Company Registration No. 3175861

CAMBRIDGE WATER PLC

A subsidiary of South Staffordshire Plc

Regulatory Financial Statements

Year ended 31 March 2012

(12/07/2012)

CAMBRIDGE WATER PLC

REPORT AND FINANCIAL STATEMENTS 2012

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CAMBRIDGE WATER PLC

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CERTIFICATE REPORT AND STATEMENTS REQUIRED BY THE INSTRUMENT OF APPOINTMENT TO BE SUBMITTED TO THE WATER SERVICES REGULATION AUTHORITY

Certificate in accordance with Condition F6A, Financial Ring-fencing

The directors hereby certify that, in their opinion:

1. the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligation under the Appointment);
2. the Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and
3. that in the opinion of the directors, all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee to ensure that it is able to meet all its obligations as a water undertaker.

Report in accordance with Condition F, compliance with guidelines on transactions between the Appointed and Non-Appointed Businesses

The directors have approved a practical basis for cost allocation between the appointed and non-appointed businesses and adopted a fair pricing policy for the activities of these businesses, which are in accordance with the Regulatory Accounting Guidelines on Transfer Pricing aimed at avoiding cross subsidies. Those policies have been implemented and have applied to transaction between the above businesses. Costs are calculated in full for all relevant direct and indirect costs taking the best available measures of the activities involved: prices are set to cover these costs. Other than for the smallest tasks, the appointed business obtains external prices in competition with the non-appointed business price and decides on a best value basis. To the best of the directors' knowledge, all appropriate transactions have been disclosed.

Statement in accordance with Condition K3, Ring-fencing

The directors are satisfied that if a special Administration Order were made in respect of the company it would have available sufficient rights and assets to enable a special administrator to fulfil the purpose of such an Order.

Statement of the responsibilities of the directors for preparing accounting statements in accordance with Condition F

The directors are responsible for keeping proper accounting records and preparing accounting statements for each financial year in accordance with Condition F and any guidelines issued by the Water Services Regulation Authority. The Authority has issued five regulatory accounting guidelines. Such accounting records and statements have been kept and prepared in accordance with Condition F and the five guidelines.

By order of the Board
S B Kay
12 July 2012

INSTRUMENT OF APPOINTMENT SECTION 6A.2B(1)

Statement of factors:

This statement has been prepared in accordance with section 6A.2B(1) of the Instrument of Appointment.

1. In forming the opinion that the company will have available to it sufficient financial resources and facilities for at least the next 12 months, directors have taken into account forecast cash flows from the appointed business and the provision of loans and overdraft facilities by Barclays Bank PLC.
2. The directors have approved a formal organisation structure for the Appointed Business. All the management posts are filled by suitably qualified staff and directors conclude that the company has available to it management resources to carry out its functions.
3. In the opinion of the directors the company has not entered into any contracts with associated companies that would affect its ability to meet its obligations as a water undertaker.

By order of the Board

S B Kay

12 July 2012

OFFICERS AND PROFESSIONAL ADVISERS

Cambridge Water PLC

Incorporated in Great Britain with limited liability under the Companies Act 2006 No. 3175861

Registered Office 90 Fulbourn Road, Cambridge CB1 9JN

Directors

* Michael Peter Halstead
Chairman

***Non Executive**

* Christopher Thomas Morley
Fellow of Trinity College, Cambridge

* Simon Peter Summers
Senior Bursar of St Catharine's College, Cambridge

Stephen Barry Kay
Managing Director

* Hing Lam Kam (resigned 2 August 2011)
Group Managing Director, Cheung Kong Infrastructure Holdings Limited

* Andrew John Hunter (resigned 2 August 2011)
Deputy Managing Director, Cheung Kong Infrastructure Holdings Limited

* Victor Sai Hong Luk (resigned 2 August 2011)
Group General Counsel, Cheung Kong Infrastructure Holdings Limited

* Edmond Tak Chuen Ip (resigned 2 August 2011)
Executive Director, Cheung Kong Infrastructure Holdings Limited

* Dominic Loi Shun Chan (resigned 2 August 2011)
Executive Director, Cheung Kong Infrastructure Holdings Limited

* Stuart Lea (appointed 2 August 2011 and resigned 4 October 2011)
Banker

* Eric Lyons (appointed 2 August 2011 and resigned 4 October 2011)
Banker

* Richard J Cole (appointed 2 August 2011 and resigned 4 October 2011)
Banker

Timothy Stuart Orange (appointed 14 September 2011)
Chartered Accountant

OFFICERS AND PROFESSIONAL ADVISERS

Directors (continued)		Stephen Christopher Morley (appointed 14 September 2011) Economist
	*	Adrian Peter Page (appointed 3 October 2011) Chartered Accountant
	*	Alexander William Francis Black (appointed 3 October 2011) Chartered Engineer and Accountant
Alternate Director	*	Joanna Tsien Hua Chen (resigned 2 August 2011) Head of Business Development, Cheung Kong Infrastructure Holdings Limited Alternate director for A Hunter, V Luk and D Chan
Company Secretary		Timothy Stuart Orange
Auditor		Deloitte LLP City House, 126-130 Hills Road, Cambridge, CB2 1RY
Solicitors		Mills & Reeve Francis House, 112 Hills Road, Cambridge CB2 1PH
Bankers		Barclays Bank PLC Corporate Banking Services P.O. Box 885, Mortlock House, Histon, Cambridge CB4 9DE

REPORT OF THE DIRECTORS

The directors are pleased to submit their annual report on the affairs of Cambridge Water PLC ("the company" or "Cambridge Water"), together with the financial statements and auditors' report, for the year ended 31 March 2012.

PRINCIPAL ACTIVITY

The company is an appointed water undertaker, supplying a population of 315,000 in an area of 1,173 square kilometres that covers the area of South Cambridgeshire and the City of Cambridge.

HISTORIC COST FINANCIAL RESULTS AND DIVIDENDS

	£'000
Profit after taxation	5,517
Interim dividend paid and proposed 19.16p (2011: 18.43p) per share, paid	(2,801)
Retained profit for the year	2,716
Retained profit at 1 April 2011	8,931
Other recognised gains and losses during the year	(165)
Retained profit at 31 March 2012	11,482

The Board has decided not to propose a final dividend in respect of the year ended 31 March 2012 (2011: £nil).

The objectives, risks, policies and exposures relating to financial instruments held by the company are disclosed in note 22 to the historic cost financial statements.

DIRECTORS

No director had a material interest in any contract entered into by the company during the year. No director or member of any director's immediate family has, or was granted, any right to subscribe to any stock in the company.

Up to August 2011, the UK group to which Cambridge Water PLC was a subsidiary purchased and maintained directors' and officers' liability insurance as permitted by the Companies Act 2006; subsequent to that date the company took on this expense itself.

In accordance with the Company's Articles of Association Dr M Halstead and Dr C Morley offer themselves for re-election.

Directors who served during the period are listed on pages 3 and 4.

DIRECTORS' INTERESTS

No director or their immediate family held equity in the company during the year.

No director had an interest in any of the debenture stocks of the company or any other group company. At no time has the company operated any stock option schemes for directors or other staff.

PENSIONS

Pensions do not form part of the non-executive director remuneration package.

The company makes contributions to a group personal pension scheme on behalf of executive directors on the same basis as for other staff under an HMRC approved salary sacrifice scheme.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed.

Mr Adrian Page and Mr Alexander William Francis Black are both also directors of South Staffordshire Plc and other subsidiaries within the group.

AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

SUPPLIER PAYMENT POLICY

The company's normal policy is to pay suppliers at the end of the month following that in which goods or services are invoiced. These terms are made known to suppliers when orders are placed.

GOING CONCERN

The company's business activities, financial position together with the factors likely to affect its future development, performance and position are set out in the Operating and Financial Review on pages 10 to 20. In addition note 22 to the financial statements details the company's financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Note 22 to the financial statements details the company's financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. This includes details regarding the revolving credit facility of £30m for the 5 year period to 31 December 2015 to assist in meeting its day-to-day working capital requirements. The company provides an essential service to its customer base and its activities are regulated, including the price it can charge for its services. As a consequence, it has a relatively secure revenue stream, however, the current economic conditions create uncertainty particularly over credit risk from customers.

REPORT OF THE DIRECTORS

GOING CONCERN (continued)

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facilities for the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the Board

S B Kay
Managing Director
12 July 2012

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible under Condition F and the Licence issued to the company by the Secretary of State for the Environment as a water undertaker under the Water Industry Act 1991 for:

a) ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of condition F and having regard also to the terms of guidelines notified by Ofwat to the Appointee from time to time;

b) preparing on a consistent basis for each financial year accounting statements in accordance with Condition F, having regard also to the terms of guidelines notified by Ofwat from time to time, which so far as is reasonably practicable have the same content as the annual accounts of the Appointee prepared under the Companies Act 2006 and which are prepared in accordance with the formats, accounting policies and principles which apply to those accounts;

c) preparing accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued by Ofwat from time to time; and

d) preparing such other accounting and related information as is required by Condition F having regard also to the terms of guidelines issued by Ofwat from time to time.

By order of the Board

S B Kay
Managing Director
12 July 2012

STATEMENT OF DIRECTORS' PAY
Year ended 31 March 2012

STATEMENT OF DIRECTORS' PAY AND STANDARD OF PERFORMANCE

The remuneration of the executive and non-executive directors for the year ended 31 March 2012 was as follows:

£'000	Salary	Fees	Bonus	Other
Executive				
Stephen Barry Kay	127	-	19	56 (Pension and healthcare)
Stephen Christopher Morley	48		9	9
Timothy Stuart Orange	55		11	15
Non-executive				
Michael Peter Halstead	-	30	-	None
Christopher Thomas Morley	-	18	-	None
Simon Peter Summers	-	18	-	None

The Remuneration Committee

Salaries and fees for directors are reviewed annually and agreed by the Remuneration Committee. The Remuneration Committee consists of three independent non-executive directors and two non-executive directors representing the shareholders. No director is involved in decisions concerning their own remuneration. The committee sets objective criteria on which to review base level remuneration, which for executive directors includes personal and company performance.

Positioning of remuneration

The company aims to pay directors' salaries and fees that are commensurate with the responsibilities of the role, are market competitive and attract and retain skilled and competent individuals. In addition to individual performance, remuneration practices within similar sized organisations within the industry sector and other local organisations are considered in reaching decisions on remuneration levels.

Fees paid to non-executive directors reflect the time commitment and responsibilities of the role.

Incentives and bonuses

The executive directors are paid a performance-related bonus, payments are based on achievement of pre-defined performance targets during the preceding calendar year. For the managing director the bonus is structured into two key components that include achievement of company profit (50%) and the achievement of key performance indicators (KPIs) linked to the achievement of the regulatory contract (50%). For the other executive directors the split is 50% company profit, 25% KPIs and 25% personal performance Profit targets are agreed by the shareholder for each financial year and linked to the bonus structure through consultation with the Remuneration Committee. Targets linked to performance indicators are set against company stretch targets, these are always at or above those set by the regulators. In the calendar year 2011, the company achieved 100% of its KPI targets.

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

OPERATING REVIEW

About Cambridge Water

The company was founded in 1853 as a statutory company set up by Act of Parliament. The company remained privately owned until 1996, when it became a Public Limited Company. On 3 October 2011 Cambridge Water PLC ("Cambridge Water") was purchased by South Staffordshire Plc.

Cambridge Water supplies excellent quality, underground water that is pumped from boreholes: 97% comes from chalk and 3% from greensand aquifers. The water meets the standards of quality set in the European Community Directive 80/778/EEC and incorporated into legislation in England and Wales by the Water Act. Cambridge Water is appointed water undertaker to the area by the Secretary of State under the provisions of the Water Industry Act 1991. Cambridge Water also bills and collects sewerage charges on behalf of Anglian Water Services Limited.

Cambridge Water has consistently been rated by the Water Services Regulation Authority (Ofwat) and its predecessor, the Office of Water Services as one of the Country's best water companies for the quality of the service provided. Our prices for water services for 2009/10, 2010/11 and 2011/12 are the second lowest in the country.

STRATEGY

The company's objectives are:

- To maximise the return to our shareholders
- To comply with our obligations
- To be a high performing company

Every year a rolling three year business plan is updated, every five years this forms the basis of the Regulatory Price Review (next required in 2015). This plan identifies the needs of the business including capital and operating expenditure on water resources, metering, network enhancement, maintenance, quality and service level enhancements.

The 2011/12 business plan identified priorities including:

- Maximise revenue and minimise cost
- Maintain a positive relationship with the regulators
- Provide a continuous supply of wholesome water to customers
- Complete, timely and accurate data
- Manage, develop and involve our people
- Maintain a sustainable and continuous business

The progress of the company against objectives is measured on a monthly basis through a series of performance indicators which are grouped to form key performance indicators. These are reviewed annually as business needs shift; the following indicators were selected for 2011/12:

- Profit Before Tax
- Net Debt
- Project Success
- Billing Assurance
- Day Sales Outstanding
- Efficiency of Production
- Comply with Regulatory Contract
- Service Incentive Mechanism
- Leakage
- Compliance Sample Failures
- Management Effectiveness
- Sustainability Index

The KPIs are monitored by senior management to ensure that delivery in all aspects of the operation is maintained to a high standard and where appropriate compares favourably with other water companies. The company sets itself challenging targets, and aligns staff rewards to the achievement of these.

Each KPI is allocated a target and a percentage for achievement. Missing a KPI target, even by a narrow margin, results in a score of zero percent for that KPI. In 2011 a 100% (12 from 12) performance was achieved (2010 75% - 8 from 11). The 3 KPI's failed during 2010 were Comply with Regulatory Contract, Days Sales Outstanding and Leakage. Weights vary between KPIs relating to the importance of the measure.

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

STRATEGY (continued)

In the three months to March 2012 the targets were reset to align to the new year end, for this period an 80% result was achieved (10 from 12). The two targets missed were Days Sales Outstanding which was as a result of the challenging collections environment, and Service Incentive Mechanism which resulted from setting a very challenging target. New equally challenging targets have been set for the next year which will align to a revised set of priorities.

PERFORMANCE IN 2011/12

Service and performance

We are pleased to report that the company has had a good year in delivering its targets for service to customers.

The Board has compared the company's performance in the 10 Ofwat service output categories against 2010/11 and against the Final Determination at PR09. These are set out below.

Level of service (DG Measures)

	2010/11	2011/12	FD 09 2011/12
DG2 - Water pressure (% of properties receiving low pressure)	0.00%	0.00%	0.00%
DG3 - Supply Interruptions (performance score)	2.76	0.03	0.10
DG4 - % Population – hosepipe restrictions	0.00%	0.00%	0.00%
DG4 - % Population – drought orders	0.00%	0.00%	0.00%
DG6 - Billing Contacts answered within five working days (%)	99.46%	99.96%	100.00%
DG7 - Response to written complaints (%)	99.76%	99.38%	100.00%
DG8 - Bills for metered customers (% of meters billed by actual reads)	99.81%	99.81%	99.82%
DG9 - Telephone contact (% of calls abandoned)	8.0%	3.5%	3.00%
DG9 - Telephone contact (% of calls receiving an engaged tone)	0.2%	0.0%	0.00%
DG9 - Customer Satisfaction Survey	4.28	4.35	4.70

Further, we have published our compliance & risk statement which provides more metrics on performance in the year.

OUR PERFORMANCE IN 2011/12 (continued)

Distribution input

At 74.7 Ml/d, the volume of water into supply decreased by 1.4 Ml/d in the year, a decrease of just over 1.8%.

Leakage

At 12.4 Ml/d the company achieved the annual target of 14.0 Ml/d. The three-year rolling average of leakage equates to 13.4 Ml/d.

Drinking water quality

The Company has delivered the following level of service in the calendar year 2011:

- In total 26,239 tests on the water supplied were taken at source, service reservoirs and customer taps. 6 samples failed, all at customer taps, which were all investigated further and concluded no inherent issue with the quality.
- A Mean Zonal Compliance of 99.93% is reported for 2011.
- There were no failures for iron, and thus we report the MZC with prescribed concentration value for iron at the tap as 100.00%.

The Management of Health and Safety

The Company has adopted a Health and Safety management system based on the Health and Safety Executive model, HSG65.

The Board actively promotes health and safety, and the health and safety of our staff is a line management function. Every line manager and supervisor is responsible for the health and safety of their staff and those that may be affected by their actions.

Internally there were two RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) incidents in 2011/12. The first involved an employee who slipped and damaged his shoulder whilst reading a meter at a customer's property. The second involved an employee being hit by a door swinging open at a pumping station. There was no further action required post the investigations. Our outsourced contractor suffered no RIDDOR incidents during 2011/12.

The Health and Safety Policy and Policy Statement are reviewed, updated and approved by the Managing Director as required. This was last updated and signed off on 4 May 2010.

RISK AND UNCERTAINTY

The company's activities expose it to a number of financial risks including interest rate risk, liquidity risk and credit risk. The use of financial derivatives is governed by company policies approved by the board of directors, which provide principles on the use of financial derivatives to manage these risks.

Interest rate risk

A significant financial risk faced by the company is interest rate risk. No financial liabilities are subject to exchange rate risk. The Board approves all financial instruments used by the company and reviews policies for managing the risks. The company's financial instruments comprise borrowings in sterling, cash and liquid resources, an interest rate swap to which hedge accounting is applied and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of the company's financial liabilities is to raise finance for the company's operations. It is, and has been throughout the year and the previous year, the company's policy that no trading in financial instruments shall be undertaken.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of committed medium term debt finance and short term (overdraft) facilities.

Further details regarding the liquidity risk can be found in Note 1 to the financial statements.

Credit risk

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

RISK AND UNCERTAINTY (continued)

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Operational risk management

The Board's strategy is to follow a prudent risk policy which manages the exposure to risk where appropriate. Executive Directors and operational managers meet half yearly to discuss risk management and business continuity; this group is responsible for updating the company's Risk Register and identifying any new exposure to risks that the company may face.

Each factor is graded based on likelihood and impact to determine the level of risk; mitigating controls are then identified and assessed as effective, satisfactory or ineffective with regard to the level of risk. In the event of a risk being identified which is ineffectively controlled, immediate corrective action is taken to mitigate the risk. The company reports on risk to its parent company through the group internal audit function.

The Risk Committee, consisting of two independent non-executive Directors and two non-executive Directors representing the shareholders, assisted by the appropriate Executive Director, meet at least annually to discuss the management of risk in the business and to receive reports on risk management, business continuity and health and safety.

The company has a comprehensive, detailed and documented emergency plan which sets out how an incident affecting the water supply or the ability to carry on business activities in the event of disruption would be managed. The emergency plan details a clear structure for dealing with emergencies and the roles of key personnel. There are suitable trigger points to ensure escalation through the management hierarchy to director level where appropriate. The plan is tested through a regular programme of exercises designed to simulate emergency events which help to ensure familiarity with the procedures in the emergency plan, and confirm the ability to contact third parties.

Internal control

The directors are responsible for the company's system of internal control. The internal control system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore provides reasonable, and not absolute, assurance against material misstatement or loss.

In the year under review the directors continued to align its risk management processes with internal control guidance recommended for directors in the Combined Code through the following four committees:

(a) Audit Committee

The Audit Committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and external audit processes. It covers both statutory and regulatory accounts.

(b) Compliance Committee

The Compliance Committee assists the Board with its responsibilities to oversee the compliance determined by statute, legislation, regulation, contract or agreement. It covers all issues of regulatory compliance.

(c) Risk Committee

The Risk Committee is responsible for reviewing the risk profile of the business and overseeing the work of the company's risk management group.

(d) Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on the overall remuneration policy of the company and arrangements for the senior managers reporting to the managing director.

As discussed under Risk Committee, internal controls covering the key risk factors that impact on the business are reviewed internally on a quarterly basis and by the parent company's internal audit function every six months. Independent group internal auditors physically test controls and processes on site bi-annually to monitor compliance with internal controls.

RISK AND UNCERTAINTY (continued)

Internal control (continued)

Management reports are produced monthly that cover all key financial and operational data and monitor performance against Key Performance Indicators, annual budgets and periodic forecasts. Senior managers review and comment on their specific areas of responsibility for inclusion in the monthly Board Report.

Contractual arrangements

The contract for the repair, replacement and new development of infrastructure and water meters is an "un-bundled" arrangement in which small "lots" of similar activity are placed with local suppliers (where possible) who understand local service and customer requirements. This approach derives from lessons learnt from experiences with single national contractors who have previously delivered these outsourced services.

FINANCIAL REVIEW

Turnover

Turnover has increased by £0.876m in the year 2011/12. This is an increase of 4.3%, as shown in the table below.

£m		2010/11	2011/12	Change (%)	Price change (%)	Quantity change (%)
Unmeasured		6.124	6.321	3.2	5.1	(1.8)
Measured		13.009	13.675	5.1	3.1	2.0
Large users	>50Ml	0.323	0.301	(6.8)	3.0	(9.5)
	>250Ml	0.581	0.629	8.3	4.8	3.3
Bulk Supplies		0.031	0.035	12.9	3.0	9.6
Regulated charges		**20.068**	**20.961**	**4.4**	**3.7**	**0.7**
Third party		0.108	0.091	(14.8)	n/a	n/a
Total		**20.176**	**21.052**	**4.3**	n/a	n/a

With effect from 1 April 2010 the Company changed its accounting treatment for diversions. Turnover given above excludes such third party costs.

Regulated turnover increased by 4.4% in the year, a price increase of 3.7% (RPI = 4.7% and K = negative 1.0%).

Current Cost Operating Expenditure

Total operating expenditure, before depreciation, has increased by £0.093m in the year, an increase of 0.9%.

If third party operating costs are excluded from this analysis, "base" operating costs have increased from £10.848m to £10.920m, an increase of 0.7%.

Operating Expenditure (£m)

	2010/11	2011/12	%
Base operating costs	10.848	10.920	0.7
Third party	0.040	0.061	52.5
Total operating costs	**10.888**	**10.981**	**0.9**

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

FINANCIAL REVIEW (continued)

Current Cost Operating Costs

Operating costs have decreased by £0.142m in the year. This change is explained as follows:-

Current Cost Operating Costs (£m)

	2010/11	2011/12	Movement
Total operating expenditure	10.888	10.981	0.093
Infrastructure renewal charge	1.290	1.009	(0.281)
Current cost depreciation less amortisation of deferred credits	2.943	2.989	0.046
Total	**15.121**	**14.979**	**(0.142)**

The Infrastructure Renewals Charge has been set to recognise the long-term requirement for Infrastructure Renewals Expenditure. The derivation of this charge reflects the methodology applied at price setting, a 15-year average of expenditure, which the company believes to be appropriate for its needs. It is based on the long-term forecast for renewals as presented in the Final Business Plan (April 2009).

The Current Cost Depreciation charge remains higher than that recognised at the Final Determination; depreciation continues to be recognised in the Regulatory Accounts in accordance with stated accounting policies.

Current cost operating profit

In the year 2011/12 Current Cost Operating Profit was £6.229m.

Regulatory Capital Value

The capital value of the business at the end of the Report Year is £69.139m (year average £67.064m).

Dividends

The interim equity dividend paid during the year was £2.801m or 19.16p per share (£2.694m or 18.43p per share).

The company dividend policy is set recognising requirements in the regulatory licence; dividends declared or paid will reward efficiency and the management of economic risk without impairing the ability of the appointee to finance the appointed business. The Board reviews this policy annually and the magnitude of dividends is agreed at board meetings as appropriate.

Pensions

The company funds its "frozen" defined benefit (DB) pension scheme (which is a section of the Water Companies Pension Scheme) via deficit payments as agreed with the Trustee, there are no ongoing contributions.

The most recent actuarial valuation for accounting purposes was carried out at 31 March 2011 by a qualified independent actuary and shows that the fund has a net surplus of £4,657k; this is not recognisable as an asset on the Company's balance sheet following the closure of the Section to future accrual. The major assumptions used by the actuary are included in the notes to the accounts.

In place of the "frozen" DB scheme the company operates a Defined Contribution scheme under salary sacrifice where the company will contribute a minimum of 6% up to a maximum of 12% of pensionable pay.

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

FINANCIAL REVIEW (continued)

Cash flow and finance

Net debt increased by £1.473m to £22.767m.

The cash flow comprised:

- cash flow from operating activities £11.202m (£10.578m 2010/11), less
- net interest and finance payments of £0.933m (£1.456m 2010/11), less
- tax payments of £1.665m (add tax received of £0.159m 2010/11), less
- capital expenditure net of contributions £7.277m (£0.401m 2010/11), less
- dividend payments of £2.801m (£2.694m 2010/11)

The year-end Regulatory Capital Value (RCV) rose by £4.503m to £69.139m in the year and as a consequence the debt to RCV ratio decreased from 32.94% to 32.93%. In addition to the borrowings of £25.00m the business has another £5.0m of undrawn committed bank facilities.

Donations to charities

During the year the Company donated £0.005m to charitable causes and community projects. No subscriptions were made to political parties.

Atypical costs

There were no material or exceptional atypical costs during the year.

Capital expenditure

At £7.966m, net capital expenditure has gone some way to catch up the AMP to date (actual £10.556m against an expectation of £15.348m). The CAPEX reported follows the methodology applied by Ofwat at FD09, where expenditure is shown after capital contributions for renewals and new development.

Specifically our net capital expenditure for this regulatory period is as follows:-

Capital expenditure (£m)

Category	2010/11	2011/12	%
Infrastructure renewals	1.306	1.544	18.2
Maintenance non-infrastructure	0.918	1.475	60.7
New development	(0.517)	0.544	(205.2)
Trunk mains	0.174	1.042	498.9
Meter optants	0.266	0.280	5.3
Enhanced service levels	0.089	0.005	(94.4)
Security & emergency measures direction	0.005	0.166	3,220.0
Quality	0.349	2.910	733.8
Net CAPEX	**2.590**	**7.966**	**207.6**

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

FINANCIAL REVIEW (continued)

Infrastructure renewals

The Company renewed 10 km of mains, equivalent to less than 0.5% of the network.

The Strategic Direction Statement discussed future renewals activity; the Company cannot currently demonstrate any inherent deterioration of the serviceability of infrastructure however the current low rate is not considered sustainable.

Above ground asset capital work

Activity consisted of the essential capital maintenance of above ground pumping, treatment and storage booster assets that failed in the year. Installing turbidity monitors at treatment works has continued. Planning of treatment works replacement was deferred in order to accommodate SEMD requirements in the subsequent years of this AMP period.

Telemetry system activity consisted of minor capital expenditure on replacing redundant hardware whilst planning work on its replacement was carried out.

New development and capital contributions

1,307 new properties have been connected, compared to 1,197 in 2010/11 and 1,600 in FD09.

The costs associated with new development for mains, communication pipes and meters have been partially recovered from the developer. The inclusion of £0.457m for infrastructure charges brings the AMP to date position to a near zero position in line with FD09.

Trunk mains

The plans to ensure we are able to meet the demand of customers throughout the year, and in particular the higher summer have progressed.

The "Southern Ring Main" proposed to move water to customers in the west and north of the area, a revised solution to install a booster station and reinforce the network appropriately has been delivered with a much reduced carbon impact. This results in the same level of service to customers as the initial proposal, but will cost customers significantly less, helping bills to be lower than anticipated in the future.

Optants

1,049 free meters have been installed compared to 1,197 in 2010/11 and 1,280 in FD09. The implied unit cost is £267, and is 25% higher than that assumed in FD09.

Security & Emergency Measures Direction

The Company invested £0.166m during the year in pursuance of its obligations under specific Advice Notes falling within the latest Security & Emergency Measures Direction guidance.

Quality

In accordance with our revised drinking water undertakings the Company has constructed its first nitrate treatment works at Babraham. Further we have reconfigured our network to ensure we continue to supply compliant water to our customers in Heydon, even if their local raw water exceeds the nitrate standard.

OPERATING AND FINANCIAL REVIEW
Year ended 31 March 2012

FINANCIAL REVIEW (continued)

Liquidity

The directors are comfortable that liquidity risk is low. The company operates a revolving credit facility that, at the year end, had an undrawn facility of £5m. The directors have also forecast cash requirements for the next review period and do not anticipate any liquidity issues.

Capital structure

The company's revolving credit facility expires in December 2015. The company does not forecast requiring significantly more investment than the current facility.

Treasury policy and objectives

The company operates a simple Treasury function which involves forecasting cash requirements 3 months in advance and drawing down or repaying the Revolving Credit Facility as required. Any funds in excess of this requirement, as a result of delayed operating or capital expenditure, are placed on short term deposit. The company's objective is to operate within the drawn down facility to avoid requiring an overdraft. The company does not operate any other Treasury policies.

REGULATION AND THE COMPETITIVE ENVIRONMENT

Economic regulation

Price limits are set every five years by Ofwat. The last price review was undertaken in 2009 and covered the period 1 April 2010 to 31 March 2015.

The company may increase its prices in line with that agreed at the price review (the K factor) plus (or minus) the prevailing increase in the retail price index (the RPI). An interim determination of price limits may be initiated by either the company or Ofwat subject to certain criteria, including materiality, being met.

Quality and environmental regulation

Water quality is monitored by the Drinking Water Inspectorate, DWI, under the "Water Supply (Water Quality) Regulations". The company has very few issues associated with the quality of water it supplies.

Environmental standards are monitored by the Environment Agency. Programmes of environmental improvement are determined by the EA following guidance from the Secretary of State for the Environment, and recognised in price limits.

Customer representation

Customers are represented by the Consumer Council for Water (CCWater) which monitors the quality of service provided through regulator auditing, reporting and meetings.

Water supply licensing regime

At the end of 2011/12 the Company has had over six years of operating in the Water Supply Licensing Regime.

To date the Company has only had enquiries from one licensee to progress issues. However, despite significant dialogue in April and May 2006 no further correspondence has taken place.

REGULATION AND THE COMPETITIVE ENVIRONMENT (continued)

Accounting separation

The Company supports the requirement for greater transparency and agrees that an increase in information on a like for like comparison across the sector will drive operating efficiencies. The company has taken an active role in the working group shaping how Accounting Separation may develop.

Corporate responsibility

Cambridge Water has adopted a set of values that determine how the business and its employees behave; at the heart of this is the intention to provide a local service through local people. In addition there are a series of specific activities that support the local community:

- Actively promote the efficient use of water

  Domestic customers are offered free solutions to reduce usage such as shower heads, cistern devices and advice.

  Commercial customers are advised through Water Regulation visits and regular discussions.

  Over 65% of customers are now metered.

- Maintain a high profile in the local community

  Support local initiatives and charities via a staff run donations and grants committee, providing funding and resources on a request basis.

  Provide water bottles free of charge to schools, allowing children to drink fresh water whilst learning.

  Sponsor local events and organisations such as the fireworks display and the botanic gardens.

  Work closely with the local CAB (and similar organisations) to promote innovative and supportive approaches to debt, and to publicise Special Needs Registers and beneficial tariffs.

  Staff raise funds for WaterAid; the Water Industry's chosen charity.

- Protect the local environment

  Deliver against National Environment Programme obligations.

  Use lower carbon solutions to issues such as not constructing a major new water main to meet peak demands to the west of Cambridge.

  Researching ways to manage the nitrate implications in the Company catchment area, and also looking for ways to reduce or utilise waste.

  Using technology to minimise paper and toner use, by providing field staff with secure solutions to transfer data quickly.

REGULATION AND THE COMPETITIVE ENVIRONMENT (continued)

Outlook

Company emphasis is on driving efficiency and delivering quality of service to our customers whilst achieving the outputs implicit in the price limits agreed with Ofwat. The profile of price increases over the remaining three years of this review period is as follows:

Changes to price limits

Charging year beginning April	Adjustment factor
2012	0.9
2013	0.2
2014	-0.6

The Regulatory Capital Value as at 31 March 2012 was £69.139m.

Cambridge Water is, and aims to continue to be, a leading performer in the water industry in England & Wales; with a focus on continual improvement, without compromising quality, service to our customers, health and safety or environmental impact.

There are currently no major obstacles to achieving these objectives.

HISTORIC COST PROFIT AND LOSS ACCOUNT
Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
TURNOVER	2	21,052	20,176
Operating costs		(11,990)	(12,092)
Depreciation		(1,757)	(1,756)
Other operating income	3	194	1,155
OPERATING PROFIT		7,499	7,483
Other income	4	250	278
Interest receivable		38	853
Other finance charges		-	(11)
Interest payable	6	(1,136)	(1,610)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	6,651	6,993
Current taxation	8	(1,700)	(1,301)
Deferred taxation	8	566	(566)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		5,517	5,126
Ordinary dividends	23	(2,801)	(2,694)
RETAINED PROFIT FOR THE YEAR	20	2,716	2,432

All results are from continuing operations.

HISTORIC COST STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 March 2012

	2012 £'000	2011 £'000
Profit for the financial year	5,517	5,126
Actuarial (loss)/gain relating to pension schemes	(217)	1,087
UK deferred tax attributable to actuarial (loss)/gain	52	(308)
Movement of interest rate swap	(1,635)	-
UK deferred tax attributable to swap	233	-
Total recognised gains and losses for the year	3,950	5,905

NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 31 March 2012

	2012 £'000	2011 £'000
Reported profit on ordinary activities before taxation	6,651	6,993
Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	-	-
Historical cost profit on ordinary activities before taxation	6,651	6,993
Historical cost profit/(loss) after taxation and dividends transferred from reserves	2,716	2,432

HISTORIC COST BALANCE SHEET
31 March 2012

	Note	2012 £'000	2011 £'000
TANGIBLE FIXED ASSETS			
Tangible fixed assets before contributions	9	91,681	85,948
Less capital contributions	10	(35,831)	(34,736)
		55,850	51,212
CURRENT ASSETS			
Stocks	11	144	125
Debtors and prepayments			
Due within one year	12	6,943	7,338
Due after more than one year	12	-	664
Cash at bank and in hand		2,630	6,647
Investments	13	2	2
		9,719	14,776
CREDITORS: amounts falling due within one year			
Borrowings	14	(57)	(232)
Other creditors	15	(13,355)	(11,568)
Deferred income and deposit		(1,416)	(1,007)
Infrastructure renewals accrual		(1,009)	(1,669)
Corporation tax		(1,848)	(1,558)
		(17,685)	(16,034)
NET CURRENT LIABILITIES		(7,966)	(1,258)
TOTAL ASSETS LESS CURRENT LIABILITIES		47,884	49,954
CREDITORS: amounts falling due after more than one year			
Borrowings	17	(25,341)	(27,709)
PROVISIONS FOR LIABILITIES			
Deferred taxation	18	(6,944)	(7,795)
NET ASSETS		15,599	14,450
CAPITAL AND RESERVES			
Called up share capital	19	731	731
Other reserves (Capital redemption and revaluation reserves)	20	4,124	4,124
Hedging reserve	20	(738)	664
Profit and loss account	20	11,482	8,931
SHAREHOLDERS' FUNDS	21	15,599	14,450

The financial statements of Cambridge Water PLC, registered number 3175861, were approved by the Board of Directors and authorised for issue on 4 July 2012

Signed on behalf of the Board of Directors

S B Kay
Director
12 July 2012

RECONCILIATION BETWEEN STATUTORY ACCOUNTS AND REGULATORY ACCOUNTS
Year ended 31 March 2012

	Statutory (UK GAAP) 31 March 2012 £'000	Regulatory 31 March 2012 £'000	Difference	Explanation reference (see below)
Profit and loss account				
Operating profit	10,008	7,499	(2,509)	1
Profit before tax	9,580	6,651	(2,929)	2
Balance sheet				
Tangible fixed assets (NBV)	55,214	55,850	636	3
Debtors	4,431	6,943	2,512	4

Explanation of differences

		£'000
1	Statutory accounts operating profit for three months from 1 January to March 2011	(2,174)
	FRS 17 adjustments rolled forward to 31 March 2011	(160)
	Difference in timing and calculation methodology for the Infrastructure Renewals Charge	386
	Difference in timing for profit on sale of fixed assets	(561)
		(2,509)
2	Differences as identified above	(2,509)
	Timing difference relating to net interest payable	84
	Profit on sale of fixed assets in 15 months to 31 March 2012	(754)
	Other income in Regulated accounts	250
		(2,929)
3	Brought forward regulatory adjustments	981
	Reverse diversions adjustment in statutory accounts	15
	Other regulated asset adjustments	(360)
		636
4	Brought forward regulatory adjustments	1,200
	Other movements in debtors	1,312
		2,512

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES

Basis of accounting

The historic cost financial statements have been prepared in accordance with guidance issued by the Water Services Regulation Authority ("Ofwat"). The accounting policies are the same as those adopted in the statutory accounts to 31 March 2012, except for the application of infrastructure renewals accounting, which has been accounted for in accordance with Regulatory Accounting Guideline 2, "Classification of Infrastructure Expenditure". See notes to the current cost financial statements for further details. Statutory accounts are available by writing to Cambridge Water PLC, 90 Fulbourn Road, Cambridge, CB1 9JN

The historic cost accounts include the activities of the Appointed Business and exclude the activities of any Non-Appointed Business. The excluded results for the Non-Appointed Businesses are not disclosed in the historic cost financial statements as the activities are not material in relation to the results of the Appointed Business. This conclusion has been reached having taken into consideration the materiality guidelines set out in Regulatory Accounting Guideline 3, "Content of the Regulatory Accounts".

As outlined in the Directors' Report, the Directors confirm the company is able to pay its debts as they fall due for the foreseeable future and, therefore, the accounts have been prepared on a going concern basis.

Dividend policy

The Company dividend policy is set recognising the requirements in our regulatory licence, namely that dividends declared or paid will reward efficiency and the management of economic risk without impairing the ability of the appointee to finance the appointed business. The Board of Cambridge Water PLC reviews this policy annually and the magnitude of this dividend is agreed at board meetings as appropriate.

Turnover recognition

The revenue recognition policy is the same in the regulatory and statutory accounts, with the exception of income relating to commission earned from Anglian Water, management fees from related parties and other non-appointed income.

Turnover represents the amounts receivable, excluding value added tax, in respect of water and other services provided to customers during the period.

Turnover from water supply consists of unmetered and metered supplies. Unmetered customers are billed 12 months in advance, the total of which is held on the balance sheet as deferred income and released to the profit and loss on a monthly basis. Metered customers are invoiced 6 monthly in arrears and the revenue is recognised when invoiced, however, an estimate of unbilled metered water supplied at the accounting date is also accrued to recognise the supply during the period from the date of the last bill to the accounting date. The accrual is estimated based on historic consumption per customer at the rate applicable at the accounting date.

Charges for water remain due in full whilst a property contains furnishings and fittings or when a property is unfurnished and water is being used for any purpose including refurbishment. If the Company has turned off the supply of water at the mains to a property at a customer's request then water supply charges are not payable.

Vacant, unfurnished, unmetered properties are not charged. If the supply of water is turned off and the property is unfurnished the property is considered unoccupied and charges are not payable. Normal charges apply to furnished unmetered vacant properties.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but water is being registered the developer will be charged. Once the developer is no longer responsible for a property, if no new occupier has been identified the property will be treated as unoccupied.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. **ACCOUNTING POLICIES (continued)**

Tangible fixed assets

Tangible fixed assets comprise:

Infrastructure assets

Infrastructure assets comprise a network of systems including mains and communication pipes. The company uses the infrastructure renewals accounting method as required by Ofwat. The costs are normalised over the medium term by charging the 15 year average charge to the profit and loss account. Any balance is treated as a debtor or creditor.

Other assets

Other assets are included at cost or valuation less accumulated depreciation and any provision for impairment. Additions are included at cost. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are as follows:

Water towers, office and depot buildings	60 years
Pumping stations, reservoirs and houses	Up to 80 years
Meters, mobile plant and office equipment	Up to 20 years

Stocks

Stocks have been stated at the lower of cost and net realisable value. No value has been placed on the water in reservoirs and mains in accordance with established practice in the water industry. Provision is made for obsolete or defective items where appropriate.

Leases

Assets leased under finance leases are capitalised in accordance with SSAP 21. The capital payments outstanding on all assets held under the leases are shown within creditors. Depreciation on these assets is in accordance with the policy stated in tangible fixed assets above and charged to the profit and loss account. Interest on finance leases is charged directly to the profit and loss account so as to produce a constant periodic rate of interest on the outstanding liability. Rentals paid under operating leases are charged against income on a straight-line-basis over the lease term.

Capital redemption reserve

This reserve is to maintain total capital when redeemed capital is not wholly replaced by a new capital issue.

Contributions for mains, infrastructure, communication pipes and meters

Contributions received for mains, infrastructure, communication pipes and meters are treated as capital contributions and shown as a deduction from fixed assets on the balance sheet. This policy is not in accordance with the provisions of the Companies Act, but has been adopted in order to show a true and fair view, as certain assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. Contributions are amortised over the same period as the related assets where those assets have a finite life.

Defined benefit pension scheme

With effect from 31 December 2010, the Cambridge Water PLC section closed to all further benefit accrual and all active members became eligible to join the Company's defined contribution pension arrangement with effect from 1 January 2011.

As a result of this closure, the amount charged to the profit and loss account in respect of the defined benefit pension scheme is nil, formerly a percentage of pensionable earnings was charged in the form of a pension contribution. Actuarial gains and losses together with any deficit payments are recognised immediately in the statement of total recognised gains and losses.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. **ACCOUNTING POLICIES (continued)**

Defined benefit pension scheme (continued)

The defined benefit scheme remains in place and is funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the balance sheet.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Losses received from other group relief group companies are paid for at full consideration.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Revaluation of properties

The company took advantage of the transitional provisions of FRS 15 - Tangible Fixed Assets and retained the book amounts of certain assets (freehold land, depots, offices and houses) which were revalued prior to the implementation of that standard. The assets were last revalued at 31 March 1998 and the valuations have not subsequently been updated.

On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the profit and loss account, which are initially measured at fair value.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Derivative financial instruments and interest rate risk management

The use of financial derivatives is governed by the company's policies approved by the Board of Directors.

The company has prepared all necessary documentation and effectiveness tests to apply hedge accounting to the new interest rate swap. The swap is tested periodically for effectiveness using the dollar offset method in comparison of the fair value of the swap with the fair value of a hypothetical derivative. The hedge relationship is considered highly effective if the effectiveness ratio falls within the range of 80% to 125%.

Changes in the fair value of derivative financial instruments are recognised in reserves as they arise. Derivative financial instruments are included in the balance sheet at their fair value as provided by Barclays Bank Plc.

The company's activities expose it primarily to the financial risk of changes in interest rates. The company uses an interest rate swap contracts to hedge this exposure.

The company does not use derivative financial instruments for speculative purposes.

The company has taken advantage of the exemption from the disclosure requirements of FRS 29, since it is a subsidiary undertaking, with 100% of the voting rights controlled within the group, with publicly available group accounts including relevant disclosures.

Interest rate risk management

The company's activities expose it primarily to the financial risk of changes in interest rates. The company uses interest rate swap contracts to hedge this exposure. The company does not use derivative financial instruments for speculative purposes.

Credit risk management

It is the company's policy not to trade in financial instruments.

Liquidity risk management

The company manages liquidity risk using committed bank facilities and short-term deposits.

Trade receivables

Trade receivables are measured at fair value on initial recognition. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired.

Trade creditors

Trade payables are initially measured at fair value.

Cash at bank and in hand

Cash at bank and in hand comprises current account deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the profit and loss account using the effective interest rate method and are carried in the balance sheet as interest payable if they are not settled in the period in which they arise.

Measured income accrual

The methodology the company uses in deriving its closing accrual for measured billing is, for every customer fitted with a meter, to multiply the number of days since their last bill by an average daily consumption volume multiplied by their tariff. The average volume is based on their prior 12 months' consumption.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

2. TURNOVER

	2012 £'000	2011 £'000
Measured	13,675	13,009
Unmeasured	6,321	6,124
Large user revenues	963	934
Third party services	93	109
	21,052	20,176

During the year, there were sales to a former group company amounting to £10k (2011 - £30k).

3. OTHER OPERATING INCOME

	2012 £'000	2011 £'000
Profit on sale of tangible fixed assets	194	1,155

Profit on sale of tangible fixed assets is presented as other operating income in accordance with RAG 3.05.

4. OTHER INCOME

	2012 £'000	2011 £'000
Rental income	235	278
Other income	15	-
	250	278

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation		
Owned assets	1,781	1,747
Leased assets	61	94
Amortised meter contributions	(65)	(66)
Fees payable to the company's auditor in respect of the audit of the company's annual accounts and associated services	39	46
Fees payable to the company's auditor in respect of the audit of the company's submissions to the industry regulator, Ofwat	25	39
Operating lease rentals:		
vehicles	-	8

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £'000	2011 £'000
Finance leases	3	30
Interest on bank loans and overdraft	1,125	1,571
Debenture stock	8	9
	1,136	1,610

7. STAFF COSTS

	2012 £'000	2011 £'000
Wages and salaries, including executive directors	2,843	2,890
Social security costs	371	319
Pension costs - defined benefit	218	558
Pension costs - stakeholder	27	57
Pension costs - defined contribution	307	-
Total (net of costs capitalised)	3,766	3,824

Staff costs capitalised in the year amounted to £0.774m (2011 - £0.728m).

	No	No
The average monthly number of employees, including executive directors, was:		
Resources department	32	24
Commercial department	34	30
Engineering department	37	47
	103	101

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2011 £'000	2010 £'000
Current tax		
UK corporation tax	(1,700)	(1,301)
Deferred tax		
Origination and reversal of timing differences	(108)	(362)
Adjustments in respect of prior years	69	(2)
Changes in tax rates or laws	605	572
FRS17 deferred tax credit	-	(42)
Transfer of taxable gain on Rustat Road property to Iceni Waters Limited	-	(731)
Total tax on historic cost profit on ordinary activities	(1,134)	(1,867)

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the historic cost profit before tax is as follows:

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	6,651	6,993
Tax on profit on ordinary activities at standard UK corporation tax rate of 26% (2011 - 28%)	(1,729)	(1,958)
Effects of:		
Capital allowances in excess of depreciation	117	152
Other short term timing differences	-	238
Expenses not deductible for tax purposes	(49)	261
Pension cost relief in excess of net pension cost charge	-	46
Prior period adjustment	7	7
Chargeable gain on sale of assets	(46)	(47)
Current tax charge for the year	(1,700)	(1,301)

The company earns its profits solely in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 26%.

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012. This rate reduction became substantively enacted in March 2012. The UK Government also proposed changes to further reduce the standard rate of UK corporation tax by 1% per annum to 22% by 1 April 2014, but these changes have not been substantively enacted.

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

9. TANGIBLE FIXED ASSETS BEFORE CONTRIBUTIONS

	Freehold land, offices, depots and houses £'000	Sources, reservoirs, buildings and works £'000	Mains £'000	Communi-cation pipes £'000	Meters, mobile plant and office equipment £'000	Total £'000
Cost or valuation						
At 1 April 2011	4,540	22,796	42,817	15,525	20,647	106,325
Additions	17	3,764	1,526	519	1,803	7,629
Disposals	(45)	(61)	-	-	(43)	(149)
At 31 March 2012	4,512	26,499	44,343	16,044	22,407	113,805
Depreciation						
At 1 April 2011	489	11,025	-	-	8,863	20,377
Charge for the year	92	680	-	-	1,068	1,840
Disposals	(19)	(53)	-	-	(21)	(93)
At 31 March 2012	562	11,652	-	-	9,910	22,124
Net book value						
Owned	3,950	14,847	44,343	16,044	12,260	91,446
Leased	-	-	-	-	237	237
At 31 March 2012	3,950	14,847	44,343	16,044	12,497	91,681
Owned	3,950	10,209	27,639	15,392	11,685	68,875
Leased	101	1,562	15,178	133	99	17,073
At 31 March 2011	4,051	11,771	42,817	15,525	11,784	85,948

The above includes:

Assets with an historical cost of £256k (2011 - £256k) and accumulated depreciation of £12k (2011 - £12k) which were revalued by Bidwells, chartered surveyors, at 31 March 1998 at £780k open market value (2011 - £780k). Freehold land amounting to £244k (2011 - £244k) has not been depreciated.

Assets under finance lease amounted to £298k (2011 - £18,281) less accumulated depreciation of £61k (2011 - £1,208k). Depreciation charged to the profit and loss account for the year in respect of leased assets amounted to £59k (2011 - £0.094k).

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

9. TANGIBLE FIXED ASSETS BEFORE CONTRIBUTIONS (continued)

Historical costs of categories which include revalued assets:

	Freehold land £'000	Offices, depots and houses £'000
Cost or valuation		
At 1 April 2011 and 31 March 2012	244	12
Depreciation		
At 1 April 2011 and 31 March 2012	-	12
Net book value		
At 31 March 2012	244	-
At 31 March 2011	244	-

10. CAPITAL CONTRIBUTIONS

	Mains £'000	Infrastructure £'000	Meters £'000	Communication pipes £'000	Non-infrastructure £'000	Total £'000
At 1 April 2011	6,349	11,419	371	16,339	258	34,736
Received during the year	198	457	55	469	-	1,179
Less amortised	-	-	(65)	-	(19)	(84)
At 31 March 2012	6,547	11,876	361	16,808	239	35,831

11. STOCKS

	2012 £'000	2011 £'000
Raw materials and consumables	144	125

In the opinion of the directors the replacement cost of stock is not materially different to the carrying value.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

12. DEBTORS AND PREPAYMENTS

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Trade debtors	2,972	3,586
Other debtors	50	50
Prepayments and accrued income	3,921	3,172
Amounts owed by group undertakings	-	530
	6,943	7,338
Amounts falling due after more than one year:		
Fair value of interest rate swap	-	664
	6,943	8,002

13. INVESTMENTS

The balance represents investment of £1,596 (2011 - £1,596) related to 798 "A" ordinary shares and 8% of unsecured loan stock of WRc plc, research-based group, providing consultancy in the water, waste and environment sectors, incorporated in England and Wales.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - BORROWINGS

	2012 £'000	2011 £'000
Obligations under finance lease contracts	57	232

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - OTHER CREDITORS

	2012 £'000	2011 £'000
Trade creditors	13,240	11,024
Other taxes and social security	115	111
Amounts due to group undertakings	-	433
	13,355	11,568

In accordance with Ofwat guidance, measured credit balances have been reclassified from prepayments to trade creditors.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

16. FINANCIAL COMMITMENTS

A sum of £1,493k (2011 - £1,372k) is outstanding in respect of capital works not completed and therefore not provided in the balance sheet.

There are no other financial commitments.

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - BORROWINGS

	2012 £'000	2011 £'000
Perpetual debenture stock	192	192
Obligations under finance lease contracts	149	17
Bank loans	25,000	27,500
	25,341	27,709
Made up as follows:		
Due between 1 and 2 years	30	17
Due between 2 and 5 years	25,119	27,500
Perpetual	192	192
	25,341	27,709
Including finance leases:		
Due between 1 and 2 years	30	17
Due between 2 and 5 years	119	-
	149	17
Including debenture stocks and revolving credit facility (RCF):		
Due between 1 and 2 years		
Revolving credit facility	25,000	27,500
Due after 5 years		
4% Consolidated Perpetual Debenture Stock		
(half yearly interest due on 1 January and 1 July)	192	192
	25,192	27,692

The RCF is for a maximum amount of £30m, subject to compliance with certain covenants and financial ratios. Details of the interest risk terms are provided in note 22.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

18. PROVISIONS FOR LIABILITIES

Deferred taxation	**£'000**
At 1 April 2011	7,795
Profit and loss charge	(566)
Deferred tax on swap value	(233)
Deferred tax on FRS 17 adjustment recognised in pension asset	(52)
At 31 March 2012	6,944

Deferred tax is provided as follows:

	2012 £'000	**2011 £'000**
Accelerated capital allowances	6,944	7,795

19. CALLED UP SHARE CAPITAL

	2012 £'000	**2011 £'000**
Called up, allotted and fully paid		
14,621,152 ordinary shares of 5p each	731	731

20. RESERVES

	Hedging reserves £'000	**Capital redemption reserve £'000**	**Revaluation reserve £'000**	**Profit and loss account £'000**	**Total £'000**
At 1 April 2011	664	3,731	393	8,931	13,719
Profit on ordinary activities after taxation	-	-	-	5,517	5,517
Ordinary dividends	-	-	-	(2,801)	(2,801)
Actuarial gain relating to pension scheme	-	-	-	(217)	(217)
UK deferred tax attributable to actuarial gain	-	-	-	52	52
UK deferred tax on swap	233	-	-	-	233
Hedging reserves	(1,635)	-	-	-	(1,635)
At 31 March 2012	(738)	3,731	393	11,482	14,868

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

21. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
Profit after taxation for the financial year	5,517	5,126
Other recognised gains and losses during the year	68	779
Dividends	(2,801)	(2,694)
Hedging reserves	(1,635)	664
Net increase in shareholders' funds	1,149	3,875
Opening shareholders' funds	14,450	10,575
Closing shareholders' funds	15,599	14,450

22. FINANCIAL INSTRUMENTS

The accounting policies provides an explanation of the role that financial instruments have had during the period in creating or changing the risks that the company faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

The fair value of the assets and liabilities held is not materially different to the carrying value.

Interest rate swap

The company uses an interest rate swap to manage its exposure to interest rate movements on its bank borrowings. The contract has a nominal value of £27.5m with fixed interest payments at an average rate of 2.16% for periods up until 30 December 2015 and floating interest receipts at LIBOR.

At 31 March 2012, the fair value of the swap is estimated as a liability of £0.971m (2011 - asset of £0.664m). This amount is based on the market value of equivalent instruments at the balance sheet date. The movement in the swap was taken to reserves under hedge accounting rules.

Movements in the fair value of the swap have been recognised in the profit and loss account. Under the swap arrangement, cash amounting to £0.342m (2011 - £0.958m) has been paid in addition to the interest payments made in the period as a result of base rates falling below the fixed hedge rate.

The interest rate profile of the company's financial liabilities at 31 March 2012 was as follows:

Of the £25.4m (2011 - £27.9m) borrowings at 31 March 2012, the £25m Revolving Credit Facility (RCF) (2011 - £27.5m) was at a variable interest rate. This represents 98% (2011 - 99%) of borrowings.

All of the £25m RCF was covered by the swap and so a one percentage point rise in interest rates in the period would have affected profits before tax by 0.0% (2011 - 0.0%). The swap and RCF are with Barclays Bank Plc and the hedge is profiled to ensure we have approximately 95% coverage over the life of the RCF.

The RCF was taken out on 30 December 2004 and renewed for a further five years on 30 December 2010. The facility is for £30.0m and at 31 March 2012 the company had drawn down £25m (2011 - £27.5m). Since we use the interest rate of the loan as our discount rate, the fair value and book value of the RCF are both £25m.

There were no unrecognised gains or losses arising from the swap at the balance sheet date.

NOTES TO THE HISTORIC COST FINANCIAL STATEMENTS
Year ended 31 March 2012

22. FINANCIAL INSTRUMENTS (continued)

Credit risk

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivable.

The credit risk on liquid and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The company manages liquidity risk using committed bank facilities and short-term deposits.

In addition to the RCF, the company had in place a committed short-term banking facility of £2.0m (2011 - £2.0m) at the balance sheet date.

The maturity of the company's borrowings is as follows:

	2012 £'000	2011 £'000
Within 1 year	57	232
Between 1 and 2 years	30	17
Between 2 and 5 years	25,119	27,500
Perpetual	192	192
	25,398	27,941

The weighted average interest rate of the fixed rate liabilities was 4% (2011 - 6.79%). The weighted average period for which the interest rates are fixed, excluding the perpetual debentures, is nil years (2011 - 0.33 years). The benchmark rate for determining variable interest payments is LIBOR. The fair value of the £0.192m (2011 - £0.4m) fixed interest liabilities, using a discount rate of 2.16% (2011 - 2.16%) is £0.7m (2011 - £0.9m).

As wholly owned subsidiary of South Staffordshire PLC the company has taken advantage of the exemption under FRS 29 not to provide full disclosures in accordance with the requirements of FRS 29.

23. NOTES TO THE CURRENT COST FINANCIAL STATEMENTS

Related party disclosures are made in note 10 to the current cost financial statements; disclosures relating to dividends are made in note 13 to the current cost financial statements and disclosures relating to the defined benefit pension scheme are made in note 14 to the current cost financial statements.

24. ULTIMATE HOLDING COMPANY

At 31 March 2012, the company's immediate parent company was South Staffordshire Plc. The ultimate controlling party is Alinda Capital Partners LLC, a company registered in the United States of America.

CURRENT COST PROFIT AND LOSS ACCOUNT
Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
TURNOVER		21,052	20,176
Current cost operating costs			
Historic cost operating costs		(13,747)	(13,848)
Depreciation adjustment		(1,232)	(1,272)
Operating income			
Current cost asset profits adjustment	3	41	495
Current cost operating profit before working capital adjustment		6,114	5,551
Working capital adjustment	4	115	45
Current cost operating profit		6,229	5,596
Other income		250	278
Interest receivable		38	853
Other finance charge	14	-	(11)
Interest payable		(1,136)	(1,610)
Financing adjustment	5	1,197	2,127
CURRENT COST PROFIT BEFORE TAXATION		6,578	7,233
Current taxation		(1,700)	(1,301)
Deferred taxation		566	(566)
CURRENT COST PROFIT ATTRIBUTABLE TO SHAREHOLDER		5,444	5,366
Ordinary dividends	13	(2,801)	(2,694)
CURRENT COST RETAINED PROFIT FOR THE YEAR		2,643	2,672

CAMBRIDGE WATER PLC

CURRENT COST BALANCE SHEET
31 March 2012

	Note	2012 £'000	2011 £'000
Tangible fixed assets	6	560,069	536,582
Less third party contributions since 1989/90	9	(90,941)	(86,748)
		469,128	449,834
Working capital	4	(2,657)	(1,556)
Cash and short term deposits	5	2,630	6,647
Infrastructure renewals accrual	2	(1,134)	(1,669)
Net operating assets		467,967	453,256
Non-operating assets and liabilities			
Investments	5	2	2
Borrowings	5	(57)	(232)
Non-trade debtors	5	225	95
Non-trade creditors due within one year	5	(4,153)	(3,648)
Fair value of interest rate swap	5	(971)	664
Corporation tax payable	5	(1,848)	(1,558)
Total non-operating assets and liabilities		(6,802)	(4,677)
Creditors: amounts falling due after more than one year			
Borrowings	5	(25,341)	(27,709)
Total creditors: amounts falling due after more than one year		(25,341)	(27,709)
Provisions for liabilities and charges			
Provision for deferred taxation	5	(6,944)	(7,795)
Net assets		428,880	413,075
Capital and reserves			
Share capital		731	731
Capital redemption reserve		3,731	3,731
Current cost reserve	7	417,058	402,329
Profit and loss account	8	7,360	6,284
Shareholders' funds		428,880	413,075

The financial statements of Cambridge Water PLC, registered number 3175861, were approved by the Board of Directors and authorised for issue on 4 July 2012

Signed on behalf of the Board of Directors

S B Kay
Director
12 July 2012

CURRENT COST CASH FLOW STATEMENT
Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	11	11,202	10,578
Returns on investments and servicing of finance			
Interest received		38	4
Interest paid		(930)	(1,430)
Interest element of finance lease payments		(41)	(30)
Net cash outflow from returns on investments and servicing of finance		(933)	(1,456)
Taxation (paid)/received		(1,665)	159
Capital expenditure and financial investment			
Purchase of tangible fixed assets (excluding IRE)		(7,590)	(2,462)
Disposal of tangible fixed assets		235	1,555
Capital contributions received		1,622	1,812
Infrastructure renewals expenditure		(1,544)	(1,306)
Net cash outflow from capital expenditure and financial investment		(7,277)	(401)
Equity dividends paid		(2,801)	(2,694)
Financing			
Capital element in finance lease payments		(43)	(300)
Repayment of bank loans		(2,500)	(1,250)
Net cash outflow from financing		(2,543)	(1,550)
(Decrease)/increase in cash		(4,017)	4,636
Reconciliation			
Cash brought forward		6,647	2,011
Cash carried forward		2,630	6,647
Net (decrease)/increase in cash		(4,017)	4,636

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES

Basis of preparation

The current cost financial statements have been prepared in accordance with guidance issued by the Water Services Regulation Authority for real term Regulatory Accounts suitable for regulation in the water industry.

They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business, with the exception of short lived plant, machinery and office equipment which remain as they appear in the Historical Cost Accounts. The net effect of inflation adjustments is accounted for as a movement in the Current Cost reserve.

The Current Cost accounts include the activities of the Appointed Business and exclude the activities of any Non-Appointed Business. The excluded results for the Non-Appointed Business are not disclosed in the Current Cost financial statements as the activities are not material in relation to the results of the Appointed Business. This conclusion has been reached having taken into consideration the materiality guidelines set out in Regulatory Accounting Guideline 3, "Content of the Regulatory Accounts".

Accounting policies are consistent with those adopted in the historic cost accounts, except as stated below.

Working capital adjustment (WCA)

Under financial capital maintenance, this adjustment is to maintain the value of working capital

WCA = opening working capital x the Retail Price Index ("RPI"). RPI denotes the percentage change in the retail price index between the opening and closing balance sheet dates.

Working capital is defined as the aggregate of:

a) trade debtors, prepayments and accrued income; plus
b) stocks; less
c) trade creditors (including capital goods) and deferred income; less
d) Infrastructure renewals accrual.

Financing adjustment

Under financial capital maintenance, this adjustment is to take account of inflation on opening net finance.

Financing adjustment = opening net finance x RPI

Net finance includes all monetary assets and liabilities not included in working capital

Fixed assets and depreciation adjustments

Gross current cost:

Gross current cost of fixed assets has been derived as follows:

Assets held as at 31 March 2008

Land

Professional valuation, by Bidwells, at 31 March 2008 of all non-specialised land; and

Directors' estimate of open market value at 31 March 2008 of specialised and operational land, all indexed annually using RPI.

Offices, Depots and Houses

Professional valuation, by Bidwells, at 31 March 2008, indexed annually using RPI.

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. **ACCOUNTING POLICIES (continued)**

Fixed assets and depreciation adjustments (continued)

Sources, Reservoirs, Towers etc

Directors' estimate of current replacement cost by reference to the actual cost of replacing buildings (including pumping stations, reservoirs, towers and boosters etc) in accordance with information submitted to Ofwat in the long term investment plan, forming part of the Final Business Plan ("FBP"), as at 31 March 2008, indexed annually using RPI.

Mains

Directors' estimate of current replacement cost by reference to the actual cost of replacement, having taken into account the type, since and materials of all the pipes known to be owned and operationally used by the company, by reference to costs contained in the long term investment plan, forming part of the FBP, indexed annually using the RPI as a proxy for replacement cost.

Communication pipes

Directors' estimate of current replacement cost by reference to the actual cost of replacement, having taken into account the number of supplies and current average costs of installation at 2008 prices indexed annually using RPI.

Customers' meters

Directors' estimate of current replacement cost by reference to the actual cost of replacement, having taken into account the number of meters and current average costs of installation at 2008 prices indexed annually using RPI.

Waste meters, mobile plant and office equipment

Because these assets have short lives a restatement of values in current cost terms would give rise to immaterial adjustments.

i. Assets acquired since 31 March 2008

All assets acquired since 31 March 2008 are include at cost and indexed annually using the RPI.

ii. Depreciation adjustment

Assets are depreciated evenly over their estimated economic lives which are as follows:

Towers, office and depot buildings	60 years
Pumping stations, reservoirs and houses	Up to 80 years
Meters, mobile plant and office equipment	Up to 20 years

No depreciation is charged on freehold land.

The depreciation adjustment shown in the Current Cost accounts represents the difference between Current Cost depreciation and historical cost depreciation. This increased charge represents the Current Cost proportion of fixed assets consumed in the period. No depreciation is charged on mains and communication pipes because they are maintained in perpetuity, being renewed as necessary, and therefore have an infinite life.

iii. Net Current Cost

Net Current Cost is arrived at by deducting aggregate Current Cost depreciation from gross Current Cost at the balance sheet date. Aggregate Current Cost depreciation has been calculated by reference to the useful lives of the fixed assets and represents the proportion of the value consumed to date.

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Capital redemption reserve

Contributions received are indexed annually using RPI to reflect the current value of past contributions.

Infrastructure renewals

Infrastructure renewals are accounted for by using the infrastructure renewals accruals accounting required by Ofwat. The costs are normalised over the medium term by charging the 15 year average charge to the profit and loss account. Any balance is treated as a creditor or debtor.

2. INFRASTRUCTURE RENEWALS ACCRUAL

	2012 £'000	2011 £'000
Creditor at 1 April 2011	(1,669)	(1,685)
Charge to current cost profit and loss account	(1,009)	(1,290)
Cost of work done during the year	1,544	1,306
Creditor at 31 March 2012	(1,134)	(1,669)

3. CURRENT COST ASSET PROFITS ADJUSTMENT

	2012 £'000	2011 £'000
Historic cost profit on sale of tangible fixed assets	194	1,155
Adjustment to the current cost profit and loss account	(153)	(660)
Current cost profit on sale of tangible fixed asets	41	495

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

4. WORKING CAPITAL ADJUSTMENT

	2012 £'000	2011 £'000	2010 £'000
Stocks	144	125	80
Trade debtors			
Measured household	377	806	619
Unmeasured household	251	458	748
Measured non-household	909	861	776
Other	677	1,948	1,860
Trade creditors	(4,956)	(4,491)	(3,893)
Other taxes and social security	(457)	(169)	(99)
Deferred income	(3,444)	(4,266)	(2,623)
Prepayments and accrued income	3,842	3,172	3,382
	(2,657)	(1,556)	850
Infrastructure renewals accrual	(1,134)	(1,669)	(1,685)
	(3,791)	(3,225)	(835)
RPI adjustment		3.57%	5.35%
Working capital adjustment		(115)	(45)

5. FINANCING ADJUSTMENT

	2012 £'000	2011 £'000	2010 £'000
Investments	2	2	2
Finance lease obligations due within one year	(57)	(232)	(315)
Loan due within one year	-	-	(28,750)
Corporation tax	(1,848)	(1,558)	(579)
Cash and short term deposits	2,630	6,647	2,011
Fair value of interest rate swap	(971)	664	(849)
Creditor - non-appointed business	(4,153)	(3,648)	(2,897)
Provisions for liabilities and charges:			
Deferred taxation	(6,994)	(7,795)	(8,003)
Creditors due after more than one year:			
Finance lease obligations	(149)	(17)	(234)
Debentures	(192)	(192)	(192)
Loans	(25,000)	(27,500)	-
Other debtors	225	95	30
Net total	(36,507)	(33,534)	(39,776)
RPI adjustment		3.57%	5.35%
Financing adjustment		(1,197)	(2,127)

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

6. TANGIBLE FIXED ASSETS

	Freehold land £'000	Offices, depots and houses £'000	Sources, reservoirs and works £'000	Mains £'000	Communi-cation pipes £'000	Consumers meters £'000	Waste meters, mobile plant and office equipment £'000	Total £'000
Cost or valuation								
At 1 April 2011	1,458	4,677	81,123	420,555	66,807	30,746	6,197	611,563
Inflation adjustments	52	166	2,895	15,004	2,385	1,107	222	21,831
Additions	13	8	3,655	1,526	519	603	1,275	7,599
Disposals	-	(202)	(203)	-	-	-	(41)	(446)
At 31 March 2012	1,523	4,649	87,470	437,085	69,711	32,456	7,653	640,547
Depreciation								
At 1 April 2011	-	555	56,215	-	-	15,986	2,225	74,981
Inflation adjustments	-	20	2,022	-	-	574	78	2,694
Charge for the year	-	98	1,308	-	-	1,201	448	3,055
Disposals	-	(60)	(183)	-	-	-	(9)	(252)
At 31 March 2012	-	613	59,362	-	-	17,761	2,742	80,478
Net book value								
At 31 March 2012	1,523	4,036	28,108	437,085	69,711	14,695	4,911	560,069
At 31 March 2011	1,458	4,122	24,908	420,555	66,807	14,760	3,972	536,582

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

6. TANGIBLE FIXED ASSETS (continued)

Current cost analysis of fixed assets by asset type:

	Specialised operational assets £'000	Non-specialised operational assets £'000	Infra-structure assets £'000	Other tangible assets £'000	Total £'000
Cost or valuation					
At 1 April 2011	102,065	17,038	487,351	5,109	611,563
Inflation adjustments	3,644	608	17,398	181	21,831
Disposals	(205)	-	-	(241)	(446)
Additions	4,431	391	2,045	732	7,599
At 31 March 2012	109,935	18,037	506,794	5,781	640,547
Depreciation					
At 1 April 2011	60,254	12,005	-	2,722	74,981
Inflation adjustments	2,165	431	-	98	2,694
Disposals	(183)	-	-	(69)	(252)
Charge for the year	1,821	849	-	385	3,055
At 31 March 2012	64,057	13,285	-	3,136	80,478
Net book value					
At 31 March 2012	45,878	4,7524	506,794	2,645	560,069
At 31 March 2011	41,811	5,036	487,351	2,384	536,582

7. CURRENT COST RESERVE

	2012 £'000	2011 £'000
At 1 April 2011	402,329	264,500
Asset Management Plan (AMP) adjustment	-	116,947
Inflation adjustment on fixed assets	21,832	30,954
Inflation adjustments on capital contributions received	(3,097)	(4,315)
Inflation adjustments on working capital	(115)	(45)
Inflation adjustments on accumulated depreciation	(2,694)	(3,585)
Financing adjustment	(1,197)	(2,127)
At 31 March 2012	417,058	402,329

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

8. PROFIT AND LOSS ACCOUNT

	2012 £'000	2011 £'000
At 1 April 2011	6,284	2,169
Current cost profit attributable to shareholder	5,444	5,366
Ordinary dividends	(2,801)	(2,694)
Hedging reserve	(1,635)	664
Actuarial (loss)/gain relating to pension scheme	(217)	1,087
UK deferred tax attributable to actuarial gain	52	(308)
UK deferred tax on swap value	233	-
At 31 March 2012	7,360	6,284

9. CAPITAL CONTRIBUTIONS

	Meters £'000	Mains £'000	Communi-cation pipes £'000	Infrastruc-ture £'000	Non-infra-structure £'000	Total £'000
At 1 April 2011	402	8,029	61,842	16,188	287	86,748
Inflation adjustments	14	287	2,208	578	10	3,097
Received during the year	55	198	470	457	-	1,180
Less amortised	(65)	-	-	-	(19)	(84)
At 31 March 2012	406	8,514	64,520	17,223	278	90,941

10. TRANSACTIONS WITH RELATED GROUP COMPANIES

Name of company	Transaction type	Terms of supply	Income/ expense	Value £'000
Iceni Waters Limited	Management services	No market	Income	25
Iceni Waters Limited	Supply of natural mineral water	Commercial	Income	10
South Staffordshire Plc	Management services	No market	Expense	162

All outstanding balances with related companies were settled before the acquisition of Cambridge Water Plc by HSBC Bank PLC was completed on 2 August 2011.

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

11. RECONCILIATION OF CURRENT COST OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2012 £'000	2011 £'000
Current cost operating profit	6,229	5,596
Working capital adjustment	(115)	(45)
Decrease in working capital	1,100	1,872
Receipts from other income	250	278
Current cost depreciation	2,987	2,942
Current cost profit on sale of fixed assets	(41)	(495)
Infrastructure renewals charge	1,009	1,290
Other non-cash profit and loss items	(217)	(860)
Net cash inflow from operating activities	11,202	10,578

12. ANALYSIS OF NET DEBT

	1 April 2011 £'000	Cash flow £'000	31 March 2012 £'000
Cash at bank and in hand	6,647	(4,017)	2,630
Short term investments	2	-	2
Loans due after one year	(27,500)	2,500	(25,000)
Finance leases	(249)	43	(206)
Debentures	(192)	-	(192)
	(21,292)	(1,474)	(22,766)

	Interest rate risk profile		
	Fixed rate £'000	Floating rate £'000	Total £'000
Maturity profile			
Less than one year	(57)	-	(57)
Between one to two years	(30)	-	(30)
Between two to five years	(25,119)	-	(25,119)
In more than twenty years	(192)	-	(192)
Total borrowings	(25,398)	-	(25,398)
Cash			2,630
Investments			2
Net debt			(22,766)

13. DIVIDENDS

	2012 £'000	2011 £'000
Interim equity dividend paid, 19.16p per share (2011: 18.43p per share)	2,801	2,694

Dividend policy

The company dividend policy is set recognising the requirements in our regulatory licence, namely that dividends declared or paid will reward efficiency and the management of economic risk without impairing the ability of the appointee to finance the appointed business.

The board of Cambridge Water PLC reviews this policy annually, and the quantum of this dividend is agreed at board meetings as appropriate.

14. PENSION FUNDS

Defined Contribution Scheme

From 1 January 2011 the company closed its defined benefit scheme to new entrants and future accrual and now operates a salary sacrifice defined contribution retirement benefit scheme for all qualifying employees.

The company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefit. The only obligation to the company with respect to the retirement scheme is to make the specified contributions.

The total cost charged to income of £307k represents contributions payable to the scheme by the company at rates specified in the rules of the plan. As at 31 March 2012, no contributions due in respect of the current reporting period had not been paid over to the schemes.

Defined Benefit Scheme

The company operates a funded defined benefit pension scheme covered under the Water Companies Pension Scheme of which the company is a member. On 31 December 2010, the scheme closed to new entrants and future accrual.

In July 2010, the government announced that it would, in future, use the Consumer Prices Index (CPI) as the basis for determining the statutory minimum percentage increase for revaluation and indexation of private sector occupational pension schemes.

Actuarial gains and losses are recognised in full in the period in which they occur. Actuarial gains and losses are recognised outside of the profit and loss account in the STRGL. The liability recognised in the Balance Sheet represents the present value of the defined benefit obligation as reduced by the fair value of section assets. The cost of providing benefits is determined using the projected unit cost method.

The results of the formal actuarial valuation as at 31 March 2011 were updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, the value of the defined benefit obligation and current service cost has been measured using the projected unit cost method.

The expected rate of return on assets for the year ended 31 March 2012 was 5.6% (2010/11: 6.0%). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the section was invested in at 31 March 2011.

The following table sets out the key assumptions used by the actuary.

The major assumptions used by the actuary were:

	31 March 2012	31 March 2011	31 March 2010
RPI inflation	3.5%	3.7%	3.9%
CPI inflation	2.5%	3.0%	n/a
Discount rate	4.7%	5.5%	5.5%
Pension increases in payment (RPI)	2.5%	3.0%	3.9%
General salary increases	n/a	n/a	4.4%

14. PENSION COSTS (continued)

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rates of return at each balance sheet date were:

	Expected return	2012 £'000	Expected return	2011 £'000	Expected return	2010 £'000	Expected return	2009 £'000	Expected return	2008 £'000
Equities	7.3%	9,005	7.8%	10,654	8.0%	13,814	8.0%	9,970	7.7%	14,045
Diversified growth fund	6.6%	2,740	7.3%	2,584		-		-		-
Bonds	3.3%	25,556	4.3%	20,447	4.5%	19,193	4.2%	17,267	4.4%	17,660
Cash	0.7%	-	2.1%	123	2.0%	77	1.9%	49	3.9%	30
Total fair value of assets		37,301		33,808		33,084		27,286		31,735
Present value of scheme liabilities		(32,644)		(29,341)		(34,334)		(25,024)		(29,380)
Gross pension asset/(liability)		4,657		4,467		(1,250)		2,262		2,355
Adjustment for asset limit		(4,657)		(4,467)		-		-		-
Related deferred tax asset/ (liability) at 28%		-		-		350		(635)		(660)
Net pension (liability)/asset		-		-		(900)		1,627		1,695

14. PENSION COSTS (continued)

A reconciliation of the present value of the defined benefit obligation is as follows:

	2012 £'000	2011 £'000
Opening defined benefit obligation	29,341	34,334
Employer's part of current service cost	-	384
Interest cost	1,574	1,848
Contributions from section members	-	101
Curtailment gain - impact of closure	-	(842)
Actuarial losses/(gains)	3,200	(4,519)
Benefits paid	(1,471)	(1,965)
Closing defined benefit obligation	32,644	29,341

A reconciliation of the fair value of the Section's assets is as follows:

	2012 £'000	2011 £'000
Opening fair value of the assets	33,808	33,084
Expected return on assets	1,786	1,837
Actuarial gains	2,961	193
Contributions (employer and employee)	217	659
Benefits paid	(1,471)	(1,965)
Closing defined benefit asset	37,301	33,808

The actual return on Section's assets over the year to 31 March 2012 was a gain of £4,747k (2011: gain of £2,030k.)

The amount recognised outside profit or loss in the statement of total recognised gains and losses for the year to 31 March 2012 is a loss of £0.217k (2011: gain of £1,087k). The cumulative amount of actuarial gains and losses recognised outside profit or loss at 31 March 2012, excluding the impact of the asset limit on the balance sheet, is a gain of £5,214k.

	2012 £'000	2011 £'000
Total market value of assets	37,301	33,808
Present value of scheme liabilities	(32,644)	(29,341)
Gross pension asset	4,657	4,467
Amount not recognised due to asset limit	(4,657)	(4,467)
Net pension liability	-	-

The Section closed to future benefit accrual with effect from 31 December 2010. Under FRS17, the pension asset that can be recognised on the balance sheet is limited to the extent that it is recoverable through reduced contributions for future pensionable service and agreed refunds. Given that no refunds have been agreed and as no future service benefits are currently expected, the maximum asset that may be recognised is nil.

The contribution rate for the period to 31 March 2006 was 16.5% and the agreed contribution rate for the period 1 April 2006 to 31 December 2008 was 20% of pensionable earnings. From 1 January 2009, contributions were 24% of pensionable earnings.

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

14. PENSION COSTS (continued)

The assumptions for the expected long-term return on assets, to determine the charge in the profit and loss account were as follows:

- For government bonds the expected return has been based on the yields on long-dated gilts at the accounting date, whilst cash has been treated as a short-term bond.
- An equity return of 7.8% pa (that is 3.5% above the expected long term return on long-dated gilts) was used to provide a best estimate of the expected returns.
- For the diversified growth funds an assumption of 7.3% pa, set as 3% pa in excess of the expected returns on long-dated index-linked gilts has been used.

The assumption for post-retirement life-expectancy was based on tables PNA00 with a 110% adjustment with future improvements in line with the medium cohort projections (subject to a minimum improvement of 1.0% pa). Pre-retirement mortality was based on the AC00 tables.

Analysis of the amount charged to operating profit:

	2012 £'000	2011 £'000
Current service costs	-	384
Total operating charge	-	384

Analysis of the amount charged to other finance income:

	2012 £'000	2011 £'000
Expected return on pension scheme assets	1,786	1,837
Interest on pension scheme liabilities	(1,574)	(1,848)
Restriction on expected return due to unrecognised surplus	(212)	-
Net return charged to interest receivable and similar income	-	(11)

Analysis of the actuarial (loss)/gain recognised in the statement of total recognised gains and losses (STRGL):

	2012 £'000	2011 £'000
Actual return less expected return on pension scheme assets	2,961	193
Experience gains arising on the scheme liabilities	(1,255)	242
(Loss)/gain due to changes in assumptions underlying the present value of the scheme liabilities	(1,945)	4,277
Actuarial (loss)/gain	(239)	4,712
Gain/(loss) due to asset limit	22	(3,625)
Actuarial (loss)/gain recognised in STRGL	(217)	1,087

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

14. PENSION COSTS (continued)

Movement in scheme (deficit)/surplus during the year:

	2012 £'000	2011 £'000
Deficit in scheme at the beginning of the year	-	(1,250)
Current service cost	-	(384)
Aggregate contributions	217	558
Other finance charge	-	(11)
Actuarial (loss)/gain recognised in STRGL	(217)	1,087
Deficit in scheme at the end of the year	-	-

History of experience gains and losses:

	2012	2011	2010	2009	2008
Difference between expected and actual return on scheme assets					
Amount - (loss)/gain (£'000)	2,961	193	4,798	(5,872)	(1,000)
Percentage of scheme assets	8%	1%	15%	(22%)	(-3%)
Experience gains and losses on scheme Liabilities					
Amount - (loss)/gain (£'000)	(1,255)	242	606	1,390	30
Percentage of the present value of the scheme liabilities	4%	1%	2%	6%	0%
Total amount recognised in the STRGL					
Amount - (loss)/gain (£'000)	(217)	1,087	(3,541)	192	1,770
Percentage of the present value of the scheme's liabilities	1%	(4%)	10%	1%	6%

15. REGULATORY CAPITAL VALUE (RCV) AT 31 MARCH 2012 PRICES

	2012 £'000
RCV at 31 March 2012 as published on the Ofwat web-site	64,636
Indexation	2,307
Opening RCV	66,943
Capital expenditure (excluding IRE)	6,150
Infrastructure renewals expenditure	1,577
Infrastructure renewals charge	(1,614)
Grants and contributions	(896)
Depreciation	(2,912)
Outperformance of Regulatory Assumptions (5 years in arrears)	(109)
Closing RCV	69,139
Average RCV	67,064

Notes

The table shows the RCV for 2011/12, which was used in setting the price limits for the regulatory period 2010/11 to 2014/15, as published by Ofwat and indexed using RPI to 31 March 2012 prices, except for the year average RCV which is indexed using the 2011/12 year average RPI.

16. ACTIVITY COST TABLE 2011/12

	Service analysis			Business analysis		
	Resource and treatment £'000	Distribution £'000	Water supply subtotal £'000	Customer services £'000	Scientific services £'000	Cost of regulation £'000
DIRECT COSTS						
Employment costs	478	658	1,136			
Power	498	414	912			
Hired and contracted services	195	1,736	1,931			
Materials etc.	201	19	220			
Service charges	890	-	890			
Bulk supply imports	18	-	18			
Other direct costs	150	154	304			
Total direct costs	2,430	2,981	5,411	1,757	473	430
General and support expenditure	587	719	1,306	201	115	100
Functional expenditure	3,017	3,700	6,717	1,958	588	530
CAPITAL COSTS						
Current cost depreciation	792	1,320	2,112			
Amortisation of deferred credits	-	(84)	(84)			
Infrastructure renewals charge	-	1,009	1,009			
Functional cost	3,809	5,945	9,754			
Total (from above)			12,830			
Rates			927			
Doubtful debts			200			
Business activities capital costs			961			
Service cost			14,918			
Service for Third Parties			61			
Total			14,979			
CCA (MEA) VALUES						
Service Activities	28,108	506,796	534,904			
Business Activities			25,165			
Water Supply Total			560,069			

NOTES TO THE CURRENT COST FINANCIAL STATEMENTS
Year ended 31 March 2012

17. ACTIVITY COST TABLE 2010/11

	Service analysis			Business analysis		
	Resource and treatment £'000	Distribution £'000	Water supply subtotal £'000	Customer services £'000	Scientific services £'000	Cost of regulation £'000
DIRECT COSTS						
Employment costs	396	1,055	1,451			
Power	517	390	907			
Hired and contracted services	175	1,522	1,697			
Materials etc.	146	8	154			
Service charges	809	-	809			
Bulk supply imports	-	20	20			
Other direct costs	56	47	103			
Total direct costs	2,099	3,042	5,141	1,307	314	396
General and support expenditure	669	967	1,636	525	135	188
Functional expenditure	2,768	4,009	6,777	1,832	449	584
CAPITAL COSTS						
Current cost depreciation	818	1,264	2,082			
Amortisation of deferred credits	-	(85)	(85)			
Infrastructure renewals charge	-	1,290	1,290			
Functional cost	3,586	6,478	10,064			
Total (from above)			12,929			
Rates			922			
Doubtful debts			285			
Business activities capital costs			945			
Service cost			15,081			
Service for Third Parties			40			
Total			15,121			
CCA (MEA) VALUES						
Service Activities	24,907	487,362	512,269			
Business Activities			24,313			
Water Supply Total			536,582			
Services for Third Parties			(80)			
TOTAL			536,502			

CURRENT COST PROFIT AND LOSS ACCOUNT, FIVE YEAR SUMMARY (unaudited)

The summary below is presented in 2011/12 prices, restating prior year figures using the specified average Retail Price Index (RPI).

	2012	2011	2010	2009	2008
Year-average RPI index applicable (%)		3.6	5.3	4.4	-0.4
	£'000	£'000	£'000	£'000	£'000
Turnover	21,052	20,896	20,878	22,366	20,161
Current cost operating costs	(14,979)	(15,660)	(16,446)	(16,774)	(14,624)
Operating income (expense)	41	513	(87)	(829)	(766)
Current cost operating profit before working capital adjustment	6,114	5,749	4,345	4,763	4,771
Working capital adjustment	115	47	4	75	158
Current cost operating profit	6,229	5,796	4,349	4,838	4,929
Other income	250	288	332	335	314
Net interest payable	(1,098)	(795)	(3,528)	(2,047)	(625)
Financing adjustment	1,197	2,203	(162)	1,478	1,824
Current cost profit before taxation	6,578	7,492	991	4,604	6,442
Taxation	(1,134)	(1,934)	(420)	1,500	(1,450)
Current cost profit attributable to shareholder	5,444	5,558	571	6,104	4,992
Ordinary dividends	(2,801)	(2,790)	(2,644)	(2,566)	(2,487)
Current cost retained profit/(loss) for the year	2,643	2,768	(2,073)	(3,538)	2,505

CAMBRIDGE WATER PLC

CURRENT COST BALANCE SHEET, FIVE YEAR SUMMARY (unaudited)

The summary below is presented in 2011/12 prices, restating prior year figures using the specified average Retail Price Index (RPI).

	2012	2011	2010	2009	2008
Year-average RPI index applicable (%)		3.6	5.3	4.4	-0.4
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Tangible fixed assets	560,069	555,738	407,591	403,345	368,672
Less third party contributions since 1989/90	(90,941)	(89,845)	(81,925)	(79,976)	(71,050)
Working capital	(3,791)	(3,340)	70	2,499	(1,152)
Net operating assets	465,337	462,553	325,736	325,868	296,470
Investments	2	2	2	2	2
Net cash	2,630	6,884	912	2,634	2,743
Non-trade debtors	225	98	124	230	252
Non-trade creditors due within one year	(6,058)	(5,632)	(3,930)	(3,439)	(1,642)
Creditors due after one year	(25,341)	(28,698)	(31,752)	(32,771)	(29,913)
Provisions for liabilities and charges	(6,944)	(8,073)	(6,926)	(7,025)	(9,265)
Fair value of interest rate swap	(971)	688	(1,606)	56	726
Net assets employed excluding pension asset	428,880	427,822	282,560	285,555	259,373
Pension asset	-	-	1,760	1,833	299
Net assets employed including pension asset	428,880	427,822	284,320	287,388	259,672
Capital and reserves					
Share capital	731	757	791	790	753
Capital redemption reserve	3,731	3,864	4,034	4,034	3,849
Current cost reserve	417,058	416,692	273,839	274,986	252,528
Profit and loss account	7,36008	6,509	5,656	7,578	2,542
Equity shareholder' funds	428,880	427,822	284,320	287,388	259,672

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE WATER PLC

We have audited the Regulatory Accounts of Cambridge Water PLC for the year ended 31 March 2012 on pages 21 to 58 which comprise:

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE WATER PLC (continued)

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 25 to 28, the state of the Company's affairs at 31 March 2012 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and
- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies.

Emphasis of matter - Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 21 to 38 have been drawn up in accordance with Regulatory Accounting Guideline 3.06, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on page 24.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and

- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE WATER PLC (continued)

Other matters

- The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment.
- Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2012 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Cambridge
United Kingdom

13 July 2012