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THREE VALLEYS WATER FINANCE PLC

**Accounts for the year ended
31st March 2010**

Registered in England and Wales No. 05139236

**Three Valleys Water Finance PLC
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ**

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Directors' Report

The Directors present their report and the audited statutory financial statements for the year ended 31 March 2010.

Principal activity and business review

The Company's sole activity is to raise finance on behalf of its immediate parent company, Veolia Water Central Limited (formerly Three Valleys Water PLC). During 2004 the Company issued £200m Guaranteed Notes, maturing July 2026 with an annual coupon rate of 5.875%.

As this Bond has a fixed coupon rate, the Company faces limited risk/uncertainty. Veolia Water Central Limited is responsible for the financing strategy and treasury policies of the Company in conjunction with Veolia Water UK PLC, the Company's intermediate UK parent. The aim of this strategy is to assess the ongoing capital requirement of the group and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy. Interest rates earned on, and currency of denomination of, the Company's financial assets, are matched against those of the Company's financial liabilities. Accordingly, these assets and liabilities act as a perfect hedge for each other, and the Company has no net exposure to movements in interest rates.

Results and dividends

The Company has made no profit after taxation (2009/10: nil). No dividends are proposed for the period.

Future developments

It is the Company's intention to continue with this activity through to 2026 when the Guaranteed Notes mature.

Directors

The directors who held office during the period are listed below.

A. P. Smith (Resigned 31 March 2010)
F Devos (Appointed 31 March 2010)
R. A. Bienfait

Directors' interests are disclosed in note 3 to the financial statements. There are no other directors' interests requiring disclosure during the year.

Charitable and Political Donations

The Company made no charitable or political donations in the year.

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 United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- UK accounting standards have been followed subject to any material departures disclosed and explained in the financial statements: and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Disclosure of information to the Auditors

In accordance with the Companies Act 2006, so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Corporate Governance

The company is a wholly owned subsidiary of Veolia Water Central Limited (VWCL) and its objects are limited to the raising of finance or funding exclusively for VWCL. All of the company's directors are also directors of VWCL.

The company benefits from the corporate governance arrangements established by VWCL, full details of which can be found in VWCL's own Report and Accounts.

The Board has overall responsibility for the company's systems of internal control and for reviewing the effectiveness of these systems. It is responsible for ensuring that the company meets its obligations in respect of the £200m bond and meets from time to time to facilitate this. The Director of Finance of VWCL is responsible for preparing the Report and Accounts.

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors, will be put to the members at the next annual general meeting, in accordance with Section 489 of the Companies Act 2006.

By order of the Board



Tim Monod
Company Secretary
6 July 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THREE VALLEYS WATER FINANCE PLC

We have audited the financial statements of Three Valleys Water Finance PLC for the year ended 31 March 2010 which comprises of the Profit and Loss Account, the Balance Sheet and the related notes 1 to 17. 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 2, 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 (APB'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 result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



Steven Dobson (Senior statutory auditor)

*for and on behalf of Ernst & Young LLP, Statutory Auditor
London*

6 July 2010

Profit and Loss Account
For the year ended 31 March 2010
Registered Number 05139236

	Note	2010 £'000	2009 £'000
Operating Profit		0	0
Group interest receivable and similar income	5	11,876	11,869
Interest payable and similar charges	6	(11,876)	(11,869)
Profit/Loss on Ordinary Activities Before Taxation		0	0
Taxation	7	0	0
Result for the financial year		0	0

The Company has no recognised gains or losses other than the result above, therefore, no separate statement of total recognised gains and losses has been presented.

Balance Sheet
As at 31 March 2010

	Note	2010 £'000	2009 £'000
Investments	9	196,441	196,314
Current Assets			
Debtors: Amounts falling due within one year	10	8,402	8,402
Cash at bank and in hand		50	50
		8,452	8,452
Creditors			
Amounts falling due within one year	11a	(8,402)	(8,402)
Net Current Assets		50	50
Total Assets less Current Liabilities		196,491	196,364
Creditors: Amounts falling due after more than one year	11b	(196,441)	(196,314)
Net Assets		50	50
Capital and Reserves			
Called up share capital	13	50	50
Profit and loss Account	14	0	0
Equity Shareholders' funds	15	50	50

The financial statements on pages 6 to 13 have been approved by the Board of Directors and were signed on 6 July 2010 on its behalf by:-



R. A. Bienfait



F Devos

Notes to the Financial Statements

1 Statement of Accounting Policies

A summary of the principal accounting policies is set out below:

Basis of preparation

The financial statements have been prepared in accordance with historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards.

Cash flow statement

The Company is a wholly owned subsidiary of Veolia Water Central Limited which in turn is a wholly owned subsidiary of Veolia Water Capital Funds Ltd, which in turn is a wholly owned subsidiary of Veolia Water UK PLC, a company which produces publicly available financial statements in which this Company is included. Consequently the Company is exempt under the terms of Financial Reporting Standard Number 1 (revised), from publishing a cash flow statement.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of fees payable at both the outset and the repayment date. The carrying amount is increased by the finance cost determined by the effective interest rate in respect of the accounting period and reduced by any payments made in the period. The finance cost recognised in the profit and loss account is allocated to periods over the term of the debt at an effective interest rate on the carrying amount.

Fixed Assets Investments

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

2 Auditors' remuneration

Auditors' remuneration for the year to 31 March 2010 was £7k (2009 £8k) and has been borne by the immediate parent company Veolia Water Central Limited.

3 Directors' emoluments and interests

No remuneration was paid by the Company to any of its directors. None of the directors who held office at 31 March 2010 had any interest in the shares of the Company during the year ended 31 March 2010.

None of the directors were granted any right to subscribe for shares in or debentures of the equity.

4 Staff costs

There were no employees during the year ended 31 March 2010 (2009:nil). The directors did not receive any remuneration in respect of their services to the company.

Notes to the Financial Statements continued

5 Interest receivable

	2010 £000	2009 £000
Group interest receivable	11,876	11,869

Interest receivable reflects accrued interest on the Bond. Income arising on financial instruments is recognised on an accruals basis and credited to the profit and loss in the financial period in which it arises.

6 Interest payable

	2010 £000	2009 £000
Interest payable	(11,876)	(11,869)

Interest payable reflects paid interest on the Bond. Expenditure arising on financial instruments is recognised on an accruals basis and charged to the profit and loss in the financial period in which it arises.

7 Tax on profit on ordinary activities

There is no tax liability for the period ended 31 March 2010 (2009:£nil), no deferred tax liability (2009: £nil) and no unprovided deferred tax liability (2009: £nil).

8 Dividends paid and proposed on equity and non equity shares

No dividend was paid or proposed for the year ended 31 March 2010 (2009:£nil).

9 Investment

	2010 £000	2009 £000
Amounts owed by other group company	196,441	196,314

The Company's sole activity is to raise finance on behalf of its immediate parent company, Veolia Water Central Limited. During 2004 the Company issued £200m Guaranteed Notes, maturing July 2026 with an annual coupon rate of 5.875%.

Notes to the Financial Statements continued

10 Debtors

	2010 £000	2009 £000
Amounts owed by other group company	8,402	8,402

11 Creditors

	2010 £000	2009 £000
(a) Amounts falling due within one year: Accruals and deferred income	8,402	8,402

(b) Amounts falling due after more than one year:
5.875% Guaranteed Notes due 2026
The aggregate amount repayable in whole or in part
after more than five years.

	196,441	196,314
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On 13 July 2004 the company issued £200 million of 5.875% Guaranteed Notes at an issue price of 98.6%. The Notes mature on 13 July 2026. This issue was guaranteed by Veolia Water Central Limited which received the issue proceeds by way of inter company loans.

12 Financial instruments and risk management

Treasury operation

Veolia Water Central Limited is responsible for the financing strategy and treasury policies of the Company in conjunction with Veolia Water UK PLC, the Company's intermediate UK parent. The aim of this strategy is to assess the ongoing capital requirement of the group and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy.

Risks arising from the Company's financial instruments

Interest Rate Risk

Interest rates earned on, and currency of denomination of, the Company's financial assets, are matched against those of the Company's financial liabilities. Accordingly, these assets and liabilities act as a perfect hedge for each other, and the Company has no net exposure to movements in interest rates.

Interest rates and currency profile of the net borrowings of the Company at 31 March 2010 were:

Notes to the Financial Statements continued

	Total of net borrowings		Net Cash		Fixed rate borrowings		Weighted Average period until maturity		Weighted average period for which rate is fixed	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 Years	2009 Years	2010 Years	2009 Years
Sterling Borrowings:										
External Loans	196,440	196,314	0	0	196,440	196,314	16.3	17.3	16.3	17.3
Total borrowings	196,440	196,314	0	0	196,440	196,314	16.3	17.3	16.3	17.3
Cash	50	50	50	50	0	0				
Net borrowings	196,390	196,264	50	50	196,440	196,314				

Currency Exposures

At 31 March 2010, the Company had no currency exposures (2009: £nil).

Security

The loan is guaranteed by Veolia Water Central Limited.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the financial assets and liabilities of the Company as at 31 March 2010:

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the company's operations:		
Long-term borrowings	196	197
As at 31 March 2010	196	197

The fair value of the £200m sterling denominated long term fixed rate debt with a book value of £196m has been determined by reference to published information and prices from the active markets on which the instrument involved is traded.

Notes to the Financial Statements continued

13 Called up share capital

	2010	2009
Authorised	50,000	50,000
Issued and allotted	50,000	50,000
Called-up and paid	<u>50,000</u>	<u>50,000</u>

On 3 June 2004 the company issued 50,000 £1 ordinary shares for a consideration of £50,000.

14 Reserves

	£'000
At 1 April 2009	0
Transfer from profit and loss account	<u>0</u>
At 31 March 2010	<u>0</u>

15 Shareholders' funds

	£'000
Opening shareholders' Funds	50
Results for the year	<u>0</u>
Closing Shareholders Funds	<u>50</u>

16 Related party disclosures

The Company is a wholly owned subsidiary of Veolia Water Central Limited, which in turn is a wholly owned subsidiary of Veolia Water Capital Funds Ltd. which in turn is a wholly owned subsidiary of Veolia Water UK PLC a company which produces publicly available financial statements which include the Company. Consequently, the Company is exempt under the terms of Financial Reporting Standard 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Veolia Water UK PLC.

There were no other related party transactions.

17 Ultimate parent company

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

Copies of the group Financial Statements of Veolia Water UK PLC may be obtained from the Company Secretary, Veolia Water UK PLC, 5th Floor, Kings Place, 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.

