

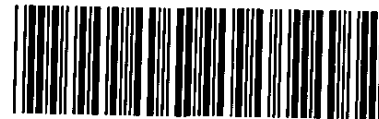
Viridor (Lancashire) Ltd
5934432

Registered number: 02456473

VIRIDOR LIMITED

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH 2020**

WEDNESDAY



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COMPANIES HOUSE

Directors

S J Davy (appointed 17 September 2019)
C Loughlin (appointed 17 September 2019)
P C Piddington
E A J Rees
P M Ringham

Joint Company Secretaries

S Massie
S Pugsley
K Senior

Registered Office

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Rydon Lane
Exeter EX2 7HR

Independent Auditors

Ernst & Young LLP
Statutory Auditor
The Paragon
Counterslip
Bristol BS1 6BX

Strategic Report

Strategic Overview

Viridor Limited ("the Company") and its subsidiary companies (together "the Group" or "Viridor") is at the forefront of the resource sector in the UK, transforming waste into energy, high quality recyclates and raw materials. We provide services to local authorities and major corporate clients in addition to 34,000 customers. Our activity supports growth of a regenerative circular economy that seeks to keep resources in use for as long as possible and recover and regenerate materials at the end of their service life.

Financial Highlights

Revenue

Statutory and Underlying £757.8m (2019: £852.7m)

EBITDA

Statutory £201.8m (2019: £149.3m)

Underlying £198.0m (2019: £178.9m)

Adjusted £254.4m (2019: £225.4m)

Profit before tax

Statutory £105.8m (2019: £58.9m)

Underlying £102.0m (2019: £88.5m)

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

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

Operational Highlights

- Continued strong performance from ERFs with availability at 90% on operational assets weighted by capacity, includes joint ventures assets at 100%, excludes GRREC, as different technology, and excludes Bolton (reverted to Greater Manchester Local Authority 31 May 2019)
- New Energy Recovery Facilities (ERFs) at Glasgow, Beddington and Dunbar move through their ramp-up phases
- Avonmouth ERF is in commissioning and on track for operational ramp up in 2020/21
- Commitment to recycling and growth trajectory with the new Avonmouth plastics processing facility

Strategic Report (continued)

Strategic Overview (continued)

Business Focus

During the year Viridor has focused on robust delivery of operational and financial performance across the business, and we remain confident in the UK residual waste sector fundamentals. We are delivering continued progress in our targeted growth areas.

Energy Recovery Facilities - leading in waste infrastructure

Our fleet of energy recovery facilities (ERFs), which transform waste into electricity and heat, performed well during the year. The operational ERF portfolio achieved availability from current operational assets in excess of 90%, including joint ventures, during the year, excluding Glasgow. Glasgow, Beddington and Dunbar, were all taken over towards the end of the prior year and have been progressing through their ramp up stage towards optimisation. Avonmouth ERF is in commissioning and on track for operational ramp up during 2020/21. The programme to achieve our portfolio of eleven ERFs, including joint ventures, is a significant achievement for the Group.

Recycling – focus on UK based plastic processing

The construction of our £65 million plastics processing facility at Avonmouth is progressing well with the plant set to contribute to earnings from the second half of 2020/21. The UK capacity gap for plastics processing remains. To fill the predicted UK gap by 2025 would require the construction of c14 Avonmouth sized facilities. We continue to progress plans for two further plastic processing plants to be co-located with Ardley and Dunbar ERFs, to help capture further market share whilst at the same time gaining additional energy park benefits. Through investment in UK based plastics processing we are reducing exposure to international markets and moving recycle production higher up the value chain.

Sustainability

Viridor continues to build on our strengths and achievements in sustainability under a unifying framework built on environment, social and governance principles. Environmental sustainability is fundamentally important to us. Our sustainability strategy helps us to focus on the positive impact we can have on the communities we serve, and on the environment that we rely on. Viridor has set clear long-term objectives to enable clear monitoring and continuous improvement of our performance. These cover the areas of greatest significance to our business ranging from key global issues of carbon reduction and biodiversity to local community benefits, employee wellbeing and development, and ensuring good governance, quality services and customer satisfaction.

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.

The Group maintains a proactive and positive relationship with its environmental and performance regulators which include the Environment Agency, Scottish Environmental Protection Agency (SEPA) and Natural Resources Wales. During calendar year 2019, no Category 1 or 2 non-compliances (England and Wales), or significant or major non-compliances (in Scotland) were reported.

Community engagement through education, sponsorships and donations

Viridor plays a highly visible role in communities surrounding operational sites. Our educational centres were open to provide a quality informative experience for their visitors during the year. Our visitor centre at Ardley ERF, near Oxford, runs tailored educational programmes to teach children and adults about sustainable waste management. We also run community liaison groups to provide updates on our operations and respond to feedback. During the year, Viridor paid £5.3 million (2019: £6.9 million) to Viridor Credits, the reduction reflecting declining year on year landfill volumes. Viridor Credits is an independent, not-for-profit organisation that administers Viridor's contributions to the Landfill Communities Fund to help provide vital support for local community projects. Our charitable donations scheme helped projects supporting STEM (science, technology, engineering and maths), environmental, resource and recycling education initiatives, communities coming together through sport and community events and communities focused on improving the quality of life for disadvantaged and priority groups.

Strategic Report (continued)

Strategic Overview (continued)

People

The talent, professionalism and commitment of our people is key to the delivery of our strategic objectives. We continued to embed our people strategy, vision and values during the year.

People strategy

During the year our focus was on establishing our vision of 'Bringing our resources to life' more deeply across the Group. We built a broader understanding of how employees at all levels can live by our values of trusted, responsible, collaborative and progressive.

We measure the progress we are making in living our values through our employee engagement survey. The employee engagement survey asked employees to comment on a wide range of topics including communication and involvement, job security, culture, diversity, recognition, strategy, talent management, teamwork and well-being, as well as work environment and processes.

The Viridor Employee Voice Forum is now well established, with employee representatives from each area of the business. Representatives work with the Group's leadership regarding all aspects of the business and attend both functional and national Voice Forum events.

Health and safety

During the year there have been two fatalities that have occurred in the delivery of our activities. Both incidents are deeply tragic and full and thorough root cause analysis has been undertaken to identify additional actions required to prevent such incidents from occurring again, alongside additional training and system upgrades.

We have operated our comprehensive HomeSafe health & safety educational programme during the year. HomeSafe learning resources including face-to-face training experiences and teaching materials are also available in an e-learning format to enable participation for our employees working in lower-risk environments. To build on the current momentum and HomeSafe vision, our comprehensive and ambitious roadmap, running to 2025, will help to look after employees and keep them free from harm. The longer-term HomeSafe strategy is based on six themes: managing risk; sharing and learning; working together; protecting health; enabling leaders and being resilient.

Employee training and development

Building a sustainable, agile and diverse workforce is a key pillar of our strategy. We have a strong commitment to investing in the development of our employees and want to build and recognise talent across the Group. Training and development are available for employees at a variety of levels. Our aim is to increase productivity, job satisfaction and safety, and to equip the next generation of leaders with appropriate knowledge, skills and competencies.

We have continued our graduate recruitment programme and were pleased to select high calibre graduates to join us. All successful applicants were offered permanent roles demonstrating our commitment and investment in them on either a management trainee pathway, or a functional pathway for more specialised roles. Our graduates are deployed in a variety of locations that reflect the nationwide distribution of Viridor's operations but meet regularly for mentoring and support.

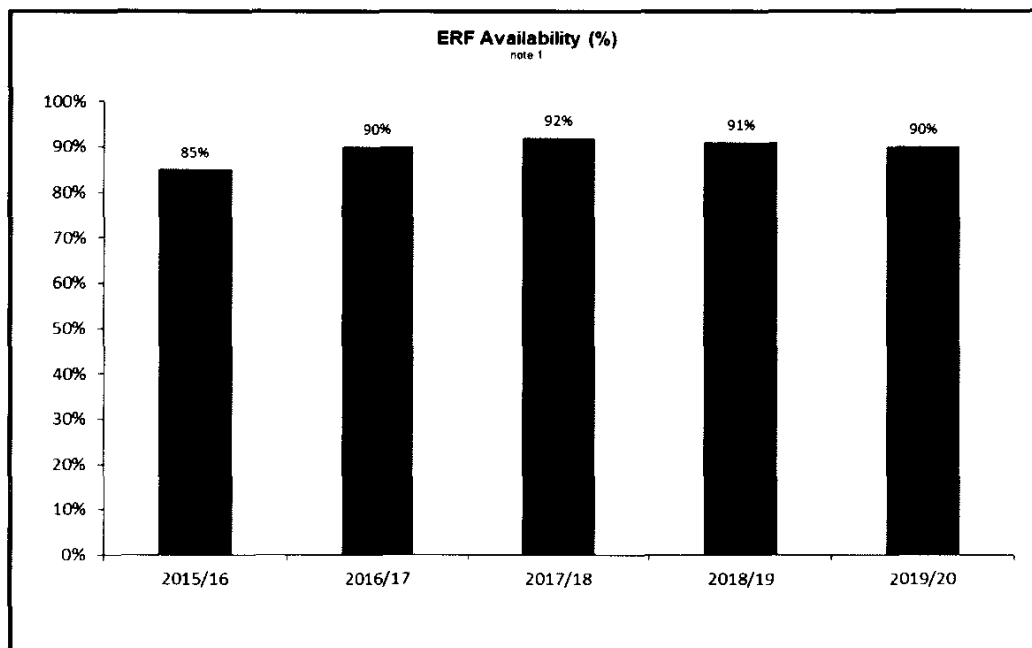
We have embraced the Government's policy on apprenticeships and have offered new apprenticeships across the Group. As well as creating posts for new employees, we are also offering several specialised apprenticeship programmes to upskill and develop current employees in our core business functions.

Diversity and equal opportunities

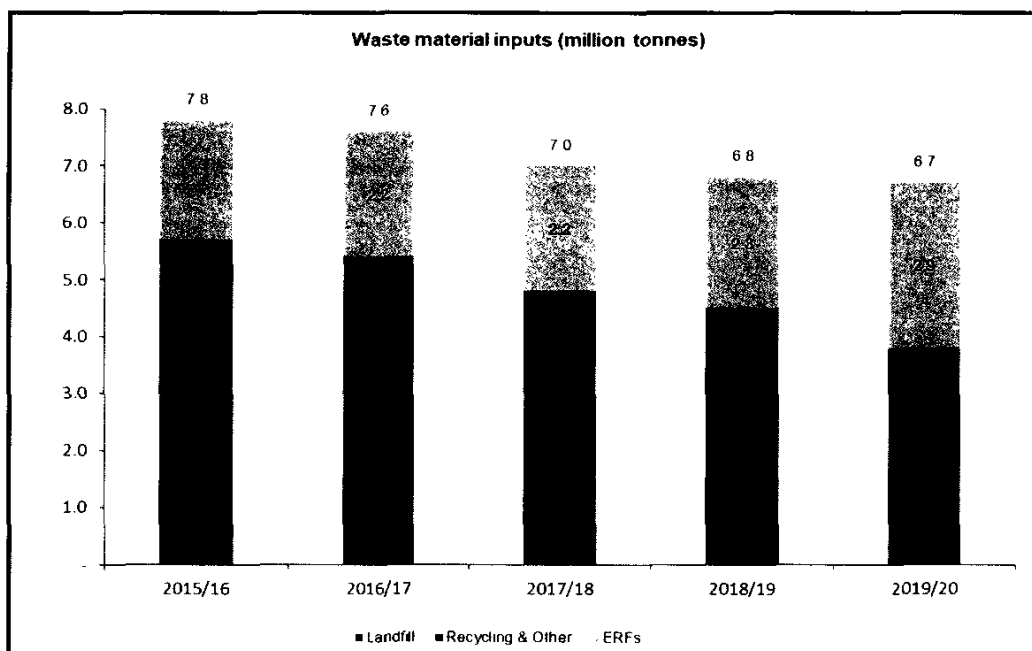
The Board continues to promote equality of opportunity and diversity across the Group in all areas, including gender and ethnicity.

Strategic Report (continued)

Operational KPIs



note 1: Weighted by capacity, includes joint ventures assets at 100%, excludes GRREC, as different technology, and excludes Bolton (reverted to Greater Manchester Local Authority 31 May 2019).



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 local authorities and corporate clients as well as 34,000 customers, by account, across the UK. Our activity supports growth of a regenerative circular economy that seeks to keep resources in use for as long as possible and recover and regenerate materials at the end of their service life.

Strong performance

During the year Viridor has delivered robust operational and financial performance across the business, and we remain confident in the UK residual waste sector fundamentals. We are delivering continued progress in our targeted growth areas. Viridor has seen strong growth in Energy Recovery with the ramp up and optimisation of existing plants.

Our ERF fleet has performed strongly with availability at c90% (average weighted by site capacity, including 100% of joint ventures and excluding Glasgow due to different technology) and total waste inputs for the year were 6.7 million tonnes, with 2.9 million taken by our ERFs, 2.6 million taken by recycling and other facilities and 1.2 million going to landfill.

Strong growth from ERF portfolio

Our ERF business has performed strongly with availability at c90% (excluding Glasgow) for the fourth consecutive year. Glasgow, Beddington and Dunbar, which were all taken over towards the end of the prior year, have been progressing through their ramp up stage towards optimisation. The Glasgow Recycling & Renewables Energy Centre (GRREC) is our first ERF to utilise Advanced Conversion Facility (ACF) technology. Unlike our existing ERF fleet this produces a synthetic gas which is then controlled and converted to provide energy. This innovative technology has required the development and adoption of new skill sets to fully optimise the plant.

Avonmouth ERF has now entered the commissioning stage with the facility on track for operational ramp up during 2020/21. This has taken our ERF portfolio to eleven facilities. The Ford ERF Joint Venture with Grondon Waste Management, announced in September 2019, is progressing through the project design phase with our technical advisors. Further ERF capacity is essential to meet longer term demand and Viridor continues to progress a pipeline of opportunities to deliver two further ERFs.

Efficiently managed landfill sites with demand into the long term

Overall landfill volumes have decreased in the year reflecting the closure of Beddington and Rigmuir to active waste last year, in line with management expectations. Heathfield has been reopened and Broadpath closed, as planned, leaving eight sites in operation. High quality restoration and remediation of our Landfill sites remains the cornerstone of our land stewardship responsibilities. We have disposed of one former site (Norlands) in the year which will now be repurposed for other activities.

Landfill gas has shown a robust operational performance reflecting the benefits from investment undertaken in our generation equipment and infrastructure. Investment in new engines has reduced both maintenance downtime and costs. Improvements to the efficiency of our gas collection systems has improved overall engine output. This has led to electricity volumes declining at a lower rate than experienced in previous years which allied to higher pricing, including the renewable energy value, has resulted in an improved performance year on year.

Strategic Report (continued)

Operational Review (continued)

Efficiently managed landfill sites with demand into the long term (continued)

We have continued to invest in our engine optimisation strategy this year installing eleven new engines to enhance future availability and better match gas outputs. Over time the decline in Landfill gas volumes has created surplus grid connection capacity at some sites. We are currently seeking to capitalise on this opportunity by the installation of gas peaking engines.

Recycling – long term fundamentals remain strong despite short term paper headwinds

The construction of our £65 million plastics processing facility at Avonmouth continues to progress. To fill the predicted UK plastics reprocessing capacity gap by 2025 would require the construction of c14 Avonmouth sized facilities. We continue to progress plans for two further plastic processing plants to be co-located with Ardley and Dunbar ERFs, and have held regional events to engage stakeholders ahead of submitting formal planning applications.

Through investment in UK based plastics processing we are reducing exposure to international markets and moving recycle production higher up the value chain. This reflects our continued focus on quality and driving value from the Circular Economy. The impact of global paper markets has adversely affected the recycling performance in the second half of the year. We have seen a fall of c.£50 per tonne in paper pricing, with negative paper pricing on mixed paper and the market for high grade export paper effectively closed. These downside issues have been somewhat mitigated by the risk share mechanisms in place with our customers.

Contracts and Collections and Other

The run-off contract to operate the recycling assets of the Greater Manchester Waste Disposal Authority terminated in May 2019, with the contract services successfully transitioned to Suez. Ongoing volumes have now been secured for the key assets retained following the contract termination. Our collections business continues to support and work in partnership with our customers.

Joint Ventures

Joint Ventures continue to perform strongly as both Lakeside and TPSCo continue to outperform their original targets for waste processing and power generation and have provided a full year availability in excess of 90%.

COVID-19 – Resilient operations in unprecedented times

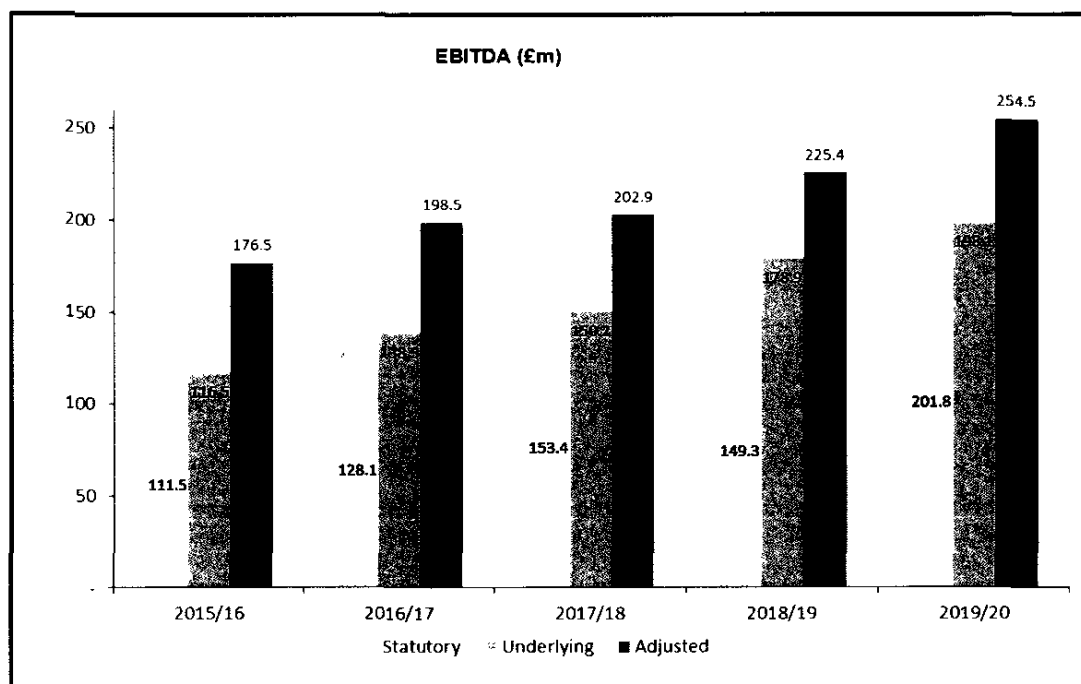
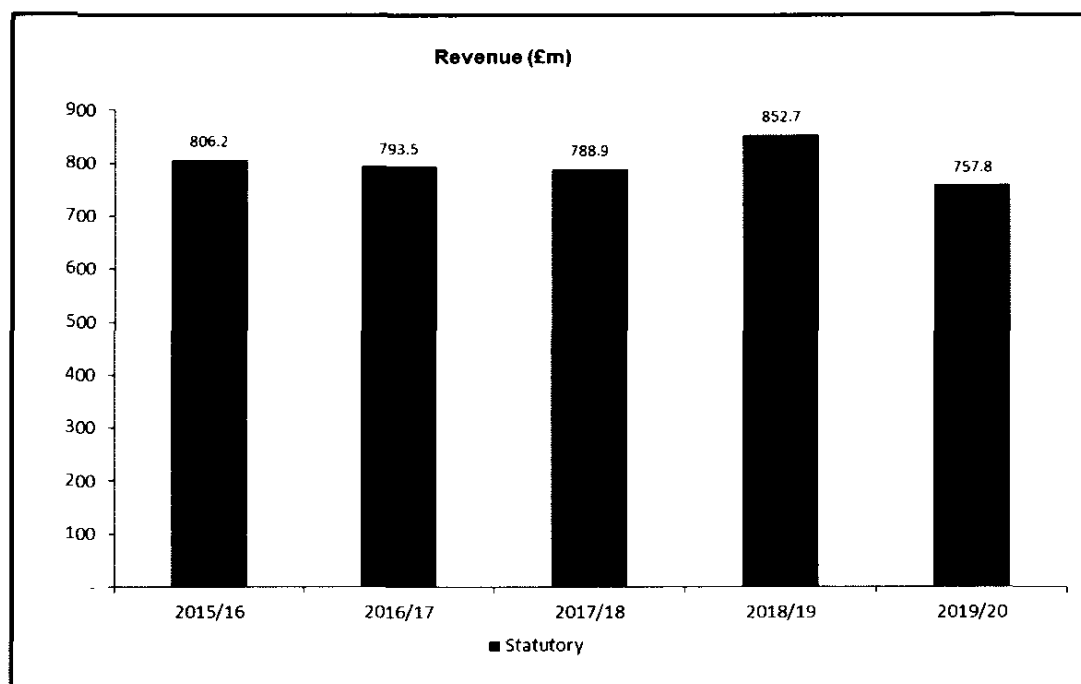
Viridor is well positioned to manage the impact of COVID-19 through the unprecedented lockdown period. The strong local authority contracted position provides resilience to the underlying business, with strong ERF performance mitigating the volume impact from Commercial & Industrial customers in Collections, Landfill and Recycling.

Operational sites have largely remained open throughout the period. Household Waste Recycling Centres which were closed for a period have now reopened in conjunction with our Local Authority customers.

We are supporting our staff across the business, with a strong emphasis on the health & wellbeing of our people. Remote working has been facilitated across the business where possible, and guidelines on social distancing are being adhered to at operational sites. We have managed our supply chain to ensure that personal protective equipment has remained available across our operations.

Strategic Report (continued)

Financial KPIs



Strategic Report (continued)

Financial Review

Viridor is delivering sustainable growth in UK recycling and residual waste. With a de-risked infrastructure model, our investment is backed by profitable long-term contracts. The successful build out of the ERF portfolio, in a market showing under-capacity, will strongly support future earnings growth. There is potential for further momentum from ERF portfolio expansion and development of energy park opportunities across the landfill and ERF portfolio.

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

Statutory financial performance

Viridor's statutory results showed profit before tax of £105.8 million (2019: £58.9 million). The statutory results include the impact of non-underlying items totalling a credit before tax of £3.8 million (2019: charge of £29.6 million). The Directors believe excluding non-underlying items provides a more useful comparison on business trends and performance.

Underlying financial performance

Following the Greater Manchester contract exit at the end of May 2019, and activities to optimise the landfill portfolio during the year Viridor's underlying revenues reduced by 11.1% to £757.8 million in the period (2019: £852.7 million). This was in-line with expectations, and both the Greater Manchester contract exit, and the landfill optimisation have a limited impact upon EBITDA. Viridor's adjusted EBITDA was £254.4 million (2019: £225.4 million) an increase of £29.0 million (12.9%).

Energy recovery facilities

The ERF portfolio has performed strongly over the year. Ramp up of operations continue at Glasgow, Beddington and Dunbar, all three having commenced operation towards the end of last year. Avonmouth, our latest wholly owned ERF is currently under commissioning and on track for operational ramp up during 2020/21. ERF availability (average weighted by site capacity, including 100% of joint ventures and excluding Glasgow due to different technology) has been achieved at c90% for the fourth successive year. ERF EBITDA has increased by £10.8 million (7.0%) to £165.6 million for the year reflecting strong performance at established facilities. Additionally, we have seen increased contributions from the ERF fleet due to the inclusion of a full year's operational performance for Glasgow, Beddington and Dunbar.

Landfill

Landfill EBITDA has increased by £0.4 million (8.3%) to £5.2 million. Pricing has held up well whilst volumes have declined, in line with expectations, following the closure of two sites in the prior year. Viridor continues to operate from eight strategic locations to meet the market demand for the provision of a landfill solution. Landfill Gas has performed strongly in the period with EBITDA up £6.2 million (30.1%) to £26.8 million. Investment in gas collection infrastructure has improved collection volumes, and investment in engines has improved availability and reliability. These factors have contributed to gas volumes declining at slower rates than previously experienced. Combined with improved hedged pricing and higher renewable pricing this has resulted in a strong outcome for the year.

Recycling

Viridor has maintained a continued focus on quality through the year in order to ensure continuation of supply, however, performance has been impacted by global recyclate price headwinds in the second half of the year in particular, resulting in a £0.7 million decrease to £14.2 million for the year compared with £14.9 million for the prior year. The market for high grade export paper recyclate has effectively closed with this product now being sold as mixed grade paper.

Strategic Report (continued)

Financial Review (continued)

Contracts, collection & other

Contracts, collections and other has seen a reduction in EBITDA of £3.0 million (7.7%) to £36.0 million. This was in line with management expectations following the successful transition of the Greater Manchester contract to Suez at the end of May 2019, and the timing of the disposal of surplus assets. The closed landfill site at Norlands was also disposed of in the year. This has been sold to developers for repurposing following the completion of high-quality restoration and remediation works.

Indirect costs

We have continued our focus on indirect costs, which have reduced to £49.7m following the exit from the Greater Manchester contract and the delivery of further efficiencies. This reduction of £5.5 million represents a 10.0% saving over the prior year.

Joint ventures

The share of JV EBITDA has increased by £9.4 million (29.5%) to £41.3 million this year. At share of profit after tax level we have seen an increase from £12.4 million to £14.8 million. This reflects an improved contribution from both Lakeside and TPSCo joint ventures based upon strong operational performance in the year and the increase in contribution from TPSCo from the additional investment in TPSCo in December 2018. We received a £6.0 million dividend from Lakeside during the year, an increase on £5.5 million in the prior year.

Net finance costs

During the year net finance costs were £26.2 million (2019: £24.8 million). Notional interest was recognised relating to pensions net interest cost of £0.6 million (2019: £0.5 million), cost of discount unwind on provisions of £8.2 million (2019: £11.1 million) and IFRIC 12 contract interest receivable of £14.6 million (2019: £14.6 million).

Non-underlying items

Non-underlying items for the year total a credit of £3.8 million before tax (2019: charge of £29.6 million) and the tax charge arising on these non-underlying items was £0.7 million (2019: credit of £5.6 million). In addition, a non-underlying tax charge of £10.3 million was recognised in relation to the recalculation of deferred tax assets and liabilities following a tax rate change.

Non-underlying items comprised a credit in relation to curtailment and other gains resulting from transferring employees from an active to a deferred status in certain defined benefit schemes following the cessation of the Greater Manchester contract (credit before tax of £4.9 million), and a provision for expected credit losses relating to COVID-19 pandemic (charge before tax of £1.1 million). Prior year non-underlying items comprised a provision increase in respect of receivables for recovery of rectification and completion costs for Glasgow Recycling and Renewable Energy Centre (GRREC) (charge before tax of £28.7 million) and past pension service cost for guaranteed minimum pension (GMP) equalisation (charge before tax of £0.9 million). Further details are set out in note 5 to the financial statements.

Dividends

Viridor paid dividends totalling £85.9 million in the year (2019: £73.6 million).

Strategic Report (continued)

Financial Review (continued)

Capital investment

Viridor's capital investment in the period was £177.6 million (2019: £241.7 million). The majority of the expenditure this year relates to the ERF portfolio, principally the continued development of Avonmouth and ERF lifecycle capital spend. Other larger projects in the period include the construction of the Avonmouth plastics processing facility and the refurbishment and upgrade of the Masons materials recycling facility in Suffolk.

Implementation of IFRS 16 'Leases'

From 1 April 2019, the new accounting standard IFRS 16 'Leases' has been adopted, which results in all leases, whether operating or financing leases under the previous IAS 17 classifications, being treated on a consistent basis within the reported results with the lease being recognised as a liability on the balance sheet along with an associated right of use asset.

The impacts from the implementation at 1 April 2019 were the recognition of £100.2 million of right of use assets within property, plant and equipment and the recognition of £109.2 million of lease obligations, with derecognition of £1.4 million accruals and an adjustment of £1.4m million decreasing deferred tax liabilities. *During the year there was an overall reduction in profit before tax in of £0.9 million, resulting from; an increase in EBITDA (reflecting the removal of operating lease rentals) of £15.0 million, an increase in depreciation (arising from the depreciation on the newly recognised right of use assets) of £12.6 million and an increase in finance costs (reflecting the interest on the newly recognised lease liabilities) of £3.3 million.* Further details are set out in note 39 to the financial statements.

Liquidity and debt profile

Cash holdings were £33.3 million (2019: £36.1 million) and overdraft was nil (2019: 91.7 million).

Loans from the ultimate parent company were £1,199.5 million (2019: £1,017.7 million). Details of interest on the ultimate parent company loans is set out in note 38 to the financial statements. Viridor's lease obligations were £248.4 million (2019: £158.3 million). Following adoption of IFRS 16 Viridor recognised lease obligations of £109.2 million on transition at 1 April 2019. Further details of adjustments recognised on the adoption of IFRS 16 are set out in note 39 to the financial statements. Further details are set out in note 25 to the financial statements.

Treasury, taxation and insurance services

During the year Viridor received treasury, tax and insurance services from Pennon Group plc.

The treasury function of Pennon Group plc sought to ensure that sufficient funding was made available to meet foreseeable needs, reasonable headroom for contingencies was maintained, and interest rate risk managed. Full management of treasury policies and objectives was undertaken by Pennon Group plc including liquidity management and management of debt structure and related debt finance costs. Taxation compliance services were provided by Pennon Group plc. and taxation strategy was determined by Pennon Group plc. The management of property and third-party liability risks was undertaken by Pennon Group plc.

Pensions

The Group participates in both defined benefit and defined contribution pension schemes. During the year the Group operated defined benefit schemes specifically for its subsidiaries Viridor Waste (Somerset) Limited and Viridor Waste (Greater Manchester) Limited. The Group's pension schemes showed a deficit (before deferred tax) of £15.1 million (2019: £34.7 million). Further details of pension schemes are set out in note 27 to the financial statements.

During the year within employment costs non-underlying credits were recognised in relation to defined benefit pension schemes of £4.9m reflecting curtailment and other gains resulting from transferring employees from an active to a deferred status in the schemes (see note 5 non-underlying). During the prior year non-underlying costs of £0.9m were recognised relating to the gender equalization of guaranteed minimum pensions for occupational pension schemes. Further details of non-underlying items are set out in note 5 to the financial statements.

Strategic Report (continued)

Section 172 statement

The directors are aware of their duty under section 172 of the Companies Act 2006 to act in a way which they consider in good faith, would be most likely to promote the success of the Company for the benefit of the members as a whole and, in doing so, have regard to the matters set out in section 172(1) (a) - (f). Examples of how the Board approaches its decision making, in light of its obligations under section 172, and ensuring wider stakeholder engagement, are set out below.

S172(1)(a) The likely consequences of any decision in the long term

Our strategic objectives are; Leadership in UK waste, Leadership in cost base efficiency and Driving sustainable growth. Our strategic objectives, which are set and monitored through a rolling long-term strategic planning process, ensure we work towards achieving long term growth in a sustainable way. In approving the strategic objectives, we also consider a host of external factors, such as the evolving economic and market conditions. 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.

S172(1)(b) The interests of the Company's employees

We are a responsible employer, focused on employee engagement and communication, promoting a diverse and inclusive workforce and the continued development of our people in a safe working environment.

S172(1)(c) The need to foster the company's business relationships with suppliers, customers and others
We demonstrate continued commitment to delivering quality of service, value for money and satisfaction to our customers. We continue to foster key strategic and commercial relationships with our supply chain partners, with a focus on quality and sustainability, and focused delivery across the entire supply chain. We have open dialogue and transparent engagement with our regulatory bodies, policy makers and other stakeholders who shape our social contract.

S172(1)(d) The impact of the Company's operations on the community and the environment

We are committed to providing educational programmes and community sponsorships and engaging in charity support initiatives and outreach events across our regions of operation. We maintain a proactive and positive relationship with our key environmental regulators the Environment Agency, Scottish Environmental Protection Agency (SEPA) and Natural Resources Wales.

S172(1)(e) The desirability of the company maintaining a reputation for high standards of business conduct

We ensure a transparent approach to conducting business in a responsible manner, with a focus on maintaining good governance. The codes of conduct and policies which apply across our group are regularly updated to ensure the highest of standards are adhered to.

S172(1)(f) The need to act fairly as between members of the company

For the year under review we have been a wholly owned subsidiary of Pennon Group plc, with their Chief Executive and Chief Financial Officer also sitting on our Board. Relevant decisions of the Board are also discussed, where relevant, at the meetings of the parent company board. Our Chief Executive has attended each of the meetings of the Board of Pennon Group plc, during the year.

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

Principal risks and uncertainties

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

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

Law, regulation and finance

Principal Risks	Strategic Impact	Mitigation	Net Risk	Risk Appetite
Compliance with Laws and regulations	Long-term priorities affected: Leadership in UK waste and Leadership in cost base efficiency. Non-compliance may result in financial penalties, a negative impact on our ability to operate effectively and reputational damage.	We operate a robust and mature regulatory framework which ensures compliance. We maintain a proactive and positive relationship with our key environmental regulators the Environment Agency, Scottish Environmental Protection Agency (SEPA) and Natural Resources Wales. We continue to provide a rolling programme of training and guidance to our staff, contractors and partners, ensuring that we follow the Group's Code of Conduct. During the year the 'Speak Up' whistleblowing process allowed any concerns to be raised confidentially.	Low Net Risk Increasing Risk Level	We have the highest standards of compliance and have no appetite for legal and regulatory breaches.

Strategic Report (continued)

Risk Report (continued)

Law, regulation and finance (continued)

Principal Risks	Strategic Impact	Mitigation	Net Risk	Risk Appetite
Non-compliance or occurrence of avoidable health and safety incident	Long-term priorities affected: All. A breach of health and safety law could lead to financial penalties, significant legal costs and damage to the Group's reputation.	During the year there have been two fatalities that have occurred in the delivery of our activities. Both incidents are deeply tragic and full and thorough root cause analysis has been undertaken to identify additional actions required to prevent such incidents from occurring again alongside additional training and system upgrades. The effective management of health and safety risks continues to be a priority. Experienced health & safety professionals are providing advice, guidance and support to operational staff. During the year the Group operated the HomeSafe programme. In response to COVID-19 additional safety measures have been introduced to ensure that key activities across the Group can continue to be performed safely, in line with Government and public health guidance. This includes remote working, social distancing and the provision of additional hygiene and appropriate personal protective equipment (PPE). The easing of Government restrictions will require further consideration to ensure the Group's activities can continue to be delivered safely. This process is underway and Government and public health guidance will continue to be stringently followed.	Medium Net Risk Stable Risk Level	We have no appetite for incidents and have the highest standards of compliance within the Group and third parties.

Strategic Report (continued)

Risk Report (continued)

Market and economic conditions

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Macro-economic risks impacting commodity and power prices	Long-term priorities affected: Driving sustainable growth.	We remain well positioned across the waste hierarchy with long term contracts supporting the ERF business.	High Net Risk	We seek to take well-judged and informed decisions while ensuring plans are in place to mitigate the potential impact of macro-economic risks.
	Volatility in power prices has a direct impact on the revenues generated by our recycling and energy business.	Energy risk management, including forward hedges, is undertaken by a highly skilled specialist team.	Stable Risk Level	

Operating performance

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

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Business interruption or significant operational failures/ incidents	Long-term priorities affected: Leadership in UK waste and Driving sustainable growth.	We maintain detailed contingency plans and incident management procedures which are reviewed regularly, and assets are managed through a programme of planned and preventive maintenance and effective management of stores. The focus on the effective optimisation of the ERF fleet has resulted in c90% availability.	Medium Net Risk	We operate a low tolerance for significant operational failure and incidents and seek to mitigate these risks where possible.
	Business interruption caused by defects, outages or fire could impact the availability and optimisation of our ERFs and recycling facilities.		Increasing Risk Level	

Strategic Report (continued)

Risk Report (continued)

Operating performance (continued)

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Difficulty in recruitment, retention and development of appropriate skills, which are required to deliver the Group's strategy	Long-term priorities affected: All.	Our HR Strategy continues to be embedded and a range of initiatives have been delivered during the year to attract, retain and develop our employees. Succession plans are in place for senior positions. The Viridor Employee Voice Forum provides opportunities for employees to regularly discuss business priorities and challenges with business leaders. Mitigating actions have also been taken to reduce the impact of various potential Brexit scenarios on our workforce.	Medium Net Risk	We ensure the appropriate skills and experience are in place with succession plans providing adequate resilience.
	Failure to have a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Group forward.		Stable Risk Level	
Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Failure of information technology systems, management and protection including cyber risks	Long-term priorities affected: Leadership in UK waste.	We operate a mature and embedded governance framework over the 'business as usual' IT environment and major project implementations aligned to ISO27001 standards. Disaster recovery plans are in place for corporate and operational technology and these are regularly reviewed and tested. Cyber threats continue to increase in volume and sophistication. These risks are mitigated by a strong information security framework aligned to guidance issued by the National Cyber Security Centre (NCSC).	Medium Net Risk	We seek to minimise the risk of information technology failure and cyber security threats to the lowest level without detrimentally impacting on business operations
	Failure of our information technology systems, due to inadequate internal processes or external cyber threats could result in the business being unable to operate effectively and the loss of data. This would have a detrimental impact on our customers and result in financial penalties and reputational damage.		Increasing Risk Level	

Strategic Report (continued)

Risk Report (continued)

Capital investment

Principal Risks	Strategic impact	Mitigation	Net Risk	Risk Appetite
Failure or increased cost of capital projects/exposure to contract failures	Long-term priorities affected. Leadership in UK waste and Driving sustainable growth. 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.	All capital projects are subject to a robust business case process which includes challenge and risk modelling over key assumptions. Projects are delivered using skilled project management resources complimented by senior oversight and leadership. We are contractually entitled to recover funds from the original principal contractor Interserve Construction Limited, resulting from completed remediation work at Glasgow and we will take all necessary legal and procedural steps to achieve this. The redevelopment of Heathrow Airport continues to be closely monitored, with the Lakeside ERF joint venture located on the site of the proposed third runway. Lakeside ERF would have to be removed in the event this redevelopment occurs and we would expect to be fully compensated for the rebuild of the facility on a like for like basis.	High Net Risk Increasing Risk Level	Investment activities are taken on an informed basis with risks weighed against appropriate returns.

Strategic Report (continued)

Risk Report (continued)

Britain's exit from the European Union

Prior to Britain's exit from the EU detailed contingency plans had been established and tested to mitigate against potential issues that may have occurred in the event of a 'no-deal' scenario. Negotiations on a future trading agreement between Britain and the EU is ongoing and continues to be closely monitored. The impact of any agreement on the Group's operations and processes will be fully evaluated as further detail is confirmed. In the event that no agreement is reached, and trade arrangements revert to World Trade Organization (WTO) rules, existing contingency plans will ensure that the Group is well prepared to mitigate against any short-term impact that is likely to arise from this scenario.

Impact of COVID-19

We recognise the significant impact that COVID-19 has had globally and within the UK. In response to the current situation the UK Government has designated keyworker status to our front-line operational waste activities. In order to continue delivering the expected levels of service to our stakeholders we have reviewed our processes and ways of working and drawn on our continuity plans, while continuing to prioritise the health, safety and wellbeing of our employees and customers which remains paramount during this period. We continue to work closely with our key stakeholders ensuring a joined up and collaborative response and Senior managers continue to receive regular updates on the Group's response.

To date, our business has remained broadly resilient to the immediate risks that have been presented by COVID-19. It is likely, however, that there will be on-going restrictions in place during the next financial year which could provide continued challenges to the delivery of our key operational activities. Medium-term response planning has been undertaken to establish strategies to mitigate these risks where possible, which has considered a range of potential scenarios and been informed by actions taken by other countries impacted by the virus. These plans will continue to be reviewed and updated as further details and guidance emerges.

Forward-looking statements

This strategic report, consisting of pages 2 to 18, 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 18 was approved by the Board on 07 July 2020.

On behalf of the Board



Elliot Rees
Finance Director
07 July 2020

Directors' Report

The Directors' report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 19 to 22 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 18 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 £82.0 million (2019: £54.0 million).

The Directors do not recommend a final dividend (2019: nil). A first interim dividend of 3.96p per Ordinary share was paid during the year (2019: 3.02p per Ordinary share). A second interim dividend of 5.60p per Ordinary share was paid during the year (2019: 5.18p).

The review of performance on pages 2 to 18 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:

C Loughlin (appointed 17 September 2019)
S J Davy (appointed 17 September 2019)
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)

Stakeholder engagement

We are committed to carrying out our business in a responsible way and remain focused on continued dialogue with our stakeholders. We continue to engage actively with all our stakeholders, including our customers, our communities, our people and our suppliers, as well as with our investors. Our continuous engagement allows stakeholders to provide feedback on the matters they consider to be important and any issues which they would like to be addressed.

We set out below some of the most significant decisions taken during the year and how stakeholder interests were taken into account.

COVID-19 response

The impacted stakeholders were Employees, Customers and Shareholders

Factors taken into consideration were; Health, safety and wellbeing of employees and customers, Continued delivery of essential services and Maintaining a solid liquidity position.

The outcome was Directors support for the measures introduced by the management team.

Strategic plans

The impacted stakeholders were Shareholders, Employees, Customers and Communities

Factors taken into consideration were; Generation of value for shareholders, Continued delivery of high standards of service to customers and Regulatory and environmental compliance.

The outcome was Directors agreement of Strategic plans.

Employment policies and employee involvement

The average number of employees during the year was 2,986 (2019: 3,426). Details of the related costs can be found in note 11 to the financial statements.

Employee consultation is maintained via various 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. We hold regular 'Big Chat' calls with employees, providing them with the opportunity to hear directly from the Directors and ask any questions they wish.

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 operated several 'family-friendly' policies during the year, which exceed statutory requirements.

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.

Directors' Report (continued)

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 basis

The financial statements have been prepared on a going concern basis. At the time of the approving the financial statements the directors have a reasonable expectation that the Company has had adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The directors have given consideration to two possible scenarios; firstly, where the business continues to be owned by Pennon Group plc and secondly – as described in the Events after the reporting period note – where the business is acquired by Planets UK Bidco Limited ('Planets'). As the main conditions for this sale have now been fulfilled this is considered the most likely scenario. The primary assessment period for both scenarios is 12 months from the approval of the financial statements and any specific material events expected shortly thereafter.

The directors note that Planets has debt facilities in place for £2.2bn and equity contribution of £1.5bn to enable the payment of £3.7bn to Pennon Group plc for Viridor Limited and its subsidiaries. Planets also has in place a revolving credit facility of £300m which expires in July 2025. Once the purchase has been enacted, Planets is expected to use £113m of this facility as bonds and guarantees required by Viridor's principal customers. Planets is also expected to be owed £1.2bn from Viridor Ltd as an intercompany payable with repayment terms to be agreed.

When considering the going concern position, management has prepared two cash flow scenarios – a base case and a downside case. The base case cashflows are assumed to not be materially impacted by the Covid-19 pandemic. The downside case acknowledges a reduction in volume throughput during the assessment period and some exposure to credit risk. The base case and the downside case have significant headroom against available facilities. A reverse stress test has been performed to identify a scenario which could exhaust Planets' available facilities. This test demonstrates that there would have to be a very significant fall in uncontracted revenues to impact the ability to continue as a going concern. In all of these scenarios, Planets does not call the intercompany payable owed by Viridor Limited.

A financial covenant related to Planets' facilities is to be first assessed in September 2021. This financial covenant is a debt service coverage ratio comparing cash generated during a six-month period against interest payments. Whilst this first test is outside of the 12-month period following approval of the financial statements, the impact of the covenant has been assessed and there is significant headroom in both the base case and downside case scenarios. A reverse stress test has also been applied to breach the covenant – which demonstrates that there would have to be a significant fall in uncontracted revenues before the covenant is breached.

Because the available facilities are at a Planets level, the Directors have been provided with a letter of support from Planets which confirms that it will support Viridor Limited for the next twelve months and confirms that it does not intend on calling the intercompany payable.

In the unlikely event that the sale to Planets does not occur, then Viridor would remain a part of Pennon Group plc for the foreseeable future. The Directors have also been provided with a letter of support from Pennon Group plc for at least the twelve months from signing the financial statements.

For these reasons the Directors have a reasonable expectation that the Group has adequate resource to continue in operational existence for the period of at least 12 months from the date of the approval of the financial statements, and 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.

Events after the reporting period

Potential change in ownership of Viridor Limited

On 18 March 2020, the Parent Company of the Group, Pennon Group plc, announced they had entered into a formal sale agreement to dispose of Viridor Limited to Planets UK Bidco Limited, a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co.L.P. (KKR). The sale is conditional on approval by shareholders, competition authority approval, and other certain conditions. The first two of these conditions have now been met and the sale is expected to be completed in early summer 2020.

Further details of events after the reporting period are set out at note 41 of the financial statements.

The Directors' report was approved by the Board on 07 July 2020.

By Order of the Board



S E Massie
Company Secretary
07 July 2020

Directors' Responsibility Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIRIDOR LIMITED

Opinion

We have audited the financial statements of Viridor Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Group Profit and Loss Account, the Group and Parent company Balance Sheet, Group statement of cash flows, the Group statement of comprehensive income, the Group and Parent statement of changes in equity and the related notes 1 to 41, 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 2020 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.

Emphasis of matter

We draw attention to note 2(a) and note 41 of the financial statements, which describe the economic and social consequences the Group is facing as a result of COVID-19 and its intended sale to Planets UK Bidco Limited. Our opinion is not modified in respect of these matters.

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 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

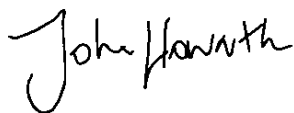
Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



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

07 July 2020

Consolidated income statement
for the year ended 31 March 2020

	Note	2020 Before non- underlying items £m	2020 Non- underlying items (Note 5) £m	2020 Total £m	2019 Before non- underlying items £m	2019 Non- underlying items £m	2019 Total £m
Revenue	6	757.8	-	757.8	852.7	-	852.7
Operating costs	6						
Manpower costs		(130.4)	4.9	(125.5)	(138.6)	(0.9)	(139.5)
Raw materials and consumables used		(87.2)	-	(87.2)	(94.3)	-	(94.3)
Other operating expenses		(342.2)	(1.1)	(343.3)	(440.9)	(28.7)	(469.6)
Profit before interest, tax, depreciation, amortisation and share of profit from joint ventures		198.0	3.8	201.8	178.9	(29.6)	149.3
Depreciation		(80.6)	-	(80.6)	(73.5)	-	(73.5)
Amortisation of intangibles		(4.0)	-	(4.0)	(4.5)	-	(4.5)
Operating profit		113.4	3.8	117.2	100.9	(29.6)	71.3
Finance income	7	28.4	-	28.4	26.2	-	26.2
Finance costs	7	(54.6)	-	(54.6)	(51.0)	-	(51.0)
Net financing	7	(26.2)	-	(26.2)	(24.8)	-	(24.8)
Share of post-tax profit from joint ventures	18	14.8	-	14.8	12.4	-	12.4
Profit before tax		102.0	3.8	105.8	88.5	(29.6)	58.9
Taxation	8	(12.8)	(11.0)	(23.8)	(10.5)	5.6	(4.9)
Profit for the year		89.2	(7.2)	82.0	78.0	(24.0)	54.0
Profit attributable to owners of the parent				77.9			54.2
Profit/(loss) attributable to non-controlling interests				4.1			(0.2)
				82.0			54.0

The notes on pages 34 to 101 form part of these financial statements.

Consolidated statement of comprehensive income
for the year ended 31 March 2020

	Note	2020 Before non- underlying items £m	2020 Non- underlying items (Note 5) £m	2020 Total £m	2019 Before non- underlying items £m	2019 Non- Underlying items £m	2019 Total £m
Profit for the year		89.2	(7.2)	82.0	78.0	(24.0)	54.0
Re-measurement of defined benefit obligations	27	11.4	-	11.4	(10.3)	-	(10.3)
Income tax on items that will not be reclassified		(1.3)	-	(1.3)	1.9	-	1.9
Total items that will not be reclassified to profit or loss		10.1	-	10.1	(8.4)	-	(8.4)
Share of other comprehensive income from joint ventures	18	0.2	-	0.2	0.5	-	0.5
Cash flow hedges		0.1	-	0.1	(2.9)	-	(2.9)
Income tax on items that may be reclassified		-	-	-	0.5	-	0.5
Total items that may be subsequently reclassified to profit or loss		0.3	-	0.3	(1.9)	-	(1.9)
Other comprehensive income/(loss) for the year net of tax		10.4	-	10.4	(10.3)	-	(10.3)
Total comprehensive income for the year		99.6	(7.2)	92.4	67.7	(24.0)	43.7
Attributable to owners of the parent				87.5			44.7
Attributable to non-controlling interests				4.9			(1.0)
				92.4			43.7

The notes on pages 34 to 101 form part of these financial statements.

Balance sheets
at 31 March 2020

		Group		Company	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Assets					
Non-current assets					
Goodwill	13	328.5	330.4	-	-
Other intangible assets	14	86.9	90.9	-	-
Property, plant and equipment	15	1,582.3	1,412.5	-	-
Other non-current assets	17	261.4	256.3	1,876.8	1,714.6
Investment in subsidiary undertakings	18	-	-	411.7	411.7
Investments in joint ventures	18	60.1	51.1	-	-
		2,319.2	2,141.2	2,288.5	2,126.3
Current assets					
Inventories	19	29.9	23.9	-	-
Trade and other receivables	20	281.2	300.7	42.1	37.8
Derivative financial instruments	21	0.1	0.2	-	-
Current tax assets	24	-	0.5	-	-
Cash and cash equivalents	22	33.3	36.1	1.3	1.6
		344.5	361.4	43.4	39.4
Liabilities					
Current liabilities					
Trade and other payables	23	(153.1)	(177.4)	-	-
Current tax liabilities	24	(0.9)	-	(43.1)	(37.1)
Borrowings	25	(19.0)	(102.5)	-	-
Provisions	29	(26.7)	(27.7)	-	-
		(199.7)	(307.6)	(43.1)	(37.1)
Net current assets		144.8	53.8	0.3	2.3
Non-current liabilities					
Borrowings	25	(1,428.9)	(1,165.2)	(1,183.5)	(999.6)
Other non-current liabilities	26	(14.4)	(32.0)	-	-
Retirement benefit obligations	27	(15.1)	(34.7)	-	-
Deferred tax liabilities	28	(97.7)	(64.7)	-	-
Provisions	29	(210.8)	(203.1)	-	-
		(1,766.9)	(1,499.7)	(1,183.5)	(999.6)
Net assets		697.1	695.3	1,105.3	1,129.0

Balance sheets (continued)
at 31 March 2020

		Group		Company	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Equity					
Equity attributable to owners of the parent					
Share capital	30	898.2	898.2	898.2	898.2
Share premium account	31	95.2	95.2	95.2	95.2
Retained earnings and other reserves	32	(296.3)	(305.2)	111.9	135.6
Total equity attributable to owners of the parent		697.1	688.2	1,105.3	1,129.0
Non-controlling interests		-	7.1	-	-
Total equity		697.1	695.3	1,105.3	1,129.0

The notes on pages 34 to 101 form part of these financial statements.

The financial statements on pages 27 to 101 were approved by the Board of Directors and authorised for issue on 07 July 2020 and were signed on its behalf by:



Elliot Rees
Finance Director
07 July 2020

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 2020

	Share capital (Note 30) £m	Share premium account (Note 31) £m	Retained earnings and other reserves (Note 32) £m	Total £m	Non- controlling interests £m	Total equity £m
Group						
At 1 April 2018	898.2	95.2	(277.2)	716.2	8.1	724.3
Profit for the year	-	-	54.2	54.2	(0.2)	54.0
Other comprehensive income for the year	-	-	(9.5)	(9.5)	(0.8)	(10.3)
Total comprehensive profit for the year	-	-	44.7	44.7	(1.0)	43.7
Transactions with owners						
Dividends paid	-	-	(73.6)	(73.6)	-	(73.6)
Adjustments in respect of share-based payments (net of tax)	-	-	0.9	0.9	-	0.9
Proceeds of share issue	-	-	(72.7)	(72.7)	-	(72.7)
Total transactions with owners	-	-	(49.9)	300.1	-	300.1
At 31 March 2019	898.2	95.2	(305.2)	688.2	7.1	695.3
Transition to IFRS 16 (note 39)			(6.2)	(6.2)	-	(6.2)
Profit for the year	-	-	77.9	77.9	4.1	82.0
Other comprehensive income for the year	-	-	9.6	9.6	0.8	10.4
Total comprehensive income for the year	-	-	87.5	87.5	4.9	92.4
Transactions with owners						
Dividends paid	-	-	(85.9)	(85.9)	-	(85.9)
Adjustments in respect of share-based payments (net of tax)	-	-	1.5	1.5	-	1.5
Capital contribution received	-	-	12.0	12.0	(12.0)	-
Total transactions with owners	-	-	(72.4)	(72.4)	(12.0)	(84.4)
At 31 March 2020	898.2	95.2	(296.3)	697.1	-	697.1

The notes on pages 34 to 101 form part of these financial statements.

Statements of changes in equity (continued)
For the year ended 31 March 2020

	Share capital (Note 30) £m	Share premium account (Note 31) £m	Retained earnings and other reserves (Note 32) £m	Total equity £m
Company				
At 1 April 2018	898.2	95.2	100.8	1,094.2
Profit for the year	-	-	108.4	108.4
Total comprehensive income for the year	-	-	108.4	108.4
Transactions with owners				
Dividends paid	-	-	(73.6)	(73.6)
Total transactions with owners	-	-	(73.6)	(73.6)
At 31 March 2019	898.2	95.2	135.6	1,129.0
Profit for the year	-	-	62.2	62.2
Total comprehensive income for the year	-	-	62.2	62.2
Capital contribution issued	-	-	(125.2)	(125.2)
Transactions with owners				
Dividends paid	-	-	(85.9)	(85.9)
Capital contribution received	-	-	125.2	125.2
Total transactions with owners	-	-	(43.8)	(43.8)
At 31 March 2020	898.2	95.2	111.9	1,105.3

The notes on pages 34 to 101 form part of these financial statements.

Cash flow statements

For the year ended 31 March 2020

		Group		Company	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	33	178.0	109.6	(204.3)	(214.6)
Interest paid	33	(40.1)	(45.3)	(37.9)	(37.5)
Tax received/(paid)		11.3	4.9	(0.3)	(0.5)
Net cash generated from/(used in) operating activities		149.2	69.2	(242.5)	(252.6)
Cash flows from investing activities					
Interest received		13.1	6.8	108.5	55.6
Dividends received	18,38	6.0	5.5	35.6	73.6
Investment in joint ventures		-	(54.8)	-	-
Repayment of loans by joint ventures		0.5	0.5	-	-
Purchase of property, plant and equipment		(162.6)	(217.9)	-	-
Proceeds from sale of property, plant and equipment		9.9	4.3	-	-
Net cash (used in)/generated from investing activities		(133.1)	(255.6)	144.1	129.2
Cash flows from financing activities					
Investment in restricted funds		-	0.5	-	-
Proceeds from new borrowing		190.7	188.5	184.0	188.5
Repayment of borrowing		(8.9)	(14.7)	-	(12.7)
Finance lease principal repayments		(23.1)	(11.9)	-	-
Dividends paid	10	(85.9)	(73.6)	(85.9)	(73.6)
Net cash generated from financing activities		72.8	88.8	98.1	102.2
Net increase/(decrease) in cash and cash equivalents		88.9	(97.6)	(0.3)	(21.2)
Cash and cash equivalents at beginning of the year	22	(56.9)	40.7	1.6	22.8
Cash and cash equivalents at end of the year	22	32.0	(56.9)	1.3	1.6

The notes on pages 34 to 101 form part of these financial statements.

Notes to the financial statements

1. General information

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

2. Principal accounting policies

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

(a) Basis of preparation

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

Going Concern

The going concern basis has been adopted in preparing the financial statements as stated by the Directors on page 21.

New standards and interpretations

Other than the adoption of IFRS 16, which is explained in note 39, new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2019 did not have a material impact on the net assets or results of the Group.

New standards or interpretations due to be adopted from 1 April 2020 are not expected to have a material impact on the Group's net assets or results. Existing borrowing covenants are not impacted by changes in accounting standards.

(b) Basis of consolidation

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

The results of subsidiaries and joint venture undertakings are included from the date of acquisition or incorporation and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group has the power to control the financial and operating policies of a subsidiary. The results of joint venture and associate undertakings are accounted for on an equity basis. Intra-group trading, loan balances and transactions are eliminated on consolidation.

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

Once control is achieved any change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(c) Revenue recognition

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

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

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

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

Revenue excludes value added tax, trade discounts and revenue arising from transactions between Group companies. Revenue includes landfill tax and compensation receivable for loss of earnings.

Energy sales

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

Waste Management Services

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

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

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

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

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

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

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(c) Revenue recognition (continued)

Waste Management Services (continued)

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

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

- other intangible assets (when the concession grantor has not provided a contractual guarantee in respect of the recoverable amount regardless of the service use by customers).

- other non-current financial assets (when the concession grantor contractually guarantees the payment of amounts determined in the contract or the shortfall, if any, between amounts received from users of the public service and amounts specified or determined in the contract).

No payments are received during the construction phase.

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

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

Recyclate

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

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

Contract assets and liabilities

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

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(d) Landfill tax

As a licensed landfill operator, there is a direct obligation to pay Landfill tax, which represents a significant waste disposal cost of production for the business.

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

(e) Segmental reporting

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

(f) Foreign exchange

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

(g) Goodwill

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

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

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

(h) Other intangible assets

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

Other intangible assets acquired in a business combination are capitalised at fair value at the date of acquisition. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives, with the expense taken to the income statement through operating costs.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(i) Property, plant and equipment

i) Landfill sites

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

ii) Landfill restoration

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

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

Other assets are included at cost less accumulated depreciation.

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

Freehold buildings: 30-50 years

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

Energy recovery facilities: 25-40 years

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

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

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

Asset lives and residual values are reviewed annually.

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

(j) Grants and contributions

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

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

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(k) Leased assets

Leased assets are accounted for by recognising a right-of-use-asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Contracts previously classified as 'operating leases' under IAS 17 are measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. After initial measurement, lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The interest element of cash payments in respect of these leases is included within interest payments in determining net cash generated from operating activities. The capital element of the cash payment is included within cash flows from financing activities. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or the remaining economic life of the asset if shorter. When the Group revisits its estimate of lease term (because, for example, it reassesses an extension option), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which is discounted at the same discount rate that applied on lease commencement. In these circumstances an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Measurement and recognition of assets and liabilities previously accounted for as 'finance leases' under IAS 17 continue to apply following the adoption of IFRS 16. Assets continue to be included within property, plant and equipment as right-of-use assets, 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.

The impact of the adoption of IFRS 16 'Leases' on 1 April 2020 is set out in note 39.

(l) Impairment of non-financial assets

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

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

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

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

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

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

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

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

(o) Inventories

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

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

(p) Cash and cash deposits

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(q) Derivatives and other financial instruments

Financial instruments are recognised and measured in accordance with IFRS 9.

The Group classifies its financial instruments in the following categories:

i) Debt instruments at amortised cost

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

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

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

ii) Trade receivables

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

iii) Trade payables

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

iv) Financial assets arising from service concession arrangements

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

v) Derivative financial instruments and hedging activities

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

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

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

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

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

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

vi) Receivables due from subsidiary undertakings

Amounts owed by subsidiaries are classified and recorded at amortised cost and reduced by allowances for expected credit losses. Estimated future credit losses are first recorded on initial recognition of a receivable and are based on estimated probability of default.

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(r) Taxation including deferred tax

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

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

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

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

(s) Provisions

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

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

i) Landfill restoration costs

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

ii) Environmental control and aftercare costs

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

iii) Underperforming contracts

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

(t) Share capital

Ordinary shares are classified as equity.

(u) Dividend distributions

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

Notes to the financial statements (continued)

2. Principal accounting policies (continued)

(v) Employee benefits

i) Retirement benefit obligations

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

Defined benefit pension schemes

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

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

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

Defined contribution scheme

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

ii) Share-based payment

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

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

(w) Pre-contract and development costs

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

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

(x) Fair values

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

(y) Non-underlying items

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

Notes to the financial statements (continued)

3. Financial risk management

The financial risk management policies reflect conditions that existed throughout the years ending 31 March 2019 and 31 March 2020.

(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. During the year the Group received services from the treasury function of its ultimate parent, Pennon Group plc, which sought to ensure that sufficient funding is available to meet foreseeable needs, maintain reasonable headroom for contingencies and manage inflation and interest rate risk.

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

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

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

i) Market risk

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

At the year-end, 42% of Group borrowings were at fixed rates. This debt is owed to Pennon Group plc, the ultimate parent company. Further details of Pennon Group plc's treasury methodologies can be found in the risk management section of its annual report. If interest rates on variable net borrowings had been on average 0.5% higher/lower (as applied in the financial statements of the ultimate parent) with all other variables held constant, post-tax profit for the year would have decreased/increased by £3.3 million (2019: £2.9 million).

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

Notes to the financial statements (continued)

3. Financial risk management (continued)

(a) Financial risk factors (continued)

ii) Liquidity risk

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

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

The Group has not entered into any covenants with lenders.

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

Contractual undiscounted cash flows were:

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Over 5 years £m	Total £m
Group					
31 March 2020					
Non-derivative financial liabilities					
Borrowings excluding lease liabilities	-	72.9	231.7	894.9	1,199.5
Interest payments on borrowings	12.8	12.6	32.6	75.5	133.5
Lease liabilities including interest	25.8	24.1	57.0	293.0	399.9
31 March 2019					
Non-derivative financial liabilities					
Borrowings excluding Lease liabilities	-	43.2	132.0	842.5	1,017.7
Interest payments on borrowings	42.4	41.4	114.2	320.4	518.4
Lease liabilities including interest	14.5	12.8	35.5	159.2	222.0
Company					
31 March 2020					
Non-derivative financial liabilities					
Borrowings	-	70.8	225.3	887.4	1,183.5
Interest payments on borrowings	11.8	11.7	30.6	74.6	128.7
31 March 2019					
Non-derivative financial liabilities					
Borrowings	-	40.8	124.7	834.1	999.6
Interest payments on borrowings	41.3	40.3	111.9	319.5	513.0

Notes to the financial statements (continued)

3. Financial risk management (continued)

(a) Financial risk factors (continued)

iii) Credit risk

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

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

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

(b) Capital risk management

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

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

(c) Commodity risk

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

(d) Energy price risk

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

(e) Determination of fair values

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

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

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

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

Notes to the financial statements (continued)

3. Financial risk management (continued)

(e) Determination of fair values (continued)

The carrying values less expected credit losses 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

Environmental and landfill restoration provisions

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

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

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

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

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

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

As at 31 March 2020 the Group's environmental and landfill restoration provisions were £201.3 million (2019: £209.8 million) (note 29). Where a restoration provision is an integral part of a landfill site's future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy. As at 31 March 2020 these assets had a net book value of £27.0 million (2019: £30.8 million) (note 15).

Retirement benefit obligations

The Group operates defined benefit pension schemes for which actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The most recent triennial valuation of the main scheme was as at 31 March 2019 and has recently been concluded, the outcome of which is summarised in note 27.

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 2019 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)

Taxation

The Group's current tax payable of £0.9 million (2019: £0.5 million receivable), includes £1.1 million payable in relation to prior year tax items.

The Group continues to have a small number of ongoing uncertain tax items primarily relating to the interpretation of tax legislation regarding different tax aspects of its energy recovery facilities. This is part of the normal course of business and the Group has paid, in full, the tax HMRC interpret as due and therefore would benefit by a cash refund of up to £24.0 million (2018/19 restated £26.2 million), should these tax items be concluded in the Group's favour. The Group is continuing to work towards resolution of these matters with HMRC. The amount of the cash refund will reduce over time as the points at stake mainly relate to timing issues.

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 £260.9 million (2019: £247.7 million) and other intangible assets of £86.9 million (2019: £90.7 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.

Judgements

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.

Glasgow recycling and renewable energy centre (GRREC)

Since commencement, the total spend to bring the project into full operation, has been £273.0 million, comprising the original target of £155.0 million, a further £21.0 million invested to provide additional throughput capacity and £97.0 million to address remediation and non-conformities. Under certain circumstances the Group is contractually entitled to recover the incremental remediation and non-conformities spend, including from the original contractor, Interserve Construction Limited. The Group believes these circumstances have been met and a substantial element of the incremental remediation and non-conformities spend is recoverable from Interserve. While Interserve disputes the amount due (dialogue is ongoing), the Group are continuing to legally pursue the matter.

The associated contract with Glasgow City Council is accounted for in accordance with IFRIC 12 service concession arrangements and the spend of £273.0 million has contributed £117.0 million to a financial asset, £84.0 million to an intangible asset and a contract receivable from Interserve of £72.0 million. In accordance with IFRS 9, the Group has made credit related provisions recognising that Interserve's financial condition has been under stress. The Group has considered all relevant available public information concerning Interserve and at 31 March 2020 recognises a provision of £28.2 million, resulting in a net receivable due of £43.8 million (2019: £43.3 million). Due to uncertainty and the level of judgement associated with the provision related to the specific recovery from Interserve, it is possible that the final outcome may differ from the net receivable recognised, with the boundaries for the possible outcome being zero and £72.0 million.

Notes to the financial statements (continued)

5. Non-underlying items

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

	Note	2020 £m	2019 £m
Operating costs			
Pension past service credit (1)	27	4.9	-
COVID-19 provision for expected credit losses (2)		(1.1)	-
Pension past service cost (GMP equalisation impact) (3)	27	-	(0.9)
Provision for receivable (Interserve in respect of Glasgow Recycling and Renewable Energy Centre) (4)		-	(28.7)
Operating Profit/(loss)		3.8	(29.6)
Deferred tax change in rate (5)		(10.3)	-
Tax (charge)/credit arising on non-underlying items	8	(0.7)	5.6
Net non-underlying charge		(7.2)	(24.0)

(1) Upon cessation of the Greater Manchester contract, employees were transferred to the new contract provider. Accordingly, defined benefit pension commitments for these employees are in the process of being transferred. The past service credit of £4.9 million (2019: £nil) reflects curtailment and other gains resulting from transferring employees from an active to a deferred status in the schemes.

(2) In response to the COVID-19 pandemic a detailed expected credit loss review has been undertaken. Economic and credit conditions are worsening; however, the UK Government continue to implement economic measures to support the wider economy. As a result of the review, a Group provision of £1.1m has been recognised.

(3) On 26 October 2019, the High Court of Justice of England and Wales issued a judgement in a claim regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits (GMP equalisation). The Group estimates, with advice from the Group's corporate actuary, that scheme liabilities will increase by an estimated £0.9 million as a result of the judgement. This cost has been recognised as a past service cost in the current year income statement. The charge is considered non-underlying due to its size and nonrecurring nature.

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

(5) Following the Chancellor's Budget on 11 March 2020 the UK headline tax rate will remain at 19%. It was previously set to reduce to 17% from 1 April 2020 and that change has now been cancelled. All deferred tax assets and liabilities have therefore been recalculated to crystallise at 19%, resulting in a non-underlying deferred tax charge in the year of £10.3m. The change was substantively enacted on 17 March 2020. The charge is considered non-underlying due to it arising from a material legislative change and its treatment is consistent with that applied in relation to previous change in the rate of corporation tax.

Notes to the financial statements (continued)

6. Operating profit

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

Year ended 31 March 2020	UK £m	Rest of EU £m	China £m	Rest of World £m	Total £m
Waste management services	571.8	-	-	-	571.8
Energy	109.2	-	-	-	109.2
Recyclate	50.9	11.8	3.8	10.3	76.8
	731.9	11.8	3.8	10.3	757.8

Year ended 31 March 2019	UK £m	Rest of EU £m	China £m	Rest of World £m	Total £m
Waste management services	656.1	-	-	-	656.1
Energy	88.9	-	-	-	88.9
Recyclate	57.3	13.8	25.6	11.0	107.7
	802.3	13.8	25.6	11.0	852.7

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

Operating costs (before non-underlying items)

	Note	2020 £m	2019 £m
Manpower costs	11	130.4	138.6
Raw materials and consumables		87.2	94.3
Other operating expenses			
Profit on disposal of property, plant and equipment		(2.1)	(2.3)
Lease rentals payable:			
– Plant and machinery		7.7	16.9
– Property		-	7.5
Trade receivables impairment	20	(1.0)	0.3
Amortisation of deferred income		(2.5)	(2.0)
Hired and contracted services		143.5	155.6
Other external charges		196.6	264.9
		342.2	440.9
Depreciation of property, plant and equipment:			
– Owned assets		62.3	66.9
– Leased assets		18.3	6.6
		80.6	73.5
Amortisation of intangible assets	14	4.0	4.5

Lease rentals payable in the current year relate to leases classified as short-term or low-value in accordance with IFRS 16. Lease rentals payable in the prior year relate to operating lease payments as per the definition in IAS 17, the requirements of which were superseded by the adoption of IFRS 16 on 1 April 2019 (note 39).

Included within leased asset depreciation is a charge of £5.7m (2019: £6.6m) relating to assets that were classified as finance leases before the implementation of IFRS 16 on 1 April 2019 (note 39).

Notes to the financial statements (continued)

6. Operating profit (continued)

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

Fees payable to the Company's auditors in the year were:	2020	2019
	£000	£000
Fees payable to the Company's auditors for assurance services provided to the Group	400	375
	400	375

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

		2020			2019		
	Note	Finance costs £m	Finance income £m	Total £m	Finance costs £m	Finance income £m	Total £m
Cost of servicing debt							
Loans from parent undertaking	38	(41.7)	-	(41.7)	(41.8)	-	(41.8)
Bank borrowings and overdrafts		-	-	-	-	-	-
Interest element of lease rentals		(6.5)	-	(6.5)	(3.8)	-	(3.8)
Other loans		(0.3)	0.2	(0.1)	-	0.1	0.1
Interest receivable from loans to joint ventures	38	-	7.2	7.2	-	5.3	5.3
		(48.5)	7.4	(41.1)	(45.6)	5.4	(40.2)
Capitalised interest		8.6	-	8.6	12.4	-	12.4
		(39.9)	7.4	(32.5)	(33.2)	5.4	(27.8)
Notional interest							
Interest receivable on service concession arrangements		-	15.1	15.1	-	14.6	14.6
Retirement benefit obligations	27	(6.5)	5.9	(0.6)	(6.7)	6.2	(0.5)
Unwinding of discounts on provisions and non-current liabilities	29	(8.2)	-	(8.2)	(11.1)	-	(11.1)
		(14.7)	21.0	6.3	(17.8)	20.8	3.0
Net finance costs		(54.6)	28.4	(26.2)	(51.0)	26.2	(24.8)

Finance costs include a credit of £8.6 million (2019: credit of £12.4 million) for interest capitalised relating to the construction of Energy Recovery Facilities and other significant projects where construction exceeds one year.

Included within the interest element of leases rentals are costs of £3.2m (2019: £3.8m) previously classified as finance leases under IAS 17, prior to implementation of IFRS 16 (note 39).

The loans on which the interest is charged are provided by the ultimate parent undertaking at funding rates explained in note 38.

Notes to the financial statements (continued)

8. Taxation

	Note	2020 Before non- underlying items £m	2020 Non-underlying items (Note 5) £m	2020 Total £m	2019 £m
Analysis of charge/(credit) in year					
Current tax		(9.6)	(0.2)	(9.8)	(5.7)
Deferred tax	28	22.4	11.2	33.6	10.6
Tax charge for the year		12.8	11.0	23.8	4.9

Current corporation tax is calculated at 19% (2019: 19%) of the estimated assessable profit for the year.

UK corporation tax is stated after a credit relating to prior year current tax of £9.0 million (2019: £1.3 million charge) and a prior year deferred tax charge of £3.0 million (2019: £7.6 million credit).

The total tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2019: 19%) from:

	2020 £m	2019 £m
Profit before tax	105.8	58.9
Profit multiplied by the standard rate of UK corporation tax of 19% (2019: 19%)	20.1	11.2
Effects of:		
Expenses not deductible for tax purposes	0.1	1.8
Depreciation charged on non qualifying assets	1.6	1.8
Profit/loss arising on disposal of non qualifying assets	0.4	(0.4)
Joint venture profits not taxed	(2.8)	(2.4)
Change in UK tax rates	10.3	-
Other	0.1	(0.8)
Adjustments to tax charge in respect of prior years	(6.0)	(6.3)
Tax charge for the year	23.8	4.9

The average effective tax rate for the year, before non-underlying items, is 12.6% (2019: 11.9%).

The adjustments to the tax charge in respect of prior years, represents a current tax credit of £9.0 million and a deferred tax charge of £3.0 million. These reflect agreements reached with tax authorities in respect of open enquiries and the release of historic liabilities.

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% (2019: 19%) from:

	2020 £m	2019 £m
Profit before tax	105.8	58.9
Profit multiplied by the standard rate of UK corporation tax of 19% (2019: 19%)	20.1	11.2
Effects of:		
Expenses not deductible for tax purposes	0.1	1.8
Relief for capital allowances in place of depreciation	(30.6)	(32.2)
Depreciation disallowed	15.1	13.5
Relief for capitalised interest and foreign exchange gains/losses	(1.4)	(2.0)
Adjustments to tax charge in respect of prior years	(9.0)	1.3
Joint venture profits not taxed	(2.8)	(2.4)
Other timing differences	(1.3)	3.1
Current tax credit for year	(9.8)	(5.7)

The average effective tax rate for the year is minus 9.2% (2019: minus 9.7%).

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

The headline UK tax rate will now be held at 19% (rather than reducing to 17% as previously enacted) following the Chancellor's Budget on 11 March 2020. The change to remain at 19% was substantively enacted on 17 March 2020.

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

In addition to the amounts recognised in the income statement the following tax charges and credits were also recognised:

	2020 £m	2019 £m
Amounts recognised directly in other comprehensive income		
Deferred tax charge/(credit) on defined benefit pension schemes	1.3	(1.9)
Deferred tax charge/(credit) on cash flow hedges	-	(0.5)
	1.3	(2.4)
Amounts recognised directly in equity		
Deferred tax credit on share based payments	(0.5)	(0.1)
	(0.5)	(0.1)

Notes to the financial statements (continued)

9. Profit of the parent company

	2020	2019
	£m	£m
Profit attributable to owners of the parent dealt with in the financial statements of Viridor Limited	62.2	108.4

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

	2020	2019
	£m	£m
Amounts recognised as distributions to the ultimate parent undertaking in the year:		
First interim dividend for the year ended 31 March 2020: 3.96p per share paid on 30 September 2019 (2019: 3.02p per share was paid on 31 August 2018)	35.6	27.1
Second interim dividend for the year ended 31 March 2020: 5.60p per share paid on 31 March 2020 (2019: 5.18p per share paid on 29 March 2019)	50.3	46.5
	85.9	73.6

11. Employment costs (before non-underlying items)

	2020	2019
	£m	£m
Wages and salaries	113.7	120.7
Social security costs	11.5	12.5
Other pension costs	8.7	13.3
Share-based payments	1.0	1.0
Total employment costs	134.9	147.5
Charged as follows:		
Manpower costs	130.4	138.6
Construction in progress	4.5	8.9
	134.9	147.5

Past service credits in relation to defined benefits schemes of £4.9m (note 27) are included in non-underlying employment costs reflecting curtailment and other gains resulting from transferring employees from an active to a deferred status in the schemes (see note 5). (2019: costs of £0.9m relating to the gender equalization of guaranteed minimum pensions for occupational pension schemes.)

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

Notes to the financial statements (continued)

11. Employment costs (continued)

	2020	2019
Employees (average full time equivalent number)		
The average monthly number of employees	2,986	3,426
Total number of employees at 31 March	2,899	3,599
	2020	2019
Average number of employees by category		
Operations	2,690	3,130
Administration	296	296
	2,986	3,426

12. Directors' emoluments

	2020	2019
	£000	£000
Salary	835	799
Performance-related bonus payable	164	238
Share-based payment	466	395
Pension	15	34
Other emoluments	11	12
Total emoluments	1,491	1,478

No directors were compensated for the loss of office during the year (2019: none)

In addition to the performance-related bonus payable, 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 (2019: one). 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 £186,000 (2019: £22,000).

At 31 March 2020 no retirement benefits were accruing to Directors under defined benefit pension schemes (2019: nil).

During the year two Directors were members of the Group's defined contribution pension scheme (2019: two).

The emoluments for two of the Directors are paid by the ultimate parent company and do not form part of this disclosure. Details of their emoluments are included within the financial statements of the ultimate parent company.

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

	2020	2019
	£000	£000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	626	624

Notes to the financial statements (continued)

13. Goodwill

	£m
Cost:	
At 1 April 2018	330.4
At 31 March 2019	330.4
Disposal	(1.9)
At 31 March 2020	328.5
Carrying amount:	
At 1 of April 2018	330.4
At 31 March 2019	330.4
At 31 March 2020	328.5

A disposal of £1.9m was required in relation to the recycling and reprocessing services provided under the Manchester contract, which the Group ceased to operate on 31 May 2019.

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 valuation technique used in the year has followed a fair value less costs of disposal calculation. The data used to assess the fair value has been determined by reference to the valuation placed upon the Group by an external third party, as noted in note 41.

The results of the tests performed during the year demonstrate significant headroom 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

	Service concession arrangements £m	Customer Contracts £m	Patents £m	Total £m
<i>Acquired intangible assets</i>				
Cost:				
At 31 March 2018	69.7	34.1	0.2	104.0
Additions	24.8	-	-	24.8
At 31 March 2019	94.5	34.1	0.2	128.8
Additions	-	-	-	-
Disposals	-	(34.1)	(0.2)	(34.3)
At 31 March 2020	94.5	-	-	94.5
Accumulated amortisation and impairment:				
At 1 April 2018	0.5	32.7	0.2	33.4
Charge for year	3.3	1.2	-	4.5
At 31 March 2019	3.8	33.9	0.2	37.9
Charge for year	3.8	0.2	-	4.0
Disposals	-	(34.1)	(0.2)	(34.3)
At 31 March 2020	7.6	-	-	7.6
Carrying amount:				
At 31 March 2018	69.2	1.4	-	70.6
At 31 March 2019	90.7	0.2	-	90.9
At 31 March 2020	86.9	-	-	86.9

Fully written down customer contracts and patents were disposed during the year. Prior to disposal Customer contracts were amortised over the useful economic life of each contract, which at acquisition ranged between 5 and 12 years.

Service concession arrangements are amortised over the useful life of each contract. The weighted average remaining life is 24 years following a contract extension (2019: 21 years). The carrying values of 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.

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
Cost:						
At 1 April 2018		463.5	1,118.8	82.7	380.4	2,045.4
Additions		5.0	-	22.8	205.2	233.0
Disposals		(0.7)	(14.4)	-	-	(15.1)
Transfers/reclassifications		-	354.8	-	(354.8)	-
At 31 March 2019		467.8	1,459.2	105.5	230.8	2,263.3
Transition to IFRS 16	39	85.5	14.7	-	-	100.2
At 1 April 2019		553.3	1,473.9	105.5	230.8	2,363.5
Additions		11.2	5.7	5.3	143.4	165.6
Disposals		(4.0)	(109.8)	-	-	(113.8)
Transfers/reclassifications		-	69.6	-	(69.6)	-
At 31 March 2020		560.5	1,439.4	110.8	304.6	2,415.3
Accumulated depreciation and impairment:						
At 1 April 2018		390.3	335.7	64.3	-	790.3
Charge for year		9.3	53.8	10.4	-	73.5
Disposals		(0.2)	(12.8)	-	-	(13.0)
At 31 March 2019		399.4	376.7	74.7	-	850.8
Charge for year		15.0	57.0	9.1	-	81.1
Disposals		(0.6)	(98.3)	-	-	(98.9)
At 31 March 2020		413.8	335.4	83.8	-	833.0
Net book value:						
At 31 March 2018		73.2	783.1	18.4	380.4	1,255.1
At 31 March 2019		68.4	1,082.5	30.8	230.8	1,412.5
At 31 March 2020		146.7	1,104.0	27.0	304.6	1,582.3

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

The increase of £5.3 million in landfill restoration recognised in the year (2019: £22.8 million) has been matched with an addition to environmental provisions (note 29).

During the year borrowing costs of £8.6 million (2019: £12.4 million) have been capitalised (note 7) on qualifying assets at an average borrowing rate of 3.7% (2019: 4.1%).

During the year depreciation of £0.5 million (2019: £nil) has been capitalised in relation to leased assets used during the construction phase of Energy Recovery Facilities and other significant projects where construction exceeds one year.

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)

Right of use assets held under leases included above were:

	Notes	Land and buildings £m	Fixed and mobile plant, vehicles and computers £m	Total £m
Cost:				
At 31 March 2019		-	182.4	182.4
Transition to IFRS 16	39	85.5	14.7	100.2
At 1 April 2019		85.5	197.1	282.6
Additions		0.4	5.7	6.1
Disposals		(1.7)	(9.0)	(10.7)
At 31 March 2020		84.2	193.8	278.0
Accumulated depreciation and impairment:				
At 31 March 2019		-	60.1	60.1
Charge for year		5.4	13.4	18.8
Disposals		(0.2)	(8.1)	(8.3)
At 31 March 2020		5.2	65.4	70.6
Net book value:				
At 31 March 2019		-	122.3	122.3
At 31 March 2020		79.0	128.4	207.4

Included within the net book value of Fixed and mobile plant, vehicles and computers is £115.7m (2019: £122.3m) previously classified as finance leased assets under IAS 17, prior to implementation of IFRS 16 (note 39).

Notes to the financial statements (continued)

16. Financial instruments by category

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

Group	Note	Fair value	Amortised cost		Total £m
		Derivatives used for cash flow hedging £m	Debt instruments £m	Trade receivables and trade payables £m	
31 March 2020					
Financial assets					
Trade receivables	20	-	-	93.9	93.9
Other receivables	17, 20	-	260.9	43.7	304.6
Derivative financial instruments	21	0.1	-	-	0.1
Cash and cash deposits	22	-	33.3	-	33.3
Total		0.1	294.2	137.6	431.9
Financial liabilities					
Borrowings	25	-	(1,447.9)	-	(1,447.9)
Trade and other payables	23	-	-	(57.2)	(57.2)
Total		-	(1,447.9)	(57.2)	(1,505.1)
31 March 2019					
Financial assets					
Trade receivables	20	-	-	122.2	122.2
Other receivables	17, 20	-	247.7	43.3	291.0
Derivative financial instruments	21	0.2	-	-	0.2
Cash and cash deposits	22	-	36.1	-	36.1
Total		0.2	283.8	165.5	449.5
Financial liabilities					
Borrowings	25	-	(1,267.7)	-	(1,267.7)
Trade and other payables	23	-	-	(41.5)	(41.5)
Total		-	(1,267.7)	(41.5)	(1,309.2)
Company					
31 March 2020					
Financial assets					
Trade and other receivables	17, 20	-	1,918.9	-	1,918.9
Cash and cash deposits	22	-	1.3	-	1.3
Total		-	1,920.2	-	1,920.2
Financial liabilities					
Borrowings	25	-	(1,183.5)	-	(1,183.5)
Total		-	(1,183.5)	-	(1,183.5)
31 March 2019					
Financial assets					
Trade and other receivables	17, 20	-	1,752.4	-	1,752.4
Cash and cash deposits	22	-	1.6	-	1.6
Total		-	1,754.0	-	1,754.0
Financial liabilities					
Borrowings	25	-	(999.6)	-	(999.6)
Total		-	(999.6)	-	(999.6)

Notes to the financial statements (continued)

17. Other non-current assets

	Note	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Amounts owed by subsidiary undertakings	38	-	-	1,876.8	1,714.6
Amounts owed by related parties	38	58.3	67.7	-	-
Service concession arrangements		202.4	188.3	-	-
Prepayments and accrued income		0.7	0.3	-	-
		261.4	256.3	1,876.8	1,714.6

Non-current receivables were due:

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Between 1 and 2 years	40.5	44.0	136.9	113.6
Between 2 and 5 years	123.4	135.1	410.6	340.9
Over 5 years	97.5	77.2	1,329.3	1,260.1
	261.4	256.3	1,876.8	1,714.6

The fair values of other non-current assets were:

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Amounts owed by subsidiary undertakings	-	-	2,117.8	2,058.3
Amounts owed by related parties	52.6	81.9	-	-
Service concession arrangements	202.4	188.3	-	-
Other receivables	0.7	0.3	-	-
	255.7	270.5	2,117.8	2,058.3

The fair value of amounts owed by related parties is based on contractual cash flows discounted at prevailing interest rates plus an allowance to reflect an appropriate credit margin.

The weighted average interest rate on amounts owed by related parties was 12.3% (2019: 12.6%).

Other receivables include site development costs and pre-contract costs of £nil (2019: £0.2 million).

Notes to the financial statements (continued)

17. Other non-current assets (continued)

The Group has several service concession arrangements with local authority clients in the waste management sector to build and operate recycling assets and energy recovery facilities. During the year, all the Group's service concession arrangements were in the operational phase.

The arrangements are typically for 25 years and are for the provision of waste management services including the build and operation of recycling and energy recovery facilities. The assets revert to the local authority at the end of the contract. At 31 March 2020 the weighted average remaining duration of the service concession arrangements was 22 years. During the year, a reset of the GRREC operational phase contract was agreed with the local authority. The contract is now due to run until 2044

Under the arrangements, the Group maintains the recycling and energy recovery facilities (ERF) on an ongoing basis throughout the life of the agreement to ensure operational performance.

The terms of the principal service concession arrangement contracts, including pricing and performance obligations are established at the outset. The service concession arrangements are subject to annual indexation to take account of inflation. However, arrangements are not subject to formal re-pricing or re-negotiation.

The service concession arrangements do not contain renewal or termination options. These contracts will, as is common, contain event of default termination clauses for non-performance, but we do not consider it reasonably foreseeable that these clauses will be put into effect.

Notes to the financial statements (continued)

18. Investments

Subsidiary undertakings

	£m
Company	
At 31 March 2018	411.7
At 31 March 2019	411.7
Additions	125.2
Disposals	(125.2)
At 31 March 2020	411.7

On 14 March 2020 Pennon Group plc gifted its non-controlling interest in Viridor Waste Management Limited (VWML) (an indirect subsidiary of Viridor Limited) to the Company. On the same day the Company gifted these shares to Viridor Waste Limited (VWL) (a direct subsidiary of VL and the direct parent of VWML), which now owns 100% of the issued share capital of VWML.

The value of the Capital contribution is the fair value at the date of the transaction.

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

Notes to the financial statements (continued)

18. Investments (continued)

Joint ventures

	£m
Group	
At 31 March 2018	22.8
Additions	20.9
Share of post-tax profit	12.4
Share of other comprehensive income	0.5
Dividends received	(5.5)
At 31 March 2019	51.1
Share of post-tax profit	14.8
Share of other comprehensive income	0.2
Dividends received	(6.0)
At 31 March 2020	60.1

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

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

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

- Lakeside Energy from Waste Holdings Limited provides energy recovery facilities.
- Shelford Composting Limited ceased trading in March 2017, having provided green waste composting and disposal facilities.
- INEOS Runcorn (TPS) Holdings Limited provides energy recovery facilities. The Group's economic interest is 75.0% as set out in note 35.
- Ford Energy from Waste Limited was incorporated in October 2019 and is developing proposals for a state-of-the-art energy recovery facility and waste sorting and transfer facility.

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

Notes to the financial statements (continued)

18. Investments (continued)

Summarised information for the Group's joint ventures:

Summarised balance sheet

	2020			2019		
	Lakeside energy from waste holdings Ltd £m	Shelford Composting Ltd £m	INEOS Runcorn (TPS) Holdings Ltd £m	Lakeside energy from waste holdings Ltd £m	Shelford Composting Ltd £m	INEOS Runcorn (TPS) Holdings Ltd £m
Current						
Cash and cash equivalents	24.2	0.8	23.0	22.5	0.8	15.9
Other current assts	9.0	-	4.6	8.7	-	11.4
Total current assets	33.2	0.8	27.6	31.2	0.8	27.3
Borrowings	-	-	-	-	-	-
Other current liabilities	(3.4)	(0.1)	(0.1)	(6.2)	(0.1)	(0.1)
Total current liabilities	(3.4)	(0.1)	(0.1)	(6.2)	(0.1)	(0.1)
Non-current						
Assets	108.2	-	186.4	101.9	-	193.1
Borrowings	(81.1)	-	(79.3)	(88.8)	-	(86.7)
Other liabilities	(38.2)	-	(66.9)	(25.8)	-	(73.7)
Total non-current liabilities	(119.3)	-	(146.2)	(114.6)	-	(160.4)
Net assets	18.7	0.7	67.7	12.3	0.7	59.9
Net (debt)/deposit	(56.9)	0.8	(56.3)	(66.3)	0.8	(70.8)
Associated shareholder loans	14.3	-	79.3	15.4	-	86.7
Net debt (excluding shareholder loans)	(42.6)	0.8	23.0	(50.9)	0.8	15.9

Notes to the financial statements (continued)

18. Investments (continued)

Summarised statement of comprehensive income/(loss)

	2020		2019	
	Lakeside energy from waste holdings Ltd £m	INEOS Runcorn (TPS) Holdings Ltd £m	Lakeside energy from waste holdings Ltd £m	INEOS Runcorn (TPS) Holdings Ltd £m
Revenue	54.6	45.6	52.8	43.6
EBITDA	39.3	28.9	37.4	24.8
Depreciation and amortisation	(8.9)	(10.6)	(7.9)	(9.7)
Non-underlying credit			-	-
Other net interest charge	(6.8)	(8.2)	(7.3)	(9.5)
Pre tax profit	23.6	10.1	22.2	5.6
Income tax expense	(5.7)	(2.3)	(4.0)	(0.9)
Post tax profit	17.9	7.8	18.2	4.7
Other comprehensive income	0.5	-	1.0	-
Total comprehensive income	18.4	7.8	19.2	4.7
Dividends paid by joint venture	(12.0)	-	(11.0)	-

The information above reflects the amounts presented in the financial statements of the joint ventures, adjusted for differences in accounting policies between the Group and the joint ventures. The information reflects 100% of the joint ventures results and net liabilities.

19. Inventories

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Raw materials and consumables	29.9	23.9	-	-

Notes to the financial statements (continued)

20. Trade and other receivables – current

		Group		Company	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Trade receivables		96.8	125.6	-	-
Less: allowance for expected credit losses		(2.9)	(3.4)	-	-
Trade receivables		93.9	122.2	-	-
Amounts owed by parent undertaking	38	0.3	-	-	-
Amounts owed by fellow subsidiary	38	2.6	0.6	42.1	37.8
Amounts owed by joint ventures	38	10.4	7.8	-	-
Service concession arrangements		58.5	59.4	-	-
Other receivables		115.5	110.7	-	-
		281.2	300.7	42.1	37.8

Other receivables include a net receivable of £43.8 million (2019: £43.3 million) relating to gross contractual compensation amounts due totalling £72.0 million (2019: £72.0 million) arising from additional costs incurred in the construction of the Glasgow Recycling and Renewable Energy Centre. A full credit risk appraisal has been carried out on this receivable and a provision of £28.2 million has been recognised for expected credit losses as detailed in note 4.

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

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

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

	2020 £m	2019 £m
Euro	0.9	1.4
US Dollar	0.1	6.1

Notes to the financial statements (continued)

20. Trade and other receivables – current (continued)

At 31 March 2020, trade receivables of £91.5 million (2019: £115.1 million) were fully performing with no significant concentration of credit risk.

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

	2020	2019
	£m	£m
Past due 1 – 30 days	2.0	5.1
Past due 31 – 121 days	0.4	2.0
More than 120 days	-	-
	2.4	7.1

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

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

	2020	2019
	£m	£m
Not past due	0.7	-
Past due 1 – 30 days	0.3	-
Past due 31 – 121 days	0.5	0.4
More than 120 days	1.4	3.0
	2.9	3.4

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

	Note	2020 £m	2019 £m
Group			
At start of year		3.4	3.5
(Reduction)/increase in provision for expected credit losses	6	(1.0)	0.3
Increase in provision for expected credit losses re COVID-19	5	1.1	-
Receivables written-off during the year as uncollectable		(0.6)	(0.4)
At end of year		2.9	3.4

In response to the COVID-19 pandemic a detailed expected credit loss review has been undertaken. Economic and credit conditions are worsening; however, the UK Government continue to implement economic measures to support the wider economy. As a result of the review, a Group provision of £1.1m has been recognised.

Notes to the financial statements (continued)

21. Derivative financial instruments

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Derivatives used for cash flow hedging				
Current assets	0.1	0.2	-	-

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 (2019: 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 2020 the Group was committed to cash flows denominated in foreign currency of Euro 28.8 million (2019: Euro 37.7 million). The weighted average maturity date is less than 1 year (2019: less than 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

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Assets				
Derivatives used for cash flow hedging	0.1	0.2	-	-

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

	Note	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Cash at bank and in hand		32.0	34.8	1.3	1.6
Other deposits		1.3	1.3	-	-
Total cash and short term deposits	34	33.3	36.1	1.3	1.6

Cash at bank has an average maturity of one working day.

Other deposits comprise sums due to the Group pending completion of obligations arising from its operations under lease and other agreements.

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

	Note	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Cash at bank and in hand		32.0	34.8	1.3	1.6
Bank overdrafts	25, 34	-	(91.7)	-	-
		32.0	(56.9)	1.3	1.6

Notes to the financial statements (continued)

23. Trade and other payables – current

	Note	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Trade payables		43.1	49.8	-	-
Contract liabilities		9.7	8.3	-	-
Amounts owed to ultimate parent undertaking	38	9.9	11.1	-	-
Amounts owed to fellow subsidiary	38	1.4	1.1	-	-
Amounts owed to joint ventures	38	2.8	4.1	-	-
Other tax and social security		32.6	30.2	-	-
Accruals and other payables		53.6	72.8	-	-
		153.1	177.4	-	-

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.

Contract liabilities are recognised when consideration is received in advance of the Group performing its obligations to customers. The movement in the contract liabilities was:

	2020 £m	2019 £m
At 1 April	8.3	9.6
Revenue recognised in the year	(8.3)	(9.6)
Consideration received in advance of completion of performance obligations	9.7	8.3
At 31 March	9.7	8.3

All current contract liabilities are expected to be satisfied and revenue recognised within the financial year ending 31 March 2021.

Notes to the financial statements (continued)

24. Current tax (liabilities)/assets

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Current tax	(0.9)	0.5	(43.1)	(37.1)

25. Borrowings

	Note	Group		Company	
		2020 £m	2019 £m	2020 £m	2019 £m
Current					
Bank overdrafts	22	-	91.7	-	-
		-	91.7		
Lease liabilities		19.0	10.8	-	-
Total current borrowings	34	19.0	102.5	-	-

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.

Included within leases are current borrowings of £9.0m (2019: £10.8m) previously classified as finance leases under IAS 17, prior to implementation of IFRS 16 (note 39).

Notes to the financial statements (continued)

25. Borrowings (continued)

		Group		Company	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Non-current					
Amounts owed to ultimate parent undertaking	34, 38	1,199.5	1,017.7	1,183.5	999.6
Lease liabilities		229.4	147.5	-	-
Total non-current borrowings	34	1,428.9	1,165.2	1,183.5	999.6
Total borrowings		1,447.9	1,267.7	1,183.5	999.6

Included within leases are non-current borrowings of £138.0m (2019: £147.5m) previously classified as finance leases under IAS 17, prior to implementation of IFRS 16 on 1 April 2019 (note 39).

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

The fair values of non-current borrowings were:

	2020		2019	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Group				
Amounts owed to parent undertaking	1,199.5	1,181.7	1,017.7	1,139.4
Leases	229.4	235.8	147.5	143.6
	1,428.9	1,417.5	1,165.2	1,283.0
Company				
Amounts owed to parent undertaking	1,183.5	1,162.9	999.6	1,118.7

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	
	2020 £m	2019 £m	2020 £m	2019 £m
Between 1 and 2 years	89.8	52.3	70.8	40.8
Between 2 and 5 years	271.5	157.6	225.3	124.7
Over 5 years	1,067.6	955.3	887.4	834.1
	1,428.9	1,165.2	1,183.5	999.6

The weighted average maturity of non-current borrowings was 11 years (2019: 12 years).

Notes to the financial statements (continued)

25. Borrowings (continued)

Lease liabilities – minimum lease payments:

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Within 1 year	25.8	14.5	-	-
Between 2 and 5 years	81.1	48.3	-	-
After 5 years	293.0	159.2	-	-
	399.9	222.0	-	-
Less: future finance charges	(151.5)	(63.7)	-	-
Present value of lease liabilities	248.4	158.3	-	-

Included above are minimum lease payments of £187.7m (2019: £222.0m) and a total present value of liabilities of £147.0m (2019: £158.3m) representing amounts previously classified as finance leases under IAS 17, prior to implementation of IFRS 16 on 1 April 2019 (note 39).

The maturity of lease liabilities was:

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Within 1 year	19.0	10.8	-	-
Between 2 and 5 years	56.8	34.7	-	-
After 5 years	172.6	112.8	-	-
	248.4	158.3	-	-

The discount rate used to calculate the lease liabilities includes estimation. Where there is no rate implicit in the lease the Group uses an estimated incremental borrowing rate (IBR). At 31 March 2020 the range of IBR's used for the continuing Group was between 2.4% and 4.5% and the weighted average IBR across all leases was 3.7%. If the weighted average rate used increased or decreased by 10bps this would result in a c.1.0% increase or reduction in the present value of lease liabilities recognised at 31 March 2020.

Notes to the financial statements (continued)

26. Other non-current liabilities

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Contract liabilities	6.9	-	-	-
Other payables	7.5	32.0	-	-
	14.4	32.0	-	-

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

Contract liabilities are recognised when consideration is received in advance of the Group performing its obligations to customers. The movement in the non-current contract liabilities was:

	2020	2019
	£m	£m
At 1 April	-	-
Revenue recognised in the year	-	-
Consideration received in advance of completion of performance obligations	6.9	-
At 31 March	6.9	-

Non-current contract liabilities are expected to be satisfied and revenue recognised on the following profile:

	2020	2019
	£m	£m
1 to 5 years	4.3	-
After 5 years	2.6	-
At 31 March	6.9	-

Notes to the financial statements (continued)

27. Retirement benefit obligations

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

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

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

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

Defined contribution schemes

Pension costs for defined contribution schemes were £6.6 million (2019: £6.3 million) of which £0.6 million was accrued at 31 March 2020 (2019: £0.6 million).

Defined benefit schemes

Assumptions

The principal actuarial assumptions at 31 March were:

	2020 %	2019 %	2018 %
Rate of increase in pensionable pay	2.4	3.3	3.2
Rate of increase for current and future pensions	2.0	2.2	2.1
Rate used to discount schemes' liabilities	2.3	2.4	2.7
Inflation	2.7	3.3	3.2

Mortality

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience. The mortality assumption uses a scheme-specific calculation based on CMI 2019 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:

	2020	2019	2018
Male	22.4	22.0	22.0
Female	24.4	24.0	23.6

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

	2020	2019	2018
Male	24.1	23.6	24.5
Female	26.5	25.6	26.4

Notes to the financial statements (continued)

27. Retirement benefit obligations (continued)

The sensitivities regarding the principal actuarial assumptions at 31 March 2020 were:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in pensionable pay	+/-0.5%	+/-4.6%
Rate of increase for current and future pensions	+/-0.5%	+/-8.6%
Rate used to discount schemes' liabilities	+/-0.5%	+/-10.5%
Inflation	+/-0.5%	+/-8.6%
Life expectancy	+/-1 year	+/-4.0%

The amounts recognised in the balance sheet were:

	2020 £m	2019 £m
Present value of financial obligations	(243.4)	(255.6)
Fair value of plan assets	242.4	241.5
Deficit of funded plans	(1.0)	(14.1)
Impact of minimum funding asset ceiling	(14.1)	(20.6)
Net liability recognised in the balance sheet	(15.1)	(34.7)

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

	2020			2019		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
At 1 April	(276.2)	241.5	(34.7)	(251.7)	228.2	(23.5)
Current service cost	(2.2)	-	(2.2)	(7.0)	-	(7.0)
Past service cost and gains on settlements	2.1	-	2.1	(0.9)	-	(0.9)
Interest (expense)/income	(6.5)	5.9	(0.6)	(6.7)	6.2	(0.5)
	(6.6)	5.9	(0.7)	(14.6)	6.2	(8.4)
<i>Remeasurements:</i>						
(Loss)/return on plan assets excluding amounts included in interest expense	-	(5.5)	(5.5)	-	4.3	4.3
(Loss)/gain from changes in demographic assumptions	(0.3)	-	(0.3)	10.1	-	10.1
Gain/(loss) from change in financial assumptions	14.5	-	14.5	(21.6)	0.1	(21.5)
Experience (losses)/gains	(3.8)	-	(3.8)	0.6	-	0.6
Change in asset ceiling	6.5	-	6.5	(3.8)	-	(3.8)
	16.9	(5.5)	11.4	(14.7)	4.4	(10.3)
<i>Contributions:</i>						
Employers	-	8.9	8.9	-	7.5	7.5
Plan participants	(0.2)	0.2	-	(1.0)	1.0	-
<i>Payments from plans:</i>						
Benefit payments	8.6	(8.6)	-	5.8	(5.8)	-
At 31 March	(257.5)	242.4	(15.1)	(276.2)	241.5	(34.7)

Past service cost includes a non-underlying credit of £4.9 million reflecting curtailment and other gains resulting from transferring employees from an active to a deferred status in the schemes (see note 5).

Notes to the financial statements (continued)

27. Retirement benefit obligations (continued)

The Group has one pension scheme (2019: 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'.

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

	2020 £m	2019 £m
Irrecoverable asset at start of the year	20.6	16.8
Interest on irrecoverable surplus	0.6	0.5
Actuarial (losses)/gains	(7.1)	3.3
	14.1	20.6

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

	2020			2019		
	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	68.1	-	28	55.2	3.3	24
Government bonds	6.7	-	3	13.2	-	5
Other bonds	95.2	-	31	45.6	-	19
Diversified growth	50.1	-	29	62.7	9.7	30
Property	10.8	-	4	7.8	3.2	5
Other	11.5	-	5	40.8	-	17
	242.4	-	100	225.3	16.2	100

Other assets at 31 March 2020 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 effect of changes in inflation will be partially offset by changes in the value of the Scheme's liability matching investments.
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 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 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 2019 triennial actuarial valuation of the principal defined benefit scheme has been agreed with the actuarial valuation deficit increasing by c.£15m since the 2016 triennial valuation before accounting for deficit recovery contributions made before the March 2019 valuation date of £13.1m. The schedule of contributions is in line with the 2016 triennial actuarial valuation. During the year, the Group made deficit recovery contributions of £2.3 million (2019: £2.5 million). The Group monitors funding levels on an annual basis and expects to pay total contributions of around £1.3 million during the year ended 31 March 2021.

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	2020 £m	2019 £m
At 1 April		64.7	56.6
Transition to IFRS 16	39	(1.4)	-
Charged to the income statement	8	33.6	10.6
Credited to equity and other comprehensive income		0.8	(2.5)
At 31 March		97.7	64.7

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:

Deferred tax liabilities	Accelerated tax depreciation £m	Fair Value adjustments £m	Service concession arrangements £m	Derivatives £m	Total £m
At 31 March 2018	20.1	4.7	43.6	0.5	68.9
(Credited)/charged to the income statement	11.3	(3.6)	4.5	-	12.2
Credited to other comprehensive income	-	-	-	(0.5)	(0.5)
At 31 March 2019	31.4	1.1	48.1	-	80.6
Transition to IFRS 16	(1.4)	-	-	-	(1.4)
At 1 April 2019	30.0	1.1	48.1	-	79.2
(Credited)/charged to the income statement	23.2	(1.1)	7.6	-	29.7
At 31 March 2020	53.2	-	55.7	-	108.9
Deferred tax assets	Long term liabilities and accruals £m	Retirement benefit obligations £m	Tax losses £m	Share based payments £m	Total £m
At 31 March 2018	(6.3)	(4.0)	(1.7)	(0.3)	(12.3)
(Credited)/charged to the income statement	(2.3)	0.2	0.5	-	(1.6)
(Credited) to other comprehensive income	-	(1.9)	-	(0.1)	(2.0)
At 31 March 2019	(8.6)	(5.7)	(1.2)	(0.4)	(15.9)
(Credited)/charged to the income statement	3.0	1.3	(0.3)	(0.1)	3.9
(Credited)/charged to other comprehensive income and equity	-	1.3	-	(0.5)	0.8
At 31 March 2020	(5.6)	(3.1)	(1.5)	(1.0)	(11.2)
Net deferred tax liability:					
At 31 March 2019					64.7
At 31 March 2020					97.7

Notes to the financial statements (continued)

28. Deferred tax (continued)

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

	2020 £m	2019 £m
Actuarial gain/(losses) on defined benefit schemes	1.3	(1.9)
Net fair value gain/(losses) on cash flow hedges	-	(0.5)
Deferred tax on other comprehensive income	1.3	(2.4)
Share-based payments	(0.5)	(0.1)
	0.8	(2.5)

Capital allowances are available when a business incurs qualifying expenditure on capital items such as infrastructure assets. Capital allowances provide tax relief on these items in place of accounting depreciation which is not tax deductible. Over the period of ownership of an asset, cumulative depreciation and capital allowances will equalise. Capital allowance rates are set by the UK Government and every business receives the same rate of allowance. Capital allowance rates vary from 3% up to 100% in certain instances, with most items qualifying at either 6% or 18% per annum.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The adjustments for this are reflected in the current tax reconciliation in note 8.

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

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

The Directors have recognised a deferred tax asset of £1.5m relating to unused losses in a specific Group company. These losses are considered available to offset against the future taxable profits of this company, which are expected to arise in future accounting periods. This assessment has been based on the latest forecasts, which reflect legislative changes in its relevant market, which will improve trading conditions.

Notes to the financial statements (continued)

29. Provisions

	Note	Environmental and landfill restoration £m	Other provisions £m	Total £m
Group				
At 1 April 2019		209.8	21.0	230.8
Charged/(credited) to the income statement		2.0	15.0	17.0
Utilised during year		(15.8)	(0.1)	(15.9)
Capitalised during the year	15	5.3	0.3	5.6
At 31 March 2020		201.3	36.2	237.5

The amount charged to the income statement includes £8.2 million (2019: £11.1 million) charged to finance costs as the unwinding of discounts in provisions.

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

	2020 £m	2019 £m
Current	26.7	27.7
Non-current	210.8	203.1
	237.5	230.8

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 4.22% (2019: 4.83%) and an inflation rate of 2.0% (2019: 2.5%) have been applied to the aftercare provision and a discount rate of 2.92% (2019: 3.8%) and an inflation rate of 2.0% (2019: 2.5%) to the restoration provision.

Other provisions include underperforming contracts of £4.1 million (2019: £7.1 million), which are provided for at the net present value of the operating losses of the underperforming contracts and are to be utilised over the remaining period of the contract to which they relate. The weighted average contract life of underperforming contracts is 3 years (2019: 5 years).

Included in other provisions 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)

30. Share capital

	Allotted, called up and fully paid (Group and Company) £m
At 31 March 2018	898.2
At 31 March 2019	898.2
At 31 March 2020	898.2

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	
			2020	2019
14 July 2014	611p	2017 - 2020	2	62
24 June 2015	683p	2019 - 2020	37	84
29 June 2016	709p	2020 - 2021	36	245
28 June 2017	767p	2020 - 2022	141	239
03 July 2018	635p	2021 - 2023	382	544
09 July 2019	620p	2022 - 2024	366	-
			964	1,174

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:

	2020		2019	
	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	1,174	679	1,181	703
Granted	399	620	590	635
Exercised	(271)	683	(330)	663
Lapsed	(169)	683	(51)	681
Expired	(169)	680	(216)	710
At 31 March	964	653	1,174	679

The weighted average price of Pennon Group plc shares at the date of exercise of Sharesave options during the year was 820p (2019: 750p). The options outstanding at 31 March 2020 had a weighted average exercise price of 632p (2019: 679p) and a weighted average remaining contractual life of 1.9 years (2019: 1.9 years).

The aggregate fair value of Sharesave options granted during the year was £0.5 million (2019: £0.7 million), determined using the Black-Scholes valuation model.

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

	2020	2019
Weighted average share price	765p	801p
Weighted average exercise price	620p	635p
Expected volatility	20.0%	20.0%
Expected life	3.3 years	3.3 years
Risk-free rate	0.75%	0.5%
Expected dividend yield	5.7%	5.2%

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. 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:

	2020		2019	
	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	75	920	167	864
Vested	(23)	920	-	-
Lapsed	(52)	920	(92)	818
At 31 March	-	-	75	920

No awards were outstanding at 31 March 2020 (2019: the outstanding options had a weighted exercise price of 920p and a weighted average remaining contractual life of 0.3 years).

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:

	2020		2019	
	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	299	796	140	803
Granted	167	753	167	790
Lapsed	(48)	779	(8)	803
At 31 March	418	780	299	796

The awards outstanding at 31 March 2020 had a weighted exercise price of 780p (2019: 796p) and a weighted average remaining contractual life of 1.4 years (2019: 1.9 years).

The aggregate fair value of awards granted during the year was £0.5 million (2019: £0.5 million), determined from market value. No option pricing methodology is applied since the vesting of the shares depends 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:

	2020		2019	
	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	74	818	56	844
Granted	46	755	31	761
Vested	(16)	950	(13)	791
At 31 March	104	771	74	818

The awards outstanding at 31 March 2020 had a weighted average price of 771p (2019: 818p) and a weighted average remaining contractual life of 1.6 years (2019 1.6 years).

The aggregate fair value of awards granted during the year was £0.35 million (2019: £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 2018	95.2
At 31 March 2019	95.2
At 31 March 2020	95.2

Notes to the financial statements (continued)

32. Retained earnings and other reserves

		Group		Company
	Hedging reserve £m	Retained earnings £m	Total £m	Retained earnings £m
At 31 March 2018	2.5	(279.7)	(277.2)	100.8
Profit for the year	-	54.2	54.2	108.4
Other comprehensive income for the year	(0.5)	(6.6)	(7.1)	-
Transfer from hedging reserve to property, plant and equipment	(2.4)	-	(2.4)	-
Dividends paid	-	(73.6)	(73.6)	(73.6)
Credited to equity in respect of share-based payments	-	0.9	0.9	-
At 31 March 2019	(0.4)	(304.8)	(305.2)	135.6
Transition to IFRS 16 (note 39)	-	(6.2)	(6.2)	-
At 1 April 2019	(0.4)	(311.0)	(311.4)	135.6
Profit for the year	-	77.9	77.9	62.2
Other comprehensive income for the year	0.1	9.5	9.6	-
Dividends paid	-	(85.9)	(85.9)	(85.9)
Capital contribution received	-	12.0	12.0	125.2
Capital contribution issued	-	-	-	(125.2)
Credited to equity in respect of share-based payments	-	1.5	1.5	-
At 31 March 2020	(0.3)	(296.0)	(296.3)	111.9

In making decisions about the levels of dividends to be proposed the Directors take steps to check that retained earnings reflect realised profits and are therefore distributable within the requirements of the Companies Act 2006.

Capital Contribution – Group

On 14 March 2020 Pennon Group plc gifted its non-controlling interest in Viridor Waste Management Limited (VWML) (an indirect subsidiary of Viridor Limited) to the Company. From this date there were no non-controlling interests within the Viridor Group and the balance of the non-controlling interest was transferred into retained earnings.

Capital Contribution - Company

On 14 March 2020 Pennon Group plc gifted its non-controlling interest in Viridor Waste Management Limited (VWML) (an indirect subsidiary of Viridor Limited) to the Company. On the same day the Company gifted these shares to Viridor Waste Limited (VWL) (a direct subsidiary of VL and the direct parent of VWML), which now owns 100% of the issued share capital of VWML.

The value of the Capital contribution is the fair value at the date of the transaction.

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

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Continuing operations				
Profit for the year	82.0	54.0	62.2	108.4
Adjustments for:				
Employee share schemes	1.0	1.0	-	-
Profit on disposal of property, plant and equipment	(2.1)	(2.3)	-	-
Depreciation charge	80.6	73.5	-	-
Amortisation of intangible assets	4.0	4.5	-	-
Non-underlying pension scheme past service cost	(4.9)	-	-	-
Finance income	(28.4)	(26.2)	(70.7)	(81.3)
Finance costs	54.6	51.0	37.9	37.5
Share of post-tax profit from joint venture	(14.8)	(12.4)	-	-
Dividends receivable	-	-	(35.6)	(73.6)
Taxation	23.8	4.9	6.2	9.0
Changes in working capital (excluding the effect of acquisition of subsidiaries)				
Increase in inventories	(5.9)	(4.2)	-	-
Decrease/(increase) in trade and other receivables	23.6	(18.8)	(204.3)	(214.6)
Decrease in trade and other payables	(30.4)	(8.1)	-	-
Decrease in provisions	(1.2)	(8.7)	-	-
(Decrease)/increase in retirement benefit obligations	(3.9)	1.4	-	-
Cash generated from/(used in) operations	178.0	109.6	(204.3)	(214.6)

Total interest paid

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Interest paid in operating activities	31.5	32.9	37.9	37.5
Interest paid in investing activities (purchase of property, plant and equipment)	8.6	12.4	-	-
Total interest paid	40.1	45.3	37.9	37.5

Notes to the financial statements (continued)

34. Net borrowings

		Group		Company	
	Notes	2020 £m	2019 £m	2020 £m	2019 £m
Cash and cash deposits	22	33.3	36.1	1.3	1.6
Borrowings – current					
Bank overdrafts	22,25	-	(91.7)	-	-
Leases	25	(19.0)	(10.8)	-	-
Total current borrowings	25	(19.0)	(102.5)	-	-
Borrowings – non-current					
Ultimate parent company loans	25	(1,199.5)	(1,017.7)	(1,183.5)	(999.6)
Leases	25	(229.4)	(147.5)	-	-
Total non-current borrowings	25	(1,428.9)	(1,165.2)	(1,183.5)	(999.6)
Total net borrowings		(1,414.6)	(1,231.6)	(1,182.2)	(998.0)

Included within current borrowings are leases of £9.0m (2019: £10.8m) previously classified as finance leases under IAS 17, prior to implementation of IFRS 16 (note 39).

Included within non-current borrowings are leases of £138.0m (2019: £147.5m) previously classified as finance leases under IAS 17, prior to implementation of IFRS 16 on 1 April 2019 (note 39).

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

Notes to the financial statements (continued)

35. Subsidiary and joint venture undertakings at 31 March 2020

Subsidiaries

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

Notes to the financial statements (continued)

35. Subsidiary and joint venture undertakings at 31 March 2020 (continued)

Subsidiaries (continued)

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

Notes to the financial statements (continued)

35. Subsidiary and joint venture undertakings at 31 March 2020 (continued)

Subsidiaries (continued) Subsidiary	Trading/ Dormant	Principal activity	Country of incorporation
Viridor Waste Limited (continued)			
Viridor Waste Management Limited (continued)			
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
Viridor Waste (Electrical 1) Limited	Dormant		Scotland
Viridor Waste (Electrical 2) Limited	Dormant		England
Viridor Waste (Collections) Limited	Dormant		England
Viridor Waste (West Sussex) Limited	Trading	Provision of waste management services under contract	England
Viridor Waste Exeter Limited	Trading	Waste Management	England
Dragon Waste Limited	Trading	Provision of waste management services under contract	England
Astley Minerals Limited	Dormant		England
Pilsworth Forest (1996) Limited	Dormant		England
Pilsworth Forest Limited	Dormant		England
Tokenmarch Limited	Dormant		England
Viridor Waste Wooton Limited	Dormant		England

Notes to the financial statements (continued)

35. Subsidiary and joint venture undertakings at 31 March 2020 (continued)

Subsidiaries (continued)

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

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

All shares in issue are ordinary shares.

Except for 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 Enviroscoot 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, VWM (Scotland) Limited and Viridor Waste (Electrical 1) Limited, is 1 Exchange Crescent, Conference Square, Edinburgh, EH3 8UL.

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

Notes to the financial statements (continued)

35. Principal subsidiary and joint venture undertakings at 31 March 2020 (continued)

Joint ventures

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

	Share capital in issue	Percentage held	Principal activity
Joint ventures			
Lakeside Energy from Waste Holdings Limited	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.			
Shelford Composting Limited	50 A Ordinary shares of £1	–	
	50 B Ordinary shares of £1	100%	Dormant
Shares in Shelford Composting Limited are held by Viridor Waste Kent Limited.			
INEOS Runcorn (TPS) Holdings Limited	1,000 A Ordinary shares	40%	
	186,750 B1 Ordinary shares	100%	
	62,250 B2 Ordinary shares	–	
INEOS Runcorn (TPS) Limited			Waste management
Shares in INEOS Runcorn (TPS) Holdings Limited are held by Viridor Waste Management Limited.			
The Group's economic interest in INEOS Runcorn (TPS) Holdings Limited is 75.0% as returns from the investment are based on holdings of B1 and B2 Ordinary shares.			
Ford Energy from Waste Limited	2 Ordinary shares of £1	50%	Waste management
Shares in Ford Energy from Waste Limited are held by Viridor Waste Management Limited.			

The registered office of Lakeside Energy from Waste Holdings Limited and Lakeside Energy from Waste Limited is:

Thames House, Oxford Road, Benson, Oxfordshire, OX10 6LX.

The registered office of Shelford Composting Limited is:

900 Pavilion Drive, Northampton NN4 7RG.

The registered office of INEOS Runcorn (TPS) Holdings Limited and INEOS Runcorn (TPS) Limited is:

PO Box 9, Runcorn Site Hq, South Parade, Runcorn, Cheshire, WA7 4JE.

The registered office of Ford Energy from Waste Limited is:

Thames House, Oxford Road, Benson, Oxfordshire, OX10 6LX.

Notes to the financial statements (continued)

36. Contingencies

Contingent liabilities

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Performance bonds	230.2	202.7	-	-
	230.2	202.7	-	-

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 potential prosecutions by the Health and Safety Executive.

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 2020 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 Envirosco Limited
 Viridor Peterborough Limited
 Viridor Waste (Thames) Limited
 Viridor Waste (Landfill Restoration) Limited
 Viridor Waste Kent Limited
 Raikes Lane Limited
 Viridor Resource Management Limited

37. Capital commitments

	Group		Company	
	2020	2019	2020	2019
	£m	£m	£m	£m
Contracted not provided	98.6	132.7	-	-

Notes to the financial statements (continued)

38. 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:

	2020 £m	2019 £m
Sales of goods and services		
Fellow subsidiaries of Pennon Group plc	0.5	-
INEOS Runcorn (TPS) Limited	18.2	16.6
	18.7	16.6
Purchase of goods and services		
Fellow subsidiaries of Pennon Group plc	(6.2)	(6.7)
Pennon Group plc	(9.4)	(10.0)
Lakeside Energy from Waste Limited	(12.8)	(12.4)
INEOS Runcorn (TPS) Limited	(8.3)	(7.1)
	(36.7)	(36.2)
Income from provision of loan finance		
Lakeside Energy from Waste Holdings Limited	1.1	1.2
INEOS Runcorn (TPS) Holdings Limited	6.1	4.1
	7.2	5.3
Payment for provision of loan finance		
Pennon Group plc	(41.7)	(41.8)
Dividends received		
Lakeside Energy from Waste Holdings Limited	6.0	5.5
Dividends paid		
Pennon Group plc	(85.9)	(73.6)

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

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

The Group's ultimate parent undertaking is Pennon Group plc who, at the balance sheet date, own 100% of the Company's shares.

Notes to the financial statements (continued)

38. Related-party transactions (continued)

Year end balances

Group	2020 £m	2019 £m
Receivables due from related parties for the provision of loan finance		
Lakeside Energy from Waste Holdings Limited	7.1	8.7
INEOS Runcorn (TPS) Holdings Limited	59.5	65.0
	66.6	73.7
Receivables due from related parties – trading balance		
Pennon Group plc	0.3	-
Fellow subsidiaries of Pennon Group plc	2.6	0.6
Lakeside Energy from Waste Limited	0.9	-
INEOS Runcorn (TPS) Limited	1.2	1.8
	5.0	2.4
Total	71.6	76.1
Payables due to related parties for the provision of loan finance		
Pennon Group plc	1,199.5	1,017.7
Payables due to related parties – trading balance		
Pennon Group plc	9.9	11.1
Fellow subsidiaries of Pennon Group plc	1.4	1.1
Lakeside Energy from Waste Limited	1.1	0.9
INEOS Runcorn (TPS) Limited	1.7	3.2
	14.1	16.3
Total	1,213.6	1,034.0

Interest on the ultimate parent company loans is charged at fixed rates on loans; £591.8 million at 1.0% and £16.0 million at 6.0% (2019: £499.8 million at 5.0% and £18.1 million at 6.0%). Interest on the balance of the ultimate parent company loans is charged at 3-month London interbank offered rate (Libor)+260 basis points. The loans are due for repayment through to 2045.

The receivables from joint venture and associated undertakings which total £66.6 million (2019: £73.7 million) represent loans due for repayment through to 2035. Interest is charged at an average rate of 12.3% (2019: 12.0%).

Notes to the financial statements (continued)

38. Related-party transactions (continued)

Company

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

	2020 £m	2019 £m
Dividends		
Dividends paid to Pennon Group plc	(85.9)	(73.6)
Dividends received from subsidiary undertakings	35.6	73.6
Income from provision of loan finance		
Subsidiary undertakings	70.6	81.3
Payment for provision of loan finance		
Pennon Group plc	(37.9)	(37.5)
Year End Balances:	2020 £m	2019 £m
Receivables due from related parties for the provision of loan finance		
Subsidiary undertakings	1,918.9	1,752.4
Payables due to related parties for the provision of loan finance		
Pennon Group plc	(1,183.5)	(999.6)

Interest on the ultimate parent company loans is charged at fixed rates on loan balances; £591.8 million at 1.0% (2019: £499.8 million at 5.0%). Interest on the remaining balance of the ultimate parent company loans is charged at 3-month London interbank offered rate (Libor) +260 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 3.95% (2019: 5%).

Notes to the financial statements (continued)

39. Change in accounting policy on leases

Adjustments recognised on the adoption of IFRS 16

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial statements and discloses the new accounting policies that have been adopted from 1 April 2019, where they are different from those applied in earlier periods.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's weighted average Incremental Borrowing Rate (IBR).

Following adoption of IFRS 16, the Group no longer distinguishes between an on the balance sheet finance lease and an off the balance sheet operating lease. For Leases previously classified as finance leases, the Group recognised the carrying amount of leased assets and lease liabilities immediately prior to transition as the carrying amount of the right-of-use asset and lease liability at the date of initial application. The measurement principles of IFRS 16 only apply after this date.

As permitted under IFRS 16 the Group have presented right-of-use assets and lease liabilities within property, plant and equipment and borrowings respectively. This approach is consistent with the Group's previous presentation of Finance leases under IAS 17.

At 31 March 2019, the Group had non-cancellable operating lease commitments of £139.9m. These predominantly relate to leases of properties occupied by the Group in the course of carrying out its businesses.

On transition on 1 April 2019, the Group recognised the following items in the balance sheet:

		Note	£m
Lease liabilities	Increase		109.2
Accruals	Decrease		1.4
Deferred tax liability	Decrease	28	1.4
Retained earnings	Decrease	32	6.2
Right-of-use assets	Increase	15	100.2

The discount rate used in the calculation of the lease liability involves estimation. The discount rate is calculated on a lease by lease basis. For vehicle leases, which account for less than 1% of the present value of future lease payments, the discount rate is determined by the implicit rate within the lease. For all other leases, where implicit rates are not available, discount rates are calculated using the Group's estimated IBR for each lease. The IBR is determined with reference to applicable reference rate borrowing curves (e.g. LIBOR or its successor), credit margins for the different business segments and lease terms. At the commencement of a new lease, discount rates are updated to ensure the Group applies the IBR that reflects current market conditions. At 1 April 2019, the date of transition to IFRS 16, the range of rates used was between 2.43% and 4.5% and the weighted average IBR across all leases was 3.6%.

Notes to the financial statements (continued)

39. Change in accounting policy on leases (continued)

A reconciliation of the lease liability recognised at 1 April 2019 to operating lease commitments at 31 March 2019 is shown below:

	£m
IAS 17 operating lease commitments at 31 March 2019	139.9
Add: adjustment due to different assessment of lease term	0.5
Less: impact of discounting at weighted average discount rate of 3.6%	(31.2)
	109.2
Add: finance lease liabilities recognised at 31 March 2019	158.3
IFRS 16 lease liability as at 1 April 2019	267.5
Of which:	
Current lease liabilities	18.5
Non-current lease liabilities	249.0
	267.5

Associated right-of-use assets for selected land and building leases were measured on a retrospective basis (as if IFRS 16 had applied from lease inception). All remaining right-of-use assets were measured at the amount equal to the lease liability, adjusted by prepaid or accrued lease payments under IFRS 16 transition provisions relating to leases recognised on the balance sheet at 31 March 2019.

A reconciliation between the opening lease liabilities and right-of-use assets at 1 April 2019 is shown below:

	£m
Lease liabilities following first application of IFRS 16	109.2
Less: adjustment for onerous lease accruals	(1.4)
Less: adjustment due to application of IFRS 16 at lease inception	(7.6)
Right-of-use assets on first application of IFRS 16	100.2

In applying IFRS 16 for the first time, the Group has used the following practical expedients and made the following elections permitted by the standard:

- the use of single discount rates to portfolios of leases with similar characteristics;
- reliance on previous onerous lease assessments;
- the application of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease;
- Applying the modified retrospective approach: the cumulative effect of initially applying IFRS 16 has been calculated as a reduction to retained profits at 1 April 2019 of £6.2 million (£7.6 million before tax). Under this election no restatement of comparative figures will be made
- Electing to apply the standard to contracts that were previously identified as leases when applying IAS 17

Notes to the financial statements (continued)

39. Change in accounting policy on leases (continued)

Income Statement impact of IFRS 16

Based on the additional lease liability and associated assets recognised at 1 April 2019, the impact on profit for the year ended 31 March 2020, was a decrease in profit before tax of £0.9 million, resulting from:

- an increase in EBITDA of £15.0 million
- an increase in depreciation of £12.6 million
- an increase in finance costs of £3.3 million

EBITDA increased as operating lease costs previously charged against EBITDA under IAS 17 has been replaced under IFRS 16 with charges for depreciation and interest which are excluded from EBITDA (albeit included in earnings). Short-term and low value leasing costs continue to be charged against EBITDA.

Net operating cash flows increased under IFRS 16 as the element of cash paid attributable to the repayment of principal is included in financing cash flows. The net increase/decrease in cash and cash equivalents remains unchanged.

40. Ultimate controlling party

The Company is a wholly owned subsidiary of Pennon Group plc (the ultimate controlling party) 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.

41. Events after the reporting period

Potential change in ownership of Viridor Limited

On 18 March 2020, the Parent Company of the Group, Pennon Group plc, announced they had entered into a formal sale agreement to dispose of Viridor Limited to Planets UK Bidco Limited, a newly formed company established by funds advised by Kohlberg Kravis Roberts & Co.L.P. (KKR). The sale is conditional on approval by shareholders, competition authority approval, and other certain conditions. The first two of these conditions have now been met and the sale is expected to be completed in early summer 2020.

Impact of COVID-19

The World Health Organisation announced that COVID-19 was a global pandemic on 11 March 2020 and the UK Government announced its wide-ranging lockdown restrictions on 23 March 2020. Given that these events took place prior to the Group and Company's financial year end of 31 March 2020, the Directors have considered the impact of these events when making its key judgments and estimates at the balance sheet date, up to the date of approving the annual report and accounts.

To date, our business has remained broadly resilient to the immediate risks that have been presented by COVID-19. However, it is likely that there will be on-going restrictions in place during the next financial year which could provide continued challenges to the delivery of key operational activities. The Group's operational response to COVID-19 is set out within the strategic review section of the annual report on page 7. In addition, the risk report on pages 13 to 18 sets out the updated risk assessment in response to the pandemic.

The Group's defined benefit pension schemes are exposed to the impact of the pandemic, with the pension scheme asset values and the underlying financial assumptions used to determine the pension scheme obligations linked to, or derived from, socio-economic conditions existing at a point in time. Given the complexity of the situation and its rapid evolution, it is not considered practicable, as at the date of approval of these financial statements, to reliably estimate the impact on the accounting surplus/deficit of the defined benefit pension schemes or the Group's future performance as a whole.