range of industries, including high-hazard sectors. Following the initial success in the previous year with the pilot for our HomeSafe health & safety programme, significant progress was made embedding HomeSafe across the full spectrum of our operations. Delivered through manager-led training modules and e-learning, we are already seeing benefits flowing through, evidenced by reductions in our lost time injury frequency rate and high health & safety scores from our employee engagement survey.*

### People

Our aim is to attract, develop and retain a highly skilled and customer-centric workforce. There is a sharper focus than ever before on the Group's long-term talent needs with our approach to graduate recruitment, our fast-growing apprenticeship intake and other training and development opportunities. Our work in communicating with all employees in a more interactive manner is paying dividends with an improvement in employee engagement. We are promoting equality of opportunity and diversity across all areas, including gender and ethnicity. We continued to support the communities in which we operate through our education programmes, sponsorship and charitable donations. Our employees enhanced this contribution by volunteering for projects such as litter picks, beach cleaning and tree planting. Our ongoing success relies on the hard work and professionalism of our employees and I would like to thank them for their dedication and support during the year.

### Outlook

We expect long-term demand for ERFs to exceed capacity by around seven million tonnes per annum to 2035. We have successfully delivered increased capacity at our existing facilities in Cardiff, Ardley and Runcorn II. We also believe the market supports another phase of ERF development and are analysing opportunities for three new ERFs. Moreover, we are looking at energy park opportunities across the landfill and ERF portfolio that would capitalise on existing grid connections. These energy parks would be able to service a range of energy-intensive facilities, such as a third-party data centre or our own plastics processing plants. The UK Government's Resource and Waste Strategy for England will stimulate more demand for recycling. The immediate focus will be on plastics with a potential doubling of the size of the recycling processing infrastructure required. The Group is uniquely placed to help find innovative long-term solutions regarding plastics waste and we are exploring the possibility of investing in two additional new plastics recycling facilities. We see distinct growth opportunities for energy recovery in the UK, and we are confident we can deliver sustainable, long-term returns.

## **Strategic report (continued)**

### **PEOPLE**

The talent, professionalism and commitment of our people is key to the delivery of our strategic objectives. We continued to embed the Pennon Group-wide people strategy, vision and values during the year and announced a health & safety roadmap that builds on our HomeSafe achievements.

#### **People strategy**

During the year our focus was on embedding the Pennon Group-wide vision of 'Bringing our resources to life' more deeply across the Group. We built a broader understanding of how employees at all levels can live by our values of trusted, responsible, collaborative and progressive. We measure the progress we are making in living our values through our Group-wide employee engagement survey. The employee engagement survey asked employees to comment on a wide range of topics including communication and involvement, job security, culture, diversity, recognition, strategy, talent management, teamwork and well-being, as well as work environment and processes. Employee Voice Forums continued, with employee representatives from all parts of the business discussing business challenges with representatives from the leadership team.

#### **Health and safety**

Following the initial success in the previous year with the pilot for the Pennon Group-wide HomeSafe health & safety programme, we progressed our full roll out. As the name implies, HomeSafe is about ensuring staff get to work safely, enjoy a safe and healthy working environment, and arrive home without incident at the end of each working day. Initial HomeSafe training was conducted on a face-to-face basis but the teaching tools and materials were adapted for e-learning so that staff in back-office roles and working in lower-risk environments could participate fully. To build on the current momentum and HomeSafe vision, there is now in place a comprehensive and ambitious roadmap running to 2025 to look after employees and keep them free from harm. The longer-term HomeSafe strategy is based on six themes: managing risk; sharing and learning; working together; protecting health; enabling leaders and being resilient.

#### **Employee training and development**

Building a sustainable, agile and diverse workforce is a key pillar of our HR strategy. We have a strong commitment to investing in the development of our staff and want to build and recognise talent across the Group. Training and development are available for employees at a variety of levels. Our aim is to increase productivity, job satisfaction and safety, and to equip the next generation of leaders with appropriate knowledge, skills and competencies. To ensure we can compete for top talent in the marketplace, the Group ran a national campaign to attract suitably qualified graduates and we were pleased to select 30 high calibre graduates to join us. All successful applicants were offered permanent roles demonstrating our commitment and investment in them on either a management trainee pathway, or a functional pathway for more specialised roles. Our graduates are deployed in a variety of locations that reflect the nationwide distribution of Viridor's operations but meet regularly for mentoring and support.

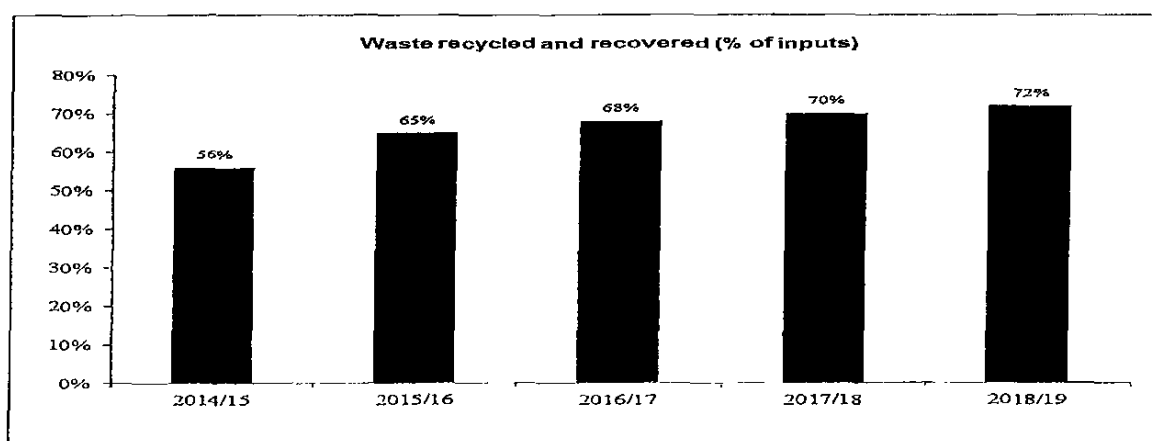
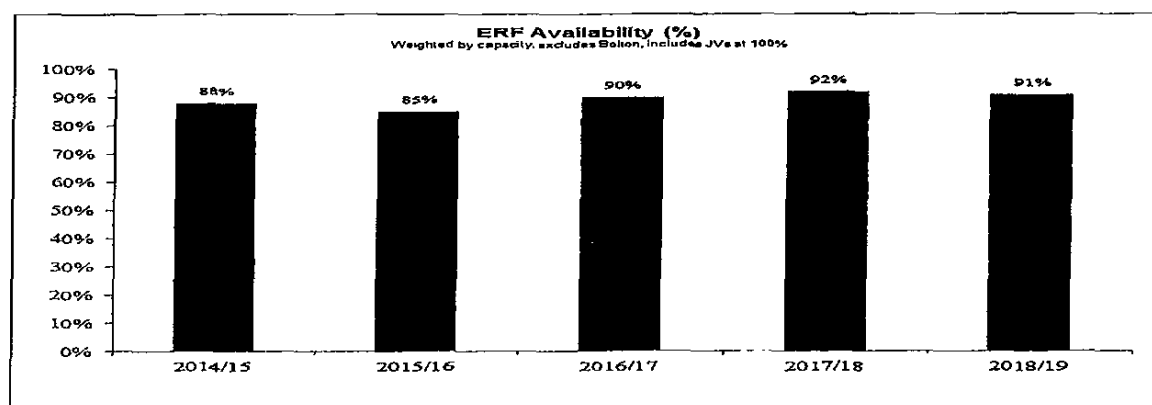
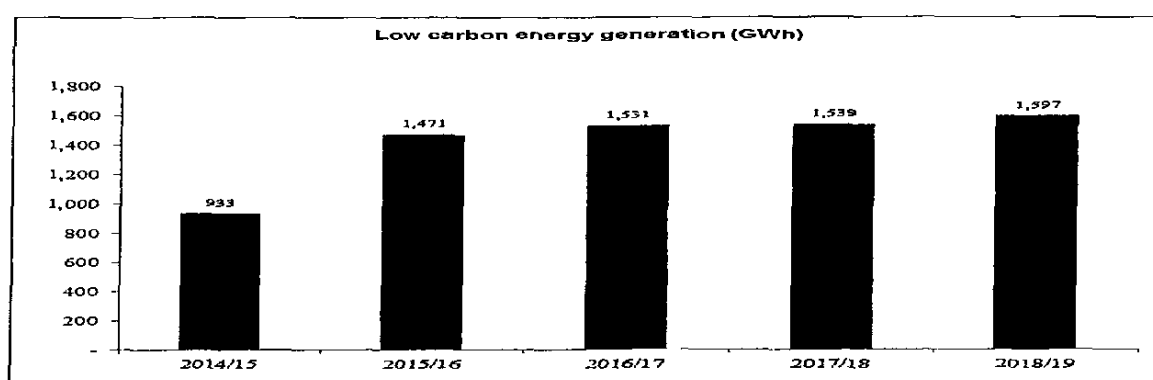
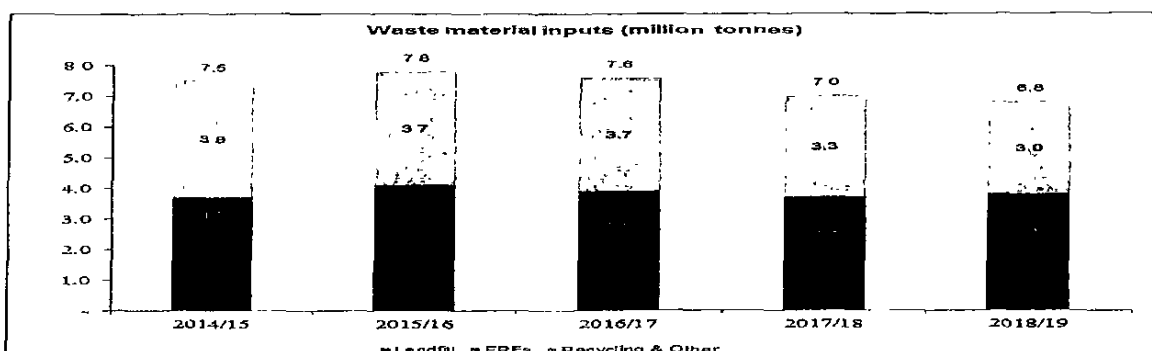
We have always embraced the Government's policy on apprenticeships and have offered new apprenticeships across the Group. As well as creating posts for new employees, we are also offering a number of specialised apprenticeship programmes to upskill and develop current employees in our core business functions.

#### **Diversity and equal opportunities**

The Board continues to promote equality of opportunity and diversity across the Group in all areas, including gender and ethnicity. For more information please refer to the Pennon Group Plc Annual Report.

**Strategic report (continued)**

**OPERATIONAL KPIs**



## Strategic report (continued)

### OPERATIONAL REVIEW

Viridor is at the forefront of the resource sector in the UK, transforming waste into energy, high-quality recyclates and raw materials. We provide services to around 150 local authorities and corporate clients as well as around 32,000 customers across the UK. Our activity supports growth of a regenerative circular economy that seeks to keep resources in use for as long as possible and recover and regenerate materials at the end of their service life.

Total waste inputs for the year were 6.8 million tonnes, with 2.3 million taken by our ERFs, 1.5 million going to landfill and 3.0 million taken by our recycling and other facilities. Viridor is one of the UK's largest independent power generators from waste. We had 327 megawatts (MW) of operating capacity from ERFs, anaerobic digestion, solar and landfill gas (including 100% of joint ventures) at 31 March 2019. Viridor exported 1.6 terawatt hours of power during the year.

#### Strong momentum for Viridor

A key achievement in the year was our increased engagement with the UK Government and other stakeholders on resource efficiency. We have actively lobbied for a more sustainable and circular economy around the waste value chain and welcomed the direction set out in UK Government's Resources and Waste Strategy for England published at the end of 2018. The initial focus on plastics aligns with our latest investment commitment to a plastics recycling facility with inputs and outputs secured with contracts into the medium term.

We saw solid momentum in the year with our ERF portfolio nearing completion and with operating facilities outperforming. At year end, construction of our latest ERF at Avonmouth was on track for takeover in line with the planned costs and timetable. Growth capex invested to date is supporting increased earnings in Viridor now and into the future. We continued to maximise value from landfill and invest in landfill gas for improved longer-term yields. There was a continuing focus on enhancing health and safety and on increasing our customer service. To ensure we bring in sufficient talent for the future, and increase diversity within our workforce, we increased our graduate intake during the year, assigning them to management programmes or more specialised engineering roles across the UK.

#### A more sustainable waste value chain

A significant development in 2018 was the publication in December of the UK Government's Resources and Waste Strategy for England. This has provided strong and positive momentum, including the adoption of the 'producer pays' principle to cover the costs of recycling, steps to get plastics producers to include more recycled content in their products, recognition of the role of energy recovery, and a more consistent approach to council collections. In April 2018, Viridor became a founder signatory to the UK Plastics Pact. Supported by the UK Government, this initiative brings together consumer brands, packaging, retail and recycling companies to tackle plastic pollution and to maximise recycling and reprocessing opportunities. We welcome the establishment of the Plastics Pact because it enables all stakeholders to facilitate meaningful change on plastic. Collaboration across the supply chain is increasingly important, especially in view of the October 2018 Budget announcement of a tax on plastic packaging which uses less than 30% recycled content.

Viridor will continue to play a leading role in support of the UK's resource and energy efficiency goals, putting more recycled material back into a low-carbon, circular economy. The 2018 Viridor UK Recycling Index released in September showed clearly that public concern over plastics use, for example, is at an all-time high. We made excellent progress with customers from the fast-moving consumer goods sector during the year in developing 'closed-loop' solutions that supply high quality recycled plastics reducing the volume of virgin material required. These relationships are already established, and we expect to collaborate further so that we lead major change in this market.



## Strategic report (continued)

### Operational Review (continued)

#### Strong ERF performance

The market fundamentals for ERFs remain robust, with the gap between combustible residual waste arising and ERF capacity forecast to remain around seven million tonnes per annum to 2035. The autumn 2018 UK Budget noted that 'the Government recognises the important role energy recovery currently plays in waste management in the UK'. The Viridor portfolio processes a fifth of the UK's ERF combustible waste tonnage processed at an ERF and we continue to optimise our assets through capacity expansions, heat transfer and offtake opportunities. Our ERF portfolio offers the potential for establishing integrated energy parks, providing heat and power, and so creating further value from these assets.

The ERFs performed well during the year with availability again exceeding 90% across our operational portfolio (including joint ventures). We are successfully leveraging our operational experience and capabilities to enhance ERF efficiency and expand throughput, typically in the range of between 3% and 5%. We have successfully increased the permitted capacity at Runcorn (combined Runcorn I and Runcorn II) by circa 15%. As we continue to optimise our performance, we completed more of our planned maintenance outages in the first half of the financial year, when electricity demand and pricing is lower. We are also sequencing these planned shutdowns to make that process as efficient as possible. Our ERF teams have done excellent work delivering planned outages on time and on budget while carefully coordinating operations with our customers and our supply chain.

Glasgow, Beddington and Dunbar became operational during the year. We have invested at Glasgow which will increase capability. As we have previously reported, construction at Glasgow required a higher level of remediation and expenditure than predicted. Viridor is contractually entitled to recover costs from the original principal contractor, Interserve, under certain circumstances. We are looking to recover up to £97 million of this additional expenditure (contractual receivable from Interserve Construction Limited £72 million; other, including all contractors and advisors £25 million).

Our latest ERF at Avonmouth is progressing well and upon completion in 2020/21 will allow local authorities and businesses to transform 320,000 tonnes of non-recyclable residual waste each year into low carbon energy. We have secured an additional 120,000 tonnes p.a. of waste from the West of England Partnership resulting in 85% of Avonmouth inputs now being contracted. Our ERF operational design capacity is now 2.8 million tonnes of waste (including joint ventures) and 233MW p.a. When Avonmouth comes on stream, this will extend to 3.1 million tonnes of waste and 267MW.

#### Landfill sites are integral to our residual waste strategy

Our analysis indicates a requirement for a landfill solution into the medium term and, as landfill sites close, some parts of the country will experience a capacity shortage. Against this background, Viridor's landfill sites are well positioned to support future market requirements. The available void on operating sites is approximately 27 million cubic metres, with six sites providing capacity into the medium term. Viridor continued to operate nine landfill sites following the planned closure of two sites during the year. Total consented landfill capacity (including mothballed sites) was 35 million cubic metres at 31 March 2019. We have a good track record of restoring our sites for alternative uses with three landfill sites repurposed for development in recent years in a manner that meets or exceeds our environmental duties. Agreement has been reached to transfer a further closed landfill site for alternative use in 2019/20, mitigating long-term liabilities, and we continue to seek opportunities for similar transactions.

Landfill volumes and average gate fees were comparable with the prior year at 1.5 million tonnes and £20 per tonne. We continued to maximise the value of landfill gas power generation and explored alternative commercial development opportunities and other renewable energy solutions at our landfill sites, such as photovoltaic (PV). We continue to manage our landfill gas business with the aim of maximising the value of landfill gas power generation. We direct gas collected from our landfill sites to engines that generate electricity. The natural decline in underlying landfill gas volumes has continued, but the rate of decline in electricity volumes generated is lower than in recent years. We will continue to invest in landfill gas to provide reliable generation and improve the longer-term yields. The benefit of higher year-on-year hedged electricity prices helped support overall performance.

At present, our landfill gas engines contribute 86MW of landfill gas generation capacity, a small decrease from 88MW at the end of the prior year. Viridor also has a PV capacity of 3.2MW. We currently have surplus grid connection capacity at some sites, which presents an opportunity for growth subject to suitable capital

## **Strategic report (continued)**

### **Operational Review (continued)**

investment. Average revenue per megawatt hour (MWh) increased by 4% to £97 (2017/18 £93). Average operating costs increased to £48 per MWh (2017/18 £41) reflecting increased investment in planned preventative maintenance.

#### **Investing in recycling**

Viridor has committed to a new £65 million plastics recycling facility, with the investment reflecting a de-risked infrastructure model backed by index linked contracts. The 80,000 tonne capacity facility represents around 8% of current market requirement and will be co-located with the Avonmouth ERF that is currently under construction. The new facility will handle multi-stream plastics (including polyethylene terephthalate, high density polyethylene and polypropylene), and produce output pellets directly for manufacture. Building on our existing commercial relationships, we have already secured contracts for the majority of the inputs and outputs of the plant. The investment has been assessed based on a hurdle post tax internal rate of return of 15% and has a payback of under four years. We are also investing £15 million in a full refurbishment of our Masons MRF near Ipswich, which will support a 10-year contract with Suffolk County Council to process recyclate into high-quality output.

#### **Existing recycling operations**

There was a partial recovery of global recycling markets in 2018/19 following import restrictions by China in the prior year and we see ongoing value in high quality recyclate. We focused throughout the year on producing higher quality recyclates, through investment in our assets, including our reliability centred maintenance programme WorkSmart. Enhancement of the quality of recycled paper was the main aim of the upgrade at our Crayford materials recycling facility (MRF) near Dartford. The global quality standard for recycled output has increased, especially for paper, card and plastic, and we have aligned with market requirements. In the UK, input quality has remained poor, largely as a result of councils reducing their collection schemes due to austerity cost pressures. Paper prices improved from the second half of last year, and pricing on other commodities was slightly ahead. This, together with our emphasis on producing high quality outputs contributed to an increase in revenue per tonne to £115 from £97 per tonne in the prior year. We have incurred higher costs in producing the right quality recyclate, but recycling margins have improved year on year.

Viridor is seeking to sell recyclate close to the point of recycling and an increasing proportion now stays in the UK or is taken by European markets. For recycled paper, we have successfully reduced our reliance on China but have also ensured we can meet China's quality requirements as required. To help mitigate our exposure to recyclate price volatility, we continue to share commodity risks and rewards with our customers. Over 60% of our ongoing contracted input volumes continue to share commodity risk. Our recycling business finished the year in line with our expectations.

#### **Contracts, collections & other**

We continued to work closely with local authorities to ensure the long-term sustainability of our business relationships. For example, we agreed with Somerset Waste Partnership a nine-year, £80 million extension of their comprehensive waste management contract to 2031. Our collections business continues to provide a valuable service to our customers, sourcing both recycling and residual waste for treatment and processing at our own ERF, landfill and recycling assets as well as at third party facilities.

In September 2017 we successfully negotiated a reset to the contract with Greater Manchester Waste Disposal Authority (now the Greater Manchester Combined Authority (GMCA)), achieving a positive outcome. The contract to operate the recycling assets on behalf of the GMCA then entered a run off period. In November 2018, Viridor withdrew from the new Greater Manchester waste operating contract tender process. As we near the end of the successful operation of the run off period, on 31 May 2019, we are well positioned for an orderly transition at the end of the contract. The financial impact of not continuing with this operating contract is not material to the Group, and our position with the ERFs at Runcorn is unaffected.

#### **Joint ventures performing well**

The TPSCo joint venture (between Viridor and Inovyn) has also performed strongly during the year with availability again in excess of 90%. In December 2018, Viridor exercised its pre-emption rights and agreed a £54.8 million cash consideration to acquire John Laing Investments Limited's 37.5% economic interest and 20% voting rights in the Runcorn I ERF. The acquisition consolidates further Viridor's leading market position

## **Strategic report (continued)**

### **Operational Review (continued)**

in UK energy recovery and results in an increase to the Group's economic interest in INEOS Runcorn (TPS) Holdings Limited from 37.5% to 75.0%, with the associated voting rights moving from 20% to 40%. *Underlying operational and financial performance at our Lakeside ERF (a 50:50 joint venture with Grondon Waste Management) again exceeded expectations for both waste processing and power generation.*

#### **Enhancing safety and compliance**

Viridor focused heavily on enhancing safety throughout the year by implementing the Pennon Group-wide HomeSafe initiative, which seeks to deliver the highest standards in health and safety. The Group maintains a proactive and positive relationship with its environmental and performance regulators. 90% of all Viridor's permitted and licenced sites achieve the top two compliance bandings, as assessed by the Environment Agency, Scottish Environmental Protection Agency (SEPA) and Natural Resources Wales (91% in 2017).

During 2018, we had no pollution incidents or Category 1 (major) environmental permit non-compliances. We received three Category 2 non-compliances (one in 2017), one of which is contested, the other two being for paper storage and litter management at a recycling facility and for odour at a landfill site. We also received a significant non-compliance from SEPA for a plastics storage fire. We have agreed action plans with the regulators to upgrade infrastructure at these sites to further reduce environmental and amenity risk.

#### **Improving customer service**

We continue to recognise the value of feedback from our customers to help us continue to deliver improvement in customer service. We ask customers to provide feedback about Viridor's service on the Trustpilot review platform. In 2018/19, we received a rating of 7.1 out of 10. We continue to gather customer reactions to our performance through online and offline channels. Our customer wins during the year include a two-year waste management contract at Hinkley Point C power station in Somerset, which seeks to deliver a zero-to-landfill service for EDF Energy and principal contractors. We also won a new two-year waste management contract for Safestore, the UK's largest self-storage provider.

#### **Viridor's new strategic options**

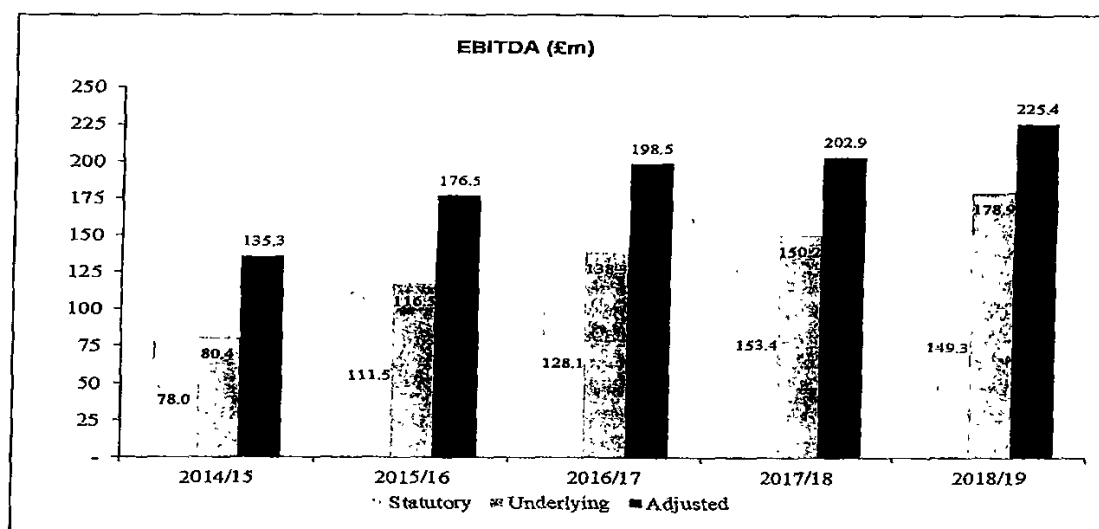
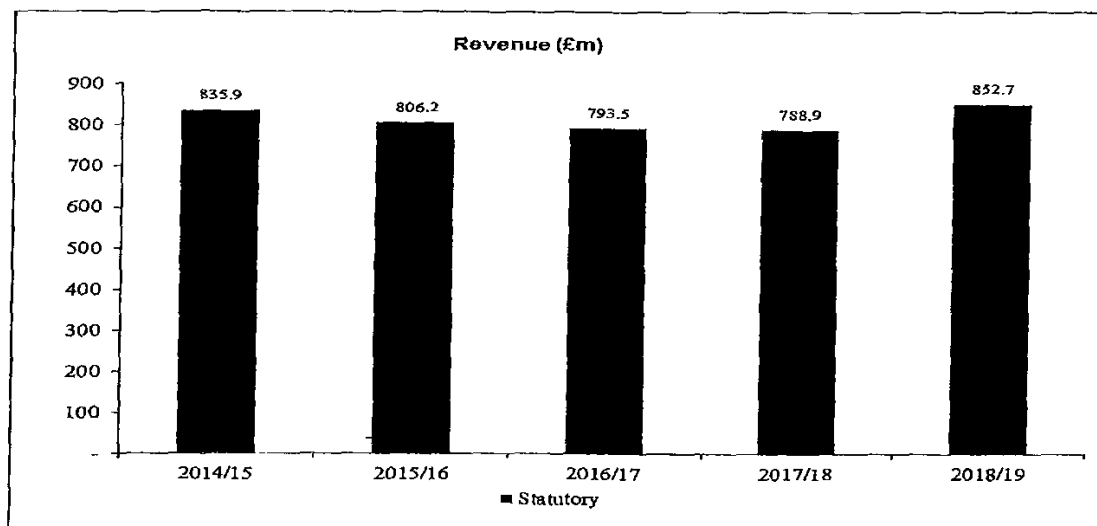
Against a positive market backdrop, we have developed new strategic options for Viridor. First, recognising that under-capacity in the UK residual waste market varies by geography, we have identified three new ERF opportunities for further analysis. For landfill, we see strong medium-term demand and are keeping sites open for longer while creating new landfill cells where there is commercially attractive demand. We are also continuing to invest in landfill gas. Second, we see new opportunities in recycling that are akin to our residual waste operations and we are therefore conducting feasibility studies into building two further plastics processing facilities. Our intention in plastics would be to implement the contract-backed, index-linked return model we have successfully developed in our ERF operations. Third, we are exploring opportunities for integrated energy parks at our ERF and landfill sites. Energy parks would provide competitively priced heat and power as an alternative to the national grid potentially involving provision of wind and solar power. We already have several such connections, including our Runcorn ERF that has a heat and power offtake to Inovyn, Peterborough ERF where we provide a heat connection to a council depot, and our landfill gas engines and ERF at Beddington, which provide heat offtake into a community heating network.

#### **Community engagement through education, sponsorships and donations**

Viridor plays a highly visible role in communities surrounding operational sites. Our 11 educational centres received over 8,000 visitors in the year and we helped to deliver over 50 outreach events. Our visitor centre at Ardley ERF, near Oxford, runs tailored educational programmes to teach children and adults about sustainable waste management. We also run community liaison groups to provide updates on our operations and respond to feedback. During the year, Viridor provided £7.2 million to community support, sponsorship and charitable donations. Some £6.9 million of this was paid to Viridor Credits, an independent, not-for-profit organisation that administers Viridor's contributions to the Landfill Communities Fund. Our charitable donations scheme helped projects supporting STEM (science, technology, engineering and maths), environmental, resource and recycling education initiatives, communities coming together through sport and community events and communities focused on improving the quality of life for disadvantaged and priority groups. We also continued our local community volunteering activity with our employees donating 124 days in the year.

**Strategic report (continued)**

**FINANCIAL KPIs**



**Strategic report (continued)**

**FINANCIAL REVIEW**

Viridor is delivering sustainable growth in UK recycling and residual waste. With a de-risked infrastructure model, our investment is backed by profitable long-term contracts. The successful build out of the ERF portfolio, in a market showing under-capacity, will strongly support earnings growth to 2020 and beyond. During the year Viridor acquired a further 37.5% stake in the joint venture at Runcorn I ERF for £54.8 million, bringing its total economic interest to 75%. The associated voting rights moved from 20% to 40%. There is potential for further momentum from ERF portfolio expansion and development of energy park opportunities across the landfill and ERF portfolio.

Balancing operational risk and reward remains a key component of our financial and business strategy. Across our operations, we are successfully reducing risk by overlaying our long-term assets with long-term commercial arrangements. This applies to any aspect of our operations from working with local authorities on long-term waste solutions to our investment into developing the ERF portfolio. This policy is enhancing our resilience and sustainability.

**Statutory financial performance**

Viridor's statutory results showed profit before tax of £58.9 million (2018: £77.3 million). The statutory results include the impact of non-underlying items totalling a charge before tax of £29.6 million (2018: £6.5 million credit before tax). The Directors believe excluding non-underlying items provides a more useful comparison on business trends and performance.

**Underlying financial performance**

Viridor underlying revenue was £852.7 million (2018: £785.7 million) an increase of £67.0 million (8.5%) primarily due to the ERF build out. Viridor's adjusted EBITDA was £225.4 million (2018: £202.9 million) an increase of £22.5 million (11.1%).

The ERF business has performed strongly during the period, in line with expectations. The EBITDA generated from our portfolio was 25.1% higher at £154.8 million (2018: £123.7 million) reflecting financial contributions from three new ERFs in the year and increased like for like performance at established facilities.

Landfill EBITDA has decreased by 14.3% to £4.8 million from £5.6 million reflecting the mix of waste deposited at our sites. We continue to see demand for a landfill solution into the medium term, and have sites well positioned to meet these demands. As part of the planned closure profile, two sites were closed in the year and we anticipate operating at a level of six sites in the medium to long term.

In our landfill gas business we are currently progressing our engine replacement strategy, including investing in maintenance and more efficient engines. This is improving reliability and securing generation for the longer term, while optimising the generating capacity potential at our sites. EBITDA for the year at £20.6 million, is down 11.6% from the prior year (2018: £23.3 million), reflecting the natural decline in gas volumes and higher maintenance costs. The benefit of higher year on year hedged electricity prices which has helped support the overall performance.

Recycling EBITDA at £14.9 million is in line with 2018 at £15.0 million. Our focus continues to be on the production of higher quality recyclates through our reliability centred maintenance programme WorkSmart to create margin improvement. While recycle volumes traded have decreased, EBITDA margin has increased by £1.30 per tonne (12%) to £12.40 per tonne (2018: £11.10 per tonne) reflecting recovery in the global recycling markets net of the costs of challenging input quality. We continue to share commodity risks and rewards with our customers, with risk/reward share arrangements in place for above 60% of inputs.

**Strategic report (continued)**

**Financial Review (continued)**

**Underlying financial performance (continued)**

Contracts, Collections and Other EBITDA at £39.0 million was broadly comparable with 2018 at £39.3 million. Following last year's reset, the Greater Manchester run-off operating contract financial results are in line with our expectations. The Greater Manchester run off operating contract is due to end on 31 May 2019 and we continue with the orderly transition towards its cessation, while maintaining high levels of service. The financial impact of not continuing with this operational contract is not material to the Group.

Joint venture EBITDA has reduced from £38.9 million in 2018 to £31.9 million as a result of the contract reset at Greater Manchester in September 2017, net of the £2.7 million impact of the increased economic share, from 37.5% to 75%, in the Runcorn I ERF joint venture. The contract reset saw both the disposal of our Viridor Laing joint venture and the introduction of a lower contractual EBITDA for the Runcorn I ERF joint venture following the repayment of external debt. This reduction in EBITDA was offset by interest savings in the joint venture profit after tax result. Runcorn I ERF continues to deliver strong operational and financial performance. IFRIC 12 interest receivable at £14.6 million is broadly comparable with the 2018 figure of £13.8 million.

Viridor's indirect costs continued to fall with a reduction of £1.5 million to £55.2 million (2018: £56.7 million) and are 17% lower in real terms than 2016.

**Net finance costs**

During the year underlying net finance costs were £27.8 million (2018: £20.1 million); excluding pensions net interest cost £0.5 million, discount unwind on provisions £11.1 million and IFRIC 12 contract interest receivable £14.6 million.

**Non-underlying items**

Non-underlying items for the year total a charge of £29.6 million before tax (2018: credit of £6.5 million) and the tax credit arising on these non-underlying items was £5.6 million (2018: credit of £3.0 million).

Non-underlying items comprise a provision increase in respect of receivables for recovery of rectification and completion costs for Glasgow Recycling and Renewable Energy Centre (GRREC) (charge before tax of £28.7 million) and past pension service cost for guaranteed minimum pension (GMP) equalisation (charge before tax of £0.9 million). Details are set out in note 5 to the financial statements.

## **Strategic report (continued)**

### **Financial Review (continued)**

#### **Capital investment**

Viridor's capital spend in the period was £241.7 million (2018: £213.0 million), an increase of £28.7 million. The majority of capital investment continues to relate to growth projects driving increased earnings now and into the future, with £207.7 million of total spend relating to the ERF portfolio. As well as reflecting the move into operation of three ERFs and continuing construction at Avonmouth, the expenditure in the year included additional investment at Glasgow securing incremental throughput capacity. Also included are lifecycle capital expenditure on our operational ERFs and development of our Clyde Valley ERF fuel supply facility. On-going restoration and remediation programmes continue for our landfill assets, ensuring we meet or exceed our environmental duties and responsibilities.

#### **Dividends**

Viridor paid dividends totalling £73.6 million in the year (2018: £50.6 million).

#### **Liquidity and debt profile**

Viridor's loans and finance lease obligations were £1,176.0 million (2018: £1,013.9 million). Viridor's cash holdings were £36.1 million (2018: £42.5 million) and overdraft was £91.7 million (2018: nil).

Loans from the ultimate parent company loans were £1,017.7 million (2018: £843.9 million). Details of interest on the ultimate parent company loans are set out in note 39 to the financial statements. Finance lease liabilities were £158.3 million (2018: £170.0 million), with interest linked to the movement in the London interbank offered rate (LIBOR). Bank overdrafts were £91.7 million (2018: nil) at 0.25% above Barclays Bank Plc base rate. Details of Viridor's borrowings are set out in note 25 to the financial statements.

Viridor receives treasury services from the treasury function of Pennon Group Plc, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies, and manages interest rate risk. Full management of treasury policies and objectives is undertaken by Pennon Group Plc including liquidity management and management of debt structure and related debt finance costs.

#### **Capital structure**

Viridor's capital structure is managed by Pennon Group Plc.

#### **Taxation strategy**

Tax strategy is determined by Pennon Group Plc.

#### **Pensions**

The Group participates in defined benefit and defined contribution pension schemes operated by Pennon Group Plc. The Pennon Group defined benefit scheme was closed to new entrants in 2003. The Group operates a defined benefit scheme specifically for its subsidiaries Viridor Waste (Somerset) Limited and Viridor Waste (Greater Manchester) Limited. The Group's pension schemes showed a deficit (before deferred tax) of £34.7 million (2018: £23.5 million).

#### **Insurance**

The management of property and third-party liability risks are undertaken by Pennon Group Plc.

## Strategic report (continued)

### RISK REPORT

#### Risk management and internal control framework

Viridor faces a variety of risks which, should they arise, could materially impact its ability to achieve its strategic priorities. The effective management of these existing and emerging risks is, therefore, essential to the long-term success of the Group.

Viridor manages risk in accordance with the Pennon Group-wide integrated risk management framework. A consistent methodology is applied to the identification, evaluation and management of the principal risks which considers both the likelihood of the risk occurring and the potential impact from a stakeholder and customer, financial, management effort and reputational perspective. Principal and other risks are captured in risk registers which are regularly reviewed and challenged. Viridor seeks to reduce its risk exposure, in line with the desired risk appetite and tolerance levels, through the operation of a robust internal control environment.

#### Principal risks and uncertainties

Viridor's business model exposes the business to a variety of external and internal risks. The assessment of principal risks is informed by the potential impact of macro political, economic and environmental factors. Whilst the ability of the Group to influence these macro level risks is limited, they continue to be regularly monitored and the potential implications on the Group are considered as part of the on-going risk assessment process.

For each principal risk we report; Strategic Impact on the long-term priorities affected (Leadership in UK waste, Leadership in cost base efficiency and Driving sustainable growth), Mitigation approach, Net risk after mitigation (High, Medium, or Low) and net risk change (Increasing, Stable, or Decreasing) and Risk Appetite.

#### Law, regulation and finance

Principal Risks	Strategic Impact	Mitigation	Net Risk	Risk Appetite
Compliance with Laws and regulations	<p>Long-term priorities affected: Leadership in UK waste and Leadership in cost base efficiency.</p> <p>Non-compliance may result in financial penalties, a negative impact on our ability to operate effectively and reputational damage.</p>	<p>We operate a robust and mature regulatory framework which ensures compliance. We continue to provide a rolling programme of training and guidance to our staff, contractors and partners, including the Data Protection Act 2018 and the General Data Protection Regulation (GDPR). During the year we have also followed the Pennon Group-wide Code of Conduct and Supply Chain Code of Conduct. The 'Speak Up' whistleblowing process allows any concerns to be raised confidentially.</p>	<p>Low Net Risk</p> <p>Increasing Risk Level</p>	<p>We have the highest standards of compliance and have no appetite for legal and regulatory breaches.</p>
Non-compliance or occurrence of avoidable health and safety incident	<p>Long-term priorities affected: All.</p> <p>A breach of health and safety law could lead to financial penalties, significant legal costs and damage to the Group's reputation.</p>	<p>The effective management of health &amp; safety risks continues to be a priority. Experienced health &amp; safety professionals are providing advice, guidance and support to operational staff. During the year the Group progressed the full roll out of the HomeSafe programme.</p>	<p>Medium Net Risk</p> <p>Stable Risk Level</p>	<p>We have no appetite for incidents and have the highest standards of compliance within the Group and third parties.</p>



**Strategic report (continued)****Risk Report (continued)****Law, regulation and finance (continued)**

Principal Risks	Strategic Impact	Mitigation	Net Risk	Risk Appetite
Failure to pay all pension obligations as they fall due and increased costs to the Group should the deferred pension scheme deficit increase	<p>Long-term priorities affected: Leadership in cost base efficiency.</p> <p>The Group could be called upon to increase funding to reduce the deficit, impacting our cost base.</p>	We engage professional advisors to manage the pension scheme's investment strategy, ensuring the scheme can pay its obligations as they fall due. During the past year there has been a significant decrease in bond yields resulting from uncertainty over Brexit, which has resulted in an increased deficit position.	<p>Medium Net Risk</p> <p>Increasing Risk Level</p>	We will ensure that all obligations are met in full but seek to manage this without unnecessary increased costs to the Group.

**Market and economic conditions**

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Macro-economic risks impacting commodity and power prices	<p>Long-term priorities affected: Driving sustainable growth.</p> <p>Challenges such as continued local authority austerity, reduced global demand for our recycled commodities and decreases in power prices have a direct impact on the revenues generated by our recycling and energy business.</p>	We remain well positioned across the waste hierarchy with long term contracts supporting the ERF business. While recycle markets have improved during the year, continuing to meet the quality requirements within China and other markets remains a key area of focus in addition to sourcing other potential markets. Extensive planning in the event of a Brexit 'no deal' scenario has also been undertaken. Energy risk management, including forward hedges, is undertaken at a Penmon Group level.	<p>High Net Risk</p> <p>Stable Risk Level</p>	We seek to take well-judged and informed decisions while ensuring plans are in place to mitigate the potential impact of macro-economic risks.

**Operating performance**

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Poor operating performance due to extreme weather or climate change	<p>Long-term priorities affected: Leadership in UK waste.</p> <p>Failure of our assets to cope with extreme weather conditions may lead to an inability to meet our customers' needs, environmental damage, costs and reputational damage.</p>	The increased frequency and impact of extreme weather exposes our assets to risk. We seek to mitigate this risk through our planned capital investment, emergency resources and contingency planning. We have in place regional adverse weather management strategies aimed at reducing disruption to site operations and transport logistics.	<p>Medium Net Risk</p> <p>Stable Risk Level</p>	We seek to reduce both the impact and likelihood through planning and forecasting to ensure that measures are in place to mitigate the impact on our operations.

**Strategic report (continued)**

**Risk Report (continued)**

**Operating performance (continued)**

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Business Interruption or significant operational failures/ incidents	<p>Long-term priorities affected: Leadership in UK waste and Driving sustainable growth.</p> <p>Business interruption caused by defects, outages or fire could impact the availability and optimisation of our ERFs and recycling facilities.</p>	<p>We maintain detailed contingency plans and incident management procedures which are reviewed regularly, and assets are managed through a programme of planned and preventive maintenance and effective management of stores. Extensive Group wide Brexit 'no-deal' planning has also been undertaken. The focus on the effective optimisation of the ERF fleet has resulted in &gt;90% availability.</p>	<p>Medium Net Risk</p> <p>Increasing Risk Level</p>	<p>We operate a low tolerance for significant operational failure and incidents and seek to mitigate these risks where possible.</p>
Difficulty in recruitment, retention and development of appropriate skills, which are required to deliver the Group's strategy	<p>Long-term priorities affected: All.</p> <p>Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.</p>	<p>Our HR Strategy continues to be embedded and a range of initiatives have been delivered during the year to attract, retain and develop our employees. Succession plans remain in place for senior and other key positions. The Viridor Employee Voice Forum provides opportunities for employees to regularly discuss business priorities and challenges with business leaders. Mitigating actions have also been taken to reduce the potential impact of a Brexit 'no-deal' scenario on our workforce.</p>	<p>Medium Net Risk</p> <p>Stable Risk Level</p>	<p>While turnover of staff does occur, we ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.</p>

**Strategic report (continued)**

**Risk Report (continued)**

**Business systems and capital investment**

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Failure or increased cost of capital projects/exposure to contract failures	<p>Long-term priorities affected: Leadership in UK waste and Driving sustainable growth.</p> <p>Inability to successfully deliver our capital programme may result in increased costs and delays and detrimentally impacts our ability to provide top class customer service and achieve our growth agenda.</p>	<p>All capital projects are subject to a robust business case process which includes challenge and risk modelling over key assumptions. Projects are delivered using skilled project management resources complimented by senior oversight and leadership.</p> <p>As a result of the financial challenges experienced by large contractors in the construction sector, there is a reduced appetite for large waste construction projects, resulting in a general lack of commercial tension. Regular monitoring is performed on the financial health of key contractors and supply chain partners. The construction of Avonmouth ERF is progressing well with completion on track for 2020/21. We are contractually entitled to recover funds from the original principal contractor Interserve Construction Limited, resulting from remediation work at Glasgow and we will take all necessary legal and procedural steps to achieve this.</p> <p>The redevelopment of Heathrow Airport continues to be closely monitored, with the Lakeside ERF joint venture located on the site of the proposed third runway. Lakeside ERF would have to be removed in the event this redevelopment occurs and we would expect to be fully compensated for the rebuild of the facility on a like for like basis. An alternative site has been identified with detailed site studies and environmental assessments currently being undertaken.</p>	<p>High Net Risk</p> <p>Increasing Risk Level</p>	<p>Investment activities are taken on an informed basis with risks weighed against appropriate returns.</p>

**Strategic report (continued)**

**Risk Report (continued)**

**Business systems and capital investment (continued)**

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Failure of information technology systems, management and protection including cyber risks	<p>Long-term priorities affected: Leadership in UK waste.</p> <p>Failure of our information technology systems, due to inadequate internal processes or external cyber threats could result in the business being unable to operate effectively and the loss of data. This would have a detrimental impact on our customers and result in financial penalties and reputational damage.</p>	<p>We operate a mature and embedded governance framework over the 'business as usual' IT environment and major project implementations aligned to ISO27001 standards. Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed and tested. Cyber threats continue to increase in volume and sophistication. These risks are mitigated by a strong information security framework aligned to guidance issued by the National Cyber Security Centre (NCSC).</p>	<p>Medium Net Risk</p> <p>Increasing Risk Level</p>	<p>We seek to minimise the risk of Informational technology failure and cyber security threats to the lowest level without detrimentally impacting on business operations</p>

**Strategic report (continued)**

**Risk Report (continued)**

**Britain's exit from the European Union**

During the year the Group has continued to evaluate and monitor the potential risks and opportunities arising from Britain's decision to exit the European Union (EU). Cross functional working groups have been established and mitigation plans have been implemented focusing on those activities which are likely to be most impacted in the event of the UK leaving the EU without a withdrawal agreement. While no single issue is considered to expose the Group to material risk, it is recognised that the combination of multiple issues or events concurrently could result in some disruption in the period immediately after leaving the EU in the event of a 'no-deal' scenario. Plans have been established which seek to minimise the potential impact on the Group and its operations.

**Forward-looking statements**

This strategic report, consisting of pages 2 to 20, contains forward-looking statements regarding the financial position; results of operations; cash flows; dividends; financing plans; business strategies; operating efficiencies; capital and other expenditures; competitive positions; growth opportunities; plans and objectives of management; and other matters. These forward-looking statements including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to the Group, wherever they occur in this strategic report, are necessarily based on assumptions reflecting the views of the Group, as appropriate. They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Such forward-looking statements should, therefore, be considered in the light of relevant factors, including those set out in this section on principal risks and uncertainties.

The strategic report consisting of pages 2 to 20 was approved by the Board on 30 May 2019.

On behalf of the Board



**Elliot Rees**  
**Finance Director**  
30 May 2019

## **Directors' report**

The Directors' report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 21 to 23 as well as any matters incorporated by reference.

Information regarding Viridor, including events and its progress during the year, events since the year-end and likely future developments is contained in the strategic report set out on pages 2 to 20 of this Annual report.

In addition, and in accordance with s414C of the Companies Act 2006, the strategic report contains a fair, balanced and comprehensive review and analysis of the development and performance of the Company's business during the year, the position of the Company's business at the end of the year, a description of the principal risks and uncertainties facing the Company (including environmental, social and governance (ESG) risks), and financial and non-financial key performance indicators (including environmental matters and employee matters).

The subsidiaries of the Company are listed in note 35 to the financial statements.

## **Financial results and dividend**

The profit on ordinary activities after charging non-underlying items and taxation was £54.0 million (2018: £39.9 million).

The Directors do not recommend a final dividend (2018: nil). A first interim dividend of 3.02p per Ordinary share was paid during the year (2018: 9.23p per Ordinary share). A second interim dividend of 5.18p per Ordinary share was paid during the year (2018: nil).

The review of performance on pages 2 to 20 analyses the Group's financial results in more detail and sets out other financial information.

## **Directors**

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

P C Piddington  
E A J Rees  
P M Ringham

No Director has, or has had, a material interest, directly or indirectly, at any time during the year.

## **Directors' insurance and indemnities**

The Directors have the benefit of the indemnity provisions contained in the Company's Articles and the Company has maintained throughout the year Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its Officers. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

## **Directors' report (continued)**

### **Employment policies and employee involvement**

The average number of employees during the year was 3,426 (2018: 3,285). Details of the related costs can be found in note 11 to the financial statements.

Employee consultation is maintained via a number of means including formalised trade union processes, consultative committees and specific working groups. All these are chaired by senior management of the Group, with representatives drawn from all functional areas as appropriate. These forums, together with regular meetings, are used to ensure that employees are kept up to date with the Group's business performance and financial and economic factors affecting performance. Information is cascaded regularly to all employees to provide them with important and up to date information about key events.

A performance appraisal system exists for all non-manual staff and managers. Viridor uses a range of incentivisation arrangements as appropriate to each group of workers and job satisfaction is supported by encouraging role changes wherever possible within the Group to help employees gain broad experience of business activities.

Viridor, as a 'good employer' has introduced a number of 'family-friendly' policies, which exceed statutory requirements.

All employees are entitled to participate in the Pennon Group Sharesave Scheme, which is an all-employee plan without performance conditions. Occupational health and safety remain key elements of Viridor's assessment of risk management. Training in skills acquisition and health and safety continues to ensure that employees have the knowledge and expertise to undertake their jobs to the best of their ability.

Viridor is committed to ensuring that no current or future employee is disadvantaged because of age, gender, religion, colour, ethnic origin, marital status, sexual orientation or disability. Viridor's equal opportunities policy ensures that there is no bias or discrimination in the availability of training and opportunities for career development and promotion.

In particular, Viridor welcomes applications for employment from disabled persons and makes special arrangements and adjustments as necessary to ensure that disabled applicants are treated fairly when attending for interview or for pre-employment aptitude tests.

Wherever possible, the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within Viridor.

### **Financial risk management policy**

The Company's financial risk management policy is set out at note 3 of the financial statements.

### **Financial instruments**

Details of the Company's financial instruments are provided in note 2(q) and note 16 of the financial statements.

### **Donations**

No political donations were made, or political expenditure incurred, and no contributions were made to a non-EU political party.

### **Going concern**

Having considered the Group's funding position and financial projections, the Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Directors' report** (continued)

**Independent auditors**

Independent auditors Ernst & Young LLP are deemed to be reappointed auditors of the Company in accordance with section 487(2) of the Companies Act 2016.

Ernst & Young LLP have indicated their willingness to continue as auditors.

**Statement as to disclosure of information to auditor**

- a) So far as each of the Directors in office at the date of the signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) each Director has taken all the steps each Director ought to have taken individually as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Likely future developments**

Likely future developments are covered in the strategic report.

**Post balance sheet events**

There were no post balance sheet events.

The Directors' report was approved by the Board on 30 May 2019.

By Order of the Board



**S E Massie**  
**Company Secretary**  
30 May 2019



## **Directors' Responsibility Statement**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 of the Group and the Company and of the profit or loss of the Company and Group 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;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRIDOR LIMITED**

### **Opinion**

We have audited the financial statements of Viridor Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Group Profit and Loss Account, the Group and Parent company Balance Sheet, Group statement of cash flows, the Group statement of comprehensive income, the Group and Parent statement of changes in equity and the related notes 1 to 40, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit or 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 IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; 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 below. We are independent of the group and 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, 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 twelve months from the date when the financial statements are authorised for issue.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRIDOR LIMITED (continued)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the 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 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 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 by the parent company, 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 set out on page 24, 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRIDOR LIMITED (continued)**

### **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 <https://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 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 company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Paul Mapleston (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Bristol

30 May 2019

**Consolidated income statement**  
for the year ended 31 March 2019

		2019 Before non- underlying items £m	2019 Non- underlying items (Note 5) £m	2019 Total £m	2018 Before non- underlying items £m	2018 Non- underlying items £m	2018 Total £m
<b>Revenue</b>	6	<b>852.7</b>	<b>-</b>	<b>852.7</b>	<b>785.7</b>	<b>3.2</b>	<b>788.9</b>
<b>Operating costs</b>	6						
Manpower costs		(138.6)	(0.9)	(139.5)	(130.8)	-	(130.8)
Raw materials and consumables used		(94.3)	-	(94.3)	(91.9)	-	(91.9)
Other operating expenses		(440.9)	(28.7)	(469.6)	(412.8)	-	(412.8)
<b>Profit before interest, tax, depreciation, amortisation and share of profit from joint ventures</b>		<b>178.9</b>	<b>(29.6)</b>	<b>149.3</b>	<b>150.2</b>	<b>3.2</b>	<b>153.4</b>
Depreciation		(73.5)	-	(73.5)	(68.7)	-	(68.7)
Amortisation of intangibles		(4.5)	-	(4.5)	(3.0)	-	(3.0)
<b>Operating profit</b>		<b>100.9</b>	<b>(29.6)</b>	<b>71.3</b>	<b>78.5</b>	<b>3.2</b>	<b>81.7</b>
Finance income	7	26.2	-	26.2	27.1	-	27.1
Finance costs	7	(51.0)	-	(51.0)	(44.2)	(19.2)	(63.4)
<b>Net financing</b>	7	<b>(24.8)</b>	<b>-</b>	<b>(24.8)</b>	<b>(17.1)</b>	<b>(19.2)</b>	<b>(36.3)</b>
Share of post-tax profit from joint ventures	18	12.4	-	12.4	9.4	22.5	31.9
<b>Profit before tax</b>		<b>88.5</b>	<b>(29.6)</b>	<b>58.9</b>	<b>70.8</b>	<b>6.5</b>	<b>77.3</b>
Taxation	8	(10.5)	5.6	(4.9)	(11.5)	(25.9)	(37.4)
<b>Profit/ for the year</b>		<b>78.0</b>	<b>(24.0)</b>	<b>54.0</b>	<b>59.3</b>	<b>(19.4)</b>	<b>39.9</b>
Profit attributable to owners of the parent				54.2			39.7
(Loss)/profit attributable to non-controlling interests				(0.2)			0.2
				<b>54.0</b>			<b>39.9</b>

The notes on pages 35 to 101 form part of these financial statements.

**Consolidated statement of comprehensive income**  
for the year ended 31 March 2019

	Note	2019 Before non- underlying items £m	2019 Non- underlying items (Note 5) £m	2019 Total £m	2018 Before non- underlying items £m	2018 Non- Underlying items £m	2018 Total £m
<b>Profit for the year</b>		<b>78.0</b>	<b>(24.0)</b>	<b>54.0</b>	<b>59.3</b>	<b>(19.4)</b>	<b>39.9</b>
Re-measurement of defined benefit obligations	27	(10.3)	-	(10.3)	12.1	-	12.1
Income tax on items that will not be reclassified		1.9	-	1.9	(1.9)	-	(1.9)
Total items that will not be reclassified to profit or loss		(8.4)	-	(8.4)	10.2	-	10.2
Share of other comprehensive income from joint ventures	18	0.5	-	0.5	(2.7)	-	(2.7)
Cash flow hedges		(2.9)	-	(2.9)	(1.9)	-	(1.9)
Income tax on items that may be reclassified		0.5	-	0.5	0.2	-	0.2
Total items that may be subsequently reclassified to profit or loss		(1.9)	-	(1.9)	(4.4)	-	(4.4)
<b>Other comprehensive (loss)/income for the year net of tax</b>		<b>(10.3)</b>	<b>-</b>	<b>(10.3)</b>	<b>5.8</b>	<b>-</b>	<b>5.8</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>67.7</b>	<b>(24.0)</b>	<b>43.7</b>	<b>65.1</b>	<b>(19.4)</b>	<b>45.7</b>
Attributable to owners of the parent				44.7			44.9
Attributable to non-controlling interests				(1.0)			0.8
				43.7			45.7

The notes on pages 35 to 101 form part of these financial statements.

**Balance sheets**  
at 31 March 2019

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	13	330.4	330.4	-	-
Other intangible assets	14	90.9	70.7	-	-
Property, plant and equipment	15	1,412.5	1,255.1	-	-
Other non-current assets	17	256.3	263.6	1,714.6	1,500.0
Derivative financial instruments	21	-	0.9	-	-
Investment in subsidiary undertakings	18	-	-	411.7	411.7
Investments in joint ventures	18	51.1	22.8	-	-
		<b>2,141.2</b>	<b>1,943.5</b>	<b>2,126.3</b>	<b>1,911.7</b>
<b>Current assets</b>					
Inventories	19	23.9	19.7	-	-
Trade and other receivables	20	300.7	256.9	37.8	12.0
Derivative financial instruments	21	0.2	2.1	-	-
Current tax assets	24	0.5	-	-	-
Cash and cash equivalents	22	36.1	42.5	1.6	22.8
		<b>361.4</b>	<b>321.2</b>	<b>39.4</b>	<b>34.8</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	25	(102.5)	(37.2)	-	(22.6)
Trade and other payables	23	(177.4)	(197.8)	-	-
Current tax liabilities	24	-	(0.3)	(37.1)	(28.7)
Provisions	29	(27.7)	(35.3)	-	-
		<b>(307.6)</b>	<b>(270.6)</b>	<b>(37.1)</b>	<b>(51.3)</b>
<b>Net current assets/(liabilities)</b>		<b>53.8</b>	<b>50.6</b>	<b>2.3</b>	<b>(16.5)</b>
<b>Non-current liabilities</b>					
Borrowings	25	(1,165.2)	(976.7)	(999.6)	(801.0)
Other non-current liabilities	26	(32.0)	(31.5)	-	-
Retirement benefit obligations	27	(34.7)	(23.5)	-	-
Deferred tax liabilities	28	(64.7)	(56.6)	-	-
Provisions	29	(203.1)	(181.5)	-	-
		<b>(1,499.7)</b>	<b>(1,269.8)</b>	<b>(999.6)</b>	<b>(801.0)</b>
<b>Net assets</b>		<b>695.3</b>	<b>724.3</b>	<b>1,129.0</b>	<b>1,094.2</b>

**Balance sheets (continued)**  
at 31 March 2019

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
<b>Equity</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	30	898.2	898.2	898.2	898.2
Share premium account	31	95.2	95.2	95.2	95.2
Retained earnings and other reserves	32	(305.2)	(277.2)	135.6	100.8
<b>Total equity attributable to owners of the parent</b>		<b>688.2</b>	<b>716.2</b>	<b>1,129.0</b>	<b>1,094.2</b>
<b>Non-controlling interests</b>		<b>7.1</b>	<b>8.1</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>695.3</b>	<b>724.3</b>	<b>1,129.0</b>	<b>1,094.2</b>

The notes on pages 35 to 101 form part of these financial statements.

The financial statements on pages 28 to 101 were approved by the Board of Directors and authorised for issue on 30 May 2019 and were signed on its behalf by:



**Elliot Rees**  
Finance Director  
30 May 2019

**Viridor Limited**  
Registered office: Peninsula House, Rydon Lane, Exeter EX2 7HR  
Registered in England No. 2456473



**Statements of changes in equity**

For the year ended 31 March 2019

<b>Group</b>	<b>Share capital (Note 30) £m</b>	<b>Share premium account (Note 31) £m</b>	<b>Retained earnings and other reserves (Note 32) £m</b>	<b>Total £m</b>	<b>Non-controlling interests £m</b>	<b>Total equity £m</b>
At 1 April 2017	548.2	95.2	(272.2)	371.2	7.3	378.5
Profit for the year	-	-	39.7	39.7	0.2	39.9
Other comprehensive income for the year	-	-	5.2	5.2	0.6	5.8
Total comprehensive profit for the year	-	-	44.9	44.9	0.8	45.7
Transactions with owners						
Dividends paid	-	-	(50.6)	(50.6)	-	(50.6)
Adjustments in respect of share-based payments (net of tax)	-	-	0.7	0.7	-	0.7
Proceeds of share issue	350.0	-	-	350.0	-	350.0
Total transactions with owners	350.0	-	(49.9)	300.1	-	300.1
<b>At 31 March 2018</b>	<b>898.2</b>	<b>95.2</b>	<b>(277.2)</b>	<b>716.2</b>	<b>8.1</b>	<b>724.3</b>
Profit for the year	-	-	54.2	54.2	(0.2)	54.0
Other comprehensive loss for the year	-	-	(9.5)	(9.5)	(0.8)	(10.3)
Total comprehensive income for the year	-	-	44.7	44.7	(1.0)	43.7
Transactions with owners						
Dividends paid	-	-	(73.6)	(73.6)	-	(73.6)
Adjustments in respect of share-based payments (net of tax)	-	-	0.9	0.9	-	0.9
Total transactions with owners	-	-	(72.7)	(72.7)	-	(72.7)
<b>At 31 March 2019</b>	<b>898.2</b>	<b>95.2</b>	<b>(305.2)</b>	<b>688.2</b>	<b>7.1</b>	<b>695.3</b>

The notes on pages 35 to 101 form part of these financial statements.

**Statements of changes in equity (continued)**  
For the year ended 31 March 2019

	Share capital (Note 30) £m	Share premium account (Note 31) £m	Retained earnings and other reserves (Note 32) £m	Total equity £m
<b>Company</b>				
At 1 April 2017	548.2	95.2	126.7	770.1
Profit for the year	-	-	24.7	24.7
Total comprehensive income for the year	-	-	24.7	24.7
<b>Transactions with owners</b>				
Dividends paid	-	-	(50.6)	(50.6)
Proceeds of share issue	350.0	-	-	350.0
Total transactions with owners	350.0	-	(50.6)	299.4
<b>At 31 March 2018</b>	<b>898.2</b>	<b>95.2</b>	<b>100.8</b>	<b>1,094.2</b>
Profit for the year	-	-	108.4	108.4
Total comprehensive income for the year	-	-	108.4	108.4
<b>Transactions with owners</b>				
Dividends paid	-	-	(73.6)	(73.6)
Total transactions with owners	-	-	(73.6)	(73.6)
<b>At 31 March 2019</b>	<b>898.2</b>	<b>95.2</b>	<b>135.6</b>	<b>1,129.0</b>

The notes on pages 35 to 101 form part of these financial statements.

**Cash flow statements**

for the year ended 31 March 2019

		Group		Company	
	Note	2019 £m	2018 £m	2019 £m	2018 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	33	109.6	85.9	(214.6)	(173.7)
Interest paid		(45.3)	(40.7)	(37.5)	(34.3)
Tax received/(paid)		4.9	7.0	(0.5)	-
Net cash generated from/(used in) operating activities		69.2	52.2	(252.6)	(208.0)
Cash flows from investing activities					
Interest received		6.8	8.3	55.6	103.3
Dividends received	18,39	5.5	6.5	73.6	-
Investment in joint ventures		(54.8)	-	-	-
Repayment of loans by joint ventures		0.5	33.3	-	-
Purchase of property, plant and equipment		(217.9)	(182.8)	-	-
Proceeds from sale of property, plant and equipment		4.3	7.6	-	-
Net cash (used in)/generated from investing activities		(255.6)	(127.1)	129.2	103.3
Cash flows from financing activities					
Proceeds from issue of Ordinary share capital		-	350.0	-	350.0
Investment in restricted funds		0.5	0.2	-	-
Repayment of restricted funds		-	-	-	-
Proceeds from new borrowing		188.5	207.2	188.5	207.2
Repayment of borrowing		(14.7)	(386.9)	(12.7)	(379.2)
Finance lease drawdowns		-	40.0	-	-
Finance lease principal repayments		(11.9)	(12.2)	-	-
Dividends paid	10	(73.6)	(50.6)	(73.6)	(50.6)
Net cash generated from financing activities		88.8	147.7	102.2	127.4
Net (decrease)/increase in cash and cash equivalents		(97.6)	72.8	(21.2)	22.7
Cash and cash equivalents at beginning of the year	22	40.7	(32.1)	22.8	0.1
Cash and cash equivalents at end of the year	22	(56.9)	40.7	1.6	22.8

The notes on pages 35 to 101 form part of these financial statements.

## Notes to the financial statements

### 1. General information

Viridor Limited is a wholly owned subsidiary of Pennon Group Plc registered in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. Viridor's business is waste management, including resource recovery, recycling and low-carbon energy generation operated through a number of subsidiaries ('the Group').

### 2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

#### (a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis (except for fair value items, principally acquisitions and certain financial instruments as described in accounting policy notes (b) and (q) respectively) and in accordance with International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the principal accounting policies is set out below, together with an explanation where changes have been made to previous policies on the adoption of new accounting standards and interpretations in the year.

The going concern basis has been adopted in preparing these financial statements as stated by the Directors on page 22.

#### *Initial adoption of IFRS 15 'Revenue from Contracts with Customers'*

The Group adopted the standard with effect from 1 April 2018 using the full retrospective approach to transition. As the impact of the new standard has not had a material effect on the Group's reported revenues, net assets or any specific financial statement line, there has been no restatement of prior year figures.

The revised accounting policy on revenue following implementation of IFRS 15 is set out below in paragraph (c). The disaggregation of revenue information required by IFRS 15 is given below within note 6 (Operating profit or loss) for the current and prior years.

#### *Initial adoption of IFRS 9 'Financial Instruments'*

IFRS 9 replaces IAS 39 with effect from 1 April 2018 bringing together all three aspects of the accounting of financial instruments: classification and measurement, impairment and hedge accounting. The Group applied IFRS 9 prospectively from 1 April 2018. The first-time application of this standard has not resulted in any adjustments or reclassifications of amounts previously reported.

The classification and measurement requirements of IFRS 9 require that financial assets are classified in the statements of financial position according to their nature, the characteristics of their contractual cash flows and the business model adopted for their management. Following assessment of the Group's business model as of the date of initial application, 1 April 2018, these requirements did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The impairment aspects of IFRS 9 require the Group to evaluate and recognise expected credit losses on financial assets and to ensure changes in credit risk are assessed at regular intervals and to make suitable adjustments for expected credit losses where applicable. The disclosure within note 4 critical accounting judgements and estimates on provision for doubtful debts has been expanded to clarify the Group's evaluation approach. There was no material impact to the group.

## Notes to the financial statements (continued)

### 2. Principal accounting policies (continued)

#### (a) Basis of preparation (continued)

##### **IFRS 16 'Leases'**

The adoption of IFRS 16 on 1 April 2019 will affect primarily the accounting for those leases currently classified as operating leases. IFRS 16 no longer distinguishes between an on the balance sheet finance lease and an off the balance sheet operating lease.

The Group has made the following elections on adopting IFRS 16 to apply from 1 April 2019:

- Applying the modified retrospective approach: the cumulative effect of initially applying IFRS 16 has been calculated as a reduction to retained profits at 1 April 2019 of £6.3 million. Under this election no restatement of comparative figures will be made.
- Electing to apply the standard to contracts that were previously identified as leases when applying IAS 7.
- Using the exemptions available in respect low value underlying assets.

Carrying amounts for assets and liabilities under finance leases existing at 1 April 2019 will not be changed on adoption of IFRS 16.

At 31 March 2019 the Group had non-cancellable operating lease commitments of £139.8 million. These predominantly relate to leases of properties occupied by the Group in the course of carrying out its businesses.

Applying IFRS 16 at 1 April 2019 results in the Group recognising an asset in use of £75.6 million, a deferred tax asset of £1.3 million, an additional lease liability of £84.7 million and the reversal of accruals of £1.5million. The overall reduction in net assets of £6.3 million is deducted from retained profits at 1 April 2019 in accordance with the modified retrospective approach.

Differences between the values of the disclosed operating lease commitment at 31 March 2019 and the additional lease liability recognised at 1 April 2019 under IFRS 16 result from future cash outflows being discounted under IFRS rather than shown gross, the availability of exemptions available on transition and different rules defining the appropriate length of lease to use between the two methods.

Based on the additional lease liability and associated assets recognised at 1 April 2019 it is estimated that the impact on profit for the year ended 31 March 2020 would be a reduction in profit after tax of £0.5 million, resulting from an increase in EBITDA of £10.7 million, depreciation of £8.5 million, finance costs of £2.8 million and a reduction in corporation tax of £0.1 million.

Other new standards or interpretations in issue but not yet effective are not expected to have a material impact on the Group's net assets or results.

#### **(b) Basis of consolidation**

The Group financial statements include the results of Viridor Limited and its subsidiaries, joint ventures and associate undertakings.

The results of subsidiaries and joint venture undertakings are included from the date of acquisition or incorporation and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group has the power to control the financial and operating policies of a subsidiary. The results of joint venture and associate undertakings are accounted for on an equity basis.

Intra-group trading, loan balances and transactions are eliminated on consolidation.

The acquisition method of accounting is used to account for the purchase of subsidiaries. The excess of the value transferred to the seller in return for control of the acquired business together with the fair value of any previously held equity interest in that business over the Group's share of the fair value of the identifiable net assets is recorded as goodwill.

**Notes to the financial statements (continued)**

**2. Principal accounting policies (continued)**

**(c) Revenue recognition**

Group revenue is recognised following delivery of performance obligations and an assessment of when control over the product or service is transferred to the customer. Revenue is only recognised when collection of consideration is highly probable.

Revenue is recognised either when the performance obligation in the contract has been performed ('point in time' recognition) or 'over time' as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Group applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

At the inception of a contract the total transaction price is estimated, being the fair value to which the Group expects to be entitled under the contract, including any variable consideration. Variable consideration is based on the most likely outcome of the performance obligations.

Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies. Revenue includes landfill tax.

**Energy sales**

The Group receives revenue from the sale of electricity from generating assets. These assets include solar, anaerobic digestion, gas from landfill and Energy Recovery facilities. Revenue from the sale of electricity from the Group's generating assets is measured based upon metered output delivered at rates specified under contract terms or prevailing market rates. Revenue is recognised at a 'point in time', being the point of distribution to the grid. Typically, invoices are raised monthly with standard payment terms.

**Waste Management Services**

In respect of single services with fixed fees, such as the receipt of gate and collection fees, revenue is recognised at the time the service is provided.

The Group also delivers other waste management services for which revenue is recognised 'over time' in accordance with contracts with customers. The nature of contracts and/or performance obligations includes management fees to operate local authority recycling centres and energy recovery facilities, multi service contracts including collections and gate fees.

Revenue from other services can be fixed (i.e. management fees) or variable (i.e. gate fees).

Gate fee revenue, derived from the Group's operational assets, is recognised as customer waste is deposited and is based on tonnage received.

In respect of waste collection services, revenue is recognised at the point of collection from customer premises.

A majority of waste management customers are invoiced monthly for services provided within the monthly billing period. Payments are typically due on an end of month following invoice basis. Alternative billing and/or payment terms are agreed in exceptional circumstances.

The Group transfers control of such waste management services prior to invoicing. Receipt of payment following invoice is based solely on the passage of time. A trade receivable is recognised until payment is made and/or refund issued.

Where the Group has entered into service concession arrangements it accounts for these contracts in accordance with IFRIC12. Consideration is treated as contract assets or other intangible assets, depending upon the right to receive cash from the asset. Consideration is split between construction of assets, operation of the service and provision of finance recognised as interest receivable.

## **Notes to the financial statements (continued)**

### **2. Principal accounting policies (continued)**

#### **(c) Revenue recognition (continued)**

##### ***Waste Management Services (continued)***

Revenue in respect of construction services is recognised over time and based on the fair value of work performed, with reference to the total sales value and the stage of completion of those services, as this best reflects the manner in which control passes to the customer. While construction is in progress, the consideration is disclosed as a contract asset within non-current financial assets. On entry into operational service, in accordance with IFRIC 12, the contract asset is reclassified as costs recoverable from construction activities and disclosed within either:

- other intangible assets (when the concession grantor has not provided a contractual guarantee in respect of the recoverable amount regardless of the service use by customers).
- other non-current financial assets (when the concession grantor contractually guarantees the payment of amounts determined in the contract or the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract).

No payments are received during the construction phase.

In respect of operating services, revenue is recognised over time in line with delivery of operational services in accordance with the contract with the local authority.

Once the operational phase commences, the Group has a right to receive consideration for the construction and operational services delivered. Invoicing typically occurs monthly and payments are due by the end of the month following date of invoice.

##### ***Recyclate***

The Group transforms waste into recyclate ready for resale. Revenue is measured at the agreed transaction price per tonne of recyclate under the contract with the customer. Revenue recognition occurs when control over the recyclate assets has been transferred to the customer.

In respect of UK sales, the Group's performance obligation is satisfied at the point of collection by the customer. This is the point in time when an invoice is issued and revenue is recognised. Payment terms are typically end of month following invoice date. Overseas sales are predominantly agreed under a letter of credit. Goods are despatched at the point the letter of credit is accepted by the customers bank. Payment is released when the customer confirms satisfactory receipt of the recyclate. This is the point legal title (i.e. control) passes to the customer and revenue is recognised.

##### ***Contract assets and liabilities***

A trade receivable is recognised when the Group has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Group has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration, such as during the construction phase of a service concession agreement, as described above. The amounts for contract assets are disclosed within note 17 (Other non-current assets) and note 20 (Trade and other receivables) as appropriate.

A contract liability is recognised when consideration is received in advance of the Group performing its performance obligations to customers. The value of contract liabilities is disclosed within note 23 (Trade and other payables) and note 26 (Other non-current liabilities) as appropriate.

**Notes to the financial statements (continued)**

**2. Principal accounting policies (continued)**

**(d) Landfill tax**

Landfill tax is included within both revenue and operating costs at the point waste is disposed of at a licensed landfill site.

**(e) Segmental reporting**

The Group regards its business as a single integrated recycling, energy recovery and waste management business.

**(f) Foreign exchange**

Transactions in overseas currencies are translated into sterling at the prevailing exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the prevailing rate at the year-end. The resulting gain or loss is recognised in the income statement.

**(g) Goodwill**

Goodwill arising on consolidation from the acquisition of subsidiary and joint venture undertakings represents the excess of the purchase consideration over the fair value of net assets acquired, less any subsequent impairment charges.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units or group of cash generating units that is expected to benefit from the synergies of the combination. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal reporting purposes. Goodwill is tested for impairment at the group consolidated level, which is the lowest level at which management monitor goodwill for internal purposes. Further details are contained in accounting policy 2 (l).

When a subsidiary or joint venture undertaking is sold, the profit or loss on disposal is determined after including the attributable amount of unamortised goodwill.

**(h) Other intangible assets**

An intangible asset is recognised in respect of service concession contracts to the extent that future amounts to be received are not certain.

Other intangible assets acquired in a business combination are capitalised at fair value at the date of acquisition.

Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives, with the expense taken to the income statement through operating costs.



## **Notes to the financial statements (continued)**

### **2. Principal accounting policies (continued)**

#### **(i) Property, plant and equipment**

##### **i) Landfill sites**

Landfill sites are included within land and buildings at cost less accumulated depreciation. Cost includes acquisition and development expenses. The cost of a landfill is depreciated to its residual value over its estimated operational life taking account of the usage of void space.

##### **ii) Landfill restoration**

Where the obligation to restore a landfill site is an integral part of its future economic benefits, a non-current asset within property, plant and equipment is recognised. The asset recognised is depreciated based on the usage of void space.

##### **iii) Other assets (including property, plant and equipment)**

Other assets are included at cost less accumulated depreciation.

Freehold land is not depreciated. Other assets are depreciated evenly to their residual value over their estimated economic lives, and are principally:

Freehold buildings: 30-50 years

Leasehold buildings: Over their estimated economic lives or the finance lease period, whichever is the shorter

Energy recovery facilities: 25-40 years

Fixed and mobile plant vehicles and computers: 3-10 years

Assets classified as construction in progress are not depreciated until commissioned.

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Group. Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset.

Asset lives and residual values are reviewed annually.

Gains and losses on disposal are determined by comparing sale proceeds with carrying amounts. These are included in the income statement in other operating expenses.

#### **(j) Grants and contributions**

Grants are recognised where there is a reasonable assurance that the grant will be received and all of the attached conditions will be met.

Grants and contributions receivable in respect of property, plant and equipment are deducted from the cost of those assets.

Grants and contributions receivable in respect of expenditure are charged against profits in the year and have been included in the income statement in other operating expenses.

#### **(k) Leased assets**

Assets held under finance leases are included as property, plant and equipment at the lower of their fair value at commencement or the present value of the minimum lease payments and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

Rental costs arising under operating leases are charged against profits in the year they are incurred.

The impact of the adoption of IFRS 16 'Leases' on 1 April 2019 is discussed in paragraph (a) above.

**Notes to the financial statements (continued)**

**2. Principal accounting policies (continued)**

**(l) Impairment of non-financial assets**

Assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Value in use represents the present value of projected future cash flows expected to be derived from a cash-generating unit, discounted using a pre-tax discount rate which reflects an assessment of the market cost of capital of the cash-generating unit. Impairments are charged to the income statement in the year in which they arise.

Non-financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where a previously impaired asset or cash generating unit's recoverable amount in excess of its carrying amount, previous impairments are reversed to the carrying value that would have expected to be recognised had the original impairment not occurred.

**(m) Investment in subsidiary undertakings**

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid. Subsequently, investments are reviewed for impairment on an individual basis annually or if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

**(n) Investment in joint ventures**

Joint ventures are entities over which the Group exercises joint control. Investments in joint ventures are accounted for using the equity method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the joint venture at the date of acquisition is recognised as goodwill and is included in the carrying value of the investment in the joint venture.

The carrying value of the Group's investment is adjusted for the Group's share of post-acquisition post-tax profits or losses recognised in the income statement and statement of comprehensive income. Losses of a joint venture in excess of the Group's interest are not recognised unless the Group has a legal or constructive obligation to fund those losses.

**(o) Inventories**

Inventories are stated at the lower of cost or net realisable value. The cost of finished goods and work in progress includes raw materials and the cost of bringing stocks to their present location and condition. It excludes borrowing costs. Net realisable value is the estimated selling price less cost to sell.

Stocks of fuel and spares are valued at cost, less any provision for obsolescence.

**(p) Cash and cash deposits**

Cash and cash deposits comprise cash in hand and short-term deposits held at banks. Bank overdrafts are shown within current borrowings.

## Notes to the financial statements (continued)

### 2. Principal accounting policies (continued)

#### (q) Derivatives and other financial instruments

Financial instruments are recognised and measured in accordance with IAS39 until 31 March 2018 and in accordance with IFRS 9 thereafter.

The Group classifies its financial instruments in the following categories:

##### i) Debt instruments at amortised cost

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition interest-bearing loans and borrowings are subsequently stated at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when instruments are derecognised or impaired.

Premia, discounts and other costs and fees are recognised in the income statement through the amortisation process. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

##### ii) Trade receivables

Trade receivables do not carry any interest receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses. A provision for expected credit losses on trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of the receivables.

##### iii) Trade payables

Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### iv) Financial assets arising from service concession arrangements

Where the provision of waste management services is performed through a contract with a public sector entity which controls a significant residual interest in asset infrastructure at the end of the contract, then consideration is treated as contract receivables, split between income from the construction of assets, operation of the service and the provision of finance which is recognised in notional interest within finance income.

##### v) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, principally foreign exchange forward contracts, to hedge risks associated with exchange rate fluctuations. Derivative instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently re-measured at fair value for the reported balance sheet.

The Group designates its hedging derivatives as cash flow hedges due to there being a highly probable forecast transaction or change in the cash flows of a recognised asset or liability.

The gain or loss on remeasurement is recognised in the income statement except for cash flow hedges which meet the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised directly in equity, and the ineffective portion in the income statement. The gains or losses deferred in equity in this way are subsequently recognised in the income statement in the same period in which the hedged underlying transaction or firm commitment is recognised in the income statement.

In order to qualify for hedge accounting the Group is required to document, in advance, the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at the end of each reporting period to ensure that the hedge remains highly effective.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than one year and as a current asset or liability when the remaining maturity of the hedged item is less than one year.

Derivative financial instruments which do not qualify for hedge accounting are classified as a current asset or liability with any change in fair value recognised immediately in the income statement.

**Notes to the financial statements (continued)**

**2. Principal accounting policies (continued)**

**(r) Taxation including deferred tax**

The tax charge for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case the tax is also recognised in the statement of comprehensive income or directly in equity as appropriate.

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the position is uncertain.

The Company is part of the Penmon Group for tax purposes and accordingly may use the tax group relief provisions whereby current tax liabilities can be offset by current tax losses arising in other Group companies. Payments for group relief are included within the current tax disclosures.

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from 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 or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

**(s) Provisions**

Provisions are made where there is a present legal or constructive obligation as a result of a past event and it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made. Where the effect of the time value of money is material the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as a financial item within finance costs.

The Group's policies on provisions for specific areas are:

**i) Landfill restoration costs**

Provisions for the cost of restoring landfill sites are made when the obligation arises. Where the obligation recognised as a provision gives access to future economic benefits, an asset in property, plant and equipment is recognised. Provisions are otherwise charged to the income statement based on the consumption of void space at the relevant site.

**ii) Environmental control and aftercare costs**

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. Provision for all such costs is made over the operational life of the site and charged to the income statement based on the consumption of void space at the relevant site.

**iii) Underperforming contracts**

Where the unavoidable costs of meeting a contract's obligations exceed the economic benefits derived from that contract, the unavoidable costs, less revenue anticipated under the terms of the contract, are recognised as a provision and charged to the income statement. An impairment loss on any assets dedicated to that contract is also recognised as described in accounting policy note 2 (l).

**(t) Share capital**

Ordinary shares are classified as equity.

**(u) Dividend distributions**

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid. The Company does not pay a final dividend.

**Notes to the financial statements (continued)**

**2. Principal accounting policies (continued)**

**(v) Employee benefits**

**i) Retirement benefit obligations**

The Group participates in defined benefit and defined contribution pension schemes operated or managed by its parent.

**Defined benefit pension schemes**

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimate of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Group's defined benefit pension schemes, expected to arise from employee service in the year is charged against operating profit.

Changes in benefits granted by the employer are recognised immediately as past service cost in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

**Defined contribution scheme**

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Group has no further payment obligations once the contributions have been paid.

**ii) Share-based payment**

The Group participates in a number of equity-settled share-based payment plans for employees operated by the ultimate parent. The fair value of the employee services required in exchange for the grant is recognised as an expense over the vesting period of the grant.

Fair values are calculated using an appropriate pricing model. Non market-based vesting conditions are adjusted for assumptions as to the number of shares which are expected to vest.

**(w) Pre-contract and development costs**

Pre-contract and development costs are expensed as incurred, except where it is probable that the contract will be awarded or the development completed in which case they are recognised as an asset which is amortised to the income statement over the life of the contract.

Capitalised pre-contract and development costs include third-party expenses directly related to the contract and internal costs, including labour, which can be identified as specific to the contract.

**(x) Fair values**

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of non-current bank loans and other loans the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

**(y) Non-underlying items**

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance.

**Notes to the financial statements (continued)**

**3. Financial risk management**

**(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (interest rate and foreign currency risk), liquidity risk and credit risk. The Group receives services from the treasury function of its ultimate parent, Pennon Group Plc, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages inflation and interest rate risk.

The principal financial risks faced by the Group relate to interest rate and credit counterparty risk.

These risks and treasury operations are managed in accordance with policies established by the Pennon Group Board. Major transactions are individually approved by that Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to manage interest rate and exchange rate risk. The Group and the ultimate parent do not engage in speculative activity.

**i) Market risk**

The Group has no significant interest-bearing assets upon which the net return fluctuates from market risk. Deposit interest receivable is expected to fluctuate in line with interest payable on floating rate borrowings. Consequently, the Group's income and operating cash flows are largely independent of changes in market interest rates.

At the year-end, 41% of Group borrowings were at fixed rates. This debt is owed to Pennon Group plc, the ultimate parent company. The ultimate parent ensures that at least 60% of fixed term interest bearing borrowing is available at fixed rates. Further details of Pennon Group Plc's treasury methodologies can be found in the risk management section of its annual report. If interest rates on variable net borrowings had been on average 0.5% higher/lower (as applied in the financial statements of the ultimate parent) with all other variables held constant, post-tax profit for the year would have decreased/increased by £2.9 million (2018: £2.4 million).

Foreign currency risk occurs at transactional and translation level from transactions in foreign currencies. These risks are managed through forward contracts which provide certainty over foreign currency risk.

**Notes to the financial statements (continued)****3. Financial risk management (continued)****(a) Financial risk factors (continued)****ii) Liquidity risk**

Pennon Group Plc actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure the Pennon group, including Viridor, has significant available funds for operations, planned expansions and facilities equivalent to at least one year's forecast requirements at all times. Refinancing risk is managed under the ultimate parent's policies, with agreement that no more than 20% of the borrowings will mature in any financial year.

Pennon Group Plc has entered into covenants with lenders which provide limits on gearing based on a number of factors which include a multiple of the Group's EBITDA. Measurement against these covenants is monitored on a regular basis by the ultimate parent and has been met throughout the year.

The Group has not entered into any covenants with lenders.

The ultimate parent company manages and determines the criteria for the Group's capital requirement.

Contractual undiscounted cash flows were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
<b>Group</b>					
<b>31 March 2019</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding finance lease liabilities	-	43.2	132.0	842.5	1,017.7
Interest payments on borrowings	42.4	41.4	114.2	320.4	518.4
Finance lease liabilities including interest	14.5	12.8	35.5	159.2	222.0
<b>31 March 2018</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding finance lease liabilities	24.8	30.1	92.7	696.3	843.9
Interest payments on borrowings	28.8	27.8	76.8	222.0	355.4
Finance lease liabilities including interest	15.3	13.7	35.1	166.8	230.9
<b>Company</b>					
<b>31 March 2019</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	-	40.8	124.7	834.1	999.6
Interest payments on borrowings	41.3	40.3	111.9	319.5	513.0
<b>31 March 2018</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	22.6	28.0	86.4	686.6	823.6
Interest payments on borrowings	27.6	26.8	74.4	220.7	349.5

**Notes to the financial statements (continued)**

**3. Financial risk management (continued)**

**(a) Financial risk factors (continued)**

**iii) Credit risk**

Credit and counterparty risk arises from cash and cash deposits and deposits with bank and financial institutions, as well as exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade receivables is given in note 20.

Counterparty risk arises from the investment of surplus funds which are pooled with certain other funds within other Pennon Group companies. The Group's surplus funds are managed by the Pennon Group's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. The Board of Pennon Group Plc has agreed a policy for managing such risk which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

Neither the Group nor Pennon Group Plc has any other significant concentration of credit risk. Deposit counterparties must meet board approved minimum criteria based on their short-term credit ratings and therefore of good credit quality.

**(b) Capital risk management**

The capital risk management policy is managed by the ultimate parent company. The ultimate parent's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to maintain or adjust the capital structure the parent undertaking seeks to maintain a balance of returns to shareholders through dividends and an appropriate capital structure of debt and equity. It monitors capital and debt on the basis of the gearing ratio.

**(c) Commodity risk**

The Group is exposed to availability and price fluctuations in the recycle markets in which it operates. The Group mitigates this risk with a combination of long-term contracts with local authorities, which secures substantial amounts of recycle materials and by extensive cost control and continual efficiency management programmes at its recycling plants.

**(d) Energy price risk**

The Group is exposed to price fluctuations in the energy supply market. It seeks to mitigate this risk with a combination of forward sale contracts supported by a sharing of risk with local authorities and the availability of offsetting usage within the Group.

**(e) Determination of fair values**

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial instruments are valued using level 2 measures as analysed in note 16.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined by using valuation techniques. A variety of methods and assumptions are used based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.



## **Notes to the financial statements (continued)**

### **3. Financial risk management (continued)**

#### **(e) Determination of fair values (continued)**

The carrying values less impairment provision of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities, principally environmental provisions, is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

### **4. Critical accounting judgements and estimates**

The Group's principal accounting policies are set out in note 2. Management is required to exercise significant judgment and make use of estimates and assumptions in the application of these policies. Estimates are based on factors including historical experience and expectations of future events that management believe to be reasonable. However, given the judgemental nature of such estimates, actual results could be different from the assumptions used.

#### **Estimates**

##### **(a) Environmental and landfill restoration provisions**

Environmental control and aftercare costs are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. The amounts expected to be incurred have been re-assessed, re-estimated and aligned to the latest estimate of landfill site operating lives.

The provisions are based on latest assumptions reflecting recent historical data and future cost estimates.

The aftercare provision is particularly sensitive to the estimated volumes of leachate and their associated cost, together with the discount rate used to establish the provision.

The provisions are recognised in the financial statements at the net present value of the estimated future expenditure required to settle the Group's obligations. A discount rate is applied to recognise the time value of money and is unwound over the life of the provision. This is included in the income statement as a financial item within finance costs.

An aftercare period of 60 years is used in calculating provision values. This is considered reasonable by management, is comparable to peers in the waste business and is consistent with Environment Agency bond periods.

The impact of a 0.1% change in discount rate is estimated to be in the region of £2.5 million.

As at 31 March 2019 the Group's environmental and landfill restoration provisions were £209.8 million (2018: £192.0 million) (note 29). Where a restoration provision is an integral part of a landfill site's future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy. As at 31 March 2019 these assets had a net book value of £30.8 million (2018: £18.4 million) (note 15).

##### **(b) Retirement benefit obligations**

The Group operates defined benefit schemes for which actuarial valuations carried out as determined by the trustees at intervals of not more than three years. The last valuation of the principal scheme was at 31 March 2016. The valuation as at 31 March 2019 is ongoing.

The pension cost and liabilities under IAS 19 are assessed in accordance with Directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on CMI 2018 actuarial tables with an allowance for future longevity improvement. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in those assumptions and future funding obligations are set out in note 27.

## Notes to the financial statements (continued)

### 4. Critical accounting judgements and estimates (continued)

#### Estimates (continued)

##### (c) Taxation

The Group's current tax receivable of £0.5 million (2018: £0.3 million payable), includes £4.7 million payable in relation to prior year tax items.

The Group continues to have a small number of ongoing uncertain tax items primarily relating to the interpretation of tax legislation regarding different tax aspects of its energy recovery facilities. This is part of the normal course of business and the Group has paid, in full, the tax HMRC interpret as due and therefore would benefit by a cash refund of up to £26 million (2017/18 restated £26 million), should these tax items be concluded in the Group's favour. The Group is continuing to work towards resolution of these matters with HMRC.

##### (d) Service concession arrangements

Consideration from public sector entities for the operation of waste management service concessions is treated as contract receivables or other intangible assets, depending on the right to receive cash from the asset. At the balance sheet date there were contract receivables of £247.7 million (2018: £234.1 million) and other intangible assets of £90.7 million (2018: £69.2 million) in relation to its service concession arrangements.

Consideration relating to contract receivables is split between profit on the construction of assets, operation of the service and provision of finance recognised as interest receivable. Management's judgement is used in the allocation between these three elements, this assessment reflects external market conditions according to the type of service provided and project specific cash flow expectations, including the recovery of costs from the original contractor in our Glasgow concession.

##### (e) Revenue recognition

Revenue is recognised as performance obligations are satisfied. Payments received in advance of services delivered are recorded as contract liabilities.

Income is estimated from certain contractual revenue streams based on tonnages, cost and historical data which are dependent on agreement with the customer after the delivery of the service. Revenue is accrued from the sale of electricity from our generating assets based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable. The total accrued income balance at the balance sheet date was £55.4 million (2018: £53.4 million).

##### (f) Provision for doubtful debts

At the balance sheet date, the Group applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables and contract assets. Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2019 current trade receivables were £125.6 million (2018: £104.2 million), against which £3.4 million (2018: £3.5 million) had been provided for impairment (note 20).

##### (g) Impairment of non-financial assets

In order to determine whether impairments, or reversals of previous impairments, are required for non-financial assets, there is an assessment of whether there are any indicators for further impairment or reversal during the year. The assessment includes a review of changes in markets and discount rates over the year, together with a review of business performance against expectations. The 2018/19 review concluded there were no indicators of further impairment or reversal.

## Notes to the financial statements (continued)

### 4. Critical accounting judgements and estimates (continued)

#### Judgements

##### (h) Non-underlying items

In establishing which items are disclosed separately as non-underlying, to enable a full understanding of the Group's financial performance, the Directors exercise their judgement in assessing the size, nature or incidence of specific items. See note 5 for further details.

##### (i) Glasgow recycling and renewable energy centre (GRREC)

The facility successfully completed commissioning, becoming fully operational during the second half of the financial year.

Total spend on the project was £273.0 million, comprising the original target of £155.0 million, a further £21.0 million invested to provide additional throughput capacity and £97.0 million to address remediation and non-conformities. Viridor is contractually entitled to recover the incremental remediation and non-conformities spend, including from the original contractor, Interserve Construction Limited, under certain circumstances. The Group believes these circumstances have been met for a substantial element which is recoverable from Interserve. Whilst dialogue with Interserve is ongoing, the Group is preparing to legally pursue the matter.

The project is accounted for in accordance with IFRIC 12 service concession arrangements and the spend of £273.0 million has contributed £117.0 million to a financial asset, £84.0 million to an intangible asset and a contract receivable from Interserve of £72.0 million along with a contingent asset of £25.0 million which considers a broader range of counterparties to the project. As reported through 2018/19 and in line with IFRS 9, the Group has made credit related provisions recognising that Interserve's financial condition has been under stress. The Group has considered all relevant available public information concerning Interserve and at 31 March 2019 recognises a provision of £28.7 million, resulting in a net receivable due of £43.3 million (2018: £68.7 million). Due to uncertainty and the level of judgement associated with the provision related to the specific recovery from Interserve, it is possible the final outcome may differ from the net receivable recognised, with the boundaries for the possible outcome being zero and £72.0 million.

## Notes to the financial statements (continued)

### 5. Non-underlying items

Non-underlying items are those that in the Directors' view are required to be separately disclosed by virtue of their size, nature or incidence to enable a full understanding of the Group's financial performance in the year and business trends over time.

	Note	2019 £m	2018 £m
<b>Revenue</b>			
Construction contract settlements (3a)		-	3.2
<b>Operating costs</b>			
Pension past service cost (GMP equalisation impact) (1)	27	(0.9)	-
Provision for receivable (Interserve in respect of Glasgow Recycling and Renewable Energy Centre) (2)		(28.7)	-
<b>Operating Profit/(loss)</b>		<b>(29.6)</b>	<b>3.2</b>
Write-down of joint venture shareholder loans (3b)		-	(19.2)
Refinancing of joint venture arrangement (3c)		-	22.5
Tax credit arising on non-underlying items	8	5.6	3.0
Prior year tax (4)	8	-	(28.9)
<b>Net non-underlying charge</b>		<b>(24.0)</b>	<b>(19.4)</b>

(1) On 26 October 2018, the High Court of Justice of England and Wales issued a judgement in a claim regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits (GMP equalisation). The Group estimates, with advice from the Group's corporate actuary, that scheme liabilities will increase by an estimated £0.9 million as a result of the judgement. This cost has been recognised as a past service cost in the current year income statement. The charge is considered non-underlying due to its size and nonrecurring nature.

(2) The financial statements recognise a gross receivable of £72.0 million from Interserve Construction Limited in relation to rectifications and completion costs for Glasgow Recycling Renewable Energy Centre. Under IFRIC 12 the difference between the gross contractual and the expected recovery will be taken directly to the income statement. During the year, Interserve Plc entered into administration. The operating company, Interserve Construction Limited with whom we contracted, is currently continuing to trade. As a result of the lack of certainty around the future of Interserve's business and in accordance with IFRS 9, we have sought to make an appropriate market-based credit assessment using the latest relevant public information available. Consequently, a provision of £28.7 million has been recognised against the receivable. The charge is considered non-underlying due to its size and non-recurring nature. The financial stability of Interserve Construction Limited is judged to be outside the control of the Group.

(3) In the prior year, on reset of the contracts associated with the Greater Manchester Waste Disposal Authority (GMWDA) an overall net credit before tax of £6.5 million was recognised as follows;

- (a) A net amount of £3.2m was recognised in revenue following the settlement of all outstanding claims relating to the construction of assets.
- (b) On reset of the contracts associated with GMWDA, ownership of Viridor Laing Holdings Limited passed to the GMWDA. On transfer £23.5m of Viridor's shareholder loans were repaid, resulting in the write down of the remaining financial asset of £19.2m.
- (c) On reset of the contracts associated with GMWDA repayment of external bank debt in our joint venture, Ineos Runcorn TPSCo Limited, was financed by GMWDA. This change in cash flows resulted in the recognition of income in this joint venture, with an amount deferred relating to a lower ongoing gate fee. The overall share of profit after tax in the half year related to the reset is £22.5m, which has contributed to an increase in investments in joint ventures recognised on the balance sheet to £22.8m. The tax impact of these non-underlying items was a credit of £3.0m.

(4) The prior year tax charge of £28.9m relates to group relief payments in respect of tax losses net of receipts.

**Notes to the financial statements (continued)****6. Operating profit or loss**

The grouping of revenue streams, analysed by how they are affected by economic factors, is as follows:

Year ended 31 March 2019	UK £m	Rest of EU £m	China £m	Rest of World £m	Total £m
Waste management services	656.1	-	-	-	656.1
Energy	88.9	-	-	-	88.9
Recyclate	57.3	13.8	25.6	11.0	107.7
	<b>802.3</b>	<b>13.8</b>	<b>25.6</b>	<b>11.0</b>	<b>852.7</b>
Year ended 31 March 2018	UK £m	Rest of EU £m	China £m	Rest of World £m	Total £m
Waste management services	586.1	-	-	-	586.1
Energy	78.4	-	-	-	78.4
Recyclate	69.4	12.3	31.0	11.7	124.4
	<b>733.9</b>	<b>12.3</b>	<b>31.0</b>	<b>11.7</b>	<b>788.9</b>

The Group's country of domicile is the United Kingdom and is the country in which it generates most of its revenue. The Group's non-current assets are all located in the United Kingdom.

**Operating costs (before non-underlying items)**

	Note	2019 £m	2018 £m
Manpower costs	11	138.6	130.8
Raw materials and consumables		94.3	91.9
Other operating expenses			
Profit on disposal of property, plant and equipment		(2.3)	(0.1)
Operating lease rentals payable:			
– Plant and machinery		16.9	16.0
– Property		7.5	7.1
Trade receivables impairment	20	0.3	0.8
Amortisation of deferred income		(2.0)	(1.6)
Hired and contracted services		155.6	165.0
Other external charges		264.9	225.6
		<b>440.9</b>	<b>412.8</b>
Depreciation of property, plant and equipment:			
– Owned assets		66.9	60.8
– Under finance leases		6.6	7.9
	15	<b>73.5</b>	<b>68.7</b>
Amortisation of intangible assets	14	4.5	3.0

**Notes to the financial statements (continued)****6. Operating profit or loss (continued)****Operating costs (before non-underlying items) (continued)**

Fees payable to the Company's auditors in the year were:	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Fees payable to the Company's auditors for assurance services provided to the Group	<b>375</b>	<b>329</b>
	<b>375</b>	<b>329</b>

A description of the work of the Audit Committee of the Company's ultimate parent company, Pennon Group Plc is set out in the Audit Committee Report section of the Pennon Group Annual Report and Accounts which includes an explanation of how the auditor's objectivity and independence are safeguarded when non-audit services are provided. The Pennon Group Plc's pension schemes are also audited by Ernst and Young LLP.

**7. Net finance costs**

		2019			2018		
	Note	Finance costs £m	Finance income £m	Total £m	Finance costs £m	Finance income £m	Total £m
<b>Cost of servicing debt</b>							
Loans from parent undertaking		(41.8)	-	(41.8)	(38.7)	-	(38.7)
Bank borrowings and overdrafts		-	-	-	(0.1)	-	(0.1)
Interest element of finance lease rentals		(3.8)	-	(3.8)	(3.4)	-	(3.4)
Other loans		-	0.1	0.1	(0.4)	-	(0.4)
Interest receivable from loans to joint ventures		-	5.3	5.3	-	8.0	8.0
		(45.6)	5.4	(40.2)	(42.6)	8.0	(34.6)
Capitalised interest		12.4	-	12.4	14.5	-	14.5
		(33.2)	5.4	(27.8)	(28.1)	8.0	(20.1)
<b>Notional interest</b>							
Interest receivable on service concession arrangements		-	14.6	14.6	-	13.8	13.8
Retirement benefit obligations	27	(6.7)	6.2	(0.5)	(6.0)	5.3	(0.7)
Unwinding of discounts on provisions and non-current liabilities	29	(11.1)	-	(11.1)	(10.1)	-	(10.1)
		(17.8)	20.8	3.0	(16.1)	19.1	3.0
<b>Net finance costs before non-underlying items</b>		<b>(51.0)</b>	<b>26.2</b>	<b>(24.8)</b>	<b>(44.2)</b>	<b>27.1</b>	<b>(17.1)</b>
<b>Non-underlying items</b>							
Write down of joint venture shareholder loans	5	-	-	-	(19.2)	-	(19.2)
<b>Net finance costs after non-underlying items</b>		<b>(51.0)</b>	<b>26.2</b>	<b>(24.8)</b>	<b>(63.4)</b>	<b>27.1</b>	<b>(36.3)</b>

Finance costs include a credit of £12.4 million (2018: credit of £12.2 million) for interest capitalised relating to the construction of Energy Recovery Facilities and other significant projects where construction exceeds one year and a credit of £nil (2018: 2.3 million) for interest capitalised relating to service concession arrangements. The loans on which the interest is credited are provided by the ultimate parent undertaking at funding rates explained in note 39.

## Notes to the financial statements (continued)

### 8. Taxation

	Note	2019 Before non- underlying items £m	2019 Non-underlying items (Note 5) £m	2019 Total £m	2018 £m
<b>Analysis of charge/(credit) in year</b>					
Current tax		(0.2)	(5.5)	(5.7)	24.5
Deferred tax	28	10.7	(0.1)	10.6	12.9
Tax charge for the year		10.5	(5.6)	4.9	37.4

Current corporation tax is calculated at 19% (2018: 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a charge relating to prior year current tax of £1.3 million (2018: £29.8 million charge) and a prior year deferred tax credit of £7.6 million (2018: £2.5 million credit).

The total tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2018: 19%) from:

	2019 £m	2018 £m
Profit before tax	58.9	77.3
Profit multiplied by the standard rate of UK corporation tax of 19% (2018: 19%)	11.2	14.7
Effects of:		
Expenses not deductible for tax purposes	1.8	1.2
Depreciation charged on non qualifying assets	1.8	0.2
Profit/loss arising on disposal of non qualifying assets	(0.4)	-
Joint venture profits not taxed	(2.4)	(6.1)
Other	(0.8)	0.1
Adjustments to tax charge in respect of prior years	(6.3)	27.3
Tax charge for the year	4.9	37.4

The average effective tax rate for the year, before non-underlying items, is 11.9% (2018: 16.2%).

The adjustments to the tax charge in respect of prior years, includes charges totaling £1.3m and a deferred tax credit of £7.6 million. These reflect agreements reached with tax authorities in respect of open enquiries, the release of historic liabilities and the true-up of the previous year's provision to reflect the tax computations filed with HMRC.

**Notes to the financial statements (continued)**

**8. Taxation (continued)**

The current tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2018: 19%) from:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Profit before tax	<b>58.9</b>	<b>77.3</b>
Profit multiplied by the standard rate of UK corporation tax of 19% (2018: 19%)	<b>11.2</b>	<b>14.7</b>
Effects of:		
Expenses not deductible for tax purposes	<b>1.8</b>	<b>1.2</b>
Relief for capital allowances in place of depreciation	<b>(34.2)</b>	<b>(27.5)</b>
Depreciation disallowed	<b>13.5</b>	<b>13.0</b>
Adjustments to tax charge in respect of prior years	<b>1.3</b>	<b>29.8</b>
Joint venture profits not taxed	<b>(2.4)</b>	<b>(6.1)</b>
Other timing differences	<b>3.1</b>	<b>(0.6)</b>
Current tax charge/(credit) for year	<b>(5.7)</b>	<b>24.5</b>

The average effective tax rate for the year is 9.7% (2018: 31.7%).

The Group's current tax charge is lower than the UK headline tax rate of 19%, primarily due to the availability of capital allowances. Capital allowances provide tax relief when a business incurs expenditure on qualifying capital items such as plant and machinery used by the business. As a waste business, with major qualifying assets, these allowances help the Group to plan major investments as corporation tax relief is given against the investments made. As noted in the deferred tax note (note 28), the rate of UK corporation tax will reduce to 17% from April 2020.

Joint venture profits are not subject to any additional tax within the Group as these are included on a post tax basis already, as the Joint venture entity is subject to tax itself.

In addition to the amount charged to the income statement, a deferred tax credit relating to actuarial gains on defined benefit pension schemes of £1.9 million (2018: £1.9 million charge) together with a deferred tax credit relating to movements on cash flow hedges of £0.5 million (2018: £0.3 million credit) has been taken to other comprehensive income. The tax impact relating to share-based payments for the year is a credit directly to equity of £0.1 million (2018: £0.1 million charge).



**Notes to the financial statements (continued)**

**9. Profit of the parent company**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Profit attributable to owners of the parent dealt with in the financial statements of Viridor Limited	<b>108.4</b>	<b>24.7</b>

As permitted by Section 408 of the Companies Act 2006 no income statement or statement of comprehensive income is presented for the Company.

**10. Dividends paid**

Dividends paid refer to both Group and Company

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Amounts recognised as distributions to the ultimate parent undertaking in the year:		
First interim dividend for the year ended 31 March 2019: 3.02p per share paid on 31 August 2018 (2018: 9.23p per share was paid on 29 March 2018)	<b>27.1</b>	<b>50.6</b>
Second interim dividend for the year ended 31 March 2019: 5.18p per share paid on 29 March 2019 (2018: nil)	<b>46.5</b>	<b>-</b>
	<b>73.6</b>	<b>50.6</b>

**11. Employment costs (before non-underlying items)**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Wages and salaries	<b>120.7</b>	<b>111.8</b>
Social security costs	<b>12.5</b>	<b>11.3</b>
Other pension costs	<b>13.3</b>	<b>13.5</b>
Share-based payments	<b>1.0</b>	<b>0.7</b>
Total employment costs	<b>147.5</b>	<b>137.3</b>
Charged as follows:		
Manpower costs	<b>138.6</b>	<b>130.8</b>
Construction in progress	<b>8.9</b>	<b>6.5</b>
	<b>147.5</b>	<b>137.3</b>

Past service costs in relation to defined benefits schemes of £0.9m (2018: £nil) (note 27) are included in non-underlying employment costs. These relate to the gender equalization of guaranteed minimum pensions for occupational pension schemes.

Details of Directors' emoluments are set out in note 12. There are no personnel, other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Group.

**Notes to the financial statements (continued)**

**11. Employment costs (continued)**

	2019	2018
Employees (average full time equivalent number)		
The average monthly number of employees	3,426	3,285
Total number of employees at 31 March	3,599	3,412
	2019	2018
<b>Average number of employees by category</b>		
Operations	3,130	2,996
Administration	296	289
	3,426	3,285

**12. Directors' emoluments**

	2019 £000	2018 £000
Salary	799	945
Performance-related bonus payable	238	422
Share-based payment	3	9
Pension	34	68
Other emoluments	12	20
Total emoluments	1,086	1,464

No directors were compensated for the loss of office during the year (2018: none)

The performance-related payment represents the cash element. In addition Directors receive a conditional award of shares for a matching amount which is subject to a future service criterion.

During the year one Director exercised options under the Pennon Group Plc executive reward schemes (2018: three). The cost of share-based payments represents the amount charged to the income statement, as described in note 30. The aggregate gains on vesting of Directors' share-based awards amounted to a total of £22,000 (2018: £68,000).

At 31 March 2019 no retirement benefits were accruing to Directors under defined benefit pension schemes (2018: nil).

**Notes to the financial statements (continued)**

**12. Directors' emoluments (continued)**

*The emoluments of the highest paid Director in relation to his services to Viridor were:*

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	<b>463</b>	<b>420</b>

**13. Goodwill**

	<b>£m</b>
<b>Cost:</b>	
At 1 April 2017	330.4
At 31 March 2018	330.4
<b>At 31 March 2019</b>	<b>330.4</b>
<b>Carrying amount:</b>	
At 1 of April 2017	330.4
At 31 March 2018	330.4
<b>At 31 March 2019</b>	<b>330.4</b>

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating unit ('CGU') expected to benefit from that business combination. Viridor is considered to be a single CGU as it is a fully integrated business and this is the lowest level at which goodwill is monitored and tested.

**Impairment testing of goodwill**

The Group tests goodwill for impairment annually, or more frequently if there are any indications that impairment may have arisen.

The recoverable amount of goodwill is determined based on value-in-use calculations which, under IAS 36 'Impairment of Assets', require the use of base cash flow projections that reflect reasonable and supportable assumptions with specific restrictions on the estimates to be used. These include limitations on reflecting cash flows to take account of future cost restructuring, or improvement or enhancement of asset performance. Uncommitted projects are excluded. Discount rates are required to be derived independently of the Viridor's capital structure and those used reflect management's prudent estimate of a rate that investors would require if they were to choose a similar investment ranging from 6-12% (2018: 7-10%) across the CGUs business activities.

**Notes to the financial statements (continued)**

**13. Goodwill (continued)**

The base cash flow projections have been derived from detailed budget and strategic plan projections. These cover a period of seven years and are prepared as part of the annual planning cycle. This period is believed to lead to a more realistic estimate of future cash flows than five years. Long-term growth rates of 3%, based on forecast of growth in waste management markets and the UK economy, are applied to cash flows beyond the seven year period.

These plans are based on detailed market-by-market forecasts of projected volumes, prices and costs for each business activity. These forecasts reflect, on an individual operational site basis, numerous assumptions and estimates. The key assumptions include anticipated changes in market size and volumes; recycle prices; energy selling prices; gate fees; the level of future landfill tax; and cost inflation. Management has determined the value assigned to each assumption based on historical experience, market surveys, industry analysis and current legislation. For business activities with an indefinite life a terminal growth rate has been used.

The results of tests performed during the year demonstrate significant headroom in all CGUs, and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

**Notes to the financial statements (continued)****14. Other intangible assets**

	<b>Service concession arrangements £m</b>	<b>Customer Contracts £m</b>	<b>Patents £m</b>	<b>Total £m</b>
Acquired intangible assets				
<b>Cost:</b>				
At 31 March 2017	61.6	34.1	0.2	95.9
Additions	8.1	-	-	8.1
At 31 March 2018	69.7	34.1	0.2	104.0
Additions	24.8	-	-	24.8
<b>At 31 March 2019</b>	<b>94.5</b>	<b>34.1</b>	<b>0.2</b>	<b>128.8</b>
<b>Accumulated amortisation and impairment:</b>				
At 1 April 2017	0.2	29.9	0.2	30.3
Charge for year	0.3	2.7	-	3.0
At 31 March 2018	0.5	32.6	0.2	33.3
Charge for year	3.3	1.2	-	4.5
<b>At 31 March 2019</b>	<b>3.8</b>	<b>33.9</b>	<b>0.2</b>	<b>37.9</b>
<b>Carrying amount:</b>				
At 31 March 2017	61.4	4.2	-	65.6
At 31 March 2018	69.2	1.5	-	70.7
<b>At 31 March 2019</b>	<b>90.7</b>	<b>0.2</b>	<b>-</b>	<b>90.9</b>

Service concession arrangements are amortised over the useful life of each contract. The weighted average remaining life is 21 years (2018: 22 years).

Customer contracts are amortised over the useful economic life of each contract which at acquisition ranged between 5 and 12 years. The weighted average remaining life is <1 year (2018: 1 year).

Patents have been amortised in full over their estimated useful lives which at acquisition was 13 years.

The carrying values of other intangible assets are reviewed when events or changes in circumstance indicate that the carrying amount may not be fully recoverable.

The principal assumptions used to assess impairment are set out in note 15 of the financial statements.

During the year borrowing costs of nil (2018: £2.3 million at an average rate of 3.5%) have been capitalised (note 7) on qualifying assets.

**Notes to the financial statements (continued)****15. Property, plant and equipment**

	Notes	Land and buildings £m	Fixed and mobile plant, vehicles and computers £m	Landfill restoration £m	Construction in progress £m	Total £m
<b>Cost:</b>						
At 1 April 2017		453.5	1,114.6	71.6	210.0	1,849.7
Additions		10.2	-	11.1	182.4	203.7
Disposals		(0.2)	(7.8)	-	-	(8.0)
Transfers/reclassifications		-	12.0	-	(12.0)	-
At 31 March 2018		463.5	1,118.8	82.7	380.4	2,045.4
Additions		5.0	-	22.8	205.2	233.0
Disposals		(0.7)	(14.4)	-	-	(15.1)
Transfers/reclassifications		-	354.8	-	(354.8)	-
<b>At 31 March 2019</b>		<b>467.8</b>	<b>1,459.2</b>	<b>105.5</b>	<b>230.8</b>	<b>2,263.3</b>
<b>Accumulated depreciation and impairment:</b>						
At 1 April 2017		374.9	296.3	57.4	-	728.6
Charge for year		15.5	46.2	6.9	-	68.6
Disposals		(0.1)	(6.8)	-	-	(6.9)
At 31 March 2018		390.3	335.7	64.3	-	790.3
Charge for year		9.3	53.8	10.4	-	73.5
Disposals		(0.2)	(12.8)	-	-	(13.0)
<b>At 31 March 2019</b>		<b>399.4</b>	<b>376.7</b>	<b>74.7</b>	<b>-</b>	<b>850.8</b>
<b>Net book value:</b>						
At 31 March 2017		78.6	818.3	14.2	210.0	1,121.1
At 31 March 2018		73.2	783.1	18.4	380.4	1,255.1
<b>At 31 March 2019</b>		<b>68.4</b>	<b>1,082.5</b>	<b>30.8</b>	<b>230.8</b>	<b>1,412.5</b>

There was no property, plant and equipment held by the Company during the year.

The increase of £22.8 million in landfill restoration recognised in the year (2018: £11.1 million) has been matched with an addition to environmental provisions (note 29). During the year borrowing costs of £12.4 million (2018: £12.2 million) have been capitalised (note 7) on qualifying assets at an average borrowing rate of 4.1% (2018: 3.5%).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives are reviewed annually. No significant changes were required in the year.

**Notes to the financial statements (continued)**

**15. Property, plant and equipment (continued)**

Assets held under finance leases included above were:	<b>Fixed and mobile plant, vehicles and computers £m</b>
<b>Cost:</b>	
At 31 March 2018	185.7
<b>At 31 March 2019</b>	<b>182.4</b>
<b>Depreciation:</b>	
At 31 March 2018	58.6
<b>At 31 March 2019</b>	<b>60.1</b>
<b>Net book amount:</b>	
At 31 March 2018	127.1
<b>At 31 March 2019</b>	<b>122.3</b>

**Notes to the financial statements (continued)****16. Financial instruments by category**

The accounting policies for financial instruments have been applied to the line items:

Group	Note	Fair value	Amortised cost		Total £m
		Derivatives used for cash flow hedging £m	Debt instruments £m	Trade receivables and trade payables £m	
<b>31 March 2019</b>					
<b>Financial assets</b>					
Trade receivables	20	-	-	122.2	122.2
Other receivables	17, 20	-	247.7	43.3	291.0
Derivative financial instruments	21	0.2	-	-	0.2
Cash and cash deposits	22	-	36.1	-	36.1
<b>Total</b>		<b>0.2</b>	<b>283.8</b>	<b>165.5</b>	<b>449.5</b>
<b>Financial liabilities</b>					
Borrowings	25	-	(1,267.7)	-	(1,267.7)
Derivative financial instruments	21	-	-	-	-
Trade and other payables	23	-	-	(41.5)	(41.5)
<b>Total</b>		<b>-</b>	<b>(1,267.7)</b>	<b>(41.5)</b>	<b>(1,309.2)</b>
<b>31 March 2018</b>					
<b>Financial assets</b>					
Trade receivables	20	-	-	100.7	100.7
Other receivables	17, 20	-	198.2	68.7	266.9
Derivative financial instruments	21	3.0	-	-	3.0
Cash and cash deposits	22	-	42.5	-	42.5
<b>Total</b>		<b>3.0</b>	<b>240.7</b>	<b>169.4</b>	<b>413.1</b>
<b>Financial liabilities</b>					
Borrowings	25	-	(1,013.9)	-	(1,013.9)
Derivative financial instruments	21	-	-	-	-
Trade and other payables	23	-	-	(66.5)	(66.5)
<b>Total</b>		<b>-</b>	<b>(1,013.9)</b>	<b>(66.5)</b>	<b>(1,080.4)</b>
<b>Company</b>					
<b>31 March 2019</b>					
<b>Financial assets</b>					
Trade and other receivables	17, 20	-	1,752.4	-	1,752.4
Cash and cash deposits	22	-	1.6	-	1.6
<b>Total</b>		<b>-</b>	<b>1,754.0</b>	<b>-</b>	<b>1,754.0</b>
<b>Financial liabilities</b>					
Borrowings	25	-	(999.6)	-	(999.6)
Trade and other payables	23	-	-	-	-
<b>Total</b>		<b>-</b>	<b>(999.6)</b>	<b>-</b>	<b>(999.6)</b>
<b>31 March 2018</b>					
<b>Financial assets</b>					
Trade and other receivables	17, 20	-	1,500.0	12.0	1,512.0
Cash and cash deposits	22	-	22.8	-	22.8
<b>Total</b>		<b>-</b>	<b>1,522.8</b>	<b>12.0</b>	<b>1,534.8</b>
<b>Financial liabilities</b>					
Borrowings	25	-	(823.6)	-	(823.6)
Trade and other payables	23	-	-	-	-
<b>Total</b>		<b>-</b>	<b>(823.6)</b>	<b>-</b>	<b>(823.6)</b>



# Notes to the financial statements (continued)

## 17. Other non-current assets

	Note	Group		Company	
		2019 £m	2018 £m	2019 £m	2018 £m
Amounts owed by subsidiary undertakings	39	-	-	1,714.6	1,500.0
Amounts owed by related parties	39	67.7	39.4	-	-
Service concession arrangements		188.3	222.9	-	-
Prepayments and accrued income		0.3	1.3	-	-
		<b>256.3</b>	<b>263.6</b>	<b>1,714.6</b>	<b>1,500.0</b>

Non-current receivables were due:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Between 1 and 2 years	44.0	12.9	113.6	108.0
Between 2 and 5 years	135.1	34.9	340.9	323.9
Over 5 years	77.2	215.8	1,260.1	1,068.1
	<b>256.3</b>	<b>263.6</b>	<b>1,714.6</b>	<b>1,500.0</b>

The fair values of other non-current assets were:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts owed by subsidiary undertakings	-	-	2,058.3	1,784.3
Amounts owed by related parties	81.9	70.6	-	-
Service concession arrangements	188.3	222.9	-	-
Other receivables	0.3	1.3	-	-
	<b>270.5</b>	<b>294.8</b>	<b>2,058.3</b>	<b>1,784.3</b>

The Group has a number of service concession arrangements with local authority clients in the waste management sector to build and operate recycling assets and energy recovery facilities. The terms of the contracts, including pricing and performance obligations, are established at the outset and the contracts are typically for a duration of 25 years. The assets revert to the local authority at the end of the contract. At 31 March 2019 the average remaining duration of the service concession arrangements was 21 years.

Service concession arrangements includes £nil (2018: £134.5m) in respect of contract assets. The contract asset balance at 31 March 2018 related to the Glasgow Recycling and Renewable Energy Centre which was in the course of construction at that time and met the definition of a contract asset. Construction was completed during the year ended 31 March 2019.

The fair value of amounts owed by related parties is based on cash flows using a rate based on the borrowings rate of 2.4% (2018: 2.5%). The discount rate is equal to London Interbank Offered Rate plus an allowance to reflect an appropriate credit margin.

The effective interest rate on amounts owed by related parties was 12.6% (2018: 12.6%).

Other receivables include site development costs and pre-contract costs of £0.2 million (2018: £0.7 million).

**Notes to the financial statements (continued)**

**18. Investments**

**Subsidiary undertakings**

	£m
<b>Company</b>	
At 31 March 2017	411.7
At 31 March 2018	411.7
<b>At 31 March 2019</b>	<b>411.7</b>

The recoverable amounts of investments are determined based on value-in-use calculations, which are set out in note 13.

**Notes to the financial statements (continued)****18. Investments****Joint ventures**

	£m
<b>Group</b>	
At 31 March 2017	0.1
Share of post-tax profit	9.4
Share of non-underlying items (note 5)	22.5
Share of other comprehensive income	(2.7)
Dividends received	(6.5)
At 31 March 2018	22.8
Additions	20.9
Share of post-tax profit	12.4
Share of other comprehensive income	0.5
Dividends received	(5.5)
<b>At 31 March 2019</b>	<b>51.1</b>

Details of the Group's principal subsidiary and joint venture undertakings are set out in note 35.

In December 2018 John Laing Investments Limited, a joint venture partner with the Group in INEOS Runcorn (TPS) Holdings Limited (Runcorn 1 ERF) sold its holding. The Group exercised its pre-emption rights and paid a total cash consideration of £54.8million for the 37.5% economic interest and 20% voting rights. The cash consideration has been allocated as £20.9 million to investment in equity shares and £33.9 million to investment in shareholder loans. The acquisition increased the Group's economic interest in TPSCo from 37.5% to 75%, with the associated voting rights moving from 20% to 40% and gave rise to goodwill of £4.9 million. With the acquisition, the Group now has joint control over Runcorn 1 ERF and classifies its investment as a joint venture. Previously the Group had classified its investment as an associate because the other joint venture partners could have operated without the Group's agreement. The equity method of accounting is used for both classifications, so the same accounting treatment has been applied continuously.

The Group's joint ventures listed below all have share capital consisting solely of ordinary shares which is held directly by the Group

Name of Entity	Place of business/country		Measurement method
	of incorporation	% of ownership	
Lakeside Energy from Waste Holdings Limited	England	50	Equity
Shelford Composting Limited	England	50	Equity
INEOS Runcorn (TPS) Holdings Limited	England	40	Equity

- Lakeside Energy from Waste Holdings Limited provides energy recovery facilities.
- Shelford Composting Limited ceased trading in March 2017, having provided green waste composting and disposal facilities.
- INEOS Runcorn (TPS) Holdings Limited provides energy recovery facilities. The Group's economic interest is 75.0% (2018: 37.5%) as set out in note 35.

The Group's joint ventures are all private companies and there are no quoted market prices available for their shares.

**Notes to the financial statements (continued)****18. Investments (continued)****Summarised information for the Group's joint ventures and associates:**

## Summarised balance sheet

	2019			2018		
	Lakeside energy from waste holdings Ltd £m	Shelford Composting Ltd £m	INEOS Runcorn (TPS) Holdings Ltd £m	Lakeside energy from waste holdings Ltd £m	Shelford Composting Ltd £m	INEOS Runcorn (TPS) Holdings Ltd £m
<b>Current</b>						
Cash and cash equivalents	22.5	0.8	15.9	16.1	0.8	15.5
Other current assts	8.7	-	11.4	8.6	-	10.0
<b>Total current assets</b>	<b>31.2</b>	<b>0.8</b>	<b>27.3</b>	<b>24.7</b>	<b>0.8</b>	<b>25.5</b>
Borrowings	-	-	-	-	-	-
Other current liabilities	(6.2)	(0.1)	(0.1)	(6.5)	(0.8)	(8.6)
<b>Total current liabilities</b>	<b>(6.2)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(6.5)</b>	<b>(0.8)</b>	<b>(8.6)</b>
<b>Non-current</b>						
<b>Assets</b>	<b>101.9</b>	<b>-</b>	<b>193.1</b>	<b>109.8</b>	<b>-</b>	<b>270.3</b>
Borrowings	(88.8)	-	(86.7)	(95.5)	-	(86.9)
Other liabilities	(25.8)	-	(73.7)	(28.4)	-	(145.1)
<b>Total non-current liabilities</b>	<b>(114.6)</b>	<b>-</b>	<b>(160.4)</b>	<b>(123.9)</b>	<b>-</b>	<b>(232.0)</b>
<b>Net assets</b>	<b>12.3</b>	<b>0.7</b>	<b>59.9</b>	<b>4.1</b>	<b>-</b>	<b>55.2</b>
Net (debt)/deposit	(66.3)	0.8	(70.8)	(79.4)	0.8	(71.4)
Associated shareholder loans	15.4	-	86.7	16.3	-	86.9
<b>Net debt (excluding shareholder loans)</b>	<b>(50.9)</b>	<b>0.8</b>	<b>15.9</b>	<b>(63.1)</b>	<b>0.8</b>	<b>15.5</b>

**Notes to the financial statements (continued)****18. Investments (continued)**

## Summarised statement of comprehensive income/(loss)

	<b>2019</b>		<b>2018</b>		
	<b>Lakeside energy from waste holdings Ltd £m</b>	<b>INEOS Runcorn (TPS) Holdings Ltd £m</b>	<b>Lakeside energy from waste holdings Ltd £m</b>	<b>INEOS Runcorn (TPS) Holdings Ltd £m</b>	<b>Viridor Laing (Greater Manchester) Holdings Ltd £m</b>
Revenue	52.8	43.6	49.2	53.7	85.3
EBITDA	37.4	24.8	33.7	38.7	3.6
Depreciation and amortisation	(7.9)	(9.7)	(7.9)	(12.1)	(0.6)
Non-underlying credit	-	-	-	60.0	-
Other net interest charge	(7.3)	(9.5)	(7.5)	(20.3)	(3.2)
Pre tax profit/(loss)	22.2	5.6	18.3	66.3	(0.2)
Income tax expense/(income)	(4.0)	(0.9)	(3.8)	(0.3)	0.1
Post tax profit/(loss)	18.2	4.7	14.5	66.0	(0.1)
Other comprehensive income	1.0	-	3.9	36.7	-
Total comprehensive income	19.2	4.7	18.4	102.7	(0.1)
Dividends paid by joint venture	(11.0)	-	(13.0)	-	-

The information above reflects the amounts presented in the financial statements of the joint ventures and associate adjusted for differences in accounting policies between the Group and the joint venture and the associate. The information reflects 100% of the joint ventures and associate results and net liabilities. The prior year information for Viridor Laing (Greater Manchester) Holdings Limited covers the period from the start of the year to date of disposal.

**19. Inventories**

	<b>Group</b>		<b>Company</b>	
	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
Raw materials and consumables	23.9	19.7	-	-

**Notes to the financial statements (continued)**

**20. Trade and other receivables – current**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
Trade receivables		<b>125.6</b>	104.2	-	-
Less: allowance for expected credit losses		<b>(3.4)</b>	(3.5)	-	-
Trade receivables		<b>122.2</b>	100.7	-	-
Amounts owed by parent undertaking	39	-	-	-	-
Amounts owed by fellow subsidiary	39	<b>0.6</b>	0.3	<b>37.8</b>	12.0
Amounts owed by joint ventures	39	<b>7.8</b>	4.3	-	-
Prepayments and accrued income		<b>170.1</b>	151.6	-	-
		<b>300.7</b>	256.9	<b>37.8</b>	12.0

In the current year prepayments and accrued income include a net receivable of £43.3 million (2018: £68.7 million) relating to gross contractual compensation amounts due totalling £72.0 million (2018: £68.7 million) arising from additional costs incurred in the construction of the Glasgow Recycling and Renewable Energy Centre. A full credit risk appraisal has been carried out on this receivable and a provision of £28.7 million has been recognised for expected credit losses as detailed in note 4.

No material credit loss provision has been recognised in relation to other accrued income balances.

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair value.

The Group has a diverse range of customers (including government agencies) and there is no significant loss on trade receivables expected that has not been provided for. Exports to developing markets are underwritten by letters of credit with various financial institutions which enjoy a high credit rating. At 31 March 2019 trade receivables totalling £0.7 million were collateralised by such letters of credit (2018: £0.8 million) which are subject only to the requirement to submit documentation in line with clauses specific to the relevant letter of credit.

At 31 March, the Group's receivables denominated in currencies other than £ sterling were:

	<b>2019 £m</b>	<b>2018 £m</b>
Euro	<b>1.4</b>	1.0
US Dollar	<b>6.1</b>	1.9

**Notes to the financial statements (continued)**

**20. Trade and other receivables – current (continued)**

At 31 March 2019, trade receivables of £115.1 million (2018: £69.5 million) were fully performing with no significant concentration of credit risk.

The ageing of trade receivables which are past due but not specifically impaired was:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Past due 1 – 30 days	<b>5.1</b>	<b>24.8</b>
Past due 31 – 121 days	<b>2.0</b>	<b>6.4</b>
More than 120 days	<b>-</b>	<b>-</b>
	<b>7.1</b>	<b>31.2</b>

These relate to a large number of major corporate customers and government agencies with no history of default.

The ageing of trade receivables which have been specifically impaired was:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Past due 1 – 30 days	<b>-</b>	<b>-</b>
Past due 31 – 121 days	<b>0.4</b>	<b>-</b>
More than 120 days	<b>3.0</b>	<b>3.5</b>
	<b>3.4</b>	<b>3.5</b>

The provision for expected credit losses relates to those debts in industry sectors known to be vulnerable to economic swings or to customers who have ceased trading at the balance sheet date. At 31 March 2019 not past due trade receivables of £nil (2018: £nil) were fully provided reflecting the director's estimate of recoverability of the receivables given available information.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
		<b>£m</b>	<b>£m</b>
<b>Group</b>			
At start of year		<b>3.5</b>	<b>3.7</b>
Provision for expected credit losses	<b>6</b>	<b>0.3</b>	<b>0.8</b>
Receivables written-off during the year as uncollectable		<b>(0.4)</b>	<b>(1.0)</b>
At end of year		<b>3.4</b>	<b>3.5</b>

**Notes to the financial statements (continued)**

**21. Derivative financial instruments**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Derivatives used for cash flow hedging</b>				
Non-current assets	-	0.9	-	-
Current assets	<b>0.2</b>	2.1	-	-

The fair value of hedging derivatives is split between current and non-current assets or liabilities based on the maturity of the cash flows.

The ineffective portion recognised in the income statement arising from the cash flow hedges was nil (2018: nil).

The Group hedges its exposure to exchange rate risks associated with the costs arising on long-term capital expenditure funded in foreign currencies. At 31 March 2019 the Group was committed to cash flows denominated in foreign currency of Euro 37.7 million (2018: Euro 119.2 million). The weighted average maturity date is less than 1 year (2018: 1 year).

The amounts above are the fair value of hedges based on the market value of an equivalent instrument at the balance sheet date.

**Valuation hierarchy**

The determination of fair values and the valuation hierarchy are discussed in note 3 (e). The fair value of financial instruments carried by Viridor are determined as being level 2, that is inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).



**Notes to the financial statements (continued)**

**21. Derivative financial instruments (continued)**

**Level 2 inputs**

	<b>Group</b>		<b>Company</b>	
	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
<b>Assets</b>				
Derivatives used for cash flow hedging	<b>0.2</b>	<b>3.0</b>	<b>-</b>	<b>-</b>

The amounts above are at the fair value of financial instruments using level 2 inputs that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair values of these instruments are based on the market value of equivalent instruments at the balance sheet date.

**22. Cash and cash equivalents**

	<b>Note</b>	<b>Group</b>		<b>Company</b>	
		<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
Cash at bank and in hand		<b>34.8</b>	<b>40.7</b>	<b>1.6</b>	<b>22.8</b>
Other deposits		<b>1.3</b>	<b>1.8</b>	<b>-</b>	<b>-</b>
<b>Total cash and short term deposits</b>	<b>34</b>	<b>36.1</b>	<b>42.5</b>	<b>1.6</b>	<b>22.8</b>

Cash at bank has an average maturity of one day.

Other deposits include restricted funds of nil (2018: £0.5 million) relating to deposits enabling the Group to take part in electricity auctions for its power output and other agreements.

For the purpose of the cash flow statement cash and cash equivalents comprise:

	<b>Note</b>	<b>Group</b>		<b>Company</b>	
		<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
Cash at bank and in hand		<b>34.8</b>	<b>40.7</b>	<b>1.6</b>	<b>22.8</b>
Bank overdrafts	<b>25, 34</b>	<b>(91.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>(56.9)</b>	<b>40.7</b>	<b>1.6</b>	<b>22.8</b>

**Notes to the financial statements (continued)**

**23. Trade and other payables – current**

	Note	Group		Company	
		2019 £m	2018 (reanalysed) £m	2019 £m	2018 £m
Trade payables		49.8	48.6	-	-
Contract liabilities		8.3	9.6	-	-
Amounts owed to ultimate parent undertaking	39	11.1	12.0	-	-
Amounts owed to fellow subsidiary	39	1.1	2.2	-	-
Amounts owed to joint ventures	39	4.1	3.7	-	-
Other tax and social security		30.2	44.3	-	-
Accruals and other payables		72.8	77.4	-	-
		<b>177.4</b>	<b>197.8</b>	<b>-</b>	<b>-</b>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Included in accruals and other payables are amounts provided by the Group in relation to claims received, which are considered by the Directors and the management of the Group to be the best estimate of the amount that might be finally settled. Further disclosures have not been provided in accordance with IAS 37 paragraph 92.

Prior year comparatives have been reanalysed to separately recognise contract liabilities in accordance with IFRS 15. Contract liabilities are recognised when consideration is received in advance of the Group performing its obligations to customers. The movement in the contract liabilities was:

	2019 £m	2018 £m
At 1 April	9.6	7.8
Revenue recognised in the year	(9.6)	(7.8)
Consideration received in advance of completion of performance obligations	8.3	9.6
At 31 March	<b>8.3</b>	<b>9.6</b>

All contract liabilities are expected to be satisfied and revenue recognised within the financial year ending 31 March 2020.

**Notes to the financial statements (continued)**

**24. Current tax assets/(liabilities)**

	<b>Group</b>		<b>Company</b>	
	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
Current tax	<b>0.5</b>	<b>(0.3)</b>	<b>(37.1)</b>	<b>(28.7)</b>

**25. Borrowings**

	<b>Note</b>	<b>Group</b>		<b>Company</b>	
		<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
<b>Current</b>					
Bank overdrafts	22	<b>91.7</b>	-	-	-
Amounts owed to ultimate parent undertaking	39	-	24.8	-	22.6
		<b>91.7</b>	24.8		22.6
Obligations under finance leases		<b>10.8</b>	12.4	-	-
Total current borrowings	34	<b>102.5</b>	37.2	-	22.6

The ultimate parent undertaking, Pennon Group Plc, has a Group pooling arrangement in respect of Viridor companies. This arrangement allows Viridor subsidiary companies to run overdraft facilities (subject to a pre-determined limit) offset by Pennon Group Plc cash deposits.

**Notes to the financial statements (continued)****25. Borrowings (continued)**

		Group		Company	
	Note	2019 £m	2018 £m	2019 £m	2018 £m
Non-current					
Amounts owed to ultimate parent undertaking	34, 39	1,017.7	819.1	999.6	801.0
Obligations under finance leases		147.5	157.6	-	-
Total non-current borrowings	34	1,165.2	976.7	999.6	801.0
Total borrowings		1,267.7	1,013.9	999.6	823.6

The Directors consider that the carrying amounts of current borrowings approximate to their fair value.

The fair values of non-current borrowings were:

	2019		2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Group</b>				
Amounts owed to parent undertaking	1,017.7	1,139.4	819.1	909.5
Obligations under finance leases	147.5	143.6	157.6	182.0
	1,165.2	1,283.0	976.7	1,091.5
<hr/>				
<b>Company</b>				
Amounts owed to parent undertaking	999.6	1,118.7	801.0	888.8

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair values of non-current borrowings are calculated by discounting expected future cash flows at prevailing interest rates.

The carrying amounts of the Group's borrowings are denominated in £ sterling. The maturity of non-current borrowings was:

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Between 1 and 2 years	52.3	41.1	40.8	28.0
Between 2 and 5 years	157.6	120.0	124.7	86.5
Over 5 years	955.3	815.6	834.1	686.5
	1,165.2	976.7	999.6	801.0

The weighted average maturity of non-current borrowings was 12 years (2018: 12.4 years).

**Notes to the financial statements (continued)**

**25. Borrowings (continued)**

Finance lease liabilities – minimum lease payments:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Within 1 year	14.5	15.3	-	-
Between 2 and 5 years	48.3	48.8	-	-
After 5 years	159.2	166.8	-	-
	<b>222.0</b>	<b>230.9</b>	<b>-</b>	<b>-</b>
Less: future finance charges	(63.7)	(60.9)	-	-
Present value of finance lease liabilities	<b>158.3</b>	<b>170.0</b>	<b>-</b>	<b>-</b>

The maturity of finance lease liabilities was:

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Within 1 year	10.8	12.4	-	-
Between 2 and 5 years	34.7	38.1	-	-
After 5 years	112.8	119.5	-	-
	<b>158.3</b>	<b>170.0</b>	<b>-</b>	<b>-</b>

**26. Other non-current liabilities**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Other payables	32.0	31.5	-	-

Other payables include deferred income resulting from the fair value of liabilities recognised at acquisition.

Included in other payables are amounts provided by the Group in relation to claims received which are considered by the Directors and the management of the Group to be the best estimate of the amounts that might be finally settled. Further disclosures have not been provided in accordance with IAS 37 paragraph 92.

## Notes to the financial statements (continued)

### 27. Retirement benefit obligations

The following amounts refer only to the Group. The Company has no employees.

Viridor participates in a number of pension schemes (including a defined contribution section within the main scheme) operated by Pennon Group Plc.

The Group also operates defined benefit schemes relating to employment rights in its wholly owned subsidiaries, Viridor Waste (Somerset) Limited and Viridor Waste (Greater Manchester) Limited.

The assets of the pension schemes are held in separate trustee administered funds. The trustees of the funds are required to act in the best interest of the funds' beneficiaries. The appointment of schemes' trustees is determined by the schemes' trust documentation. Pennon Group Plc policy is that one-half of all trustees, other than the Chairman, are nominated by members of the schemes, including pensioners.

#### Defined contribution schemes

Pension costs for defined contribution schemes were £6.3 million (2018: £5.5 million) of which £0.6 million was accrued at 31 March 2019 (2018: £0.6 million).

#### Defined benefit schemes

##### Assumptions

The principal actuarial assumptions at 31 March were:

	2019 %	2018 %	2017 %
Rate of increase in pensionable pay	3.3	3.2	3.1
Rate of increase for current and future pensions	2.2	2.1	2.1
Rate used to discount schemes' liabilities	2.40	2.70	2.57
Inflation	3.3	3.2	3.2

#### Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2018 actuarial tables with an allowance for future longevity improvement.

The average life expectancy in years of a pensioner retiring at age 62 on the balance sheet date is projected at:

	2019	2018	2017
Male	22.0	22.0	23.0
Female	24.0	23.6	24.4

The average life expectancy in years of a pensioner retiring at age 62, 15 years after the balance sheet date is projected at:

	2019	2018	2017
Male	23.6	24.5	25.5
Female	25.6	26.4	27.3

**Notes to the financial statements (continued)****27. Retirement benefit obligations (continued)**

The sensitivities regarding the principal actuarial assumptions at 31 March 2019 were:

	<b>Change in assumption</b>	<b>Impact on schemes' liabilities</b>
Rate of increase in pensionable pay	+0.5%	+2.0%
Rate of increase for current and future pensions	+0.5%	+5.9%
Rate used to discount schemes' liabilities	+0.5%	+10.6%
Inflation	+0.5%	+9.5%
Life expectancy	+1 year	+4.2%

The amounts recognised in the balance sheet were:

	<b>2019 £m</b>	<b>2018 £m</b>
Present value of financial obligations	<b>(255.6)</b>	<b>(234.9)</b>
Fair value of plan assets	<b>241.5</b>	<b>228.2</b>
Deficit of funded plans	<b>(14.1)</b>	<b>(6.7)</b>
Impact of minimum funding asset ceiling	<b>(20.6)</b>	<b>(16.8)</b>
Net liability recognised in the balance sheet	<b>(34.7)</b>	<b>(23.5)</b>

The movement in the net defined benefit obligation over the accounting period was as follows:

	<b>2019</b>			<b>2018</b>		
	<b>Present value of obligation £m</b>	<b>Fair value of plan assets £m</b>	<b>Total £m</b>	<b>Present value of obligation £m</b>	<b>Fair value of plan assets £m</b>	<b>Total £m</b>
At 1 April	<b>(251.7)</b>	<b>228.2</b>	<b>(23.5)</b>	<b>(254.3)</b>	<b>222.7</b>	<b>(31.6)</b>
Current service cost	<b>(7.0)</b>	<b>-</b>	<b>(7.0)</b>	<b>(7.7)</b>	<b>-</b>	<b>(7.7)</b>
Past service cost	<b>(0.9)</b>	<b>-</b>	<b>(0.9)</b>	<b>(0.2)</b>	<b>-</b>	<b>(0.2)</b>
Interest (expense)/income	<b>(6.7)</b>	<b>6.2</b>	<b>(0.5)</b>	<b>(6.0)</b>	<b>5.3</b>	<b>(0.7)</b>
	<b>(14.6)</b>	<b>6.2</b>	<b>(8.4)</b>	<b>(13.9)</b>	<b>5.3</b>	<b>(8.6)</b>
<i>Remeasurements:</i>						
Return on plan assets excluding amounts included in interest expense	<b>-</b>	<b>4.3</b>	<b>4.3</b>	<b>-</b>	<b>(0.6)</b>	<b>(0.6)</b>
Gain from changes in demographic assumptions	<b>10.1</b>	<b>-</b>	<b>10.1</b>	<b>1.1</b>	<b>-</b>	<b>1.1</b>
(Loss)/gain from change in financial assumptions	<b>(21.6)</b>	<b>0.1</b>	<b>(21.5)</b>	<b>8.6</b>	<b>-</b>	<b>8.6</b>
Experience losses	<b>0.6</b>	<b>-</b>	<b>0.6</b>	<b>3.2</b>	<b>1.2</b>	<b>4.4</b>
	<b>(3.8)</b>	<b>-</b>	<b>(3.8)</b>	<b>(1.4)</b>	<b>-</b>	<b>(1.4)</b>
Change in asset ceiling	<b>(14.7)</b>	<b>4.4</b>	<b>(10.3)</b>	<b>11.5</b>	<b>0.6</b>	<b>12.1</b>
<i>Contributions:</i>						
Employers	<b>-</b>	<b>7.5</b>	<b>7.5</b>	<b>-</b>	<b>4.6</b>	<b>4.6</b>
Plan participants	<b>(1.0)</b>	<b>1.0</b>	<b>-</b>	<b>(1.0)</b>	<b>1.0</b>	<b>-</b>
<i>Payments from plans:</i>						
Benefit payments	<b>5.8</b>	<b>(5.8)</b>	<b>-</b>	<b>6.0</b>	<b>(6.0)</b>	<b>-</b>
At 31 March	<b>(276.2)</b>	<b>241.5</b>	<b>(34.7)</b>	<b>(251.7)</b>	<b>228.2</b>	<b>(23.5)</b>

Past service cost for the current year includes a non-underlying charge of £0.9 million representing an estimate of the increase in liabilities that results from GMP equalization requirements following a court case in 2018 (see note 5).

**Notes to the financial statements (continued)**

**27. Retirement benefit obligations (continued)**

Changes in the effect of the asset ceiling during the year were:

	2019	2018
	£m	£m
Irrecoverable asset at start of the year	16.8	15.4
Interest on irrecoverable surplus	0.5	0.4
Actuarial losses	3.3	1.0
	<b>20.6</b>	<b>16.8</b>

The Group has one pension scheme (2018: one scheme) which is in surplus. However, this surplus is deemed irrecoverable in accordance with IFRIC 14 'The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

Viridor Group's share of schemes' assets at the balance sheet date was:

	2019			2018		
	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %	Quoted prices in active market £m	Prices not quoted in active market £m	Fund %
Equities	55.2	3.3	24	81.6	2.0	37
Government bonds	13.2	-	5	17.9	-	8
Other bonds	45.6	-	19	35.1	-	15
Diversified growth	62.7	9.7	30	37.0	-	16
Property	7.8	3.2	5	7.5	2.0	4
Other	40.8	-	17	38.1	6.1	20
	<b>225.3</b>	<b>16.2</b>	<b>100</b>	<b>217.2</b>	<b>10.1</b>	<b>100</b>

Other assets at 31 March 2019 represented principally cash contributions received from the Group towards the year end which were invested during the subsequent financial year.

Through Viridor's defined benefit pension plans, it is exposed to a number of risks which are:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a significant proportion of growth assets (equities and diversified growth funds) which are expected to outperform corporate bonds in the long-term, but can give rise to volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.



## Notes to the financial statements (continued)

### 27. Retirement benefit obligations (continued)

Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

In conjunction with its investment advisers, the trustees have structured the schemes' investments with the objective of balancing investment returns and levels of risk. The asset allocation for the main scheme has three principal elements:

- holding of cash funds and bonds which are expected to be less volatile than most other asset classes and reflects the schemes' liabilities
- a proportion of equities, with fund managers having freedom in making investment decisions to maximise returns
- investment of a relatively small proportion of the schemes' assets in alternative asset classes which give the potential for diversification (currently property and diversified growth).

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected increases in pensionable pay.

The future cash flows arising from the payment of the defined benefits are expected to be settled primarily in the period between 15 and 40 years from the balance sheet date.

The 2016 triennial actuarial valuation of the principal defined benefit scheme has been agreed, with the actuarial deficit and schedule of contributions being in line with the 2013 triennial actuarial valuation. During the year, the Group made deficit recovery contributions of £2.5 million (2018: nil). The Group monitors funding levels on an annual basis and expects to pay total contributions of around £7.0 million during the year ended 31 March 2020. The 2019 triennial actuarial valuation is underway.

### 28. Deferred tax

The following amounts relate only to the Group. The Company has no deferred tax assets or liabilities.

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates. Movements on the deferred tax account were:

	Note	2019 £m	2018 £m
At 1 April		56.6	42.0
Charged to the income statement	8	10.6	12.9
Charged/(credited) to equity and other comprehensive income		(2.5)	1.7
At 31 March		64.7	56.6

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The majority of the Group's deferred tax liability is expected to reverse over more than one year. All deferred tax assets and liabilities within the same jurisdiction are offset.

**Notes to the financial statements (continued)****28. Deferred tax (continued)**

The movements in deferred tax assets and liabilities were:

<b>Deferred tax liabilities</b>	<b>Accelerated tax depreciation £m</b>	<b>Fair Value adjustments £m</b>	<b>Service concession arrangements £m</b>	<b>Derivatives £m</b>	<b>Total £m</b>
At 31 March 2017	7.7	6.2	41.6	0.8	56.3
(Credited)/charged to the Income statement	12.4	(1.5)	2.0	-	12.9
Credited to other comprehensive income	-	-	-	(0.3)	(0.3)
At 31 March 2018	20.1	4.7	43.6	0.5	68.9
(Credited)/charged to the income statement	11.3	(3.6)	4.5	-	12.2
(Credited) to other comprehensive income	-	-	-	(0.5)	(0.5)
<b>At 31 March 2019</b>	<b>31.4</b>	<b>1.1</b>	<b>48.1</b>	<b>-</b>	<b>80.6</b>
<b>Deferred tax assets</b>	<b>Long term liabilities and accruals £m</b>	<b>Retirement benefit obligations £m</b>	<b>Tax losses £m</b>	<b>Share based payments £m</b>	<b>Total £m</b>
At 31 March 2017	(6.7)	(5.4)	(1.7)	(0.5)	(14.3)
(Credited)/charged to the income statement	0.4	(0.5)	-	0.1	-
(Credited) to other comprehensive income	-	1.9	-	0.1	2.0
At 31 March 2018	(6.3)	(4.0)	(1.7)	(0.3)	(12.3)
(Credited)/charged to the Income statement	(2.3)	0.2	0.5	-	(1.6)
(Credited) to other comprehensive income and equity	-	(1.9)	-	(0.1)	(2.0)
<b>At 31 March 2019</b>	<b>(8.6)</b>	<b>(5.7)</b>	<b>(1.2)</b>	<b>(0.4)</b>	<b>(15.9)</b>
<b>Net deferred tax liability:</b>					
At 31 March 2018					56.6
At 31 March 2019					64.7

**Notes to the financial statements (continued)**

**28. Deferred tax (continued)**

The deferred tax (charged)/credited to other comprehensive income and equity during the year was:

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Actuarial (losses)/gain on defined benefit schemes	<b>(1.9)</b>	1.9
Net fair value (losses)/gain on cash flow hedges	<b>(0.5)</b>	(0.3)
Deferred tax on other comprehensive (losses)/gain	<b>(2.4)</b>	1.6
Share-based payments	<b>(0.1)</b>	0.1
	<b>(2.5)</b>	1.7

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates vary from 8% up to 100% in certain instances, with most items qualifying at either 8% or 18% per annum. The 8% rate reduces to 6% from April 2019.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation.

Short term temporary differences arise on items such as environmental provisions, retirement benefit obligations and revenue on service concession arrangements because the treatment of such items is different for tax and accounting purposes. These differences reverse over future years following that in which they arise, as is reflected in the deferred tax charge in these financial statements.

Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

**Notes to the financial statements (continued)****29. Provisions**

	Note	Environmental and landfill restoration £m	Other provisions £m	Total £m
<b>Group</b>				
At 1 April 2018		192.0	24.8	216.8
Charged to the income statement		8.0	1.3	9.3
Utilised during year		(13.0)	(5.1)	(18.1)
Capitalised during the year	15	22.8	-	22.8
<b>At 31 March 2019</b>		<b>209.8</b>	<b>21.0</b>	<b>230.8</b>

The amount charged to the income statement includes £11.1 million (2018: £10.1 million) charged to finance costs as the unwinding of discounts in provisions.

The analysis of provisions between current and non-current is:

	2019 £m	2018 £m
Current	27.7	35.3
Non-current	203.1	181.5
	<b>230.8</b>	<b>216.8</b>

Environmental and landfill restoration provisions are incurred during the operational life of each landfill site and for a considerable period thereafter. The period of aftercare post-closure and the level of costs expected are uncertain and can vary significantly from site to site. Key factors are the type of waste, the speed at which it decomposes, the volume of leachate requiring treatment and regulatory requirements specific to the site. Environmental and landfill restoration provisions are expected to be substantially utilised throughout the operational life of a site and for landfill sites within 60 years of closure. The provisions have been established assuming current waste management technology based upon estimated costs at future prices which have been discounted to present value.

A discount rate of 4.825% (2018: 4.825%) and an inflation rate of 2.5% (2018: 2.5%) have been applied to the aftercare provision and a discount rate of 3.8% (2018: 3.8%) and an inflation rate of 2.5% (2018: 2.5%) to the restoration provision.

Other provisions include underperforming contracts of £7.1 million (2018: £11.0 million), which are provided for at the net present value of the operating losses of the underperforming contracts and are to be utilised over the remaining period of the contract to which they relate. The weighted average contract life of underperforming contracts is 5 years (2018: 6 years).

**Notes to the financial statements (continued)****30. Share capital**

	<b>Allotted, called up and fully paid (Group and Company) £m</b>
At 1 April 2017	
548,234,128 Ordinary shares of £1 each	548.2
350,000,000 Ordinary shares of £1 each issued	350.0
At 31 March 2018	898.2
<b>At 31 March 2019</b>	<b>898.2</b>

The group issued 350,000,000 shares on 29 March 2018. The ordinary shares issued have the same rights as the other shares in issue.

**Employee share schemes**

Pennon Group Plc operates a number of equity-settled share plans for the benefit of employees. Details of each plan are:

**i) Sharesave Scheme**

An all-employee savings related plan is operated that enables employees, including executive Directors, to invest up to a maximum of £500 per month for three or five years. These savings can then be used to buy the Ordinary shares of Pennon Group Plc at a price set at a 17% discount to the market value at the start of the savings period at the third, fifth or seventh anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Pennon Group before the option exercise period commences.

Outstanding options to subscribe for shares of 40.7p each under the Pennon Group Plc share option schemes are:

	<b>Date granted and subscription price fully paid</b>	<b>Period when options normally exercisable</b>	<b>Thousands of shares in respect of which options are outstanding at 31 March</b>	
			<b>2019</b>	<b>2018</b>
29 June 2011	536p	2014 – 2018	-	11
29 June 2012	588p	2015 – 2017	-	1
03 July 2013	538p	2016 – 2018	-	35
14 July 2014	611p	2017 – 2019	62	76
24 June 2015	683p	2018 – 2020	84	416
29 June 2016	709p	2019 – 2021	245	304
28 June 2017	767p	2020 – 2022	239	338
03 July 2018	635p	2021 – 2023	544	-
			<b>1,174</b>	<b>1,181</b>

**Notes to the financial statements (continued)**

**30. Share capital (continued)**

**i) Sharesave Scheme (continued)**

The number and weighted average exercise price of Sharesave options are:

	<b>2019</b>		<b>2018</b>	
	<b>Number of Ordinary shares (thousands)</b>	<b>Weighted average exercise price per share (p)</b>	<b>Number of Ordinary shares (thousands)</b>	<b>Weighted average exercise price per share (p)</b>
At 1 April	1,181	703	1,317	662
Granted	590	635	394	767
Exercised	(330)	663	(280)	602
Lapsed	(51)	681	(29)	660
Expired	(216)	710	(221)	706
At 31 March	1,174	679	1,181	703

The weighted average price of Pennon Group Plc shares at the date of exercise of Sharesave options during the year was 750p (2018: 798p). The options outstanding at 31 March 2019 had a weighted average exercise price of 679p (2018: 703p) and a weighted average remaining contractual life of 1.9 years (2018: 1.7 years).

The aggregate fair value of Sharesave options granted during the year was £0.7 million (2018: £0.3 million), determined using the Black-Scholes valuation model.

The significant inputs into the valuation model at the date of issue of the options were:

	<b>2019</b>	<b>2018</b>
Weighted average share price	801p	848p
Weighted average exercise price	635p	767p
Expected volatility	20.0%	19.0%
Expected life	3.3 years	3.4 years
Risk-free rate	0.5%	0.3%
Expected dividend yield	5.2%	4.5%

Expected volatility was determined by calculating the historical volatility of the Pennon Group Plc share price over the previous two years.

**Notes to the financial statements (continued)**

**30. Share capital (continued)**

**ii) Performance and Co-investment Plan**

Executive Directors and senior management of the Group receive a conditional award of Ordinary shares in Pennon Group Plc and are also required to hold a substantial personal shareholding in Pennon Group Plc. The eventual number of shares, if any, which vest, is dependent upon the achievement of conditions of the plan over the restricted period, being not less than three years. From 2017/2018, no further awards are made under this plan as it has been superseded by a long term investment plan.

The number and price of shares in the Performance and Co-investment Plan are:

	2019		2018	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	167	864	316	850
Granted	-	-	-	-
Vested	-	-	(9)	799
Lapsed	(92)	818	(140)	825
At 31 March	75	920	167	864

The awards outstanding at 31 March 2019 had a weighted exercise price of 920p (2018: 864p) and a weighted average remaining contractual life of 0.3 years (2018: 0.7 years).

The aggregate fair value of awards granted during the year was £nil (2018: £nil), determined using a Monte-Carlo simulation model.

The significant inputs into the valuation model at the date of the share awards were:

	2019	2018
Share price	-	-
Expected volatility	-	-
Risk-free rate	-	-

Expected volatility was determined by calculating the historical volatility of the Pennon Group Plc share price over the previous three years.

**Notes to the financial statements (continued)**

**30. Share capital (continued)**

**iii) Long-term Incentive Plan (LTIP)**

Executive Directors and senior management receive an annual grant of conditional shares. Share awards vest subject to the achievement of specific performance conditions measured over a performance period of not less than three years.

The numbers and price of shares in the LTIP are:

	2019		2018	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	140	803	-	-
Granted	167	790	167	803
Vested	-	-	-	-
Lapsed	(8)	803	(27)	803
At 31 March	299	796	140	803

The awards outstanding at 31 March 2019 had a weighted exercise price of 796p (2018: 803p) and a weighted average remaining contractual life of 1.9 years (2018: 2.4 years).

The aggregate fair value of awards granted during the year was £0.5 million (2018: £1.0 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depend on non-market performance vesting conditions.



**Notes to the financial statements (continued)**

**30. Share capital (continued)**

**iv) Annual Incentive Bonus Plan – Deferred Shares**

Awards under the plan to Executive Directors and senior management involve the release of Ordinary shares in Pennon Group Plc to participants which vest after three years. Any dividends on the shares during this period are paid to the qualifying employee. There is no performance condition since vesting is conditional upon continuous service within the Pennon Group for a period of three years from the award.

The number and weighted average price of shares in the Annual Incentive Bonus Plan are:

	2019		2018	
	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)	Number of Ordinary shares (thousands)	Weighted average exercise price per share (p)
At 1 April	56	844	35	848
Granted	31	761	27	809
Vested	(13)	791	(6)	821
Lapsed	-	-	-	-
At 31 March	74	818	56	844

The awards outstanding at 31 March 2019 had a weighted average price of 818p (2018: 844p) and a weighted average remaining contractual life of 1.6 years (2018 1.7 years).

The aggregate fair value of awards granted during the year was £0.2 million (2018: £0.2 million), determined from market value. No option pricing methodology is applied since dividends declared on the shares are receivable by the participants in the scheme.

**31. Share premium account**

	£m
At 31 March 2017	95.2
At 31 March 2018	95.2
At 31 March 2019	95.2

**Notes to the financial statements (continued)**

**32. Retained earnings and other reserves**

		<b>Group</b>		<b>Company</b>
	<b>Hedging reserve £m</b>	<b>Retained earnings £m</b>	<b>Total £m</b>	<b>Retained earnings £m</b>
At 31 March 2017	4.4	(276.6)	(272.2)	126.7
Profit for the year	-	39.7	39.7	24.7
Other comprehensive income for the year	2.5	7.1	9.6	-
Transfer from hedging reserve to property, plant and equipment	(4.4)	-	(4.4)	-
Dividends paid	-	(50.6)	(50.6)	(50.6)
Credited to equity in respect of share-based payments	-	0.7	0.7	-
At 31 March 2018	2.5	(279.7)	(277.2)	100.8
Profit for the year	-	54.2	54.2	108.4
Other comprehensive loss for the year	(0.5)	(6.6)	(7.1)	-
Transfer from hedging reserve to property, plant and equipment	(2.4)	-	(2.4)	-
Dividends paid	-	(73.6)	(73.6)	(73.6)
Credited to equity in respect of share-based payments	-	0.9	0.9	-
<b>At 31 March 2019</b>	<b>(0.4)</b>	<b>(304.8)</b>	<b>(305.2)</b>	<b>135.6</b>

**Notes to the financial statements (continued)****33. Analysis of cash flows given in the cash flow statement**

Reconciliation of profit for the year to cash generated from/(used in) operations:

**Cash generated from/(used in) operations**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Continuing operations</b>				
Profit for the year	<b>54.0</b>	39.9	<b>108.4</b>	24.7
<b>Adjustments for:</b>				
Employee share schemes	<b>1.0</b>	0.7	-	-
Profit on disposal of property, plant and equipment	<b>(2.3)</b>	(0.1)	-	-
Depreciation charge	<b>73.5</b>	68.7	-	-
Amortisation of intangible assets	<b>4.5</b>	3.0	-	-
Non-underlying JV loan write off and credit	-	(6.5)	-	-
Finance income (before non-underlying items)	<b>(26.2)</b>	(27.1)	<b>(81.3)</b>	(69.1)
Finance costs (before non-underlying items)	<b>51.0</b>	44.2	<b>37.5</b>	34.3
Share of post-tax profit from joint venture	<b>(12.4)</b>	(9.4)	-	-
Dividends receivable	-	-	<b>(73.6)</b>	-
Taxation	<b>4.9</b>	37.4	<b>9.0</b>	10.1
<b>Changes in working capital (excluding the effect of acquisition of subsidiaries)</b>				
Increase in inventories	<b>(4.2)</b>	(3.7)	-	-
Increase in trade and other receivables	<b>(18.8)</b>	(66.7)	<b>(214.6)</b>	(173.7)
(Decrease)/increase in trade and other payables	<b>(8.1)</b>	5.9	-	-
Increase/(decrease) in provisions	<b>(8.7)</b>	(3.7)	-	-
(Decrease)/increase in retirement benefit obligations	<b>1.4</b>	3.3	-	-
Cash generated from/(used in) operations	<b>109.6</b>	85.9	<b>(214.6)</b>	(173.7)

**Total interest paid**

	<b>Group</b>		<b>Company</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Interest paid in operating activities	<b>32.9</b>	28.5	<b>37.5</b>	34.3
Interest paid in investing activities (purchase of property, plant and equipment)	<b>12.4</b>	12.2	-	-
Total interest paid	<b>45.3</b>	40.7	<b>37.5</b>	34.3

**Notes to the financial statements (continued)**

**34. Net borrowings**

		<b>Group</b>		<b>Company</b>	
	<b>Notes</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2018 £m</b>
Cash and cash deposits	22	36.1	42.5	1.6	22.8
<b>Borrowings – current</b>					
Bank overdrafts	22,25	(91.7)	-	-	-
Ultimate parent company loans	25	-	(24.8)	-	(22.6)
Subsidiary undertakings	25	-	-	-	-
Finance lease obligations	25	(10.8)	(12.4)	-	-
Total current borrowings	25	(102.5)	(37.2)	-	(22.6)
<b>Borrowings – non-current</b>					
Ultimate parent company loans	25	(1,017.7)	(819.1)	(999.6)	(801.0)
Finance lease obligations	25	(147.5)	(157.6)	-	-
Total non-current borrowings	25	(1,165.2)	(976.7)	(999.6)	(801.0)
<b>Total net borrowings</b>					
		(1,231.6)	(971.4)	(998.0)	(800.8)

The overdraft facility for both the Group and Company operate on a pooled basis with certain other Pennon Group companies and under these arrangements credit balances of participating companies can be offset against overdrawn balances of participating companies.

**Notes to the financial statements (continued)****35. Subsidiary and joint venture undertakings at 31 March 2019**

<b>Subsidiaries</b>			
<b>Subsidiary</b>	<b>Trading/ Dormant</b>	<b>Principal activity</b>	<b>Country of incorporation</b>
<b>Viridor Waste Limited</b>	Trading	Holding Company	England
<b>Viridor Waste Management Limited</b>	Trading	Holding company and waste management activities	England
Viridor Enviroscot Limited	Trading	Waste management	Scotland
A.A. Best & Sons Limited	Dormant		Scotland
Viridor Waste Kent Limited	Trading	Waste management	England
Viridor Waste (Landfill Restoration) Limited	Trading	Restoration of landfill sites	England
Viridor Waste (Thames) Limited	Trading	Waste management	England
Thames Incineration and Recycling Limited	Dormant		England
Thames Incineration Services Limited	Dormant		England
Thames Tankering Services Limited	Dormant		England
Thames Waste Limited	Dormant		England
Viridor Waste (Greater Manchester) Limited	Trading	Provision of waste management services under contract	England
Raikes Lane Limited	Trading	Energy from waste	England
Greater Manchester Sites Limited	Dormant		England
Waste Treatment Limited	Dormant		England
Viridor Waste (Somerset) Limited	Trading	Waste management	England
Viridor Polymer Recycling Limited	Trading	Recycling of waste plastic materials	England
Viridor EfW (Runcorn) Limited	Trading	Energy from waste	England
Viridor Oxfordshire Limited	Trading	Energy from waste	England
Viridor Resource Management Limited	Trading	Marketing and export of recycled materials	England
Viridor Resource (Peterborough) Limited	Dormant		England
Viridor Resource Transport Limited	Dormant		England
Viridor (Community Recycling MKH) Limited	Dormant		England
Viridor (Community Recycling MK) Limited	Dormant		England
Viridor Peterborough Limited	Trading	Operation of energy from waste facility under contract	England

**Notes to the financial statements (continued)**

**35. Subsidiary and joint venture undertakings at 31 March 2019 (continued)**

**Subsidiaries (continued)**

<b>Subsidiary</b>	<b>Trading/ Dormant</b>	<b>Principal activity</b>	<b>Country of incorporation</b>
<b>Viridor Waste Limited (continued)</b>			
<b>Viridor Waste Management     Limited (continued)</b>			
Viridor South London Limited	Trading	Energy from waste	England
Viridor Trident Park Limited	Trading	Energy from waste	England
Viridor (Glasgow) Limited	Trading	Energy from waste	Scotland
Viridor (Lancashire) Limited	Trading	Waste management	England
Viridor Clyde Valley Limited	Trading	Waste management	Scotland
Basecall Limited	Dormant		England
Viridor Waste (East Anglia) Limited	Dormant		England
Handside Limited	Dormant		England
Hodgejoy Recycling Limited	Dormant		England
Lavelle & sons Limited	Dormant		England
MacGlass Recycling Limited	Dormant		Scotland
Parkwood Group Limited	Dormant		England
Industrial Waste Disposals (Sheffield) Limited	Dormant		England
Parkwood Environmental Limited	Dormant		England
Parkwood Recycling Limited	Dormant		England
Sheffield Waste Disposal Company Limited	Dormant		England
Viridor Waste (Sheffield) Limited	Dormant		England
Pearsons Group Holdings Limited	Dormant		England
Viridor Waste (Thetford) Limited	Dormant		England
Roseland Plant Co. Limited	Dormant		England
Viridor (Cheshire) Limited	Dormant		England
Viridor (Martock) Limited	Dormant		England
Viridor Electrical Recycling (Holdings) Limited	Dormant		Scotland
Viridor Electrical Recycling (Limited)	Dormant		Scotland
Shore Recycling (Ozone) Limited	Dormant		England
Viridor Glass Recycling Limited	Dormant		England
Viridor London Recycling Limited	Dormant		England
Viridor New England (EFW) Limited	Dormant		England

**Notes to the financial statements (continued)****35. Subsidiary and joint venture undertakings at 31 March 2019 (continued)**

<b>Subsidiaries (continued)</b>			
<b>Subsidiary</b>	<b>Trading/ Dormant</b>	<b>Principal activity</b>	<b>Country of incorporation</b>
<b>Viridor Waste Limited (continued)</b>			
<b>Viridor Waste Management Limited (continued)</b>			
Viridor South Lanarkshire Limited	Dormant		Scotland
Viridor Waste (Adapt) Limited	Dormant		England
Viridor Waste (Bristol Holdings) Limited	Dormant		England
Viridor Waste (Bristol) Limited	Dormant		England
City Reclamation Services Limited	Dormant		England
Viridor Waste (Corby) Limited	Dormant		England
Corby Skip Hire Limited	Dormant		England
Oakley Recycling Limited	Dormant		England
Oakley Skip Hire Limited	Dormant		England
Viridor Waste (Earls Barton) Limited	Dormant		England
Viridor Waste (Bury) Limited	Dormant		England
Viridor Waste (Medway) Holdings Limited	Dormant		England
Viridor Waste (Allwaste Disposal) Limited	Dormant		England
Viridor Waste (Medway) Limited	Dormant		England
Viridor Waste (Wastenot Recycling) Limited	Dormant		England
Viridor (Erith) Limited	Dormant		England
Viridor (Winsford) Limited	Dormant		England
Viridor Waste (Atherton) Holdings Limited	Dormant		England
Viridor Waste (Atherton) Limited	Dormant		England
<b>Viridor Waste (West Sussex) Limited</b>	Trading	Provision of waste management services under contract	England
<b>Viridor Waste Exeter Limited</b>	Trading	Waste Management	England
Dragon Waste Limited	Trading	Provision of waste management services under contract	England
Astley Minerals Limited	Dormant		England
Pilsworth Forest (1996) Limited	Dormant		England
Pilsworth Forest Limited	Dormant		England
Tokenmarch Limited	Dormant		England
Viridor Waste Wooton Limited	Dormant		England

**Notes to the financial statements (continued)**

**35. Subsidiary and joint venture undertakings at 31 March 2019 (continued)**

**Subsidiaries (continued)**

<b>Subsidiary</b>	<b>Trading/ Dormant</b>	<b>Principal activity</b>	<b>Country of incorporation</b>
<b>Viridor Waste Limited (continued)</b>			
<b>Viridor Waste Disposal Limited</b>	Dormant		England
<b>VWM (Scotland) Limited</b>	Dormant		Scotland
<b>Viridor Waste Hampshire Limited</b>	Dormant		England
<b>Viridor Waste Suffolk Limited</b>	Dormant		England

The Company holds the entire issued share capital of Viridor Waste Limited

All shares in issue are ordinary shares.

Except for Viridor Waste Management Limited (with a minority holding 8% of the ordinary shares) and Dragon waste Limited (with a minority holding 19% of the Ordinary shares), the subsidiaries are wholly owned.

The registered address for the companies above is Peninsula House, Rydon Lane, Exeter, EX2 7HR except for the following:

The registered address for Viridor Enviroscot Limited, Viridor (Glasgow) Limited, Viridor Clyde Valley Limited, Mac-Glass Recycling Limited, A.A. Best & Sons Limited, Viridor Electrical Recycling (Holdings) Limited, Viridor Electrical Recycling Limited, Viridor South Lanarkshire Limited and VWM (Scotland) Limited is 1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL.

The registered address for Viridor Resource Management Limited is First Floor Offices, Riverside House, Sir Thomas Longley Road, Medway City, Rochester, ME2 4FN.



**Notes to the financial statements (continued)**

**35. Principal subsidiary and joint venture undertakings at 31 March 2019 (continued)**

**Joint ventures**

All joint ventures and the subsidiary undertakings of Lakeside Energy from Waste Holdings Limited, INEOS Runcorn (TPS) Holdings Limited and Shelford Composting Limited are incorporated and registered in England which is also their country of operation.

	Share capital in issue	Percentage held	Principal activity
<b>Joint ventures</b>			
<b>Lakeside Energy from Waste Holdings Limited</b>	1,000,000 A Ordinary shares	—	
	1,000,000 B Ordinary shares	100%	
Lakeside Energy from Waste Limited			Waste management

Shares in Lakeside Energy from Waste Holdings Limited are held by Viridor Waste Management Limited.

<b>Shelford Composting Limited</b>	50 A Ordinary shares of £1	—	
	50 B Ordinary shares of £1	100%	Waste management

Shares in Shelford Composting Limited are held by Viridor Waste Kent Limited.

<b>INEOS Runcorn (TPS) Holdings Limited</b>	1,000 A Ordinary shares	40%	
	186,750 B1 Ordinary shares	100%	
	62,250 B2 Ordinary shares	—	
INEOS Runcorn (TPS) Limited			Waste management

Shares in INEOS Runcorn (TPS) Holdings Limited are held by Viridor Waste Management Limited.

The Group's economic interest in INEOS Runcorn (TPS) Holdings Limited is 75.0% (2018: 37.5%), as returns from the investment are based on holdings of B1 and B2 Ordinary shares.

The registered office of Lakeside Energy from Waste Holdings Limited and Lakeside Energy from Waste Limited is Thames House, Oxford Road, Wallingford OX10 6LX.

The registered office of INEOS Runcorn (TPS) Holdings Limited and INEOS Runcorn (TPS) Limited is PO Box 9, Runcorn Site Hq, South Parade, Runcorn, Cheshire, WA7 4JE.

The registered office of Shelford Composting Limited is 900 Pavilion Drive, Northampton NN4 7RG.

**Notes to the financial statements (continued)**

**36. Operating lease commitments**

The future aggregate minimum lease payments under non-cancellable operating leases are:

	2019 £m	2018 £m
<b>Group</b>		
Within one year	10.6	8.9
Within two to five years	30.1	22.0
After five years	99.1	76.2
	<b>139.8</b>	<b>107.1</b>

The Group leases various offices, depots and workshops under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. Property leases have an average term of 33 years and rentals are reviewed on average at four yearly intervals.

The Group also leases plant and machinery under non-cancellable operating lease agreements.

The Company has no obligations arising under non-cancellable operating leases.

**37. Contingencies**

**Contingent liabilities**

	<b>Group</b>		<b>Company</b>	
	2019 £m	2018 £m	2019 £m	2018 £m
Performance bonds	202.7	182.6	-	-
	<b>202.7</b>	<b>182.6</b>	<b>-</b>	<b>-</b>

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

**Other contractual and litigation uncertainties**

The group establishes provisions in connection with contracts and litigation where it has a present legal obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Matters where it is uncertain that these conditions are met include a potential prosecution by the Health and Safety Executive.

**Notes to the financial statements (continued)**

**37. Contingencies (continued)**

**Contingent liabilities (continued)**

In connection with the application of the audit exemption provided by Section 479A, under Section 479C of the Companies Act 2006 the Company has guaranteed all the outstanding liabilities as at 31 March 2019 of the following subsidiaries, since these companies qualify for exemption:

Viridor (Lancashire) Limited  
 Viridor Oxfordshire Limited  
 Viridor Waste Exeter Limited  
 Viridor EFW (Runcorn) Limited  
 Viridor Polymer Recycling Limited  
 Viridor Clyde Valley Limited  
 Viridor Glasgow Limited  
 Viridor Trident Park Limited  
 Viridor South London Limited  
 Viridor Enviroscoot Limited  
 Viridor Peterborough Limited  
 Viridor Waste (Thames) Limited  
 Viridor Waste (Landfill Restoration) Limited  
 Viridor Waste Kent Limited  
 Raikes Lane Limited  
 Viridor Resource Management Limited

**Contingent assets**

In addition to contractual receivables related to our construction contracts, in respect of Glasgow Recycling and Renewable Energy Centre that are reflected in the financial statements, there are further possible recoveries that are contingent on events in the future that are not wholly within the Group's control. These contingent assets have not been recognised as at 31 March 2019.

**38. Capital commitments**

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Contracted not provided	132.7	207.4	-	-

**Notes to the financial statements (continued)**

**39. Related-party transactions**

**Group**

During the year, Viridor group companies entered into the following transactions with related parties who are not members of the Viridor group:

	<b>2019 £m</b>	<b>2018 £m</b>
<b>Sales of goods and services</b>		
Fellow subsidiaries of Pennon Group Plc	-	0.1
Viridor Laing (Greater Manchester) Limited	-	38.4
INEOS Runcorn (TPS) Limited	<b>16.6</b>	15.9
<b>Purchase of goods and services</b>		
Fellow subsidiaries of Pennon Group Plc	<b>(6.7)</b>	(0.3)
Pennon Group Plc	<b>(10.0)</b>	(6.1)
Lakeside Energy from Waste Limited	<b>(12.4)</b>	(12.0)
INEOS Runcorn (TPS) Limited	<b>(7.1)</b>	(6.0)
<b>Income from provision of loan finance</b>		
Lakeside Energy from Waste Holdings Limited	<b>1.2</b>	1.3
Viridor Laing (Greater Manchester) Limited	-	2.6
INEOS Runcorn (TPS) Holdings Limited	<b>4.1</b>	4.1
<b>Payment for provision of loan finance</b>		
Pennon Group Plc	<b>(41.8)</b>	(38.7)
<b>Dividends received</b>		
Lakeside Energy from Waste Holdings Limited	<b>5.5</b>	6.5
<b>Dividends paid</b>		
Pennon Group Plc	<b>(73.6)</b>	(50.6)

Sales and purchases of goods and services with fellow subsidiaries of Pennon Group Plc are undertaken at normal commercial terms and conditions that would also be available to unrelated third parties. Services supplied by Pennon Group Plc are provided at cost.

Sales and purchases of goods and services with joint venture undertakings are undertaken at normal commercial terms and conditions that would also be available to unrelated third parties.

The Group's ultimate parent undertaking is Pennon Group Plc who own 100% of the Company's shares and who are the ultimate controlling party.

**Notes to the financial statements (continued)**

**39. Related-party transactions (continued)**

**Year end balances**

<b>Group</b>	<b>2019 £m</b>	<b>2018 £m</b>
<b>Receivables due from related parties for the provision of loan finance</b>		
Lakeside Energy from Waste Holdings Limited	8.7	9.1
INEOS Runcorn (TPS) Holdings Limited	65.0	32.6
	<b>73.7</b>	<b>41.7</b>
<b>Receivables due from related parties – trading balance</b>		
Fellow subsidiaries of Pennon Group Plc	0.6	0.3
INEOS Runcorn (TPS) Limited	1.8	2.0
	<b>2.2</b>	<b>2.3</b>
<b>Total</b>	<b>76.1</b>	<b>44.0</b>
<b>Payables due to related parties for the provision of loan finance</b>		
Pennon Group Plc	1,017.7	843.9
<b>Payables due to related parties – trading balance</b>		
Pennon Group Plc	11.1	12.0
Fellow subsidiaries of Pennon Group Plc	1.1	2.2
Lakeside Energy from Waste Limited	0.9	1.2
INEOS Runcorn (TPS) Limited	3.2	2.5
	<b>16.3</b>	<b>17.9</b>
<b>Total</b>	<b>1034.0</b>	<b>861.8</b>

Interest on the ultimate parent company loans is charged at fixed rates on loans; £499.8 million at 5.0% and £18.1 million at 6.0% (2018: £411.8 million at 5.0% and £20.2 million at 6.0%). Interest on the balance of the ultimate parent company loans is charged at 12-month London interbank offered rate (Libor)+220 basis points.

The loans are due for repayment through to 2045.

The receivables from joint venture and associated undertakings which total £73.7 million (2018: £41.7 million) represent loans due for repayment through to 2035. Interest is charged at an average rate of 12.0% (2017: 12.0%).

**Notes to the financial statements (continued)**

**39. Related-party transactions (continued)**

**Company**

During the year, the Company entered into the following transactions with subsidiary undertakings and Pennon Group Plc.

	2019 £m	2018 £m
<b>Dividends</b>		
Dividends paid to Pennon Group Plc	73.6	50.6
<b>Income from provision of loan finance</b>		
Subsidiary undertakings	81.3	69.1
<b>Payment for provision of loan finance</b>		
Pennon Group Plc	37.5	34.3
	2019 £m	2018 £m
<b>Receivables due from related parties for the provision of loan finance</b>		
Subsidiary undertakings	1,752.4	1,512.0
<b>Receivables due from related parties – trading balance</b>		
Subsidiary undertakings	-	-
<b>Total</b>	1,752.4	1,512.0
<b>Payables due to related parties for the provision of loan finance</b>		
Pennon Group Plc	999.6	823.6
<b>Payables due to related parties – borrowings</b>		
Subsidiary undertakings	-	-
<b>Total</b>	999.6	823.6

Interest on the ultimate parent company loans is charged at fixed rates on loan balances; £499.8 million at 5.0% (2018: £411.8 million at 5.0%). Interest on the remaining balance of the ultimate parent company loans is charged at 12-month London interbank offered rate (Libor) +220 basis points). The loans are due for repayment through to 2045.

Interest is charged to subsidiaries on long term loans and working capital finance at a fixed rate of 5%.

**40. Parent company**

The Company is a wholly owned subsidiary of Pennon Group Plc, which is registered in England. Group financial statements are also included in the Annual Report and Accounts of Pennon Group Plc which are available from Peninsula House, Rydon Lane, Exeter EX2 7HR.