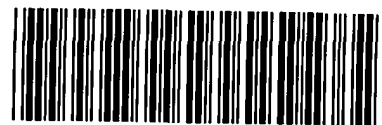


Registered number: 02518607

VEOLIA WATER OUTSOURCING LIMITED
STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

FRIDAY



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COMPANIES HOUSE

VEOLIA WATER OUTSOURCING LIMITED

COMPANY INFORMATION

DIRECTORS	John Patrick Abraham Susan Beattie John James Bryan Caroline Garrett David Andrew Gerrard Celia Rosalind Gough Sinead Isobel Patton Mark Andrew Wilson
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COMPANY SECRETARY	Caroline Garrett
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REGISTERED NUMBER	02518607
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REGISTERED OFFICE	210 Pentonville Road London N1 9JY
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INDEPENDENT AUDITOR	Ernst & Young LLP 144 Morrison Street Edinburgh EH3 8EX
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VEOLIA WATER OUTSOURCING LIMITED

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VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

The Directors present the Strategic report for the year ended 31 December 2017.

The principal activity of Veolia Water Outsourcing Limited ("the Company") is 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 2017 was £50,713k (2016: £47,771k), an increase of 6.16%. The increase in revenues primarily relates to the Army rebasing project, which saw an increase in revenue of £3,874k on the previous year, due to there being a full year of contract delivery achieved in 2017. The Company also achieved a contractual step-up in revenues within the AVSE contract, which contributed an additional £670k of revenue.

The revenue achieved on the AWE contract decreased by £1,202k on the previous year due to a reduction in capital delivery work on behalf of the client. The loss of operating profit from reduced project work was mitigated in the year by release of an £819k provision for tank repairs upon commercial settlement with the client.

Operating profit for the year ended 31 December 2017 decreased to £1,533k (2016: £7,749k). The previous year saw a number of non-recurring items that impacted the 2016 results favourably. The notable items were: a £1,970k settlement gain from the Company's pension schemes; a £991k provision release for maintenance works and the £125k release of historic claims within the Omega EPC division.

During 2017 the Company experienced a number of failures at the incinerators within the Omega contract, incurring significant repair and alternative disposal costs, which contributed to a £3,300k decrease in operating profit from the contract. Improved processes are now in place to manage sludge storage, which together with the extensive maintenance and repairs carried out are expected to reduce the likelihood of significant failures in the future.

Profit before tax for the year was lower than last year at £4,295k (2016: £5,285k). The reduction in operating profit has been partly offset by the reduction in investment impairments in the year. The Company recognised an impairment of £5,362k on its investment in Stirling Water Seafield Holdings Ltd in 2016. The annual review of cash flows from the Company's investments has indicated that there are no impairments required in 2017.

In 2017 the DCCS pension scheme asset of £5,282k was fully transferred to the Veolia Water UK Limited Final Salary division of the Veolia UK Pension Plan. An actuarial loss of £225k was recognised in the Statement of comprehensive income at the date of transfer.

Profit after tax for the year was higher than the previous year at £3,547k (2016: £3,299k). The tax charge on profits for the year was £748k (2016: £1,948k). The reduction in the 2017 tax charge is due to the lower operating profits of the business and the prior year investment impairment being non-deductible for tax purposes.

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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:

	2017	2016
	£000	£000
Turnover	50,713	47,771
Adjusted EBITDA	2,380	5,869
Adjusted EBITDA as a percentage of turnover	4.7 %	12.3 %
Adjusted 'current' EBIT	1,639	7,837

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 where appropriate, 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, foreign exchange differences and repayments on financial assets.

The Group uses these adjusted definitions for its own internal purposes as it is felt they better represent the ongoing business to management by removing non-recurring items like provisions and forex which are largely dependent on one off or external factors.

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.

Risks associated with meeting the contractual terms of the contract are mitigated through the ongoing day-to-day management of the operations of the contract.

Business continuity

The Company ensures that itself and its subsidiaries maintain a business continuity plan for each area of its operation, including the associated IT infrastructure, 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.

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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. Post year end, a Company employee was found unresponsive at the Whitburn Sewage Treatment Works. Sadly, the employee subsequently died. The Company are actively working with the HSE as they undertake a full investigation into the incident. At this stage it is uncertain as to the outcome or any implications of the investigation.

The UK group has implemented a 3 year strategic plan to achieve an active risk culture in which its employees are actively engaged and contribute towards collective safety. This will be achieved through effective leadership, engagement and empowerment and by developing appropriate behaviours. Veolia continues to deliver the 'Think Safe, Work Safe and Home Safe' behavioural safety approach it started in 2016, with 'Think Safe' the focus for 2018. The UK group's safety objectives for 2018 include visible leadership through Director and management face to face visits; feedback to those reporting near miss, safety concerns and incidents of abuse to encourage reporting; communication of key messages through safety alerts and the 'Think Safe' campaign; and reduction in combined lost time incident and modified duty days. The focus for 2017 was around "Home Safe" but also saw the launch of the Respect @ Work training and communication programme that supports employees (and their managers) to respond to incidents of verbal and physical abuse from members of the public. This training will continue to be rolled out to the business in 2018.

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 is committed to a sustainable future by protecting and conserving the natural environment, helping customers to gain value by the circular economy and closed loop thinking. By being a manufacturer of green products and energy we help our customers to meet their environmental challenges. Veolia is externally certified to ISO 9001 (Quality), ISO 14001 (Environmental) and OHSAS 18001 (Health and Safety) and has an 'in house' team of QHSE professionals with broad knowledge and experience of the field that provide the business with support on a day to day basis. 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, reviews 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.

VEOLIA WATER OUTSOURCING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

- **Interest rate risk**
The Company principally uses funds from the UK 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 money in the form of short-term advances. 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 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.

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".

Further to the agreement in principle reached by the UK government and the European Union on 8 December 2017 on the protection of rights of EU citizens in the UK and UK citizens in the European Union the UK group issued a "Brexit frequently asked questions" booklet to all employees on 9 February 2018 which stated "The global Veolia group sees the UK as a major growth area and will continue to invest in people and the business to remain competitive and innovative."

This report was approved by the board on 15 June 2018 and signed on its behalf.



David Andrew Gerrard
Director

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report and the financial statements for the year ended 31 December 2017.

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 £3,547k (2016: £3,299k).

There were no dividends paid in the year under review (2016: £nil).

DIRECTORS

The Directors who served during the year and to the date of this report:

John Patrick Abraham
Susan Beattie
John James Bryan (appointed 20 June 2017)
Caroline Garrett (appointed 31 January 2018)
David Andrew Gerrard
Celia Rosalind Gough
Sinead Isobel Patton (appointed 20 June 2017)
Mark Andrew Wilson (appointed 20 June 2017)
Nigel John Paterson (resigned 29 December 2017)
Stephen Nigel Jennings (resigned 31 May 2017)

No director has, or has had, a material interest in the Company, 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 was in place throughout the period and 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. The indemnity provision was in place throughout the period and remains in force as at the date of approving the Directors' report.

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

GOING CONCERN

The Company's balance sheet is robust with net assets of £65,305k (2016: £61,632k), and at year end reported net current assets of £45,857k (2016: £38,345k). The Group's forecasts and budgets for 2018 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.

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.

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

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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 Directors 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.

POST BALANCE SHEET EVENTS

There have been no significant events affecting the Company since the year end.

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 15 June 2018 and signed on its behalf.



David Andrew Gerrard
Director

VEOLIA WATER OUTSOURCING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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 to 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

Opinion

We have audited the financial statements of Veolia Water Outsourcing Limited for the year ended 31 December 2017, which comprise the Balance sheet, the Statement of comprehensive income, the Statement of changes in equity and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement 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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Paul Copland (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
Edinburgh
18 June 2018

VEOLIA WATER OUTSOURCING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

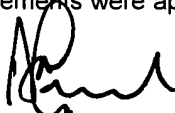
	Note	2017 £000	2016 £000
Turnover	4	50,713	47,771
Cost of sales		(47,573)	(40,238)
Gross profit		3,140	7,533
Administrative expenses		(1,598)	216
Other operating charges		(9)	(8)
Operating profit	5	1,533	7,741
Profit on disposal of fixed asset investments		-	122
Income from fixed assets investments		500	803
Impairment of fixed asset investments		-	(5,362)
Interest receivable		3,097	2,975
Interest payable and similar charges		(981)	(1,161)
Other finance income		146	167
Profit before tax		4,295	5,285
Tax on profit	12	(748)	(1,986)
Profit for the financial year		3,547	3,299
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit schemes		152	(445)
Movements of deferred tax relating to pension surplus		(26)	38
		126	(407)
Total comprehensive income for the year		3,673	2,892

VEOLIA WATER OUTSOURCING LIMITED
REGISTERED NUMBER: 02518607

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	14	1,918	2,244
Tangible assets	15	7,973	7,555
Investments	16	26,060	26,060
Pension asset		355	5,342
		<u>36,306</u>	<u>41,201</u>
Current assets			
Deferred taxation	13	223	586
Stocks	17	2,998	3,675
Debtors: amounts falling due after more than one year	18	33,903	35,325
Debtors: amounts falling due within one year	18	63,188	64,361
Cash at bank and in hand		1,964	1,835
		<u>102,276</u>	<u>105,782</u>
Creditors: amounts falling due within one year	19	(56,419)	(67,437)
Net current assets		<u>45,857</u>	<u>38,345</u>
Total assets less current liabilities		<u>82,163</u>	<u>79,546</u>
Creditors: amounts falling due after more than one year	20	(16,573)	(16,056)
		<u>65,590</u>	<u>63,490</u>
Provisions for liabilities			
Deferred taxation	13	-	(907)
Provisions	21	(285)	(951)
		<u>(285)</u>	<u>(1,858)</u>
Net assets		<u>65,305</u>	<u>61,632</u>
Capital and reserves			
Called up share capital	22	35,000	35,000
Share premium account		8,710	8,710
Profit and loss account		21,595	17,922
		<u>65,305</u>	<u>61,632</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 June 2018.


David Andrew Gerrard
 Director

VEOLIA WATER OUTSOURCING LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
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)
Total comprehensive income for the year	-	-	2,892	2,892
At 1 January 2017	35,000	8,710	17,922	61,632
Comprehensive income for the year				
Profit for the year	-	-	3,547	3,547
Net actuarial gains on pension scheme	-	-	126	126
Total comprehensive income for the year	-	-	3,673	3,673
At 31 December 2017	35,000	8,710	21,595	65,305

The notes on pages 14 to 38 form part of these financial statements.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 result 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 2017

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue

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:

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.

Specifically

- 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 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.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The estimated useful lives range as follows:

Contract start-up costs	-	over the length of the contract
Software	-	3 years

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.

Contract start-up costs are those incurred 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 2017**

2. ACCOUNTING POLICIES (CONTINUED)

2.6 Tangible 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.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

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:

Land and buildings	- over their estimated useful lives up to 50 years
Plant and equipment	- 3 to 30 years, with majority being 5 to 10 years
Vehicles and other transport equipment	- 3 to 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 in the Statement of comprehensive income.

2.7 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.

2.8 Stocks and work in progress

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.

Where the Company holds maintenance materials that are expected to be used in more than 12 months, these are not held in stocks but are capitalised and depreciated or amortised over their expected useful life.

Work in progress is valued at the lower of cost and net realisable value. Any profit attributable to work in progress is recognised when the work is complete and invoiced. Any irrecoverable work in progress is written off in the statement of comprehensive income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. ACCOUNTING POLICIES (CONTINUED)

2.9 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 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:

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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 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.

2.10 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.

2.11 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.

2.12 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 2017**

2. ACCOUNTING POLICIES (CONTINUED)

2.13 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.

Defined benefit plans

In 2017, the Company fully transferred its rights and obligations for a closed defined benefit scheme, the DCCS scheme, to the Veolia Water UK Limited Final Salary Division of the Veolia UK Pension Plan. Further details are given in note 24.

2.14 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.

2.15 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 temporary 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 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 2017**

**3. 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.

Management have not made any material estimates, judgments 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:

Estimates

The following assumptions involving estimates have had the most significant effect on amounts recognised in the financial statements:

- **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.
- **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 obligations 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 assumptions 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 24. 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:

	2017 £000	2016 £000
Sales of goods	1,625	1,929
Rendering of services	49,088	45,842
	<u>50,713</u>	<u>47,771</u>

All turnover arose within the United Kingdom.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

5. OPERATING PROFIT

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

	2017 £000	2016 £000
Depreciation of tangible assets	903	772
Amortisation of intangible assets	326	326
Profit on disposal of fixed assets	-	10
Loss on exchange differences	9	8
Research & development charged as an expense	-	79
Research & development expenditure credit (REDC)	-	(9)
Auditors' remuneration for audit of the financial statements (the Company)	78	66
Movement on provisions, excluding revaluations and restructuring costs	(577)	(1,047)
Movement on restructuring provisions	-	78
Movement on pension provisions	89	(2,029)
Cost of stocks recognised as an expense	940	1,087
Restructuring costs	97	10
Operating leases - others	530	686

6. STAFF COSTS

Staff costs were as follows:

	2017 £000	2016 £000
Wages and salaries	11,141	11,850
Social security costs	1,254	1,364
Pension costs	1,401	1,541
	<u>13,796</u>	<u>14,755</u>

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:

	2017 No.	2016 No.
Operations	<u>249</u>	<u>272</u>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

7. DIRECTORS' REMUNERATION

	2017 £000	2016 £000
Directors' emoluments paid by the company	69	-
Company contributions to defined contribution pension schemes	13	-
	<u>82</u>	<u>-</u>

The highest paid Director received remuneration of £69k (2016: £nil).

The value of the Company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £13k (2016: £nil).

One (2016: no) 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 2017, 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 £558k (2016: £591k) of Directors emoluments, including £44k (2016: £57k) of pension contributions.

8. INCOME FROM INVESTMENTS

	2017 £000	2016 £000
Income from Group joint ventures	<u>500</u>	<u>803</u>

9. INTEREST RECEIVABLE

	2017 £000	2016 £000
Bank interest receivable	4	-
Interest receivable from Group fellow subsidiaries	2,364	2,305
Interest receivable from Group joint ventures	729	670
	<u>3,097</u>	<u>2,975</u>

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2017	2016
	£000	£000
Interest payable to Group fellow subsidiaries	971	1,146
Interest payable to Group joint ventures	10	15
	<u>981</u>	<u>1,161</u>

11. OTHER FINANCE INCOME

	2017	2016
	£000	£000
Net interest on net defined benefit pension scheme asset	146	167
	<u>146</u>	<u>167</u>

12. TAXATION

	2017	2016
	£000	£000
CORPORATION TAX		
Current tax on profit for the year	408	360
Adjustments in respect of previous periods	27	429
TOTAL CURRENT TAX	<u>435</u>	<u>789</u>
DEFERRED TAX		
Deferred tax - current year	348	1,495
Origination and reversal of timing differences - prior year adjustment	(35)	(236)
Changes to tax rates	-	(62)
TOTAL DEFERRED TAX	<u>313</u>	<u>1,197</u>
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	<u>748</u>	<u>1,986</u>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

12. TAXATION (CONTINUED)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2016 - *higher than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	4,295	5,285
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	827	1,057
EFFECTS OF:		
Expenses not deductible for tax purposes	60	63
Non-taxable income	(96)	(161)
Impairments in respect of subsidiaries and joint ventures	11	1,062
Adjustments to tax charge in respect of prior periods - current tax	27	429
Adjustments to tax charge in respect of prior periods - deferred tax	(35)	(236)
Impact of change in tax rate	-	(62)
Difference between current and deferred tax rates	(46)	(166)
TOTAL TAX CHARGE FOR THE YEAR	748	1,986

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Deferred tax assets and liabilities have been stated at the corporation tax rate of 17% (2016: 17%), 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 2017	(271)	907	(315)	321
Credit to income statement	91	-	222	313
Charge to other comprehensive income	-	26	-	26
Transferred out	-	(883)	-	(883)
At 31 December 2017	(180)	50	(93)	(223)

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

14. INTANGIBLE ASSETS

	Contract rights and start-up costs £000	Software £000	Total £000
COST			
At 1 January 2017	3,042	58	3,100
At 31 December 2017	3,042	58	3,100
AMORTISATION			
At 1 January 2017	830	26	856
Charge for the year	313	13	326
At 31 December 2017	1,143	39	1,182
NET BOOK VALUE			
At 31 December 2017	1,899	19	1,918
At 31 December 2016	2,212	32	2,244

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 2017	1,067	13,749	79	71	14,966
Additions	-	457	17	46	520
Disposals	(1)	(1,215)	-	-	(1,216)
Transfers between classes	-	801	-	-	801
At 31 December 2017	<u>1,066</u>	<u>13,792</u>	<u>96</u>	<u>117</u>	<u>15,071</u>
DEPRECIATION					
At 1 January 2017	312	7,080	19	-	7,411
Charge for the year on owned assets	93	793	17	-	903
Disposals	(1)	(1,215)	-	-	(1,216)
At 31 December 2017	<u>404</u>	<u>6,658</u>	<u>36</u>	<u>-</u>	<u>7,098</u>
NET BOOK VALUE					
At 31 December 2017	<u>662</u>	<u>7,134</u>	<u>60</u>	<u>117</u>	<u>7,973</u>
At 31 December 2016	<u>755</u>	<u>6,669</u>	<u>60</u>	<u>71</u>	<u>7,555</u>

During the year, the Company carried out a review of its inventory of spares and as a result £801k was transferred to tangible fixed assets, as it was deemed to be critical spares for the operation of the plant and capital in nature.

The net book value of land and buildings may be further analysed as follows:

Freehold	<u>662</u>	<u>755</u>
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VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

16. INVESTMENTS

	Investments in subsidiary companies £000	Investment in joint ventures £000	Total £000
COST OR VALUATION			
At 1 January 2017	35,066	1	35,067
At 31 December 2017	35,066	1	35,067
IMPAIRMENT			
At 1 January 2017	9,007	-	9,007
At 31 December 2017	9,007	-	9,007
NET BOOK VALUE			
At 31 December 2017	26,059	1	26,060
At 31 December 2016	26,059	1	26,060

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.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 Seafield Holdings Limited	16.3	Ordinary	100 %	Holding company for group which upgrades and operates waste water treatment plants
Veolia Water Capital Delivery Limited	210	Ordinary	100 %	Waste 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	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	50 %	Utility infrastructure management

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 Seafield Holdings Limited	13 Queens Road, Aberdeen, Scotland, AB15 4YL

The following companies were dissolved or liquidated on or before the Balance sheet date:

Name	Class of shares	Holding
Stirling Water Limited	Ordinary	100 %
Thistle Water Limited	Ordinary	40 %
Vennsys Limited	Ordinary	100 %
Stirling Water (2003) Limited	Ordinary	25 %

VEOLIA WATER OUTSOURCING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

17. STOCKS

	2017	2016
	£000	£000
Raw materials and consumables (refer to note 15)	1,849	2,962
Work in progress	1,149	713
	<u>2,998</u>	<u>3,675</u>

18. DEBTORS

		2017	2016
		£000	£000
DEBTORS: Amounts falling due within one year			
Long-term loans to Group fellow subsidiaries	25	25,578	27,402
Long-term loans to Group joint ventures	25	8,325	7,923
		<u>33,903</u>	<u>35,325</u>

		2017	<i>As restated</i> 2016
		£000	£000
DEBTORS: Amounts falling due after more than one year			
Trade debtors		440	2,691
Amounts owed by Group fellow subsidiaries		4,756	4,171
Amounts owed by Group joint ventures		4,976	6,188
Short-term loans to Group fellow subsidiaries	25	48,259	47,299
Short-term loans to Group joint ventures	25	327	-
Other taxation debtor		505	464
Other debtors		8	-
Prepayments and accrued income		3,917	3,548
		<u>63,188</u>	<u>64,361</u>

A review of the debtor balances has been carried out to better reflect the nature of the splits. As a result, the 2016 balances have been reclassified to move £6,581k from trade debtors to amounts owed by joint ventures and to prepayments and accrued income, resulting in corrected values of trade debtors £2,691k (*previously £9,272k*), amounts owed by joint ventures £6,188k (*previously £2,788k*) and prepayments and accrued income £3,548k (*previously £367k*).

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. CREDITORS: Amounts falling due within one year

		2017 £000	As restated 2016 £000
Trade creditors		3,183	6,624
Amounts owed to Group fellow subsidiaries		4,352	3,102
Amounts owed to Group joint ventures		5,413	5,063
Amounts owed to other related parties		-	45
Short-term loans from Group fellow subsidiaries	25	34,933	44,633
Short-term loans from Group joint ventures	25	2,380	2,353
Corporation tax		670	598
Other taxation and social security		301	34
Other creditors		1,389	-
Accruals and deferred income		3,798	4,985
		<u>56,419</u>	<u>67,437</u>

A review of the creditor balances has been carried out to better reflect the nature of the splits. As a result, the 2016 balances have been reclassified to move £5,063k from accruals and deferred income to amounts owed to joint ventures, resulting in corrected values of accruals and deferred income £4,985k (previously £10,048k) and amounts owed to joint ventures £5,063k (previously £nil).

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

		2017 £000	2016 £000
Long-term loans from Group fellow subsidiaries	25	<u>16,573</u>	<u>16,056</u>

21. PROVISIONS

	Site maintenance £000	Legal £000	Restructuring £000	Total £000
At 1 January 2017	44	819	88	951
Charged to profit or loss	241	-	105	346
Release of unused provisions	-	(759)	(32)	(791)
Utilised in year	-	(60)	(161)	(221)
AT 31 DECEMBER 2017	<u>285</u>	<u>-</u>	<u>-</u>	<u>285</u>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. PROVISIONS (CONTINUED)

Site maintenance

During the year a provision for £200k was created within the accounts relating to the expected requirements for remedial works on the Almond Valley, Seafield and Esk (AVSE) contract. The remedial works relate to Odour improvement works as identified in a Scottish Government commissioned survey.

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. During the year, a settlement agreement was reached between the parties, whereby the Company paid the client £60k towards costs and therefore the remainder of the provision was released.

Restructuring

During the year the provision for restructuring costs relating to the South division was utilised. An additional restructuring provision was created in relation to the restructure of the Operational Support Services profit centre. This was fully utilised within the year.

22. SHARE CAPITAL

	2017 £000	2016 £000
Allotted, called up and fully paid		
35,000,000 ordinary shares of £1 each	35,000	35,000

23. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	512	474
Later than 1 year and not later than 5 years	843	636
Later than 5 years	36	-
	1,391	1,110

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

24. PENSION COMMITMENTS

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. 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"). A settlement gain of £1,091k was recognised within the pension expense in 2016 in relation to the buyout.

In 2017, the DCCS pension scheme asset was fully transferred to the Veolia Water UK Limited Final Salary Division of the Veolia UK Pension Plan. This decreased the pension asset held with the Company to zero and resulted in an actuarial loss in the Statement of comprehensive income of £226k.

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.

In 2017 a surplus of £354k (2016: £60k) 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 2017

24. PENSION COMMITMENTS (CONTINUED)

The assets and liabilities of the schemes as at 31 December 2017 are:

	2017 £000	2016 £000
All schemes		
Fair value of plan assets	4,920	9,518
Present value of the defined benefit obligation	(4,566)	(4,176)
Defined benefit plan surplus	354	5,342

Composition of plan assets measured at fair value:

	2017 £000	2016 £000
Cash	7	895
Debt instruments	1,638	5,802
Diversified growth fund	1,092	940
Equity instruments	2,183	1,881
Total fair value of plan assets	4,920	9,518

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

	2017 £000	2016 £000
Recognised in the Statement of comprehensive income		
Current service cost	441	245
Gain on settlements	-	(1,970)
Interest cost	110	314
Interest income on plan assets	(256)	(481)
Admin fees	14	12
Defined benefit cost/(income) included in the Statement of comprehensive income	309	(1,880)

	2017 £000	2016 £000
Recognised in Other comprehensive income		
Return on plan assets (excluding amounts included in net interest)	16	2,949
Actuarial changes arising from changes in demographic assumptions	86	-
Actuarial changes arising from changes in financial assumptions	50	(3,246)
Actuarial changes arising from changes in experience adjustments	-	(148)
Total recognised gain/(loss) in Other comprehensive income	152	(445)

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. PENSION COMMITMENTS (CONTINUED)

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

	2017 £000	2016 £000
Opening defined benefit obligation	4,176	5,658
Current service cost	441	245
Benefits paid	(7)	(162)
Gain on settlements	-	(1,970)
Actuarial (gains)/losses on obligation	(137)	3,394
Interest cost	110	314
Transfers to other group pension schemes	-	(3,299)
Insurance premiums for risk benefits	(17)	(4)
	<u>4,566</u>	<u>4,176</u>

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

	2017 £000	2016 £000
Opening fair value of plan assets	9,518	9,249
Interest income on plan assets	256	481
Employers contributions	365	316
Benefits paid	(7)	(162)
Settlement payments from plan assets	(5,197)	(3,299)
Actuarial gains on plan assets	24	2,949
Admin fees	(22)	(12)
Insurance premiums for risk benefits	(17)	(4)
	<u>4,920</u>	<u>9,518</u>

Principal assumptions

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

	2017	2016
The principal assumptions used in determining the pensions obligations are shown below:		
Discount rate	2.55 %	2.65 %
Future pension-in-pension increases	3.10 %	3.20 %
Future price inflation	2.10 %	2.20 %
Life expectancy for a male pensioner age 65 (yrs)	22.7	23.6
Life expectancy for a male non-pensioner age 65 (yrs)	24.5	24.5

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. PENSION COMMITMENTS (CONTINUED)

The most recent full actuarial valuation of the plan assets and the present value of the defined benefit obligation, prepared for the trustees, was carried out at 31 December 2014. 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 £300k/(increased by £300k). In 2016 the defined benefit obligation would have decreased by £267k/(increase by £267k);
- if the price inflation (RPI) was 25 basis points higher/(lower), the defined benefit obligation would have increased by £289k/(decreased by £289k). In 2016 the defined benefit obligation would have increased by £288k/(decrease by £288k);
- if the life expectancy increased/(decreased) by one year for both men and women, the defined benefit obligation would have increased by £129k/(decreased by £129k). In 2016 the defined benefit obligation would have increased by £118k/(decrease by £118k).

There have been no changes to actuarial methods or assumptions 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.

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.

Dividends

Dividends received and interest received and paid from/to joint ventures are shown in notes 8, 9 and 10.

Trading balances

Trading balances and short-term loan balances outstanding, as at 31 December 2017, with other related parties are shown in notes 18 and 19.

Trading transactions entered into during the year to 31 December 2017 with other related parties and loan balances with related parties are as follows:

TRADING TRANSACTIONS

	2017 £000	2016 £000
Sale of goods and services		
Group joint ventures	<u>24,313</u>	<u>20,239</u>

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

25. RELATED PARTY TRANSACTIONS (CONTINUED)

	2017 £000	2016 £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	2016 £000
Group companies					
Stirling Water Seafield Limited - senior subordinated debt	959	4,031	8,054	13,044	13,930
Stirling Water Seafield Limited - junior subordinated debt	-	-	13,493	13,493	13,472
Veolia Water Enterprise Limited	47,300	-	-	47,300	47,299
	<u>48,259</u>	<u>4,031</u>	<u>21,547</u>	<u>73,837</u>	<u>74,701</u>
Group joint ventures					
Glen Water Limited	327	816	7,509	8,652	7,923
	<u>48,586</u>	<u>4,847</u>	<u>29,056</u>	<u>82,489</u>	<u>82,624</u>

Loans owed by Group companies

The Stirling Water Seafield Limited Senior subordinated loan totalling £13,044k (2016: £13,930k) 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 Seafield Limited Junior subordinated loan totalling £13,493k (2016: £13,472k), 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 total £47,300k (2016: £47,299k), is an interest free loan. This loan relates to the sale of Veolia Water Nevis Limited to Veolia Water Enterprise Limited.

Loans owed by Group joint ventures

The Glen Water Limited loan totalling £8,652k (2016: £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.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

25. RELATED PARTY TRANSACTIONS (CONTINUED)

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	2016 £000
Group companies					
Veolia UK Limited	34,933	-	-	34,933	44,633
Veolia Water Enterprise Limited	-	16,573	-	16,573	16,056
	<u>34,933</u>	<u>16,573</u>	<u>-</u>	<u>51,506</u>	<u>60,689</u>
Group joint ventures					
4Delivery Limited	1,833	-	-	1,833	1,857
Brighton & Hove 4Delivery Limited	547	-	-	547	496
	<u>2,380</u>	<u>-</u>	<u>-</u>	<u>2,380</u>	<u>2,353</u>
	<u>37,313</u>	<u>16,573</u>	<u>-</u>	<u>53,886</u>	<u>63,042</u>

Loans owed to Group companies

The Veolia Water Enterprise long term loan, due to expire in 2022, totalling £16,573k (2016: £16,056k), 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.

The Veolia UK Limited loan totalling £34,933k (2016: £44,633k), bears interest at 3 month LIBOR plus 0.8% margin plus a utilisation fee of 0.35%. Interest is capitalised on a quarterly basis.

Loans owed to Group joint ventures

The 4Delivery Limited Loan totalling £1,833k (2016: £1,875k), bears interest at 3 month LIBOR plus 0.15% margin. 4Delivery drawdown or deposit excess funds on a cash flow dependence basis.

The Brighton & Hove 4Delivery Limited Loan totalling £547k (2016: £496k), bears interest at 3 month LIBOR plus 0.15% margin. Brighton & Hove 4Delivery drawdown or deposit excess funds on a cash flow dependence basis.

26. POST BALANCE SHEET EVENTS

There have been no post balance sheet events impacting upon these financial statements.

VEOLIA WATER OUTSOURCING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 Seafield Finance Plc	27.3	Ordinary	100 %	Waste water services
Stirling Water Seafield 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

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 Seafield Limited	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 currently prepared.