VEOLIA WATER SOUTHEAST LIMITED

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

(Registered Number 2724316)

Veolia Water Southeast Limited

Contents

Veolia Water Southeast Limited

Chairman's statement

I am pleased to report on yet another year of strong progress. We have delivered solid financial results whilst improving operational performance and making significant improvements in customer service. 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 who remain committed to providing local customers with a high quality local service. Finally, the changes we have been planning will result in combining the licence of this business with two other Veolia Water companies if regulatory approval is given. For the Company to have achieved such great results in what is likely to be its final year is a great legacy for any future owner to take on.

Financial results have remained solid with profit before tax of £5.805m compared to £3.058m in 2010/2011. This increase of £2.747m (100%) is principally due to two atypical items; a property sale (£0.650m net) and a revision in the accounting for pension asset cap (£1.815m). On a like-for-like basis profit in 2011/12 is £3.340m. Turnover for the year is below Final Determination by £0.680m. This is due to a reduction in consumption resulting from our extensive metering programme whereby 92% of households now have meters installed and a reduction in commercial demand of 8% on last year. We believe that the continuing recession is a material factor.

Our local underground water resources are extremely precious and we continually monitor the position carefully. Our concerns grew in 2012 about the water position in the Folkestone and Dover area following many dry months which saw rainfall at its lowest level since 1900/02. We consequently decided that a temporary use ban should be introduced from 5 April 2012. Despite subsequently experiencing the wettest April on record we expect to maintain these restrictions through the summer ahead. This has allowed us to conserve our scarce local resources and will enable us to manage water more effectively in case of a prolonged dry period.

Whilst our water resources remain under pressure from the current drought it is reassuring that our continued efforts to reduce leakage have resulted in us achieving the lowest level ever recorded at 7.1Ml/d compared to a target of 7.8Ml/d.

We have invested heavily in changes over the past two years to our customer relations organisation and systems. I'm consequently very pleased to see that our customers are now benefitting from these. For example, every year we record the numbers of instances where customers have made contact with us due to a failing on our part, perhaps to query their bill or to complain about our service. These 'unwanted' contacts are down by 32% on last year and over 50% since 2009/10. Our overall service score (or SIM) for 2011/12 which is measured by Ofwat has also improved by 24% in the year. This is an especially good result give the considerable contact we have had with customers regarding the move from quarterly to six monthly billing, the introduction of the late payment charge and the roll-out of an automated meter reading system in Folkestone.

Our assets have continued to perform well. Infrastructure serviceability remains stable, with mains renewals ahead of programme (11km renewed compared to 6km target) and burst rates below the reference level agreed with Ofwat. Non infrastructure serviceability is also stable this year. Interruptions to supply have also been very low, with no unplanned interruptions greater than 6 hours which is a significant achievement for the operational teams.

In 2011 we took the decision with support from Veolia Water to install a trial of 6,000 Automatic Meter Reading devices across Folkestone. This project will investigate the operational improvements and customer service enhancements that are possible when information from

Chairman's statement (continued)

customer meters is integrated with live operational data. We will use the outputs to support our future business plans and enhance service to all customers.

Many customers continue to find the ongoing recession a challenge and this has had a detrimental effect on cash collection and led us to increase our provision for bad debt. We continue to seek innovative ways to improve our position and have introduced a late payment charge for overdue accounts. We also supplemented our debt collection team and started work with the local Migrant Helpline and this has had a positive effect on collection rates for the year.

Our asset investment programme is progressing well and we are on track to deliver all regulatory commitments on time. The project to enhance treatment facilities at Denge is well advanced and we expect to finish ahead of schedule and on budget. We have experienced a number of difficulties making the improvements to our Rakeshole plant but expect to complete all work here this summer. Our programme to replace 5Km of water mains in the year has run very smoothly. We face significant pressures to keep investment expenditure on track for the five year period ending in March 2015 and the management team continue to focus their efforts on meeting this financial challenge.

As I look forward to this next year I am mindful of the huge changes taking place. Later in the year, subject to regulatory approval, we expect to combine our business with Veolia Water Central and Veolia Water East. 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 Folkestone and Dover area. 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 strong 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 service and are managing investment in accordance with our regulatory obligations.

In view of the creation of a single company 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.

Paul Sabin

Paul Sabin
Chairman
1st June 2012

Veolia Water Southeast Limited

Directors

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

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

JANETTE McKAY, FCA, JP
Appointed to the Board on 11 June 2007 and is Chair of the Audit Committee. An ex Deloitte audit partner, she is also a trustee of the Peter de Haan Charitable Trust, a private charitable trust.

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

OLIVIER BRET
Olivier Bret is French and was appointed a director on 25 January 2012. He is also 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.

FRÉDÉRIC DEVOS
Frédéric Devos is French and was appointed to the Board on 1 January 2008. He was a director of Veolia Environnement UK Limited and Managing Director of Veolia Water UK PLC. Resigned 25th January 2012.

Veolia Water Southeast Limited

Board Committees, Executives and Advisers

Audit Committee
Janette McKay (Chair)
Neil Summerton
Paul Sabin

Executive Management Committee

Nevil Muncaster (Chairman)	Managing Director
Frédéric Devos	Managing Director of Veolia Water UK PLC (resigned January 2012)
Olivier Bret	Managing Director of Veolia Water UK PLC (appointed January 2012)
Chris Taylor	General Manager
Gavin McHale	Head of Operations
Pauline Wilson	Head of Customer Relationships
Graham Oliver	Head of Finance (appointed June 2011, resigned May 2012)
Denise Roberts	Finance Manager, Company Secretary (appointed July 2011)
Nigel Patterson	Representative of Veolia Water UK PLC
Tim Charlesworth	Head of Finance (resigned July 2011)

Remuneration and Employment Committee
Paul Sabin (Chairman)
Janette McKay

Company Secretary and Registered Office
Denise Roberts (Joint Secretary, appointed July 2011)
Tim Charlesworth (resigned July 2011)
Tim Monod (Joint Secretary, appointed December 2010)

The Cherry Garden
Cherry Garden Lane
Folkestone
Kent
CT19 4QB

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

Veolia Water Southeast Limited

Report of the Directors
for the year ended 31 March 2012

Introduction

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

Principal activity

The principal activity of the Company is the supply of water to an estimated population of 160,000 in an area of 420 square kilometres in the south east of England.

Directors

The directors of the Company, together with their periods of office and their biographical details, are shown on page 4.

Going concern

In December 2011 the Company's ultimate parent and controlling party, Veolia Environnement SA, announced the intent to sell its UK regulated water interests, including Veolia Water Southeast Limited. 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. 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

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

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the

Report of the Directors
for the year ended 31 March 2012 (continued)

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

Strategy

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

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

Risks and opportunities

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

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

Performance during the year ended 31 March 2012

- We continued to reduce leakage from the pipe network to an all time low.
- We achieved a Security of Supply Index (SoSI) score of 100 (the maximum) as defined by the water industry regulator Ofwat.
- We continued the accelerated meter installation programme and remain on target to complete the Ofwat approved target of 93% penetration by 2012.
- Health and Safety performance was once again recognised by ROSPA.

Operationally our key risk for the coming year is the availability of water supplies and our ability to meet customer demand. We have introduced a Temporary Use Ban on 5th April 2012 to ensure that resources were protected in the longer term.

Future developments

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

<u>Proposed sale of the Business</u>

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

Report of the Directors
for the year ended 31 March 2012 (continued)

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. 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.

Financial performance for the year ended 31 March 2012

Turnover

Turnover for the year ended 31 March 2012 was £19.505m compared with £18.646m for the year ended 31 March 2011. An analysis of turnover can be found in Note 2 to the financial statements.

Over the five year regulatory period (April 2010 – March 2015) OFWAT expects the Company to receive a total income of £88.773m in 07/08 prices. For the 2011/12 period the Company achieved appointed income of £19.090m, compared to an Ofwat assumed income of £19.769m, in current year prices. The following factors contributed to the shortfall of £0.679m:

- Customers' continued awareness of water efficiency.
- Accelerated metering programme and customer reaction to having a water meter installed.
- A downturn in new housing developments.
- No increase in commercial demand.

The Company continues to monitor this position. For the current five year period the Regulator has introduced a control mechanism, called the Revenue Correction Mechanism, designed to reduce this business risk. The mechanism will enable both the Company and the Regulator to moderate both shortfalls and outperformance of income.

From October 2011 the Company moved from a 3 monthly billing period to a 6 monthly billing period, for all measured customers. This has increased the level of measured income accrual, with a consequence effect on the cashflow performance of the Company. It has also significantly reduced the level of unwanted customer contacts received within the call centre.

Operating expenditure

Operating costs for the year ended 31 March 2012 were £13.514m compared with £14.636m for the year ended 31 March 2011. This includes a credit of £1.815m in respect of the pension valuation adjustment. After adjusting for this atypical item the increase in operating costs is in line with inflation. An analysis of operating costs can be found in Note 3 to the financial statements.

Depreciation

The depreciation charge for the year ended 31 March 2012 was £5.467m compared with £5.375m for the year ended 31 March 2011. There is a significant value of capital expenditure classified as 'Under Construction', being valued at £6.960m. This includes above ground and below ground assets. Once commissioned there will be an increase in the annual depreciation charge.

Financial returns

Profit on ordinary activities before tax for the year ended 31 March 2012 was £5.805m compared with £3.058m for the year ended 31 March 2011. This increase of £2.747 includes the pension adjustment of £1.815m as mentioned above and the sale of property which generated a net profit of £0.650m.

Report of the Directors for the year ended 31 March 2012 (continued)

Cash flow

There was £12k net cash inflow in the year. Once again the key driver in the cash flow was capital expenditure, which was funded by cash generated from operations and an increase in the loan from our parent company. The Company paid dividends of £3.105m which also contributed to the net cash outflow.

The overall effect of the above factors was that net debt increased from £33.449m at 31 March 2011 to £37.436m at 31 March 2012.

Capital expenditure

Expenditure for the year was £9.363m compared to the previous year's total of £5.714m. This increased expenditure is in line with company's Business Plan and Final Determination.

Financial instruments

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

The Company finances its operations through a mixture of retained profits, bank overdraft and borrowings from its parent company. Our treasury policies are agreed in conjunction with the parent company (including liquidity and interest rate risks). The Company does not undertake speculative transactions. Interest rate exposure is managed by using a mixture of fixed and floating rate borrowings.
For further details on financial instruments see Note 24.

Capital finance

The Company's balance sheet is very strong, with net debt at 48% of regulatory capital value. A revolving credit facility has been arranged with the Company's parent company.

The £12.5m fifteen year bond issued in 2005 at 5.51%, is part financing our current capital programme. At 31 March 2012, loans totalling £25m in favour of Veolia Water Capital Funds Limited (VWCF) were in existence. These are revolving loans of one month duration which VWCF is committed to renewing for the foreseeable future. The floating rate is set at 200 basis points above LIBOR. This makes a total of loans outstanding in favour of Veolia Water Capital Funds Limited of £37.5m.

The revolving loan agreement expired on 31 March 2012. An 18 month revolving loan has been agreed, effective 1st April 2012, and signed by the Board. The maximum amount of the facility has been increased to £35.5m and the interest rate reduced to LIBOR + 1.65%, however the commitment fee increases from 0.35% to 0.55%. The amount of the facility is the amount estimated to enable the Company to finance its functions as a statutorily appointed water company until September 2013.

Dividend policy

Our dividend policy is based on a return on equity of 7.1% and has regard to performance and an objective to maintain a minimum dividend cover of 1. This policy ensures that our financial capital is not reduced, our ability to finance our regulated business is not impaired and we reward efficiency and the management of economic risk.

The directors have declared and paid the following ordinary dividends during the year ended 31 March 2012:

	£000
Interim – paid June 2011	1,557
Interim – paid December 2011	1,548
	3,105

Report of the Directors
for the year ended 31 March 2012 (continued)

No final dividend is proposed.

Competition
We welcome greater competition and customer choice because it spurs us to improve our customer experience and service so that we retain our customers' business. As well as competition in the market, we also welcome competition for the market. Our parent company, Veolia Water UK has followed its strategy to grow its business and become the leading water company in the UK by competing for operating contracts. We have contributed to this strategy by focusing on our customers, innovating, improving our performance so that we become a reference for Veolia Water, and where possible, making our expertise available on a cost-allocated basis. Sister companies in the Veolia Water group have also acted to increase competition as the operators of the MOD Tidworth inset appointment and as Water Supply Licence holders.

Environmental matters

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

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

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

Our People, Our Community and Our Environment

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

Employees

We consult and inform employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings and the intranet. We continue to discuss with our Trade Unions ways to enhance and improve our communications and consultation channels.

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

There were a number of minor accidents, and near misses, with 4 reportable accidents in the year to 31 March 2012. This compares with no reportable events in the previous year.

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

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

Research and development activities

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

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

Charitable and political contributions

The charitable contributions made by the Company during the year were £13,411 (2011: £14,552), largely to water-related and local organisations which aim to:

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

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

No political contributions were made during the year.

Creditor payment policy

Our current and future policy is to negotiate the terms of payment with suppliers when agreeing terms of business and to pay in accordance with contractual and other legal obligations. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services. The average number of creditor days is 33 (2011: 42).

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.

Report of the Directors for the year ended 31 March 2012 (continued)

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

Denise Roberts
Company Secretary
1st June 2012

Corporate Governance Report

Introduction

As required by its Instrument of Appointment, the company is managed in accordance with the principles of good governance set out in the UK Corporate Governance Code (June 2010). The following is a summary of how the company applies those principles in practice in the context of its status as a wholly owned subsidiary.

A Leadership

The Board is led by the Chairman, Paul Sabin. The roles of Chairman and Managing Director are separated and clearly defined although not set out in writing.

The Board's role is to lead and control the company and to set corporate strategy, objectives and major plans bearing on the success of the business. The Board is responsible for ensuring that the company has competent, prudent and effective executive management and that all necessary management systems and processes are in place and are working effectively. It also brings judgement to bear on issues of performance, resources and standards of conduct.

The Board meets not less than four times per year and reserves to itself the approval of certain key matters such as annual capital and operating budgets, financial statements, declaration of interim dividends and key regulatory submissions, reports and plans. It also approves key policies relating to health and safety, the environment, corporate responsibility and ethical conduct, risk management and business continuity crisis planning.

The directors bring independent judgement to bear on all matters including issues of strategy, performance, resources and standards of conduct. The independent non-executive directors meet and maintain regular contact between Board meetings as appropriate.

The Board has established three standing committees: the Audit Committee, Executive Management Committee (EMC) and Remuneration and Employment Committee. Each committee operates within written and agreed terms of reference approved by the Board and is able to take independent advice on any matters being considered. The terms of reference are reviewed periodically. Minutes of the committee meetings are circulated promptly to all Board members. See page 5 for the membership of each committee.

The EMC comprises the Managing Director and his management team together with certain shareholder representatives. Membership is shown on page 5. The committee meets regularly (normally monthly) and is responsible to the Board for managing the business from day to day in an efficient, economical and effective manner. It is responsible for implementing Board decisions and for those matters delegated to it by the Board under defined terms of reference.

Corporate Governance Report (continued)

Attendance at meetings for year ended 31 March 2012

	Board	Audit Committee	Executive Management Committee	Remuneration & Employment Committee
Number of meetings in the year	**7**	**4**	**11**	**1**
N Muncaster	7	4	8	-
F Devos/ O Bret	3	-	1	-
P Sabin	7	4	-	1
J McKay	7	4	-	1
N Summerton	7	4	-	-
Other *	2	-	5	-

“ * ” Not a Director of the Company, but was the alternate for majority Shareholder
“ - ” Denotes non-membership of that committee

B Effectiveness

Throughout the reporting year the Board comprised one executive and four non-executive directors.

The Board considers that Paul Sabin, Janette McKay and Dr. Neil Summerton are independent. They are of sufficient calibre and experience for their views to carry significant weight in Board decisions. While Dr. Summerton has been a member of the Board for over 10 years, he has never been a shareholder in the company or its parents and has no other paid position with Veolia except being an independent non-executive director of one of the sister regulated companies. He maintains his independence as a commentator and consultant on water matters. The Board is satisfied that Dr. Summerton maintains independent critical scrutiny of the company’s policies and management; this is all the more effective because of his knowledge of the company and the background to many issues.

Appointments to the Board reflect the decision of the shareholder as the company is a wholly owned subsidiary. When requested by the shareholder, the Remuneration and Employment Committee advises the Board on the appointment of directors. There is no nomination committee. Certain Board members are also directors of other group companies. This enables them to bring wider experience to discussions at meetings and on other occasions. All directors declare their position when as individuals they have a possible conflict of interest. A procedure has also been agreed to enable directors to obtain access to independent professional advice where they think it necessary to perform their duties.

Directors are expected to allocate sufficient time to the company to discharge their responsibilities effectively. In addition to formal Board and committee meetings, directors are encouraged to participate in informal briefings from management. The expected time commitment from directors is clear although this is not formally recorded in a letter of appointment.

The Company makes available to directors the resources for developing and updating their knowledge and capabilities, and provides access to its operations and employees. Training and development needs are reviewed from time to time.

The Company Secretary is responsible for ensuring that the Board and its committees receive regular written reports from management of sufficient quality to enable them to discharge their duties. The Company Secretary also advises the Board on governance matters and facilitates information flows between management and the directors. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Corporate Governance Report (continued)

The performance of the Board and its committees is evaluated both informally and from time to time, formally by the Board and the company's majority shareholder to ensure that the company retains the right balance of skills to provide leadership and control.

Directors are required to seek re-election in accordance with the requirements of the company's articles of association.

C Accountability

The Board is responsible for presenting a balanced and understandable assessment of the company's position and prospects in the company's financial statements.

Internal control

The Board has overall responsibility for the company's systems of internal control and for reviewing the effectiveness of these systems, including financial, operational and compliance controls and risk management, and is advised by its Audit Committee on these matters. The systems are designed to manage the risk of failure to achieve business objectives (though it cannot be completely eliminated), and provides assurance against material misstatement or loss. The company contributes to the compliance of Veolia Environnement SA with the US Sarbanes-Oxley Act, as is necessary under the terms of Veolia Environnement's listing on the New York Stock Exchange.

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.

A whistle blowing procedure is in place that supports the open culture that the company promotes in its dealings with members of staff and all people with whom it engages in its business activities. The procedure encourages members of staff to communicate their concerns about malpractice or misconduct in an open and honest manner without fear of any form of detriment to their employment or career prospects.

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 Annual Report and Financial Statements.

The EMC considers, at quarterly risk mreviews, the management of both risks already identified and emerging and expected risks, in order to integrate fully the consideration of risk into the overall management of the business. The EMC is advised by specialists as necessary. The Audit Committee considers reports from the EMC on risk and reports to the Board as necessary.

Audit Committee

The Audit Committee comprises three independent non-executive directors and meets at least four times a year. The Board is satisfied that collectively the members have the appropriate knowledge and experience to be expected of an Audit Committee of a company of this type. The committee is chaired by Janette McKay. The Managing Director, Finance Manager, Head of Internal Audit, external auditors and other parties are invited to attend meetings as appropriate.

Corporate Governance Report (continued)

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

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

The committee meets with the company's reporter and external auditors and reviews the information to be provided in the annual performance report to Ofwat before submission to the Board to ensure that the information meets Ofwat's reporting requirements.

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

The committee keeps under review the level of audit fees, the appointment of the external auditors, and the nature and extent of other services provided by them, seeking to balance the maintenance of objectivity with cost effectiveness. It also approves in advance the activities and resources of internal audit and its effectiveness.

The committee is responsible for drawing the attention of the Board to, and advising on, any matters which should appropriately be decided by the Board as a whole. It also considers and advises the Board on the policies and procedures for controlling and managing risks throughout the company and supervises actions to define, assess, control and limit risk.

The committee each year evaluates its performance by means of a questionnaire covering the range of its responsibilities and procedures.

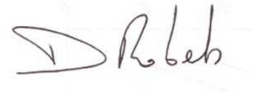
D Remuneration

The Remuneration and Employment Committee operates under defined terms of reference and, when requested by the shareholder, advises the Board on the appointment of Board members, the level of fees to be paid to non-executive directors and the remuneration and terms and conditions of senior executives of the company. The committee comprises of the Chairman and one independent non-executive director. The committee met once during the reporting year.

E Relations with Shareholders

The principles of the UK Corporate Governance Code relating to relationships with institutional shareholders and private investors do not apply as the company is controlled by a single majority shareholder and therefore has no major institutional investors. Representatives of the majority shareholder are on the Board which ensures effective communication.

By order of the Board



Denise Roberts
Company Secretary
1st June 2012

Veolia Water Southeast Limited

Remuneration report

Introduction

The members are listed on page 5. The Remuneration and Employment Committee provides advice and guidance to the Board principally on the remuneration and benefits packages of the senior executives, and occasionally in policies relating to remuneration and human resources in the Company.. The committee seeks to operate in accordance with best practice and appropriate guidelines and members of the committee are excluded from discussions regarding their own remuneration and conditions of employment. All arrangements regarding the appointment and remuneration of non-executive directors are settled in accordance with the Articles of Association. Senior executives may be paid an annual bonus. This is designed to reward short-term performance and encourages real year on year growth. It is company policy to exclude the bonus element of remuneration from pensionable earnings. In framing its remuneration policy, the committee has given full consideration to Section B of the Best Practice provisions annexed to the Listing Rules of the UK Listing Authority.

Basic Salary

The Managing Director is employed by Veolia East Limited and his basic salary is set by their Remuneration Committee. 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. The Veolia Water Southeast Limited Committee are consulted on this salary.

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

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

Bonus Schemes

The senior management team participate in a bonus scheme designed to ensure their full focus on the key strategic requirements of the Company. The bonus scheme has been operating since 2002.

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

A similar Scheme operates at Veolia East Limited and the Managing Director is included in the scheme.

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

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

Remuneration report (continued)

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

Other Benefits

A package of other benefits is offered to the senior management team which 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 average level on offer by comparable organisations.

Share Options

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

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

Directors' Emoluments

Directors' emoluments for the year were £83,000. Details of remuneration for each director are provided within note 7. Non-executive directors do not participate in any bonus schemes.

Directors' Notice Periods

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

Directors' interests

There are no disclosable interests under the Companies Act 2006.

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

By order of the Board

Denise Roberts
Company Secretary
1st June 2012

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

We have audited the financial statements of Veolia Water Southeast 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 26. 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and the information given in the Corporate Governance Report set out on Pages 13 to 16 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent Auditor's Report to the Members of Veolia Water Southeast 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.

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
1st June 2012

Veolia Water Southeast Limited

Profit and loss account
for the year ended 31 March 2012
(Registered Number 2724316)

	Note	2012 £'000	2011 £'000
Turnover	2	**19,505**	**18,646**
Operating costs	3	(13,514)	(14,636)
Other operating income	4	192	150
Operating profit	5	**6,183**	**4,160**
Profit/(Loss) on disposal of fixed assets	6	650	(4)
Profit on ordinary activities before interest and taxation		**6,833**	**4,156**
Interest payable and finance charges	8	(1,345)	(1,278)
Other finance (expenditure) / income	9	317	180
Profit on ordinary activities before taxation		**5,805**	**3,058**
Tax on profit on ordinary activities	10	(1,153)	(435)
Profit on ordinary activities after taxation for the financial year		**4,652**	**2,623**

All profits of the Company are from continuing operations.

Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 March 2012

(Registered Number 2724316)

	Note	2012 £'000	2011 £'000
Profit for the financial year		4,652	2,623
Actuarial loss recognised in the pension scheme	23	(1,109)	(583)
Deferred tax movement relating to actuarial loss /(gain)	23	266	152
Deferred tax movement relating to rate change		-	(7)
Total recognised gains for the year	20	**3,809**	**2,185**

Veolia Water Southeast Limited

Balance sheet
as at 31 March 2012
(Registered Number 2724316)

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	12	**84,916**	**81,692**
Non current assets			
Other Long Term Asset		100	-
Current assets			
Stocks	13	220	277
Debtors	14	6,135	4,124
Cash at bank and in hand		68	56
		6,423	4,457
Creditors - amounts falling due within one year	15	(8,258)	(6,507)
Net current liabilities		**(1,835)**	**(2,050)**
Total assets less current liabilities		**83,181**	**76,642**
Creditors - amounts falling due after more than one year	16	(37,825)	(33,763)
Provisions for liabilities	17	(3,887)	(4,011)
Net assets excluding pension liability		**41,469**	**41,868**
Net pension asset	23	2,617	1,515
Net pension liability	23	(373)	(373)
Net assets including pension liability		**43,713**	**43,010**
Capital and reserves			
Called up share capital	18	146	192
Share premium account	19	214	214
Revaluation reserve	19	23,499	24,285
Capital redemption reserve	19	2,500	2,500
Profit and loss account	19	17,354	15,819
Shareholders' funds	20	**43,713**	**43,010**

The statutory financial statements (pages 21 to 50) have been approved by the Board of Directors and were signed on 1st June 2012 on its behalf by:

Paul Sabin
Chairman

Nevil Muncaster
Director

Cash flow statement
for the year ended 31 March 2012
(Registered Number 2724316)

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	a	8,754	8,535
Returns on investments and servicing of finance			
Interest received		-	-
Interest paid		(1,306)	(1,261)
Preference dividends paid		(14)	(14)
Net cash outflow from returns on investments and servicing of finance		(1,320)	(1,275)
Taxation		(503)	(543)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(9,138)	(6,359)
Infrastructure charge receipts		20	106
Capital contributions		371	607
Proceeds on disposal of tangible fixed assets		934	24
Net cash outflow from capital expenditure and financial investment		(7,813)	(5,622)
Equity dividends paid to shareholders		(3,105)	(3,410)
Net cash outflow before financing		**(3,987)**	**(2,315)**
Financing			
Loan from parent company		4,000	2,300
Redemption of debenture stock		(1)	-
Net cash inflow from financing		3,999	2,300
Increase/(Decrease) in net cash	b/c	**12**	**(15)**

Veolia Water Southeast 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	6,183	4,160
Depreciation of tangible fixed assets	5,467	5,375
Amortisation of deferred credit	(38)	(38)
Decrease in stocks	57	164
(Increase)/Decrease in debtors	(2,111)	47
Increase/(Decrease) in creditors	1,397	(851)
Decrease in pension liability	(2,201)	(322)
Net cash inflow from operating activities	8,754	8,535

b Reconciliation of net cash flow to movement in net debt

	2012 £'000	2011 £'000
Increase / (decrease) in cash in the year	12	(15)
Cash inflow from increase in debt	(3,999)	(2,300)
Movement in net debt in the year	(3,987)	(2,315)
Net debt at the beginning of the year	(33,449)	(31,134)
Net debt at the end of the year	(37,436)	(33,449)

c Analysis of net debt

	At 1 April 2011 £000	**Cash flow £000**	**Non cash flow £000**	**At 31 March 2012 £000**
Net cash				
Bank	56	12	-	68
Debt				
Loan from parent company	(33,500)	-	(4,000)	(37,500)
Debentures	(5)	-	1	(4)
	(33,505)	-	(3,999)	(37,504)
Net debt	(33,449)	12	(3,999)	(37,436)

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.

Bad debt provisioning

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

Share based payments

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.

Revenue recognition

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

Tangible fixed assets and depreciation

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

Tangible fixed assets comprise:

- Infrastructure assets - mains and associated underground pipe-work.
- Other assets - land and buildings, operational structures, fixed plant, vehicles and mobile plant.

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

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

1 Statement of accounting policies (continued)

Tangible fixed assets and depreciation (continued)

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

The estimated useful lives of these assets are:

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

Land is not depreciated.

Capital contributions

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

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with Large and Medium-sized Companies and Groups Regulations 2008 (SI 2008/410) which forms part of the Companies Act 2006, which requires tangible fixed assets to be shown at cost, and hence grants and contributions are accounted for as deferred income. This departure from the requirements of the Companies Act 2006 is, in the opinion of the directors, necessary for the statutory financial statements to show a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have indefinite economic lives and therefore no basis exists on which to recognise grants and contributions in the profit and loss account. The effect of this treatment on the book value of tangible fixed assets is disclosed in note 12.

Leased assets

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

Deferred taxation

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

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

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;

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

1 Statement of accounting policies (continued)

Deferred taxation (continued)

c fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

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

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

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

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

Stocks and work in progress

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

Research and development

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

Pension costs

The Company operates two pension schemes providing benefits based on final pensionable salary. These schemes closed to new members in April 1996 and September 2004. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability.

Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses.

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

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

Financial instruments

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

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

1 Statement of accounting policies (continued)

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

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

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 £'000	2011 £'000
Turnover by class is analysed below:		
Unmeasured supplies	1,992	2,958
Measured supplies	17,075	15,260
Chargeable services	438	428
	19,505	18,646

3 Operating costs

	2012 £'000	2011 £'000
Obtaining and supplying water	7,068	6,137
Energy	891	818
Chargeable services direct expenditure	67	125
Water abstraction charges	454	457
Administration and Management	5,300	5,655
Effect of pension asset limit (see Note 23)	(1,815)	-
Rates	1,549	1,444
	13,514	14,636

4 Other operating income

	2012 £'000	2011 £'000
Commission, rentals & other non-appointed income	166	150
Option to purchase land	26	-
	192	150

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

5 Operating profit

	2012 £'000	2011 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of other assets	3,194	3,231
Depreciation of other underground assets	2,273	2,144
Amortisation of deferred income	(38)	(38)
Research and development	131	116
Hire of plant and machinery	19	20
Operating lease rentals	78	13
Auditors' remuneration – statutory	58	66
Auditors' remuneration – regulatory	30	29

6 Profit on disposal of fixed assets

	2012 £'000	2011 £'000
Profit on disposal of freehold land	646	-
Profit/(Loss) on disposal of other assets	4	(4)
	650	(4)

7 Employees and directors

	2012 £'000	2011 £'000
Staff costs (excluding non executive directors) consist of:		
Wages and salaries	2,785	2,882
Social security costs	279	279
Defined contribution pension costs	66	58
Other pension costs current service cost (note 23)	317	315
Effect of pension asset limit (note 23)	(1,815)	-
	1,632	3,534

	2012 £'000	2011 £'000
The average number of employees (excluding non executive directors) during the year was as follows:		
Operations	62	65
Customer service and administration	35	32
	97	97

There were 4 non-executive directors throughout the current report period.

Directors' emoluments

	2012 Salary and fees £000	2012 Benefits in kind £000	2012 Bonus £000	2012 Total £000	2011 Total £000
Non-executives					
F Devos	15	-	-	**15**	18
J.C. Banon	0	-	-	**0**	18
P Sabin	32	-	-	**32**	30
J McKay	18	-	-	**18**	18
N Summerton	18	-	-	**18**	18
O Bret	-	-	-	**-**	-
	83	-	-	**83**	102

The emoluments of N Muncaster have been paid during the current year by Veolia Water East Ltd, a fellow subsidiary company which has recharged an amount of £101,381 (2011: £71,217) to the Company.

Pensions paid to former directors (or surviving spouses) amounted to £14,023 (2011: £32,643).

8 Interest payable and finance charges

	2012 £000	2011 £000
Interest payable to group company	1,326	1,257
Guaranteed income agreements	5	7
Preference dividends payable	14	14
	1,345	1,278

9 Other finance (expenditure) / income

	2012 £000	2011 £000
Expected return on pension scheme	1,431	1,383
Interest on pension scheme liabilities	(1,114)	(1,203)
	317	180

10 Tax on profit on ordinary activities

	2012 £000	2011 £000
Current taxation		
Current tax on profit of the year	683	659
Adjustment in respect of prior years	20	(10)
Current taxation	703	649
Deferred taxation		
Origination and reversal of timing differences	1,031	353
Adjustment in respect of prior years	(124)	(16)
Impact of change in tax rate	(815)	(765)
Decrease / (increase) in discounting	358	213
Deferred tax charge for the year	450	(215)
Tax on profit on ordinary activities	1,153	435
Current taxation reconciliation		
Profit on ordinary activities before taxation	5,805	3,058
Theoretical tax at UK corporation tax rate of 26% (2011: 28%)	1,509	856
Effects of:		
Adjustment to tax in respect of prior years	20	(10)
Accelerated capital allowances	(260)	(201)
Other short term timing differences	(14)	(11)
Permanent differences	103	156
Other timing differences	(655)	(141)
Actual current taxation charge	703	649

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 and became effective from 1 April 2011. Further reductions in the UK corporation tax rate were announced in the March 2011 Budget, and substantively enacted on 29th 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 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 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.

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

11 Dividends on equity shares

	2012 £000	2011 £000
Ordinary:		
First interim of 533p per share (2011: 673p)	1,557	1,967
Second interim of 529p per share (2011: 494p)	1,548	1,443
	3,105	3,410

12 Tangible fixed assets

	Land, buildings and operational structures £000	Mains and other infrastructure assets £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in the course of construction £000	Total £000
Cost						
At 1 April 2011	21,999	57,089	29,402	4,379	1,266	114,135
Additions	242	3,015	188	215	5,703	9,363
Transfers	4	-	2	3	(9)	-
Capital contributions	-	(391)	-	1	-	(390)
Disposals	(282)	(261)	(26)	(172)	-	(741)
At 31 March 2012	21,963	59,452	29,566	4,426	6,960	122,367
Depreciation						
At 1 April 2011	3,892	13,089	12,153	3,309	-	32,443
Charge for the year	380	2,273	2,323	491	-	5,467
Disposals	(3)	(261)	(23)	(172)	-	(459)
At 31 March 2012	4,269	15,101	14,453	3,628	-	37,451
Net book value						
At 31 March 2012	**17,694**	**44,351**	**15,113**	**798**	**6,960**	**84,916**
At 31 March 2011	18,107	44,000	17,249	1,070	1,266	81,692

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

12 Tangible fixed assets (continued)

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

	2012 £000	2011 £000
Freehold land	3,464	3,744
Long term leasehold	257	348
	3,721	4,092

The net book value of mains and other infrastructure assets for the Company is stated after the deduction of grants and contributions received since April 1990 amounting £9.802m (2011: £9.430m) in order to give a true and fair view.

The Company's tangible fixed assets were professionally valued at 31 March 2010 by Savills, an independent qualified valuer and 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.

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 £24.8m. Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

If the re-valued assets were stated on a historical cost basis, the net book value would be £51.6m (2011: £53.6m).

13 Stocks

	2012 £000	2011 £000
Raw materials and consumables	209	242
Work in Progress	11	35
	220	277

14 Debtors

	2012 £000	2011 £000
Due within one year		
Trade debtors and customers' water charges	5,103	3,563
Deposit with parent company	527	429
Other debtors	405	75
Prepayments and accrued income	100	57
	6,135	4,124

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

15 Creditors – amounts falling due within one year

	2012 £000	2011 £000
Payments received in advance	655	535
Trade creditors	2,568	1,207
Amounts due to fellow subsidiaries	1,366	1,815
Corporation tax	486	286
Taxation and social security	105	129
Other creditors	2,914	2,328
Deferred income	160	164
Accruals	4	43
	8,258	6,507

16 Creditors – amounts falling due after more than one year

	2012 £000	2011 £000
Deferred credit – contributions to surface assets	121	158
4% irredeemable debenture stock	1	1
5% irredeemable debenture stock	3	4
Loan from Veolia Water Capital Funds Limited	37,500	33,500
Preference share capital (see note 19)	100	100
Long term creditor	100	-
	37,825	33,763

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

17 Provisions for liabilities

	Deferred tax £000
At 1 April 2011	4,011
Adjustment in respect of prior years	(123)
Credited to the profit and loss account	(1)
At 31 March 2012	3,887

Deferred tax (see note 10)

	2012 £000	2011 £000
Accelerated capital allowances	8,859	9,357
Other timing differences	(45)	(63)
Undiscounted provision for deferred tax	8,814	9,295
Discount	(4,927)	(5,284)
Discounted provision for deferred tax	3,887	4,011
Deferred tax liability on pension asset (see note 23)	708	401
Provision at the end of the year including deferred tax on pension liability	4,595	4,412

Deferred tax liability relating to pension liability

	2012 £000	2011 £000
At 1 April	401	455
Deferred tax charge to the profit and loss account	573	90
Deferred tax charge to the statement of total recognised gains and losses:		
- on pension actuarial (loss)/gain	(266)	(144)
At 31 March	708	401

18 Share capital

		2012 £000	2011 £000
Allotted, called up and fully paid share capital			
218,670	Ordinary shares of 50p each	109	109
73,700	Non-voting ordinary shares of 50p each	37	37
92,123	deferred shares of 50p each, with no participating rights	-	46
		146	192
Preference shares classified as a liability			
200,247	14% irredeemable preference shares of 50p each	100	100

Rights of shareholders

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

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

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

19 Reserves

	Share premium account £000	Asset revaluation reserve £000	Profit and loss account £000	Capital redemption reserve £000
At 1 April 2011	214	24,284	15,819	2,500
Actuarial loss recognised in the pension scheme	-	-	(1,109)	-
Deferred tax arising thereon	-	-	266	-
Depreciation of fixed assets	-	(510)	510	-
Disposal of fixed assets	-	(275)	275	-
Remove deferred shares	-	-	46	-
Profit for the financial year	-	-	4,652	-
Dividends paid	-	-	(3,105)	-
At 31 March 2012	214	23,499	17,354	2,500

Note of Historical Cost Profits and Losses

	2012 £000	2011 £000
For the year ended 31 March		
Reported profit on ordinary activities before taxation	5,805	3,058
Difference between historical cost depreciation charge and the actual charge of the year calculated on the revalued amount	510	515
Historical cost profit on ordinary activities before taxation	**6,315**	**3,573**
Historical cost profit for the year retained after taxation	**5,162**	**3,138**

20 Reconciliation of movements in shareholders' funds

	2012 £000	2011 £000
Profit for the financial year	4,652	2,623
Other recognised gains/(losses) in year (shown in STRGL)	(844)	(438)
Total gains recognised for the year	3,808	2,185
Less: dividends	(3,105)	(3,410)
Net addition/(reduction) to shareholders' funds	703	(1,225)
Opening shareholders' funds	43,010	44,235
Closing shareholders' funds	43,713	43,010
Equity shareholders' funds	43,713	42,964
Non-equity shareholders' funds – deferred shares	-	46
Closing shareholders' funds	43,713	43,010

Veolia Water Southeast Limited

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

21 Commitments under operating leases

Operating leases

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

	2012 £000	2011 £000
Operating leases which expire:		
Within one year	54	59
In two to five years	43	38
After five years	-	-
	97	97

22 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	1,894	1,439

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.

23 Pensions

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. Refer to note titled Non Executive Directors Pension Plan (NEDPP) on Page 42.

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 £23.7m with a funding level of 119%.

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.

No contributions are expected to be paid in the year from the balance sheet date (2011 estimate: £0.628m).

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: £0.318m). 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 group's water subsidiaries, 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 £0.383m (2011: £0.373m).

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	**11.2**	**6.90**	10.4	7.85
Bonds	**4.2**	**5.30**	7.5	5.55
Gilts/ cash	**10.3**	**3.40**	7.5	4.35
Fair value of assets	**25.7**		25.4	

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)	**21.0**	20.9	21.7	16.0	18.3
Plan assets (£m)	**25.7**	25.4	23.3	18.0	21.1
Surplus/(deficit) (£m)	**4.7**	4.5	1.6	2.0	2.8
Difference between expected and actual return on plan assets:					
Percentage of plan assets	**4%**	(5%)	19%	(21%)	(7%)
Experience gains/(losses) on plan liabilities:					
Percentage of plan liabilities	**4%**	0%	0%	4%	0%

Reconciliation of present value of scheme liabilities:

	VUKPP £000	**NEDPP £000**	**Total £000**
At 1 April 2010	21,390	316	21,706
Current service cost	315	-	315
Interest cost	1,186	17	1,203
Actuarial (gain)/loss	(1,230)	18	(1,212)
Benefits paid	(1,164)	(33)	(1,197)
Contributions by scheme participants	64	-	64
At 31 March 2011	20,561	318	20,879
Current service cost	317	-	317
Interest cost	1,114	-	1,114
Transfer of NEDPP scheme liability	318	(318)	-
Actuarial (gain)/loss	(390)	-	(390)
Benefits paid	(978)	-	(978)
Contributions by scheme participants	55	-	55
At 31 March 2012	**20,997**	**-**	**20,997**

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

Reconciliation of fair value of pension scheme assets:

	VUKPP £000	NEDPP £000	Total £000
At 1 April 2010	23,330	-	23,330
Contributions paid by employer	604	-	604
Contribution by scheme participants	64	-	64
Expected return on scheme assets	1,383	-	1,383
Actuarial gain/(loss)	1,175	-	1,175
Benefits paid	(1,164)	-	(1,164)
At 31 March 2011	25,392	-	25,392
Contributions paid by employer	703	-	703
Contribution by scheme participants	55	-	55
Expected return on scheme assets	1,431	-	1,431
Actuarial gain/(loss)	(952)	-	(952)
Benefits paid	(978)	-	(978)
At 31 March 2012	**25,651**	**-**	**25,651**
Pension asset before deferred tax	4,831	(318)	4,513
Effect of asset limit	(2,970)	-	(2,970)
Related deferred tax	(484)	83	(401)
Net pension asset at 31 March 2011	**1,377**	**(235)**	**1,142**
Pension asset before deferred tax	4,654	-	4,654
Effect of asset limit	(1,702)	-	(1,702)
Related deferred tax	(708)	-	(708)
Net pension asset at 31 March 2012	**2,244**	**-**	**2,244**

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	315	-	315
Expected return on scheme assets	(1,383)	-	(1,383)
Interest on pension scheme liabilities	1,186	17	1,203
Total charge	118	17	135
For the year ended 31 March 2012			
Current service cost	317	-	317
Expected return on scheme assets	(1,431)	-	(1,431)
Interest on pension scheme liabilities	1,114	-	1,114
Effect of asset limit	(1,815)	-	(1,815)
Total credit	**(1,815)**	**-**	**(1,815)**

There has been a change in the maximum allowable surplus due to the impact of merging the VWSCPP, VUKPP and NEDPP scheme liabilities, which has resulted in a £1.815m gain being recognised in the profit and loss account.

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/(losses) on scheme assets	1,175	-	1,175
Actuarial gains/(losses) on scheme liabilities	1,230	(18)	1,212
Changes in surplus cap	(2,970)	-	(2,970)
Total (charge)	(565)	(18)	(583)
Deferred tax arising thereon	147	5	152
Credit/(charge) after deferred tax	(418)	(13)	(431)
For the year ended 31 March 2012			
Actuarial gains/(losses) on scheme assets	(952)	-	(952)
Actuarial gains/(losses) on scheme liabilities	72	318	390
Changes in surplus cap	(547)	-	(547)
Total credit/(charge)	(1,427)	318	(1,109)
Deferred tax arising thereon	342	(76)	266
Credit/(charge) after deferred tax	**(1,085)**	**242**	**(843)**

Veolia Water Southeast Limited

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

24 Ultimate parent company, controlling party and related parties

The immediate parent undertaking of the company is 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.

			Value	**Financial year ended 31 March 2012**	Value	Financial year ended 31 March 2011
Payments made to:	**Nature of Relationship:**	**In respect of:**	**£'000s**	**Balance £'000's**	£'000's	Balance £'000s
Veolia Water UK PLC	Parent undertaking	Management and technical support, group tax relief, insurance premiums	**706**	**280**	553	356
Veolia Water Central Ltd	Common ownership	IT and telecommunications	**11**	**6**	33	43
Veolia Water East Ltd	Common ownership	Debt collection, joint managing director and recharges	**269**	**40**	228	52
Veolia Water Shared Services Ltd	Common ownership	Shared service recharges	**1,824**	**815**	1,337	655
Veolia Water Capital Funds Ltd	Shareholder	Financing and dividends paid	**3,779**	**37,176**	3,962	33,291
Veolia Environnement UK Ltd	Common ownership	Pension recharges	**3**	**-**	4	-
Veolia ES Cleanaway Ltd	Common ownership	Cleaning & waste contracts	**13**	**5**	6	1
Veolia Water Outsourcing Ltd	Common ownership	Mains replacement	**209**	**34**	463	489
Southern Water Services Ltd	Shareholder	Bulk water supply, sewerage charges and dividends paid	**216**	**159**	135	139

Receipts from:	**Nature of Relationship:**	**In respect of:**	**Value £'000's**	**Balance £'000's**	Value £'000's	Balance £'000s
Veolia Water Central Ltd	Common ownership	Call centre facility	**70**	**20**	34	23
Veolia Water East Ltd	Common ownership	Telemetry and admin services	**47**	**-**	86	-
Veolia Water Outsourcing Ltd	Common ownership	Recharge re transfer of asset	**-**	**-**	4	4
Veolia Water Shared Services Ltd	Common ownership	Staff recharge	**30**	**2**	54	16
Veolia ES Cleanaway Ltd	Common ownership	Rent	**3**	**1**	1	1
Veolia Environnement UK Ltd	Common ownership	Misc recharge	**2**	**2**	-	-
Vennsys Ltd	Common ownership	Misc recharge	**5**	**-**	-	-
Southern Water Services Ltd	Shareholder	Metered billing and GIS plans	**296**	**4**	172	154

25 Financial instruments and risk management

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

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

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

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

Financial assets: excluding debtors within one year

The company has no financial assets, other than short terms debtors and a bank balance of £68,000 (2011: £56,000).

Financial liabilities: excluding non-debt current liabilities

The Company has £12.5m (2011: £12.5m) fixed rate loan from its parent company. Originally for a fifteen year term, the loan expires in 2020, and has an interest rate of 5.51% per annum.

At 31 March 2012 the Company had revolver loans of £25m from its parent company. This facility expired on 31 March 2012. An 18 month revolving loan has been agreed, effective 1st April 2012, and signed by the Board. The maximum amount of the facility has been increased to £35.5m and the interest rate reduced to LIBOR + 1.65%, however the commitment fee increases from 0.35% to 0.55%

At 31 March 2012 the Company had irredeemable debenture loans of £4k (2011: £5k) comprising fixed rate interest elements at 4% and 5%.

The interest rate profile of the Company’s financial liabilities excluding non-debt current liabilities and deferred credits at 31 March 2012 was as follows:

As at	Total £000	Floating rate financial liabilities £000	Fixed rate financial liabilities £000
31 March 2012	37,504	25,000	12,504
31 March 2011	33,505	21,000	12,505

25 Financial instruments and risk management (continued)

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

	Fixed rate financial liabilities		
As at	Weighted average interest rate %	Weighted average period for which rate is fixed* Years	Weighted average period until maturity Years
31 March 2012 - Other	5.5	8*	8
31 March 2011 - Other	5.5	9*	9

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

The maturity profile for the Company's financial liabilities at 31 March 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)	25,000	-
In more than two years but not more than five years (2)	-	21,000
In more than five years (3)	12,504	12,505
	37,504	33,505

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

The facilities available at 31 March 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	0	4,000
Expiring in more than two years	-	-
	0	4,000

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

(2) On 27 March 2009 a three year intra group loan agreement was approved by the Board, for a maximum loan facility of £25.0m. This facility expired on 31 March 2012. Interest on the balance of the loan is charged at LIBOR plus 200 basis points. Commitment fee is charged on the unutilised balance at 100 basis points. An 18 month revolving loan, from 1st April 2012, has been agreed and signed by the Board. The maximum amount of the facility has been increased to £35.5m and the interest rate reduced to LIBOR + 1.65%, however the commitment fee increases from 0.35% to 0.55%

25 Financial instruments and risk management (continued)

(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 5.51% per annum.

Fair values of financial assets and liabilities

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

26 Post balance sheet events

No significant post balance sheet events have taken place.

Veolia Water Southeast Limited

Area of supply