

Registered Number: SC229727

VIRIDOR ELECTRICAL RECYCLING LIMITED
(formerly Shore Recycling Limited)

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS FOR THE
11 MONTHS ENDED 31 MARCH 2008**

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ANNUAL REPORT AND FINANCIAL STATEMENTS

for the 11 months ended 31 March 2008

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*** VIRIDOR ELECTRICAL RECYCLING LIMITED**

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the period ended 31 March 2008.

PRINCIPAL ACTIVITIES

The Company's principal activity during the period continued to be the recycling of waste electrical and electronic equipment (WEEE).

On 20 March 2008, the immediate holding company, Viridor Electrical Recycling (Holdings) Limited (formerly Ledge 806 Limited) was acquired by Viridor Waste Management Limited.

CHANGE OF NAME

On 25 March 2008, the Company changed its name from Shore Recycling Limited to Viridor Electrical Recycling Limited.

BUSINESS REVIEW

Financial Results

All numbers in this Annual Report are published for the first time in accordance with International Financial Reporting Standards (IFRS) with prior year figures restated. There are no significant differences between UK Generally Accepted Accounting Principles (UK GAAP) and IFRS.

Principal risks and uncertainties

The Company's principal risks arise from:

- *Recyclate price risks.* The price of recycled materials will vary according to local and global demand. The impact of downward pressure on prices can be mitigated by sharing with customers and suppliers.
- *Skill shortages.* The Company focuses on training and the adoption of modern employment practices to ensure staff are motivated and retained.
- *Product shortages.* The Company relies on raw material being diverted from other sources such as landfill. It is not envisaged that there will be a change in policies which may create such a shortage.

Dividends and reserves

No dividends are recommended.

£483,000, was transferred to retained earnings (2007 £3,515,000) with the cumulative retained earnings at 31 March 2008 standing at £8,095,000 (2007 £7,612,000).

Key Performance Indicators ("KPIs")

The Directors of Pennon Group Plc manage the group's operations on a segmental 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 Viridor Electrical Recycling Limited. The development, performance and position of the Waste segment of Pennon Group Plc, which includes this Company, is discussed on pages 16 to 27 of the group's annual report which does not form part of this report.

VIRIDOR ELECTRICAL RECYCLING LIMITED

DIRECTORS' REPORT (continued)

BUSINESS REVIEW (continued)

Future developments

The Company is well placed as one of the leading waste electrical and electronic equipment recycling businesses in the UK. The Company, located in Scotland, provides an excellent fit with Viridor's existing waste management and recycling operations with benefits for the entire waste segment of Pennon Group Plc (the ultimate parent company) arising from continuing integration.

Post balance sheet events

On the 30 November 2008 the trade, contracts and net assets of Shore Recycling (Ozone) Limited, a wholly owned subsidiary of the Company, were transferred at net book value to Viridor Waste Management Ltd the immediate parent of Viridor Electrical Recycling (Holdings) Limited and the company ceased trading at this date.

In August 2008, a major fire at the Viridor Electrical Recycling Limited facility, significantly impaired production capacity, for which ongoing negotiations with the insurers underwriters are taking place.

The event will not cause significant long term losses to the Company, with the only material risk identified being a possible rise in insurance premiums.

PARENT COMPANY

The Company is a wholly owned subsidiary of Viridor Electrical Recycling (Holdings) Limited, a Company registered in Scotland. The ultimate parent undertaking is Pennon Group Plc a company registered in England.

DIRECTORS

The Directors who served on the Board during the period were:

S M Howie	(resigned 20 March 2008)
T H M Liddell	
M A Todd	
M Hellings	(appointed 20 March 2008)
D B Robertson	(appointed 20 March 2008)
B S Hurley	(appointed 20 March 2008)
C A Paterson	(appointed 20 March 2008)

No Director has, or has had, a material interest, directly or indirectly, at any time during the period under review in any contract significant to the Company's business.

VIRIDOR ELECTRICAL RECYCLING LIMITED

DIRECTORS' REPORT (continued)

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 elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the results of the Company for the period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that 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 1985. 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

- a) So far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- b) Each of the Directors has taken all the steps they ought to have taken individually as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

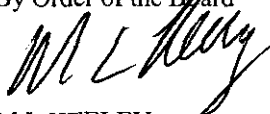
Following the acquisition of the Company by the Pennon Group, Finlaysons resigned as auditors of the Company and confirmed, in accordance with Section 394 of the Companies Act 1985, that there were no circumstances connected with their resignation which they considered should be brought to the attention of the members of the Company.

In accordance with Section 388 of the Companies Act 1985, PricewaterhouseCoopers LLP were appointed auditors by the Directors to fulfil this casual vacancy. PricewaterhouseCoopers LLP have indicated their willingness to continue as auditors. A resolution concerning their reappointment will be proposed at the forthcoming general meeting.

ANNUAL GENERAL MEETING

Elective resolutions passed by the Company under Sections 252 and 366A of the Companies Act 1985, dispensing with the laying of accounts and reports before the Company in general meetings and dispensing with the holding of annual general meetings, remain in force..

By Order of the Board


M L HEELEY
Secretary

29 January 2009

VIRIDOR ELECTRICAL RECYCLING LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRIDOR ELECTRICAL RECYCLING LIMITED

We have audited the financial statements of Viridor Electrical Recycling Limited for the 11 months ended 31 March 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, we were appointed auditors during the current period and we have not been able to satisfy ourselves regarding revenue recognition around the year ended 30 April 2007 and consequently trade receivable amounts included in the balance sheet at 30 April 2007 which form the opening balances as at 1 May 2007 for the period ended 31 March 2008. Any adjustments which might be necessary had we been able to obtain sufficient appropriate audit evidence may have an impact on the reported profit for the period to 31 March 2008.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in relation to trade receivables at 30 April 2007, in our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985.

In respect solely of the limitation on our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records had been maintained.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol

29 January 2009

VIRIDOR ELECTRICAL RECYCLING LIMITED

Income statement for the 11 months ended 31 March 2008

		11 months 2008	12 months 2007 (restated)
	Notes	£000	£000
Revenue	5	5,561	10,032
Operating costs	6		
Manpower costs		(1,404)	(1,709)
Raw materials and consumables used		(458)	(100)
Other operating expenses		(2,121)	(2,295)
Earnings before interest, tax, depreciation, amortisation and dividends		1,578	5,928
Depreciation		(801)	(884)
Operating profit	5	777	5,044
Finance income	7	31	31
Finance costs	7	(91)	(54)
Profit before tax		717	5,021
Taxation	8	(234)	(1,506)
Profit for the period		483	3,515
Profit attributable to equity shareholders		483	3,515

All operating activities are continuing operations.

The notes on pages 9 to 26 form part of these financial statements.

• VIRIDOR ELECTRICAL RECYCLING LIMITED

Statement of changes in equity for the 11 months ended 31 March 2008

	Share Capital	Retained earnings	Total shareholders' equity
	£000	£000	£000
At 1 May 2006 (as previously reported)	-	1,313	1,313
Prior year adjustments (note 32)	-	2,784	3,134
At 1 May 2006 (restated)	-	4,097	4,447
Profit for the year ended 30 April 2007 (restated)	-	3,515	3,515
At 30 April 2007 (restated)	-	7,612	7,612
Profit for the period ended 31 March 2008	-	483	483
At 31 March 2008	-	8,095	8,095

The notes on pages 9 to 26 form part of these financial statements.

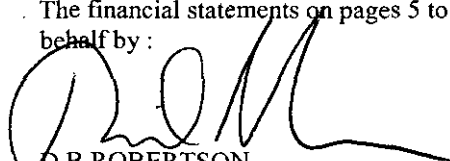
VIRJDOR ELECTRICAL RECYCLING LIMITED

Balance sheet at 31 March 2008

	Notes	31 March 2008 £000	30 April 2007 (restated) £000
Assets			
Non-current assets			
Property, plant and equipment	11	2,557	3,896
Investment in subsidiary undertakings	12	-	-
		<u>2,557</u>	<u>3,896</u>
Current assets			
Inventories	14	43	134
Trade and other receivables	15	9,020	6,960
Corporation tax recoverable	18	29	-
Cash and cash deposits	16	532	441
		<u>9,624</u>	<u>7,535</u>
Liabilities			
Current liabilities			
Borrowings	19	(2,376)	(667)
Trade and other payables	17	(1,229)	(634)
Current tax liabilities	18	-	(1,311)
		<u>(3,605)</u>	<u>(2,612)</u>
Net current assets		<u>6,019</u>	<u>4,923</u>
Non-current liabilities			
Borrowings	19	(213)	(820)
Deferred tax	21	(268)	(387)
		<u>(481)</u>	<u>(1,207)</u>
Net assets		<u>8,095</u>	<u>7,612</u>
Shareholders' equity			
Share capital	22	-	-
Retained earnings		8,095	7,612
Total shareholders' equity		<u>8,095</u>	<u>7,612</u>

The notes on pages 9 to 26 form part of these financial statements.

The financial statements on pages 5 to 26 were approved by the Board of Directors on 29 January 2009 and signed on its behalf by:


D B ROBERTSON
Director

VIRIDOR ELECTRICAL RECYCLING LIMITED

Cash flow statement for the year ended 31 March 2008

	Notes	2008 £000	2007 £000
Cash flows from operating activities			
Cash outflow from operations	23	(47)	(3,629)
Interest paid		(66)	(53)
Tax paid		(1,340)	(272)
Net cash outflow from operating activities		<u>(1,453)</u>	<u>(3,954)</u>
Cash flows from investing activities			
Interest received		31	31
Loan to subsidiary undertaking		-	-
Purchase of property, plant and equipment		(156)	-
Proceeds from sale of property, plant and equipment		592	1,978
Net generated from investing activities		<u>467</u>	<u>2,009</u>
Cash flows from financing activities			
Net proceeds from new borrowing / (repayment of loans)		1,684	-
Finance lease principal repayments		(607)	(556)
Net cash received from financing activities		<u>1,077</u>	<u>(556)</u>
Net increase / (decrease) in cash and cash equivalents		91	(2,501)
Cash and cash equivalents at beginning of the year	16	441	2,942
Cash and cash equivalents at end of the year	16	<u>532</u>	<u>441</u>

The notes on pages 9 to 26 form part of these financial statements.

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Viridor Electrical Recycling Limited is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is Peninsula House, Rydon Lane, Exeter, EX2 7HR. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 1 to 3.

2. Significant accounting policies

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

(a) Basis of preparation

These are the first financial statements to have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The disclosures required by IFRS 1 "First-time adoption of IFRS" concerning the transition from UK Generally Accepted Accounting Principles (UK GAAP) to IFRS are set out in note 31.

The financial statements have been prepared under the historical cost convention in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union, and with those parts of the Companies Act 1985 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 in the year.

At the date of approval of these financial statements the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 3 "Business Combinations" (revised).

IFRS 8 "Operating segments".

IAS 1 "Presentation of financial statements" (revised).

IAS 23 "Borrowing costs" (revised).

IAS 27 "Consolidated and separate financial statements" (revised).

IFRIC 12 "Service concession arrangements".

IFRIC 13 "Customer loyalty programmes".

IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction."

The presentational impact of these standards and interpretations is being assessed and the Directors expect that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company.

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. 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.

(b) First time adoption of IFRS

The Company's date of transition to IFRS was 1 May 2006 and all comparative information in the financial statements has been restated to reflect the Company's adoption of IFRS, except where otherwise required or permitted by IFRS 1 "First Time Adoption of International Financial Reporting Standards".

IFRS 1 required an entity to comply with each IFRS effective at the reporting date for its first IFRS financial statements. As a general principle IFRS 1 requires the standards effective at the reporting date to be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Significant accounting policies (continued)

(c) Basis of consolidation

The Company is exempt under the provisions of Section 228 of the Companies Act 1985 from the requirement to produce group financial statements (as amended by Section 5 of the Companies Act 1989) as it is a wholly owned subsidiary of Viridor Limited which is registered in the European Economic Area and which itself produces consolidated financial statements. Accordingly the financial statements are presented for the Company as an individual undertaking.

(d) Revenue recognition

Revenue represents the fair value of consideration receivable, trade discounts, inter-company sales and excluding value added tax, in the ordinary course of business for goods and services provided.

Revenue is recognised once the service or goods have been provided to the customer.

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

(e) Segmental reporting

The Company operates within a single segment, comprising the collection, recycling and disposal of waste.

(f) Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation.

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

Leasehold buildings	Over the period of the lease
Fixed and mobile plant, vehicles and computers	3 – 15 years

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 which necessarily takes a substantial period of time to be prepared for its intended use) are capitalised as part of the asset.

Asset lives and residual values are reviewed annually.

(g) Leased assets

Assets held under finance leases are included in the balance sheet as property, plant and equipment at their equivalent capital value and are depreciated over their estimated economic lives or the finance lease period, whichever is the shorter. The corresponding liability is recorded as borrowings. The interest element of the rental costs is charged against profits using the actuarial method over the period of the lease.

Costs arising under operating leases are charged to the income statement on a straight line basis over the period of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Significant accounting policies (continued)

(h) Impairment of non-financial assets

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

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. Value in use represents the present value of projected future cash flows, discounted using a pre-tax discount rate which reflects an assessment of the cost of capital of the cash-generating unit.

Impairments are charged to the income statement in the year in which they arise.

(i) Investment in subsidiary undertakings

Investments in subsidiary undertakings are initially recorded at cost, being the fair value of the consideration paid, including associated acquisition costs. Subsequently, investments are reviewed for impairment on an individual basis annually, or if the events or changes in circumstances indicate that the carrying value may not be fully recoverable.

(j) Inventories

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

(k) Cash and cash deposits

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

(l) Financial assets and liabilities and derivatives

The Company classifies its financial assets in the following categories:

Loans and other receivables

Loans and receivables are non-derivative assets with fixed or determinable payments which are not quoted in an active market and are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment. Except where maturity is in less than twelve months from the balance sheet date, such receivables are classified as non-current.

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.

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

The Company classifies its financial liabilities in the following categories:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Significant accounting policies (continued)

(l) Financial assets and liabilities and derivatives (continued)

Borrowings and other financial liabilities

Trade payables are not interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or, where appropriate, a shorter period.

Borrowings are recognised at fair value, net of transaction costs of the consideration received.

Where arising, gains and losses are recognised in the income statement when the instruments are derecognised. 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.

The Company does not use derivative financial instruments.

(m) Taxation including deferred tax

Tax payable for the year is provided at current rates that are substantively enacted. Deferred taxation is provided in full, using the liability method, on temporary differences between the tax basis of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future for it to be utilised.

(n) Share capital

Ordinary shares are classified as equity.

(o) Dividend distributions

Dividend distributions are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid; final dividends when authorised in general meeting by shareholders.

(p) Employee benefits

Pension obligations

The Company participates in defined contribution pension schemes operated by its parent company Pennon Group Plc.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 Significant accounting policies (continued)

(q) 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 parent company loans and other loans due in more than one year 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.

(r) Accounting information

The Company's parent was acquired by Viridor Waste Management Ltd on 20 March 2008.

In preparing the accounts for the period ended 31 March 2008, the Directors have identified issues which indicate that the carrying value of asset and the completeness of liabilities at the start of the accounting period may have been misstated. Enquiries have identified certain errors in the previous year's accounts that have been corrected by way of a prior year adjustment. These are set out in note 32.

3. Financial risk management

(a) Financial risk factors

The Company receives treasury services from the treasury function of Pennon Group Plc, its ultimate parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs, maintains reasonable headroom for contingencies and manages interest rate risk.

The principal financial risks faced by the Company can be found in the annual report and financial statements of Viridor Limited, the intermediate holding company.

Financial instruments are used to raise finance and to manage risk. Pennon Group Plc does not engage in speculative activity.

i) Market risk

Pennon Group Plc ensures that at least 50% of fixed term interest bearing borrowing available to the Company is at fixed rate. At the year end 93% of borrowings were at fixed rate (2007 62%).

The Company has no significant interest bearing assets upon which the net return fluctuates from market interest. Interest on bank deposits 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.

The principal market risks faced by the Company can be found in the annual report and financial statements of Viridor Limited, the intermediate holding company.

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 and planned expansions and facilities equivalent to at least one year's forecast requirements are maintained at all times.

Refinancing risk is managed under Pennon Group Plc policies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Critical accounting judgements and estimates

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. Further information on the credit risk relating to trade receivables is given in note 15.

Counterparty risk arises from the investment of surplus funds which are pooled with certain other Pennon Group companies. Surplus funds of the group 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.

(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 determination of fair values is common throughout the Viridor group of companies, details of which can be found in the annual report and financial statements of Viridor Limited, the intermediate holding company.

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.

Areas which management believes require the most critical accounting judgements are:

Cash-generating units

For the purpose of assessing impairments, the Company aggregates all assets for the purpose of identifying cash flows as it is recognised as an integrated business.

Areas which management believes require the most critical accounting estimation are as follows :

Carrying value of property, plant and equipment

The Company's accounting policy for property, plant and equipment is detailed in note 2. The carrying value of property, plant and equipment as at 31 March 2008 was £2,557,000 (2007 £3,896,000). In the year ended 31 March 2008 additions to property, plant and equipment totalled £156,000 (2007 £22,000) and the depreciation charge was £801,000 (2007 £884,000). The estimated useful economic lives of property, plant and equipment are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the Company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

Revenue recognition

The Company recognises revenue once the services or goods have been provided to the customer. Payments received in advance of revenue recognition are recorded as a liability.

Provision for doubtful debts

At each balance sheet date, the Company evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of debt collected may differ from the estimated levels of recovery, and could impact operating results positively or negatively. As at 31 March 2008 the Company's current trade receivables were £685,000 (2007 £789,000) against which £nil (2007 £nil) was provided for impairment.

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Segmental reporting

The Company operated solely within the UK in one class of business during the year.

6. Operating costs

	2008 £000	2007 (restated) £000
Manpower costs (notes 9 and 10)	1,404	1,709
Raw materials and consumables	458	100
Other operating expenses		
Loss on disposal of property, plant and equipment	102	-
Operating lease rentals payable :		
- Plant and machinery	3	-
- Other	125	358
Trade receivables impairment	1	-
Depreciation of property, plant and equipment :		
- Owned assets	430	624
- Under finance leases	371	260
	801	884

Fees payable to the Company's auditors in the year were as follows :

	2008 £000	2007 £000
<i>Audit services</i>		
- Fees payable to the Company's auditors for the audit of the Company's accounts	10	2
	10	2

The audit fee for the current period of £10,000 is payable to PricewaterhouseCoopers LLP. The audit fee for the prior year was payable to the previous auditors, Finlaysons.

7. Net finance costs

	2008 £000	2007 £000
<i>Finance income</i>		
Bank interest	29	31
Other interest	2	-
	31	31
<i>Finance costs</i>		
Bank borrowings and overdrafts	(4)	(1)
Other loans	(25)	-
Interest element of finance lease rentals	(62)	(52)
Interest payable on corporation tax	-	(1)
	(91)	(54)
Net finance costs	(60)	(23)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Taxation

	2008	2007 (restated)
	£000	£000
Analysis of charge in year		
<i>Continuing operations</i>		
Current tax	353	1,581
Deferred tax (note 21)	(119)	(75)
	234	1,506

UK Corporation tax is calculated at 30% (2007 30%) of the estimated assessable profit for the year. The tax for the year differs from the amount that would arise using the standard rate of corporation tax in the UK (30%). The differences are:

	2008	2007 (restated)
	£000	£000
Profit/(loss) before tax	717	5,021
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	215	1,506
Effects of:		
Expenses not deductible for tax purposes	37	-
Reduction in the rate of UK corporation tax on deferred tax	(18)	-
Tax charge for year	234	1,506

The average applicable tax rate for the year was 33% (2007 30%).

The standard rate of corporation tax in the UK changes to 28% with effect from 1 April 2008. During the year as a result of the change in the corporation tax rate unrecognised and recognised deferred tax balances have been remeasured. Deferred tax balances relating to timing differences which are expected to reverse after 1 April 2008 are measured at the tax rate of 28%.

The Finance Act 2008 contains provisions for the phased abolition of industrial buildings allowances over three years commencing 1 April 2008. These changes were fully enacted after 31 March 2008. The effect of these changes will be to increase the deferred tax liability by an estimated £10,000.

9. Employment costs

	2008	2007
	£000	£000
Wages and salaries	1,289	1,567
Social security costs	115	142
Pension costs	-	-
Total employment costs	1,404	1,709
<i>Charged as follows:</i>		
Manpower costs	1,404	1,709

The average number of persons (including Directors) employed by the Company during the year ended 31 March 2008 was 74 (2007 94) of which 15 were administrative employees (2007 17) and 59 were involved in production (2007 77).

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.

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Directors' emoluments

	2008 £000	2007 £000
Salary	138	138
Total emoluments	<u>138</u>	<u>138</u>

The Directors appointed in the year, whilst contracted to Viridor Waste Management Limited, provide services to fellow subsidiaries, for which those subsidiaries are charged a proportion of emoluments. Due to the short period of time between the date of appointment and the year end, no amount has been charged in the current period in respect of their services as directors to the Company.

The emoluments of the highest paid director were:

	2008 £000	2007 £000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	69	75
Accrued pension at end of year	-	-

At 31 March 2008 retirement benefits were accruing to 4 Directors, (2007 no Directors) under defined benefit pension schemes operated by the ultimate parent company.

11. Property, plant and equipment

	Freehold land and buildings £000	Short-term leasehold land and buildings £000	Fixed and mobile plant, vehicles and computers £000	Total £000
Cost :				
At 1 May 2006 (restated)	678	156	4,341	5,175
Additions	-	5	17	22
At 30 April 2007 (restated)	<u>678</u>	<u>161</u>	<u>4,358</u>	<u>5,197</u>
Additions	-	81	75	156
Disposals	(678)	-	(21)	(699)
At 31 March 2008	<u>-</u>	<u>242</u>	<u>4,412</u>	<u>4,654</u>
Depreciation :				
At 1 May 2006 (restated)	-	66	351	417
Charge for year (restated)	-	22	862	884
At 30 April 2007 (restated)	<u>-</u>	<u>88</u>	<u>1,213</u>	<u>1,301</u>
Charge for period	-	22	779	801
Disposals	-	-	(5)	(5)
At 31 March 2008	<u>-</u>	<u>110</u>	<u>1,987</u>	<u>2,097</u>
Net book value :				
At 30 April 2007 (restated)	<u>678</u>	<u>73</u>	<u>3,145</u>	<u>3,896</u>
At 31 March 2008	<u>-</u>	<u>132</u>	<u>2,425</u>	<u>2,557</u>

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Property, plant and equipment (continued)

Assets held under finance leases included in property, plant and equipment

	Fixed and mobile plant, vehicles and computers £000
Cost :	
At 30 April 2007 (restated)	2,000
At 31 March 2008	2,000
Depreciation :	
At 30 April 2007 (restated)	(506)
At 31 March 2008	(877)
Net book amount:	
At 30 April 2007 (restated)	1,494
At 31 March 2008	1,123

12. Investments

	Subsidiary undertakings £	Total £
At 1 April 2006	2	2
Additions	-	-
Disposals	-	-
At 31 March 2007	2	2
Additions	-	-
Disposals	-	-
At 31 March 2008	2	2

All investments are in equity shares.

Details of the investments held by the company at 31 March 2008:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Percent of ordinary shares held</i>	<i>Nature of business</i>
Shore Recycling (Ozone) Limited	England	100%	Waste management

At 31 March 2008 Shore Recycling (Ozone) Limited had net assets of £188,000 and its profit for the period then ended was £53,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Financial instruments by category

		Amortised cost		
	Note	Loans and other receivables £000	Other financial liabilities £000	Total £000
31 March 2008				
Financial assets				
Trade and other receivables	15	8,995	-	8,995
Cash and cash deposits	16	532	-	532
Total		<u>9,527</u>	<u>-</u>	<u>9,527</u>
Financial liabilities				
Borrowings	19	-	(2,589)	(2,589)
Trade and other payables	17	-	(996)	(996)
Total		<u>-</u>	<u>(3,585)</u>	<u>(3,585)</u>
30 April 2007				
Financial assets				
Trade and other receivables	15	6,960	-	6,960
Cash and cash deposits	16	441	-	441
Total		<u>7,401</u>	<u>-</u>	<u>7,401</u>
Financial liabilities				
Borrowings	19	-	(1,487)	(1,487)
Trade and other payables	17	-	(485)	(485)
Total		<u>-</u>	<u>(1,972)</u>	<u>(1,972)</u>

14. Inventories

	2008 £000	2007 £000
Raw materials and consumables	43	26
Work in progress	-	10
Finished goods and goods for resale	-	98
	<u>43</u>	<u>134</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Trade and other receivables – current

	2008 £000	2007 £000
Trade receivables	685	789
Less : provision for impairment of receivables	-	-
Net trade receivables	685	789
Amounts owed by parent undertaking	6,399	6,096
Amounts owed by fellow subsidiaries	1,911	75
Other prepayments and accrued income	25	-
	<u>9,020</u>	<u>6,960</u>

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

As at 31 March 2008, trade receivables of £274,000 (2007 £501,000) were fully performing.

Trade receivables which are less than four months past due are not considered impaired. As at 31 March 2008, trade receivables of £411,000 (2007 £288,000) were past due but not impaired. These relate to corporate customers with no history of default. The ageing analysis of these trade receivables is as follows:

	2008 £000	2007 £000
Past due by up to 1 month	341	242
Past due by more than one but less than four months	70	46
	<u>411</u>	<u>288</u>

16. Cash and cash deposits

	2008 £000	2007 £000
Cash at bank and in hand	532	441
	<u>532</u>	<u>441</u>

17. Trade and other payables – current

	2008 £000	2007 (restated) £000
Trade payables	506	240
Amounts owed to parent undertaking	353	20
Other tax and social security	233	149
Accruals	137	225
	<u>1,229</u>	<u>634</u>

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

18. Current tax recoverable/(payable)

	2008 £000	2007 (restated) £000
Corporation tax	29	(1,311)

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. Borrowings

	2008 £000	2007 (restated) £000
Current		
Other borrowings	1,709	-
Obligations under finance leases	667	667
	<u>2,376</u>	<u>667</u>
Non-current		
Obligations under finance leases	213	820
	<u>213</u>	<u>820</u>
Total borrowings	<u>2,589</u>	<u>1,487</u>

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

The loans from parent undertakings are repayable on demand (for further details see note 28).

The effective interest rates at the balance sheet date and the exposure to interest rate changes and the repricing dates was :

	Effective Rate %	6 months or less £m	6 -12 months £m	1-2 years £m	2- 5 years £m	Total £m
31 March 2008						
Other borrowings	0.0	1,709	-	-	-	1,709
Obligations under finance leases	6.6	334	333	213	-	880
		<u>2,043</u>	<u>333</u>	<u>213</u>	<u>-</u>	<u>2,589</u>
30 April 2007						
Obligations under finance leases	6.6	334	333	611	209	1,487
		<u>334</u>	<u>333</u>	<u>611</u>	<u>209</u>	<u>1,487</u>

20. Retirement benefit obligations

Pennon Group Plc, the ultimate holding company, operates a number of pension schemes including a defined contribution section within the main scheme.

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

Defined contribution schemes

Since the acquisition of the Company by Viridor Waste Management Limited, employees are eligible to join the Pennon Group pension scheme. Pension costs for defined contribution schemes were £nil (2007 £nil) of which £nil was accrued at 31 March 2008 (2007 £nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. Deferred tax

Deferred tax is provided in full on temporary differences under the liability method using a tax rate of 28% (2007 30%).

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 IAS12. The movement in deferred tax assets and liabilities is shown below.

Deferred tax assets/(liabilities)

	Accelerated tax depreciation £000	Other £000	Total £000
At 1 May 2006 (restated)	(462)	-	(462)
Credited to the income statement (restated)	75	-	75
At 31 April 2007 (restated)	(387)	-	(387)
Credited to the income statement	119		119
At 31 March 2008	(268)		(268)

22. Share capital

	2008 £000	2007 £000
Authorised		
500,000 ordinary shares of £1 each (2007 500,000 ordinary shares of £1 each)	500	500
	2008 £	2007 £
Allotted, called up and fully paid		
1 ordinary share of £1 (2007 1 ordinary share of £1)	1	1

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Cash flow from operating activities

Reconciliation of profit to cash generated from operations :

	2008	2007 (restated)
	£000	£000
Cash generated from operations		
Continuing operations		
Profit for the year	483	3,515
Adjustments for :		
Loss on disposal of property, plant and equipment	102	-
Depreciation charge	801	884
Interest payable and similar charges	91	54
Interest receivable	(31)	(31)
Taxation payable	234	1,506
Changes in working capital <i>(excluding the effect of acquisition of subsidiaries)</i>		
Decrease in inventories	91	473
Increase in trade and other receivables	(2,060)	(4,681)
Increase/(decrease) in trade and other payables	242	(5,349)
Cash generated from/(used in) operations	<u>(47)</u>	<u>(3,629)</u>

24. Net borrowings

	2008	2007 (restated)
	£000	£000
Cash and cash equivalents	532	441
Borrowings - current		
Finance lease obligations	(667)	(667)
Other borrowings	(1,709)	-
Total current borrowings	<u>(2,376)</u>	<u>(667)</u>
Borrowings - non current		
Finance lease obligations	(213)	(820)
Total non-current borrowings	<u>(213)</u>	<u>(820)</u>
Total net borrowings	<u>(2,057)</u>	<u>(1,046)</u>

25. Operating lease commitments – minimum lease payments

	2008	2007 (restated)
	£000	£000
Future aggregate minimum lease payments under non-cancellable operating leases are as follows :		
Land and buildings		
Within one year	136	136
Later than one year and less than five years	544	544
After five years	2,176	2,312
	<u>2,856</u>	<u>2,992</u>

The Company leases various offices, depots and workshops under non-cancellable operating lease agreements. The leases all run until 2029 and have various escalation clauses and renewal rights.

VIRIDOR ELECTRICAL RECYCLING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Contingent liabilities

The Company has no identified contingent liabilities.

27. Capital commitments

The Company has no capital commitments contracted for but not provided

28. Related party transactions

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

		2008 £000	2007 £000
<i>Sales of goods and services</i>			
Shore Laminate Fabricators Ltd	- recharges	20	11
Simon Howie Butchers Ltd	- sales	12	3
	- recharges	-	29
Shore Recycling (Ozone) Ltd	- sales	559	288
	- management fees	-	77
	- recharges	-	58
<i>Purchase of goods and services</i>			
Shore Laminate Fabricators Ltd	- purchases	1	2
Simon Howie Butchers Ltd	- purchases	2	-
Rossco Properties	- rent	220	144
	- consultancy fees	-	24
M Todd Consulting	- purchases	1	1
Shore Recycling (Ozone) Ltd	- purchases	44	-

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

The rent payable to Rossco Properties is via non cancellable operating leases expiring in 2029.

Year end balances

		2008 £000	2007 £000
<i>Trading accounts receivables due from related parties</i>			
Shore Laminate Fabricators Ltd	- trading	4	4
Simon Howie Butchers Ltd	- trading	-	3
Shore Recycling (Ozone) Ltd	- trading & loan	1,911	75
Viridor Electrical Recycling (Holdings) Ltd	- trading	6,045	6,096
<i>Trade payables due to related parties</i>			
Rossco Properties		37	43
Viridor Electrical Recycling (Holdings) Ltd		-	20
<i>Borrowings – due within one year</i>			
Viridor Waste Management Limited		1,709	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Related party transactions (continued)

Roscco Properties and Findony Ltd loaned the Company a total of £4.5 million to fund an acquisition by its subsidiary, Shore Recycling (Ozone) Ltd. £2.8m was repaid during the period. The loan is repayable on demand and interest is charged at 2% above the Bank of England base rate. During the year interest of £19,000 accrued on the loan from Roscco Properties, and £6,000 accrued on the loan from Findony Ltd before the loans were transferred to Viridor Waste Management Limited who repaid Roscco Properties and Findony in full.

Shore Laminate Fabricators Ltd, Findony Ltd and Simon Howie Butchers Ltd are considered related parties on the basis of their controls by Mr Simon Howie.

Roscco Properties is considered a related party as it is a business run by Mr Simon Howie.

AM Howie Haulage is considered a related party on the basis of its close family control.

M Todd Consulting is considered a related party, as Mr Malcolm Todd is a partner in the business.

29. Post balance sheet events

On the 30 November 2008 the trade, contracts and net assets of Shore Recycling (Ozone) Limited, a wholly owned subsidiary of the Company, a wholly owned subsidiary of the Company, were transferred at net book value to Viridor Waste Management Ltd the immediate parent of Viridor Waste (Bristol Holdings) Ltd and the company ceased trading at this date.

In August 2008, a major fire at the Viridor Electrical Recycling Limited facility, significantly impaired production capacity, for which ongoing negotiations with the insurers underwriters are taking place.

The event will not cause significant long term losses to the Company, with the only material risk identified being a possible rise in insurance premiums.

30. Ultimate parent undertaking

The Company is a wholly owned subsidiary of Viridor Electrical Recycling 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, EX2 7HR.

The ultimate parent company and controlling party is Pennon Group Plc which is registered in England. Group financial statements are included in the Annual Report of Pennon Group Plc which is available from Peninsula House, Rydon Lane, Exeter, EX2 7HR.

31. Explanation of transition to IFRS

The Company reported under UK GAAP in its previous financial statements for the year ended 30 April 2007. The date of transition to IFRS for the company was 1 May 2006.

There are no significant differences between the results and financial position of the reported under IFRS and those reported under UK GAAP.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. Prior year adjustments

The comparative figures have been restated to correct certain errors in the prior year accounts reflecting purchased fixed assets that were not recorded, inappropriate deferral of income, and incorrect accounting for hire purchase contracts. The impact on the accounts is as follows:

	As previously reported	Revised
	£000	£000
Property, plant & equipment	713	3,896
Accruals	(1,296)	(225)
Taxation payable	(1,000)	(1,311)
Borrowings due after more than one year	(778)	(820)
Deferred tax	(16)	(387)
Retained earnings	4,082	7,612
Revenue	8,561	10,032
Profit after tax	2,769	3,515