

Registered number 08106962

VIRIDOR SOUTH LONDON LIMITED

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE PERIOD
ENDED 31 MARCH 2016**

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VIRIDOR SOUTH LONDON LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2016

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VIRIDOR SOUTH LONDON LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 March 2016

PRINCIPAL ACTIVITIES

The Company's principal activity is to build and operate an Energy Recovery Facility (ERF) for the treatment of residual waste material under a 25 year contract with the South London Waste Partnership

BUSINESS REVIEW

Financial results

Revenues fell by £3,447,000 (67.4%) to £1,665,000 (2015 £5,112,000)

Operating profit was £1,777,000 for the year (2015 £2,538,000 loss). The operating margin was 106.7% (2015 minus 49.6%)

Net finance costs were £465,000 (2015 £14,000)

The Company's taxation position results in a charge of £2,000 (2015 £511,000 credit)

Investment

The Company's principal investment in property, plant and equipment will be £199,000,000 (excluding capitalised interest) in relation to the construction of the ERF facility at Beddington, Sutton. Construction is progressing well and the level of expenditure is consistent with the extent of construction progress achieved.

The Company has sufficient financial resources including committed funding to finance this investment and any trading in the period between completion of the investment and the generation of net cash from operations.

The anticipated levels of income and cost of operations taken together are sufficient to achieve a satisfactory return on the investment (including expenditure not yet incurred), therefore no impairment reducing the net book value ('carrying amount') has occurred.

Financing

Sufficient funding facilities are in place to cover both medium and long-term requirements. These are expected to be renewed as necessary.

In accordance with the Company's financial risk management policies as set out in note 3 of the Financial Statements, financing strategies will continue to be developed by the ultimate parent company, Pennon Group Plc.

Dividends and reserves

No dividends were paid in the year (2015 nil). The Directors do not recommend the payment of a final dividend (2015 nil).

The balance of reserves at 31 March 2016 was a surplus of £2,001,000 (2015 £2,025,000 deficit).

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 19 to 24 and 47 to 50 of Viridor Limited's Annual Report and Accounts which does not form part of this Report.

VIRIDOR SOUTH LONDON LIMITED

STRATEGIC REPORT (Continued)

BUSINESS REVIEW (Continued)

Key performance indicators ('KPIs')

The directors of Viridor Limited 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 18 of Viridor Limited's Annual Report and Accounts which does not form part of this Report.

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. The Company is subject to significant regulation and must comply with the high standards set by the Environment Agency. Pennon Group Plc, the ultimate parent company, has a long-established environmental policy, as set out in its annual report and on its website (www.pennon-group.co.uk/sustainability), neither of which form part of this Report.

Future developments

Energy from waste is central to the UK's waste and renewable energy strategies as the long-term, low-cost alternative to landfill for disposal of residual waste. The Company intends to take advantage of this growing market through the construction of a new ERF at Beddington, which is due to be commissioned in the first half of the year ending 31 March 2019.

The Strategic Report was approved by the Board of Directors and authorised for issue on **22** December 2016 and was signed on its behalf by



E A J REES
Director

VIRIDOR SOUTH LONDON LIMITED

DIRECTORS' REPORT

The Directors present their Directors' Report and financial statements for the year ended 31 March 2016

The Directors' report is prepared in accordance with the provisions of the Companies Act 2006 and regulations made thereunder. It comprises pages 3 and 4 as well as any matters incorporated by reference.

Information regarding the Company, 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 and 2.

DONATIONS

No political donations were made, no political expenditure was incurred and no contributions were made to a non-EU political party during the year (2015 nil).

FINANCIAL RISK MANAGEMENT

Details of the Company's financial risk management objectives and policies and exposure to financial risks (market risk (interest rate risk), liquidity risk and credit risk) are set out in note 3 on pages 13 and 14.

FINANCIAL INSTRUMENTS

Details of the Company's financial instruments are provided in note 2(g) and on page 11 and 12, and note 12 on page 19.

GOING CONCERN

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

FUTURE DEVELOPMENTS

The future developments of the Company are discussed in the Strategic Report on pages 1 to 2.

DIRECTORS

The Directors who served on the Board during the year and up to the date of signing the financial statements were:

R P Allenby-Ryan	(resigned 8 May 2015)
M Burrows Smith	(resigned 30 June 2015)
A D Cumming	
S P Hodges	(resigned 10 May 2015)
A M D Kirkman	(resigned 18 September 2015)
P C Piddington	(appointed 31 July 2015)
E A J Rees	(appointed 31 July 2015)

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.

EMPLOYEES

The Company has no employees (2015 none). Services provided by the Company were undertaken by employees of Viridor Waste Management Limited, and policies relating to the training and development and involvement of employees in the affairs, policy and performance of the Company can be found in that Company's Annual report and Financial Statements.

VIRIDOR SOUTH LONDON LIMITED

DIRECTORS' REPORT (Continued)

PARENT COMPANY

The Company is a subsidiary of Viridor Waste Management Limited. Its ultimate parent undertaking is Pennon Group Plc.

The Company has no subsidiary companies.

DIRECTORS' RESPONSIBILITIES 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 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make 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 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS

In accordance with Section 479A of the Companies Act 2006 ('the Act'), the Company, as a wholly owned subsidiary of a company registered in the United Kingdom, is entitled to exemption from audit as conferred by the Act.

By Order of the Board



K SENIOR
Company Secretary

22 December 2016

VIRIDOR SOUTH LONDON LIMITED

Income statement for the year ended 31 March 2016

	Notes	2016 £000	2015 (Note 6) £000
Revenue	5	1,665	5,112
Operating costs	5		
Manpower costs		(279)	(69)
Raw materials and consumables used		(298)	(351)
Other operating income/(expenses)		758	(7,176)
Depreciation		(69)	(54)
Operating profit/(loss)		1,777	(2,538)
Finance income		2	-
Finance costs		(467)	(14)
Net finance costs	7	(465)	(14)
Profit/(loss) before tax		1,312	(2,552)
Taxation	8	(2)	511
Profit/(loss) for the period		1,310	(2,041)
Profit/(loss) attributable to owners of the parent		1,310	(2,041)

The notes on pages 10 to 23 form part of these financial statements

VIRIDOR SOUTH LONDON LIMITED

Statement of comprehensive income for the year ended 31 March 2016

	2016 £000	2015 £000
Comprehensive income/(loss) attributable to owners of the parent	<u>1,310</u>	<u>(2,041)</u>

The notes on pages 10 to 23 form part of these financial statements

VIRIDOR SOUTH LONDON LIMITED

Balance sheet at 31 March 2016

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	11	66,566	8,271
Derivative financial instruments	14	2,352	-
Deferred tax asset	20	-	186
		<u>68,918</u>	<u>8,457</u>
Current assets			
Trade and other receivables	13	2,358	2,861
Derivative financial instruments	14	1,013	-
Current tax recoverable	16	2,763	341
Cash and cash equivalents	15	4,612	142
		<u>10,746</u>	<u>3,344</u>
Total assets		<u>79,664</u>	<u>11,801</u>
Equity			
Share capital	21	-	-
(Retained earnings and other reserves)/accumulated losses	22	(2,001)	2,025
Total equity		<u>(2,001)</u>	<u>2,025</u>
Liabilities			
Non-current liabilities			
Borrowings	17	(59,932)	(2,119)
Deferred tax liability	20	(2,887)	-
		<u>(62,819)</u>	<u>(2,119)</u>
Current liabilities			
Borrowings	17	(13,820)	(7,800)
Trade and other payables	18	(1,024)	(932)
Provisions	19	-	(2,975)
		<u>(14,844)</u>	<u>(11,707)</u>
Total liabilities		<u>(77,663)</u>	<u>(13,823)</u>
Total equity and liabilities		<u>(79,664)</u>	<u>(11,801)</u>

The notes on pages 10 to 23 form part of these financial statements

For the period ending 31 March 2016 the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies

Directors' responsibilities

- (i) the members have not required the Company to obtain an audit of its accounts for the period in question in accordance with section 476,
- (ii) 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 23 were approved by the Board of Directors and authorised for issue on 22 December 2016 and were signed on its behalf by



E A J REES

Director

Registered number 08106962

VIRIDOR SOUTH LONDON LIMITED

Statement of changes in equity for the year ended 31 March 2016

	Share capital £	Hedging reserve £	Retained earnings £	Total equity £
As at 1 April 2014	-	-	16	16
Loss for the year	-	-	(2,041)	(2,041)
Total comprehensive loss for the year	-	-	(2,041)	(2,041)
As at 31 March 2015	-	-	(2,025)	(2,025)
Profit for the year	-	-	1,310	1,310
Other comprehensive income	-	3,365	-	3,365
Total comprehensive income for the year	-	3,365	1,310	4,675
Deferred tax on hedge	-	(649)	-	(649)
As at 31 March 2016	-	2,716	(715)	2,001

The notes on pages 10 to 23 form part of these financial statements

Total comprehensive income for the year and total comprehensive losses for the preceding year are attributable to owners of the parent only

VIRIDOR SOUTH LONDON LIMITED

Cash flow statement for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Cash flows from operating activities			
Cash generated from operations	23	5,372	110
Interest paid		(467)	(14)
Net cash generated from operating activities		<u>4,905</u>	<u>96</u>
Cash flows from investing activities			
Interest received		2	-
Purchase of property, plant and equipment		(58,364)	(7,754)
Net cash used in investing activities		<u>(58,362)</u>	<u>(7,754)</u>
Cash flows generated from financing activities			
Proceeds from new borrowings		57,927	7,800
Net cash generated from financing activities		<u>57,927</u>	<u>7,800</u>
Net increase in cash and cash equivalents		4,470	142
Cash and cash equivalents at beginning of the period		142	-
Cash and cash equivalents at end of the period	15	<u>4,612</u>	<u>142</u>

The notes on pages 10 to 23 form part of these financial statements

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Viridor South London Limited is a private limited company domiciled and registered in the United Kingdom under the Companies Act 2006. The address of the registered office is Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 and 2.

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 periods presented.

(a) Basis of preparation

These financial statements have been prepared on the historical cost accounting basis as modified by certain financial assets and financial liabilities at fair value through the income statement and in accordance with International Financial Reporting Standards ('IFRS'), and International Financial Reporting Interpretations Committee ('IFRIC') interpretations 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 period.

The going concern basis has been adopted in preparing these financial statements as stated by the Directors on page 3.

The new standards or interpretations which were mandatory for the first time in the year beginning 1 April 2015 did not have a material impact on the net assets or results of the Company.

Standards and interpretations in issue, but not yet effective, are not expected to have a material effect on the Company's net assets or results, except the following set out below:

- IFRS 15 'Revenue from contracts with customers' relates to revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard will replace IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and is subject to EU endorsement.
- The Company continues to assess the impact of the new standard on the Company's financial statements. The Company will make more detailed assessments of the impact over the next twelve months.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best assessment of the amounts, actual events or actions and results may ultimately differ from those estimates. As set out in note 4.

(b) Revenue recognition

Revenue represents the fair value of consideration receivable, excluding value added tax and trade discounts, in the ordinary course of business for goods and services provided. Revenue is recognised once the services or goods have been provided to the customer.

Interest income is recognised on a time-apportioned basis using the effective interest method.

(c) Foreign currencies

Transactions in overseas currencies are translated into local currency at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rate ruling at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the rate ruling at the year-end are taken into account in determining profit before taxation.

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Principal accounting policies (continued)

(d) Property, plant and equipment

Property, plant and equipment is included at cost less accumulated depreciation

Property, plant and equipment is depreciated evenly to their residual value over their estimated economic lives

Assets in the course of construction are not depreciated until commissioned

The cost of assets includes directly attributable labour and overhead costs which are incremental to the Company. Borrowing costs that are 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.

Finance income received during the construction period represents finance income received from short-term investment of cash balances held to make payments for additions to property, plant and equipment. This finance income is capitalised as a deduction in the calculation of net borrowing costs.

Asset lives and residual values are reviewed annually.

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

(e) 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.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits held at banks.

(g) Financial instruments

The Company classifies its financial instruments in the following categories:

i) Loans and receivables

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

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

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Principal accounting policies (continued)

(g) Financial instruments (continued)

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) Derivative financial instruments and hedging activities

The Company 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 Company designates its hedging derivatives as a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge).

Cash flow hedges meeting the conditions for hedge accounting, when the portion of the gain or loss on the hedging instrument is determined to be an effective hedge, such gain or loss is recognised directly in other comprehensive income, and the ineffective portion in the income statement. The gains or losses deferred in other comprehensive income 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 Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company 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 on-going basis. The 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 where the remaining maturity of the hedged item is more than one year, and as a current asset or liability where the remaining maturity of the hedged item is less than one year.

Where the forward contracts form an effective hedge relating to expenditure on property, plant and equipment, the gains or losses relating to that expenditure are transferred to a hedging reserve and subsequently, as expenditure is incurred, to property, plant and equipment. The effect of this treatment is that the net investment in property, plant and equipment is reported at the exchange rates contracted for in the hedging contracts.

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

(h) Share capital

Ordinary shares are classified as equity.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Principal accounting policies (continued)

(j) Taxation including deferred tax

The tax charge 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. 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 full 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 group tax relief provisions whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payment for group relief may be made up to an amount equal to the tax benefit and amounts are included within the current tax disclosures.

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

(k) 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 a financial item within finance costs.

(l) Non-underlying items

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

3. Financial risk management

(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 receives treasury services from the treasury function of its ultimate parent, Pennon Group Plc, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages inflation, foreign exchange 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 Pennon Group Plc 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.

The Company and Pennon Group Plc do not engage in speculative activity.

i) Market risk

Viridor Waste Management Limited 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.

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Financial risk management (continued)

(a) Financial risk factors (continued)

For the year ended 31 March 2016, if interest rates on net borrowings had been 0.5% higher/lower with all other variables held constant, net finance costs capitalised in the period would have increased/decreased by £157,000 (2015 £20,000)

ii) Liquidity risk

Pennon Group Plc actively maintains a mixture of long-term and short-term committed facilities that are designed to ensure that the Company 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 Pennon Group Plc policies. The Company has not entered into any covenants with lenders

Pennon Group Plc manages and determines the criteria for the Company's capital requirement

Contractual undiscounted cash flows were

	Due within 1 year £000	Due between 1 and 2 years £000	Due between 2 and 5 years £000	Due after 5 years £000	Total £000
31 March 2016					
<i>Non-derivative financial liabilities</i>					
Borrowings excluding finance lease liabilities	13,820	2,606	7,817	49,509	73,752
Interest payments on borrowings	2,023	1,938	5,310	16,013	25,284
31 March 2015					
<i>Non-derivative financial liabilities</i>					
Borrowings excluding finance lease liabilities	7,800	88	265	1,766	9,919
Interest payments on borrowings	72	69	188	566	895

iii) Credit risk

Credit risk arises from cash and cash deposits with banks and financial institutions, as well as exposure to trade customers, including outstanding receivables

Counterparty risk arises from the investment of surplus funds which are pooled with certain other Pennon Group companies. Surplus funds of the Company are usually placed in short-term fixed interest deposits or the overnight money markets. All deposits are with counterparties that have a credit rating threshold approved by the board of Pennon Group Plc

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

iv) Foreign currency risk

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

(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's financial instruments are valued using inputs other than quoted prices that are directly observable for the asset class or liability

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Critical accounting judgements and estimates

The Company's principal accounting policies are set out in note 2. Management is required to exercise significant judgement and make use of estimates and assumptions in the application of these policies.

(a) Carrying value of deferred tax assets

The carrying value of deferred tax assets at 31 March 2016 is nil (2015 £186,000). The carrying value of the deferred tax asset is supported on the basis that the Company will have sufficient future taxable profits to recover the tax asset as the temporary differences unwind. Deferred tax is shown as a liability for the year of £2,887,000 (2015 nil) reflecting the activity during the year.

(b) Impairment of non-financial assets

In order to determine whether impairments are required, the Company estimates the recoverable amount of an individual asset or assets grouped at the lowest level for which there are separately identifiable cash flows (cash generating units).

Impairment calculations are based on projections of future cash flows for the cash generating unit and the use of a terminal value to incorporate expectations of growth after the period covered by specific plans. The cash flows are discounted by the weighted average cost of capital appropriate to the business stream which is reviewed on an annual basis. If the cash flow or discount rate assumptions were to change because of market conditions, the level of impairment could be different and could result in the impairment being increased or reversed, in part or in full, at a future date. The principal assumptions used to assess impairment are set out in note 11 of the financial statements.

5. Operating profit

Revenue

All revenue is from the integrated recycling, renewable energy and waste management business and arises in the UK.

Operating costs

	Notes	2016 £000	2015 £000
Manpower costs	9	279	69
Raw materials and consumables		298	351
Other operating (income)/expenses:			
Operating lease rentals payable			
- Plant and machinery		8	3
Power		-	2
Hired and contracted services		1,939	3,702
Other external charges		(2,705)	494
		(758)	4,201
Depreciation of property, plant and equipment			
- Owned assets	11	69	54

Other external charges include an onerous contract provision write-back during 2016.

6. 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 Company's financial performance.

In the preceding accounting period, there were non-underlying items which were not repeated at 31 March 2016.

In order for these financial statements to be comparable, relevant extracts of the prior period income statement and statement of comprehensive income have been included as below.

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 Non-underlying items (continued)

Income statement for the year ended 31 March 2015 (extract)

		Before non- underlying items 2015	Non- underlying items 2015	Total 2015	2014
	Note	£000	£000	£000	£000
Operating costs					
Other operating expenses	a	(4,201)	(2,975)	(7,176)	-
Operating profit/(loss)		437	(2,975)	(2,538)	-
Profit/(loss) before tax		423	(2,975)	(2,552)	-
Taxation	b	(84)	595	511	16
Profit/(loss) for the period		339	(2,380)	(2,041)	16
Profit/(loss) attributable to owners of the parent		339	(2,380)	(2,041)	16

Statement of comprehensive income for the year ended 31 March 2015 (extract)

	Before non- underlying items 2015 £000	Non- underlying items 2015 £000	Total 2015 £000	2014 £000
Comprehensive (loss)/income	339	(2,380)	(2,041)	16

- a Onerous contracts principally arise from long term contractual obligations to purchase materials for recycling at input prices which lead to an expected loss after reflecting directly attributable and unavoidable costs of processing
- b The total tax credit on non-underlying items is below the current rate of corporation tax (21%) due to tax relief falling due in the future when the corporation tax rate will be 20%

7 Net finance costs

	2016 £000	2015 £000
<i>Finance income</i>		
Bank interest	2	-
	<u>2</u>	<u>-</u>
<i>Finance costs</i>		
Bank interest	(31)	-
Loan from intermediate parent undertaking	(2,302)	(1,588)
Loan from immediate parent undertaking	-	(14)
	<u>(2,333)</u>	<u>(1,602)</u>
Less amounts capitalised on qualifying assets	1,866	1,588
Net finance costs	(465)	(14)

8 Taxation

	Note	2016 £000	2015 £000
Analysis of charge/(credit) in period			
Current tax		(2,422)	(219)
Deferred tax	20	2,424	(292)
Tax charge/(credit) for period		2	(511)

UK corporation tax is calculated at 20% (2015 21%) of the estimated assessable result for the period

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 Taxation (continued)

The deferred tax charge for the year ended 31 March 2016 includes a non-recurring credit of £347,000 arising from a 2% reduction in the rate of corporation tax

The tax for the period differs from the theoretical amount which would arise using the standard rate of corporation tax in the UK (20%) (2015 21%) from

	2016 £000	2015 £000
Profit/(loss) on ordinary activities before tax	1,312	(2,552)
Profit/(loss) before tax multiplied by standard rate of UK corporation tax (20%) (2015 21%)	262	(536)
<i>Effects of</i>		
Expenses not deductible for tax purposes	11	-
Change in rate of corporation tax	(347)	-
Adjustments to tax charge in respect of previous periods	76	25
Tax charge/(credit) for period	2	(511)

9. Employment costs

The Company has no employees (2015 none) Services provided by the Company were undertaken by employees of Viridor Waste Management Limited, a fellow subsidiary undertaking Viridor Waste Management Limited charged a service fee to the Company including the amounts recorded below for 8 (2015 8) employees who worked predominantly for the Company

	2016 £000	2015 £000
<i>Employment costs comprise</i>		
Wages and salaries	241	59
Social security costs	25	6
Pension costs	13	4
Total employment costs	279	69

Details of Directors' emoluments are set out in note 10 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

10. Directors' emoluments

	2016 £000	2015 £000
Aggregate emoluments of the Directors in respect of their services	2	-

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 SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Property, plant and equipment

	Fixed and mobile plant, vehicles and computers £000	Assets under construction £000	Total £000
Cost			
At 1 April 2014	-	531	531
Additions	-	7,794	7,794
Transfers/reclassifications	178	(178)	-
At 31 March 2015	178	8,147	8,325
Additions	-	58,364	58,364
At 31 March 2016	178	66,511	66,689
Accumulated depreciation :			
At 1 April 2014	-	-	-
Charge for the year	54	-	54
At 31 March 2015	54	-	54
Charge for the year	69	-	69
At 31 March 2016	123	-	123
Net book value:			
At 1 April 2014	-	531	531
At 31 March 2015	124	8,147	8,271
At 31 March 2016	55	66,511	66,566

Additions to property, plant and equipment during the year include capitalised interest of £1,866,000 (2015 £1,588,000). The total capitalised interest included in cost carried forward is £3,884,000 (2015 £2,119,000).

Asset lives and residual values are reviewed annually.

In the opinion of the Directors, there is no material difference between the market value and net book value of land and buildings.

Impairment testing for property, plant and equipment

Property, plant and equipment is reviewed for impairment when any indicators of impairment are identified. Most of the individual assets do not generate independent cash flows and as a result, for the purposes of impairment reviews, the assets are grouped into cash generating units (CGUs). The CGUs of the Company comprise individual sites which constitute the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The carrying value of these individual sites is compared to the recoverable amount of the CGUs, which is based predominantly on value-in-use. Value-in-use calculations use the same base cash flow projections used for testing the Group's goodwill as described in Viridor Limited's financial statements (note 13) and are derived by adjusting the Group's detailed budget and strategic plan which cover a period of 7 years and are approved by the Board annually.

For certain CGUs the recoverable amount is determined by reference to the fair value less costs to sell of the underlying assets using external and internal valuations of property and equipment and management's estimate of disposal costs.

No impairment charges for property, plant and equipment have been identified. For the purposes of disclosing the results of the impairment review the CGUs have been grouped together by business activity as each CGU within a business activity exhibits a similar risk profile. The key assumptions in the Group's detailed budget and strategic plan are the same as those used for testing goodwill (see note 13 of Viridor Limited's financial statements). The assumptions applied to these cash flow projections are:

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Property, plant and equipment (continued)

Assumption	Basis for assumption
Discount rate Pre-tax discount rates used are 9% for landfill	Discount rates have been determined based on an estimate of the Group's weighted average cost of capital adjusted for the different risk profiles of its various business activities to the extent that the cash flows have not already been adjusted
Long term growth rate 0.5% applied to overheads beyond the detailed projections 2.5% applied to periods beyond the strategic plan period up to the end of the life of the assets for recycling. For landfill activities a finite life has been identified based on projected volumes	Ongoing efficiencies and benefits from economies of scale Based on forecasts of growth in waste management markets and the UK economy

Using management cash flow projections a 0.5% increase in the discount rate or a 0.5% decrease in the estimated long-term growth rate, with all other variables held constant, would not have a material impact on the impairment charge

12. Financial instruments by category

	Note	Loans and receivables £000	Amortised cost Trade receivables and trade payables £000	Total £000
31 March 2016				
Financial assets				
Trade and other receivables	13	-	1	1
Cash and cash equivalents	15	4,612	-	4,612
		4,612	1	4,613
Financial liabilities				
Borrowings	17	(73,752)	-	(73,752)
Trade and other payables	18	-	(472)	(472)
		(73,752)	(472)	(74,224)
31 March 2015				
Financial assets				
Trade and other receivables	13		819	819
Cash and cash equivalents	15	142		142
		142	819	961
Financial liabilities				
Borrowings	17	(9,919)		(9,919)
Trade and other payables	18		(195)	(195)
		(9,919)	(195)	(10,114)

13. Trade and other receivables - current

	2016 £000	2015 £000
Amounts due from fellow subsidiary undertaking	1	819
Prepayments and accrued income	2,357	2,042
	2,358	2,861

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

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 Derivatives	2016	2015
	£000	£000
Non-current assets	<u>2,352</u>	-
Current assets	<u>1,013</u>	-
	<u>3,365</u>	-

The Company hedges its exposure to exchange rate risks associated with the costs arising on long-term capital expenditure funded in foreign currencies. As at 31 March 2016 the Company was exposed to Euro 96,463,000 of cash flows (2015 nil). The weighted average maturity is 0.97 years (2015 nil).

The fair value of hedging derivatives is split between current and non-current assets based on the maturity of the cash flows. The ineffective portion recognised in the income statement arising from the cash flow hedges was nil. The amounts stated above are the fair value of hedges based on the market value of an equivalent instrument at the balance sheet date.

Valuation hierarchy

The amounts of financial instruments carried at fair value by valuation method were

	2016	2015
	£000	£000
Assets		
Derivatives used for fair value hedging	<u>3,365</u>	-

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).

15 Cash and cash equivalents	2016	2015
	£000	£000
Cash at bank and in hand	<u>4,612</u>	142
16 Current tax	2016	2015
	£000	£000
UK tax recoverable	<u>2,763</u>	341
17 Borrowings	2016	2015
	£000	£000
Current		
Amounts due to immediate parent undertaking	13,820	7,800
Non-current		
Amounts due to intermediate parent undertaking	59,932	2,119
Total borrowings	<u>73,752</u>	<u>9,919</u>

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

The fair values of the non-current borrowings are

	2016		2015	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Amounts due to intermediate parent undertaking	<u>59,932</u>	<u>58,063</u>	2,119	2,053

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 Borrowings

The maturity of non-current borrowings is	2016 £000	2015 £000
Between one and two years	2,606	88
Between two and five years	7,817	265
Over five years	49,509	1,766
	<u>59,932</u>	<u>2,119</u>

The weighted average maturity of non-current borrowings was 24 years (2015 25 years)

The loan from the intermediate parent undertaking is unsecured. Interest is charged on the borrowings on a daily basis with 50% of the debt charged at 6.0% and 50% of the debt charged at Barclays Bank Plc base rate +0.25%. During the construction phase the interest is capitalised and rolled up within the debt until repayments commence when the plant is commissioned.

18 Trade and other payables – current

	2016 £000	2015 £000
Trade payables	16	4
Amounts due to immediate parent undertaking	-	26
Amounts due to fellow subsidiary undertakings	456	165
Accruals	552	737
	<u>1,024</u>	<u>932</u>

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

Included in accruals are amounts provided by the Company in relation to claims received, which are considered by the Directors and the management of the Company 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.

19. Provisions

	At 1 April 2015 £000	Credited to Income Statement £000	At 31 March 2016 £000
Onerous contracts	2,975	(2,975)	-
	<u>2,975</u>	<u>(2,975)</u>	<u>-</u>

All provisions are current.

20 Deferred tax (liability)/asset

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

Movements on deferred tax account were

	2016 £000	2015 £000
At start of the year	186	(106)
(Charged)/credited to the income statement	(2,424)	292
Released to equity	(649)	-
At end of the year	<u>(2,887)</u>	<u>186</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 deferred tax balance has been reduced in 2016 by a credit of £371,000 to recognise the change in the rate of corporation tax enacted on 18 November 2015 to reduce the rate at 1 April 2017 from 20% to 19% followed by a further reduction from 1 April 2020 to 18%.

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Deferred tax (liability)/asset (continued)

This credit includes a credit of £347,000 recognised in the income statement and a credit of £24,000 recognised in equity

The Finance Act 2016 contains a section relating to the reduction of the rate of corporation tax. From 1 April 2020, the rate will be reduced from previously enacted 18% to 17%. The changes had not been substantially enacted at 31 March 2016, however when the changes are substantively enacted the effect would be reduce the deferred tax balance by an estimated £218,000

	Hedging £000	Provisions £000	Accelerated depreciation £000	Total £000
At 1 April 2014	-	-	(106)	(106)
Credited/(charged) to the income statement	-	605	(313)	292
At 31 March 2015	-	605	(419)	186
(Charged) to the income statement	-	(596)	(1,828)	(2,424)
Charged to equity	(649)	-	-	(649)
At 31 March 2016	(649)	9	(2,247)	(2,887)

21. Share capital

	Allotted, called up and fully paid £
At a 1 April 2014	-
Issue of 100 ordinary shares of £1 each	100
At 31 March 2015	100
At 31 March 2016	100

22. Retained earnings and other reserves

	Hedging reserve £000	Accumulated losses £000	Total £
At 1 April 2014	-	16	16
Loss for the year	-	(2,041)	(2,041)
At 31 March 2015	-	(2,025)	(2,025)
Profit for the year	-	1,310	1,310
Other comprehensive income	3,365	-	3,365
Deferred tax on hedge	(649)	-	(649)
At 31 March 2016	2,716	(715)	2,001

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 Cash generated from operations

	2016 £000	2015 £000
Continuing operations		
Profit/(loss) for the period	1,312	(2,552)
Adjustments for		
Depreciation charge	69	54
Non-underlying impairment of onerous contracts	-	2,975
Finance income	(1,868)	-
Finance costs	2,332	14
Changes in working capital		
Increase in trade and other payables	3,024	2,480
Decrease/(increase) in trade and other receivables	503	(2,861)
Cash generated from operations	<u>5,372</u>	<u>110</u>

24 Related party transactions

During the period, the Company entered into the following transactions with related parties

	2016 £000	2015 £000
<i>Immediate parent undertaking</i>		
Interest payable	-	(14)
<i>Intermediate parent undertaking</i>		
Interest payable	(2,302)	(1,588)
Management charge	(145)	-
Year end balances	2016 £000	2015 £000
<i>Intermediate parent undertaking</i>		
Borrowings – loans	(59,932)	(2,119)
<i>Immediate parent undertaking</i>		
Borrowings – loans	(13,820)	(7,800)
Trade and other payables	(223)	(26)
<i>Fellow subsidiary undertakings</i>		
Trade and other receivables	1	819
Trade and other payables	(233)	(165)

The amounts due from the immediate parent undertaking is interest free, unsecured and repayable on demand

25 Ultimate parent undertaking

The Company is a wholly owned subsidiary of Viridor Waste Management Limited, a company registered in England

The parent company of the smallest group into which the Company's results are consolidated is Viridor Limited, which is registered in England. Group financial statements are included in the Annual Report of Viridor Limited, which is available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR

The ultimate parent company and controlling party is Pennon Group Plc, which is registered in England. This is the largest group into which the Company's results are consolidated. Group financial statements are included in the Annual Report of Pennon Group Plc, which is available from Peninsula House, Rydon Lane, Exeter, Devon, EX2 7HR

The Company has no subsidiary companies