ANNUAL REPORT & ACCOUNTS



07

Viridor LIMITED

Viridor Glass Recycling Feedstock

Cover Pictures

Main: Marsh Orchids growing at Viridor's Whitehead Landfil Site

From left to right: Viridor Collection Vehicle, Landfill Engineering, Lakeside Energy from Waste Facility (artist's impression)

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DIRECTORS, REGISTERED OFFICE AND AUDITORS

Chief Executive:	C I J H Drummond
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Secretary:	K D Woodier

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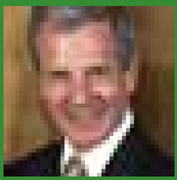
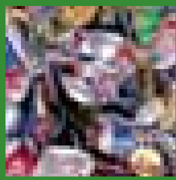



Colin Drummond
Chief Executive

VIRIDOR CONTINUES TO DELIVER STRONG GROWTH

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

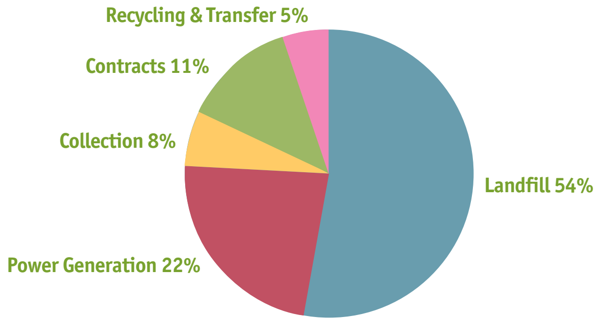
The principal activities of the Company and its subsidiaries ('Viridor') continue to be the provision of waste management services. Information regarding Viridor, including important events and its progress during the year, events since the year end and likely future developments are contained in this Directors' Report.

The continuing improvements in the UK's overall waste management policies, driven by climate change and environmental awareness, create major opportunities for Viridor. In 2006/07 it delivered another year of strong profit growth. At the same time it progressed various initiatives which are expected further to enhance its business in future years. This reflects its focused strategy set out opposite.

Financial performance in 2006/07 was particularly strong. Revenue at £367.7 million increased by 23% over the previous year. Operating profit (before amortisation of intangibles) at £46.8 million increased by 30% over the previous year. This was driven by good performance from the underlying business combined with the positive effect of this year's acquisitions (Wyvern and Skipaway) and the full year effect of last year's acquisition (Brett). In the six years since 2000/01, operating profit before amortisation of intangibles has grown by a compound average of 24% per annum. This year, around 12% has been organic with the remainder being from acquisitions. Profit before tax (PBT) at £27.6 million was 26% up on the previous year. This consistent strong financial performance reflects the success of Viridor's focused strategy.

The pie chart provides a breakdown of Viridor's profit contribution by segment (before amortisation of intangibles and central overhead costs). Landfill and power generation, the first two legs of the strategy outlined below, currently account for 76% of the profit contribution.

VIRIDOR PROFIT CONTRIBUTION BY SEGMENT



Year ended 31 March 2007

In May 2006, Viridor completed the acquisition of Wyvern Waste Services Limited from Somerset County Council for £25 million as part of a 25 year Public Private Partnership (PPP) contract with the County. This acquisition is now fully integrated and was earnings enhancing at PBT level (after amortisation of intangibles) in its first 10 months – a particularly strong result.

Construction of the Lakeside energy from waste (EfW) plant (in a joint venture with Grundon Waste Management Limited) continues on schedule with the plant due to open for commissioning in the second half of calendar 2008.

In February 2007, Viridor acquired Skipaway Holdings Limited for £14.7 million. This acquisition comprises three transfer stations with associated waste collection and recycling in Kent. It fits well with the activities of Brett which Viridor acquired last year.

Landfill inputs excluding cover were 9% higher in 2006/07 compared with the previous year, at 4.7 million tonnes. Excluding the effect of acquisitions, underlying landfill volumes were unchanged.

Average revenues per tonne increased by 7% and margins continued to improve (to over £6 per tonne). Consented landfill void grew from 87 million cubic metres last year end to 90 million cubic metres at 31 March 2007. This reflected acquisitions (5 million cubic metres) and planning gain at four sites (4 million cubic metres), less usage in the year (6 million cubic metres).

Viridor's landfill gas power generation output increased by 15% to 423 Gigawatt hours (GWh). Reflecting the general increase in underlying energy prices and the renewable premium in the UK, Viridor's average revenues per Megawatt hour increased by 4% to £62 (though current prices in 2007/08 are lower). At 31 March 2007, Viridor's landfill gas power generation capacity was 75MW compared with 61MW at the previous year end (both figures exclude a small amount of sub-contract capacity).

Viridor continues to explore suitable Private Finance Initiative (PFI)/Public Private Partnership (PPP) opportunities as part of its overall strategy. In January 2007, Greater Manchester Waste Disposal Authority announced that the Viridor Waste Management Limited/John Laing Infrastructure Limited consortium had been selected as preferred bidder for its 1.4 million tonnes p.a. 25 year waste management services contract. Final negotiations are under way. At the same time Viridor is one of Greater Manchester's nominated landfill contractors for five years from 2008.

The Government's target of diverting municipal waste from landfill up to 2020 may be expected over time to lead to a decline in the landfill market. However, with only around six years' consented capacity in the UK as a whole (Environment Agency estimate) and new consents difficult to achieve, Viridor's 90 million cubic metres is likely to become an increasingly valuable resource. Whilst open-market renewable energy prices in 2007/08 are below 2006/07 peaks, as the UK increasingly relies on imports of energy and seeks to grow its output of renewables, Viridor's gas business is also expected to remain a valuable asset. Meanwhile, the need for councils to achieve their diversion targets creates attractive opportunities for PFI/PPP contracts such as Viridor's with West Sussex and Somerset and, subject to contract, with Greater Manchester, and for facilities such as the Lakeside EfW plant.

BUSINESS AND STRATEGY

Viridor is a leading provider of essential waste treatment, recycling and disposal services in the UK. It has core competencies in landfill disposal, recycling and generation of electricity from landfill gas. Viridor has a waste collection fleet focusing primarily on the industrial and commercial market and also operates materials recycling facilities, waste transfer stations, treatment plants, household waste recycling (civic amenity) sites and composting facilities in a number of regions in the UK.

Viridor's strategy is to add value by:

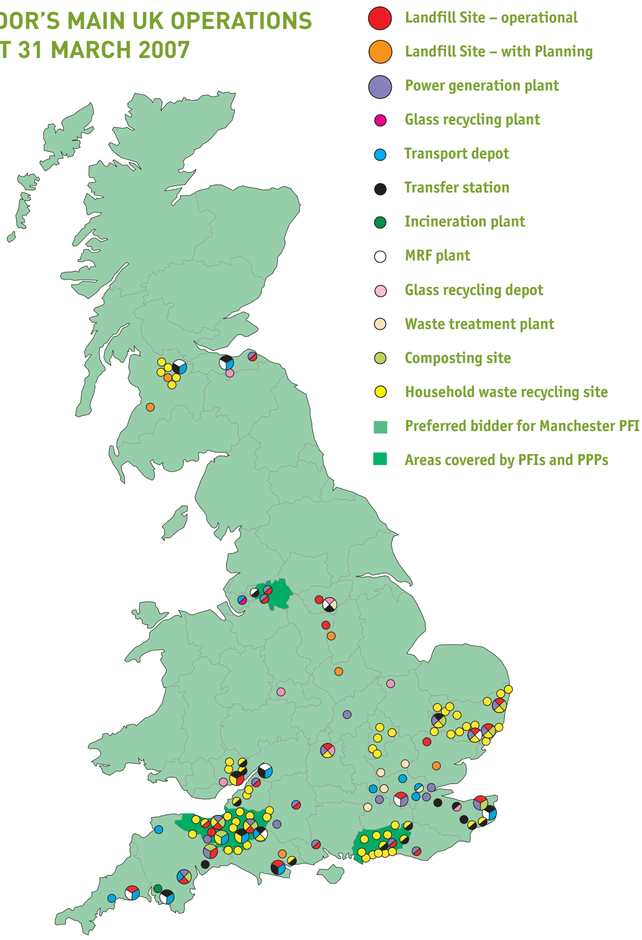
- capitalising on its strong position in landfill waste disposal
- exploiting opportunities in landfill gas power generation in line with the Government's target of increasing the proportion of electricity generated from renewable sources
- pursuing profitable opportunities arising from the Government's developing waste strategy (including PFI/PPP contracts and integrated waste management contracts).

Viridor's landfill market consists of municipal, commercial and industrial wastes along with certain other special types of waste. Landfill is currently the major final disposal route for these wastes.

The amount of biodegradable municipal waste in the UK as a whole going to landfill is expected to decline. This is a result of the measures taken by the Government to encourage recycling and comply with the requirements of the EU Landfill Directive. Municipal waste volumes comprise around one third of the Group's landfill market. However, according to the Environment Agency's (EA) most recent estimates, there remains the equivalent of only around six years' overall consented landfill capacity in the UK as a whole and new planning permissions are difficult to achieve, particularly for greenfield sites. In view of the above, Viridor believes that consented landfill void is an increasingly valuable asset.

Masons Materials Recycling Facility

VIRIDOR'S MAIN UK OPERATIONS AS AT 31 MARCH 2007



Viridor is one of the largest landfill site operators in the UK with a total consented landfill capacity of approximately 90 million cubic metres at 31 March 2007. This is filling at a rate of approximately 6 million cubic metres per annum which results in an average remaining life of 15 years at current rates of fill – significantly longer than the industry as a whole. This capacity is located as shown on the map above.

Gas produced from decomposing waste on landfill sites is increasingly used to generate electricity. It is a form of renewable energy and now represents around 25% of the UK's total renewable energy generation. The Government's strategy is to increase the percentage of electricity generated from renewable sources from the current figure of a little over 4% to a target of 10% in 2010 and 15% in 2015, with an aspiration of 20% in 2020. Historically, renewable energy projects were supported by the Government through the non fossil fuel obligation (NFFO) scheme. Fixed price Retail Price Index (RPI) contracts with terms of up to 15 years were awarded to the most competitive renewable projects in five tranches of bidding. In April 2002, the NFFO regime was replaced by the renewable obligation certificates (ROCs) regime. The overall price for electricity supplied under ROCs is currently higher than that achieved under the most recent NFFO scheme. This has facilitated the increasing of Viridor's total generation capacity to a current 75 MW at 31 March 2007, compared with 28MW in March 2002. 50% of this is under NFFO and 50% ROCs.

To take advantage of opportunities presented by the Government's developing waste strategy, Viridor is pursuing composting, energy from waste, mechanical-biological treatment , civic amenity or household waste recycling sites (HWRS) and other recycling opportunities. These may be combined in integrated waste management contracts.

In pursuing its strategy, Viridor seeks to grow its waste management business, both organically and through acquisition. It has continued to be an active participant in the consolidation of the UK waste market to date and, since October 2001, has made 11 acquisitions in the waste sector for an aggregate consideration of approximately £190 million. These acquisitions have been successfully integrated into the Viridor group.

REGULATORY AND COMPETITIVE ENVIRONMENT

The UK is required under the EU Landfill Directive to reduce the amount of biodegradable municipal waste going to landfill sites as follows:

- to 75% of 1995 level by 2010
- to 50% of 1995 level by 2013
- to 35% of 1995 level by 2020.

Municipal waste accounts for around one third of Viridor's landfill market.

The alternatives to landfill sites for final waste disposal in the UK are currently limited. In order to meet the requirements of the Landfill Directive, local authorities have been set statutory targets by the Government for the recycling of household waste and must also implement strategies for the diversion of biodegradable municipal waste from landfill.

Each waste disposal authority has been allocated an allowance of the amount of biodegradable waste it may dispose of to landfill for the years 2005 to 2020. These allowances are designed to ensure that the UK as a whole achieves the requirements of the EU Landfill Directive. Subject to some constraints, local authorities can carry forward or trade allowances under the Landfill Allowance Trading Scheme (LATS). Any authority exceeding its allocation without such an allowance faces a penalty of £150 per tonne in addition to the cost of disposing of the waste. This is expected to result in the introduction of alternative disposal processes at higher cost than current routes.

The Government introduced landfill tax as a further incentive to divert waste from landfill sites. Landfill tax applies to all waste disposed of at a licensed landfill site, unless the waste is specifically exempt, such as soil from historically contaminated sites. Landfill tax is chargeable by weight. For inert waste, landfill tax is chargeable at £2 per tonne increasing to £2.50 from 1 April 2008. A standard rate of £24 per tonne applies to all other taxable waste which is due to rise by £8 per tonne per annum commencing 1 April 2008, to reach a level of £48 per tonne in 2010/11.

Planning for landfill sites, waste and recycling infrastructure

All waste management facilities, including the development of new landfill sites and expansion of existing landfill sites, are subject to planning permission from the relevant local authority. Landfill sites (and hazardous waste facilities) also require a Pollution Prevention and Control (PPC) permit from the EA.

Viridor believes that good environmental management is important in winning future planning consents. It has achieved ISO 14001 (Environmental Management Systems) accreditation at all of its key sites.

Planning applications are subject to rigorous assessment by local authorities who will consider them against the backdrop of policies contained within local waste plans that have been compiled for their areas. Applications have to address a wide range of issues and the EA is a statutory consultee in this process.

Integrated municipal waste management contracts and the role of Private Finance Initiatives (PFIs) or Public Private Partnerships (PPPs)

To assist in meeting their landfill diversion targets, local authorities are seeking to let integrated waste management contracts covering a range of activities often including HWRS, composting, recycling and recovery, waste transfer and bulk transport and final disposal (both incineration and landfill).

In a number of instances, these will be financed under PFI arrangements where local authorities apply to the Government for funding of capital projects which fall within the eligibility criteria. Successful applicants receive cash funds (known as PFI credits) which do not have to be repaid and can be used by the local authority to fund a proportion of the capital and operating expenditures needed for the project.

Councils may also choose to let long-term contracts using PPP arrangements. Under this, they forego the complexities of securing PFI credits. From the waste management contractor's point of view, the nature of the contract is very similar whether it is a PFI or a PPP.

Considerable investment (potentially as high as £30 billion by 2020, as estimated by the Institution of Civil Engineers) will be required by the UK to meet municipal waste landfill diversion targets.

Viridor has been operating a PFI contract with West Sussex County Council since April 2004.

In May 2006, Viridor signed a 25 year PPP with Somerset County Council, at the same time acquiring Somerset's Local Authority Waste Disposal Company (LAWDC), Wyvern Waste Services.

In January 2007, a joint venture between Viridor and John Laing Infrastructure Limited was chosen as preferred bidder for the Greater Manchester Waste Disposal Authority PFI and, subject to contract, operations are expected to commence later this year.

Viridor recognises that there is a range of risks associated with entering into such contracts, which are often for a 25-year term. However, subject to a careful assessment of the risks on a contract by contract basis, Viridor will continue seeking to secure such contracts.

Waste Regulation Environment

EU directives and related UK legislation, as well as planning and licensing, are referred to above.

The EA and the Scottish Environment Protection Agency (SEPA) monitor performance against permit conditions and general environmental law. Breaches are subject to prosecution. The EA and SEPA can also require the operator to undertake upgrades to ensure future compliance and, where a pollution incident has occurred, clean-up action to be undertaken.

Waste facilities are also subject to the same regulations as other industries, including health and safety, control of goods hazardous to health and the Working Time Directive. In addition, the transport of waste is subject to specific controls.

Viridor Liquid Waste Collection Vehicles

KEY PERFORMANCE INDICATORS

The Key Performance Indicators (KPIs) used by the Directors to assess the performance of Viridor against stated objectives are as follows:

Profit before interest, tax and amortisation of intangibles (PBITA) and profit before taxation (PBT)

PBITA and PBT are key measures of Viridor's performance and are set out in the table below for the seven year period 2001 to 2007. The table also sets out the Compound Annual Growth Rate (CAGR) for these measures, being the rate of growth between 2001 and 2007 expressed as a single average figure over the period.

Year ended 31 March	2001* £m	2002* £m	2003* £m	2004* £m	2005 £m	2006 £m	2007 £m	CAGR 2001-7
Operating profit before intangibles amortisation	13.1	15.2	19.1	22.7	30.0	35.9	46.8	24%
Profit before taxation	11.7	13.5	14.2	14.7	20.1	21.9	27.6	15%

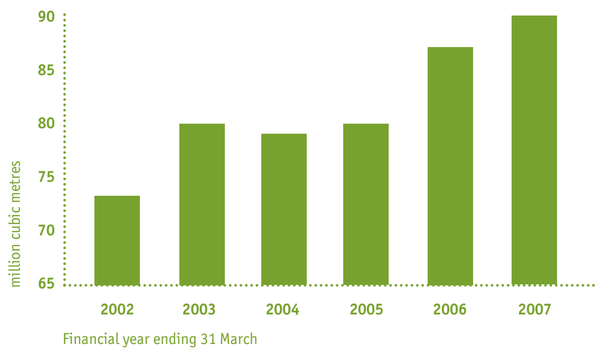
*UK GAAP

Consented landfill void

As at 31 March 2007, Viridor had a consented void capacity of 90 million cubic metres. This can be reconciled with the consented void capacity at 31 March 2006, as follows:

	million cubic metres
As at 31 March 2006	87
Planning gains (net)	4
Acquisition	5
Used in the period	(6)
As at 31 March 2007	90

Consented Landfill Void



Landfill gas electricity generation capacity

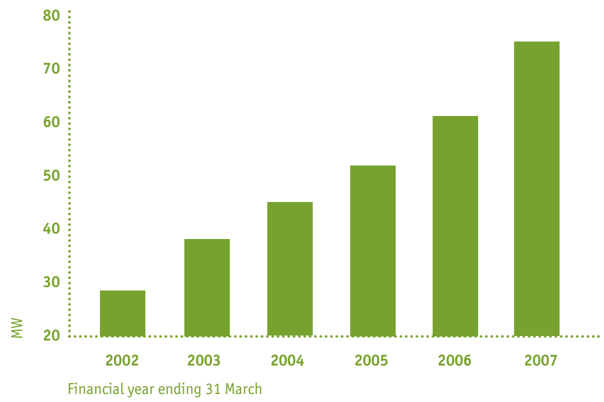
Electricity generated is sold to electricity suppliers, usually under NFFO contracts or under short-term contracts with ROCs. As at 31 March 2007, the Group had 75MW of generating capacity, an increase of 14MW over the year. (These figures exclude 3MW of sub-contract capacity in Suffolk).

CORPORATE RESPONSIBILITY/RELATIONSHIPS

EMPLOYEES

Viridor employs a comprehensive range of technical and professional managerial personnel and supervisory, administrative, clerical, semi-skilled and unskilled staff. Many are vocationally trained and have extensive operational experience. Membership of relevant trade and professional bodies is widespread and is encouraged.

Power Generation Capacity



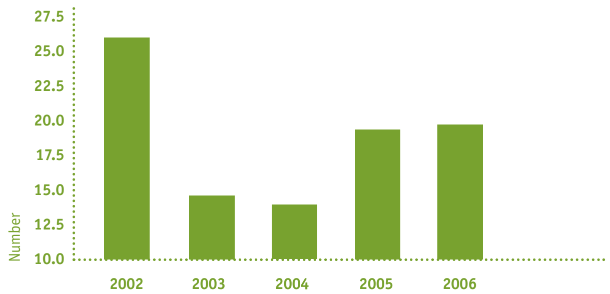
Viridor is pursuing a number of occupational health and safety initiatives. It currently has six sites accredited to the OHSAS18001 international health and safety standard and is planning to extend this across further sites. All other sites are covered by Viridor's Environmental Management System (EMS) (most accredited to ISO14001), which is the vehicle for delivering health and safety standards and procedure.

Viridor's reportable accident rate per 1,000 employees is an important KPI and is set out below for the five year period 2002 to 2006. It was 18.18 in 2006 compared with 18.10 in 2005. Despite comparing favourably with industry averages, Viridor's focus on health and safety improvement and performance remains strong. The company has recruited additional health and safety professionals during the year and continues to raise the level of training and support available to its staff.

Regrettably Viridor suffered its first health and safety prosecutions in the year for incidents which arose in previous years. An accident in 2005 at Beddington Landfill near Croydon led to a prosecution under the Management of Health and Safety at Work Regulations 1999, for the failure to conduct an adequate risk assessment. Viridor was fined £2,500 plus costs.

Following an accident in 2004, where two employees were struck by a wheeled loading shovel, Viridor was fined £100,000 for breaches of the Health and Safety at Work Act 1974, in that it did not adequately have in place systems and procedures to protect the health and safety of its employees at Bargeddie in Glasgow. Viridor has learnt key lessons from these incidents and continues to strive to raise health and safety awareness and improve its performance.

RIDDOR (see Glossary, page 52, for description) incident rates (per 1,000 employees)



ENVIRONMENT

The most significant positive environmental impacts of Viridor's operations arise from the safe and efficient disposal of society's waste materials, increased resource and energy efficiency from its recycling and recovery operations, the generation of renewable energy from non-fossil fuels and the restoration of despoiled landscapes such as disused mineral workings through the controlled deposit of waste materials. Significant negative impacts include transportation and associated emissions, methane production (where not harnessed for energy generation or flared), leachate production and potential local impacts such as dust, noise, litter and odour.

Viridor developed its own EMS in the early 1990s recognising the growing importance of measuring and monitoring the environmental impact of its operations. This has allowed targets to be set and met to maximise positive environmental impacts and reduce negative impacts, resulting in continuous improvement in environmental performance. Viridor was the first UK waste operator to achieve ISO 14001 accreditation across all major operational sites and has 50 accredited centres covering 138 operational facilities as at 31 March 2007. It has also played a leading role in developing and reporting against the environmental performance indicators for the waste industry as promoted by the Green Alliance.

The amount of waste recycled by Viridor increased over the year to 1.1 million tonnes (0.9 million tonnes in 2005/06).

Crawley Waste Transfer Station and Household Waste Recycling Centre

SOCIAL AND COMMUNITY ISSUES

Landfill (and many other facilities) require waste management licences or PPC permits, issued and monitored by the EA. Viridor maintains a positive working relationship with the EA, proactively liaising on, and managing issues at, both a site-specific and strategic level.

A 'good neighbour' policy is implemented at all facilities managed by Viridor with local liaison groups at most major sites consisting of locally elected representatives of the community meeting regularly to be consulted about Viridor's plans and operating procedures. Liaison groups also include representatives of the EA, the relevant planning authority and other key local stakeholders.

KEY CONTRACTUAL AND OTHER ARRANGEMENTS

Local authorities are the largest single customer group accounting in total for 30% of revenue. No individual authority accounts for more than 4%. The Group's ROC contracts account for 5% of revenue.

No supplier accounts for more than 1% of Viridor's revenue and it sources from competitive markets.

PAYMENTS TO SUPPLIERS

It is Viridor's payment policy for the year ending 31 March 2008 to follow the Code of Better Payment Practice Group on supplier payments. Information about the Code can be obtained from www.payontime.co.uk

Companies within the Viridor group will agree payment terms with individual suppliers in advance and abide by such terms. The relevant ratio expressed in days, can be found in the financial statements of each subsidiary.

RISKS AND UNCERTAINTIES

Increases in landfill costs may not be recovered through price increases

The raising of environmental standards is leading to a gradual increase in landfill costs in general. Particular areas of cost increases include site engineering (which results in increased depreciation), restoration and aftercare costs (see below), leachate management, landfill gas management and general site management. Viridor 's landfills are engineered to modern standards and have good environmental control systems, and should incur lower than average increases in costs. However, there remains a risk that rising standards may generate higher treatment and disposal costs than currently assumed.

Landfill sites are filled and restored on a cell by cell basis. Final restoration, in accordance with the planning permission, and aftercare of the site, takes place after site closure. The costs related to aftercare are expected to continue for around 30 years post closure. These costs are best estimates based on Viridor 's own extensive experience and they are updated at each stage of the capital expenditure programme. Nevertheless, as with any estimate of future costs, there is a risk that circumstances may change which may affect the level of those costs.

The costs are charged on a landfill usage basis, i.e. per tonne input. This is calculated by dividing the total expected cost by the number of tonnes expected to be input into the site up to its closure. This number is derived from the remaining void space, as estimated by external consultants, and estimated compaction rates (tonnes per cubic metre). These are best estimates, based on current information, which are reviewed every year. However, to the extent that tonnages are over or underestimated, there is a risk that the amount provided may be too high or low.

Municipal waste contracts typically last for a number of years. They usually have price increases under formulae related to inflation as measured by the RPI in the UK and in some cases take into account specific legislative or technical changes. Prices for other types of waste depend more on local markets and competitive conditions. Viridor's experience over several years is that prices in general have risen fast enough, at least, to cover cost increases in the areas where it operates. There is a risk that landfill prices may not rise sufficiently in all locations to recover recent and projected cost increases.

The UK Government's Waste Strategy, stemming from the Landfill Directive, may lead to a reduction in volumes of waste being disposed to landfill. The Government's Waste Strategy is currently under review and includes targets for diversion of municipal waste from landfill and increases in landfill tax as previously announced

Viridor focuses on the landfill disposal of municipal, industrial and commercial, construction and demolition waste. Of this, around 30% (or 20 million tonnes) of the UK total for these waste streams is municipal (of which approximately two thirds is biodegradable municipal waste (BMW)). These figures are based on estimates from DEFRA, the EA, SEPA and HM Revenue & Customs.

Existing Government initiatives are having an impact and the amount of municipal waste being disposed to landfill is now declining. Assuming the EU Landfill Directive targets are met, the total amount of municipal solid waste (MSW) which will be landfilled from 2020 will be around 10 million tonnes per annum (depending on the precise interpretation of the Directive). If there is no change in other waste streams, this would still leave a substantial landfill market in 2020.

This should be seen in the context of an EA estimate of a current consented landfill capacity UK-wide of around six years.

Viridor has seen its underlying landfill volumes holding steady, perhaps reflecting an increase in its share of the landfill market. However, the combined effect of the various Government measures is likely to reduce the total amount of waste being landfilled in the UK in the future.

Not all landfills may meet the standards of the Integrated Pollution Prevention and Control Directive and the Landfill Directive, or requirements may be imposed which would impact on the economics of landfill

Landfills (and other industrial processes) in the UK are subject to a permitting regime pursuant to the Pollution Prevention and Control (England and Wales) Regulations 2000 (PPC Regulations). Existing landfills opened before July 2001 and operated under waste management licences, now require a PPC permit granted under the PPC Regulations. PPC permits often impose higher standards and costs in general. Any landfills that fail to obtain a PPC permit would need to be subject to a closure plan with the EA or SEPA.

The net result of this is that it is expected that after a transitional period, the average technical and operational standards of landfill in the UK will improve and it is possible that the number of landfills may decrease.

All but one of Viridor's operational landfills have achieved PPC permits, though in some cases we are appealing against certain of the conditions proposed, which might have cost or other implications for the landfills. The operational landfill which has not yet received a PPC permit is currently due to close in two years' time. Viridor is in the process of applying for a PPC permit for one new landfill and whilst it is expected that this application will be successful, it cannot prejudge the regulator's conclusions.

Under both waste management licences and PPC permits, landfills require expenditure on restoration when the site is closed and subsequently on aftercare (maintenance, supervision, monitoring and management of gas and leachate levels) long after the landfilling activities have ceased. The EA or SEPA will only grant a full or partial PPC permit or waste management licence surrender once it is satisfied that the landfill is inert and no longer poses any environmental risk. There may still be a risk of a liability arising from any residual contamination following the surrender of the PPC permit. Landfill licences or permits cannot be surrendered during the aftercare period.

Pricing and other risks relating to renewable energy

Renewable energy prices under the current ROCs scheme are primarily a function of the underlying 'brown' energy price and the premium achieved from the sale of ROCs.

Underlying 'brown' energy prices rose significantly in 2006/07 reflecting the general energy supply/demand position in the UK and worldwide. Brown energy prices have fallen back significantly to date in 2007/08 and will affect Viridor's performance in the current year as, in line with its current policy, it has sold energy one year ahead. 'Brown' energy prices will continue to be determined by the world and UK energy market and may go down as well as up. Any changes in underlying energy prices will directly affect the Group's revenues when its sales contracts come up for renewal.

Beddington Landfill Gas Renewable Power Plant

Without a pricing mechanism such as ROCs, further investment in renewables energy generation would not generally be economic. The Government has made a strong commitment to renewables which are key to meeting the long-term carbon reduction strategy set out in the energy white paper and the UK's targets for carbon dioxide reductions under the Kyoto Protocol. Renewables are also important in minimising the UK's increasing reliance on imported energy. Nevertheless, there remains a risk that the Government may change the pricing mechanism.

In its recent consultation on the ROCs regime, the Government concluded that new landfill gas schemes starting from 2009 onwards will have reduced eligibility for ROCs. It is now consulting further on the details of this proposal. However, this is not expected to affect the Group's existing schemes which are likely to form the bulk of its output.

The value of ROCs is increased by the sharing of the buy-out price monies among holders of ROCs. The value of a ROC depends on the supply of renewable electricity relative to the UK's annual increasing targets. If large amounts of renewable energy generating capacity gained planning permission and commenced operations there is a risk that the value of a ROC would decline. The value of ROCs is also dependent on the financial strength of those suppliers who opt to pay the buy-out price. There is a risk that the insolvency of a licensed electricity supplier could lead to a drop in the value of the ROCs which Viridor sells to licensed suppliers.

A landfill gas project must be able to collect and burn sufficient gas to produce electricity. Ultimately, the volume of gas generated will depend on the amount and composition of the waste landfilled. For example, as the amount of BMW diverted away from landfill is increased in the future, in accordance with the EU Landfill Directive obligations, the total biodegradable component of the waste going to landfill will reduce, affecting the volumes of landfill gas produced. It is therefore possible that the gas obtained will not be available either in the amounts or of the calorific value required to make a project cost effective.

Lakeside EfW construction and technical risks

The Lakeside joint venture involves building a 400kt waste to energy plant at a cost of circa £160 million and operating it for 25 years. 86% of the project is funded by non-recourse bank debt which limits the risk to Pennon Group. The remainder is funded by the joint venture, of which Viridor has 50% of the equity.

The plant is a modern conventional waste to energy facility. As a result of a competitive procurement procedure it is being supplied by the Japanese consortium Itochu/Takuma. There is a significant number of similar plants operating successfully worldwide.

Beddington Mechanical – Biological Treatment Plant

It is being supplied in accordance with a fixed price contract which was drawn up with the assistance of specialist external consultants. Nevertheless, as with any major infrastructure project, unforeseen circumstances may arise which may affect the construction process.

Efficiencies and output of the plant will be affected by the precise calorific value of the waste throughput. The plant is well proven and it is a robust conventional technology designed to take the currently projected waste mix. Nevertheless, if the mix of the waste changes significantly over the next 25 years, there may be some impact on efficiencies and output.

The current planning regime may restrict the availability of future waste treatment facilities

Achievement of the Government's targets for waste management is critically dependent on the planning system delivering sufficient waste treatment facilities. Obtaining planning permission for any type of waste treatment facility is difficult and will represent a major challenge for the waste management industry.

Viridor may be unable to recruit/retain adequate numbers of staff with the necessary skills

Good quality staff with the required technical skills and certification are essential in the waste industry. Viridor recognises that there is a risk of losing staff to competitors and seeks to address this by its employment policies.

Risks associated with long-term integrated contracts

Any long-term integrated contract has a range of risks associated with it. Indeed, risk transfer is a key part of Government PFI procurement guidelines. The risks include waste volumes and mix, planning technology, input costs and recyclate prices. A careful assessment of the risks and apportionment of them between client, main contractor, technology and equipment suppliers, and sub contractors is a key part of the process of bidding and finalising a contract.

As noted above the Viridor/Laing joint venture is preferred bidder for the Greater Manchester PFI. Final contractual negotiations are not yet complete.

Viridor seeks to protect itself against the risks in such contracts in the first instance by doing extensive due diligence, typically using a combination of external advisers and in-house experts, so that risks are correctly identified.

Viridor will then seek to protect itself against the risks identified through contractual documentation with its client, subcontractors and sub-suppliers. The degree it does so depends of course on the other parties' attitude to risk transfer and on the specific commercial situation.

To the degree that Viridor is not able to (or chooses not to) cover off all the risks identified in the contractual documentation, then it includes in its price an assessment of a reasonable return for accepting such risks. Viridor takes a robust approach on this issue. If it cannot cover off the risks satisfactorily or cannot get a reasonable commercial return for taking such risks, its policy is to accept the loss of such a contract rather than win it on unsatisfactory terms.

Whilst Viridor's policy on such risks is careful and robust, there remains a risk that its commercial assessment will not be satisfactory and the results from such contracts will be adverse.

CAPITAL STRUCTURE

Viridor is funded by a combination of Pennon Group equity and debt (raised by Pennon Group) and direct borrowing. At the year end, net debt stood at £256.9 million (March 2006 £201.4 million), equivalent to 3.1 times EBITDA (2005/06 3.0 times).

TREASURY POLICIES AND OBJECTIVES

Viridor receives treasury services from the treasury function of Pennon Group Plc, the 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.

Further explanations can be found in accounting policies (page 20).

Debt profile

At 31 March 2007, loans and finance lease obligations were £298.1million and Viridor held cash and deposits of £41.2 million.

Viridor Group debt has a maturity profile of 0 – 6 years (see note 23).

The components of debt finance are:

- **Parent company loans** – £224.7 million, of which approximately 50% is fixed at 6% per annum.
- **Bank overdrafts** – £63.4million
- **Finance leasing** – £10.0 million, where the interest rate is linked to movement in the London inter bank offered rate (LIBOR)

Interest rate risk management

Net interest costs of £17.6 million equated to an average interest rate of 5.7%.

As stated above, management of debt structure and related debt finance costs is undertaken by Pennon Group Plc.

Refinancing risk management

As stated above, management of Treasury Policies and Objectives and refinancing requirements are determined by Pennon Group Plc.

Counterparty risk management

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

CASHFLOW

The net cash inflow from operating activities was £53.6 million (2005/06 £30.9 million). Capital expenditure cash outflow in 2006/07 was £59.6 million, an increase of £3.2 million on 2005/06. The net cash outflow for acquisitions was £37.0 million (2005/06 £44.7 million). Equity dividends paid of £15.1 million and net interest paid of £12.1 million totalled a cash outflow of £27.2 million (2005/06 £24.4 million).

Group net debt increased from £201.4 million at 31 March 2006 to £256.9 million at 31 March 2007.

LIQUIDITY MANAGEMENT

Liquidity management is determined by Pennon Group Plc.

FORWARD LOOKING STATEMENTS

This Director's Report contains forward looking statements regarding the financial position, results of operations, cash flows, dividends, financing plans, business strategies, operating efficiencies, capital and other expenditures, competitive positions, growth opportunities, plans and objectives of management and other matters. These forward looking statements, including, without limitation, those relating to the future business prospects, revenues, working capital, liquidity, capital needs, interest costs and income in relation to Viridor Limited and its subsidiaries, wherever they occur in this Director's Report, are necessarily based on assumptions reflecting the views of Viridor Limited and its subsidiary companies, as appropriate. They involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward looking statements. Such forward looking statements should, therefore, be considered in light of relevant factors, including those set out in the sections entitled 'Risks and uncertainties' on pages 8 to 12.

FINANCIAL RESULTS AND DIVIDEND

Viridor's profit on ordinary activities after taxation was £17.9 million. The Directors do not recommend payment of a final dividend, leaving a retained surplus of £17.9 million. A full review of the business on pages 2 to 12 analyses the results in more detail and sets out other financial information.

Restored Landfill, Heathfield, Devon

Dividends totalling £1.2584 per share were paid on 20 June and 1 December 2006, with the aggregate amount distributed being £15.1million, an increase of 12.7% compared with 2005/06 (£13.4 million).

DONATIONS

Details of charitable donations can be found in the Annual Report and Accounts and Corporate Responsibility Report of Pennon Group Plc. No political donations were made.

RESEARCH AND DEVELOPMENT

Research and development expenditure in improved technologies will continue to contribute to the provision of cost effective environmentally friendly waste treatment, recyling and disposal solutions.

Research and development expenditure is charged to the profit and loss account as incurred.

OTHER STATUTORY INFORMATION

EMPLOYEES

The average number of employees during the year was 1,849 compared to 1,442 last year. Details of the related costs can be found in note 11 to the financial statements on page 28.

Employee consultation is maintained through a staff council and supporting consultative committees, both chaired by senior management of Viridor, with representatives drawn from all functional areas.

A performance appraisal system exists for all non-manual staff and managers. Viridor uses a range of incentivisation arrangements as appropriate to each group of workers and job satisfaction is supported by encouraging role changes wherever possible within Viridor to help employees gain broad experience of business activities.

Viridor, as a 'good employer' has been introducing a number of 'Family Friendly' policies, which exceed statutory requirements. All employees are entitled to participate in the Pennon Group Sharesave Scheme, which is an all employee plan where performance conditions do not apply.

Occupational health and safety remain key elements of Viridor's assessment of risk management. Training in skills acquisition and health and safety continues to ensure that employees have the knowledge and expertise to undertake their jobs to the best of their ability.

Viridor remains committed to a non-discriminatory employment policy, making every reasonable effort to ensure that no current or future employee is disadvantaged because of age, gender, religion, colour, ethnic origin, marital status, sexual orientation or disability. In particular, Viridor welcomes applications for employment from disabled persons and makes special arrangements and adjustments as necessary to ensure that disabled applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible, the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within Viridor.

DIRECTORS

A list of all the Directors during the year is set out on page 1.

None of the Directors held any direct beneficial interest in the shares of Viridor Limited during the year.

No Director has, or has had, a material interest, directly or indirectly, at any time during the year under review in any contract significant to the business of Viridor Limited.

POST BALANCE SHEET EVENTS

On 30th June 2007, the Company paid an interim dividend of 53.26 pence per ordinary share, totalling £6,400,000.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Directors' 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 group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 the group and of the profit or loss of the group for that 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 IFRSs as adopted by the European Union
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Viridor 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 the group and to 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the Directors in office at the date of the signing of the report are aware, there is no relevant audit information of which the Company's auditors are unaware.

Each of the Directors has taken all the steps each Director 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.

AUDITORS

In accordance with Section 386 of the Companies Act 1985, PricewaterhouseCoopers LLP were appointed auditors of the Company by the Directors. Resolutions to appoint PricewaterhouseCoopers LLP as auditors and dispensing with the requirement to appoint auditors annually will be put to members at the Extraordinary General Meeting.

PricewaterhouseCoopers LLP have indicated their willingness to continue as auditors.

ANNUAL GENERAL MEETING

In accordance with Sections 252 and 366A of the Companies Act 1985, the Company passed elective resolutions on 19 April 1993, whereby it dispensed with the laying of accounts and reports before the Company in general meetings, and dispensed with the holding of annual general meetings.

By Order of the Board

K D Woodier
Secretary
20 November 2007

In-Vessel Composting

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRIDOR LIMITED

We have audited the group and parent company financial statements (the 'financial statements') of Viridor Limited for the year ended 31 March 2007 which comprise of the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expense 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 Annual Report and 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 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the Viridor Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2007 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2007 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol

20 November 2007

	Notes	2007 £m	2006 £m
Revenue		**367.7**	298.9
Operating costs	6		
Manpower costs		**(52.5)**	(43.9)
Raw materials and consumables used		**(14.2)**	(11.9)
Other operating expenses		**(218.2)**	(176.4)
Earnings before interest,tax,depreciation and amortisation		**82.8**	66.7
Depreciation		**(36.0)**	(30.8)
Amortisation of intangibles		**(1.8)**	(1.6)
Operating profit		**45.0**	34.3
Interest payable and similar charges	7	**(21.6)**	(14.6)
Interest receivable	7	**4.0**	2.2
Share of post-tax profit from joint venture		**0.2**	-
Profit before tax		**27.6**	21.9
Tax on ordinary activities	8	**(9.7)**	(3.9)
Profit for the year		**17.9**	18.0
Profit attributable to equity shareholders		**17.9**	18.0

All operating activities are continuing operations.

There is no difference between the profits as reported and those profits on an historical basis.

The notes on pages 20 to 52 form part of these financial statements.

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Profit for the year		**17.9**	**18.0**	**15.0**	**-**
Actuarial losses on defined benefit schemes	25	0.6	(4.3)	-	-
Tax on items taken directly to equity		**(0.1)**	**1.8**	**-**	**-**
Net gains/(losses) not recognised directly in income statement	30	0.5	(2.5)	-	-
Total recognised income for the year		**18.4**	**15.5**	**15.0**	**-**
Attributable to equity shareholders		**18.4**	**15.5**	**15.0**	**-**

The notes on pages 20 to 52 form part of these financial statements.

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Assets					
Non-current assets					
Goodwill	13	**134.3**	98.6	**-**	-
Other intangible assets	14	**7.8**	5.7	**-**	-
Property, plant and equipment	15	**321.2**	278.3	**-**	-
Trade and other receivables	16	**5.8**	4.8	**-**	-
Investment in subsidiary undertakings	17	**-**	-	**332.2**	207.2
Investments accounted for using equity method	17	**1.4**	1.3	**-**	-
		470.5	388.7	**332.2**	207.2
Current assets					
Inventories	18	**1.0**	0.9	-	-
Trade and other receivables	19	**79.1**	60.3	-	-
Cash and cash equivalents	20	**41.2**	23.9	-	-
		121.3	85.1	-	-
Liabilities					
Current liabilities					
Borrowings	23	**(123.6)**	(112.1)	**(31.4)**	-
Trade and other payables	21	**(76.0)**	(56.5)	-	-
Current tax liabilities	22	**(12.2)**	(13.2)	-	-
Provisions for liabilities and charges	27	**(13.2)**	(10.2)	-	-
		(225.0)	(192.0)	**(31.4)**	-
Net current liabilities		**(103.7)**	**(106.9)**	**(31.4)**	**-**
Non-current liabilities					
Borrowings	23	**(174.5)**	(113.2)	**(93.7)**	-
Other non-current liabilities	24	**(0.1)**	-	-	-
Retirement benefit obligations	25	**(3.3)**	(3.3)	-	-
Deferred tax liabilities	26	**(10.9)**	(10.7)	-	-
Provisions for liabilities and charges	27	**(86.3)**	(66.6)	-	-
		(275.1)	(193.8)	**(93.7)**	-
Net assets		**91.7**	88.0	**207.1**	207.2
Shareholders' equity					
Share capital	28	**12.0**	12.0	**12.0**	12.0
Share premium account	29	**95.2**	95.2	**95.2**	95.2
Retained earnings	30	**(15.5)**	(19.2)	**99.9**	100.0
Total shareholders' equity		**91.7**	88.0	**207.1**	207.2

The notes on pages 20 to 52 form part of these financial statements.

The financial statements on pages 16 to 52 were approved by the Board of Directors on 20th Novermber 2007 and were signed on its behalf by :

C I J H Drummond
Chief Executive

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Cash flows from operating activities					
Cash generated from operations	31	**76.5**	49.1	**-**	-
Interest paid		**(13.7)**	(11.8)	**(0.1)**	-
Tax paid		**(9.2)**	(6.4)	**-**	-
Net cash generated/(outflow) from operating activities		**53.6**	30.9	**(0.1)**	-
Cash flows from investing activities					
Interest received		**1.6**	0.8	**-**	-
Dividends received		**-**	-	**15.1**	-
Acquisition of subsidiary undertakings (net of cash acquired)	33	**(37.0)**	(44.7)	**(125.0)**	(207.2)
Investment in joint venture		**-**	(1.1)	**-**	-
Purchase of available for sale investments		**-**	(0.6)	**-**	-
Proceeds from sale of available for sale investments		**0.6**	-	**-**	-
Purchase of property, plant and equipment		**(59.6)**	(56.4)	**-**	-
Proceeds from sale of property, plant and equipment		**1.6**	1.0	**-**	-
Net cash used in investing activities		**(92.8)**	(101.0)	**(109.9)**	(207.2)
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**-**	207.2	**-**	207.2
Net proceeds from new borrowing/(repayment of loans)		**54.9**	(141.8)	**125.1**	-
Finance lease principal repayments		**(1.9)**	(4.7)	**-**	-
Dividends paid		**(15.1)**	(13.4)	**(15.1)**	-
Net cash received from financing activities		**37.9**	47.3	**110.0**	207.2
Net increase/(decrease) in cash and cash equivalents		**(1.3)**	(22.8)	**-**	**-**
Cash and cash equivalents at beginning of the year	20	**(21.6)**	1.2	**-**	-
Cash and cash equivalents at end of the year	20	**(22.9)**	(21.6)	**-**	-

The notes on pages 20 to 52 form part of these financial statements.

1. GENERAL INFORMATION

Viridor Limited is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Directors' Report on pages 2 to 14.

These financial statements were approved by the Board of Directors on 20 Novermber 2007

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.

(a) Basis of preparation

These financial statements have been prepared under the historical cost convention 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 1985 applicable to companies reporting under IFRS. A summary of the main accounting policies is set out below, together with an explanation of 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 7	"Financial instruments: disclosures" and the related amendments to IAS 1 "Presentation of Financial Statements" on capital disclosures.
IFRS 8	"Operating segments."
IFRIC 8	"Scope of IFRS 2."
IFRIC 9	"Reassessment of embedded derivatives."
IFRIC 10	"Interim financial reporting and impairment."
IFRIC 11	"IFRS 2 Group and treasury share transactions."
IFRIC 12	"Service concession arrangements."

The Directors expect the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of Viridor. Additional disclosures on capital and financial instruments will be made when the relevant standards come into effect for periods commencing on or after 1 April 2007. The presentational impact of IFRIC 12 is being assessed.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best assessment of the amounts, events or actions, actual results ultimately may differ from those estimates.

(b) Adoption of IFRS

The Group's date of transition to IFRS was 1 April 2005, but as these are the first set of accounts to be published for the Group, no restatement has been necessary.

The Company's date of transition to IFRS was 1 April 2005 and all comparative information for the Company in these financial statements has been restated to reflect adoption of IFRS, except where otherwise required or permitted by IFRS 1 "First Time Adoption of Financial Reporting Standards".

(c) Basis of consolidation

The financial statements include the results of Viridor Limited and its subsidiary and joint venture undertakings.

The results of subsidiary and joint venture undertakings are included from the date of acquisition or incorporation, and excluded from the date of disposal. The results of subsidiaries are consolidated where the Group has the power to control a subsidiary. The results of joint venture undertakings are accounted for on an equity basis where the company exercised joint control under a contractual arrangement.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary or joint venture acquired are measured at their fair values and any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to profit and loss in the year of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Revenue recognition

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

Revenue is not recognised until the service has been provided to the customer, or the goods which the sale relates to have been despatched to the customer.

(e) Landfill tax

Landfill tax is included within both revenue and operating costs.

(f) Segmental reporting

The Group operates within a single segment, comprising the collection, recycling and disposal of waste and the provision of waste management services under contract.

(g) Goodwill

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

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Further details are contained in accounting policy (l).

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

Goodwill arising on acquisitions before 1 April 2005, the Group's transition date to IFRS, has been retained at the previous UK GAAP amounts (representing amortised cost), subject to being tested for impairment at that date and annually thereafter. Goodwill written off to reserves under UK GAAP prior to 1998 was not reinstated on transition to IFRS and will not be included in determining any subsequent profit or loss on disposal.

(h) Other intangible assets

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

(i) Property, plant and equipment

i) Landfill sites

Landfill sites are included within land and buildings at cost less accumulated depreciation. Cost includes acquisition and development expenses. The cost of a landfill is depreciated to its residual value (which is linked to gas production at the site post - closure) over its estimated operational life taking account of the usage of void space.

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

ii) Other assets (including properties, over-ground plant and equipment)

Other assets 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:

Freehold buildings	30 – 50 years
Leasehold buildings	Over the period of the lease
Fixed plant	15 years
Office equipment	4 – 10 years
Vehicles, mobile plant and computers	3 – 10 years

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 Group. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Grants and contributions

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

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

(k) 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.

Rental costs arising under operating leases are charged against profits in the year they are incurred.

(l) Impairment of 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.

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 cost of capital of the cash-generating unit.

(m) 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.

(n) Joint ventures

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

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

(o) Inventories

Inventories and work in progress is stated at the lower of cost and net realisable value. Cost includes labour, materials and attributable overheads.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, short-term deposits held at banks and other short-term highly liquid deposits subject to insignificant risk of changes in value. Bank overdrafts are shown within current borrowings.

(q) Derivatives and other financial instruments

The Group has classified its financial instruments in the following categories:

i) *Loans and receivables*

All loans and borrowings are initially recognised at cost, being the net fair value of the consideration received. Following initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost.

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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivatives and other financial instruments *(continued)*

ii) Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts and the impact of discounting.

iii) Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

(r) 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.

(s) Provisions for liabilities and charges

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. The Group's policy on provisions for specific areas is:

i) Landfill restoration costs

Provisions for the cost of restoring landfill sites are made when the obligation arises. Where the obligation recognised as a provision gives access to future economic benefits, a non-current asset in property, plant and equipment is recognised. Provisions are otherwise charged against profits.

ii) Environmental control and aftercare costs

Environmental control and aftercare costs are incurred over the operational life of each landfill site and may be incurred for a considerable period thereafter. Provision for all such costs is made over the operational life of the site and charged to the income statement on the basis of the usage of void space.

Where the effect of the time value of money is material, the current amount of a provision is the present value of the expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as a financial item within interest payable and similar charges.

(t) Share capital

Ordinary shares are classified as equity.

(u) Dividend distributions

Dividend distributions are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Dividends are recognised when paid.

(v) Employee benefits

i) Pension obligations

The Group participates in defined benefit and defined contribution pension schemes operated by its parent company Pennon Group plc.

Defined benefit schemes
Defined benefit pension scheme assets are measured using bid price. Defined benefit pension scheme liabilities are measured by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality corporate bonds of equivalent term to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on scheme assets and the increase during the period in the present value of scheme liabilities, arising from the passage of time, are included in other finance income or cost. Changes in past service costs arising from changes in benefits are recognised immediately in income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity and recorded in the statement of recognised income and expense.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

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

ii) Share-based payment

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

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

(w) Pre-contract costs

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

(x) Fair values

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of 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 Group for similar financial instruments.

3. FINANCIAL RISK MANAGEMENT

The Group receives treasury services from the treasury function of Pennon Group Plc, its 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.

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

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

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

i) Interest rate risk

The Group has both interest bearing assets and interest bearing liabilities. Borrowings consist of finance leases, loans from group companies, (unsecured and with interest charged at Barclays Bank base rate plus 1% or at a fixed rate determined at the start of the loan) and bank overdrafts with interest charged at Barclays Bank base rate plus 0.25%, offset by overnight deposits with interest credited at Barclays Bank base rate less 0.25% .

ii) Counterparty risk management

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.

4. CRITICAL ACCOUNTING JUDGEMENTS

The Group's principal accounting policies are set out in note 2 to these financial statements. 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:

a) Landfill restoration and aftercare
Restoration and aftercare provisions are recognised in the financial statements at the net present value of the future expenditure required to settle the Group's restoration and aftercare obligations. The discount implicit in recognising the restoration and aftercare liability is unwound over the life of the provision and is included in the income statement as a financial item within interest payable.

Where a provision gives access to future economic benefits, an asset is recognised and depreciated in accordance with the Group's depreciation policy.

4. CRITICAL ACCOUNTING JUDGEMENTS *(continued)*

b) Cash-generating units
For the purpose of assessing impairments, the Group aggregates all assets for the purpose of identifying cash flows as it is recognised as an integrated business.

c) Joint ventures
The results, assets and liabilities of joint ventures are accounted for using the equity method of accounting as this reflects the contractual and control arrangements with the joint venture partners.

d) Borrowing costs
The Group capitalises borrowing costs which are material and directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to be prepared for their intended use. Currently only the assets under construction in the Lakeside Energy from Waste joint venture meet the criteria for capitalisation.

e) Retirement benefit obligations
The Group participates in defined benefit schemes plus a defined contribution section operated by its parent company Pennon Group Plc. Actuarial valuations of the defined benefit schemes are carried out as determined by the trustees at intervals of not more than three years.

The pension cost under IAS 19 is assessed in accordance with the advice of an independent qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the Group, supplemented by discussions between the actuary and management of Pennon Group Plc. The principal assumptions used to measure schemes' liabilities, sensitivities to changes in the assumptions and future funding obligations are disclosed in note 25 of the financial statements.

f) Landfill costs
The estimation of landfill reserves is of particular importance in assessing landfill costs, since the cost of a landfill site is depreciated over its estimated operational life taking into account the usage of void space and gas production at the site post closure. The Group's estimates of landfill reserves are regularly reviewed and updated during the financial year for usage and other events (for example site extensions). Estimates are also subject to physical review by external advisors. A number of factors impact on the value of landfill reserves, including the available landfill space, future capital expenditure and operating costs. The valuation is subject to revision as these factors change.

g) Carrying value of long-life assets
The Group's accounting policy for property, plant and equipment is detailed in note 2 to these financial statements. The carrying value of property, plant and equipment as at 31 March 2007 was £321.2m. In the year ended 31 March 2007 additions to property, plant and equipment totalled £60.9m (before deduction of grants) and the depreciation charge was £36.0m. 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 Group, 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.

h) Revenue recognition
The Group recognises revenue generally at the time of delivery. Payments received in advance of revenue recognition are recorded as deferred revenue.

The Group recognises landfill tax as both revenue and expense, in line with industry practice.

i) Provision for doubtful debts
At each balance sheet date, each subsidiary evaluates the collectability of trade receivables and records provisions for doubtful debts based on experience including, for example, 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, which could impact operating results positively or negatively. As at 31 March 2007 current trade receivables were £71.4 million.

j) Impairment of intangible assets
The Group records all assets and liabilities acquired in business acquisitions, including goodwill, at fair value. Intangible assets which have an indefinite useful life, principally goodwill, are assessed annually for impairment.

The initial goodwill recorded and subsequent impairment analysis require management to make estimations of future cash flows, terminal values and an assessment of the long-term pre-tax discount rate to be applied to those cash flows to reflect an assessment of the cost of capital of the cash-generating unit.

5. SEGMENTAL REPORTING

The Company operated wholly in the UK, in one class of business during the year.

6. OPERATING COSTS

	2007 £m	2006 £m
Manpower costs (notes 11 and 12)	**52.5**	43.9
Raw materials and consumables	**14.2**	11.9
Other operating expenses include:		
Profit on disposal of property, plant and equipment	**(0.1)**	(0.3)
Profit on disposal of interest in Devon Waste Management Limited	**(0.6)**	-
Operating lease rentals payable :		
- Plant and machinery	**6.5**	6.2
- Property	**0.2**	-
Trade receivables impairment	**0.4**	-
Power	**1.2**	0.7
Rates	**5.3**	4.7
Hired and contracted services	**64.3**	57.9
Other external charges	**141.0**	107.2
	218.2	176.4
Depreciation of property, plant and equipment :		
- Owned assets	**32.4**	27.2
- Under finance leases	**3.6**	3.6
	36.0	30.8
Amortisation of intangible assets (note 14)	**1.8**	1.6

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

	2007 £m	2006 £m
Fees payable to the Company's auditors for the audit of the Company's accounts	**-**	-
Fees payable to the Company's auditors for other services to the Group:		
Audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Services relating to corporate finance transactions	**0.1**	0.1
	0.2	0.2

A description of the work of the Audit Committee of the Group's parent company, Pennon Group Plc, is set out in its report on pages 40 and 41 of the Pennon Group Annual Report and Accounts which includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditors.

The Pennon Group plc's pension schemes are also audited by PricewaterhouseCoopers LLP.

7. NET FINANCE COSTS

	2007 £m	2006 £m
Interest payable		
Loans from parent undertaking	**(12.3)**	(7.7)
Bank borrowings and overdrafts	**(2.6)**	(1.2)
Other loans	**(0.2)**	(0.3)
Interest costs element of finance lease rentals	**(0.5)**	(0.7)
Interest cost on retirement benefit obligations	**(1.9)**	(1.3)
Unwinding of discounts in provisions	**(4.1)**	(3.4)
Interest payable and similar charges	**(21.6)**	(14.6)
Interest receivable		
Bank interest	**1.8**	0.8
Expected return on pension scheme assets	**2.2**	1.4
Interest receivable and similar income	**4.0**	2.2
Net finance costs	**(17.6)**	(12.4)

8. TAXATION

	2007 £m	2006 £m
Analysis of charge in year		
Continuing operations		
Current tax	**7.6**	6.7
Deferred tax (note 26)	**2.1**	(2.8)
	9.7	3.9

UK Corporation tax is calculated at 30% (2006 30%) of the estimated assessable profit for the year. The tax for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK (30%). The differences are:

	2007 £m	2006 £m
Profit before tax	**27.6**	**21.9**
Profit before tax multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	**8.3**	6.6
Effects of :		
Expenses not deductible for tax purposes	**1.5**	1.9
Other	**0.4**	0.2
Adjustments to tax charge in respect of prior year	**(0.5)**	(4.8)
Tax charge for year	**9.7**	3.9

The average applicable tax rate for the year was 35% (2006 18%).

In addition to the amount charged to the income statement, a deferred tax credit relating to actuarial losses on defined benefit schemes of £0.4 million (2006 £0.8 million) has been credited directly to equity. In 2006 a deferred tax credit relating to share-based payment of £1.2 million was also credited directly to equity.

8. TAXATION *(continued)*

The Finance Bill 2007 contains provisions relating to the reduction in the rate of corporation tax from 30% to 28% with effect from 1 April 2008. It was also announced that industrial building allowances will be phased out over three years commencing 1 April 2008.

At 31 March 2007 the above changes were not substantively enacted. If the change in corporation tax rate is fully enacted, the deferred tax liability would reduce by £0.7m. The provisions to abolish industrial building allowances are expected to be contained in the Finance Bill 2008 and if fully enacted, are likely to increase the deferred tax liability by an estimated £4.7m. The combined impact would therefore be to increase the deferred tax liability by £4.0m.

9. PROFIT OF PARENT COMPANY

	2007 £m	2006 £m
Profit attributable to equity shareholders dealt with in the accounts of the parent company	**15.0**	-

As permitted by Section 230 of the Companies Act 1985 no income statement is presented for the Company.

10. DIVIDENDS

	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year :		
Interim dividend of 66.44p per Ordinary share for the year ended 31 March 2007 paid 30 June 2006 (2006 nil)	**8.0**	-
Interim dividend of 59.40p per Ordinary share for the year ended 31 March 2007 paid 1 December 2006 (2006 nil)	**7.1**	-
	15.1	-

Dividends paid to the parent undertaking in 2006 and prior years were paid by Viridor Waste Limited which was the holding company for the waste activities of Pennon Group Plc until 20 March 2006.

Interim dividends paid in 2006 totalled £13.4m.

11. EMPLOYMENT COSTS

	2007 £m	2006 £m
Wages and salaries	**43.6**	37.2
Social security costs	**4.0**	3.6
Pension costs	**4.5**	2.7
Share-based payments	**0.4**	0.4
Total employment costs	**52.5**	43.9
Charged as follows :		
Manpower costs	**52.5**	43.9

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

12. DIRECTORS' EMOLUMENTS

	2007 £000	2006 £000
Directors:		
Salary	637	421
Payments related to supplementary pension	46	68
Performance related	371	334
Other emoluments	60	46
Total emoluments	1,114	869

Other emoluments include car benefit and health care.

Payments related to supplementary pension represents the amount required to provide the highest paid Director with a sum equivalent to the tax liability which arises in respect of Company contributions to the Pennon Group Supplementary Pension Scheme. It arises for service to 5 April 2006 when an Earnings Cap applied in this scheme to the highest paid Director, who was provided with additional pension benefits under the unapproved funded Supplementary Pension Scheme of Pennon Group Plc in order to bring his pension benefits up to a level which would have been provided under the other schemes if the Earnings Cap had not applied.

With effect from 6 April 2006 the Earnings Cap no longer applied to pension schemes as part of the simplification of taxation of pensions legislation. The Remuneration Committee of Pennon Group Plc accordingly decided to provide all of the Directors' future service pension benefit above the Earnings Cap level from the Pennon Group Executive Pension Scheme. The Supplementary Pension Scheme was therefore closed and the accrued benefits were paid out to the highest paid Director in April 2006.

At 31 March 2007 retirement benefits were accruing to 4 Directors (2006 3 Directors) under defined benefit pension schemes operated by the parent company.

The emoluments of the highest paid director were:

	2007 £000	2006 £000
Total amount of emoluments and amounts (excluding shares) receivable under long – term incentive schemes	369	318
Accrued pension at end of year	72	65

The Chairman, Mr K G Harvey, is a Director of Pennon Group Plc and his remuneration is disclosed in the financial statements of that company.

13. GOODWILL

	£m
Cost :	
At 1 April 2005	64.4
Recognised on acquisition of subsidiaries	34.2
At 31 March 2006	98.6
Recognised on acquisition of subsidiaries (note 33)	35.7
At 31 March 2007	134.3
Carrying amount :	
At 31 March 2006	98.6
At 31 March 2007	**134.3**

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating unit (CGU) expected to benefit from that business combination. All of the carrying amount of goodwill is allocated to waste management which is considered to be a single CGU, as the Group is a fully integrated business.

Goodwill is reviewed annually or when other events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount is determined from value in use calculations. The key assumptions in those calculations relate to discount rates, cash flows, price increases and for landfill, the compaction rate. Cash flow projections are based on approved budgets and plans for the next five years and beyond this period on long-term growth rates for the Group based on GDP. The cash flows have been discounted using a pre-tax discount rate of 11.4% which reflects the overall business risks associated with Group's activities.

14. OTHER INTANGIBLE ASSETS

	Customer contracts £m	Patents £m	Total £m
Acquired intangible assets			
Cost:			
At 1 April 2005	7.2	0.2	7.4
Acquisitions	1.3	-	1.3
At 31 March 2006	8.5	0.2	8.7
Acquisitions (note 33)	3.9	-	3.9
At 31 March 2007	12.4	0.2	12.6
Aggregate amortisation and impairment:			
At 1 April 2005	1.4	-	1.4
Charge for year	1.6	-	1.6
At 31 March 2006	3.0	-	3.0
Charge for year	1.8	-	1.8
At 31 March 2007	4.8	-	4.8
Carrying amount:			
At 31 March 2006	5.5	0.2	5.7
At 31 March 2007	**7.6**	**0.2**	**7.8**

14. OTHER INTANGIBLE ASSETS *(continued)*

Customer contracts are amortised over the useful economic life of each contract which at acquisition ranged between 3 and 15 years. The average remaining life is 6 years.

Patents are amortised over their estimated useful economic lives which at acquisition was 13 years. The average remaining life is 10 years.

The carrying value of other intangible assets are reviewed annually or when events or changes in circumstance indicate that the carrying amount may not be fully recoverable.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixed and mobile plant, vehicles and computers £m	Landfill restoration £m	Total £m
Cost:				
At 1 April 2005	220.1	107.6	-	327.7
Arising on acquisitions	18.4	5.1	3.1	26.6
Additions	25.9	33.0	-	58.9
Other	-	-	32.3	32.3
Grants and contributions	-	(2.5)	-	(2.5)
Disposals	(12.2)	(6.7)	-	(18.9)
Transfers / reclassifications	(0.6)	0.6	-	-
At 31 March 2006	251.6	137.1	35.4	424.1
Arising on acquisitions	7.4	5.3	1.4	14.1
Additions	30.7	30.2	-	60.9
Other	-	-	6.8	6.8
Grants & contributions	-	(1.3)	-	(1.3)
Disposals	-	(3.6)	-	(3.6)
Transfers / reclassifications	(1.1)	1.1	-	-
At 31 March 2007	288.6	168.8	43.6	501.0
Depreciation:				
At 1 April 2005	89.1	42.2	-	131.3
Charge for year	13.9	14.2	2.7	30.8
Disposals	(9.9)	(6.4)	-	(16.3)
Transfers / reclassifications				
At 31 March 2006	93.1	50.0	2.7	145.8
Charge for year	18.2	14.7	3.1	36.0
Disposals	-	(2.0)	-	(2.0)
At 31 March 2007	111.3	62.7	5.8	179.8
Net book value :				
At 31 March 2006	158.5	87.1	32.7	278.3
At 31 March 2007	**177.3**	**106.1**	**37.8**	**321.2**

Asset lives and residual values are reviewed annually.

The Company held no property, plant and equipment during the year.

Future obligations to restore landfill sites were included as non-current assets for the first time in 2006 following a change in accounting methodology. This addition to property, plant and equipment is recognised in 'Other' (above).

15. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

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

	Fixed and mobile plant, vehicles and computers £m
Cost :	
At 31 March 2006	29.2
At 31 March 2007	27.1
Depreciation :	
At 31 March 2006	13.2
At 31 March 2007	14.8
Net book amount:	
At 31 March 2006	16.0
At 31 March 2007	**12.3**

16. TRADE AND OTHER RECEIVABLES – NON-CURRENT

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts owed by joint ventures	**5.8**	2.8	-	-
Other receivables	**-**	2.0	-	-
	5.8	4.8	-	-

The fair values of trade and other receivables are as follows:

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Amounts owed by joint ventures	**9.2**	4.8	-	-
Other receivables	**-**	3.3	-	-
	9.2	8.1	-	-

17. INVESTMENTS

		Joint ventures	
	Shares £m	Loans £m	Total £m
Group			
At 1 April 2005	-	-	-
Acquisitions	-	0.2	0.2
Additions	1.1	-	1.1
At 31 March 2006	1.1	0.2	1.3
Share of profits for the year	0.2	-	0.2
Part repayment of loans	-	(0.1)	(0.1)
At 31 March 2007	**1.3**	**0.1**	**1.4**

17. INVESTMENTS *(continued)*

	Subsidiary undertakings £m
Company	
At 1 April 2005	-
Additions	207.2
At 31 March 2006	207.2
Additions	125.0
At 31 March 2007	**332.2**

Details of principal subsidiary and joint venture undertakings of the Group are set out in note 34

The Group's share of the results of its joint ventures and its share of the joint ventures' assets and liabilities are:

	Assets		Liabilities			
	Non-current £m	Current £m	Current £m	Non-current £m	Revenues £m	Profit £m
2006						
Lakeside Energy from Waste Holdings Limited	25.3	1.7	-	(25.7)	-	-
Shelford Composting Ltd	0.1	0.1	(0.2)	-	0.2	-
	25.4	1.8	(0.2)	(25.7)	0.2	-
2007						
Lakeside Energy from Waste Holdings Limited	38.3	-	-	(36.9)	0.3	0.2
Shelford Composting Ltd	0.2	0.1	(0.3)	-	0.2	-
	38.5	0.1	(0.3)	(36.9)	0.5	0.2

18. INVENTORIES

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Raw materials and consumables	1.0	0.9	-	-

19. TRADE AND OTHER RECEIVABLES – CURRENT

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Trade receivables	71.4	53.3	-	-
Less : provision for impairment of receivables	(0.4)	(0.2)	-	-
Trade receivables	71.0	53.1	-	-
Amounts owed by parent undertaking	-	1.3	-	-
Amounts owed by fellow subsidiaries	1.6	1.4	-	-
Other receivables	1.0	0.7	-	-
Other prepayments and accrued income	5.5	3.8	-	-
	79.1	60.3	-	-

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

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Cash at bank and in hand	**40.5**	23.3	-	-
Other deposits	**0.7**	0.6	-	-
	41.2	23.9	-	-

Other deposits comprise sums due to the Group pending completion of obligations arising from its operations under lease and other agreements. The effective interest rate on these deposits was 4.6% (2006 4.3%) and have a maturity range of 14 to 20 years.

Cash and cash equivalents comprise the following for the purposes of the cash flow statement:

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Cash and cash equivalents as above	**41.2**	23.9	-	-
Bank overdrafts (note 23)	**(63.4)**	(44.9)	-	-
	(22.2)	(21.0)	-	-
Less: deposits with a maturity of three months or more	**(0.7)**	(0.6)	-	-
	(22.9)	(21.6)	-	-

21. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Trade payables	**16.8**	15.5	-	-
Amounts owed to parent undertaking	**0.4**	0.1	-	-
Amounts owed to fellow subsidiaries	**0.1**	0.1	-	-
Other tax and social security	**34.1**	23.4	-	-
Other creditors	**0.1**	-	-	-
Accruals	**24.5**	17.4	-	-
	76.0	56.5	-	-

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

22. CURRENT TAX LIABILITIES

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Corporation tax	**12.2**	13.2	-	-

23. BORROWINGS

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Current				
Bank overdrafts	**63.4**	44.9	**-**	-
Amounts owed to parent undertaking	**54.5**	63.0	**31.3**	-
Amounts owed to subsidiary undertaking	**-**	-	**0.1**	-
	117.9	107.9	**31.4**	-
Obligations under finance leases	**5.7**	4.2	**-**	-
	123.6	112.1	**31.4**	-
Non-current				
Amounts owed to parent undertaking	**170.2**	106.8	**93.7**	-
Obligations under finance leases	**4.3**	6.4	**-**	-
	174.5	113.2	**93.7**	-
Total borrowings	**298.1**	225.3	**125.1**	**-**

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

The fair values of the non-current borrowings were:

	2007		2006	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Group				
Amounts owed to parent undertaking	**170.2**	**169.8**	106.8	106.5
Obligations under finance leases	**4.3**	**4.3**	6.4	6.4
	174.5	**174.1**	113.2	112.9
Company				
Amounts owed to parent undertaking	**93.7**	**93.6**	-	-

Where market values are not available, fair values of borrowings have been calculated by discounting expected future cash flows at prevailing interest rates.

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

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
6 months or less	**67.0**	47.0	**-**	-
6 – 12 months	**56.5**	65.1	**31.4**	-
1 – 5 years	**174.6**	113.1	**93.7**	-
Over 5 years	**-**	0.1	**-**	-
	298.1	225.3	**125.1**	-

23. BORROWINGS *(continued)*

The maturity of non-current borrowings was:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Between 1 and 2 years	**57.2**	41.5	**31.3**	-
Between 2 and 5 years	**117.3**	71.6	**62.4**	-
Over 5 years	**-**	0.1	**-**	-
	174.5	113.2	**93.7**	-

The effective interest rates at the balance sheet date were:

	Group 2007 %	Group 2006 %	Company 2007 %	Company 2006 %
Bank overdrafts	**6.2**	5.5	**-**	-
Amounts owed to parent undertaking	**5.8**	5.6	**5.8**	-
Finance leases	**5.9**	5.6	**-**	-

Finance lease liabilities – minimum lease payments:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Within one year	**5.9**	4.6	-	-
In the second to fifth years inclusive	**4.6**	6.8	-	-
After five years	**-**	0.1	-	-
	10.5	11.5	-	-
Less: future finance charges	**(0.5)**	(0.9)	-	-
	10.0	10.6	-	-

24. OTHER NON-CURRENT LIABILITIES

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Other creditors	0.1	-	-	-

25. RETIREMENT BENEFIT OBLIGATIONS

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

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
Pension costs for defined contribution schemes were £1.0m (2006 £0.5m) of which £0.2m was accrued at 31 March 2007 (2006 £0.1m).

Defined benefit schemes
The principal actuarial assumptions at the balance sheet date were:

	2007 %	2006 %
Expected return on scheme assets	**6.9**	6.7
Rate of increase in pensionable pay	**4.0**	3.8
Rate of increase for present and future pensions	**3.0**	2.8
Rate used to discount schemes' liabilities	**5.4**	5.0
Inflation	**3.0**	2.8

Mortality
Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience.

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

	2007	2006
Male	**23.8**	22.0
Female	**26.6**	25.0

The average life expectancy in years of a pensioner retiring at age 62, 20 years after the balance sheet date is projected at:

	2007	2006
Male	**24.5**	22.9
Female	**27.3**	25.8

25. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

The sensitivities regarding the principal assumptions used to measure the schemes' liabilities are:

	Change in assumption	Impact on schemes' liabilities
Rate of increase in pensionable pay	+/- 0.5%	+/-2.4%
Rate of increase in present and future pensions	+/- 0.5%	+/-6.0%
Rate used to discount schemes' liabilities	+/- 0.5%	+/-10.0%
Inflation	+/- 0.5%	+/-10.0%
Mortality rate	+/- 1 year	+/-2.5%

The amounts recognised in the income statement were:

	2007 £m	2006 £m
Current service cost	3.5	2.2
Total included within employment costs	3.5	2.2
Expected returns on pension schemes assets	1.8	1.4
Interest cost on retirement benefit obligations	(1.5)	(1.3)
Total included within net finance costs	0.3	0.1
Total charge	3.2	2.1

The actual return on schemes' assets was £2.4m (2006 £4.2m).

The amounts recognised in the statement of recognised income and expense were:

	2007 £m	2006 £m
Actuarial gains/(losses) recognised in the year	**0.6**	(4.3)

The amounts recognised in the balance sheet were:

	2007 £m	2006 £m
Fair value of schemes' assets	35.1	25.5
Present value of defined benefit obligations	(38.4)	(28.8)
Net liability recognised in the balance sheet	(3.3)	(3.3)

25. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

The schemes' assets and the expected long-term rates of return at the year end were:

	Expected return %	2007 Value £m	Fund %	Expected return %	2006 Value £m	Fund %
Equities	8.0	19.6	56	7.7	15.9	62
Property/currency	7.8	4.0	11	7.7	1.2	5
Bonds	4.7	11.4	33	4.7	7.4	29
Other	5.0	0.1	-	4.7	1.0	4
		35.1	100		25.5	100

The expected return on plan assets is determined by considering the long-term returns and the balance between risk and reward on the various categories of investment assets held. Expected returns on equity and property investments reflect long-term rates of return experienced in the respective markets. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

In conjunction with the trustees and investment advisors, Pennon Group Plc has restructured its portfolio of defined benefit pension investments during the year following a review of strategy. This review has impacted on the Group's share of assets and liabilities within the fund.

Further details of the review and spread of underlying investments can be found in the Annual Report and Accounts of Pennon Group Plc.

The scheme provides benefits to 323 current employees and a number of former employees through defined benefit schemes. The level of retirement benefit is principally based on final annual salary earned in employment.

The liabilities of the defined benefit schemes are measured by using the projected unit credit method which is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

An alternative method of valuation to the projected unit credit method is a solvency basis which is estimated using the cost of buying out benefits with a suitable insurer. This amount represents the amount that would be required to settle the schemes' liabilities at the balance sheet date, rather than the Group continuing to fund the on-going liabilities. Pennon Group Plc estimates that the sum required to settle Viridor's share of the schemes' liabilities at the balance sheet date was £44m.

25. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

Movements in the balance sheet net liability were:

	2007 £m	2006 £m
At 1 April	**(3.3)**	(6.3)
Income statement	**(3.2)**	(2.1)
Statement of recognised income and expense	**0.6**	(4.3)
Regular contributions	**0.7**	1.1
Prepayment of contributions	**1.9**	8.3
At 31 March	**(3.3)**	(3.3)

Movements in the fair value of schemes' assets were:

	2007 £m	2006 £m
At 1 April	**25.5**	18.0
Expected return on schemes' assets	**2.2**	1.4
Actuarial losses	**(1.8)**	(2.7)
Benefits paid	**(1.3)**	(0.6)
Group regular contributions	**0.7**	1.1
Prepayment of Group regular contributions	**1.9**	8.3
Acquisition of subsidiary	**7.9**	-
At 31 March	**35.1**	25.5

Movements in the present value of defined benefit obligations were :

	2007 £m	2006 £m
At 1 April	**(28.8)**	(24.3)
Service costs	**(3.4)**	(2.2)
Interest cost	**(1.9)**	(1.3)
Actuarial gains/(losses)	**2.4**	(1.6)
Members' contributions	**(0.1)**	-
Benefits paid	**1.3**	0.6
Acquisition of subsidiary	**(7.9)**	-
At 31 March	**(38.4)**	(28.8)

	2007 £m	2006 £m	2005 £m
Fair value of schemes' assets	**35.1**	25.5	18.0
Present value of defined benefit obligations	**(38.4)**	(28.8)	(24.3)
Net liability recognised	**(3.3)**	(3.3)	(6.3)
Experience losses on schemes' assets			
Amount	**(1.8)**	(2.7)	(0.3)
Percentage of schemes' assets	**5.1%**	10.7%	1.7%
Experience gains and losses on defined benefit obligations			
Amount	**2.4**	(1.6)	1.1
Percentage of defined benefit obligations	**6.3%**	5.5%	4.5%

25. RETIREMENT BENEFIT OBLIGATIONS *(continued)*

As a result of the prepayment of contributions made in 2006 and 2007 no further Group regular contributions are expected to be paid to the schemes during the year ended 31 March 2008.

Details of Pennon Group's triennial valuation of the defined benefit schemes can be found in the Annual Report and Accounts of Pennon Group Plc.

26. DEFERRED TAX

Deferred tax is provided in full on temporary differences under the liability method using a tax rate of 30% (2006 30%).
Movements on the deferred tax account were:

	2007 £m	2006 £m
At 1 April	**10.7**	13.4
Charged/(credited) to the income statement	**2.1**	(2.8)
(Released)/charged to equity	**0.1**	(1.8)
Arising on acquisitions	**(2.0)**	1.9
At 31 March	**10.9**	10.7

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

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 liabilities

	Revalued assets £m	Ineligible asset on acquisition £m	Intangibles on acquisition £m	**Total £m**
At 1 April 2005	15.9	3.9	1.7	**21.5**
Credited to the income statement	(1.0)	(0.6)	(0.5)	**(2.1)**
Arising on acquisitions	1.6	3.0	0.7	**5.3**
At 31 March 2006	16.5	6.3	1.9	**24.7**
Credited to the income statement	(0.8)	(0.5)	(0.8)	**(2.1)**
Arising on acquisitions	-	0.8	1.2	**2.0**
At 31 March 2007	15.7	6.6	2.3	**24.6**

Deferred tax assets

	Accelerated tax depreciation £m	Provisions £m	Retirement benefit obligations £m	Other £m	Total **£m**
At 1 April 2005	(2.4)	(3.6)	(1.9)	(0.2)	**(8.1)**
Charged/(credited) to the income statement	(1.6)	1.4	2.3	(2.8)	**(0.7)**
Credited to equity	-	-	(1.4)	(0.4)	**(1.8)**
Arising on acquisitions	(3.1)	(0.3)	-	-	**(3.4)**
At 31 March 2006	(7.1)	(2.5)	(1.0)	(3.4)	**(14.0)**
Charged/(credited) to the income statement	3.3	(0.2)	-	1.1	**4.2**
Charged to equity	-	-	0.1	-	**0.1**
Arising on acquisitions	(2.4)	(1.6)	-	-	**(4.0)**
At 31 March 2007	(6.2)	(4.3)	(0.9)	(2.3)	**(13.7)**

Net deferred tax liability	
At 31 March 2006	**10.7**
At 31 March 2007	**10.9**

The deferred tax credited/(charged) to equity during the year was:

	2007 £m	2006 £m
Actuarial (gains)/losses on defined benefit schemes	**(0.1)**	1.4
Share-based payments (note 28)	**-**	0.4
	(0.1)	1.8

27. PROVISIONS FOR LIABILITIES AND CHARGES

	Environmental and landfill restoration £m	Other provisions £m	Total £m
At 1 April 2006	76.6	0.2	76.8
Charged to the income statement	5.7	-	5.7
Arising on acquisitions	18.0	-	18.0
Landfill restoration	6.8	-	6.8
Utilised during year	(7.8)	-	(7.8)
At 31 March 2007	**99.3**	**0.2**	99.5

The additional landfill restoration provision of £6.8m recognised in the year has been matched with an addition to property, plant and equipment (note 15).

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

	2007 £m	2006 £m
Current	13.2	10.2
Non-current	86.3	66.6
	99.5	76.8

Environmental and landfill restoration provisions will be utilised over the period from 2008 to beyond 2035. The provisions have been established assuming current waste management technology based upon estimated costs at future prices which have been discounted to present value.

28. CALLED-UP SHARE CAPITAL

	2007 £m	2006 £m
Authorised		
15,000,000 ordinary shares of £1 each	**15.0**	15.0
Allotted, called-up and fully paid		
12,015,898 ordinary shares of £1 each	**12.0**	12.0

Employee share schemes

Pennon Group plc operates a number of share plans for the benefit of employees. Details of each plan are set out below. In each table the price and number of shares for the comparative periods have been restated to reflect the sub-division ordinary shares of Pennon Group Plc, the parent company, by way of a three for one split on 31 July 2006.

i) Sharesave Scheme

An all-employee savings related plan is operated that enables employees, including executive directors, to invest up to a maximum of £250 per month for three or five years. These savings can then be used to buy the ordinary shares of Pennon Group Plc at a price set at a 20% discount to the market value at the start of the savings period at the third, fifth or seventh anniversary of the option being granted. Options expire six months following the exercise date and, except for certain specific circumstances such as redundancy, lapse if the employee leaves the Group before the option exercise period commences.

Outstanding options to subscribe for shares of 40.7p each under the Pennon Group Plc share option schemes are :

Date granted and subscription price fully paid		Period when options normally exercisable	Thousands of shares in respect of which options outstanding at 31 March 2007	2006
6 July 1999	275p	2002 – 2006	**-**	4
5 July 2000	154p	2003 – 2007	**5**	12
4 July 2001	163p	2004 – 2008	**1**	10
9 July 2002	189p	2005 – 2009	**45**	51
8 July 2003	177p	2006 – 2010	**68**	170
6 July 2004	200p	2007 – 2011	**218**	230
5 July 2005	270p	2008 – 2012	**181**	197
4 July 2006	358p	2009 – 2013	**163**	-
			681	674

At 31 March 2007 there were 329 participants in the Sharesave Scheme (2006 287).

28. CALLED-UP SHARE CAPITAL *(continued)*

Employee share schemes *(continued)*

i) Sharesave Scheme (continued)

The number of weighted average price shares in the Sharesave Scheme are:

	2007		2006	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share p**	Number of ordinary shares (thousands)	Weighted average exercise price per share p
At 1 April	**674**	**213**	638	186
Granted	**169**	**358**	207	270
Exercised	**(122)**	**179**	(117)	175
Lapsed	**(30)**	**242**	(39)	207
Expired	**(10)**	**218**	(15)	183
At 31 March	**681**	**253**	674	213

The weighted average price of Pennon Group Plc shares at the date of exercise of Sharesave options during the year was 477p (2006 345p). The options outstanding at 31 March 2007 had a weighted average exercise price of 253p (2006 213p) and a weighted average remaining contractual life of 2.4 years (2006 2.5 years).

The aggregate fair value of options granted during the year was £0.2m (2006 £0.2m), determined using the Black-Scholes valuation model. The significant inputs into the valuation model were:

	2007	2006
Weighted average share price	**321p**	260p
Weighted average exercise price	**257p**	208p
Expected volatility	**22.3%**	23.7%
Expected life	**4.2 years**	3.9 years
Risk-free rate	**4.6%**	4.5%
Expected dividend yield	**4.6%**	5.2%

Expected volatility was determined by calculating the historical volatility of the parent company's share price over the previous two years.

ii) Restricted Share Plan

Under this plan Directors and senior management receive a conditional award of shares in Pennon Group Plc. The eventual number of shares, if any, which vest is dependent upon the achievement of the performance condition of the plan over the restricted period, being not less than three years.

The number and weighted average price of shares in the restricted share plan are :

	2007		2006	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share p**	Number of ordinary shares (thousands)	Weighted average exercise price per share p
At 1 April	345	287	360	248
Granted	84	499	108	357
Vested	-	-	(45)	213
Lapsed	(16)	270	(45)	213
Share consolidation	-	-	(33)	-
At 31 March	413	331	345	287

The awards outstanding at 31 March 2007 had a weighted average price of 331p (2006 287p) and a weighted average remaining contractual life of 1.2 years (2006 1.7 years). The Pennon Group Plc share price at the date of the awards ranged from 195p to 499p.

28. CALLED-UP SHARE CAPITAL *(continued)*

Employee share schemes *(continued)*

ii) Restricted Share Plan (continued)

The aggregate fair value of awards granted during the year was £0.2m (2005 £0.2m), determined using a Monte-Carlo simulation model. The significant inputs into the valuation model were :

	2007	2006
Weighted average share price	**346p**	287p
Expected volatility	**22.6%**	23.6%
Risk-free rate	**4.7%**	4.6%

Expected volatility was determined by calculating the historical volatility of the Pennon Group Plc share price over the previous two years.

iii) Incentive Bonus Plan – Deferred Shares

Awards under the plan to Directors involve the release of ordinary shares in Pennon Group Plc to participants.

The number and weighted average price of shares in the Incentive Bonus Plan are:

	2007		2006	
	Number of ordinary shares (thousands)	**Weighted average exercise price per share p**	Number of ordinary shares (thousands)	Weighted average exercise price per share p
At 1 April	**135**	**269**	147	232
Granted	**18**	**484**	48	328
Vested	**(21)**	**255**	(45)	217
Lapsed	**(23)**	**255**	-	-
Share consolidation	**-**	**-**	(15)	-
At 31 March	**109**	**350**	135	269

The awards outstanding at 31 March 2007 had a weighted average price of 350p (2006 269p) and a weighted average remaining contractual life of 1.4 years (2006 1.5 years). The Pennon Group Plc share price at the date of the awards ranged from 253p to 484p.

The aggregate fair value of awards granted during the year was £0.1m (2006 £0.2m), determined from market value. No option pricing issues arise as dividends declared on the shares are receivable by the participants in the scheme and there is no performance condition since vesting is usually conditional upon continuous service with the Group for a period of three years from the date of the award.

29. SHARE PREMIUM ACCOUNT

	Group and Company £m
At 1 April 2005	-
Premium on shares issued for cash consideration	195.2
Transfer to revenue reserve arising from capital reconstruction	(100.0)
At 31 March 2006 and **31 March 2007**	**95.2**

30. RETAINED EARNINGS

	Group £m	Company £m
At 1 April 2005	(121.7)	-
Profit for the year	18.0	-
Other recognised income and expense for the year	(2.5)	-
Transfer from share premium account arising from capital reconstruction	100.0	100.0
Dividends paid	(13.4)	-
Adjustment in respect of share-based payments	0.4	-
At 31 March 2006	(19.2)	100.0
Profit for year	17.9	15.0
Other recognised income and expense for the year	0.5	-
Dividends paid	(15.1)	(15.1)
Deferred tax in respect of share-based payments	0.4	-
At 31 March 2007	**(15.5)**	**99.9**

31. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of profit for the year to cash generated from operations:

Cash generated from operations

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Continuing operations				
Profit for the year	**17.9**	18.0	-	-
Adjustments for:			-	-
Employee share schemes	**0.4**	0.4	-	-
(Profit)/loss on disposal of property, plant and equipment	**(0.1)**	0.3	-	-
Profit on disposal of investment	**(0.6)**	-	-	-
Depreciation charge	**36.0**	30.8	-	-
Amortisation of intangible assets	**1.8**	1.6	-	-
Share of post-tax profit from joint venture	**(0.2)**	-	-	-
Interest payable and similar charges	**21.2**	14.6	-	-
Interest receivable	**(3.6)**	(2.2)	-	-
Taxation	**9.7**	3.9	-	-
Changes in working capital *(excluding the effect of acquisition of subsidiaries)*				
(Increase)/decrease in inventories	**(0.1)**	0.1	-	-
Increase in trade and other receivables	**(11.6)**	(4.3)	-	-
Increase/(decrease) in trade and other payables	**13.2**	(12.8)	-	-
Decrease in retirement benefit obligations	**-**	(2.1)	-	-
(Decrease)/increase in provisions for liabilities and charges	**(7.5)**	0.8	-	-
Cash generated from operations	**76.5**	49.1	-	-

32. NET BORROWINGS

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Cash and cash equivalents	41.2	23.9	-	-
Borrowings - current				
Bank overdrafts	(63.4)	(44.9)	-	-
Parent company loans	(54.5)	(63.0)	(31.3)	-
Amounts owed to subsidiary undertakings	-	-	(0.1)	-
Finance lease obligations	(5.7)	(4.2)	-	-
Total current borrowings	(123.6)	(112.1)	(31.4)	-
Borrowings – non current				
Parent company loans	(170.2)	(106.8)	(93.7)	-
Finance lease obligations	(4.3)	(6.4)	-	-
Total non-current borrowings	(174.5)	(113.2)	(93.7)	-
Total net borrowings	(256.9)	(201.4)	(125.1)	-

33. ACQUISITIONS

On 13 May 2006 the entire issued share capital of Wyvern Waste Services Limited, (now renamed Viridor Waste (Somerset) Limited), was purchased by Viridor Waste Management Limited for a cash consideration of £25.4 million, including costs of £0.4 million. The acquisition has been accounted for using the acquisition method.

Viridor Waste (Somerset) Limited contributed revenues of £26.7 million and net profit of £2.8 million for the period from 13 May 2006 to 31 March 2007. If the acquisition had occurred on 1 April 2006 Group revenues for the year would have been £29.3 million and profit for the year would have been £3.3 million. These amounts have been calculated after applying the Group's accounting policies, adjusting the results to reflect the fair value adjustments as if they had applied from 1 April 2006 and include the costs of integrating the acquisition with the existing business.

All intangible assets have been recognised at their respective fair values. The residual excess over the net assets acquired has been recognised as goodwill. The goodwill is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.

	Book value £m	Fair value adjustment £m	Fair value £m
Other intangible fixed assets	-	3.6	3.6
Property, plant and equipment	14.3	(2.9)	11.4
Receivables	5.9	-	5.9
Payables	(4.2)	-	(4.2)
Provisions - environmental	(8.2)	(9.8)	(18.0)
Taxation – current	(0.4)	-	(0.4)
Taxation – deferred	1.6	0.7	2.3
Cash and cash equivalents	3.0	-	3.0
Net assets acquired	12.0	(8.4)	3.6
Goodwill			21.8
Total consideration			25.4
Satisfied by:			
Cash			25.0
Directly attributable costs			0.4
			25.4
Net cash outflow arising on acquisition			
Cash consideration			25.4
Cash and cash equivalents acquired			(3.0)
			22.4

The intangible assets acquired as part of the acquisition relate to customer contracts

33. ACQUISITIONS *(continued)*

On 12 February 2007 the entire issued share of Skipaway Holdings Limited (now renamed Viridor Waste (Medway) Holdings Limited) was purchased by Viridor Waste Management Limited for a cash consideration of £15.1m, including costs of £0.4m. The acquisition has been accounted for using the acquisition method.

Viridor Waste (Medway) Holdings Limited contributed revenues of £1.9m and net loss of £0.6m for the period from 15 February 2007 to 31 March 2007. If the acquisition had occurred on 1 April 2006 revenues for the year would have been £16.5m and profit for the year would have been nil. These amounts have been calculated after applying the Group's accounting policies, adjusting the results to reflect the fair value adjustments as if they had applied from 1 April 2006 and include the costs of integrating the acquisition with the existing business.

All intangible assets have been recognised at their respective provisional fair values. The residual excess over the net assets acquired has been recognised as provisional goodwill. The goodwill is attributed to the profitability of the acquired business and the anticipated future operating synergies arising from the combination.

	Book value £m	Fair value adjustment £m	Provisional fair value £m
Other intangible fixed assets	0.2	0.1	0.3
Property, plant and equipment	2.7	-	2.7
Receivables	2.2	-	2.2
Payables	(2.6)	-	(2.6)
Taxation – current	(0.2)	-	(0.2)
Taxation – deferred	(0.3)	-	(0.3)
Finance leases	(1.4)	-	(1.4)
Cash and cash equivalents	0.5	-	0.5
Net assets acquired	1.1	0.1	1.2
Goodwill			13.9
Total consideration			15.1
Satisfied by:			
Cash			14.7
Directly attributable costs			0.4
			15.1
Net cash outflow arising on acquisition			
Cash consideration			15.1
Cash and cash equivalents acquired			(0.5)
			14.6

The intangible assets acquired as part of the acquisition relate to customer contracts.

On the 23 March 2007, the Company acquired for a cash consideration of £125m, a further 125,000,000 Ordinary shares of £1 in Viridor Waste Limited, a wholly owned subsidiary, to provide working capital for further investments.

34. PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS AT 31 MARCH 2007

	Country of incorporation, registration and principal operations
Viridor Waste Limited	England
Viridor Waste Disposal Limited	England
Viridor Waste Exeter Limited	England
Dragon Waste Limited	England
Viridor Waste Management Limited	England
Viridor EnviroScot Limited	Scotland
Viridor Glass Recycling Limited	England
Viridor Parkwood Holdings Limited	British Virgin Islands †
Parkwood Group Limited	England
Viridor Waste Kent Limited	England
Viridor Waste (Landfill Restoration) Limited	England
Viridor Waste (Bristol Holdings) Limited	England
Viridor Waste (Bristol) Limited	England
Viridor Waste Suffolk Limited	England
Viridor Waste (Thames) Limited	England
Viridor Waste (West Sussex) Limited	England
Viridor Waste (Somerset) Limited	England
Viridor Waste (Medway) Holdings Limited	England

All shares in issue are ordinary shares. The subsidiary undertakings are wholly-owned, except Dragon Waste Limited where 81% of the ordinary shares are held by Viridor Waste Limited. All companies above are consolidated in the Group financial statements.

† Operations are carried out in England.

Joint ventures

Both joint ventures and the subsidiary undertakings of Lakeside Energy from Waste Holdings Limited are incorporated and registered in England which is also their country of operation.

	Share capital in issue	Percentage held	Activity
Lakeside Energy from Waste Holdings Limited	1,000,000 A Ordinary shares	-	
	1,000,000 B Ordinary shares	100%	
Lakeside Energy from Waste Limited			Waste management
Lakeside Energy Limited			Waste management
Shelford Composting Limited	50 A Ordinary Shares of £1	-	Waste management
	50 B Ordinary Shares of £1	100%	

Shares in Lakeside Energy from Waste Holdings Limited are held by Viridor Waste Management Limited.

Shares in Shelford Composting Limited are held by Viridor Waste Kent Limited.

35. OPERATING LEASE COMMITMENTS – MINIMUM LEASE PAYMENTS

	Group £m	Company £m
Future aggregate minimum lease payments under non-cancellable operating leases are as follows :		
Within one year	**4.2**	3.1
Later than one year and less than five years	**11.0**	7.1
After five years	**59.8**	48.9
	75.0	59.1

The Group leases various offices, depots and workshops under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. Property leases are negotiated for an average term of 25 years and rentals are reviewed on average at five yearly intervals. The Group also leases plant and machines under non-cancellable operating lease agreements.

36. CONTINGENT LIABILITIES

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Guarantees :				
Performance bonds	**68.0**	61.2	-	-
Letters of credit	**5.1**	7.6	-	-
Other	**6.9**	6.9	-	-
	80.0	75.7	-	-

Guarantees in respect of performance bonds are entered into in the normal course of business. No liability is expected to arise in respect of the guarantees.

The guarantee in respect of letters of credit has been given by Viridor Waste Limited in support of the borrowings of the joint venture of Viridor Waste Management Limited, Lakeside Energy from Waste Holdings Limited. In addition, Viridor Waste Management Limited has given a commitment to supply 200,000 tonnes of waste per annum (or pay market price based compensation) to the energy from waste plant of the joint venture. The plant is expected to be commissioned during financial year 2008/9. Directors consider that the committed waste volume will be available in the ordinary course of business.

Other contingent liabilities relate to a possible obligation to pay further consideration in respect of a previously acquired business when the outcome of planning applications is known.

37. CAPITAL COMMITMENTS

	Group		Company	
	2007 £m	2006 £m	**2007 £m**	2006 £m
Contracted but not provided	**4.6**	1.8	-	-
Share of commitment contracted but not provided by joint venture	**41.7**	64.2	-	-
	46.3	66.0	-	-

38. RELATED PARTY TRANSACTIONS

Group

During the year, group companies entered into the following transactions with related parties who are not members of the Group:

	2007 £m	2006 £m
Sales of goods and services		
Fellow subsidiaries of Pennon Group Plc	**0.7**	1.3
Purchases of goods and services		
Fellow subsidiaries of Pennon Group Plc	**-**	0.3
Pennon Group Plc	**2.5**	2.3
Payment for provision of loan finance		
Pennon Group Plc	**12.3**	7.7
Dividends paid		
Pennon Group Plc	**15.1**	13.4

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

Year end balances

	2007 £m	2006 £m
Borrowings (notes 23)		
Pennon Group Plc	**224.7**	-
Receivables due from related parties (notes 16 and 19)		
Pennon Group Plc	**-**	1.3
Fellow subsidiaries of Pennon Group Plc	**1.6**	1.4
Lakeside Energy from Waste Limited	**5.7**	2.6
Shelford Composting Limited	**0.1**	0.2
Payables due to related parties (note 21)		
Pennon Group Plc	**0.4**	0.1
Fellow subsidiaries of Pennon Group Plc	**0.1**	0.1

Interest on £119.9m of the loans is charged at a fixed rate of 6.0% (2006 £84.9m, 6.0%). Interest on the balance of the loans is charged at Barclays Bank PLC base rate +1% (2006 Barclays Bank PLC base rate +1%). The loans are repayable in instalments over the period 2008 to 2012.

All amounts relate to trading balances except £5.5m of loans included within receivables due for repayment in instalments between 2009 and 2030. Interest is charged at 6% until 2008 then 15% thereafter.

38. RELATED PARTY TRANSACTIONS *(continued)*

Company

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

	2007 £m	2006 £m
Dividends		
Dividends received from subsidiaries	**15.1**	-
Dividends paid to Pennon Group Plc	**15.1**	-
Payment for provision of loan finance		
Pennon Group Plc	**0.1**	-
Year end balances		
Borrowings (note23)		
Pennon Group Plc	**125.0**	-
Subsidiary undertakings	**0.1**	-

Interest on £62.5m of the loans with Pennon Group Plc is charged at a fixed rate of 6.0% (2006 nil). Interest on the balance of the loans is charged at Barclays Bank PLC base rate +1% (2006 Barclays Bank PLC base rate +1%). The loans are repayable in instalments over the period 2008 to 2012.

Loans from subsidiary undertakings are short-term borrowings within the Group and bear no interest.

39. EXPLANATION OF TRANSITION TO IFRS BY THE COMPANY

Viridor Limited, the Company, reported under UK GAAP in its previously published financial statements for the year ended 31 March 2006. The date of transition to IFRS for the Company was 1 April 2005.

The transition to IFRS did not result in any change to net assets from that previously reported under UK GAAP. In addition, there are no adjusting events for the Company which would give rise to a need to revise the presentation of assets and liabilities from the previous year.

40. PARENT COMPANY

The Company is a wholly owned subsidiary of Pennon Group Plc.

41. POST BALANCE SHEET EVENTS

On 30th June 2007, the Company paid an interim dividend of 53.26 pence per ordinary share, totalling £6,400,000.

GLOSSARY

The following are descriptions of some of the terms used in the Business Review:

BMW................................Biodegradable municipal waste

CAGR..............................Compound Annual Growth Rate, being the rate of growth over a period, expressed as a single average figure

DEFRA............................Department for Environment, Food and Rural Affairs

EA...................................Environment Agency

EfW.................................Energy from Waste

EMS................................Environmental Management System

GWh ....Gigawatt hours

HWRS.............................Household waste recycling sites

IFRS ....International Financial Reporting Standards

ISO 14001.......................International environmental accreditation standard

KPIs................................Key Performance Indicators

LATS...............................Landfill Allowance Trading Scheme

LAWDC...........................Local Authority Waste Disposal Company

MW.................................Megawatts

MWh ....Megawatt hours

NFFO ....Non Fossil Fuel Obligation

PFI...................................Private Finance Initiative

PPC.................................Pollution, Prevention and Control

PPP.................................Public Private Partnership

RIDDOR ....Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (1995)

RPI ....The UK Government's Retail Price Index

ROCs...............................Renewable Obligation Certificates

SEPA ....Scottish Environment Protection Agency

UK GAAP........................United Kingdom Generally Accepted Accounting Principles

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