

VEOLIA WATER OUTSOURCING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

(Registered Number 2518607)



Veolia Water Outsourcing Limited

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Veolia Water Outsourcing Limited

Directors and advisors

Directors

F Devos (Managing Director)

D J L Bates

O M Bret

J Cherrett (Resigned 25 10 11)

J C Conlon (Resigned 30 11 11)

A J Dench (Appointed 25 10 11)

N J Earnshaw

P A M Eymery (Resigned 07 12 11)

J Mitchell (Resigned 20 10 11)

D Muldoon (Resigned 02 11 11)

N Paterson

M R Saunders

D Walton (Resigned 30 09 11)

D Wright (Resigned 15 11 11)

Secretary

N D C Craig (Appointed 11 02 11)

B Boyewska (Resigned 21 01 11)

Registered office

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

Auditors

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

Registered number

2518607

Veolia Water Outsourcing Limited

Directors' report for the year ended 31 March 2011

The directors present their report and the audited statutory financial statements for the year ended 31 March 2011

Principal activities

The principal activities of the company for the year ended 31 March 2011 were the management, design, operation and maintenance of water and waste water related infrastructure and customer outsourcing services

Review of business, financial performance and future developments

The loss on ordinary activities after tax for the year was £3 347m (2010 £9 697m profit)

The balance sheet on page 10 shows shareholder's funds of £40 661m (2010 £14 548m)

The company received dividends of £1 030m during the year (2010 £1 200m) from its investments in MUJV Limited, a business involved in the provision of utility services to the Ministry Of Defence in the Aldershot area

One of the primary business objectives this year was to continue to successfully bid for a number of large outsourcing contracts put to tender by statutory water undertakings and other parties involved in the construction, operation and maintenance of water and waste water infrastructure assets

A major success achieved in the period was the award of a contract to manage the delivery over the next 5 years of a significant proportion of Scottish Water's capital programme to a consortium led by the company Thistle Water Limited

Further, in December 2010 the company formed a new joint venture entity, Vennsys Limited, to enter into a 9 25 year contract with Thames Water to deliver their meter installation and reading programmes. The company owns 51% of the ordinary equity and 100% of the preference equity of Vennsys Limited, acquired for an investment of £1 2m

Further substantial contract awards are expected to be made by statutory water undertakings over the course of the next few years and the company remains confident that it will benefit from these

Operationally, the company continued to provide operation and maintenance services to the Omega PPP project in Northern Ireland and the Stirling Water PPP project in Scotland. Both projects have their challenges, but the company has proven itself capable of rising to and dealing with these as befits a subsidiary of the largest water company in the world

The performance of the company's other major contracts remained positive during the year, with activities with the Ministry of Defence, Scottish Water and Welsh Water being particularly strong

The company forms part of the Veolia Water UK Plc reporting group, a collection of business units and investments which are managed by reviewing performance against pre-determined budgets and key performance indicators ("KPIs"). 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 level, separate performance indicators for the company are not included here

Veolia Water Outsourcing Limited

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

Acquisitions and disposals during the year

On 9 November 2010, the company's immediate parent undertaking, Veolia Water Enterprise Limited, purchased the entire share capital of a number of entities in the UK from United Utilities Plc for a total cash consideration of £42 932m

On 28 November 2010, the company acquired from Veolia Water Enterprise Limited 100% of the ordinary share capital of the following entities (which they had acquired from United Utilities Plc as part of the transaction above)

- Veolia Water Capital Delivery Limited
- Veolia Water Operational Services (Highland) Limited
- Veolia Water Operational Services (Moray) Limited
- Veolia Water Operational Services (Tay) Limited
- United Utilities Operational Services (Industrial Contracts) Limited

In consideration for these acquisitions, the company issued and allotted 22 million shares of £1 00 each to Veolia Water Enterprise Limited for £29 710m. This value represented the book value of the entities acquired.

This included an amount of £8 737m for United Utilities Operational Services (Industrial Contracts) Limited which was immediately disposed of to Veolia Water Solutions & Technology at book value. This disposal formed part of the overall UK group strategy to restructure its industrial contracts portfolio of companies, which also included the company's investment in Veolia Water Industrial Outsourcing Limited which was sold on the same day to Veolia Water Solutions & Technology for a consideration of £4 518m, resulting in a profit on disposal of £2 003m.

The outsourcing activities of the acquired business can be summarised as follows, including those in which the company now owns a stake through a number of subsidiary undertakings:

- engineering services contracts including independent multi-utility connections for private network owners in the UK utilities and infrastructure market,
- MOD contractor services with a long term contract for the operation and maintenance of the water and waste water utility systems,
- the project management and delivery of the Southern Water investment program for both AMP4 and AMP5 regulatory periods, as well as the capital delivery project for a new sewerage works and pumping stations in the Brighton and Hove area, again for Southern Water, and
- operation and maintenance activities of three Scottish PFI contracts, in which an interest is held by Veolia Water Enterprise Limited, being long term concession schemes for Scottish Water to finance, design, build and operate wastewater and sewage treatment plants, for which the construction phase is complete and each is now in the O&M phase.

Dividends

No dividend was paid in the year (2010: £nil)

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.

Veolia Water Outsourcing Limited

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

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.

Donations

Charitable donations of £nil (2010: £nil) were made during the year.

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.

Pensions

In July 2010, the government announced that it would, in future, use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation of pensions paid from private sector occupational pension schemes. The CPI basis has therefore been used for the calculation of pension scheme related amounts as indicated in Note 19, with the change being treated as an actuarial gain in the benefit obligation reconciliation, and resulting in a significant decrease in the overall obligation at 31 March 2011.

Directors

The directors of the company who served during the year are shown on page 2.

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, available debt facilities, and support of the wider Veolia group. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Veolia Water Outsourcing Limited

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

Post balance sheet events

There were no post balance sheet events relating to the Company, other than those as disclosed in Note 9

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, each director has taken all steps that he is obliged to take as a director in order to make himself aware of that information and to establish that the company's auditor is aware of that information.

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



D J L Bates
Director

29/12/11

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

We have audited the financial statements of Veolia Water Outsourcing Limited for the year ended 31 March 2011 which comprise the Profit and loss account, the Statement of total recognised gains and losses, Balance sheet and the related notes 1 to 26. 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 6, 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 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 March 2011 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.

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

29 DECEMBER 2011

Veolia Water Outsourcing Limited

Profit and loss account for the year ended 31 March 2011 (Registered Number 2518607)

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Turnover	2	68,592	74,946
Cost of sales		(63,757)	(68,701)
Gross profit		4,835	6,245
Net operating costs		(13,994)	(2,347)
Operating (loss)/profit	3	(9,159)	3,898
Dividend income		1,030	1,200
Profit on disposal of investment		2,003	1,560
(Loss)/profit on ordinary activities before interest and taxation		(6,126)	6,658
Interest receivable	6	2,086	1,622
Interest payable	7	(990)	(725)
Other finance costs	8	(267)	(92)
(Loss)/profit on ordinary activities before taxation		(5,297)	7,463
Taxation on (loss)/profit on ordinary activities	9	1,950	2,234
(Loss)/profit on ordinary activities after taxation for the financial year		(3,347)	9,697

The results for the years above derive wholly from continuing activities

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

Veolia Water Outsourcing Limited

Statement of total recognised gains and losses for year ended 31 March 2011

(Registered Number 2518607)

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
(Loss)/profit for the year		<u>(3,347)</u>	<u>9,697</u>
Actuarial loss recognised in the pension scheme	19	(209)	(4,469)
Deferred tax charge arising thereon	18	59	1,251
Effect of decreased tax rate on closing liability / change in tax law		(100)	-
Total (losses)/gains recognised for the year		<u>(3,597)</u>	<u>6,479</u>

Veolia Water Outsourcing Limited

Balance sheet as at 31 March 2011 (Registered Number 2518607)

	Note	31 March 2011 £'000	31 March 2010 £'000
Fixed assets			
Intangible assets	11	414	438
Tangible assets	12	8,246	4,313
Investments	13	<u>24,777</u>	<u>4,324</u>
		33,437	9,075
Current assets			
Stocks	14	3,630	6,081
Debtors	15	92,926	53,124
Cash at bank and in hand		<u>980</u>	<u>1,553</u>
		97,536	60,758
Creditors: amounts falling due within one year	16	<u>(85,248)</u>	<u>(52,191)</u>
Net current assets		12,288	8,567
Total assets less current liabilities		45,725	17,642
Creditors: amounts falling due after more than one year			
Provisions for liabilities and charges	17	(2,349)	(90)
Net pension liability	19	<u>(2,715)</u>	<u>(3,004)</u>
Net assets		<u>40,661</u>	<u>14,548</u>
Capital and reserves			
Called up share capital	20	35,000	13,000
Share premium account	21	8,710	1,000
Profit and loss account	22	<u>(3,049)</u>	<u>548</u>
Shareholders' funds	23	<u>40,661</u>	<u>14,548</u>

The financial statements on pages 8 to 33 have been approved by the Board of Directors on 29/12/11 and were signed on its behalf by



D J L Bates
Director

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011

1 Accounting policies

Basis of accounting

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.

No transactions were recognised in respect of the share based payments for the year ended 31 March 2011 because the amounts were not material.

Basis of financial statements

The company has not prepared consolidated group financial statements, as permitted under Section 400 of the Companies Act 2006. 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.

Cash flow statement

The company has taken advantage of the exemption granted in paragraph 5a of FRS 1(Revised) not to prepare a cash flow statement as it is included in the consolidated financial statements prepared by its ultimate parent company.

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 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.

Goodwill

Positive goodwill is the excess of the cost of the acquired entity over the aggregate of the fair values of the entity's identifiable assets and liabilities. Negative goodwill is the excess of the fair value of the acquired entity over the cost of its acquisition. Goodwill arising on the acquisition of trade and assets is capitalised and amortised in accordance with FRS 10 'Goodwill and intangible assets'. Goodwill is amortised over a life of not greater than 20 years.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Accounting policies (continued)

Intangible fixed assets

Costs incurred in securing some contracts are capitalised and amortised on a straight-line basis over the life of the related contracts

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

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 of 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.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

1 Accounting policies (continued)

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.

Operating leases

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

Pension costs

The company operates two pension schemes providing benefits based on final pensionable salary. These schemes were closed to new members in April 1996 and September 2004. The assets of the scheme are held separately from those of the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on 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.

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.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

2 Turnover

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

3 Operating (loss)/profit

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Operating (loss)/profit is stated after charging / (crediting)		
Restructuring costs		
-costs incurred	-	110
-provision released	(90)	(247)
Exceptional contract settlement	-	(3,462)
Depreciation of tangible fixed assets - owned	1,020	821
Amortisation of intangible fixed assets	24	27
Auditor's remuneration for audit services	121	111
Operating lease charges	810	552

These items are included under net operating costs in the profit and loss account

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

4 Directors' emoluments

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Aggregate emoluments	<u>1,786</u>	<u>1,914</u>

There are no directors (31 March 2010 nil) with retirement benefits accruing under the company's defined benefit scheme

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Highest paid director		
Total amount of emoluments and amounts receivable under long-term incentive scheme	<u>224</u>	<u>233</u>

There are no accrued pension benefits in the year (31 March 2010 £nil)

A number of directors, not remunerated by the company directly, are employed by other Veolia Water group companies. The costs of their remuneration and pension contributions are therefore paid and charged in the accounts of the other group companies. Of the total remuneration, a total amount of £9,000 can be attributed to the company for the qualifying services performed, split as follows

Basic salary and fees	£	4,000
Benefits	£	2,000
Performance related bonuses	£	3,000
TOTAL	<u>£</u>	<u>9,000</u>

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

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

5 Employee information

The average number of employees (including directors) during the year was as follows

	Year ended 31 March 2011	Year ended 31 March 2010
Operations	696	733
Administration	52	40
	<u>748</u>	<u>773</u>

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Staff costs (including directors) consist of		
Wages and salaries	23,623	22,424
Social security costs	2,294	2,222
Pension costs (note 19)	2,346	1,928
	<u>28,263</u>	<u>26,574</u>

6 Interest receivable

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Interest receivable on intercompany subordinated debt	<u>2,086</u>	<u>1,622</u>

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

7 Interest payable

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Interest payable to group undertakings	990	724
Interest payable on bank overdrafts	-	1
	<u>990</u>	<u>725</u>

8 Other finance income/(costs)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Expected return on pension scheme assets	864	752
Interest on pension scheme liabilities	(1,131)	(844)
	<u>(267)</u>	<u>(92)</u>

9 Taxation on (loss)/profit on ordinary activities

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Current taxation		
Current tax credit on (loss)/profit for the year	(2,445)	(276)
Adjustment in respect of prior years	40	572
Current tax	<u>(2,405)</u>	<u>296</u>
Deferred taxation		
Origination of timing differences	226	642
Adjustment in respect of prior years	32	(3,172)
Effect of decreased tax rate on closing liability due to change in tax law	197	-
Taxation on (loss)/profit on ordinary activities	<u>(1,950)</u>	<u>(2,234)</u>

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

9 Taxation on (loss)/profit on ordinary activities (continued)

The tax assessed for the year is higher (31 March 2010 lower) than the standard rate of corporation tax of 28% (2010 28%) The differences are explained below

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
(Loss)/profit on ordinary activities before taxation	<u>(5,297)</u>	<u>7,463</u>
Theoretical tax at UK corporation tax rate of 28% (2010 28%)	(1,483)	2,089
Effects of		
Adjustment in respect of prior years	40	572
Accelerated capital allowances	(202)	(214)
Income not taxable	(849)	(336)
Other short term differences	175	(237)
Other timing differences	(199)	(191)
Permanent differences	113	(1,387)
Actual current taxation (credit)/charge	<u>(2,405)</u>	<u>296</u>

Factors that may affect future tax charges

A change in the UK main corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 and became effective from 1 April 2011 Further reductions in the UK corporation tax rate were announced in the March 2011 Budget, including an additional decrease in the main corporation tax rate to 26% effective from 1 April 2011 This was substantively enacted on 29 March 2011 and consequently the relevant deferred tax balances have been re-measured using the 26% rate

The further reductions are expected to be enacted separately each year and propose to reduce the rate by 1% per annum to 23% by 1 April 2014 The first of these reductions to 25%, effective from 1 April 2012, was substantively enacted on 5 July 2011 The changes in the main corporation tax rate to 25% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements

Changes to the UK capital allowance regime will also impact the capital allowances the company can claim Based on current capital investment plans the company expects to continue to be able to claim capital allowances in excess of depreciation in future years to similar levels to the current year

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

10 Dividends

No dividends were paid in the year (2010 £nil)

11 Intangible fixed assets

	Goodwill £'000	Patents & licences £'000	Total £'000
Cost			
At 1 April 2010	145	322	467
Additions	-	-	-
At 31 March 2011	145	322	467
Amortisation			
At 1 April 2010	9	20	29
Charge for the year	8	16	24
At 31 March 2011	17	36	53
Net book value			
At 31 March 2011	128	286	414
At 31 March 2010	136	302	438

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

12 Tangible fixed assets

	Freehold land & buildings £'000	Vehicles £'000	Fixtures, fittings, plant & equipment £'000	Total Total £'000
Cost				
At 1 April 2010	309	1,316	5,005	6,630
Additions	156	83	4,714	4,953
Reclassification of assets	153	-	(153)	-
At 31 March 2011	618	1,399	9,566	11,583
Depreciation				
At 1 April 2010	35	770	1,512	2,317
Charge for year	30	190	800	1,020
Reclassification of assets	11	-	(11)	-
At 31 March 2011	76	960	2,301	3,337
Net book value				
At 31 March 2011	542	439	7,265	8,246
At 31 March 2010	274	546	3,493	4,313

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

13 Investments

	Interests in group undertakings £'000
Cost	
At 1 April 2010	4,324
Additions	31,705
Disposals	(11,252)
At 31 March 2011	<u>24,777</u>
Impairment	
At 1 April 2010 and 31 March 2011	-
Net book value	
At 31 March 2011	<u>24,777</u>
At 31 March 2010	<u>4,324</u>

In June 2010, the company acquired 100% interest in the ordinary shares of Veolia Water Projects Limited from Veolia Water Industrial Outsourcing Limited at its book value of £0 795m

In November 2010, the company acquired from Veolia Water Enterprise Limited 100% of the ordinary share capital of the following entities (which they had acquired from United Utilities Plc as part of the transaction above)

- Veolia Water Capital Delivery Limited
- Veolia Water Operational Services (Highland) Limited
- Veolia Water Operational Services (Moray) Limited
- Veolia Water Operational Services (Tay) Limited
- United Utilities Operational Services (Industrial Contracts) Limited

In consideration for these acquisitions, the company issued and allotted 22 million shares of £1 00 each to Veolia Water Enterprise Limited for £29 710m (including a premium of £7 710m) This value represented the book value of the entities acquired

This included an amount of £8 737m for United Utilities Operational Services (Industrial Contracts) Limited which was immediately disposed of to Veolia Water Solutions & Technology at book value This disposal formed part of the overall UK group strategy to restructure its industrial contracts portfolio of companies, which also included the company's investment in Veolia Water Industrial Outsourcing Limited which was sold on the same day to Veolia Water Solutions & Technology for a consideration of £4 518m, resulting in a profit on disposal of £2 003m

In December 2010, the company acquired 51% of the ordinary share capital for a nominal sum and £1 200m preference shares in Vennsys Limited at par

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

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

13 Investments (continued)

Interests in group undertalings are as follows

Name of undertaling	Year end	Country of incorporation	Description of shares held	Proportions of nominal value of	Nature of business
Veolia Water Nevis Limited	31 Mar	Great Britain	Ordinary £1	100%	Water services
Veolia Water Projects Limited	31 Mar	Great Britain	Ordinary £1	100%	Water services
Stirling Water Seafeld Holdings Limited	31 Mar	Great Britain	Ordinary £1	100%	Waste water services
Glen Water (Holdings) Limited	31 Mar	Great Britain	Ordinary £1	50%	Waste water services
MUJV Limited	31 Dec	Great Britain	Ordinary £0 01	50%	Utility infrastructure management
Veolia Water Organics Recycling Limited	31 Mar	Great Britain	Ordinary £1	50%	Industrial Waste recycling
Veolia Water Ireland Limited	31 Mar	Great Britain	Ordinary €1	50%	Holding company
Stirling Water (2003) Limited	31 Mar	Great Britain	Ordinary £1	25%	Water and waste water services
Thistle Water Limited	31 Mar	Great Britain	Ordinary £1	40%	Water and waste water services
Vennsys Limited	31 Mar	Great Britain	Ordinary £1	51%	Meter installation and reading
			Preference £1	100%	

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

13 Investments (continued)

Veolia Water Capital Delivery Limited	31 Mar	Great Britain	Ordinary £1	100%	Water and waste water services with investments
Veolia Water Operational Services (Highland) Limited	31 Mar	Great Britain	Ordinary £1	100%	Waste water services
Veolia Water Operational Services (Moray) Limited	31 Mar	Great Britain	Ordinary £1	100%	Waste water services
Veolia Water Operational Services (Tay) Limited	31 Mar	Great Britain	Ordinary £1	100%	Waste water services
UUGM Limited	31 Mar	Great Britain	Ordinary £1	60%	Water and waste water services
(Held indirectly through Veolia Water Capital Delivery Limited)					
4Delivery Limited	31 Mar	Great Britain	Ordinary £1	40%	Water and waste water services
(Held indirectly through Veolia Water Capital Delivery Limited)					
4Delivery B&H Limited	31 Mar	Great Britain	Ordinary £1	49%	Waste water services
(Held indirectly through Veolia Water Capital Delivery Limited)					

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

14 Stocks

	2011 £'000	2010 £'000
Raw materials and consumables	2,058	1,392
Work in progress	1,571	4,689
	<u>3,630</u>	<u>6,081</u>

15 Debtors

	2011 £'000	2010 £'000
Due within one year:		
Trade debtors	9,402	5,541
Amounts owed by group undertakings	31,644	12,429
Loans to subsidiaries	5,645	800
Subordinated debt	686	583
Deferred tax (note 18)	2,897	3,179
Corporation tax	4,960	2,759
Amounts recoverable on contracts	10,055	275
Prepayments and accrued income	3,476	3,522
	<u>68,765</u>	<u>29,088</u>
Due after more than one year:		
Subordinated debt	<u>24,161</u>	<u>24,036</u>
Total debtors	<u>92,926</u>	<u>53,124</u>

The subordinated debt includes senior subordinated debt to Stirling Water Seafield Limited (a wholly owned subsidiary of Stirling Water Seafield Holdings Limited) for £16 612m (2010 £17 078m) This loan attracts interest at 5.772% and is repayable in semi-annual instalments. The loan will be fully repaid by March 2027.

The subordinated debt also includes a loan to Glen Water Limited (a wholly owned subsidiary of Glen Water (Holdings) Limited) for £8 235m (2010 £7 541m) This loan attracts interest at 9% and is repayable in semi-annual instalments commencing at the end of December 2009. This loan will be fully repaid by December 2031.

The loans to subsidiaries consists of junior subordinated debt to Stirling Water Seafield Limited for £5,645m (2010 £0 800) This loan attracts interest at 12.000% The interest only is repayable in semi-annual instalments.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

16 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	2,193	1,916
Loan from Veolia Water UK plc	39,487	18,665
Loans from subsidiaries	9,970	-
Amounts due to group undertakings	12,531	7,379
Other taxation and social security payable	1,096	1,715
Other creditors	288	902
Accruals and deferred income	19,683	21,614
	<u>85,248</u>	<u>52,191</u>

The loan from Veolia Water UK plc is unsecured, repayable on demand and attracts interest at rates linked to LIBOR

There are no creditors falling due after more than one year

17 Provisions for liabilities and charges

	Performance Deductions £'000	Restructure provisions £'000	Other provisions £'000	Total £'000
At 1 April 2010	-	90	-	90
Additions in the period	1,187	716	447	2,349
Released in the period	-	(90)	-	(90)
At 31 March 2011	<u>1,187</u>	<u>716</u>	<u>447</u>	<u>2,349</u>

Performance Deduction provisions relate to operational contract deductions due to below target cash collection on a customer services contract

The restructuring provision relates to employment termination costs

Other provisions relate to client terminal contract obligations inherited by the company on the insolvency of one of its delivery sub-contractors

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

18 Deferred tax

The recognised deferred tax assets are as follows

	2011 £'000	2010 £'000
Excess of depreciation over capital allowances	(3)	196
Other timing differences	2,901	2,983
	<u>2,897</u>	<u>3,179</u>
	2011 £'000	2010 £'000
Deferred tax asset at 1 April	<u>4,347</u>	<u>566</u>
Adjustment in respect of prior years	(32)	-
Deferred tax charge to the profit and loss account	(226)	2,530
Effect of decreased tax rate on closing liability / change in tax law to the profit and loss account	(197)	-
Deferred tax credit to the statement of recognised gains and losses	59	1,251
Effect of decreased tax rate on closing liability / change in tax law to the statement of recognised gains and losses	(100)	-
Deferred tax asset at 31 March	<u>3,851</u>	<u>4,347</u>
Analysed as follows		
Deferred tax asset within "Debtors"	2,897	3,179
Deferred tax asset within "Net pensions"	954	1,168
Total deferred tax asset at 31 March	<u>3,851</u>	<u>4,347</u>

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

18 Deferred tax (continued)

Deferred tax asset relating to pension liability

	2011 £'000	2010 £'000
At 1 April	1,168	108
Deferred tax charge to the profit and loss account	(173)	(191)
Deferred tax (charge)/credit to the statement of recognised gains and - on actuarial (gain)/loss	(41)	1,251
At 31 March	954	1,168

The deferred tax asset of £954k (2010 £1,168k) has been deducted in arriving at the net pension liability on the balance sheet. Reference should also be made to Note 9 regarding recently proposed changes to the UK tax system.

19 Pensions

Veolia UK Pension Plan (VUKPP)

The scheme was inaugurated as at 1 April 1996, the Générale des Eaux UK Retirement Benefits Scheme. This scheme was merged with the Générale des Eaux UK Pension Plan on 1 April 1998 to form the Veolia UK Pension Plan, 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 members' wishes. The final salary section was closed to new members on 30 September 2004.

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

The latest formal 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 at 31 December 2007 stated the market valuation of the plan to be £2,400,000 with a funding level of 82%. A valuation as at 31 December 2010 will be available by the end of 2011.

Contributions to the Veolia UK Pension Plan over the period ended 31 March 2011 were paid by members in accordance with the rules of the plan and by the company at 20.0% of pensionable salary.

The contributions expected to be paid in the year from the balance sheet date are £1,761,000 (2010 £1,900,000).

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

19 Pensions (continued)

Principal assumptions

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

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

	2011	2010	2009
Discount rate	5.5% pa	5.65% pa	7.10% pa
Salary growth	4.4% pa	4.55% pa	4.70% pa
RPI	3.4% pa	3.55% pa	3.20% pa
CPI*	2.9% pa	-	-
Pension-in payment increases	3.4% pa	3.20% pa	3.50% pa
Life expectancy for a male pensioner age 65 (yrs)	22.6	22.6	22.6
Life expectancy for a male non-pensioner age 65 (yrs)	25.5	25.5	25.5

* The impact of statutory increases is now being linked to the movement in CPI rather than RPI based on legal advice received by the Trustees for, as follows

- DCCS - the change applies to deferred revaluation only

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.9% per annum unless otherwise prescribed by statutory requirements or the plan rules

The assets of the above plans are held separately to those of the company, being invested by independent fund managers

The total pensions charge including the defined contributions scheme for the period ended 31 March 2011 was £2,346,000 (2010 £1,928,000)

The assets of the scheme and the weighted average expected rate of return were

	31 March 2011			31 March 2010		
	Value £000	Split of fund %	Long term rate of return expected % pa	Value £000	Split of fund %	Long term rate of return expected % pa
Bonds	14,397	80.0	5.55	11,850	77.0	5.5
Gilts/cash	3,599	20.0	4.35	3,540	23.0	4.5
Fair value of assets	17,996	100.0		15,390	100.0	

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

19 Pensions (continued)

Amounts for current period and previous periods are as follows

	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2008
Defined benefit obligation (£000)	21,665	19,562	11,538	12,725
Plan assets (£000)	17,996	15,390	11,152	11,363
Deficit (£000)	(3,669)	(4,172)	(386)	(1,362)
Difference between expected and actual return on plan assets				
Percentage of plan assets	1%	11%	22%	8%
Experience gains/(losses) on plan liabilities				
Percentage of plan liabilities	0%	31%	26%	0%

Reconciliation of present value of scheme liabilities

	31 March 2011 £000	31 March 2010 £000
At 1 April	19,562	11,538
Current service cost	888	580
Interest cost	1,131	844
Actuarial loss	112	6,133
Benefits paid	(202)	282
Contributions by scheme participants	174	185
At 31 March	21,665	19,562

Reconciliation of fair value of scheme assets

	31 March 2011 £000	31 March 2010 £000
At 1 April	15,390	11,152
Contributions paid by employer	1,867	1,355
Contribution by scheme participants	174	185
Expected return on scheme assets	864	752
Actuarial (loss)/gain	(97)	1,664
Benefits paid	(202)	282
At 31 March	17,996	15,390

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

19 Pensions (continued)

	31 March 2011 £000	31 March 2010 £000
Pension liability before deferred tax	3,669	4,172
Related deferred tax	(954)	(1,168)
Net pension liability at 31 March	2,715	3,004

The amounts recognised in the profit and loss account are as follows

	31 March 2011 £000	31 March 2010 £000
Current service cost	888	580
Expected return on scheme assets	(864)	(752)
Interest on pension scheme liabilities	1,131	844
Total charge	1,155	672

Total actuarial gains and losses recognised in the statement of total gains and losses

	31 March 2011 £000	31 March 2010 £000
Actuarial (losses)/gains on scheme assets	(97)	1,664
Actuarial losses on scheme liabilities	(112)	(6,133)
Total charge	(209)	(4,469)
Deferred tax arising thereon	54	1,251
Charge after deferred tax	(155)	(3,218)

The total pension costs (per Note 5) comprise

	31 March 2011 £'000	31 March 2010 £'000
Contributions to defined contribution pension schemes	1,458	1,348
FRS17 Service cost	888	580
Total pension costs	2,346	1,928

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

20 Share capital

	2011 £'000	2010 £'000
Allotted, called up and fully paid share capital		
13,000,000 ordinary shares of £1 each	13,000	13,000
22,000,000 ordinary shares of £1 each (Allotted on acquisition of entities from parent company)	22,000	
	35,000	13,000

The company issued 22,000,000 £1 ordinary shares in November 2010 to its immediate parent company, Veolia Water Enterprise Limited, as part of the purchase consideration for 100% of the ordinary share capital of a number of entities which it had previously acquired from United Utilities Plc

The ordinary shares issued have the same rights and rank pari passu with the other shares in issue

21 Share premium account

	£'000
At 1 April 2010	1,000
Arising on allotment of 22m ordinary shares of £1 00 each (see note 20)	7,710
At 31 March 2011	8,710

The ordinary shares were issued in November 2010 as part of the purchase consideration in Note 20 above

22 Profit and loss account

	£'000
At 1 April 2010	548
Actuarial loss recognised in the pension scheme	(209)
Movement in deferred tax relating to pension liability	59
Effect of decreased tax rate on closing liability / change in tax law	(100)
Loss for the financial year	(3,347)
At 31 March 2011	(3,049)

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

23 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
(Loss)/profit for the financial year	(3,347)	9,697
Other recognised losses in year (shown in STRGL)	(209)	(4,469)
Deferred tax arising thereon	59	1,251
Effect of decreased tax rate on closing liability / change in tax law	(100)	-
Increase in share capital	22,000	-
Increase in share premium	7,710	-
Movement in equity shareholders' funds	<u>26,113</u>	<u>6,479</u>
Opening equity shareholders' funds	<u>14,548</u>	<u>8,069</u>
Closing equity shareholders' funds	<u>40,661</u>	<u>14,548</u>

24 Financial commitments

The company had annual commitments under non-cancellable operating leases as follows

	2011 £'000	2010 £'000
Operating leases which expire		
Within one year	67	29
In two to five years	313	221
After five years	-	-
	<u>380</u>	<u>250</u>

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2011 (continued)

25 Related party transactions

Sales of £257k (2010 £1,590k) were made to Stirling Water (2003) Limited during the year. The balance owed by Stirling Water (2003) Limited at 31 March 2011 was £nil (2010 £301k).

Sales of £1,007k (2010 £1,028k) 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 2011 was £19k (2010 £3k).

Sales of £905k (2010 £nil) were made to Thistle Water Limited during the year. The balance owed to Thistle Water Limited at 31 March 2011 was £1,069k (2010 £nil).

Sales of £836k (2010 £nil) were made to Scottish Water Solutions 2 Limited, (a joint venture of Thistle Water Limited) during the year. The balance owed to Scottish Water Solutions 2 Limited at 31 March 2011 was £163k (2010 £nil).

Sales of £9,582k (2010 £10,004k) were made to MUJV Limited during the year. The balance owed by MUJV Limited at 31 March 2011 was £395k (2010 £531k).

Sales of £nil (2010 £82k) were made to OTW Services Limited during the year. The balance owed by OTW Services Limited at 31 March 2011 was £nil (2010 £16k).

Sales of £9,051k (2010 £2,860k) were made to Glen Water Limited during the year. The balance owed by Glen Water Limited at 31 March 2011 was £9,870k (2010 £1,788k).

The company has taken advantage of the exemption in paragraph 3(c) of FRS 8 Related Party Transactions not to disclose transactions with other group companies which meet the criteria that all subsidiary undertakings which are party to the transactions are wholly owned by the ultimate controlling parent.

26 Immediate and ultimate parent companies and controlling undertaking

The company is a wholly owned subsidiary of Veolia Water Enterprise Limited.

Veolia Water UK PLC, a company registered in England & Wales, is the parent undertaking of the smallest group to consolidate the statutory financial statements of the company. Veolia Environnement SA, a company incorporated in France, is the parent undertaking of the largest group to consolidate these statutory 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.