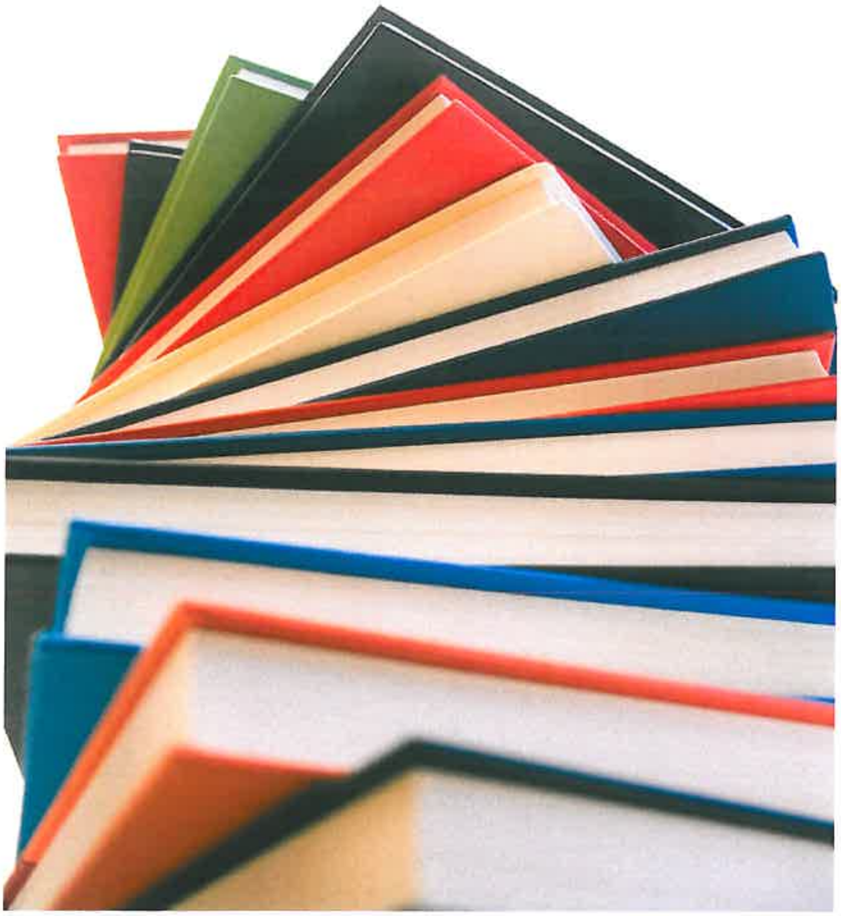
Veolia Water East Limited



Annual Report and Financial Statements for the year ended 31st March 2012

(Registered Number 2663338)

Registered Office: Veolia Water East Limited, Mill Hill, Manningtree, Essex CO11 2AZ

Veolia Water East Limited

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Veolia Water East Limited

Chairman's statement

I am pleased to present the statutory accounts for the year ended 31st March 2012.

A Definitive Year

This past year is one that we can be proud of for a number of reasons. Firstly, we have delivered solid financial results but importantly have achieved a strong operational performance that once again places us at the head of the industry. This has been achieved during a period of great change in the business and is a credit to the commitment and hard work of our staff. Finally, the changes we have been planning are likely to result in the merger of this business with two other Veolia Water companies in the UK. For our business to have achieved such good results in what could be its final year in its own right, is a great legacy for any future owner to take on.

Our financial performance for the year to 31st March 2012 is an improvement on the previous year. Operating profit was £4.216m compared with £3.953m in 2010/11. Turnover was slightly increased on the previous year at £15.105m (2010/11 £14.678m). Despite a marginal decline in the demand for water, this increase in turnover is in line with annual tariff increases.

I am delighted to see we continue to lead the industry for the service received by our customers. We achieved first place ranking for the year in Ofwat's quarterly customer satisfaction surveys and this was for the second year running. We anticipate that our overall customer experience score from Ofwat, the Service Incentive Mechanism (SIM) score, for the year will also place us ahead of all others.

The focus on Health and Safety remains one of our highest priorities. Consequently one area of disappointment is that we suffered 3 RIDDOR reportable accidents in the year compared to our target of zero. The total number of accidents in the year remained similar to the previous year. It is important to learn the lessons from these incidents and in the year we increased senior manager presence in the field by increasing safety review visits, to raise awareness and improve performance. I'm pleased to note that our staff have increased their 'near-miss' reporting in the year which is a good sign of increased safety awareness.

We did not place any restrictions on customers' use of water. Despite a continuing period of dryer than average conditions with around 70% of Long Term Average rainfall over 17 months to March 2012 the company's water resources remain good, with no restrictions on usage expected to be necessary during 2012.

We have maintained our asset base in good condition recording a stable level of serviceability across our asset base. The number of burst mains experienced by customers was lower than both the previous year and in line with the reference level set by Ofwat. We recognise that some of our trunk main infrastructure is approaching the end of its natural life. We will be making a case to Ofwat to start replacing these mains at the next periodic review.

Despite very poor winter weather in February our average leakage for the year reduced to a new record low level and is well under our target. This is mainly the result of our technology-enhanced leakage management approach which places ownership for performance on our operatives in the field, but has been assisted this year by the more benign weather conditions. We continue to have the lowest level of leakage in the industry and it is another example of our staff striving to provide our customers with the best level of service.

Operationally, water quality (reported over the calendar year 2011) was good throughout the year with no water quality events reported to DWI. We had one major operational incident early in the year when a trunk main burst near St Osyth on Saturday 10 April 2011 and resulted in a large number of customers being without water until the burst was isolated. The period without supply was less than 3 hours duration however we struggled to answer all the calls from our customers and this detracted slightly from our final performance. Lessons that were learnt from this event have led to improvements that will improve our response to customers in future similar events.

Veolia Water East Limited

Chairman's statement (continued)

The construction of the replacement Dovercourt Reservoir and Pumping Station commenced on site in October 2011 and has progressed satisfactorily to date with commissioning planned for July 2012. When complete this plant will support our customers in the Dovercourt and Harwich areas protecting them from most operational incidents outside of the area.

As I look forward to this next year I am mindful of the huge changes taking place. Later this year, subject to regulatory approval, we expect to merge our business with Veolia Water Central and Veolia Water Southeast. This will bring a number of management efficiencies and a broader base from which our customers may be served. It also brings to an end the local management of water services in the Tendring Hundreds. We expect services to remain at the highest level but there will be a large impact on our staff and we will be working closely with the new team to manage the transition professionally and sympathetically.

I also note that after more than 20 years of ownership, Veolia Water is seeking to sell its shares in our business. We look forward to working with a new owner as it inherits a great company that has benefited from Veolia's responsible and professional stewardship.

In summary, we have delivered strongly in 2011/12 for the benefit of both our customers and the environment. We continue to deliver a high quality, water efficient service and are managing investment in accordance with our regulatory obligations.

I expect this to be my last Chairman's statement for this company. I would like therefore to record my gratitude to all of my colleagues whose hard work has allowed us to deliver an exceptional service to our customers during my time here.

JHHerbert

Jeffrey Herbert
Chairman
1 June 2012

Veolia Water East Limited

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. He was appointed as Managing Director of Veolia Water Southeast 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.

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.

Olivier Bret (appointed 25 January 2012)
Olivier Bret is French and was appointed a director on 25 January 2012. He is also a director and Chairman of Veolia Water Central plc, the Chief Executive Officer of Veolia Water UK PLC and a director of Veolia Water Central Finance PLC, Veolia Environnement UK Ltd and of other Veolia Water UK PLC subsidiaries.

Frederic Devos (resigned 25 January 2012)
Frederic Devos is French and was appointed a director on 31 December 2007, and resigned on 25 January 2012.

Veolia Water East Limited

Board Committees, Executives and Advisers

Audit Committee

Peter Martin	Chairman
Jeffrey Herbert	

Executive Management Committee

Nevil Muncaster	Chairman
Martin Henderson	Head of Operations
Tim Charlesworth	Senior Finance Manager (appointed 1 June 2012)
Graham Oliver	Head of Finance (resigned 13 April 2012)
Teresa Manning	Head of Customer Services
Olivier Bret	Chief Executive Officer of Veolia Water UK, Ireland and Northern Europe (Appointed 25 January 2012)
Frederic Devos	Managing Director of Veolia Water UK PLC (resigned 25 January 2012)
Andrew Dench	Chief Finance Officer of Veolia Water UK
Reuben Shamu	Group Financial Controller UKIN
Nigel Paterson	Chief Operating Officer Veolia Water UK PLC

Remuneration and Employment Committee

Jeffrey Herbert	Chairman
Peter Martin (appointed 1 June 2012)	

Company Secretary and Registered Office
Tim Monod (Joint Secretary)
Tim Charlesworth (Joint Secretary) (appointed 1 June 2012)
Graham Oliver (resigned 13 April 2012)
Mill Hill
Mistley
Manningtree
Essex
CO11 2AZ

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

Veolia Water East Limited

Report of the Directors

Introduction

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

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 157,000 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 4.

Going concern

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 Veolia Water East. It also announced its intention to unify its three regulated interests, Veolia Water Central, Veolia Water East and Veolia Water South East. The current Directors believe that, given the nature of the company's operations, the company will continue trading for the foreseeable future, either independently or as part of a unified group. The latest approved financial projections produced by the Directors show that the company will continue to be profitable and continue to generate positive cash flows. The company made a profit in the financial year and 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.

Statement of directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Report of the Directors (continued)

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.

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 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 £304m. 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.

Veolia Water East Limited

Report of the Directors (continued)

Challenges, risks, and opportunities

In this the second year of AMP 5 we have almost achieved our one defined output for the period, the creation of a new treated water reservoir and pumping station at Dovercourt.

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 Veolia Water East. Whilst the intentions of future shareholders and directors of the company cannot be anticipated, the current directors believe that, given the nature of the company's operations, the company will continue trading for the foreseeable future and it is thereby anticipated that the reminder of the period to 2015 will be one of stability and consolidation.

Performance for the year ended 31 March 2012

Financially, our performance during the year ended 31 March 2012 was satisfactory. 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. Our key performance indicators are reported to Ofwat annually.

- The amount of water pumped into supply during the period at 28.51 megalitres/day (Ml/d) is almost 0.5 Ml/day lower than the level for 2010/2011 (28.96 Ml/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 2011 the company achieved 99.91% mean zonal compliance from 2,636 determinands (2010: 100.0% from 2,634 determinands).

- The free optional metering scheme has continued and during the year the company fitted 821 free meters. At 31 March 2012, 74.8% of total domestic customers connected were metered (2011: 73.4%).

- 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 2012

Operating profit

Our financial performance to 31st March 2012, as reported, was satisfactory. Operating profit before asset disposals being £4.216m compared with £3.953m in 2010/11, an increase of 6.7%. The results for the current year include depreciation on revalued assets which increased operating expenses by £0.561m. On a comparative basis, excluding this extra depreciation, appointed operating profit before asset disposals would have been £4.777m (2010/11 £4.585m) which is 4.2% higher than the prior year.

Report of the Directors (continued)

Financial performance for the year ended 31 March 2012 (continued)

Taxation

The tax charge of £0.750m for the year is at an effective tax rate of 20.5% compared to £0.581m at 20.0% in 2010/11. The full reconciliation, including prior year adjustments and timing adjustments, appears in note 10 to the accounts on page 31.

Cash flow

There was a net cash outflow before financing in the year of £1.370m reflecting substantial increase in capital expenditure compared to prior year.

Net debt increased to £14.804m at the end of March 2012 compared to £13.434m at the end of March 2011.

Capital expenditure

During 2011/12 £3.689m was invested in fixed assets compared to £1.957m in 2010/11, of which £1.210m was to renew underground infrastructure (2010/11: £1.396m). This amount was reduced by £0.225m (2010/11: £0.185m) of capital expenditure, which was funded by third party contributions.

Financial instruments

The company finances its operations through a mixture of retained profits 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 eighteen months intra group loan agreement was agreed on 30 March 2012, with a maximum loan facility of £13.0m. This facility will expire on 30 September 2013.

Pensions

Prior to 31 May 2011, the Veolia Water UK Plc group operated two defined benefit pension schemes; one is the Veolia Water Supply Companies' Pension Plan (VWSCPP) and the other the Veolia UK Pension Plan (VUKPP). On 31 May 2011, each of the divisions of the VWSCPP was merged into its corresponding division of the VUKPP.

There have been no changes made to any members' benefits, either for past or future service. Prior to the merger a 60 day consultation exercise with members was undertaken.
Additional defined benefit pension arrangements were provided to former non executive directors and senior executives of the regulated businesses.

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.

Report of the Directors (continued)

Financial performance for the year ended 31 March 2012 (continued)

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 2012:

Ordinary dividends:	**£000**
Interim – paid June 2011	2,307
Interim – paid December 2011	1,573
	3,880

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 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.

We maintained our focus on Health and Safety following the introduction of our Zero Accidents target in 2009. Performance was slightly worse than the previous year but we are continuing 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 2012 the number of recorded accidents was 9 (2011: 9), and the number of days lost to accidents was 84.5 (2011: 23). We continue to investigate any accidents or incidents and where appropriate we will amend our practices and procedures accordingly.

In July 2011 we successfully achieved certification to the health and safety standard OHSAS 18001.

Donations and political contributions

The Company continues to make donations, 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.

Donations are funded through operating expenditure and in 2011/12 £12k was contributed to the Veolia Water Trust Fund. The Veolia Water Trust fund is a charitable fund with a board of trustees, administered by Charis Grants Limited.

No political contributions were made during the year.

Report of the Directors (continued)

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.

Proposed sale of the Regulated businesses

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 Veolia Water East Limited. The sale process is ongoing and is expected to complete in 2012.

Unification of Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited

On 23 February 2012, it was announced that Veolia Water Central Limited had made a formal application to OFWAT to unify Veolia Water Central Limited, Veolia Water East Limited and Veolia Water Southeast Limited to operate under a single licence. The next stage of the unification process was a period of formal consultation held by OFWAT with interested parties. The formal consultation closed on 20 April 2012, and at the date of signing these financial statements we have not been informed of OFWAT's decision on the unification of the three water companies.

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors 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.

Auditors

In accordance with Section 485 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

Nevil Muncaster
Managing Director
1 June 2012

Veolia Water East Limited

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 seven 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 three non-executive directors at 31 March 2012. Brief biographies of the directors may be found on page 4. 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 Jeffrey Herbert and Peter Martin to be independent and together they represent two out of three 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 5. 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 (continued)

Audit Committee

The Audit Committee comprises two non-executive directors of the Company. Peter Martin chairs the Committee, which normally meets four 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 5. 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 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.

Veolia Water East Limited

Corporate governance report (continued)

Attendance at meetings for year

No. of meetings in the year	Board 7	Audit Committee 4	Executive Management Committee 10	Remuneration & Employment Committee 1
Nevil Muncaster	7	2	10	-
Frederic Devos	5	-	-	-
Jeffrey Herbert	7	4	-	1
Peter Martin	6	4	-	-
Olivier Bret	2	-	-	-

"-" 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 will be held before the end of September 2012. 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 (continued)

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
1 June 2012

Veolia Water East Limited

Remuneration report

Introduction

The Board has a Remuneration and Employment Committee; the members are listed on page 5. 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:

Jeffrey Herbert
Peter Martin (appointed 1 June 2012)

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 bonus schemes that are designed to ensure their full focus is on the key strategic requirements of the Company. The bonus schemes have 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 (continued)

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 30.

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
1 June 2012

Independent Auditor's Report to the Members of Veolia Water East Limited

We have audited the financial statements of Veolia Water East Limited for the year ended 31 March 2012 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses 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 6, 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. In addition, we read all the financial and non-financial information in the annual report 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 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.

Independent Auditor's Report to the Members of Veolia Water East 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
1 June 2012

Veolia Water East Limited

Profit and loss account
for the year ended 31 March 2012
(Registered Number 2663338)

	Note	**2012** **£000**	2011 £000
Turnover	2	15,105	14.678
Operating costs	3	(11,380)	(11,236)
Other operating income	4	491	511
Operating profit	5	4,216	3,953
Profit / (loss) on disposal of fixed assets		11	(372)
Profit on ordinary activities before interest and taxation		**4,227**	**3,581**
Interest payable and finance charges	8	(622)	(613)
Other finance charges	9	47	(70)
Profit on ordinary activities before taxation		**3,652**	**2,898**
Tax on profit on ordinary activities	10	(750)	(581)
Profit on ordinary activities after taxation and for the financial year		**2,902**	**2,317**

All amounts relate to continuing operations.

Statement of total recognised gains and losses for the year ended 31 March 2012

(Registered Number 2663338)

	Note	**2012 £000**	2011 £000
Profit for the financial year		2,902	2,317
Actuarial (loss) / gain recognised in the pension schemes	25	(812)	2,062
Deferred tax movement relating to actuarial loss / (gain)	25	195	(535)
Total recognised gains for the year	22	**2,285**	3,844

Veolia Water East Limited

Balance sheet
as at 31 March 2012
(Registered Number 2663338)

	Note	**2012** **£000**	2011 £000
Fixed assets			
Tangible assets	12	65,630	66,063
Investment	13	1	1
		65,631	**66,064**
Current assets			
Stocks	14	212	267
Debtors	15	3,521	3,274
Cash at bank and in hand		225	151
		3,958	3,692
Creditors - amounts falling due within one year	16	(4,045)	(4,170)
Net current liabilities		**(87)**	**(478)**
Total assets less current liabilities		**65,544**	**65,586**
Creditors - amounts falling due after more than one year	17	(15,704)	(14,305)
Provisions for liabilities and charges	18	(2,090)	(2,255)
Deferred income	19	(48)	(61)
Net assets excluding pension liability		**47,702**	**48,965**
Net pension liability	25	(655)	(279)
Net assets including pension liability		**47,047**	**48,686**
Capital and reserves			
Called up share capital	20	1,174	1,174
Capital redemption reserve	21	1,500	1,500
Revaluation reserve	21	29,080	29,641
Profit and loss account	21	15,293	16,371
Shareholders' funds	22	**47,047**	**48,686**

The statutory financial statements on pages 20 to 51 have been approved by the Board of Directors and were signed on 1 June 2012 on its behalf by:

JW Herbert

Jeffrey Herbert
Chairman

N Muncaster

Nevil Muncaster
Managing Director

Veolia Water East Limited

Cash Flow Statement
for the year ended 31 March 2012
(Registered Number 2663338)

	Note	**2012** **£000**	2011 £000
Net cash inflow from operating activities	a	7,100	7,249
Returns on investments and servicing of finance			
Interest paid		(618)	(620)
Net cash outflow from returns on investments and servicing of finance		(618)	(620)
Taxation		(1,145)	(1,118)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(3,019)	(1,886)
Capital contributions		225	185
Proceeds on disposal of tangible fixed assets		11	639
Net cash outflow from capital expenditure and financial investment		(2,783)	(1,062)
Equity dividends paid to shareholders		(3,924)	(4,120)
Net cash (outflow) / inflow before financing		**(1,370)**	**329**
Financing			
Decrease in short term financing		45	35
Loan advanced / (repaid)		1,399	(300)
Net cash inflow / (outflow) from financing		1,444	(265)
Increase in net cash	b/c	74	64

Veolia Water East Limited

Notes to the Cash flow statement

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

	2012 £000	2011 £000
Operating profit	4,216	3,953
Depreciation of tangible fixed assets	3,336	3,422
Amortisation of deferred credit	(13)	(13)
Decrease in stocks	55	47
(Increase) / decrease in debtors	(292)	261
Decrease in creditors	(202)	(421)
Net cash inflow from operating activities	7,100	7,249

b Reconciliation of net cash flow to movement in net debt

	2012 £000	2011 £000
Increase in cash in the year	74	64
Decrease in short term financing	(45)	(35)
Loans (advanced) / repaid	(1,399)	300
Movement in net debt in the year	(1,370)	329
Net debt at the beginning of the year	(13,434)	(13,763)
Net debt at the end of the year	(14,804)	(13,434)

c Analysis of net debt

	At 1 April 2011 £000	Cash Flow £000	At 31 March 2012 £000
Net cash			
Bank	151	74	225
Debt			
Short term financing	716	(45)	671
Debt due after 1 year	(14,301)	(1,399)	(15,700)
	(13,585)	(1,444)	(15,029)
Net debt	(13,434)	(1,370)	(14,804)

Veolia Water East Limited

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

1. Statement of accounting policies

Basis of accounting

These financial statements have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets described below, and in accordance with the Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410), which forms part of the Companies Act 2006, and applicable UK accounting standards, except for the treatment of certain grants and contributions, described below.

No transactions have been recognised in respect of share based payments in the years ended 31 March 2012 and 31 March 2011 because the amounts were not material.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates

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.

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

1. Statement of accounting policies (continued)

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.

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.

Veolia Water East Limited

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

1. Statement of accounting policies (continued)

Capital contributions (continued)

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.

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.

Veolia Water East Limited

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

1. Statement of accounting policies (continued)

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

Prior to 31 May 2011, the Veolia Water UK Plc group operated two defined benefit pension schemes; one is the Veolia Water Supply Companies' Pension Plan (VWSCPP) and the other the Veolia UK Pension Plan (VUKPP). On 31 May 2011, each of the divisions of the VWSCPP was merged into its corresponding division of the VUKPP.

The scheme is closed to new members. 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.

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.

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.

	2012	2011
	£000	£000
Turnover by class is analysed below:		
Unmeasured supplies	3,710	3,867
Measured supplies	11,010	10,434
Non-potable water	10	16
Chargeable services	33	36
Reservation fees	342	325
	15,105	14,678

3. Operating costs

	2012	2011
	£000	£000
Resources and treatment	515	453
Network	811	764
Abstraction licences and bulk purchase	692	674
Billing and collection	1,671	1,461
Rechargeable work expenses	34	35
Rates and charges	1,200	1,146
Depreciation – non infrastructure assets	2,231	2,376
Less amortisation of capital contributions	(13)	(13)
Depreciation – infrastructure assets	1,637	1,678
Administrative expenses	2,602	2,662
	11,380	11,236

4. Other operating income

	2012	2011
	£000	£000
Non-appointed business income	**491**	511

5. Operating profit

	2012	2011
	£000	£000
Operating profit is stated after charging/(crediting):		
Auditor's remuneration - audit	59	55
Auditor's remuneration - regulatory returns and non-statutory audit	30	42
Operating lease rentals - other	10	15

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

6. Employees and directors

	2012 **£000**	2011 £000
Staff costs (including directors) consist of:		
Wages and salaries	2,292	2,308
Social security costs	215	200
Defined contribution pension costs	55	46
Other pension costs current service costs	257	291
	2,819	2,845

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

	2012 **Number**	2011 Number
Operations	26	26
Finance and administration	47	46
	73	72

7. Directors' emoluments

	2012 Salary and fees £000	**2012 Benefits in kind £000**	**2012 Bonus £000**	**2012 Total £000**	**2011 Total £000**
Non-executives					
Jeffrey Herbert	31.9	-	-	31.9	30.0
Frederic Devos	15.5	-	-	15.5	17.5
Jean-Claude Banon	-	-	-	-	17.5
Peter Martin	18.4	-	-	18.4	17.5
Olivier Bret	-	-	-	-	-
Barbara Ruffell	-	-	-	-	14.6
Executives					
Nevil Muncaster	118.8	23.0	25.0	166.8	159.6
	184.6	23.0	25.0	232.6	256.7

Pensions (defined benefits)

	Accumulated total accrued pension at 31 March 2011		Increase in accrued pension during year				Accumulated total accrued pension at 31 March 2012	
	£'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	27	389	1	6	-	57	28	452

Veolia Water East Limited

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

8. Interest payable and finance charges

	2012 £000	2011 £000
Interest on loan from group undertaking	622	613
	622	613

9. Other finance charges

	2012 £000	**2011 £000**
Expected return on pension scheme	1,032	978
Interest on pension scheme liabilities	(985)	(1,048)
	47	(70)

10. Tax on profit on ordinary activities

	2012 £000	2011 £000
Current taxation		
Current tax on profit for the year	1,029	1,199
Adjustment in respect of prior years	(201)	(101)
Current taxation	828	1,098
Deferred taxation		
Origination and reversal of timing differences	144	(37)
Adjustment in respect of prior years	79	-
Impact of change in tax rate	(487)	(476)
Decrease / (increase) in discounting	186	(4)
Deferred tax charge for the year	(78)	(517)
Tax on profit on ordinary activities	750	581
Current taxation reconciliation		
Profit on ordinary activities before taxation	3,652	2,898
Theoretical tax at UK corporation tax rate of 26% (2011: 28%)	950	811
Effects of:		
Adjustment to tax in respect of prior years	(201)	(101)
Accelerated capital allowances	6	41
Other short term timing differences	(4)	(4)
Other timing differences	(86)	(52)
Permanent differences	163	403
Actual current taxation charge	828	1,098

Veolia Water East Limited

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

10. Tax on profit on ordinary activities (continued)

The tax charge relating to profits on disposal of fixed assets amounts to £3,000 (2011: £84,000).

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):

	2012	2011
	£000	£000
UK corporation tax rate of 26% (2011: 26%)		
Other deferred tax movements relating to pension schemes	**195**	535

Factors that may affect future tax charges:

A change in the UK main corporation tax rate from 28% to 27% was substantively enacted on 20 July 2010 to become effective from 1 April 2011. Further reductions in the UK corporation tax rate were announced in the March 2011 Budget and substantively enacted on 29 March 2011, including an additional decrease in the main corporation tax rate to 26% effective from 1 April 2011.

The further reductions announced in the March 2011 Budget, and subsequently updated in the March 2012 Budget, were expected to be enacted separately each year with the intention of reducing and proposed to reduce the rate by 1% per annum to 22% by effective from 1 April 2014. The first of these reductions to 25% and 24%, effective from 1 April 2012, were substantively enacted on 5 July 2011 and 26 March 2012 respectively, and as a result the relevant deferred tax balances at 31 March 2012 have been remeasured recognised at 24%. Future changes in the main corporation tax rate from 24% to 22% had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

Changes to the UK capital allowance regime will also impact the capital allowances the company can claim. 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.

11. Dividends

	2012	2011
	£000	£000
Paid: Ordinary – first interim of 196.57p per share (2011: 225.28p)	2,307	2,644
Paid: Ordinary – second interim of 134.03p per share (2011:122.00p)	1,573	1,432
Paid: Preference – first interim of 0.5p per share (2011: 0.5p)	22	22
Paid: Preference – second interim of 0.5per share (2011: 0.5p)	22	22
	3,924	4,120

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

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 2011	35,493	861	46,649	1,224	14,289	6,725	637	312	106,190
Additions	38	-	1,210	250	281	264	109	1,537	3,689
Transfers to complete	38	-	-	-	10	264	-	(312)	-
Capital contributions	-	-	-	(225)					(225)
Disposals			-				(39)		(39)
At 31 March 2012	35,569	861	47,859	1,249	14,580	7,253	707	1,537	109,615
Depreciation									
At 1 April 2011	4,995	332	18,235	1,187	10,417	4,519	442	-	40,127
Charge for the year	394	2	1,637	32	584	599	88	-	3,336
Disposals							(39)		(39)
Revaluation	219	8		18	265	51			561
At 31 March 2012	5,608	342	19,872	1,237	11,266	5,169	491		43,985
Net book value									
At 31 March 2012	29,961	519	27,987	12	3,314	2,084	216	1,537	65,630
At 31 March 2011	30,498	529	28,414	37	3,872	2,206	195	312	66,063

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. This valuation was 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 concluded that the most reliable valuation method to determine the current value for the tangible fixed assets of a UK water company was 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 for the year ended 31 March 2012 (continued)

12. Tangible Fixed Assets (continued)

Such valuations were incorporated into the financial statements with the resulting revaluation adjustments taken to the revaluation reserve. The revaluation during the year ended 31 March 2010 resulted in a total revaluation surplus of £31.235m. Deferred tax has not been not 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 £75.342m (2011: £75.917m).

13. Investment

	2012	2011
	£000	£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

	2012	2011
	£000	£000
Pipes and stores	212	267

15. Debtors

	2012	2011
	£000	£000
Due within one year		
Trade debtors	917	852
Accrual for unbilled metered customers	2,556	2,443
Receipts in advance	(1,235)	(1,181)
Amounts due from group companies	671	716
Other debtors	579	356
Prepayments and accrued income	33	88
	3,521	3,274

16. Creditors – amounts falling due within one year

	2012	2011
	£000	£000
Payments received in advance	219	221
Trade creditors	1,262	740
Capital creditors	242	135
Amounts due to group companies	427	1,031
Corporation tax	381	698
Other taxes and social security	97	81
Other creditors	74	148
Deferred income and accruals	1,343	1,116
	4,045	4,170

Amounts due to group companies include £64,500 (2011: £60,000) 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

	2012	2011
	£000	£000
4% irredeemable debenture stock	-	1
Amount due to group company	15,700	14,300
Other long term liabilities	4	4
	15,704	14,305

18. Provisions for liabilities and charges

	Deferred tax £000
At 1 April 2011	2,255
Credited to the profit and loss account	(351)
Increase in discounting utilised during the year	186
At 31 March 2012	2,090

Deferred tax (see note 10)

	2012 £000	2011 £000
Accelerated capital allowances	5,859	6,215
Other timing differences	(20)	(26)
Undiscounted provision for deferred tax	5,839	6,189
Discount	(3,749)	(3,934)
Discounted provision for deferred tax	2,090	2,255
Deferred tax asset on pension liability (see note 25)	(207)	(100)
Provision at the end of the year including deferred tax on pension liability	1,883	2,155

Deferred tax asset relating to pension deficit

	2012 £000	2011 £000
At 1 April	100	736
Deferred tax charged to the profit and loss account	(88)	(101)
Deferred tax charged to the statement of total recognised gains and losses:		
- on actuarial loss	195	(535)
At 31 March	207	100

The deferred tax asset of £207,000 (2011: £100,000) 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.

19. Deferred income – Third party contributions

	2012 £000	2011 £000
At 1 April	61	74
Less credited to profit and loss account	(13)	(13)
At 31 March	48	61

20. Share capital

		2012 £000	2011 £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 for the year ended 31 March 2012 (continued)

21. Reserves

	Profit and loss account £000	Capital redemption reserve £000	Revaluation reserve £000
At 1 April 2011	16,371	1,500	29,641
Dividends	(3,924)	-	-
Actuarial gain recognised in the pension scheme	(812)	-	-
Movement on deferred tax relating to pension liability	195		-
Transfer to profit and loss account from revaluation reserve	561	-	(561)
Profit for the financial year	2,902	-	-
At 31 March 2012	15,293	1,500	29,080

Note of Historical Cost Profits and Losses

	2012 £000	2011 £000
For the year ended 31 March		
Reported profit on ordinary activities before taxation	3,652	2,898
Realisation of property revaluation gains of previous years	-	962
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	561	632
Historical cost profit on ordinary activities before taxation	**4,213**	**4,492**
Historical cost profit for the year retained after taxation	**3,463**	**3,911**

22. Reconciliation of movements in shareholders' funds

	2012 £000	2011 £000
Profit for the financial year	2,902	2,317
Other recognised gains/losses in year	(617)	1,527
Total gains recognised for the year	2,285	3,844
Less: dividends	(3,924)	(4,120)
Net reduction to shareholders' funds	(1,639)	(276)
Opening shareholders' funds	48,686	48,962
Closing shareholders' funds	47,047	48,686

23. Capital commitments

The directors have authorised the following capital expenditure which is not provided for in the accounts:

	2012 **£000**	2011 £000
Contracted capital expenditure	293	-

The company has not entered into any guarantee arrangement or had legal disputes that would represent contingent liabilities at 31 March 2012, other than those provided for in these financial statements.

24. Commitments under operating leases

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

	2012 **£000**	2011 £000
Operating leases which expire:		
Within one year	10	13
In two to five years	2	12
	12	25

25. Pension commitments

Merger of the Veolia UK Pension Plan and the Veolia Water Supply Companies' Pension Plan

Prior to 31 May 2011, the Veolia Water UK Plc group operated two defined benefit pension schemes; one is the Veolia Water Supply Companies' Pension Plan (VWSCPP) and the other the Veolia UK Pension Plan (VUKPP).

On 31 May 2011, each of the divisions of the VWSCPP was merged into its corresponding division of the VUKPP.

There have been no changes made to any members' benefits, either for past or future service. Prior to the merger a 60 day consultation exercise with members was undertaken.

Additional defined benefit pension arrangements were provided to former non executive directors and senior executives of the regulated businesses.

Pension commitments (continued)

Presentation of pension commitments information

The last triennial valuation was performed at December 2010 before the merger. The triennial valuation disclosure below is therefore presented for both the VWSCPP and VUKPP schemes combined.

Financial disclosure notes presented in accordance with FRS 17: 'Retirement benefits' have been prepared as if the merged scheme had been in place in prior years. The comparatives therefore reflect an aggregation of the VWSCPP and VUKPP schemes. The company believes this approach benefits the users of the accounts enabling comparability and consistency.

Where it is not practicable to aggregate certain assumptions separate disclosure remains in place.

A summary of the last triennial valuation for the merged VWSCPP and VUKPP pension schemes is outlined below.

Veolia UK Pension Plan

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 the VWSCPP 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.

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 VUKPP, which was open to all new staff and existing members. The scheme provides a selection of benefits based upon final pensionable pay or money purchase according to the members' wishes. The final salary section was closed to new members on 30 September 2004.

The latest formal valuation of the plan for the company for the merged VUKPP scheme, determined by an independent qualified actuary, was at 31 December 2010. The valuation was made on the "attained age" funding method. The actuarial valuation made the following assumptions:

Rate of investment return	6.2% (pre-retirement), 5.2% (post-retirement)
Rate of increase in remuneration	4.8%
Rate of pension increase	2.8% (former members of VWSCPP scheme)
Rate of pension increase	3.3% (VUKPP other members)

The valuation as at 31 December 2010 stated the market valuation of the plan to be £16.6m with a funding level of 93%.

Contributions to the merged VUKPP scheme

Contributions to the VUKPP over the period ended 31 March 2012 were paid by members in accordance with the rules of the plan and by the company expressed as fixed monetary amounts according to the size of the relevant payroll and any surplus or deficit in the relevant division of the plan.

The contributions expected to be paid in the year from the balance sheet date are £0.571m (2011: £0.546m)

Pension commitments (continued)

Non Executive Directors Pension Plan (NEDPP)

In prior years, a separate provision was created in respect of unfunded pension obligations to former employees and non executive directors (2011: £0.102m). These pension obligations have now been accepted by the Trustee of the VUKPP and therefore disclosing this separately will no longer be necessary.

Principal assumptions

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

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

	2012	2011	2010
Discount rate	**4.95% pa**	5.5% pa	5.65% pa
Salary growth	**4.70% pa**	4.9% pa	5.05% pa
RPI	**3.20% pa**	3.4% pa	3.55% pa
CPI*	**2.50% pa**	2.9% pa	-
VWSCPP pension-in payment increases	**2.50% pa**	2.9% pa	3.55% pa
VUKPP pension-in payment increases	**3.20% pa**	3.4% pa	3.55% pa
VWSCPP – Life expectancy for a male pensioner age 65 (yrs)	**22.6**	22.2	21.8
VWSCPP – Life expectancy for a male non-pensioner age 65 (yrs)	**24.7**	25.8	24.9
VUKPP – Life expectancy for a male pensioner age 65 (yrs)	**22.6**	23.0	22.6
VUKPP – Life expectancy for a male non-pensioner age 65 (yrs)	**24.7**	26.7	25.8

* The impact of statutory increases is now being linked to the movement in CPI rather than RPI based on legal advice received by the Trustees as follows:

- VUKPP - the change applies to deferred revaluation only
- VWSCPP (former members of) - the change applies to deferred revaluation and pension increases in payment

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.5% per annum unless otherwise prescribed by statutory requirements or the plan rules.

The assets of the above plans are held separately to those of the company, being invested by independent fund managers. Contributions to the plan are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

The total pensions charge including the defined contributions scheme for the period ended 31 March 2012 was £0.312m (2011: £0.337m).

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

Pension commitments (continued)

The assets of the merged VUKPP scheme including VWSCPP and the weighted average expected rate of return were:

	VUKPP at 31 March 2012		VUKPP at 31 March 2011	
	Value	**Long term rate of return expected**	Value	Long term rate of return expected
	£m	**(% pa)**	£m	(% pa)
Equities	**9.2**	**6.90**	7.3	7.85
Bonds	**3.5**	**5.30**	5.3	5.55
Gilts / cash	**5.4**	**3.40**	5.3	4.35
Fair value of assets	**18.1**		17.9	

VUKPP and NEDPP schemes – amounts for the current period and the previous four periods represent the merged scheme, including VWSCPP comparatives, and the NEDPP are as follows:

	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	15 months to 31 March 2008
Defined benefit obligation (£m)	**18.9**	18.2	18.7	13.4	16.4
Plan assets (£m)	**18.1**	17.9	16.1	12.4	14.4
Deficit (£m)	**(0.8)**	(0.3)	(2.6)	(1.0)	(2.0)
Difference between expected and actual return on plan assets:					
Percentage of plan assets	**4%**	(5%)	19%	(22%)	(8%)
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	**2%**	0%	0%	(4%)	0%

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

Pension commitments (continued)

Reconciliation of present value of scheme liabilities:

	VUKPP £000	NEDPP £000	Total £000
At 1 April 2010	18,617	107	18,724
Current service cost	291	-	291
Interest cost	1,043	5	1,048
Actuarial (gain) / loss	(1,225)	10	(1,215)
Benefits paid	(641)	(20)	(661)
Contributions by scheme participants	50	-	50
At 31 March 2011	18,135	102	18,237
Current service cost	257	-	257
Interest cost	985	-	985
Transfer of NEDPP scheme liability	102	(102)	-
Actuarial loss	165	-	165
Benefits paid	(744)	-	(744)
Contributions by scheme participants	48	-	48
At 31 March 2012	**18,948**	**-**	**18,948**

Veolia Water East Limited

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

Pension commitments (continued)

Reconciliation of fair value of pension scheme assets:

	VUKPP £000	NEDPP £000	Total £000
At 1 April 2010	16,096	-	16,096
Contributions paid by employer	528	-	528
Contribution by scheme participants	50	-	50
Expected return on scheme assets	978	-	978
Actuarial gain	847	-	847
Benefits paid	(641)	-	(641)
At 31 March 2011	17,858	-	17,858
Contributions paid by employer	540	-	540
Contribution by scheme participants	48	-	48
Expected return on scheme assets	1,031	-	1,031
Actuarial loss	(647)	-	(647)
Benefits paid	(744)	-	(744)
At 31 March 2012	**18,086**	**-**	**18,086**
Pension liability before deferred tax	277	102	379
Related deferred tax	(73)	(27)	(100)
Net pension liability at 31 March 2011	**204**	**75**	**279**
Pension liability before deferred tax	862	-	862
Related deferred tax	(207)	-	(207)
Net pension liability at 31 March 2012	**655**	**-**	**655**

Veolia Water East Limited

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

Pension commitments (continued)

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

	VUKPP £000	NEDPP £000	Total £000
For the year ended 31 March 2011			
Current service cost	291	-	291
Expected return on scheme assets	(978)	-	(978)
Interest on pension scheme liabilities	1,043	5	1,048
Total charge	356	5	361
For the year ended 31 March 2012			
Current service cost	257	-	257
Expected return on scheme assets	(1,031)	-	(1,031)
Interest on pension scheme liabilities	985	-	985
Total charge	**211**	**-**	**211**

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

	VUKPP £000	NEDPP £000	Total £000
For the year ended 31 March 2011			
Actuarial gains on scheme assets	847	-	847
Actuarial gains/(losses) on scheme liabilities	1,225	(10)	1,215
Total credit/(charge)	2,072	(10)	2,062
Deferred tax arising thereon	(538)	3	(535)
Credit/(charge) after deferred tax	1,534	(7)	1,527
For the year ended 31 March 2012			
Actuarial losses on scheme assets	(647)	-	(647)
Actuarial (losses) / gains on scheme liabilities	(267)	102	(165)
Total credit/(charge)	(914)	102	(812)
Deferred tax arising thereon	219	(24)	195
(Charge) / credit after deferred tax	**(695)**	**78**	**(617)**

Pension commitments (continued)

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 £55,000 (2011: £45,500). At the end of the year, there were no outstanding contributions (2011: 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 2012 (2011: Nil).

27. Ultimate parent company, controlling party and related parties

The company is a 99.23% owned subsidiary of Veolia Water Capital Funds Limited.

Veolia Water Capital Funds Limited, a company registered in England and Wales, is also the parent undertaking of the smallest group to consolidate the statutory financial statements of Veolia Water Central Limited. 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.

Veolia Water East Limited

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

Ultimate parent company, controlling party and related parties (continued)

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

			2012		2011	
Purchases	**Nature of Relationship**	**In respect of**	**Value £'000's**	**Balance £'000's**	Value £'000's	Balance £'000s
Veolia Water UK PLC	Parent undertaking	Management and technical support, group tax relief, insurance premiums	**512**	**256**	616	531
Veolia Water Central Ltd	Common ownership	Central services recharges	**7**	**3**	10	3
Veolia Water Shared Services Ltd	Common ownership	Central services recharges	**678**	**87**	785	352
Veolia Water Southeast Ltd	Common ownership	Telemetry, payroll, regulations	**47**	**-**	86	-
Veolia Water Capital Funds Ltd	Shareholder	Financing and dividends	**4,483**	**65**	4,701	60
Veolia Environnement UK Ltd	Common ownership	Pension recharges	**-**	**-**	3	1
Ardleigh Reservoir Committee	Common ownership	Bulk purchase of treated water, net of reservation fee	**124**	**139**	126	83
Veolia Trust		Trust fund	**12**	**-**	12	-

Sales	**Nature of Relationship**	**In respect of**	**Value £'000's**	**Balance £'000's**	Value £'000's	Balance £'000s
Ardleigh Reservoir Committee	Common ownership	Administration and recharges	**-**	**-**	9	9
Veolia Water Central Ltd	Common ownership	Customer services database and other recharges	**19**	**10**	-	-
Veolia Water Southeast Ltd	Common ownership	Debt collection, joint managing director and recharges	**269**	**40**	229	37

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

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 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 2012 was as follows:

As at	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000
31 March 2012	15,700	9,200	6,500
31 March 2011	14,301	7,800	6,501

Interest rate for redeemable debentures is 4% (2011: 4%).

The maturity profile for the company's financial liabilities at 31 March 2012 was as follows:

	2012 £000	2011 £000
In one year or less or on demand (1)	-	-
In more than one year but not more than two years(2)	9,200	-
In more than two years but not more than five years(2)	-	7,801
In more than five years(3)	6,500	6,500
	15,700	14,301

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 for the year ended 31 March 2012 (continued)

28. Financial instruments and risk management (continued)

The facilities available at 31 March 2012 in respect of which all conditions precedent had been met were as follows:

	2012 £000	2011 £000
Expiring in one year or less	-	-
Expiring in more than one year but not more than two years	3,800	5,200
	3,800	5,200

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

[2] On 29 March 2012 an eighteen months intra group loan agreement was approved by the Board, for a maximum loan facility of £13.0m. This facility will expire on 30 September 2013. Interest on the balance of the loan is charged at LIBOR plus 165 basis points. Commitment fee is charged on the unutilised balance at 55 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.

Veolia Water East Limited

Operational Information Five Year Summary (Un-audited)

OPERATIONAL	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	15 months ended 31 March 2008
Water supplied (megalitres)					
Billed unmeasured	2,454	2,805	2,819	3,049	3,834
Billed measured	6,134	6,080	6,173	5,954	7,232
Distribution losses	1,848	1,679	1,834	1,845	2,126
Distribution input	10,436	10,564	10,826	10,848	13,192
Service Connections	73,984	73,589	73,209	72,860	72,538
Mains laid to date (kilometres)	908	908	907	907	908
Estimated Resident Population	157,000	157,000	156,000	155,000	155,000
Statutory area of supply (sq km)	352	352	352	352	352

Veolia Water East Limited

Financial Information Five Year Summary

FINANCIAL Summary Profit & Loss Accounts	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000	15 months ended 31 March 2008 £'000
Turnover	15,105	14,678	15,148	14,405	17,128
Operating costs	(11,380)	(11,236)	(10,237)	(10,160)	(10,978)
Operating income	502	139	1,370	514	1,373
Profit on ordinary activities before interest & tax	4,227	3,581	6,281	4,759	7,523
Net interest	(622)	(613)	(525)	(639)	(701)
Other finance income	47	(70)	(191)	(59)	119
Profit on ordinary activities before tax	3,652	2,898	5,565	4,061	6,941
Taxation	(750)	(581)	(1,521)	(1,151)	(1,384)
Profit for the financial period	2,902	2,317	4,044	2,910	5,557
Balance Sheet	**£000**	**£000**	**£000**	**£000**	**£000**
Fixed assets	65,631	66,064	69,325	36,294	36,041
Current assets:					
Stocks	212	267	314	227	219
Debtors	3,521	3,274	3,569	2,919	2,724
Cash at bank and in hand	225	151	87	228	181
	3,958	3,692	3,970	3,374	3,124
Creditors – amounts falling due within one year	(4,045)	(4,170)	(4,990)	(3,400)	(4,075)
Net current liabilities	(87)	(478)	(1,020)	(26)	(951)
Total assets less current liabilities	65,544	65,586	68,305	36,268	35,090
Creditors – amounts falling due after one year	(15,704)	(14,305)	(14,605)	(13,505)	(11,403)
Provisions for liabilities and charges	(2,090)	(2,255)	(2,772)	(2,538)	(2,188)
Deferred income	(48)	(61)	(74)	(88)	(102)
Pension liability	(655)	(279)	(1,892)	(735)	(1,457)
Net assets	47,047	48,686	48,962	19,402	19,940
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	44,373	46,012	46,288	16,728	17,266
	47,047	48,686	48,962	19,402	19,940