

Registered number: 02518607

VEOLIA WATER OUTSOURCING LIMITED

**STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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VEOLIA WATER OUTSOURCING LIMITED

COMPANY INFORMATION

DIRECTORS

J Abraham
S Beattie
D Gerrard
C Gough
N Paterson

COMPANY SECRETARY

C Garrett

REGISTERED NUMBER

02518607

REGISTERED OFFICE

210 Pentonville Road
London
N1 9JY

INDEPENDENT AUDITOR

Ernst & Young LLP
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 2016

INTRODUCTION

The Directors present the Strategic report for the year ended 31 December 2016.

The principal activities of Veolia Water Outsourcing Limited ("The Company") are the design, construction, operation and maintenance of water and waste water assets.

The Company is registered and domiciled in the United Kingdom.

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 and 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.

Turnover for the year ended 31 December 2016 was £47,771k (2015: £45,777k), an increase of 4.4%. The increased turnover in the year is largely attributed to a new contract secured with Aspire Defence Limited, with the Ministry of Defence as the ultimate customer. The contract is for the design and installation of water infrastructure services related to the Army rebasing project in 2020.

During the year the Company has focussed on delivering a strong performance across the operational contracts held within the business, through operational efficiencies and cost control measures. In addition to achieving operational performance in line with Company expectations there were also a number of non-recurring items that significantly impacted the results for the year.

The Company created a provision of £991k in 2015 for the expected completion of works relating to the replacement of nitrification filters at the East Calder waste water treatment works. During 2016 the Company completed a commercial negotiation with Stirling Water Seafeld Limited ("SWSL"), a wholly owned subsidiary of the Company which led to SWSL accepting any liability for these works. The Company have therefore released the provision of £991k within the year.

As further described in note 23 there was a total credit to the Statement of comprehensive income of £1,970k (2015: £nil) in respect of a settlement gain on each of the two divisions within the pension scheme. £1,091k of this gain is attributable to administration expenses. This led to administration costs showing a net credit of £217k (2015: charge £630k).

Due to a combination of the above operating profit increased to £7,749k (2015: 1,912k).

As part of the annual review of future cash flows from investments the Company has recognised an impairment of £5,362k (2015: £nil) in relation to its investment in Stirling Water Seafeld Holding Limited ("SWSHL"). The impairment has arisen due to a lower expectation of future cash flows from SWSHL's subsequent investment in SWSL.

Overall profit before tax was therefore slightly lower than last year at £5,285k (2015: £5,516k)

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

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:

	2016	2015
	£000	£000
Turnover	47,771	45,777
Adjusted EBITDA	8,166	3,314
Adjusted EBITDA as a percentage of turnover	17.09 %	7.24 %
Adjusted 'current' EBIT	2,710	1,912

The definitions below are standard for The Group and do not necessarily imply that the Company has incurred such costs in the year:

- Adjusted EBITDA excludes movements on provisions, restructuring costs and foreign exchange differences, and is adjusted for movements in financial assets in respect of the unwinding of the discount on the fair value and repayment of the asset in the period;
- Adjusted "current" EBIT excludes restructuring costs and foreign exchange differences.

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 and operated within the UK group as whole.

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 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 ensures that itself and its subsidiaries maintain a business continuity plan for each area of its operation so should the unexpected happen, there is a predetermined plan 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 and safety, quality 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 UK group's top priorities and is the opening agenda item for all regular senior management meetings. The Health and Safety theme for 2016 was "Thinksafe, Worksafe, Homesafe". The 2016 theme was aimed at ensuring everyone understood that they were responsible for health and safety within our organisation. The UK group is continuing on this path in 2017 with a particular emphasis on "Homesafe", encouraging a proactive safety culture to make sure our team, and all those we interact with, return home safely every day. All staff are actively encouraged to report "near misses" to ensure the "near misses" of today do not become injury incidents of the future.

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

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 generally 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, which certain of the Company's Directors are members of, review and agree 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 Group has allocated significant resources to a specific credit management team to minimise the credit risk in respect of its smaller, but equally well established customers.

Given the above, the Directors consider the Company's exposure to credit risk to be acceptable

- **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 London Interbank Overnight Rates ("LIBOR") or Sterling Overnight Interbank Average Rates ("SONIA").
- **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 in the form of short-term advances from VUK. VUK monitors the balances of all parties to the cash pooling arrangements 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 in its normal trading activities 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.

VEOLIA WATER OUTSOURCING LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

Other risks

Following the 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 24 June 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".

This report was approved by the board on 13 June 2017 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'S Beattie', with a long horizontal flourish extending to the right.

S Beattie
Director

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors present their report and the financial statements for the year ended 31 December 2016.

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.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £3,299k (2015: £5,366k).

There were no dividends paid in the year under review (2015: *£nil*).

DIRECTORS

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

J Abraham
S Beattie
D Gerrard
C Gough
S Jennings (resigned 31 May 2017)
N Paterson
I Belfield (resigned 23 December 2016)
K Ratcliffe (resigned 8 February 2016)

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

DIRECTORS' INDEMNITY

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.

PENSION INDEMNITY

Pursuant to a Deed of Amendment effective on 3 July 2009, the Company is liable under the Veolia UK Pension Plan, jointly and severally with other UK group companies thereunder, to indemnify the Directors of Veolia UK Pension Trustees Limited in certain circumstances against liability incurred in connection with the activities of Veolia UK Pension Trustees Limited as trustee of the Veolia UK Pension Plan. VUK is named as the Senior Company under this agreement.

GOING CONCERN

The Company's Balance sheet is robust with reserves of £61,632k (2015: £58,740k), and at year end reported net current assets of £38,345k (2015: £30,471k). The Group's forecasts and budgets for 2017 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, capital repayments and available debt facilities.

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 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.

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

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 both the Company's and the UK group's budgeted cash flows and long-term forecasts, related assumptions, available debt facilities and continued UK group support. For this reason, the Directors continue to adopt the going concern basis in the statutory financial statements.

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, water and wastewater management industry.

FINANCIAL INSTRUMENTS

Financial instruments give rise to foreign currency, interest rate, credit, price and liquidity risk. Information on how these risks arise is set out in the Strategic report.

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.

The Company's borrowings and loans are all denominated in pound sterling and therefore the Company has no foreign currency exposure on its financing. The Company's borrowings are tied to LIBOR and/or SONIA with interest rates being reset each quarter. The Directors consider that LIBOR and SONIA rates will continue to be stable for the foreseeable future with only small increases due in this period.

It is, and has been throughout the period under review, the Company's policy that no trading in speculative derivative financial instruments shall be undertaken.

EMPLOYEE INVOLVEMENT

During the year the Company, via the UK group, continued to provide employees with relevant information and to seek their views on matters of common concern through their representatives and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting the trading position of the business and of any significant organisational changes.

DISABLED EMPLOYEES

The UK group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the UK group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

DISCLOSURE OF INFORMATION TO AUDITORS

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the 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 auditors are aware of that information.

VEOLIA WATER OUTSOURCING LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

POST BALANCE SHEET EVENTS

On 18 February 2017, Vennsys Limited, which the Company held an investment in, was liquidated. Any financial provisions and charges relating to this entity have been settled, with the exception of outstanding insurance claims, for which there is an expected liability of £20k held within the accounts of the Company.

AUDITORS

Under section 487(2) of the Companies Act 2006, Ernst & Young LLP will be deemed to have been reappointed as auditors 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 13 June 2017 and signed on its behalf.

A handwritten signature in black ink, appearing to read 'S Beattie', with a long horizontal flourish extending to the right.

S Beattie
Director

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the 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 they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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 AUDITORS' REPORT TO THE SHAREHOLDERS OF VEOLIA WATER OUTSOURCING LIMITED

We have audited the financial statements of Veolia Water Outsourcing Limited for the year ended 31 December 2016, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and the 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 Auditors' 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 AUDITORS

As explained more fully in the Directors' responsibilities statement set out on page 8, 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, the Directors' and the financial statements report 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 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, based on the work undertaken in the course of the audit:

- 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.
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF VEOLIA WATER OUTSOURCING LIMITED (CONTINUED)

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic report or Directors' report.

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.



Mark Hatton (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP (Statutory Auditor)
Glasgow

14 June 2017

VEOLIA WATER OUTSOURCING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £000	2015 £000
Turnover	4	47,771	45,777
Cost of sales		(40,238)	(43,235)
Gross profit		7,533	2,542
Administrative expenses		216	(630)
Operating profit	5	7,749	1,912
Loss on exchange differences		(8)	-
Profit/(loss) on disposal of fixed asset investments		122	(146)
Income from fixed assets investments	8	803	1,612
Net (impairment)/reversal of impairment of fixed asset investments	16	(5,362)	475
Interest receivable and similar income	9	2,975	2,716
Interest payable and similar expenses	10	(1,161)	(1,177)
Other finance income	11	167	124
Profit before tax		5,285	5,516
Tax on profit	12	(1,986)	(150)
Profit for the year		3,299	5,366
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit schemes	23	(445)	(122)
Movements of deferred tax relating to pension surplus		38	23
		(407)	(99)
Total comprehensive income for the year		2,892	5,267

VEOLIA WATER OUTSOURCING LIMITED
REGISTERED NUMBER: 02518607

BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Intangible assets	14	2,244	2,560
Tangible assets	15	7,555	7,896
Investments	16	26,060	32,258
Pension assets	23	5,342	3,592
		<u>41,201</u>	<u>46,306</u>
Current assets			
Deferred taxation	13	586	1,507
Stocks	17	3,675	3,851
Debtors: amounts falling due after more than one year	18	35,325	33,991
Debtors: amounts falling due within one year	18	64,361	67,863
Cash at bank and in hand		1,835	1,749
		<u>105,782</u>	<u>108,961</u>
Creditors: amounts falling due within one year	19	(67,437)	(78,490)
Net current assets		<u>38,345</u>	<u>30,471</u>
Total assets less current liabilities		<u>79,546</u>	<u>76,777</u>
Creditors: amounts falling due after more than one year	20	(16,056)	(15,525)
Provisions for liabilities			
Deferred taxation	13	(907)	(669)
Provisions	21	(951)	(1,843)
		<u>(1,858)</u>	<u>(2,512)</u>
Net assets		<u>61,632</u>	<u>58,740</u>
Capital and reserves			
Called up share capital	22	35,000	35,000
Share premium account		8,710	8,710
Profit and loss account		17,922	15,030
		<u>61,632</u>	<u>58,740</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 13 June 2017.

S Beattie
Director



VEOLIA WATER OUTSOURCING LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £000	Share premium account £000	Profit and loss account £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)
At 1 January 2016	35,000	8,710	15,030	58,740
Comprehensive income for the year				
Profit for the year	-	-	3,299	3,299
Net actuarial loss on pension scheme	-	-	(407)	(407)
At 31 December 2016	35,000	8,710	17,922	61,632

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 2016

1. GENERAL INFORMATION

Veolia Water Outsourcing Limited is a private company limited by shares, incorporated in England and Wales.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

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

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Veolia Environnement S.A. (incorporated in France). Copies of the consolidated financial statements of Veolia Environnement S.A. can be obtained from the Registered office at 21 rue La Boétie, 75008 Paris, France. These accounts therefore only present the results of the Company as an individual entity.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 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;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- 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 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
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures regarding key management personnel.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue

Revenue represents the sales of goods and services and 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 Company does not recognise revenue where payment is received in advance.

Revenue is recognised under the following criteria:

- revenue from electricity generation is recognised at the point of generation and includes an estimate of the amount to be received under Renewables Obligations Certificates ("ROCS");
- in contracts where the Company is the main contractor, revenue reflects costs incurred to date plus the best estimate of profits attributable to the work performed to date.

2.4 Interest income

Interest receivable consists of income from amounts owed by Group undertakings.

2.5 Finance costs

Finance costs are charged to the Statement of comprehensive income 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.

2.6 Borrowing costs

All borrowing costs are recognised in the Statement of comprehensive income in the year in which they are incurred.

2.7 Intangible assets

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

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

The Company's intangible assets include contract rights and software, which 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.

Contract rights and start-up costs are those incurred in acquiring a contract or during the early phase of a long-term project that relate to one off activities associated with negotiating and finalising the contract with the Company's principal customer, post preferred bidder stage.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.8 Tangible assets

Tangible fixed assets 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.

Interest on loans taken out specifically for plant under construction may be capitalised during the period of construction and included in the cost of tangible assets.

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.

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:

Land and buildings	- over their estimated useful lives up to 50 years
Plant and equipment	- 3 to 30 years
Vehicles and other transport equipment	- 3 to 11 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

2.9 Valuation of investments

The Company records its investments at historical cost less impairment. The investments are reviewed regularly for signs of impairment. Should there be evidence of impairment, the quantum of that impairment will be assessed by the use of a discounted cash flow analysis of that investment. Any impairment may be reversed in subsequent years but the revised value of the investment will not exceed its historic cost.

2.10 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

2.11 Financial instruments

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.

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

Debtors

Short-term debtors are measured at transaction price, less any impairment.

Loans repayable on demand are classed as short-term and hence are not discounted.

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 Statement of comprehensive income. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.

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.

Financial liabilities

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

2. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 liabilities

A liability is derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as an exchange or modification is treated as a derecognition of the original liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

2.12 Holiday pay accrual

A liability is recognised for 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 accrued by the employees at the Balance sheet date.

2.13 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to the Statement of comprehensive income on a straight-line basis over the lease term.

2.14 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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 are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2. ACCOUNTING POLICIES (CONTINUED)

2.15 Pension 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 Statement of comprehensive income 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.

2.16 Provisions for liabilities

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.

2.17 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge 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 tax 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; and
- 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 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

**3. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION
UNCERTAINTY**

The preparation of the financial statements requires management to make judgements, 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 judgements 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.

Management have not made any material estimates or assumptions that may result in a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year apart from those described below:

Impairment of investments

The financial statements include investments in subsidiaries and assumptions have been made, largely around the timing and scale of future profitability, for calculating the future value of investments in order to impair the values, in accordance with the findings in note 16.

Provisions

After making the necessary enquiries the Directors, with the help of their advisors, have made an assessment as to the timing and probable outcome of all the claims and potential claims, site maintenance and restructuring costs. The amounts shown in provisions in note 21 therefore represents managements best estimate of the future cost.

Retirement benefit schemes

The Company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management, together with the independent qualified actuary, have made judgements in respect of these factors in determining the net pension obligation in the Balance sheet. The assumptions reflect historical experience and current trends. These are described further in note 23. This note also shows the effect of varying certain of those assumptions.

4. TURNOVER

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

	2016 £000	2015 £000
Sale of goods	1,929	1,692
Rendering of services	45,842	44,085
	<u>47,771</u>	<u>45,777</u>

All turnover arose within the United Kingdom.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

5. OPERATING PROFIT

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

	2016 £000	2015 £000
Research & Development charged as an expense	79	-
Research & Development expenditure credit (REDC)	(9)	-
Depreciation of tangible assets	846	749
Loss on disposal of tangible assets	10	9
Amortisation of intangible assets	326	324
Loss on disposal of intangible assets	-	309
Write back impairment of investments	-	(836)
Auditors' remuneration	66	340
Restructuring costs	88	-
Other contract provisions	(969)	1,024

6. STAFF COSTS

Staff costs borne by the Company were:

	2016 £000	2015 £000
Wages and salaries	11,850	12,364
Social security costs	1,364	1,385
Pension costs	1,541	1,217
	14,755	14,966

As with many groups of our size, employees are often contractually employed by other companies within the UK group. The majority of UK group employees are contractually employed by Veolia ES (UK) Limited. The above reflects the allocation of staff and attributable cost recharged via the UK payroll system which is regularly updated to reflect which company the employee provides services to, irrespective of their contract of employment.

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

	2016 No.	2015 No.
Veolia Water Outsourcing Limited	272	278

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7. DIRECTORS' REMUNERATION

	2016 £000	2015 £000
Directors' emoluments	-	307

No (2015: One) Directors are paid by the Company. The remaining Directors are paid by, and perform services for, other companies within The Group alongside their services to the Company.

The highest paid Director received remuneration of £nil (2015: £307k).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £nil (2015: £nil).

Whilst not being paid by the Company, in 2016, the other Directors' costs have been apportioned to the principle companies they serve within the UK group. Had all the Directors' costs been recharged to all the companies those Directors serve, the Company would have incurred £591k (2015: £1,072k) of Directors emoluments, including £57k (2015: £59k) of pension contributions.

8. INCOME FROM INVESTMENTS

	2016 £000	2015 £000
Income from Group fellow subsidiaries	-	790
Income from Group joint ventures	803	822
	<u>803</u>	<u>1,612</u>

9. INTEREST RECEIVABLE

	2016 £000	2015 £000
Interest receivable from Group fellow subsidiaries	2,305	2,105
Interest receivable from Group joint ventures	670	594
Other interest receivable	-	17
	<u>2,975</u>	<u>2,716</u>

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2016	2015
	£000	£000
Interest payable to Group fellow subsidiaries	1,146	1,125
Interest payable to Group joint ventures	12	38
Interest payable to Group associates	3	14
	1,161	1,177

11. OTHER FINANCE INCOME

	2016	2015
	£000	£000
Net interest on defined benefit pension scheme asset	167	124

12. TAXATION

	2016	2015
	£000	£000
CORPORATION TAX		
Current tax on profit for the year	360	-
Adjustments in respect of previous periods	429	(715)
TOTAL CURRENT TAX	789	(715)
DEFERRED TAX		
Origination and reversal of timing differences - current year	1,495	781
Origination and reversal of timing differences - prior year adjustment	(236)	(6)
Changes to tax rates	(62)	90
TOTAL DEFERRED TAX	1,197	865
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	1,986	150

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12. TAXATION (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before tax	5,285	5,516
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	1,057	1,117
EFFECTS OF:		
Non-tax deductible amortisation and impairment	63	132
Adjustments to tax charge in respect of prior periods	193	(721)
Impairments in respect of subsidiaries and joint ventures	1,062	(140)
Impact of change in tax rate	(228)	90
Non-taxable income	(161)	(328)
TOTAL TAX CHARGE FOR THE YEAR	1,986	150

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Deferred tax assets and liabilities have been stated at the corporation tax rate of 17% (2015: 18%), reflecting the reduction in the UK Corporation tax rate which takes effect from 1 April 2020 which was enacted on 15 September 2016. This is on the basis that it is anticipated that the Company's deferred tax assets and liabilities will materially unwind after 1 April 2020.

13. DEFERRED TAXATION

	Accelerated capital allowances £000	Retirement benefit obligations £000	Tax losses and other temporary differences £000	Total £000
At 1 January 2016	(147)	646	(1,337)	(838)
Charge to income statement	(124)	299	1,022	1,197
Charge to other comprehensive income	-	(38)	-	(38)
At 31 December 2016	(271)	907	(315)	321

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

14. INTANGIBLE ASSETS

	Contract rights and start-up costs £000	Software £000	Total £000
COST			
At 1 January 2016	3,042	57	3,099
Additions	-	10	10
Disposals	-	(9)	(9)
At 31 December 2016	3,042	58	3,100
AMORTISATION			
At 1 January 2016	517	22	539
Charge for the year	313	13	326
On disposals	-	(9)	(9)
At 31 December 2016	830	26	856
NET BOOK VALUE			
At 31 December 2016	2,212	32	2,244
<i>At 31 December 2015</i>	<i>2,525</i>	<i>35</i>	<i>2,560</i>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

15. TANGIBLE ASSETS

	Land and buildings £000	Plant and equipment £000	Vehicles and other transport equipment £000	Assets under construction £000	Total £000
COST OR VALUATION					
At 1 January 2016	1,081	14,206	775	573	16,635
Additions	-	368	2	71	441
Disposals	(14)	(1,394)	(702)	-	(2,110)
Transfers between classes	-	569	4	(573)	-
At 31 December 2016	1,067	13,749	79	71	14,966
DEPRECIATION					
At 1 January 2016	232	7,810	697	-	8,739
Charge for the period on owned assets	94	662	16	-	772
Disposals	(14)	(1,392)	(694)	-	(2,100)
At 31 December 2016	312	7,080	19	-	7,411
NET BOOK VALUE					
At 31 December 2016	755	6,669	60	71	7,555
<i>At 31 December 2015</i>	<i>849</i>	<i>6,396</i>	<i>78</i>	<i>573</i>	<i>7,896</i>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £000	Investment in joint ventures £000	Total £000
COST OR VALUATION			
At 1 January 2016	35,902	1	35,903
Disposals	(836)	-	(836)
At 31 December 2016	35,066	1	35,067
IMPAIRMENT			
At 1 January 2016	3,645	-	3,645
Charge for the period	5,362	-	5,362
At 31 December 2016	9,007	-	9,007
NET BOOK VALUE			
At 31 December 2016	26,059	1	26,060
At 31 December 2015	32,257	1	32,258

On review of the latest sensitivities around the cash flows from the financial model of SWSL, the continuing maturity of underlying contract, and the current economic outlook, the Directors have downgraded the long-term forecasts of its holding company SWSHL. This has resulted in an estimated value in use of £7,936k which has given rise to an impairment loss of £5,362k being charged to the Statement of comprehensive income in the current year. The discount rate used for the calculation of the value in use was 6.9% post tax, which is unchanged from 2015. The Directors deem this rate to be the most appropriate for assessing this entity.

All the Company's indirect holdings in subsidiaries, joint ventures, associates and other significant interests are listed in note 27.

All the Company's direct holdings in subsidiaries, joint ventures, associates and other significant interests are shown below and are registered at 210 Pentonville Road, London, N1 9JY ("210"), except for those shown on the table on note 16.3.

16.1 DIRECT SUBSIDIARY UNDERTAKINGS

Name	Registered address	Class of shares	Holding	Principal activity
Engenica Limited	210	Ordinary	100%	Dormant entity
Primeshade Limited	210	Ordinary	100%	Dormant entity
Sterling Water Services Limited	210	Ordinary	100%	Dormant entity
Stirling Environmental Limited	16.3	Ordinary	100%	Dormant entity
Stirling Water Limited	210	Ordinary	100%	Dormant entity

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

16. FIXED ASSET INVESTMENTS (CONTINUED)

Name	Registered address	Class of shares	Holding	Principal activity
Stirling Water Seafield Holdings Limited	16.3	Ordinary	100%	Holding company for group which upgrades and operates waste water treatment plants
Vennsys Limited	210	Ordinary	100%	Dormant entity
Veolia Water Capital Delivery Limited	210	Ordinary	100%	Waste and water services with investments
Veolia Water Operational Services (Highland) Limited	210	Ordinary	100%	Waste water services
Veolia Water Operational Services (Moray) Limited	210	Ordinary	100%	Waste water services
Veolia Water Operational Services (Tay) Limited	210	Ordinary	100%	Waste water services
Veolia Water Projects Limited	210	Ordinary	100%	Water services
Veolia Water Retail (UK) Limited (formerly known as Utiliserv Limited)	210	Ordinary	100%	Water Retail in English market

16.2 JOINT VENTURES AND ASSOCIATE UNDERTAKINGS

Name	Registered address	Class of shares	Holding	Principal activity
Glen Water (Holdings) Limited	210	Ordinary	50%	Waste water services
MUJV Limited	16.3	Ordinary	49.99%	Utility infrastructure management
Stirling Water (2003) Limited	16.3	Ordinary	25%	Waste water services
Thistle Water Limited	210	Ordinary	40%	Dormant entity

16.3 REGISTERED OFFICES OF DIRECT UNDERTAKINGS

Name	Registered address
MUJV Limited	Aspire Business Centre, Ordance Rd, Tidworth, SP9 7QD
Stirling Environmental Limited	1 Masterton Park, South Castle Drive, Dunfermline, Fife, KY11 8NX
Stirling Water (2003) Limited	13 Queens Road, Aberdeen, Scotland, AB15 4YL
Stirling Water Seafield Holdings Limited	13 Queens Road, Aberdeen, Scotland, AB15 4YL

The following companies were dissolved or put into liquidation on or before the Balance sheet date:

Name	Class of shares	Holding
Terra Eco.Systems Limited	Ordinary	100%

The following companies were dissolved or put into liquidation after the Balance sheet date:

Name	Class of shares	Holding
Stirling Water Limited	Ordinary	100%
Thistle Water Limited	Ordinary	40%
Vennsys Limited	Ordinary	100%

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. STOCKS

	2016	2015
	£000	£000
Raw materials and consumables	2,962	3,271
Work in progress	713	580
	3,675	3,851

18. DEBTORS

		2016	2015
		£000	£000
DUE AFTER MORE THAN ONE YEAR			
Long-term loans to Group fellow subsidiaries	25	27,402	26,738
Long-term loans to Group joint ventures	25	7,923	7,253
		35,325	33,991

		2016	2015
		£000	£000
DUE WITHIN ONE YEAR			
Trade debtors		9,272	11,187
Amounts owed by Group fellow subsidiaries		4,171	6,553
Amounts owed by Group companies not wholly owned		-	4
Amounts owed by Group joint ventures		2,788	57
Amounts owed by other related parties		-	26
Short-term loans to Group fellow subsidiaries		47,299	47,300
Other debtors		464	629
Prepayments and accrued income		367	395
Tax recoverable		-	1,712
		64,361	67,863

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

19. CREDITORS: Amounts falling due within one year

		2016	2015
		£000	£000
Bank loans		-	1
Trade creditors		6,624	8,290
Amounts owed to Group fellow subsidiaries		3,102	2,301
Amounts owed to Group companies not wholly owned		-	33
Amounts owed to other related parties		45	65
Short-term loans from Group fellow subsidiaries		44,633	49,895
Short-term loans from Group joint ventures	25	2,353	2,863
Corporation tax		598	66
Other taxation and social security		34	186
Other creditors		-	8,561
Accruals and deferred income		10,048	6,229
		67,437	78,490

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

		2016	2015
		£000	£000
Long-term loans from Group fellow subsidiaries	25	16,056	15,525

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

21. PROVISIONS

	Site maintenance £000	Legal £000	Restructuring £000	Total £000
At 1 January 2016	1,013	819	11	1,843
Charged to profit or loss	22	-	88	110
Release of unused provision	(991)	-	-	(991)
Utilised in year	-	-	(11)	(11)
AT 31 DECEMBER 2016	44	819	88	951

Site Maintenance

During the year, the provision in relation to the replacement nitrification filters required at East Calder was released. The liability was transferred to Stirling Water Seafeld Limited, as it is they who are responsible for the maintenance of the assets. Stirling Water Seafeld Limited are a fully owned subsidiary of VWOL, and the Directors' have accepted the Company is liable for the repair works.

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. Given the above there are also difficulties in predicting the timing of the associated cash flows and so the legal provisions have not been discounted.

Restructuring

During the year, the provision for restructuring costs within Scottish Water Solutions 2 Limited ("SWS2") was utilised. An additional restructuring provision was made within the overheads profit centre in relation to the further business restructuring within the year.

22. SHARE CAPITAL

	2016 £000	2015 £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 2016

23. PENSION COMMITMENTS

Veolia UK Pension Plan ("VUKPP")

The scheme was established as at 1 April 1996, as the Generale des Eaux UK Retirement Benefits Scheme. The 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 salary or money purchase according to the members' contract of employment. The Veolia Water UK Limited final salary division was closed to new members on 30 September 2004.

The scheme operates a divisionalised structure within the overall plan. The "DCCS" division was created in 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 approximately 85% of the members did elect to transfer.

In 2016, the Trustees of the DCCS division initiated a transfer of all liabilities to an insurance company, Legal and General ("L&G"). In December 2016, the balancing premium of £148k was paid to L&G and the buyout was completed. The buyout did not include a pre 6 April 1997 service discretionary pension increase as there was an allowance in the liabilities for this. A settlement gain of £1,091k (2015: £nil) was recognised within pension expense.

At the Balance sheet date, as a result of the buyout, the DCCS division recognised a net surplus of £5,282k (2015: £3,592k). This will be distributed to other divisions within the VUKPP during 2017 after which the wind-up of DCCS will be complete.

In 2016, the Veolia Water section of the Federated Pension Plan ("FPP") was effectively transferred from Veolia Water UK Limited to Veolia Water Outsourcing Limited, giving rise to a settlement gain of £879k (2015: £nil).

In 2016 a surplus of £60k (2015: £nil) has been recognised on the Balance sheet in respect of the FPP division of the pension scheme.

IFRIC 14: Ruling 14 of the International Financial Reporting Standards Interpretation Committee (IFRIC 14) clarifies how the asset ceiling should be applied, particularly how it interacts with local minimum funding rules. The Company has determined that it has an unconditional right to a refund of surplus assets if the plans are run off until the last member dies, on which basis IFRIC 14 does not cause any change in the Balance sheet disclosure (before tax). Neither divisions attract a specific tax charge on their surplus under IFRIC 14 as they will not be reimbursed to the Company.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

23. PENSION COMMITMENTS (CONTINUED)

	2016 £000	2015 £000
All schemes		
Fair value of plan assets	9,518	9,249
Present value of the defined benefit obligation	(4,176)	(5,658)
Defined benefit plan surplus	5,342	3,591

Composition of plan assets measured at fair value:

	2016 £000	2015 £000
Insurance policies	-	4,965
Cash	895	39
Debt instruments	5,802	4,245
Diversified growth fund	940	-
Equity instruments	1,881	-
Total fair value of plan assets	9,518	9,249

The amounts recognised in the Statement of comprehensive income for the year are analysed as follows:

	2016 £000	2015 £000
Recognised through Statement of comprehensive income		
Current service cost	245	-
Gain on settlements	(1,970)	-
Interest cost	314	201
Interest income on plan assets	(481)	(326)
Administration fees	12	-
Defined benefit income included in the Statement of comprehensive income	(1,880)	(125)

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

23. PENSION COMMITMENTS (CONTINUED)

	2016 £000	2015 £000
Recognised in Other comprehensive income		
Return on plan assets (excluding amounts included in net interest)	2,949	(516)
Actuarial changes arising from changes in demographic assumptions	-	46
Actuarial changes arising from changes in financial assumptions	(3,246)	348
Actuarial changes arising from changes in experience adjustments	(148)	-
Total recognised loss in Other comprehensive income	(445)	(122)

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

	2016 £000	2015 £000
Opening defined benefit obligation	5,658	5,942
Current service cost	245	-
Benefits paid	(162)	(93)
Gain on settlements	(1,970)	-
Actuarial losses/(gains) on obligation	3,394	(392)
Interest cost	314	201
Settlement payments from plan assets	(3,299)	-
Insurance premiums for risk benefits	(4)	-
	4,176	5,658

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

	2016 £000	2015 £000
Opening fair value of plan assets	9,249	9,532
Interest income on plan assets	481	326
Employers contributions	316	-
Benefits paid	(162)	(93)
Settlement payments from plan assets	(3,299)	-
Actuarial gains/(losses) on obligation	2,949	(516)
Administration fees	(12)	-
Insurance premiums for risk benefits	(4)	-
	9,518	9,249

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

23. PENSION COMMITMENTS (CONTINUED)

Principal assumptions

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

	2016	2015
The principal assumptions used in determining the pensions obligations are shown below:		
Discount rate	2.65%	3.85%
Rate of RPI inflation	3.20%	2.95%
Rate of CPI inflation	2.20%	2.00%
Life expectancy for a male pensioner age 65 (yrs)	23.6	22.4
Life expectancy for a male non-pensioner age 65 (yrs)	24.5	23.9

The benefit obligations of the DCCS division have been rolled forward from the corresponding valuation for accounting purposes as at 31 December 2015 (which in turn is a projection of the termination calculations as at 31 July 2012) to the year end measurement date. The FPP division have been rolled forward from the transfer calculation as at 1 January 2016 to the year end measurement date. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the expected salary increases based on price inflation and mortality. The sensitivity analysis below has been determined based on reasonably possible changes in the respective assumptions occurring at the end of the reporting period, whilst holding all other assumptions constant:

- if the discount rate was 25 basis points higher/(lower), the defined benefit obligation would have decreased by £267k/(increased by £267k). In 2015 the defined benefit obligation would have decreased by £294k/(increase by £294k);
- if the price inflation (RPI) was 25 basis points higher/(lower), the defined benefit obligation would have increased by £288k/(decreased by £288k). In 2015 the defined benefit obligation would have increased by £281k/(decrease by £281k);
- if the life expectancy increased/(decreased) by one year for both men and women, the defined benefit obligation would have increased by £118k/(decreased by £118k). In 2015 the defined benefit obligation would have increased by £134k/(decrease by £134k).

There have been no changes to actuarial methods in preparing the analysis from prior years.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some assumptions may be correlated.

24. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	474	564
Later than 1 year and not later than 5 years	636	795
	<u>1,110</u>	<u>1,359</u>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

25. 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 FRS 101 not to disclose transactions or balances with fellow wholly owned subsidiaries, with the exception of long-term loans and loans which have been discounted.

Trading balances

Trading transactions entered into during the year to 31 December 2016 with other related parties and loan balances with related parties are as follows:

TRADING TRANSACTIONS

	2016 £000	2015 £000
Purchases of goods and services		
Other related parties	(207)	-

LOANS OWED BY RELATED PARTIES

	Due within one year £000	Due after one year and within five years £000	Due after five years £000	Total £000
Group companies				
Stirling Water Seafeld Limited - senior subordinated debt	-	-	13,930	13,930
Stirling Water Seafeld Limited - junior subordinated debt	-	-	13,472	13,472
	-	-	27,402	27,402

The Stirling Water Seafeld Limited senior subordinated loan totalling £13,930k (2015: £14,753k), bears interest at 5.772%. Repayments commenced in September 2004. Capital and interest is repaid in semi-annual instalments. The loan will be paid in full by March 2027.

The Stirling Water Seafeld Limited junior subordinated loan totalling £13,472k (2015: £11,985k) 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.

VEOLIA WATER OUTSOURCING LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2016**

25. RELATED PARTY TRANSACTIONS (CONTINUED)

LOANS OWED BY JOINT VENTURES

	Due within one year £000	Due after one year and within five years £000	Due after five years £000	Total £000
Joint ventures				
Glen Water Limited	-	-	7,923	7,923
	<u>-</u>	<u>-</u>	<u>7,923</u>	<u>7,923</u>

The Glen Water Limited loan totalling £7,923k (2015: £7,253k), 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.

LOANS OWED TO RELATED PARTIES

	Due within one year £000	Due after one year and within five years £000	Due after five years £000	Total £000
Group companies				
Veolia Water Enterprise Limited	-	-	(16,056)	(16,056)
	<u>-</u>	<u>-</u>	<u>(16,056)</u>	<u>(16,056)</u>

The Veolia Water Enterprise Limited long-term loan, due to expire in 2022, totalling £16,056k (2015: £15,525k), bears interest at a variable rate based on 3 month LIBOR plus 2.5% and a utilisation fee of 0.35%. Interest is capitalised on a quarterly basis.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

25. RELATED PARTY TRANSACTIONS (CONTINUED)

LOANS OWED TO JOINT VENTURES AND ASSOCIATES

	Due within one year £000	Due between two and five years £000	Due after five years £000	Total £000
Joint ventures and Associates				
4Delivery Limited	(1,857)	-	-	(1,857)
Brighton & Hove 4Delivery Limited	(496)	-	-	(496)
	<u>(2,353)</u>	<u>-</u>	<u>-</u>	<u>(2,353)</u>

The 4Delivery Limited Loan totalling £1,857k (2015: £2,720k), 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 £496k (2015: £143k), bears interest at 3 month LIBOR plus 0.15% margin. Brighton & Hove 4Delivery Limited drawdown or deposit excess funds on a cash flow dependent basis.

26. POST BALANCE SHEET EVENTS

On 18 February 2017, Vennsys Limited, of which the Company held an investment in, was liquidated. Any financial provisions and charges relating to this entity have been settled, with the exception of outstanding insurance claims, of which there is an expected liability of £20k held within the accounts of the Company.

27. INDIRECT HOLDINGS IN SUBSIDIARY UNDERTAKINGS AND JOINT VENTURES

All the Company's indirect holdings in subsidiaries, joint ventures, associates and other significant interests are shown below and are registered at 210 Pentonville Road, London, N1 9JY ("210"), except for those shown in the table on note 27.3.

27.1 SUBSIDIARY UNDERTAKINGS

Name	Registered address	Class of shares	Holding	Principal activity
Stirling Water Seafeld Finance Plc	27.3	Ordinary	100%	Waste water services
Stirling Water Seafeld Limited	27.3	Ordinary	100%	Waste water services
UUGM Limited	210	Ordinary	60%	Dormant entity
Veolia Water Infrastructure Services Limited	210	Ordinary	100%	Water treatment and distribution

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

INDIRECT HOLDINGS IN SUBSIDIARY UNDERTAKINGS AND JOINT VENTURES (CONTINUED)

The following was the Company's indirect holdings in joint ventures and associates:

27.2 JOINT VENTURE AND ASSOCIATE UNDERTAKINGS

Name	Registered address	Class of shares	Holding	Principal activity
4Delivery Limited	210	Ordinary	40%	Delivery of water and waste water capital programme
Brighton & Hove 4Delivery Limited	210	Ordinary	49%	Delivery of water and waste water capital programme
Glen Water Limited	210	Ordinary	50%	Water treatment and distribution

27.3 REGISTERED OFFICES OF INDIRECT UNDERTAKINGS

Name	Registered address
Stirling Water Seafeld Limited	13 Queens Road, Aberdeen, Scotland, AB15 4YL
Stirling Water Seafeld Finance Plc	13 Queens Road, Aberdeen, Scotland, AB15 4YL

28. IMMEDIATE PARENT AND CONTROLLING PARTY

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

The ultimate parent 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 Registered office at 21 rue La Boétie, 75008 Paris, France.

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