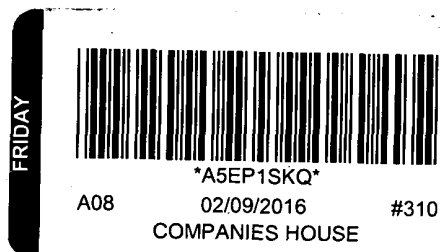


VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



VEOLIA WATER OUTSOURCING LIMITED

COMPANY INFORMATION

DIRECTORS

D Gerrard
C Gough
S Jennings
N Paterson
J Abraham
I Belfield
S Beattie

COMPANY SECRETARY

C Garrett

REGISTERED NUMBER

02518607

REGISTERED OFFICE

210 Pentonville Road
London
N1 9JY

INDEPENDENT AUDITOR

Ernst & Young LLP (Statutory Auditor)
G1, 5 George Square
Glasgow
G2 1DY

VEOLIA WATER OUTSOURCING LIMITED

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VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

INTRODUCTION

The Directors present the Strategic Report for Veolia Water Outsourcing Limited ("the Company") for the year ended 31 December 2015.

The principal activities of the Company are the operation and maintenance of water and waste water assets.

The Company is registered and domiciled in England and Wales.

The Company is part of the Veolia Group, ("The Group") which is defined as all companies under the control of the ultimate parent company, Veolia Environnement S.A., headquartered in Paris. The Company is also a member of the UK group, a division of The Group, based in the UK involved in the provision of waste, water and energy services, and directly or indirectly under the ownership of Veolia UK Limited ("VUK").

BUSINESS REVIEW

The Company continued its core business activities during the year and anticipates that it will continue to service its existing contracts for the foreseeable future.

The year ended 31 December 2015 has seen the company focus on optimising the operational performance at each of its operating units. Within the Almond Valley, Seafield and Esk Project, the Thermal Hydrolysis project was significantly delayed into the first half of 2015 and thus was not able to realise the projected benefits in the first quarter of 2015. This impacted adversely on our financial performance and also delayed a number of other initiatives that hinge on this project.

In the year ended 31 December 2015, the Company has seen an increase in provisions of £1m in relation to the replacement of nitrification filters at East Calder. In addition, there was a release in restructuring provisions of £1m in 2014, which contributes towards the decrease in EBIT year on year.

There are sale of goods of £1.7m included in revenue in 2015. This represents 12 months of recharges to X446 Veolia Water Nevis Limited for the delivery of new and replacement assets under the Asset Investment Contract between the two companies, and will contribute to the revenue year on year.

During the year ended 31 December 2015, the Company sold its joint venture investment in Veolia Water Organics Recycling Limited to Veolia ES (UK) Limited, realising a loss on disposal of investment of £146k.

Health and safety, as measured using "lost time injury" (LTI) incidents, is considered a key performance indicator, however the data is collected in a way that is not practical to translate to specific legal entities and therefore it is not separately disclosed within this report.

The Company's performance is measured in relation to the total contribution to The Group, hence the key financial performance indicators of the Company are Group-centric. The key financial performance indicators as they would appear in the management review are as follows:

	2015	2014
	£000	£000
Turnover	45,777	38,655
EBITDA excluding management fees	3,314	3,474
EBITDA excluding management fees as a percentage of turnover	7%	9%
Current EBIT	1,912	3,749

EBITDA, as measured above, excludes restructuring costs, expenses incurred in relation to contractual obligations in concession contracts to replace like for like assets treated as maintenance expenditure, and costs relating to the acquisition or disposal of financial investments.

Current EBIT, as measured above, excludes restructuring costs and write downs and impairments on fixed and intangible assets, including goodwill.

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

In common with all businesses, the Company recognises certain risk factors that are both external and internal to the Company. The Directors consider the principal risks and uncertainties to which the Company is exposed are intrinsic to the business it operates and its ability to provide the service for which it is contracted.

The following highlights some of the particular risks, but is not intended to be an extensive analysis of all risks affecting the business. Some risks may be unknown to the Company and other risks, currently regarded as immaterial, could turn out to be material. All of them have a potential to impact the Company's business, revenue, profits, assets, liquidity, and capital resources adversely. The Board has approved that the Company manages the majority of these risks by utilising the resources and processes developed within the UK group.

Contractual risk

The Company's business is predominantly contract-based; hence the business may be adversely affected by failure to perform to the level agreed within the relevant contract. There are a variety of reasons why this may occur. The UK group has a structured formal project authorisation and review procedure (PAR) which aims at ensuring all legal, operational, technical and commercial risks are properly considered before the initial exchange of contracts, or significant contract alterations, with our clients.

Business continuity

The Company maintains a business continuity plan for each area of its operation so should the unexpected happen, there is a predetermined plan within the Company in place to allow the business to recover and to continue servicing its customers with as little disruption as possible. These plans include sharing of site infrastructure within the UK group, the use of external suppliers who specialise in disaster recovery scenarios and leveraging other group relationships.

Health and Safety, Quality and Environment

The Company remains fully committed to respecting the UK group's corporate, legal and social responsibilities for Health, Safety and the Environment. It looks to improve its systems and performance with specific year on year targets which are constantly measured. Safety is one of the Company's key performance indicators, and is now the opening agenda item for all regular senior management meetings. The Health and Safety theme for 2015 was "Coming together to improve Health & Safety" with a view to further strengthening and developing the Health and Safety culture within the Company. The theme for 2016 is "Thinksafe, worksafe, homesafe". All staff are actively encouraged to report "near misses" to ensure "near misses" of today do not become lost time injury (LTI) incidents of the future.

The UK group and the Company have an open relationship with all regulatory bodies, including the various Environment Agency bodies across the UK. The UK group has a number of Environmental Compliance officers and has a wide range of policies covering environmental checklists, greenhouse gas tracking, effluent flows, and all aspects relating to environmental impact assessments. The UK group maintains health, safety and quality to OSHAS18001, ISO14001 and ISO9001 certification levels. The Directors therefore consider the risk associated with Health and Safety, Quality and Environment to be acceptable.

Risks relating to the price of energy and commodities

The price the Company pays for its commodities such as the supply of energy and fuel can have a significant impact on the return it gets from its business. The Company's contracts with its customers have indexing formulae to mitigate some of the risk.

Financial risks

It is the Company's objective to manage its financial risks so as to minimise the adverse effects of fluctuations in the financial markets on its profits and cash flows. The Company utilises the resources of the UK group to implement risk controls and loss mitigation plans to manage exposure to these risks. The VUK Board, reviews and agrees policies for managing risks and they are summarised below:

- Credit risk

The Company is exposed to counter-party risk in various areas of its operating activities and treasury activities. Credit risk therefore arises primarily on the Company's operating financial assets and operating receivables, much of which is with other undertakings of The Group. The carrying amount of trade and other receivables, and cash and cash equivalents represent the Company's maximum exposure to credit risk.

The Company has a number of long-term and short-term contracts with well-established customers. The UK group has also allocated significant resources to a specific credit management team to minimise the credit risk.

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (continued)

- Interest rate risk

The Company principally uses funds provided from The Group via VUK at floating rates of interest, priced according to a GBP index based on LIBOR.

- Liquidity risk

The Company is party to a UK group cash pooling arrangement where each member deposits its cash excesses in a current account with VUK and may borrow money in the form of short-term advances from VUK. VUK monitors the balances of all parties to the cash pooling arrangement to ensure the facility stays in a net surplus position. Cash forecasts are undertaken regularly to ensure payment profiles can be honoured in full at the appropriate date.

- Foreign exchange risk

The Company has limited exposure to foreign currency risk as it operates in the UK and all of its trade and most of its purchases are procured in pound sterling. At each reporting date all financial assets and financial liabilities are denominated in pound sterling.

Other risk

Following the recent referendum which will result in the UK leaving the European Union, Veolia will continue to develop its business in the UK and monitor the effects of the decision in line with the Group statement released in Paris on June 24th 2016:

"Veolia will of course continue its journey in the UK. That means that we will continue to invest both in terms of financial and human resources to ensure we remain competitive and innovative."

Customers and competitors

"Customer" forms part of the "Company's Values" and the UK group is investing heavily in innovation to maintain competitive advantage over its competitors.

This report was approved by the board on 26 August 2016 and signed on its behalf.



S Beattie
Director

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The Directors present their report and the financial statements for the year ended 31 December 2015. As permitted, certain information regarding the Company, including a review and analysis of the development and performance of the Company's business during the year and a description of the principal risks and uncertainties facing the Company are contained within the Strategic report.

DIVIDENDS PAID

There were no dividends paid in the year under review (2014: £NIL).

RESULTS

The profit for the year, after taxation, amounted to £5,366k (2014: £4,496k).

DIRECTORS

The Directors who served during the year and the period to date were:

D Gerrard
C Gough
S Jennings
N Paterson
J Abraham
I Belfield (appointed 26 June 2015)
S Beattie (appointed 8 February 2016)
S Shine (resigned 9 December 2015)

No Director has, or has had, a material interest, directly or indirectly, at any time during the year.

DIRECTORS' INDEMNITIES

The Directors are entitled to be indemnified by the Company to the extent permitted by law in respect of losses arising out of or in connection with the execution of their powers, duties and responsibilities. Veolia Environnement S.A., the Company's ultimate parent company, maintains Directors' and Officers' liability insurance for the Directors in respect of their duties as Directors. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

GOING CONCERN

The Company's forecasts and budgets for 2016 and beyond identify that the Company is expected to remain profitable and to be cash generative. These budgets and forecasts take into account future expected capital expenditure and capital repayments and available debt facilities. At the year end the Company reported net current assets of £ 30,471k (2014: £ 21,261k). The Company's cost base is considered to be mainly fixed, with the major cost elements being salaries, transport and the servicing of debt. The Company's headcount remains relatively constant.

The Company participates in UK group centralised treasury arrangements and so shares banking and intercompany loan arrangements with the UK parent and other fellow subsidiaries. The Directors have therefore also received written confirmation from VUK that they will, if required, provide financial support to the Company for the coming year. The Directors have made enquires and have gained assurance that VUK is in a position to provide this support if needed.

Having taken into account the above, 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, available debt facilities and continued group support. For this reason, the Directors continue to adopt the going concern basis in the statutory financial statements

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 CORPORATE GOVERNANCE

As a general guiding principle, the Company falls under the UK group which adopt the principles and rules contained in the most widely recognised good governance recommendations.

INTERNAL CONTROL

During the year under review, the Directors of the Company had overall responsibility for establishing and maintaining an adequate system of internal controls within the company and they participated in the review of internal controls over financial reporting and the certification process which took place on a Veolia group wide basis. The effectiveness of the system at UK group level was kept under review through the work of the UK group Internal Controls department. The system of internal control is designed to manage rather than eliminate risk. In pursuing these objectives, internal control can provide reasonable assurance against material misstatement or loss.

A risk and control governance framework is in place across the UK group and is subject to continuous review and development. The Company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity and to the communication of ethical values and control consciousness to managers and employees. Human Resources policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability, having regard to acceptable levels of risk.

The UK group has fraud and anti-bribery policies and procedures in place to ensure that all incidences of fraud and bribery are appropriately reported and investigated. Further, the UK group has adopted a Whistle blower Protection Policy, incorporating a confidential external reporting service operated by an independent provider.

FUTURE DEVELOPMENTS

The Directors remain confident of the ability of the Company to continue to meet its customers' demands. Competition is expected to remain tough and austerity-driven cost controls are expected to continue into the future. The Directors consider the Company, along with other members of the UK group, to be well placed in all aspects of the environmental and water management industry.

FINANCIAL INSTRUMENTS

Due to the use of facilities from The Group, denominated in pound sterling, the Company has minimal exposure to external loans and overdrafts and has limited exposure to foreign exchange as all of its trade and most of its expenses are incurred in pound sterling. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the persons who are a Director at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015 POST BALANCE SHEET EVENTS

Vennsys Investment

As shown in note 15, at 31 December 2015, Vennsys Limited ("Vennsys") was a wholly owned subsidiary of the Company. Vennsys ceased business operations during 2015, following which the Board of Directors decided to put it into voluntary liquidation.

On 18 March 2016, RSM Restructuring Advisory LLP ("RSM") were appointed as the liquidators to carry out the wind-up process of Vennsys. On 24 March 2016, Vennsys was put into liquidation. In exchange for an advance distribution of funds, the Company agreed to provide an indemnity to RSM for any liabilities arising against Vennsys prior to its eventual liquidation.

Monies totalling £835,959 were transferred to the Company from RSM on 24 March 2016, which has been offset against the value of its investment. The investment had been written down to nil in prior years but was reinstated to £835,959 on the basis of the final position of Vennsys pre year end. The Company does not expect any further liabilities to arise from the liquidation process.

AUDITOR

Under section 487(2) of the Companies Act 2006, Ernst & Young LLP (Statutory Auditor), will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 26 August 2016 and signed on its behalf.



S Beattie
Director

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under Company law the Directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VEOLIA WATER OUTSOURCING LIMITED

We have audited the financial statements of Veolia Water Outsourcing Limited for the year ended 31 December 2015, which comprise the Income Statement and Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes, 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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 Directors' responsibilities statement set out on page 7, 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 Strategic report, Directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; 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 Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VEOLIA WATER OUTSOURCING LIMITED

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.



Christabel Cowling (Senior statutory auditor)

for and on behalf of
Ernst & Young LLP (Statutory Auditor)

G1, 5 George Square
Glasgow
G2 1DY

30 August 2016

VEOLIA WATER OUTSOURCING LIMITED

**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 £000	2014 £000
Turnover	3	45,777	38,655
Cost of sales		(43,235)	(32,600)
Gross profit		2,542	6,055
Administrative expenses		(630)	(2,306)
Operating profit	4	1,912	3,749
Income from investments in group companies		475	-
Income from fixed assets investments	7	1,612	664
Profit on exchange differences		-	(4)
Amounts written off investments		-	(1,377)
Loss on disposal of investments		(146)	-
Interest receivable and similar income	8	2,716	3,107
Interest payable and expenses	9	(1,177)	(1,474)
Other finance income		124	283
Profit before tax		5,516	4,948
Tax on profit	10	(150)	(452)
Profit for the year		5,366	4,496
Other comprehensive income			
Actuarial (loss)/gain on defined benefit schemes		(122)	500
Movements of deferred tax relating to pension deficit		23	(100)
		(99)	400
Total comprehensive income for the year		5,267	4,896

VEOLIA WATER OUTSOURCING LIMITED
REGISTERED NUMBER:02518607

BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Intangible assets	13	2,560	3,199
Tangible assets	14	7,896	7,659
Investments	15	32,258	32,202
Defined benefit pension plan surplus	23	3,592	3,590
		<u>46,306</u>	<u>46,650</u>
Current assets			
Stocks	16	3,851	3,473
Debtors: amounts falling due after more than one year	17	33,991	63,421
Debtors: amounts falling due within one year	17	67,863	37,954
Deferred taxation asset	11	1,507	2,397
Cash at bank and in hand	18	1,749	2,303
		<u>108,961</u>	<u>109,548</u>
Creditors: amounts falling due within one year	19	(78,490)	(88,287)
Net current assets		<u>30,471</u>	<u>21,261</u>
Total assets less current liabilities		<u>76,777</u>	<u>67,911</u>
Creditors: amounts falling due after more than one year	20	(15,525)	(12,901)
Provisions for liabilities			
Deferred taxation	11	(669)	(718)
Other provisions	12	(1,843)	(819)
		<u>(2,512)</u>	<u>(1,537)</u>
Net assets		<u><u>58,740</u></u>	<u><u>53,473</u></u>

VEOLIA WATER OUTSOURCING LIMITED
REGISTERED NUMBER:02518607

BALANCE SHEET (continued)
AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Capital and reserves			
Called up share capital	22	35,000	35,000
Share premium account		8,710	8,710
Profit and loss account		15,030	9,763
		<u>58,740</u>	<u>53,473</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 August 2016.



S Beattie
Director

The notes on pages 14 to 39 form part of these financial statements.

VEOLIA WATER OUTSOURCING LIMITED

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2015**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2015	35,000	8,710	9,763	53,473
Comprehensive income for the year				
Profit for the year	-	-	5,366	5,366
Net actuarial loss on pension scheme	-	-	(99)	(99)
Total comprehensive income for the year	-	-	5,267	5,267
At 31 December 2015	35,000	8,710	15,030	58,740

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2014**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2014	35,000	8,710	4,867	48,577
Comprehensive income for the year				
Profit for the year	-	-	4,496	4,496
Net actuarial gains on pension scheme	-	-	400	400
Total comprehensive income for the year	-	-	4,896	4,896
At 31 December 2014	35,000	8,710	9,763	53,473

The notes on pages 14 to 39 form part of these financial statements.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES

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

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS101) and in accordance with the appropriate accounting standards.

The Company's financial statements are presented in pound sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company is consolidated in the consolidated financial statements of its ultimate parent company and controlling entity, Veolia Environnement S.A. (incorporated in France). Copies of the consolidated financial statements for Veolia Environnement S.A. are available from the Head Office at 36 – 38 Avenue Kléber, 75116 Paris, France.

1.2 FRS 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101: the requirements of IFRS 7 Financial Instruments: Disclosures;

- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures regarding key management personnel;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. ACCOUNTING POLICIES (continued)

1.3 Revenue

Revenue represents sales of goods and services measured at the fair value of the consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

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

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract, when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

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.

1.4 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance.

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a straight-line basis over their useful life, usually the contract term to which they relate, unless another systematic amortisation basis better reflects the rate of consumption of the asset.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES (continued)

1.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

The estimated useful lives range as follows:

Freehold property	-	over their estimated useful lives up to 50 years
Plant & machinery	-	3-30 years
Rolling stock, vehicles and other transport equipment	-	3-11 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the income statement and statement of comprehensive income.

Assets in the course of construction are not depreciated during the construction phase. On completion all assets will be transferred into the appropriate asset category and will be depreciated per the stated accounting policy

Freehold land is not depreciated.

1.6 Leases

Operating leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES (continued)

1.7 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. 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 (or CGU'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 (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Any reversal of an impairment loss is taken through the P&L in the year. Impairments in respect of Goodwill are not reversed.

1.8 Investments in associates and joint ventures

Associates and Joint Ventures are held at cost less impairment.

1.9 Stocks

The Company holds a stock of maintenance materials and consumable items which are valued at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes transport and handling costs.

1.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Provision for impairment is made through profit and loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

1.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES (continued)

1.12 Financial instruments

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below:

Financial assets

The Company classifies all of its financial assets as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

Financial liabilities

The Company classifies all of its financial liabilities as liabilities at amortised cost.

At amortised cost

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the balance sheet.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the contractual rights to the cash flows from the financial asset in a transaction under which nearly all the rights and obligations inherent to ownership of the financial asset are transferred. Any interest created or retained by the Company in a financial asset is recognised separately as an asset or liability.

1.13 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. ACCOUNTING POLICIES (continued)

1.14 Foreign currency translation

The Company's functional and presentational currency is pound sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end foreign currency monetary items, denominated in foreign currency, are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the initial transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. All differences on exchange are taken to the income statement.

1.15 Finance costs

Finance costs are charged to the income statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.16 Interest income

Interest receivable consists of income from cash and cash equivalents held with group undertakings.

1.17 Pensions plans and other post-employment benefits

The UK group offers a pension scheme to every member of staff, and operates both defined contribution and defined benefit schemes. All active staff belong to defined contribution plans, where the Company pays an agreed contribution to a separate entity, relieving it of any liability for future payments. The assets of the scheme are invested and managed independently of the finances of The Group. These obligations are expenses in the income statement when due.

Under defined benefit schemes The Group retains the liability to pay a specified post-employment benefit to its employees after retirement.

The Company has outstanding liabilities in respect of a closed defined benefit scheme, details of which are disclosed in note 23.

1.18 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. ACCOUNTING POLICIES (continued)

1.19 Borrowing costs

All borrowing costs are recognised in the income statement in the year in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.20 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not discounted.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be appropriate under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

- Provisions described in note 12;
- Retirement benefit schemes as described in note 23.

3. ANALYSIS OF TURNOVER

An analysis of turnover by class of business is as follows:

	2015 £000	2014 £000
Sales of goods	1,692	-
Rendering of services	44,085	38,655
	<u>45,777</u>	<u>38,655</u>

All turnover arose within the United Kingdom.

4. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2015 £000	2014 £000
Loss on disposal of investment	146	-
Depreciation of tangible fixed assets	749	726
Loss on disposal of tangible fixed assets	9	-
Amortisation of intangible assets, including goodwill	324	376
Loss on disposal of intangible assets	309	292
(Write back)/Impairment of investments	(836)	1,377
Impairment of loans and contract receivables	-	2,540
Release of impairment of loans and contract receivables	-	(7,516)
Operating lease minimum payments	-	1,142
Other contract provisions	1,024	819
Defined contribution pension cost	1,217	1,063
Auditors' remuneration	340	405

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

5. STAFF COSTS

	2015 £000	2014 £000
Wages and salaries	12,364	12,197
Social security costs	1,385	1,381
Post retirement benefit costs	1,217	1,063
	<u>14,966</u>	<u>14,641</u>

The average monthly number of employees, including the Directors, during the year was as follows:

	2015 No.	2014 No.
Veolia Water Outsourcing Limited	<u>278</u>	<u>274</u>

6. DIRECTORS' REMUNERATION

	2015 £000	2014 £000
Directors' emoluments	<u>307</u>	<u>28</u>
	<u>307</u>	<u>28</u>

The highest paid Director received remuneration of £307k (2014: £28k).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £NIL (2014: £NIL).

One Director is paid by the Company, but also performs services for other companies within the UK group. The remaining Directors are paid by, and perform services for, other companies within The Group alongside their services to the Company.

Whilst not being paid by the Company, in 2015, other Directors' costs have been apportioned to the principle companies they serve within the UK group. The figures for 2014 were allocated on the basis of attendance at board meetings only.

Had the Directors' costs, including those paid directly by the Company, been recharged to all the companies those Directors serve, the Company would have incurred £1,072k (2014: £28k) of Directors emoluments, including £59k (2014: £NIL) of pension contributions.

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

7. INCOME FROM INVESTMENTS

	2015 £000	2014 £000
Dividends received from group companies	790	-
	790	-
Dividends received from joint ventures	822	664
	822	664

8. INTEREST RECEIVABLE

	2015 £000	2014 £000
Interest receivable from fellow subsidiaries	2,105	1,826
Interest receivable from joint ventures	594	1,281
Other interest receivable	17	-
	2,716	3,107

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2015 £000	2014 £000
Interest payable to group companies	1,125	1,392
Interest payable to joint ventures	38	82
Interest payable to associates	14	-
	1,177	1,474

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

10. TAXATION

	2015 £000	2014 £000
Corporation tax		
Current tax on profits for the year	-	(78)
Adjustments in respect of previous periods	(715)	968
Total current tax	(715)	890
Deferred tax		
Origination and reversal of timing differences - current year	781	(438)
Changes to tax rates	90	-
Origination and reversal of timing differences - prior year adjustment	(6)	-
Total deferred tax	865	(438)
Taxation on profit on ordinary activities	150	452

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

	2015 £000	2014 £000
Profit on ordinary activities before tax	5,516	4,948
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	1,117	1,064
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	132	-
Gain on disposal	-	75
Impairments in respect of subsidiaries and joint ventures	(140)	(1,422)
Adjustments to tax charge in respect of prior periods	(721)	961
Non-taxable income	(328)	(226)
Impact of change in tax rate	90	-
Total tax charge for the year	150	452

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

10. TAXATION (continued)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The standard rate of UK corporation tax reduced from 21% to 20% on 1 April 2015. The Finance Act (No. 2) 2015 includes legislation which will reduce the rate further to 19%, from 1 April 2017, and to 18%, from 1 April 2020. The Finance Act (No. 2) 2015 was substantively enacted on 26 October 2015 and given Royal Assent on 18 November 2015. Accordingly these rates have been applied in the measurement of the deferred tax assets and liabilities as at 31 December 2015.

Further to the Budget announcement on 16 March 2016, the corporation tax rate will now be reduced to 17% from 1 April 2020. The effect of this subsequent reduction on deferred tax has not been reflected in these financial statements due to the relevant legislation not having been substantively enacted at the reporting date.

11. DEFERRED TAX

	Capital allowances £000	Retirement benefit obligations £000	Other temporary differences £000	Total £000
At 31 December 2013	484	(1,231)	2,088	1,341
Charge to income statement	(176)	613	1	438
Charge to other comprehensive income	-	(100)	-	(100)
At 31 December 2014	308	(718)	2,089	1,679
Charge to income statement	(161)	49	(752)	(864)
Charge to other comprehensive income	-	23	-	23
At 31 December 2015	147	(646)	1,337	838

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. PROVISIONS

The provisions below are established to cover expected future expenditure required as a condition of operating each site and, as noted in the Accounting Policies section, the provisions are made over the operational life of each site and charged to the profit and loss account on the basis of the usage of void space. They are discounted by applying a discount rate and the unwinding of this discount is charged to the profit and loss account as a finance charge. The key estimates used in calculating the provisions are future inflation rates and the discount rate.

The Company now applies a variable discount rate varying from 1.40% to 5.83% (2014: 2.34% to 5.99%) during the first 30 years and then 5.83% (2014: 5.99%) for the remaining duration of any environmental obligations to discount its long term restoration and aftercare provisions. In 2015, the inflation rate was 2.75% (2014: 2.75%).

	Provision for restructuring £000	Other specific provisions inc. litigation £000	Total £000
At 1 January 2015	-	819	819
Increase of provision	11	1,013	1,024
At 31 December 2015	11	1,832	1,843

Restructuring

During the year, a provision was made for restructuring costs within SWS2.

Legal

In 2014, a provision was made in respect of a claim by a client for additional costs incurred by them due to a defective water tank installed on their premises. The claim may be covered by a counter claim against the designers and our insurers, however as the outcome of that claim is uncertain the potential recovery cannot be recognised.

During the year, a provision was made in relation to the replacement of nitrification filters required at East Calder.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

13. INTANGIBLE ASSETS

	Computer software £000	Contract rights acquired £000	Total £000
Cost			
At 1 January 2015	52	3,509	3,561
Additions	5	-	5
Disposals	-	(467)	(467)
At 31 December 2015	57	3,042	3,099
Amortisation			
At 1 January 2015	11	351	362
Charge for the year	11	324	335
On disposals	-	(158)	(158)
At 31 December 2015	22	517	539
Net book value			
At 31 December 2015	35	2,525	2,560
<i>At 31 December 2014</i>	<i>41</i>	<i>3,158</i>	<i>3,199</i>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

14. TANGIBLE FIXED ASSETS

	Freehold property £000	Plant & machinery £000	Motor vehicles £000	Assets under construction £000	Total £000
Cost or valuation					
At 1 January 2015	1,071	11,429	702	2,544	15,746
Additions	10	288	73	624	995
Disposals	-	(106)	-	-	(106)
Transfers between classes	-	2,595	-	(2,595)	-
At 31 December 2015	1,081	14,206	775	573	16,635
Depreciation					
At 1 January 2015	140	7,261	686	-	8,087
Charge owed for the period	92	646	11	-	749
Disposals	-	(97)	-	-	(97)
At 31 December 2015	232	7,810	697	-	8,739
At 31 December 2015	849	6,396	78	573	7,896
<i>At 31 December 2014</i>	<i>931</i>	<i>4,168</i>	<i>16</i>	<i>2,544</i>	<i>7,659</i>

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £000	Investments in joint ventures & associates £000	Total £000
Cost or valuation			
At 1 January 2015	35,902	781	36,683
Disposals	-	(780)	(780)
At 31 December 2015	35,902	1	35,903
Impairment			
At 1 January 2015	4,481	-	4,481
Reversal of impairment	(836)	-	(836)
At 31 December 2015	3,645	-	3,645
At 31 December 2015	32,257	1	32,258
<i>At 31 December 2014</i>	<i>31,421</i>	<i>781</i>	<i>32,202</i>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

15. FIXED ASSET INVESTMENTS (continued)

SUBSIDIARY UNDERTAKINGS

A list of the Company's non-principal subsidiaries, and the subsidiaries of all other operations is given below.

The following were the principal subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding	Principal activity
Veolia Water Projects Limited	UK	Ordinary shares	100 %	Water and waste water services
Stirling Water Seafield (Holdings) Limited	UK	Ordinary shares	100 %	Waste water services
Veolia Water Capital Delivery Limited	UK	Ordinary shares	100 %	Waste and water services with investments
Veolia Water Operational Services (Moray) Limited	UK	Ordinary shares	100 %	Waste water services
Veolia Water Operational Services (Tay) Limited	UK	Ordinary shares	100 %	Waste water services
Veolia Water Operational Services (Highland) Limited	UK	Ordinary shares	100 %	Waste water services
Vennsys Limited	UK	Ordinary shares	100 %	Meter installation and reading
		Preference shares	100 %	

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. FIXED ASSET INVESTMENTS (continued)

PARTICIPATING INTERESTS

JOINT VENTURES

Name	Country of incorporation	Class of shares	Holding	Principal activity
Glen Water (Holdings) Ltd	UK	Ordinary shares	50%	Waste water services

16. STOCKS

	2015 £000	2014 £000
Raw materials and consumables	3,271	3,192
Work in progress	580	281
	<u>3,851</u>	<u>3,473</u>

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

17. DEBTORS

		2015	2014
		£000	£000
Due after more than one year			
Long term loans to fellow subsidiaries	24	26,738	56,696
Long term loans to joint ventures	24	7,253	6,725
		33,991	63,421

Another debtor due after more than one year is a deferred taxation asset of £1,507k (2014: £2,397k). This is shown directly on the face of the balance sheet.

		2015	2014
		£000	£000
Due within one year			
Trade debtors		11,187	1,984
Amounts owed by fellow subsidiaries		6,553	22,303
Amounts owed by group companies		4	-
Amounts owed by joint ventures		57	3,579
Amounts owed by associates		-	87
Amounts owed by other related parties		26	-
Short term loans to fellow subsidiaries	24	47,300	607
Short term loans to joint ventures		-	6,231
Prepayments and accrued income		395	2,009
Tax recoverable		1,712	862
Other debtors		629	292
		67,863	37,954

18. CASH AND CASH EQUIVALENTS

	2015	2014
	£000	£000
Cash at bank and in hand	1,749	2,303
	1,749	2,303

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

19. CREDITORS: Amounts falling due within one year

		2015	2014
		£000	£000
Bank loans		1	-
Trade creditors		8,290	2,445
Amounts owed to fellow subsidiaries		2,301	11,413
Amounts owed to group companies		33	-
Amounts owed to joint ventures		-	109
Amounts owed to other related parties		65	-
Short term loans from fellow subsidiaries	24	49,895	48,021
Short term loans from joint ventures	24	2,863	10,938
Corporation tax		66	-
Taxation and social security		186	3
Other creditors		8,561	11,433
Accruals and deferred income		6,229	3,925
		78,490	88,287

20. CREDITORS: Amounts falling due after more than one year

		2015	2014
		£000	£000
Long term loans from fellow subsidiaries	24	15,525	12,901
		15,525	12,901

21. OPERATING LEASES

Future minimum rentals under non-cancellable operating leases are as follows:

	2015	2014
	£000	£000
No later than one year	564	675
After one year but not more than five years	795	996
	1,359	1,671

22. SHARE CAPITAL

	2015	2014
	£000	£000
Allotted, called up and fully paid		
35,000,000 ordinary shares of £1 each	35,000	35,000

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

23. PENSION COMMITMENTS

Defined contribution schemes

The Group operates various defined contribution pension schemes. The assets of the schemes are invested and managed independently of the finances of the Group. Contributions of £1,217k (2014: £1,063k) were paid by the Company in respect of its participation in the defined contribution schemes during the year.

The Company operates a Defined benefit pension scheme.

Defined benefit schemes

Veolia UK Pension Plan ("VUKPP")

The scheme was established as at 1 April 1996, as the Generale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the General des Eaux UK Pension Plan on 1 April 1998 to form the VUKPP, 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 November 2007.

Following the termination of the Welsh Water contract on 31 July 2012, active members of the DCCS division transferred employment from the Company back to Welsh Water and stopped accruing benefits in the VUKPP. These members were entitled to deferred benefits, and a deferred revaluation linked to CPI. They also had the option of transferring their benefits to Welsh Water's arrangements, and around 85% of the members did elect to transfer. As a result of the termination of the Welsh Water contract the defined benefit cost for the year includes a past service gain of £NIL (2014: £NIL) in respect of updated cash communication factors and also includes a loss of £NIL (2014: £NIL) on the settlement of assets and liabilities.

In 2015 a surplus of £3,592k (2014: surplus of £3,590k) has been recognised on the balance sheet in respect of the DCCS division of the pension scheme.

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

23. PENSION COMMITMENTS (continued)

Composition of plan assets:

	2015	2014
	£000	£000
Insurance policies	4,965	5,197
Cash	39	40
Debt instruments	4,245	4,297
Total plan assets	9,249	9,534

Net pension scheme asset/(liability)

The amounts recognised in the Income Statement and in the Statement of Comprehensive Income for the year are analysed as follows:

	2015	2014
	£000	£000
Recognised in the Income statement		
(Losses)/Gains on curtailments and settlements	-	3,350
Interest cost	201	253
Interest (income) on plan assets	(326)	(536)
Total recognised in the Income statement	(125)	3,067
Recognised in Statement of Comprehensive Income		
Return/(loss) on plan assets (excluding amounts included in net interest)	516	(1,297)
Actuarial changes arising from changes in demographic assumptions	(46)	(36)
Actuarial changes arising from changes in financial assumptions	(348)	833
Total recognised in Statement of Comprehensive Income	122	(500)

Changes in the present value of the defined benefit obligation are analysed as follows:

	2015	2014
	£000	£000
Opening defined benefit obligation	5,942	5,566
Loss on settlement	-	3,350
Interest cost	201	253
Benefits paid	(93)	(672)
Settlements payments to plans	-	(3,350)
Actuarial (gains)/losses on obligation	(392)	795
Closing defined benefit obligation	(5,658)	(5,942)

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

23. PENSION COMMITMENTS (continued)

Changes in the fair value of plan assets are analysed as follows:

	2015	2014
	£000	£000
Opening fair value of plan assets	9,532	11,721
Interest income on plan assets	326	536
Benefits paid	(93)	(672)
Settlements payments to plans	-	(3,350)
Actuarial gains/(losses) on plan assets	(516)	1,297
	9,249	9,532

	2015	2014
The principal assumptions used in determining the pensions obligations are shown below:		
Discount rate at 31 December	3.85 %	3.20 %
Rate of RPI inflation	2.95 %	2.75 %
Rate of CPI inflation	2.00 %	2.00 %
Life expectancy for a male pensioner age 65	22.4	22.6
Life expectancy for a male non-pensioner age 65	23.9	24.1

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

24. RELATED PARTY TRANSACTIONS

During the year the Company entered into transactions, in the ordinary course of business, with related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose trading transactions or balances with fellow wholly owned subsidiaries. Sales between related parties are made on an arm's length basis.

Trade balances outstanding are shown in notes 17 and 19, dividends receivable from joint ventures is shown in note 7 and interest is shown in notes 8 and 9. Other transactions entered into with other related parties and all loans outstanding at 31 December 2015 are as follows:

TRADING TRANSACTIONS

	2015 £000	2014 £000
Sales of goods and services		
Joint ventures	-	101
	<u>-</u>	<u>101</u>
	2015 £000	2014 £000
Purchases of goods and services		
Joint ventures	-	(51)
	<u>-</u>	<u>(51)</u>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

LOANS OWED BY RELATED PARTIES

	Due within one year £000	Due in more than five years £000	Total £000
Group companies			
Stirling Water Seafeld Limited - senior subordinated debt	-	14,753	14,754
Stirling Water Seafeld Limited - junior subordinated debt	-	11,985	11,985
Veolia Water Enterprise Limited	47,300	-	47,300
	<u>47,300</u>	<u>26,738</u>	<u>74,039</u>

The Stirling Water Seafeld Limited senior subordinated loan totalling £14,753k (2014: £15,141k), bears interest at 5.772%. Repayments commenced in September 2004. Capital and interest is repaid in semi-annual instalments. The loan will be repaid in full by March 2027.

The Stirling Water Seafeld Limited junior subordinated loan totalling £11,985k (2014: £8,762k), bears interest at 12%. Repayment of the loan is subject to the terms of the Collateral Deed, Security Deed and the Account Bank Agreement. All advances together with accrued interest shall be repayable (only to the extent of any available cash for repayment) on each repayment date or earlier.

The Veolia Water Enterprise Limited loan totalling £47,300k (2014: £33,400k), is an interest free loan. This loan relates to the sale of Veolia Water Nevis Ltd to Veolia Water Enterprise Ltd.

	Due in more than five years £000	Total £000
Joint ventures		
Glen Water Limited	7,253	7,253
	<u>7,253</u>	<u>7,253</u>

The Glen Water Limited loan totalling £7,253k (2014: £6,725k), bears interest at 9%. Repayments commenced in September 2009. Capital and interest is repaid in semi-annual instalments. The loan will be repaid in full by December 2031.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

LOANS OWED TO RELATED PARTIES

	Due within one year £000	Due in more than five years £000	Total £000
Group companies			
Veolia Water Enterprise Limited	-	(15,525)	(15,525)
Veolia UK Limited	(49,895)	-	(49,895)
	<u>(49,895)</u>	<u>(15,525)</u>	<u>(65,420)</u>

The Veolia Water Enterprise Limited long term loan, due to expire in 2022, totalling £15,525k (2014: £12,901k), bears interest at 3 month LIBOR plus 2.5% margin plus a utilisation fee at 0.35%. Interest is capitalised on a quarterly basis.

The Veolia UK Limited loan totalling £49,895k (2014: £48,021k), bears interest at 3 month LIBOR plus 0.8% margin plus a utilisation fee at 0.35%. Interest is capitalised on a quarterly basis.

	Due within one year £000	Total £000
Other Related Parties		
4Delivery Limited	2,720	2,720
Brighton & Hove 4Delivery Limited	143	143
	<u>2,863</u>	<u>2,863</u>

The 4Delivery Limited Loan totalling £2,720k (2014: £8,509k), bears interest at 3 month LIBOR plus 0.15% margin. 4Delivery Limited drawdown or deposit excess funds on a cash flow dependence basis.

The Brighton & Hove 4Delivery Limited loan totalling £143k (2014: £2,429k), bears interest at 3 month LIBOR plus 0.15% margin. Bright & Hove 4Delivery Limited drawdown or deposit excess funds on a cash flow dependence basis.

25. IMMEDIATE PARENT AND CONTROLLING PARTY

The immediate parent company is Veolia Water Enterprise Limited, a company incorporated in the UK.

The ultimate parent company and controlling company is Veolia Environnement S.A., a company incorporated in France. Consolidated financial statements are prepared by Veolia Environnement S.A.. Copies of the consolidated financial statements for Veolia Environnement S.A. are available from the Head Office at 36 – 38 Avenue Kléber, 75116 Paris, France.

Veolia Environnement S.A. is the smallest and largest group for which group financial statements, including Veolia Water Outsourcing Limited, are prepared.