Registered number: 02127283

VEOLIA WATER UK LIMITED

STRATEGIC REPORT, DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

VEOLIA WATER UK LIMITED

COMPANY INFORMATION

Directors	John Patrick Abraham Estelle Karine Brachlianoff David Andrew Gerrard Celia Rosalind Gough Gavin Howard Graveson
Company secretary	Celia Rosalind Gough
Registered number	02127283
Registered office	210 Pentonville Road London N1 9JY
Independent auditor	Ernst & Young LLP 144 Morrison Street Edinburgh EH3 8EX

VEOLIA WATER UK LIMITED

CONTENTS

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The Directors present their Strategic report for the year ended 31 December 2018.

The principal activity of Veolia Water UK Limited ("the Company") is to act as an intermediate holding company for all subsidiaries within the Water business of the UK&I group, as defined below.

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&I group", a division of The Group, based in the UK and Ireland 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 loss on ordinary activities before taxation, for the year ended 31 December 2018, is £4,719k *(2017: £5,999k)*. The main reasons for the improvement in the result for the year was the receipt of a dividend from General Utilities Holdings Limited in 2018 of £1,900k *(2017: £nil)*, partially offset by an unrepeated credit related to the recovery of a historic debt in 2017 of £725k.

It is Company policy not to fully recharge expenditure on general administration to its direct and indirect subsidiaries and it is expected that this policy will continue for the foreseeable future. Future cash inflows are expected to be derived from dividend income and interest received from its investments.

The Company has continued to act as a holding company during the year, and it is expected to continue to do so in the future. The Directors continue to review potential acquisitions that will strengthen the UK&I group's presence in its current areas of activity. There were no significant acquisitions or disposals by the Company during the year. Subsequent to the year end, the Company acquired the entire shareholding of Brettex Site Services Limited, a water treatment facilities company, to complement the Company's existing portfolio.

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&I group as whole.

Contractual risk

The Company's business is affected by the reliability of its subsidiaries and joint ventures to pay dividends. The subsidiaries and joint ventures are 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&I 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 including tracking performance against budget and targets identified in the contract and monthly reviews by the regional directors. Any contracts that are identified as being at particular risk during these reviews are the subject of specific initiatives to improve contract performance. Larger contracts and business units are separately reviewed at a UK&I group level on a monthly basis.

Principal risks and uncertainties (continued)

Contractual risk (continued)

A subsidiary's longer term inability to pay dividends, or decline in performance may result in an impairment of the Company's investment in that subsidiary, which will have a direct impact on the Company's results in the year and net assets going forward.

Business continuity

The UK&I group is accredited with ISO 22301 (Business Continuity Management) and the Company 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&I 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 ensures its subsidiaries remain fully committed to respecting the UK&I 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.

The UK&I group operates within high risk environments and has a large number of road vehicles. As a result, it has an active risk culture and has implemented a 3 year strategic plan to help keep employees 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. A 'Think Safe' programme has been developed recognising the leadership and behaviours required at different levels of the organisation to support a positive safety culture. This has been supported by 'Think Safe' communications campaigns including Safety Week and the use of talking heads in which our people explain the impact accidents have had on them.

Although not directly related to the Company, tragically there have been three fatalities associated with Veolia operations within the UK, of which two were employees and one a member of the public. These incidents occurred despite safe systems of work being in place. At this time, our investigations are ongoing and we are also fully co-operating with all relevant authorities.

Generally, the UK performed well against the 2018 safety objectives with a 30% reduction in Lost-Time Injuries and Modified Duties and a reduction in days lost by 1500 days compared to 2017. There has also been an increase in Near Miss / Safety Concern reporting showing a 19% increase.

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 continues to be rolled out with a 120% increase in the number of incidents reported in its first 12 months.

The UK&I group and the Company have an open relationship with all regulatory bodies, including the various Environment Agency bodies across the UK. The UK&I 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 ISO 45001 (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 are continuously monitoring the performance and therefore consider the risk associated with health and safety, quality and environment to be acceptable.

Principal risks and uncertainties (continued)

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&I 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 and its subsidiaries are exposed to counter-party risk in various areas of their 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 risk of major financial loss would occur if the Company's subsidiaries' customers fail to honour their obligations under the contract. The Company's subsidiaries largely trade with large well-established or local authority clients, and so the likelihood of this is considered low.

  The UK&I 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 lends funds to 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&I 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 and its subsidiaries have 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.

Principal risks and uncertainties (continued)

Other risks

Following the referendum which, despite recent uncertainty, is still expected to result in the UK leaving the European Union, The Group 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". Whilst making no formal statements on the subject since, The Group have continued with its plans to manage, develop and support the UK business in line with this statement.

The UK&I group have analysed the potential impact of the various options as to the date and terms of the UK departure from the European Union and are confident that there are plans and contingencies in place to avoid the business being unduly affected. The effect on our employees has been at the forefront of the UK&I group's plans, with the UK&I group continuing to maintain both formal and informal communication with affected employees. The UK&I group continue to monitor developments.

This report was approved by the board on 8 August 2019 and signed on its behalf.

David Andrew Gerrard
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors present their report and the financial statements for the year ended 31 December 2018.

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 loss for the year, after taxation, amounted to £3,438k *(2017: loss £4,727k).*

There were no dividends paid in the year under review *(2017: £nil).*

Directors

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

John Patrick Abraham
Estelle Karine Brachlianoff
David Andrew Gerrard
Celia Rosalind Gough
Gavin Howard Graveson (appointed 22 November 2018)
François Louis Bertreau (resigned 3 September 2018)
Robert Charles Hunt (resigned 31 October 2018)

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 pension indemnity provision was in place throughout the period and remains in force as at the date of approving the Directors' report.

Going concern

The Company's balance sheet is robust with net assets of £136,027k *(2017: £139,840k)*, and at year end reported net current assets of £175,335k *(2017: £179,049k)*. The Group's forecasts and budgets for 2019 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 Group centralised treasury arrangements and so shares banking and intercompany loan arrangements with VUK and other UK based Group 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 enquiries and have gained assurance that VUK is in a position to provide this support if needed.

Going concern (continued)

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&I group's budgeted cash flows and long-term forecasts, related assumptions, available debt facilities and continued UK&I 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 its business as an intermediary holding company.

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&I 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&I 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&I 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.

Disabled employees

The UK&I 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&I 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 the Auditor

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

On 29 March 2019, the Company purchased 100% of the ordinary share capital of Brettex Site Services Limited, a water treatment facilities company, for consideration of £8,438k.

Auditor

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

This report was approved by the board on 8 August 2019 and signed on its behalf.

David Andrew Gerrard
Director

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

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 SHAREHOLDERS OF VEOLIA WATER UK LIMITED

Opinion

We have audited the financial statements of Veolia Water UK Limited (the 'Company') for the year ended 31 December 2018, which comprise the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 26, 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 Financial Reporting Standard 101 'Reduced Disclosure Framework'.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss 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. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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 our 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF VEOLIA WATER UK LIMITED (CONTINUED)

Opinion 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 the Directors' report have been prepared in accordance with applicable legal requirements.

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 the 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF VEOLIA WATER UK LIMITED (CONTINUED)

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.

Ernst & Young LLP

Paul Copland (Senior statutory auditor)

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

Edinburgh

12 August 2019

VEOLIA WATER UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	*2017* *£000*
Administrative expenses		**(8,377)**	*(7,850)*
Other operating income/(charges)		**17**	*(4)*
Operating loss	4	**(8,360)**	*(7,854)*
Loss on disposal of fixed asset investments		**-**	*(157)*
Income from fixed assets investments	7	**1,900**	*-*
Interest receivable	8	**3,918**	*3,838*
Interest payable and similar charges	9	**(1,883)**	*(1,755)*
Other finance income/(charges)	10	**(294)**	*(71)*
Loss before tax		**(4,719)**	*(5,999)*
Tax on loss	11	**1,281**	*1,272*
Loss for the financial year		**(3,438)**	*(4,727)*
Actuarial loss on defined benefit schemes	20	**(464)**	*(15,203)*
Movements of deferred tax relating to pension surplus		**-**	*139*
Changes in assumptions on pension specific tax		**89**	*5,183*
Total comprehensive loss for the year		**(3,813)**	*(14,608)*

VEOLIA WATER UK LIMITED
REGISTERED NUMBER:02127283

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note		2018 £000		*2017 £000*
Fixed assets					
Intangible assets	13		**49**		*97*
Tangible assets	14		**14**		*26*
Investments	15		**3,218**		*3,218*
Pension asset	20		**51**		*90*
			3,332		*3,431*
Current assets					
Deferred taxation	12	**53**		*119*	
Debtors: amounts falling due after more than one year	16	**65,062**		*62,683*	
Debtors: amounts falling due within one year	16	**118,074**		*123,753*	
		183,189		*186,555*	
Creditors: amounts falling due within one year	17	**(7,854)**		*(7,506)*	
Net current assets			**175,335**		*179,049*
Total assets less current liabilities			**178,667**		*182,480*
Creditors: amounts falling due after more than one year	18		**(42,640)**		*(42,640)*
			136,027		*139,840*
Net assets			**136,027**		*139,840*
Capital and reserves					
Called up share capital	19		**500**		*500*
Profit and loss account			**135,527**		*139,340*
			136,027		*139,840*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 8 August 2019.

David Andrew Gerrard
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2017	500	153,948	154,448
Comprehensive income for the year			
Loss for the year	-	(4,727)	(4,727)
Actuarial losses on defined benefit scheme	-	(15,064)	(15,064)
Change in assumptions on pension specific tax	-	5,183	5,183
At 1 January 2018	500	139,340	139,840
Comprehensive income for the year			
Loss for the year	-	(3,438)	(3,438)
Actuarial losses on defined benefit scheme	-	(464)	(464)
Change in assumptions on pension specific tax	-	89	89
At 31 December 2018	500	135,527	136,027

The notes on pages 15 to 36 form part of these financial statements.

1. General information

Veolia Water UK 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).

On 1 January 2018 the Company adopted IFRS 9 'Financial Instruments' on a retrospective basis using the cumulative effect method. There have been no material impacts on the Company's financial statements from adopting this standard.

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 130(f)(ii), 130(f)(iii), 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.

2. Accounting policies (continued)

2.3 Interest receivable

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

2.4 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.

2.5 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:

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.

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.

2. Accounting policies (continued)

2.6 Tangible assets (continued)

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:

Plant and equipment	- 3 to 30 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 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.

2. Accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

The Company recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are recognised in two stages:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL);
- for those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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 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.

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 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. Accounting policies (continued)

2.9 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 and accrued at the Balance sheet date.

2.10 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.

2.11 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.

2.12 Pension plans and other post-employment benefits

The UK&I group offers a pension scheme to every member of staff, and operates both defined contribution and defined benefit schemes. The assets of the scheme are invested and managed independently of the finances of The Group. The majority of the Company's 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. These obligations are expensed in the Statement of comprehensive income when due.

The Company also operates one defined benefit scheme, the Veolia Water UK Limited Final Salary Division of the Veolia UK Pension Plan. Under defined benefit schemes the Company retains the liability to pay a specified post-employment benefit to its employees after retirement.

Defined benefit plans

The net obligations of the Company are calculated based on an estimate of the amount employees will receive in retirement, in exchange for services rendered during the current and past periods. This amount is then discounted to present value and the fair values of plan assets are deducted. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Where the calculation shows a plan surplus, the asset recognised is capped at the total of the discounted present value of expected future benefits of the Company, in the form of future repayments or reductions in plan contributions and the amount of unamortised past service costs. The plan surplus is recognised as a long-term financial asset, net of any pension specific taxation.

2. Accounting policies (continued)

Pension plans and other post-employment benefits (continued)

Employee obligations of the Company are calculated using the projected unit credit method. This method is based on the probability of personnel remaining with the Company until retirement, the foreseeable changes in future compensation, and the appropriate discount rate. They are determined based on the yield offered by bonds issued by top-quality companies (rated AA) with maturities equivalent to the average term of the plans valued in the UK.

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur. Past and current service costs are recognised in the Statement of comprehensive income.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance income or cost.

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) and refund tax is applied to any theoretical surplus.

2.13 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 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.

3. Judgments 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.

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 of the investments in order to impair the values or reverse previous impairments, in accordance with the findings described in note 15.

- **Retirement benefit schemes** - The Company has an obligation 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 asset in the Balance sheet. The assumptions reflect historical experience and current trends. These are described further in note 20. The note also shows the effect of varying certain of those assumptions.

4. Operating loss

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

	2018	*2017*
	£000	*£000*
Depreciation of tangible assets	**15**	*14*
Amortisation of intangible assets	**48**	*46*
(Profit)/loss on exchange differences	**(17)**	*4*
Auditor's remuneration for audit of the financial statements (the Company)	**32**	*91*
Restructuring costs	**68**	*3*
Operating leases - plant and equipment	**29**	*17*
Operating leases - land and buildings	**84**	*57*

5. Staff costs

Staff costs were as follows:

	2018 **£000**	*2017* *£000*
Wages and salaries	**1,962**	*2,782*
Social security costs	**254**	*115*
Cost of defined contribution scheme	**204**	*267*
	2,420	*3,164*

As with many groups of our size, employees are often contractually employed by other companies within the UK&I group. The majority of UK&I 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:

	2018 **No.**	*2017* *No.*
Office & administration	**21**	*28*
Operations	**6**	-
	27	*28*

6. Directors' remuneration

	2018 **£000**	*2017* *£000*
Directors' emoluments paid by the Company	**421**	*424*
Company contributions to defined contribution pension schemes	**23**	*30*
	444	*454*

The cost attributable to the highest paid Director was £444k *(2017: £454k)*, including £23k *(2017: £30k)* in relation to the costs of defined contribution pension schemes.

One (*2017:* One) Director is paid by the Company, but also perform services for other companies within the UK&I 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 2018, the other Directors' costs have been apportioned to the principle companies they serve within the UK&I group. Had all the Directors' costs been recharged to all the companies those Directors serve, the Company would have incurred £59k (*2017: £103k*) of Directors emoluments, including £2k (*2017: £6k*) of pension contributions.

7. Income from fixed asset investments

	2018 £000	*2017 £000*
Dividends from Group fellow subsidiaries	**1,900**	*-*

8. Interest receivable

	2018 £000	*2017 £000*
Other interest receivable	**-**	*446*
Interest receivable from Group fellow subsidiaries	**3,918**	*3,392*
	3,918	*3,838*

9. Interest payable and similar charges

	2018 £000	*2017 £000*
Interest payable to Group fellow subsidiaries	**1,850**	*1,710*
Bank and similar charges	**33**	*45*
	1,883	*1,755*

10. Other finance income/(charges)

		2018 £000	*2017 £000*
Net interest on defined benefit pension scheme asset	20	**4**	*396*
Other finance income		**12**	*-*
Other finance charges from Group fellow subsidiaries		**(310)**	*(467)*
		(294)	*(71)*

11. Taxation

	2018 £000	*2017* *£000*
Corporation tax		
Current tax on loss for the year	**(1,332)**	*(1,233)*
Adjustments in respect of previous periods	**(15)**	*(184)*
Total current tax	**(1,347)**	*(1,417)*
Deferred tax		
Deferred tax - current year	**66**	*145*
Total deferred tax	**66**	*145*
Taxation on loss on ordinary activities	**(1,281)**	*(1,272)*

Factors affecting tax charge for the year

The tax assessed for the year is lower than *(2017 - lower than)* the standard rate of corporation tax in the UK of 19.00% *(2017 - 19.25%)*. The differences are explained below:

	2018 £000	*2017* *£000*
Loss on ordinary activities before tax	**(4,719)**	*(5,999)*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	**(897)**	*(1,155)*
Effects of:		
Expenses not deductible for tax purposes	**1**	*30*
Adjustments to tax charge in respect of prior periods - current tax	**(15)**	*(184)*
Adjustments to tax charge in respect of prior periods - deferred tax	**-**	*(22)*
Difference between current and deferred tax rates	**(9)**	*59*
Dividends from UK companies	**(361)**	-
Total tax credit for the year	**(1,281)**	*(1,272)*

Factors that may affect future tax charges

Deferred tax assets and liabilities have been stated at the corporation tax rate of 17% *(2017: 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.

12. Deferred taxation

	Accelerated capital allowances £000
At 1 January 2018	**119**
Charge to profit or loss	**(66)**
At 31 December 2018	**53**

13. Intangible assets

	Software £000
Cost	
At 1 January 2018	**192**
At 31 December 2018	**192**
Amortisation	
At 1 January 2018	**95**
Charge for the year	**48**
At 31 December 2018	**143**
Net book value	
At 31 December 2018	**49**
At 31 December 2017	*97*

14. Tangible assets

	Plant and equipment £000
Cost or valuation	
At 1 January 2018	**51**
Additions	**3**
At 31 December 2018	**54**
Depreciation	
At 1 January 2018	**25**
Charge for the year on owned assets	**15**
At 31 December 2018	**40**
Net book value	
At 31 December 2018	**14**
At 31 December 2017	*26*

15. Investments

	Investments in subsidiary companies £000
Cost and Net book value	
At 1 January 2018	**3,218**
At 31 December 2018	**3,218**

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 Veolia Environnement Development Centre, which is registered at 1 Station Road, Four Ashes, Wolverhampton, Staffordshire, WV10 7DG.

All the Company's indirect holdings in subsidiaries, joint ventures, associates and other significant interests are listed in note 25.

15.1 Direct subsidiary undertakings

Name	Registered address	Class of shares	Holding	Principal activity
General Utilities Holdings Limited	210	Ordinary	100%	Intermediate holding company
Veolia Water Enterprise Limited	210	Ordinary	100%	Intermediate holding company

15.2 Joint ventures, associates and other significant interests

Name	Registered address	Class of shares	Holding	Principal activity
Veolia Environnement Development Centre Limited	15.3	Ordinary	25%	Training provider

16. Debtors

	Note	2018 £000	2017 £000
Debtors: Amounts falling due after more than one year			
Long-term loans to Group fellow subsidiaries	23	**65,062**	*62,683*

	Note	2018 £000	2017 £000
Debtors: Amounts falling due within one year			
Trade debtors		**18**	*35*
Amounts owed by Group fellow subsidiaries		**4,049**	*4,568*
Amounts owed by Group joint ventures		**-**	*220*
Amounts owed by Group associates		**50**	*8*
Short-term loans to Group fellow subsidiaries	23	**111,161**	*115,350*
Other taxation debtor		**15**	*15*
Prepayments		**133**	*19*
Corporation tax recoverable		**2,648**	*3,538*
		118,074	*123,753*

17. Creditors: Amounts falling due within one year

	Note	2018 £000	2017 £000
Trade creditors		**694**	*591*
Amounts owed to Group fellow subsidiaries		**4,047**	*3,444*
Short-term loans from Group fellow subsidiaries	23	**118**	*103*
Other taxation and social security		**49**	*201*
Other creditors		**164**	*155*
Accruals		**2,782**	*3,012*
		7,854	*7,506*

18. Creditors: Amounts falling due after more than one year

	Note	2018 £000	2017 £000
Long-term loans from Group fellow subsidiaries	23	**42,640**	*42,640*

19. Share capital

	2018 £000	*2017 £000*
Allotted, called up and fully paid		
500,000 *(2017: 500,000)* ordinary shares of £1.00 each	**500**	*500*

20. Pension commitments

The Company is the sponsoring employer of a final salary defined benefit pension plan called the Veolia Water UK Limited Final Salary Division of the Veolia UK Pension Plan ("VUKPP").

The scheme was established as at 1 April 1996: the Generale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the Generale des Eaux UK Pension Plan on 1 April 1998 to form the VUKPP, which was open to all new staff and existing members. The scheme provides a selection of benefits based upon final pensionable pay or money purchase according to the member's wishes. The VUKPP was split into two divisions, namely the DCCS division which only relates to Veolia Water Outsourcing Limited and for which the Company bears no responsibility, and the Veolia Water UK Limited Final Salary Division for which the Company bears full contractual responsibility.

The Veolia Water UK Limited Final Salary Division was closed to new members on 30 September 2004 and was frozen on 31 January 2016. During 2017 the Trustee of the scheme used the assets of the Division to fully insure the benefits of the Division through a Buy-In policy with Pension Insurance Corporation.

The Plan assets are held in a separate Trustee administered fund. The Corporate trustee of the fund is required to act in the best interest of the plan's members and beneficiaries. The appointment of Trustee Directors to the fund is determined by the Plan's trust documentation. The plan has a policy that one third of all Trustee Directors should be nominated by members of the Fund.

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).

The details of the Veolia Water UK Limited Final Salary Division are shown below:

	2018 £000	*2017 £000*
Fair value of plan assets	**26,118**	*27,950*
Present value of the defined benefit obligation	**(26,040)**	*(27,812)*
	78	*138*
Tax charge on theoretical surplus if reimbursed to Company	**(27)**	*(48)*
Defined benefit plan surplus	**51**	*90*

20. Pension commitments (continued)

Composition of plan assets measured at fair value:

	2018 £000	*2017 £000*
Cash	78	*138*
Assets held with an insurance company	26,040	*27,812*
Total fair value of plan assets	**26,118**	*27,950*

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

	2018 £000	*2017 £000*
Recognised in the Statement of comprehensive income		
Interest cost	702	*768*
Interest income on plan assets	(706)	*(1,164)*
Defined benefit credit included in the Statement of comprehensive income	**(4)**	*(396)*

	2018 £000	*2017 £000*
Recognised in Other comprehensive income		
Dilution of plan assets (excluding amounts included in net interest)	(642)	*(16,036)*
Actuarial changes arising from changes in demographic assumptions	171	*513*
Actuarial changes arising from changes in financial assumptions	1,423	*320*
Actuarial changes arising from experience adjustments	(1,416)	*-*
Total recognised loss in Other comprehensive income	**(464)**	*(15,203)*

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

	2018 £000	*2017 £000*
Opening defined benefit obligation	27,812	*30,103*
Benefits paid	(2,296)	*(2,226)*
Actuarial gains on obligation	(178)	*(833)*
Interest cost	702	*768*
	26,040	*27,812*

20. Pension commitments (continued)

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

	2018 £000	*2017 £000*
Opening fair value of plan assets	**27,950**	*45,048*
Interest income on plan assets	**706**	*1,164*
Contributions paid in respect of past service costs	**400**	*-*
Benefits paid	**(2,296)**	*(2,226)*
Dilution of plan assets	**(642)**	*(16,036)*
	26,118	*27,950*

Principal assumptions

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

The principal assumptions used in determining the pensions obligations are shown below:	2018	*2017*
Future pension-in-pension increases	**3.15 %**	*3.10 %*
Discount rate	**2.90 %**	*2.55 %*
Life expectancy for a male pensioner age 65 (yrs)	**23.3**	*23.4*
Life expectancy for a male non-pensioner age 65 (yrs)	**24.0**	*24.1*

The most recent full actuarial valuation of the plan assets and the present value of the defined benefit obligation, prepared for the trustees, was 31 December 2017. 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 £1,225k/(increased by £1,225k). In 2017 the defined benefit obligation would have decreased by *£1,379k/(increased by £1,379k)*;
- if the price inflation (RPI) was 25 basis points higher/(lower), the defined benefit obligation would have increased by £1,096k/(decreased by £1,096k). In 2017 the defined benefit obligation would have increased by *£1,264k/(decreased by £1,264k)*;
- if the life expectancy increased/(decreased) by one year for both men and women, the defined benefit obligation would have increased by £810k/(decreased by £810k). In 2017 the defined benefit obligation would have increased by *£849k/(decreased by £849k)*.

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.

21. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 **£000**	*2017* *£000*
Land and buildings		
Not later than 1 year	**71**	*125*
Later than 1 year and not later than 5 years	**284**	*28*
Later than 5 years	**18**	*4*
	373	*157*

	2018 **£000**	*2017* *£000*
Plant and equipment		
Not later than 1 year	**20**	*21*
Later than 1 year and not later than 5 years	**28**	*22*
	48	*43*

22. Contingent liabilities

The Company holds performance bonds and similar guarantees with various financial houses and has issued various parent company guarantees ("PCGs") to support its subsidiaries as a requirement of trading contracts entered into. At 31 December 2018, £350,959k *(2017: £322,375k)* of performance bonds, similar guarantees and PCGs had been entered into.

23. 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 with fellow wholly owned subsidiaries.

Balances outstanding as at 31 December 2018 with all related parties are disclosed in notes 16, 17 and 18.

Trading transactions entered into during the year to 31 December 2018 with other related parties and the details of the long-term loan balances with all related parties are as follows:

Trading transactions

	2018 £000	*2017 £000*
Re-invoicing of goods and services		
Group joint ventures and associates	**373**	*402*

Loans to group fellow subsidiaries

	Due within one year £000	**Due after one year and within five years £000**	**Due after five years £000**	**Total £000**	*2017 £000*
Veolia UK Limited	**272**	**3,732**	**6,100**	**10,104**	*10,746*
Veolia Water Enterprise Limited	**-**	**17,118**	**38,112**	**55,230**	*52,972*
Group cash pooling balances	**110,889**	**-**	**-**	**110,889**	*114,315*
	111,161	**20,850**	**44,212**	**176,223**	*178,033*

The loan to Veolia UK Limited, totalling £10,104k *(2017: £10,746k)*, includes the following:

- a loan totalling £1,502k *(2017: £1,497k)*, including accrued interest of £37k *(2017: £37k)*. The loan bears interest at 10.00%. Interest and capital are repaid in semi-annual instalments. The loan will be repaid in full by March 2030;
- a loan totalling £8,602k *(2017: £9,249k)*, including accrued interest of £159k *(2017: £174k)*. The loan bears interest at 7.45%. Interest and capital are repaid in semi-annual instalments. The loan will be repaid in full by September 2027.

The loan to Veolia Water Enterprise Limited, totalling £55,230k *(2017: £52,972k)*, includes the following:

- a loan totalling £17,118k *(2017: £16,566k)*. The loan bears interest at a variable rate based on 3 month LIBOR plus 2.50%. The interest is capitalised on this loan quarterly. The loan will be repaid in full by December 2023;
- a long-term loan totalling £38,112k *(2017: £36,406k)*. The loan bears interest at a variable rate based on 3 month LIBOR plus 3.75%. The interest is capitalised on this loan quarterly. The loan will be repaid in full by December 2024.

23. Related party transactions (continued)

Loans from group fellow subsidiaries

	Due within one year £000	Due after one year and within five years £000	Due after five years £000	Total £000	*2017 £000*
Veolia UK Limited	**118**	**14,440**	**28,200**	**42,758**	*42,743*
	118	**14,440**	**28,200**	**42,758**	*42,743*

The loan from VUK totalling £42,758k *(2017: £42,743k)* includes the following:

- a loan totalling £28,285k *(2017: £28,275k)*, includes accrued interest of £85k *(2017: £75k)*. The loan bears interest at 3 month LIBOR plus 3.75%. Interest is repaid in quarterly instalments. The loan will be repaid in full by December 2024;
- a loan totalling £14,473k *(2017: £14,468k)*, includes accrued interest of £33k *(2017: £28k)*. The loan bears interest at 3 month LIBOR plus 2.50%. Interest is repaid in quarterly instalments. The loan will be repaid in full by December 2023.

24. Post balance sheet events

On 29 March 2019, the Company purchased 100% of the ordinary share capital of Brettex Site Services Limited, a water treatment facilities company, for consideration of £8,438k.

25. 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 note 25.3.

25.1 Subsidiary undertakings

Name	Registered address	Class of shares	Holding	Principal activity
Engenica Limited	210	Ordinary	100 %	Dormant entity (Voluntary Liquidator appointed subsequent to the year end)
General Utilities Limited	210	Ordinary	100 %	Dormant entity
Primeshade Limited	210	Ordinary	100 %	Dormant entity
Sterling Water Services Limited	210	Ordinary	100 %	Dormant entity (Voluntary Liquidator appointed during the year)
Stirling Environmental Limited	25.3	Ordinary	100 %	Dormant entity (Voluntary Liquidator appointed subsequent to the year end)
Stirling Water Seafield Holdings Limited	25.3	Ordinary	100 %	Holding company
Stirling Water Seafield Limited	25.3	Ordinary	100 %	Water treatment and distribution
Stirling Water Seafield Finance Plc	25.3	Ordinary	100 %	Issue of bonds to fund infrastructure projects undertaken

25. Indirect holdings in subsidiary undertakings and joint ventures (continued)

25.1 Subsidiary undertakings (continued)

Name	Registered address	Class of shares	Holding	Principal activity
Veolia Water Capital Delivery Limited	210	Ordinary	100 %	Waste water services with investments
Veolia Water DB Ireland Limited	25.3	Ordinary	100 %	Non-trading entity
Veolia Water Infrastructure Services Limited	210	Ordinary	100 %	Water treatment and distribution
Veolia Water Ireland Limited	25.3	Ordinary	100 %	Design, build, water treatment and distribution in the water sector in Ireland
Veolia Water Nevis Limited	210	Ordinary	100 %	Water services
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 Operations Ireland Limited	25.3	Ordinary	100 %	Non-trading entity
Veolia Water Outsourcing Limited	210	Ordinary	100 %	Management, design, operation and maintenance of water and wastewater related infrastructure and customer outsourcing services
Veolia Water Projects Limited	210	Ordinary	100 %	Water services
Veolia Water Retail (UK) Limited	210	Ordinary	100 %	Dormant entity

25.2 Joint ventures, associates and other significant interests

Name	Registered address	Class of shares	Holding	Principal activity
4Delivery Limited	210	Ordinary	40 %	Water treatment and distribution
Brighton & Hove 4Delivery Limited	210	Ordinary	49 %	Water treatment and distribution
Glen Water (Holdings) Limited	210	Ordinary	50 %	Waste water services
Glen Water Limited	210	Ordinary	50 %	Water treatment and distribution
MUJV Limited	25.3	Ordinary	50 %	Utility infrastructure management
Reno (Highland) Limited	25.3	Ordinary	30 %	Investment holding company for a group that operates and maintains waste water treatment plants
Reno (Moray) Limited	25.3	Ordinary	45 %	Investment holding company for a group that operates and maintains waste water treatment plants
Reno (Tay) Limited	25.3	Ordinary	45 %	Investment holding company for a group that operates and maintains waste water treatment plants

25. Indirect holdings in subsidiary undertakings and joint ventures (continued)

25.3 Registered offices of indirect undertakings

Name	Registered address
MUJV Limited	Aspire Business Centre, Ordance Rd, Tidworth, SP9 7QD
Reno (Highland) Limited	Cannon Place, 78 Cannon Street, London, EC4N 6AF
Reno (Moray) Limited	Cannon Place, 78 Cannon Street, London, EC4N 6AF
Reno (Tay) Limited	Cannon Place, 78 Cannon Street, London, EC4N 6AF
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
Stirling Water Seafield Limited	13 Queens Road, Aberdeen, Scotland, AB15 4YL
Stirling Water Seafield Finance Plc	13 Queens Road, Aberdeen, Scotland, AB15 4YL
Veolia Water DB Ireland Limited	Suite 18, Plaza 256, Blanchardstown Corporate Park 2, Blanchardstown, Dublin 15, D15 TR96
Veolia Water Ireland Limited	Suite 18, Plaza 256, Blanchardstown Corporate Park 2, Blanchardstown, Dublin 15, D15 TR96
Veolia Water Operations Ireland Limited	Suite 18, Plaza 256, Blanchardstown Corporate Park 2, Blanchardstown, Dublin 15, D15 TR96

26. Immediate parent and controlling party

The immediate parent company is Veolia UK 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 UK Limited, are currently prepared.