

VEOLIA WATER CENTRAL FINANCE PLC

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

(Registered Number 05139236)

Veolia Water Central Finance Plc

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Veolia Water Central Finance Plc

Directors' report for the year ended 31 March 2012

The directors present their report and the audited statutory financial statements for the year ended 31 March 2012.

Principal activity and business review

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

As this Bond has a fixed coupon rate, the company faces limited risk or uncertainty. The company's immediate parent undertaking 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 (2011: nil). No dividends are proposed for the period. (2011: nil).

Future developments

On 6 December 2011, the company's ultimate parent company and controlling party, Veolia Environnement SA, announced the intent to sell its UK regulated water interests, including the company and its immediate parent undertaking. The sale process is ongoing and is expected to complete in 2012.

It is the company's intention to continue with its current activity through to 2026 when the Guaranteed Notes mature.

Directors and Registered Office

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

D Bates (appointed 30 May 2012)

R A Bienfait

O Bret (appointed 25 January 2012)

F Devos (resigned 25 January 2012)

T J W Monod (Company Secretary)

Registered Office:

Tamblin Way

Hatfield

Hertfordshire AL10 9EZ

Going concern

As noted above, in December 2011, the company's ultimate parent company and controlling party, Veolia Environnement SA, announced the intent to sell its UK regulated water interests, including the company and its immediate parent undertaking. Whilst the intentions of future shareholders and directors of the company cannot be anticipated, the current directors believe that, given the long-term nature of the Bond, the company will continue operating for the foreseeable future. The company has net assets which are considered to be fully recoverable and, on this basis, the directors believe it is appropriate to prepare the accounts on a going concern basis.

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

Charitable and political donations

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

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

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

Disclosure of information to the 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.

Corporate governance

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

The company benefits from the corporate governance arrangements established by Veolia Water Central Limited, full details of which can be found in Veolia Water Central Limited's own Annual Report and Financial Statements.

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 Chief Financial Officer of Veolia Water Central Limited is responsible for preparing the company's Annual Report and Financial Statements.

Veolia Water Central Finance Plc

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

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution to re-appoint the auditors, Ernst & Young LLP, will be proposed at the annual general meeting.

By order of the Board



Tim Monod
Company Secretary
30 May 2012

Independent auditor's report to the members of Veolia Water Central Finance Plc

We have audited the financial statements of Veolia Water Central Finance Plc for the year ended 31 March 2012 which comprise 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 3, 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. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Veolia Water Central Finance Plc (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

31 May 2012

Veolia Water Central Finance Plc

Profit and loss account for the year ended 31 March 2012 (Registered Number 05139236)

		2012 £000	2011 £000
	Note		
Operating profit		-	-
Interest receivable and similar income	5	11,904	11,884
Interest payable and similar expenses	6	(11,904)	(11,884)
Result on ordinary activities before taxation		-	-
Taxation	7	-	-
Result for the financial year		-	-

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

Veolia Water Central Finance Plc

Balance sheet as at 31 March 2012 (Registered Number 05139236)

	Note	2012 £000	2011 £000
Investments	9	196,728	196,575
Current assets			
Debtors: amounts falling due within one year	10	8,402	8,402
Cash at bank and in hand		50	50
		8,458	8,452
Creditors - amounts falling due within one year	11a	(8,402)	(8,402)
Net current assets		50	50
Total assets less current liabilities		196,778	196,625
Creditors - amounts falling due after more than one year	11b	(196,728)	(196,575)
Net assets		50	50
Capital and reserves			
Called up share capital	13	50	50
Profit and loss account	14	-	-
Shareholder's funds	15	50	50

The financial statements on pages 7 to 14 have been approved by the Board of Directors and were signed on 30 May 2012 on its behalf by:



R A Bienfait
Director



D Bates
Director

Veolia Water Central Finance Plc

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

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 Limited, 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 FRS 1 (revised 1996): 'Cash flow statements', 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 2012 was £7k (2011: £7k) and has been borne by the immediate parent undertaking Veolia Water Central Limited.

3 Directors' emoluments

No remuneration or pension contributions were paid to directors for services to the company (2011: £nil). These costs were paid by and charged in the accounts of other group companies. Of the total remuneration, a total amount of £5k (2011: £5k) can be attributed to the company for the qualifying services performed, split as follows:

	2012 £000	2011 £000
Basic salary and fees	2	2
Benefits	1	1
Performance related bonuses	2	2
Total	<u>5</u>	<u>5</u>

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

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

4 Staff costs

There were no employees during the year ended 31 March 2012 (2011: nil).

5 Interest receivable and similar income

	2012 £000	2011 £000
Group interest receivable	<u>11,904</u>	<u>11,884</u>

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 and similar expenses

	2012 £000	2011 £000
Interest payable	<u>(11,904)</u>	<u>(11,884)</u>

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 Taxation

There is no tax liability for the year ended 31 March 2012 (2011:£nil), no deferred tax liability (2011: £nil) and no unprovided deferred tax liability (2011: £nil).

8 Dividends paid and proposed on equity and non equity shares

No dividend was paid or proposed for the year ended 31 March 2012 (2011:£nil).

9 Investment

	2012 £000	2011 £000
Amounts owed by other group company	<u>196,728</u>	<u>196,575</u>

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

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

10 Debtors

	2012 £000	2011 £000
Amounts owed by other group company	8,402	8,402

11 Creditors

	2012 £000	2011 £000
(a) Amounts falling due within one year: Accruals and deferred income	8,402	8,402

	2012 £000	2011 £000
(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.	196,728	196,575

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 the currency profile of the net borrowings of the company at 31 March 2012 were:

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

12 Financial instruments and risk management (continued)

	Total of net borrowings		Net Cash		Fixed rate borrowings		Weighted Average period until maturity		Weighted average period for which rate is fixed	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000	2012 Years	2011 Years	2012 Years	2011 Years
Sterling Borrowings:										
External Loans	196,728	196,575	-	-	196,728	196,575	14.3	15.3	14.3	15.3
Total borrowings	196,728	196,575	-	-	196,728	196,575	14.3	15.3	14.3	15.3
Cash	50	50	50	50	-	-				
Net borrowings	196,678	196,525	50	50	196,728	196,575				

Currency exposures

At 31 March 2012, the company had no currency exposures (2011: £nil).

Security

The loan is guaranteed by Veolia Water Central Limited.

Fair values of financial liabilities

Set out below is a comparison by category of book values and fair values of the financial liabilities of the company as at 31 March 2012:

	Book value		Fair value	
	£m	£m	£m	£m
	2012	2011	2012	2011
Primary financial instruments held or issued to finance the company's operations				
Long-term borrowings	196.7	196.6	213.4	209.0
	196.7	196.6	213.4	209.0

The fair value of the Bond, having a book value of £196.7m, has been determined by reference to published information and prices from the active markets on which the instrument involved is traded.

The company has taken advantage of the exemption of FRS 29: 'Financial Instruments: Disclosures' and has not disclosed information required by that standard, as the group's consolidated financial statements, in which the company is included, provide equivalent disclosures. All disclosures made in Note 12 are on a voluntary basis.

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

13 Called up share capital

	2012 £	2011 £
Allotted, called up and fully paid share capital		
Ordinary Shares of £1 each	50	50

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

14 Reserves

	Profit and Loss Account £000
At 1 April 2011	-
Transfer from profit and loss account	-
At 31 March 2012	-

15 Shareholder's funds

	£000
Opening shareholder's funds	50
Results for the year	-
Closing shareholder's funds	50

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 Limited, 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 paragraph 3(c) of FRS 8: 'Related party disclosures' from disclosing transactions with other group companies which meet the criteria that all subsidiary undertakings which are party to the transactions are wholly owned by the ultimate controlling parent.

There were no other related party transactions.

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

17 Ultimate parent company

The immediate parent undertaking of the company is Veolia Water Central Limited, a company registered in England and Wales. Veolia Water Capital Funds Limited, a company registered in England and Wales, is the parent undertaking of the smallest group to consolidate the statutory financial statements of Veolia Water Central Finance Plc. 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 parent company and controlling party.

Copies of the group financial statements of Veolia Water Capital Funds Limited are available from the Company Secretary, Veolia Water Capital Funds Limited, Fifth Floor, Kings Place, 90 York Road, London, N1 9AG.

Copies of the group financial statements of Veolia Environnement SA are available from the Head Office at 36 – 38 Avenue Kléber, 75116 Paris, France.