

Registered Number 2518607

**Veolia Water Outsourcing Limited
(formerly Thames Water Services Limited)**

Annual Report

for the year ended 31 March 2008

FRIDAY



LAIUM6YX

L30

30/01/2009

492

COMPANIES HOUSE

Annual report for the year ended 31 March 2008

	Pages
Directors and advisors	1
Directors' report	2 – 6
Independent auditors' report	7 – 8
Profit and loss account	9
Statement of recognised gains and losses	9
Balance sheet	10
Notes to the financial statements	11 – 31

Directors and advisors at 31 March 2008

Directors

F Devos	Managing Director	(Appointed 28 November 2007)
C Anderson		(Resigned 28 November 2007)
D J L Bates		(Appointed 28 November 2007)
O M Bret		(Appointed 23 July 2008)
M W Carr		(Resigned 28 November 2007)
J Cherrett		
R Dujardin		(Appointed 28 November 2007)
N J Earnshaw		(Appointed 25 January 2008)
P Harding		(Resigned 28 November 2007)
J M Hubert		(Appointed 25 January 2008)
K Luxon		(Appointed 25 January 2008/Resigned 18 November 2008)
J McKinley		(Resigned 28 November 2007)
C P Millington		(Resigned 28 November 2007)
J Mitchell		
D Muldoon		(Appointed 16 October 2008)
N Paterson		
D Wright		(Appointed 28 November 2007)

Secretary

B Boyewska	(Appointed 28 November 2007)
S H Byrne	(Resigned 28 November 2007)

Registered Office

King's Place
Fifth Floor
90 York Place
London
N1 9AG

Auditors

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

Registered Number

2518607

Directors' report for the year ended 31 March 2008

The Directors present their report and the audited financial statements for the period ended 31 March 2008. The Company changed its name from Thames Water Services Limited on 29 November 2007.

Principal activities

The principal activities of the Company in the period ended 31 March 2008 were the management, design, operation and maintenance of water-related infrastructure and customer outsourcing services.

Results and dividends

The Company's retained loss for the year is £16.5m (15 months ended 31 March 2007: £4.1m retained profit). An interim dividend of £nil was paid in the year (15 months ended 31 March 2007: £6.0m) and the Directors do not recommend payment of a final dividend (15 months ended 31 March 2007: £nil).

Review of business and future developments

On 28 November 2007 the Company was acquired by the Veolia Water UK plc group, via its subsidiary Veolia Water Enterprises Limited, from its previous owners Thames Water Limited.

A restructuring of the business took place both pre and post the acquisition by the Veolia Water UK plc group, as detailed below.

The Company acquired a 49% share holding in Stirling Water Seafeld Holdings Limited and its associated subordinated debt, from another subsidiary of Thames Water Limited, on 26 September 2007. On 31 December 2008 the Company entered into an agreement to acquire a further 41% of the shares of Stirling Water Seafeld Holdings Limited.

A number of contracts between the Company and its previous sister companies in the Thames Water group were terminated on 28 November 2007 and various receivables and payables were assigned to and assumed by other companies in the Thames Water group.

The Company relocated its primary administrative centre to London Road, Rickmansworth in early 2008, which unfortunately resulted in the redundancy of a number of senior employees and support staff. The costs of this reorganisation (£3.9m) have been fully provided for in the period.

Operationally, the Company continued its growth in the outsourced water infrastructure sector with the commencement of interim operations in Northern Ireland following the successful award of the Omega PPP contract by the Northern Ireland Water Service.

The Company's operating contract at the Stirling Water PPP continued to experience difficulties due to escalating energy and sludge disposal costs, but various remedial actions are being taken.

In general, the performance of the Company's underlying contracts has been good during the year, with activities with the Ministry Of Defence and Scottish Water being particularly strong.

The notable exception to this trend was the performance of the CTRL and Trans4m contracts linked to Metronet. The collapse of the Metronet consortium resulted in a significant write down in receivables during the year. The Company has disposed of its investment in the Metronet consortia sub-structure and any receivables and payables in existence at 28 November 2007 have been assigned to and assumed by other companies within the Thames Water group.

Directors' report for the year ended 31 March 2008 (continued)

Review of business and future developments (continued)

The Company received a dividend of £1.2m during the year from its investment in MUJV Limited, a business involved in the provision of utility services to the Ministry Of Defence in the Aldershot area.

Post the acquisition by Veolia Water on 28 November 2007 it has been possible to disaggregate the detail of the defined benefit pension scheme data and hence FRS17 accounting information has been recognised from that date.

Post the year end, the Company signed an agreement on 31 December 2008 to acquire 41% of Stirling Water Seafeld Holdings Limited, as referred to above.

Additionally, on 2 December 2008 the Company acquired the business of a company called Primeshade Limited from its administrative receivers. This business is primarily involved in the installation of utilities for housing developers and compliments the Company's existing activities in this area.

The Company forms part of the Veolia Water UK, Ireland and Northern Europe reporting group, a collection of business units and investments which are managed by reviewing performance against pre-determined budgets and key performance indicators. These are used as part of the monthly management process and include measures for financial performance, customer facing activities, process activities, employee matters, environmental performance and Health and Safety. As a result of the aggregation of data at the UK, Ireland and Northern Europe level, separate performance indicators for the Company are not included here.

Principal risks and uncertainties

The directors consider the principal risks and uncertainties to which the Company are exposed are those intrinsic to each individual contract and its ability to provide the services for which it is contracted. These contracted services include risks in the following areas: construction; environment; delivery timetables; operational; security and meeting forecasted costs.

Policy on payment of suppliers

The Directors are aware of the need for timely payment for goods and services received. It is the Group policy to settle the terms of payment with suppliers when agreeing terms of business and to pay in accordance with contractual and other legal obligations. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services.

Trade creditors (excluding inter-group) at 31 March 2008 represent 28 days (2006: 25 days) of purchases during the year for the Group.

Donations

Charitable donations of £nil (15 months ended 31 March 2007: £100) were made during the year.

Directors' report for the year ended 31 March 2008 (continued)

Employees

The Company consults its staff on matters of concern in the context of their employment.

The Company continued to carry out its obligations arising from the Health & Safety at Work Act 1974 through consultative committees consisting of management and employee representatives. The Group gives every consideration to applications for employment from disabled persons where the requirements of the job may be covered adequately by a handicapped or disabled person.

With regard to existing employees and those who have become disabled during the year, the Company has continued to examine ways and means of providing training and career development wherever appropriate.

During the year, the policy of providing employees with information about the Company 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.

Directors and their interests

The Directors of the Company who served during the period were:

F Devos	Managing Director	(Appointed 28 November 2007)
C Anderson		(Resigned 28 November 2007)
D J L Bates		(Appointed 28 November 2007)
O M Bret		(Appointed 23 July 2008)
M W Carr		(Resigned 28 November 2007)
J Cherrett		
R Dujardin		(Appointed 28 November 2007)
N J Earnshaw		(Appointed 25 January 2008)
P Harding		(Resigned 28 November 2007)
J M Hubert		(Appointed 25 January 2008)
K Luxon		(Appointed 25 January 2008/Resigned 18 November 2008)
J McKinley		(Resigned 28 November 2007)
C P Millington		(Resigned 28 November 2007)
J Mitchell		
D Muldoon		(Appointed 16 October 2008)
N Paterson		
D Wright		(Appointed 28 November 2007)

None of the Directors have any interests in the shares of the Company.

In accordance with Statutory Instrument 1985/802, the interests of the Directors in the shares of Veolia Environnement SA (the ultimate parent company) are not required to be disclosed.

Directors' report for the year ended 31 March 2008 (continued)

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 is obliged to take as a director in order to make himself aware of any relevant information and to establish that the auditor is aware of that information.

PricewaterhouseCoopers LLP resigned as auditors during the year. Ernst & Young LLP were appointed as auditors during the year.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the group. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

Elective resolutions

Pursuant to Sections 386, 366A and 252 of the Companies Act 1985, the Company passed the following elective resolutions on 11 November 2004:

- 1) to dispense with the obligation to appoint auditors annually.
- 2) to dispense with the holding of annual general meetings; and
- 3) to dispense with the laying of accounts and reports before the Company in a general meeting.

These elective resolutions will remain in effect until revoked by the passing of an ordinary resolution to that effect.

Directors' report for the year ended 31 March 2008 (continued)**Statement of directors' responsibilities in respect of the financial statements (continued)**

Notice is hereby given that members have the following rights while such Elective Resolutions are in force. These rights are invoked by serving notice in writing to the Company's Registered Office within the timescales specified.

- 1) To require the laying of accounts and reports before a general meeting, by serving notice within 28 days of receiving the report and accounts.
- 2) To require the holding of an annual general meeting in that calendar year, by serving notice before 30 September in any year.
- 3) To propose that the appointment of the Company's auditors be brought to an end, by serving notice at any time.

By order of the Board



D J L Bates
Director
30 January 2009

Independent auditors' report to the shareholders of Veolia Water Outsourcing Limited

We have audited the Company's financial statements for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion, the Directors' Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

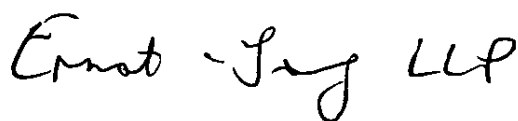
Independent auditors' report to the shareholders of Veolia Water Outsourcing Limited (continued)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its loss for the year;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.



Ernst & Young LLP

Registered auditor

London, England

30 January 2009

Profit and loss account for the year ended 31 March 2008

	Note	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Turnover	2	105,457	184,494
Cost of sales		<u>(113,255)</u>	<u>(152,841)</u>
Gross profit		(7,798)	31,653
Net operating costs	3	<u>(14,032)</u>	<u>(18,937)</u>
Operating (loss)/profit		(21,830)	12,716
Dividend income		1,223	-
Income from fixed asset investments		-	382
Release of provisions on discontinued operation	18	<u>-</u>	<u>723</u>
(Loss)/profit on ordinary activities before interest and taxation		(20,607)	13,821
Interest receivable	6	1,832	506
Interest payable	7	(342)	(134)
Other finance costs	8	<u>(6)</u>	<u>-</u>
(Loss)/profit on ordinary activities before taxation		(19,124)	14,193
Taxation on (loss)/profit on ordinary activities	9	<u>2,578</u>	<u>(4,058)</u>
(Loss)/profit on ordinary activities after taxation		<u>(16,546)</u>	<u>10,135</u>

Activity continued across all business units during the year.

Statement of total recognised gains and losses for the year ended 31 March 2008

	Note	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
(Loss)/profit for the period		<u>(16,546)</u>	<u>10,135</u>
Actuarial loss recognised in the pension scheme	20	(888)	-
Deferred tax arising thereon	20	249	-
Total (losses)/profits recognised for the period		<u>(17,185)</u>	<u>10,135</u>

Balance sheet as at 31 March 2008

	Note	31 March 2008 £'000	31 March 2007 £'000
Fixed assets			
Intangible assets	11	-	757
Tangible assets	12	2,010	1,978
Investments	13	286	-
		<u>2,296</u>	<u>2,735</u>
Current assets			
Stocks	14	1,562	8,115
Debtors	15	43,662	42,484
Cash at bank and in hand		4,698	18,857
		<u>49,922</u>	<u>69,456</u>
Creditors: amounts falling due within one year	16	<u>(38,502)</u>	<u>(42,322)</u>
Net current assets		<u>11,420</u>	<u>27,134</u>
Total assets less current liabilities		<u>13,716</u>	<u>29,869</u>
Creditors: amounts falling due after more than one year	17	-	(1,739)
Provisions for liabilities and charges	18	(6,080)	(5,015)
Net pension liability	20	<u>(981)</u>	<u>-</u>
Net assets		<u><u>6,656</u></u>	<u><u>23,115</u></u>
Capital and reserves			
Called-up share capital	21	13,000	13,000
Share premium account	22	1,000	1,000
Profit and loss account	23	(7,344)	10,191
Equity shareholders' funds	24	<u><u>6,656</u></u>	<u><u>24,191</u></u>

The financial statements on pages 9 to 31 were approved by the board of Directors on 30 January 2009 and were signed on its behalf by:



D J L Bates
Director

Notes to the financial statements for the year ended 31 March 2008

1 Principal accounting policies

Basis of preparation and accounting

The directors consider it appropriate to prepare the accounts on a going concern basis, since the parent undertaking agreed to provide sufficient finance, whether directly or through one of its subsidiaries to enable the company to meet its liabilities as they fall due for the foreseeable future.

The financial statements have been prepared on the going concern basis and in accordance with the historical cost convention and with applicable accounting standards in the UK and with the Companies Act 1985.

In accordance with the requirements of FRS 18, the Directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

The Company has not prepared consolidated group financial statements, as permitted under section 228 of the Companies Act 1985. The Company and its subsidiaries are included in the consolidated accounts of its parent company Veolia Water UK PLC, a company registered in the UK.

Turnover

Revenue is recognised in accordance with FRS 5 in the period in which it is earned. The company does not recognise revenues where payment is received in advance. However payments made in the previous period in respect of the current year will be recorded as revenue in the current period.

Interest and dividends

Bank and short term deposit interest receivable is dealt with on an accruals basis.

Bad Debt provisioning

The bad debt provision is calculated by applying a range of different percentages to debt of different ages.

Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation.

Depreciation is provided on tangible fixed assets (except freehold land) and is calculated to write off their cost over their estimated useful lives on a straight line basis. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term. The performance of assets is continually monitored and where impairment is identified, fixed assets are written down to their recoverable amount. Any such write down would be charged to operating profit. Tangible fixed assets are reviewed for impairment at the end of each reporting period when the estimated remaining useful economic life of the assets exceeds 50 years. The estimated useful lives of tangible fixed assets are:

Buildings	10 – 100 years
Plant and equipment	2 – 10 years
Fixtures and fittings	3 – 10 years

Freehold land is not depreciated.

Notes to the financial statements for the year ended 31 March 2008

1 Principal accounting policies

Investments

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

Stocks and work in progress

Stock and work in progress, with the exception of long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Long term contracts

Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts.

Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs, the excess is disclosed in provisions for liabilities and charges.

Operating leases

Rentals paid under an operating lease are charged against profits on a straight-line basis over the life of the lease.

Deferred Taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets;
- c) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

Notes to the financial statements for the year ended 31 March 2008

1 Principal accounting policies

Deferred Taxation (continued)

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

The Group has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money. Deferred tax assets and liabilities are discounted using a discount rate equivalent to the post tax yield that could be obtained at the balance sheet date on government bonds with similar maturity dates and currencies. The increase or decrease in the discount deducted in arriving at the deferred tax balance is included in the deferred tax charge or credit in the profit and loss account.

Pension costs

The Company operates a defined benefit pension scheme (closed to new members) and a defined contribution scheme.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit method and discounted at the rate of return of a high quality corporate bond of equivalent term to the liability.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Employer's contributions to the defined contribution scheme are charged to the profit and loss account in the period in which they arise.

Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes to the financial statements for the year ended 31 March 2008 (continued)

2 Segmental reporting

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
United Kingdom	105,457	182,017
Continental Europe	-	2,477
	<u>105,457</u>	<u>184,494</u>

3 Net operating costs

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Operating profit is stated after charging / (crediting):		
Net contractual obligation (note 18)	(3,955)	1,216
Restructuring costs (note 18)	3,867	831
Other employee provisions (note 18)	1,124	-
Pension provision (note 18)	(600)	300
Loss/(profit) on sale of fixed assets	745	(372)
Depreciation of tangible fixed assets		
-owned fixed assets (note 12)	554	838
Amortisation of intangible fixed assets (note 13)	-	249
Auditors' remuneration for audit services	76	90
Operating lease charges		
-other	386	360

Notes to the financial statements for the year ended 31 March 2008 (continued)

4 Directors' emoluments

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Aggregate emoluments	2,341	1,296
Aggregate emoluments receivable under long-term incentive schemes	-	178
	<u>2,341</u>	<u>1,474</u>

There are no directors (Mar 2007: 8) with retirement benefits accruing under the Company's defined benefit scheme.

A number of directors are employed elsewhere within the Veolia Water group. The costs of emoluments for these directors are therefore recorded elsewhere within the group.

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Highest paid Director		
Total amount of emoluments and amounts receivable under long-term incentive scheme	<u>638</u>	<u>447</u>
Accrued pensions benefit for the period	<u>-</u>	<u>21</u>

5 Employee information

The average monthly number of persons (including executive Directors) employed by the Company during the period was:

	Year ended 31 March 2008	Period ended 31 March 2007
Average monthly number of employees	<u>772</u>	<u>1,204</u>

The average number of employees includes the actual headcount relating to full-time and part-time employees.

Notes to the financial statements for the year ended 31 March 2008 (continued)

5 Employee information (continued)

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Staff costs		
Wages and salaries	23,071	40,659
Social security costs	2,090	3,420
Pension costs (note 20)	2,537	6,402
	<u>27,698</u>	<u>50,481</u>

6 Interest receivable

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Interest receivable on subordinated debt	1,058	-
Interest receivable on bank deposits	774	506
	<u>1,832</u>	<u>506</u>

7 Interest payable

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Interest payable to group undertakings	(252)	(124)
Interest payable on bank overdrafts	(90)	-
Other interest payable	-	(10)
	<u>(342)</u>	<u>(134)</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

8 Other finance costs

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Expected return on pension scheme assets	238	-
Interest on pension scheme liabilities	(244)	-
	<u>(6)</u>	<u>-</u>

9 Taxation

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Current period:		
Amounts payable in respect of group relief	(5,106)	4,041
Adjustments in respect of previous periods	768	(169)
Total current tax	<u>(4,338)</u>	<u>3,872</u>
Deferred tax:		
Current year:		
Origination and reversal of timing differences	(1,058)	97
Other timing differences	2,688	-
Effect of decreased rate on closing liability/change in tax law	130	-
Prior year:		
Deferred tax previously recognised	-	89
Taxation on (loss)/profit on ordinary activities	<u>(2,578)</u>	<u>4,058</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

The tax assessed for the period is lower (Mar 2007: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

9 Taxation (continued)

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
(Loss)/profit on ordinary activities before taxation	(19,124)	14,193
Tax on (loss)/profit on ordinary activities at the standard rate of 30% (Mar 2007: 30%)	(5,737)	4,258
Effect of:		
Income not taxable	(367)	(114)
Depreciation in excess of capital allowances	-	(10)
Other timing differences	1,058	(86)
Profit on disposal of fixed assets	-	(107)
Other permanent differences	(60)	100
Adjustments to tax charge in respect of previous periods	768	(169)
Current tax (credit)/charge for the period	(4,338)	3,872

10 Dividends

	Year ended 31 March 2008 £'000	Period ended 31 March 2007 £'000
Interim paid: £Nil (Mar 2007: 46.15p) per ordinary share	-	6,000

Notes to the financial statements for the year ended 31 March 2008 (continued)

11 Intangible fixed assets

	Goodwill	Patents & licences	Total
	£'000	£'000	£'000
Cost			
At 1 April 2007	2,755	1,191	3,946
Disposals	(2,755)	(1,191)	(3,946)
At 31 March 2008	-	-	-
Amortisation			
At 1 April 2007	2,033	1,156	3,189
Disposals	(2,033)	(1,156)	(3,189)
At 31 March 2008	-	-	-
Net book value at 31 March 2008	-	-	-
Net book value at 31 March 2007	722	35	757

12 Tangible fixed assets

	Freehold land & buildings	Fixtures, fittings, plant & equipment	Total
	£'000	£'000	£'000
Cost			
At 1 April 2007	309	5,447	5,756
Additions	-	1,399	1,399
Disposals	-	(3,814)	(3,814)
At 31 March 2008	309	3,032	3,341
Depreciation			
At 1 April 2007	8	3,770	3,778
Charge for period	9	545	554
Disposal	-	(3,001)	(3,001)
At 31 March 2008	17	1,314	1,331
Net book value at 31 March 2008	292	1,718	2,010
Net book value at 31 March 2007	301	1,677	1,978

No assets were held under finance leases in the year (Mar 2007: nil).

Notes to the financial statements for the year ended 31 March 2008 (continued)

13 Fixed asset investment

	Interests in group undertakings £'000
Cost	
At 1 April 2007	1,882
Additions	284
Disposals	(1,880)
At 31 March 2008	286
Impairment	
At 1 April 2007	806
Disposals	(806)
At 31 March 2008	-
Net book value at 31 March 2008	286
Net book value at 31 March 2007	1,090

In the opinion of the Directors, the value of the investments in all subsidiary companies, associates and joint ventures is not less than the amounts included in the balance sheet.

Interests in group undertakings

	Year end	Country of incorporation	Description of shares held	Nature of business
Veolia Water Nevis Limited	31-Mar	Great Britain	Ordinary £1	Water services

The Company is exempt from the requirement to prepare consolidated financial statements since its subsidiaries are wholly owned and included in the consolidated financial statements of the ultimate parent company.

In accordance with S231(5) of the Companies Act 1985, information is given only with respect to such undertakings whose financial position principally affect the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

Notes to the financial statements for the year ended 31 March 2008 (continued)

13 Fixed asset investment (continued)

Investments in joint ventures

Name of Undertaking	Year end	Country of incorporation	Description of shares held	Proportions of nominal value of	Nature of business
Stirling Water (2003) Limited	31-Mar	Great Britain	Ordinary £1	25%	Water and waste water services
Stirling Water Seafeld Holdings Limited	31-Mar	Great Britain	Ordinary £1	49%	Waste water services
Glen Water (Holdings) Limited	31-Mar	Great Britain	Ordinary £1	50%	Waste water services
OTW Services Limited	30-Nov	Great Britain	Ordinary £1	50%	Industrial Waste recycling
MUJV Limited	31-Dec	Great Britain	Ordinary £0.01	50%	Utility infrastructure management services

14 Stocks

	31 March 2008 £'000	31 March 2007 £'000
Raw materials and consumables	926	1,376
Work in progress	636	6,739
	<u>1,562</u>	<u>8,115</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

15 Debtors

	31 March 2008 £'000	31 March 2007 £'000
Amounts falling due within one year:		
Trade debtors	3,019	5,645
Loan to intermediate parent	4,643	-
Amounts owed by group undertakings	674	15,365
Subordinated debt	378	-
Deferred tax (note 19)	-	5,140
Other taxes	84	-
Corporation tax and group relief receivable	3,812	-
Other debtors	12	2,704
Prepayments and accrued income	13,540	13,630
	<u>26,163</u>	<u>42,484</u>
Amounts falling due after more than one year:		
Subordinated debt	<u>17,499</u>	<u>-</u>
Total debtors	<u>43,662</u>	<u>42,484</u>

The loan to intermediate parent is unsecured, repayable on demand and attracts interest at rates linked to LIBOR.

The subordinated debt reflects a loan to Stirling Water Seafeld Limited (a wholly owned subsidiary of Stirling Water Holdings Seafeld Limited). This loan attracts interest at 5.772% and is repayable in semi-annual instalments. The debt will be fully repaid by March 2027.

16 Creditors: amounts falling due within one year

	31 March 2008 £'000	31 March 2007 £'000
Trade creditors	1,220	5,331
Amounts due to group undertakings	8,804	18,659
Other taxation and social security payable	186	1,834
Group relief payable	-	1,568
Other creditors	4,617	153
Accruals and deferred income	23,676	14,777
	<u>38,502</u>	<u>42,322</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

17 Creditors: amounts falling due after more than one year

	31 March 2008 £'000	31 March 2007 £'000
Amounts due to group undertakings	-	1,739

18 Provisions for liabilities and charges

	Deferred Tax (see note 19) £'000	Disposal Provisions £'000	Contract Obligations £'000	Restructure Provisions £'000	Other Employee Provisions £'000	Total £'000
At 1 April 2007	-	460	3,955	-	600	5,015
Transferred from debtors	(5,140)	-	-	-	-	(5,140)
Additions in the period	(337)	-	-	3,401	1,724	4,788
Released in the period	1,367	-	(3,955)	-	(600)	(3,189)
Utilised during the period	4,605	-	-	-	-	4,605
At 31 March 2008	495	460	-	3,401	1,724	6,080

The disposal provision relates to the disposal of the Subterra business unit. The timing and amounts to be utilised are uncertain.

The restructuring provision relates to employment costs following the restructuring of the business following the acquisition of the company by Veolia Water.

Other employee provisions relate to contractual obligations concerning employees involved in TUPE transfers from public authorities.

Notes to the financial statements for the year ended 31 March 2008 (continued)

19 Deferred taxation

The recognised deferred tax liabilities/(assets) are as follows:-

	31 March 2008 £'000	31 March 2007 £'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	(196)	(196)
Pension contributions	-	(180)
Capital losses	-	(4,411)
Other	691	(353)
	<u>495</u>	<u>(5,140)</u>
	31 March 2008 £'000	31 March 2007 £'000
Deferred tax within "Debtors"	(5,140)	(915)
Total deferred tax asset as at 1 April	<u>(5,140)</u>	<u>(915)</u>
Deferred tax charged to the profit and loss account	1,760	186
Deferred tax credited to the statement of recognised gains and losses	(249)	-
Deferred tax on recognition of FRS17	(136)	-
Transfer of capital allowances	4,605	-
Other adjustments	(728)	-
Adjustments in respect of prior years	-	(4,411)
Total deferred tax liability/(asset) as at 31 March	<u>113</u>	<u>(5,140)</u>
Analysed as follows:-		
Deferred tax within "Debtors"	-	(5,140)
Deferred tax within "Provisions"	495	-
Deferred tax within "Net Pensions"	(381)	-
Total deferred tax liability/(asset) as at 31 March	<u>113</u>	<u>(5,140)</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

20 Pension commitments

At 1 April 2007 the majority of the Company's employees were members of defined benefit pension schemes provided by the Thames Water Group, the Thames Water Pension Scheme or the Thames Water Mirror Image Pension Scheme.

The Thames Water group pension schemes are of a multi-employer nature and hence any surplus and deficit is recognised in the financial statements of Thames Water Utilities Limited.

All employees left these schemes on 28 November 2007 when the Company was acquired by the Veolia Water UK plc group.

On 29 November 2007, a new defined benefit division of the Veolia UK Pension Plan (VUKPP) was created ("DCCS" division) and 164 employees were transferred into this scheme.

Other employees, who were not eligible to join the above scheme, were allowed to join the defined contribution division of the VUKPP as of 1 April 2008.

Veolia UK Pension Plan ("DCCS" Division)

The Scheme was inaugurated as at 1 April 1996 as the Générale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the Générale des Eaux UK Pension Plan on 1 April 1998 and is now known as the Veolia UK Pension Plan (VUKPP).

The Scheme operates a divisionalised structure within the overall plan. The "DCCS" division was created on 29 November 2007.

Contributions to the Veolia UK Pension Plan over the year ending 31 March 2008 were paid by members in accordance with the Rules of the Plan and by the Company at 20% of Pensionable Salary.

A preliminary valuation of the DCCS division of the VUKPP, determined by an independent qualified actuary, was at 31 December 2007. The valuation was made on the "attained age" funding method. The actuarial valuation made the following assumptions:

Rate of investment return	6.0% (pre-retirement) 5.3% (post-retirement)
Rate of increase in remuneration	4.3%
Rate of pension increase	3.3%

The valuation as 31 December 2007 stated the market valuation of the plan to be £2,400,000 with a funding level of 82%.

Supplementary pension disclosures under FRS 17 for the Veolia UK Pension Plan

a) Contributions

Company contributions under the Veolia UK Pension Plan were reviewed following the preliminary valuation as at 31 December 2007. Contributions made in the year to 31 March 2008 were £240,000.

Notes to the financial statements for the year ended 31 March 2008 (continued)

20 Pension commitments (continued)

b) FRS 17 balance sheet information

	At 31 March 2008		
	Value	Split of fund	Long term rate of return expected
	£'000	% of fund	(% pa)
Equities	11,022	97.0	6.8
Gilts	341	3.0	4.4
Fair value of assets	11,363	100.0	
Present value of scheme liabilities	(12,725)		
Actuarial deficit	(1,362)		
Deferred tax	381		
Actuarial deficit after tax	(981)		

c) Assumptions

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

In calculating the liabilities of the Plans, the following financial assumptions have been used:

	At 31 March 2008
Discount rate	6.1% pa
Salary growth	5.0% pa
RPI	3.5% pa
Pension-in-payment increases	3.5% pa

Deferred pensions are re-valued to retirement age in line with the RPI assumption of 3.5% pa unless otherwise prescribed by statutory requirements or the Plan Rules.

d) Analysis of the amount charged to operating profit

	Year ended 31 March 2008 £'000
Current service cost	223
Total operating charge	223

Notes to the financial statements for the year ended 31 March 2008 (continued)

20 Pension commitments (continued)

e) Analysis of the amount credited to other finance income

	Year ended 31 March 2008 £'000
Expected return on pension scheme assets	238
Interest on pension scheme liabilities	(244)
Net finance cost	<u>(6)</u>

f) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

	Year ended 31 March 2008 £'000
Actual return less expected return on the pension schemes' assets	(934)
Experience gains and losses arising on the pension schemes' liabilities	-
Changes in assumptions underlying the present value of the pension schemes' liabilities	46
Actual loss recognised in STRGL	<u>(888)</u>

g) Movement in deficit in the year

	Year ended 31 March 2008 £'000
Deficit acquired at 27 November 2008	(485)
Movement in period:	
Current service cost	(223)
Contributions	240
Other finance cost	(6)
Actuarial loss	(888)
Deficit in scheme at end of the period	<u>(1,362)</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

20 Pension commitments (continued)

h) History of experience gains and losses

	Year ended 31 March 2008 £'000
Difference between the expected and actual return on schemes' assets:	
Amount (£'000)	(934)
Percentage of schemes' assets	8.0%
Experience gains and losses on schemes' liabilities:	
Amount (£'000)	-
Percentage of the present value of the schemes' liabilities	0.0%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£'000)	46
Percentage of the present value of the schemes' liabilities	0.4%

i) Additional pension costs

The Company's contributions to the Thames Water Pension Plans in the year totalled £2,914k (15 months ended 31 March 2007: £6,102k).

The total pension costs (per Note 5) comprises:-

	Year ended 31 March 2008 £'000
Contributions to Thames Water plans	2,914
Pension provision release (per Note 18)	(600)
FRS17 Service cost	223
Total pension costs	<u>2,537</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

21 Share capital

	31 March 2008 £'000	31 March 2007 £'000
Authorised		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>

22 Share premium reserves

	£'000
At 1 April 2007 and 31 March 2008	<u>1,000</u>

23 Profit and loss account reserve

	£'000
At 1 April 2007	10,191
Adjustment to reserves on recognition of FRS17	(485)
Deferred tax arising thereon	136
Actuarial loss recognised in the pension scheme	(888)
Deferred tax arising thereon	249
Retained loss for the period	(16,546)
At 31 March 2008	<u>(7,344)</u>

Notes to the financial statements for the year ended 31 March 2008 (continued)

24 Reconciliation of movements in equity shareholders' funds

	31 March 2008 £'000	31 March 2007 £'000
(Loss)/profit for the financial period	(16,546)	10,135
Adjustment to reserves on recognition of FRS17	(485)	-
Deferred tax arising thereon	136	-
Other recognised losses	(888)	-
Deferred tax arising thereon	249	-
Dividends	-	(6,000)
Movement in equity shareholders' funds	(17,535)	4,135
Opening equity shareholders' funds	24,191	20,056
Closing equity shareholders' funds	6,656	24,191

25 Financial commitments

At 31 March 2008 the Company had annual commitments under non-cancellable operating leases for assets other than land and buildings expiring as follows:

	31 March 2008 £'000	31 March 2007 £'000
Other:		
Expiring within one year	83	29
Expiring between one and two years inclusive	46	105
Expiring between two and five years inclusive	9	116
	138	250

Notes to the financial statements for the year ended 31 March 2008 (continued)

25 Related party transactions

Sales of £2,331,000 (15 months to March 2007: £2,061,000) were made to Stirling Water (2003) during the year. The balance owed by Stirling Water (2003) Limited at 31 March 2008 was £883,000 (31 March 2007: £320,000).

Sales of £10,214,000 (15 months ended March 2007: £12,785,000) were made to Stirling Water Seafield Limited during the year. The balance owed by Stirling Water Seafield Limited at 31 March 2008 was £1,242,000 (March 2007: £1,116,000).

Sales of £4,321,000 (15 months to March 2007: £2,386,000) were made to Scottish Water Solutions Limited, (a joint venture of Stirling Water (2003) Limited) during the year. The balance owed to Scottish Water Solutions Limited at 31 March 2008 was £49,000 (March 2007: £21,000).

Sales of £9,743,000 (15 months to March 2007: £758,000) were made to MUJV Limited during the year. The balance owed by MUJV Limited at 31 March 2008 was £811,000 (March 2007: £161,000).

Sales of £462,000 (15 months to March 2007: £nil) were made to Glen Water Limited during the year. The balance owed by Glen Water Limited at 31 March 2008 was £265,000 (March 2007: £nil).

26 Immediate and ultimate parent companies and controlling undertaking

Veolia Water UK PLC, a company registered in Great Britain, is the parent undertaking of the smallest group to consolidate the financial statements of the Company. Veolia Environnement SA, a company incorporated in France, is the parent undertaking of the largest group to consolidate these financial statements, and is the ultimate holding and controlling company.

Copies of the group financial statements of Veolia Water UK PLC may be obtained from the Head Office at Kings Place, Fifth Floor, 90 York Way, London N1 9AG.

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.