

Registered number: 08106962

VIRIDOR SOUTH LONDON LIMITED

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 MARCH 2017**

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VIRIDOR SOUTH LONDON LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2017

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VIRIDOR SOUTH LONDON LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 March 2017.

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 grew by £4,963,000 (298.1%) to £6,628,000 (2016 £1,665,000).

An operating loss of £1,597,000 was incurred for the year (2016 £1,777,000 profit). The operating margin was minus 24.1% (2016 106.7%).

Net finance income was £1 (2016 £465,000 net finance costs).

The Company's taxation position results in a credit of £1,578,000 (2016 £2,000 charge).

Investment

Capital expenditure in the year totalled £88,474,000 (2016 £58,364,000) 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 interim dividends were paid in the year (2016 nil). The Directors do not recommend the payment of a final dividend (2016 nil).

The balance of reserves at 31 March 2017 was a surplus of £2,088,000 (2016 £2,001,000 surplus).

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 20 to 24 and 46 to 49 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 19 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 21 December 2017 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 2017.

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 (2016 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) on page 11 and 12, and note 11 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:

A D Cumming
P C Piddington
E A J Rees

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 (2016 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

21 December 2017

VIRIDOR SOUTH LONDON LIMITED

Income statement for the year ended 31 March 2017

	Notes	2017	2016
		£000	£000
Revenue	5	6,628	1,665
Operating costs	5		
Manpower costs		(236)	(279)
Raw materials and consumables used		(290)	(298)
Other operating (expenses)/income		(7,637)	758
Depreciation		(62)	(69)
Operating (loss)/profit		(1,597)	1,777
Finance income		1	2
Finance costs		-	(467)
Net finance income/(costs)	6	1	(465)
(Loss)/profit before tax		(1,596)	1,312
Taxation	7	1,578	(2)
(Loss)/profit for the period		(18)	1,310
(Loss)/profit attributable to owners of the parent		(18)	1,310

The notes on pages 10 to 24 form part of these financial statements.

VIRIDOR SOUTH LONDON LIMITED

Statement of comprehensive income for the year ended 31 March 2017

	2017 £000	2016 £000
Comprehensive (loss)/income attributable to owners of the parent	(18)	1,310
Fair value gain on cash flow hedges	118	3,365
Tax on fair value gain	(13)	(649)
Other comprehensive income for the year	105	2,716
Total comprehensive income for the year	87	4,026
Comprehensive income attributable to owners of the parent	87	4,026

The notes on pages 10 to 24 form part of these financial statements

VIRIDOR SOUTH LONDON LIMITED

Balance sheet at 31 March 2017

	Notes	2017 £000	2016 £000
Assets			
Non-current assets			
Property, plant and equipment	10	154,978	66,566
Derivative financial instruments	13	-	2,352
		<u>154,978</u>	<u>68,918</u>
Current assets			
Trade and other receivables	12	4,029	2,358
Derivative financial instruments	13	3,483	1,013
Current tax recoverable	15	7,725	2,763
Cash and cash equivalents	14	7,963	4,612
		<u>23,200</u>	<u>10,746</u>
Total assets		<u>178,178</u>	<u>79,664</u>
Equity			
Share capital	19	-	-
Retained earnings and other reserves	20	(2,088)	(2,001)
Total equity		<u>(2,088)</u>	<u>(2,001)</u>
Liabilities			
Non-current liabilities			
Borrowings	16	(154,361)	(59,932)
Deferred tax liability	18	(6,284)	(2,887)
		<u>(160,645)</u>	<u>(62,819)</u>
Current liabilities			
Borrowings	16	-	(13,820)
Trade and other payables	17	(15,445)	(1,024)
		<u>(15,445)</u>	<u>(14,844)</u>
Total liabilities		<u>(176,090)</u>	<u>(77,663)</u>
Total equity and liabilities		<u>(178,178)</u>	<u>(79,664)</u>

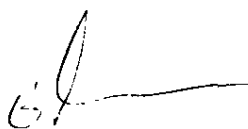
The notes on pages 10 to 24 form part of these financial statements.

For the period ending 31 March 2017 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 24 were approved by the Board of Directors and authorised for issue on 21 December 2017 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 2017

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
As at 1 April 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
Loss for the year	-	-	(18)	(18)
Other comprehensive income	-	118	-	118
Total comprehensive income for the year	-	118	(18)	100
Deferred tax on hedge	-	(13)	-	(13)
As at 31 March 2017	-	2,821	(733)	2,088

The notes on pages 10 to 24 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 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Cash generated from operations	21	2,943	5,372
Interest paid		-	(467)
Net cash generated from operating activities		<u>2,943</u>	<u>4,905</u>
Cash flows from investing activities			
Interest received		1	2
Purchase of property, plant and equipment		(80,202)	(58,364)
Net cash used in investing activities		<u>(80,201)</u>	<u>(58,362)</u>
Cash flows generated from financing activities			
Proceeds from new borrowings		80,609	57,927
Net cash generated from financing activities		<u>80,609</u>	<u>57,927</u>
Net increase in cash and cash equivalents		3,351	4,470
Cash and cash equivalents at beginning of the period		4,612	142
Cash and cash equivalents at end of the period	14	<u>7,963</u>	<u>4,612</u>

The notes on pages 10 to 24 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 2016 did not have a material impact on the net assets or results of the Company.

The new standards, or interpretations in issue, but not yet effective, including IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases' have been considered and are not expected to have a material impact on the company's net assets or results.

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.

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. 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.

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 2017, 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 £431,000 (2016 £157,000).

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 2017					
<i>Non-derivative financial liabilities</i>					
Borrowings excluding finance lease liabilities	-	7,016	21,049	126,296	154,361
Interest payments on borrowings	10,805	10,314	27,995	75,146	124,260
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

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 2017 is £nil (2016: £nil). 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 £6,284,000 (2016: £2,887,000) 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 10 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	2017 £000	2016 £000
Manpower costs	8	236	279
Raw materials and consumables		290	298
Other operating (income)/expenses:			
Operating lease rentals payable:			
- Plant and machinery		107	8
Power		(1)	-
Hired and contracted services		6,982	1,939
Other external charges		549	(2,705)
		7,637	(758)
Depreciation of property, plant and equipment:			
- Owned assets	10	62	69

In 2016 other external charges include an onerous contract provision write-back.

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Net finance costs

	2017 £000	2016 £000
<i>Finance income</i>		
Bank interest	1	2
	<u>1</u>	<u>2</u>
<i>Finance costs</i>		
Bank interest	-	(31)
Loan from intermediate parent undertaking	(7,768)	(2,302)
	<u>(7,768)</u>	<u>(2,333)</u>
Less: amounts capitalised on qualifying assets	7,768	1,866
Net finance costs	<u>1</u>	<u>(465)</u>

7. Taxation

	Note	2017 £000	2016 £000
Analysis of charge/(credit) in period			
Current tax		(4,962)	(2,422)
Deferred tax	18	3,384	2,424
Tax (credit)/charge for period		<u>(1,578)</u>	<u>2</u>

UK corporation tax is calculated at 20% (2016 20%) of the estimated assessable result for the period.

The deferred tax charge for the year ended 31 March 2017 includes a non-recurring credit of £1,123,000 arising from a 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%) (2016 20%) from:

	2017 £000	2016 £000
Profit/(loss) on ordinary activities before tax	<u>(1,596)</u>	<u>1,312</u>
Profit/(loss) before tax multiplied by standard rate of UK corporation tax (20%) (2016 20%)	(319)	262
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	11
Change in rate of corporation tax	(1,123)	(347)
Adjustments to tax charge in respect of previous periods	(136)	76
Tax charge/(credit) for period	<u>(1,578)</u>	<u>2</u>

The average applicable tax rate for the year was minus 99% (2016 0%)

A deferred tax debit of £13,000, relating to movements on cash flow hedges, has been charged directly to equity.

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Employment costs

The Company has no employees (2016 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 9 (2016 8) employees who worked predominantly for the Company.

	2017 £000	2016 £000
Wages and salaries	196	241
Social security costs	29	25
Pension costs	11	13
	<u>236</u>	<u>279</u>

Details of Directors' emoluments are set out in note 9. 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.

9. Directors' emoluments

	2017 £000	2016 £000
Aggregate emoluments of the Directors in respect of their services	<u>5</u>	<u>2</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 SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Property, plant and equipment

	Fixed and mobile plant, vehicles and computers £000	Assets under construction £000	Total £000
Cost :			
At 31 March 2015	178	8,147	8,325
Additions	-	58,364	58,364
Transfers/reclassifications	-	-	-
At 31 March 2016	178	66,511	66,689
Additions	-	88,474	88,474
Transfers/reclassifications	52	(52)	-
At 31 March 2017	230	154,933	155,163
Accumulated depreciation :			
At 31 March 2015	54	-	54
Charge for the year	69	-	69
At 31 March 2016	123	-	123
Charge for the year	62	-	62
At 31 March 2017	185	-	185
Net book value:			
At 31 March 2015	124	8,147	8,271
At 31 March 2016	55	66,511	66,566
At 31 March 2017	45	154,933	154,978

Additions to assets under construction during the year include capitalised interest of £7,768,000 (2016 £1,866,000). The total capitalised interest included in cost carried forward is £11,652,000 (2016 £3,884,000).

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 property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Property, plant and equipment (Continued)

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 are prepared from the base cash flow projections which have been derived from detailed budget and strategic plan projections. These cover a period of seven years and are prepared as part of the annual planning cycle. Long term growth rates of 3%, based on forecast of growth in waste management markets and the UK economy, are applied to cash flows beyond the seven-year period, with overheads expected to grow at 1% based on ongoing efficiency expectations of 2% per annum.

These plans are based on detailed market-by-market forecasts of projected volumes, prices and costs for each business activity. These forecasts reflect, on an individual operational site basis, numerous assumptions and estimates. The key assumptions include anticipated changes in market size and volumes; recycle prices; energy selling prices; gate fees; the level of future landfill tax; and cost inflation. Management has determined the value assigned to each assumption based on historical experience, market surveys, industry analysis and current legislation. For business activities with an indefinite life a terminal growth rate has been used.

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.

The results of tests performed in the year demonstrate significant headroom in all CGUs and it is judged that no reasonable change in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount.

11. Financial instruments by category

		Loans and receivables £000	Amortised cost Trade receivables and trade payables £000	Total £000
31 March 2017	Note			
Financial assets				
Trade and other receivables	12	-	43	43
Cash and cash equivalents	14	7,963	-	7,963
		<u>7,963</u>	<u>43</u>	<u>8,006</u>
Financial liabilities				
Borrowings	16	(154,361)	-	(154,361)
Trade and other payables	17	-	(5,254)	(5,254)
		<u>(154,361)</u>	<u>(5,254)</u>	<u>(159,615)</u>
31 March 2016				
Financial assets				
Trade and other receivables	12	-	1	1
Cash and cash equivalents	14	4,612	-	4,612
		<u>4,612</u>	<u>1</u>	<u>4,613</u>
Financial liabilities				
Borrowings	16	(73,752)	-	(73,752)
Trade and other payables	17	-	(472)	(472)
		<u>(73,752)</u>	<u>(472)</u>	<u>(74,224)</u>

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Trade and other receivables - current

	2017 £000	2016 £000
Amounts due from immediate parent	43	-
Amounts due from fellow subsidiary undertaking	-	1
Prepayments and accrued income	3,986	2,357
	<u>4,029</u>	<u>2,358</u>

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

13. Derivatives

	2017 £000	2016 £000
Current assets	3,483	1,013
Non-current assets	-	2,352
	<u>3,483</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 2017 the Company was exposed to Euro 36,746,000 of cash flows (2016 Euro 96,463,000). The weighted average maturity is 0.97 years (2016 0.97 years)

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.

	2017 £000	2016 £000
Assets		
Derivatives used for fair value hedging	3,483	3,365

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).

14. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	7,963	4,612

15. Current tax

	2017 £000	2016 £000
UK tax recoverable	7,725	2,763

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. Borrowings

	2017 £000	2016 £000
Current		
Amounts due to immediate parent undertaking	-	13,820
Non-current		
Amounts due to intermediate parent undertaking	154,361	59,932
Total borrowings	154,361	73,752

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

The fair values of the non-current borrowings are :

	2017		2016	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Amounts due to intermediate parent undertaking	154,361	204,102	59,932	58,063
The maturity of non-current borrowings is :			2017 £000	2016 £000
Between one and two years			7,016	2,606
Between two and five years			21,049	7,817
Over five years			126,296	49,509
			154,361	59,932

The weighted average maturity of non-current borrowings was 23 years (2016 24 years).

The loan from the intermediate parent undertaking is unsecured. Interest is charged on a daily basis with the junior debt at a rate of 13% and the senior debt at a rate of 7%. During the construction phase the interest is capitalised and rolled up within the debt until repayments commence when the plant is commissioned.

17. Trade and other payables – current

	2017 £000	2016 £000
Trade payables	-	16
Amounts due to intermediate parent	2,270	-
Amounts due to immediate parent	2,676	-
Amounts due to fellow subsidiary undertakings	308	456
Accruals	10,191	552
	15,445	1,024

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

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. 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:

	2017 £000	2016 £000
At start of the year	(2,887)	186
(Charged)/credited to the income statement	(3,384)	(2,424)
Released to equity	(13)	(649)
At end of the year	<u>(6,284)</u>	<u>(2,887)</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 2017 by a debit of £1,124,000 to recognise the change in the rate of corporation tax enacted on 16 September 2016 to reduce the rate at 1 April 2020 from 18% to 17%.

This includes £1,123,000 recognised in the income statement and £1,000 recognised in equity.

Movements in deferred tax assets and liabilities during the year were:

	Hedging £000	Provisions £000	Accelerated depreciation £000	Total £000
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	<u>(649)</u>	<u>9</u>	<u>(2,247)</u>	<u>(2,887)</u>
(Charged)/credited to the income statement	-	37	(3,421)	(3,384)
Charged to equity	(13)	-	-	(13)
At 31 March 2017	<u>(662)</u>	<u>46</u>	<u>(5,668)</u>	<u>(6,284)</u>

19. Share capital

	Allotted, called up and fully paid £
At 1 April 2015	100
Issue of 100 ordinary shares of £1 each	100
At 31 March 2016	<u>100</u>
At 31 March 2017	<u>100</u>

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Retained earnings and other reserves

	Hedging reserve £000	Accumulated losses £000	Total £
At 1 April 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
Loss for the year	-	(18)	(18)
Other comprehensive income	118	-	118
Deferred tax on hedge	(13)	-	(13)
At 31 March 2017	2,821	(733)	2,088

21. Cash generated from operations

	2017 £000	2016 £000
Continuing operations:		
(Loss)/profit for the period before tax	(1,596)	1,312
Adjustments for :		
Depreciation charge	62	69
Finance income	(1)	(1,868)
Finance costs	-	2,332
Changes in working capital		
Increase in trade and other payables	6,149	3,024
(Increase)/decrease in trade and other receivables	(1,671)	503
Cash generated from operations	2,943	5,372

22. Contingent liabilities

	2017 £000	2016 £000
Bank guarantee	4,038	380

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

No liability is expected to arise in respect of the guarantee.

23. Capital commitments

	2017 £000	2016 £000
Contracted but not provided	32,476	-

VIRIDOR SOUTH LONDON LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Related party transactions

During the year, the Company entered into the following transactions with related parties:

	2017 £000	2016 £000
<i>Intermediate parent undertaking</i>		
Sales of goods and services	1,675	-
Purchases of goods and services	(1,675)	-
Interest payable	-	(2,302)
Administrative charges	(390)	(145)
 Year end balances	 2017 £000	 2016 £000
<i>Receivables due from related parties – current</i>		
Amounts due from immediate parent – trading and other	43	-
Amounts due from fellow subsidiary undertaking – trading and other	-	1
<i>Payables due to related parties – current</i>		
Amounts due to intermediate parent undertaking – trading and other	(2,270)	-
Amounts due to immediate parent undertaking – trading and other	(2,676)	-
Amounts due to fellow subsidiary undertakings – trading and other	(308)	(456)
Amounts due to immediate parent undertaking – loan	-	(13,820)
<i>Payables due to related parties – non- current</i>		
Amounts due to intermediate parent undertaking – loan	(154,361)	(59,932)

The trading amount due to the immediate and intermediate parent undertakings are interest free, unsecured and repayable on demand.

Interest is payable on the loans from the immediate and intermediate parent undertakings. Terms of the loans are set out in note 16.

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.