



Veolia Water East Limited
(formerly Tendring Hundred Water Services Limited)

(Registered Number 2663338)

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 accounts for the year ended 31st March 2010.

On 21 January 2010 we accepted Ofwat's final determination on price limits for 2010-15. This is the culmination of two years work in which we have set out our plans to continue delivering an affordable high quality and water efficient service to our customers.

Our performance in 2009/10 has been consistent with our plans and has seen improvement over the prior year.

We maintained our focus on Health and Safety following the introduction of our Zero Accidents target in 2009. Performance is substantially better than the previous year and we will continue to develop a strong safety culture in all that we do. Further to this we maintain a high level of training in health and safety matters to underpin our commitment to Zero accidents.

We continued to deliver a high quality service to our customers when measured against the regulatory performance indicators, consistent with our record in recent years. We expect to be at or near the top of the sector for service delivery when the comparative reports are published.

We maintained the serviceability of the physical water supply assets at a stable level and completed all specified outputs to be delivered in 2005-10. Our investments continue to reduce the risk to customers of service interruption.

Our water resource availability remains strong and we did not place any restrictions on customers' use of water.

We introduced a number of new systems to our contact centre which have reduced the numbers of unnecessary telephone calls and resulted in a positive difference for customers.

We enhanced our debt collection services to provide assistance to customers who are experiencing difficulties in paying their bills. As a result we have achieved a 50% increase in cash collected from bad debtors. As a result of this improvement we have also reduced our charge to profit and loss for the bad and doubtful debts by £228k in the year.

Our improvement in complaints handling continues to be recognised by the Consumer Council for Water in its annual audit "There are no recommendations other than to encourage you to continue working in the same way and to the very high standards you have set..."

We continued to encourage customers to have a meter installed in order to sustain our focus on demand management and improve water efficiency. As a result 72% of households and 99% of commercial properties have meters installed at 31 March 2010. We anticipate that 78% of our household customers will be metered by 2015.

We experienced an extremely cold winter which led to a large number of bursts. This has resulted in a higher level of leakage at 1 April 2010 than was planned. Nonetheless, we did meet our overall leakage target for the year and once more anticipate having the lowest leakage in the industry. We increased our active leakage control effort during the winter to limit the rise in leakage and will continue with the increased effort until results return to 'normal' levels. The increased focus on leakage will contribute to our environmental objectives and to maintaining security of supply for customers.

Our financial performance to 31st March 2010 showed an improvement over the previous year, operating profit before asset disposals being £5.446m compared with £4.759m in 2008/09, an increase of 14.4%. Sales of assets further increased operating profit by £0.835m to £6.281m. There were no asset sales in 2008/09.

Turnover increased over the previous year however, despite an increase in water consumption, our sales of water again remain below the level of the PR04 determination.

Chairman's Statement

Operating costs are slightly higher than the previous year and still substantially greater than historic levels, despite a significant reduction in bad debt costs following the hard work of the cash collection team.

In summary, we delivered strongly for customers and the environment and have met the outputs set down in the Final Determination for AMP 4 and the Monitoring Plan. We are already delivering our outputs for AMP5 and ensuring our customers receive an affordable high quality water efficient service.



Jeffery Herbert
Chairman

8 July 2010

Directors

Nevil Muncaster (Managing Director)

Nevil Muncaster was appointed on 1 May 2007. He was previously head of programme management at Veolia Water Central Limited (formerly Three Valleys Water Plc). He was appointed as Managing Director of Veolia Water South East in October 2010.

Non Executive:

Jeffrey Herbert (Chairman)

Jeffrey Herbert was appointed in December 2002 and was appointed the chairman on 21 March 2005. He is a member of the remuneration and employment committee, and the audit committee since 1 April 2010. He is also a company director of the Thrombosis Research Institute.

Jean Claude Banon

Jean Claude Banon is French and is Veolia Environnement's representative with the European Institutions. He has been a director of Veolia Water East Limited (formerly Tendring Hundred Water Services Limited) since 1989. He is also a director of Veolia Environnement UK Limited and of other Veolia Water UK PLC subsidiaries.

Peter Martin

Peter Martin was appointed in January 2003. He is the Chairman of the audit committee. He is also the Leader of the Essex County Council.

Barbara Ruffell MBE

Barbara Ruffell was appointed in April 1998. She is a member of the audit committee and chairman of the remuneration and employment committee, and was the former vice chairman of the consumer council for water central and eastern. She is a founder trustee of the British Gas Energy Trust since 2006.

Frederic Devos

Frederic Devos is French and was appointed a director on 31 December 2007. He is also the Chief Executive of Veolia Water UK PLC and a director of Veolia Environnement UK Limited and of other Veolia Water UK PLC subsidiaries.

Board Committees, Executives and Advisers

Audit Committee

Peter Martin	Chairman
Barbara Ruffell	
Jeffery Herbert	(since 1 April 2010)

Executive Management Committee

Nevil Muncaster	Chairman
Martin Henderson	Head of Operations
Graham Oliver	Head of Finance
Teresa Manning	Head of Customer Services
Frederic Devos	Managing Director of Veolia Water UK PLC
Richard Bienfait	Chief Finance Officer of Veolia Water UK (until April 2010)
Bruno Vinel	Group Financial Controller of Veolia Water UK PLC (from April 2010)

Remuneration and Employment Committee

Barbara Ruffell	Chairman
Jeffery Herbert	

Company Secretary and Registered Office

Graham Oliver
Mill Hill
Manningtree
Essex
CO11 2AZ

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 East Limited.

Principal activity

The company is a private limited company and holds an Instrument of Appointment issued by the Secretary of State for the Environment as a water undertaker under the Water Act 1989.

The company supplies water to a resident population of approximately 150,000 persons within an area of 352 square kilometres of north-east Essex. The continuing development of the company is referred to in the Chairman's Statement to shareholders.

Directors

The directors of the company, together with their periods of office and their biographical details, are shown 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). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Directors

Business review and financial performance

This review describes our business environment, our strategies, the principal challenges and risks, and how, we performed in the year.

Business environment

We operate under a rolling 25 year licence from the Secretary of State for the Environment, Food and Rural Affairs to provide water services within our statutory area of supply, which is described in the report of the directors. The Water Services Regulation Authority (Ofwat) regulates our performance in meeting licence conditions and our principal duties under the Water Industry Act.

We are also regulated by:

- the Drinking Water Inspectorate on drinking water quality;
- the Environment Agency, who ensure proper use of water resources; and
- General business regulators, including the Health and Safety Executive.

Ofwat sets price limits every five years reflecting what it considers the company needs to charge to finance its services to customers. Limits were set in December 2004 for the AMP 4 period, April 2005 to March 2010, and in November 2009 for the AMP 5 April 2010 to March 2015.

Although the water industry appears to be a natural monopoly, some competition does exist. Customers using over 50 million litres of water a year are entitled to switch supplier and there is competition to supply new developments. From 1 April 2010 this limit has changed such that any customer using over 5 million litres of water a year is able to switch supplier. New entrants can now apply for licences.

Strategy

Our strategy is to concentrate on our core activity of regulated water supply, improving our returns through efficient service to customers. Our central aim is to provide a reliable and sustainable service for present and future customers, delivered through affordable, high quality, water efficient service

We take a long-term view which is consistent with the timeframe of our rolling licence (25 years), water resource plans (25 years) and five yearly periods for price setting.

Our business is highly capital intensive, delivering water to customers through a system of reservoirs, boreholes, treatment plant and pipe networks. All these assets have a total replacement cost of £276m. Some of these assets last for over 100 years.

We measure their serviceability on a regular basis and promote sensible, long-term approaches to asset replacement and renewal in our plans submitted to regulators.

We currently provide reliable high quality and predictable performance to all of our stakeholders. Our strategy for the period to 2015 is to maintain these standards and performance within a framework that is affordable to customers. We are currently focussing our attention on improving the qualitative aspects of our performance and on maintaining the asset stock, both above and below ground. This will ensure that the achievements made to date are sustained in the years to come.

Challenges, risks, and opportunities

In April 2009 we submitted our final business plan to Ofwat for the period 2010 to 2015. Our plans were consistent with our long term plans as set out in our Strategic Direction Statement of December 2007.

In November 2009 Ofwat announced their final determination on our plan, which was accepted by the Board on the 21st January 2010.

Report of the Directors

As a result of the determination, Veolia Water East's customers will see their water bills fall in real terms by 5.3 per cent over the five year period 2010 to 2015. At the same time, the Company will be investing over £14 million in improving its infrastructure and services and maintaining the lowest leakage levels in the water industry.

The following statement by our Managing Director, Nevil Muncaster, was issued as a press release following the announcement of the determination by Ofwat

"We have carefully considered Ofwat's Final Determination on our five-year business plan, and although it represents a reduction in the amount of investment we had planned, we have accepted it and will now get on with the business of delivering services to our customers.

Our customers already experience some of the highest levels of service in the industry. We have the lowest leakage levels of any water company in the UK and the lowest water consumption per customer at 118 litres a day, compared to the national average of 150 litres. We will continue to work on improving efficiencies and reducing our running costs to keep customers' bills as low as possible without compromising the service they receive. "

Performance for the year ended 31 March 2010

Financially, our performance during the year ended 31 March 2010 showed an improvement over the previous year. Operationally we have delivered a high standard of service, and we continue to perform strongly against the regulatory performance indicators. The majority of these performance measures run to 31 March, in parallel with both the statutory and the regulatory year, and these will be reported extensively in the 2010 June Return submission to Ofwat.

- The amount of water pumped into supply during the period at 29.66 megalitres/day (MI/d) achieved levels consistent with the previous periods and slightly lower than in 2008/2009 (2008/2009: 29.72 MI/d).
- Water quality data is reported to the Drinking Water Inspectorate. The Inspectorate assesses water company performance using a number of indices. The main parameter that reflects the quality of water delivered to our customers is 'mean zonal compliance', and is derived from a number of determinands measured in samples taken from customers' taps. In 2009 the company achieved 99.97% mean zonal compliance from 2,764 determinands (2008: 99.99% from 2,678 determinands).
- The free optional metering scheme has continued and during the year the company fitted 902 free meters. At 31 March 2010, 72.2% of total domestic customers connected were metered (2009: 70.5%).
- We operated throughout the year without applying any restrictions on the use of water by our customers.

Financial performance for the year ended 31 March 2010

Operating profit

Operating profit before asset disposals for the year was £5.446m which is a 14.4% increase over the previous year (2008/09: £4.759m).

Taxation

The tax charge of £1.521m for the year is at an effective tax rate of 27.3% compared to £1.151m at 28.3% in 2008/09. The low effective tax rate in 2009/10 is due to the impact of timing differences on deferred tax. The full reconciliation, including prior year adjustments and timing adjustments, appears in note 10 to the accounts on page 32.

Report of the Directors

Cash flow

There was a net cash outflow before financing in the year of £0.799m reflecting high capital expenditure and dividend payments.

Net debt increased to £13.763m at the end of March 2010 compared to £12.964m at the end of March 2009.

Capital expenditure

During 2009-10 £4.908m was invested in fixed assets compared to £3.427m in 2008-09, of which £2.468m was to renew underground infrastructure (2008-09: £2.016m). This amount was reduced by £0.265m (2008-09: £0.262m) of capital expenditure, which was funded by third party contributions.

Financial instruments

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 short-term borrowings from the immediate parent company.

Capital finance

A new three year intra group loan agreement was agreed on 1 April 2009, with a maximum loan facility of £13.0m. This facility will expire on 31 March 2012.

Dividend policy

The dividend policy aims to remunerate the ordinary equity share holder with a return that is broadly in line with the equity return allowed by Ofwat in the cost of capital assumption from the final determination for the AMP.

The dividend reflects a yield and a real growth consistent with the return on equity allowed by Ofwat in the determination for the current AMP, where yield is defined as the return on equity less the level of real growth in annual dividends.

This policy ensures that financial capital in real terms is not reduced, the ability to finance our regulated business is not impaired and we are rewarding efficiency and the management of economic risk. It is felt that this represents a sustainable approach.

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

Ordinary dividends:	£000
Interim – paid June 2009	2,661
Interim – paid December 2009	1,772
	<hr/>
	4,433
	<hr/>

Report of the Directors

Employees

Communication and participation is a central theme to maintaining the employee relationship throughout the company. The company's policy is to consult both formally and informally, on matters that affect employees, through the Joint Staff Consultative Committee and through a planned system of team briefings and other meetings.

We continued to place the highest priority on health and safety, and this subject remains the first agenda item at our Board meetings and monthly management meetings.

A Health and Safety Committee comprising management and employee representatives meet regularly throughout the year. The Committee reviews and monitors current policies and procedures and ensures the appropriate training is provided.

We maintained our focus on Health and Safety following the introduction of our Zero Accidents target in 2009. Performance is substantially better than the previous year and we will continue to develop a strong safety culture in all that we do. Further to this we maintain a high level of training in health and safety matters to underpin our commitment to Zero accidents.

We have set five key areas to target zero performance: zero harm; zero water quality failures; zero complaints; zero interruptions to supply and zero variance to budget. These objectives are supported by an incentive scheme that includes everyone in the business being rewarded on a quarterly basis on the same performance objectives.

We have continued to ensure our staff gain relevant qualifications as part of our commitment to their development. Network and supply operatives and supervisors will continue to benefit from NVQs at both level 2 and level 3.

In the year the number of recorded accidents was 5 (2009: 13), and the number of days lost to accidents was 15 (2009: 138). We have reviewed the circumstances around these incidents and where appropriate have amended our practices and procedures accordingly.

Charitable and political contributions

The Company continues to participate in charitable schemes, largely to water-related and local organisations which aim to:

- improve opportunities and create worthwhile experiences for the disadvantaged
- improve the quality of life of senior citizens and the vulnerable within our community and
- educate young people about water and sustainability issues.

The 2008/09 accounts included an accrual of £0.016m for the annual subscription. This has subsequently been released in the current period (2009/10) because the grants did not exceed previous contributions. No further contributions have been required in 2008/09 and 2009/10.

No political contributions were made during the year.

Creditor payment policy

The company recognises the importance of having a reasonable payment policy with its suppliers to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

Post balance sheet events

No significant post balance sheet events have taken place.

Report of the Directors

Change in accounting policy for fixed assets

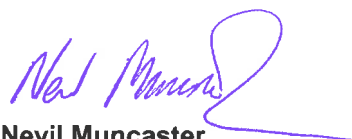
During the year the company changed its accounting policy for fixed assets by revaluing certain classes of fixed assets to market value in accordance with the fair value provisions of FRS 15 'Tangible fixed assets'. The increase in fair value of fixed assets resulted in a credit to a revaluation reserve of £31.235m at 31 March 2010.

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 re-appoint the auditors Ernst & Young LLP will be proposed at the annual general meeting in accordance with Section 485 of the Companies Act 2006.

By order of the Board



Nevil Muncaster
Managing Director
8 July 2010

Corporate Governance Report

Introduction

Although the company is a subsidiary, the business is conducted as if it was a separate public company and particular regard is given to the Principles of Good Governance and Code of Best Practise set out in the Combined Code. The company has adopted the provisions of the Combined Code as far as possible in relation to a wholly owned subsidiary.

The exceptions to the Code are explained in more detail below.

The Board

The full board met four times during the year. It determines the overall strategy of the company and approves strategic plans, regulatory matters, major items of capital expenditure and significant financing matters. There is a procedure in place for any director to take independent professional advice where necessary to best perform their duties.

The shareholders make appointments to the Board. Certain Board members are also directors of other group companies. This enables them to bring a wide experience of related industries during discussions at meetings and on other occasions. All directors declare their position when a conflict of interest may arise.

All directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board and its committees are provided with papers of sufficient quality to enable the directors to consider matters in good time for meetings and enable them to discharge their duties effectively. Only the Board as a whole can remove the Company Secretary. The Company Secretary is also responsible to ensuring that every director received appropriate training, both on appointment and subsequently as necessary.

Board composition and independence

The Board comprises of an executive director and five non-executive directors at 31 March 2010. Brief biographies of the directors may be found on page 5. The directors consider that the present composition of the Board continues to provide an appropriate balance for the current size of the company. The roles of the Chairman and the Managing Director are not exercised by the same individual and are clearly defined. The role of the Chairman is undertaken by Jeffrey Herbert who is a non-executive and a non-group director and is considered to be independent under the provisions of the Combined Code

The Combined Code requires at least one third of the Board to be non-executive directors, the majority of whom should be independent. The directors consider Barbara Ruffell, Jeffrey Herbert and Peter Martin to be independent and together they represent three out of five of the non-executive directors. The non-executive directors do not have business relationships that would interfere with their independent judgement.

Non-executive directors are appointed for three-year terms. Their normal retirement age is 70. The requirements of the company's articles result in each director being reappointed every three years in rotation. Those directors over 70 years of age are re-appointed every twelve months.

Board Processes

The Board operates an Audit Committee and a Remuneration and Employment Committee. The Combined Code suggests that a Nominations Committee be established. However, it is the view of the Board that a Nominations Committee is not required, as the Board performs this function. The members of each Committee are listed on page 6. Each of the Board's committees operates within defined terms of reference. Minutes of the committee meetings are presented to the full Board.

All arrangements regarding the appointment or removal of directors are settled in accordance with the Articles of Association.

Corporate Governance Report

Audit Committee

The Audit Committee comprises two non-executive directors of the company, however this was increased to three from 1 April 2010, when Jeffrey Herbert also became a member of the Audit Committee. Peter Martin chairs the Committee, which normally meets three times a year. The Board considers the majority of the committee members to be independent in accordance with the Combined Code. The Managing Director, Head of Finance, Veolia Water UK representatives, Group Internal Auditors, Reporter and external auditors attend the meetings as appropriate. Separate meetings with the external auditors also occur without management present.

The Committee is responsible to the Board for reviewing the effectiveness and integrity of the system of internal control that safeguard the shareholder's investment and the company's assets. It receives reports from management and auditors concerning the system of internal control and any material control weaknesses. The review also covers the risk policy and management and significant risk issues are referred to the Board for consideration.

Discussions are held with the external auditor before audits commence, and once 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 the audit work.

The Committee keeps under review the level of audit fees, the appointment, re-appointment or removal 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 reviews the company's annual financial statements prior to submission to the Board to ensure that the Report and Accounts are balanced and fair and conform to accounting standards.

The Committee adopts the same policy as Veolia Water UK PLC for the engagement of external auditors to supply non-audit services.

Executive Management Committee

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

Remuneration and Employment Committee

The Remuneration and Employment Committee consists of two non-executive directors and is chaired by Barbara Ruffell. The Committee meets as required, and Director of Human Resources of Veolia Water UK PLC attends by invitation. The Board considers the committee members to be independent in accordance with the Combined Code. The Committee reviews and provides advice on the remuneration and benefits packages of the senior executives. Members of the Committee are excluded from discussions regarding their own remuneration and conditions of employment. Remuneration of non-executive directors is set in accordance with the Articles of Association.

Senior executives may be paid an annual bonus. This is designed to reward short-term performance. 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.

Corporate Governance Report

Attendance at meetings for year

No. of meetings in the year	Board 4	Audit Committee 3	Executive Management Committee 8	Remuneration & Employment Committee 1
Jean-Claude Banon	1	-	-	-
Nevil Muncaster	4	3	8	-
Frederic Devos	2	-	7	-
Jeffrey Herbert	2	-	-	1
Peter Martin	4	3	-	-
Barbara Ruffell	4	3	-	1

"-" denotes non-membership of that committee.

Relationships with shareholders

The Board attaches a high priority to communications with shareholders. The Annual General Meeting is normally attended by all directors and provides an opportunity for communication with shareholders attending. Notice of the Annual General Meeting is given to shareholders at least 20 working days in advance. During the meeting the Chairman also invites questions from shareholders. The Annual General Meeting is to be held in September 2010. The resolutions to be proposed at the Annual General Meeting, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Internal control

The Board of Directors has overall responsibility for the company's system of internal control and for reviewing the effectiveness of these systems, including financial, operational and compliance controls and risk management. The systems are designed to manage rather than eliminate the risk of failure to achieve the company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Formal policies and procedures are established and documented in key areas.

The company has complied with the Combined Code provisions on internal control throughout the year.

Risk

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 directors review the effectiveness of internal controls at least annually.

The company's Risk Management Committee comprises members of the company's Executive Management Committee and reports to the Audit Committee. Its purpose is to advance the application and impact of risk management within the company. During the year the Committee has met to prioritise actions for managing significant risks, reporting on progress of risk management, review internal controls, and identify and assess risks for the forthcoming year.

The company operates a number of controls to meet its needs, which are communicated through its ISO 9001:2000 Quality Systems Manual and Financial Procedures.

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

Corporate Governance Report

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



Nevil Muncaster
Managing Director
8 July 2010

Remuneration Report

Introduction

The Board has a Remuneration and Employment Committee; the members are listed on page 6. All arrangements regarding the appointment of directors are settled in accordance with the Articles of Association.

The Remuneration & Employment Committee provides advice to the Board on the remuneration of the executive director and the senior management team. The Committee comprises:

Barbara Ruffell (Chairman)
Jeffrey Herbert

Basic Salary

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

- Relevant market data of comparable positions (with regard to both responsibility and size of organisation) .
- The individual performance of each executive director along with their progression within their appropriate pay structure.
- The general trends and levels of remuneration within the company ensuring that executive directors 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 a bonus schemes that are designed to ensure their full focus is on the key strategic requirements of the Company. The bonus schemes had been operating since 2002.

The Remuneration and Employment Committee determines 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 director 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 the Managing Director is carefully considered by the Committee and a non-pensionable bonus, if any, awarded. There is no long term incentive plan.

Remuneration Report

Other Benefits

A package of other benefits is offered to the Managing Director which is 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 comparative organisations.

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 executive director to the company
- Performance of Veolia Water UK PLC and Veolia Environnement SA.

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 six months.

Directors' emoluments

The aggregate remuneration of non-executive directors was fixed at a maximum of £100,000 per annum at the Annual General Meeting held on 18 July 2001. Full details are provided within note 7 on page 31.

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



Nevil Muncaster
Managing Director

8 July 2010

Independent Auditor's Report to the Members of Veolia Water East Limited (formerly Tendring Hundred Water Services Limited)

We have audited the financial statements of Veolia Water East Limited (formerly Tendring Hundred Water Services Limited) for the year ended 31 March 2010 which comprises 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 28. 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 Directors' Report 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 13 to 16 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 East Limited (formerly Tendring Hundred Water Services Limited) (continued)

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

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

Profit and Loss Account for the Year Ended 31 March 2010

	Note	2010 £000	2009 £000
Turnover	2	15,148	14,405
Operating costs	3	(10,237)	(10,160)
Other operating income	4	535	514
Operating profit	5	5,446	4,759
Profit on disposal of fixed assets		835	-
Profit on ordinary activities before interest and taxation		6,281	4,759
Bank interest receivable		129	47
Interest payable and finance charges	8	(654)	(686)
Other finance charges	9	(191)	(59)
Profit on ordinary activities before taxation		5,565	4,061
Tax on profit on ordinary activities	10	(1,521)	(1,151)
Profit on ordinary activities after taxation and for the financial year		4,044	2,910

All amounts relate to continuing operations.

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

	Note	2010 £000	2009 £000
Profit for the financial year		4,044	2,910
Actuarial (loss) / gain recognised in the pension schemes	25	(1,786)	900
Deferred tax movement relating to actuarial (loss) / gain	25	500	(252)
Revaluation of fixed assets		31,235	-
Total recognised gains for the year	22	33,993	3,558

Balance Sheet as at 31 March 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	12	69,324	36,293
Investment	13	1	1
		69,325	36,294
Current assets			
Stocks	14	314	227
Debtors	15	3,569	2,919
Cash at bank and in hand		87	228
		3,970	3,374
Creditors - amounts falling due within one year	16	(4,990)	(3,400)
Net current liabilities		(1,020)	(26)
Total assets less current liabilities		68,305	36,268
Creditors - amounts falling due after more than one year	17	(14,605)	(13,505)
Provisions for liabilities and charges	18	(2,772)	(2,538)
Deferred income	19	(74)	(88)
Net assets excluding pension liability		50,854	20,137
Net pension liability	25	(1,892)	(735)
Net assets including pension liability		48,962	19,402
Capital and reserves			
Called up share capital	20	1,174	1,174
Capital redemption reserve	21	1,500	1,500
Revaluation reserve	21	31,235	-
Profit and loss account	21	15,053	16,728
Shareholders' funds	22	48,962	19,402

The statutory financial statements on pages 21 to 48 have been approved by the Board of Directors and were signed on 8 July 2010 on its behalf by:



Jeffrey Herbert
Chairman



Nevil Muncaster
Managing Director

Cash Flow Statement for the Year Ended 31 March 2010

	Note	2010 £000	2009 £000
Net cash inflow from operating activities	a	8,425	8,131
Returns on investments and servicing of finance			
Interest received		-	21
Interest paid		(640)	(1,019)
Net cash outflow from returns on investments and servicing of finance		(640)	(998)
Taxation		(771)	(1,356)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(4,486)	(3,524)
Capital contributions		262	262
Proceeds on disposal of tangible fixed assets		844	9
Net cash outflow from capital expenditure and financial investment		(3,380)	(3,253)
Equity dividends paid to shareholders		(4,433)	(4,096)
Net cash outflow before financing		(799)	(1,572)
Financing			
(Decrease)/increase in short term financing		(442)	(481)
Loan advanced		1,100	2,100
Net cash inflow from financing		658	1,619
(Decrease) / increase in net cash	b/c	(141)	47

Notes to the Cash Flow Statement

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

	2010 £000	2009 £000
Operating profit	5,446	4,759
Depreciation of tangible fixed assets	2,838	2,903
Amortisation of deferred credit	(14)	(14)
Increase in stocks	(87)	(8)
(Increase) / decrease in debtors	(209)	114
Increase in creditors	451	377
Net cash inflow from operating activities	8,425	8,131

b Reconciliation of net cash flow to movement in net debt

	2010 £000	2009 £000
(Decrease) / increase in cash in the year	(141)	47
Decrease in short term financing	442	481
Loans advanced	(1,100)	(2,100)
Movement in net debt in the year	(799)	(1,572)
Net debt at the beginning of the year	(12,964)	(11,392)
Net debt at the end of the year	(13,763)	(12,964)

c Analysis of net debt

	At 1 April 2009 £000	Cash Flow £000	At 31 March 2010 £000
Net cash			
Bank	228	(141)	87
Debt			
Short term financing	309	442	751
Debt due after 1 year	(13,501)	(1,100)	(14,601)
	(13,192)	(658)	(13,850)
Net debt	(12,964)	(799)	(13,763)

Notes to the Financial Statements

1. Statement of accounting policies

Basis of accounting

The statutory financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards, except for the treatment of certain grants and contributions described below.

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

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 on the financial statements of this change in accounting policy has been to:

- increase the net book value of land and buildings as at 31 March 2010 by £31,235,000;
- the impact of the above is a net increase in the value of property, plant and equipment of £31,235,000 (see note 12). This has been booked as an increase on cost or valuation of £31,235,000 ;
- recognise a credit of £31,235,000 against the revaluation reserve, representing the revaluation adjustment of £31,235,000.

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 applying a range of different percentages to debt of different ages. These percentages also vary between categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the debt provision is sensitive to the specific percentages applied.

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 period in respect of the current period will be recorded as revenue in the current period. In accordance with Application Note G of FRS 5, the company does not recognise revenue where available historic evidence indicates that the company will probably never be able to collect the revenue billed. Where relevant, this includes an estimate of the sales value of water supplied to customers between the date of the last meter reading and the period end together with unbilled waste water charges, exclusive of value added tax.

Tangible fixed assets and depreciation

FRS 15 requires fixed assets which are carried at revalued 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.

Notes to the Financial Statements

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.

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. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term. The performance of assets is continually monitored and where impairment is identified, fixed assets are written down to recoverable amount.

Tangible fixed assets are reviewed for impairment at the end of each reporting period when the estimated remaining useful economic life of the assets exceeds 50 years. 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:

Buildings, reservoirs and towers	50-80 years
Wells and boreholes	40-60 years
Plant and machinery	3-20 years
Vehicles	3-5 years
Fixtures, fittings and other	1-10 years
Meters	15 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 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 contributions received during the period are disclosed in note 12.

Capital contributions received in respect of tangible fixed assets, other than infrastructure assets, are deferred and credited to the profit and loss account by instalments over the expected useful lives of the related assets.

Leased assets

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

Notes to the Financial Statements

Deferred taxation

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

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

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

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

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

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.

For the defined contribution scheme, the company pays contributions on a contractual or voluntary basis. Contributions are expensed as incurred.

Notes to the Financial Statements

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

Ardleigh Reservoir

The company and Anglian Water Services Limited own the reservoir and ancillary works jointly in approximately equal shares, the company's share of the capital expenditure being included in tangible fixed assets in note 12. The reservoir is operated on behalf of both undertakings through the Ardleigh Reservoir Committee, and the company's share of the expense is included within Abstraction Licences and Bulk Purchase.

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 period in which it arises.

Notes to the Financial Statements

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	3,745	3,993
Measured supplies	11,077	10,178
Chargeable services	145	51
Reservation fees	181	183
	<u>15,148</u>	<u>14,405</u>

3. Operating costs

	2010 £000	2009 £000
Resources and treatment	499	394
Network	688	817
Abstraction licences and bulk purchase	757	686
Research and development	-	12
Billing and collection	1,523	1,671
Rechargeable work expenses	126	43
Rates and charges	1,164	1,108
Depreciation – non infrastructure assets	1,401	1,352
Less amortisation of capital contributions	(14)	(14)
Depreciation – infrastructure assets	1,437	1,551
Administrative expenses	2,656	2,540
	<u>10,237</u>	<u>10,160</u>

4. Other operating income

	2010 £000	2009 £000
Non-appointed business income	<u>535</u>	<u>514</u>

5. Operating profit

	2010 £000	2009 £000
Operating profit is stated after charging/(crediting):		
Auditor's remuneration - audit	47	29
Auditor's remuneration - regulatory returns and non-statutory audit	24	60
Operating lease rentals - other	20	9

Notes to the Financial Statements

6. Employees and directors

	2010 £000	2009 £000
Staff costs (including directors) consist of:		
Wages and salaries	2,108	2,039
Social security costs	183	178
Defined contribution pension costs	43	40
Other pension costs current service costs	177	253
	<u>2,511</u>	<u>2,510</u>

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

	2010 Number	2009 Number
Operations	27	27
Finance and administration	46	42
	<u>73</u>	<u>69</u>

7. Directors' emoluments

	2010 Salary and fees £000	2010 Benefits in kind £000	2010 Bonus £000	2010 Total £000	2009 Total £000
Non-executives					
Jeffrey Herbert	30.0	-	-	30.0	29.2
Frederic Devos	17.5	-	-	17.5	13.0
Jean-Claude Bannon	17.5	-	-	17.5	17.1
Peter Martin	17.5	-	-	17.5	17.1
Barbara Ruffell	17.5	-	-	17.5	17.1
Executives					
Nevil Muncaster	99.5	22.3	35.0	156.8	112.0
	<u>199.5</u>	<u>22.3</u>	<u>35.0</u>	<u>256.8</u>	<u>205.5</u>

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
N Muncaster	18	335	4	7	(11)	49	22	331

Notes to the Financial Statements

8. Interest payable and finance charges

	2010 £000	2009 £000
Interest on loan from group undertaking	654	681
Other interest	-	5
	<u>654</u>	<u>686</u>

9. Other finance charges

	2010 £000	2009 £000
Expected return on pension scheme	748	932
Interest on pension scheme liabilities	(939)	(991)
	<u>(191)</u>	<u>(59)</u>

10. Tax on profit on ordinary activities

	2010 £000	2009 £000
Current taxation		
Current tax on profit for the year	1,258	1,048
Adjustment in respect of prior years	(22)	(276)
	<u>1,236</u>	<u>772</u>
Deferred taxation		
Origination and reversal of timing differences	249	57
Adjustment in respect of prior years	23	147
Increase in discounting	13	175
	<u>285</u>	<u>379</u>
Deferred tax charge for the year		
	<u>1,521</u>	<u>1,151</u>
Current taxation reconciliation		
Profit on ordinary activities before taxation	5,565	4,061
	<u>1,558</u>	<u>1,137</u>
Theoretical tax at UK corporation tax rate of 28% (2009: 28%)		
Effects of:		
Adjustment to tax in respect of prior years	(22)	(276)
Accelerated capital allowances	(195)	(25)
Other short term timing differences	(54)	(32)
Permanent differences	(51)	(32)
	<u>1,236</u>	<u>772</u>
Actual current taxation charge		

The tax charge relating to profits on disposal of fixed assets amounts to £234,000 (2009: £nil charge).

Notes to the Financial Statements

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.

Tax on recognised gains and losses not included in the profit and loss account (note 21):

	2010 £000	2009 £000
UK corporation tax rate of 28% (2009: 28%)		
Other deferred tax movements relating to pension schemes	(500)	252

In his budget of 22 June 2010, the Chancellor of the Exchequer announced Budget tax changes, which, if enacted in the proposed manner, will have a significant effect on the company's future tax position. As at 31 March 2010, the tax changes announced in the Budget were not yet regarded as 'substantively enacted' and as such, in accordance with accounting standards, the changes have not been reflected in the company's financial statements as at 31 March 2010.

The Budget proposed a decrease in the rate of UK corporation tax from 28% to 24% by 1% each year, from April 2011, which will be enacted annually. It is considered impractical to perform a quantification of the exact amount of the reduction on the company's deferred tax liability, due to the decrease in the tax rate to 24% over this period, at this stage. The rate change will also impact the amount of future cash tax payments to be made by the company.

The effect on the company of these proposed changes to the UK tax system will be reflected in the company's financial statements for the year ending 31 March 2011 once the proposals have been substantively enacted.

11. Dividends

	2010 £000	2009 £000
Paid: Ordinary – first interim of 224.86p per share (2009: 196.06p)	2,639	2,301
Paid: Ordinary – second interim of 149.1p per share (2009: 149.2p)	1,750	1,751
Paid: Preference – first interim of 0.5p per share (2009: 0.5p)	22	22
Paid: Preference – second interim of 0.5p per share (2009: 0.5p)	22	22
	4,433	4,096

Notes to the Financial Statements

12. Tangible Fixed Assets

	Land, buildings, reservoirs and towers £000	Wells and bore- holes £000	Under- ground Mains £000	Meters £000	Plant and Machinery £000	Fixtures, fittings, tools and equipment £000	Vehicles £000	Assets in the course of construction £000	Total £000
Cost									
At 1 April 2009	19,040	686	30,767	1,263	12,218	4,464	571	721	69,730
Additions	343	-	2,468	36	52	300	127	1,582	4,908
Transfers to complete	2	-	-	-	2	69	5	(78)	-
Capital contributions	-	-	(265)	-	-	-	-	-	(265)
Disposals	(19)	-	-	-	(37)	(56)	(19)	-	(131)
Surplus on revaluation	16,843	196	12,283	82	1,546	285	-	-	31,235
At 31 March 2010	36,209	882	45,253	1,381	13,781	5,062	684	2,225	105,477
Depreciation									
At 1 April 2009	4,015	298	15,120	1,086	9,012	3,555	351	-	33,437
Charge for the year	376	16	1,437	55	556	312	86	-	2,838
Disposals	(10)	-	-	-	(38)	(55)	(19)	-	(122)
Revaluation	-	-	-	-	-	-	-	-	-
At 31 March 2010	4,381	314	16,557	1,141	9,530	3,812	418	-	36,153
Net book value									
At 31 March 2010	31,828	568	28,697	240	4,251	1,250	266	2,225	69,324
At 31 March 2009	15,025	388	15,647	177	3,206	909	220	721	36,293

The company's tangible fixed assets were professionally valued at 31 March 2010 by independent qualified valuers, 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.

Notes to the Financial Statements

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 £31.235m. 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 revalued assets were stated on a historical cost basis, the amount would be £74.242m.

13. Investment

	2010 £000	2009 £000
Investment in subsidiary undertaking	1	1

The company has an investment of £572 in the shares of Water Resource Committee ("WRC"). The principal activity of WRC is to undertake projects on behalf of all water companies, aimed at the improvement of water services and water quality.

14. Stocks

	2010 £000	2009 £000
Pipes and stores	314	227

15. Debtors

	2010 £000	2009 £000
Due within one year		
Trade debtors	730	817
Unbilled accrual for metered customers	2,641	2,452
Receipts in advance	(1,145)	(1,116)
Amounts due from group companies	851	309
Other debtors	437	386
Prepayments and accrued income	55	71
	3,569	2,919

Notes to the Financial Statements

16. Creditors – amounts falling due within one year

	2010 £000	2009 £000
Payments received in advance	200	200
Trade creditors	1,176	1,207
Capital creditors	712	291
Amounts due to group companies	1,165	390
Corporation tax	717	253
Other taxes and social security	69	76
Other creditors	42	5
Deferred income and accruals	909	978
	<u>4,990</u>	<u>3,400</u>

Amounts due to group companies include £67,000 (2009: £52,000) of interest and commitment fees payable to Veolia Water Capital Funds on group financing arrangement (see Note 28).

17. Creditors – amounts falling due after more than one year

	2010 £000	2009 £000
4% irredeemable debenture stock	1	1
Amount due to group company	14,600	13,500
Other long term liabilities	4	4
	<u>14,605</u>	<u>13,505</u>

Notes to the Financial Statements

18. Provisions for liabilities and charges

	Deferred tax £000
At 1 April 2009	2,538
Charged to the profit and loss account	221
Increase in discounting utilised during the year	13
	<hr/>
At 31 March 2010	2,772
	<hr/>

Deferred tax (see note 10)

	2010 £000	2009 £000
Accelerated capital allowances	6,734	6,516
Other timing differences	(31)	(35)
	<hr/>	<hr/>
Undiscounted provision for deferred tax	6,703	6,481
Discount	(3,931)	(3,943)
	<hr/>	<hr/>
Discounted provision for deferred tax	2,772	2,538
Deferred tax asset on pension liability (see note 25)	(736)	(286)
	<hr/>	<hr/>
Provision at the end of the year including deferred tax on pension liability	2,036	2,252
	<hr/>	<hr/>

Deferred tax asset relating to pension deficit

	2010 £000	2009 £000
At 1 April	286	566
Deferred tax charged to the profit and loss account	(50)	(28)
Deferred tax charged to the statement of total recognised gains and losses:		
- on actuarial loss/(gain)	500	(252)
	<hr/>	<hr/>
At 31 March	736	286
	<hr/>	<hr/>

The deferred tax asset of £736,000 (2009: £286,000) has been deducted in arriving at the net pension liability on the balance sheet.

Factors that may affect future tax charges:

Based on current capital investment plans, the group expects to continue to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Reference should also be made to note 10 regarding recently proposed changes to the UK tax system.

Notes to the Financial Statements

19. Deferred income – Third party contributions

	2010 £000	2009 £000
At 1 April	88	102
Less credited to profit and loss account	(14)	(14)
At 31 March	74	88

20. Share capital

	2010 £000	2009 £000
Allotted, called up and fully paid share capital		
1,088,860 Ordinary shares of 25p each	272	272
84,770 Ordinary non voting shares of 25p each	21	21
4,456,116 Preference shares of 10p each	446	446
4,346,109 Deferred shares of 10p each	435	435
	1,174	1,174

Rights to dividends

Preference shares are entitled to a fixed cumulative 10% of the nominal value, payable half yearly on 1 November and 15 July. Deferred shares have no entitlement to dividends.

Priority and amounts receivable on a sale or winding up

In the event of liquidation or a repayment only of the capital, the surplus assets after the payment of liabilities of the company shall be applied in the following priority:

First, to the preference shareholders for any arrears, deficiencies or accruals of dividends

Secondly, to the holders of the ordinary and ordinary non-voting shares one million times the paid up capital.

Thirdly, to the holders of the preference and deferred shares, the capital paid on such shares who shall not otherwise be entitled to share in surplus assets.

The balance shall be distributed amongst the holders of the ordinary shares and the ordinary non-voting shares according to the amount paid up thereon.

Voting rights

Non-voting ordinary shareholders have the right to receive notice of but not to attend or to vote at any general meeting unless the meeting involves a variation in any rights attached to such shares.

Ordinary shareholders have the right to receive notice of, attend and vote at all general meetings.

Notes to the Financial Statements

21. Reserves

	Profit and loss account £000	Capital redemption reserve £000	Revaluation reserve £000
At 1 April 2009	16,728	1,500	-
Dividends	(4,433)	-	-
Actuarial loss recognised in the pension scheme	(1,786)	-	-
Movement on deferred tax relating to pension liability	500	-	-
Revaluation of fixed assets	-	-	31,235
Profit for the financial year	4,044	-	-
At 31 March 2010	15,053	1,500	31,235

22. Reconciliation of movements in shareholders' funds

	2010 £000	2009 £000
Profit for the financial year	4,044	2,910
Other recognised gains/losses in year (shown in STRGL)	29,949	648
Total gains recognised for the year	33,993	3,558
Less: dividends	(4,433)	(4,096)
Net reduction to shareholders' funds	29,560	(538)
Opening shareholders' funds	19,402	19,940
Closing shareholders' funds	48,962	19,402

23. Capital commitments

The directors have authorised no capital expenditure which is not provided for in the accounts

The company has not entered into any guarantee arrangement or had legal disputes that would represent contingent liabilities at 31 March 2010, other than those provided for in these financial statements.

Notes to the Financial Statements

24. Commitments under operating leases

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

	2010 £000	2009 £000
Operating leases which expire:		
Within one year	19	5
In two to five years	30	7
	<hr/>	<hr/>
	49	12
	<hr/>	<hr/>

25. 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 £14,500,000 with a funding level of 95%.

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 45.3% of the pensionable salary.

The contributions expected to be paid in the year from the balance sheet date are £420,000.

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.

Notes to the Financial Statements

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 37.4% 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 £666,000 with a funding level of 95%.

The contributions expected to be paid in the year from the balance sheet date are £98,000.

Non Executive Directors Pension Plan

A provision of £77,000 (2009: £74,000) was created in the year in respect of unfunded pension obligations to former employees and non executive directors of the company.

Principal assumptions

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

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

	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 £220,000 (2009: £293,000).

Notes to the Financial Statements

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 £m	Long term rate of return expected (% pa)	Value £m	Long term rate of return expected (% pa)	Value £m	Long term rate of return expected (% pa)	Value £m	Long term rate of return expected (% pa)
Equities	6.4	8.0	0.48	8.0	4.9	7.5	0.43	7.5
Bonds	4.6	5.5	0.16	5.5	3.3	6.7	0.05	6.7
Gilts/ cash	4.3	4.5	0.16	4.5	3.7	4.0	0.05	4.0
Fair value of assets	15.3		0.80		11.9		0.53	

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)	17.6	12.8	15.4	15.4	14.9
Plan assets (£m)	15.3	11.9	13.7	14.9	14.3
Surplus/(deficit) (£m)	(2.3)	(0.9)	(1.7)	(0.5)	(0.6)
Difference between expected and actual return on plan assets:					
Percentage of plan assets	19%	(21%)	(8%)	1%	7%
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	0%	(4%)	0%	0%	4%

Notes to the Financial Statements

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)	1.0	0.6	0.8	0.7	0.7
Plan assets (£m)	0.8	0.5	0.6	0.5	0.5
Surplus/(deficit) (£m)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Difference between expected and actual return on plan assets:					
Percentage of plan assets	24%	(39%)	(7%)	1%	7%
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	0%	(8%)	0%	0%	4%

Reconciliation of present value of scheme liabilities:

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
At 1 April 2008	15,448	819	115	16,382
Current service cost	207	46	-	253
Interest cost	933	52	6	991
Actuarial (gain)/loss	(3,293)	(331)	2	(3,622)
Benefits paid	(569)	(2)	(20)	(591)
Contributions by scheme participants	39	12	-	51
At 31 March 2009	12,765	596	103	13,464
Current service cost	149	28	-	177
Interest cost	891	41	7	939
Actuarial loss	4,379	427	17	4,823
Benefits paid	(626)	(84)	(20)	(730)
Contributions by scheme participants	40	11	-	51
At 31 March 2010	17,598	1,019	107	18,724

Notes to the Financial Statements

Reconciliation of fair value of scheme assets:

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
At 1 April 2008	13,740	618	-	14,358
Contributions paid by employer	329	66	-	395
Contribution by scheme participants	39	12	-	51
Expected return on scheme assets	884	48	-	932
Actuarial loss	(2,515)	(207)	-	(2,722)
Benefits paid	(569)	(2)	-	(571)
At 31 March 2009	11,908	535	-	12,443
Contributions paid by employer	420	107	-	527
Contribution by scheme participants	40	11	-	51
Expected return on scheme assets	710	38	-	748
Actuarial gain	2,843	194	-	3,037
Benefits paid	(626)	(84)	-	(710)
At 31 March 2010	15,295	801	-	16,096
Pension liability before deferred tax	857	61	103	1,021
Related deferred tax	(240)	(17)	(29)	(286)
Net pension liability at 31 March 2009	617	44	74	735
Pension liability before deferred tax	2,303	218	107	2,628
Related deferred tax	(645)	(61)	(30)	(736)
Net pension liability at 31 March 2010	1,658	157	77	1,892

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	207	46	-	253
Expected return on scheme assets	(884)	(48)	-	(932)
Interest on pension scheme liabilities	933	52	6	991
Total charge	256	50	6	312
For year ended 31 March 2010				
Current service cost	149	28	-	177
Expected return on scheme assets	(710)	(38)	-	(748)
Interest on pension scheme liabilities	891	41	7	939
Total charge	330	31	7	368

Notes to the Financial Statements

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

	VWSCPP £000	VUKPP £000	NED PP £000	Total £000
For year ended 31 March 2009				
Actuarial losses on scheme assets	(2,515)	(207)	-	(2,722)
Actuarial gains/(losses) on scheme liabilities	3,293	331	(2)	3,622
Total credit/(charge)	778	124	(2)	900
Deferred tax arising thereon	(218)	(35)	1	(252)
Credit/(charge) after deferred tax	560	89	(1)	648
For year ended 31 March 2010				
Actuarial gains on scheme assets	2,843	194	-	3,037
Actuarial losses on scheme liabilities	(4,379)	(427)	(17)	(4,823)
Total charge	(1,536)	(233)	(17)	(1,786)
Deferred tax arising thereon	430	65	5	500
Charge after deferred tax	(1,106)	(168)	(12)	(1,286)

Defined contributions pension scheme

The contributions made into the money purchase scheme under the Veolia UK Pension Plan (which is a defined contribution plan) were £43,000 (2009: £40,000). At the end of the year, there were no outstanding contributions (2009: NIL).

26. Billing on behalf of Anglian Water

The company bills and collects charges in respect of sewerage and infrastructure within its area on behalf of Anglian Water Services Limited. No amounts are included in the accounts in respect of uncollected sewerage and sewerage infrastructure charges at 31 March 2010 (2009: Nil).

27. Ultimate parent company and related parties

The company is a 99.23% 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, Kings Place, 5th Floor, 90 York Way, 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.

Notes to the Financial Statements

The company had a number of transactions with related parties, in the normal course of business, during the year. The transactions are disclosed below.

Purchases	Nature of Relationship	In respect of	2010		2009	
			Value £'000's	Balance £'000's	Value £'000's	Balance £'000's
Veolia Water UK PLC	Parent undertaking	Management and technical support, group tax relief, insurance premiums	508	488	419	2
Veolia Water Central Ltd (*1)	Common ownership	Central services recharges	163	345	454	1
Veolia Water Shared Services Ltd	Common ownership	Central services recharges	469	265	-	-
Veolia Water South East Ltd (*2)	Common ownership	Telemetry	41	-	40	-
Veolia Water Capital Funds Ltd	Shareholder	Financing and dividends	5,018	67	4,736	52
Veolia Environnement UK Ltd	Common ownership	Pension recharges	3	-	3	-
Ardleigh Reservoir Committee	Common ownership	Bulk purchase of treated water	373	180	494	-
Sales	Nature of Relationship	In respect of	Value £'000's	Balance £'000's	Value £'000's	Balance £'000's
Ardleigh Reservoir Committee	Common ownership	Administration and recharges	17	-	17	-
Veolia Water Central Ltd (*1)	Common ownership	Customer services database and other recharges	21	-	-	-
Veolia Water South East Ltd (*2)	Common ownership	Debt collection, joint managing director and recharges	92	87	-	-
Veolia Water Outsourcing Ltd	Common ownership	Recharges	11	13	-	-
(*1) Veolia Water Central Ltd			(formerly Three Valleys Water PLC)			
(*2) Veolia Water South East Ltd			(formerly Folkestone and Dover Water Services Ltd)			

Notes to the Financial Statements

28. 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

The company has no financial assets, other than short-term debtors and cash at bank.

Financial liabilities

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	14,601	8,100	6,501
31 March 2009	13,501	7,000	6,501

Interest rate for redeemable debentures is 4% (2009: 4%).

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 ⁽¹⁾	-	-
In more than one year but not more than two years ⁽²⁾	-	-
In more than two years but not more than five years ⁽²⁾	8,101	7,001
In more than five years ⁽³⁾	6,500	6,500
	<u>14,601</u>	<u>13,501</u>

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 undrawn committed borrowing facilities.

Notes to the Financial Statements

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	-	1,000
Expiring in more than one year but not more than two years	4,900	-
	<u>4,900</u>	<u>1,000</u>

⁽¹⁾ Barclays base rate + 1.5% (unauthorised overdraft +3%)

⁽²⁾ On 27 March 2009 a three year intra group loan agreement was approved by the Board, for a maximum loan facility of £13.0m. This facility will expire on 31 March 2012. Interest on the balance of the loan is charged at LIBOR plus 200 basis points. Commitment fee is charged on the unutilised balance at 100 basis points.

⁽³⁾ 15-year fixed interest rate loan agreement with Veolia Water Capital Funds Limited, the immediate parent company. Interest on the balance of the loan is charged at LIBOR plus 77.5 basis points.

Fair values of financial assets and liabilities

Other than the fixed rate liability in respect of the financing of assets by the company operated by other parties, the fair values calculated by market interest rates of the financial instruments are not materially different from book values.

Operational Information Five Year Summary (Un-audited)

OPERATIONAL	Year ended 31 March 2010	Year ended 31 March 2009	15 months ended 31 March 2008	Year ended 31 December 2006	Year ended 31 December 2005
Water supplied (megalitres)					
Billed unmeasured	2,819	3,049	3,834	3,317	3,435
Billed measured	6,173	5,954	7,232	5,774	5,800
Distribution losses	1,834	1,845	2,126	1,858	1,861
Distribution input	10,826	10,848	13,192	10,949	11,096
Service Connections	73,209	72,860	72,538	71,765	71,518
Mains laid to date (kilometres)	907	907	908	908	907
Estimated Resident Population	160,000	158,000	155,000	153,600	151,100
Statutory area of supply (sq km)	352	352	352	352	352

Financial Information Five Year Summary

FINANCIAL	Year ended 31 March 2010	Year ended 31 March 2009	15 months ended 31 March 2008	Year ended 31 December 2006	Year ended 31 December 2005
Summary Profit & Loss Accounts	£'000	£'000	£'000	£'000	£'000
Turnover	15,148	14,405	17,128	14,367	14,439
Operating costs	(10,237)	(10,160)	(10,978)	(8,697)	(7,769)
Operating income	1,370	514	1,373	563	468
Profit on ordinary activities before interest & tax	6,281	4,759	7,523	6,233	7,138
Net interest	(525)	(639)	(701)	(517)	(557)
Other finance income	(191)	(59)	119	106	107
Profit on ordinary activities before tax	5,565	4,061	6,941	5,822	6,688
Taxation	(1,521)	(1,151)	(1,384)	(1,812)	(2,071)
Profit for the financial period	4,044	2,910	5,557	4,010	4,617
Balance Sheet	£000	£000	£000	£000	£000
Fixed assets	69,325	36,294	36,041	33,104	33,575
Current assets:					
Stocks	314	227	219	224	238
Debtors	3,569	2,919	2,724	4,362	4,251
Cash at bank and in hand	87	228	181	58	456
	3,970	3,374	3,124	4,644	4,945
Creditors – amounts falling due within one year	(4,990)	(3,400)	(4,075)	(5,768)	(5,713)
Net current liabilities	(1,020)	(26)	(951)	(1,124)	(768)
Total assets less current liabilities	68,305	36,268	35,090	31,980	32,807
Creditors – amounts falling due after one year	(14,605)	(13,505)	(11,403)	(9,404)	(10,097)
Provisions for liabilities and charges	(2,772)	(2,538)	(2,188)	(3,045)	(3,126)
Deferred income	(74)	(88)	(102)	(119)	(133)
Pension liability	(1,892)	(735)	(1,457)	(593)	(631)
Net assets	48,962	19,402	19,940	18,819	18,820
Capital and reserves					
Called up share capital	1,174	1,174	1,174	1,174	1,174
Capital redemption reserve	1,500	1,500	1,500	1,500	1,500
Profit and loss account	46,288	16,728	17,266	16,145	16,146
	48,962	19,402	19,940	18,819	18,820



VEOLIA WATER EAST LIMITED
(FORMERLY TENDRING HUNDRED WATER SERVICES LIMITED)
(Registered Number 2663338)

**REGULATORY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2010**

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review (OFR) has been prepared in accordance with the 'Reporting Statement of Best Practice on the OFR' issued by the Accounting Standards Board modified to include certain additional information as required by Regulatory Accounting Guideline number 3.

Business Strategy and Objectives

The Company provides water supply and related services to a resident population of approximately one hundred and sixty thousand in an area of 352 square kilometres across the Tendring Peninsula in northeast Essex.

Business Environment

The Company is a regulated business and subject to economic regulation by the Water Services Regulation Authority (Ofwat). The business is effectively a monopoly and is subject to incentive based economic regulation which imposes caps on increases in customer prices, rewards efficiency and high standards of customer service and penalises inefficiency and poor standards of customer service.

Instruments of appointment (licenses) for the provision of water supply were awarded in 1989 and continue in force for an indefinite period subject to termination on 25 years notice with more immediate revocation in certain specific circumstances (including for example, failure to comply with an enforcement order made by Ofwat).

Water charges are capped in any year. Ofwat sets price limits every five years reflecting what it considers the company needs to charge to finance its services to customers. During a periodic review Ofwat considers the scale of the Company's capital investment programme, the cost of capital, operational and environmental obligations, and operating expenditure as well as the scope to improve efficiency.

OFWAT determines price limits by reference to the Company's income for the previous year, adjusting for inflation (headline RPI). This determination factor is known as 'k' and can be a positive or negative percentage value. The Company's regulated tariff evolves annually by RPI and 'k'.

The Water Act 2003 has extended opportunities for competition in the water industry by introducing a new framework for the licensing of water supply. From 1 December 2005 water supply licensees have been able to supply non-household users with an annual consumption of more than 50 megalitres per year. This was amended on 1 April 2010 when the limit changed such that any customer using over 5 million litres of water a year is able to switch supplier.

In addition to the economic regulator (Ofwat), the water industry is subject to substantial domestic and European Union regulation placing significant statutory obligations on the Company with regards to, among other factors, the quality of treated water supplied.

Environmental regulation is the responsibility of the Secretary of State for the Environment, Food and Rural Affairs, together with:

- 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 the natural environment

The Company expects the regulatory regimes in these areas to continue to evolve and become more mature.

Business strategy

Our strategy is to concentrate on our core activity of regulated water supply, improving our returns through efficient service to customers. Our central aim is to provide a reliable and sustainable service for present and future customers.

OPERATING AND FINANCIAL REVIEW

We take a long-term view which is consistent with the timeframe of our rolling licence (25 years), water resource plans (25 years) and five yearly periods for price setting. Our business is highly capital intensive, delivering water to customers through a system of reservoirs, boreholes, treatment plant and pipe networks. All these assets have a total replacement cost of £276m. Some of these assets last for over 100 years. We measure their serviceability on a regular basis and promote sensible, long-term approaches to asset replacement and renewal in our plans submitted to regulators.

The Company's main objectives are to:

- Achieve and maintain a high level of health and safety performance with zero accidents
- Maintain an affordable high level of service for our customers
- Meet our commitments to our regulators and shareholders
- Develop our people
- Reduce our impact on the environment and promote water efficiency
- Continuous improvement in what we do

Future strategy

We currently provide reliable high quality and predictable performance to all of our stakeholders. Our strategy for the period to 2015 is to maintain these standards and performance within a framework that is affordable to customers. During the five years to 2015 the Company will be focusing attention on improving the qualitative aspects of its performance and on maintaining the asset stock, both above and below ground. This will ensure that the achievements made to date are sustained in the years to come.

Consolidating our plans

We published a Strategic Direction Statement (SDS) in December 2007 which sets out the objectives for the business over the next 25 years and provides the foundation of our plans in the next regulatory period, 2010 – 2015. The document was produced after consultation with customers and stakeholders.

We wish to focus on two key principles:

- Ensuring the highest quality of service to our customers
- Improving water efficiency in all areas

Other key drivers are providing excellent customer value, continuing to minimise our impact on the environment, maximising the potential of our employees, and aiming to maximise our financial performance.

Challenges, risks, and opportunities

A Risk Management Committee comprises members of the Executive Management Committee and some specialists. Its purpose is to ensure that risk management is applied across the business as a whole, and evaluate its effectiveness.

During the period, and outside of the regular Executive Management Committee meetings, the committee has met once to prioritise actions for managing significant risks, receive reports of progress on risk management from risk owners, review internal controls, and identify and assess significant risks for the forthcoming period. The Risk Management Committee reports to the Audit Committee.

Threats to health and safety are considered separately and given the highest priority. The revised threat of a flu pandemic has been the highest health risk managed in the period, however the Company has well developed plans and these are reviewed and upgraded as new information becomes available.

OPERATING AND FINANCIAL REVIEW

Business operations

Water Supply

Distribution input and water delivered continued to be close to levels in previous years. The amount of water pumped into supply during the period at 29.66 megalitres/day (MI/d) is consistent with previous years and slightly lower than in 2008/2009 (29.72 MI/d).

We continue to have one of the lowest levels of leakage in the industry. Total leakage was 5.02 MI/d, below the target for the year of 5.1 MI/d. Although the target is below the economic level of 5.7MI/d, by achieving it we contribute to our environmental objectives and help to maintain security of supply for our customers.

Quality

Water quality data is reported to the Drinking Water Inspectorate. The Inspectorate assesses water company performance using a number of indices. The main parameter that reflects the quality of water delivered to our customers is 'mean zonal compliance', and is derived from a number of determinands measured in samples taken from customers' taps. In 2009 the Company achieved 99.97% mean zonal compliance 2,764 determinands (2008: 99.99% from 2,678 determinands).

Domestic Supplies Metering

During 2009/10 we continued to promote water metering to our customers as the fairest way of charging for its use and the most effective tool for managing the overall demand for water. As at 31 March 2010, we had a meter penetration rate for properties in charge of 72.2% for domestic customers (2009: 70.5%) and 99.0% for commercial customers (2009: 98.7%), each of which is the highest in the industry. This is a major contributor to our strong water balance position. The demand for optional meters remains strong thanks to continued promotion locally and wider media attention.

During the year we installed and charged on 902 meters to existing domestic properties (2009 : 1,199), compared with the 2004 Final Determination assumption of 843, all of which were optional meter installations.

There have been no meter option customers choosing to revert to the unmeasured tariff in the current or prior year. It is our policy to charge these properties on the metered tariff on any subsequent change of ownership.

During the year 1,321 household meters were renewed. This is in line with the forecast of 1,274 for the year as stated in the 2005-10 Monitoring Plan, but lower than the previous year (2,465). Our policy is to replace meters that are inaccurate or difficult to read. We generally replace meters in groups when we are working in the locality to maximise efficiency of the replacement process.

Sustainable procurement

We operate a procurement policy which is transparent and fair and promotes a good relationship between all parties in the supply chain. The key principles set out in British Water's 'Guide to Sustainable Procurement' and in the Confederation of Construction Clients' Charter are incorporated in our procurement policy and procedures.

Corporate responsibility

Approach

Our approach to corporate responsibility embraces sustainable development, ethics, traditional safety, health, quality and environmental management systems, and corporate governance. We define corporate responsibility as the means by which we fulfil our obligations to our stakeholders, with whom we engage regularly, thereby ensuring that we identify and respond to their individual needs. We seek to excel in our relations with regulators, our parent company, employees and other stakeholders and are active in local communities. This annual report and accounts includes a separate report on corporate governance.

OPERATING AND FINANCIAL REVIEW

Parent company

Our ultimate parent, Veolia Environnement SA, is the world's largest environmental services group. Veolia Water, one of the four divisions of Veolia Environnement SA, is the world leader in water and wastewater services. Veolia Water UK PLC comprises Veolia Water East Limited (formerly Tendring Hundred Water Services Limited), two other regulated water companies and a number of non-regulated businesses.

Veolia Environnement operates to high standards of corporate governance with charters for ethics and sustainable development. It is listed in a number of socially responsible indices, including FTSE4Good. For more details please visit the website www.veoliaenvironnement.com. Along with all Veolia Environnement business entities we continue to strengthen our compliance with the US Sarbanes-Oxley Act. This further improves our financial control and risk environment.

Risk

Our business strategies are based on corporate responsibility which is in turn underpinned by risk management. As a provider of an essential service where quality is paramount, we take our responsibility to manage risks most seriously.

We have a system to identify risks on a regular basis using a methodology that separately assesses their likelihood and severity. Control measures are put in place to mitigate and minimise the risks. Risk management is the responsibility of the Audit Committee, and managed at functional level by the Executive Management Committee.

Annual Corporate Responsibility Report

Our performance is captured in the Corporate Responsibility Report of Veolia Water UK. This document is available on our website at www.veoliawater.co.uk.

Environmental Policy and Strategy

We are committed to managing our environmental impacts, and balancing this with the need to provide customers with top quality drinking water. This is achieved through compliance with relevant environmental legislation and regulations, prevention of pollution and continual improvement of performance. These commitments are achieved by adoption of a number of principles, details of which are available in the Corporate Responsibility Report.

Our Employees and the local Community

The company aims to ensure that each employee or applicant for employment receives the same treatment irrespective of race, gender, disability, sexual orientation, religious beliefs, creed, marital or parental status. This extends through all company policies including recruitment.

The health and safety of our employees is of paramount importance and we continually train and remind our staff of the importance of working safely.

The Company is responsible for ensuring the safety and security of the general public as a result of activities that the Company carries out in the community.

We have set five key areas to target zero performance: zero harm; zero water quality failures; zero complaints; zero interruptions to supply and zero variance to budget. These objectives are supported by an incentive scheme that includes everyone in the business being rewarded on a quarterly basis on the same performance objectives.

OPERATING AND FINANCIAL REVIEW

Health and safety

We continued to place the highest priority on health and safety, and this subject remains the first agenda item at our Board meetings and monthly management meetings.

A Health and Safety Committee comprising management and employee representatives meet regularly throughout the year. The Committee reviews and monitors current policies and procedures and ensures the appropriate training is provided.

We maintained our focus on Health and Safety following the introduction of our Zero Accidents target in 2009. Performance is substantially better than the previous year and we will continue to develop a strong safety culture in all that we do. Further to this we maintain a high level of training in health and safety matters to underpin our commitment to Zero accidents.

In the year ended 31 March 2010 the number of recorded accidents was 5 (2009: 13), and the number of days lost to accidents was 15 (2009: 138.0). We have reviewed the circumstances around these incidents and where appropriate have amended our practices and procedures accordingly.

The total number of days lost in the year due to sickness, accidents and occupational ill-health was 508 days, which is an improvement over the previous year (2008-09: 573).

We are currently working towards the implementation of procedures to the requirements of the health and safety standard OHSAS 18001, and we plan to achieve certification for this standard by the end of 2010.

Price Review PR09

In April 2009 we submitted our final business plan to Ofwat for the period 2010 to 2015. Our plans were consistent with our long term plans as set out in our Strategic Direction Statement of December 2007.

In November 2009 Ofwat announced their final determination on our plan, which was accepted by the Board on the 21st January 2010. Veolia Water East's customers will see their water bills fall in real terms by 5.3 per cent over the five year period 2010 to 2015. At the same time, the Company will be investing over £14 million in improving its infrastructure and services and maintaining the lowest leakage levels in the water industry.

The following statement from the East Managing Director was issued as a press release

"We have carefully considered Ofwat's Final Determination on our five-year business plan, and although it represents a reduction in the amount of investment we had planned, we have accepted it and will now get on with the business of delivering services to our customers.

Our customers already experience some of the highest levels of service in the industry. We have the lowest leakage levels of any water company in the UK and the lowest water consumption per customer at 118 litres a day, compared to the national average of 150 litres. We will continue to work on improving efficiencies and reducing our running costs to keep customers' bills as low as possible without compromising the service they receive. "

Directors' pay

Basic Salary

The Remuneration Committee sets a basic salary level for the Managing Director that it feels is sufficient to retain the director but is not excessive given our market position and the regulated nature of our business. Basic salaries are normally set at levels at or just below the medium level for comparable positions in other market sector companies. In setting the basic salary level for the executive director 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.
- The individual performance of the Managing Director along with their progression within an appropriate pay structure.

OPERATING AND FINANCIAL REVIEW

- The general trends and levels of remuneration within the company ensuring that executive directors continue to be rewarded and motivated at an appropriate level in comparison to their colleagues.

Bonus Scheme

The Managing Director participates in a bonus scheme that is designed to ensure his full focus is on the key strategic requirements of the Company. The bonus scheme has been operating since 2002.

The Remuneration and Employment Committee determines the level of bonus awarded to the Managing Director.

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 director in respect of the year in relation to the improvement of the business.

Current Performance

Standards of Service

The customer remains as the focal point of the business. The Company has continued to operate at the highest level in terms of key service outputs and has achieved further progress in all OFWAT levels of service measures where scope for improvement existed. Our goal is to maintain our position at the frontier of industry performance in all measures relevant to our core business of regulated water supply.

As milestones towards achieving our objectives annual targets are set for standards of customer services and operational performance. These are captured in our monthly reports to the Executive Management Committee, which is our principal performance reporting system, enabling progress to be monitored and areas of concern to be addressed.

OPERATING AND FINANCIAL REVIEW

During the reporting year, the Company's main aspects of performance were:

Non-Financial Performance

Levels of Customer Service

The following levels of service relate to standards established by Ofwat and which are comparable across the industry:

	2006/7	2007/8	2008/9	2009/10
DG2 Pressure of mains water				
Percentage of properties not at risk of receiving water below a pressure of 15m head at the stop tap or meter	100.0%	100.0%	100.0%	100.0%
DG3 Interruptions to supply				
Number of properties not experiencing an unplanned interruption to supply for more than 12 hours	100.0%	100.0%	100.0%	99.95%
DG4 Water use restrictions				
Percentage of properties not affected by hosepipe ban or drought order	100.0%	100.0%	100.0%	100.0%
DG6 Response to billing contacts				
Percentage of billing contacts responded to within 5 days	100.0%	100.0%	100.0%	100.0%
DG7 Response to written complaints				
Percentage of written complaints responded to within 10 days	100.0%	100.0%	100.0%	100.0%
DG8 Billing of metered customers				
Percentage of customers who receive bills for metered accounts during the year based upon actual readings and not estimates	100.0%	100.0%	100.0%	100.0%
DG9 Telephone Contacts				
Percentage of customers who abandoned calls	0.86%	0.80%	0.75%	3.81%

The Company has a system of targets and objectives that link to the priority objectives. Two key measures that are used to benchmark the company's performance against the wider industry are operational performance and leakage.

Overall Operational Performance

	2006/7	2007/8	2008/09	2009/10
Ofwat overall performance assessment (OPA)				
OPA score (out of 288)	288	287	287	*
Ranking (out of 22 companies)	1	1	2	*
* to be published later this year				

This measure is calculated by Ofwat for the water industry and the results are published in the autumn. It measures the Company's quality of overall service provided to customers and the results are taken into account when setting prices. The OPA reflects a broad range of services provided to customers:

The Company has consistently rated at the top of the industry between 2005 – 2010, reflecting the consistently high levels of service delivered to our customers.

The key areas are:

- water supply (water pressure, interruptions to supply, hosepipe ban and drinking water quality)
- customer service (written complaints, billing contacts, meter reading, telephone answering, telephone access, services to customers with special needs, supply pipe repair policies, debt and revenue policies, complaint handling, compensation and providing information to customers)
- environmental impact (leakage and pollution incidents)

OPERATING AND FINANCIAL REVIEW

The Company's aim is to give excellent customer service and the OPA score reflects how well the Company is performing. The Company's target is to score the maximum points and top the OPA league in 2010/11.

Leakage

	2006/7	2007/8	2008/9	2009/10
Leakage levels at least below the Company target of 5.10 mega litres per day	5.05	5.04	5.09	5.02

This target is set with Ofwat as part of the periodic review. It is set taking into account the operational, environmental and social costs of reducing leakage. The level of leakage reported by the Company is calculated in accordance with Ofwat guidelines and is reviewed by the Company's Reporter.

The company again expects to post the lowest leakage level in the industry, in terms of litres per property per day. We recognise the importance attached to low leakage levels by the Government and by customers, and continue to strive to maintain low leakage levels and to decrease leakage where practicable. Current leakage is 11.9% below the latest Steady State Sustainable Economic level of leakage (SELL) (based on the marginal operating cost of water) figure of 5.7 Ml/d, and 14.9% below the steady state Economic Level of Leakage (ELL), (which excludes the impact of Environmental and Social costs) of 5.9 Ml/d.

Service Incentive Mechanism (SIM)

The OPA measure will be replaced from 2010 onwards by the Service Incentive Mechanism ("SIM"). SIM is a qualitative assessment of a customer's experience and will be used to benchmark service across the industry. We expect to be one of the leading companies when the first results are published in 2011, in reflection of our high standards of customer service.

Financial Performance

The Company continues to report under UK GAAP. The accounting policies are set out in Note 1 to the Historical Cost Financial Statements.

	2006/7	2007/8	2008/9	2009/10
Return on capital (%)	10.0	9.0	6.5	9.8

Return on Capital Employed (ROCE) measures the Company's current cost operating profit as a percentage of its regulatory capital value. The return on capital calculation uses data from the financial statements. Regulatory capital values were reported by Ofwat as part of the 2004 price review and are updated each year to take account of inflation and the net new capital expenditure (after allowing for current cost depreciation) assumed at the price review.

The Company wishes to ensure it continues to be an efficient operator since this helps keep water bills for customers as low as possible. By monitoring comparative performance against the rest of the industry, the Company can inform itself as to its comparative position relative to the water industry in England and Wales.

The data is derived for this key performance indicator from Ofwat's annual report into unit costs and relative efficiency, published in December each year. This data is itself compiled by Ofwat from each water Company's annual June Return.

The target is to manage operating and maintenance costs such that the Company at least meets and where possible outperforms its target profit for the year. Its profit target is derived from internal budgeting and financial forecasting.

OPERATING AND FINANCIAL REVIEW

There have been no material changes to the calculation or the definitions of the underlying data used by Ofwat to construct this indicator over the period.

The outlook is that the average accounting costs per property are set to rise. This reflects continuing cost pressures affecting operating expenses and the expectation of needing to invest more in asset maintenance in future which is likely to drive depreciation charges.

Results

Our financial performance to 31st March 2010 showed an improvement over the previous year, appointed operating profit before asset disposals being £5.033m compared with £4.342m in 2008/09, an increase of 16.9%. Sale of assets further increased operating profit by £0.835m to £5.868m. There were no asset sales in 2008/09.

Turnover was up on the previous year at £14.967m (2008/09 £14.405m). Despite an increase in water delivered this again remains below the level of the PR04 determination by £0.984m.

Appointed operating costs of £7.172m were £0.029m less than the previous year. One-off payroll costs were incurred making key redundancies early in 2010. These were offset by a reduction in the pension costs. Power costs increased, although consumption remained constant. We witnessed a reduction in Bad debt provision of £227k following the hard work of the cash collection team to recover monies from debtors. This partially offset the atypical increase of £340k recorded in 2008/09. Central recharges reflecting support services received from Veolia increased by £340k due to enhanced support and reflecting the newly established Veolia Water shared service cost model agreed with Ofwat. Bulk water costs have decreased, despite an increase in direct costs, as the reservation fee from Anglian Water is now incorporated as part of operating expenditure.

Net cash flow from appointed operating activities at £8.0m was higher than the previous year. Capital expenditure was higher by £0.3m, while taxation payments were lower by £0.5 m (primarily impacted by Group tax relief in the year). Dividends payments were higher by £0.3 m. Sales of fixed assets during the year increased cash flows by £0.8m. Loans increased by £1.1m in the year, however, short term financing improved by £0.4 m, meaning net debt of £13.8 m only increased by £0.8 m (2008/09 £1.6m).

Turnover

Turnover (per OFWAT definition) was higher than the previous year by £0.6m, analysed as follows:

	2007/08 £m	2008/09 £m	2009/10 £m
Prior year	14.323	13.990	14.405
Effect of RPI + k	(0.354)	0.530	0.355
(Lower)/ higher customer demand	(0.078)	(0.074)	0.197
New connections	0.074	0.052	0.026
Other	0.025	(0.093)	(0.016)
Current Year	13.990	14.405	14.967

OPERATING AND FINANCIAL REVIEW

Operating expenditure

Total Operating Expenditure in the year is £7.172m, a decrease £0.029m on the prior year. Changes in costs and atypical debits and credits in the year are analysed below.

	£'000	£'000
Opex costs 2008/09		(7,201)
Changes		
Payroll	96	
Equipment, tools & materials	21	
Hired & contracted services	(62)	
Power	(77)	
Bad debt	227	
Other	201	
Group Recharges	(340)	
Rates	(56)	
Bulk Purchase	121	
Abstraction charges	(11)	
Rechargeable works	(83)	
Non Appointed	(8)	
Change in Costs		29
Opex costs 2009/10		(7,172)
Less Atypical debits		218
Add Atypical credits		(102)
Amended Opex 2009/10		(7,056)

Operating profit

Total operating profit before asset disposals for the year to 31 March 2010 was £4.974m (2009: £4.273m) which is a 16.4% increase.

Taxation

The total tax charge at £1.521m for the year is £0.370m higher than the charge for the prior year. This is primarily due to the increase in profits. The full reconciliation, including prior year adjustments and timing adjustments, appears in the notes to the accounts.

Dividends

Our dividend policy has been agreed with our UK parent company,

OPERATING AND FINANCIAL REVIEW

The dividend policy aims to remunerate the ordinary equity share holder with a return that is broadly in line with the equity return allowed by Ofwat in the cost of capital assumption from the final determination for the AMP.

The dividend reflects a yield and a real growth consistent with the return on equity allowed by Ofwat in the determination for the current AMP, where yield is defined as the return on equity less the level of real growth in annual dividends.

This policy ensures that financial capital in real terms is not reduced, the ability to finance our regulated business is not impaired and we are rewarding efficiency and the management of economic risk. It is considered that this represents a sustainable approach.

Total ordinary dividends amounting to £4.389m (2008/09: £4.052m) have been paid.

Capital expenditure

During 2009-10 £4.908m was invested in fixed assets compared to £3.427m in 2008-09, of which £2.468m was to renew underground infrastructure (2008-09: £2.016m). This amount was reduced by £0.265m (2008-09: £0.262m) of capital expenditure, which was funded by third party contributions.

Change in accounting policy for fixed assets

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 £31.235m at 31 March 2010.

Capital works activity

The Company purchased land at Dovercourt for £0.270m as part of development of Dovercourt reservoir (completion scheduled for Year 2 of AMP5). Other projects that have increased capital expenditure in 2009/10 compared to 2008/09 included telemetry upgrade of £0.503m, office refurbishments of £0.133m, Horsley Cross water tower refurbishment of £0.147m, upgrade of Company fleet of vehicles of £0.128m.

With respect to infrastructure, during 2009/10 we carried out more work on urban mains renewal and communication pipe replacement, together with continued replacement and upgrade of a trunk main in St Osyth and trunk replacement at Horsley Cross.

Cash flow

Net cash outflow before financing for 2009/10 was £0.799m (2008/09: £1.572m). The main drivers of the cash outflow were capital expenditure (net of sale proceeds and capital contributions) of £3.380m, tax payments of £0.771m (reduced by Group tax relief), interest on loans of £0.640m and dividend payments of £4.433m, offset by cash generated by operating activities of £8.425m.

The Company maintained positive cash placement, ending of £0.751m as at March 2010 (£0.309m as at March 2009). During the year the Company borrowed a further £1.1m (net of repayments) under the three year intra-group loan agreement.

As a consequence, the net debt has increased from £12.964m to £13.763m.

OPERATING AND FINANCIAL REVIEW

Financing arrangements

Our aim, consistent with our risk policy, is to maintain balance sheet strength and good credit ratings and ensure that sustainable funding arrangements are in place.

Financial Instruments

The Company's financial instruments consist of borrowings, debentures, 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.

The Company finances its operations through a mixture of retained profits, bank borrowings and borrowings from the immediate 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 short-term borrowings from the immediate parent company.

Outlook

The Company will continue to pursue its mission, strategy and priority objectives, as noted at the start of this Review.

The Company will continue to provide a reliable, sustainable and high quality service to present and future customers. We therefore take a long term view which is consistent with the timeframes of our rolling license (25 years), water resource plans (25 years) and the longevity of our network and some of our plant and equipment. We expect to continue to invest significantly in our pipe network and renew mains which suffer from high and repeated bursts. We will continue to increase household meter penetration to encourage as many of our customers as possible to use water carefully and mitigate growth in water demand.

The operating and financial review contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic, business and regulatory circumstances occurring from time to time in the markets in which the Company operates. These and other factors could adversely/positively affect the customer and financial effects of the plans and events described.

CERTIFICATE OF COMPLIANCE WITH LICENCE CONDITION F6A

To: The Chief Executive
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 8 July 2010, the directors of Veolia Water East Limited (formerly Tending Hundred 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.



Nevil Muncaster
Managing Director
8 July 2010

CERTIFICATE OF COMPLIANCE WITH LICENCE CONDITION F6A

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In addition to their responsibilities to prepare financial statements in accordance with the Companies Act 2006, 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, having regard also to the terms of guidelines notified by the Director from time to time, which so far as is reasonable practicable have the same content as the annual financial statements of the Appointee prepared under the Companies Act 2006 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;
- (d) Preparing such other accounting information 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.

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.

The Chairman's Statement, Remuneration Report, Report of the Directors and Corporate Governance Report on pages 1-18 of the Statutory Accounts also apply to these Regulatory Financial Statements

COMPLIANCE WITH CONDITION K

CONDITION K

Compliance with Condition K

Paragraph 3.1 of the Companies Instrument of Appointment requires the Company to at all times ensure, so far as is 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.

INDEPENDENT AUDITORS' REPORT

TO THE WATER SERVICES REGULATION AUTHORITY AND DIRECTORS OF VEOLIA WATER EAST LIMITED (FORMERLY TENDRING HUNDRED WATER SERVICES LIMITED)

We have audited the Regulatory Financial Statements ("regulatory accounts") of Veolia Water East Limited (formerly Tendring Hundred Water Services Limited) ("the Company") on pages 70 to 86, 89 and 90 for the year ended 31 March 2010 which comprise

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the company and the Water Services Regulation Authority ("the WSRA") 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 [and sewerage] 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 WSRA 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 WSRA, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts 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 specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they 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 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 Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 65.

INDEPENDENT AUDITORS' REPORT

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on auditing (UK and Ireland) issued by the Auditing Practices Board, 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'.

We report to you our opinion as to whether the regulatory historical cost accounting statements 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 accounting statements on pages 70 to 86, 89 and 90 have been properly prepared in accordance with Regulatory Accounting Guideline 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 Accounts, 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 Accounts. The other information comprises the operating and financial review, the notes on regulatory information, and the additional information required by the licence.

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 Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, 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 Accounts 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 Accounts 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 accounts 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 we are required to state to them in a Statutory auditors' 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 accounting statements on pages 70 to 72 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 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 on page 85.

INDEPENDENT AUDITORS' REPORT

Opinion

In our opinion the Regulatory Accounts of the company for the year ended 31 March 2010 fairly present in accordance with 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 Accounting Guidelines 1.04, 2.03, 3.06 and 4.03 issued by the WSRA 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 an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year 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 WSRA;
- c) the regulatory historical cost accounting statements on pages 70 to 72 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 WSRA;
- d) the regulatory current cost accounting statements on pages 73 to 86, 89 and 90 have 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 WSRA.

Ernst & Young LLP

Ernst & Young LLP
London

13 July 2010

HISTORICAL COST PROFIT AND LOSS ACCOUNT **for the Year Ended 31 March 2010**

	Year ended 31 March 2010			Year ended 31 March 2009		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£000	£000	£000	£000	£000	£000
Turnover	14,967	-	14,967	14,405	-	14,405
Operating costs (excluding HCD)	(8,547)	(59)	(8,606)	(8,725)	(69)	(8,794)
Historical cost depreciation	(1,387)	-	(1,387)	(1,338)	-	(1,338)
Operating income	835	-	835	-	-	-
Operating profit	5,868	(59)	5,809	4,342	(69)	4,273
Other income	1	534	535	-	514	514
Net interest receivable less payable	(716)	-	(716)	(698)	-	(698)
Profit on ordinary activities before taxation	5,153	475	5,628	3,644	445	4,089
Current tax	(1,126)	(133)	(1,259)	(647)	(125)	(772)
Deferred tax	(262)	-	(262)	(379)	-	(379)
Profit for the year	3,765	342	4,107	2,618	320	2,938

Turnover and Operating profit relate entirely to continuing operations.

No government grants or assistance were received by the company during the reported period.

STATEMENT OF HISTORICAL RECOGNISED GAINS AND LOSSES
for the Year Ended 31 March 2010

	At 31 March 2010			At 31 March 2009		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£000	£000	£000	£000	£000	£000
Profit for the year	3,765	342	4,107	2,618	320	2,938
Actuarial gain / (loss) recognised in pension scheme	(1,786)	-	(1,786)	900	-	900
Movement on deferred tax relating to pension scheme	500	-	500	(252)	-	(252)
Revaluation of fixed assets	31,235	-	31,235	-	-	-
Total gains recognised for the year	33,714	342	34,056	3,266	320	3,586

HISTORICAL COST BALANCE SHEET as at 31 March 2010

	2009/10			2008/09		
	Appointed £000	Non-Appointed £000	Total £000	Appointed £000	Non-Appointed £000	Total £000
Fixed assets						
Tangible fixed assets	68,010	-	68,010	35,570	-	35,570
Investments	1	-	1	1	-	1
	68,011	-	68,011	35,571	-	35,571
Current assets						
Stocks	314	-	314	227	-	227
Debtors	4,710	6	4,716	4,235	-	4,235
Cash at bank and in hand	87	-	87	228	-	228
Infrastructure renewals prepayment	1,405	-	1,405	751	-	751
Total current assets	6,516	6	6,522	5,441	-	5,441
Creditors - amounts falling due within one year	(6,136)	(6)	(6,142)	(4,717)	-	(4,717)
Net current assets	380	-	380	724	-	724
Creditors – amounts falling due after more than one year						
Borrowings	(14,601)	-	(14,601)	(13,501)	-	(13,501)
Other creditors	(1,892)	-	(1,892)	(739)	-	(739)
Total Creditors – amounts falling due after more than one year	(16,493)	-	(16,493)	(14,240)	-	(14,240)
Provisions for liabilities and charges						
Deferred tax provisions	(2,772)	-	(2,772)	(2,538)	-	(2,538)
Deferred income	(74)	-	(74)	(88)	-	(88)
Net assets employed	49,052	-	49,052	19,429	-	19,429
Capital and reserves						
Called up share capital	1,174	-	1,174	1,174	-	1,174
Profit and loss account	46,378	-	46,378	16,731	-	16,731
Other reserves	1,500	-	1,500	1,524	-	1,524
Capital and reserves	49,052	-	49,052	19,429	-	19,429

CURRENT COST PROFIT AND LOSS ACCOUNT FOR APPOINTED BUSINESS
For the year ended 31 March 2010

	Note	2010 £000	2009 £000
Turnover	2(i)	14,967	14,405
Current cost operating costs (including CCD and IRC)	3	(10,628)	(10,587)
Total operating income	2(ii)	846	9
Working capital adjustment	4	(32)	2
Current cost operating profit		5,153	3,829
Net interest receivable less payable	5	(715)	(698)
Financing adjustment	6	591	(45)
Current cost profit before taxation		5,029	3,086
Current tax		(1,126)	(647)
Deferred tax		(262)	(379)
Current cost profit attributable to shareholders		3,641	2,060

The Turnover and Operating Profit relate entirely to continuing operations.

No government grants or assistance were received by the company during the stated period.

CURRENT COST BALANCE SHEET FOR APPOINTED BUSINESS
As At 31 March 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	8(i)	236,216	225,507
Third party contributions since 1989-90	8(ii)	<u>(9,460)</u>	<u>(8,806)</u>
		226,756	216,701
Working capital	9	<u>(482)</u>	<u>(25)</u>
Net operating assets		226,274	216,676
Cash and investments		87	228
Infrastructure prepayment		1,405	751
Corporation tax payable		(629)	(230)
Creditors due after one year		(16,493)	(14,240)
Deferred tax provision		<u>(2,772)</u>	<u>(2,538)</u>
Net assets employed		<u>207,872</u>	<u>200,647</u>
Capital and reserves			
Called up share capital		1,174	1,174
Profit and loss account	10	8,819	10,556
Current cost reserve at 31 March	11	196,379	187,393
Other reserves		<u>1,500</u>	<u>1,524</u>
		<u>207,872</u>	<u>200,647</u>

CURRENT COST STATEMENT OF CASH FLOWS
For the year ended 31 March 2010

	2009/10			2008/09		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£000	£000	£000	£000	£000	£000
Net cash inflow from operating activities	8,017	408	8,425	7,725	462	8,187
Returns on investments and servicing of finance						
Interest received	-	-	-	21	-	21
Interest paid	(640)	-	(640)	(1,078)	-	(1,078)
Net cash flow from returns on investments and servicing of finance	(640)	-	(640)	(1,057)	-	(1,057)
Taxation paid	(704)	(67)	(771)	(1,214)	(142)	(1,356)
Capital expenditure and financing of investment						
Gross cost of purchase of fixed assets	(2,457)	-	(2,457)	(2,132)	-	(2,132)
Receipts of grants and contributions	262	-	262	262	-	262
Infrastructure renewals expenditure	(2,029)	-	(2,029)	(1,389)	-	(1,389)
Receipts from sales of fixed assets	844	-	844	9	-	9
Net cash flow from investing activities	(3,380)		(3,380)	(3,250)	-	(3,250)
Dividends paid	(4,092)	(341)	(4,433)	(3,776)	(320)	(4,096)
Net cash inflow before financing	(799)	-	(799)	(1,572)	-	(1,572)
Financing						
Short term group financing	(442)	-	(442)	(481)	-	(481)
Loan received	1,100	-	1,100	2,100	-	2,100
Net cash inflow from financing	658	-	658	1,619	-	1,619
(Decrease)/increase in cash in the year	(141)	-	(141)	47	-	47

NOTES TO THE CURRENT COST STATEMENT OF CASH FLOWS
For the year ended 31 March 2010

Reconciliation of current cost operating profit to net cash flow from operating activities

	2009/10			2008/09		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£000	£000	£000	£000	£000	£000
Current cost operating profit	5,153	475	5,628	3,829	445	4,274
Working capital adjustment	32		32	(2)	-	(2)
Decrease / (increase) in working capital	32	(67)	(35)	(244)	17	(227)
Current cost depreciation	2,083	-	2,083	1,863	-	1,863
Current cost profit on sales of fixed assets	(846)	-	(846)	(9)	-	(9)
Infrastructure renewals charge	1,375	-	1,375	1,523	-	1,523
Other non-cash items	188	-	188	765	-	765
Net cash flow from operating activities	8,017	408	8,425	7,725	462	8,187

Reconciliation of net cash flow to movement in net debt

	2009/10			2008/09		
	Appointed	Non-Appointed	Total	Appointed	Non-Appointed	Total
	£000	£000	£000	£000	£000	£000
Increase / (decrease) in cash in the period	(141)	-	(141)	47	-	47
Short term group financing	442	-	442	481	-	481
Loan received	(1,100)	-	(1,100)	(2,100)	-	(2,100)
Movement in net debt in the period	(799)	-	(799)	(1,572)	-	(1,572)
Net debt at the beginning of the period	(12,995)	31	(12,964)	(11,423)	31	(11,392)
Net debt at the end of the period	(13,794)	31	(13,763)	(12,995)	31	(12,964)

NOTES TO THE CURRENT COST STATEMENT OF CASH FLOWS
For the year ended 31 March 2010

Analysis of net debt

	Fixed rate	Floating rate	Index linked	Total
Maturity profile				
Less than 1 year	-	-	-	-
Between 1 and 2 years	-	-	-	-
Between 2 and 5 years	(1)	(8,100)	-	(8,101)
Between 5 and 20 years	(6,500)	-	-	(6,500)
In more than 20 years	-	-	-	-
				<hr/>
Borrowings (excluding preference shares)				(14,601)
Preference share capital				<hr/> -
Total borrowings				(14,601)
Cash				87
Short term deposits				751
				<hr/>
Net debt				(13,763)

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 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. The asset valuation arising from this exercise has been included in this year's accounts, after adjusting for inflation as measured 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 charged as an 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.

FRS 15 and FRS 12 have not been applied in preparing the regulatory accounts. This is in accordance with requirement of the Regulator where regulatory accounting guidelines have been used instead. Therefore, the treatment in the regulatory accounts differs from that in the non-statutory financial statements. However, non-compliance has no effect on the profit and loss account other than to reclassify infrastructure renewals charges as depreciation.

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 the 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 the charges are calculated.

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

Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit 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 trade debtors and stock less trade creditors.

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

1 Statement of accounting policies (continued)

Financing adjustment – this is calculated by applying the change in the 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 assets adjustment (as defined in RAG 1.02) 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 dividend policy aims to remunerate the ordinary equity share holder with a return that is broadly in line with the equity return allowed by Ofwat in the cost of capital assumption from the final determination for the AMP.

The dividend reflects a yield and a real growth consistent with the return on equity allowed by Ofwat in the determination for the current AMP, where yield is defined as the return on equity less the level of real growth in annual dividends

	2010 £000	2009 £000
2 Analysis of turnover and operating income for the Appointed Business		
(i) Turnover		
Unmeasured turnover – household	3,745	3,993
Measured – household	7,771	6,989
Measured – non-household	2,635	2,640
Large user and special agreement	671	549
Measured turnover	11,077	10,178
Third party services	145	51
Bulk supplies/inter company payments	-	183
Total Turnover	14,967	14,405
(ii) Operating Income		
Current cost profit on sale of fixed assets	846	9

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

	2010 £000	2009 £000
3 Current Cost Operating Adjustments		
These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:		
Historic cost operating costs	9,932	10,063
Historic cost depreciation/amortisation	(1,387)	(1,338)
Current cost depreciation/amortisation	2,083	1,862
Current cost operating costs	<u>10,628</u>	<u>10,587</u>
Historic cost profit on disposal	835	-
Current cost profit on disposal	11	9
Current cost operating income	<u>846</u>	<u>9</u>
Disposal of fixed asset adjustments		
Current cost disposals	1,043	103
Less current cost depreciation	<u>(1,043)</u>	<u>(103)</u>
	<u>-</u>	<u>-</u>
Historic cost disposals	132	66
Less historic cost depreciation	<u>(121)</u>	<u>(57)</u>
	<u>11</u>	<u>9</u>
4 Working capital adjustment		
This is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.		
Trade debtors at 1 April	4,231	3,770
Stock at 1 April	227	219
Less creditors at 1 April	(4,487)	(4,323)
Infrastructure Renewals Prepayment at 1 April	<u>751</u>	<u>885</u>
	<u>722</u>	<u>551</u>
RPI	4.45%	(0.40)%
Working capital adjustment	<u>32</u>	<u>(2)</u>

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

	2010 £000	2009 £000
5 Net interest		
Interest receivable	129	47
Interest payable	(653)	(686)
Other finance charges	(191)	(59)
Net interest	<u>(715)</u>	<u>(698)</u>
6 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.		
	2010 £000	2009 £000
Cash at 1 April	228	181
Creditors due after one year	(13,500)	(11,401)
	<u>(13,272)</u>	<u>(11,220)</u>
RPI	4.45%	(0.4)%
	<u>(591)</u>	<u>45</u>
7 Dividends		
	2010 £000	2009 £000
Ordinary Dividends		
Veolia Water Capital Funds	4,321	3,990
Dividends relating to non-appointed business	(341)	(320)
Other Minorities	68	62
Preference Dividends		
Veolia Water Capital Funds	43	43
Other Minorities	1	1
	<u>4,092</u>	<u>3,776</u>

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

8	Fixed assets				
		Infra- structure Assets £000	Operational Assets £000	Other Assets £000	Total £000
(i)	Tangible assets				
	Gross replacement cost				
	Balance 1 April 2009	194,249	59,929	8,097	262,275
	AMP adjustment	(23)	35	(11)	1
	Restated balance 1 April 2009	194,226	59,964	8,086	262,276
	RPI adjustment	8,641	2,503	359	11,503
	Disposals	-	(1,028)	(15)	(1,043)
	Additions	446	1,077	1,357	2,880
	Balance 31 March 2010	203,313	62,516	9,787	275,616
	Depreciation				
	Balance 1 April 2009	-	31,496	5,272	36,768
	AMP adjustment	-	7	(5)	2
	Restated balance 1 April 2009	-	31,503	5,267	36,770
	RPI adjustment	-	1,356	234	1,590
	Disposals	-	(1,028)	(15)	(1,043)
	Charge for the year	-	1,595	488	2,083
	Balance 31 March 2010	-	33,426	5,974	39,400
	Net book value				
	Balance 1 April 2009	194,249	28,433	2,825	225,507
	Balance 31 March 2010	203,313	29,090	3,813	236,216
(ii)	Third Party Capital Contributions				
		Infra- structure Assets £000	Specialised Operational Assets £000	Other Assets £000	Total £000
	Balance 1 April 2009	8,657	200	390	9,247
	RPI adjustment	385	9	17	411
	Additions	265	-	-	265
	Balance 31 March 2010	9,307	209	407	9,923
	Amortisation				
	Balance 1 April 2009	-	51	390	441
	RPI adjustment	-	2	17	19
	Charge for the year	-	3	-	3
	Balance 31 March 2010	-	56	407	463
	Net value capital contributions				
	Balance 1 April 2009	8,657	149	-	8,806
	Balance 31 March 2010	9,307	153	-	9,460

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

	2010 £000	2009 £000
9 Working Capital		
Stocks	314	227
Trade debtors – measured household	504	425
Trade debtors – unmeasured household	194	222
Trade debtors – measured non-household	142	138
Trade debtors – unmeasured non-household	6	8
Other trade debtors	1,168	919
Measured Income accrual	2,641	2,451
Short term capital creditors	(712)	(291)
Deferred income	(1,346)	(1,316)
Other accruals	(35)	(200)
Trade payments in advance	55	71
Trade creditors	(3,413)	(2,679)
	<u>(482)</u>	<u>(25)</u>
	2010 £000	2009 £000
10 Current cost profit and loss account		
Reserves brought forward	10,556	11,624
Profit for the year	3,641	2,060
Dividends	(4,092)	(3,776)
Actuarial gain / (loss) on pension scheme	(1,786)	900
Movement on deferred tax relating to pension scheme	500	(252)
Balance at 31 March	<u>8,819</u>	<u>10,556</u>

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

	2010 £000	2009 £000
11 Movement on current cost reserve		
Current cost reserve at 1 April	187,393	188,210
Reclassification	25	-
AMP adjustment	(1)	-
Restated balance 1 April 2009	<u>187,417</u>	<u>188,210</u>
RPI adjustments		
Fixed assets	9,913	(894)
Working capital adjustment	32	(2)
Financing adjustment	(591)	45
Grants and third party contributions	<u>(392)</u>	<u>34</u>
Current cost reserve at 31 March	<u>196,379</u>	<u>187,393</u>

	2010 £000
12 Regulatory Capital Value (RCV) at 2004-05 prices	
Opening RCV for the year	52,638
Capital expenditure	2,147
Infrastructure renewals expenditure	1,333
Grants and contributions	(265)
Depreciation	(2,068)
Infrastructure renewals charge	(1,299)
Out-performance of Regulatory assumptions (5 years in arrears)	<u>(112)</u>
Closing RCV carried forward	52,374
Average RCV	<u>51,873</u>

This RCV reflects that used by Ofwat when setting price limits for the period 2005-10, at 2004-05 prices. The actual expenditure during the year, as recorded in the regulatory accounts, differs from the figures shown above. Differences in capital expenditure will not affect price limits in the current period but will be taken into account in the calculation of the RCV during the next price review period.

- 13 Reconciliation between statutory and regulatory accounts as at 31 March 2010**
- In the preparation of its statutory accounts, the Company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS15: Tangible Fixed Assets. However, for the purposes of the Regulatory Accounts, OFWAT has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. In addition, the Water Services Regulation Authority has decided to depart from UK GAAP and dis-apply the provisions of Note G of FRS 5, which states the turnover should not include amounts that the company does not expect to collect. Reconciliation to the balance sheet is shown in the statutory accounts set out below:

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

	Statutory UK GAAP £m	Regulatory £m	Explanation of difference
<u>Profit and loss account</u>			
Turnover	15.148	14.967	Per Ofwat instructions, income from the Anglian Water Reservation fee is netted off against Ardleigh Reservoir costs (£0.181m).
Operating costs	(10.237)	(9.993)	income from the Anglian Water Reservation fee is netted off against Ardleigh Reservoir costs (£0.181m). There is a variance of £0.063m in respect of a difference between the regulatory accounts and statutory accounts in the policy for the right down of the infrastructure renewal prepayment that existed at March 2010.
Operating profit	5.446	5.809	Statutory accounts include other operating income of £0.535m, however this is excluded from the regulatory accounts. Profit on disposal of fixed assets of £0.835m is excluded in operating profit in statutory accounts, but included in regulatory accounts. There is a variance of £0.063m in respect of a difference between the regulatory accounts and statutory accounts in the policy for the right down of the infrastructure renewal prepayment that existed at March 2010.
<u>Balance sheet</u>			
Tangible fixed assets (net book value)	69.324	68.010	In the statutory accounts the tangible fixed assets figure includes the infrastructure renewal prepayment. For regulatory accounting figures Ofwat requests this amount of £1.314m is included in current assets. The remainder of the variance is in respect of the infrastructure renewal prepayment policy referred to above.
Debtors	3.569	4.716	The difference mainly relates to receipts in advance which is netted off in the statutory accounts (£1.445m)
Creditors	4.990	6.142	Mainly relates to receipts in advance treated as a creditor in the regulatory accounts (£1.445m). Liability in respect to NI on share options of £0.004m is treated as short-term creditors in regulatory accounts, and as long-term creditors in statutory accounts.

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

14 Activity Cost Analysis for the Year Ended 31 March 2010

Appointed Business – Profit and Loss Account	SERVICE ANALYSIS		
	Water Resources & Treatment £000	Water Distribution £000	Water Services Total £000
Direct costs			
Employment costs	204	62	266
Power	392	141	533
Hired and contracted services	144	118	262
Associated companies	74	24	98
Materials and consumables	113	90	203
Service charges – Abstraction charge	294	-	294
Other direct costs	(147)	2	(145)
Total direct costs	1,074	437	1,511
General and support expenditure	755	351	1,106
Functional expenditure	1,829	788	2,617
Operating Expenditure			
Customer Services			2,331
Scientific Services			188
Other Business Activities			236
Total Business Activities			2,755
Local Authority Rates			1,164
Doubtful Debts			511
Total Opex Less Third Party Services			7,047
Third Party Services – Opex			125
Total Operating Expenditure			7,172
Reactive & Planned Maint. (incl. in Opex)			
Reactive & Planned Maint. Infrast.	-	290	290
Reactive & Planned Maint. Non-Infrast.	158	73	231
Capital Maintenance			
Infrast. Renewals Expenditure REV		1,375	1,375
Movement in Infrast. Renewals			-
Current cost depreciation	1,120	323	1,443
Amortisation of deferred credits			(2)
Business activities current cost depreciation (non-allocated)			640
Total Capital Maintenance			3,456
Total Operating Costs			10,628
CCA (MEA) Values			275,616

The apportionments of general and support activities required to complete the above statement have been made on a pro-rata basis to direct cost allocations, which is consistent with prior years.

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

15 Long Term Current Cost Profit & Loss Account (2009/10 prices)

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Turnover	14,967	15,046	14,554	14,957	15,818
Current Cost Operating Costs	(10,628)	(11,058)	(10,015)	(9,668)	(9,319)
Operating Income	846	9	773	20	1
Working Capital Adjustment	(32)	2	(71)	(42)	119
	5,153	3,999	5,241	5,267	6,619
Other Income	-	-	-	-	17
Net Interest	(715)	(729)	(467)	(448)	(438)
Financing Adjustment	591	(47)	372	406	204
Current Cost Profit Before Taxation	5,029	3,223	5,146	5,225	6,402
Taxation	(1,388)	(1,072)	(1,680)	(1,791)	(2,180)
Current Cost Profit Attributable to Shareholders	3,641	2,151	3,466	3,434	4,222
Infrastructure Renewal Charge	(1,375)	(1,591)	(1,509)	(1,408)	(1,426)
Current Cost Depreciation	(2,081)	(1,946)	(2,145)	(2,092)	(2,108)
Operating Costs	(7,172)	(7,521)	(6,361)	(6,168)	(5,785)

NOTES TO THE CURRENT COST FINANCIAL INFORMATION (continued)

16 Long Term Current Cost Balance Sheet (2009/10 prices)

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Tangible Fixed Assets	236,216	235,542	235,366	224,832	228,162
Third Party Contributions Since 1989-90	(9,460)	(9,199)	(8,944)	(8,303)	(7,939)
Working Capital	923	789	573	1,847	(1,092)
Net Operating Assets	227,679	227,132	226,995	218,376	219,131
Cash & Investments	87	238	188	21	992
Creditors Due within One Year	(629)	(241)	(830)	(821)	(1,158)
Creditors Due After One Year	(16,493)	(14,902)	(13,379)	(10,112)	(10,285)
Provision for Liabilities & Charges	(2,772)	(2,651)	(2,276)	(2,642)	(2,757)
Net Assets Employed	207,872	209,576	210,698	204,822	205,923
Called up Share Capital	1,174	1,226	1,221	1,225	1,286
Capital Reserve	1,500	1,567	1,560	1,567	1,642
Share Option Reserve	24	25	25	24	
Profit & Loss Account	8,795	11,026	12,093	13,285	13,176
Current Cost Reserve	196,379	195,732	195,799	188,721	189,819
	207,872	209,576	210,698	204,822	205,923

17 Disclosure of Transactions with Associates

- (i) The Company complies with the objectives and principles of Regulatory Accounting Guideline 5.04 (Rag 5.04) as set by the Water Services Regulation Authority, namely that transactions with associated companies are at arms length and there has been no cross subsidy.
- (ii) No director of the Company has acted as both purchaser and supplier. Procedures are in place covering the placing of orders and authorisation of invoices.
- (iii) The materiality levels below which transactions are disclosed are consistent with the general requirement in Condition F, as set by the Water Services Regulation Authority. The non-appointed elements of the business relating mainly to billing commission and rental income have been separated from the appointed business.
- (iv) The Company has continued to allocate costs as in previous years rather than on the full activity based method as described in RAG 5.

Services Provided by Associates – Profit and Loss Charges

Associate	Service	Terms of Supply	Value £'m
Ardleigh Reservoir Committee	Bulk purchase of treated water	No market exists	0.554
Veolia Water South East Ltd (formerly Folkestone & Dover Water Services Ltd)	Recharge for monitoring of telemetry/out of hours calls	Other market testing	0.041
Veolia Water Central Plc (formerly Three Valleys Water PLC)	Recharge for central services	Other market testing	0.163
Veolia Water Shared Services	Recharge for central services	Other market testing	0.469
Veolia Water UK PLC	Management fee	Other market testing	0.385
Veolia Water UK PLC	Recharge for insurance (Group policies)	Other market testing	0.074
Veolia Water UK PLC	Other recharges	Other market testing	0.049
Veolia Water Capital Funds	Interest on loan	Other transactions with Associated Companies	0.654
Veolia Environnement UK Ltd	Recharges	Other market testing	0.003
Total	Profit & Loss Charges		2.392

Services Provided by Associates – Equity

Associate	Service	Terms of Supply	Value £'m
Veolia Water Capital Funds	Dividends (including those relating to non-appointed)	Other transactions with Associated Companies	4.365
Total	Profit & Loss Charges		4.365

Services provided to Associates – Profit and Loss

Associate	Service	Terms of Supply	Value £'m
Profit and Loss			
Ardleigh Reservoir Committee	Recharge for Finance/Admin. Services	No market exists	0.017
Total	No Market Exists		0.017

Services Provided by Associates – Balance Sheet Charges			
Associate	Service	Terms of Supply	Value £'m
Balance Sheet			
Ardleigh Reservoir Committee	Various capital schemes	No market exists	0.175
Veolia Water Central Plc (formerly Three Valleys Water PLC)	PR09 and miscellaneous	Other market testing	0.180
Veolia Water Shared Services	IT related	Other market testing	0.079
Total	Capital Expenditure		0.434

Turnover of associated companies

	£m
Ardleigh Reservoir Committee	1.348
Veolia Water South East Ltd (formerly Folkestone and Dover Water Services Ltd)	18.186
Veolia Water Central Plc (formerly Three Valleys Water PLC)	234.373
Veolia Water Shared Services	16.664
Veolia Water UK PLC *	4.296
Veolia Water Outsourcing Ltd	74.946
Veolia Environnement UK Ltd	Nil

* Veolia Water UK PLC turnover represents the turnover plus other operating income of the Company itself and does not include the turnover of the group subsidiaries.

Funding from Associate: Veolia Water Capital Funds PLC

A credit agreement exists with Veolia Water Capital Funds PLC to provide funding up to a maximum aggregate principal amount of £13.0m at an interest rate of LIBOR plus 200 basis points.

A 15-year fixed-term loan was entered into on 11 February 2005, providing £6.5m capital from Veolia Water Capital Funds PLC, at an interest rate of 5.407%.