

VEOLIA WATER OUTSOURCING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

(Registered Number 2518607)



Veolia Water Outsourcing Limited

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Veolia Water Outsourcing Limited

Directors and advisers

Directors

F Devos	(Resigned 25 January 2012)
D J L Bates	(Resigned 30 May 2012)
O M Bret	
J Cherrett	(Resigned 20 October 2011)
J C Conlon	(Resigned 30 November 2011)
A J Dench	(Appointed 22 September 2011)
N J Earnshaw	
P A M Eymery	(Resigned 30 November 2011)
N E Frogbrook	(Appointed 3 July 2012, Resigned 28 September 2012)
C R Gough	(Appointed 3 July 2012)
J Mitchell	(Resigned 20 October 2011)
D Muldoon	(Resigned 1 November 2011)
N Paterson	
M R Saunders	
S F Shine	(Appointed 3 July 2012)
D Walton	(Resigned 19 September 2011)
D Wright	(Resigned 11 November 2011)

Secretary

N D C Craig

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 2012

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2012

Principal activities

The principal activity of the company for the year ended 31 March 2012 was 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 £12 941m (2011 £3 347m loss)

The balance sheet on page 9 shows shareholder's funds of £29 475m (2011 £40 661m)

The company received dividends of £0 901m during the year (2011 £1 030m) from its investments in MUJV Limited, a business involved in the provision of utility services to the Ministry Of Defence in the Aldershot area

During the period the focus of the company was consolidation to ensure stability for the business moving forwards following the significant acquisitions made in the previous year

Following this period of consolidation the directors believe that the company is well positioned to secure further substantial contract awards, which are expected to be made by statutory water undertakings over the course of the next few years

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

Dividends

No dividend was paid in the year (2011 £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, operations, security and meeting forecasted costs

The directors manage risk through the Risk Management Committee, which certain directors are members of The Risk Management Committee reviews the company Risk Register The Risk Register records risks on contracts and business areas and is populated and updated by each divisional business manager on a monthly basis with plans put in place to mitigate these risks

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

Veolia Water Outsourcing Limited

Directors' report for the year ended 31 March 2012 (continued)

Donations

Charitable donations of £nil (2011 £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 2012.

Directors

The directors of the company who served during the year and to the date of this report 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 2012 (continued)

Post balance sheet events

Subsequent to the balance sheet date, the company acquired control of Bowen Water Technologies, a design and build company based in the Republic of Ireland

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



Andrew Dench
Director

14 December 2012

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 2012 which comprise the Profit and Loss account, the Statement of total recognised gains and losses the 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 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 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
19 December 2012

Veolia Water Outsourcing Limited

Profit and loss account for the year ended 31 March 2012 (Registered Number 2518607)

	Notes	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Turnover	2	69,657	68,592
Cost of sales		(76,455)	(63,757)
Gross (loss)/ profit		(6,798)	4,835
Net operating costs		(13,172)	(13,994)
Operating loss	3	(19,970)	(9,159)
Dividend income		901	1,030
Profit on disposal of investment		-	2,003
Loss on ordinary activities before interest and taxation		(19,069)	(6,126)
Interest receivable	6	2,960	2,086
Interest payable	7	(1,743)	(990)
Other finance costs	8	(217)	(267)
Loss on ordinary activities before taxation		(18,069)	(5,297)
Taxation on loss on ordinary activities	9	5,128	1,950
Loss on ordinary activities after taxation for the financial year		(12,941)	(3,347)

The results for the years above derive wholly from continuing activities

There is no difference between the loss on ordinary activities before taxation and the loss 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 2012 (Registered Number 2518607)

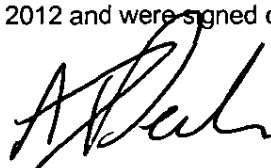
	Notes	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Loss for the year		(12,669)	(3,347)
Actuarial gain recognised in the pension scheme	19	2,310	(209)
Deferred tax charge arising thereon	18	(601)	59
Effect of decreased tax rate on closing liability/ change in tax law		46	(100)
Total loss recognised for the year		(10,914)	(3,597)

Veolia Water Outsourcing Limited

Balance sheet at 31 March 2012 (Registered Number 2518607)

	Notes	31 March 2012 £'000	31 March 2011 £'000
Fixed assets			
Intangible assets	11	391	414
Tangible assets	12	9,424	8,246
Investments	13	25,377	24,777
		35,192	33,437
Current assets			
Stocks	14	5,189	3,630
Debtors	15	101,586	92,926
Cash at bank and in hand		384	980
		107,159	97,536
Creditors, amounts falling due within one year	16	(111,518)	(85,248)
Net current (liabilities)/assets		(4,359)	12,288
Total assets less current liabilities		30,833	45,725
Creditors: amounts falling due after more than one year			
Provisions for liabilities and charges	17	(773)	(2,349)
Net pension liability	19	(585)	(2,715)
Net assets		29,475	40,661
Capital and reserves			
Called up share capital	20	35,000	35,000
Share premium account	21	8,710	8,710
Profit and loss account	22	(14,235)	(3,049)
Shareholders' funds	23	29,475	40,661

The financial statements on pages 7 to 29 have been approved by the Board of Directors on 14 December 2012 and were signed on its behalf by



Andrew Dench
Director

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012

1 Accounting policies

Basis of preparation

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.

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.

No transactions were recognised in respect of the share based payments for the year ended 31 March 2012 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 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 2012 (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. Intangible fixed assets are reviewed for impairment at the end of each reporting period and where impairment is identified are written down to their recoverable amount.

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. Costs 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.

Work in progress is transferred to fixed assets when complete and can demonstrate a useful economic life. Fixed Assets are transferred at lower of cost and net realisable value at the date of transfer with due consideration given to any potential impairment.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (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 a pension scheme providing benefits based on final pensionable salary. The scheme 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 2012 (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

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Operating loss is stated after charging / (crediting)		
Restructuring costs		
- costs incurred	581	-
- provision released and utilised	(716)	(90)
Depreciation of tangible fixed assets - owned	2,222	1,020
Amortisation of intangible fixed assets	23	24
Impairment of stock	836	-
Auditor's remuneration for audit services	121	121
Operating lease charges	1,008	1,024

These items are included under net operating costs in the profit and loss account. The company has selected an exemption to not disclose non audit services remuneration, which are disclosed in the Veolia Water UK PLC group consolidated accounts.

4 Directors' emoluments

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Aggregate emoluments	1,605	1,786

There are no directors (31 March 2011 nil) with retirement benefits accruing under the company's defined benefit scheme.

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Highest paid director		
Total amount of emoluments and amounts receivable under long-term incentive scheme	230	224

There are no accrued pension benefits in the year (31 March 2011 £nil).

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

4 Directors' emoluments (continued)

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>9,000</u>

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

5 Employee information

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

	Year ended 31 March 2012	Year ended 31 March 2011
Operations	677	696
Administration	95	52
	<u>772</u>	<u>748</u>

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Staff costs (including directors) consist of		
Wages and salaries	24,345	23,623
Social security costs	2,472	2,294
Pension costs (note 19)	2,416	2,346
	<u>29,233</u>	<u>28,263</u>

6 Interest receivable

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Interest receivable on intercompany subordinated debt	2,960	2,086

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

7 Interest payable

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Interest payable to group undertakings	1,108	990
Other financial charges payable to group undertakings	52	-
Other interest payable	583	-
	1,743	990

8 Other finance income/ (costs)

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Expected return on pension scheme assets	999	864
Interest on pension scheme liabilities	(1,216)	(1,131)
	(217)	(267)

9 Tax on loss on ordinary activities

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Current taxation		
Current tax credit on loss for the year	(5,397)	(2,445)
Adjustment in respect of prior years	(169)	40
Current tax	(5,561)	(2,405)
Deferred taxation		
Origination of timing differences	152	226
Adjustment in respect of prior years	(4)	32
Effect of decreased tax rate on closing liability due to change in tax law	285	197
Taxation on loss on ordinary activities	(5,128)	(1,950)

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

9 Tax on loss on ordinary activities (continued)

The tax assessed for the year is lower (2011 lower) than the standard rate of corporation tax UK of 26% (2011 28%). The differences are explained below

	Year ended 31 March 2012	Year ended 31 March 2011
	£'000	£'000
Loss on ordinary activities before taxation	(18,069)	(5,297)
Theoretical tax at UK corporation tax rate of 26% (2011 28%)	(4,698)	(1,483)
Effects of		
Adjustment in respect of prior years	(169)	40
Accelerated capital allowances	76	(202)
Income not taxable	(370)	(849)
Other short term differences	(74)	175
Other timing differences	(153)	(199)
Permanent differences	(173)	113
Actual current taxation credit	(5,561)	(2,405)

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 to become effective from 1 April 2011. Further reductions in the UK corporation tax rate were announced in the March 2011 Budget and substantively enacted on 29 March 2011, including an additional decrease in the main corporation tax rate to 26% effective 1 April 2011.

The further reductions announced in the March 2011 Budget, and updated in the March 2012 Budget and December 2012 Autumn Statement, are expected to be enacted separately each year with the intention of reducing the rate to 21% effective from 1 April 2014. The reduction to 24%, effective from 1 April 2012, was substantively enacted on 26 March 2012. As a result, the relevant deferred tax balances at 31 March 2012 have been recognised at 24%.

Future changes in the main corporation tax rate from 24% to 21% 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.

10 Dividends

No dividends were paid in the year (2011 £nil)

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

11 Intangible fixed assets

	Goodwill £'000	Patents & licences £'000	Total £'000
Cost			
At 1 April 2011	145	322	467
Additions	-	-	-
At 31 March 2012	145	322	467
Amortisation			
At 1 April 2011	17	36	53
Charge for the year	7	16	23
At 31 March 2012	24	52	76
Net book value			
At 31 March 2012	121	270	391
At 1 April 2011	128	286	414

12 Tangible fixed assets

	Freehold land & buildings £'000	Vehicles £'000	Fixtures, fittings, plant & equipment £'000	Assets under course of construction £'000	Total £'000
Cost					
At 1 April 2011	618	1,399	9,566	-	11,583
Additions	-	-	3,150	264	3,414
Reclassification of assets	-	-	3	-	3
Disposals	-	(249)	-	-	(249)
At 31 March 2012	618	1,150	12,719	264	14,751
Depreciation					
At 1 April 2011	76	960	2,301	-	3,337
Charge for year	32	162	2,028	-	2,222
Reclassification of assets	2	4	(3)	-	3
Disposal	-	(235)	-	-	(235)
At 31 March 2012	110	891	4,326	-	5,327
Net book value					
At 31 March 2012	508	259	8,393	264	9,424
At 1 April 2011	542	439	7,265	-	8,246

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

13 Investments

	Interest in group undertakings £'000
Cost	
At 1 April 2011	24,777
Additions	600
At 31 March 2012	25,377
Impairment	
At 1 April 2011 and 31 March 2012	-
Net book value	
At 31 March 2012	25,377
At 31 March 2011	24,777

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 2012 (continued)

13 Investments (continued)

Interests in group undertakings are as follows

Name of undertaking	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 Seafield 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 2012 (continued)

13 Investments (continued)

Name of undertaking	Year end	Country of incorporation	Description of shares held	Proportions of nominal value of	Nature of business
Veolia Water Capital Delivery Limited	31 Mar	Great Britain	Ordinary £1	100%	Water and waster 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 (Held indirectly through Veolia Water Capital Delivery Limited)	31 Mar	Great Britain	Ordinary £1	60%	Water and waste water services
4Delivery Limited (Held indirectly through Veolia Water Capital Delivery Limited)	31 Mar	Great Britain	Ordinary £1	40%	Water and waste water services
4Delivery Limited B&H Limited (Held indirectly through Veolia Water Capital Delivery Limited)	31 Mar	Great Britain	Ordinary £1	49%	Waste water services

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

14 Stocks

	2012 £'000	2011 £'000
Raw materials and consumables	2,860	2,058
Work in progress	2,329	1,571
	5,189	3,630

15 Debtors

	2012 £'000	2011 £'000
Due within one year.		
Trade debtors	11,959	9,402
Amounts owed by group undertakings	27,284	31,644
Loan to Veolia Water UK plc	3,141	-
Loans to subsidiaries	13,540	5,645
Subordinated debt	565	686
Deferred tax (note 18)	2,678	2,897
Corporation tax	8,076	4,960
Amounts recoverable on contracts	7,672	10,055
Prepayments and accrued income	2,902	3,476
	77,817	68,765
Due after more than one year		
Subordinated debt	23,769	24,161
Total debtors	101,586	92,926

The subordinated debt includes senior subordinated debt to Stirling Water Seafeld Limited (a wholly owned subsidiary of Stirling Water Seafeld Holdings Limited) for £16 098m (2011 £16 612m) 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 236m (2011 £8 235m) 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 loan to subsidiaries consists of junior subordinated debt to Stirling Water Seafeld Limited for £6 343m (2011 £5 645m) This loan attracts interest at 12.000%. The interest only is repayable in semi-annual instalments. The remaining balance on loans to subsidiaries represents a loan to Vennsys Limited of £7 197m (2011 nil) which attracts interest at 9.7%.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

16 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	649	2,193
Loans from Veolia water UK plc	54,839	39,487
Loans from subsidiaries	20,991	9,970
Amounts due to group undertakings	9,403	12,531
Other taxation and social security payable	2,430	1,096
Other creditors	313	288
Accruals and deferred income	22,893	19,683
	111,518	85,248

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 2011	1,187	716	447	2,349
Released in the period	(210)	(200)		(410)
Utilised during the period	(204)	(516)	(447)	(1,166)
At 31 March 2012	773	-	-	773

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 2012 (continued)

18 Deferred tax

The recognised deferred tax assets are as follows

	2012 £'000	2011 £'000
Excess of depreciation over capital allowances	187	(3)
Other timing differences	2,491	2,901
	2,678	2,897
	2012 £'000	2011 £'000
Deferred tax assets at 1 April	3,851	4,347
Adjustment in respect of prior years	4	(32)
Deferred tax charge to the profit and loss account	(152)	(226)
Effect of decreased tax rate on closing liability/ change in tax law to the profit and loss account	(285)	(197)
Deferred tax credit to the statement of recognised gains and losses	(601)	59
Effect of decreased tax rate on closing liability/ change in tax law to the statement of recognised gains and losses	46	(100)
Deferred tax asset at 31 March	2,863	3,851
Analysed as follows		
Deferred tax asset within "Debtors"	2,678	2,897
Deferred tax asset within "Net pensions"	185	954
Total deferred tax assets at 31 March	2,863	3,851

Deferred tax assets relating to pension liability

	2012 £'000	2011 £'000
At 1 April	954	1,168
Deferred tax charge to the profit and loss account	(214)	(173)
Deferred tax charge to the statement of recognised gains and losses on actuarial gain	(555)	(41)
At 31 March	185	954

The deferred tax asset of £185k (2011 £954k) 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.

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.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

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 2010. The valuation was made on the "attained age" funding method. The actuarial valuation made the following assumptions:

Rate of investment return	4.95 % (pre-retirement), 4.95% (post-retirement)
Rate of increase in remuneration	4.3%
Rate of pension increase	3.3%

The valuation as at 31 December 2010 stated the market valuation of the plan to be £17.8m with a funding level of 76%.

Contributions to the Veolia UK Pension Plan over the period ended 31 March 2012 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 £2,335,000 (2011: £1,761,000).

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:

	2012	2011	2010
Discount rate	4.95% pa	5.5% pa	5.65% pa
Salary growth	4.20% pa	4.4% pa	4.55% pa
RPI	3.20% pa	3.4% pa	3.55% pa
CPI*	2.50% pa	2.9% pa	-
Pension-in payment [decreases]	3.20% pa	3.4% pa	3.20% 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)	24.7	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:

- VWS CPP – the change applies to deferred revaluation and pension increases in payment
- VUKPP – the change applies to deferred revaluation only
- DCCS – the change applies to deferred revaluation only

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.5% 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.

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

19 Pensions (continued)

The total pensions charge including the defined contributions scheme for the period ended 31 March 2012 was £2,416,000 (2011 £2,346,000)

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

	31 March 2012			31 March 2011		
	Value £000	Split of fund %	Long term rate of return expected % pa	Value £000	Split of fund %	Long term rate of return expected % pa
Equities	-	0 00	6 90	-	0 0	7 85
Bonds	17,778	79.0	5 30	14,397	80 0	5 55
Gilts/cash	4,617	21 0	3 40	3,599	20 0	4 35
Fair value of assets	22,395	100 0		17,996	100 0	

Amounts for current period and previous periods are as follows

	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2008
Defined benefit obligation (£000)	23,165	21,665	19,562	11,538	12,725
Plan assets (£000)	22,395	17,996	15,390	11,152	11,363
Deficit (£000)	(770)	(3,669)	(4,172)	(386)	(1,362)
Difference between expected and actual return on plan assets					
Percentage of plan assets	(8%)	1%	11%	22%	8%
Experience gains/(losses) on plan liabilities					
Percentage of plan liabilities	(7%)	0%	31%	26%	0%

Reconciliation of present value of scheme liabilities

	31 March 2012 £000	31 March 2011 £000
At 1 April	21,665	19,562
Current service cost	857	888
Interest cost	1,216	1,131
Actuarial (gain)/loss	(607)	112
Benefits paid	(134)	(202)
Contributions by scheme participants	168	174
At 31 March	23,165	21,665

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

19 Pensions (continued)

Reconciliation of fair value of scheme assets

	31 March 2012 £000	31 March 2011 £000
At 1 April	17,996	15,390
Contributions paid by employer	1,663	1,867
Contribution by scheme participants	168	174
Expected return on scheme assets	999	864
Actuarial gain/(loss)	1,703	(97)
Benefits paid	(134)	(202)
At 31 March	22,395	17,996

	31 March 2012 £000	31 March 2011 £000
Pension liability before deferred tax	770	3,669
Related deferred tax	(185)	(954)
Net pension liability at 31 March	585	2,715

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

	31 March 2012 £000	31 March 2011 £000
Current service cost	857	888
Expected return on scheme assets	(999)	(864)
Interest on pension scheme liabilities	1,216	1,131
Total charge	1,074	1,155

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

	31 March 2012 £000	31 March 2011 £000
Actuarial gain/(losses) on scheme assets	1,703	(97)
Actuarial gain/(losses) on scheme liabilities	607	(112)
Total charge	2,310	(209)
Deferred tax arising thereon	(555)	54
Charge after deferred tax	1,755	(155)

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

19 Pensions (continued)

The total pension costs (per Note 5) comprise

	31 March 2012 £'000	31 March 2011 £'000
Contributions to defined contribution pension schemes	1,559	1,458
FRS17 Service cost	857	888
Total pension costs	2,416	2,346

20 Share capital

	2012 £'000	2011 £'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	22,000	22,000
(Allotted on acquisition of entities from parent company)		
	35,000	35,000

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

21 Share premium account

	2012 £'000	2011 £'000
Share premium account	8,710	8,710

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

22 Profit and loss account

	£'000
1 April 2011	(3,049)
Actual gains recognised in the pension scheme	2,310
Movement in deferred tax relating to pension liability	(601)
Effect of decreased tax rate on closing liability/ change in tax law	46
Loss for the financial year	(12,941)
31 March 2012	(14,235)

23 Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Loss for the financial year	(12,941)	(3,347)
Other recognised gains/ (losses) in year (shown in STRGL)	2,310	(209)
Deferred tax arising thereon	(601)	59
Effect of decreased tax rate on closing liability/ change in tax law	46	(100)
Increase in share capital	-	22,000
Increase in share premium	-	7,710
Movement in equity shareholders' funds	(11,186)	26,113
Opening equity shareholders' funds	40,661	14,548
Closing equity shareholders' funds	29,475	40,661

24 Financial commitments

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

	2012 £'000	2011 £'000
Operating leases which expire		
Within one year	175	154
In two to five years	874	818
After five years	-	-
	1,049	972

Operating leases consist of leases for motor vehicles and plant and machinery

Veolia Water Outsourcing Limited

Notes to the financial statements for the year ended 31 March 2012 (continued)

25 Related party transactions

Sales of £1,129k (2011 £257k) were made to Stirling Water (2003) Limited during the year. The balance owed by Stirling Water (2003) Limited at 31 March 2012 was £1,383k (2011 £ nil)

Sales of £176k (2011 £1,007k) 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 2012 was £32k (2011 £19k)

Sales of £1,331k (2011 £905k) were made to Thistle Water Limited during the year. The balance owed to Thistle Water Limited at 31 March 2012 was £4,123k (2011 £1,069k)

Sales of £861k (2011 £836k) 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 2012 was £257k (2011 £163k)

Sales of £13,284k (2011 £9,582k) were made to MUJV Limited during the year. The balance owed by MUJV Limited at 31 March 2012 was £1,711k (2011 £395k)

Sales of £nil (2011 £nil) were made to OTW Services Limited during the year. The balance owed to OTW Services Limited at 31 March 2012 was £10k (2011 £nil)

Sales of £9,471k (2011 £9,051k) were made to Glen Water Limited during the year. The balance owed by Glen Water Limited at 31 March 2012 was £5,251k (2011 £9,870k)

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 company and controlling party

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