

Veolia Water Outsourcing Limited

Annual report and financial statements
for the period ended 31 December 2012

Registered number 2518607

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Veolia Water Outsourcing Limited

Directors and officers

Directors

D J L Bates (Resigned 30 May 2012)
O M Bret
A J Dench
N J Earnshaw
N E Frogbrook (Appointed 3 July 2012, resigned 28 September 2012)
C R Gough (Appointed 3 July 2012)
W I Hay (Appointed 26 April 2013)
S N Jennings (Appointed 26 April 2013)
N Paterson
M R Saunders
S F Shine (Appointed 3 July 2012)

Secretary

N D C Craig

Registered office

210 Pentonville Road
London
N1 9JY

Auditor

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Veolia Water Outsourcing Limited

Directors' Report

The directors present their report and the audited statutory financial statements for the period ended 31 December 2012

The Company has changed its accounting year end to match that of its parent company. These financial statements present financial information for the nine month period ended 31 December 2012. These financial statements are accompanied, for comparative purposes, by financial statements for years ended 31 March 2012 and 31 March 2011.

Principal activity

The principal activities of the Company are the management, design, operation and maintenance of water and waste water related infrastructure and customer outsourcing services.

Review of the business, financial performance and future developments

Loss on ordinary activities after taxation for the period ended 31 December 2012 was £1,274k (year ended 31 March 2012: loss of £12,367k).

Total comprehensive income for the period ended 31 December 2012 was income of £690k (year ended 31 March 2012: loss of £10,612k).

During the 9 month period the Company acquired Veolia Water Ireland Ltd from OTV Birwelco Ltd (a Veolia group entity). The Company subsequently disposed of Veolia Water Ireland Ltd to its parent company Veolia Water Enterprise Ltd (VWEL), resulting in an overall gain on disposal of £11,958k.

The statement of financial position as detailed on page 7 shows equity shareholder's funds amounting to £29,550k (31 March 2012: £28,860k).

The 9 months to December 2012 have seen the Company focus on consolidation of its current portfolio of contracts along with business rationalisation. As part of the process the Company sold its interest in the Infrastructure Services business unit by way of a Business Transfer Agreement on 1st January 2013 to a group subsidiary, Veolia Water Infrastructure Limited (see note 24 – Events after the reporting period).

The Company is well established and positioned to expand its activities through further contract awards over the course of the next few years.

The Company forms part of the Veolia Water UK Limited reporting group, a collection of business units and investments which are managed by reviewing performance against pre-determined budgets and key performance indicators ("KPIs"). These are used as part of the monthly management process and include measures for financial performance, customer facing activities, process activities, employee matters, environmental performance and Health and Safety. As a result of the aggregation of data at the UK level, separate performance indicators for the company are not included here.

Directors

The directors holding office during the period are disclosed on page 1.

Going concern

The Company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This assessment is based on the consideration of the Company's budgeted cash flows and long term forecasts, related assumptions and available debt facilities provided by the wider Veolia group. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Directors' qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force at the date of approving the directors' report.

Directors' Report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union ("IFRS"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,

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

Principal risks and uncertainties

The directors consider the principal risks and uncertainties to which the Company is exposed are those intrinsic to each individual contract and its ability to provide the services for which it is contracted. These contracted services include risks in the following areas: construction, environment, delivery timetables, operations, security and meeting forecasted costs.

The directors manage risk through the Risk Management Committee, which certain directors are members of. The Risk Management Committee reviews the company Risk Register. The Risk Register records risks on contracts and business area and is populated and updated by each divisional business manager on a monthly basis with plans put in place to mitigate these risks.

The key financial risks to the Company are set out in note 16.

Compliance

The financial statements of the Company are subject to statutory UK audit. The ultimate parent undertaking, Veolia Environnement SA, is listed on the US stock exchange and therefore has to comply with Sarbanes Oxley. The Company participates in various support service arrangements and is party to standard processes aligned to the compliance environment in which the group operates.

Veolia Water Outsourcing Limited

Directors' Report (continued)

Policy on payment of suppliers

The directors are aware of the need for timely payment for goods and services received. It is the group policy to settle the terms of payment with suppliers when agreeing terms of business and to pay in accordance with contractual and other legal obligations. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services.

Donations

Charitable donations of £nil (year ended 31 March 2012: £nil) were made during the period.

Employees

The Company consults its staff on matters of concern in the context of their employment.

The Company continued to carry out its obligations arising from Health and Safety at Work Act 1974 through consultative committees consisting of management and employee representatives. The group gives every consideration to applications for employment from disabled persons where the requirements of the job may be covered adequately by a handicapped or disabled person.

With regard to existing employees and those who have become disabled during the year, the Company has continued to examine ways and means of providing training and career development wherever appropriate.

During the year, the policy of providing employees with information about the Company has been continued through the use of the intranet and newsletters in which employees have also been encouraged to present their suggestions and views. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Post balance sheet events

The post balance sheet events relating to the Company are disclosed in notes 7 and 24.

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all steps that he is obliged to take as a director in order to make himself aware of that information and to establish that the Company's auditor is aware of that information.

Auditors

In accordance with Section 487(2) of the Companies Act 2006, and in the absence of a notice proposing that the appointment be terminated, the auditors, Ernst & Young LLP, will be deemed to be re-appointed for the next financial year.

By order of the Board



A Dench

Director

12 December 2013

Independent auditors report to the members of Veolia Water Outsourcing Limited

We have audited the financial statements of Veolia Water Outsourcing Limited for the period ended 31 December 2012 which comprises the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- ▶ give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the period then ended,
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- ▶ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- ▶ the financial statements are not in agreement with the accounting records and returns, or
- ▶ certain disclosures of directors' remuneration specified by law are not made, or
- ▶ we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

18 December 2013

Veolia Water Outsourcing Limited

Statement of comprehensive income
for the period ended 31 December 2012

	Notes	9 Months Ended 31 December 2012 £000	Year Ended 31 March 2012 £000
Continuing operations			
Revenue	2	39,279	69,657
Cost of sales		(42,850)	(75,644)
Gross loss		(3,571)	(5,987)
Administrative expenses		(16,348)	(13,201)
Operating loss	3	(19,919)	(19,188)
Profit on disposal of investments		11,958	-
Investment income	5	3,284	3,861
Finance costs	6	(1,024)	(1,960)
Loss before tax from continuing operations		(5,701)	(17,287)
Income tax credit	7	4,427	4,920
Loss for the period / year		(1,274)	(12,367)
Other comprehensive income			
Actuarial gain on defined benefit plans		2,586	2,310
Deferred tax charge arising thereon		(622)	(555)
Other comprehensive income for the period / year net of tax		1,965	1,755
Total comprehensive income/(loss) for the period / year net of tax attributable to the owners of the Company		690	(10,612)

Veolia Water Outsourcing Limited

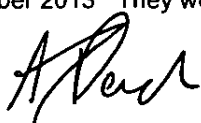
Statement of financial position
as at 31 December 2012

Company Registration Number 2518607

	Notes	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
ASSETS				
Non-current assets				
Intangible assets	8	374	391	414
Property, plant & equipment	9	7,683	9,424	8,246
Investment in subsidiaries	10	24,568	24,597	23,997
Investment in associates and joint ventures	11	780	780	780
Trade and other receivables	13	30,117	30,111	29,806
Deferred tax asset	19	2,273	3,068	4,264
Retirement benefit asset	20	3,176	-	-
		<u>68,971</u>	<u>68,371</u>	<u>67,507</u>
Current assets				
Inventories	12	3,410	4,972	2,602
Trade and other receivables	13	61,712	60,721	55,263
Current tax		12,717	8,076	4,960
Cash and cash equivalents	14	2,657	384	980
		<u>80,496</u>	<u>74,153</u>	<u>63,805</u>
Total assets		<u>149,467</u>	<u>142,524</u>	<u>131,312</u>
LIABILITIES				
Current liabilities				
Trade and other payables	15	(116,632)	(112,121)	(85,822)
Net current liabilities		<u>(36,136)</u>	<u>(37,968)</u>	<u>(22,017)</u>
Non-current liabilities				
Provisions	18	(3,285)	(773)	(2,349)
Retirement benefit obligation	20	-	(770)	(3,669)
		<u>(3,285)</u>	<u>(1,543)</u>	<u>(6,018)</u>
Total liabilities		<u>(119,917)</u>	<u>(113,664)</u>	<u>(91,840)</u>
Net assets		<u>29,550</u>	<u>28,860</u>	<u>39,472</u>
EQUITY				
Share capital	21	35,000	35,000	35,000
Share premium account		8,710	8,710	8,710
Retained earnings		(14,160)	(14,850)	(4,238)
Total equity		<u>29,550</u>	<u>28,860</u>	<u>39,472</u>

The financial statements on pages 6 to 41 were approved by the board of directors and authorised for issue on 12 December 2013. They were signed on its behalf by

A Dench
Director



The accompanying notes are an integral part of these financial statements

Veolia Water Outsourcing Limited

Statement of changes in equity
for the period ended 31 December 2012

Attributable to equity holders of the Company

	Share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 April 2011	35,000	8,710	(4,238)	39,472
Loss for the year	-	-	(12,367)	(12,367)
Actuarial gain on retirement benefit obligations	-	-	2,310	2,310
Income tax relating to retirement benefit obligations	-	-	(555)	(555)
Total comprehensive income	-	-	(10,612)	(10,612)
At 31 March 2012	35,000	8,710	(14,850)	28,860
Loss for the period	-	-	(1,274)	(1,274)
Actuarial gain on retirement benefit obligations	-	-	2,586	2,586
Income tax relating to retirement benefit obligations	-	-	(622)	(622)
Total comprehensive income	-	-	690	690
At 31 December 2012	35,000	8,710	(14,160)	29,550

Veolia Water Outsourcing Limited

Statement of cash flows

for the period ended 31 December 2012

	Notes	9 Months Ended 31 December 2012 £000	Year Ended 31 March 2012 £000
Net cash used in operating activities	23	(17,695)	(26,828)
INVESTING ACTIVITIES			
Interest received		2,481	2,960
Dividends received		803	901
Purchases of property, plant and equipment		(1,314)	(3,414)
Proceeds on disposal of property, plant and equipment		360	10
Purchases of investments		(1,913)	(600)
Proceeds on disposal of investments		13,900	-
Net cash used in investing activities		14,317	(143)
FINANCING ACTIVITIES			
Proceeds from borrowings		14,015	30,825
Repayments of borrowings		(8,364)	(4,450)
Net cash used in financing activities		5,651	26,375
Net increase/(decrease) in cash & cash equivalents		2,273	(596)
Cash & cash equivalents at beginning of period/year		384	980
Cash & cash equivalents at end of period/year		2,657	384

Veolia Water Outsourcing Limited

Notes to the financial statements

for the period ended 31 December 2012

1 Accounting principles and methods

Veolia Water Outsourcing Limited is a private company incorporated in England and Wales

Accounting standards framework

Basis underlying the preparation of the financial information

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs). These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 26.

The Company has changed its accounting year end to match that of its parent company. These financial statements present financial information for the nine month period ended 31 December 2012.

These financial statements are accompanied, for comparative purposes, by financial statements for year ended 31 March 2012. All financial statements have been drawn up using the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented.

The directors have taken advantage of the exemption to prepare consolidated accounts on the grounds that the company is wholly owned and its ultimate parent company publishes consolidated financial statements as described in note 25.

Texts which come into mandatory effect for the Company in the next or future accounting period

IFRS 9 'Financial Instruments: Classification and Measurement of Financial Assets and Liabilities' (effective 1 January 2015),

IFRS 10 'Consolidated Financial Statements' (effective 1 January 2014),

IFRS 11 'Joint Arrangements' (effective 1 January 2014),

IFRS 12 'Disclosure of Interests in Other Entities' (effective 1 January 2014),

IFRS 13 'Fair value measurement' (effective 1 January 2013),

Amendments to IAS 1 'Presentation of Financial Statements', revision of items presented within other comprehensive income (effective 1 July 2012),

Amendments to IAS 19 'Employee Benefits', revision to eliminate the possibility of deferring the recognition of actuarial gains and losses (the corridor approach) (effective 1 January 2013),

Amendments to IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures', consequential amendments resulting from the issue of IFRS 10 and IFRS 11 (effective 1 January 2014),

Amendments to IFRS 7 'Financial Instruments: Disclosure', revision to increase disclosure relating to the offsetting of financial assets and liabilities (effective 1 January 2013),

Amendments to IAS 32 'Financial Instruments: Presentation', consequential amendment to IAS 32 following the amendment to IFRS 7 (effective 1 January 2014),

The effective dates shown are those set by the International Accounting Standards Board except those standards and interpretations that have been endorsed for use in the EU with a later effective date. Management do not consider the application of these standards and interpretations will have a material impact to the Company.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

1 Accounting principles and methods (continued)

General principles underlying the preparation of the financial statements

The accounting methods presented below have been applied consistently for all periods presented in the financial statements

The financial statements are presented on a historical cost basis, with the exception of assets and liabilities which are recognised at fair value

Foreign currency transactions

These financial statements have been presented in pounds sterling which is the functional currency of the Company

Foreign currency transactions are translated into pounds sterling at the exchange rate prevailing at the transaction date. At the year end, foreign currency-denominated monetary assets and liabilities are remeasured in pounds sterling at year-end exchange rates. The resulting foreign exchange gains and losses are recorded in net income for the period.

Property, plant and equipment

Property, plant and equipment are recorded at historical acquisition cost to the Company, less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are recorded by component, with each component depreciated over its useful life. Useful lives are as follows:

Buildings	10 – 100 years
Plant and equipment	2 – 10 years
Fixtures and fittings	3 – 10 years

Land is not depreciated.

Property, plant and equipment are primarily depreciated on a straight-line basis, unless another systematic depreciation basis better reflects the rate of consumption of the asset.

Intangible assets excluding goodwill

Intangible assets are identifiable non-monetary assets without physical substance. They are recorded at acquisition cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a straight line basis over the period of the patent or licence, which is 20 years.

Goodwill

Goodwill is the excess of the cost of the acquired entity over the aggregate of the fair values of the identifiable assets and liabilities. Goodwill arising on the acquisition of trade and assets is capitalised and reviewed for impairment in accordance with IAS 36 'Impairment of assets'.

Impairment of intangible assets, property, plant and equipment and non-financial assets

The net carrying amount of non-financial assets, other than inventory and deferred tax assets is reviewed at each period-end in order to assess the existence of any indication of loss in value. Where such indication exists, the recoverable amount of the asset or group of assets is estimated.

Where the resulting recoverable amount is less than the net carrying amount of the asset or group of assets, an impairment is recorded.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

1 Accounting principles and methods (continued)

Inventories and work in progress

Inventories and work in progress are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is estimated using first in first out cost formulas.

Provisions

Pursuant to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, a provision is recorded when, at the year end, the Company has a current legal or implicit obligation to a third party as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated.

Provisions giving rise to an outflow after more than one year are discounted if the impact is material. Discount rates reflect current assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recorded in the Statement of Comprehensive Income in "Other financial income and expenses".

Financial instruments

Financial assets and liabilities

Financial assets include assets classified as available-for-sale, loans and receivables and cash and cash equivalents.

Financial liabilities include borrowings, other financing and bank overdrafts and operating payables.

The recognition and measurement of financial assets and liabilities is governed by IAS 39.

Measurement and recognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs.

All of the Company's financial assets are classified as loans and receivables.

Loans and receivables

This category includes loans and other receivables. After initial recognition at fair value, these instruments are recognised and measured at amortised cost using the effective interest method.

An impairment loss is recognised if the carrying amount of these assets exceeds the present value of future cash flows discounted at the initial effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

Gains and losses on loans and receivables consist of interest income and impairment losses.

Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments. In order to be considered a cash equivalent, an investment must be readily convertible to a known amount of cash and subject to a negligible risk of change in value.

The Company classifies term deposits where maturity is less than three months and no penalty on early exit to be cash and cash equivalents.

Recognition and measurement of financial liabilities

Borrowings and other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the estimated term of the financial instrument or, where applicable, over a shorter period, to the net carrying amount of the financial asset or liability.

Notes to the financial statements (continued)

for the period ended 31 December 2012

1 Accounting principles and methods (continued)

Pension plans and other post-employment benefits

The Company operates a pension scheme providing benefits based on the final pensionable salary. This scheme was closed to new members in April 1996 and September 2004. The assets of the scheme are held separately from those of the Company.

The net obligations of the Company are calculated for each plan based on an estimate of the amount employees will receive in exchange for services rendered during the current and past periods. This amount is then discounted to present value and unamortised past service costs and the fair values of plan assets are deducted.

Where the calculation shows a plan surplus, the asset recognised is capped at the total of the discounted present value of profits, in the form of future repayments or reductions in plan contributions and the amount of unamortised past service costs. The plan surplus is recognised in non-current financial assets.

Certain obligations of the Company may enjoy repayment entitlement, corresponding to a commitment by a third party to repay in full or in part the expenses relating to these obligations. Repayment entitlement is recognised in non-current financial assets.

Employee obligations of the Company are calculated using the projected unit credit method. This method is based on the probability of personnel remaining with the Company until retirement, the foreseeable changes in future compensation, and the appropriate discount rate. Specific discount rates are adopted for each monetary zone. They are determined based on the yield offered by bonds issued by top-quality companies (rated AA) or treasury bonds where the market is not liquid, with maturities equivalent to the average term of the plans valued in the relevant region. This results in the recognition of pension-related assets or provisions in the Statement of Financial Position and the recognition of the related net expenses.

Pursuant to IAS 19, Employee Benefits, actuarial gains and losses are offset against other comprehensive income and are not amortised in the Income Statement.

Revenue

Revenue represents sales of services measured at the fair value of the counterparty received or receivable.

Revenue from the sale of services is recognised when the following conditions are satisfied:

- the amount of revenue can be measured reliably,
- the stage of completion of the transaction at the year-end may be reasonably determined, the recovery of the counterparty is considered probable,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sales of services

The provision of services represents the management, design, operation and maintenance of water and waste water related infrastructure and customer outsourcing services.

Revenue from these activities is recognised when the service is rendered and it is probable that the economic benefits will flow to the Company.

In contracts where the Company is the main contractor, revenue reflects costs incurred to date plus best estimate of profits attributable to the work performed to date. It should be noted that fees and taxes collected on behalf of local authorities are excluded from Revenue when the Company does not bear the risk of payment default by third parties.

Notes to the financial statements (continued)

for the period ended 31 December 2012

1 Accounting principles and methods (continued)

Financial items in the statement of comprehensive income

Finance costs consist of interest payable on borrowings calculated using the amortised cost method

Finance income consists of income from investments and loans to group undertakings

Interest income is recognised in the Statement of Comprehensive Income when earned, using the effective interest method

Other financial income and expenses primarily include income on financial receivables calculated using the effective interest method, dividends, impairment losses on financial assets and the unwinding of discounts on provisions

Income taxes

The income tax expense includes the current tax charge and the deferred tax charge

Deferred tax assets are recognised on deductible temporary differences and/or tax loss carry forward

Deferred tax assets arising from temporary differences are only recognised when it is probable that

- the Company is likely to generate sufficient future taxable profits against which the asset can be offset

At each period end, the Company reviews the recoverable amount of deferred tax assets arising from material tax losses carried-forward

Deferred tax assets arising from these tax losses are no longer recognised or are reduced when required by the specific facts and circumstances of each company or tax group concerned, and particularly when

- the forecast period and uncertainties regarding the economic environment no longer enable the probability of utilisation to be assessed,
- the companies have not started utilising the losses,
- the forecast utilisation period exceeds the carry forward period authorised by tax legislation,
- offset against future taxable profits is uncertain due to the risk of different interpretations of the application of tax legislation

Deferred tax assets and liabilities are adjusted for the effects of changes in prevailing tax laws and rates at the year end. Deferred tax balances are not discounted

Notes to the financial statements (continued)

for the period ended 31 December 2012

1 Accounting principles and methods (continued)

Critical judgements in applying the Group's accounting policies

The following is the critical accounting judgement, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the accounting policies and that has the most significant effect on the amounts recognised in the financial statements

Revenue recognition

In making its judgement, management considered the detailed criteria for the recognition of revenue from services, as set out in IAS 18 Revenue. Management has judged that during the period, revenue has only been recognised when the outcome of transactions involving the rendering of services can be estimated reliably. In making this judgement, management has ensured that the following conditions have been satisfied

- the amount of revenue can be measured reliably, and
- there is persuasive evidence that it is probable that the economic benefits associated with the transaction will flow to the entity

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below

Goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the disclosure in note 8. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Investments in subsidiaries, joint ventures and associates

These investments are held at cost less impairment in accordance with IAS 27. The directors are required to assess whether there is indication of impairment at each period end. This requires judgement based on management's assessment of current as well as expected future investment performance.

Allowance for estimated irrecoverable receivables

Allowances for estimated irrecoverable receivables are determined using a combination of factors to ensure that trade receivables are not overstated due to uncollectability. The allowance for estimated irrecoverable receivables for customers is based on a variety of factors, including the overall quality and ageing of receivables and continuing credit evaluation of the customer's financial conditions. Also, specific allowances for individual accounts are recorded when the Company becomes aware of the customer's inability to meet its financial obligations.

Revenue recognition

The Company recognises contract revenue for services as costs incurred to date plus profits attributable to the work performed to date. The estimation of the profit attributable to on-going contracts requires the use of estimates by management.

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high quality corporate bonds that have terms to maturity approximating the terms of the pension obligation. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 20.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

2 Revenue

Turnover represents income, net of VAT, from fees earned from services arising wholly within the United Kingdom. The directors consider there to be one class of business, being the design, operation, maintenance and management of water and waste water infrastructure and related activities.

An analysis of the Company's revenue is as follows

	9 Months Ended 31 December 2012 £000	Year Ended 31 March 2012 £000
Supply of services	39,279	69,657
Revenue per statement of comprehensive income	39,279	69,657
Investment income	15,242	3,861
Total revenue	54,521	73,518

3 Loss from operations

Loss from operations is stated after charging/(crediting)

	9 Months Ended 31 December 2012 £000	Year Ended 31 March 2012 £000
Operating lease expenses (note 22)	983	1,008
Loss/(gain) on disposal of property, plant and equipment	15	(2)
Depreciation of property, plant and equipment	2,710	2,222
Amortisation of intangible assets	12	16
Impairment of goodwill	-	5
Impairment of stock	-	836
Restructuring costs	-	(135)
Staff costs (note 4)	20,694	29,233
Curtailment gain (note 20)	(656)	
Audit of the Company's financial statements	71	121
Other assurance services	3	3

4 Staff costs

The average monthly number of employees (including executive directors) was

	9 Month Ended 31 December 2012 Number	12 Months Ended 31 March 2012 Number
Operations	462	677
Central services	108	95
	570	772

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Their aggregate remuneration comprised		
Wages and salaries	17,303	24,345
Social security costs	1,742	2,472
Post employment benefits costs (DCCS division) (see note 20)	302	857
Post employment benefits costs (Other)	1,347	1,559
	20,694	29,233

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

4 Staff costs (continued)

Directors' emoluments

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Remuneration	488	1,605
	<u>488</u>	<u>1,605</u>

The emoluments of directors disclosed above include the following amounts paid to the highest paid director

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Remuneration and amounts receivable under long term incentive scheme	150	230

A number of directors, not remunerated by the Company directly, are employed by other Veolia Water group companies. The cost of their remuneration and pension contributions are therefore paid and charged in the accounts of other group companies. Of the total remuneration, a total amount of £6k (31 March 2012: £9k) can be attributed to the Company for qualifying services performed, split as follows

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Basic salary and fees	3	4
Benefits	1	2
Performance related bonuses	2	3
	<u>6</u>	<u>9</u>

5 Investment income

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Interest received from group undertakings	2,481	2,960
Profit on disposal of investments	11,958	-
Dividends from investments in group companies	803	901
	<u>15,242</u>	<u>3,861</u>

6 Finance costs

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Interest payable to group undertakings	1,047	1,157
Other finance costs	(37)	586
Interest on pension fund liabilities (note 20)	854	1,216
Expected return on pension scheme assets (note 20)	(840)	(999)
Total finance costs	<u>1,024</u>	<u>1,960</u>

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

7 Income tax expense

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Current tax:		
Current income tax credit	(4,643)	(5,397)
Adjustments in respect of current income tax of previous year	43	(164)
Total current tax	<u>(4,600)</u>	<u>(5,561)</u>
Deferred tax		
Origination and reversal of temporary differences charge	104	360
Adjustments to deferred tax attributable to changes in tax rates and laws	98	285
Adjustments in respect of prior years	(29)	(4)
Total deferred tax	<u>173</u>	<u>641</u>
Total tax credit on loss on ordinary activities	<u>(4,427)</u>	<u>(4,920)</u>

Current tax is calculated at 24% (31 March 2012 26%) of the estimated assessable profit for the period. As of 1 April 2012, as a result of a change in the UK corporation tax rate from 24% to 23% (31 March 2012 26% to 24%) the relevant deferred tax balances have been re-measured.

Further reductions to the UK tax rate have been announced. The changes, which are expected to be enacted separately each year, propose to reduce the rate to 20% by 1 April 2015. The changes had not been substantively enacted at the reporting date and, therefore, are not recognised in these financial statements.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

7 Income Tax expense (continued)

The tax credit for the period/year can be reconciled to the statement of comprehensive income as follows

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Loss on ordinary activities before tax	(5,701)	(17,287)
Loss on ordinary activities multiplied by standard rate of current tax in the UK of 24% (31 March 2012 26%)	(1,368)	(4,495)
Tax effect of		
Gain on Disposal	(2,870)	-
Income not subject to tax	(193)	(370)
Permanent differences	(108)	(172)
Impact of change in tax rate	98	285
Adjustments to prior year (current tax)	43	(164)
Adjustments to prior year (deferred tax)	(29)	(4)
Total tax credit	(4,427)	(4,920)

In addition to the amount charged to the profit or loss, deferred tax has been charged directly to other comprehensive income as detailed below

	9 Month Ended 31 December 2012 £000	12 Months Ended 31 March 2012 £000
Actuarial gain on defined benefit plans	622	555
Deferred tax expense reported in other comprehensive income	622	555

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)
for the period ended 31 December 2012

8 Intangible assets

	Patents and licences £000	Software £000	Goodwill £000	Total £000
Cost				
At 1 April 2011	322	-	128	450
Impairment charge for the year	-	-	(7)	(7)
At 31 March 2012	322	-	121	443
Impairment charge for the year	-	-	(5)	(5)
Reclassification	-	9	-	9
At 31 December 2012	322	9	116	447
Amortisation				
At 1 April 2011	(36)	-	-	(36)
Amortisation charge for the year	(16)	-	-	(16)
At 31 March 2012	(52)	-	-	(52)
Amortisation charge for the period	(12)	-	-	(12)
Reclassification	-	(9)	-	(9)
At 31 December 2012	(64)	(9)	-	(73)
Carrying amount				
At 31 December 2012	258	-	116	374
At 31 March 2012	270	-	121	391
At 1 April 2011	286	-	128	414

Goodwill relates to the excess of the costs of the acquired trade and assets of the entity over the aggregate fair values of the entity's identifiable assets and liabilities

Goodwill has been allocated for impairment testing purposes to the cash generating unit. The Company tests annually for impairment.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

9 Property, plant and equipment

	Freehold buildings £000	Fixtures, fittings, plant and equipment £000	Vehicles £000	Assets in the course of construction £000	Total £000
Cost or valuation					
At 1 April 2011	618	9,566	1,399	-	11,583
Additions	-	3,150	-	264	3,414
Disposals	-	-	(249)	-	(249)
Reclassifications	-	3	-	-	3
At 31 March 2012	618	12,719	1,150	264	14,751
Additions	1	1,150	-	163	1,314
Disposals	-	(3,200)	(528)	(264)	(3,992)
Reclassifications	(294)	206	79	-	(9)
At 31 December 2012	325	10,875	701	163	12,064
Accumulated depreciation and impairment					
At 1 April 2011	(76)	(2,301)	(960)	-	(3,337)
Depreciation charge for the year	(32)	(2,028)	(162)	-	(2,222)
Disposals	-	-	235	-	235
Reclassifications	(2)	3	(4)	-	(3)
At 31 March 2012	(110)	(4,326)	(891)	-	(5,327)
Depreciation charge for the period	(9)	(2,621)	(80)	-	(2,710)
Disposals	-	3,200	447	-	3,647
Reclassifications	44	42	(77)	-	9
At 31 December 2012	(75)	(3,705)	(601)	-	(4,381)
Carrying amount					
At 31 December 2012	250	7,170	100	163	7,683
At 31 March 2012	508	8,393	259	264	9,424
At 1 April 2011	542	7,265	439	-	8,246

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

10 Investment in subsidiaries

The Company has investments in the following subsidiary undertakings

	Country of incorporation or principal business address	Holding	%	Principal activity
Veolia Water Nevis Limited	United Kingdom	Ordinary £1	100	Water services
Veolia Water Projects Limited	United Kingdom	Ordinary £1	100	Water services
Stirling Water Seafield Holdings Limited	United Kingdom	Ordinary £1	100	Waste water services
Veolia Water Capital Delivery Limited	United Kingdom	Ordinary £1	100	Water and waste water services with investments
Veolia Water Operational Services (Highland) Limited	United Kingdom	Ordinary £1	100	Waste water services
Veolia Water Operational Services (Moray) Limited	United Kingdom	Ordinary £1	100	Waste water services
Veolia Water Operational Services (Tay) Limited	United Kingdom	Ordinary £1	100	Waste water services
Vennsys Limited	United Kingdom	Ordinary £1 Preference £1	51 100	Meter installation and reading

During the period the Company disposed of its investment in Veolia Water Ireland Limited to the immediate Parent undertaking

	Shares £000	Preference shares £000	Total £000
Cost			
At 1 April 2011	22,797	1,200	23,997
Additions	-	600	600
At 1 April 2011 and 31 March 2012	22,797	1,800	24,597
Additions	1,913	-	1,913
Disposals	(1,942)	-	(1,942)
At 31 December 2012	22,768	1,800	24,568
Net book value			
At 31 December 2012	22,768	1,800	24,568
At 31 March 2012	22,797	1,800	24,597
At 1 April 2011	22,797	1,200	23,997

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

11 Investment in associates and joint ventures

The Company has investments in the following associates and entities

		Country of incorporation or principal business address	Holding	%	Principal activity
Glen Water (Holdings) Limited	α	United Kingdom	Ordinary £1	50	Waste water services
MUJV Limited	α	United Kingdom	Ordinary £0.01	50	Utility infrastructure management
Veolia Water Organics Recycling Limited	α	United Kingdom	Ordinary £1	50	Industrial waste recycling
Thistle Water Limited	α	United Kingdom	Ordinary £1	40	Water and waste water services
UUGM Limited (held indirectly through Veolia Water Capital Delivery Limited)	α	United Kingdom	Ordinary £1	60	Water and waste water services
4Delivery Limited (held indirectly through Veolia Water Capital Delivery limited)	α	United Kingdom	Ordinary £1	40	Water and waste water services
Brighton and Hove 4Delivery Limited (held indirectly through Veolia Water Capital Delivery limited)	α	United Kingdom	Ordinary £1	49	Waste water services
Stirling Water (2003) Limited	β	United Kingdom	Ordinary £1	25	Water and waste water services

α joint venture

β associate

Shares
£000

Cost and Net Book Value

At 1 April 2011 31 March 2012 and 31 December 2012

Additions

Disposals

At 31 December 2012

780

-

-

780

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

12 Inventories

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
Raw materials and consumables	3,215	2,860	1,030
Work-in-progress	195	2,112	1,572
	<u>3,410</u>	<u>4,972</u>	<u>2,602</u>

Inventories are valued at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs and transportation expenses.

The amount relating to write downs of inventories recognised as an expense is £nil (31 March 2012: £836). This is included in the cost of sales line in the statement of other comprehensive income.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

13 Trade and other receivables

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
Trade and other receivables due within one year			
Trade receivables	6,684	13,505	11,194
Less Provision for the impairment of receivables	(2,579)	(1,546)	(1,792)
Trade receivables – net	4,105	11,959	9,402
Amounts due from group undertakings (note 25)	41,097	27,285	30,444
Loans due from group undertakings (note 25)	7,537	10,903	1,886
Prepayments and accrued income	3,488	2,902	3,476
Other receivables	5,485	7,672	10,055
	<u>61,712</u>	<u>60,721</u>	<u>55,263</u>
Trade and other receivables due after one year	£000	£000	£000
Loans due from group undertakings (note 25)	30,117	30,111	29,806

An allowance has been made for estimated irrecoverable amounts from customers, determined by reference to past default experience. All amounts that have not been provided for are expected to be recoverable. The table below shows the movement in the impairment allowance during the period.

	31 December 2012 £000	31 March 2012 £000
At 1 April	1,546	1,792
Charge for the period/year	1,033	-
Unused amounts reversed in the period/year	-	(246)
At 31 December (31 March)	<u>2,579</u>	<u>1,546</u>

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

13 Trade and other receivables (continued)

At 31 December the aged trade receivables analysis is as follows

	Total £000	Neither past due nor impaired £000	Overdue less than 3 months £000	Overdue 3 to 6 months £000	Overdue more than 6 months £000
31 December 2012					
Trade receivables	6,684	520	1,204	1,090	3,870
31 March 2012					
Trade receivables	13,505	9,530	1,203	291	2,481
1 April 2011					
Trade receivables	11,194	3,685	1,782	1,066	4,661

14 Cash and cash equivalents

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less

15 Trade and other payables

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
Trade payables and accruals	1,317	649	2,193
Loans from parent and group undertakings (note 25)	81,481	75,830	49,457
Amounts owed to group undertakings (note 25)	6,586	9,403	12,531
Accruals and deferred income	26,479	22,893	19,683
Other tax and social security	384	2,430	1,096
Other payables	385	916	862
	116,632	112,121	85,822

Notes to the financial statements (continued)

for the period ended 31 December 2012

16 Financial risk management

The Company is exposed to the following financial risks in the course of its operating and financing activities

- Interest-rate risk,
- Liquidity risk, and
- Credit risk

The Company is not exposed to significant amounts of foreign currency risk as the Company operates principally in the UK and at each reporting date the majority of financial assets and financial liabilities are denominated in Sterling. Financial liabilities held in foreign currencies at the year-end are matched by financial liabilities of a materially similar value.

The Company finances its operations through a mixture of retained profits, bank overdrafts and intra-group loans. The Group's central treasury department manages liquidity, interest rate and foreign exchange risk centrally within limits set by the Chief Financial Officer.

Interest rate risk

The financing structure of the Company exposes it naturally to the risk of interest rate fluctuations, as the Company holds financial assets that are subject to both fixed and variable rates of interest and financial liabilities that are subject to variable rates of interest.

Liquidity risk

The Company is subject to the variability of cash flow due to the billing cycle and the uncertainty of timing of customer and related party payments.

Credit risk

The Company is exposed to counterparty risk in various areas: its operating activities and cash investment activities. Credit risk therefore arises primarily on the Company's operating financial assets and operating receivables.

The carrying amount of trade and other receivables and cash and cash equivalents represents the Company's maximum exposure to credit risk.

The Company manages its credit risk by ensuring that sufficient resources are allocated to credit management to reduce the impact of the risk and using reputable financial institutes to hold its cash balance.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

17 Financial instruments

Categories of financial instruments

All of the Company's financial assets at 31 December 2012, 31 March 2012 and 1 April 2011 are categorised as loans and receivables and measured at amortised cost

All of the Company's financial liabilities at 31 December 2012, 31 March 2012 and 1 April 2011 are categorised as other financial liabilities and measured at amortised cost

Fair value

The Company does not hold any financial instruments at fair value. However, set out below is a comparison of the carrying amounts and fair value of the Company's borrowings

	31 December 2012		31 March 2012		1 April 2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000	£000	£000
Financial Liabilities						
Loans due to group undertakings	81,481	81,481	75,830	75,830	49,457	49,457

The carrying value of the remainder of the Company's financial instruments approximates their fair value at 31 December 2012, 31 March 2012 and 1 April 2011

Liquidity risk

The contractual maturity of all of the Company's financial liabilities at 31 December 2012, 31 March 2012 and 1 April 2011 all fall due within one year

The following tables detail the Company's expected maturity for its loans due from group undertakings. The tables have been drawn up based on the undiscounted contractual maturities of these financial assets. The inclusion of information on these financial assets is necessary to understand the Company's liquidity risk management as liquidity is managed on a net asset and liability basis. The remainder of the company's financial assets are expected to be recovered within one year.

Included in the following table is a loan to Vennsys Ltd stated as due within one year, however a letter of comfort has been provided to Vennsys Ltd stating that financial support will be provided for a period of at least 12 months from the balance sheet date, but only to the extent that the monies are not otherwise available to meet such liabilities.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

17 Financial instruments (continued)

Loans due from group undertakings	Weighted average effective interest rate %	Timing of cash flows				Total £000
		Within one year £000	Between one and two years £000	Between two and five years £000	More than five years £000	
At 31 December 2012						
Veolia Water UK Limited	-	-	-	-	-	-
Vennsys Limited	9 700	6,868	-	-	-	6,868
Stirling Water Seafield Limited (Snr subordinated debt)	5 772	591	316	2,076	12,838	15,821
Stirling Water Seafield Limited (Jnr subordinated debt)	12 000	-	-	-	6,728	6,728
Glen Water Limited	9 000	78	191	680	7,287	8,236
		<u>7,537</u>	<u>507</u>	<u>2,756</u>	<u>26,853</u>	<u>37,653</u>
At 31 March 2012						
Veolia Water UK Limited	0 830	3,140	-	-	-	3,140
Vennsys Limited	9 700	7,198	-	-	-	7,198
Stirling Water Seafield Limited (Snr subordinated debt)	5 772	565	618	1,625	13,289	16,097
Stirling Water Seafield Limited (Jnr subordinated debt)	12 000	-	-	-	6,342	6,342
Glen Water Limited	9 000	-	175	400	7,661	8,236
		<u>10,903</u>	<u>793</u>	<u>2,025</u>	<u>27,292</u>	<u>41,013</u>
At 1 April 2011						
Vennsys Limited	9 700	1,200	-	-	-	1,200
Stirling Water Seafield Limited (Snr subordinated debt)	5 772	514	565	1,396	14,137	16,612
Stirling Water Seafield Limited (Jnr subordinated debt)	12 000	-	-	-	5,645	5,645
Glen Water Limited	9 000	172	187	573	7,303	8,235
		<u>1,886</u>	<u>752</u>	<u>1,969</u>	<u>27,085</u>	<u>31,692</u>

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

17 Financial instruments (continued)

Sensitivity analysis – Interest Rates

The sensitivity analyses below have been determined based on the exposure to floating interest rate instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher and all other variables were held constant, the Company's loss for the period ended 31 December 2012 would increase by £462k (31 March 2012: £727k).

If interest rates had been 1% lower and all other variables were held constant, the Company's loss for the period ended 31 December 2012 would decrease by £462k (31 March 2012: £737k).

These movements are primarily driven by the variable rate interest on the loan from Veolia Water UK Plc of £68,854k at the year end (31 March 2012: £54,839k).

18 Provisions

	Performance deductions £000	Restructure provisions £000	Pain Share £000	Other £000	Total £000
At 1 April 2011	1,186	716	-	447	2,349
Additional provision in the year					
Utilisation of provision	(203)	(516)	-	(447)	(1,166)
Release of provision	(210)	(200)	-	-	(410)
At 31 March 2012	773	-	-	-	773
Additional provision in the period	-	-	2,925	-	2,925
Reclassification		-		603	603
Utilisation of provision	(773)	-	-	(243)	(1,016)
At 31 December 2012	-	-	2,925	360	3,285

Performance deduction

Performance deduction provisions relate to operational contract deductions due to below target cash collection on a customer services contract.

Pain Share

Pain-share relates to the Company's recognition of additional costs attributable to the Company on target cost contracts with pain/gain mechanisms, at the point at which they are forecasted. Losses on such contracts, where they occur, are recognised by the Client and Joint Venture partners in line with the respective contractual agreements.

Restructuring provision

Restructuring provision relates to employment termination costs.

Other provision

Other provisions relate to client terminal contract obligations inherited by the Company on the insolvency of one of its delivery subcontractors and provision for accrued employee holiday pay.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

19 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting period

	Capital allowances	Retirement benefit obligations	Holiday Pay	WIP STTD	Unpaid Rem	Losses carried forward	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 April 2011	(2)	954	149	263	-	2,900	4,264
Charged to profit or loss	174	(214)	2	(209)	-	(394)	(641)
Charged to other comprehensive income	-	(555)	-	-	-	-	(555)
As at 31 March 2012	172	185	151	54	-	2,506	3,068
Charged to profit or loss	303	(326)	(58)	(52)	59	-	(74)
Change of rate	(20)	33	(2)	(2)	(3)	(105)	(99)
Charged to other comprehensive income	-	(622)	-	-	-	-	(622)
As at 31 December 2012	455	(730)	91	-	56	2,401	2,273

20 Retirement benefit schemes

Defined benefit schemes

Veolia UK Pension Plan (VUKPP)

The scheme was established as at 1 April 1996, the Générale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the Générale des Eaux UK Pension Plan on 1 April 1998 to form the Veolia UK Pension Plan, which was open to all new staff and existing members. The scheme provides a selection of benefits based upon final pensionable pay or money purchase according to the members' wishes. The final salary section was closed to new members on 30 September 2004.

The scheme operates a divisionalised structure within the overall plan. The "DCCS" division was created on 29 November 2007.

The latest formal valuation of the DCCS division of the VUKPP, determined by an independent qualified actuary, was at 31 December 2011. The valuation was made on the "attained age" funding method. The actuarial valuation made the following assumptions:

Rate of investment return	4.9% (pre-retirement), 4.9% (post-retirement)
Rate of increase in remuneration	4.2%
Rate of pension increase	3.2%

The valuation as at 31 December 2010 stated the market valuation of the plan to be £22.4m with a funding level of 74%.

Contributions to the Veolia UK Pension Plan over the period ended 31 December 2012 were paid by members in accordance with the rules of the plan and by the Company at 20.0% of pensionable salary.

The contributions expected to be paid in the year from the balance sheet date are £1,664k (31 March 2012: £2,335k).

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

20 Retirement benefit schemes (continued)

Following the termination of the Welsh Water contract on 31 July 2012 active members of the DCCS division transferred employment from Veolia Water Outsourcing Limited back to Welsh Water and stopped accruing benefits in the Veolia UK Pension Plan. These members are now entitled to deferred benefits in the Division that are linked to CPI deferred revaluation but also have the option of transferring their benefits to Welsh Water's arrangements. It has been confirmed that around 85% of the members have elected to transfer. This results in a curtailment gain for the DCCS division in the year. The curtailment gain figure recognises the link to final salary being replaced by CPI deferred revaluation for those electing to stay in the Division and an adjustment for the pensions expense allowing for around 85% of former active members being transferred out.

The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and the funded status and amounts recognised in the statement of financial position for the plan.

The total charge for the period is recorded in full in operating income, except for interest costs and the expected return on plan assets which are recorded in net finance costs.

	31 December 2012 £000	12 Months Ended 31 March 2012 £000
Net benefit expense		
Current service cost	302	857
Total service charge	<u>302</u>	<u>857</u>
Interest cost	854	1,216
Expected return on plan assets	(840)	(999)
Curtailment gain	(656)	-
Total (credit)	<u>(340)</u>	<u>1,074</u>
Actual return on plan assets	<u>2,085</u>	<u>2,702</u>
Total actuarial gains and losses recognised in other comprehensive income		
Actuarial gain on scheme assets	1,245	1,703
Actuarial gain on scheme liabilities	1,341	607
Total credit	<u>2,586</u>	<u>2,310</u>

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
Benefit asset / (liability)			
Present value of defined obligations	(22,246)	(23,165)	(21,665)
Fair value of plan assets	25,422	22,395	17,996
Net amount recognised	<u>3,176</u>	<u>(770)</u>	<u>(3,669)</u>

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

20 Retirement benefit schemes (continued)

	31 December 2012 £000	12 Months Ended 31 March 2012 £000
Changes in the present value of the defined benefit obligation are as follows		
Opening present value of obligations	23,165	21,665
Current service cost	302	857
Interest cost	854	1,216
Plan participants' contributions	56	168
Actuarial gains on obligation	(1,341)	(607)
Benefits paid	(134)	(134)
Plan curtailments	(656)	-
Closing present value of obligations	22,246	23,165

	31 December 2012 £000	31 March 2012 £000
Changes in the fair value of plan assets are as follows		
Opening fair value of plan assets	22,395	17,996
Expected return on plan assets	840	999
Employers contributions	1,020	1,663
Plan participants' contributions	56	168
Benefits paid	(134)	(134)
Actuarial gains on plan assets	1,245	1,703
Closing fair value of plan assets	25,422	22,395

	31 December 2012	31 March 2012	1 April 2011
The major categories of plan assets as a percentage of the fair value of total plan assets are as follows			
Gilts and corporate bonds	79 80%	79%	80%
Cash	20 20%	21%	20%
The expected rates of return on each category of plan assets are as follows			
Gilts and corporate bonds	NA	5 3%	5 55%
Cash	NA	3 4%	4 35%

The overall expected rate of return on assets is determined based on market prices prevailing at that date, applicable to the period over which the obligation is to be settled

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

Principal assumptions

The present value of pension obligation is estimated by discounting pension commitments, including salary growth, at an AA corporate bond yield

The principal assumptions used in determining the pension obligation are shown below

	31 December 2012	31 March 2012 %	1 April 2011 %
Discount rate	4.40%	4.95%	5.5%
Future salary increases	3.85%	4.20%	4.40%
Future price inflation*	2.15%	2.50%	2.90%
Future pension-in payment increases	2.85%	3.20%	3.40%
Life expectancy for a male pensioner age 65 (yrs)	22.6	22.6	22.6
Life expectancy for a male non-pensioner age 65 (yrs)	24.2	24.7	25.5

* The impact of statutory increases is now being linked to the movement in CPI rather than RPI based on legal advice received by the Trustees for, as follows

- VWSCPP – the change applies to deferred revaluation and pension increases in payment
- VUKPP – the change applies to deferred revaluation only
- DCCS – the change applies to deferred revaluation only

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.15% per annum unless otherwise prescribed by statutory requirements or the plan rules

The assets of the above plans are held separately to those of the Company, being invested by independent fund managers

Amounts for the current and previous four periods are as follows

	31 December 2012 £000	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000
Defined benefit obligation	22,246	23,165	21,665	19,562	11,538
Plan assets	25,422	22,395	17,996	15,390	11,152
Surplus/(Deficit)	3,176	(770)	(3,669)	(4,172)	(386)
Experience adjustments on plan assets	(5%)	(8%)	1%	11%	22%
Experience adjustments on plan liabilities	(9%)	(7%)	0%	31%	26%

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

21 Share capital

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
<i>Authorised, Allotted, called-up and fully-paid</i>			
13,000,000 ordinary shares of £1 each	13,000	13,000	13,000
22,000,000 ordinary shares of £1 each	22,000	22,000	22,000
	<u>35,000</u>	<u>35,000</u>	<u>35,000</u>

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ended 31 December 2012 or the year ended 31 March 2012.

22 Operating lease arrangements

The Company as lessee

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
Minimum lease payments under operating leases charged to expense for the year	983	1,008	810
	<u> </u>	<u> </u>	<u> </u>

At the reporting date the Company has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
- Within one year	1,300	1,056	973
- In the second to fifth years inclusive	1,901	1,956	1,954
- After five years	-	-	-
	<u>3,201</u>	<u>3,012</u>	<u>2,927</u>

Operating lease payments represent rentals payable by the Company for motor vehicles and plant and machinery. The commercial vehicle leases have an average term from commencement until expiry of four years. The lease relating to plant and machinery expires in 2015.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

23 Cash generated from operations

	31 December 2012 £000	31 March 2012 £000
OPERATING ACTIVITIES		
Loss before tax from continuing operations	(5,701)	(17,287)
Non-cash adjustments to reconcile profit before tax to net cash flows,		
Investment income	(15,242)	(3,861)
Finance costs	1,024	1,960
Depreciation of property, plant & equipment	2,710	2,222
Amortisation & impairment of intangible assets	17	23
Gain/(Loss) on disposal of property, plant & equipment	(15)	2
Decrease in retirement benefit obligations	(1,374)	(806)
Increase/(decrease) in provisions	2,512	(1,576)
Working capital adjustments		
Decrease/(increase) in inventories	1,562	(2,370)
Increase in trade and other receivables	(997)	(5,763)
Decrease in trade and other payables	(1,140)	(76)
	(16,644)	(27,532)
Income taxes paid	(41)	2,447
Interest paid	(1,010)	(1,743)
Net cash from operating activities	(17,695)	(26,828)

24 Events after the reporting period

The 9 months to December 2012 has seen the company focus on consolidation of its current portfolio of contracts along with business rationalisation. As part of the process the Company sold its interest in the Infrastructure Services business unit by way of a Business Transfer Agreement on 1st January 2013 to a group subsidiary, Veolia Water Infrastructure Limited for a consideration of £108 thousand and a profit on disposal of £35 thousand.

25 Related party transactions

The immediate parent Company is Veolia Water Enterprise Limited a company incorporated in the UK. The ultimate parent company is Veolia Environnement SA, a company incorporated in France. Veolia Environnement SA is the largest group and Veolia Water UK Limited is the smallest group which includes the Company and for which consolidated financial statements are prepared.

Copies of the consolidated financial statements for Veolia Environnement SA are available from the Head Office at 36 – 38 Avenue Kléber, 75116 Paris, France.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

25 Related party transactions (continued)

Loans

During the period, the Company held the following loans with related parties

	Amounts owed by related parties			Amounts owed to related parties		
	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000	31 December 2012 £000	31 March 2012 £000	1 April 2011 £000
Current						
Veolia Water UK Limited		3,141	-	68,854	54,839	39,488
Vennsys Limited	6,868	7,198	1,200	-	-	-
Stirling Water Seafield Limited (senior debt)	591	565	514	-	-	-
Glen Water Limited	78	-	172	-	-	-
4Delivery Limited	-	-	-	9,576	12,324	-
Brighton and Hove 4Delivery Limited	-	-	-	3,051	5,519	7,217
Veolia Water Capital Delivery Limited	-	-	-	-	-	2,752
Veolia Water Operations Ireland Limited	-	-	-	-	3,148	-
	<u>7,537</u>	<u>10,903</u>	<u>1,886</u>	<u>81,481</u>	<u>75,830</u>	<u>49,457</u>
Non current						
Stirling Water Seafield Limited (senior debt)	15,230	15,532	16,098	-	-	-
Glen Water Limited	8,159	8,237	8,063	-	-	-
Stirling Water Seafield Limited (junior debt)	6,728	6,342	5,645	-	-	-
	<u>30,117</u>	<u>30,111</u>	<u>29,806</u>		-	-

The loan from Veolia Water UK Limited is unsecured, repayable on demand and attracts interest at rates linked to LIBOR

The loan to Vennsys Limited has interest fixed at 9.7% and is repayable within one year

The senior debt to Stirling Water Seafield Limited attracts interest at 5.772% and is repayable in semi-annual instalments. The loan will be fully repaid by March 2027. The junior debt attracts interest at 12.000%. The interest only is repayable in semi-annual instalments and there are no fixed repayment terms. Where the interest is not repaid this is then capitalised into the overall loan balance.

The loan to Glen Water Limited consists of debt which attracts interest at 9% and is repayable in semi-annual instalments commencing at the end of December 2009. This loan will be fully repaid by December 2031.

The loans from 4Delivery Limited and Brighton and Hove 4Delivery Limited are deposit only loans, repayable on demand and attracting interest rates linked to LIBOR.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

25 Related party transactions (continued)

Trading transactions

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

	Sales of goods and services		Purchases of goods and services	
	12 Months Ended		12 Months Ended	
	31 December	31 March	31 December	31 March
	2012	2012	2012	2012
	£000	£000	£000	£000
Parent company	-	2	184	971
Subsidiaries	14,020	1,655	2,816	4,494
Associates	-	257	-	19
Joint ventures	14,070	20,308	-	107
Other related parties	-	3,447	645	-
	<u>28,090</u>	<u>25,669</u>	<u>3,645</u>	<u>5,591</u>

Other related party transactions during the 9 month period include the purchase of the remaining 50% share of Veolia Water Ireland Ltd from OTV Birwelco Ltd (a Veolia group entity) for £1,913k. The Company subsequently disposed of Veolia Water Ireland Ltd to its parent company Veolia Water Enterprise Ltd (VWEL) for proceeds of £13,900k, resulting in an overall gain on disposal of £11,958k.

	Amounts owed by related parties			Amounts owed to related parties		
	31 December	31 March	1 April	31 December	31 March	1 April
	2012	2012	2011	2012	2012	2011
	£000	£000	£000	£000	£000	£000
Parent company	504	324	559	3,038	1,091	2,918
Subsidiaries	22,134	13,004	13,708	2,097	945	2,509
Joint ventures	18,152	12,439	15,531	-	5,032	4,573
Associates	281	1,383	-	1,451	-	-
Other related parties	26	135	646	-	2,335	2,530
	<u>41,097</u>	<u>27,285</u>	<u>30,444</u>	<u>6,586</u>	<u>9,403</u>	<u>12,531</u>

The amounts outstanding are unsecured and are expected to be settled in cash. No guarantees have been given or received.

26 Transition to IFRS

These are the Company's first financial statements prepared in accordance with IFRS, as adopted in the European Union. The Company's date of transition to IFRS is 1 April 2011.

An explanation of how the transition from UK GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out below.

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from retrospective application of IFRS before the date of transition to IFRS. No exemptions have been taken in preparing these financial statements.

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

26 Transition to IFRS (continued)

Reconciliation of equity at 31 March 2012

	UK GAAP £000	Reclassification £000		Adjustments £000	IFRS £000
ASSETS					
Non-current assets					
Intangible assets	391	-		-	391
Property, plant & equipment	9,424	-		-	9,424
Investments	25,377	-		-	25,377
Trade and other receivables	-	30,111		-	30,111
Deferred tax asset	-	2,863	Note 1, 2	205	3,068
	<u>35,192</u>	<u>32,974</u>		<u>205</u>	<u>68,371</u>
Current assets					
Inventories	5,189	-	Note 1	(217)	4,972
Trade and other receivables	93,510	(32,789)		-	60,721
Current tax	8,076	-		-	8,076
Cash and cash equivalents	384	-		-	384
	<u>107,159</u>	<u>(32,789)</u>		<u>(217)</u>	<u>74,153</u>
Total assets	<u>142,351</u>	<u>185</u>		<u>(12)</u>	<u>142,524</u>
LIABILITIES					
Current liabilities					
Trade and other payables	(111,518)	-	Note 2	(603)	(112,121)
Net current liabilities	<u>(4,359)</u>	<u>(32,789)</u>		<u>(820)</u>	<u>(37,968)</u>
Non-current liabilities					
Provisions	(773)	-		-	(773)
Retirement benefit obligation	(585)	(185)		-	(770)
	<u>(1,358)</u>	<u>(185)</u>		<u>-</u>	<u>(1,543)</u>
Total liabilities	<u>(112,876)</u>	<u>(185)</u>		<u>(603)</u>	<u>(113,664)</u>
Net assets	<u>29,475</u>	<u>-</u>		<u>(615)</u>	<u>28,860</u>
EQUITY					
Share capital	35,000	-		-	35,000
Share premium	8,710	-		-	8,710
Retained earnings	(14,235)	-	Note 1, 2	(615)	(14,850)
Total equity	<u>29,475</u>	<u>-</u>		<u>(615)</u>	<u>28,860</u>

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

26 Transition to IFRS (continued)

Reconciliation of equity at 1 April 2011

	UK GAAP £000	Reclassification £000		Adjustments £000	IFRS £000
ASSETS					
Non-current assets					
Intangible assets	414	-		-	414
Property, plant & equipment	8,246	-		-	8,246
Investments	24,777	-		-	24,777
Trade and other receivables	-	29,806		-	29,806
Deferred tax asset	-	3,851	Note 1, 2	413	4,264
	<u>33,437</u>	<u>33,657</u>		<u>413</u>	<u>67,507</u>
Current assets					
Inventories	3,630	-	Note 1	(1,028)	2,602
Trade and other receivables	87,966	(32,703)		-	55,263
Current tax	4,960	-		-	4,960
Cash and cash equivalents	980	-		-	980
	<u>97,536</u>	<u>(32,703)</u>		<u>(1,028)</u>	<u>63,805</u>
Total assets	<u>130,973</u>	<u>954</u>		<u>(615)</u>	<u>131,312</u>
LIABILITIES					
Current liabilities					
Trade and other payables	(85,248)	-	Note 2	(574)	(85,822)
Net current assets	<u>12,288</u>	<u>(32,703)</u>		<u>(1,602)</u>	<u>(22,017)</u>
Non-current liabilities					
Provisions	(2,349)	-		-	(2,349)
Retirement benefit obligation	(2,715)	(954)		-	(3,669)
	<u>(5,064)</u>	<u>(954)</u>		<u>-</u>	<u>(6,018)</u>
Total liabilities	<u>(90,312)</u>	<u>(954)</u>		<u>(574)</u>	<u>(91,840)</u>
Net assets	<u>40,661</u>	<u>-</u>		<u>(1,189)</u>	<u>39,472</u>
EQUITY					
Share capital	35,000	-		-	35,000
Share premium	8,710	-		-	8,710
Retained earnings	(3,049)	-	Note 1, 2	(1,189)	(4,238)
Total equity	<u>40,661</u>	<u>-</u>		<u>(1,189)</u>	<u>39,472</u>

Veolia Water Outsourcing Limited

Notes to the financial statements (continued)

for the period ended 31 December 2012

26 Transition to IFRS (continued)

Reconciliation of profit for the year ended 31 March 2012

	UK GAAP £000		Adjustments £000	IFRS £000
Continuing operations				
Revenue	69,657		-	69,657
Cost of sales	(76,455)	Note 1	811	(75,644)
Gross loss	(6,798)		811	(5,987)
Administrative expenses	(13,172)	Note 2	(29)	(13,201)
Operating loss	(19,970)		782	(19,188)
Investment income	3,861		-	3,861
Finance costs	(1,960)		-	(1,960)
Loss before tax from continuing operations	(18,069)		782	(17,287)
Income tax (expense)/credit	5,128	Note 1, 2	(208)	4,920
Loss for the period / year	(12,941)		574	(12,367)
Other comprehensive income				
Actuarial gains and losses on defined benefit plans	2,310		-	2,310
Deferred tax charge arising thereon	(555)		-	(555)
Total comprehensive income for the year net of tax attributable to the owners of the Company	(11,186)		574	(10,612)

Notes to the reconciliations

- Note 1 The Company has reanalysed its service contracts under IAS 18 'Revenue' This has resulted in the de-recognition of contract work in progress and related deferred tax implications
- Note 2 In accordance with IAS 19 'employee benefits' an accrual has been created with respect to short term compensated absences There is a related deferred tax implication which has reversed in the current accounting period

Explanation of material adjustments to the cash flow statement

There are no material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous GAAP