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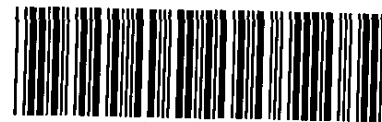


Viridor (Lancashire) Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2020

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Viridor (Lancashire) Limited

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Viridor (Lancashire) Limited

Strategic Report for the Year Ended 31 March 2020

The directors present their strategic report for the year ended 31 March 2020.

PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of transport and logistics solutions to two waste treatment and recycling plants at Leyland near Preston and Thornton near Blackpool. This contract ended on 31 May 2019 with an orderly transition to the new service providers achieved. The Company ceased to trade shortly thereafter.

The company is no longer engaged in the delivery of services and is consequently expected to be wound up in the near future. The company remains active whilst finalising residual contractual obligations.

BUSINESS REVIEW

Financial results

Revenue decreased by £9,484,000 from last year to £1,729,000 (2019: £11,213,000).

Operating profit before interest, tax and depreciation, was £683,000 (2019: £2,807,000). The operating margin increased to 40% (2019: 25%).

Net finance income was £59,000 (2019: £160,000).

The Company's taxation position results in a charge for current tax of £95,000 (2019: £557,000) and a credit for deferred tax of £1,000 (2019: £-).

Investment

The Company is committed to ensuring the facilities continue to meet the highest environmental standards.

Financing

Significant funding facilities are in place to cover both medium and long-term requirements, including finance leasing and availability of loans from the intermediate parent undertaking and fellow subsidiaries. The Directors confirm that the Company can meet its short-term requirements from existing facilities without breaching covenants or other borrowing restrictions.

Dividends and reserves

Interim dividends totalling £2,000,000 were paid in the year (2019: £8,323,000). The Directors do not recommend the payment of a final dividend (2019: nil).

The transfer to retained earnings for the year was £417,000 (2019: £2,372,000).

The balance in retained earnings at 31 March 2020 is £789,000 (2019: £2,372,000).

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Viridor Group and are not separately managed. Accordingly, the principal risks and uncertainties of Viridor Limited, which include those of the Company, are discussed on pages 13 to 18 of Viridor Limited's Annual Report and Financial Statements which does not form part of this Report.

Financial risk management

The Company's activities expose it to a variety of financial risks; market risk (interest rate risk), liquidity risk and credit risk. Further information on the Company's management of these risks is given in note 3 of these financial statements.

Key performance indicators ('KPI's')

The directors of Viridor Limited (the smallest Group in which these financial statements are consolidated), manage the Viridor Group's operations on a fully integrated basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Viridor Group's operations, including those of the Company, are discussed on pages 2 to 11 of Viridor Limited's Annual Report and Accounts which does not form part of this Report.

Viridor (Lancashire) Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

FUTURE DEVELOPMENTS

The Directors continue to explore future opportunities in the recycling market to make use of the skills and experience of the market within the Viridor Group.

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 Company'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 Company 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 Company'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.

Change in ownership of the Viridor Group

On 08 July 2020, following the completion of the sale of Viridor Limited to Planets UK Bidco Limited, the ultimate controlling party of this Company became KKR & Co. Inc. There were no financial impacts on this Company as a result of the transaction.

The Strategic Report was approved by the Board and authorised for issue on 27 November 2020 and signed on its behalf by:

.....
N W Maddock
Director

Viridor (Lancashire) Limited

Directors' Report for the Year Ended 31 March 2020

The directors present their report and the unaudited financial statements for the year ended 31 March 2020.

The Directors' Report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 3 to 4 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 1 to 2.

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 and the position of the Company's business at the end of the year.

Going concern

Following the cessation of the core operating contract the directors do not anticipate that the company will continue to be in operational existence and will be wound up at some point in the future. Accordingly, the financial statements have been prepared on a basis other than a going concern.

Donations

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

Financial risk management policy

The Company's financial risk management policy is set out at note 3 on pages 15 to 16.

Financial instruments

Details of the Company's financial instruments are provided in note 2 on page 15 and note 10 on page 23.

Events after the reporting period

Events after the reporting date for the company are discussed in the future developments section of the Strategic report.

Directors

The directors, who held office during the year, were as follows:

P C Piddington (resigned 12 October 2020)

E A J Rees (resigned 12 October 2020)

The following directors were appointed after the year end:

N W Maddock (appointed 12 October 2020)

K M Bradshaw (appointed 12 October 2020)

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.

Employment policies and employee involvement

The Company has no employees (2019: none). Services provided by the Company were undertaken by employees of Viridor Waste Management Limited (a fellow subsidiary of Viridor Limited, the smallest Group in which these financial statements are consolidated). Policies relating to the training and development in the affairs, policy and performance of the Company can be found in the financial statements of Viridor Waste Management Limited.

Parent company

The Company is a direct subsidiary of Viridor Waste Management Limited. During the year, its ultimate parent company was Pennon Group Plc.

Viridor (Lancashire) Limited

Directors' Report for the Year Ended 31 March 2020 (continued)

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities 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 elected to prepare the 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

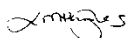
- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors' Report was approved by the Board on 27 November 2020.

By Order of the Board:



.....
L M Hughes
Company secretary

Viridor (Lancashire) Limited

Income Statement for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Revenue	4	1,729	11,213
Manpower costs	4	(248)	(1,361)
Raw materials and consumables used	4	(69)	(902)
Other expenses	4	<u>(729)</u>	<u>(6,143)</u>
Profit before interest, tax, depreciation, amortisation and dividends		683	2,807
Depreciation and amortisation expense	4	<u>(231)</u>	<u>(38)</u>
Operating profit		452	2,769
Finance income		<u>59</u>	<u>160</u>
Net finance income	5	<u>59</u>	<u>160</u>
Profit before tax		511	2,929
Taxation charge	6	<u>(94)</u>	<u>(557)</u>
Profit for the year		<u>417</u>	<u>2,372</u>

Viridor (Lancashire) Limited**Statement of Comprehensive Income for the Year Ended 31 March 2020**

	2020	2019
	£ 000	£ 000
Profit for the year	417	2,372
Items that will not be reclassified subsequently to profit or loss	-	-
Items that may be reclassified subsequently to profit or loss	-	-
Total comprehensive income for the year	<u>417</u>	<u>2,372</u>

Viridor (Lancashire) Limited
(Registration number: 05934432)
Statement of Financial Position as at 31 March 2020

	Note	31 March 2020 £ 000	31 March 2019 £ 000
Assets			
Non-current assets			
Property, plant and equipment	9	-	104
		-	104
Current assets			
Inventories	11	-	47
Trade and other receivables	12	19	5,721
Cash and cash equivalents	13	3,647	48
		3,666	5,816
Liabilities			
Current liabilities			
Trade and other payables	14	(129)	(894)
Current tax liability		(2,707)	(2,612)
		(2,836)	(3,506)
Non-current liabilities			
Deferred tax liabilities	6	-	(1)
NET ASSETS		830	2,413
Equity			
Share capital	15	41	41
Retained earnings		789	2,372
TOTAL EQUITY		830	2,413

For the financial year ending 31 March 2020 the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors' responsibilities:

- The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476; and
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

The financial statements on pages 5 to 29 were approved by the Board and authorised for issue on 27 November 2020 and signed on its behalf by:

.....
N W Maddock
Director

Viridor (Lancashire) Limited

Statement of Changes in Equity for the Year Ended 31 March 2020

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2018	41	8,323	8,364
Profit for the year	-	2,372	2,372
Total comprehensive income	-	2,372	2,372
Dividends	-	(8,323)	(8,323)
At 31 March 2019	41	2,372	2,413

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2019	41	2,372	2,413
Profit for the year	-	417	417
Total comprehensive income	-	417	417
Dividends	-	(2,000)	(2,000)
At 31 March 2020	41	789	830

Viridor (Lancashire) Limited

Statement of Cash Flows for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Cash flows from operating activities			
Profit for the year		417	2,372
<i>Adjustments to cash flows from non-cash items:</i>			
Depreciation and amortisation	4	231	38
Loss on disposal of property plant and equipment		19	-
Finance income	5	(59)	(160)
Taxation charge	6	94	557
		<u>702</u>	<u>2,807</u>
<i>Working capital adjustments:</i>			
Decrease/(increase) in inventories		47	(31)
Decrease in trade and other receivables		2,140	301
Decrease in trade and other payables		<u>(764)</u>	<u>(1,158)</u>
Cash generated from operations		2,125	1,919
Taxation paid		<u>-</u>	<u>(196)</u>
Net cash flow from operating activities		<u>2,125</u>	<u>1,723</u>
Cash flows from investing activities			
Interest received		154	36
Proceeds from sale of property plant and equipment		71	-
Repayment of borrowings issued to fellow Group company		<u>3,466</u>	<u>1,554</u>
Net cash flows from investing activities		<u>3,691</u>	<u>1,590</u>
Cash flows from financing activities			
Dividends paid		(2,000)	(8,323)
Finance lease principal repayments		<u>(217)</u>	<u>-</u>
Net cash flows from financing activities		<u>(2,217)</u>	<u>(8,323)</u>
Net increase/(decrease) in cash and cash equivalents		3,599	(5,010)
Cash and cash equivalents at 1 April		<u>48</u>	<u>5,058</u>
Cash and cash equivalents at 31 March	13	<u>3,647</u>	<u>48</u>

The notes on pages 10 to 29 form an integral part of these financial statements.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020

1 General information

The company is a private company limited by share capital, incorporated and domiciled in England.

The address of its registered office is:

Viridor House
Priory Bridge Road
Taunton
Somerset
TA1 1AP
United Kingdom

The nature of the Company's operations include the provision of transport and logistics solutions to two waste treatment and recycling plants at Leyland near Preston and Thornton near Blackpool. This contract ended on 31 May 2019 with an orderly transition to the new service providers achieved. The Company ceased to trade shortly thereafter.

The company is no longer engaged in the delivery of services and is consequently expected to be wound up in the near future. The company remains active whilst finalising residual contractual obligations.

2 Accounting policies

Statement of compliance

The company financial statements have been prepared in accordance with International Financial Reporting Standards, its interpretations adopted by the EU ("adopted IFRS's") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

These financial statements are presented in pound sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Going concern

Following the cessation of the core operating contract the directors do not anticipate that the company will continue to be in operational existence and will be wound up at some point in the future. Accordingly, the financial statements have been prepared on a basis other than a going concern.

New standards, interpretations and amendments not yet effective

Other than the adoption of IFRS 16, which is explained in note 18, 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 Company.

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

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Revenue recognition

Recognition

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 company 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 company 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 includes revenue arising from transactions between Group companies.

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 Company 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 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 Company's operational assets, is recognised as customer waste is deposited and is based on tonnage received.

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

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

The Company 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.

Contract assets and liabilities

A trade receivable is recognised when the Company has an unconditional right to receive consideration in exchange for performance obligations already fulfilled. A contract asset is recognised when the Company has fulfilled some of its performance obligations but has not yet obtained an unconditional right to receive consideration.

A contract liability is recognised when consideration is received in advance of the Company performing its performance obligations to customers.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Foreign exchange

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the closing balance sheet rate. The resulting gain or loss is recognised in the income statement.

Tax

The tax expense for the period 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 recognised in the statement of comprehensive income or directly in equity as appropriate.

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 companies within the same tax group. Payments for group relief are included within the current tax disclosures.

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Fixed and mobile plant, vehicles and computers	3-10 years

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 company for similar financial instruments.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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 Viridor 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 Company 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 2019 is set out in note 18.

Impairment of non-financial assets

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

Assets which are subject to amortisation 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 the 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.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within current borrowings.

Inventories

Inventories are stated at the lower of cost and net realisable value.

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 expenditure expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Retirement benefit obligations

During the year, the Company participated in both a defined benefit and a defined contribution scheme operated by the ultimate parent, Pennon Group plc. Costs of the scheme are included in the employment cost recharge from Viridor Waste Management Limited (a fellow subsidiary of Viridor Limited) as all employees are contracted to that company.

The Directors consider it appropriate to account for the defined benefit scheme as a defined contribution scheme and do not consider there to be a material impact on the financial statements of the Company due to the significant proportion of the scheme assets and liabilities being attributed to Viridor Waste Management Limited, where the required disclosures have been made.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Financial instruments

i) Loans and receivables

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

Gains and losses are recognised in the income statement when the instruments are derecognised or impaired. Premia, discounts and other costs and fees are recognised in the income statement through the amortisation process.

Borrowings are classified as current liabilities unless the Company 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 initially recognised at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

iii) Trade payables

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

iv) 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.

3 Financial risk review

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 Company's activities expose it to a variety of financial risks; market risk (interest rate risk), liquidity risk and credit risk. The Company received treasury services from the treasury function of its ultimate parent, which sought to ensure that sufficient funding was available to meet foreseeable needs, maintain reasonable headroom for contingencies and manage inflation and interest rate risk.

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

Treasury operations are managed in accordance with policies established by the board. Major transactions are individually approved by that board and are subject to review by internal audit.

Financial instruments are used to manage interest rate and exchange rate risk. Companies within the Viridor Group do not engage in speculative activity.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

3 Financial risk review (continued)

Market Risk

Viridor Waste Management Limited (a fellow subsidiary of Viridor Limited, the smallest Group in which these financial statements are consolidated) is responsible for setting interest rates for the Viridor Group.

The Company 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 its income and operating cash flows are substantially independent of changes in market interest rates.

Liquidity Risk

The ultimate parent company actively maintained a mixture of long-term and short-term committed facilities that were designed to ensure that the Company had significant available funds for operations, planned expansions and facilities equivalent to at least one year's forecast requirements at all times.

Refinancing risk was managed under the ultimate parent company's policies with agreement that no more than 20% of the Company's debt, as provided by the ultimate parent undertaking, would mature in any financial year.

The ultimate parent company managed and determined the criteria for the Company's capital requirement.

Credit Risk

Credit risk arises from cash and cash equivalents with banks and financial institutions, as well as exposure to trade customers, including outstanding receivables. The maximum exposure to credit risk is represented by the carrying value of these financial instruments. Further information on the credit risk relating to trade receivables is given in note 12.

Counterparty risk arises from the investment of surplus funds which are pooled with certain other funds within other Group companies. The Group's surplus funds are managed by the ultimate parent company's treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet board approved minimum criteria based on their short-term credit ratings and therefore be of good credit quality.

The principal credit risks faced by the Company can be found in the Annual Report and Financial Statements of Viridor Limited an intermediate parent company and the smallest Group in which these financial statements are consolidated.

(b) Capital risk management

The principal capital risks faced by the Company can be found in the Annual Report and Financial Statements of Viridor Limited, the intermediate holding company.

(c) Determination of fair values

The Company 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 not based on observable market data (unobservable inputs) (level 3).

The Company's financial instruments are valued using level 2 measures as analysed in note 10.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

4 Operating profit

Revenue

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

	UK £000	Total £000
Year ended 31 March 2020		
Waste management services	1,729	1,729
	<u>1,729</u>	<u>1,729</u>
Year ended 31 March 2019		
Waste management services	11,213	11,213
	<u>11,213</u>	<u>11,213</u>

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

Operating costs

		31 March 2020 £000	31 March 2019 £000
Manpower costs	Note 7	248	1,361
Raw materials and consumables		69	902
Other operating expenses:			
Profit on disposal of property, plant and equipment		19	-
Lease rentals payable		5	1,347
Hired and contracted services		624	3,830
Other external charges		81	966
		<u>729</u>	<u>6,143</u>
Depreciation of property, plant and equipment:			
- Owned assets		14	38
- Under finance leases		217	-
		<u>231</u>	<u>38</u>

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 18).

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

5 Finance income and costs

	Note	2020 £ 000	2019 £ 000
Finance income			
Interest income on bank deposits		7	8
Other finance income		-	4
Loan to immediate parent company	17	<u>52</u>	<u>148</u>
Total finance income		<u>59</u>	<u>160</u>

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

6 Taxation

Tax charged in the income statement

	2020 £ 000	2019 £ 000
UK corporation tax	95	557
Deferred tax	(1)	-
Tax charge in the income statement	<u>94</u>	<u>557</u>

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

Reconciliation of total tax charge:

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

	2020 £ 000	2019 £ 000
Profit before tax	<u>511</u>	<u>2,929</u>
Tax calculated at the standard rate of UK Corporation tax of 19%	97	557
Other timing differences	(3)	-
Total tax charge	<u>94</u>	<u>557</u>

UK corporation tax is stated after a charge relating to prior year current tax of £27,000 (2019: £26,000 charge) and a prior year deferred tax credit of £27,000 (2019: £26,000 credit).

Reconciliation of current tax charge:

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%) as follows:

	2020 £ 000	2019 £ 000
Profit before tax	<u>511</u>	<u>2,929</u>
Tax calculated at the standard rate of UK Corporation tax of 19%	97	557
Relief for capital expenditure in excess of depreciation on qualifying assets	(1)	(5)
Disallowance of depreciation charge for the year	-	7
Adjustment to current tax in respect of prior years	27	26
Other timing differences	(28)	(28)
Current tax charge	<u>95</u>	<u>557</u>

Viridor (Lancashire) Limited**Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)****6 Taxation (continued)****Deferred tax**

Deferred tax is provided in full on temporary differences under the liability method using enacted tax rates.

Movements on deferred tax were:

	31 March 2020 £ 000	31 March 2019 £ 000
Net liabilities at 1 April	(1)	(1)
Credit to the income statement	1	-
Net liabilities at 31 March	<u>-</u>	<u>(1)</u>

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.

All deferred tax assets and liabilities are within the same jurisdiction and may be offset as permitted by IAS 12

The movement in deferred tax assets and liabilities were:

	At 1 April 2019 £ 000	Recognised in income statement £ 000	At 31 March 2020 £ 000
Accelerated tax depreciation	(1)	1	-
Provisions	-	-	-
Net tax assets/(liabilities)	<u>(1)</u>	<u>1</u>	<u>-</u>

The movement in deferred tax assets and liabilities during the prior year were:

	At 1 April 2018 £ 000	Recognised in income statement £ 000	At 31 March 2019 £ 000
Accelerated tax depreciation	(5)	4	(1)
Provisions	4	(4)	-
Net tax assets/(liabilities)	<u>(1)</u>	<u>-</u>	<u>(1)</u>

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

7 Staff costs

The Company has no employees (2019: none). Services provided by the Company were undertaken by employees of Viridor Waste Management Limited, a fellow subsidiary of Viridor Limited (the smallest Group in which this company's results are consolidated). Viridor Waste Management Limited charged a service fee to the Company including the amounts recorded below for 7 (2019: 42) employees who worked predominantly for the Company, based on a 12 month average.

The aggregate payroll costs (including directors' remuneration) were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	211	1,164
Social security costs	21	112
Pension costs	16	85
	<u>248</u>	<u>1,361</u>

Details of Directors' emoluments are set out in note 8. There are no personnel other than Directors, who as key management exercise authority and responsibility for planning, directing and controlling the activities of the Company

8 Directors' remuneration

	2020 £ 000	2019 £ 000
Aggregate emoluments of the Directors in respect of their services to the Company	<u>2</u>	<u>6</u>

The Company incurred no direct charge for Directors' emoluments but received a proportion of the employment costs of the Directors as a management charge from Viridor Waste Management Limited. Total emoluments of the Directors are disclosed in the Financial Statements of Viridor Waste Management Limited.

Viridor (Lancashire) Limited**Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)****9 Property, plant and equipment**

	Fixed and mobile plant, vehicles and computers £ 000	Total £ 000
Cost or valuation		
At 1 April 2018	<u>275</u>	<u>275</u>
At 31 March 2019	275	275
Transition to IFRS 16	<u>217</u>	<u>217</u>
At 1 April 2019	492	492
Disposals	<u>(492)</u>	<u>(492)</u>
At 31 March 2020	<u>-</u>	<u>-</u>
Depreciation		
At 1 April 2018	133	133
Charge for year	<u>38</u>	<u>38</u>
At 31 March 2019	<u>171</u>	<u>171</u>
At 1 April 2019	171	171
Charge for the year	231	231
Eliminated on disposal	<u>(402)</u>	<u>(402)</u>
At 31 March 2020	<u>-</u>	<u>-</u>
Carrying amount		
At 31 March 2020	<u>-</u>	<u>-</u>
At 31 March 2019	<u>104</u>	<u>104</u>
At 1 April 2018	<u>142</u>	<u>142</u>

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

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

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

9 Property, plant and equipment (continued)

Right of use assets held under leases included above were:

	Machinery £ 000	Total £ 000
Cost or valuation		
At 31 March 2019	-	-
Transition to IFRS 16	217	217
At 1 April 2019	217	217
Disposals	(217)	(217)
At 31 March 2020	-	-
Depreciation		
Charge for the year	217	217
Eliminated on disposal	(217)	(217)
At 31 March 2020	-	-
Carrying amount		
At 31 March 2020	-	-

10 Financial instruments by category

	Notes	Amortised cost		Total £000
		Loans and receivables £000	Trade receivables and trade payables £000	
31 March 2020				
Financial assets				
Trade and other receivables	12	-	19	19
Cash and cash equivalents	13	3,647	-	3,647
		<u>3,647</u>	<u>19</u>	<u>3,666</u>
Financial liabilities				
Trade and other payables	14	-	(129)	(129)
		<u>-</u>	<u>(129)</u>	<u>(129)</u>
31 March 2019				
Financial assets				
Trade and other receivables	12	-	4,795	4,795
Cash and cash equivalents	13	48	-	48
		<u>48</u>	<u>4,795</u>	<u>4,843</u>
Financial liabilities				
Trade and other payables	14	-	(302)	(302)
		<u>-</u>	<u>(302)</u>	<u>(302)</u>

11 Inventories

	31 March 2020 £ 000	31 March 2019 £ 000
Raw materials and consumables	-	47

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

12 Trade and other receivables

		31 March 2020 £ 000	31 March 2019 £ 000
Trade receivables		-	1,097
Receivables from related parties	17	19	3,698
Prepayments and other receivables		-	926
		<u>19</u>	<u>5,721</u>

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

At 31 March 2020, trade receivables of £nil (2019: £1,097,000) were fully performing with no significant concentration of credit risk.

13 Cash and cash equivalents

	31 March 2020 £ 000	31 March 2019 £ 000
Cash at bank and in hand	<u>3,647</u>	<u>48</u>

14 Trade and other payables

		31 March 2020 £ 000	31 March 2019 £ 000
Trade payables		-	255
Accrued expenses		-	235
Amounts due to related parties	17	129	47
Social security and other taxes		-	357
		<u>129</u>	<u>894</u>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

15 Share capital

Allotted, called up and fully paid shares

	31 March 2020		31 March 2019	
	No.	£	No.	£
A Ordinary shares of £1 each	20,400	20,400	20,400	20,400
B Ordinary shares of £1 each	<u>20,400</u>	<u>20,400</u>	<u>20,400</u>	<u>20,400</u>
	<u>40,800</u>	<u>40,800</u>	<u>40,800</u>	<u>40,800</u>

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

16 Contingent liabilities

	31 March 2020 £ 000	31 March 2019 £ 000
Bank guarantees	3,647	47
Performance bonds	-	300
	<u>3,647</u>	<u>347</u>

i) Bank Guarantees

Certain banking arrangements of the Company operate on a pooled basis with certain other Group companies and under these arrangements, credit balances of participating companies can be offset against overdrawn balances of participating companies.

ii) Performance Bonds

Due to the long term nature of the company's operations and the requirement to provide for future obligations arising from the grant of licences to operate waste transfer and disposal facilities, it has provided guarantees underwritten (in the form of bonds) by United Kingdom financial institutions to secure funds to meet these obligations. The bond expired on completion of the contract to which it related.

No financial liability is expected to crystallise from any of the contingent liabilities.

17 Related party transactions

Year end balances

	Note	31 March 2020 £000	31 March 2019 £000
Current receivables			
Immediate parent company		19	3,614
Fellow subsidiaries		-	84
	12	<u>19</u>	<u>3,698</u>
Current trade payables			
Immediate parent company		(129)	(47)
	14	<u>(129)</u>	<u>(47)</u>

The trading balances due to or from the related parties are interest free, unsecured and repayable on demand.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

17 Related party transactions (continued)

Transactions with related parties

Income from related parties:

		Immediate parent company £ 000	Total £000
2020	Note		
Income from provision of loan finance	5	52	52

		Immediate parent company £ 000	Total £000
2019	Note		
Income from provision of loan finance	5	148	148

Expenditure with related parties:

		Immediate parent company £ 000	Total £000
2020			
Purchase of goods and services		443	443
Administrative charges		181	181
Dividends payable		2,000	2,000
		<u>2,624</u>	<u>2,624</u>

		Immediate parent company £ 000	Total £000
2019			
Purchase of goods and services		3,193	3,193
Administrative charges		567	567
Dividends payable		8,323	8,323
		<u>12,083</u>	<u>12,083</u>

Sales and purchases of goods and services with fellow subsidiaries of Viridor Limited are undertaken on normal commercial terms and conditions that would also be available to unrelated third parties.

18 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 Company'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 Company recognised lease liabilities totalling £217,000 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 Viridor Group's weighted average Incremental Borrowing Rate (IBR). A right-of-use asset of £217,000 was also recognised using the same calculation to determine the fair value of the asset on adoption.

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

At 31 March 2019, the Company had non-cancellable operating lease commitments of £217,000. These predominantly relate to leases of plant and machinery used by the Company in the course of carrying out its businesses.

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 Viridor 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 Company 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%.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

18 Change in accounting policy on leases (continued)

In applying IFRS 16 for the first time, the Company 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;
- the application of hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease;
- Electing to apply the standard to contracts that were previously identified as leases when applying IAS 17

Income Statement impact of IFRS 16

Based on the additional lease liability and associated assets recognised at 1 April 2019, there was no impact on profit for the year ended 31 March 2020 resulting from:

- an increase in EBITDA of £217,000
- an increase in depreciation of £217,000

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.

Viridor (Lancashire) Limited

Notes to the Unaudited Financial Statements for the Year Ended 31 March 2020 (continued)

19 Parent and ultimate parent undertaking

On 8th July 2020 the ultimate parent company changed following the sale of Viridor Limited to Planets UK Bidco Limited. Further details are included in note 20.

The following information relates to the Group structure that existed at 31 March 2020.

The company's immediate parent is Viridor Waste Management Limited.

The ultimate parent was Pennon Group Plc.

The most senior parent entity producing publicly available financial statements was Pennon Group Plc. These financial statements are available upon request from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Pennon Group Plc, incorporated in England.

The address of Pennon Group Plc is:

Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR

The parent of the smallest group in which these financial statements are consolidated is Viridor Limited, incorporated in England.

The address of Viridor Limited is:

Viridor House, Priory Bridge Road, Taunton, Somerset, TA1 1AP

20 Non adjusting events after the financial period

The sale of the Viridor Group

On 08 July 2020, following the completion of the sale of Viridor Limited to Planets UK Bidco Limited, the ultimate controlling party of this Company became KKR & Co. Inc.

Pennon Group employees who worked predominantly for Viridor, as part of a shared service arrangement with other Pennon Group Companies, were transferred to Viridor under TUPE regulations, ensuring continuation of service.

There were no other financial impacts of the sale on this Company.

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 Company's financial year end of 31 March 2020, the Directors have considered the impact of these events when making its key judgements 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.

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 Company's future performance.