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Viridor Trident Park Ltd.  
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Registered number: 02456473

**VIRIDOR LIMITED**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 MARCH 2018**

MONDAY



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COMPANIES HOUSE

**Directors**

A D Cumming (resigned 29 March 2018)

P C Piddington

E A J Rees

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## 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 as well as over 32,000 customers across the UK.

### Financial Highlights

#### Revenue

Statutory £788.9m (2017: £793.5m)

Underlying £785.7m (2017: £793.5m)

#### EBITDA

Statutory £153.4m (2017: £128.1m)

Underlying £150.2m (2017: £138.3m)

Adjusted £202.9m (2017: £198.5m)

#### Profit before tax

Statutory £77.3m (2017: £50.2m)

Underlying £70.8m (2017: £60.4m)

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 more 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

- Delivered £124 million of EBITDA from Energy Recovery Facilities (ERFs)
- ERFs continued to perform well with average availability of 92% and operational ERFs delivering in excess of initial base case expectations
- Three ERFs in commissioning:
  - Glasgow Recycling and Renewable Energy Centre; the materials recycling facility and anaerobic digestion facility have operated throughout the period and commissioning is underway for the advanced combustion facility
  - Dunbar contributing financially, reflecting liquidated damages, in line with expectations. Commissioning continues to progress
  - South London (Beddington) commissioning nearing completion
- Avonmouth ERF construction on schedule and budget
- Long-term partnership with Greater Manchester Waste Disposal Authority continues – positive outcome reached
- Recycling markets challenging with operating costs increasing to meet quality demands. Self-help measures continue. Developing new Asian markets, partially mitigating impacts of China's changing quality requirements

## 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.

#### Waste inputs to Energy Recovery Facilities

We estimate that in the UK, 26 million tonnes of waste were suitable for combustion in ERFs in 2017, comprising an estimated 15 million tonnes of municipal household waste and 11 million tonnes of commercial and industrial waste. All the ERFs in the UK processed a combined 11 million tonnes of this waste in 2017. Our facilities processed 2 million tonnes in 2017 giving us a market share of around 20%, based on input tonnages, making Viridor the joint leader in the sector. In 2017, the total power generated by ERFs in the UK was 6.2TWh – approximately 1.7% of total UK generation in 2017 and an increase of 19% on 2016.

#### Recycled waste materials

The recycling market has had a challenging year with input quality suffering from local authority cost savings and increasing quality demands on outputs. In 2017, China announced it was prohibiting certain types of waste imports, including plastics and unsorted paper. We are working with new customers to access recycling markets in Asia, which partially mitigate the impact of China's restrictions. We are optimistic that positive changes will be announced in the Resources & Waste Strategy later this year. Viridor is a market leader in processing comingled waste streams (where recyclables are mixed in the same bin). In 2017, we processed c0.7 million tonnes of comingled mixed recyclable waste out of an estimated 4 million tonnes, indicating a 18% market share. The volume of waste for recycling is expected to increase reflecting population growth and a growing public pressure particularly around plastics. As a result, manufacturers are taking an interest in securing longer-term supplies of high quality recycle.

#### Waste to Landfill

22.3 million tonnes of waste was generated by households in England in 2017, amounting to 406kg of waste per person. Of this, the UK mainland disposed of 11 million tonnes of active waste (household black bag waste and similar unrecyclable waste from industrial and commercial sources) into landfills in 2017 compared with 12.5 million tonnes in 2016. In 2017 our landfill sites received 1.5 million tonnes of active waste (14% UK market share). In addition, we received 0.6 million tonnes of inert inactive waste for daily cover and restoration purposes. We expect the volume of waste being sent to landfill to reduce as the availability of ERFs increase, with an ongoing baseline requirement for landfill for materials that are not suitable for recycling or recovery.

### STRATEGIC PRIORITIES

Our strategic priorities are:

- Health and safety
- Building our leadership in waste
- Investing for sustainable growth
- Cost base efficiency

#### 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. This remains our ambition. We are pleased to note the progress we have made following the creation of the new health and safety programme HomeSafe; this wide-ranging behavioural change programme affects everybody working at Viridor and is creating a clear and structured long-term platform for all health and safety activity.

## Strategic report (continued)

### Building our leadership in Waste

We performed well with the fundamentals of the UK waste market remaining strong and demand for Energy Recovery Facilities (ERFs) is set to continue to exceed capacity. We anticipate the capacity gap to be greater than seven million tonnes by 2030. The ERFs performed strongly and the operational part of our portfolio achieved an availability of 92%. Elsewhere in our operations, Viridor successfully negotiated a reset to its contract with the Greater Manchester Waste Disposal Authority, achieving a positive outcome. In recycling, we are seeking to influence government policy, including to mitigate increasing pressure on input quality from local authority cost savings. We have invested to ensure output quality requirements are delivered and are seeking further targeted investment in value adding technology. Our risk/reward share with customers now covers 65% of input volumes. We are maintaining flexibility in our landfill operations, where we continue to see demand for landfill solutions.

### Investing for sustainable growth

Development of our ERF portfolio continued during the year with three plants progressing through commissioning and construction of our twelfth facility at Avonmouth near Bristol on track for delivery in 2020/21. The majority of our capital investment continues to relate to the delivery of the ERF portfolio, which will support earnings growth to 2020 and beyond. We have successfully implemented all phases of our ERF business model from initial concept to gaining planning permission, building facilities, winning contracts and operating plants to high levels of efficiency.

### Cost base efficiency

We have centralised control to optimise performance across the UK. We have focused on driving efficiencies by entering into more framework contracts in partnership with key suppliers and by rationalising our supplier base. We continue to implement self-help measures in our recycling business by rationalising facilities, renegotiating contracts and sharing commodity risk and reward with our clients.

### Enhancing sustainability and resilience

In fulfilling the role of serving local communities, stewarding resources and providing essential services, our business integrates long-term sustainability into our strategic thinking.

UK waste strategies prioritise waste minimisation and recycling wherever possible, followed by energy recovery for non-recyclable materials, with landfill always the last resort. Viridor's strategy aligns with that. When Avonmouth ERF is completed, Viridor will hold some 19% of national energy recovery capacity and we will be the UK leader in this sector. Our gross carbon emissions increased primarily due to the fact we are in transition as our fleet of operational ERFs continues to grow while we scale down our landfill operations (in themselves the most significant contributors of greenhouse gas). We continue to work to minimise and reduce the carbon intensity of our operations and to maximise the carbon benefits of our services for customers. 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).

### People

Viridor is both an asset business and a people business. We can only be as good as the people who build and operate our assets. Training, developing and retaining employees who have the right skills to take us forward is an essential part of our strategy. We look to attract, develop and retain a highly skilled and customer-focused workforce, supported by our apprenticeship programme. We run employee surveys which help us identify what matters to our employees so we can deliver improvements that benefit and strengthen their skills and our culture as well as our operations.

### Outlook

Customer needs and priorities will continue to be the cornerstone of our operations. We will work with local authorities in a strong spirit of partnership. We anticipate growth will come from our ERF portfolio, with the expansion supporting earnings growth to 2020 and beyond, as additional facilities come on stream. We expect demand in the wider residual waste market to exceed capacity over the long term. Viridor is well positioned to deliver for its customers, communities and shareholders going forward through a clear strategy for our operations in the UK.

## **Strategic report (continued)**

### **PEOPLE**

The talent, professionalism and commitment of our people is key to the delivery of our strategic objectives. Our continued investment in our people is a cornerstone of Viridor's ability to create shareholder value.

#### **People strategy**

Viridor follows the people strategy developed by Pennon Group Plc. This strategy comprises six threads: *leadership, culture, people processes, compliance, training and talent*, and is helping us to focus more than ever on being a place where people enjoy working. As part of our commitment to improve two-way communications with our workforce, we asked our people what they feel makes us unique as a business and what motivates them. This communication was complemented with sessions with the Group's leadership, our employee survey data and external benchmarking. The results showed there was much in common across the Pennon Group in terms of values and a shared sense of purpose in the work we do. This insight allowed the development of a new vision: 'Bringing resources to life' with its associated values of 'trusted, responsible, collaborative and progressive'. Work to embed the new vision and engage employees is underway.

#### **Health and safety (H&S)**

Viridor participated in the launch of HomeSafe during the year. We also continued to look to strengthen other areas of our H&S approach. New training for supervisory staff, language lessons for our non-English speaking workers and safety behavioural training for our front line employees all featured. We also created a broader set of H&S indicators across the Group to improve management information and insights, and safety performance. Further enhancements to the way we record and report H&S events include introducing a new Incident Management System and associated standards and processes to provide better, more accessible, real-time data, allowing further insights and actions to aid learning and prevention.

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

We remain committed to investing in the development of our staff; we want to recognise talent across the Group. We support employees at all levels through training and development helping to increase productivity, job satisfaction and safety, as well as developing our next generation of leaders by encouraging people to develop their knowledge, skills and competencies. The government's apprenticeship reforms and introduction of the levy are helping us prioritise development for new and existing employees to address key skills shortages. We have partnered with award-winning vocational training provider System Group to develop employees in engineering, driver training, project management and team leadership.

#### **Code of Conduct**

In June 2017, Viridor participated in the introduction of the new Pennon Group Plc Code of Conduct. To ensure everybody has the same understanding of what the new Code means, all employees were required to complete an e-learning module. This was followed by ancillary training on anti-bribery and anti-corruption, and the acceptance of gifts and hospitality to ensure we have strong compliance across the Group. Training on the Code and our legal compliance policies is compulsory for all our workers.

#### **Employee translation services**

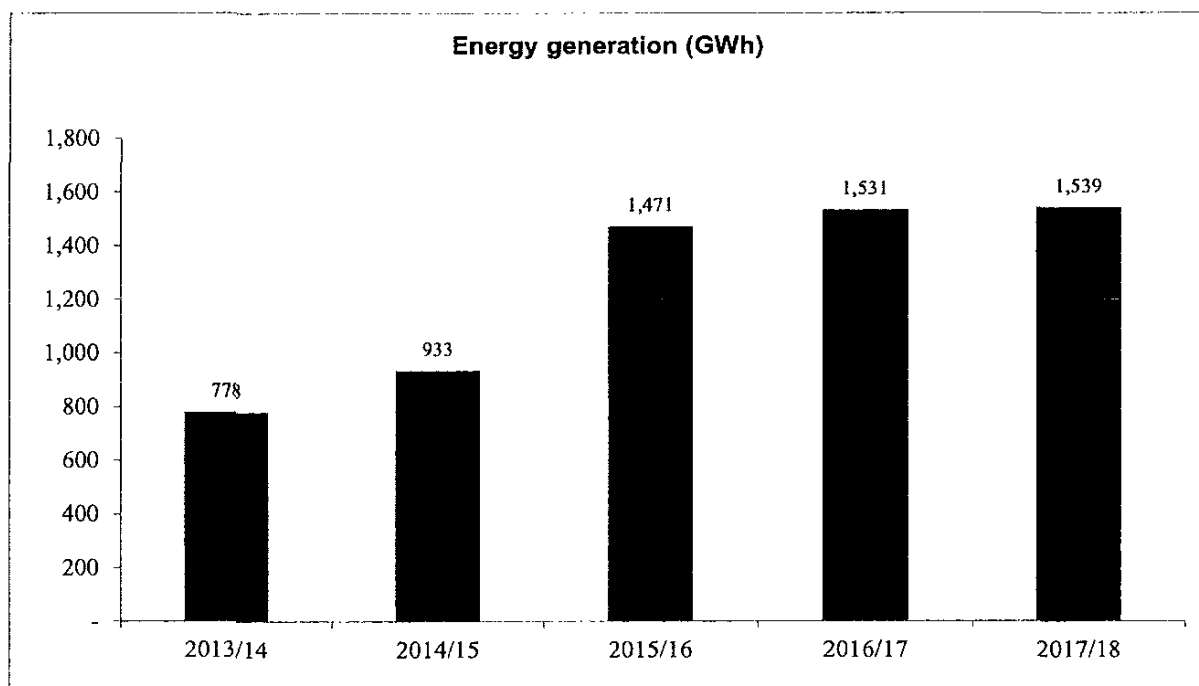
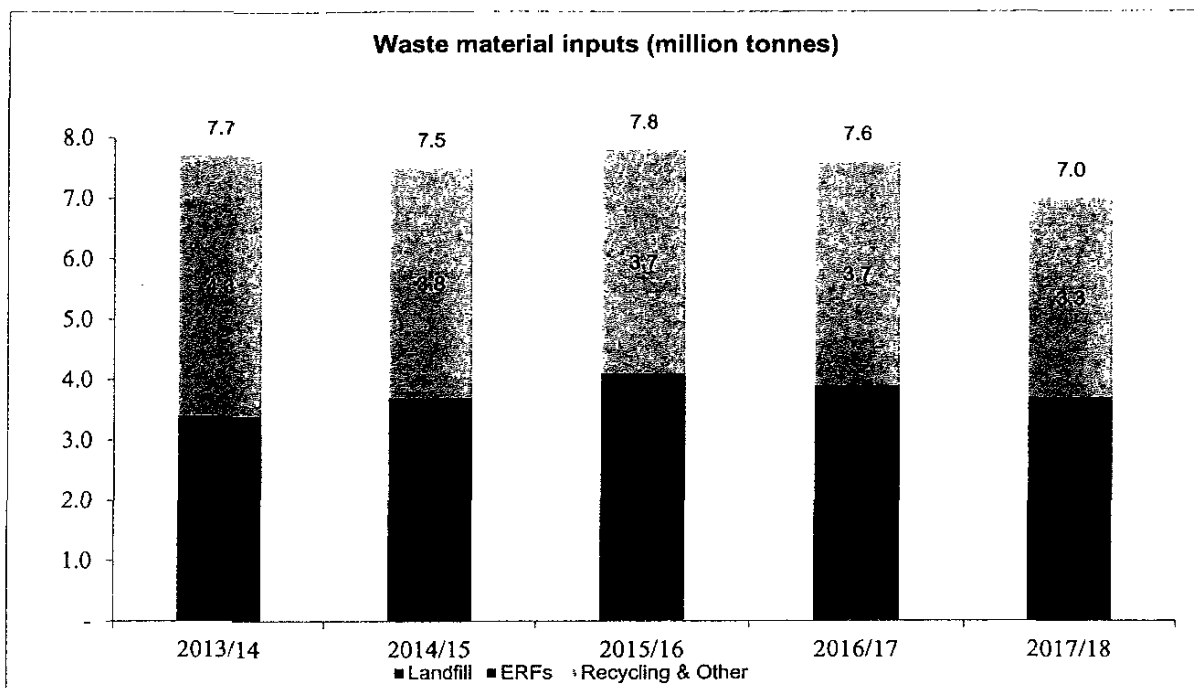
Viridor's workforce represents more than 40 different nationalities, with a high percentage of Polish workers, and, in April 2017, we partnered with RWS Language Solutions (RWS) to provide interpretation and translation services. This partnership enables key documents such as site operating procedures and health and safety policies to be translated into native languages. RWS also provides interpreters, where necessary, to ensure workers understand what is expected of them and can work in as safe a manner as possible.

#### **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.

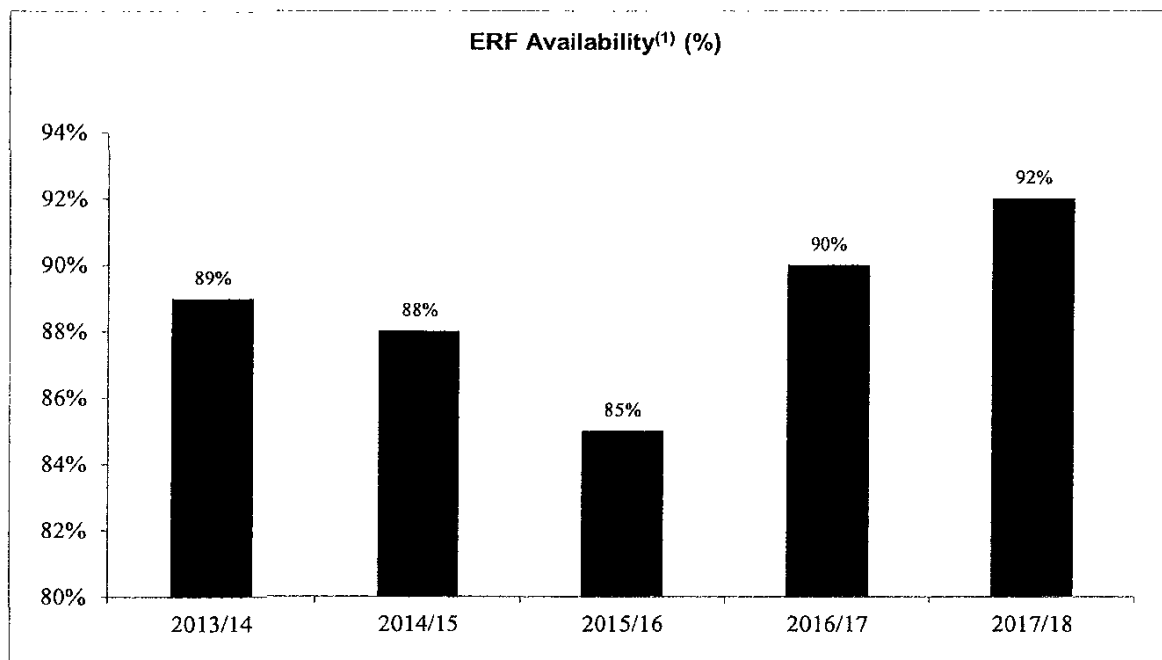
**Strategic report (continued)**

**OPERATIONAL KPIs**

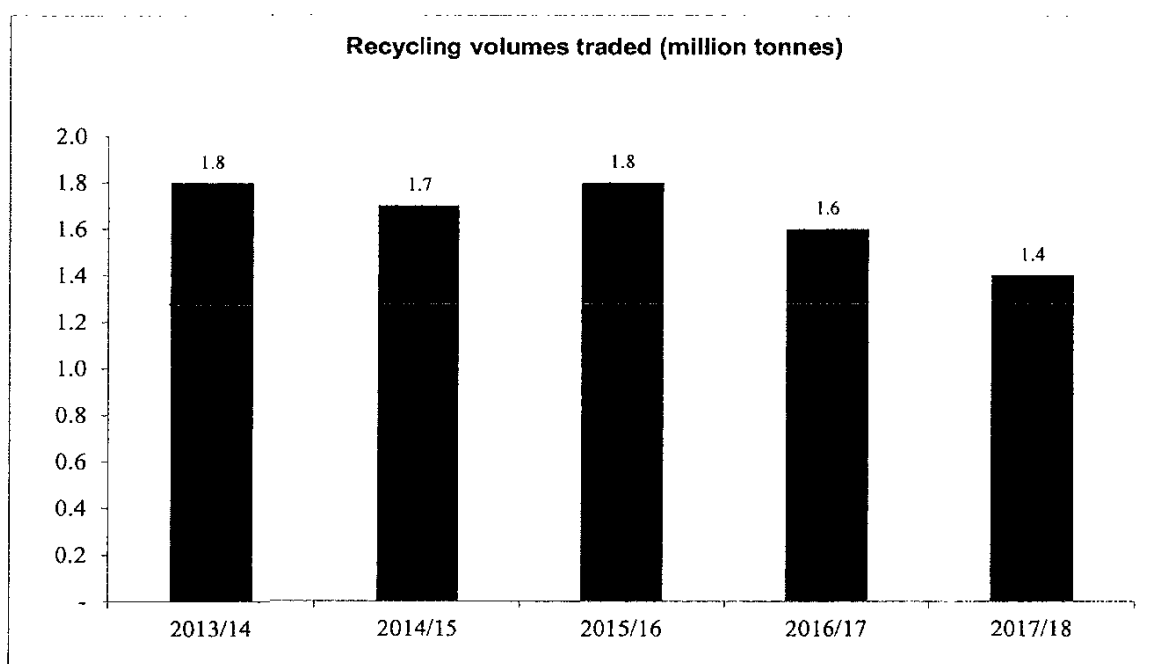


**Strategic report (continued)**

**Operational KPIs (continued)**



(1) Weighted by capacity, excludes Bolton, includes JVs at 100%





## 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 more than 150 local authorities and major corporate clients as well as over 32,000 customers across the UK. Our activity supports the development 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.

#### Strong performance

We continued to develop a fully integrated service of waste management, recycling and recovery during the year. Highlights of our performance include the continuing success of our ERF portfolio. With three of our ERFs under construction progressing through commissioning, we have successfully implemented all phases of our ERF business model from initial concept through to completion, and our operational ERFs are delivering above initial base case expectations. We negotiated a reset to the contract with the Greater Manchester Waste Disposal Authority (GMWDA), which had a positive outcome. Global recycling markets have been challenging, in particular following changes in China's import regulations. We have partially mitigated the impact of these challenges through self-help measures, including finding new export markets. We are investing in quality improvement processes in our recycling facilities as the quality of input materials has deteriorated while demands on the quality of outputs have increased. In landfill, the rate of volume decline has slowed during the year and we are adopting a flexible strategy.

Total waste inputs for 2017/18 were 7.0 million tonnes, with 2.2 million taken by our ERFs, 1.5 million to landfill and 3.3 million taken by our recycling and other facilities.

Viridor is one of the UK's largest independent power generators from waste. We had 274 megawatts (MW) of operating capacity from ERFs, anaerobic digestion, solar and landfill gas (including 100% of joint ventures) at 31 March 2018. Viridor exported 1.5 terawatt hours (TWh) of power during the year.

#### Customer experience

Responding to feedback from our customer service surveys for a more seamless service, we have been working to improve integration across our marketing and sales, service delivery and customer service teams.

The resulting reorganisation has created a platform for launching national initiatives based on great customer service, excellent service delivery and transparent pricing.

We rolled out a number of initiatives during the year to benefit our customers, including training programmes for all heads of sales teams and customer service staff, developed a more customer centric website and organised a number of 'meet the customer' days and events giving customers the opportunity to see our facilities and what happens to their waste.

Building on the success of last year's customer survey, a new methodology has now been adopted, which allows us to gather the views of a much broader base of customers. In November 2017 we asked over 6,000 customers about their perception of Viridor, which provided positive feedback that the reorganisation is delivering benefits to our customers and identified opportunities to improve our performance and drive growth. Of those who responded, 70% were satisfied with our service overall. This will provide the benchmark for future surveys, which will be carried out on a six-monthly basis.

#### ERFs build momentum

Our ERF portfolio, which turns black bag waste into energy, is a significant asset base which performed strongly during the year. The operational ERFs delivered increased EBITDA in the year. Like for like facilities contributed a 9% increase as a result of our focus on optimisation of the facilities with the remainder reflective of a financial contribution, in the form of liquidated damages, from Dunbar ERF. Our operational ERFs are delivering above initial base case expectations and are helping to deliver the Group's growth strategy.

At year end, the operational ERFs had a capacity of 2.1 million tonnes of waste and 178MW of electricity per annum (including joint ventures). This will extend to 2.9 million tonnes and 242MW in 2018/19 and 3.2 million tonnes of waste and 276MW by 2021.

## **Strategic report (continued)**

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

Our ERF at Beddington in South London is in final commissioning, with waste deliveries being received and financial contribution being recognised from the first half of 2018/19. Work at Dunbar continues to progress, with liquidated damages expected to be received until commissioning is complete. Both Beddington and Dunbar are expected to be completed on budget. Progress at Avonmouth near Bristol is on schedule and budget. Piling for the ERF building has been completed, the bunker construction is well underway and process steelwork is being erected. At the Glasgow Recycling and Renewable Energy Centre, the materials recycling facility and anaerobic digestion facility have operated throughout the year and commissioning is underway for the advanced combustion facility.

Including the £173 million total remaining capital expenditure for completion of the ERF portfolio, the total investment in ERFs is £1.5 billion.

### **Environmental impacts**

We keep a strong focus on our environmental performance and responsibilities, working closely with environmental regulators (the Environment Agency, Scottish Environment Protection Agency and Natural Resources Wales) to maintain high standards of operations and compliance, and to further reduce the risk of pollution incidents. In addition to the services Viridor offers its customers for the safe management, treatment and disposal of hazardous wastes, our environment policy clearly commits us to minimising hazardous wastes used or produced and any impacts arising, as well as any (non-greenhouse gases) emissions to air. This is monitored via the performance, compliance and reporting of our operating environmental permit conditions.

### **Dynamic landfill strategy**

Viridor operated 11 landfill sites throughout the year. The rate of volume decline has slowed during the year, and pricing has held up. With the sites of competitors having closed and with insufficient capacity in the UK ERF market, we are operating a dynamic landfill strategy. Sites are being kept open for longer, with the aim of optimising their long-term value, and investment will be made in new cells where there is commercially attractive demand. We are also investing in our landfill gas business to enhance the long-term reliability of our assets.

We constructed new cells at four sites in 2017/18. Consented landfill capacity reduced from 42.5 million cubic metres (mcm) to 40.5 mcm, reflecting usage during the period.

We continue to manage our landfill energy business with the aim of maximising the value of landfill gas power generation. We are also looking at alternative commercial development opportunities and other energy uses such as photovoltaic (PV) and energy storage at our landfill sites. At year end, our landfill gas sites had engine generation capacity of 88MW, a decrease from last year's 99MW. During the period, cells at some sites were reopened to landfill, resulting in a short-term reduction in the volumes of gas captured. In addition, higher engine maintenance – as part of an engine replacement programme – resulted in a one-time larger reduction in landfill gas power generation output for the year, down 13% to 445 gigawatt hours (GWh). This level of reduction is not expected to recur. Average revenue per megawatt hour (MWh) was £93.39 (2016/17 £87.16). Average operating costs were £40.96 per MWh (2016/17 £33.02).

### **Recycling**

Viridor retained its position as one of the leading recycling businesses in the UK, although the market environment remains challenging. Recycling volumes traded in 2017/18 were lower than the previous year at 1.4 million tonnes, in part reflecting a decision not to retender certain contracts where the level of contamination in inputs was unacceptable. We were active across the recycling spectrum, including mixed materials, glass, plastics and paper recycling, as well as transforming food waste into organic and energy resources. As one of the UK's largest glass recycling companies, our recycling plants in Sheffield and Glasgow processed over 230,000 tonnes of glass in 2017/18.

## **Strategic report (continued)**

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

#### **Self-help measures continue**

The UK's national policy is to recycle as much as possible and Viridor's operations align with that. However, as local authorities seek to cut costs, the quality of materials brought in to our recycling assets is under pressure. As part of our continuing self-help measures, we are rationalising facilities and investing in quality improvement schemes.

One of the most important developments in the recycling market over the past year was the change in import regulations in China, which has announced new quality requirements for imports of plastic and paper waste with the expectation that China will take lower volumes of these materials. This does not affect other parts of our recycling operations, as the metal and glass that Viridor processes stays in the UK.

Viridor anticipated this change in advance of China's announcement and has secured new markets for plastic waste in the UK, Asia and elsewhere in Europe. We are also making additional investments and working with our supply chain to improve the quality of paper recycling for China.

During the year, recycling EBITDA was £15.0 million, a decrease of 33.9% against the previous year's £22.7 million. Around £3.0 million of the reduction related to the pricing and quality implication of China's policy announcement. The remaining reduction of £4.7 million reflects our overall reduction in recycling volumes and an increase in processing and reject costs as a result of lower input quality, and higher output quality demands. EBITDA per tonne decreased by £3 year on year to £11 as a result of higher processing costs (up £11 per tonne to £83 per tonne) offset by higher pricing. Revenue per tonne was up 7.8% to £97 (2016/17 £90), reflecting a shift towards higher value output including polymers. Compared with the second half of 2017/18 we anticipate market and operational improvements into 2018/19.

#### **Sharing commodity risk and opportunity**

In line with our strategy of achieving a balanced risk profile across our operations, we continue to work with stakeholders to share commodity risk and opportunity. At year end, 65% of our contractual volumes from local authorities had been renegotiated to share recycle commodity risk (up from c.40% last year).

#### **Confidence in UK waste sector - strong drivers for recycling**

Viridor, alongside the waste industry has called for a new attractive framework for UK recycling to address input quality to UK materials recycling facilities (MRFs), stagnant recycling rates and producer responsibility. We are encouraged that the 'Blue Planet' effect is spurring action and we are optimistic that positive changes may be announced in the Resources & Waste Strategy later this year creating a UK recycling system fit for the future including incentives for producer responsibility, consistency of household bin collections, increasing household waste quality, new packaging recycling targets and packaging recovery note (PRN) reform, making recycling more profitable and enabling investment and innovation.

#### **Local authority contracts**

We continue to work with customers to identify mutually beneficial enhancements to our contracts. We have sharing mechanisms in place in our long-term local authority contracts where returns exceed contractual hurdle levels. The contract to operate the recycling assets on behalf of GMWDA has entered a 'run off' period of no less than 18 months from 1 October 2017 while GMWDA tender for a new contract expected to commence in 2019. Viridor has been shortlisted for two of the three lots being tendered, including the operation of the main processing assets. Performance of major local authority contracts was in line with expectations. Our collections business continued to provide a valuable service to our customers during the year and secured volume for our ERF, landfill and recycling assets.

## **Strategic report (continued)**

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

#### **Joint ventures**

Viridor Laing Greater Manchester (VLGM), a joint venture between Viridor and John Laing, performed in line with expectations during the first half year. As part of the contract exit, the company was sold to GMWDA at the end of September and as a result is no longer a joint venture.

The TPSCo joint venture (between Viridor, John Laing and Inovyn Chlorvinyls Limited) performed strongly with good availability throughout the year. As part of the wider contract reset, GMWDA provided finance to the joint venture to enable the repayment of external bank debt. This change in cash flows resulted in the recognition of income in this joint venture, with an amount deferred relating to the lower ongoing gate fee. A new seventeen-year contract between TPSCo and GMWDA was signed during the year securing fuel supply for the ERF over the period covered by the previous contract. Viridor's operating contract for TPSCo's Runcorn I ERF remains unchanged.

The Lakeside ERF (a 50:50 joint venture with Grundon Waste Management) continued to perform strongly. In its eighth year of operation, it continues to exceed its original targets for both waste processing and power generation.

#### **Community engagement**

Viridor continues to invest in educational programmes and support community initiatives in the localities of our operational sites. We have 11 educational centres which received 17,496 visitors in the year ending 31 March 2018. We helped to deliver 93 outreach events.

One of our most prominent educational facilities is our visitor centre at Ardley ERF, a few miles north of Oxford. It runs tailored educational programmes to teach children and adults about sustainable waste management and how energy recovery fits into the waste hierarchy. In April 2018, we were longlisted for the Education Partnership Award as part of Business in the Community's Responsible Business Awards 2018.

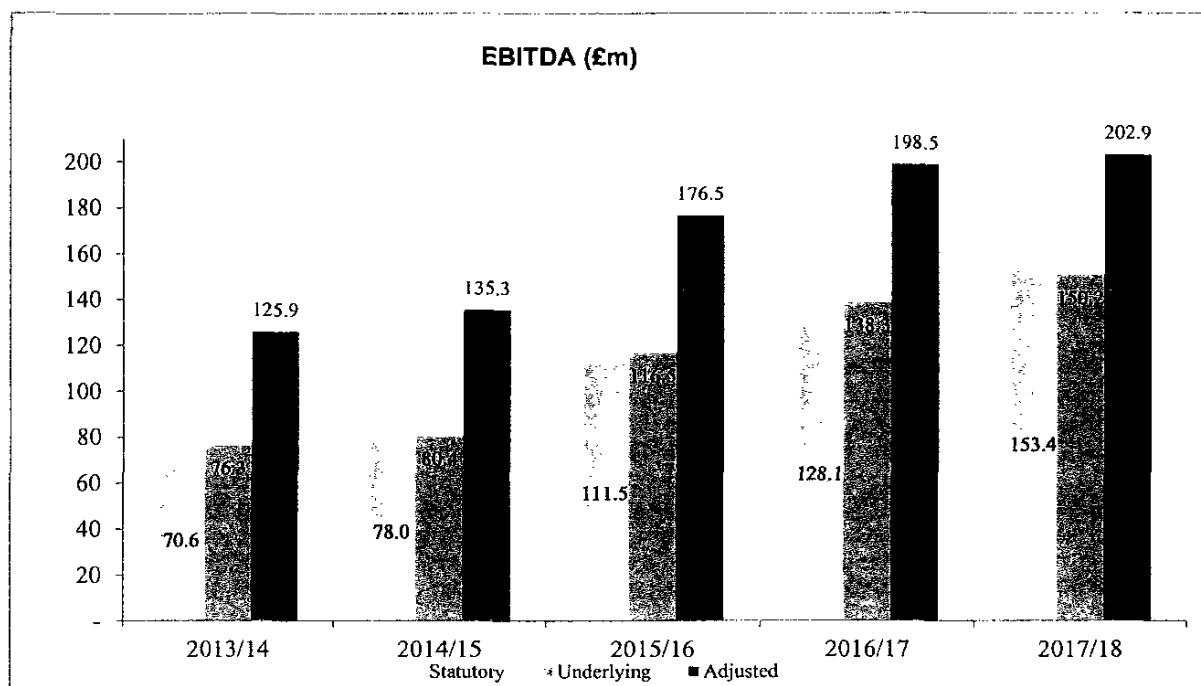
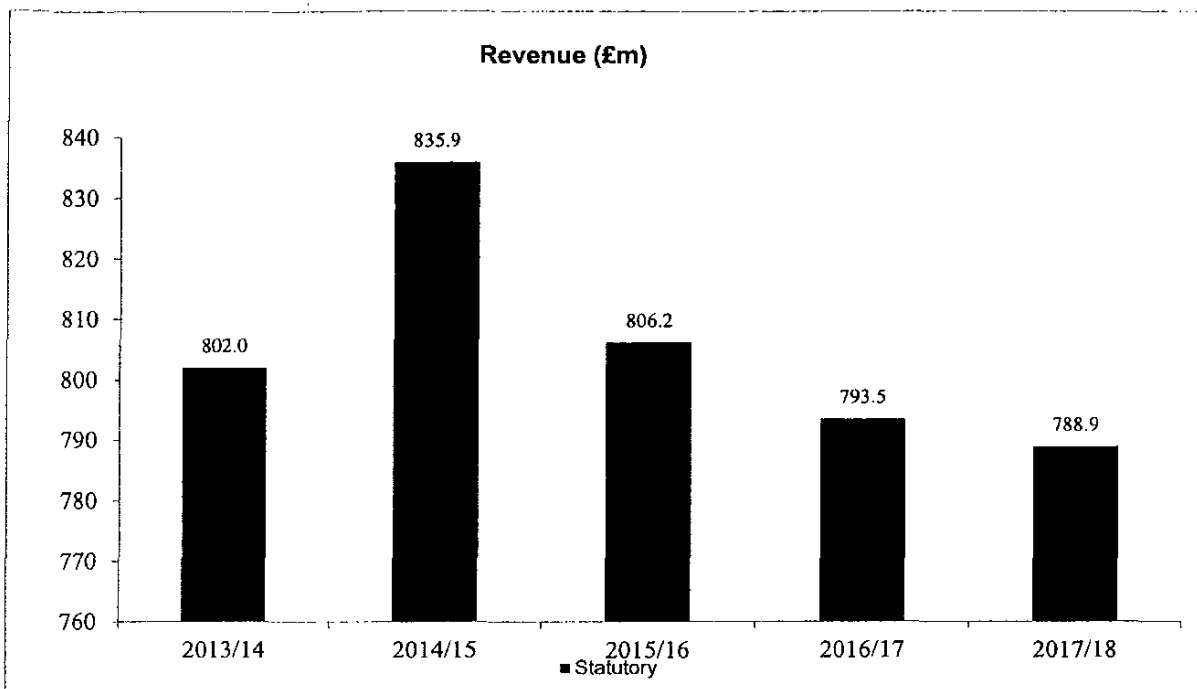
We also run community liaison groups that engage in effective dialogue with community representatives. These ensure we keep in touch with our neighbours and give back to the local communities in which we operate. We use these groups to provide updates on our operations and respond to feedback. Wherever possible, we have an open-door policy so that people can see how we are transforming waste in their own community.

During 2017/18, Viridor provided £7.6 million to community support, sponsorship and charitable donations. Some £7.3 million of this was paid to Viridor Credits, an independent, not-for-profit organisation that administers Viridor's contributions, for distribution via the Landfill Communities Fund. Our charitable donations scheme helped 114 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.

Viridor has exceeded our three-year goal to deliver 1,500 hours of volunteering within the local community by 2018. In 2017/18, our employees volunteered 123 days. Viridor won the Taunton Deane Business Award (TDBA) CSR Award 2017 for our community partnership with the Somerset Wildlife Trust.

**Strategic report (continued)**

**FINANCIAL KPIs**



## Strategic report (continued)

### FINANCIAL REVIEW

Viridor performed well in the year, with particularly strong performance from its ERFs, with the operational part of our portfolio achieving availability of 92% and outperforming initial base case expectations. The majority of Viridor's capital investment continues to relate to the delivery of the four remaining ERFs and this income stream delivered £123.7 million of EBITDA in 2017/18. The recycling market environment remains challenging, with operational costs increasing to meet operational requirements and the impact of China's new import policy (impact of c£3 million in 2017/18). Austerity measures faced by Viridor's local authority customers continue to create pressure for them and emphasise the importance of continuing delivery of efficiency and value for money. During the year Viridor negotiated a reset to the Greater Manchester waste contract which had a positive outcome.

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 the Avonmouth ERF. This policy is enhancing our resilience and sustainability.

#### Statutory financial performance

Viridor's statutory results showed growth in profit before tax to £77.3 million (2016/17 £50.2 million). The statutory results include the impact of non-underlying items totalling a credit before tax of £6.5 million (2016/17 £10.2 million charge). The Directors believe excluding non-underlying items provides a more useful comparison on business trends and performance.

#### Underlying financial performance

Viridor's revenue marginally decreased by 1.0% to £785.7 million (2016/17 £793.5 million) principally due to lower landfill tax on lower landfill volumes and lower recycling sales offset by higher ERF sales as the fleet of ERFs performed strongly.

Viridor has delivered an increase in adjusted EBITDA of 2.2% to £202.9 million (2016/17 £198.5 million) through improved performance of existing assets and a focus on quality and efficiency.

The ERFs have performed strongly during the period with availability of 92%. ERF EBITDA was £123.7 million (2016/17 £106.9 million) increasing 15.7%. Like for like facilities contributing a 9% increase with the remainder reflective of the financial contribution from Dunbar ERF. Performance of the facilities is above initial base case assumptions. During the year ERF earnings included contractual compensation of £12.1 million, a similar level to previous years. The contractual compensation primarily relates to liquidated damages receivable when construction is completed post the original contractual completion date. IFRIC 12 interest receivable has reduced to £13.8 million (2016/17 £16.1 million) as the financial assets are paid down through the operational phase of the contracts.

Joint venture EBITDA has decreased by 11.8% to £38.9 million (2016/17 £44.1 million). This is as a result of strong performance in TPSCo and Lakeside, offset by the impact of the Greater Manchester contract reset where Viridor disposed of its shares in Viridor Laing (Greater Manchester) Holdings Limited. Viridor Laing contributed EBITDA of £7.5 million prior to disposal (2016/17 £14.4 million).

Landfill EBITDA has dropped since 2016/17 as volumes have decreased, though the rate of volume decline has slowed. The volumes observed in the first half of the year were stronger but have reduced slightly during the second half. However, the demand for a landfill solution remains resilient, therefore four new cells were constructed in the year. EBITDA at £5.6 million is 13.9% lower than last year (2016/17 £6.5 million).

As we reported at the half year, we have been investing in our Landfill Gas business to enhance the long-term reliability of our assets. As a result of the required shutdowns there have been consequential impacts to revenue (lower availability) and costs. EBITDA for the period is £23.3m, down 15.6% from the prior year (2016/17 £27.6 million).

## Strategic report (continued)

### Financial Review (continued)

EBITDA for recycling has reduced by £7.7 million from £22.7 million to £15.0 million. The recycling market *has been challenging, with operational costs increasing to meet quality requirements and the impact of China's new import policy*. Self-help measures are focusing on asset and contract optimisation, innovation and accessing new markets. This has contributed to an increase in average revenue per tonne. Of the EBITDA reduction in the year, around £3 million related to the pricing and quality implications of China's policy announcement. The remaining reduction of £4.7 million reflects an overall reduction in recycling volumes and increase in processing and reject costs as a result of local authority cost savings impacting input quality, and higher output quality demands. Consequently EBITDA per tonne has fallen to £11 (2016/17 £14). Revenue per tonne is up 7.8% to £97 (2016/17 £90), reflecting a mix change towards higher value product, including polymers and higher-grade paper. Operational costs per tonne have increased by £11 to £83 (2016/17 £72). Compared with the second half of 2017/18 we anticipate market and operational improvements into 2018/19.

Viridor also continues to work with customers to improve performance levels and develop incentives for *working together to find mutually beneficial solutions including through income sharing mechanisms*, in particular with our long term local authority clients. The agreement of solutions that give a positive outcome for Viridor as well as our customers has contributed to a 15.2% increase in EBITDA from Contracts, Collections and Other to £39.3 million (2016/17 £34.1 million).

Viridor indirect costs are down 4.7 % from £59.5 million to £56.7 million as the business continues to focus on delivering efficiencies, including savings from shared services activities across the group.

### Net finance costs

During the year underlying net finance costs were £20.1 million (2016/17 £21.6 million); excluding pensions net interest cost £0.7 million, discount unwind on provisions £10.1 million and IFRIC 12 contract interest receivable £13.8 million.

### Non-underlying items

Non-underlying items for the year total a credit of £6.5 million before tax (2016/17 charge of £10.5 million) and the tax credit arising on these non-underlying items was £3.0 million (2016/17 credit of £2.0 million). The non-underlying prior year tax charge of £28.9 million relates to group relief payments in respect of tax losses net of receipts. Details are set out in note 5 to the financial statements.

The net non-underlying credit of £6.5 million is a result of the reset of Viridor's Greater Manchester contracts representing a gain on the re-profiling of cash flows (£22.5 million), favourable settlement of all construction related claims (£3.2 million) net of a write-down of shareholder loans (£19.2 million). In the prior year a one-off charge of £10.2 million was made relating to restructuring costs associated with a shared services review.

As a result of the reset, all external bank debt loaned into Viridor Laing Greater Manchester and TPSCo has *been repaid by the GMWDA, lower ongoing gate fees have been agreed in respect of Runcorn I and all claims relating to construction of VLGM's assets have been settled*. On reset of the Greater Manchester contracts, ownership of Viridor Laing (Greater Manchester) Holdings Limited (Viridor Laing) passed to the Greater Manchester Waste Disposal Authority (GMWDA). Viridor Laing (Greater Manchester) Holdings Limited was previously a joint venture between Viridor (50%) and John Laing (50%).

The ownership of INEOS Runcorn (TPS) Holdings Limited (TPSCo), a joint venture between Viridor, John Laing and Inovyn Chlorvinyls Limited, remains unchanged. This joint venture owns the Runcorn I ERF. Viridor has retained its long term operating contract for this ERF and will continue to operate the recycling and reprocessing assets, constructed by Viridor Laing for a further period of not less than 12 months from 31 March 2018.

## **Strategic report (continued)**

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

#### **Capital investment**

Viridor's capital investment in the period was £213 million, £19 million higher than the same period last year. The majority of Viridor's capital investment continues to relate to the delivery of the ERF portfolio, with £168 million of the total spend relating to the four ERFs under construction. Beddington, Dunbar and Avonmouth are all expected to be completed on budget. Solid progress has been made with Doosan Babcock at Glasgow. Cumulative spend of £238 million has been incurred to 31 March 2018 which is higher than the original target of £155 million. Viridor is contractually entitled to recover incremental costs from the original principal contractor, Interserve, under certain circumstances. Discussions with Interserve are ongoing with regard to the contractual settlement. At 31 March 2018 a receivable of £68.7 million has been recognised. In accordance with IFRIC 12 service concession arrangements, a financial asset of £140.6 million and an intangible asset of £67.6 million have been recognised (including rolled up finance income and capitalised interest), with no operating profit on construction having been taken to date. There are further possible recoveries that are contingent on future events (not currently recognised). Dependent upon the conclusion of the claims, margins over the life of the project to 2043 could potentially differ from those originally expected.

Including the £173 million total remaining capital expenditure for completion of the ERF portfolio, the total investment in ERFs is £1.5 billion (excluding capitalised interest and amounts subject to legal contractual processes). Landfill demand has remained strong and new cells have been constructed at four sites during the year at a cost of £5 million.

#### **Dividends**

Viridor paid dividends totalling £50.6 million in the year (2017: £33.9 million).

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

At 31 March 2018 Viridor's loans and finance lease obligations were £1,013.9 million (2017: £1,164.4 million). Viridor's cash holdings were £42.5 million (2017: £39.2 million) and overdraft was £nil million (2017: £69.3 million).

Ultimate parent company loans were £843.9 million (2017: £1,023.7 million). Details of interest on the ultimate parent company loans are set out in note 39 to the financial statements. Finance lease liabilities were £170.0 million (2017: £140.8 million), with interest linked to the movement in the London interbank offered rate (LIBOR). Bank overdrafts were £nil million (2017: £69.3 million) 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 is funded by a combination of equity and debt. Viridor issued 350,000,000 shares on 29 March 2018; of the total £350 million cash proceeds £332.7m was utilised to repay loans to the ultimate parent company. 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. At 31 March 2018 the Group's pension schemes showed a deficit (before deferred tax) of £23.5 million (2017: £31.6 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 Plc 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 the 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 which could affect shareholder value.</p>	Our robust regulatory framework ensures compliance with Environment Agency and other relevant requirements. Employees, contractors and partners receive a rolling programme of training and guidance. Additionally, during the year we have launched our 'Speak Up' whistleblowing policy. We have been pro-active in reviewing our policies and processes in preparation for the introduction of GDPR.	<p>Medium Net Risk</p> <p>Increasing Risk Level</p>	Group has the highest standards of compliance and has no appetite for legal and regulatory breaches.
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>	The effective management of health and safety related risks continues to be a priority. The HomeSafe programme is being rolled out nationwide during 2018/2019. This is supported by a programme of capital investment for existing assets. The Group has also invested in people, processes and systems within its health and safety function during the year.	<p>High Net Risk</p> <p>Increased Risk Level</p>	The Group has no appetite for health and safety related incidents and has the highest standards of compliance within the Group and third parties.

## Strategic report (continued)

### Risk Report (continued)

#### Law, regulation and finance (continued)

Principal Risks	Strategic Impact	Mitigation	Net Risk	Risk Appetite
Increase in defined benefit pension scheme deficit	<p>Long-term priorities affected: Leadership in cost base efficiency</p> <p>The Group could be called upon to reduce the deficit, impacting our cost base.</p>	We use professional advisors to manage the pension scheme's investment strategy to ensure the scheme can pay its obligations as they fall due.	<p>Low Net Risk</p> <p>Stable Risk Level</p>	Expectation that pension benefits can be paid in full without increased costs.

#### Market and economic conditions

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Macro-economic risks arising from the global and UK economic downturn 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 has a direct impact on the revenues generated by our recycling business.</p>	<p>We work closely in partnership with our local authority customers in the delivery of our services and ERF waste inputs are supported by long term contracts.</p> <p>We have secured new markets for our paper and plastic recycle in response to changes in quality requirements announced by China. We continue to invest in our assets and are working with our supply chain to improve the quality of paper recycling, we are also implementing self-help measures to drive operational efficiencies.</p>	<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, additional costs and reputational damage.</p>	Contingency plans, emergency resources and investment through a planned capital programme assists in mitigating the risks of extreme weather incidents. We have in place an adverse weather management strategy, aimed at reducing disruption to site operations and transport logistics.	<p>Medium Net Risk</p> <p>Increased Risk Level</p>	We seek to reduce both the likelihood and impact through long term planning to ensure sufficient measures are in place.

## 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>Viridor maintains detailed contingency plans and incident management procedures which are regularly reviewed. Equipment failure is managed through a programme of planned and preventative maintenance. The focus on the effective optimisation of ERFs in particular has resulted in availability exceeding original forecasts. We also maintain comprehensive insurance across our asset base in the event of an incident occurring.</p>	<p>Medium Net Risk</p> <p>Increased Risk Level</p>	<p>We operate a low tolerance for significant operational failure or 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 share best practice, deliver synergies and move the Group forward.</p>	<p>The people strategy, underpinned by six threads, has been rolled out across the Group and is designed to ensure we have the workforce necessary to deliver our strategic priorities. This has included our refreshed vision, increased workforce engagement and continued commitment to training and development. Succession plans remain in place for senior positions. Challenges remain, however, in sourcing skills and expertise externally for specific senior and operational roles with the implications of Brexit continuing to add uncertainty.</p>	<p>Medium Net Risk</p> <p>Increased Risk Level</p>	<p>While turnover does occur, we ensure the appropriate skills and experience is in place with succession plans to provide 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 and skilled project management resource and senior oversight is utilised to provide additional rigour in the delivery of major projects. Robust due diligence is undertaken on key suppliers, technologies and acquisitions.</p> <p>Commissioning at Beddington, Dunbar and Glasgow Recycling and Renewable Energy Centre (GRREC) continued through the year, with financial contributions from Dunbar ERF protected by contractual mechanisms. Expenditure at GRREC is above initial expectations. Viridor is contractually entitled to recover incremental costs under certain circumstances. Avonmouth ERF remains on schedule and on budget.</p>	<p>High Net Risk</p> <p>Stable Risk Level</p>	Investment activities are taken on an informed basis with risks weighed against appropriate returns.
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 corruption or loss of data. This would have a detrimental impact on our customers and result in financial penalties and reputational damage.</p>	<p>The Group operates a mature and embedded governance framework over the business as usual IT environment and major project implementations. This is aligned to ISO27001 standards and regular internal and external assessments are undertaken to maintain this accreditation. Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed and tested. Cyber risks are mitigated by a strong information security framework. This is aligned with guidance issued by the National Cyber Security Centre (NCSC).</p>	<p>Medium Net Risk</p> <p>Increased Risk Level</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

## Strategic report (continued)

### Britain's exit from the European Union

The Group continues to regularly monitor the potential risks and implications arising from Britain's decision to trigger Article 50 and exit the EU. While a significant amount of uncertainty remains, the following issues have been identified which impact the Group's principal risks and may be influenced by any agreement between Britain and the EU:

- Changes in environmental legislation. At present the Group does not anticipate any significant deviation in existing environmental legislation or regulations when existing EU legislation is transferred to domestic UK law.
- Exposure to exchange rate fluctuations. There is limited exposure to exchange rate fluctuations which is further mitigated through the forward contracts providing certainty over future foreign currency risk.
- The ability to attract and employ EU nationals with the necessary skills and experience. The Group faces continued challenges in attracting EU nationals as a result of the continued uncertainty over the movement of labour.

### 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 25 May 2018.

On behalf of the Board



**Elliot Rees**  
**Finance Director**  
25 May 2018

## **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 £39.9 million (2017 £48.3 million).

The Directors do not recommend a final dividend (2017 nil). A first interim dividend of 9.23p per Ordinary share was paid during the year (2017 6.19p per Ordinary share). No second interim dividend was paid during the year (2017: 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:

A D Cumming (resigned 29 March 2018)  
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 3,285 (2017: 3,153). 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 where performance conditions do not apply. 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 in excess of initial base case.

By Order of the Board



**K Senior**  
**Company Secretary**  
25 May 2018



## 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.

**Financial Statements**

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

### **Opinion**

We have audited the financial statements of Viridor Limited for the year ended 31 March 2018 which comprise consolidated Income Statement, consolidated statement of comprehensive income, the group and parent company balance sheets, the group and parent company statements of changes in equity, the group and parent cash flow statements 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 2018 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.

### **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.

### **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 22, 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.



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

25 May 2018

**Consolidated income statement**  
for the year ended 31 March 2018

	Note	2018 Before non- underlying items £m	2018 Non- underlying items (Note 5) £m	2018 Total £m	2017 Before non- underlying items £m	2017 Non- underlying items £m	2017 Total £m
<b>Revenue</b>	6	<b>785.7</b>	<b>3.2</b>	<b>788.9</b>	793.5	-	793.5
<b>Operating costs</b>	6						
Manpower costs		(130.8)	-	(130.8)	(121.0)	-	(121.0)
Raw materials and consumables used		(91.9)	-	(91.9)	(96.5)	-	(96.5)
Other operating expenses		(412.8)	-	(412.8)	(437.7)	(10.2)	(447.9)
<b>Profit before interest, tax, depreciation, amortisation and share of profit from joint ventures</b>		<b>150.2</b>	<b>3.2</b>	<b>153.4</b>	138.3	(10.2)	128.1
Depreciation and impairment		(68.7)	-	(68.7)	(64.6)	-	(64.6)
Amortisation and impairment of intangibles		(3.0)	-	(3.0)	(2.7)	-	(2.7)
<b>Operating profit/(loss)</b>		<b>78.5</b>	<b>3.2</b>	<b>81.7</b>	71.0	(10.2)	60.8
Finance income	7	27.1	-	27.1	32.5	-	32.5
Finance costs	7	(44.2)	(19.2)	(63.4)	(47.3)	-	(47.3)
<b>Net financing</b>	7	<b>(17.1)</b>	<b>(19.2)</b>	<b>(36.3)</b>	(14.8)	-	(14.8)
Share of post-tax profit from joint ventures	18	9.4	22.5	31.9	4.2	-	4.2
<b>Profit before tax</b>		<b>70.8</b>	<b>6.5</b>	<b>77.3</b>	60.4	(10.2)	50.2
Taxation	8	(11.5)	(25.9)	(37.4)	(9.6)	7.7	(1.9)
<b>Profit/(loss) for the year</b>		<b>59.3</b>	<b>(19.4)</b>	<b>39.9</b>	50.8	(2.5)	48.3
Profit attributable to owners of the parent				39.7			45.9
Profit attributable to non-controlling interests				0.2			2.4
				<b>39.9</b>			<b>48.3</b>

The notes on pages 36 to 96 form part of these financial statements.

**Consolidated statement of comprehensive income**  
for the year ended 31 March 2018

	Note	2018 Before non- underlying items £m	2018 Non- underlying items (Note 5) £m	2018 Total £m	2017 Before non- underlying items £m	2017 Non- Underlying items £m	2017 Total £m
<b>Profit/(loss) for the year</b>		<b>59.3</b>	<b>(19.4)</b>	<b>39.9</b>	<b>50.8</b>	<b>(2.5)</b>	<b>48.3</b>
Re-measurement of defined benefit obligations	27	12.1	-	12.1	(14.1)	-	(14.1)
Income tax on items that will not be reclassified		(1.9)	-	(1.9)	3.0	(0.8)	2.2
Total items that will not be reclassified to profit or loss		10.2	-	10.2	(11.1)	(0.8)	(11.9)
Share of other comprehensive income from joint ventures	18	(2.7)	-	(2.7)	0.3	-	0.3
Cash flow hedges		(1.9)	-	(1.9)	1.9	-	1.9
Income tax on items that may be reclassified		0.2	-	0.2	(0.4)	0.2	(0.2)
Total items that may be subsequently reclassified to profit or loss		(4.4)	-	(4.4)	1.8	0.2	2.0
<b>Other comprehensive (loss)/income for the year net of tax</b>		<b>5.8</b>	<b>-</b>	<b>5.8</b>	<b>(9.3)</b>	<b>(0.6)</b>	<b>(9.9)</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>65.1</b>	<b>(19.4)</b>	<b>45.7</b>	<b>41.5</b>	<b>(3.1)</b>	<b>38.4</b>
Attributable to owners of the parent				44.9			36.8
Attributable to non-controlling interests				0.8			1.6
				45.7			38.4

The notes on pages 36 to 96 form part of these financial statements.

**Balance sheets**  
at 31 March 2018

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	13	330.4	330.4	-	-
Other intangible assets	14	70.7	65.6	-	-
Property, plant and equipment	15	1,255.1	1,121.1	-	-
Other non-current assets	17	263.6	307.8	1,500.0	1,326.3
Derivative financial instruments	21	0.9	0.5	-	-
Investment in subsidiary undertakings	18	-	-	411.7	411.7
Investments in joint ventures	18	22.8	0.1	-	-
		1,943.5	1,825.5	1,911.7	1,738.0
<b>Current assets</b>					
Inventories	19	19.7	16.0	-	-
Trade and other receivables	20	256.9	201.2	12.0	46.2
Derivative financial instruments	21	2.1	4.4	-	-
Current tax assets	24	-	31.3	-	-
Cash and cash equivalents	22	42.5	39.2	22.8	0.1
		321.2	292.1	34.8	46.3
<b>Liabilities</b>					
<b>Current liabilities</b>					
Borrowings	25	(37.2)	(95.7)	(22.6)	(12.7)
Trade and other payables	23	(197.8)	(188.3)	-	-
Current tax liabilities	24	(0.3)	-	(28.7)	(18.5)
Provisions	29	(35.3)	(35.5)	-	-
		(270.6)	(319.5)	(51.3)	(31.2)
<b>Net current assets/(liabilities)</b>		<b>50.6</b>	<b>(27.4)</b>	<b>(16.5)</b>	<b>15.1</b>
<b>Non-current liabilities</b>					
Borrowings	25	(976.7)	(1,138.1)	(801.0)	(983.0)
Other non-current liabilities	26	(31.5)	(34.0)	-	-
Retirement benefit obligations	27	(23.5)	(31.6)	-	-
Deferred tax liabilities	28	(56.6)	(42.0)	-	-
Provisions	29	(181.5)	(173.9)	-	-
		(1,269.8)	(1,419.6)	(801.0)	(983.0)
<b>Net assets</b>		<b>724.3</b>	<b>378.5</b>	<b>1,094.2</b>	<b>770.1</b>

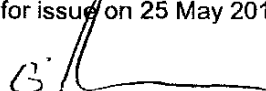


**Balance sheets (continued)**  
at 31 March 2018

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Equity</b>					
<b>Equity attributable to owners of the parent</b>					
Share capital	30	898.2	548.2	898.2	548.2
Share premium account	31	95.2	95.2	95.2	95.2
Retained earnings and other reserves	32	(277.2)	(272.2)	100.8	126.7
<b>Total equity attributable to owners of the parent</b>		<b>716.2</b>	<b>371.2</b>	<b>1,094.2</b>	<b>770.1</b>
<b>Non-controlling interests</b>		<b>8.1</b>	<b>7.3</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>724.3</b>	<b>378.5</b>	<b>1,094.2</b>	<b>770.1</b>

The notes on pages 36 to 96 form part of these financial statements.

The financial statements on pages 29 to 96 were approved by the Board of Directors and authorised for issue on 25 May 2018 and were signed on its behalf by:



**Elliot Rees**  
Finance Director  
25 May 2018

**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 2018

<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 2016	548.2	95.2	(275.8)	367.6	5.7	373.3
Profit for the year	-	-	45.9	45.9	2.4	48.3
Other comprehensive income for the year	-	-	(9.1)	(9.1)	(0.8)	(9.9)
Total comprehensive profit for the year	-	-	36.8	36.8	1.6	38.4
Transactions with owners						
Dividends paid	-	-	(33.9)	(33.9)	-	(33.9)
Adjustments in respect of share-based payments (net of tax)	-	-	0.7	0.7	-	0.7
Proceeds of share issue	-	-	-	-	-	-
Total transactions with owners	-	-	(33.2)	(33.2)	-	(33.2)
<b>At 31 March 2017</b>	<b>548.2</b>	<b>95.2</b>	<b>(272.2)</b>	<b>371.2</b>	<b>7.3</b>	<b>378.5</b>
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>

The notes on pages 36 to 96 form part of these financial statements.

**Statements of changes in equity (continued)**

For the year ended 31 March 2018

	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 2016	548.2	95.2	134.8	778.2
Profit for the year	-	-	25.8	25.8
Total comprehensive income for the year	-	-	25.8	25.8
<b>Transactions with owners</b>				
Dividends paid	-	-	(33.9)	(33.9)
Proceeds of share issue	-	-	-	-
Total transactions with owners	-	-	(33.9)	(33.9)
<b>At 31 March 2017</b>	<b>548.2</b>	<b>95.2</b>	<b>126.7</b>	<b>770.1</b>
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>

The notes on pages 36 to 96 form part of these financial statements.

### Cash flow statements

for the year ended 31 March 2018

	Note	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	33	85.9	107.6	(173.7)	(86.0)
Interest paid		(40.7)	(41.1)	(34.3)	(33.6)
Tax received		7.0	3.6	-	-
Net cash generated from/(used in) operating activities		52.2	70.1	(208.0)	(119.6)
Cash flows from investing activities					
Interest received		8.3	11.8	103.3	26.2
Dividends received	18,39	6.5	4.5	-	-
Repayment of loans by joint ventures		33.3	0.3	-	-
Purchase of property, plant and equipment		(182.8)	(179.1)	-	-
Proceeds from sale of property, plant and equipment		7.6	1.8	-	-
Net cash (used in)/generated from investing activities		(127.1)	(160.7)	103.3	26.2
Cash flows from financing activities					
Proceeds from issue of Ordinary share capital		350.0	-	350.0	-
Investment in restricted funds		0.2	-	-	-
Repayment of restricted funds		-	(0.7)	-	-
Proceeds from new borrowing		207.2	175.8	207.2	175.8
Repayment of borrowing		(386.9)	(67.2)	(379.2)	(67.2)
Finance lease drawdowns		40.0	60.1	-	-
Finance lease principal repayments		(12.2)	(8.4)	-	-
Dividends paid	10	(50.6)	(33.9)	(50.6)	(33.9)
Net cash generated from financing activities		147.7	125.7	127.4	74.7
Net increase/(decrease) in cash and cash equivalents		72.8	35.1	22.7	(18.7)
Cash and cash equivalents at beginning of the year	22	(32.1)	(67.2)	0.1	18.8
Cash and cash equivalents at end of the year	22	40.7	(32.1)	22.8	0.1

The notes on pages 36 to 96 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 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), (q) and (x) 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.

The new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2017 did not have a material impact on the net assets or results of the Group.

- IFRS 15 'Revenue from contracts with customers' relates to revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows from an entity's contracts with customers. The standard will replace IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018.

The directors anticipate that the adoption of IFRS 15 on 1 April 2018 will not materially impact reported revenues or net assets.

- IFRS 16 'Leases' no longer distinguishes between an on the balance sheet finance lease and an off the balance sheet operating lease. Instead, for virtually all lease contracts, the lessee recognises a lease liability reflecting future lease payments and a 'right-of-use' asset. The standard is effective for annual periods beginning on or after 1 January 2019.

The Directors anticipate that the adoption of IFRS 16 on 1 April 2019 will affect primarily the accounting for the Group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of £107.1 million, see note 36. These predominantly relate to leases of properties occupied by the Group in the course of carrying out its businesses. If the standard had been adopted in the current year (assuming application of the modified retrospective transitional approach permitted by the standard) it is estimated this would have resulted in the Group recognising an asset in use and corresponding lease liability. This would have resulted in a minimal impact on profit before tax but an estimated increase in EBITDA, which would be replaced by increased charges of depreciation and interest costs. These impacts are not considered material to the Group's net assets or results.

Other new standards or interpretations in issue, but not yet effective, including IFRS 9 'Financial instruments' are not expected to have a material impact on the Group's net assets or results.

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

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

**(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, joint venture and associate 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.

**(c) Revenue recognition**

Revenue represents the fair value of consideration receivable in the ordinary course of business for the provision of goods and services to customers, and is recognised to the extent that it can be reliably measured and that it is probable that economic benefits will flow to the Group.

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

*Revenue in respect of construction services on long-term contracts, including the provision of service concession arrangements, is recognised based on the fair value of work performed during the year with reference to the total sales value and the stage of completion of those services.*

Where a contract with a customer includes more than one service, such as a long-term service concession arrangement, revenue for each service is recognised in proportion to a fair value assessment of the total contract value split across the services provided.

Revenue in respect of goods, such as recyclate, is recognised when the significant risks and rewards of ownership have been transferred to the customer. For other services, encompassing waste management services, are recognised once the services have been provided to the customer.

Revenue from the sale of electricity from our generating assets is measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable.

Payments received in advance of services provided are held within liabilities.

**(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.

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

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

#### **(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 pounds sterling at the prevailing exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at the prevailing rate at the year-end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the prevailing rate at the year-end are taken into account in determining profit before taxation.

#### **(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.

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 (I).

*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.

#### **(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 (which is linked to gas production at the site post-closure) 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.

## Notes to the financial statements (continued)

### 2. Principal accounting policies (continued)

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

##### 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, and adjusted if appropriate.

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.

#### (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.



## Notes to the financial statements (continued)

### 2. Principal accounting policies (continued)

#### (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 and associates

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.

An associate is an entity, being neither a subsidiary nor joint venture, in which the Group holds a long term interest and where the Group has a significant influence. The results of associates are accounted for using the equity method of accounting.

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.

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

The Group classifies its financial instruments in the following categories:

##### i) Loans and receivables

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 the 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 impairment. A provision for impairment of 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.

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

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

**(q) Derivatives and other financial instruments (continued)**

**iv) 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.

**(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 Group includes a number of companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. 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 if it arises 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.

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

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

#### **(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.

#### **(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, 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.

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

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

#### **(v) Employee benefits (continued)**

##### **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.

### **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 ultimate parent ensures that at least 50% of fixed term interest bearing borrowing is available at fixed rates. At the year end, 41% of Group borrowings were at fixed rates. Further details of Pennon Group Plc's treasury methodologies can be found in the risk management section of its annual report.

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.

For 2018 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 £2.4 million (2017: £4.5 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 parent 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 borrowings will mature within one year of the balance sheet and thereafter 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 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>31 March 2017</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings excluding finance lease liabilities	12.7	85.7	269.4	655.9	1,023.7
Interest payments on borrowings	36.3	34.5	84.1	191.9	346.8
Finance lease liabilities including interest	16.3	14.4	33.6	125.8	190.1
<b>Company</b>					
<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
<b>31 March 2017</b>					
<b>Non-derivative financial liabilities</b>					
Borrowings	12.7	80.1	252.6	650.3	995.7
Interest payments on borrowings	34.6	33.0	81.6	191.7	340.9

## 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 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 21.

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 revised landfill site operating lives established from the anticipated decline in landfill activity.

The provisions are based on latest assumptions reflecting recent historic 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 £3 million.

As at 31 March 2018 the Group's environmental and landfill restoration provisions were £192.0 million (2017: £183.9 million) (note 29). Where a restoration provision gives access to future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy. As at 31 March 2018 these assets had a net book value of £18.4 million (2017: £14.2 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 2017.

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 2016 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 company evaluates uncertain tax items, where a tax item is subject to interpretation and remains to be agreed. Provisions established for uncertain items are made using a best estimate of the tax expected to be paid, based on a qualitative assessment of all relevant information. In assessing any appropriate provision requirements for uncertain tax items the company considers progress made in discussions with HMRC, expert advice on the likely outcome and any recent developments in case law. Due to the uncertainty associated with such tax items, it is possible that at a future date, on conclusion of the open matters, the final outcome may vary, with variations affecting the tax financial results in the year in which it is reached.

##### (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 £234.1 million (2017: £217.6 million) and other intangible assets of £69.2 million (2017 £61.4 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 at the time of delivery of services. Payments received in advance of services delivered are recorded as liabilities.

Income is estimated from certain contractual revenue streams based on tonnages, cost and historic 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 £53.4 million (2017 £42.8 million).

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

At the balance sheet date the collectability of trade receivables is evaluated and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history.

The actual level of debt collected may differ from the estimated levels of recovery. As at 31 March 2018 current trade receivables were £104.2 million (2017 £110.8 million), against which £3.5 million (2017 £3.7 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 CGU business performance against expectations. The 2018 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) Greater Manchester contract reset

Following the renegotiation of the Greater Manchester contract and sale of the joint venture Viridor Laing Greater Manchester to the Greater Manchester Waste Disposal Authority (see notes 5 and 18) judgement has been required to ensure all the various economic aspects of the reset have been fully considered in concluding the appropriate accounting treatment. In particular in arriving at the amount of profit to be recognised in respect of the retained TPSCo joint venture (a non-underlying profit of £22.5 million, as described in note 5), it was necessary for management to consider fair values attributed to all aspects of the transaction.

##### (j) Glasgow recycling and renewable energy centre (GRECC)

Completion of the construction of this facility has required a higher level of remediation expenditure than originally envisaged. Cumulative spend of £238 million has been incurred to 31 March 2018 which is higher than the original target of £155 million. The company is contractually entitled to recover incremental costs from the original principal contractor, Interserve, under certain circumstances. The Group believes these circumstances have been met and discussions with Interserve are ongoing with regard to the contractual settlement. At 31 March 2018 a receivable of £68.7 million has been recognised. In accordance with IFRIC 12 service concession arrangements, a financial asset of £140.6 million and an intangible asset of £67.6 million have been recognised (including rolled up finance income and capitalised interest), with no operating profit on construction having been taken to date. Whilst there are further possible recoveries that are contingent on future events, these are not currently recognised. The ultimate agreement of the contractual amount due to the Group from the original principal contractor, including the nature of any receipts and the recoverability of such agreed amounts under the contract, could result in revisions to the receivable and the amounts recorded for the financial asset and intangible assets, including the allocation between the two amounts, which could then impact the margins recognised on this contract over the life of the project to 2043. Internal assessments have been corroborated by legal advice in arriving at appropriate amounts to be recognised on the balance sheet.

## 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	2018 £m	2017 £m
<b>Revenue</b> Construction contract settlements (a)		3.2	-
<b>Operating costs</b> Restructuring costs		-	(10.2)
<b>Operating Profit/(loss)</b>		3.2	(10.2)
Write-down of joint venture shareholder loans (b)		(19.2)	-
Refinancing of joint venture arrangement (c)		22.5	-
Tax credit arising on non-underlying items (d)		3.0	2.0
Prior year tax	8	(28.9)	-
Deferred tax change in rate	28	-	5.7
<b>Net non-underlying charge</b>		(19.4)	(2.5)

On reset of the contracts associated with the Greater Manchester Waste Disposal Authority (GMWDA) an overall net credit before tax of £6.5m has been recognised as follows:

- (a) A net amount of £3.2m has been 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 (31 March 2017 £0.1m). The tax impact of these non-underlying items was a credit of £3.0m (31 March 2017 £2.0m credit).
- (d) The tax impact of the above non-underlying items was a credit of £3.0m (31 March 2017 £2.0m credit).

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

During the prior year a one-off charge of £10.2 million was made relating to restructuring costs associated with a Shared Services Review. The £10.2 million charge consists of a £9.5 million non-cash charge to other operating expenses relating to a rationalisation of systems leading to an asset de-recognition, and a £0.7 million charge to other operating costs. The tax effect of these transactions was a credit of £2.0 million.

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

All revenue is from the integrated recycling, renewable energy and waste management business. The geographic analysis of revenue based on the location of customers is:

<b>Revenue</b>	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
United Kingdom	<b>733.9</b>	728.0
Rest of European Union	<b>12.3</b>	10.3
China	<b>31.0</b>	45.1
Rest of World	<b>11.7</b>	10.1
	<b>788.9</b>	793.5

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

	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>£m</b>	<b>£m</b>
Manpower costs	11	<b>130.8</b>	121.0
Raw materials and consumables		<b>91.9</b>	96.5
Other operating expenses			
Profit on disposal of property, plant and equipment		<b>(0.1)</b>	(5.4)
Operating lease rentals payable:			
– Plant and machinery		<b>16.0</b>	16.0
– Property		<b>7.1</b>	7.4
Trade receivables impairment	20	<b>0.8</b>	1.0
Amortisation of deferred income		<b>(1.6)</b>	(0.6)
Hired and contracted services		<b>165.0</b>	172.5
Other external charges		<b>225.6</b>	246.8
		<b>412.8</b>	437.7
Depreciation of property, plant and equipment:			
– Owned assets	15	<b>60.8</b>	57.1
– Under finance leases	15	<b>7.9</b>	7.5
		<b>68.7</b>	64.6
Amortisation of intangible assets	14	<b>3.0</b>	2.7

## Notes to the financial statements (continued)

### 6. Operating profit or loss (continued)

#### Operating costs (before non-underlying items) (continued)

	2018 £000	2017 £000
Fees payable to the Company's auditors in the year were:		
Fees payable to the Company's auditors for assurance services provided to the Group	329	366
	<b>329</b>	<b>366</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

		2018			2017		
	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		(38.7)	-	(38.7)	(38.9)	-	(38.9)
Bank borrowings and overdrafts		(0.1)	-	(0.1)	-	-	-
Interest element of finance lease rentals		(3.4)	-	(3.4)	(2.3)	-	(2.3)
Other loans		(0.4)	-	(0.4)	(0.5)	-	(0.5)
Interest receivable from loans to joint ventures		-	8.0	8.0	-	10.2	10.2
		(42.6)	8.0	(34.6)	(41.7)	10.2	(31.5)
Capitalised interest		14.5	-	14.5	10.0	-	10.0
		(28.1)	8.0	(20.1)	(31.7)	10.2	(21.5)
<b>Notional interest</b>							
Interest receivable on service concession arrangements		-	13.8	13.8	-	16.1	16.1
Retirement benefit obligations	27	(6.0)	5.3	(0.7)	(6.5)	6.2	(0.3)
Unwinding of discounts on provisions and non-current liabilities	26, 29	(10.1)	-	(10.1)	(9.1)	-	(9.1)
		(16.1)	19.1	3.0	(15.6)	22.3	6.7
<b>Net finance costs before non-underlying items</b>		(44.2)	27.1	(17.1)	(47.3)	32.5	(14.8)
<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>		(63.4)	27.1	(36.3)	-	-	-

Finance costs include a credit of £12.2 million (2017: credit of £7.9 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 £2.3 million (2017: 2.1 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**

	<b>Note</b>	<b>2018 Before non- underlying items £m</b>	<b>2018 Non-underlying items (Note 5) £m</b>	<b>2018 Total £m</b>	<b>2017 £m</b>
<b>Analysis of charge/(credit) in year</b>					
Current tax		<b>(1.4)</b>	<b>25.9</b>	<b>24.5</b>	(6.1)
Deferred tax		<b>12.9</b>	-	<b>12.9</b>	13.7
Deferred tax arising on change of rate of corporation tax		-	-	-	(5.7)
Total deferred tax	<b>28</b>	<b>12.9</b>	-	<b>12.9</b>	8.0
Tax charge for the year		<b>11.5</b>	<b>25.9</b>	<b>37.4</b>	1.9

Current corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the year.

UK corporation tax is stated after a charge relating to prior year current tax of £29.8 million (2017: £1.7 million credit) and a prior year deferred tax credit of £2.5 million (2017: £0.8 million charge).

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% (2017: 20%) from:

	<b>2018 £m</b>	<b>2017 £m</b>
Profit before tax	<b>77.3</b>	50.2
Profit multiplied by the standard rate of UK corporation tax of 19% (2017: 20%)	<b>14.7</b>	10.0
Effects of:		
Expenses not deductible for tax purposes	<b>1.2</b>	0.6
Depreciation charged on non qualifying assets	<b>0.2</b>	0.1
Profit/loss arising on disposal of non qualifying assets	-	(1.2)
Joint venture profits not taxed	<b>(6.1)</b>	(0.8)
Other	<b>0.1</b>	(0.2)
Change in rate of corporation tax	-	(5.7)
Adjustments to tax charge in respect of prior years	<b>27.3</b>	(0.9)
Tax charge for the year	<b>37.4</b>	1.9

The average effective tax rate for the year, before non-underlying items, is 16.2% (2017: 15.9%).

The adjustments to the tax charge in respect of prior years, includes charges totaling £28.9m relating to group relief payments in respect of tax losses net of receipts.

In addition to the amount charged to the income statement, a deferred tax charge relating to actuarial gains on defined benefit pension schemes of £1.9 million (2017: £2.2 million credit) together with a deferred tax credit relating to movements on cash flow hedges of £0.3 million (2017: £0.3 million charge) has been taken to other comprehensive income. The tax impact relating to share-based payments for the year is a charge of £0.1 million (2017: £0.1 million credit).

## 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% (2017: 20%) from:

	2018 £m	2017 £m
Profit before tax	77.3	50.2
Profit multiplied by the standard rate of UK corporation tax of 19% (2017: 20%)	14.7	10.0
Effects of:		
Expenses not deductible for tax purposes	1.2	0.6
Relief for capital allowances in place of depreciation	(27.5)	(26.6)
Depreciation disallowed	13.0	13.1
Adjustments to tax charge in respect of prior years	29.8	(1.7)
Joint venture profits not taxed	(6.1)	(0.8)
Other timing differences	(0.6)	(0.7)
Current tax charge/(credit) for year	24.5	(6.1)

The average effective tax rate for the year is 31.7% (2017: minus 12.1%).

The Group's current tax charge is higher than the UK headline tax rate of 19%, primarily due to group relief payments net of receipts to other members of the Pennon Group, offset by the availability of capital allowances in excess of depreciation. 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 tangible assets, these allowances help the Group to plan major investments as corporation tax relief is given against the investments made.

The adjustments to the tax charge in respect of prior years, includes charges totalling £28.9m relating to group relief payments in respect of tax losses net of receipts.

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.

## Notes to the financial statements (continued)

### 9. Profit of the parent company

	2018 £m	2017 £m
Profit attributable to owners of the parent dealt with in the financial statements of Viridor Limited	24.7	25.8

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

	2018 £m	2017 £m
Amounts recognised as distributions to the ultimate parent undertaking in the year:		
Interim dividend for the year ended 31 March 2018: 9.23p per share paid on 29 March 2018 (2017: 6.19p per share was paid on 30 June 2016)	50.6	33.9
	50.6	33.9

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

	2018 £m	2017 £m
Wages and salaries	111.8	101.8
Social security costs	11.3	10.9
Other pension costs	13.5	11.0
Share-based payments	0.7	0.9
Total employment costs	137.3	124.6
Charged as follows:		
Manpower costs	130.8	121.0
Construction in progress	6.5	3.6
	137.3	124.6

Past service costs in relation to defined benefits schemes of £nil (2017: £1.1 million) (note 27) are not included in employment costs as these relate to utilisation of a restructuring provision.

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)**

	2018	2017
Employees (average full time equivalent number)		
The average monthly number of employees	3,285	3,153
Total number of employees at 31 March	3,412	3,201

	2018	2017
<b>Average number of employees by category</b>		
Operations	2,996	2,859
Administration	289	294
	3,285	3,153

**12. Directors' emoluments**

	2018 £000	2017 £000
Salary	945	1,250
Performance-related bonus payable	422	272
Share-based payment	9	7
Pension	68	90
Other emoluments	20	29
Total emoluments	1,464	1,648

No directors were compensated for the loss of office during the year (2017: 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 three Directors exercised options under the Pennon Group Plc executive reward schemes (2017 four). 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 £9,000 (2017: £7,000).

At 31 March 2018 no retirement benefits were accruing to Directors under defined benefit pension schemes (2017: 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>2018</b>	2017
	<b>£000</b>	£000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	<b>420</b>	395

### 13. Goodwill

	£m
<b>Cost:</b>	
At 1 April 2016	330.4
At 31 March 2017	330.4
<b>At 31 March 2018</b>	<b>330.4</b>
<b>Carrying amount:</b>	
At 1 of April 2016	330.4
At 31 March 2017	330.4
<b>At 31 March 2018</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 6-9% 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, with overheads expected to grow at 1% based on ongoing efficiency expectations of 2% per annum.

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 2016	55.1	34.1	0.2	89.4
Additions	6.5	-	-	6.5
At 31 March 2017	61.6	34.1	0.2	95.9
Additions	8.1	-	-	8.1
<b>At 31 March 2018</b>	<b>69.7</b>	<b>34.1</b>	<b>0.2</b>	<b>104.0</b>
<b>Accumulated amortisation and impairment:</b>				
At 1 April 2016	-	27.4	0.2	27.6
Charge for year	0.2	2.5	-	2.7
At 31 March 2017	0.2	29.9	0.2	30.3
Charge for year	0.3	2.7	-	3.0
<b>At 31 March 2018</b>	<b>0.5</b>	<b>32.6</b>	<b>0.2</b>	<b>33.3</b>
<b>Carrying amount:</b>				
At 31 March 2016	55.1	6.7	-	61.8
At 31 March 2017	61.4	4.2	-	65.6
<b>At 31 March 2018</b>	<b>69.2</b>	<b>1.5</b>	<b>-</b>	<b>70.7</b>

Service concession arrangements are amortised over the useful life of each contract. The weighted average remaining life is 22 years (2017: 23 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 (2017: 3 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 £2.3 million (2017: £2.1 million) have been capitalised (note 7) on qualifying assets, at an average rate of 3.5%.

**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 2016		444.9	1,099.1	64.5	71.3	1,679.8
Additions		9.5	-	7.1	169.9	186.5
Disposals		(0.9)	(6.1)	-	(9.6)	(16.6)
Transfers/reclassifications		-	21.6	-	(21.6)	-
At 31 March 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)	-
<b>At 31 March 2018</b>		<b>463.5</b>	<b>1,118.8</b>	<b>82.7</b>	<b>380.4</b>	<b>2,045.4</b>
<b>Accumulated depreciation and impairment:</b>						
At 1 April 2016		361.4	253.1	52.9	-	667.4
Charge for year		11.9	48.2	4.5	-	64.6
Disposals		1.6	(5.0)	-	-	(3.4)
At 31 March 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)
<b>At 31 March 2018</b>		<b>390.3</b>	<b>335.7</b>	<b>64.3</b>	<b>-</b>	<b>790.3</b>
<b>Net book value:</b>						
At 31 March 2016		83.5	846.0	11.6	71.3	1,012.4
At 31 March 2017		78.6	818.3	14.2	210.0	1,121.1
<b>At 31 March 2018</b>		<b>73.2</b>	<b>783.1</b>	<b>18.4</b>	<b>380.4</b>	<b>1,255.1</b>

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

The increase of £11.1 million in landfill restoration recognised in the year (2017: £7.1 million) has been matched with an addition to environmental provisions (note 29). During the year borrowing costs of £12.2 million (2017: £7.9 million) have been capitalised (note 7) on qualifying assets at an average borrowing rate of 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:	Fixed and mobile plant, vehicles and computers £m
<b>Cost:</b>	
At 31 March 2017	149.8
<b>At 31 March 2018</b>	<b>185.7</b>
<b>Depreciation:</b>	
At 31 March 2017	51.2
<b>At 31 March 2018</b>	<b>58.6</b>
<b>Net book amount:</b>	
At 31 March 2017	98.6
<b>At 31 March 2018</b>	<b>127.1</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	Loans and receivables £m	Trade receivables and trade payables £m	
<b>31 March 2018</b>					
<b>Financial assets</b>					
Trade receivables	20	-	-	100.7	100.7
Other receivables	17, 20	-	266.9	-	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>309.4</b>	<b>100.7</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	-	-	(67.8)	(67.8)
<b>Total</b>		<b>-</b>	<b>(1,013.9)</b>	<b>(67.8)</b>	<b>(1,081.7)</b>
<b>31 March 2017</b>					
<b>Financial assets</b>					
Trade receivables	20	-	-	107.1	107.1
Other receivables	17, 20	-	314.6	-	314.6
Derivative financial instruments	21	4.9	-	-	4.9
Cash and cash deposits	22	-	39.2	-	39.2
<b>Total</b>		<b>4.9</b>	<b>353.8</b>	<b>107.1</b>	<b>465.8</b>
<b>Financial liabilities</b>					
Borrowings	25	-	(1,233.8)	-	(1,233.8)
Derivative financial instruments	21	-	-	-	-
Trade and other payables	23	-	-	(60.1)	(60.1)
<b>Total</b>		<b>-</b>	<b>(1,233.8)</b>	<b>(60.1)</b>	<b>(1,293.9)</b>
<b>Company</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>
<b>31 March 2017</b>					
<b>Financial assets</b>					
Trade and other receivables	17,20	-	1,326.3	46.2	1,372.5
Cash and cash deposits	22	-	0.1	-	0.1
<b>Total</b>		<b>-</b>	<b>1,326.4</b>	<b>46.2</b>	<b>1,372.6</b>
<b>Financial liabilities</b>					
Borrowings	25	-	(995.7)	-	(995.7)
Trade and other payables	23	-	-	-	-
<b>Total</b>		<b>-</b>	<b>(995.7)</b>	<b>-</b>	<b>(995.7)</b>

## Notes to the financial statements (continued)

### 17. Other non-current assets

		Group		Company	
	Note	2018 £m	2017 £m	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	39	-	-	1,500.0	1,326.3
Amounts owed by related parties	39	39.4	87.2	-	-
Service concession arrangements		222.9	210.1	-	-
Prepayments and accrued income		1.3	10.5	-	-
		<b>263.6</b>	<b>307.8</b>	<b>1,500.0</b>	<b>1,326.3</b>

Non-current receivables were due:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Between 1 and 2 years	12.9	19.3	108.0	125.6
Between 2 and 5 years	34.9	23.7	323.9	376.8
Over 5 years	215.8	264.8	1,068.1	823.9
	<b>263.6</b>	<b>307.8</b>	<b>1,500.0</b>	<b>1,326.3</b>

The fair values of other non-current assets were:

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	-	-	1,784.3	1,486.2
Amounts owed by related parties	70.6	188.2	-	-
Service concession arrangements	222.9	210.1	-	-
Other receivables	1.3	10.5	-	-
	<b>294.8</b>	<b>408.8</b>	<b>1,784.3</b>	<b>1,486.2</b>

The fair value of amounts owed by related parties is based on cash flows using a rate based on the borrowings rate of 2.5% (2017 2.25%). 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% (2017: 12%).

Prepayments include site development costs and pre-contract costs of £0.7 million (2017: £4.1 million).

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 2018 the average remaining duration of the service concession arrangements was 21 years.

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

**18. Investments**

**Subsidiary undertakings**

	£m
<b>Company</b>	
At 31 March 2016	411.7
At 31 March 2017	411.7
<b>At 31 March 2018</b>	<b>411.7</b>

**Joint ventures and associate undertakings**

	£m
<b>Group</b>	
At 31 March 2016	0.1
Share of post-tax profit	4.2
Share of other comprehensive income	0.3
Dividends received	(4.5)
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)
<b>At 31 March 2018</b>	<b>22.8</b>

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

Details of principal subsidiary, joint venture and associate undertakings of Viridor Limited are set out in note 35.

As part of the contracts associated with the Greater Manchester Disposal Authority (GMWDA) the group disposed of its interest in Viridor Laing (Greater Manchester) Holdings Limited during the year. Full details of the transactions are given in note 5.

The Group's joint ventures and associate 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 of incorporation	% of ownership	Measurement method
Lakeside Energy from Waste Holdings Limited	England	50	Equity
Shelford Composting Limited	England	50	Equity
INEOS Runcorn (TPS) Holdings Limited	England	20	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 37.5% as set out in note 35.



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

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

Summarised information for the Group's joint ventures and associates;

Summarised balance sheet

	2018			2017			
	Lakeside Energy from Waste Holdings Limited £m	Shelford Composting Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	Shelford Composting Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
<b>Current</b>							
Cash and cash equivalents	16.1	0.8	15.5	13.4	63.2	0.8	40.1
Other current assets	8.6	-	10.0	10.6	4.2	-	6.6
<b>Total Current assets</b>	<b>24.7</b>	<b>0.8</b>	<b>25.5</b>	<b>24.0</b>	<b>67.4</b>	<b>0.8</b>	<b>46.7</b>
Borrowings	-	-	-	-	-	-	-
Other current liabilities	(6.5)	(0.8)	(8.6)	(4.7)	(34.2)	(0.8)	(13.8)
<b>Total current liabilities</b>	<b>(6.5)</b>	<b>(0.8)</b>	<b>(8.6)</b>	<b>(4.7)</b>	<b>(34.2)</b>	<b>(0.8)</b>	<b>(13.8)</b>
<b>Non-current</b>							
<b>Assets</b>	<b>109.8</b>	<b>-</b>	<b>270.3</b>	<b>117.7</b>	<b>303.9</b>	<b>-</b>	<b>283.5</b>
Borrowings	(95.5)	-	(86.9)	(105.4)	(321.9)	-	(319.7)
Other liabilities	(28.4)	-	(145.1)	(32.9)	(50.1)	-	(44.3)
<b>Total non-current liabilities</b>	<b>(123.9)</b>	<b>-</b>	<b>(232.0)</b>	<b>(138.3)</b>	<b>(372.0)</b>	<b>-</b>	<b>(364.0)</b>
<b>Net assets/ (liabilities)</b>	<b>4.1</b>	<b>-</b>	<b>55.2</b>	<b>(1.3)</b>	<b>(34.9)</b>	<b>-</b>	<b>(47.6)</b>
<b>Net debt/deposit</b>	<b>(79.4)</b>	<b>0.8</b>	<b>(71.4)</b>	<b>(92.0)</b>	<b>(258.7)</b>	<b>0.8</b>	<b>(279.7)</b>
<b>Associated shareholder loans</b>	<b>16.3</b>	<b>-</b>	<b>86.9</b>	<b>17.1</b>	<b>80.3</b>	<b>-</b>	<b>100.9</b>
<b>Net debt (excluding shareholder loans)</b>	<b>(63.1)</b>	<b>0.8</b>	<b>15.5</b>	<b>(74.9)</b>	<b>(178.4)</b>	<b>0.8</b>	<b>(178.8)</b>

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

## Summarised statement of comprehensive income/(loss)

	2018				2017			
	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	Shelford Composting Limited £m	INEOS Runcorn (TPS) Holdings Limited £m	Lakeside Energy from Waste Holdings Limited £m	Viridor Laing (Greater Manchester) Holdings Limited £m	Shelford Composting Limited £m	INEOS Runcorn (TPS) Holdings Limited £m
Revenue	49.2	85.3	-	53.7	46.8	145.5	0.8	59.4
EBITDA	33.7	3.6	-	38.7	29.4	6.3	-	40.2
Depreciation and amortisation	(7.9)	(0.6)	-	(12.1)	(8.1)	(1.3)	-	(12.4)
Interest receivable on service concession arrangements	-	-	-	-	-	22.5	-	-
Non-underlying credit	-	-	-	60.0	-	-	-	-
Other net interest charge	(7.5)	(3.2)	-	(20.3)	(8.2)	(27.5)	-	(29.7)
Pre-tax profit/(loss)	18.3	(0.2)	-	66.3	13.1	-	-	(1.9)
Income tax (expense)/income	(3.8)	0.1	-	(0.3)	(2.2)	(2.5)	-	1.9
Post-tax profit/(loss)	14.5	(0.1)	-	66.0	10.9	(2.5)	-	-
Other Comprehensive income	3.9	-	-	36.7	6.0	8.0	-	8.1
Total comprehensive income	18.4	(0.1)	-	102.7	16.9	5.5	-	8.1
Dividends paid by joint venture	(13.0)	-	-	-	(9.0)	-	-	-

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 current year information for Viridor Laing (Greater Manchester) Holdings Limited covers the period from the start of the year to date of disposal.

**19. Inventories**

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Raw materials and consumables	19.7	16.0	-	-

## Notes to the financial statements (continued)

## 20. Trade and other receivables – current

		Group		Company	
	Note	2018 £m	2017 £m	2018 £m	2017 £m
Trade receivables		104.2	110.8	-	-
Less: provision for impairment of receivables		(3.5)	(3.7)	-	-
Trade receivables		100.7	107.1	-	-
Amounts owed by parent undertaking	39	-	-	-	-
Amounts owed by fellow subsidiary	39	0.3	0.3	12.0	46.2
Amounts owed by joint ventures	39	4.3	17.0	-	-
Other prepayments and accrued income		151.6	76.8	-	-
		256.9	201.2	12.0	46.2

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. At 31 March 2018, trade receivables of £69.5 million (2017: £76.9 million) were fully performing with no significant concentration of credit risk. 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 2018 trade receivables totalling £0.8 million were collateralised by such letters of credit (2017: £3.1 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:

	2018 £m	2017 £m
Euro	1.0	1.5
US Dollar	1.9	11.5

Trade receivables which are less than four months past due are not considered impaired.

At 31 March 2018, trade receivables of £31.2 million (2017: £29.9 million) were past due but not impaired. These relate to a large number of major corporate customers and government agencies with no history of default. The ageing analysis of these trade receivables is as follows:

	2018 £m	2017 £m
<b>Group</b>		
Past due by up to 1 month	24.8	22.4
Past due by more than 1 but less than 4 months	6.4	7.5
	31.2	29.9

At 31 March 2018 trade receivables of £3.5 million (2017: £2.2 million) were more than four months overdue, of which £3.5 million (2017: £1.8 million) were provided for. The provision 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 2018 not past due trade receivables of £nil (2017: £1.8 million) were fully provided reflecting the director's estimate of recoverability of the receivables given available information.

## Notes to the financial statements (continued)

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

The movement in the provision for impairment of trade receivables was:

	Note	2018 £m	2017 £m
<b>Group</b>			
At start of year		3.7	3.1
Provision for receivables impairment	6	0.8	1.0
Receivables written-off during the year as uncollectable		(1.0)	(0.4)
At end of year		3.5	3.7

### 21. Derivative financial instruments

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
<b>Derivatives used for cash flow hedging</b>				
Non-current assets	0.9	0.5	-	-
Current assets	2.1	4.4	-	-

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 (2017: 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 2018 the Group was committed to cash flows denominated in foreign currency of Euro 119.2 million (2017: Euro 64.4 million). The weighted average maturity date is 1 year (2017: 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>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
<b>Assets</b>				
Derivatives used for cash flow hedging	<b>3.0</b>	<b>4.9</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>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Cash at bank and in hand		<b>40.7</b>	<b>37.2</b>	<b>22.8</b>	<b>0.1</b>
Other deposits		<b>1.8</b>	<b>2.0</b>	<b>-</b>	<b>-</b>
<b>Total cash and short term deposits</b>	<b>34</b>	<b>42.5</b>	<b>39.2</b>	<b>22.8</b>	<b>0.1</b>

Cash at bank has an average maturity of one day.

Other deposits include restricted funds of £0.5 million (2017: £0.8 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>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Cash at bank and in hand		<b>40.7</b>	<b>37.2</b>	<b>22.8</b>	<b>0.1</b>
Bank overdrafts	<b>25</b>	<b>-</b>	<b>(69.3)</b>	<b>-</b>	<b>-</b>
		<b>40.7</b>	<b>(32.1)</b>	<b>22.8</b>	<b>0.1</b>

**Notes to the financial statements (continued)****23. Trade and other payables – current**

	Note	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Trade payables		<b>49.9</b>	45.0	-	-
Amounts owed to ultimate parent undertaking	39	<b>12.0</b>	10.2	-	-
Amounts owed to fellow subsidiary	39	<b>2.2</b>	0.7	-	-
Amounts owed to joint ventures	39	<b>3.7</b>	4.2	-	-
Other tax and social security		<b>44.3</b>	48.7	-	-
Accruals and other payables		<b>85.7</b>	79.5	-	-
		<b>197.8</b>	188.3	-	-

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.

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

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Current tax	<b>(0.3)</b>	31.3	<b>(28.7)</b>	(18.5)

**25. Borrowings**

	Note	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
<b>Current</b>					
Bank overdrafts	22	-	69.3	-	-
Amounts owed to ultimate parent undertaking	39	<b>24.8</b>	12.7	<b>22.6</b>	12.7
		<b>24.8</b>	82.0	<b>22.6</b>	12.7
Obligations under finance leases		<b>12.4</b>	13.7	-	-
Total current borrowings	34	<b>37.2</b>	95.7	<b>22.6</b>	12.7

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	2018 £m	2017 £m	2018 £m	2017 £m
Non-current					
Amounts owed to ultimate parent undertaking	34	819.1	1,011.0	801.0	983.0
Obligations under finance leases		157.6	127.1	-	-
Total non-current borrowings	34	976.7	1,138.1	801.0	983.0
Total borrowings		1,013.9	1,233.8	823.6	995.7

The Directors consider that the carrying amounts of current borrowings approximate to their fair value.  
The fair values of non-current borrowings were:

	2018		2017	
	Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Group</b>				
Amounts owed to parent undertaking	<b>819.1</b>	<b>909.5</b>	1,011.0	1,151.5
Obligations under finance leases	<b>157.6</b>	<b>182.0</b>	127.1	126.6
	<b>976.7</b>	<b>1,091.5</b>	1,138.1	1,278.1
<hr/>				
<b>Company</b>				
Amounts owed to parent undertaking	<b>801.0</b>	<b>888.8</b>	983.0	1,122.3

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Between 1 and 2 years	<b>41.1</b>	95.7	<b>28.0</b>	80.1
Between 2 and 5 years	<b>120.0</b>	291.4	<b>86.5</b>	252.6
Over 5 years	<b>815.6</b>	751.0	<b>686.5</b>	650.3
	<b>976.7</b>	1,138.1	<b>801.0</b>	983.0

The weighted average maturity of non-current borrowings was 12.4 years (2017: 17.4 years).

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

**25. Borrowings (continued)**

Finance lease liabilities – minimum lease payments:

	<b>Group</b>		<b>Company</b>	
	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Within 1 year	15.3	16.3	-	-
Between 2 and 5 years	48.8	48.0	-	-
After 5 years	166.8	125.8	-	-
	<b>230.9</b>	<b>190.1</b>	<b>-</b>	<b>-</b>
Less: future finance charges	(60.9)	(49.3)	-	-
Present value of finance lease liabilities	<b>170.0</b>	<b>140.8</b>	<b>-</b>	<b>-</b>

The maturity of finance lease liabilities was:

	<b>Group</b>		<b>Company</b>	
	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Within 1 year	12.4	13.7	-	-
Between 2 and 5 years	38.1	32.0	-	-
After 5 years	119.5	95.1	-	-
	<b>170.0</b>	<b>140.8</b>	<b>-</b>	<b>-</b>

**26. Other non-current liabilities**

	<b>Group</b>		<b>Company</b>	
	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Other payables	31.5	34.0	-	-

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 £5.5 million (2017: £4.4 million) of which £0.6 million was accrued at 31 March 2018 (2017: £0.5 million).

#### Defined benefit schemes

##### Assumptions

The principal actuarial assumptions at 31 March were:

	2018 %	2017 %	2016 %
Rate of increase in pensionable pay	3.2	3.1	2.9
Rate of increase for current and future pensions	2.1	2.1	2.9
Rate used to discount schemes' liabilities	2.70	2.57	3.30
Inflation	3.2	3.2	2.9

##### 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 2016 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:

	2018	2017	2016
Male	22.0	23.0	25.1
Female	23.6	24.4	27.3

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

	2018	2017	2016
Male	24.5	25.5	26.5
Female	26.4	27.3	29.6

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

The sensitivities regarding the principal actuarial assumptions at 31 March 2018 were:

	<b>Change in assumption</b>	<b>Impact on schemes' liabilities</b>
Rate of increase in pensionable pay	+/- 0.5%	+/- 0.6%
Rate of increase for current and future pensions	+/- 0.5%	+/- 6.3%
Rate used to discount schemes' liabilities	+/- 0.5%	+/- 9.3%
Inflation	+/- 0.5%	+/- 6.8%
Life expectancy	+/- 1 year	+/- 4.6%

The amounts recognised in the balance sheet were:

	<b>2018 £m</b>	<b>2017 £m</b>
Present value of financial obligations	<b>(234.9)</b>	<b>(238.9)</b>
Fair value of plan assets	<b>228.2</b>	<b>222.7</b>
Deficit of funded plans	<b>(6.7)</b>	<b>(16.2)</b>
Impact of minimum funding asset ceiling	<b>(16.8)</b>	<b>(15.4)</b>
Net liability recognised in the balance sheet	<b>(23.5)</b>	<b>(31.6)</b>

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

	<b>2018</b>			<b>2017</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>(254.3)</b>	<b>222.7</b>	<b>(31.6)</b>	<b>(205.1)</b>	<b>189.6</b>	<b>(15.5)</b>
Current service cost	<b>(7.7)</b>	<b>-</b>	<b>(7.7)</b>	<b>(6.6)</b>	<b>-</b>	<b>(6.6)</b>
Past service cost	<b>(0.2)</b>	<b>-</b>	<b>(0.2)</b>	<b>(1.1)</b>	<b>-</b>	<b>(1.1)</b>
Interest (expense)/income	<b>(6.0)</b>	<b>5.3</b>	<b>(0.7)</b>	<b>(6.5)</b>	<b>6.2</b>	<b>(0.3)</b>
	<b>(13.9)</b>	<b>5.3</b>	<b>(8.6)</b>	<b>(14.2)</b>	<b>6.2</b>	<b>(8.0)</b>
Remeasurements:						
Return on plan assets excluding amounts included in interest expense	<b>-</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>-</b>	<b>25.8</b>	<b>25.8</b>
Gain from changes in demographic assumptions	<b>1.1</b>	<b>-</b>	<b>1.1</b>	<b>1.3</b>	<b>-</b>	<b>1.3</b>
(Loss)/gain from change in financial assumptions	<b>8.6</b>	<b>-</b>	<b>8.6</b>	<b>(41.1)</b>	<b>(0.1)</b>	<b>(41.2)</b>
Experience losses	<b>3.2</b>	<b>1.2</b>	<b>4.4</b>	<b>8.1</b>	<b>(0.3)</b>	<b>7.8</b>
Change in asset ceiling	<b>(1.4)</b>	<b>-</b>	<b>(1.4)</b>	<b>(7.8)</b>	<b>-</b>	<b>(7.8)</b>
	<b>11.5</b>	<b>0.6</b>	<b>12.1</b>	<b>(39.5)</b>	<b>25.4</b>	<b>(14.1)</b>
Contributions:						
Employers	<b>-</b>	<b>4.6</b>	<b>4.6</b>	<b>-</b>	<b>6.0</b>	<b>6.0</b>
Plan participants	<b>(1.0)</b>	<b>1.0</b>	<b>-</b>	<b>(1.1)</b>	<b>1.1</b>	<b>-</b>
Payments from plans:						
Benefit payments	<b>6.0</b>	<b>(6.0)</b>	<b>-</b>	<b>5.6</b>	<b>(5.6)</b>	<b>-</b>
At 31 March	<b>(251.7)</b>	<b>228.2</b>	<b>(23.5)</b>	<b>(254.3)</b>	<b>222.7</b>	<b>(31.6)</b>

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

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

	2018 £m	2017 £m
Irrecoverable asset at start of the year	15.4	7.7
Interest on irrecoverable surplus	0.4	0.2
Actuarial losses	1.0	7.5
	<b>16.8</b>	<b>15.4</b>

The Group has one pension scheme (2017: 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:

	2018			2017		
	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	81.6	2.0	37	86.6	1.3	39
Government bonds	17.9	-	8	17.7	-	8
Other bonds	35.1	-	15	26.3	-	12
Diversified growth	37.0	-	16	29.5	-	13
Property	7.5	2.0	4	6.8	4.0	5
Other	38.1	6.1	20	47.2	3.3	23
	<b>217.2</b>	<b>10.1</b>	<b>100</b>	<b>214.1</b>	<b>8.6</b>	<b>100</b>

Other assets at 31 March 2018 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 last triennial actuarial review of the principal defined benefit schemes was at 31 March 2016. The Group did not make a deficit contribution during the year (2017: nil). The Group monitors funding levels on an annual basis and expects to pay contributions of £4.2 million during the year ended 31 March 2019.

**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	2018 £m	2017 £m
At 1 April		42.0	36.0
Charged to the income statement	8	12.9	8.0
Charged/(credited) to equity and other comprehensive income		1.7	(2.0)
At 31 March		56.6	42.0

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>Revalued assets £m</b>	<b>Ineligible asset &amp; intangibles on acquisition £m</b>	<b>Service concession arrangements £m</b>	<b>Derivatives £m</b>	<b>Total £m</b>
At 31 March 2016	-	3.4	4.3	41.1	0.5	49.3
Transfer from deferred assets	(0.2)					(0.2)
(Credited)/charged to the income statement	11.4	(0.7)	(0.7)	3.3	-	13.3
Non underlying to the income statement	(3.5)	-	(0.1)	(2.8)	-	(6.4)
Charged to other comprehensive income	-	-	-	-	0.4	0.4
Non underlying to other comprehensive income	-	-	-	-	(0.1)	(0.1)
At 31 March 2017	7.7	2.7	3.5	41.6	0.8	56.3
(Credited)/charged to the income statement	12.4	(0.8)	(0.7)	2.0	-	12.9
(Credited) to other comprehensive income	-	-	-	-	(0.3)	(0.3)
Non underlying to other comprehensive income	-	-	-	-	-	-
At 31 March 2018	20.1	1.9	2.8	43.6	0.5	68.9
<b>Deferred tax assets</b>	<b>Accelerated tax depreciation £m</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 2016	(0.2)	(7.9)	(2.9)	(1.9)	(0.4)	(13.3)
Transfer to deferred liabilities	0.2					0.2
(Credited)/charged to the income statement	-	1.2	(0.1)	0.1	-	1.2
Non underlying to the income statement	-	-	(0.2)	0.1	-	(0.1)
(Credited) to other comprehensive income	-	-	(3.0)	-	-	(3.0)
Non underlying to other comprehensive income	-	-	0.8	-	(0.1)	0.7
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	-
Charged to other comprehensive income and equity	-	-	1.9	-	0.1	2.0
At 31 March 2018	-	(6.3)	(4.0)	(1.7)	(0.3)	(12.3)
<b>Net deferred tax liability:</b>						
At 31 March 2017						42.0
At 31 March 2018						56.6

**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>2018</b>	2017
	<b>£m</b>	£m
Actuarial (losses)/gain on defined benefit schemes	<b>1.9</b>	(2.2)
Net fair value (losses)/gain on cash flow hedges	(0.3)	0.3
Deferred tax on other comprehensive (losses)/gain	<b>1.6</b>	(1.9)
Share-based payments	<b>0.1</b>	(0.1)
	<b>1.7</b>	(2.0)

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

<b>Group</b>	<b>Note</b>	<b>Environmental and landfill restoration £m</b>	<b>Other provisions £m</b>	<b>Total £m</b>
At 1 April 2017		183.9	25.5	209.4
Charged to the income statement		6.7	0.8	7.5
Utilised during year		(9.7)	(1.5)	(11.2)
Capitalised during the year		11.1	-	11.1
Released during the year		-	-	-
<b>At 31 March 2018</b>		<b>192.0</b>	<b>24.8</b>	<b>216.8</b>

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

	<b>2018 £m</b>	<b>2017 £m</b>
Current	35.3	35.5
Non-current	181.5	173.9
	<b>216.8</b>	<b>209.4</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% (2017 4.75%) and an inflation rate of 2.5% (2017 2.5%) have been applied to the aftercare provision and a discount rate of 3.8% (2017 4.75%) and an inflation rate of 2.5% (2017 2.5%) to the restoration provision.

Other provisions comprise principally of underperforming contracts 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.

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

**30. Share capital**

	Allotted, called up and fully paid (Group and Company) £m
At 1 April 2016	
548,233,898 Ordinary shares of £1 each	548.2
At 31 March 2017	548.2
350,000,000 Ordinary shares of £1 each issued	350.0
<b>At 31 March 2018</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:

	Date granted and subscription price fully paid	Period when options normally exercisable	Thousands of shares in respect of which options are outstanding at 31 March	
			2018	2017
28 June 2010	431p	2013 – 2017	-	11
29 June 2011	536p	2014 – 2018	11	12
29 June 2012	588p	2015 – 2017	1	52
3 July 2013	538p	2016 – 2018	35	39
14 July 2014	611p	2017 - 2019	76	308
24 June 2015	683p	2018 - 2020	416	512
29 June 2016	709p	2019 - 2021	304	383
28 June 2017	767p	2020 – 2022	338	-
			<b>1,181</b>	<b>1,317</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>2018</b>		<b>2017</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	<b>1,317</b>	<b>662</b>	1,381	621
Granted	<b>394</b>	<b>767</b>	412	709
Exercised	<b>(280)</b>	<b>602</b>	(282)	535
Lapsed	<b>(29)</b>	<b>660</b>	(59)	631
Expired	<b>(221)</b>	<b>706</b>	(135)	659
At 31 March	<b>1,181</b>	<b>703</b>	1,317	662

The weighted average price of Pennon Group Plc shares at the date of exercise of Sharesave options during the year was 798p (2017: 878p). The options outstanding at 31 March 2018 had a weighted average exercise price of 703p (2017: 662p) and a weighted average remaining contractual life of 1.7 years (2017: 1.9 years).

The aggregate fair value of Sharesave options granted during the year was £0.3 million (2017: £0.5 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>2018</b>	<b>2017</b>
Weighted average share price	<b>848p</b>	854p
Weighted average exercise price	<b>767p</b>	709p
Expected volatility	<b>19.0%</b>	18.0%
Expected life	<b>3.4 years</b>	3.4 years
Risk-free rate	<b>0.3%</b>	0.3%
Expected dividend yield	<b>4.5%</b>	4.2%

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:

	2018		2017	
	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	316	850	459	761
Granted	-	-	153	920
Vested	(9)	799	(47)	653
Lapsed	(140)	825	(249)	721
At 31 March	167	864	316	850

The awards outstanding at 31 March 2018 had a weighted exercise price of 864p (2017: 850p) and a weighted average remaining contractual life of 0.7 years (2017: 1.3 years).

The aggregate fair value of awards granted during the year was £nil (2017: £0.7 million), determined using a Monte-Carlo simulation model.

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

	2018	2017
Share price	-	920p
Expected volatility	-	18.0%
Risk-free rate	-	0.3%

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:

	2018		2017	
	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	-	-	-	-
Granted	167	803	-	-
Vested	-	-	-	-
Lapsed	(27)	803	-	-
At 31 March	140	803	-	-

The awards outstanding at 31 March 2018 had a weighted exercise price of 803p and a weighted average remaining contractual life of 2.4 years.

The aggregate fair value of awards granted during the year was £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:

	2018		2017	
	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	35	848	53	759
Granted	27	809	25	944
Vested	(6)	821	(43)	745
Lapsed	-	-	-	701
At 31 March	56	844	35	848

The awards outstanding at 31 March 2018 had a weighted average price of 844p (2017: 848p) and a weighted average remaining contractual life of 1.7 years (2017 1.4 years).

The aggregate fair value of awards granted during the year was £0.2 million (2017: £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 2015	95.2
At 31 March 2017	95.2
At 31 March 2018	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 2016	2.5	(278.3)	(275.8)	134.8
Profit for the year	-	45.9	45.9	25.8
Other comprehensive income for the year	3.3	(11.0)	(7.7)	-
Transfer from hedging reserve to property, plant and equipment	(1.4)	-	(1.4)	-
Dividends paid	-	(33.9)	(33.9)	(33.9)
Credited to equity in respect of share-based payments	-	0.7	0.7	-
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	-
<b>At 31 March 2018</b>	<b>2.5</b>	<b>(279.7)</b>	<b>(277.2)</b>	<b>100.8</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>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Continuing operations</b>				
Profit for the year	<b>39.9</b>	48.3	<b>24.7</b>	25.8
<b>Adjustments for:</b>				
Employee share schemes	<b>0.7</b>	0.9	-	-
Profit on disposal of property, plant and equipment	<b>(0.1)</b>	(5.4)	-	-
Depreciation charge	<b>68.7</b>	64.6	-	-
Amortisation of intangible assets	<b>3.0</b>	2.7	-	-
Non-underlying impairment of property, plant and equipment	-	9.5	-	-
Non-underlying JV loan write off and credit	<b>(6.5)</b>	-	-	-
Finance income (before non-underlying items)	<b>(27.1)</b>	(32.4)	<b>(69.1)</b>	(65.9)
Finance costs (before non-underlying items)	<b>44.2</b>	47.2	<b>34.3</b>	33.6
Share of post-tax profit from joint venture	<b>(9.4)</b>	(4.2)	-	-
Dividends receivable			-	-
Taxation	<b>37.4</b>	1.9	<b>10.1</b>	6.5
<b>Changes in working capital (excluding the effect of acquisition of subsidiaries)</b>				
Increase in inventories	<b>(3.7)</b>	(1.0)	-	-
Increase in trade and other receivables	<b>(66.7)</b>	(59.0)	<b>(173.7)</b>	(86.0)
(Decrease)/increase in trade and other payables	<b>5.9</b>	37.3	-	-
Increase/(decrease) in provisions	<b>(3.7)</b>	(4.4)	-	-
(Decrease)/increase in retirement benefit obligations	<b>3.3</b>	1.6	-	-
Cash generated from/(used in) operations	<b>85.9</b>	107.6	<b>(173.7)</b>	(86.0)

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

**Total interest paid**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Interest paid in operating activities	<b>28.5</b>	33.2	<b>34.3</b>	33.6
Interest paid in investing activities (purchase of property, plant and equipment)	<b>12.2</b>	7.9	-	-
Total interest paid	<b>40.7</b>	41.1	<b>34.3</b>	33.6

**Notes to the financial statements (continued)****34. Net borrowings**

		<b>Group</b>		<b>Company</b>	
	<b>Notes</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>
Cash and cash deposits	22	42.5	39.2	22.8	0.1
<b>Borrowings – current</b>					
Bank overdrafts	22,25	-	(69.3)	-	-
Ultimate parent company loans	25	(24.8)	(12.7)	(22.6)	(12.7)
Subsidiary undertakings	25	-	-	-	-
Finance lease obligations	25	(12.4)	(13.7)	-	-
Total current borrowings	25	(37.2)	(95.7)	(22.6)	(12.7)
<b>Borrowings – non-current</b>					
Ultimate parent company loans	25	(819.1)	(1,011.0)	(801.0)	(983.0)
Finance lease obligations	25	(157.6)	(127.1)	-	-
Total non-current borrowings	25	(976.7)	(1,138.1)	(801.0)	(983.0)
<hr/>					
Total net borrowings		(971.4)	(1,194.6)	(800.8)	(995.6)

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, joint venture and associate undertakings at 31 March 2018**

<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	Operate energy from waste facility under contract	England	



# Notes to the financial statements (continued)

## 35. Subsidiary, joint venture and associate undertakings at 31 March 2018 (continued)

### Subsidiaries (continued)

Subsidiary	Trading/ Dormant	Principal activity	Country of incorporation
<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 (Mortock) 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, joint venture and associate undertakings at 31 March 2018 (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 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, joint venture and associate undertakings at 31 March 2018 (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, joint venture and associate undertakings at 31 March 2018 (continued)**

**Joint ventures and associates**

All joint ventures and the subsidiary undertakings of Lakeside Energy from Waste Holdings Limited and INEOS Runcorn (TPS) Holdings 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>Associates</b>			
<b>INEOS Runcorn (TPS) Holdings Limited</b>	1,000 A Ordinary shares	20%	
	186,750 B1 Ordinary shares	50%	
	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 37.5%, as returns from the investment are based on holdings of B1 and B2 Ordinary shares.			

## Notes to the financial statements (continued)

### 36. Operating lease commitments

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

	2018 £m	2017 £m
<b>Group</b>		
Within one year	8.9	8.7
Within two to five years	22.0	21.1
After five years	76.2	58.0
	<b>107.1</b>	<b>87.8</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 28 years and rentals are reviewed on average at two 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

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Performance bonds	182.6	187.2	-	-
	<b>182.6</b>	<b>187.2</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 2018 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 Enviroscot 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 2018.

### 38. Capital commitments

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Contracted not provided	207.4	347.3	-	-

**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:

	2018 £m	2017 £m
<b>Sales of goods and services</b>		
Fellow subsidiaries of Pennon Group Plc	0.1	-
Viridor Laing (Greater Manchester) Limited	38.4	80.1
INEOS Runcorn (TPS) Limited	15.9	15.8
<b>Purchase of goods and services</b>		
Fellow subsidiaries of Pennon Group Plc	(0.3)	(1.3)
Pennon Group Plc	(6.1)	(5.5)
Lakeside Energy from Waste Limited	(12.0)	(10.4)
INEOS Runcorn (TPS) Limited	(6.0)	(6.6)
<b>Income from provision of loan finance</b>		
Lakeside Energy from Waste Holdings Limited	1.3	1.3
Viridor Laing (Greater Manchester) Limited	2.6	4.7
INEOS Runcorn (TPS) Holdings Limited	4.1	4.2
<b>Payment for provision of loan finance</b>		
Pennon Group Plc	(38.7)	(38.9)
<b>Dividends received</b>		
Lakeside Energy from Waste Holdings Limited	6.5	4.5
<b>Dividends paid</b>		
Pennon Group Plc	(50.6)	(33.9)

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****Group**

	2018 £m	2017 £m
<b>Receivables due from related parties for the provision of loan finance</b>		
Lakeside Energy from Waste Holdings Limited	9.1	8.6
Viridor Laing (Greater Manchester) Holdings Limited	-	40.2
INEOS Runcorn (TPS) Holdings Limited	32.6	37.8
	<b>41.7</b>	<b>86.6</b>
<b>Receivables due from related parties – trading balance</b>		
Pennon Group Plc	-	-
Fellow subsidiaries of Pennon Group Plc	0.3	0.3
Lakeside Energy from Waste Limited	-	0.9
Viridor Laing (Greater Manchester) Limited	-	15.4
INEOS Runcorn (TPS) Limited	2.0	1.3
	<b>2.3</b>	<b>17.9</b>
<b>Total</b>	<b>44.0</b>	<b>104.5</b>
<b>Payables due to related parties for the provision of loan finance</b>		
Pennon Group Plc	843.9	1,023.7
<b>Payables due to related parties – trading balance</b>		
Pennon Group Plc	12.0	10.2
Fellow subsidiaries of Pennon Group Plc	2.2	0.7
Lakeside Energy from Waste Limited	1.2	2.7
INEOS Runcorn (TPS) Limited	2.5	1.5
	<b>17.9</b>	<b>15.1</b>
<b>Total</b>	<b>861.8</b>	<b>1,038.8</b>

Interest on the ultimate parent company loans is charged at fixed rates on loans; £411.8 million at 5.0% and £20.2 million at 6.0% (2017: £5.0 million at 4.5%, £492.8 million at 5.0% and £28.0m at a fixed rate of 6.0%). Interest on the balance of the ultimate parent company loans is charged at 12-month London interbank offered rate (Libor) +100 basis points (2017: 12-month London interbank offered rate (Libor) +150 basis points). The loans are due for repayment through to 2045. The receivables from joint venture and associated undertakings which total £41.7 million (2017: £86.6 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.

	2018 £m	2017 £m
<b>Dividends</b>		
Dividends paid to Pennon Group Plc	50.6	33.9
<b>Income from provision of loan finance</b>		
Subsidiary undertakings	69.1	65.9
<b>Payment for provision of loan finance</b>		
Pennon Group Plc	34.3	33.6
	2018 £m	2017 £m
<b>Receivables due from related parties for the provision of loan finance</b>		
Subsidiary undertakings	1,500.0	1,326.3
<b>Receivables due from related parties – trading balance</b>		
Subsidiary undertakings	-	-
<b>Total</b>	1,500.0	1,326.3
<b>Payables due to related parties for the provision of loan finance</b>		
Pennon Group Plc	823.6	995.7
<b>Payables due to related parties – borrowings</b>		
Subsidiary undertakings	-	-
<b>Total</b>	823.6	995.7

Interest on the ultimate parent company loans is charged at fixed rates on loan balances; £411.8 million at 5.0% (2017: £5.0 million at 4.5%, £492.8 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) +100 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.