

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

COMPANY INFORMATION

Directors	Christophe Bellynck David Andrew Gerrard Donald John Fraser Macphail Katherine Anne Swann
Company secretary	Benjamin Peter Lambert
Registered number	03727031
Registered office	210 Pentonville Road London N1 9JY
Independent auditor	Ernst & Young LLP No. 1 Colmore Square Birmingham B4 6HQ

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

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SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

The Directors present their Strategic report for the year ended 31 December 2020.

The principal activity of Sheffield Environmental Services Limited (the "Company") is to provide contract management services for Sheffield City Council ("SCC"), the Company's only customer, with respect to the Integrated Waste Management Contract. The contract commenced on 1 August 2001 and was initially a 30 year contract. However, in October 2004, the Company successfully negotiated a five year extension of the full contract with SCC and further to that, in June 2018, the Company successfully negotiated a two year extension in respect of the Energy Recovery Facility ("ERF") only. As a result, the whole Integrated Waste Management Contract term ends in 2036, with the ERF term ending in 2038. The Company receives operational and management services from Veolia ES Sheffield Limited ("VESS"), a Group fellow subsidiary.

The main objectives of the contract are to:

- provide recycling, residual waste and other ancillary collection services to the public across the City of Sheffield;
- provide heat via the District Energy ("DE") network to properties owned by both SCC and other third parties on behalf of VESS;
- construct a new ERF (completed in 2006);
- upgrade the five existing Household Waste Recycling Centres ("HWRCs").

The operational and management services for the contract activities are provided by VESS. In addition, VESS are also responsible for managing, operating and maintaining:

- the ERF which incinerates waste and in turn generates heat for the DE network and supplies electricity to the National Grid;
- the Materials Recovery Facility ("MRF"), which processes paper and card from kerbside collections;
- the vehicle workshop, which maintains the extensive fleet of collection and ancillary vehicles;
- the five HWRCs.

All operational and management costs are borne by VESS, and are then subsequently passed onto the Company via an operational and management recharge.

The only customer, SCC, pays a monthly fee based on a number of factors including tonnages processed, properties serviced and heat supplied via the DE network. The fee from SCC therefore varies depending on these factors, which in turn has a direct impact on resulting cash flows.

The Company is registered and domiciled in the United Kingdom.

The Company is part of the Veolia Group (the "Group"), which is defined as all companies under the control of the ultimate parent company, Veolia Environnement S.A., headquartered in Paris. The Company is also a member of the "UK&I group", a division of the Group, based in the UK and Ireland and involved in the provision of waste, water and energy services, and directly or indirectly under the ownership of Veolia UK Limited ("VUK").

Business review

The Directors consider the key operational performance indicators for the business to be the availability of the plant and the amount of waste incinerated. The plant availability in the year was 94.5% (2019: 92.7%) and total waste processed at the ERF was 239,481 tonnes (2019: 232,842 tonnes) in line with the higher availability. Of the total waste processed, 127,324 tonnes (2019 as restated: 119,054 tonnes) was SCC waste, with the remainder being supplemented by third parties and other UK&I group companies. The increase in SCC inputs were driven by an increase in weights from kerbside collections as a direct result of COVID-19.

Revenue for the year ended 31 December 2020 was £30,349k (2019: £29,580k) with the increase primarily driven by an increase in the SCC gate fee for waste into the ERF and extended opening times at the HWRC sites.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Business review (continued)

Cost of sales for the year ended 31 December 2020 have increased versus the prior year to £26,329k (2019: £24,826k), as a result of a higher operational and management recharge from VESS. As a result, operating profit in 2020 has decreased in the year to £4,020k (2019: £4,751k).

The level of debt reduced in the year due to scheduled repayments on both the senior and junior debt of £4,250k and £500k respectively, which resulted in a reduction in interest payable in the year to £3,284k (2019: £3,613k).

The Company's performance is measured in relation to the total contribution to the Group, hence the key financial performance indicators of the Company are Group centric. The key financial performance indicators as they would appear in the management review are as follows:

	2020 £000	2019 £000
Revenue	30,349	29,580
Adjusted EBITDA	7,518	8,567
Adjusted EBITDA as a percentage of revenue	24.8 %	29.0 %
Adjusted 'current' EBIT	4,020	4,751

The definitions below are standard for the Group and do not necessarily imply that the Company has incurred such costs in the year:

- Adjusted EBITDA excludes charges arising from the creation of, or increase in, provisions and credits arising from the reduction in, or release of, provisions, restructuring costs and foreign exchange differences, and where appropriate, is adjusted for movements in financial assets in respect of the unwinding of the discount on the fair value and repayment of the asset in the period;
- Adjusted 'current' EBIT excludes restructuring costs, foreign exchange differences with no adjustments being made in respect of repayments on financial assets.

The Group uses these adjusted definitions for its own internal purposes as it is felt they better represent the ongoing business performance to management by removing non-recurring items like provisions and foreign exchange which are largely dependent on one off or external factors. Refer to note 5 for a reconciliation of these key performance indicators to operating profit.

Streamlined Energy and Carbon Reporting Framework Regulations

The Company is subject to the Streamlined Energy and Carbon Reporting Framework Regulations ("SECR") and therefore reports 2020 energy consumption and greenhouse gas ("GHG") emissions figures relating to gas, electricity and transport, as well as an intensity ratio and information relating to energy efficiency actions.

Following the recommendations of the SECR legislation and based on the nature of the business, the Company has chosen the tonne of carbon dioxide equivalent ("tCO₂e")/£k revenue intensity ratio as the best representation of its efficiency performance.

As noted previously, both the Company and VESS are responsible for delivery of the contract requirements. As a result, it is not possible to disclose the SECR figures on an individual entity basis. The information provided in the table below relates to the combined totals of both the Company and VESS. However, the intensity ratio calculation is based on the revenue generated by the Company only.

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STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Streamlined Energy and Carbon Reporting Framework Regulations (continued)

Energy consumption figures

	2020 UK
Total energy consumption used to calculate GHG emissions (kWh)	593,133,141
Scope 1 (tCO ₂ e) - Gas consumption, transport, process emissions	101,278
Scope 2 (tCO ₂ e) - Electricity purchased	171
Scope 3 (tCO ₂ e) - Business travels: rental cars or employee-owned vehicles where the Company is responsible for purchasing the fuel	4
Total gross GHG emissions (tCO₂e)	101,453
Intensity Ratio (tCO₂e total gross GHG emissions per £k revenue)	3.34

Energy Efficiency Actions

The Company has implemented the following energy efficiency actions during the reporting year to 31 December 2020:

- At the Sheffield ERF, all lighting was upgraded from halogen/fluorescent to LED lighting. In addition, inverter drives were fitted to large electrical motors to allow for improved power control and more efficient operation.
- In March 2020, two diesel vans dedicated to the DE team were replaced by electric vehicles.

The Energy and Carbon Reporting has been produced using the following methodology and assumptions:

GHG reporting Framework: GHG Protocol Corporate Standard.

Methodology used to calculate the total Energy consumption (kWh):

- As per Department for Environment, Food and Rural Affairs ("DEFRA") guidance, data for fuels, mileage and gas available in kg, L or m³ were converted to Gross Calorific Value ("GCV") kWh. The mileage data available in miles or km was converted to Net Calorific Value ("NCV") kWh. These were added to the GCV kWh data from natural gas consumption and electricity consumption.
- Waste combustion data was translated into kWh equivalents using the average Calorific Value ("CV") calculated at the sites.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Streamlined Energy and Carbon Reporting Framework Regulations (continued)

Emissions factors:

The Company has applied the following emission factors:

- UK government emission conversion factors for greenhouse gas company reporting 2020, which can be accessed via the Government website at <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020>.
- Waste combustion factors report on two types of emissions:
 - Carbon Dioxide ("CO₂"): The emission factor used for CO₂ is 404 kg of fossil CO₂/tonne of waste combusted, as recommended by the Environmental Service Association.
 - Nitrous Oxide ("N₂O"): refer to Data section below.
- The IPCC's Fourth Assessment Report ("AR4") was used to express the Global Warming Potential ("GWP") of methane (CH₄) and N₂O within the 100 years timeframe. Within the AR4, the GWP for CH₄ is 25 and the GWP for N₂O is 298.
- The UK&I group has a company car policy in place and in line with the car industry standard, this imposes the use for company cars of vehicles emitting a maximum of grams of CO₂ per kilometre of 129, known as 129g/km.

Data

- GHG information was calculated from the data gathered from the Group's Environmental Management System ("EMS"), implemented since 2002 and compatible with ISO 14001 standards.
- N₂O relies on either the annual figures provided to the Pollution Inventory by the Company, or through internal measurements when the values are falling below the reporting thresholds to the Pollution Inventory.
- Business travel data was gathered from the UK&I group's internal business intelligence and expenses system.

Section 172(1) Statement

The Directors have ensured compliance with their duties under s.172(1) in relation to the Company and its various stakeholders, including its indirect workforce, main customer and suppliers, local community and relevant regulatory authorities. As a wholly-owned subsidiary of the Group (and within that, the UK&I group), the Company effectively has a sole member. The Company is also a recipient of intra-group financing from VUK, as detailed further within the Financial risks section of the Strategic report. Engagement with all of the Company's stakeholders has informed the way in which the Directors have discharged their duties and addressed the principal risks and uncertainties as detailed below. Where individual Directors are not directly involved in the processes described below, regular feedback and discussions are held with the relevant management teams, including UK&I Executive Committee meetings and operational review meetings. There were no matters brought to the attention of the Directors through the undertaken engagement that were considered to be of strategic importance, other than relating to those matters detailed in the principal decisions section below.

The main purpose of the Company is to provide contract management services to its main customer, SCC, (and indirectly therefore the local community) and ensuring the smooth running of the contract, as outlined above. These services are provided by the Operator of the contract, VESS, who has regular engagement with SCC, including through meetings and provision of financial and operational reports.

It should be noted that the Company is part of the UK&I group and as such the Directors have ensured that the strategy, values and policies of the UK&I group have been adopted. The Directors have oversight of the running of the Company, including through regular reviews of the contract performance and consideration of potential risks and opportunities.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Section 172(1) Statement (continued)

The UK&I group has a Supply Chain Team who are responsible for sourcing goods and services and managing the associated supply chain risk across the UK&I group. The Directors recognise that the smooth running of the Company relies on adequate, good quality and timely supplies of goods and services. Engagement with key suppliers includes due diligence by the Supply Chain Team, and putting in place appropriate terms and conditions.

The Company has no direct employees, however the Directors recognise that the Company's long-term success is predicated on the commitment of the workforce of its Operator. Through the UK&I group, the Operator provides employees with relevant training using both in-house and external providers. The health and safety of the Operator's workforce is of key importance - refer to the Health and safety, quality and environment section of the Strategic report for further details and the Business continuity section of the Strategic report for details of the UK&I group's response to COVID-19. Employees are given access to Company and UK&I group information and updates via various channels including newsletters and team meetings and engagement also takes place via employee surveys. The Company also engages with trade union representatives on site and via regular Joint Trade Union Forum meetings.

The UK&I group and the Company are dedicated to the circular economy and to enhancing this by working with customers, local communities and government and promoting all aspects of environmental, waste and energy management. This is achieved in part through inviting local schools and members of the local community to open days and tours of the Company's facilities to promote the various recycling opportunities. Please refer to the Health and safety, quality and environment section of the Strategic report for details of the Company's engagement with regulatory authorities.

As regards principal decisions during the year, no dividend could be paid, after consideration of the Company's current financial position.

Principal risks and uncertainties

In common with all businesses, the Company recognises certain risk factors that are both external and internal to the Company. The Directors consider the principal risks and uncertainties to which the Company is exposed are intrinsic to the business it operates and its ability to provide the service for which it is contracted.

The following highlights some of the particular risks, but is not intended to be an extensive analysis of all risks affecting the business. Some risks may be unknown to the Company and other risks, currently regarded as immaterial, could turn out to be material. All of them have a potential to impact the Company's business, revenue, profits, assets, liquidity and capital resources adversely. The Board has approved that the Company manages the majority of these risks by utilising the resources and processes developed and operated within the UK&I group as whole. The Board has also considered the impact of COVID-19 on each of the Company's principal risks as set out below.

Contractual risk

The Company's business is predominantly contract-based; hence the business may be adversely affected by failure to perform to the level agreed within the relevant contract. The UK&I group has a structured formal project authorisation and review procedure which aims at ensuring legal, operational, technical and commercial risks are properly considered before the initial exchange of contracts, or significant contract alterations, with its clients.

In the normal course of business, risks associated with meeting the contractual terms of the contract are mitigated through the ongoing day to day management of the operations of the contract including tracking performance against budget and targets identified in the contract and monthly reviews by operational management and members of the Board. The approach across the UK&I group is that contracts that are identified as being at particular risk during these reviews are the subject of specific initiatives to improve contract performance. Larger contracts and business units are separately reviewed at a UK&I group level on a monthly basis.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

Contractual risk (continued)

The Company is working with its main customer to ensure that all required aspects of the contract can continue to be delivered during the COVID-19 outbreak. Given the collection and processing of waste has been designated by the government as an essential service, all material services within the contract continued to be delivered.

The Company has proactively worked with its main customer to manage any service changes needed in the current situation to maintain business continuity. In this respect, the government issued guidance, which encouraged contracting authorities to work pragmatically with suppliers (including the Company), and take a sensible approach to the application of contractual mechanisms, such as performance deductions, to ensure supplier business continuity. As a result, the Company did not incur any performance deductions as a direct result of COVID-19.

Business continuity

The UK&I group is accredited with ISO 22301 (Business Continuity Management) and the Company maintains a business continuity plan for each area of its operations, including the associated IT infrastructure, so should the unexpected happen, there is a predetermined plan in place to allow the business to recover and to continue servicing its main customer with as little disruption as possible. These plans include sharing of site infrastructure within the UK&I group, the use of external suppliers who specialise in disaster recovery scenarios and leveraging other group relationships.

The UK left the European Union on 31 January 2020 and entered into a transitional phase which ended on 31 December 2020. The UK&I group has analysed the impact of the new trade agreements between the UK government and the European Union and are confident that there are plans and contingencies in place to avoid the business being unduly affected. As part of the UK&I group's Brexit preparations, the supply chain was geared up to hold more stock within the UK, and in any case, critical parts are kept on site to cover at least one maintenance cycle, in case of an unplanned outage. The effect on employees has also been at the forefront of the UK&I group's plans, with the UK&I group continuing to maintain both formal and informal communication with affected employees.

In response to COVID-19, the UK&I group's primary focus was to continue delivery of the essential services which the Company provides to its main customer and the local community, whilst looking after the health and safety of the workforce, including through providing appropriate protective equipment to front line workers and reinforcing the importance of good hygiene. The key operational workstreams of the UK&I group (Waste disposal, Energy supply, and Water and Wastewater sectors) were designated by the government as essential services.

The response included considering the business impact from both an operational and financial perspective, and monitoring the impact on the workforce. The Company considered the employees needed in order to continue to deliver the contract and continued to have sufficient levels of resource available. In terms of workforce, where there were potential shortages of staff, the UK&I group deferred staff-intensive activities, for example outages, and also redeployed staff from other areas of the UK&I group, where services were reduced, and used agency staff where necessary. The UK&I group will continue to monitor the situation as it progresses to ensure a continued safe working environment, in conjunction with continued delivery of the contracts in line with the customers' requirements. There is also a key focus on good internal communication, with a dedicated intranet site, which is updated frequently.

In relation to supply chain, the response to COVID-19 included focus on procuring additional hand sanitiser and masks, as well as ensuring there are sufficient levels of spare parts and chemicals required for continued operations. As noted above, the supply chain was geared up to hold more stock within the UK in any case, and therefore at this stage, the Company believes that it has access to supplies necessary to maintain its operations.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Health and safety, quality and environment

The Company remains fully committed to respecting the UK&I group's corporate, legal and social responsibilities for health and safety, quality and the environment. It looks to continuously improve its systems and performance with specific year on year targets which are monitored and reviewed monthly.

The UK&I group's Active Risk Strategy continued into 2020 with the roll out of the Veolia Minimum Requirements ("VMR") Toolkit Programme aimed at setting a consistently high standard for how sites are operated and employees' safety continues to be a priority. By the end of 2020, 95% of the UK&I group's locations were covered by a VMR and over 4,000 employees were given refresher training.

The UK&I group's 2020 Safety Week campaign focused on the importance of building cohesive teams which are both mentally and physically healthy. These themes built on the resilience displayed by the teams as the business responded successfully to the challenges the COVID-19 pandemic presented. All of the UK&I group's essential services continued throughout the pandemic with assurance checks against the VMR standard maintained.

The UK&I group has taken a science and research based approach to COVID-19 to ensure the most effective controls are in place. In order to continue essential services and help protect employees and public health, it has been imperative that all advice available from experts has been considered. This includes the Chief Medical Officer ("CMO") and the research scientists at the University College London ("UCL"), who are acknowledged as leading experts within this field in the UK. All the safety measures implemented across the UK&I group to date have been carefully considered through engaging with the wider industry, which has resulted in the UK&I group being instrumental in the development of the Waste Industry Safety and Health Forum ("WISH") guidance.

The UK&I group has continued to develop its systems including 'AVA by Airsweb' in 2020 with powerful reporting tools designed to help sites identify how they can improve performance and learn from investigations and trend analysis. Accessibility of information to aid the business in meeting health, safety, quality and environmental requirements has been enhanced by a new management system launched in 2020.

The UK&I group has seen a 48% decrease in Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR") reportable accidents, and a 25% reduction in all accidents in 2020 versus the same period in 2019. Over 20,000 near miss / safety concerns (close calls) were reported in 2020. Reporting of near miss / safety concerns (close calls) supports a proactive culture. By learning from these events the UK&I group can stop accidents from happening in the future.

The UK&I group and the Company have an open relationship and maintain regular communication with all regulatory bodies, including the various Environment Agency bodies across the UK and Ireland. The UK&I group is committed to a sustainable future by protecting and conserving the natural environment and working with its customers to achieve sustainability targets and gain value by the circular economy and closed-loop thinking, which is at the heart of its business.

The UK&I group is externally certified to ISO 9001 (Quality), ISO 14001 (Environmental) and ISO 45001 (Health and Safety) and has an 'in-house' team of QHSE professionals with broad knowledge and experience of the field that provide the business with support on a day to day basis. The Directors monitor the performance and therefore consider the risk associated with health and safety, quality and environment to be acceptable.

Risks relating to the price of energy and commodities

The price the Company pays for its commodities such as the supply of energy and fuel can have a significant impact on the return it gets from its business. The Company's contracts with its customers generally have indexing formulae to mitigate some of the risk around price increases, however to the extent the Company is unable to increase its prices sufficiently or if there is a significant delay in being able to do so, such increases could undermine the Company's operations by increasing costs and reducing profitability.

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

Financial risks

It is the Company's objective to manage its financial risks so as to minimise the adverse effects of fluctuations in the financial markets on its profits and cash flows. The Company utilises the resources of the UK&I group to implement risk controls and loss mitigation plans to manage exposure to these risks. The VUK Board, which certain of the Company's Directors are members of, reviews and agrees policies for managing risks and they are summarised below:

- **Credit risk**

The Company is exposed to counterparty risk in various areas of its operating activities and treasury activities. Credit risk therefore arises primarily on the Company's operating receivables and operating financial assets, much of which is with other undertakings of the Group. The carrying amount of trade and other debtors, and cash and cash equivalents represent the Company's maximum exposure to credit risk.

The risk of major financial loss would occur if the Company's main customer, SCC, a large well-established local authority client, failed to honour its obligations under the contract. The likelihood of this is considered low and is considered to continue to be such in the current environment.

The Company participates in Group centralised treasury arrangements, with the UK&I group being in a net deposit position, and so shares banking and intercompany loan arrangements with the Group, VUK and other UK based Group fellow subsidiaries, which are also provided with support from VUK. As set out in the going concern section, the Company has assessed the credit risk of the Group and VUK and considers that they are well placed to provide support and facilitate the repayment of any debts as they fall due.

Given the above, the Directors consider the Company's exposure to credit risk to be acceptable.

- **Interest rate risk**

The Company principally uses funds from the UK&I group, via VUK, at floating rates of interest, priced according to a GBP index based on London Interbank Overnight Rates ("LIBOR") or Sterling Overnight Interbank Average Rates ("SONIA").

- **Liquidity risk**

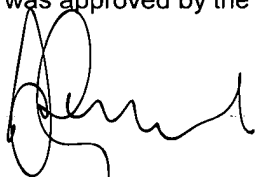
The Company is party to cash pooling arrangements where each member deposits its cash excesses in a current account with VUK and may borrow money in the form of short-term advances. VUK monitors the balances of all parties to the cash pooling arrangements to ensure the facility stays in a net surplus position. Cash forecasts are undertaken regularly to ensure payment profiles can be honoured in full at the appropriate date.

The cash pool arrangements are centrally managed by the Group with the UK&I group being in a net deposit position. The Group has confirmed that the UK&I group will have access to these balances as required for its activities.

- **Foreign exchange risk**

The Company has limited exposure to foreign currency risk in its normal trading activities as it operates in the UK and all of its trade and most of its purchases are procured in pound sterling. At each reporting date all financial assets and financial liabilities are denominated in pound sterling.

This report was approved by the board on 28 April 2021 and signed on its behalf.



David Andrew Gerrard
Director

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

As permitted, certain information regarding the Company, including a review and analysis of the development and performance of the Company's business during the year, details of the Company's energy consumption and greenhouse gas emissions, the Company's policies for employee and stakeholder engagement and a description of the principal risks and uncertainties facing the Company are contained within the Strategic report.

Results and dividends

The loss for the year, after taxation, amounted to £256k (2019: *profit* £881k).

There were no dividends paid in the year under review (2019: *£nil*).

Directors

The Directors who served during the year and to the date of this report were:

Christophe Bellynck
Neil Vincent Gallagher (resigned 30 June 2020)
David Andrew Gerrard
Donald John Fraser Macphail (appointed 21 February 2020)
Philip Gilmour (resigned 8 January 2020)
Katherine Anne Swann (appointed 2 July 2020)

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

Directors' indemnity

The Directors are entitled to be indemnified by the Company to the extent permitted by law in respect of losses arising out of, or in connection with, the execution of their powers, duties and responsibilities. Veolia Environnement S.A., the Company's ultimate parent company, maintains Directors' and Officers' liability insurance for the Directors in respect of their duties as directors. Such qualifying third party indemnity provision was in place throughout the period and remains in force as at the date of approving the Directors' report. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Going concern

The Company's Balance Sheet shows net assets of £3,763k (2019: £4,019k), and at year end reported net current liabilities of £(5,827)k (2019: £(4,853)k). The Company participates in the Group centralised treasury arrangements and so shares banking and intercompany loan arrangements with the Group, VUK and other UK based fellow subsidiaries. The Company is managed as part of the UK&I group and budgets and forecasts are prepared at that level. The UK&I group's forecasts identify that the UK&I group is expected to meet its liabilities as they fall due for the period through to 30 September 2022. A key assumption in the UK&I group's forecasts is the continuing availability of funds that are swept into the Group Treasury cash pooling arrangements and the intercompany loans provided by the Group to VUK and other UK based fellow subsidiaries.

VUK has received a letter of financial support from the UK&I group's ultimate parent company, Veolia Environnement S.A., which confirms that the Group, if required, will provide financial support to VUK for the period ending 30 September 2022. VUK has in turn provided a letter of support to the Company to confirm that VUK will, if required, provide financial support to the Company for the same duration as provided by the Group to VUK.

The Directors of VUK have considered information regarding the Group's ability to provide support to VUK. This information included the issuing of €700 mid-term notes on 11 January 2021 and the Group's full year 2020 results published in February 2021, which demonstrated that the Group had total cash and cash equivalents of €6.5billion and undrawn facilities of €4billion as at 31 December 2020.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Going concern (continued)

The Directors of the Company have made enquiries of the Directors of VUK to confirm that VUK has the ability to provide financial support, noting the financial position of the Group as described above.

Whilst there remains uncertainty regarding the continued impact of COVID-19, the Directors of the Company have concluded that, if required, the Group will be able to provide financial support to VUK, who in turn will be able to provide financial support to the Company, for the period through to 30 September 2022. Accordingly, the Directors are satisfied that they have a reasonable basis upon which to conclude that the Company is able to meet its liabilities as they fall due in the foreseeable future and that it remains appropriate to prepare the financial statements on a going concern basis.

Future developments

The Directors have considered the impact of the outbreak of COVID-19 and remain confident of the ability of the Company to continue to meet its main customer's demands. As set out in the Strategic report, the government has issued guidance, which sets out the need for a pragmatic approach to the application of contractual mechanisms where certain parts of contracts are not able to be fulfilled.

Competition in this sector is expected to remain tough and cost controls are expected to continue into the future. The Directors consider the Company, along with other members of the UK&I group, to be well placed in all aspects of the environmental, waste and energy management industry.

Financial instruments

Financial instruments give rise to foreign currency, interest rate, credit, price and liquidity risk. Information on how these risks arise is set out in the Strategic report.

Due to the use of facilities from the Group, denominated in pound sterling, the Company has minimal exposure to external loans and overdrafts and has limited exposure to foreign exchange as all of its trade and most of its expenses are incurred in pound sterling. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

The Company's borrowings and loans are all denominated in pound sterling and therefore the Company has no foreign currency exposure on its financing. The Company's borrowings are tied to LIBOR and/or SONIA with interest rates being reset each quarter. The Directors consider that LIBOR and SONIA rates will continue to be stable for the foreseeable future with only small increases due in this period.

It is, and has been throughout the period under review, the Company's policy that no trading in speculative derivative financial instruments shall be undertaken.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Disclosure of information to the Auditor

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

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

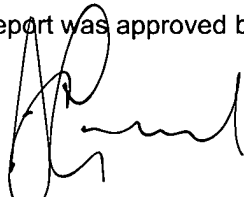
SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

Auditor

Under section 487(2) of the Companies Act 2006, Ernst & Young LLP will be deemed to have been reappointed as the auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 28 April 2021 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'D. Gerrard', is written over the text of the signature line.

David Andrew Gerrard
Director

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors are responsible for preparing the Strategic report, the Directors' 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 elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

Opinion

We have audited the financial statements of Sheffield Environmental Services Limited for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the 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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period through to 30 September 2022.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

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 contained within the Annual Report.

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.

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 course of 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 themselves. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEFFIELD ENVIRONMENTAL SERVICES LIMITED (CONTINUED)

Opinion 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 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 12, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEFFIELD ENVIRONMENTAL SERVICES LIMITED (CONTINUED)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and compliance with the relevant direct and indirect tax regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, environmental and General Data Protection Regulation ("GDPR");
- We understood how Sheffield Environmental Services Limited is complying with those frameworks by making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas. We read the minutes of the UK&I Executive Committee, made inquiries of Legal and Internal Control departments to identify if there are matters where there is a risk of breach of such frameworks that could have a material adverse impact on the Company. We understood controls put in place by management to reduce the opportunities for fraudulent transactions;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by internal team conversations, inquiry of management and review of the fraud assessment prepared by the UK&I group management. We understood that revenue, adjusted EBITDA and adjusted 'current' EBIT are the key performance measures for management and we considered that these could be most likely manipulated through the posting of manual journals to revenue. We reviewed manual journals to revenue and considered the nature of these transactions. For those that we did not consider to be in the normal course of business and were not of a trivial value we obtained evidence to support the validity of such adjustments. In addition, we selected a sample of items within contract assets and validated these either to cash paid or other evidence to demonstrate that the accounting was appropriate;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures were as set out above.

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.

Ernst & Young LLP

Helen Hemming (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP, Statutory auditor

Birmingham

5 May 2021

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

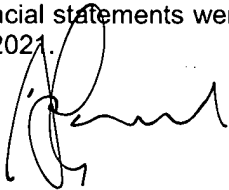
	Note	2020 £000	2019 £000
Revenue	4	30,349	29,580
Cost of sales		(26,329)	(24,826)
Gross profit		4,020	4,754
Administrative expenses		-	(3)
Operating profit	5	4,020	4,751
Interest receivable	8	-	10
Interest payable and similar charges	9	(3,284)	(3,613)
Profit before tax		736	1,148
Tax on profit	10	(992)	(267)
(Loss)/profit for the financial year		(256)	881
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		(256)	881

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED
REGISTERED NUMBER:03727031

BALANCE SHEET
AS AT 31 DECEMBER 2020

	Note	2020 £000	2019 £000
Fixed assets			
Intangible assets	12	60,962	64,446
Tangible fixed assets	13	-	8
		<u>60,962</u>	<u>64,454</u>
Current assets			
Debtors: amounts falling due within one year	14	4,066	3,949
		<u>4,066</u>	<u>3,949</u>
Creditors: amounts falling due within one year	15	(9,893)	(8,802)
		<u>(5,827)</u>	<u>(4,853)</u>
Net current liabilities			
		<u>55,135</u>	<u>59,601</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	16	(43,610)	(48,352)
		<u>11,525</u>	<u>11,249</u>
Provisions for liabilities			
Deferred taxation	11	(7,618)	(7,088)
Provisions	17	(144)	(142)
		<u>(7,762)</u>	<u>(7,230)</u>
Net assets		<u>3,763</u>	<u>4,019</u>
Capital and reserves			
Called up share capital	18	25,500	25,500
Profit and loss account		(21,737)	(21,481)
		<u>3,763</u>	<u>4,019</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 April 2021.


David Andrew Gerrard
 Director

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2019	25,500	(22,362)	3,138
Comprehensive income for the year			
Profit for the year	-	881	881
At 1 January 2020	25,500	(21,481)	4,019
Comprehensive loss for the year			
Loss for the year	-	(256)	(256)
At 31 December 2020	25,500	(21,737)	3,763

The notes on pages 19 to 36 form part of these financial statements.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. General information

Sheffield Environmental Services Limited is a private company limited by shares, incorporated in England and Wales.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The Company's financial statements are presented in pound sterling and all values are rounded to the nearest thousand pound sterling (£000) except when otherwise indicated.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.3 Ultimate controlling party

The Company is consolidated in the consolidated financial statements of its ultimate parent company and controlling entity, Veolia Environnement S.A. (incorporated in France). Copies of the consolidated financial statements for Veolia Environnement S.A. are available from the registered office at 21 rue La Boétie, 75008 Paris, France.

In addition, the Company is also consolidated in the consolidated financial statements of Veolia Environmental Services (UK) Plc, an intermediate parent undertaking. Copies of the consolidated financial statements for Veolia Environmental Services (UK) Plc are available from the registered office at 210 Pentonville Road, London, N1 9JY.

2.4 Going concern

The Company's Balance Sheet shows net assets of £3,763k (2019: £4,019k), and at the year end reported net current liabilities of £(5,827)k (2019: £(4,853)k). The Company participates in the Group centralised treasury arrangements and so shares banking and intercompany loan arrangements with the Group, VUK and other UK based fellow subsidiaries. The Company is managed as part of the UK&I group and budgets and forecasts are prepared at that level. The UK&I group's forecasts identify that the UK&I group is expected to meet its liabilities as they fall due for the period through to 30 September 2022. A key assumption in the UK&I group's forecasts is the continuing availability of funds that are swept into the Group Treasury cash pooling arrangements and the intercompany loans provided by the Group to VUK and other UK based fellow subsidiaries.

VUK has received a letter of financial support from the UK&I group's ultimate parent company, Veolia Environnement S.A., which confirms that the Group, if required, will provide financial support to VUK for the period ending 30 September 2022. VUK has in turn provided a letter of support to the Company to confirm that VUK will, if required, provide financial support to the Company for the same duration as provided by the Group to VUK.

The Directors of VUK have considered information regarding the Group's ability to provide support to VUK. This information included the issuing of €700 mid-term notes on 11 January 2021 and the Group's full year 2020 results published in February 2021, which demonstrated that the Group had total cash and cash equivalents of €6.5billion and undrawn facilities of €4billion as at 31 December 2020.

The Directors of the Company have made enquiries of the Directors of VUK to confirm that VUK has the ability to provide financial support, noting the financial position of the Group as described above.

Whilst there remains uncertainty regarding the continued impact of COVID-19, the Directors of the Company have concluded that, if required, the Group will be able to provide financial support to VUK, who in turn will be able to provide financial support to the Company, for the period through to 30 September 2022. Accordingly, the Directors are satisfied that they have a reasonable basis upon which to conclude that the Company is able to meet its liabilities as they fall due in the foreseeable future and that it remains appropriate to prepare the financial statements on a going concern basis.

2.5 Accounting for service concession asset

In the course of its activities, the Company provides contract management services for waste management and disposal to a local authority in return for remuneration based on services rendered.

These services are generally managed by the Company under contracts entered into at the request of public bodies ("grantors") which retain some control of the service provided.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.5 Accounting for service concession asset (continued)

These concession arrangements involve the transfer of operating rights for a limited period, under the control of the local authority, using dedicated installations upgraded or built by the Company, or made available to it for a fee or for nil consideration. These contracts define the "public service obligations" in return for the remuneration. The remuneration is based on a contracted tariff for waste services for each contract year.

Contracts include price review clauses, which are mainly based on cost trends, inflation, changes in tax and/or other legislation. Certain review clauses also include changes in volumes and/or the occurrence of specific events changing the profitability of the contract.

Concession arrangements are recognised in accordance with IFRIC 12, Service Concession Arrangements.

Financial asset model

The financial asset model applies when the operator has an unconditional right to receive cash or another financial asset from the grantor in remuneration for concession services. The operator has such an unconditional right if the grantor contractually agrees the payment of:

- amounts specified or determined in the contract;
- the shortfall, if any, between the amounts received from users of the public services and amounts specified or determined in the contract.

Financial assets resulting from the application of IFRIC 12 are recognised in the Balance Sheet as financial assets receivable on concession arrangements within trade debtors receivable within one year and after more than one year, and are recognised at amortised cost. The financial asset receivable amount is reduced by any guaranteed lease payments to be made to the grantor over the contract term.

Intangible asset model

The intangible asset model applies where the operator is paid by the users or where the concession grantor has not provided a contractual guarantee in respect of the recoverable amount. The Company's intangible asset corresponds to the right granted by the concession grantor to the operator to receive revenue based on public usage of the concession services.

Intangible assets resulting from the application of IFRIC 12 are recorded in the Balance Sheet under the heading "Intangible assets" and are amortised on a straight line basis, generally over the contract term. Where the Company has guaranteed lease payments to be made to the grantor over the contract term these amounts are added to the intangible asset and a finance lease liability created.

Revenue from concession arrangements under the intangible asset model includes:

- income from the delivery of the contracted services (net of capital repayments received);
- revenue from the construction or upgrade of the infrastructure assets, recorded on a completion basis in accordance with IFRS 15.

The Company's concession arrangements have been recognised as intangible assets.

Where a profit sharing mechanism exists with the grantor and the profit sharing includes third party revenues (mostly electricity and recyclates) these are not deemed to be variable consideration under IFRS 15 and so any related payment due to the grantor is recognised as cost of sales.

Details on the concession contract can be found in the Strategic report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.6 Revenue

Revenue is recognised in line with the achievement of performance obligations to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

With the exception of revenue under IFRIC 12, Service Concession Arrangements, the Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

The following criteria must also be met before revenue is recognised:

- revenue from district heating networks is recognised at the point it is supplied to the customer;
- revenue from providing services is recognised in the accounting period in which the services are rendered;
- where the Company gives a rebate or profit share to a customer based on the services provided directly to that customer, revenue is reduced for the amount of the rebate or profit share.

It should be noted that fees and taxes collected on behalf of local authorities are excluded from revenue when the Company does not bear the risk of payment default by third parties.

Revenue under IFRIC 12, Service Concession Arrangements, is explained in note 2.5.

The Company applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about the remaining performance obligations that have original expected durations of one year or less.

2.7 Foreign currency translation

Functional and presentation currency

The Company's functional and presentation currency is pound sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

2.8 Interest receivable

Interest receivable consists of income from amounts owed by Group fellow subsidiaries.

2.9 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.10 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

Deferred tax assets and liabilities are not discounted.

2.11 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The estimated useful lives range as follows:

IFRIC 12 concession asset	-	Over the life of the contract (17.6 years remaining)
Software	-	3 to 5 years

Intangible assets are amortised on a straight-line basis over their useful life, usually the contract term to which they relate, unless another systematic amortisation basis better reflects the rate of consumption of the asset.

Assets in the course of development are not amortised during the development phase. On completion all assets will be transferred into the appropriate asset category and will be amortised per the stated accounting policy.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.11 Intangible assets (continued)

Expenditure incurred during the operation of a concession which aims to maintain operations at current capacity or cost is recognised in the Statement of Comprehensive Income as incurred. By exception, only where assets will enable the realisation of significant future economic benefit in relation to their cost will they be added to the concession asset. These additional assets will be amortised over the remaining contract term.

Interest on loans taken out specifically for concession assets under construction may be capitalised during the period of construction and included in the cost of intangible assets.

2.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Plant and equipment	- 3 to 30 years, with majority being 5 to 10 years
---------------------	--

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

Assets in the course of construction are not depreciated during the construction phase. On completion all assets will be transferred into the appropriate asset category and will be depreciated per the stated accounting policy.

Interest on loans taken out specifically for plant under construction may be capitalised during the period of construction and included in the cost of tangible fixed assets.

2.13 Impairment of fixed assets

Assets that are subject to depreciation or amortisation are assessed at each Balance Sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit ("CGUs") to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU'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 (CGUs). Non-financial assets that have been previously impaired are reviewed at each Balance Sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Any reversal of an impairment loss is taken through the Statement of Comprehensive Income in the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.14 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are derecognised when they are discharged or when the contractual terms expire. Financial assets and liabilities are initially measured at fair value. Loans receivable or payable on demand are classed as short-term and hence are not discounted.

The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as financial assets subsequently measured at amortised cost.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Financial assets subsequently measured at amortised cost

These comprise loans and debtors which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade debtors), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment of financial assets

The Company recognises an allowance for expected credit losses ("ECLs") for all financial assets subsequently measured at amortised cost. The Company calculates ECLs by applying a provision matrix that takes into account the expected life of trade debtors and default rates for different customers. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. ECLs are recognised in two stages:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL);
- for those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the contractual rights to the cash flows from the financial asset in a transaction under which nearly all the rights and obligations inherent to ownership of the financial asset are transferred. Any interest created or retained by the Company in a financial asset is recognised separately as an asset or liability.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

2. Accounting policies (continued)

2.14 Financial instruments (continued)

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

Derecognition of financial liabilities

A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

2.15 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

Provisions giving rise to an outflow after more than one year are discounted if the impact is material. Discount rates reflect current assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recorded in the Statement of Comprehensive Income.

3. Judgment in applying accounting policies and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be appropriate under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

3. Judgment in applying accounting policies and key sources of estimation uncertainty (continued)

Estimates

The following assumptions involving estimates have had the most significant effect on amounts recognised in the financial statements:

- **Waste management contracts**
In the normal course of business, accounting for contracts involving the collection and/or treatment of waste requires a number of key estimates to be made in determining amounts receivable and payable at the Balance Sheet date. The nature of these estimates will vary dependent on the nature of the contract, but may include, for example, estimates relating to treatment costs, disposal costs, volumes or prices.
- **Provisions**
Management have had to make assumptions as to the timing and probable outcome of provisions as described in note 17.

Judgments

The following assumptions involving judgments have had the most significant effect on amounts recognised in the financial statements:

- **Concession accounting**
Management have made the assessment on a number of factors in determining whether the selection of a mixed model or an intangible model is the most appropriate method of accounting for the assets identified as part of the contracts for concession services, as described in note 2.5. The most notable of these would be the assessment of the level of income guaranteed to be paid by the grantor under the contract. This assessment has a significant impact on the timing, and to a lesser effect the quantum, of the associated revenue in these contracts. Management have also made judgments in respect of the accounting treatment of one off payments made by grantors as either a reduction of concession asset, financial receivable or deferred revenue.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

4. Revenue

An analysis of revenue by class of business is as follows:

	2020 £000	2019 £000
Sale of heat supply	254	296
Rendering of services	30,095	29,284
	<u>30,349</u>	<u>29,580</u>

All revenue arose within the United Kingdom.

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	2020 £000	2019 £000
Receivables (included within trade debtors)	2,457	1,992
Contract assets	1,609	1,957
Contract liabilities	(7,652)	(7,879)
	<u>(3,586)</u>	<u>(3,930)</u>

Deferred revenue, recognised as contract liabilities due within one year, has subsequently been recognised as revenue during the following year.

Payment terms for contract assets relate to services provided up to 30 days prior to billing and are generally paid within normal contract terms of between 30-120 days of the invoice date.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

5. Operating profit

	2020 £000	2019 £000
Operating profit	4,020	4,751
Add back items charged/(credited) to operating profit	-	-
Adjusted 'current' EBIT	4,020	4,751
Add back items charged to operating profit:		
Depreciation of tangible fixed assets	-	2
Amortisation of intangible assets	3,484	3,672
Loss on disposal of intangible assets and tangible fixed assets	12	-
Movement on provisions, excluding restructuring costs	2	142
Adjusted EBITDA	7,518	8,567

Auditor's remuneration of £10k (2019: £10k) was borne by a Group fellow subsidiary.

6. Staff costs

The Company has no employees other than the Directors (see note 7).

7. Directors' remuneration

The Directors are paid by, and perform services for, other companies within the Group alongside their services to this Company. Whilst not being paid by the Company, in 2020, the Directors' costs have been apportioned to the principal companies they serve within the UK&I group. Had the Directors' costs been recharged to all the companies those Directors serve, the Company would have incurred £57k (2019: £49k) of Directors emoluments, including £2k (2019: £4k) of pension contributions.

8. Interest receivable

	2020 £000	2019 £000
Interest receivable from Group fellow subsidiaries	-	10

9. Interest payable and similar charges

	2020 £000	2019 £000
Interest payable to Group fellow subsidiaries	2,786	3,101
Bank and similar charges	498	512
	3,284	3,613

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. Taxation

	2020 £000	2019 £000
Corporation tax		
Current tax on profit for the year	461	562
Adjustments in respect of previous periods	1	-
Total current tax	462	562
Deferred tax		
Deferred tax - current year	(273)	(295)
Adjustments in respect of previous periods	1	-
Effect of changes to tax rates	802	-
Total deferred tax	530	(295)
Taxation on profit on ordinary activities	992	267

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - *higher than*) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
Profit on ordinary activities before tax	736	1,148
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	140	218
Effects of:		
Expenses not deductible for tax purposes	16	14
Adjustments to tax charge in respect of prior periods - current tax	1	-
Adjustments to tax charge in respect of prior periods - deferred tax	1	-
Difference between current and deferred tax rates	32	35
Effect of rate change on deferred tax	802	-
Total tax charge for the year	992	267

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

10. Taxation (continued)

Factors that may affect future tax charges

Deferred tax assets and liabilities have been stated at the corporation tax rate of 19% (2019: 17%) reflecting that the UK Corporation Tax rate will be maintained at 19% from 1 April 2020. This rate was enacted on 17 March 2020 and remained in force at the Balance Sheet date.

At the Budget on 3 March 2021, the government announced an increase in the main UK Corporation Tax rate to 25% to take effect from 1 April 2023. This has not yet been substantively enacted so has not been reflected in the measurement of deferred tax balances at the period end, but if passed the effect would be to increase the Company's deferred tax liability by £2,406k.

11. Deferred taxation

	Accelerated capital allowances £000	Other temporary differences £000	Total £000
At 1 January 2020	7,027	61	7,088
Charge to profit or loss	503	27	530
At 31 December 2020	7,530	88	7,618

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

12. Intangible assets

	IFRIC 12 concession assets £000	Software £000	Total £000
Cost			
At 1 January 2020	128,290	37	128,327
At 31 December 2020	128,290	37	128,327
Amortisation and impairment			
At 1 January 2020	63,844	37	63,881
Charge for the year	3,484	-	3,484
At 31 December 2020	67,328	37	67,365
Net book value			
At 31 December 2020	60,962	-	60,962
<i>At 31 December 2019</i>	<i>64,446</i>	<i>-</i>	<i>64,446</i>

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

13. Tangible fixed assets

	Plant and equipment £000
Cost or valuation	
At 1 January 2020	211
Additions	4
Disposals	(207)
At 31 December 2020	<u>8</u>
Depreciation and impairment	
At 1 January 2020	203
Disposals	(195)
At 31 December 2020	<u>8</u>
Net book value	
At 31 December 2020	<u><u>-</u></u>
<i>At 31 December 2019</i>	<u><u>8</u></u>

14. Debtors: amounts falling due within one year

	2020 £000	2019 £000
Trade debtors	2,457	1,992
Contract assets	1,609	1,957
	<u>4,066</u>	<u>3,949</u>

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

15. Creditors: amounts falling due within one year

		2020 £000	2019 £000
Amounts owed to Group fellow subsidiaries		912	859
Short-term loans from Group fellow subsidiaries	19	6,456	5,701
Corporation tax		1,023	873
Other taxation and social security		1,260	1,142
Contract liabilities		242	227
		<u>9,893</u>	<u>8,802</u>

16. Creditors: amounts falling due after more than one year

		2020 £000	2019 £000
Contract liabilities		7,410	7,652
Long-term loans from Group fellow subsidiaries	19	36,200	40,700
		<u>43,610</u>	<u>48,352</u>

SCC made an £8,285k capital contribution, paid under a deed of variation, signed on 29 June 2018 to reduce its contract payments for services provided, back-dated with effect from 1 April 2018 through to the end of the contract. At 31 December 2020, the amounts included within contract liabilities in respect of this is £7,652k (2019: £7,879k), of which £7,410k (2019: £7,652k) is due after more than one year.

17. Provisions

	Other provisions £000
At 1 January 2020	142
Increase of provision	192
Utilised in the year	(190)
At 31 December 2020	<u>144</u>

The provision relates to costs associated with the contract extension with SCC, extending the remaining part of the contract from 2036 to 2038. The increase in the year relates to an additional year's costs, offset by the settlement of the previous year's costs, leaving the closing provision broadly consistent with 2019.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

18. Share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
25,500,000 (2019: 25,500,000) ordinary shares of £1.00 each	25,500	25,500

19. Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

Balances outstanding as at 31 December 2020 with all related parties are disclosed in notes 15 and 16.

There were no trading transactions entered into during the year to 31 December 2020 with other related parties.

Details of long-term loan balances with all related parties are as follows:

Loans owed by related parties

Group fellow subsidiaries	Due within one year £000	Due after one year and within five years £000	Due after five years £000	Total £000	2019 £000
Veolia Environmental Services (UK) Plc	4,577	16,500	16,450	37,527	41,842
Veolia ES Aurora Limited	585	2,500	750	3,835	4,346
Group cash pooling	1,294	-	-	1,294	213
	6,456	19,000	17,200	42,656	46,401

Veolia Environmental Services (UK) Plc totalling £37,527k (2019: £41,842k), including accrued interest of £577k (2019: £643k), bears interest at 6.19%. Capital and interest is repaid in semi-annual instalments and the loan will be repaid in full by March 2029.

Veolia ES Aurora Limited loan totalling £3,835k (2019: £4,346k), including accrued interest of £85k (2019: £96k), bears interest at 9.00%. Capital and interest is repaid in semi-annual instalments and the loan will be repaid in full by March 2028.

20. Post balance sheet events

There have been no significant events affecting the Company since the year end.

SHEFFIELD ENVIRONMENTAL SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

21. Immediate parent and controlling party

The immediate parent company is Veolia ES Aurora Limited, a company incorporated in the UK.

Veolia Environmental Services (UK) Plc is an intermediate parent undertaking that prepares consolidated financial statements, including Sheffield Environmental Services Limited, that are publicly available. Copies of the consolidated financial statements for Veolia Environmental Services (UK) Plc are available from the registered office at 210 Pentonville Road, London, N1 9JY.

The ultimate parent and controlling company is Veolia Environnement S.A., a company incorporated in France. Consolidated financial statements are prepared by Veolia Environnement S.A. Copies of the consolidated financial statements for Veolia Environnement S.A. are available from the registered office at 21 rue La Boétie, 75008 Paris, France.