

VEOLIA WATER ORGANICS RECYCLING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2011

(Registered Number 06972519)

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Veolia Water Organics Recycling Limited

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Veolia Water Organics Recycling Limited

Directors and advisers

Directors

J M Boudet
O Bret (Resigned 18th September 2012)
H Brunet
N Earnshaw (Appointed 18th September 2012)
M Saunders

Company secretary

N Craig (Resigned 18th September 2012)
C Garrett (Appointed 18th September 2012)

Registered office

Fifth Floor, Kings Place
90 York Way
London N1 9AG

Auditors

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

Registered number

06972519

Veolia Water Organics Recycling Limited

Directors' report for the year ended 31 December 2011

The directors present their annual report and the audited financial statements of the company for the nine month period ended 31 December 2011. During the period the Company changed its accounting period date from 31 March to 31 December in order to bring it into line with other group companies.

Principal activity

The principal activity of the company is the recycling of a range of organic waste types to agricultural land, land restoration and energy crops.

Review of the business, financial performance and future developments

Following the establishment of the company in 2009, the nine month period to December 2011 has seen the continuation of existing contracts along with the development of new opportunities from both third party and through internal opportunities within the Veolia Environnement group. The company is looking to build from this strong platform in the year ahead and beyond and is optimistic that further contracts will be secured as the business continues to establish its presence within this market sector.

On 25 April 2012 the company sold its investment in OTW Services Limited and as a result has impaired its investment to reflect the value of the company's interest in the joint venture at the date of disposal (see note 17 post balance sheet events).

The profit on ordinary activities after taxation for the nine month period ended 31 December 2011 is £32,000 (year ended March 2011 £569,000). The balance sheet as detailed on page 9 shows shareholders' funds amounting to £2,140,000 (March 2011 £2,108,000).

Key Performance Indicators ("KPIs") for the UK group are undertaken by the intermediate UK parent undertaking. The directors have therefore taken the decision not to disclose KPI's in individual subsidiary and joint venture accounts of the intermediate UK parent undertaking.

Dividends

No dividend was paid in the nine month period ended 31 December 2011 (year ended 31 March 2011 £nil).

Directors

The directors holding office during the year are disclosed on page 2.

Principal risks and uncertainties

Operational risk

The key risks are considered to be legislative and environmental. There is also the further risk of animal or bird disease restricting access to land. The company holds monthly management and executive meetings at which areas associated with risk are discussed and actions identified to implement controls and actions to mitigate the risks as far as possible.

Financial risk

The main financial risks are the competitive economic and industry conditions along with market factors associated with availability of disposal outlets. The company manages these risks through the monthly review of contract actual performance against both budgets and forecasts. This is accompanied by quarterly business review meetings where senior management routinely review individual contracts financial performance, the company risk register, business development prospects and developments on disposal outlets.

Veolia Water Organics Recycling Limited

Directors' report for the year ended 31 December 2011 (continued)

Post balance sheet events

Post balance sheet events relating to the company are disclosed in note 10 and note 17

Going concern

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to

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

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

Disclosure of information to auditors

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

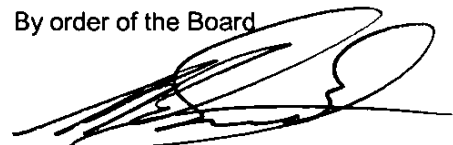
Veolia Water Organics Recycling Limited

Directors' report for the year ended 31 December 2011 (continued)

Auditors

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

By order of the Board

A handwritten signature in black ink, appearing to be 'M Saunders', written over a horizontal line.

M Saunders
Director
18 September 2012

Independent auditor's report to the members of Veolia Water Organics Recycling Limited

We have audited the financial statements of Veolia Water Organics Recycling Limited for the nine month period ended 31 December 2011 which comprise the Profit and loss account, the Balance sheet, and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the nine month period 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

ERNST & YOUNG LLP

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

24 September 2012

Veolia Water Organics Recycling Limited

Profit and loss account for the year ended 31 December 2011 (Registered Number 06972519)

	Notes	Nine month period ended 31 Dec 2011 £'000	Year ended 31 March 2011 £'000
Turnover	2	9,128	12,651
Cost of sales		(7,581)	(11,543)
Gross profit		1,547	1,108
Administrative expenses		(1,072)	(451)
Operating profit	3	475	657
Impairment of investment	10	(404)	-
Investment income		100	100
Interest receivable and similar income	5	-	1
Interest payable and similar charges	6	(20)	(8)
Profit on ordinary activities before taxation		151	750
Tax on profit on ordinary activities	7	(119)	(181)
Profit for the financial period/year	14	32	569

The results for the period/year above derive wholly from continuing activities

The company has no recognised gains or losses other than the results above, therefore no separate statement of total recognised gains and losses has been presented

There is no difference between the profit on ordinary activities before taxation and the profit for the financial period/year stated above and their historical cost equivalents

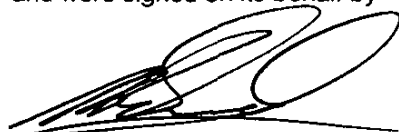
Veolia Water Organics Recycling Limited

Balance sheet at 31 December 2011

(Registered Number 06972519)

	Notes	December 2011 £'000	March 2011 £'000
Fixed assets			
Intangible assets	8	802	835
Tangible assets	9	60	78
Investments	10	257	661
		1,119	1,574
Current assets			
Debtors	11	7,537	6,155
Creditors: amounts falling due within one year	12	(6,516)	(5,621)
Net current assets		1,021	534
Net assets		2,140	2,108
Capital and reserves			
Called up share capital	13	1,560	1,560
Profit and loss account	14	580	548
Shareholders' funds	15	2,140	2,108

The financial statements on pages 8 to 17 were approved by the Board of Directors on 18 September 2012 and were signed on its behalf by



M Saunders
Director

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011

1 Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below.

Basis of financial statements

The company is a wholly owned subsidiary of another company incorporated in the European Union and in accordance with Section 248 of the Companies Act 2006 is not required to produce consolidated financial statements.

Cash flow statement

The company has taken advantage of the exemption in FRS1 from the requirement to produce a cash flow statement because it is a small company.

Revenue recognition

Revenue is recognised in accordance with FRS 5 'Reporting the substance of transactions' in the period in which it is earned. The company does not recognise revenue where payment is received in advance of the services performed. However, payments made in the previous period in respect of the current period will be recorded as revenue in the current period where such performance obligations have been met.

Interest

Bank and other interest is dealt with on an accruals basis. Interest is recorded in the financial statements on an accruals basis to the extent that an obligation to pay exists at the balance sheet date.

Intangible fixed assets and amortisation

Intangible assets are amortised over their estimated useful life.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition, and in other periods if events or changes indicate that the carrying value may not be recoverable.

Tangible fixed assets and depreciation

The book cost of tangible fixed assets is taken as the purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful lives of the assets concerned.

Where there is evidence of impairment, fixed assets are written down to their recoverable amount. Any such write down would be charged to operating profit. If the reasons for a previous impairment no longer apply the provision for diminution in value is written back to operating profit.

Investments

Fixed asset investments are stated at cost less any provisions in respect of permanent diminution in value.

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

1 Accounting policies (continued)

Current taxation

Current taxation being UK corporation tax, is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted at the balance sheet date

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax have occurred at the balance sheet date, with the following exception. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Accrued and deferred income

Income is accrued to the extent that the costs and attributable profit in the period on a contract exceed the amount invoiced for that contract. Income is deferred to the extent that the amount invoiced on a contract exceeds the costs and attributable profit incurred on that contract

2 Turnover

Turnover consists of fees earned from services provided arising in UK in the year, excluding value added tax. In contracts as a main contractor, turnover reflects costs incurred to date plus a best estimate of profits attributable to the work performed to date

3 Operating Profit

	Nine month period ended 31 Dec 2011 £'000	Year ended 31 March 2011 £'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets	27	17
Amortisation of intangible fixed assets	33	45
Auditor's remuneration:		
Audit fees	4	4

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

4 Staff costs

Dedicated staff of the company are paid for and reported in the statutory accounts of a joint venture partner – Veolia Water Outsourcing Limited. These staff are fully recharged at cost to the company. The company also utilises other technical and administrative services provided by Veolia Water Outsourcing Limited and SEDE Environnement SA, the Joint Venture partners. These services are managed through a combination of secondments, recharges and specific time based project allocations from the respective affiliated group undertakings.

No remuneration or pension contributions were paid to directors for services to the company (2011: £nil). These costs were paid by and charged in the accounts of other group companies. Of the total remuneration, a total amount of £4,000 can be attributed to the company for the qualifying services performed, split as follows:

Basic salary and fees	£2,000
Benefits	£1,000
Performance related bonuses	<u>£1,000</u>
Total	<u>£4,000</u>

Further details about the directors' remuneration and pension entitlements are included in the accounts of the relevant group companies.

5 Interest receivable and similar income

	Nine month period ended 31 Dec 2011 £'000	Year ended 31 March 2011 £'000
Interest receivable on loan to parent company	-	1

6 Interest payable and similar charges

	Nine month period ended 31 Dec 2011 £'000	Year ended 31 March 2011 £'000
Interest payable on loan from parent of joint venture partner	20	8

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

7 Tax on profit on ordinary activities

	Nine month period ended 31 Dec 2011 £'000	Year ended 31 March 2011 £'000
Current taxation:		
UK Corporation tax at 26% (year ended March 2011 28%)	121	184
Adjustment in respect of prior years	-	(1)
Current taxation charge for the period/year	121	183
Deferred taxation:		
Originating of timing differences in the period/year	(2)	(2)
Deferred taxation credit for the period/year	(2)	(2)
Tax on profit on ordinary activities for the period/year	119	181

The tax assessed for the period is higher (year ended 31 March 2011 lower) than the standard effective rate of corporation tax in the UK of 26%. The differences are explained below

	Nine month period ended 31 Dec 2011 £'000	Year ended 31 March 2011 £'000
Profit on ordinary activities before taxation	151	750
Profit on ordinary activities multiplied by standard rate in the UK 26% (year ended 31 March 2011 28%)	40	210
Accelerated depreciation	2	2
Adjustment in respect of prior years	-	(1)
Expenditure that is not tax deductible	105	-
Non taxable income	(26)	(28)
Current tax charge for the period/year	121	183

Factors that may affect future tax charges:

In his budgets of 2010, 2011 and 2012, the Chancellor of the Exchequer proposed a decrease in the rate of UK corporation tax from 26% to 22% falling by 2% in 2012 and a further 1% a year in 2013 and 2014. The first 1% reduction to 25% for 2012 was substantively enacted in 2011. The second 1% reduction to 24% for 2012 was substantively enacted on 26 March 2012 and, in accordance with UK GAAP, has been reflected in the Company's financial statements for year ended 31 December 2011.

The third 1% reduction to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. In accordance with accounting standards, the 23% rate will be reflected in the recognition of deferred tax balances in the Company's financial statements in respect of the year ended 31 December 2012 unless the further proposed reduction in the UK corporation tax rate to 22% is substantively enacted prior to 31 December 2012. The estimated effect should all existing timing differences reverse at the proposed rate of 22% would be to decrease the deferred tax asset by £nil.

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

8 Intangible assets

	Business contracts acquired £'000
Cost	
At 1 April 2011	899
Additions	-
At 31 Dec 2011	899
Accumulated amortisation	
At 1 April 2011	(64)
Charge for the period	(33)
At 31 Dec 2011	(97)
Net book value	
At 31 Dec 2011	802
At 1 April 2011	835

The business contracts were acquired as part of the purchase of the sludge disposal business unit of Veolia Water Outsourcing Limited on 22 October 2009 and is amortised over its estimated life of 20 years

9 Tangible assets

	Equipment and fittings £'000
Cost	
At 1 April 2011	96
Additions	9
At 31 Dec 2011	105
Accumulated depreciation	
At 1 April 2011	(18)
Charge for the period	(27)
At 31 Dec 2011	(45)
Net book value	
At 31 Dec 2011	60
At 1 April 2011	78

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

10 Investments

	Equipment and fittings £'000
Cost and net book amount – investment in joint venture	
Cost at 1 April 2011	661
Impairment of investment	(404)
Net book value at 31 December 2011	257

The company sold its investment in OTW Services Limited on 25 April 2012 (see note 17 Post balance sheet events) and as a result has impaired its investment to reflect the carrying value of OTW Services Limited at the date of disposal

11 Debtors

	Dec 2011 £'000	March 2011 £'000
Amounts falling due within one year		
Trade debtors	1,285	190
Amounts due from fellow group undertakings of joint venture partners	77	62
Amounts due from joint venture partners	5,376	4,772
Deferred tax asset	4	2
Other taxation and social security	-	291
Prepayments and accrued income	795	838
	7,537	6,155

There are no debtors due after more than one year

12 Creditors: amounts falling due within one year

	Dec 2011 £'000	March 2011 £'000
Trade creditors	77	703
Bank overdraft	6	7
Loan due to parent of joint venture undertaking	1,638	926
Amounts due to joint venture partners	2,841	1,610
Accruals and other creditors	1,408	2,200
Corporation tax	304	175
Other taxation and social security	242	-
	6,516	5,621

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

13 Called up share capital

	Dec 2011 £'000	March 2011 £'000
Allotted, called up and fully paid		
780,000 ordinary A shares of £1 each	780	780
780,000 ordinary B shares of £1 each	780	780
	1,560	1,560

On incorporation the company issued 2 £1 Ordinary shares at par

14 Profit and loss account

	£'000
1 April 2011	548
Profit for the financial period	32
31 December 2011	580

15 Reconciliation of movements in shareholders' funds

	Dec 2011 £'000	March 2011 £'000
Profit for the period/year	32	548
Opening shareholders' funds	2,108	1,539
Closing shareholders' funds	2,140	2,108

16 Related party transactions

Included within turnover for the nine month period ended 31 December 2011 are sales to Veolia Water Outsourcing Limited of £5,342,495 (year ended 31 March 2011 £8,803,828) Cost of sales include £452,728 for the nine month period ended 31 December 2011 (year ended 31 March 2011 £473,059) with Veolia Water Outsourcing Limited Administration costs include £819,146 for the nine month period ended 31 December 2011 (year ended 31 March 2011 £298,431) with Veolia Water Outsourcing Limited

At 31 December 2011 the company is owed £5,315,875 (March 2011 £4,720,737) by Veolia Water Outsourcing Limited by way of trading activity The company owes Veolia Water Outsourcing Limited £2,802,455 by way of trading activity at 31 December 2011 (March 2011 £1,521,386)

At 31 December 2011 the company owes Veolia Water UK Plc £1,637,984 (March 2011 £926,020) by way of loan arrangements

Included within administration costs at 31 December 2011 are payments to SEDE of £10,734 for the nine months ended 31 December 2011 (year ended 31 March 2011 £14,940) The company owes SEDE £38,649 at 31 December 2011 (31 March 2011 £21,165)

Veolia Water Organics Recycling Limited

Notes to the financial statements for the nine month period ended 31 December 2011 (continued)

17 Post balance sheet events

The company sold its 50% shareholding in OTW Services Limited on 25 April 2012 for £120,000. The company also received a dividend of £137,500 from OTW Services Limited prior to the sale (see note 10).

18 Controlling interest

The company is a joint venture between Veolia Water Outsourcing Limited (a company incorporated in the United Kingdom) and SEDE Environnement SA (a company incorporated in France). As each undertaking is owned by the same ultimate parent undertaking, the company considers Veolia Environnement SA (a company incorporated in France) to be the controlling party and is the smallest group to consolidate the financial statements of the company.

Copies of the group financial statements of Veolia Environnement SA may be obtained from the Head Office at 36-38 Avenue Kléber, 75116 Paris, France.