

**VEOLIA WATER CENTRAL FINANCE PLC
(FORMERLY THREE VALLEYS WATER
FINANCE PLC)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011**

(Registered Number 05139236)

Veolia Water Central Finance PLC **(formerly Three Valleys Water Finance PLC)**

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Veolia Water Central Finance PLC (formerly Three Valleys Water Finance PLC)

Directors' report for the year ended 31 March 2011

The Directors present their report and the audited statutory financial statements for the year ended 31 March 2011.

Principal activity and business review

On 23rd September 2010 the Company changed its name to Veolia Water Central Finance PLC.

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

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

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

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

Results and dividends

The Company has made no profit after taxation (2010: nil). No dividends are proposed for the period. (2010: nil).

Future developments

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

Directors and Registered Office

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

F Devos
R A Bienfait
T J W Monod (Company Secretary)

Registered Office:
Tamblin Way
Hatfield
Hertfordshire AL10 9EZ

Charitable and Political Donations

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

Going concern

The company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future. This assessment is based on the consideration of the company's budgeted cash flows and long term forecasts, and related assumptions, available debt facilities, and support of the wider Veolia group. For this reason, the directors continue to adopt the going concern basis in the statutory financial statements.

Veolia Water Central Finance PLC **(formerly Three Valleys Water Finance PLC)**

Directors' report **for the year ended 31 March 2011 (continued)**

Statement of directors' responsibilities

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

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

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

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

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Corporate Governance

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

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

**Veolia Water Central Finance PLC
(formerly Three Valleys Water Finance PLC)**

**Directors' report
for the year ended 31 March 2011 (continued)**

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

Auditors

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

By order of the Board



Tim Monod
Company Secretary
2 June 2011

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

We have audited the financial statements of Veolia Water Central Finance PLC (formerly Three Valleys Water Finance PLC) for the year ended 31 March 2011 which comprise the profit and loss account, the balance sheet and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 4, 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 2011 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Veolia Water Central Finance PLC (continued)

Matters on which we are required to report by exception

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

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



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

6 June 2011

Veolia Water Central Finance PLC
(formerly Three Valleys Water Finance PLC)

Profit and loss account
for the year ended 31 March 2011
(Registered Number 05139236)

	Note	2011 £000	2010 £000
Operating profit		-	-
Group interest receivable and similar income	5	11,884	11,876
Interest payable and similar expenses	6	(11,884)	(11,876)
Profit/loss on ordinary activities before taxation			
Taxation	7	-	-
Result for the financial year		-	-

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

Veolia Water Central Finance PLC
(formerly Three Valleys Water Finance PLC)

Balance sheet
as at 31 March 2011
 (Registered Number 05139236)

	Note	2011 £000	2010 £000
Investments	9	<u>196,575</u>	<u>196,441</u>
Current assets			
Debtors: amounts falling due within one year	10	8,402	8,402
Cash at bank and in hand		50	50
		<u>8,452</u>	<u>8,452</u>
Creditors - amounts falling due within one year	11a	<u>(8,402)</u>	<u>(8,402)</u>
Net current assets		<u>50</u>	<u>50</u>
Total assets less current liabilities		<u>196,625</u>	<u>196,491</u>
Creditors - amounts falling due after more than one year	11b	<u>(196,575)</u>	<u>(196,441)</u>
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called up share capital	13	50	50
Profit and loss account	14	-	-
Shareholders' funds	15	<u>50</u>	<u>50</u>

The financial statements on pages 8 to 15 have been approved by the Board of Directors and were signed on 2 June 2011 on its behalf by:-



R A Bienfait



F Devos

Veolia Water Central Finance PLC (formerly Three Valleys Water Finance PLC)

Notes to the financial statements for the year ended 31 March 2011

1 Statement of Accounting Policies

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

Basis of preparation

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

Cash flow statement

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

Debt

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

Fixed Assets Investments

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

2 Auditors' remuneration

Auditors' remuneration for the year to 31 March 2011 was £7k (2010 £7k) and has been borne by the immediate parent company Veolia Water Central Limited.

3 Directors' emoluments

No remuneration or pension contributions were paid to directors for services to the Company (2010: £nil). These costs were paid by and charged in the accounts of other group companies. Of the total remuneration, a total amount of £5,000 can be attributed to the Company for the qualifying services performed, split as follows:

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

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

4 Staff costs

There were no employees during the year ended 31 March 2011 (2010:nil).

Veolia Water Central Finance PLC
(formerly Three Valleys Water Finance PLC)

Notes to the financial statements
for the year ended 31 March 2011 (continued)

5 Interest receivable

	2011	2010
	£000	£000
Group interest receivable	<u>11,884</u>	<u>11,876</u>

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

6 Interest payable

	2011	2010
	£000	£000
Interest payable	<u>(11,884)</u>	<u>(11,876)</u>

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

7 Tax on profit on ordinary activities

There is no tax liability for the period ended 31 March 2011 (2010:£nil), no deferred tax liability (2010: £nil) and no unprovided deferred tax liability (2010: £nil).

8 Dividends paid and proposed on equity and non equity shares

No dividend was paid or proposed for the year ended 31 March 2011 (2010:£nil).

9 Investment

	2011	2010
	£000	£000
Amounts owed by other group company	<u>196,575</u>	<u>196,441</u>

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

Veolia Water Central Finance PLC
(formerly Three Valleys Water Finance PLC)

Notes to the financial statements
for the year ended 31 March 2011 (continued)

10 Debtors

	2011	2010
	£000	£000
Amounts owed by other group company	8,402	8,402

11 Creditors

	2011	2010
	£000	£000
(a) Amounts falling due within one year:		
Accruals and deferred income	8,402	8,402

	2011	2010
	£000	£000
(b) Amounts falling due after more than one year:		
5.875% Guaranteed Notes due 2026		
The aggregate amount repayable in whole or in part after more than five years.	196,575	196,441

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

12 Financial instruments and risk management

Treasury operation

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

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

Risks arising from the Company's financial instruments

Interest Rate Risk

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

Interest rates and currency profile of the net borrowings of the Company at 31 March 2011 were:

Veolia Water Central Finance PLC
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Notes to the financial statements
for the year ended 31 March 2011 (continued)

12 Financial instruments and risk management (continued)

	Total of net borrowings		Net Cash		Fixed rate borrowings		Weighted Average period until maturity		Weighted average period for which rate is fixed	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 Years	2010 Years	2011 Years	2010 Years
Sterling Borrowings:										
External Loans	196,575	196,440	0	0	196,575	196,440	15.3	16.3	15.3	16.3
Total borrowings	196,575	196,440	0	0	196,575	196,440	15.3	16.3	15.3	16.3
Cash	50	50	50	50	0	0				
Net borrowings	196,525	196,390	50	50	196,575	196,440				

Currency Exposures

At 31 March 2011, the Company had no currency exposures (2010: £nil).

Security

The loan is guaranteed by Veolia Water Central Limited.

Fair values of financial liabilities

Set out below is a comparison by category of book values and fair values of the financial liabilities of the Company as at 31 March 2011:

	Book value		Fair value	
	£m 2011	£m 2010	£m 2011	£m 2010
Primary financial instruments held or issued to finance the Company's operations				
Long-term borrowings	196.6	196.4	209.0	197.4
	196.6	196.4	209.0	197.4

The fair value of the £200.0m sterling denominated long term fixed rate debt with a book value of £196.6m has been determined by reference to published information and prices from the active markets on which the instrument involved is traded.

12 Financial instruments and risk management (continued)

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

13 Called up share capital

	2011 £'000	2010 £'000
Authorised	50,000	50,000
Issued and allotted	50,000	50,000
Called-up and paid	<u>50,000</u>	<u>50,000</u>

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

14 Reserves

	£'000
At 1 April 2010	0
Transfer from profit and loss account	<u>0</u>
At 31 March 2011	<u>0</u>

15 Shareholders' funds

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

16 Related party disclosures

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

There were no other related party transactions.

**Veolia Water Central Finance PLC
(formerly Three Valleys Water Finance PLC)**

**Notes to the financial statements
for the year ended 31 March 2011 (continued)**

17 Ultimate parent company

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

Copies of the group Financial Statements of Veolia Water UK PLC may be obtained from the Company Secretary, Veolia Water UK PLC, Fifth Floor, Kings Place, 90 York Way, London, N1 9AG.

Copies of the accounts of Veolia Environnement SA may be obtained from the head office at 36 - 38 Avenue Kléber, 75116 Paris, France.

