



Veolia Water Southeast Limited
(Formerly Folkestone & Dover Water Services Limited)
(Registered Number 2724316)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010

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Chairman's Statement

I am pleased to present the statutory and regulatory accounts for the year ending 31 March 2010.

The Company has made significant improvements during the year in order to enhance services to customers. We continue to have one of the lowest levels of complaints in the industry and as a result of the changes made were delighted to achieve the best customer satisfaction score for telephone calls in Ofwat's Survey which was carried out in February 2010. It is particularly satisfying that this achievement has been made against a background of significantly increasing customer contact driven by the metering programme and a rising level of customer debt, influenced by the general economic climate.

The Company is committed to working closely with the local community and in recognition of our efforts we received a gold standard award from Kent County Council for the high quality of our street works and highways operations, ahead of all the other utility companies in Kent.

Operationally it has been a good year. The quality of water delivered to our customers' taps is paramount and in 2009 we achieved a 99.99% compliance with the legal standards. The level of leakage is at an all time low and remains below the regulatory target for the year.

Once again the Company has made significant progress with its capital expenditure programme. During the year we completed the refurbishment of the Broome facility, securing a reliable source for the future. The year was the final year in the five-year regulatory period known as AMP4. The Company completed all its agreed major outputs for the period and we were particularly pleased to achieve the increased metering target agreed with Ofwat. The Company has made an early start to its AMP5 commitment to safeguard water quality by removing more iron and manganese from water treated at Denge. We also carried out a pumping trial between Dover and Deal which, if successful, will improve security of supply by making more water sources available to the company across the region. Early results are positive.

Health and Safety is a company-wide priority in the interests of staff, customers and the public. It is therefore, especially pleasing that our performance and commitment has been recognised with a RoSPA gold award, and a British Safety Council International Safety Award. These sector awards are highly regarded and this outstanding achievement is testimony to the hard work of all our staff. There were five minor accidents, but no reportable incidents during the year. The Company continues to focus on improving its safety record, and this has been reflected in an increased focus on near miss reporting during the year.

We have faced a number of challenges. Demand for water continues to decline due to the combined effects of economic recession, the Company's promotion of water efficiency and increased level of metering installations. This has led to an unprecedented volatility in revenue over the last few years. Customer debt remains a considerable problem for the whole industry and the recession has had a detrimental effect on both the ability and willingness of our customers to pay their bills. From April 2010 Ofwat's revenue correction mechanism should provide some protection for the Company against demand volatility. It will also protect the Company against the financial consequences of its very successful water efficiency programmes which are designed to conserve scarce supplies by reducing overall consumption.

The report year represented the end of the Periodic Review, the process by which Ofwat sets the Company's price limits for the period 2010-2015. The Draft Determination was published in July and the Final Determination in November 2009. The Company worked hard to persuade Ofwat that a number of items in the Draft Determination should be changed. The Company was largely successful in this, and the Final Determination represented a considerable improvement. The Company decided not to ask for the Final Determination to be referred to the Competition Commission, allowing it to concentrate its management resources on planning to deliver the determination and achieve even greater levels of customer service.

Chairman's Statement

The Company changed its name during the year with effect from July 2009. The new name of Veolia Water Southeast reflects the higher level of integration with our parent company, Veolia Water, giving the opportunity to benefit from the strengths it has, whilst respecting the need for regulatory independence. For example, during the year a number of services have transferred to Veolia Water Shared Services. Human Resources, Scientific Services, Corporate Services and Health and Safety are all now provided via arms length contracts with Veolia Water Shared Services. As a result some staff have transferred from employment with the Company to employment with Veolia Water Shared Services.

After many years of sterling service, David Walton, the Managing Director, moved to a new challenge within the Veolia Group. Nevil Muncaster became the new Managing Director in October. Nevil combines his new role with that of Managing Director of Veolia Water East. The board formally recorded its thanks to David and wished him well in his new role.

Pauline Wilson joined the Company as Head of Customer Relationships. We have since introduced a number of key changes to the business to improve service to customers. As part of this reorganisation the debt collection function has been outsourced to Veolia Water East and the internal structure has been shaped to prepare it for the anticipated future split of retail activities.

The Company now faces a number of challenges, foremost of which is to perform in line with the very challenging Final Determination. The Company will also continue to prepare for the expected increase in retail competition in the industry.

The high standards of performance that we have achieved result from the skill, diligence and innovation of our employees. I am grateful to them and confident that their performance will enable us to meet the challenges facing the Company.

The Board has of course been fully involved throughout a very demanding year and I would like to thank my fellow Directors for the support and commitment they have demonstrated throughout.



Paul Sabin
Chairman

24 June 2010

Directors

PAUL SABIN, DL (Chairman)

Appointed to the Board on 1 April 1998. Chief Executive of Kent County Council 1986 – 1996, then director of Leeds Castle Enterprises Limited until November 2003. Member of the Audit Committee. Appointed Chairman at the AGM held on 22 June 2007.

JEAN CLAUDE BANON

Jean Claude Banon is French, and is Veolia Environnement's representative with the European Institutions. He was the Managing Director of Veolia (UK) Limited until December 2006. He has been a director of Veolia Water Southeast Limited (formerly Folkestone & Dover Water Services Limited) since 1990. He is a director of other Veolia Water UK PLC subsidiaries.

JANETTE McKAY, FCA, JP

Appointed to the Board on 11 June 2007 and is Chair of the Audit Committee. An ex Deloitte audit partner, she is also a trustee of the Peter de Haan Charitable Trust, a private charitable trust with investments of £25m.

DR NEIL SUMMERTON, CB

Appointed to the Board on 16 June 1998 and is also a director of Veolia Water Central Limited (formerly Three Valleys Water PLC). Member of the Audit Committee. He was Head of The Water and Land Directorate at the Department of the Environment. From 1997 to 2002 he was Director of the Oxford Centre for the Environment, Ethics and Society at Mansfield College, Oxford, and Director of the Oxford Centre for Water Research, Environmental Change Institute, University of Oxford. He is a Fellow of Mansfield College, Oxford.

FRÉDÉRIC DEVOS

Frédéric Devos is French and was appointed to the Board on 1 January 2008. He is a director of Veolia Environnement UK Limited and Managing Director of Veolia Water UK PLC.

NEVIL MUNCASTER (Managing Director)

Nevil Muncaster was appointed to the Board as Managing Director on 12 October 2009. He is also Managing Director of Veolia Water East Limited.

DAVID WALTON (Resigned)

David Walton resigned as Managing Director with effect from 12 October 2009 to take up a post with Veolia Water Outsourcing Limited.

Board Committees, Executives and Advisers

Audit Committee

Janette McKay (Chair)
Neil Summerton
Paul Sabin

Executive Management Committee

Nevil Muncaster (Chairman)	Managing Director (appointed 12 October 2009)
Frédéric Devos	Managing Director of Veolia Water UK PLC
Chris Taylor	Head of Capital Investment and Asset Management
Gavin McHale	Head of Operations
Tim Charlesworth	Head of Finance and Support Services, Company Secretary
Pauline Wilson	Head of Customer Relationships (appointed 18 May 2009)

David Walton (Chairman)	Managing Director (resigned from committee 12 October 2009)
Chris Harré-Young	Head Of Corporate Services (resigned from committee 1 April 2009)

Remuneration and Employment Committee

Paul Sabin (Chairman)
Janette McKay

Company Secretary and Registered Office

Tim Charlesworth
The Cherry Garden
Cherry Garden Lane
Folkestone
Kent
CT19 4QB

Registered Auditors

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

Report of the Directors

Introduction

The directors present their report and the audited statutory financial statements for the year ended 31 March 2010. On 1 July 2009 the Company passed a special resolution to change the Company's name to Veolia Water Southeast Limited.

Principal activity

The principal activity of the Company is the supply of water to an estimated population of 159,000 in an area of 420 square kilometres in the south east of England.

Directors

The directors of the Company, together with their periods of office and their biographical details, are shown above on page 5.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in the statutory financial statements.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 year.

In preparing those financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Report of the Directors

Business review and financial performance

Strategy

We take a long-term view. This is consistent with the time frame of our rolling licence (25 years), water resource plans (25 years), and the longevity of our networks and some of our plant and equipment.

We concentrate on our core activity of regulated water supply, improving our financial returns through efficient service to customers. We also seek to take advantage of any competition opportunities and grow non-regulated income. Our central aim is to provide a reliable, sustainable and high quality service to present and future customers.

Risks and opportunities

The main challenges are, fierce competition for water industry contractors and skills in the south east, increasing costs – notably water industry contractors and energy, and continuing to maintain a satisfactory security of supply. The impact of our regulatory environment remains a key risk to the Company. Deteriorating economic circumstances are leading to an increased risk of bad debts and reduced income.

Our main areas of opportunity lie in improving our efficiency, in competition, and growing our non-regulated business.

Performance during the year ended 31 March 2010

- We completed the major refurbishment of the Broome pumping facility
- We continued to reduce leakage from the pipe network to an all time low.
- We achieved a Security of Supply Index (SoSI) score of 100 (the maximum) as defined by the water industry regulator Ofwat.
- We continued the accelerated meter installation programme through 2009/10 and remain on target to complete the Ofwat approved target of 90% penetration by 2012.
- We progressed with Phase 2 of the Lydd Pilot through the roll out of a “stepped” tariff and SMART communication with quarterly bills. The latter has received industry wide acclaim.
- Health and Safety performance was recognised by both ROSPA and the British Safety Council.
- The business plan for the period 2010 to 2015 was agreed with Ofwat.

Future developments

We will continue to manage the business for the long term. At the same time we will look to improve our short term measures of performance whilst delivering the outputs expected from the latest price review.

Report of the Directors

Financial performance for the year ended 31 March 2010

Turnover

Turnover for the year ended 31 March 2010 was £18.816m compared with £18.553m for the year ended 31 March 2009. An analysis of turnover can be found in Note 2 to the financial statements.

Over the five year regulatory period (April 2005 – March 2010) the Company has seen a total income of £85.6m, compared to an OFWAT assumed income of £90.5m. The following factors contributed to the shortfall of £4.9m :

- Customers' raised awareness of water efficiency.
- Recent summers have been unusually wet and cool, thereby reducing the summer demand for water.
- Accelerated metering programme and customer reaction to having a water meter installed.
- Commercial demand has fallen from 2005/06 (i.e. predating the current economic downturn).

The Company continues to monitor this position. Over the next five year period the Regulator has introduced a control mechanism, called the Revenue Correction Mechanism, which will remove this business risk. The mechanism will enable both the Company and the Regulator to rebalance both shortfalls and outperformance of income.

Operating expenditure

Operating costs for the year ended 31 March 2010 were £12.996m compared to £12.631m for the year ended 31 March 2009. An analysis of operating costs can be found in Note 3 to the financial statements.

Depreciation

The depreciation charge for the year ended 31 March 2010 was £4.276m compared with £3.893m for the year ended 31 March 2009. The increase is due to the addition of assets and is unaffected by the revaluation which was applied at 31 March 2010.

Financial returns

Profit on ordinary activities before tax for the year ended 31 March 2010 was £4.813m compared with £4.916m for the year ended 31 March 2009.

Cash flow

There was £91k net cash outflow in the year. Once again the key driver in the cash flow was capital expenditure, which was funded by cash generated from operations and an increase in the loan from our parent company. The Company paid dividends of £4.019m which also contributed to the net cash outflow

The net effect of the above factors was that net debt increased from £30.445m at 31 March 2009 to £31.134m at 31 March 2010.

Capital expenditure

Expenditure for the year was £7.038m compared to the previous year's total of £5.508m.

Report of the Directors

Financial instruments

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Audit Committee and Board review and agree policies for managing each of these risks.

The Company finances its operations through a mixture of retained profits, bank overdraft and borrowings from its parent company. Our treasury policies are agreed in conjunction with the parent company (including liquidity and interest rate risks). The Company does not undertake speculative transactions. Interest rate exposure is managed by using a mixture of fixed and floating rate borrowings.

For further details on financial instruments see Note 25.

Capital finance

The Company's balance sheet is very strong, with net debt at around 54% of regulatory capital value. A revolving credit facility has been arranged with the Company's parent company.

The £12.5m fifteen year bond issued in 2005 at 5.51%, is part financing our current capital programme. At 31 March 2010, loans totalling £18.7m in favour of Veolia Water Capital Funds Limited were in existence. These are revolving loans of one month duration. The floating rate is set at 200 basis points above LIBOR. This agreement expires on 31 March 2012. This makes a total of loans outstanding in favour of Veolia Water Capital Funds Limited of £31.2m

Dividend policy

Our dividend policy is based on a return on equity of 9% real and has regard to performance and an objective to maintain a minimum dividend cover of 1. This policy ensures that our financial capital is not reduced, our ability to finance our regulated business is not impaired and we reward efficiency and the management of economic risk.

The directors have declared and paid the following dividends during the year ended 31 March 2010:

Ordinary dividends:	£000
Interim – paid June 2009	2,111
Interim – paid December 2009	1,908
	<u>4,019</u>

No final dividend is proposed.

Competition

The Water Act 2003 has extended opportunities for competition in the water industry by introducing a new framework for the licensing of water supply. Since 1 December 2005, water supply licencees have been able to supply water outside their licensed area to non-household users provided these users consume more than 50 mega-litres per year.

Our access code has not been discussed with any potential market entrants during the year.

As in previous years, we respond positively to competition developments and opportunities.

Report of the Directors

Environmental matters

The water industry is subject to substantial domestic and European Union legislation which imposes significant statutory obligations on the Company concerning, among other factors, the quality of treated water supplied.

Environmental policy and proposal for legislation are the responsibility of the Secretary of State for the Environment, Food and Rural Affairs. The following bodies are responsible for applying legislative requirements to water companies:

- The Environment Agency, responsible for conserving and redistributing water resources and securing the proper use of those resources, including the licensing of water abstraction;
- the Drinking Water Inspectorate, which enforces drinking water quality standards, and
- Natural England which is responsible for the protection of designated sites for nature conservation.

Our People, Our Community and Our Environment

The Company considers the impact of its works on all aspects of the environment. We take our corporate responsibility seriously and are continuously looking for ways to protect and sustain our environment. We operate an integrated management system which is certified to ISO 14001 which helps us manage and continue to improve our environmental performance.

Employees

We consult and inform employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings and the intranet. We are discussing with our Trade Unions ways to enhance and improve our communications and consultation channels. As in previous years, employees were surveyed to collect their views in a systematic way with a record number of employees taking part this year. Training was carried out to ensure that the results were translated into action plans.

Extensive training was also conducted on technical, managerial and health and safety skills and awareness. We have continued to provide driver assessment and training to all individuals who drive on company business. We have also continued the programme of increasing awareness for all executives and senior managers on Health & Safety issues.

There were 5 minor accidents and no reportable accidents or incidents in the year to 31 March 2010. This compares with one reportable event in the previous year. The minor accidents resulted in only one lost day in the current year. However, due to an injury resulting from a reportable accident in the previous year, an additional 254 days were lost during the report year. As a result, the total days lost was 255 compared with 12.5 in the previous year.

The Company gives full consideration to applications from disabled persons where the candidate's particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Employees who become disabled whilst employed by the Company are actively encouraged to find appropriate employment within the business.

Several initiatives were also introduced with the aim of improving the health and well-being of our employees.

Report of the Directors

Research and development activities

The development and application of new techniques and technology is an important part of the Company's activities.

The Company participates in the Veolia Water UK group research programme. The Company also continues to participate in a research programme operated by UK Water Industry Research Limited.

Charitable and political contributions

The charitable contributions made by the Company during the year were £14,000 (2009: £16,000), largely to water-related and local organisations which aim to:

- improve opportunities and create worthwhile experiences for the disadvantaged
- assist customers in financial hardship, via a charitable trust
- improve the quality of life of senior citizens and the vulnerable within our community and
- educate young people about water and sustainability issues.

Donations to charitable trusts assisting customers are included in operating costs within the Company's Profit and Loss Account. For the purposes of the activity analysis in the Regulatory Accounts these costs are reported as Customer Service activity.

No political contributions were made during the year.

Creditor payment policy

Our current and future policy is to negotiate 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. The average number of creditor days is 22.85 (2009: 24.95).

Revaluation

During the year the Company changed its accounting policy for fixed assets by revaluing certain classes of fixed assets to market value in accordance with the fair value provisions of FRS 15 'Tangible fixed assets'. The increase in fair value of fixed assets resulted in a credit to a revaluation reserve of £24.8m at 31 March 2010.

Post balance sheet events

No significant post balance sheet events have taken place.

Report of the Directors

Auditors

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

A resolution to reappoint Ernst & Young LLP as auditors will be put to members at the next annual general meeting in accordance with section 485 of the Companies Act 2006.

By order of the Board



Tim Charlesworth
Company Secretary

24 June 2010

Corporate Governance Report

Introduction

The Company is governed having regard to principles set out in the Combined Code on Corporate Governance (June 2006). The Company complied with all relevant Code Provisions except where disclosed below.

The Company complied with the provisions set out in section 1 of the Combined Code, appended to the Listing Rules. The Remuneration Committee comprises the Chairman and one non-executive director.

The Board

The Board meets at least four times a year. There were six meetings in the year. A schedule of matters specifically reserved for consideration by the Board has been adopted and includes, in particular, approval of strategic plans and regulatory matters. The Board receives reports from the Audit Committee on the effectiveness of the Company's internal controls.

A procedure has also been agreed to enable directors to obtain access to independent professional advice where they think it necessary to perform their duties. The directors bring independent judgement to bear on all matters including issues of strategy, performance, resources and standards of conduct.

Appointments to the Board take into account the views of the shareholders as the Company is a partially owned subsidiary. Certain Board members are also directors of other group companies. This enables them to bring wider experience to discussions at meetings and on other occasions. All directors declare their position when as individuals they have a possible conflict of interest.

All directors have access to the advice and services of the Secretary, who is responsible to the Board for ensuring that Board procedures are followed. The Secretary ensures that the Board and its committees are provided in good time with papers of sufficient quality to prepare for meetings and otherwise to discharge their duties effectively. The Secretary may only be removed by the Board as a whole. The Secretary is also responsible for ensuring that every director receives appropriate training, both on appointment and subsequently as necessary.

Board composition and independence

At the end of the reporting year the Board comprised one executive and five non-executive directors. The senior independent director is Paul Sabin. The roles of Chairman and Managing Director are separated and clearly defined although not set out in writing.

The Board considers that Paul Sabin, Janette McKay and Neil Summerton are independent and of sufficient calibre and experience for their views to carry significant weight in Board decisions.

The non-executive directors meet and maintain contact between Board meetings as and when appropriate.

Board processes

The Board has established three standing committees, operating within written and agreed terms of reference. Each committee is able to take independent advice on any matter being considered. Minutes of the committee meetings are circulated to all Board members.

See page 6 for the membership of each committee.

Corporate Governance Report

Audit Committee

The Audit Committee comprises three independent non-executive directors and meets at least three times a year. The Board has satisfied itself that the Audit Committee has appropriate recent and relevant financial experience. The Managing Director of Veolia Water Southeast Limited (formerly Folkestone & Dover Water Services Limited) and the Finance Director of Veolia Water UK PLC attend by invitation. Other parties, including internal and external auditors, are invited to attend meetings as appropriate.

The Committee is responsible to the Board for reviewing the effectiveness of the systems of internal control that safeguard the shareholders' investment and the Company's assets. The review covers all controls, including financial, operational and compliance controls and risk policy and management.

The Committee also reviews the Company's statutory annual financial statements and regulatory accounts before submission to the Board to ensure that the report and accounts meet the obligations of the directors, including that the report and accounts give a true and fair representation of the Company's financial position.

The Committee meets with the Company's reporter and external auditors and reviews the information to be provided in the June Return to Ofwat before submission to the Board to ensure that the information meets Ofwat's reporting requirements.

Discussions are held with the external auditors before audits commence, and when the work is completed, to establish the nature and scope of the audit work, its cost effectiveness, the auditors' independence and objectivity and the results of their audit work.

The Committee keeps under review the level of audit fees, the appointment of the external auditors, and the nature and extent of other services provided by them, seeking to balance the maintenance of objectivity with value for money.

The Committee also reviews the activities, resources and effectiveness of the internal audit function.

The Committee is responsible for drawing the attention of the Board to, and advising on, any matters which should appropriately be decided by the Board as a whole.

There is a procedure in place by which staff may raise concerns about possible improprieties concerning financial reporting or other matters, to either the Company Secretary or the nominated non-executive director, Janette McKay. If required the Company will arrange for proportionate and independent investigations, reporting back to the Audit Committee.

Executive Management Committee

The Executive Management Committee membership is shown on page 6. The Committee meets regularly (normally monthly) and its duties are to consider certain strategic, financial, legal and regulatory matters delegated by the Board.

Remuneration and Employment Committee

Full details of the Remuneration and Employment Committee are shown on page 18. Membership is shown on page 6.

Nomination Committee

The Combined Code suggests that a Nominations Committee be established. It is the view of the Board that a Nominations Committee is not required as the function can be effectively and efficiently performed by the Board.

Corporate Governance Report

Attendance at meetings for year ended 31 March 2010

	Board	Audit Committee	Executive Management Committee	Remuneration & Employment Committee
Number of meetings in the year	6	5	11	1
J C Banon	2	-	-	-
J McKay	6	5	-	1
P Sabin	6	5	-	1
N Summerton	6	5	-	-
N Muncaster **	3	-	6	-
D Walton**	4	-	5	-
F Devos	3	-	8	-
R Bienfait*	3	-	-	-

" * " R Bienfait is not a director of the Company, but was the alternate for F Devos at 3 Board Meetings

" - " Denotes non-membership of that committee

" ** " Denotes not a member for the whole year.

(N.Muncaster attended two of the three meetings as a member of the Board, one as an attendee)

Relationships with shareholders

As stated above, the Company conducts business having regard to the principles of the Combined Code.

The provisions of the Combined Code relating to relationships with institutional shareholders and private investors do not apply as the Company is a partially owned subsidiary and therefore has no major institutional investors. Representatives of the majority shareholder are on the Board which ensures effective communication.

Internal control

The directors are responsible for the Company's system of internal control and for reviewing its effectiveness, whilst the role of the Executive Management Committee is to implement Board policies on risk management and control. As part of the internal control process within the Company, a programme of internal audits is followed. The Company has complied with the Turnbull provisions on internal control throughout the year.

It should be recognised that the Company's internal controls are designed to manage and ensure proper minimisation of risks; risks cannot, in their nature, be eliminated altogether. The internal controls also provide proper assurance against material misstatements or loss but that assurance cannot be absolute.

The Company has an organisation structure in place with clearly defined lines of responsibility and delegation of authority. Formal policies and procedures are established and documented in key areas.

In order to conduct this review the Board obtains assurance directly from the Executive Management Committee concerning compliance with the Company's risk management and control policies and procedures. The Board also considers issues included in reports received during the year, how the risks have changed during the year and reviews reports received from external auditors on the Company's internal controls. The directors receive an annual report on risk management and exercise financial control by the following means:-

Corporate Governance Report

- The Company has a comprehensive budgeting system with an annual budget approved by the Board.
- Management accounts are produced on a monthly basis providing financial and other information for each operating area within the Company. A comparison of actual results with budget and latest forecast for the remainder of the year is undertaken, and variances investigated as appropriate.
- Detailed cash flow analyses are prepared on a monthly basis to review the adequacy of funds and resources for the foreseeable future. The executive team meet on a monthly basis to review performance, both financial and operational. The minutes from these meetings are presented to the Board.
- The significant capital investment programme is controlled by clearly defined documented guidelines. An annual budget is approved by the Board, with actual and planned expenditure being authorised in accordance with delegated authority limits.
- The Board reviews budgets quarterly and the Company's performance against those budgets is monitored monthly by the Executive Management Committee.
- The directors receive the recommendations of internal audit reports and the findings of the external auditors.

There are a series of internal controls including, but not limited to, the annual strategic planning and budgeting process, a clearly defined organisational structure with authorisation limits, a monthly review of financial and operational performance against budget, and quarterly reporting to the Board.

Risk

The Company manages risk through arrangements embedded in normal management and governance processes. As part of the annual strategic planning and budgeting process the significant risks are identified, the probability of those risks occurring, and their potential impact and plans for managing and mitigating each risk are considered. These risks are reviewed by the Executive Management Committee and a full report is provided for consideration by the Board. A formal, continuous process for identifying, evaluating and managing the significant risks faced by the Company has been in place throughout the year under review and up to the date of approval of the Report and Accounts. The effectiveness of internal controls is reviewed by directors, at least annually.

The Company contributes to the compliance of Veolia Environnement SA with the US Sarbanes-Oxley Act, as is necessary under the terms of Veolia Environnement's listing on the New York Stock Exchange.

In addition, the Board approves the Company's annual budget and annual capital expenditure budget, and regularly reviews actual performance. There is a defined organisational structure with appropriate delegation of authorities to line management and all major transactions are reviewed and approved by the Board as a whole.

By order of the Board



Tim Charlesworth

Company Secretary

24 June 2010

Remuneration Report

Introduction

The members are listed on page 6. The Remuneration and Employment Committee provides advice and guidance to the Board on the remuneration and benefits packages of the senior executives. The committee seeks to operate in accordance with best practice and appropriate guidelines and members of the committee are excluded from discussions regarding their own remuneration and conditions of employment. All arrangements regarding the appointment and remuneration of non-executive directors are settled in accordance with the Articles of Association. Senior executives may be paid an annual bonus. This is designed to reward short-term performance and encourages real year on year growth. It is company policy to exclude the bonus element of remuneration from pensionable earnings. In framing its remuneration policy, the committee has given full consideration to Section B of the Best Practice provisions annexed to the Listing Rules of the UK Listing Authority.

Basic Salary

The committee aims to set a basic salary level for the Managing Director and the senior management team (the executive), that it feels is sufficient to retain the team but is not excessive given our market position and the regulated nature of our business. Basic salaries are normally set at levels on, or just below, the medium level for comparable positions in other market sector companies. In setting the basic salary level the following factors are taken into account:

- Relevant market data of comparable positions (with regard to both responsibility and size of organisation) as provided in an independent survey commissioned from KPMG.
- The individual performance of each executive along with their progression within their appropriate pay structure.
- The general trends and levels of remuneration within the company ensuring that executives continue to be rewarded and motivated at an appropriate level in comparison to their colleagues.

Bonus Schemes

The Managing Director and the senior management team participate in bonus schemes that are designed to ensure their full focus on the key strategic requirements of the Company. The bonus schemes have been operating since 2002.

The maximum remuneration that the Managing Director and senior management team can earn from the bonus schemes is set at 25% and 10% respectively of basic salary. The Remuneration and Employment Committee determine the level of bonus awarded to the Managing Director and each member of the senior management team.

The committee takes into account, among other things, the measurements and reports provided by Ofwat which cover the performance of the Company against the key measures of customer service, leakage and the Company's annual financial performance. The bonus scheme has been designed to encourage overachievement of the key targets against the following measures:

- Earnings before interest and tax (EBIT) and capital expenditure in comparison with the Company plan.
- Performance by the Company against regulatory and customer service standards.
- Achievement of individual performance targets set for each executive in respect of the year in relation to the improvement of the business.

At the end of the year the results of the Company and the performance of individual senior managers are carefully considered by the committee and a non-pensionable bonus may be awarded. There is no long term incentive plan.

Other Benefits

A package of other benefits is offered to the senior management team which are in line with market practice. This includes membership of a private health scheme and a fully expensed company car or car allowance. The level of car corresponds to the medium level on offer by comparable organisations.

Remuneration Report

Share Options

Share options are occasionally awarded by the parent company, Veolia Environnement SA, against a broad range of criteria including:

- Seniority
- Performance of the Company
- The contribution of the Managing Director to the Company
- Performance of Veolia Water UK PLC and Veolia Environnement SA.

Directors' emoluments

Directors' emoluments for the year were £162,000. Details of remuneration for each director are provided within note 7. Non-executive directors do not participate in any bonus schemes.

Directors' Notice Periods

In respect of the Managing Director the notice period from the Company to the Executive and from the Executive to the Company is three months.

Directors' interests

There are no disclosable interests under the Companies Act 2006.

Shares held in Veolia Environnement SA are not disclosed in accordance with SI 1985/802(3).

By order of the Board



Tim Charlesworth
Company Secretary

24 June 2010

Independent Auditor's Report to the Members of Veolia Water Southeast Limited (formerly Folkestone & Dover Water Services Limited)

We have audited the financial statements of Veolia Water Southeast Limited (formerly Folkestone & Dover Water Services Limited) for the year ended 31 March 2010 which comprises of the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 25. 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 7, 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.

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 2010 and of its profit 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and the information given in the Corporate Governance Statement set out on pages 14 to 17 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditor's Report to the Members of Veolia Water Southeast Limited (formerly Folkestone & Dover Water Services Limited)

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.



Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 June 2010

Profit and Loss Account for the Year Ended 31 March 2010

(Registered Number 2724316)

	Note	2010 £000	2009 £000
Turnover	2	18,816	18,553
Operating costs	3	(12,996)	(12,631)
Other operating income	4	155	153
Operating profit	5	5,975	6,075
Profit on disposal of fixed assets	6	198	-
Profit on ordinary activities before interest and taxation		6,173	6,075
Interest receivable	8	-	112
Interest payable and finance charges	9	(1,335)	(1,530)
Other finance (expenditure) / income	10	(25)	259
Profit on ordinary activities before taxation		4,813	4,916
Tax on profit on ordinary activities	11	(827)	(1,287)
Profit on ordinary activities after taxation for the financial year		3,986	3,629

All profits of the Company are from continuing operations.

Statement of Total Recognised Gains and Losses for the Year Ended 31 March 2010

(Registered Number 2724316)

	Note	2010 £000	2009 £000
Profit for the financial year		3,986	3,629
Actuarial (loss) /gain recognised in the pension scheme	23	(847)	1,178
Deferred tax movement relating to actuarial loss /(gain)	23	237	(330)
Share based payment liability adjustment		(3)	4
Revaluation of fixed assets	20	24,800	-
Total recognised gains for the year	21	28,173	4,481

Balance Sheet as at 31 March 2010

(Registered Number 2724316)

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	13	82,097	55,502
Current assets			
Stocks	14	441	439
Debtors	15	4,172	3,934
Cash at bank and in hand		71	162
		4,684	4,535
Creditors - amounts falling due within one year	16	(7,898)	(6,226)
Net current liabilities		(3,214)	(1,691)
Total assets less current liabilities		78,883	53,811
Creditors - amounts falling due after more than one year	17	(31,501)	(30,942)
Provisions for liabilities	18	(4,316)	(4,279)
Net assets excluding pension liability		43,066	18,590
Net pension asset	23	1,669	1,692
Net pension liability	23	(500)	(201)
Net assets including pension liability		44,235	20,081
Capital and reserves			
Called up share capital	19	192	192
Share premium account	20	214	214
Revaluation reserve	20	24,800	-
Capital redemption reserve	20	2,500	2,500
Profit and loss account	20	16,529	17,175
Shareholders' funds	21	44,235	20,081

The statutory financial statements (pages 22 to 49) have been approved by the Board of Directors and were signed on 24 June 2010 on its behalf by:



Paul Sabin
Chairman



Nevil Muncaster
Director

Cash Flow Statement for the Year Ended 31 March 2010

(Registered Number 2724316)

	Note	2010 £000	2009 £000
Net cash inflow from operating activities	a	10,191	10,066
Returns on investments and servicing of finance			
Interest received		-	112
Interest paid		(1,352)	(2,295)
Preference dividends paid		(14)	(14)
Net cash outflow from returns on investments and servicing of finance		(1,366)	(2,197)
Taxation		(750)	(1,091)
Capital expenditure and financial investment			
Purchase of tangible fixed assets *		(5,605)	(6,125)
Infrastructure charge receipts		234	144
Capital contributions *		391	259
Proceeds on disposal of tangible fixed assets		235	-
Net cash outflow from capital expenditure and financial investment		(4,745)	(5,722)
Equity dividends paid to shareholders		(4,019)	(3,857)
Net cash outflow before financing		(689)	(2,801)
Financing			
Loan from parent company		600	2,900
Redemption of debenture stock		(2)	-
Net cash inflow from financing		598	2,900
Increase / (decrease) in net cash	b/c	(91)	99

* During the year, the Company adopted £304,000 of mains and infrastructure assets from developers, ownership of which transferred at no cash value to the Company. The sum, reported in the accounts as an asset addition offset by a corresponding capital contribution, is excluded from the cash flow statement.

Notes to the Cash Flow Statement

a Reconciliation of operating profit to net cash inflow from operating activities

	2010 £000	2009 £000
Operating profit	5,975	6,075
Depreciation of tangible fixed assets	4,276	3,892
Amortisation of deferred credit	(38)	(38)
Decrease in stocks	(2)	3
Increase in debtors	(238)	(541)
Increase in creditors	642	652
Decrease in pension liability	(424)	23
Net cash inflow from operating activities	10,191	10,066

b Reconciliation of net cash flow to movement in net debt

	2010 £000	2009 £000
Increase / (decrease) in cash in the year	(91)	99
Cash inflow from increase in debt	(598)	(2,900)
Movement in net debt in the year	(689)	(2,801)
Net debt at the beginning of the year	(30,445)	(27,644)
Net debt at the end of the year	(31,134)	(30,445)

c Analysis of net debt

	At 1 April 2009 £000	Cash flow £000	Non cash flow £000	At 31 March 2010 £000
Net cash				
Bank	162	(91)	-	71
Debt				
Loan from parent company	(30,600)	-	(600)	(31,200)
Debentures	(7)	-	2	(5)
	(30,607)	-	(598)	(31,205)
Net debt	(30,445)	(91)	(598)	(31,134)

Notes to the Financial Statements for the year ended 31 March 2010

1 Statement of accounting policies

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and the treatment of certain grants and contributions, described below, and in accordance with the Companies Act 2006 and applicable accounting standards.

Change of accounting policy

The Company has adopted a policy of revaluing certain classes of fixed assets to market value, in accordance with the fair value provisions of FRS 15 'Tangible fixed assets'. This is a change from the previous policy, under which all fixed assets were stated at historic cost, except for the treatment of certain grants and contributions.

The impact of these financial statements as a result of the change in accounting policy is an increase in the valuation of the assets of £24.8m. Management consider that restatement of the prior year comparatives to reflect the impact of this change in accounting policy would be impractical to perform and would hinder the understanding of the users of the accounts. No such restatement has therefore been provided.

Bad debt provisioning

The bad debt provision is calculated by providing a percentage of current year debt based on historical averages of collectability over a 12 month period. Older debt outstanding is provided at 100%.

Share based payments

No transactions were recognised in respect of the share based payments for the year ended 31 March 2010 as the amounts were not material.

Revenue recognition

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

Tangible fixed assets and depreciation

FRS 15 requires fixed assets which are carried at re-valued amounts to be shown at their current value at the balance sheet date. To achieve this all the tangible fixed assets are subject to a full valuation every five years with an interim valuation carried out in the third year of this cycle.

Tangible fixed assets comprise:

Infrastructure assets - mains and associated underground pipe-work.

Other assets - land and buildings, operational structures, fixed plant, vehicles and mobile plant.

Infrastructure assets (being mains and associated underground pipe-work) comprise a network of systems. Expenditure on infrastructure assets, including renewals, is treated as an addition and included at cost after deducting grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the Company's independently certified asset management plan. Disposals of infrastructure assets are calculated based on the estimated lives of the assets before they are replaced.

Notes to the Financial Statements for the year ended 31 March 2010

Depreciation is provided on all other fixed assets except freehold land and is calculated to write off their cost over their estimated useful lives on a straight-line basis. The performance of assets is continually monitored and where impairment is identified, fixed assets would be written down to recoverable amount. Information on the condition of assets is also provided to the Regulator every five years as part of the price review mechanism.

The estimated useful lives of these assets are:

Leasehold property	Term of the lease
Buildings, reservoirs and wells	40 - 100 years
Plant, machinery and equipment	3 - 20 years
Vehicles and mobile plant	4 - 5 years

Land is not depreciated.

Capital contributions

Infrastructure charges received in respect of connections to the mains network are allocated to fixed assets, surface and infrastructure, in accordance with the basis on which the charges are calculated.

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires tangible fixed assets to be shown at cost, and hence grants and contributions are accounted for as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the directors, necessary for the statutory financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have indefinite economic lives and therefore no basis exists on which to recognise grants and contributions in the profit and loss account. The effect of this treatment on the book value of tangible fixed assets is disclosed in note 13.

Leased assets

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

Deferred taxation

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

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

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

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date.

Notes to the Financial Statements for the year ended 31 March 2010

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

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

Stocks and work in progress

Stocks are valued at the lower of cost or net realisable value after allowance for obsolete and slow moving items. In accordance with established practice in the water industry no value has been placed upon the water in reservoirs, mains or in the course of treatment. Work in progress for chargeable services is valued at cost.

Research and development

The costs of research and development are written off in the period in which they are incurred.

Pension costs

The Company operates two pension schemes providing benefits based on final pensionable salary. These schemes 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.

The Company also has an unfunded obligation to pay pensions to former non-executive directors. A provision in respect of the obligation is included within the net pension liability.

The Company also operates a contributory, money purchase scheme which is open to all new employees.

Financial instruments

Income and expenditure arising on financial instruments is recognised on an accruals basis and credited or charged to the profit and loss in the financial year in which it arises.

Current cost accounting policies

These financial statements have been prepared in accordance with guidance issued by the Water Services Regulation Authority for modified real term financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of which assets are valued at their current cost value to the business.

These statements have been prepared in accordance with applicable Regulatory Accounting Guidelines (RAGs). In respect of cost allocations the Company has allocated costs by a combination of cost centre allocations, and activity allocation. This is the same as in previous years.

Notes to the Financial Statements for the year ended 31 March 2010

2 Turnover

Turnover represents income from the supply of water and other chargeable services exclusive of VAT arising wholly within the United Kingdom.

Turnover relating to unmeasured supplies comprises amounts due to the Company for the accounting year.

	2010 £000	2009 £000
Turnover by class is analysed below:		
Unmeasured supplies	4,602	5,487
Measured supplies	13,627	12,276
Chargeable services	587	790
	<u>18,816</u>	<u>18,553</u>

3 Operating costs

	2010 £000	2009 £000
Obtaining and supplying water	5,530	5,549
Energy	1,032	888
Chargeable services direct expenditure	23	199
Water abstraction charges	416	381
Administration and Management	4,705	4,385
Rates	1,290	1,229
	<u>12,996</u>	<u>12,631</u>

4 Other operating income

	2010 £000	2009 £000
Commission, rentals & other non-appointed income	<u>155</u>	<u>153</u>

Notes to the Financial Statements for the year ended 31 March 2010

5 Operating profit

	2010 £000	2009 £000
Operating profit is stated after charging/(crediting):		
Depreciation of other assets	2,240	1,880
Depreciation of other underground assets	2,036	2,013
Amortisation of deferred income	(38)	(38)
Research and development	7	8
Hire of plant and machinery	4	4
Operating lease rentals	85	92
Auditors' remuneration – statutory	35	47
Auditors' remuneration – regulatory	48	56

6 Profit on disposal of fixed assets

	2010 £000	2009 £000
Profit on disposal of freehold land	191	-
Profit on disposal of other assets	7	-
	<hr/>	<hr/>
	198	-

Notes to the Financial Statements for the year ended 31 March 2010

7 Employees and directors

	2010 £000	2009 £000
Staff costs (excluding non executive directors) consist of:		
Wages and salaries	2,938	2,644
Social security costs	257	232
Defined contribution pension costs	43	31
Other pension costs current service cost (note 23)	190	332
	3,428	3,239

	2010 Number	2009 Number
The average number of employees (excluding non executive directors) during the year was as follows:		
Operations	69	69
Customer service and administration	40	39
	109	108

There were 5 non-executive directors throughout 2009 and 2010

Directors' emoluments

	2010 Salary and fees £000	2010 Benefits in kind £000	2010 Bonus £000	2010 Total £000	2009 Total £000
Non-executives					
F Devos	18	-	-	18	13
J.C. Banon	18	-	-	18	17
P Sabin	30	-	-	30	29
J McKay	17	-	-	17	17
N Summerton	17	-	-	17	17
Executive					
D Walton	57	5	-	62	122
N Muncaster	-	-	-	-	-
	157	5	-	162	215

The emoluments of N Muncaster have been paid during the current year by Veolia Water East Ltd, a fellow subsidiary company which has recharged an amount of £42,851 (2009: £nil) to the Company.

Pensions paid to former directors (or surviving spouses) amounted to £32,643 (2009: £31,092).

Notes to the Financial Statements for the year ended 31 March 2010

Retirement pension benefits accrue to the executive director under a defined benefits scheme as follows:

Pensions (defined benefits)

	Accumulated total accrued pension at 31 March 2009		Increase in accrued pension during year				Accumulated total accrued pension at 31 March 2010	
	£000 p.a.	Transfer Value £000	Increase net of inflation £000 p.a.	Member contribution £000	Transfer value of increase (net of member contributions) £000	Total change in transfer value (net of member contributions) £000	£000 p.a.	Transfer Value £000
D Walton	13	160	1	3	6	(33)	14	130

Mr D.Walton left Veolia Water Southeast Limited to join Veolia Water Outsourcing Limited on 1 November 2009. The value of pension at 31 March 2010 is therefore based on pension accrued to 1 November 2009.

8 Interest receivable

	2010 £000	2009 £000
Interest receivable on bank balances	-	112
	-	112

9 Interest payable and finance charges

	2010 £000	2009 £000
Interest payable to group company	1,316	1,506
Guaranteed income agreements	5	10
Preference dividends payable	14	14
	1,335	1,530

10 Other finance (expenditure) / income

	2010 £000	2009 £000
Expected return on pension scheme	1,086	1,359
Interest on pension scheme liabilities	(1,111)	(1,100)
	(25)	259

Notes to the Financial Statements for the year ended 31 March 2010

11 Tax on profit on ordinary activities

	2010 £000	2009 £000
Current taxation		
Current tax on profit of the year	683	904
Adjustment in respect of prior years	(4)	(195)
Current taxation	679	709
Deferred taxation		
Origination and reversal of timing differences	665	469
Adjustment in respect of prior years	28	(17)
Decrease / (increase) in discounting	(545)	126
Deferred tax charge for the year	148	578
Tax on profit on ordinary activities	827	1,287
Current taxation reconciliation		
Profit on ordinary activities before taxation	4,813	4,916
Theoretical tax at UK corporation tax rate of 28%	1,348	1,376
Effects of:		
Adjustment to tax in respect of prior years	(4)	(195)
Accelerated capital allowances	(539)	(387)
Other short term timing differences	(125)	(81)
Permanent differences	(1)	(4)
Actual current taxation charge	679	709

Factors that may affect future tax charges:

Changes to the UK capital allowance regime will 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.

12 Dividends on equity shares

	2010 £000	2009 £000
Ordinary:		
First interim of 722p per share (2009: 659.10p)	2,111	1,927
Second interim of 653p per share (2009: 660.12p)	1,908	1,930
	4,019	3,857

Notes to the Financial Statements for the year ended 31 March 2010

13 Tangible fixed assets

	Land, buildings and operational structures £000	Mains and other infrastructure assets £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in the course of construction £000	Total £000
Cost						
At 1 April 2009	12,509	40,355	24,966	5,634	381	83,845
Additions	835	3,618	1,376	732	477	7,038
Transfers	140	-	150	-	(290)	-
Capital contributions	-	(929)	-	-	-	(929)
Surplus on revaluation	7,853	11,715	5,232	-	-	24,800
Disposals	(7)	(263)	(2,602)	(1,882)	-	(4,754)
At 31 March 2010	21,330	54,496	29,122	4,484	568	110,000
Depreciation						
At 1 April 2009	3,227	9,419	11,248	4,449	-	28,343
Charge for the year	278	2,036	1,134	828	-	4,276
Disposals	-	(263)	(2,602)	(1,851)	-	(4,716)
At 31 March 2010	3,505	11,192	9,780	3,426	-	27,903
Net book value						
At 31 March 2010	17,825	43,304	19,342	1,058	568	82,097
At 31 March 2009	9,282	30,936	13,718	1,185	381	55,502

The net book value of land, buildings and operational structures includes:

	2010 £000	2009 £000
Freehold land	3,777	297
Long term leasehold	267	201
	4,044	498

The net book value of mains and other infrastructure assets for the Company is stated after the deduction of grants and contributions received since April 1990 amounting £8.731m (2009: £7.826m) in order to give a true and fair view.

During the year, the Company adopted £304,000 of mains and infrastructure assets from developers, ownership of which transferred at no cash value to the Company. The sum has been reported in the accounts as an asset addition offset by a corresponding capital contribution.

Notes to the Financial Statements for the year ended 31 March 2010

The Company's tangible fixed assets were professionally valued by Savills, an independent qualified valuer and PricewaterhouseCoopers LLP ('PwC'), a firm of independent chartered accountants. These valuations were performed in accordance with FRS 15 which requires that assets subject to a policy of revaluation should be carried at their current value. Current value is defined in FRS 15 as the lower of replacement cost and recoverable amount. The recoverable amount is further defined as the higher of Net Realisable Value ("NRV") and Value in Use ("VIU").

Having considered the above definitions of value, PwC have concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company is a 2 step approach:

- Step 1: Estimating the business VIU, using a discounted cash flow ("DCF") model to determine the business enterprise value, cross-checked against the Regulatory Capital Value ("RCV"), followed by
- Step 2: Allocating the VIU of the business (less relevant working capital balances, deferred tax liabilities and other adjustments) to individual classes of tangible fixed assets.

Such valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year ended 31 March 2010 resulted in a total revaluation surplus of £24.8m which was applied at 31 March 2010. Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

If the re-valued assets were stated on a historical cost basis, the net book value would be £55.7m

14 Stocks

	2010 £000	2009 £000
Raw materials and consumables	229	230
Work in Progress	212	209
	<u>441</u>	<u>439</u>

15 Debtors

	2010 £000	2009 £000
Due within one year		
Trade debtors and customers' water charges	3,038	2,912
Deposit with parent company	994	869
Other debtors	127	120
Prepayments and accrued income	13	33
	<u>4,172</u>	<u>3,934</u>

The deposit with the parent company relates to overnight cash pooling at a variable interest rate.

Notes to the Financial Statements for the year ended 31 March 2010

16 Creditors – amounts falling due within one year

	2010 £000	2009 £000
Payments received in advance	1,137	1,486
Trade creditors	2,789	1,676
Amounts due to fellow subsidiaries	1,135	713
Corporation tax	180	251
Taxation and social security	92	105
Other creditors	2,265	1,824
Deferred income	149	125
Accruals	151	46
	<hr/>	<hr/>
	7,898	6,226

17 Creditors – amounts falling due after more than one year

	2010 £000	2009 £000
Deferred credit – contributions to surface assets	196	235
4% irredeemable debenture stock	1	1
5% irredeemable debenture stock	4	6
Loan from Veolia Water Capital Funds Limited	31,200	30,600
Preference share capital (see note 19)	100	100
	<hr/>	<hr/>
	31,501	30,942

The debenture stocks are perpetual, with interest payable half yearly, on 30 June and 31 December.

Notes to the Financial Statements for the year ended 31 March 2010

18 Provisions for liabilities

	Deferred tax £000
At 1 April 2009	4,279
Adjustment in respect of prior years	29
Charged to the profit and loss account	8
	<hr/>
At 31 March 2010	<u>4,316</u>

Deferred tax (see note 11)

	2010 £000	2009 £000
Accelerated capital allowances	9,875	9,308
Other timing differences	(62)	(77)
	<hr/>	<hr/>
Undiscounted provision for deferred tax	9,813	9,231
Discount	(5,497)	(4,952)
	<hr/>	<hr/>
Discounted provision for deferred tax	4,316	4,279
Deferred tax liability on pension asset (see note 23)	455	580
	<hr/>	<hr/>
Provision at the end of the year including deferred tax on pension liability	<u>4,771</u>	<u>4,859</u>

Deferred tax liability relating to pension liability

	2010 £000	2009 £000
At 1 April	580	179
Deferred tax charge to the profit and loss account	112	71
Deferred tax charge to the statement of total recognised gains and losses:		
- on pension actuarial (loss)/gain	(237)	330
	<hr/>	<hr/>
At 31 March	<u>455</u>	<u>580</u>

Notes to the Financial Statements for the year ended 31 March 2010

19 Share capital

	2010 £000	2009 £000
Allotted, called up and fully paid share capital		
218,670 Ordinary shares of 50p each	109	109
73,700 Non-voting ordinary shares of 50p each	37	37
92,123 deferred shares of 50p each, with no participating rights	46	46
	192	192
Preference shares classified as a liability		
200,247 14% irredeemable preference shares of 50p each	100	100

Rights of shareholders

Irredeemable preference shares: fixed cumulative 14% of the nominal value, payable half yearly on 1 April and 1 October.

Ordinary shares: any profits determined as distributable will be equally distributed to both voting and non-voting shareholders.

Deferred shares: no entitlement to dividends.

Winding up: any surplus assets remaining after payment of liabilities will be distributed firstly to preference shareholders, then to ordinary shareholders, in accordance with the rights attached to each class of share.

20 Reserves

	Share premium account £000	Asset revaluation reserve £000	Profit and loss account £000	Capital redemption reserve £000
At 1 April 2009	214	-	17,175	2,500
Actuarial loss recognised in the pension scheme	-	-	(847)	-
Deferred tax arising thereon	-	-	237	-
Revaluation of fixed assets	-	24,800	-	-
Cancellation of share based payment liability	-	-	(3)	-
Profit for the financial year	-	-	3,986	-
Dividend paid	-	-	(4,019)	-
At 31 March 2010	214	24,800	16,529	2,500

Notes to the Financial Statements for the year ended 31 March 2010

21 Reconciliation of movements in shareholders' funds

	2010 £000	2009 £000
Profit for the financial year	3,986	3,629
Other recognised gains in year (shown in STRGL)	24,187	852
	<hr/>	<hr/>
Total gains recognised for the year	28,173	4,481
Less: dividends	(4,019)	(3,857)
	<hr/>	<hr/>
Net addition to shareholders' funds	24,154	624
Opening shareholders' funds	20,081	19,457
	<hr/>	<hr/>
Closing shareholders' funds	44,235	20,081
	<hr/> <hr/>	<hr/> <hr/>
Equity shareholders' funds	44,189	20,035
Non-equity shareholders' funds – deferred shares	46	46
	<hr/>	<hr/>
Closing shareholders' funds	44,235	20,081
	<hr/> <hr/>	<hr/> <hr/>

22 Commitments under operating leases

Operating leases

The Company leases a number of vehicles under operating leases. The annual levels of commitments under non-cancellable operating leases are as follows:

	2010 £000	2009 £000
Operating leases which expire:		
Within one year	1	8
In two to five years	126	63
After five years	-	-
	<hr/>	<hr/>
	127	71
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements for the year ended 31 March 2010

23 Pensions

Composition of the schemes:

The Company operates two defined benefit pension schemes; one is the Veolia Water Supply Companies' Pension Plan and the other the Veolia UK Pension Plan.

Veolia Water Supply Companies' Pension Plan (VWSCPP)

Until 31 March 1996, the Company was a member of The Water Companies' Association Pension Scheme, which provided benefits based on final pensionable pay. On 1 April 1996 the assets and liabilities of the General Utilities Plc subsidiaries which participated in the Water Companies' Association Scheme were transferred to a "mirror image" plan called Veolia Water Supply Companies Pension Plan which was closed to new members. This plan continues to provide benefits on a no less favourable basis than those previously provided for existing members of the scheme.

The most recent triennial valuation of the plan for the Company, 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	6.85% (pre-retirement), 5.35% (post-retirement)
Rate of increase in remuneration	4.8%
Rate of pension increase	3.3%

The valuation as at 31 December 2007 stated the market valuation of the plan to be £21,400,000 with a funding level of 121%.

Contributions to the plan over the period ended 31 March 2010 were paid by members in accordance with the rules of the plan and by the Company of 41.0% of the pensionable salary.

The contributions expected to be paid in the year from the balance sheet date are £340,000.

Veolia UK Pension Plan (VUKPP)

A new 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.

Contributions to the Veolia UK Pension Plan over the period ended 31 March 2010 were paid by members in accordance with the rules of the plan and by the Company of 36.0% of pensionable salary.

The latest formal valuation of the plan for the Company, 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	6.75% (pre-retirement), 5.25% (post-retirement)
Rate of increase in remuneration	4.9%
Rate of pension increase	3.4%

The valuation as at 31 December 2007 stated the market valuation of the plan to be £862,000 with a funding level of 87%.

The contributions expected to be paid in the year from the balance sheet date are £255,000.

Non Executive Directors Pension Plan

There is a provision of £316,000 (2009: £169,000) as at 31 March 2010 in respect of future unfunded pension obligations to former employees and non executive directors of the Company.

Notes to the Financial Statements for the year ended 31 March 2010

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 plans, the following financial assumptions have been used:

	2010	2009	2008
Discount rate	5.65% pa	7.1% pa	6.1% pa
Salary growth	5.05% pa	4.7% pa	5.0% pa
RPI	3.55% pa	3.2% pa	3.5% pa
Pension-in payment increases	3.55% pa	3.2% pa	3.5% pa
VWSCPP – Life expectancy for a male pensioner age 65 (yrs)	21.8	21.8	21.8
VWSCPP – Life expectancy for a male non-pensioner age 65 (yrs)	24.9	24.9	24.9
VUKPP – Life expectancy for a male pensioner age 65 (yrs)	22.6	22.6	22.6
VUKPP – Life expectancy for a male non-pensioner age 65 (yrs)	25.8	25.8	25.8

Deferred pensions are revalued to retirement age in line with the RPI assumption of 3.55% 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 2010 was £258,000 (2009: £104,000).

Notes to the Financial Statements for the year ended 31 March 2010

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

	VWSCPP at 31 March 2010		VUKPP at 31 March 2010		VWSCPP at 31 March 2009		VUKPP at 31 March 2009	
	Value	Long term rate of return expected	Value	Long term rate of return expected	Value	Long term rate of return expected	Value	Long term rate of return expected
	£m	(% pa)	£m	(% pa)	£m	(% pa)	£m	(% pa)
Equities	9.2	8.0	0.84	8.0	7.1	7.5	0.66	7.5
Bonds	6.6	5.5	0.28	5.5	4.8	6.7	0.08	6.7
Gilts/ cash	6.1	4.5	0.28	4.5	5.3	4.0	0.08	4.0
Fair value of assets	21.9		1.40		17.2		0.82	

VWSCPP – amounts for current period and previous four periods are as follows:

	Year ended 31 March 2010	Year ended 31 March 2009	15 months to 31 March 2008	Year ended 31 December 2006	Year ended 31 December 2005
Defined benefit obligation (£m)	19.6	14.9	16.9	16.4	18.2
Plan assets (£m)	21.9	17.2	20.2	21.4	22.8
Surplus (£m)	2.3	2.3	3.3	5.0	4.6
Difference between expected and actual return on plan assets: Percentage of plan assets	19%	(20%)	(7%)	1%	8%
Experience gains/(losses) on plan liabilities: Percentage of plan liabilities	0%	4%	0%	(1%)	3%

Notes to the Financial Statements for the year ended 31 March 2010

VUKPP – amounts for current period and previous four periods are as follows:

	Year ended 31 March 2010	Year ended 31 March 2009	15 months to 31 March 2008	Year ended 31 December 2006	Year ended 31 December 2005
Defined benefit obligation (£m)	1.8	0.9	1.1	0.7	0.5
Plan assets (£m)	1.4	0.8	0.8	0.9	0.7
Surplus/(deficit) (£m)	(0.4)	(0.1)	(0.3)	0.2	0.2
Difference between expected and actual return on plan assets:					
Percentage of plan assets	18%	(38%)	(8%)	6%	10%
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	0%	2%	0%	(1%)	0%

Notes to the Financial Statements for the year ended 31 March 2010

Reconciliation of present value of scheme liabilities:

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
At 1 April 2008	16,855	1,105	336	18,296
Current service cost	212	120	-	332
Interest cost	1,009	72	19	1,100
Actuarial (gain) / loss	(2,328)	(393)	(154)	(2,875)
Benefits paid	(913)	(6)	(32)	(951)
Contributions paid by scheme participants	43	33	-	76
At 31 March 2009	14,878	931	169	15,978
Current service cost	114	76	-	190
Interest cost	1,030	70	11	1,111
Actuarial (gain) / loss	4,455	688	168	5,311
Benefits paid	(916)	(8)	(32)	(956)
Contributions paid by scheme participants	41	31	-	72
At 31 March 2010	19,602	1,788	316	21,706

Reconciliation of fair value of scheme assets:

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
At 1 April 2008	20,239	821	-	21,060
Contributions paid by employer	85	212	-	297
Contributions paid by scheme participants	43	33	-	76
Expected return on scheme assets	1,290	69	-	1,359
Actuarial gain / (loss)	(3,516)	(308)	-	(3,824)
Benefits paid	(913)	(6)	-	(919)
At 31 March 2009	17,228	821	-	18,049
Contributions paid by employer	340	243	-	583
Contributions paid by scheme participants	41	31	-	72
Expected return on scheme assets	1,020	66	-	1,086
Actuarial gain / (loss)	4,207	257	-	4,464
Benefits paid	(916)	(8)	-	(924)
At 31 March 2010	21,920	1,410	-	23,330
Pension (asset)/liability before deferred tax	(2,350)	110	169	(2,071)
Related deferred tax on asset/(liability)	658	(31)	(47)	580
Net pension (asset)/liability at 31 March 2009	(1,692)	79	122	(1,491)
Pension (asset)/liability before deferred tax	(2,318)	378	316	(1,624)
Related deferred tax on asset/(liability)	649	(106)	(88)	455
Net pension (asset)/liability at 31 March 2010	(1,669)	272	228	(1,169)

Notes to the Financial Statements for the year ended 31 March 2010

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

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
For year ended 31 March 2009				
Current service cost	212	120	-	332
Expected return on scheme assets	(1,290)	(69)	-	(1,359)
Interest on pension scheme liabilities	1,009	72	19	1,100
Total charge / (credit)	(69)	123	19	73
For year ended 31 March 2010				
Current service cost	114	76	-	190
Expected return on scheme assets	(1,020)	(66)	-	(1,086)
Interest on pension scheme liabilities	1,030	70	11	1,111
Total charge / (credit)	124	80	11	215

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

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
For the year ended 31 March 2009				
Actuarial gains/(losses) on scheme assets	(3,516)	(308)	-	(3,824)
Actuarial gains/(losses) on scheme liabilities	2,328	393	154	2,875
Adjustment due to surplus capitalisation	2,127	-	-	2,127
Total (charge) / credit	939	85	154	1,178
Deferred tax arising thereon	(263)	(24)	(43)	(330)
(Charge) / Credit after deferred tax	676	61	111	848
For year ended 31 March 2010				
Actuarial gains/(losses) on scheme assets	4,207	257	-	4,464
Actuarial gains/(losses) on scheme liabilities	(4,455)	(688)	(168)	(5,311)
Total (charge) / credit	(248)	(431)	(168)	(847)
Deferred tax arising thereon	69	121	47	237
(Charge) / Credit after deferred tax	(179)	(310)	(121)	(610)

Notes to the Financial Statements for the year ended 31 March 2010

24 Ultimate parent company and related parties

The Company is a partially owned subsidiary of Veolia Water Capital Funds 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 Company Secretary, Veolia Water UK PLC, 5th Floor, King's Place, 90 York Road, London N1 9AG.

Copies of the accounts of Veolia Environnement SA may be obtained from the head office at:

36 – 38 Avenue Kléber, 75116 Paris, France.

	Nature of Relationship:	In respect of:	Financial year ended		Financial year ended	
			Value £'000's	Balance £'000's	Value £'000's	Balance £'000's
Payments made to:			31 March 2010		31 March 2009	
Veolia Water UK PLC	Parent undertaking	Management and technical support, group tax relief, insurance premiums	560	408	552	246
Veolia Water Central Ltd (*1)	Common ownership	IT and telecommunications	269	268	724	275
Veolia Water East Ltd (*2)	Common ownership	Debt collection, joint managing director and recharges	92	87	-	-
Veolia Water Shared Services Ltd	Common ownership	Shared service recharges	791	489	-	-
Veolia Water Capital Funds Ltd	Shareholder	Financing and dividends paid	4,489	30,365	4,518	29,909
Veolia Environnement UK Ltd (*3)	Common ownership	Pension recharges	5	-	5	-
WWS (UK) Ltd	Common ownership	Water treatment plant	-	-	-	14
Veolia ES Cleanaway Ltd	Common ownership	Cleaning & waste contracts	6	-	3	-
Southern Water Services Ltd	Shareholder	Bulk water supply, sewerage charges and dividends paid	836	154	971	201
Receipts from:	Nature of Relationship:	In respect of:	Value £'000's	Balance £'000's	Value £'000's	Balance £'000's
Veolia Water Central Ltd (*1)	Common ownership	Call centre facility	67	15	57	14
Veolia Water East Ltd (*2)	Common ownership	Telemetry	41	-	40	-
Veolia Water Outsourcing Ltd	Common ownership	Transfer of asset	31	-	-	-
Southern Water Services Ltd	Shareholder	Metered billing and GIS plans	259	18	267	237
(*1) Veolia Water Central Ltd	(formerly Three Valleys Water PLC)					
(*2) Veolia Water East Ltd	(formerly Tendring Hundred Water Ltd)					
(*3) Veolia Environnement UK Ltd	(formerly Veolia UK Ltd)					

Notes to the Financial Statements for the year ended 31 March 2010

25 Financial instruments and risk management

The Company's financial instruments comprise borrowings, debentures, some cash and various items, such as trade debtors and trade creditors that arise directly from operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Company finances its operations through a mixture of retained profits, bank borrowings and borrowings from the parent company. Treasury policies are agreed in conjunction with the parent company (including liquidity and interest rate risks). The Company does not undertake speculative transactions. Interest rate exposure is managed by using a mixture of fixed and floating rate borrowings. Liquidity is managed by utilisation of a mixture of bank overdrafts and borrowings from the immediate parent company. No change is expected in the immediate future.

Financial assets: excluding debtors within one year

The company has no financial assets, other than short terms debtors and a bank balance of £71,000 (2009: £162,000).

Financial liabilities: excluding non-debt current liabilities

The Company has £12.5m (2009: £12.5m) fixed rate loan from its parent company. Originally for a fifteen year term, the loan expires in 2020, and has an interest rate of 5.51% per annum.

At 31 March 2010 the Company had revolver loans of £18.7m from its parent company. This was wholly comprised of one month loans (although three and six month options exist) at 200 points above LIBOR, against a total facility of £25m. This facility expires 31 March 2012.

At 31 March 2010 the Company had irredeemable debenture loans of £5k (2009: £7k) comprising fixed rate interest elements at 4% and 5%.

The interest rate profile of the Company's financial liabilities excluding non-debt current liabilities and deferred credits at 31 March 2010 was as follows:

As at	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000
31 March 2010	31,205	18,700	12,505
31 March 2009	30,607	18,100	12,507

Notes to the Financial Statements for the year ended 31 March 2010

The current interest rate on the floating rate financial liabilities during the year was LIBOR plus 200 basis points.

As at	Fixed rate financial liabilities		
	Weighted average interest rate %	Weighted average period for which rate is fixed* Years	Weighted average period until maturity Years
31 March 2010 - Other	5.5	10*	10
31 March 2009 - Other	5.5	11	11

*This calculation excludes the irredeemable debenture stock where the interest rate is fixed in perpetuity.

The maturity profile for the Company's financial liabilities at 31 March 2010 was as follows:

	2010 £000	2009 £000
In one year or less or on demand	-	18,100
In more than one year but not more than two years	-	-
In more than two years but not more than five years	18,700	-
In more than five years	12,505	12,507
	31,205	30,607

The short-term loans are repayable on demand and are classified as long-term liabilities as they are due to related parties and are not expected to be called for repayment. The Company has various undrawn committed borrowing facilities.

The facilities available at 31 March 2010 in respect of which all conditions precedent had been met were as follows:

	2010 £000	2009 £000
Expiring in one year or less	-	1,900
Expiring in more than one year but not more than two years	-	-
Expiring in more than two years	6,300	-
	6,300	1,900

Fair values of financial assets and liabilities

The fair values calculated by market interest rates of the financial instruments are not materially different from book values.

CERTIFICATE OF COMPLIANCE WITH LICENCE CONDITION F6A

To:

Water Services Regulation Authority
Centre City Tower
7 Hill Street
Birmingham B5 4UA

CERTIFICATE OF COMPLIANCE WITH LICENCE CONDITION F6A

This is to certify that, at their meeting on 24 June 2010, the directors of Veolia Water Southeast Limited (formerly Folkestone & Dover Water Services Limited) ("the Appointee") resolved that in their opinion:

- the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
 - the Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and
 - all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water undertaker.
- These statements are based on the net worth of the Company as shown in the accounts and on the budget and the plan for the forthcoming year.

In providing this Certificate the directors have taken into account the following:

- the Company's business plan;
- the Company's Annual Report and Accounts, which are prepared on the going concern basis;
- financial performance updates which are provided at Audit Committee and Board meetings;
- the Board's review of corporate risks.



Tim Charlesworth
Company Secretary

24 June 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In addition to their responsibilities to prepare financial statements in accordance with Companies Act 1985, the directors are also responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment, Transport and the Regions of the Company as a water undertaker as amended by the Variation and Modifications dated 18 September 2000 under the Water Industry Act 1991 for:

- a ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Director General of Water Services ("the Director"), to the Appointee from time to time;
- b preparing on a consistent basis for each financial year accounting statements in accordance with Condition F, or as specified under the Variation and Modifications dated 18 September 2000, having regard also to the terms of guidelines notified by the Director from time to time, which so far as is reasonably practicable have the same content as the annual financial statements of the Appointee prepared under Companies Act 1985 and which are prepared in accordance with the formats, accounting policies and principles which apply to these accounts;
- c preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued by the Director from time to time or as specified under the Variation and Modifications dated 18 September 2000; and
- d preparing such other accounting and related information as is required by Condition F having regard also to the terms of guidelines issued by the Director from time to time.

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY AND DIRECTORS OF VEOLIA WATER SOUTHEAST LIMITED (FORMERLY FOLKESTONE & DOVER WATER SERVICES LIMITED)

We have audited the Regulatory Financial Statements of Veolia Water Southeast Limited ("The Company") for the year ended 31 March 2010 which comprise:

- the regulatory historic cost financial information, itself comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the reconciliation between the statutory financial statements and the regulatory historical cost financial information and related notes to the regulatory historical cost financial information.
- the regulatory current cost financial information, itself comprising the regulatory current cost profit and loss account, for appointed business, the regulatory current cost balance sheet for appointed business, the regulatory current cost cash flow statement for appointed business and the related notes to the current cost financial information numbered 1 to 13.

The report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority ("the WRSA") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water undertaker under the Water Industry Act 1991 (the Regulatory Licence). Our audit work has been undertaken so that we might state to the company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Instrument of Appointment to procure such a report and (b) to facilitate the carrying out by the WRSA of its regulatory functions, 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 WRSA, for our audit work, for this report, or for the opinions we have formed.

Basis of Preparation

The regulatory financial statements have been prepared in accordance with Condition F of the companies Instrument of Appointment as a water undertaker, the Regulatory Accounting Guidelines 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of the regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets) and the accounting policies set out in note 1(a) to the historical cost financial information and note 1 to the current cost financial information and in the case of the historical cost financial information, under the historical cost convention.

The Regulatory financial statements are separate from the Statutory Financial Statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines 1.04, 2.03, 3.06 and 4.03 specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then the require UK GAAP to be followed.

Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the WSRA, the directors and auditors

The nature, form and content of the regulatory accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no assessment.

The directors' responsibilities for preparing the regulatory accounts in accordance with the Regulatory Licence and the Regulatory Accounting Guidelines 1.04, 2.03, 3.06 and 4.03 are set out in the Statements of Directors' Responsibilities.

Our responsibility is to audit the regulatory financial statements in accordance with International Standards on auditing (UK and Ireland), except as stated in the 'Basis of audit opinion' below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION AUTHORITY AND DIRECTORS OF VEOLIA WATER SOUTHEAST LIMITED (FORMERLY FOLKESTONE & DOVER WATER SERVICES LIMITED)

We report to you our opinion as to whether the regulatory historic cost financial information present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for the classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost financial information have been properly prepared in accordance with Regulatory Accounting Guidelines 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03. We also report to you if, in our opinion, the company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointees' accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06, and Regulatory Accounting Guideline 4.03.

We read the other information contained in the Regulatory Financial Statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Financial Statements. The other information comprises the Supplementary Information to the Financial Statements required by the Director General of Water Services.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of regulatory accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the company (our "Statutory" audit) was made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters that we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost financial information on pages 56 to 63 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disappplied. The effect of this departure from Generally Accepted Accounting Principles and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 2006 is given in the reconciliation between the statutory financial statements and the regulatory historical cost financial information.

Comment [AD1]: Change Xref

**INDEPENDENT AUDITORS' REPORT TO THE WATER SERVICES REGULATION
AUTHORITY AND DIRECTORS OF VEOLIA WATER SOUTHEAST LIMITED
(FORMERLY FOLKESTONE & DOVER WATER SERVICES LIMITED)**

Opinion

In our opinion, the regulatory financial statements of the Company for the year ended 31 March 2010 fairly present in accordance with Condition F of the Company's Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines 1.04, 2.03, 3.06 and 4.03 issued by the WSR, and the accounting policies set out in note 1 to the historical cost accounting statements and note 1 to the current cost financial information, the state of the Company's affairs at 31 March 2010 on a regulatory historical cost and regulatory current cost basis, the regulatory historical cost and regulatory current cost profit for the year then ended and the regulatory current cost cash flow for the year then ended, and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information, we report that in our opinion:

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (b) the information is in agreement with the Appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSR;
- (c) the regulatory historical cost accounting statements on pages 56-63 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSR;
- (d) the regulatory current cost financial information has been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSR.

Ernst & Young LLP

Ernst & Young LLP
London

29 June 2010

HISTORICAL COST PROFIT AND LOSS ACCOUNT

Note	CURRENT YEAR 2009/10			PRIOR YEAR 2008/09			
	Appointed	Non Appointed	Total	Appointed	Non Appointed	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
1	Turnover	18,420	396	18,816	18,057	496	18,553
	Historic cost depreciation	(2,241)	-	(2,241)	(1,880)	-	(1,880)
2	Operating income	198	-	198	-	-	-
3	Operating costs	(10,736)	(19)	(10,755)	(10,667)	(84)	(10,751)
4	Operating profit	5,641	377	6,018	5,510	412	5,922
5	Other income	-	155	155	-	153	153
*	Net interest payable	(1,360)	-	(1,360)	(1,159)	-	(1,159)
6	Profit before taxation	4,281	532	4,813	4,351	565	4,916
	Taxation – current	(530)	(149)	(679)	(541)	(169)	(710)
	– deferred	(148)	-	(148)	(577)	-	(577)
	Profit on ordinary activities after taxation	3,603	383	3,986	3,233	396	3,629
9	Dividends	(3,636)	(383)	(4,019)	(3,461)	(396)	(3,857)
	Retained profit/(loss) for the year	(33)	0	(33)	(228)	-	(228)

The notes on pages 59 to 63 form part of these accounts.

* See Statutory account notes 8, 9 and 10

HISTORICAL COST STATEMENT OF RECOGNISED GAINS AND LOSSES

	Year ended 31 March 2010		Year ended 31 March 2009	
	Appointed £000	Non- Appointed £000	Appointed £000	Non- Appointed £000
Profit for the financial year	3,603	383	3,233	396
Actuarial (loss)/gain recognised on pension scheme	(847)	-	1,178	-
Movement on deferred tax relating to pension scheme	237	-	(330)	-
Share based payment liability adjustment	(3)	-	4	-
Revaluation of fixed assets	24,800	-	-	-
Total recognised gains and losses relating to the year	27,790	383	4,085	396

HISTORICAL COST BALANCE SHEET

Note	CURRENT YEAR 2009/10			PRIOR YEAR 2008/09		
	Appointed £'000	Non Appointed £'000	Total £'000	Appointed £'000	Non Appointed £'000	Total £'000
Fixed assets						
	83,470	-	83,470	56,300	-	56,300
	83,470	-	83,470	56,300	-	56,300
Current assets						
* Stocks and work in progress	441	-	441	439	-	439
7 Debtors	3,160	18	3,178	2,832	233	3,065
Short term deposits	993	-	993	869	-	869
Cash at bank and in hand	-	823	823	-	617	617
Total current assets	4,594	841	5,435	4,140	850	4,990
8a Creditors amounts falling due within one year						
Overdrafts	(752)	-	(752)	(455)	-	(455)
Infrastructure renewals accrual	(1,373)	-	(1,373)	(798)	-	(798)
Creditors	(7,717)	-	(7,717)	(5,976)	-	(5,976)
Corporation tax payable	(105)	(75)	(180)	(167)	(84)	(251)
Total creditors	(9,947)	(75)	(10,022)	(7,396)	(84)	(7,480)
Net current assets	(5,353)	766	(4,587)	(3,256)	766	(2,490)
Total assets less current liabilities	78,117	766	78,883	53,044	766	53,810
8b Creditors amounts falling due after one year						
Borrowings	(31,205)	-	(31,205)	(30,607)	-	(30,607)
Other creditors	-	-	-	-	-	-
Total creditors	(31,205)	-	(31,205)	(30,607)	-	(30,607)
10 Provisions for liabilities and charges						
Deferred tax provision	(4,316)	-	(4,316)	(4,279)	-	(4,279)
8b Deferred income	(196)	-	(196)	(234)	-	(234)
Post employment asset	1,169	-	1,169	1,491	-	1,491
Preference share capital	(100)	-	(100)	(100)	-	(100)
Net assets employed	43,469	766	44,235	19,315	766	20,081
Capital and reserves						
Called up share capital	192	-	192	192	-	192
Share premium	214	-	214	214	-	214
Capital redemption reserve	2,500	-	2,500	2,500	-	2,500
Revaluation reserve	24,800	-	24,800	-	-	-
Profit and loss account	15,763	766	16,529	16,409	766	17,175
Capital & Reserves	43,469	766	44,235	19,315	766	20,081

* See Statutory account note 14
In accordance with RD 11/00, FRS12 'Provisions, Contingent Liabilities and Contingent Assets' and FRS15 'Tangible Fixed Assets' have not been adopted in the Regulatory Accounts.
The notes on pages 59 to 63 form part of these accounts.

RECONCILIATION BETWEEN STATUTORY AND REGULATORY ACCOUNTS

£m	Statutory UK GAAP	Regulatory	Explanation of difference
<u>Profit and loss account</u>			
Operating profit	6,018	5,641	The difference of £377k is due to the following: A non-appointed operating profit of £377k
Profit before tax	4,813	4,281	The difference of £532k is attributable to the disaggregation of the non-appointed business, as shown on the Profit and Loss Account.
<u>Balance sheet</u>			
Tangible fixed assets (net book value)	82,097	83,470	In the statutory accounts the Company adopts infrastructure accounting as required by FRS15. However OFWAT requests that this is removed for regulatory accounting. The infrastructure renewals accrual of £1,373k is shown in a separate line.
Debtors	4,172	3,160	There is a difference of £1,012k which relates to: <ul style="list-style-type: none"> - debtors associated with the non-appointed business, £18k - separate disclosure in regulatory accounts of a short term deposit held by parent company, £994k

NOTES TO THE REGULATORY ACCOUNTS

Note 1a - For the Operating and Financial Review / Remuneration Report / Corporate Governance / Directors Responsibility / Information provided to auditors please refer to the financial statements for the year ended 31 March 2010 (unless stated otherwise).

Note		CURRENT YEAR 2009/10			PRIOR YEAR 2008/09		
		Appointed £'000	Non Appointed £'000	Total £'000	Appointed £'000	Non Appointed £'000	Total £'000
1	Turnover						
	Unmeasured water	4,602	-	4,602	5,487	-	5,487
	Measured water	13,625	-	13,625	12,276	-	12,276
	Other water	2	-	2	83	-	83
	Chargeable services	191	396	587	211	496	707
		<u>18,420</u>	<u>396</u>	<u>18,816</u>	<u>18,057</u>	<u>496</u>	<u>18,553</u>
2	Operating income						
	Profit on disposal of fixed assets	198	-	198	-	-	-
3	Operating costs						
	Obtaining and supplying water	4,053	-	4,053	4,314	-	4,314
	Administration and management	3,941	-	3,941	3,740	-	3,740
	Rates	1,290	-	1,290	1,229	-	1,229
	Energy	1,032	-	1,032	888	-	888
	Chargeable services direct expenditure	5	19	24	115	84	199
	Water licence abstraction charges	415	-	415	381	-	381
		<u>10,736</u>	<u>19</u>	<u>10,755</u>	<u>10,667</u>	<u>84</u>	<u>10,751</u>
4	Operating profit is stated after charging (crediting)						
	Depreciation of other assets	2,241	-	2,241	1,880	-	1,880
	Amortisation of deferred income	(38)	-	(38)	(38)	-	(38)
	Hire of plant and machinery	4	-	4	4	-	4
	Operating lease rentals	85	-	85	92	-	92
	Auditors' remuneration	83	-	83	103	-	103

NOTES TO THE REGULATORY ACCOUNTS

Note	CURRENT YEAR 2009/10			PRIOR YEAR 2008/09		
	Appointed £'000	Non Appointed £'000	Total £'000	Appointed £'000	Non Appointed £'000	Total £'000
5 Other income						
Rents receivable, gross	-	155	155	-	153	153
6 Taxation						
Corporation tax for the year	530	149	679	541	169	710
Under/(Over) provision in prior years	-	-	-	-	-	-
Deferred taxation	148	-	148	577	-	577
	<u>678</u>	<u>149</u>	<u>827</u>	<u>1,118</u>	<u>169</u>	<u>1,287</u>
7 Debtors						
Due within one year :						
Trade debtors	3,020	18	3,038	2,911	-	2,911
Other	140	-	140	(79)	233	154
	<u>3,160</u>	<u>18</u>	<u>3,178</u>	<u>2,832</u>	<u>233</u>	<u>3,065</u>
8a Creditors						
Amounts falling due within one year :						
Bank overdraft	752	-	752	455	-	455
Corporation tax	105	75	180	167	84	251
Amounts due to fellow subsidiaries	1,135	-	1,135	503	-	503
Infrastructure renewals accrual	1,373	-	1,373	798	-	798
Others	6,582	-	6,582	5,473	-	5,473
	<u>9,947</u>	<u>75</u>	<u>10,022</u>	<u>7,396</u>	<u>84</u>	<u>7,480</u>

NOTES TO THE REGULATORY ACCOUNTS

Note	CURRENT YEAR 2009/10			PRIOR YEAR 2008/09		
	Appointed	Non Appointed	Total	Appointed	Non Appointed	Total
	£'000	£'000	£'000	£'000	£'000	£'000
8b Amounts falling due after one year :						
VW Capital Funds Ltd	31,200	-	31,200	30,600	-	30,600
Deferred Credit	196		196	234	-	234
Irredeemable debenture stock	5		5	7	-	7
	31,401	-	31,401	30,841	-	30,841

9 Dividends Paid

	CURRENT YEAR 2009/10			PRIOR YEAR 2008/09		
	Appointed	Non Appointed	Total	Appointed	Non Appointed	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Ordinary Dividends:						
VW Capital Funds Ltd	2,861	301	3,162	2,724	312	3,036
Southern Water Plc	681	72	753	648	74	722
Other Minorities	94	10	104	89	10	99
	3636	383	4019	3461	396	3857
Preference Dividends:						
VW Capital Funds Ltd	11	-	11	11	-	11
Southern Water Plc	3	-	3	3	-	3
Other Minorities	-	-	-	-	-	-
	14	-	14	14	-	14
	3,650	383	4,033	3,475	396	3,871

In defining dividend policy, the Company acknowledges the need to respond to balance sheet and earnings ratios upon which bank finance depends and the desire to provide a competitive return to shareholders. Further details can be found in the Directors Report.

NOTES TO THE REGULATORY ACCOUNTS

10 Provisions for Liabilities and Charges

	2009/10 Appointed £'000	2008/09 Appointed £'000
Deferred Tax		
Balance brought forward	4,279	3,774
Amount provided	37	505
Balance at 31 st March	<u>4,316</u>	<u>4,279</u>

ACTIVITY COST ANALYSIS FOR THE YEAR ENDED 31 MARCH 2010

Appointed Business Only	SERVICE ANALYSIS			BUSINESS ANALYSIS		
	Resources and Treatment £'000	Distribution £'000	Water Supply Total £'000	Customer Services £'000	Scientific Services £'000	Cost of Regulation £'000
Direct costs						
Employment costs	444	482	926	460	61	147
Power	895	64	959	-	-	-
Hired and contracted services	84	215	299	111	-	94
Associated companies	21	-	21	23	305	3
Materials and consumables	87	93	180	1	1	1
Bulk supply imports	79	-	79	-	-	-
Service charges	391	-	391	-	-	-
Other direct costs	35	182	217	85	-	52
Total direct costs	2,036	1,036	3,072	680	367	297
General and support expenditure	967	494	1,461	325	175	141
Functional expenditure	3,003	1,530	4,533	1,005	542	438
Total business activities			1,985			
Rates			1,290			
Doubtful debts			749			
Exceptional items			-			
Total Opex less third party services			8,557			
Services for third parties			180			
Total Operating Expenditure			8,737			
Capital costs						
Infrastructure renewals :						
Infrastructure renewals charge			2,036			
Current cost depreciation	2,538	79	2,617			
Amortisation of deferred income			(38)			
Amortisation of intangible assets			-			
Business activities current cost depreciation			549			
Total Operating Costs			13,901			
CCA (MEA) Values						
Services activities	83,323	257,714	341,037			
Business activities			9,680			
Water Supply Total			350,717			
Services for third parties			-			
Total			350,717			

NOTE:

The above analysis of operating costs by activity has been compiled in accordance with Regulatory Accounting Guidelines 4.02, issued by the Director General of Water Services. Where identifiable, costs have been allocated to direct costs and service areas. Where indirect costs exist, these have been allocated over service area in proportion to direct employment costs.

CURRENT COST PROFIT AND LOSS ACCOUNT

APPOINTED BUSINESS FOR THE YEAR ENDED 31 MARCH 2010

Note	2009/10	2008/09	
	£'000	£'000	
2	Turnover	18,420	18,057
2	Current cost operating income	165	-
3	Current cost operating costs	(13,901)	(13,728)
4	Working capital adjustment	124	(16)
<hr/>			
	Current cost operating profit	4,808	4,313
	Interest receivable/(payable)	(1,360)	(1,159)
5	Financing adjustment	1,330	(105)
<hr/>			
	Current cost profit before taxation	4,778	3,049
	Taxation – Current tax	(530)	(541)
	Taxation – Deferred tax	(148)	(577)
<hr/>			
	Current cost profit attributable to shareholders	4,100	1,931
	Dividends	(3,636)	(3,461)
<hr/>			
	Current cost (loss)/ profit retained	464	(1,530)

Notes on pages 70 to 77 form part of these accounts.

CURRENT COST STATEMENT OF RECOGNISED GAINS AND LOSSES

	Year Ended 31 March 2010	Year Ended 31 March 2009
	£000	£000
Profit for the financial year	4,100	1,931
Actuarial (loss) / gain recognised on pension scheme	(847)	1,178
Movement on deferred tax relating to pension scheme	237	(330)
FRS20 Share Based Payments	(3)	4
Total recognised gains and losses relating to the year	3,487	2,783

CURRENT COST BALANCE SHEET

APPOINTED BUSINESS AS AT 31 MARCH 2010

Note	2009/10	2008/09
	£'000	£'000
Fixed assets		
9	Tangible assets	280,521
9	Third party contributions since 1989-90	(10,336)
	Total fixed assets	270,185
	Working capital	(2,826)
	Cash	-
	Short-term deposits	870
	Infrastructure renewals accrual	(798)
	Net operating assets	267,431
Non operating assets and liabilities		
	Borrowings	(455)
	Non-trade debtors	121
	Non-trade creditors due within one year	-
	Corporation tax payable	(167)
	Total non operating assets and liabilities	(501)
Creditors due after one year		
	Borrowings	(30,607)
	Other creditors	-
	Total creditors falling due after one year	(30,607)
Provisions for liabilities and charges		
	Deferred tax provision	(4,279)
	Post employment asset	1,491
	Other provisions	-
	Total provisions for liabilities and charges	(2,788)
	Preference share capital	(100)
	Net assets	233,435
Capital and reserves		
	Called up share capital	192
	Share premium	214
	Capital redemption reserve	2,500
	Profit and loss account	6,653
6	Current cost reserve	223,876
	Total capital and reserves	233,435

Notes on pages 70 to 77 form part of these accounts.

CURRENT COST CASH FLOW STATEMENT

APPOINTED BUSINESS FOR THE YEAR ENDED 31 MARCH 2010

	2009/10	2008/09
	£'000	£'000
Net cash inflow from operating activities (Note 1)	9,568	9,430
Returns on investments and servicing of finance		
Interest received	-	112
Interest paid	(1,352)	(2,304)
Preference shares' dividends paid	(14)	(14)
Net cash outflow from returns on investments and servicing of finance	(1,366)	(2,206)
Taxation		
Paid	(592)	(1,015)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(4,120)	(4,604)
Receipt of grants and contributions	625	403
Infrastructure renewals expenditure	(1,485)	(1,521)
Sales of fixed assets	235	-
Net cash inflow / (outflow) from investing activities	(4,745)	(5,722)
New cash flow from management of liquid resources	-	-
Equity dividends paid	(3,636)	(3,461)
Net cash (outflow)/inflow before financing	(771)	(2,974)
Financing		
Loan (repayment)/receipt from parent company	476	3,042
Redemption of debenture stock	(2)	0
Net cash (outflow) / inflow from financing	474	3,042
Increase/(Decrease) in cash	(297)	68

NOTES TO CURRENT COST CASH FLOW STATEMENT

APPOINTED BUSINESS FOR THE YEAR ENDED 31 MARCH 2010

Note	2009/10	2008/09
	£'000	£'000
1 Cash flow from operating activities		
Current cost operating profit	4,808	4,313
Working capital adjustment	(124)	16
Current cost depreciation	3,166	3,061
Amortisation of deferred credit	(38)	(38)
Current cost profit on disposal of fixed assets	(165)	-
Infrastructure renewals charge	2,036	2,013
Change in working capital	162	(891)
Movement in provisions	(276)	956
Net cash inflow from operating activities	9,569	9,430

2 Analysis of net debt	At 31 March 2009 £'000	Cash Flow £'000	At 31 March 2010 £'000
Cash in hand and bank	-	-	-
Overdrafts	(455)	(297)	(752)
Loans due after one year	(29,731)	(476)	(30,207)
Preference share capital	(100)	-	(100)
Debentures	(7)	2	(5)
Net debt	(30,293)	(771)	(31,064)

Maturity profile	Fixed rate	Floating rate	Index linked	Total
Less than 1 year	-	(752)	-	(752)
Between 1 and 2 years	-	-	-	-
Between 2 and 5 years	-	(18,700)	-	(18,700)
Between 5 and 20 years	(12,500)	-	-	(12,500)
In more than 20 years	(5)	-	-	(5)
Borrowings (excluding preference shares)				(31,957)
Preference share capital				(100)
Total borrowings				(32,057)
Cash				-
Short term deposits				993
Net debt				(31,064)

NOTES TO CURRENT COST ACCOUNTS

1 Statement of Accounting Policies

Basis of current cost accounting

These accounts have been prepared in accordance with relevant Regulatory Accounting Guidelines (RAGs).

The current cost accounts have been prepared for the appointed business of the Company in accordance with the guidance issued by the Director General of Water Services for modified real terms financial statements for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business, with the exception of certain assets acquired prior to 31 March 1990, the effective commencement of the new regulatory system.

The accounting policies used are the same as those adopted in the non-statutory historical cost accounts, except as set out below.

Tangible fixed assets

An Asset Management Plan (AMP) survey was undertaken to produce Modern Equivalent Asset (MEA) values for all existing assets at 31 March 2003. This valuation was updated for the AMP4 business plan submission and the Regulatory Accounts now reflect this. The asset valuation arising from this exercise has been included in this year's accounts, after adjusting for inflation as measure by changes in the Retail Price Index (RPI) since that date.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is treated as operating cost. Costs relating to increases in capacity or enhancements to the network are capitalised. No depreciation is charged on mains because the network is required to be maintained in perpetuity and therefore has no finite economic life.

The treatment in the current cost accounts differs from that in the historical cost accounts in relation to the disapplication of renewals accounting paragraphs of FRS15 and FRS12, as required by regulatory accounting guidelines. The non-compliance has no effect on the profit and loss account other than to reclassify infrastructure renewals charges as depreciation.

The AMP adjustment shows the revaluation of the current cost of the Company's assets in accordance with the AMP4 Business Plan.

Third party contributions

Infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in RPI for the year and treated as deferred income.

Infrastructure charges received in respect of connections to the mains network are allocated to fixed assets, surface and infrastructure, in accordance with the basis on which charges are calculated.

Contributions receivable relating to infrastructure assets, which are not depreciated, have been deducted from the cost of tangible assets in order to show a true and fair view.

Real financial capital maintenance adjustments

These adjustments are made to historical cost profit and loss in order to arrive at profit after the maintenance of financial capital in real terms.

Depreciation adjustment - this is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at historical cost profit.

Working capital adjustment - this is calculated by applying the change in the RPI over the year to the opening total of stock and trade debtors less trade creditors.

NOTES TO CURRENT COST ACCOUNTS

Financing adjustment - this is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

Disposal of fixed asset(s) adjustment - Per RAG1.02 - this is calculated by applying the difference between the net book value of the current cost and the net book value of the historical cost of disposed assets, to the profit from disposal of fixed assets as shown in the historical cost accounts.

Dividend Policy

The Company's dividend policy is to consider a range of factors such as the rate of return on investment, financial structure, future cash flows, dividend cover etc. Full details can be found on page 10.

2	Turnover and Operating Income	2009/10	2008/09
		£'000	£'000
	Turnover:		
	Measured	11,184	10,032
	Unmeasured	4,602	5,487
	Large user and special agreement revenue - potable	1,909	1,755
	Large user and special agreement revenue – non-potable	529	486
	Bulk supplies	3	3
	Other sources	-	-
	Third Party Services(rechargeable works)	193	294
	Total Turnover	<u>18,420</u>	<u>18,057</u>
	Operating Income:		
	Current Cost profit or loss on fixed assets	165	-
	Total Operating Income	<u>165</u>	<u>-</u>
3	Current cost operating adjustments		
	These adjustments are made to historical cost profit in order to arrive at profit after maintenance of financial capital in real terms :		
	Current cost operating costs	2009/10	2008/09
		£'000	£'000
	Historic operating costs	12,977	12,547
	Historic cost depreciation	(2,241)	(1,880)
	Current cost depreciation	3,166	3,061
	Current cost operating costs	<u>13,902</u>	<u>13,728</u>
	Disposal of fixed asset adjustments		
	Historic cost disposals	4,491	73
	Less historic cost depreciation	(4,454)	(73)
		<u>37</u>	<u>-</u>
	Current cost disposals	7,396	138
	Less current cost depreciation	(7,326)	(138)
		<u>70</u>	<u>-</u>

NOTES TO THE CURRENT COST ACCOUNTS

4 Working capital adjustments

This is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.

	2009/10 £'000	2008/09 £'000
Trade debtors	2,832	1,966
Stock	439	442
Less creditors	(6,097)	(6,742)
	(2,826)	(4,334)
RPI	4.4%	-0.38%
Working capital adjustment	(124)	16

5 Financing adjustment

This is calculated by applying the change in RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

	2009/10 £'000	2008/09 £'000
Cash	415	488
Less: Non trade creditors	(167)	(570)
Less: Borrowings & debentures	(30,607)	(27,707)
Less: Non trade debtors	121	170
	(30,238)	(27,619)
RPI	4.4%	-0.38%
Financing adjustment	(1,330)	105

6 Current cost reserve

	2009/10 £'000	2008/09 £'000
Balance at 1 April	223,876	224,724
AMP Adjustment		
RPI adjustments		
Fixed assets	12,479	(1,005)
Working capital adjustment	(124)	16
Financing adjustment	(1,330)	105
Grants & third party contributions	(444)	36
	234,457	223,876

NOTES TO THE CURRENT COST ACCOUNTS

7	Working Capital	2009/10 £'000	2008/09 £'000
	Stocks and work in progress	441	439
	Trade debtors – measured household	913	673
	Trade debtors – unmeasured household	187	139
	Trade debtors – measured non household	767	764
	Trade debtors – unmeasured non household	10	18
	Trade debtors - other	304	309
	Measured income accrual	910	842
	Prepayments and other debtors	69	87
	Trade creditors	(2,364)	(2,118)
	Capital creditors	(1,548)	(420)
	Accruals and other creditors	(3,805)	(3,559)
		<hr/>	<hr/>
		(4,116)	(2,826)
		<hr/>	<hr/>

8	Regulatory Capital Value (RCV)	2009/10 £'000
	Opening RCV for the year	59,077
	Capital expenditure	3,295
	Infrastructure renewals expenditure	927
	Grants and contributions	(341)
	Depreciation	(3,391)
	Infrastructure renewals charge	(852)
	Outperformance of regulatory assumptions	(700)
		<hr/>
	Closing RCV carried forward	58,015
		<hr/>
	Average RCV	57,839

This RCV reflects that used by OFWAT when setting the price limits for the period 2005-06 to 2010-10, at 2007-08 prices. The actual expenditure during the year, as recorded in the regulatory accounts, may well differ from the figures shown above. Differences in capital expenditure will not affect price limits in the current year but will be taken into account in the calculation of the RCV during the next review process.

NOTES TO THE CURRENT COST ACCOUNTS

9	Fixed Assets	Infrastructure	Specialised	Non-	Other	Total
		Assets	operational	specialised	assets	
		£'000	assets	assets	£'000	£'000
			£'000	£'000		
	Gross replacement cost					
	Balance 1 April 2009	244,792	82,102	6,135	4,513	337,542
	Reclassification	(102)	103	-	-	1
	RPI adjustment	10,890	3,652	273	201	15,016
	AMP Adjustment	-	-	-	-	-
	Disposals	-	(4,912)	-	(2,484)	(7,396)
	Additions	2,134	2,380	-	1,040	5,554
	Balance 31 March 2010	257,714	83,325	6,408	3,270	350,717
	Depreciation					
	Balance 1 April 2009	-	49,172	4,268	3,581	57,021
	Reclassification	-	1	-	-	1
	RPI adjustment	-	2,188	190	159	2,537
	AMP Adjustment	-	-	-	-	-
	Disposals	-	(4,882)	-	(2,444)	(7,326)
	Charge for year	-	2,538	79	549	3,166
	Balance 31 March 2010	-	49,017	4,537	1,845	55,399
	Net book value					
	1 April 2009	244,792	32,930	1,867	932	280,521
	31 March 2010	257,714	34,308	1,871	1,425	295,318
		2008/09				2009/10
	Third party contributions					
	Balance 1 April	9,734				10,102
	RPI adjustment	(36)				444
	Additions	404				905
	Total contributions	10,102				11,451
	Deferred credit	234				196
	Balance 31 March	10,336				11,647

NOTES TO THE CURRENT COST ACCOUNTS

10 Transactions with Associated Companies

Company	Service	Turnover of Associate £m	Terms of Supply	Value 2009/10 £'000
Payment made to:				
Veolia Water UK Plc	Management & technical support, group tax relief, insurance premiums	N/A	No market	560
Veolia Water Central Ltd (formerly Three Valleys Water Plc)	IT and telecommunications	£234m (year to 31 March 2010)	No market	269
Veolia Water Shared Services Ltd	Shared services recharges	£17m	No market	791
Veolia Water Capital Funds Ltd	Short term financing and dividends paid	N/A	Group funding (market tested)	4,489
Southern Water Services Ltd	Bulk water supply, sewerage charges and dividends paid	£678m (year to 31 March 2009)	No market	836
Receipts from:				
Southern Water Services Ltd	Metered billing data and GIS plans	£678m (year to 31 March 2009)	No market	259

In disclosing the above the Company has applied a materiality limit on transactions of £100,000.

Note 24 in the statutory accounts contains additional related party information

To the best of their knowledge, the Directors of the Company declare that:

- All appropriate transactions with associated companies have been disclosed, and
- Transactions with associated companies are "at arms length with no cross-subsidy occurring"
- Internal controls ensure that any director of an associated company is unable to act independently in the capacity of a purchaser and supplier in any transaction with that company

11 Compliance with Condition K

Paragraph 3.1 of Condition K of the Company's Instrument of Appointment requires the Company to at all times ensure, so far as reasonably practicable, that if a special administration order were made, it would have available to it sufficient rights and assets (other than financial reserves) to enable a special administrator to manage the affairs, business and property of the appointed business of the Company.

The Company hereby certifies that at 31 March 2010 it was in compliance with paragraph 3.1 of Condition K.

NOTES TO THE CURRENT COST ACCOUNTS

12 Long term profit and loss accounts (2009/10) (unaudited) for the year ended 31 March	2005/06	2006/07	2007/08	2008/09	2009/10
	£'000 Restated	£'000 Restated	£'000 Restated	£'000 Restated	£'000
Turnover	16,536	16,896	18,214	18,141	18,420
Current cost operating costs	(11,122)	(11,819)	(12,424)	(13,792)	(13,901)
Operating income	2	130	1	-	165
Working capital adjustment	110	151	160	(16)	124
Current cost operating profit	5,526	5,358	5,951	4,333	4,808
Interest receivable/(payable)	(995)	(1,138)	(1,529)	(1,164)	(1,360)
Financing adjustment	502	1,284	1,159	(106)	1,330
Current cost profit before taxation	5,033	5,504	5,581	3,063	4,778
Taxation	(1,723)	(1,329)	(312)	(1,123)	(678)
Current cost profit on ordinary activities	3,310	4,175	5,269	1,940	4,100
Dividends	(4,117)	(3,227)	(3,556)	(3,477)	(3,636)
Current cost profit / (loss) retained	(807)	948	1,713	(1,537)	464

NOTES TO THE CURRENT COST ACCOUNTS

13 Long term balance sheets (2009/10 prices) (unaudited) as at 31 March	2006 Restated £'000	2007 Restated £'000	2008 Restated £'000	2009 Restated £'000	2010 £'000
Fixed assets					
Tangible assets	277,868	280,771	292,034	292,999	295,318
Third party contributions	(9,103)	(9,687)	(10,411)	(10,795)	(11,647)
Working capital	(3,454)	(4,247)	(4,510)	(2,952)	(4,116)
Cash	-	862	508	910	993
Infrastructure renewals accrual	-	(236)	(333)	(834)	(1,373)
Net operating assets	265,311	267,463	277,288	279,328	279,175
Cash/(Borrowings)	-	-	-	(475)	(752)
Non-trade debtors/creditors	-	-	-	-	-
Non-trade creditors due within one year	(1,568)	-	176	126	-
	(27,007)	(28,518)	(28,831)	(31,969)	(31,205)
Provisions	(4,380)	(4,267)	(3,927)	(4,469)	(4,316)
Corporation Tax Creditor	-	(1,089)	(592)	(174)	(105)
Other Provisions	-	(20)	-	-	-
Pension asset	1,673	778	478	1,557	1,169
Preference share capital	-	(104)	(104)	(104)	(100)
Net assets employed	234,029	234,243	244,488	243,820	243,866
Capital and reserves					
Called up share capital	318	200	200	201	192
Share premium	233	223	223	224	214
Capital redemption reserve	2,726	2,601	2,601	2,611	2,500
Profit and loss account	6,384	6,209	7,628	6,949	6,503
Current cost reserve	224,368	225,010	233,836	233,835	234,457
	234,029	234,243	244,488	243,820	243,866

Area of Supply

