Osprey Acquisitions Limited
Annual report and consolidated financial statements

for the year ended 31 March 2011

Company number: 05915896

Directors' report

for the year ended 31 March 2011

The Directors present their report and the audited financial statements of Osprey Acquisitions Limited for the year ended 31 March 2011.

Principal activities, business review and future developments

The principal activities of the company and its subsidiaries (together "the group") during the year were water supply and distribution, wastewater collection and treatment, and property development. The information that fulfils the requirement of the business review, including the company's financial risk management objectives, is set out on pages 4 to 17.

Group results and returns to shareholders

The profit and loss account on page 18 shows the group's results for the year. Dividends of £242.2 million (2010: £88.4 million) have been paid in the year. In addition a first interim dividend of £100.0 million in respect of the year ended 31 March 2012 was approved by the board on 26 May 2011 and was paid on 8 June 2011. This dividend has not been included as a liability at 31 March 2011.

Research and development

The group has a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment and other water and wastewater related matters.

Directors

The Directors who held office during the year and to the date of this report are set out below:

Sir Adrian Montague CBE	
Scott Longhurst	
Peter Simpson	
Graeme Bevans	(resigned 28 July 2010)
André Bourbonnais	(appointed 28 July 2010)
Daniel Fetter	
Cressida Hogg	
Manoj Mehta	
Niall Mills	
Christine O'Reilly	
Christian Seymour	
Philip White	
Roger Witcomb	(resigned 1 January 2011)

Claire Russell continued to serve as Company Secretary throughout the year.

An annual review of the board's effectiveness is conducted by circulating a confidential questionnaire to each board member. The feedback provided is reviewed by the Chairman and the findings are discussed by the board, and with individual board members as appropriate. Members of the Anglian Water Services board are also invited to participate in the group's board effectiveness review.

Directors' indemnities

The company maintains directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors. The company has also provided an indemnity for its Directors, which is a qualifying third party indemnity provision for the purpose of section 234 ((2) – (6)) of the Companies Act 2006.

Substantial shareholders

The sole shareholder of the company is Osprey Holdco Limited.

Policy on the payment of creditors
It is the group's policy to provide suppliers of goods and services with standard terms and conditions of contract. This document is available from each of the company's principal subsidiaries and, in the case of Anglian Water, is available from the company's Supply Chain Management department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The group abides by the terms of payment. At 31 March 2011, the group had 38 days purchases outstanding (2010: 48 days). At 31 March 2011, the company had no trade creditors (2010: none).

Charitable donations (community investment)
During the year the group made available £0.75 million (2010: £0.75 million) to the Anglian Water Assistance Fund, which paid a total of around £0.6 million (2010: £0.4 million) directly to customers who qualified for assistance.

The Anglian Water Group employee volunteering Scheme, *give me five*, has been supporting local community activities for more than 10 years. The scheme is currently being reviewed following the launch of Anglian Water's Love Every Drop programme in October 2010. A new scheme will be launched in 2011 building on the positive impacts already achieved by employees in their local communities and encompassing the aims of the Love Every Drop programme.

During the year, the group donated £40,000 (2010: £40,000) to WaterAid, its recognised charity. Individual requests for sponsorship were declined on the basis that the group's policy is to encourage community involvement rather than charitable donations. In addition, the group supports employees getting involved in fundraising activities under the *give me five* programme, and this volunteers' committee has raised a further £183,000 (2010: £275,000) for WaterAid.

Political donations
No political donations were made during the year (2010: £nil).

Employees
Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is achieved through a systematic approach to employee communication, which includes regular briefings, presentations and electronic mailings. The group's intranet is also widely used as a source of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them. The group has a series of policies that both inform and guide all employees on the group's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour.

The group also has a series of family friendly policies, including such initiatives as flexible working hours, home working, sabbaticals and career breaks.

To encourage employee participation in Anglian Water Group's performance, the group operates the AWG loyalty savings scheme which has been offered every year since 2007 and enables employees to potentially benefit from the group's future performance.

The group values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications are fully and fairly considered, having regard only to the applicant's aptitudes and abilities relevant to the role. In the event of disability, every effort is made to ensure that employment continues and appropriate adjustments are made and training given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

Statement of disclosure of information to auditors
In the case of each of the persons who are Directors at the time when the report is approved: So far as each Director is aware there is no relevant audit information of which the company's auditors are unaware; and they have taken all the steps that they ought to have taken as individual Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and in the absence of a notice proposing that the appointment be terminated, the auditors will be deemed to be re-appointed for the next financial year.

Going concern
The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law 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 group and of the profit or loss of the group 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 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, in which case there should be supporting assumptions or qualifications as necessary.

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 disclose with reasonable accuracy at any time the financial position of the company and the group and to 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Claire Russell
Company Secretary
20 June 2011

Registered Office: Anglian House, Ambury Road,
Huntingdon, Cambridgeshire PE29 3NZ
Registered in England and Wales No. 05915896

Group financial performance
The group's principal business is Anglian Water, the group's regulated water and wastewater company, which serves in excess of six million customers in the east of England and Hartlepool. The group also includes AWG Property, a specialist property development company.

The key performance indicators of the group's individual businesses are discussed in the Anglian Water and Property sections below. In addition, compliance with the group's borrowing covenants is an additional key performance indicator for the group and is discussed on page 17.

The results for the group for the year to 31 March 2011 show a pre-tax profit of £20.2 million (2010: £103.3 million) and turnover of £1,128.3 million (2010: £1,149.9 million). The group has net debt at 31 March 2011 of £6,115.8 million (2010: £5,886.5 million). Net cash inflow from operating activities for the year was £601.3 million (2010: £633.4 million).

During the year the group issued a £350 million fixed rate bond through its new financing subsidiary Anglian Water (Osprey) Financing Plc, to replace part of the term facility within Osprey Acquisitions Limited which was due to mature in October 2012. A new £125 million forward start facility in Anglian Water (Osprey) Financing Plc has also been arranged with an effective date of October 2011, and this will replace the remaining £100 million drawn term facility and £25 million undrawn revolving facility in Osprey Acquisitions Limited when these mature in October 2011.

Dividends
Dividends of £242.2 million (2010: £88.4 million) have been declared and paid in the year.

Divisional results
The following pages set out a business review for each of the main reporting segments of the group in respect of the year ended 31 March 2011.

Anglian Water

Key performance indicators

Anglian Water's key performance indicators for the year to 31 March 2011 are provided below.

Measure	How we define it	How this KPI relates to our strategy	Our performance	Our 2010/11 performance in context
Operational				
Drinking water quality (1)	Our overall 'mean zonal compliance' performance in the calendar year against the required standards.	Frontier performer.	2010: 99.96% 2009: 99.96% 2008: 99.98% 2007: 99.96% 2006: 99.95% 2005: 99.96%	Our drinking water quality continues to be excellent.
Leakage (2)	Cubic metres of water lost per kilometre of main per day.	Managing water resources efficiently is a key business goal. Our leakage rates are consistently almost half the industry average.	2010/11: 6.10 m^3/km/day 2009/10: 5.62 m^3/km/day 2008/09: 5.60 m^3/km/day 2007/08: 5.60 m^3/km/day 2006/07: 5.50 m^3/km/day 2005/06: 5.80 m^3/km/day	Throughout the extreme cold winter we devoted enormous resources to return leakage to normal levels. Industry average 2009/10: 10.90 m^3/km/day
Service Incentive Mechanism (SIM)	Ofwat's new measure, focussing on customer service. Scored out of 5.	We welcome the SIM and are committed to continually improving our customer service.	2010/11: 4.15	Our satisfaction score improved in each quarter of 2010/11. We were ranked second in the fourth quarter.
Environmental				
Carbon footprint	CO_2 emissions equivalent in tonnes CO_2e.	A key measure in our approach to managing our environmental impact and helps delivering cost savings.	2010/11: 504,026 2009/10: 493,702 2008/09: 498,115 2007/08: 478,450 2006/07: 466,280	Our target is a 50% reduction in emissions by 2035 from a 2010 baseline. The increase this year is directly attributable to our focus on maintaining customers' supply of safe drinking water during the severe winter.
Financial				
Capital expenditure £ million	Total spend from 1 April 2010 to 31 March 2015, increased by construction-related inflation.	Total investment delivered so far in this five-year asset management period.	One year to March 2011: Determination: 347 (3) Actual: 292	Lower than assumed due to: • Higher efficiencies. • Reduced demand for new connections. • New project appraisal processes.
Operating expenditure £ million (4)	Operating costs (excluding depreciation and exceptional operating costs) incurred during the year.	The cost of running Anglian Water operations and achieving our objectives.	Determination: 405.2 (6) Actual: 2010/11: 396.5 2009/10: 386.1 2008/09: 363.5 2007/08: 331.2 2006/07: 324.7 2005/06: 314.4	Up 2.7% on previous year principally due to inflationary pressures on cost. 2% outperformance relative to Final Determination (FD). Operating expenditure lower than FD due to focussed efficiency initiatives and lower power costs, partially offset by a higher bad debt charge than anticipated in the FD.
Employees				
Accident frequency rate	Number of accidents per 100,000 hours worked. Data includes both direct employees and contractors.	Indicates how safely we work.	2010/11: 0.31 2009/10: 0.37 2008/09: 0.39 2007/08: 0.37 2006/07: 0.39 2005/06: 0.39	Nothing is more important to us than safety. Our certified health and safety systems are now effective throughout the company.

Measure	How we define it	How this KPI relates to our strategy	Our performance	Our 2010/11 performance in context
CHaSPI (5)	The Health and Safety Executive (HSE) corporate performance index. Scored out of 10.	Aims to help assess how well an organisation manages health and safety risks and responsibilities towards its workers, the public and other stakeholders.	2010/11: 7.7 2009/10: 7.7 2008/09: 7.7 2007/08: 7.4 2006/07: 7.3 2005/06: 7.1	We are the only water company to publicly report health and safety performance this way.

(1) Drinking water results published in 2011 for the 2010 calendar year measured as 'mean zonal compliance' with the regulatory quality standards.
(2) Lost water from leaks in our network and our customers' own pipes. 2010/11 result subject to formal confirmation from Ofwat in autumn 2011.
(3) Final Determination Capex on a gross, Pre-Capital Incentive Scheme adjustment basis, in 2010/11 prices.
(4) For the appointed and non-appointed businesses.
(5) For more information, see www.hse.gov.uk or www.chaspi.info-exchange.com.
(6) Adjusted to 2010/11 prices and for non-appointed business and pension deficit payments to ensure consistency.

Introduction

Anglian Water is at the heart of every single community in the region, new or well-established, providing clean, safe drinking water and effective, efficient wastewater services. Anglian Water is in it for the long-term and plans for the long-term.

Market operations

Drinking water

We borrow water from the environment, store it and treat it to world-class standards to supply 1.2 billion litres every day to our 4.4 million drinking water customers in towns and villages from Grimsby in the north-east of our region to Milton Keynes at its south-western tip.

Wastewater

The company receives approximately 950 million litres of wastewater per day from 2.5 million homes, including customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

Management

Structure

The Anglian Water Services Board of Directors consists of the Chairman, Sir Adrian Montague; four Executive Directors, Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome, and three independent Non-Executive Directors, Christopher Garnett, Robert Napier and John Watkinson.

Peter Simpson, Scott Longhurst, Jean Spencer and Chris Newsome also sit on Anglian Water's Management Board which works closely with the Anglian Water Services board to develop, review and implement our long-term strategic direction.

People

Around 3,700 people work directly for Anglian Water. Another 7,000 work for our contractors and partner organisations. That makes us one of the largest employers in the region and an important part of the lives of the families in our communities.

We want to be a leading employer in the UK, making Anglian Water a company people are proud to work for. Helping them to stay fit and healthy, providing professional and technical skills development and supporting them when life gets difficult are all fundamental to this ambition.

However, to meet our customer expectations we do need to look at ways of reducing costs, improving our efficiency and increasing our flexibility. This has meant expanding our offshore capacity and redeploying some UK-based staff to front-line customer facing roles. We have also worked with our trade unions on changing working hours to provide increased flexibility in scheduling work and those changes came into effect this year.

Regulators and the regulatory environment
The water industry is one of the most highly regulated sectors in the UK. Several Government agencies monitor and regulate our performance on customer service, quality, prices and investment.

While economic regulation is UK-specific, EU directives and legislation also cover our operations – particularly drinking water, urban wastewater treatment, water framework, groundwater protection, sewage sludge and health and safety at work.

Ofwat regulates the 21 regional water companies in England and Wales.

Ofwat's priorities are to:
- Make sure that all the companies provide customers with a good quality, efficient service at a fair price.
- Monitor the companies' performance and take action to protect consumers' interests.
- Set all the companies challenging efficiency targets.

The water industry operates on five-yearly cycles known as Asset Management Plan (AMP) periods. Ofwat sets prices at the beginning of each period, following submissions from each company about what it will cost to deliver their plans. In November 2009, Ofwat issued their Final Determinations to water and wastewater companies, setting out prices for the period 2010/2015. These came into effect on 1 April 2010.

In addition to agreeing its Asset Management Plan on a five-yearly cycle, every water company sends Ofwat an annual update on its performance in the annual *June Return*. Ofwat then uses this return to monitor and compare companies' performances.

A key part of our strategy is to work with Ofwat and other key regulatory and statutory partners to consider better, more sustainable ways of delivering services.

This year we have participated in a number of consultations and investigations including: the Water Supply Licensing volume threshold; Customer Transfer Protocol; New Appointments and Bulk Pricing; guidance changes to the Water Supply Licencing Operational Code and Common Contract.

Ofwat review
The review of the water industry regulator will feed into the composition of the Water White paper, to be published by December 2011. This review offers us the opportunity to contribute to the updating of water industry regulation. We have played an active part in the ongoing debate within the industry on what path reform should take, both reactively through responding to consultations, and pro-actively by investigating potential alternatives to meet the future challenges of growth and climate change.

The **Drinking Water Inspectorate** is responsible for ensuring compliance with the drinking water quality regulations.

The **Environment Agency** controls the amount of water we are allowed to take from the environment and the quality of the water we return to it.

It's important to us that we provide excellent customer service across the board and we work closely on improving our levels of service with the **Consumer Council for Water**.

The current competition framework
There are currently two limited forms of competition in the water industry: *inset appointments* and *water supply licensing*.

Inset appointments are where the incumbent water company is replaced by another company which becomes responsible for customer service and maintenance of the supply and/or wastewater network. To qualify for an inset appointment the site must be single premises using more than 50 mega litres of water a year, or be a 'greenfield' site that does not have an existing connection to the water supply network. Alternatively, insets may be by agreement. Anglian Water has a long history of involvement in inset appointments, and we supply customers outside our statutory area on five sites. Within our area there are six sites served by another company.

Water supply licensing allows customers who use over 50 mega litres of water a year to choose their water supplier, who would in turn purchase the water in bulk from us. To date, only one customer in the UK has switched to another supplier. Wastewater services are not included in this arrangement.

Competition in the water industry
The competition framework is currently under review. We support the introduction of competition where there are clear benefits to customers, and are playing an active role in the consultation process. We were involved in both the Cave Review (2008) of competition and innovation and the Walker Review (2009) on charging for household water and wastewater services.

We were members of the Market Reform and Finance Forum, a group chaired by Defra and comprising representatives from Government, regulators, the Shareholder Executive and the water and wastewater companies. We continue to be active in the following groups: the *Indepen* project on Water Policy and Regulation; UKWIR Customer Engagement Project and the Water UK Competition Focus Group.

This year we published two major evidenced-based reports around new thinking on the management of water resources in the future.

A right to water? - meeting the challenge of sustainable water allocation
In partnership with Frontier Economics, we've explored the processes and arrangements for protecting and sharing the water that sustains our environment and economy between different users.

While the current arrangements have worked well so far, the challenges and uncertainties of climate change and growth mean we will need to find innovative solutions to respond to pressures on water resources in the future.

Trading theory for practice
Water trading is a potential answer to one of the biggest challenges facing the future viability of our industry – water resource management. This report presents the conclusions of detailed technical analysis undertaken in close collaboration between Anglian Water, Essex and Suffolk Water and Cambridge Water Company.

Financial performance

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Turnover	**1,092.3**	1,099.8
Operating profit before goodwill amortisation and exceptional costs	**447.3**	472.0

Turnover for the year was £1,092.3 million, a decrease of £7.5 million from the previous year. This reduction principally relates to the regulatory price reduction of 0.4% (including inflation), and a slight reduction in demand from businesses, partially offset by a small increase in demand from household customers.

Operating costs (before exceptional charges) for the year increased by £10.4 million (2.7%) to £396.5 million (2010: £386.1 million). This reflects inflationary pressures across our cost base, particularly rates and pension charges, as well as higher costs for operating newly completed infrastructure assets. These cost increases were to a large extent anticipated and recognised within our AMP5[1] regulatory settlement. Partially offsetting these cost pressures were some £15 million of savings arising from the restructuring announced in the prior year, together with ongoing savings from other efficiency initiatives including reduced power consumption and supply chain savings, and around £11 million of reduced power costs resulting from fixing wholesale energy prices for AMP5.

Due to the continuing difficult economic environment the bad debt charge for the year was £33.7 million (2010: £35.4 million). There was a modest improvement in the collection rates of younger debt, due to new more focused debt collection initiatives, which helped contribute to a reduction of £1.7 million in the bad debt charge compared with the previous year, although older debt remains a significant problem.

Overall, operating expenditure (before exceptional charges) as a percentage of turnover increased from 35.1% last year to 36.3%.

As a result of the continuing capital programme, depreciation was up 2.8% from £241.7 million last year to £248.5 million.

In the year to 31 March 2011 Anglian Water raised £130.0 million of new funds and made repayments of £2.5 million on finance leases. In addition to this, Anglian Water paid down accreted indexation of £80.5 million on index-linked swaps as part of a restructuring exercise. Accreted indexation is included in debt and so the impact of the pay down was to reduce debt by £80.5 million. After the year end a further £100 million of new debt was secured through a US Private Placement, and EIB credit approval was received for a new £300 million facility over AMP5.

At 31 March 2011 Anglian Water had net borrowings of £4,586.1 million, an increase of £230.9 million over the prior year. Net borrowings are a mixture of fixed, index-linked and variable rate debt of £5,188.4 million and cash and deposits of £602.3 million. The increased net borrowings comprise a net decrease of £74.7 million in cash and deposits (which causes net debt to increase) and an increase of £156.2 million in loans and associated costs. The business generated a net cash inflow from operating activities of £632.1 million in the year ended 31 March 2011 (2010: £658.8 million).

On 5 October 2010 Anglian Water Services Limited undertook a capital reduction and converted £850 million of share capital into distributable reserves. This is primarily in preparation for the expected conversion to International Financial Reporting Standards in the year ending 31 March 2015.

Gross capital expenditure for the year was £291.7 million, which represents a good start to our AMP5 investment programme and is in line with our overall Regulatory output expectations.

[1] AMP5 – Asset Management Plan period from April 2010 to March 2015

During the first year of AMP5 we completed 19 water quality outputs against a regulatory expectation of twelve, 64 kilometres of water mains renewal, 64 kilometres of sewer rehabilitation, and are on track on our first time sewerage schemes and our sewer flooding prevention and mitigation schemes.

We have had a very successful year in terms of designing and delivering efficiency on the investment programme, outperforming our expectations in this first year of AMP5.

Operational performance

A strong start to AMP5

In this first year of AMP5 we set out our clear intention to develop our leading position in the industry. We launched *Love Every Drop* in October 2010, our campaigning platform to put water at the heart of a whole new way of living. It is transforming the way we do business and is at the heart of our strategic approach to achieving our business goals.

Improving our efficiency and flexibility

To meet our customers' expectations we continually review ways of reducing cost, improving our efficiency and increasing our flexibility. In a year of considerable change we continue to drive down costs across the board. Our *Shaping the Future* initiative modernises working practices and was implemented throughout 2010, representing a fundamental shift in levels of customer service.

Other efficiency measures in the year include the off-shoring of selected back-office customer services work to Trivandrum in India. We redeployed some UK-based staff to gain efficiencies and improvements in capacity, cost and response time. We remain firmly committed to locating all our call centres onshore and in our region to deliver the best possible service to our customers.

We are also working to deliver considerable savings on energy use and carbon emissions, making the connection between cutting costs and cutting carbon effectively in all areas of the business. This year we have met our energy targets, delivering savings of 11.9 GWh (full year effect), equivalent to 6,426 tonnes of carbon.

Awards and recognition

Over the past twelve months our performance has earned us a number of national awards and accreditations. Most recently we have achieved the highest ranking of Platinum Plus in the Business in the Community's 2011 Corporate Responsibility Index, the UK's leading voluntary benchmark of corporate responsibility.

Our record on health and safety has won recognition from The Royal Society for the Prevention of Accidents (RoSPA) with two gold awards. The first award confirms our 2010/11 performance. The second gold recognises our commitment and sustained performance on health and safety across our operations over the past five years.

Strong performance in exceptional weather conditions

Our commitment to the highest standards of service was nowhere more evident than over the winter. In the most severe conditions for 100 years, our operational teams worked around the clock in extremely low temperatures and early, heavy falls of snow to minimise interruptions and ensure supply. With the experience of the two severe winters of 2008/09 and 2009/10 to guide us, we had planned ahead, investing an additional £4 million in pro-active network maintenance.

This approach enabled us to meet the operational demands of close to double the number of burst mains against the previous year and, in contrast to some other areas of the UK, we continually maintained supplies to our customers.

Looking ahead on water resources, we are experienced in the management of supply in a drier than average part of the country, and are confident that water resources are secure to meet forecast demand over the summer months.

Customer service and operational performance measures
This year Ofwat introduced their new industry-wide measure, based on customer satisfaction, the Service Incentive Mechanism (SIM). We fully support the principles behind this new approach to evaluating performance in our sector and have found it a useful driver to enhancing our customers' experience.

Against the backdrop of the exceptionally bad winter, we were the only water and sewerage company (WASC) to improve our results every quarter, achieving a fourth quarter ranking of second for Water and Sewerage Companies (WASCs). We ended the year with a SIM score of 4.15 out of 5. We continue to identify and implement service improvements with the aim of achieving a leading ranking.

Excellent performance on wastewater compliance
The severe cold followed by the extended dry spell throughout the spring put significant pressure on our wastewater operations. Despite this, performance at our wastewater treatment works remained high. We also had our best ever year for bathing water guideline compliance, with no fewer than 20 beaches across our region flying the coveted Blue Flag in 2011 (2010:15).

Drinking water quality remains excellent
The quality of the drinking water we supply is reported in calendar years and is measured by the one third of a million tests we undertake each year. Our record on drinking water quality standards remained excellent in 2010, with an overall compliance score of 99.96% (2009: 99.96%).

2010 marked the beginning of our latest £123 million programme of investment in drinking water quality. We have already completed, ahead of schedule, a scheme to address rising pesticide levels in the raw water at our Riddlesworth treatment works in Norfolk. We have also installed new treatment processes at Wighton works, the first of 22 such schemes across our region.

Managing growth and climate change
Customer expectations on levels of service and the intense media focus on interruptions to service and security of supply underscore our emphasis on resilience across our operations. Recent schemes at Morcott and East Hills safeguard supplies for areas of high population in the East Midlands and East Anglia.

Anticipating the impact of climate change is one of our key priorities. In January we submitted our *Climate Change Adaptation Report* to Defra, required this year for the first time under a new reporting power. This provided significant detail on the processes and principles we employ in assessing and managing the risks posed by climate change.

We continue to be heavily involved in shaping the climate change mitigation and adaptation response at local, regional and national levels.

Occupational health and safety
It's our strong belief that all work related accidents and ill health are preventable. Whatever the job, however urgent the deadline, health and safety always come first for our employees, contractors and the public.

For the fifth year running, we've achieved a Gold RoSPA achievement award. RoSPA have recognised this commitment with the additional award of their Gold Medal for sustained health and safety performance.

Our long-term aspiration is no accidents and no harm. This year we achieved our lowest ever accident frequency rate: 0.31 (2009/10: 0.37) and have more than halved the number of serious (Category 1) incidents from 66 last year to 32.

Our "make it safe make it home" campaign, focuses everyone who works with us on our Health and Safety Charter.
- Nothing is so important that we cannot take the time to do it safely.
- We are committed to the principle that all accidents and ill health is preventable.
- We will never knowingly walk past an unsafe act or condition.

Principal risks and uncertainties
Effective risk management is central to the achievement of our strategic priorities. It's a key enabling theme, running across our business through a number of formal and informal processes.

There are a number of commercial risks and uncertainties that could have a significant impact on our operations, financial health or reputation. We invest substantial resources to identify, analyse and manage these challenges.

We track risks using a comprehensive system of risk registers, which operate at a number of levels across the business. These registers are used to assess the risks; to document the existing controls in place to manage these risks; to ensure mitigation plans are established and monitored; and to establish clear ownership of each of the risks.

The Top Tier risk register is reviewed on a regular basis by the Anglian Water Services Management Board, The Group Risk and Compliance Committee, and the Anglian Water Services Board.

Financing our business
Description
We fund a £2.3 billion capital programme. It's critical that we have robust financing arrangements in place.

Mitigation
Anglian Water is funded predominantly by debt in the form of long-term bonds and other debt instruments, rather than equity (shares). Net debt accounts for approximately 79% of Anglian Water's regulatory capital value as at March 2011.

The debt-funding structure was established in 2002 and has resulted in Anglian Water's capital costs being consistently lower than the industry average, resulting in lower bills for our customers. Our focus is on maintaining stable credit ratings and a strong liquidity and cash position which we manage through cash and investments together with available bank facilities and having a diverse debt portfolio in terms of source and maturity.

Climate Change
Description
Climate change presents one of the biggest challenges to our business, with potential long-term impacts on the water resources in our region, and on potential flooding at our treatment sites and within our sewer networks. We operate in the driest region of the UK, classed as 'water stressed' by the Environment Agency, so we must manage supply and demand carefully, both today, and for the long-term.

Mitigation
We work closely with national and regional agencies to develop adaptation plans for our industry, and to ensure that we work to common standards on forecasting the impacts of climate change in our region - we then reflect these forecasts in our investment plans for the next 25 years. We have set ambitious goals to reduce our carbon emissions, both in terms of the carbon footprint of our new assets, and in the energy consumption of our operations.

Flooding of Key Sites
Description
One of the key potential effects of climate change is the impact on the weather in our region. We expect more frequent, extreme storms and wetter winters. These are likely to cause localised flooding that may impact our wastewater network, flood customers' homes and potentially disable treatment works.

Mitigation
We invested £40 million on AMP4 schemes to improve resilience of our network, and plan to invest a further £40 million in AMP5 for flooding and resilience schemes. Comprehensive Business Continuity plans are in place, accredited to BS25999, including detailed Flood and Emergency Response plans for our key sites. These plans are regularly tested, including in regional multi-agency exercises, to ensure the plans are robust and effective.

Regional Growth

Description

Coping with the forecast rise in population in our region is one of our most significant long-term challenges. Our region contains a large part of three of the four growth areas defined by the Government as well as a number of individual growth points. Although current economic conditions have slowed the rate of house building in the short-term, we expect that planned developments will restart once economic conditions in the UK improve.

Mitigation

We invest considerable effort in forecasting our supply and demand requirements at a local and regional level for the next 25 years. We continually assess our investment options over the next 25 years, to identify the right combination of investment in new water resources, enhancements to our networks, and water efficiency measures to meet this challenge most cost effectively for our customers. We are also championing the use of sustainable drainage techniques, in place of piped systems as a more environmentally sound way of managing surface water in our growing region.

Energy Management

Description

We are one of the largest users of electricity in our region, due to the power needed to treat water and wastewater, and pump it around such a geographically flat region. Energy represents 12% of our total operating costs. Wholesale energy prices have fallen from the very high levels seen in the summer of 2008, but continue to be very volatile, reflecting global economic and political conditions.

Mitigation

We use a comprehensive hedging programme to manage our exposure to wholesale energy prices, and over the last two years we have progressively locked in over 90% of our energy costs for the next four years. We have a significant and continuous programme to reduce our energy consumption on our sites, with a focus on the energy efficiency of new investments, and in more energy efficient ways to operate our current plants. We now generate close to 5% of our own electricity needs through renewable power plants based on our own sites, with plans in place to increase this by the end of AMP5.

Bad Debt

Description

We continue to experience significant numbers of customers who are unable to pay their bills, or who choose not to pay them. This puts a considerable cost burden on those who do pay their water charges, of around £15 per year. We currently provide around 3% of our revenue against non payment of bills.

Mitigation

We are ensuring that we make our payment arrangements as flexible as possible for those customers who want to pay but are struggling to do so – for example by the provision of a telephone debt helpline; a "Back on Track" scheme for those in arrears who are now in a position to make regular payments; and the Anglian Water Assistance Fund that provides further assistance to those experiencing genuine hardship.

We also have a strong focus on the collection of customer debts, and are using all available recovery procedures to minimise the levels of bad debts, including legal redress. We have implemented a sophisticated debt management system, and are working with leading debt collection specialists to exploit new advances in this area, including the appropriate sharing and use of credit reference data.

Water Sector Reform

Description

The future shape of the water sector has been the focus of considerable debate over the last two years in particular, with a number of reviews by leading experts and government bodies into the key areas of Customer Tariffs, Economic Regulation and Competition. The outcome of these reviews is still uncertain, but is likely to result in significant changes to the industry.

Mitigation
We have been fully engaged in all aspects of these debates, including the publication of a number of pieces of evidence based research in the key areas of water resource, and in particular on water trading in our region. We have taken an active role in key industry working groups, including the Market Reform Finance Forum, which looked at the impacts of potential reforms on the financing of the industry, and we are a pilot company in Ofwat's accounting separation project.

Private Sewers
Description
We fully expect that Private Sewers in our region will transfer to our ownership from 1 October 2011, with privately owned pumping stations to transfer to us over the coming years. We estimate that this will increase the length of our sewer network by 80% and that we will adopt upwards of 3,000 pumping stations. We expect that the condition of these assets will be very variable and will require significant investment over time to ensure they meet our standards.

Mitigation
We have established a dedicated project team to manage this transition, and this team has been in place for most of the last year. We have conducted extensive surveys to assess the condition of the assets that we will adopt and have carefully planned our resource needs to effectively manage the increased amount of repair and maintenance required for these assets. We are also preparing a range of strategic communications for our sewerage customers, explaining the adoption process and detailing mutual responsibilities and obligations.

Efficiency delivery
Description
The delivery of efficiencies in our operations is vital to our success as a company – keeping our costs down helps to minimise our customers' bills, and is the foundation for how we are incentivised in the current regulatory structure. We have delivered significant cost efficiencies across our capital and operating cost base in AMP4, and need to continue to drive out costs throughout AMP5 and beyond.

Mitigation
We have two major efficiency programs in place, focused on driving out costs from our capital program and our operating cost base. Examples of efficiency projects we have implemented at the start of AMP5 include the changing of working practices in our front line workforce, a major efficiency programme across our back office teams, a review of our delivery of repairs to our networks, a continued focus on energy efficiency, and the control of bad debts.

Compliance with general legislation
Description
We carefully manage compliance with current legislation, but are aware that the introduction of major new laws can increase the risk of inadvertent non-compliance. One such new law is the Bribery Act 2010 which comes into force on 1 July 2011. The Bribery Act has significant implications for organisations carrying on business in the UK, who can be liable for failing to prevent bribery being committed on their behalf by their business associates. There are particular risks for companies with extensive supply chains as this could cover bribery by their suppliers or contractors where these third parties are performing services on behalf of the company.

Mitigation
Our legal department works closely with the business to ensure compliance with legislation generally, and the Legal Director sits on the Risk and Compliance Management Group which meets on a quarterly basis. With respect to the new Bribery Act we have taken a zero tolerance approach. The Board has approved an implementation plan for the business which is designed to ensure compliance with the Act and is framed around the six principles set out in the guidance issued by the Ministry of Justice.

Outlook

We believe we have had a strong financial and operational performance for the year which provides a solid platform for the remainder of AMP5.

In the year ahead, Ofwat's ongoing review offers us the opportunity to contribute to the updating of water industry regulation to reflect current and future challenges. We are participating in these consultations with a package of recommendations we believe will better meet the needs of customers and ensure financial sustainability across the water and wastewater sector.

We are also planning for the challenge of adopting around 20,000km of private sewers and in excess of 3,000 private pumping stations under Defra's transfer of private drains and sewers initiative expected to start on 1 October 2011.

Our focus remains on continuing to deliver targeted and sustainable efficiencies across our operations and asset management programme, while continuing to deliver first-class operational performance and great customer service.

Property

Financial performance and Key Performance Indicators

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Capital employed at 31 March	**11.6**	16.2
Operating loss	**(10.5)**	(11.2)
Operating cash flow	**(7.8)**	(8.2)

Introduction
During 2010/11, the group has continued to pursue the value realisation of its property investments. Notwithstanding the extremely difficult property market present throughout 2010/11 and which is expected to continue during 2011/12, this process has allowed further rationalisation of the portfolio, with agreement for the sale of a significant proportion of one of the major land holdings and sale of the largest commercial property.

A small but focused management team remains in place to manage the residual property assets and to seek their disposal for the best value at the appropriate time.

Financial performance
AWG Property's operating loss for the year was £10.5 million (2010: loss of £11.2 million) on a reduced turnover of £16.6 million (2010: £17.7 million) as a result of the change in strategy for the business. Given the continuing difficult property market, the review of the likely value of certain liabilities within the portfolio has resulted in a charge of £5.1 million in relation to the final anticipated outcome over the full term of those liabilities.

Management
AWG Property has its own board, which consists of one Anglian Water Group Limited Director (the Managing Director, Finance and Non Regulated Business), the Managing Director of AWG Property and two further Executive Directors. The Managing Director of AWG Property oversees the day-to-day operations.

Risks
AWG Property faces a variety of business risks. The principal risk is the economic cycle, which property developments tend to follow. The current economic environment presents risks in relation to the financial stability of joint venture partners and maturity of debt funding on individual properties. The AWG Property strategy mitigates these by; ensuring that the assets are able to generate sufficient income to service the interest costs; and having an asset management strategy to add value to which the funding counterparties are also committed. The combination of these is intended to mitigate the requirement to realise value from such assets in an adverse property market.

Pensions
The majority of employees participate in the group defined contribution scheme.

Outlook
AWG Property will focus on the controlled realisation of value from its remaining property portfolio.

Other business activities

The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Celtic Anglian Water which operates wastewater treatment works in the Republic of Ireland, and residual international interests.

Pensions

At 31 March 2011 the gross deficit for the group (before deferred tax) was £90.1 million (2010: £198.1 million). There were a number of actuarial changes in the year, principally legislative changes to indexing of liabilities. In addition, asset performance was above expectations. Future additional contributions will continue to be made in line with actuarial advice.

Treasury management

Group financing, including debt, interest costs and foreign exchange, is substantially managed by a central treasury team reporting to the Managing Director, Finance & Non Regulated Business. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group.

The central treasury function actively:

- ensures that lenders covenants are met;
- secures funds through a balanced approach to financial markets and maturities;
- manages interest rates to minimise financial exposures and minimise interest costs;
- invests temporary surplus cash to best advantage at minimal financial risk;
- maintains an excellent reputation with providers of finance and rating agencies;
- promotes management techniques and systems;
- enhances control of financial resources; and
- monitors counter party credit exposures.

The group's board, through the Finance, Treasury and Energy Policy Group, regularly reviews treasury policy, organisation and reporting to ensure continued effectiveness and relevance. More information on treasury management can be found in note 19 of the consolidated financial statements.

Liquidity

The group's objective is to maintain flexibility and continuity of funding through access to different markets and debt instruments. At 31 March 2011 the group held cash, deposits and current asset investments of £666.7 million (2010: £783.8 million) and had undrawn committed multi-currency facilities of £735 million (2010: £605 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 19 of the consolidated financial statements.

Capital structure

The group's capital structure is largely driven by the requirements of Anglian Water's capital expenditure programme, which is met by a combination of cash flow and debt issuance with covenant tests at the Anglian Water and Osprey Acquisitions Limited levels. At 31 March 2011 Anglian Water's and Osprey Acquisitions' net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 78.5% (2010: 80.6%) and 85.4% (2010: 87.3%) respectively.

Borrowing covenants

The financing within Anglian Water is secured under a common terms agreement with investors. All other group borrowings are raised or guaranteed by Osprey Acquisitions Limited, Anglian Water (Osprey) Financing Plc, AWG Parent Co Limited, AWG Group Limited and, in certain instances, subsidiary companies. The central treasury function is responsible for monitoring ongoing compliance with the group's financial covenants, which principally relate to Anglian Water's ratio of net debt to Regulatory Capital Value and interest coverage. At 31 March 2011, all group companies were compliant with all covenants.

Interest rates

The group's policy, as agreed by the board, is to achieve an efficient mix of funding at fixed rates of interest, floating rates of interest and rates indexed to retail prices. This mix also reflects utilisation of interest rate swaps so as to manage the group's net exposure to interest rate and retail price variations.

Group profit and loss account

for the year ended 31 March 2011

Notes		2011 £m	2010 £m
2	**Turnover**		
	Turnover (including share of joint ventures)	**1,134.6**	1,156.0
	Less: share of turnover of joint ventures	**(6.3)**	(6.1)
	Group turnover	**1,128.3**	1,149.9
	Operating costs:		
	Operating costs before exceptional operating profits/(costs) and goodwill amortisation	**(708.8)**	(709.2)
4	Exceptional operating profits/(costs)	**12.7**	(10.8)
	Goodwill amortisation	**(68.7)**	(68.7)
3	**Group operating costs**	**(764.8)**	(788.7)
	Group operating profit	**363.5**	361.2
	Share of operating profit in joint ventures	**1.2**	1.3
	Total operating profit		
	– Before exceptional operating profits/(costs) and goodwill amortisation	**420.7**	442.0
	– Exceptional operating profits/(costs)	**12.7**	(10.8)
	– Goodwill amortisation	**(68.7)**	(68.7)
2	**Total operating profit**	**364.7**	362.5
5	Net interest payable and similar charges	**(334.6)**	(243.7)
6	Other finance costs (net)	**(9.9)**	(15.5)
7	**Profit on ordinary activities before taxation**	**20.2**	103.3
8	Tax on profit on ordinary activities	**(29.2)**	(16.9)
	(Loss)/profit on ordinary activities after taxation	**(9.0)**	86.4
	Equity minority interest	**(1.7)**	(2.0)
	(Loss)/profit for the financial year	**(10.7)**	84.4

The results above all arise from continuing operations.

Notes 1 to 30 are an integral part of these financial statements.

There was no difference between both the profit on ordinary activities before taxation and the (loss)/profit for the financial year stated above, and their historical cost equivalents.

Group statement of total recognised gains and losses

for the year ended 31 March 2011

Notes		2011 £m	2010 £m
	(Loss)/profit for the financial year		
	Group	**(10.3)**	85.1
	Joint ventures	**(0.4)**	(0.7)
		(10.7)	84.4
22(c)	Actuarial gain/(loss) recognised on the pension schemes	**83.6**	(113.2)
	Current tax relating to the actuarial (gain)/loss on the pension schemes	**-**	4.9
	Deferred tax relating to the actuarial (gain)/loss on the pension schemes	**(23.4)**	26.8
	Impact of change in tax rate on deferred tax on pension schemes	**(1.2)**	-
	Currency translation differences on foreign currency net investments	**-**	(0.2)
	Total recognised gains and losses relating to the year	**48.3**	2.7
	Total recognised gains and losses relating to the year		
	– Group	**48.7**	3.4
	– Joint ventures	**(0.4)**	(0.7)

Group statement of movement in shareholder's funds

for the year ended 31 March 2011

Notes		2011 £m	2010 £m
	Total recognised gains and losses relating to the year	**48.3**	2.7
	Issue of shares	**-**	50.0
11	Dividends	**(242.2)**	(88.4)
	Movement in shareholder's funds	**(193.9)**	(35.7)
	Shareholder's funds at the beginning of the year	**416.6**	452.3
	Shareholder's funds at 31 March	**222.7**	416.6

Osprey Acquisitions Limited

Group and company balance sheets

at 31 March 2011

Notes		Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
	Fixed assets				
12	Intangible assets	**1,072.8**	1,141.5	-	-
13	Tangible assets	**5,611.9**	5,603.4	-	-
14	Investments				
	Joint ventures				
	– Share of gross assets	**65.2**	85.5	-	-
	– Share of gross liabilities	**(65.2)**	(85.5)	-	-
		-	-	-	-
	Other investments	-	-	**2,311.8**	2,311.8
	Total investments	-	-	**2,311.8**	2,311.8
		6,684.7	6,744.9	**2,311.8**	2,311.8
	Current assets				
15	Stocks	**25.8**	26.4	-	-
16	Debtors	**351.7**	332.7	**8.2**	7.4
	Investments	**49.0**	89.6	-	-
	Cash at bank and in hand (including short-term deposits)	**617.7**	694.2	**21.2**	43.2
		1,044.2	1,142.9	**29.4**	50.6
	Creditors: amounts falling due within one year				
17	Short-term borrowings	**(154.6)**	(21.4)	**(12.3)**	(17.4)
17	Other creditors	**(416.0)**	(435.9)	**(8.8)**	(6.2)
		(570.6)	(457.3)	**(21.1)**	(23.6)
	Net current assets	**473.6**	685.6	**8.3**	27.0
	Total assets less current liabilities	**7,158.3**	7,430.5	**2,320.1**	2,338.8
	Creditors: amounts falling due after more than one year				
18	Loans and other borrowings	**(6,627.9)**	(6,648.9)	**(1,166.9)**	(1,177.1)
18	Other creditors	**(131.1)**	(127.5)	-	-
		(6,759.0)	(6,776.4)	**(1,166.9)**	(1,177.1)
20	**Provisions for liabilities**	**(106.6)**	(91.5)	-	-
	Net assets excluding pension liabilities	**292.7**	562.6	**1,153.2**	1,161.7
22(d)	Pension liabilities	**(66.7)**	(142.6)	-	-
	Net assets including pension liabilities	**226.0**	420.0	**1,153.2**	1,161.7
	Capital and reserves				
23	Called up share capital	**854.2**	854.2	**854.2**	854.2
24	Profit and loss reserve	**(631.5)**	(437.6)	**299.0**	307.5
	Total shareholder's funds	**222.7**	416.6	**1,153.2**	1,161.7
	Minority interest	**3.3**	3.4	-	-
	Capital employed	**226.0**	420.0	**1,153.2**	1,161.7

Notes 1 to 30 are an integral part of these financial statements.

The financial statements were approved by the board of Directors on 20 June 2011 and signed on its behalf by:

Sir Adrian Montague CBE
Chairman

Scott Longhurst
Managing Director, Finance & Non Regulated Business

Osprey Acquisitions Limited

Group cash flow statement

for the year ended 31 March 2011

Notes		2011 £m	2010 £m
(a)	**Net cash inflow from operating activities**	**601.3**	633.4
	Returns on investments and servicing of finance		
	Interest received	**6.2**	5.7
	Interest paid	**(244.6)**	(255.0)
	Issue costs paid	**(14.0)**	(1.5)
	Interest element of finance lease rental payments	**(3.3)**	(3.4)
	Dividends paid to minority interests	**(1.7)**	(1.5)
	Net cash outflow for returns on investments and servicing of finance	**(257.4)**	(255.7)
	Taxation	**(9.7)**	(17.2)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(278.0)**	(353.7)
	Grants and contributions received	**24.0**	19.8
	Disposal of tangible fixed assets	**0.9**	1.1
	Net cash outflow for capital expenditure and financial investment	**(253.1)**	(332.8)
	Equity dividends paid	**(242.2)**	(88.4)
	Net cash outflow before management of liquid resources and financing	**(161.1)**	(60.7)
(b)	**Management of liquid resources**		
	Decrease in short-term deposits and investments	**73.1**	116.3
	Financing		
23	Issue of ordinary share capital	**-**	50.0
	Increase in amounts borrowed	**483.5**	205.8
	Repayment of amounts borrowed	**(437.0)**	(448.3)
	Capital element of finance lease rental payments	**(2.5)**	(2.2)
	Net cash inflow/(outflow) from financing	**44.0**	(194.7)
(c)	**Decrease in cash**	**(44.0)**	(139.1)

The notes (a) to (d) form part of this cash flow statement.

Notes to the group cash flow statement

for the year ended 31 March 2011

(a) **Reconciliation of operating profit to net cash inflow from operating activities**

	2011 £m	2010 £m
Group operating profit	**363.5**	361.2
Depreciation (net of amortisation of deferred grants and contributions)	**261.0**	254.2
Goodwill amortisation	**68.7**	68.7
Profit on sale of fixed assets	**(0.9)**	(0.9)
Difference between pension charge and cash contributions	**(33.7)**	(32.8)
Net movement in provisions	**(1.4)**	(0.3)
Working capital:		
Decrease in stocks	**0.6**	3.3
Increase in debtors	**(19.2)**	(46.6)
(Decrease)/increase in creditors	**(37.3)**	26.6
	(55.9)	(16.7)
Net cash inflow from operating activities	**601.3**	633.4

(b) **Management of liquid resources**

This comprises movements in short-term deposits which have maturity dates of up to one year.

(c) **Analysis of net debt**

	At 1 April 2010 £m	Cash flows £m	Non-cash movements £m	At 31 March 2011 £m
Cash at bank and in hand	219.2	(44.0)	-	**175.2**
Deposits and investments	564.6	(73.1)	-	**491.5**
Debt due within one year	(21.4)	9.0	(142.2)	**(154.6)**
Debt due after one year	(6,648.9)	(39.0)	60.0	**(6,627.9)**
	(5,886.5)	**(147.1)**	**(82.2)**	**(6,115.8)**

Non-cash movements comprise indexation of index-linked loan stock, indexation of Retail Price Index (RPI) swaps, transfers between categories of debt, amortisation of discounts and expenses relating to debt issues and amortisation of fair value adjustments.

Included within deposits and investments above are £442.5 million (2010: £475.0 million) of short-term deposits maturing within three months, which are included in the heading ‘cash at bank and in hand’ in the balance sheet.

At 31 March 2011, £131.7 million (2010: £188.1 million) of the group’s cash at bank and in hand and £470.6 million (2010: £488.9 million) of the deposits and investments were held in the Anglian Water Services Holdings Limited group. In order for these amounts to be made available to the rest of the group, Anglian Water Services Limited must satisfy certain covenants, which were put in place on 30 July 2002 following a financial restructuring, prior to declaring dividends. A further £12.3 million (2010: £17.4 million) of the group’s deposits and investments was held as collateral for outstanding loan notes. In addition, £1.9 million (2010: £0.1 million) of the group’s cash at bank and in hand and £2.5 million (2010: £10.7 million) of the deposits and investments were held by Rutland Insurance Limited (the group’s insurance captive) in order to maintain its required solvency ratio.

Notes to the group cash flow statement (continued)

for the year ended 31 March 2011

(d) **Reconciliation of net cash flow to movement in net debt**

	2011 **£m**	2010 £m
Decrease in cash	**(44.0)**	(139.1)
Decrease in short-term deposits and investments	**(73.1)**	(116.3)
Increase in amounts borrowed	**(483.5)**	(205.8)
Repayment of amounts borrowed	**437.0**	448.3
Capital element of finance lease rental payments	**2.5**	2.2
Issue costs relating to new borrowings	**14.0**	1.5
Amortisation of discount and expenses relating to debt issues	**(4.1)**	(2.6)
Amortisation of fair value adjustments	**31.8**	31.9
Indexation of loan stock and RPI swaps	**(109.9)**	(17.7)
Exchange differences	**-**	(0.1)
Movement in net debt	**(229.3)**	2.3
Net debt at the beginning of the year	**(5,886.5)**	(5,888.8)
Net debt at 31 March	**(6,115.8)**	(5,886.5)

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

a) **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (SI 2008/410), except as disclosed in note 1(m) below as relating to grants and contributions.

b) **Basis of preparation**

The group financial statements comprise a consolidation of the financial statements of the company and all its subsidiary undertakings at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of acquisition or to the effective date of disposal. Intra-group sales and profit are eliminated fully on consolidation.

The Directors have undertaken a detailed review to assess the liquidity requirements of the group compared against the cash and facilities available to the group, and have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

i. *Joint ventures*

Joint ventures are those entities over whose activities the group exercises joint control, established by contractual agreement. The group's interests in jointly controlled enterprises are accounted for by the gross equity method of accounting and are initially recognised at cost.

The consolidated financial statements include the group's share of the total recognised gains and losses of the jointly controlled enterprises on an equity accounting basis, from the date that joint control commences until the date that joint control ceases.

Jointly controlled operations and assets, where each party has its own separate interest in particular risks and rewards, are accounted for by including the attributable share of the assets, liabilities and cash flows measured according to the terms of the agreement.

To the extent that joint ventures have net liabilities and a contractual commitment exists for the group to settle those net liabilities, the aggregate amount is added back to investments and transferred to provisions.

ii. *Associates*

Associates are entities over which the group exercises significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

1. Accounting policies (continued)

c) **Foreign currencies**

Individual transactions denominated in foreign currencies are translated into local currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the profit and loss account.

On consolidation, the profit and loss accounts of the overseas subsidiaries are translated at the average exchange rates for the year and the balance sheets at the exchange rates at the balance sheet date. The exchange differences arising as a result of translating profit and loss accounts at average rates and restating opening net assets at closing rates are taken to reserves. Exchange differences on foreign currency borrowings are taken to reserves to the extent that they provide an effective hedge of the exchange differences arising on net investments in foreign subsidiaries.

Goodwill arising on the acquisition of an overseas subsidiary, associate or joint venture is calculated using exchange rates applicable at the date of acquisition and is subsequently re-translated at each balance sheet date.

d) **Turnover**

Turnover represents the income receivable (excluding Value Added Tax) in the ordinary course of business for goods and services provided and, in respect of unbilled charges, includes an accrual for measured income.

Turnover from sale of development properties which are not held for the long-term is recorded when a sale is completed in accordance with the profit recognition criteria in 1(e) below. Turnover includes sales of directly held work in progress and interests in special purpose subsidiaries and joint ventures if the substance of the transaction is the sale of the underlying property.

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year-end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £3.9 million).

e) **Profit recognition policy**

i. *Property development*

Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the year-end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses. Other profits arising from developments are included in the financial statements only when legal completion of the sale of the development has been effected.

ii. *Claims*

In establishing turnover and profit, credit is taken for claims only when negotiations are at an advanced stage and the outcome is substantially agreed by the client. Having released such claims in the profit and loss account, provision is made whenever ultimate payment seems doubtful.

iii. *Insurance claims and other recoveries*

Where some of the forecast expenditure on a contract is expected to be reimbursed by another party (such as an insurance company) the reimbursement is recognised only when receipt of the amount is virtually certain.

1. Accounting policies (continued)

f) Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred. Expenditure on fixed assets relating to development projects is written off over the expected useful life of those assets.

g) Bid and pre-contract costs

Bid and pre-contract costs are written off as an expense until such time as the award of a contract becomes virtually certain.

h) Exceptional items

Exceptional items are one-off items which derive from events or transactions that fall within ordinary activities of the entity and which individually or, if of a similar type, in aggregate need to be disclosed by virtue of their size or nature to enable a reader of the financial statements to understand the results for a particular period.

Those items which are not related to the group's normal trading activities, for example, costs of a fundamental restructuring, impairment of fixed assets and profit or loss on sale of businesses and related costs are shown separately on the face of the profit and loss account after operating profit and before interest. All other exceptional items are included within operating profit.

i) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided on timing differences, arising from the different treatment for accounts and taxation purposes of events and transactions recognised in the financial statements of the current and previous years. Deferred tax is calculated at the rates at which it is estimated that taxation will arise. The deferred tax balances are discounted using the post tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities. For assets with a life in excess of 30 years, an average rate based on bonds with a life up to 49 years has been used as no other quoted rates are available.

Deferred tax is not provided in respect of timing differences arising from the sale or 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.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recoverable in future years.

Calculation of deferred tax on infrastructure assets:

Infrastructure assets effectively have an unlimited life and a notional depreciation charge, the infrastructure renewal charge (IRC), is offset against the gross network asset value (see note 1(l)). For the purposes of estimating the deferred tax liability in relation to infrastructure assets, the useful life over which the underlying differences reverse is estimated by deflating the current cost based IRC to an appropriate deemed historic cost based depreciation charge.

j) Dividends

Dividends are recognised as a liability in the period in which they are approved or committed. Interim dividends are recognised in the period in which they are paid or when the company has a constructive or legal commitment to pay the dividend.

1. Accounting policies (continued)

k) **Goodwill**

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Fair values are assessed in accordance with FRS 7 'Fair values in acquisition accounting'. On disposal of a subsidiary undertaking, any goodwill that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

Goodwill is generally amortised over 20 years, being the Directors' best estimate of the useful economic life, or the life of the contract if less than 20 years.

Goodwill is tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable. In performing these tests assumptions are made in respect of the discount rate applied to the future cash flows of income-generating units. This discount rate is selected on the basis of the inherent risk associated with the income-generating unit.

l) **Tangible fixed assets and depreciation**

Tangible fixed assets comprise:

i. *Infrastructure assets*

Infrastructure assets comprise a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and recorded at cost along with related capital 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 Anglian Water Services Limited's Asset Management Plan, which is independently certified by the Reporter.

ii. *Other assets*

Other assets comprise land and non-operational buildings, operational assets (comprising sites used for water and wastewater treatment, pumping or storage where not classified as infrastructure) and vehicles, plant and equipment, and are included at cost less accumulated depreciation. Cost includes own work capitalised comprising the direct costs of materials, labour and applicable overheads. Interest costs are not capitalised.

Freehold land is not depreciated, nor are assets in the course of construction until commissioned. Depreciation of other assets is calculated at rates expected to write off the cost less the estimated residual value of the relevant assets on a straight line basis over their estimated economic lives, which are primarily as follows:

Operational assets	30 – 100 years
Buildings	30 – 60 years
Fixed plant	12 – 40 years
Vehicles, mobile plant and equipment	3 – 10 years

Fixed assets are assessed for impairment, in accordance with FRS 11 'Impairment of fixed assets and goodwill', if events or changes in circumstances indicate that the carrying value may not be recoverable.

1. Accounting policies (continued)

m) **Grants and contributions**

Grants and contributions for capital expenditure include government grants, infrastructure and connection charges, developer payments for water and sewer requisitions, sewer adoption fees and other contributions from third parties.

Grants and contributions to capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset.

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with Schedule 1 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view as, in the opinion of the Directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 13.

Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

n) **Leased assets**

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs; the capital element reducing the obligation to the lessor and the finance costs being written off to the profit and loss account over the primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

o) **Investments**

Investments held as fixed assets are stated at cost less any provision for impairment. For investments in subsidiary undertakings, cost includes long-term loans that are not expected to be repaid in the foreseeable future.

p) **Stocks and work in progress**

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress, with the exception of long-term contract work in progress, is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred.

q) **Long-term contracts**

Amounts recoverable on long-term contracts are stated at cost plus attributable profits, less provision for any known or anticipated losses, and include payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.

r) **Bad debts**

In Anglian Water, the bad debt provision is calculated by applying expected recovery rates, based on actual historical cash collection performance, to the aged debt profile. In the remaining subsidiary undertakings, specific provisions are made for those debts on which recovery is regarded as doubtful.

1. Accounting policies (continued)

s) **Current asset investments**

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet. Cash deposits with a maturity of greater than one day but less than three months are classified as cash at bank and in hand within the balance sheet but are classified within liquid resources for the purposes of the cash flow statement.

t) **Borrowings**

A financial liability is initially recognised net of issue costs incurred. Costs that are incurred directly in connection with the issue of a capital instrument are netted against the liability and amortised at a constant rate over the life of the underlying instrument.

Indexation on index-linked borrowings is calculated with reference to the current applicable UK RPI index compared to the UK RPI index applicable at the time of issue. It is payable on the maturity of each respective borrowing. The total interest charge on the index-linked borrowings is a product of the indexation accrued to date and the nominal coupon rate payable on the indexed principal of the borrowings.

u) **Financial instruments**

Derivative instruments are used for hedging purposes in line with the group's risk management policy and no speculative trading in financial instruments is undertaken. Loans and other borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency rates. Similarly, interest is charged to the profit and loss account based on the contracted interest rates.

Interest rate swaps and swaptions are used to manage the group's interest cost and to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Premiums on swaptions are included in the calculation of the contracted rates implicit in the instrument. Interest rate swaps and swaptions are not revalued to fair value prior to maturity.

Currency swaps are used to hedge foreign currency investments. The future currency exchange within such contracts is revalued to the rate of exchange at the balance sheet date and any unrealised gain or loss is matched with that of the underlying asset or liability in reserves. The interest coupon on such swaps is accrued in the same way as that on borrowings and deposits. Where a financial instrument is used to manage interest cost but is not part of a hedging relationship, gains are recognised on maturity of the instrument and losses are recognised immediately where there is an estimated future net cash outflow over the remaining life of the instrument.

On 23 November 2006 Osprey Acquisitions Limited acquired AWG Plc and its subsidiaries. On acquisition, fair values were attributed to the net identifiable assets and liabilities acquired in accordance with the requirements of FRS 6 'Acquisitions and mergers'. The fair value adjustment made to loans and borrowings on acquisition is being amortised over the life of the individual debt instruments to which it relates and is included within interest payable.

The group has not adopted FRS 26 'Financial instruments: recognition and measurement' and therefore the disclosure requirements of FRS 29 'Financial instruments: disclosures' are not applicable. The disclosure requirements of FRS 13 'Derivatives and other financial instruments: disclosures' have been applied.

1. Accounting policies (continued)

v) **Provisions**

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The group's policy on specific areas is as follows:

i. *Onerous lease costs*

Provision is made for the expected future costs of property and other leases to the extent that these costs are not expected to be of future benefit to the business, net of any recoveries from sub-leases.

ii. *Other onerous contracts*

Provision is made for contractual obligations on financial instruments that are not part of a hedging relationship where a future net cash outflow is forecast on the remaining life of the instrument.

iii. *Closure costs*

Once irrevocable decisions have been made to close an operation, provisions are made to reflect the extent to which obligations, including redundancy costs, have been incurred that are not expected to be covered by future profits of the operation. Provisions include only the direct costs of termination and any operating losses up to the date of the termination, after taking account of the aggregate profit, if any, to be recognised from the future profits of the operation.

iv. *Redundancy costs*

Redundancy costs are charged to the profit and loss account in the year in which the group both becomes irrevocably committed to incurring the costs and has raised a valid expectation with, and announced the main features of the programme to, affected employees or their representatives.

v. *Self insurance*

Some subsidiary companies self insure the risks where it is commercially prudent to do so. Provision is made in respect of notified claims to the extent that it is probable that a cash settlement will arise. Provision is made in the group's captive insurance company, Rutland Insurance Limited, for the expected cost of claims incurred but not reported.

w) **Pensions**

i. *Defined Benefit Schemes*

For defined benefit schemes, pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the year is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance charges. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits, subject to agreed liability caps, are recognised in full and presented on the face of the balance sheet, net of the related deferred tax.

ii. *Defined Contribution Schemes*

The cost of defined contribution schemes is charged to the profit and loss account in the year in which the contributions become payable.

1. Accounting policies (continued)

x) Key assumptions and significant judgments

The group uses estimates and makes judgments in the preparation of its financial statements. The areas where the most judgment is required are highlighted below.

i. *Measured income accrual*

For Anglian Water the measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year-end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical billing information. The calculation is sensitive to estimated consumption for measured domestic customers (a fall of one cubic metre in average annual consumption will reduce turnover by approximately £3.9 million).

ii. *Pensions*

The group operates a number of defined benefit schemes (most of which are closed to new members) as well as defined contribution schemes. Under FRS 17 'Retirement benefits' the group has recognised a pension deficit (before deferred tax) of £90.1 million (2010: £198.1 million). The main assumptions are set out in note 22 of the financial statements.

iii. *Tangible fixed assets*

The tangible fixed assets used in the group are primarily the infrastructure and operational assets of the regulated water business. Operational assets have estimated economic lives of between 30 and 100 years and the depreciation charge is clearly sensitive to the lives allocated to the various types of asset. The depreciation charge for infrastructure assets is based on the level of future annual expenditure which requires judgment in determining this estimate. Asset lives are reviewed regularly and changed where necessary to reflect the current view on their remaining lives in light of the technological change, prospective economic utilisation and the physical condition of the assets.

iv. *Taxation*

The group's tax charge is based on the profit for the year and tax rates in force at the balance sheet date. Estimation of the tax charge involves an assessment of the potential tax treatment of certain items which will only be resolved once finally agreed with the tax authorities.

2. Segmental analysis

By class of business for the year ended 31 March 2011

At 31 March 2011 the group was organised into two main businesses:

- Anglian Water; regulated water, wastewater and environmental service provider to domestic and industrial customers in eastern England and Hartlepool.
- AWG Property; commercial and residential property developer.

	Turnover £m	Total operating profit before exceptional operating profits and goodwill amortisation £m	Exceptional operating profits £m	Goodwill amortisation £m	Total operating profit £m	Net operating assets/ (liabilities)[2] £m
Anglian Water	**1,092.3**	**447.3**	-	(68.7)	**378.6**	**6,439.8**
AWG Property	**16.6**	**(10.5)**	-	-	**(10.5)**	**11.6**
Other [1]	**26.1**	**(14.7)**	12.7	-	**(2.0)**	**(29.2)**
Less: Intersegmental trading	**(0.4)**	**(1.4)**	-	-	**(1.4)**	**-**
	1,134.6	**420.7**	**12.7**	**(68.7)**	**364.7**	**6,422.2**
Net debt						**(6,115.8)**
Current tax						**(15.3)**
Deferred tax						**(65.1)**
						226.0
Total						
– Group	1,128.3	419.5	12.7	(68.7)	363.5	
– Joint ventures	6.3	1.2	-	-	1.2	

[1] The 'Other' business segment mainly comprises head office, amortisation of fair value adjustments made on acquisition, Celtic Anglian Water which operates wastewater treatment works in the Republic of Ireland and a few residual international interests.

[2] Net operating assets/(liabilities) are shown before the deduction of net debt, current tax and deferred tax.

2. **Segmental analysis** (continued)

By class of business for the year ended 31 March 2010

	Turnover £m	Total operating profit before exceptional operating costs and goodwill amortisation £m	Exceptional operating costs £m	Goodwill amortisation £m	Total operating profit £m	Net operating assets/ (liabilities) £m
Anglian Water	1,099.8	472.0	(8.8)	(68.7)	394.5	6,415.4
AWG Property	17.7	(11.2)	-	-	(11.2)	16.2
Other	39.1	(18.8)	(2.0)	-	(20.8)	(56.7)
Less: Intersegmental trading	(0.6)	-	-	-	-	-
	1,156.0	442.0	(10.8)	(68.7)	362.5	6,374.9
Net debt						(5,886.5)
Current tax						(14.6)
Deferred tax						(53.8)
						420.0
Total						
– Group	1,149.9	440.7	(10.8)	(68.7)	361.2	
– Joint ventures	6.1	1.3	-	-	1.3	

By geographical segment

	Turnover		Total operating profit		Net operating assets/(liabilities)	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
United Kingdom	**1,109.7**	1,118.5	**358.5**	358.5	**6,423.9**	6,381.1
Europe	**21.2**	34.7	**3.7**	4.3	**0.9**	(0.6)
Rest of world	**3.7**	2.8	**2.5**	(0.3)	**(2.6)**	(5.6)
	1,134.6	1,156.0	**364.7**	362.5	**6,422.2**	6,374.9

There is no material difference between turnover by geographical origin and by geographical destination.

3. Group operating costs

	2011			2010		
	Before exceptional operating profits £m	**Exceptional operating profits [1] £m**	**Total £m**	Before exceptional operating costs £m	Exceptional operating costs [1] £m	Total £m
Raw materials and consumables	19.1	-	**19.1**	12.0	-	12.0
Other operating costs	321.4	(12.7)	**308.7**	338.6	1.2	339.8
Staff costs (see note 9)	157.3	-	**157.3**	159.5	9.6	169.1
Change in stocks of finished goods and work in progress	0.1	-	**0.1**	1.7	-	1.7
Own work capitalised	(49.2)	-	**(49.2)**	(55.9)	-	(55.9)
Profit on sale of fixed assets [2]	(0.9)	-	**(0.9)**	(0.9)	-	(0.9)
Operating costs before depreciation and amortisation	447.8	(12.7)	**435.1**	455.0	10.8	465.8
Depreciation of tangible fixed assets	268.9	-	**268.9**	261.6	-	261.6
Amortisation of deferred grants and contributions	(7.9)	-	**(7.9)**	(7.4)	-	(7.4)
Depreciation net of amortisation of deferred grants and contributions	261.0	-	**261.0**	254.2	-	254.2
Total before amortisation of intangible assets	708.8	(12.7)	**696.1**	709.2	10.8	720.0
Amortisation of intangible assets	68.7	-	**68.7**	68.7	-	68.7
Group operating costs	**777.5**	**(12.7)**	**764.8**	777.9	10.8	788.7

(1) The exceptional operating profits in 2011 of £12.7 million relate to the settlement of outstanding items associated with prior year disposals (see note 4) and the transfer of pension liabilities from another group company. The exceptional operating costs of £10.8 million in 2010 relate to restructuring and other costs.

(2) The profit on sale of fixed assets relates to various sales of surplus land and assets.

4. Exceptional items

	2011 £m	2010 £m
Exceptional operating profits/(costs)	**12.7**	(10.8)

The settlement of outstanding items associated with prior year disposals has resulted in the release of £10.8 million in respect of amounts previously provided. In addition, the transfer of pension liabilities from another group undertaking generated a profit of £1.9 million.

Exceptional operating costs for the year ended 31 March 2010 relate to redundancy and other one-off costs incurred to reposition the Anglian Water business to meet the challenge of the Final Determination published by Ofwat in November 2009, £8.8 million, and senior management restructuring costs, £2.0 million.

No tax charge/credit has been included in respect of these items.

5. Net interest payable and similar charges

	2011 £m	2010 £m
Interest payable on bank loans and overdrafts	**-**	(0.6)
Interest payable on other loans including financing expenses	**(258.1)**	(258.3)
Indexation	**(109.9)**	(17.7)
Interest payable on finance leases	**(3.2)**	(3.0)
Amortisation of fair value adjustments	**31.8**	31.9
Group interest and similar charges payable	**(339.4)**	(247.7)
Share of joint venture interest payable	**(1.6)**	(2.0)
Total interest and similar charges payable	**(341.0)**	(249.7)
Group interest receivable	**6.4**	6.0
Net interest payable and similar charges	**(334.6)**	(243.7)
Total		
– Group	**(333.0)**	(241.7)
– Joint ventures	**(1.6)**	(2.0)

6. Other finance costs (net)

	2011 £m	2010 £m
Unwinding of discount on onerous lease obligation provision (see note 20)	**(0.6)**	(0.1)
Defined benefit pension scheme interest charge (see note 22(b))	**(9.3)**	(15.4)
	(9.9)	(15.5)

7. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2011 £m	2010 £m
Profit on disposal of tangible fixed assets	**(0.9)**	(0.9)
Operating lease rentals		
– Land and buildings	**10.4**	10.1
– Plant and machinery	**2.6**	2.8
Depreciation of tangible fixed assets (net of amortisation of deferred grants and contributions)		
– Owned assets	**253.0**	246.1
– Under finance leases	**8.0**	8.1
Amortisation of goodwill – subsidiaries	**68.7**	68.7
Research and development expenditure	**0.2**	0.4
Fees paid to the auditors:		
– Auditing the company's financial statements	**-**	-
– Auditing of accounts of associates of the company pursuant to legislation (including that of countries outside Great Britain)	**0.5**	0.4
– For other services supplied pursuant to regulatory requirements	**0.1**	0.1
– For other services	**0.8**	0.5
Total fees paid to the auditors	**1.4**	1.0

8. Taxation

	2011 £m	2010 £m
Analysis of charge in the year		
Current tax:		
UK corporation tax – current year	**10.1**	22.2
Adjustment in respect of previous periods	**(3.2)**	-
	6.9	22.2
Foreign tax	**0.5**	0.6
Total current tax charge	**7.4**	22.8
Deferred tax:		
Charge for timing differences arising in year	**14.5**	27.6
Impact of discounting on deferred tax liability	**0.6**	(9.9)
Impact of decrease/(increase) in discount rates	**5.0**	(1.8)
Adjustments in respect of previous periods	**14.3**	(21.8)
Effect of reduction in corporation tax rate	**(12.6)**	-
Total deferred tax charge/(credit) (see note 21)	**21.8**	(5.9)
Total tax charge on profit on ordinary activities	**29.2**	16.9

The post-tax yield to maturity on UK Government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £5.0 million (2010: credit of £1.8 million) in the year. If all UK gilt rates moved by 0.25%, a change in the tax charge of between £10.0 million and £15.0 million would occur.

During the year, as a result of the change in the UK corporation tax rate from 28% to 26% that is effective from 1 April 2011, all relevant deferred tax balances have been re-measured. Further changes to the UK corporation tax rate were announced in the June 2010 and March 2011 Budgets which propose to reduce the rate by 1% per annum to 23% by 1 April 2014. These changes, which are expected to be enacted separately each year, had not been substantively enacted at the balance sheet date and therefore have not been recognised in these financial statements.

The current tax adjustment in respect of prior years relates to the agreement of prior year tax computations. The deferred tax adjustments in respect of previous periods, for both 2011 and 2010, relate to adjustments to prior year capital allowance claims.

In 2010, in addition to the current tax charge above, a £4.9 million credit for current tax was recognised in the statement of total recognised gains and losses in relation to tax relief on pension contributions that were in excess of the pension costs charged to the profit and loss account.

Factors affecting tax charge for the year

The tax assessed for the year is higher (2010: lower) than the standard rate of Corporation Tax in the UK of 28% (2010: 28%). The differences are explained below:

	2011 £m	2010 £m
Profit on ordinary activities before taxation	**20.2**	103.3
Profit on ordinary activities at the standard UK rate of corporation tax of 28%	**5.7**	28.9
Effects of:		
Items not deductible for tax purposes (including goodwill amortisation)	**23.8**	22.5
Items not taxable	**(3.2)**	(0.3)
Capital allowances for the year less than (2010: in excess of) depreciation	**2.9**	(18.0)
Short-term timing differences	**(17.4)**	(9.6)
Difference in foreign tax rates	**(0.6)**	(0.7)
Losses in joint venture companies	**0.1**	-
Losses brought forward	**(0.7)**	-
Adjustments in respect of previous periods	**(3.2)**	-
Current tax charge for the year	**7.4**	22.8

9. Employee information and Directors' emoluments

a) Employee information

	2011 £m	2010 £m
Staff costs for the group		
Wages and salaries	**130.2**	145.6
Social security costs	**11.4**	10.7
Pension costs – defined contribution (see note 22)	**3.6**	3.7
Pension costs – defined benefit (see note 22)	**12.1**	9.1
	157.3	169.1

Staff costs for the year ended 31 March 2011 include £35.9 million (2010: £37.9 million) of costs that have been capitalised within 'own work capitalised'.

Average monthly number of full-time equivalent persons (including Executive Directors) employed by the group:

	2011	2010
Anglian Water	**3,696**	3,811
AWG Property	**14**	20
Other	**224**	275
	3,934	4,106

The 'Other' business segment mainly comprises head office, Celtic Anglian Water and a few residual international interests.

The company
The company has no employees (2010: none).

b) Directors' emoluments

	2011 £'000	2010 £'000
Aggregate emoluments	**2,127**	2,546
Pension costs – defined contribution	**163**	425
Compensation for loss of office	**-**	846
Benefits received under long-term incentive plans	**2,137**	8,522

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under annual bonus schemes. Retirement benefits are accruing to one Director (2010: one) under defined benefit schemes and two Directors (2010: two) under money purchase schemes.

	2011 £'000	2010 £'000
Highest paid Director		
Aggregate emoluments	**843**	1,289
Pension costs – defined contribution	**112**	319
Compensation for loss of office	**-**	846
Benefits received under long-term incentive plans	**1,795**	7,111

10. Profit of the parent company

The company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The profit for the year, dealt with in the financial statements of the company, is £233.7 million (2010: £59.3 million).

11. Dividends

Interim dividends paid during the year

	2011	2010
	£m	£m
Paid on:		
8 December 2010	**137.2**	-
8 June 2010	**105.0**	-
15 February 2010	**-**	16.9
2 February 2010	**-**	71.5
	242.2	88.4

In addition, a first interim dividend of £100.0 million in respect of the year ended 31 March 2012 was approved by the board on 26 May 2011 and was paid on 8 June 2011. This dividend has not been included as a liability at 31 March 2011.

12. Intangible assets

	Goodwill
	£m
The group	
Cost	
At 1 April 2010 and 31 March 2011	**1,371.5**
Amortisation	
At 1 April 2010	**(230.0)**
Charge for the year	**(68.7)**
At 31 March 2011	**(298.7)**
Net book amount	
At 31 March 2011	**1,072.8**
At 31 March 2010	1,141.5

The company

The company has no intangible assets (2010: none).

13. Tangible fixed assets

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Vehicles, plant and equipment £m	Assets under construction £m	Total £m
The group						
Cost						
At 1 April 2010	39.1	3,087.8	2,735.0	384.8	210.9	**6,457.6**
Additions	0.1	-	-	0.3	291.6	**292.0**
Transfers on commissioning	2.9	145.8	100.8	80.7	(330.2)	**-**
Disposals	-	-	-	(0.1)	-	**(0.1)**
At 31 March 2011	**42.1**	**3,233.6**	**2,835.8**	**465.7**	**172.3**	**6,749.5**
Grants and contributions						
At 1 April 2010	-	(39.6)	-	-	(0.2)	**(39.8)**
Additions	-	(14.7)	-	-	0.1	**(14.6)**
At 31 March 2011	**-**	**(54.3)**	**-**	**-**	**(0.1)**	**(54.4)**
Depreciation						
At 1 April 2010	(2.4)	(261.1)	(376.0)	(174.9)	-	**(814.4)**
Charge for the year	(0.6)	(79.0)	(130.0)	(59.3)	-	**(268.9)**
Disposals	-	-	-	0.1	-	**0.1**
At 31 March 2011	**(3.0)**	**(340.1)**	**(506.0)**	**(234.1)**	**-**	**(1,083.2)**
Net book amount						
At 31 March 2011	**39.1**	**2,839.2**	**2,329.8**	**231.6**	**172.2**	**5,611.9**
At 31 March 2010	36.7	2,787.1	2,359.0	209.9	210.7	5,603.4

Tangible fixed assets at 31 March 2011 include land of £24.5 million (2010: £21.8 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

Assets held under finance leases

Included within the amounts shown above are the following amounts in relation to tangible fixed assets held under finance leases:

	2011 £m	2010 £m
Cost	**113.6**	113.6
Aggregate depreciation	**(32.9)**	(24.9)
Net book amount at 31 March	**80.7**	88.7
Depreciation charged in year	**(8.0)**	(8.1)

The company

The company has no tangible fixed assets (2010: none).

14. Investments

a) Joint ventures

	£m
The group	
Amount under equity method of accounting	
At 1 April 2010	-
Loss for the year	**(0.4)**
Amounts offset against trade balances	**0.4**
At 31 March 2011	**-**

The loss for the year of joint ventures is stated after operating profits of £1.2 million (2010: £1.3 million) less interest payable of £1.6 million (2010: £2.0 million).

Set out below is an analysis of the group's principal joint ventures at 31 March 2011.

Undertaking	Country of incorporation	Activity	Proportion of shares held
AWG Property			
AWG Outlets (Rathdowney) Limited (i)	Ireland	Property development	50%
Shawlands Retail Limited	Scotland	Property development	50%

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Osprey Acquisitions Limited.

The accounting year-end for all the above undertakings is 31 March and, unless otherwise stated, the class of shares held is ordinary shares of £1 each.

(i) The class of shares held is one Euro each.

b) Other investments

	£m
The group	
Cost	
At 1 April 2010 and 31 March 2011	-

Other investments include a 4.25% investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina. This investment is held at its cost of £nil (2010: £nil). The net book value at 31 March 2011 included £nil (2010: £nil) of shares.

14. Investments (continued)

c) Subsidiary undertakings

	Shares £m
The company	
Cost	
At 1 April 2010 and 31 March 2011	**2,311.8**

During the year, the company subscribed for 50,000 ordinary shares of £1.00 in Anglian Water (Osprey) Financing Plc. One share is fully paid at par, the remaining shares are part paid at 25p per share.

The principal subsidiary undertakings of the group are listed in note 30.

15. Stocks

	Group		Company	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Raw materials and consumables	**9.7**	10.2	**-**	-
Work in progress	**16.1**	16.2	**-**	-
	25.8	26.4	**-**	-

There is no material difference between the balance sheet value of stocks and their replacement cost.

16. Debtors

	Group		Company	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Amounts falling due within one year				
Trade debtors	**172.4**	174.5	**-**	-
Amounts due from customers for contract work	**-**	0.7	**-**	-
Amounts owed by group undertakings	**2.5**	0.2	**-**	-
Amounts owed by joint ventures				
– Trade balances	**0.2**	0.8	**-**	-
– Loans	**8.3**	9.1	**-**	-
Corporation tax recoverable	**-**	-	**8.1**	7.3
Other debtors	**11.2**	10.3	**-**	-
Prepayments and accrued income	**157.1**	137.1	**0.1**	0.1
	351.7	332.7	**8.2**	7.4

Prepayments and accrued income as at 31 March 2011 includes water and wastewater income not yet billed of £144.2 million (2010: £121.4 million).

17. Creditors: amounts falling due within one year

	Group		Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Current portion of loans and other borrowings	**151.6**	18.8	**12.3**	17.4
Obligations under finance leases	**3.0**	2.6	**-**	-
Short-term borrowings (see note 19)	**154.6**	21.4	**12.3**	17.4
Trade creditors	**113.4**	118.6	**-**	-
Receipts in advance	**116.7**	126.4	**-**	-
Amounts owed to group undertakings	**-**	-	**0.3**	-
Amounts owed to joint ventures	**0.5**	0.5	**-**	-
Other creditors	**2.6**	7.2	**-**	-
Corporation tax	**15.3**	14.6	**-**	-
Other taxation and social security	**3.9**	3.6	**-**	-
Accruals and deferred income	**155.8**	157.6	**8.5**	6.2
Deferred grants and contributions	**7.8**	7.4	**-**	-
Other creditors	**416.0**	435.9	**8.8**	6.2

Receipts in advance includes £101.6 million (2010: £108.6 million) relating to amounts received from customers for water and wastewater charges in respect of the following year.

18. Creditors: amounts falling due after more than one year

	Group		Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Non-current portion of long-term loans	**5,838.0**	5,855.9	**95.2**	448.3
Amounts owed to parent undertaking	**728.8**	728.8	**728.8**	728.8
Amounts owed to subsidiary undertakings	**-**	-	**342.9**	-
Obligations under finance leases	**61.1**	64.2	**-**	-
Loans and other borrowings (see note 19)	**6,627.9**	6,648.9	**1,166.9**	1,177.1
Deferred grants and contributions	**131.1**	127.5	**-**	-
Other creditors	**131.1**	127.5	**-**	-

19. Loans, other borrowings and financial instruments

	Group		Company	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Loans and other borrowings				
£100 million 12.375% fixed rate 2014 (d), (g)	**112.1**	116.5	**-**	-
£250 million 5.837% fixed rate 2022 (d), (g)	**263.6**	264.7	**-**	-
£200 million 6.875% fixed rate 2023 (d), (g)	**226.1**	228.2	**-**	-
£200 million 6.625% fixed rate 2029 (d), (g)	**223.5**	224.8	**-**	-
£246 million 6.293% fixed rate 2030 (d), (g)	**275.1**	276.6	**-**	-
£275 million 7.882% fixed rate 2012/2037 [(1)] (d), (f), (g)	**295.8**	296.3	**-**	-
£250 million 5.25% fixed rate 2015 (b), (d), (g)	**251.6**	251.9	**-**	-
£150 million 5.5% fixed rate 2017/2040 [(2)] (b), (d), (f), (g)	**150.6**	150.7	**-**	-
£150 million 4.125% index-linked 2020 (c), (d), (g)	**232.5**	226.0	**-**	-
£75 million 3.666% index-linked 2024 (c), (d), (g)	**113.6**	110.2	**-**	-
£200 million 3.07% index-linked 2032 (c), (d), (g)	**318.9**	309.5	**-**	-
£60 million 3.07% index-linked 2032 (c), (d), (g)	**96.2**	93.4	**-**	-
Finance leases (b), (d), (g)	**64.1**	66.8	**-**	-
£150 million index-linked swap 2024 (e), (g)	**32.7**	65.4	**-**	-
£175 million index-linked swap 2030 (e), (g)	**48.6**	86.7	**-**	-
£258 million index-linked swap 2013 (e), (g)	**62.3**	54.5	**-**	-
Euro 650 million 4.625% fixed rate 2013 (a), (b), (d), (g)	**459.3**	461.7	**-**	-
US$195 million 7.23% private placements 2011 (a), (d), (g)	**139.2**	141.4	**-**	-
£402 million 2.4% index-linked 2035 (c), (d), (g)	**498.1**	476.9	**-**	-
£50 million 1.7% index-linked 2046 (c), (d), (g)	**67.0**	64.5	**-**	-
£50 million 1.7% index-linked 2046 (c), (d), (g)	**67.0**	65.5	**-**	-
£40 million 1.7146% indexation bond 2056 (c), (d), (g)	**56.3**	54.4	**-**	-
£50 million 1.6777% indexation bond 2056 (c), (d), (g)	**69.8**	67.3	**-**	-
£60 million 1.7903% indexation bond 2049 (c), (d), (g)	**83.7**	80.8	**-**	-
£100 million 1.3784% indexation bond 2057 (c), (d), (g)	**115.5**	111.8	**-**	-
£50 million 1.3825% indexation bond 2056 (c), (d), (g)	**57.7**	55.8	**-**	-
£100 million Class A wrapped floating rate bonds (d), (g)	**99.9**	99.9	**-**	-
£100 million index-linked swap 2057 (e), (g)	**14.1**	11.7	**-**	-
£75 million 1.449% indexation bond 2062 (c), (d), (g)	**81.5**	80.6	**-**	-
£50 million 1.52% indexation bond 2055 (c), (d), (g)	**54.3**	53.6	**-**	-
JPY 15 billion 2.925% fixed rate bond 2018/2037 (a), (b), (d), (g)	**65.9**	65.9	**-**	-
£65.9 million index-linked swap 2059 (e), (g)	**5.9**	4.9	**-**	-
£110 million Class A unwrapped floating rate bonds 2043 (d), (g)	**109.9**	109.9	**-**	-
£50 million index-linked swap 2043 (e), (g)	**4.3**	1.8	**-**	-
JPY 5 billion 3.22% fixed rate bond 2038 (a), (b), (d), (g)	**25.0**	25.0	**-**	-
Euro 500 million 6.25% fixed rate bond 2016 (a), (d), (g)	**392.7**	392.4	**-**	-
£25 million 6.875% private placements 2034 (d), (g)	**24.6**	24.6	**-**	-
£100 million Class B 6.75% fixed rate bond 2024 [(3)] (d), (g)	**98.9**	98.9	**-**	-
EIB £50 million 1.626% index-linked term facility 2019 (c), (d), (g)	**53.6**	51.1	**-**	-
EIB £50 million 1.3% index-linked term facility 2020 (c), (g)	**52.9**	50.5	**-**	-
£130 million 2.262% indexation bond 2045 (c), (d), (g)	**133.6**	-	**-**	-
£100 million term facility [(4)] (b), (d), (h), (i)	**95.2**	448.3	**95.2**	448.3
£350 million Class B 7.0% fixed rate bond 2018 (d), (i)	**342.9**	-	**342.9**	-
Loan notes LIBOR minus 0.50% 2012	**12.3**	17.4	**12.3**	17.4
£729 million interest free loan	**728.8**	728.8	**728.8**	728.8
Other loans	**5.3**	2.7	**-**	-
Total loans and other borrowings	**6,782.5**	6,670.3	**1,179.2**	1,194.5
Less amounts included in creditors falling due within one year	**(154.6)**	(21.4)	**(12.3)**	(17.4)
Loans and other borrowings due after more than one year	**6,627.9**	6,648.9	**1,166.9**	1,177.1

19. Loans, other borrowings and financial instruments (continued)

(a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar, Euro and Japanese Yen borrowings. The adjustment to the US dollar borrowings is £17.1 million (2010: £10.1 million), the adjustment to the Euro borrowings is £(168.6) million (2010: £(177.0) million) and the adjustment to the Japanese Yen borrowings is £(59.3) million (2010: £(49.9) million).

(b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index-linked debt in accordance with the group's hedging policy.

(c) The value of the capital and interest elements of the index-linked loans are linked to movements in the Retail Price Index. The total increase in the capital value of index-linked loans during the year of £82.7 million (2010: £4.2 million) has been taken to the profit and loss account as part of interest payable.

(d) These loans are shown net of issue costs. The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments.

(e) The group has entered into six (2010: six) index-linked interest rate swap agreements. The values of the notional capital on these swaps are linked to movements in the Retail Price Index. The increase in the notional capital value is payable at the final maturity date of the swaps. The increase for the current year of £27.2 million (2010: £13.5 million) has been taken to the profit and loss account as part of interest payable.

(f) Legal maturity of these instruments is the second of the years quoted. Coupon 'step-up' is in the first of the years quoted.

(g) A security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, Anglian Water Services Limited, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of Anglian Water Services Limited to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, Anglian Water Services Limited and Anglian Water Services Overseas Holdings Limited. At 31 March 2011 this charge applies to £5,598.0 million (2010: £5,473.1 million) of the debt listed above.

(h) A debenture dated 10 October 2007 between Osprey Acquisitions Limited and the Royal Bank of Scotland Plc as Trustee created a fixed and floating charge over all of the assets of Osprey Acquisitions Limited. As at 31 March 2010, this charge applied to £448.3 million of the debt listed above. As a consequence of the refinancing of Osprey Acquisitions Limited in January 2011, this debenture has been replaced by the security agreement described in note (i) below.

(i) A security agreement dated 31 January 2011 between Anglian Water (Osprey) Financing Plc, Osprey Acquisitions Limited and Deutsche Trustee Company Limited (as agent and trustee for itself and each of the Finance Parties to the Guaranteed Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of Anglian Water (Osprey) Financing Plc and Osprey Acquisitions Limited. In addition there is a fixed charge over the issued share capital of Anglian Water (Osprey) Financing Plc and AWG Parent Co Limited. At 31 March 2011 this charge applies to £438.1 million of the debt listed above.

(1) The coupon for this instrument will increase to floating rate LIBOR plus 6.0% effective July 2012. The bond contains an issuer call option whereby from 30 July 2012 the bond can be redeemed on any interest payment date for 100% of the nominal amount of the bond.

(2) The coupon for this instrument will increase to floating rate 3 month LIBOR plus 3.5% effective October 2017. The bond contains an issuer call option whereby the bond can be redeemed on 10 October 2017 and on any interest payment date from 10 January 2018 for 100% of the nominal amount of the bond.

(3) The basis for this instrument will change from fixed rate to floating rate 3 month LIBOR plus 10.9% effective June 2014. The bond contains an issuer call option whereby the bond can be redeemed at par on 11 June 2014 and each interest payment date thereafter.

(4) During the year this facility was reduced from £450 million to £100 million.

19. Loans, other borrowings and financial instruments (continued)

Maturity analysis of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, at 31 March was as follows:

	Loans £m	Finance leases £m	Other financial liabilities £m	Total £m
At 31 March 2011				
Less than one year	151.6	3.0	9.9	**164.5**
Between one and two years	4.1	3.4	5.0	**12.5**
Between two and five years	981.7	17.0	6.3	**1,005.0**
After five years	5,581.0	40.7	20.3	**5,642.0**
	6,718.4	**64.1**	**41.5**	**6,824.0**
At 31 March 2010				
Less than one year	18.8	2.6	5.8	27.2
Between one and two years	141.4	3.0	8.0	152.4
Between two and five years	1,082.3	15.6	7.1	1,105.0
After five years	5,361.0	45.6	16.8	5,423.4
	6,603.5	66.8	37.7	6,708.0

The group analysis is net of issue costs of £33.4 million (2010: £23.5 million). The amortisation of issue costs is included in financing expenses within the interest charge (see note 5).

Other financial liabilities comprise provisions of £41.5 million (2010: £37.7 million).

For the group the current and long-term borrowings can be analysed as follows:

	2011 Creditors: amounts falling due within one year £m	**2011** Creditors: amounts falling due after more than one year £m	2010 Creditors: amounts falling due within one year £m	2010 Creditors: amounts falling due after more than one year £m
Amounts owed	**151.6**	**6,594.9**	17.4	6,606.9
Debt issue costs	**-**	**(33.4)**	-	(23.5)
Obligations under finance leases	**3.0**	**61.1**	2.6	64.2
Other loans	**-**	**5.3**	1.4	1.3
	154.6	**6,627.9**	21.4	6,648.9

Borrowing facilities

	2011 £m	2010 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	**355.0**	580.0
Expiring between one and two years	**355.0**	-
Expiring between two and five years	**25.0**	25.0
	735.0	605.0

19. Loans, other borrowings and financial instruments (continued)

Financing structure

The group's regulated water and wastewater business, Anglian Water, is funded predominately by debt in the form of long-term bonds and other debt instruments through its financing subsidiary Anglian Water Services Financing Plc. At 31 March 2011 Anglian Water's net debt to capital value ratio (net debt as defined in the Common Terms Agreement expressed as a percentage of Anglian Water's regulated capital value) was 78.5% (2010: 80.6%).

The group has also raised finance within Osprey Acquisitions Limited and its direct subsidiary Anglian Water (Osprey) Financing Plc. During the year the group issued a £350 million fixed rate bond through its new financing subsidiary Anglian Water (Osprey) Financing Plc, to replace part of the term facility within Osprey Acquisitions Limited which was due to mature in October 2012. A new £125 million forward start facility in Anglian Water (Osprey) Financing Plc has also been arranged with an effective date of October 2011, and this will replace the remaining £100 million drawn term facility and £25 million undrawn revolving facility in Osprey Acquisitions Limited when these mature in October 2011.

Control of treasury

The treasury team, which reports directly to the Managing Director, Finance & Non Regulated Business, substantially manages the financing, including debt, interest costs and foreign exchange for the group. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The treasury function will actively endeavour to:

- ensure that lenders' covenants are met;
- secure funds through a balanced approach to financial markets and maturities;
- manage interest rates to minimise financial exposures and minimise interest costs;
- invest temporary surplus cash to best advantage at minimal financial risk;
- maintain an excellent reputation with providers of finance and rating agencies;
- promote management techniques and systems;
- enhance control of financial resources; and
- monitor counter party credit exposure.

Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual, currency, liquidity and credit risks. The group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. Treasury matters are reported to the board each month.

A Finance, Treasury and Energy Policy Group, including the Managing Director, Finance & Non Regulated Business and the Group Treasurer, meets monthly with the specific remit of reviewing treasury matters.

The group aims to meet its funding requirements primarily through accessing a range of financial markets such as public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits, commercial paper, certificates of deposit, treasury bills and AAA rated money funds.

The group also enters into derivative transactions (principally currency and interest rate swaps) to manage the interest rate and currency risks arising from the treasury policy.

To ensure continued effectiveness and relevance, the board carries out a formal annual review of the treasury strategy.

Borrowing covenants

With the exception of asset-based funding, the group's borrowings are raised by the company, Anglian Water (Osprey) Financing Plc and Anglian Water Services Financing Plc. The treasury function monitors compliance against all financial obligations and it is the group's policy to manage the balance sheet so as to ensure operation within covenant restrictions.

19. Loans, other borrowings and financial instruments (continued)

Market risk

a) *Foreign currency*

The group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The group uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation.

b) *Interest rate*

The group's policy for the management of interest rate risk is to achieve a balanced mix of funding at indexed (to RPI), fixed and floating rates of interest.

c) *Commodity price risk*

The group is exposed to commodity price risk in its energy procurement and utilises forward energy instruments to minimise its exposure to price fluctuations.

Credit risk

Placements of cash on deposit expose the group to credit risk against the counterparties concerned. The group has credit protection measures in place within agreements which provide protection in the event of counterparty rating downgrade or default. The group only places cash deposits with banks of high credit standing (as measured by reputable rating agencies) and also seeks to diversify exposure such that concentration with individual banks is avoided.

Liquidity risk

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments.

Financial instruments disclosures

Short-term debtors and creditors have been excluded from this note except for the comments on currency exposures to the financial statements.

Fair value of financial assets and financial liabilities

	2011		2010	
	Book value £m	**Fair value [1] £m**	Book value £m	Fair value [1] £m
Cash at bank and in hand (including short-term deposits)	**617.7**	**617.7**	694.2	694.2
Current asset investments	**49.0**	**49.0**	89.6	89.6
Short-term borrowings	**(137.2)**	**(140.5)**	(21.4)	(21.4)
Long-term borrowings	**(6,681.0)**	**(6,734.8)**	(6,631.5)	(6,546.8)
Interest rate swaps	**203.6**	**234.7**	207.7	263.6
Index-linked swaps	**(167.9)**	**(449.1)**	(225.1)	(425.1)
Net debt	**(6,115.8)**	**(6,423.0)**	(5,886.5)	(5,945.9)
Energy hedging instruments	**-**	**24.8**	-	(21.6)
Provisions excluding deferred tax (see note 20)	**(41.5)**	**(38.4)**	(37.7)	(36.9)
	(6,157.3)	**(6,436.6)**	(5,924.2)	(6,004.4)

[1] The fair value of the group's financial instruments includes accrued interest on borrowings and swaps of £113.6 million (2010: £109.3 million). The book value excludes accrued interest which is shown separately in the balance sheet within creditors: amounts falling due within one year.

19. Loans, other borrowings and financial instruments (continued)

Fair value of financial assets and financial liabilities (continued)

The fair value of loans and other borrowings represents the market value of publicly traded debt instruments or, if in respect of private debt, the cost which the group would incur if it elected to repay these borrowings before their maturity dates, calculated by discounting future cash flows at prevailing rates including credit spreads experienced on publicly traded debt instruments. In the fair value table above, the book values assigned to derivative instruments are separately analysed from the book values of the underlying loans.

In accordance with the group's accounting policy, long-term borrowings are recorded using the contracted rates implicit in the financial instruments used to hedge the group's exposure to fluctuations in currency and interest rates.

Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2011. The value at that date was determined by market interest rates, which fluctuate over time.

The fair value of the group's energy hedging instruments is calculated to reflect the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2011. The value at that date was determined by market rates, which fluctuate over time.

The fair value of interest rate swaptions, as included within provisions above, represents the cost which the group would incur if it elected to terminate these contractual arrangements before their maturity dates, calculated by discounting future cash flows at prevailing rates.

The fair value of the group's other financial liabilities has been estimated as not materially different from the book value.

Unrecognised gains and losses on hedges

			2011			2010
	Gains £m	**Losses £m**	**Net £m**	Gains £m	Losses £m	Net £m
Unrecognised at the beginning of the year	109.0	(273.9)	**(164.9)**	124.1	(240.0)	(115.9)
Reversal of items unrecognised at beginning of year	(2.1)	5.9	**3.8**	(5.4)	24.0	18.6
Recognised during the year	(31.0)	48.9	**17.9**	(33.1)	30.2	(2.9)
Arising during the year	38.4	(117.4)	**(79.0)**	23.4	(88.1)	(64.7)
Unrecognised at 31 March	**114.3**	**(336.5)**	**(222.2)**	109.0	(273.9)	(164.9)

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The total net unrecognised loss of £222.2 million (2010: £164.9 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2011.

Of the unrecognised gains and losses at 31 March 2011, a net gain of £5.9 million (2010: gain of £26.8 million) is expected to be included in the profit and loss account for the year ended 31 March 2012 and the balance in future years.

All the gains and losses on the hedging instruments are expected to be matched by losses and gains on the hedged transactions or positions. Foreign currency borrowings are swapped into sterling and translated at the contracted rates. Consequently, the carrying value of the relevant borrowing effectively includes the gain or loss on the hedging instrument.

19. Loans, other borrowings and financial instruments (continued)

Currency and interest rate analysis of net financial assets/(liabilities)

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Interest free £m	Fixed rate weighted average interest rate	Fixed rate weighted average years to maturity
At 31 March 2011							
Total borrowings (all sterling) [(1)]	**(6,782.5)**	(3,128.1)	(295.4)	(2,630.2)	(728.8)	**6.7%**	**11.9**
Cash, deposits and current asset investments:							
– Sterling	**660.9**	-	660.9	-	-		
– Euro	**4.7**	-	4.7	-	-		
– Other currencies	**1.1**	-	1.1	-	-		
Net debt	**(6,115.8)**	(3,128.1)	371.3	(2,630.2)	(728.8)		
Provisions	**(41.5)**	-	-	-	(41.5)		
Net financial assets/(liabilities)	**(6,157.3)**	**(3,128.1)**	**371.3**	**(2,630.2)**	**(770.3)**		
At 31 March 2010							
Total borrowings (all sterling) [(1)]	(6,670.3)	(2,984.1)	(421.1)	(2,536.3)	(728.8)	6.5%	12.9
Cash, deposits and current asset investments:							
– Sterling	776.3	-	776.3	-	-		
– Euro	6.4	-	6.4	-	-		
– Other currencies	1.1	-	1.1	-	-		
Net debt	(5,886.5)	(2,984.1)	362.7	(2,536.3)	(728.8)		
Provisions	(37.7)	-	-	-	(37.7)		
Net financial assets/(liabilities)	(5,924.2)	(2,984.1)	362.7	(2,536.3)	(766.5)		

[(1)] The underlying currencies of borrowings as set out in the table of loans and other borrowings on page 43 have been swapped to sterling.

The above tables reflect the net position after hedging arrangements. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at the year-end. Floating rate cash and investments earn interest based on LIBID (London Inter Bank Bid Rate) for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

20. Provisions for liabilities

	Deferred tax £m	Onerous leases £m	Other onerous contracts £m	Business closures and disposals £m	Contract and other £m	Total £m
The group						
At 1 April 2010	53.8	20.4	8.1	4.7	4.5	**91.5**
Charge/(credit) for the year	14.3	3.1	4.6	1.7	(2.0)	**21.7**
Unwinding of discount	-	0.6	-	-	-	**0.6**
Write back of ACT	(3.0)	-	-	-	-	**(3.0)**
Utilised in the year	-	(2.1)	-	(2.1)	-	**(4.2)**
At 31 March 2011	**65.1**	**22.0**	**12.7**	**4.3**	**2.5**	**106.6**

The deferred tax provision and the effect of discounting is analysed in note 21.

The onerous lease provision is in respect of property leases where the unavoidable obligations under the contracts exceed the expected economic benefits to be received from them. The provision is discounted and is expected to be utilised over the next 15 years.

The other onerous contracts provision is made for contractual obligations on financial instruments that are not part of a hedging relationship where a future net cash outflow is forecast on the remaining life of the instrument. The provision is expected to be utilised by 2046.

Business closure and disposal provisions relate to exit costs, principally the disposal of the international businesses, and the restructuring of the Property business, which are expected to crystallise over a period of two years.

The contract and other provisions comprise uncertain warranty and certification costs of £1.4 million (2010: £1.2 million), which are expected to crystallise over a period of approximately two years and £1.1 million (2010: £3.3 million) in respect of insurance claims against the group incurred but not reported, which are expected to be utilised over a period of approximately 10 years.

The company

The company has no provisions for liabilities (2010: none).

21. Deferred tax

The group

The total tax charge in the current year includes provisions for discounted deferred tax. Consequently, changes in the medium-term and long-term interest rates used to discount deferred tax assets and liabilities can affect the amount of deferred tax charged or credited in the profit and loss account.

The deferred tax liability is stated net of Advance Corporation Tax (ACT) recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £54.4 million.

	£m
At 1 April 2010	**53.8**
Deferred tax charged to the profit and loss account	**21.8**
Less amounts included elsewhere in the balance sheet:	
– Deferred tax charged in respect of movements in the deferred tax asset on pension liabilities	**(7.5)**
Write back of ACT	**(3.0)**
At 31 March 2011	**65.1**

	2011 £m	2010 £m
Accelerated capital allowances	**872.1**	933.2
Short-term timing differences	**(115.2)**	(134.4)
Surplus ACT asset	**(140.5)**	(137.5)
Undiscounted provision for deferred tax	**616.4**	661.3
Discount	**(551.3)**	(607.5)
Discounted provision for deferred tax	**65.1**	53.8
Deferred tax asset on pension liability (see note 22)	**(23.4)**	(55.5)
Total deferred tax liability/(asset) included in the balance sheet	**41.7**	(1.7)
The following are deferred tax assets that are not recognised in the accounts		
Surplus ACT	**22.8**	22.8
Tax losses carried forward	**2.6**	1.7
	25.4	24.5

The surplus ACT of £22.8 million was written off in subsidiary undertakings in prior years and will not be recognised in the balance sheet until its recoverability becomes certain. The tax losses carried forward relate to losses which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The company

The company has no deferred tax (2010: none).

22. Pension commitments

Pension arrangements for the majority of the group's UK employees are of the funded defined benefit type, through the AWG Pension Scheme ('AWGPS') and various other smaller arrangements. The group also has pension obligations to former employees through the Morrison Pension & Life Assurance Plan ('MPLAP'). These are all final salary. In addition, pensions in payment to a number of former employees are unfunded. The administration and investment of the pension funds are maintained separately from the finances of the group. The group's actuary is Aon Hewitt.

The majority of the defined benefit arrangements are closed to new members, who are eligible instead for entry to the group's defined contribution schemes. For closed schemes, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement.

The valuation used for the FRS 17 disclosures has been based on the most recent formal or informal actuarial valuations, updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 March 2011. For both of the group's main schemes the latest valuations were at 31 March 2008.

The group contributed 21.2% (2010: 16.0%) of pensionable pay plus £20.8 million (2010: £20.8 million) per annum to AWGPS during the year. Contributions to MPLAP were £7.1 million (2010: £7.1 million) during the year. In the year to 31 March 2012, contributions are expected to be £44.9 million for employers' contributions and £3.7 million for members' contributions.

A number of defined contribution schemes operate predominantly in the UK, and contributions to these schemes amounted to £3.6 million (2010: £3.7 million).

a) Principal actuarial assumptions

The liabilities of the schemes have been valued using the projected unit method and using the following assumptions:

	2011 % pa	2010 % pa
Discount rate	**5.5**	5.6
Inflation rate		
– RPI	**3.4**	3.5
– CPI	**2.7**	n/a
Increase to deferred benefits during deferment		
– RPI	**3.4**	3.5
– CPI	**2.7**	n/a
Increases to inflation related pensions in payment		
– RPI	**3.4**	3.5
– CPI	**2.7**	n/a
General salary increases	**4.4**	4.5

	2011 years	2010 years
Longevity at age 65 for current pensioners		
– Men	**23.5**	23.3
– Women	**25.9**	25.8
Longevity at age 65 for future pensioners [1]		
– Men	**25.5**	25.4
– Women	**27.7**	27.7

[1] The life expectancy shown for future pensioners is for those reaching 65 in 2031.

22. Pension commitments (continued)

b) Amounts recognised in profit or loss

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2011				
Analysis of amount charged to staff costs within operating profit (see note 9)				
Current service cost	(11.1)	(0.2)	-	**(11.3)**
Past service cost	(0.8)	-	-	**(0.8)**
Total operating charge	**(11.9)**	**(0.2)**	**-**	**(12.1)**
Analysis of amount (charged)/credited to other finance income (see note 6)				
Expected return on pension scheme assets	49.1	9.4	-	**58.5**
Interest on pension scheme liabilities	(55.5)	(9.6)	(2.7)	**(67.8)**
Net return	**(6.4)**	**(0.2)**	**(2.7)**	**(9.3)**
Total charge to profit on ordinary activities before taxation	**(18.3)**	**(0.4)**	**(2.7)**	**(21.4)**
2010				
Analysis of amount charged to staff costs within operating profit				
Current service cost	(7.8)	(0.2)	-	(8.0)
Past service cost	(1.1)	-	-	(1.1)
Total operating charge	(8.9)	(0.2)	-	(9.1)
Analysis of amount (charged)/credited to other finance income				
Expected return on pension scheme assets	35.2	7.7	-	42.9
Interest on pension scheme liabilities	(47.2)	(8.5)	(2.6)	(58.3)
Net return	(12.0)	(0.8)	(2.6)	(15.4)
Total charge to profit on ordinary activities before taxation	(20.9)	(1.0)	(2.6)	(24.5)

The actual return on scheme assets was a gain of £85.8 million (2010: gain of £184.5 million).

c) Amounts recognised in the statement of total recognised gains and losses

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2011				
Actual return on pension scheme assets less expected return	23.0	4.3	-	**27.3**
Experience gains and losses arising on the scheme liabilities	10.6	1.9	-	**12.5**
Changes in assumptions underlying the present value of the scheme liabilities	50.6	12.0	4.7	**67.3**
Changes in amounts not recognised in the balance sheet	-	(23.5)	-	**(23.5)**
Total gain/(loss) recognised	**84.2**	**(5.3)**	**4.7**	**83.6**
2010				
Actual return on pension scheme assets less expected return	111.4	30.2	-	141.6
Experience gains and losses arising on the scheme liabilities	(20.1)	-	-	(20.1)
Changes in assumptions underlying the present value of the scheme liabilities	(195.5)	(33.0)	(6.2)	(234.7)
Total loss recognised	(104.2)	(2.8)	(6.2)	(113.2)

Cumulative actuarial losses recognised in the statement of total recognised gains and losses are £135.5 million (2010: £219.1 million).

22. Pension commitments (continued)

d) Amounts recognised in the balance sheet

	Expected rate of return %pa	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2011					
Equities	7.3	314.1	75.7	-	**389.8**
Corporate bonds	5.5	228.0	29.7	-	**257.7**
Government bonds	4.3	323.4	52.7	-	**376.1**
Property	6.3	43.8	0.1	-	**43.9**
Alternatives	6.3	15.1	28.3	-	**43.4**
Other	0.5	5.7	2.0	-	**7.7**
Total assets		930.1	188.5	-	**1,118.6**
Fair value of scheme liabilities		(974.7)	(166.2)	(44.3)	**(1,185.2)**
Amounts not recognised [(1)]		-	(23.5)	-	**(23.5)**
Deficit in the scheme		(44.6)	(1.2)	(44.3)	**(90.1)**
Related deferred tax asset		11.6	0.3	11.5	**23.4**
Net pension liability		**(33.0)**	**(0.9)**	**(32.8)**	**(66.7)**
Comprising:					
Pension schemes with net liabilities		**(33.0)**	**(0.9)**	**(32.8)**	**(66.7)**
2010					
Equities	7.5	305.3	138.4	-	443.7
Corporate bonds	5.6	119.9	9.8	-	129.7
Government bonds	4.5	313.9	20.6	-	334.5
Property	6.5	41.1	-	-	41.1
Alternatives	6.5	33.4	-	-	33.4
Other	0.5	37.8	2.2	-	40.0
Total assets		851.4	171.0	-	1,022.4
Fair value of scheme liabilities		(997.6)	(174.0)	(48.9)	(1,220.5)
Deficit in the scheme		(146.2)	(3.0)	(48.9)	(198.1)
Related deferred tax asset		40.9	0.9	13.7	55.5
Net pension liability		(105.3)	(2.1)	(35.2)	(142.6)
Comprising:					
Pension schemes with net liabilities		(105.3)	(2.1)	(35.2)	(142.6)

(1) Amounts not recognised relate to surpluses that cannot be recovered through refunds or a reduction in future contributions, and deficits in excess of agreed liability caps.

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class net of investment expenses. The expected return on equities is determined as gilt yields plus a 3% equity risk premium. The return on bonds is determined by the market yield on long-term bonds with an adjustment for defaults. The expected return on property and alternative investments is determined as gilt yields plus a 2% risk premium. The expected return on other assets is set by reference to base rates.

The scheme assets do not include any of the group's own financial instruments, nor any property occupied by, nor other assets used by, the group.

22. Pension commitments (continued)

e) Reconciliation of fair value of scheme assets

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2011				
At 1 April 2010	851.4	171.0	-	**1,022.4**
Expected return on scheme assets	49.1	9.4	-	**58.5**
Employers' contributions	35.7	7.5	2.6	**45.8**
Members' contributions	3.7	-	-	**3.7**
Benefits paid	(32.8)	(3.7)	(2.6)	**(39.1)**
Actuarial gain	23.0	4.3	-	**27.3**
At 31 March 2011	**930.1**	**188.5**	**-**	**1,118.6**
2010				
At 1 April 2009	697.7	130.1	-	827.8
Expected return on scheme assets	35.2	7.7	-	42.9
Employers' contributions	31.7	7.6	2.6	41.9
Members' contributions	3.9	0.1	-	4.0
Benefits paid	(28.5)	(4.7)	(2.6)	(35.8)
Actuarial gain	111.4	30.2	-	141.6
At 31 March 2010	851.4	171.0	-	1,022.4

f) Reconciliation of scheme liabilities

	AWGPS £m	Total other funded schemes £m	Unfunded pensions £m	Total £m
2011				
At 1 April 2010	(997.6)	(174.0)	(48.9)	**(1,220.5)**
Current service cost	(11.1)	(0.2)	-	**(11.3)**
Past service cost	(0.8)	-	-	**(0.8)**
Interest cost	(55.5)	(9.6)	(2.7)	**(67.8)**
Members' contributions	(3.7)	-	-	**(3.7)**
Benefits paid	32.8	3.7	2.6	**39.1**
Actuarial gain	61.2	13.9	4.7	**79.8**
At 31 March 2011	**(974.7)**	**(166.2)**	**(44.3)**	**(1,185.2)**
2010				
At 1 April 2009	(750.5)	(136.9)	(42.7)	(930.1)
Current service cost	(7.8)	(0.2)	-	(8.0)
Past service cost	(1.1)	-	-	(1.1)
Interest cost	(47.2)	(8.5)	(2.6)	(58.3)
Members' contributions	(3.9)	(0.1)	-	(4.0)
Benefits paid	28.5	4.7	2.6	35.8
Actuarial loss	(215.6)	(33.0)	(6.2)	(254.8)
At 31 March 2010	(997.6)	(174.0)	(48.9)	(1,220.5)

22. Pension commitments (continued)

g) History of schemes

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Deficit at 31 March					
Fair value of scheme assets	**1,118.6**	1,022.4	827.8	1,034.2	999.3
Present value of scheme liabilities	**(1,185.2)**	(1,220.5)	(930.1)	(1,115.9)	(1,022.3)
Amounts not recognised	**(23.5)**	-	-	(0.4)	(3.4)
Deficit in the scheme	**(90.1)**	(198.1)	(102.3)	(82.1)	(26.4)
Related deferred tax asset	**23.4**	55.5	28.7	23.0	8.0
Net pension liability	**(66.7)**	(142.6)	(73.6)	(59.1)	(18.4)
History of experience gains and losses					
Actual return on pension scheme assets less expected return	**27.3**	141.6	(160.8)	(60.6)	(10.6)
Experience gains and losses arising on scheme liabilities	**12.5**	(20.1)	22.0	(43.9)	(3.3)
Changes in assumptions underlying the present value of the scheme liabilities	**67.3**	(234.7)	90.1	9.6	47.0
Changes in amounts not recognised in the balance sheet	**(23.5)**	-	3.2	2.5	(1.1)
Amount recognised in the statement of total recognised gains and losses	**83.6**	(113.2)	(45.5)	(92.4)	32.0

23. Share capital

	Group and Company 2011 £m	2010 £m
Allotted, issued and fully paid		
At beginning of year: 85,415,751,649 (2010: 80,415,751,649) ordinary shares of 1 pence each	**854.2**	804.2
Issued in year: nil (2010: 5,000,000,000) ordinary shares of 1 pence each	**-**	50.0
At 31 March: 85,415,751,649 ordinary shares of 1 pence each	**854.2**	854.2

24. Movement in shareholder's funds

The group

	Ordinary share capital £m	Profit and loss reserve £m	Total £m
At 1 April 2010	854.2	(437.6)	**416.6**
Loss for the financial year	-	(10.7)	**(10.7)**
Actuarial gain recognised on the pension schemes	-	83.6	**83.6**
Deferred tax relating to the actuarial gain on the pension schemes	-	(23.4)	**(23.4)**
Impact of change in tax rate on deferred tax on pension schemes	-	(1.2)	**(1.2)**
Total recognised gains and losses relating to the year	-	48.3	**48.3**
Dividends paid	-	(242.2)	**(242.2)**
At 31 March 2011	**854.2**	**(631.5)**	**222.7**

The company

	Ordinary share capital £m	Profit and loss reserve £m	Total £m
At 1 April 2010	854.2	307.5	**1,161.7**
Profit for the financial year	-	233.7	**233.7**
Dividends paid	-	(242.2)	**(242.2)**
At 31 March 2011	**854.2**	**299.0**	**1,153.2**

25. Capital commitments

The group

The group has a substantial long-term investment programme in Anglian Water, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition, and to provide for new demand and growth. The commitments shown below reflect the value outstanding of orders placed at 31 March 2011.

	2011 **£m**	2010 £m
Contracted for but not provided in the financial statements	**42.4**	111.7

There were no capital commitments relating to the group's share of joint ventures.

The company

The company has no such commitments (2010: none).

26. Commitment under operating leases

At 31 March 2011 the group had annual commitments under non-cancellable operating leases expiring:

	2011		2010	
	Land and buildings £m	**Plant and machinery £m**	Land and buildings £m	Plant and machinery £m
Within one year	**0.1**	**0.6**	-	0.4
Within two and five years	**0.6**	**1.3**	0.7	1.7
After five years	**9.3**	**-**	9.2	-
	10.0	**1.9**	9.9	2.1

The company

The company has no such commitments (2010: none).

27. Contingencies

The group has entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the Directors consider may become payable under such arrangements. The group has also guaranteed financial obligations of joint ventures totalling £4.4 million (2010: £10.0 million).

The group has entered into a variety of restructuring and re-financing initiatives over time to optimise the efficiency of its balance sheet and organisation in order to create value for customers and shareholders. Extensive professional advice has been taken which supports the view that all group restructurings have been correctly treated for accounting and tax purposes and therefore, since any risk here is very low, no provisions for tax liabilities are considered to be necessary. At 31 March 2011, the group had £140.5 million (2010: £137.5 million), before discounting, of recoverable ACT recorded in the balance sheet. This ACT is expected to be recovered in full over time and therefore no provision is considered appropriate in respect of this asset.

28. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Osprey Holdco Limited, a company registered in England and Wales.

The Directors consider Anglian Water Group Limited, a company registered in Jersey, to be the ultimate parent undertaking. Anglian Water Group Limited is itself owned and controlled by a consortium of investors consisting of the Canada Pension Plan Investment Board, Colonial First State Global Asset Management, Industry Funds Management (IFM), and 3i.

Osprey Holdco Limited is the parent company of the smallest group to consolidate the financial statements of the company, and Anglian Water Group Limited is the parent company of the largest group to consolidate the financial statements of the company. Copies of the Anglian Water Group Limited financial statements can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

29. Related party transactions

As a wholly owned subsidiary of Anglian Water Group Limited, advantage has been taken of the exemption granted in FRS 8 'Related party disclosures' not to disclose related party transactions with other members of the Anglian Water Group Limited group.

a) Transactions with the shareholders of the ultimate parent undertaking

The consortium of investors owning Anglian Water Group Limited are considered to be related parties of the company as they each have the ability to influence the financial and operating policies of both the company and the group.

During the year to 31 March 2011 there were no transactions (2010: none) with the shareholders of the ultimate parent undertaking.

b) Transactions with Key Management

A scheme is in place to encourage investment in the group by Key Management on an equivalent basis as the consortium of shareholders. During the year a further £3.5 million (2010: £nil) was invested by Key Management and the group repaid £1.4 million (2010: £2.4 million) as part of this scheme, and a return of £0.6 million (2010: £0.5 million) was earned. At 31 March 2011 £4.1 million (2010: £1.4 million) was loaned to the group by Key Management under this scheme. At the balance sheet date Key Management also held various bonds issued by the group totalling £0.2 million (2010: £0.1 million), and held £0.1 million (2010: £0.1 million) of Loan notes at LIBOR minus 0.5% dated 2012.

As part of the company's usual relocation policy to assist key employees to relocate their main family home into the region, on 28 April 2010 Anglian Water Services Limited purchased the family home of one of its directors, for £407,500. The price paid was the market value of the property at the time, as assessed by independent surveyors. At 31 March 2011 the house was being marketed for sale by the company, and was included in the consolidated financial statements within current assets at its purchase price.

29. Related party transactions (continued)

c) Other related party transactions

The group's other related party transactions were all with joint ventures of the group and are summarised below:

	2011 £m	2010 £m
Sale of goods/services	**0.1**	0.4

Sales to joint ventures were carried out on commercial terms and conditions and at market prices.

Year-end balances arising from sales of goods/services

	2011		2010	
	Amounts owed from related parties £m	**Amounts owed to related parties £m**	Amounts owed from related parties £m	Amounts owed to related parties £m
Joint ventures with AWG Property	**0.2**	**(0.5)**	0.8	(0.5)

Loans to related parties

	At 1 April £m	Decrease during the year £m	At 31 March £m
Year ended 31 March 2011			
Joint ventures with AWG Property	10.6	(2.3)	**8.3**
Amounts provided	(1.5)	1.5	**-**
	9.1	**(0.8)**	**8.3**
Year ended 31 March 2010			
Joint ventures with AWG Property	13.5	(2.9)	10.6
Amounts provided	-	(1.5)	(1.5)
	13.5	(4.4)	9.1

Loans to related parties were made to fund the ongoing development activities of joint venture companies.

30. Principal group companies

The principal subsidiary undertakings at 31 March 2011 are shown below. A full list of the group's subsidiaries, joint ventures and associates will be delivered to the registrar with the next annual return.

	Country of incorporation	Activities
Group and Other		
Anglian Water (Osprey) Financing Plc [(1)]	England	Financing company
AWG Parent Co Limited [(1)]	England	Holding company
AWG Group Limited	England	Holding company
AWG Central Services Limited	England	Provision of administration services to group companies
AWG Holdings Limited	Jersey	Holding company
AWG UK Holdings Limited	England	Holding company
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
Rutland Insurance Limited	Guernsey	Provision of insurance to group companies
Anglian Water		
Anglian Water Services Limited [(2)]	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991
Anglian Water Services Financing Plc	England	Financing company
Anglian Water Services Holdings Limited	England	Holding company
Anglian Water Services Overseas Holdings Limited	Cayman Islands	Holding company
Property Services		
AWG Property Limited	Scotland	Development of land and buildings
AWG Residential Limited	Scotland	Development of residential estates

(1) This company is owned directly by Osprey Acquisitions Limited.
(2) Including Anglian Water Services trading as Hartlepool Water.

The group also owns a number of smaller and non-trading companies. All of the subsidiaries listed above are 100% owned by the group or the company with the exception of Celtic Anglian Water Limited which is 50% owned. Celtic Anglian Water Limited has been consolidated as a subsidiary undertaking as in the opinion of the Directors the group exercises control over the company.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation.

All subsidiaries have a year-end of 31 March.

All subsidiary undertakings disclosed above are included within the consolidated financial statements.

Independent auditors' report to the member of Osprey Acquisitions Limited

We have audited the group and parent company financial statements (the 'financial statements') of Osprey Acquisitions Limited for the year ended 31 March 2011 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Statement of Movement in Shareholder's Funds, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. 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).

Respective responsibilities of Directors and auditors
As explained more fully in the Directors' Responsibilities Statement 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 group's and parent 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 group's and the parent company's affairs as at 31 March 2011 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

S Snook

Stephen Snook (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

20 June 2011