Company Registration No. 4677985

ARTESIAN FINANCE II PLC

Annual Report and Financial Statements

Year ended 31 March 2011

ARTESIAN FINANCE II PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS

ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

David Baker
Capita Trust Corporate Limited
Capita Trust Corporate Services Limited

SECRETARY

Capita Trust Secretaries Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

REGISTERED OFFICE

Phoenix House
18 King William Street
London
EC4N 7HE

BANKERS

The Royal Bank of Scotland plc
Corporate Banking

AUDITOR

Deloitte LLP
Chartered Accountants
London

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for Artesian Finance II plc ("the Company") for the year ended 31 March 2011

ACTIVITIES

The Company was incorporated in Great Britain and commenced operations on 25 February 2003 It is registered as a public limited company under the Companies Act 2006

The principal activity of the Company is to hold loans advanced to water companies

The Company is authorised to issue loans and bonds up to £500,000,000 (2010 £500,000,000) ("the Bonds") The Company has no intention to change the business activities The Bonds are unconditionally and irrevocably guaranteed as to scheduled payments of principal and interest under the terms of a guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (U K) Limited)

REVIEW OF DEVELOPMENTS

The loan portfolio of the Company consists of fixed rate and index-linked loans, which are funded by fixed rate bonds Total return swaps were entered into by the Company to exchange index-linked interest it receives on the loans for the fixed coupon amount payable on the Bonds Net interest income is a key performance indicator for the Company The net interest income for 2011 increased by 3 59% compared to prior year (2010 unchanged) which is in line with expectations

PAYMENT TO SUPPLIERS

Given the nature of the business, there are no trade creditors and therefore no policy or trade creditor days have been disclosed

RESULTS AND DIVIDENDS

The results for the year and the state of the Company's affairs as at 31 March 2011 are set out in the accompanying financial statements The Directors do not recommend the payment of a dividend (2010 £nil)

PRINCIPAL RISKS AND UNCERTAINTIES

The directors acknowledge that the global macro-economic indicators and general business environment have remained challenging during 2010 and into 2011 Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers to whom the Company has exposure Conditions may deteriorate further due to the continued global financial and economic uncertainty

The principal risks facing the Company are liquidity risk, interest rate risk and credit risk These risks have been monitored on an on going basis during the period and the Company has policies in place to mitigate these risks to enable it to continue as a going concern Refer to Notes 1 and 11 of the Financial Statements for details

DIRECTORS

The Directors who served throughout the year are as follows

David Baker
Capita Trust Corporate Limited
Capita Trust Corporate Services Limited

EMPLOYEES

The Company had no employees in the current year or prior year

DIRECTORS' REPORT (continued)

AUDITOR

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

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 S234ZA of the Companies Act 2006

Approved by the Board of Directors
and signed on behalf of the Board
Director Colin Arthur Benford

Name Capita Trust Corporate Services Ltd

Date 28 JUL 2011

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARTESIAN FINANCE II PLC

We have audited the financial statements of Artesian Finance II plc for the year ended 31 March 2011, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the related notes numbered 1 to 13 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Simon Stephens (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
28 July 2011

Statement of comprehensive income
For the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Interest income	3	20,795	20,794
Interest expense		(20,757)	(20,757)
Net interest income		38	37
Operating expenses	4	(77)	(57)
Other operating income		65	55
Change in fair value of loans	11	16,584	95,227
Change in fair value of bonds	11	(2,290)	(40,833)
Change in fair value of swaps	11	(14,295)	(54,274)
OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	25	155
Tax charge on profit on ordinary activities	6	(9)	(8)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		16	147

The accompanying notes form an integral part of these financial statements

The results above arose wholly from continuing operations in the current and prior year

STATEMENT OF FINANCIAL POSITION
At 31 March 2011

	Notes	2011 £'000	2010 £'000
NON-CURRENT ASSETS			
Loans to customers	7	471,988	456,024
CURRENT ASSETS			
Loans to customers	7	15,241	14,621
Cash and cash equivalents	11	396	51,862
Derivatives at fair value	11	736	-
		16,373	66,483
TOTAL ASSETS		488,361	522,507
CURRENT LIABILITIES			
Other payables	8	73	51,557
Current tax liabilities		9	8
Bonds issued	9	15,933	15,189
		16,015	66,754
NON-CURRENT LIABILITIES			
Bonds issued	9	345,740	344,194
Derivatives at fair value	11	125,683	110,652
		471,423	454,846
TOTAL LIABILITIES		487,438	521,600
EQUITY			
Share capital	10	13	13
Retained earnings		910	894
TOTAL EQUITY		923	907
TOTAL EQUITY AND LIABILITIES		488,361	522,507

These financial statements of Artesian Finance II plc, registration number 4677985, were approved and authorised for issue by the Board of Directors on 28 July 2011

Signed on behalf of the Board of Directors

Director

Colin Arthur Benford

Name Capita Trust Corporate Services Ltd

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

	Share capital £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2009	13	747	760
Total comprehensive income for the financial year	-	147	147
Balance at 1 April 2010	13	894	907
Total comprehensive income for the financial year	-	16	16
Balance at 31 March 2011	13	910	923

CASH FLOW STATEMENT
For the year ended 31 March 2011

	Notes	2011 £'000	2010 £'000
Operating profit before taxation		25	155
Adjustments for			
Derivatives at fair value	11	14,295	54,274
Fair value of loans	11	(16,584)	(95,227)
Fair value of bonds	11	2,290	40,833
Changes in other payables	8	(51,484)	51,522
Net cash flows (used in)/from operating activities before tax		(51,458)	51,557
Tax paid		(8)	(8)
Net cash flows (used in)/from operating activities after tax		(51,466)	51,549
Net (decrease) / increase in cash and cash equivalents		(51,466)	51,549
Cash and cash equivalents at the beginning of the year		51,862	313
Cash and cash equivalents at the end of the year		396	51,862

The accompanying notes form an integral part of these financial statements

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

1. ACCOUNTING POLICIES

General information

Artesian Finance II plc ("the Company") is a company incorporated in the Great Britain under the Companies Act 2006 The address of the registered office is given on page 1 The nature of the Company's operations and its principal activities are set out in the Directors' Report

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as endorsed by the European Union ("EU") and under the historical cost convention as modified by International Accounting Standard 39 "Financial Instruments Recognition and Measurement" ("IAS 39")

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases have not yet been adopted by the EU)

Name of new Standards/amendments	Effective date
IAS 24 (Amendment) - Related Party Disclosures	Annual periods beginning on or after 1 January 2011
IFRS 9- Financial Instruments	Accounting periods beginning on or after 1 January 2013
Improvements to IFRSs 2010 (May 2010)	Accounting periods beginning on or after 1 January 2011

The directors are currently considering the potential impact of the adoption of IFRS 9 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining Standards above will have any material impact on the amounts reported in these financial statements

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use interest income and interest expense rather than turnover and cost of sales in preparing the statement of comprehensive income

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Going concern

The Company's business activities, performance and position, as well as principal risks and uncertainties are set out on page 2 In addition note 11 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk

The Company has met its level of expected profits for the financial period, and determined that its assets are not impaired as at the balance sheet date and therefore does not expect a shortfall in cash receipts from the borrowers As at the balance sheet date, the Company has net assets of £923,000 (2010 £907,000) Currently the long-term assets are funded by long-term fixed rate bonds

Total return swaps were entered into by the Company to exchange index-linked interest it receives on its loan assets for the fixed coupon amount payable on the bonds The swap counter party provided £51 5 m of cash collateral in 2010 in support of the terms of the swaps, but this was returned in September 2010 as it was discovered that there was no need for the swap counterparty to post collateral under the terms of the swap The swap counterparty continues to have a high credit rating, therefore no significant credit issues are noted In addition the Company has purchased a guarantee over the principal and the interest due on the bonds from Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (U K) Limited), who were rated AA+ at the balance sheet date

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

1. ACCOUNTING POLICIES (CONTINUED)

After making enquiries, and considering the uncertainties set out on page 2, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For these reasons, they continue to adopt the going concern basis in preparing the Annual Report and accounts

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expense, in particular over recoverability of assets and fair value of financial instruments The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements on carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from the estimates used in the financial statements

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods

Loans to customers

The loans have been designated at fair value through profit or loss and are accounted for at fair value

Bonds

The bonds issued have been designated at fair value through profit or loss and are accounted for at fair value

Derivatives

The Company does not enter into speculative derivative contracts Derivative financial instruments are recorded at fair value, with any gain or loss on re-measurement being recognised in the statement of comprehensive income

Revenue recognition

Financial assets and financial liabilities are recorded at fair value Changes in fair value are recognised in profit or loss separately from interest income and expense

Segmental analysis

All investment income arises in the United Kingdom

Taxation

Provision is made for taxation at current enacted rates on taxable profits under the Taxation of Securitisation Companies Regulations 2006 (SI2006/3296)

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

2 DIRECTORS AND EMPLOYEES

None of the directors received any emoluments for their services to the Company during the year (2010 £nil)

None of the directors have any interests in the Company as at the year end (2010 £nil)

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2010 £nil)

The Company does not have any employees (2010 none)

3. INTEREST INCOME

	2011 £'000	2010 £'000
Interest income on loans	15,266	14,784
Interest received on swaps	5,529	6,010
	20,795	20,794

4 OPERATING EXPENSES

	2011 £'000	2010 £'000
Administrative expenses incurred	77	57

5. OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2011 £'000	2010 £'000
The profit on ordinary activities before taxation is stated after charging		
Auditor's fees for the audit of the Company's accounts	25	23

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

6. TAXATION

a) Tax on profits/losses on ordinary activities

	2011 £'000	2010 £'000
Current taxation		
UK Corporation tax at 21% (2010 21%)	9	8
Current tax charge for the year	9	8
Deferred taxation		
Credit for the year	-	-
	-	-
Total tax charge to the statement of comprehensive income	9	8

b) Reconciliation of the total tax charge

The actual tax charge differs from the expected tax charge computed by applying the applicable rate of UK corporation tax rate of 21% (2010 21%) as follows

	2011 £'000	2010 £'000
Profit before tax	25	155
Profit before tax multiplied by the applicable rate of corporation tax at 21% (2010 21%)	5	33
Effects of		
Adjustment under s14(4) SI 2006/3296	(5)	(33)
Adjustment under s14(1)(a)(ii) SI 2006/3296	9	8
Total tax charge for the year	9	8

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006' (SI 2006/3296) Therefore, the Company is not required to pay corporation tax on its accounting profit or loss Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the securitisation transaction into which the Company has entered

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

7 LOANS TO CUSTOMERS

	2011 £'000	2010 £'000
Loans to customers – fixed rate	60,186	59,808
Loans to customers – RPI indexed	427,043	410,837
	487,229	470,645
Loans falling due within one year	15,241	14,621
Loans falling due after more than one year	471,988	456,024

The loan portfolio at year end has nominal values amounting to £321,500,000 (2010 £321,500,000) and comprises loans to four water companies Three of them have RPI index-linked principal and interest rate characteristics while the remaining one has a fixed rate of interest The loans are due to mature on 30 September 2033, but the borrowers have the right to make voluntary prepayments if they give no less than 45 days' of written notice in accordance with the loan agreement

8. OTHER PAYABLES

	2011 £'000	2010 £'000
Other payables	73	51
Collateral liability (see note below)	-	51,506
	73	51,557

The Company has entered into derivative agreements with the Royal Bank of Scotland plc to hedge its exposure to interest rate risk On 19 December 2008, Standard & Poor's Rating Services ("S&P") downgraded the short-term credit rating of the Royal Bank of Scotland plc to "A-1" As a result of its downgrade, the Royal Bank of Scotland plc delivered cash collateral of £51,506,000 (2009 £nil) to the Company, mistakenly thinking on the assumption that it had an obligation to do so under the derivatives agreement When the error was discovered, the collateral was returned in September 2010, since the swap documentation did not require the cash collateral See note 11 for the Company's management of credit risk

9. BONDS ISSUED

	2011 £'000	2010 £'000
Fixed rate bonds	361,673	359,383
Amounts falling due within one year	15,933	15,189
Amounts falling due after more than one year	345,740	344,194

The Company has issued fixed rate bonds with a nominal value £345,950,000 under the Company's £500,000,000 bond issuance programme The bonds bear interest of 6% with a legal maturity date of 30 September 2033 The bonds can be redeemed early under certain conditions described in the Offering Circular

A guarantee is provided by Assured Guaranty (Europe) Limited (formerly known as Financial Security Assurance (UK) Limited) which unconditionally and irrevocably guarantees all scheduled payments of principal and interest throughout the life of all related bonds issued

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

10. SHARE CAPITAL

	2011 £'000	2010 £'000
Authorised		
50,000 (2010 50,000) ordinary shares of £1 each	50	50
Called up, allotted and partly paid		
50,000 (2010 50,000) ordinary shares partly paid up at 25p each	13	13

49,999 shares of the Company are held by Capita IRG Trustees Limited on behalf of a Charitable Trust and one share by Capita Trust Company Limited on behalf of a Charitable Trust These shares were issued on 1 March 2003 for consideration of 25p cash each

11 FINANCIAL INSTRUMENTS

The Company's financial instruments principally comprise loans advanced to water companies, bonds issued, total return swap contracts, cash, and other items arising directly from the Company's operations

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

Capital risk management

The Company manages its capital to enable it to continue as a going concern

The capital structure of the Company primarily comprises issued bonds Other sources of funding consist of equity attributable to equity holders of the parent, comprising issued share capital and retained earnings

The Company is not subject to any externally imposed capital requirements

Credit risk

The main risk arising from the Company's financial instruments is credit risk The Company faces the credit risk that customers might not be able to meet their obligations as they fall due While the loans are secured by a fixed and floating charge over customers' assets and their immediate holding companies, the Company considered the customers' ability to service the loans to be the principal factor in assessing the credit risk and the decision to lend There are no past due or impaired receivable balances at year end (2010 £nil) In addition the Company faces credit risk on the swap counterparty's obligations under the agreement The swap counterparty continues to have a high credit rating since its last downgrade to "A-1" by S&P, and the directors and management will continue to monitor this exposure

The loans have been lent to four UK water board companies, therefore the credit risk is highly concentrated The directors believe that the loans are fully recoverable and do not consider any impairment is necessary

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date and prior year end is the balance sheet amount

The fixed and floating charge over the customers' assets, and their immediate holding companies, make up the primary collateral for the loans

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

11. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Funding has been obtained through the issue of bonds The Company has entered into total return swaps which are backed by loans to customers In order to ensure that the Company has sufficient cash at maturity to redeem the bonds, the swaps pay any difference between the principal repayment from the borrower and the total amount due to the bond holders The Company has in place a guarantee to ensure that sufficient liquidity is maintained to meet its obligations on the bonds As such if the Company faces a shortfall in cash resources to pay interest or principal on the notes, the bondholders would receive the required amount from the guarantor

The table below reflects the undiscounted contractual cash flows of financial liabilities at the balance sheet date

As at 31 March 2011	Carrying amount £'000	Contractual cash flows £'000	<1 month £'000	1-3 months £'000	3 months -1 year £'000	1-5 years £'000	5 years and over £ 000
Non-derivative financial liabilities							
Bonds issued	(361,673)	(812,983)	-	-	(20,757)	(83,028)	(709,198)
Other creditors	(73)	(73)	(73)	-	-	-	-
Current tax liabilities	(9)	(9)	(9)	-	-	-	-
	(361,755)	(813,065)	(82)	-	(20,757)	(83,028)	(709,198)
Derivative financial liabilities							
Total return swaps	(125,683)	(476,079)	-	-	4,903	15,201	(496,183)
Total	(486,702)	(1,289,144)	(82)	-	(15,854)	(67,827)	(1,205,381)

As at 31 March 2010	Carrying amount £'000	Contractual cash flows £'000	<1 month £ 000	1-3 months £'000	3 months -1 year £'000	1-5 years £'000	5 years and over £'000
Non-derivative financial liabilities							
Bonds issued	(359,383)	(833,740)	-	-	(20,757)	(83,028)	(729,955)
Other creditors	(51,557)	(51,557)	(51)	-	(51,506)	-	-
Current Tax Liabilities	(8)	(8)	(8)	-	-	-	-
	(410,948)	(885,305)	(59)	-	(72,263)	(83,028)	(729,955)
Derivative financial liabilities							
Total return swaps	(110,652)	(474,191)	-	-	5,541	18,327	(498,059)
Total	(521,600)	(1,359,504)	(59)	-	(66,722)	(64,701)	(1,228,014)

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

11. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

The table below reflects the discounted contractual cash flows of financial derivatives at the balance sheet date

	2011 £'000	2010 £'000
Total return swaps	124,947	110,652
Amounts falling due within one year	(736)	-
Amounts falling due after more than one year	125,683	110,652

Interest rate risk

The Company finances its operations through the issue of bonds at a fixed rate of 6 00% per annum (p a) The loan to Bristol Water plc carries a fixed rate of interest of 6 01% p a The loans to Southern Water Services Limited, Bournemouth and West Hampshire Water plc and South East Water Limited (formerly known as Mid Kent Water Limited) carry a fixed rate of interest of 4 076% p a , 3 083% p a and 2 801% p a respectively, adjusted for the UK Retail Price Index ("RPI") indexation on a semi-annual basis However the Company has entered into total return swaps in which the Company exchanges the indexation-linked interest it receives on the loans for the fixed coupon amount payable on the bond, hence no net interest rate risk exists As such, no sensitivity analysis has been presented The loans and bonds mature on 30 September 2033

Foreign exchange risk

All transactions and financial instruments are denominated in sterling and consequently no currency exposure arises

Fair values of financial assets and financial liabilities

The comparison of book and fair values of all the Company's financial instruments is set out below For the fixed rate bonds issued, market values have been used to determine fair values For other financial instruments where no market values are available, fair values have been calculated by discounting cash flows at prevailing interest rates In the calculation of discount factors for the fixed rate and RPI linked loans, a spread consistent with that on the fixed rate bonds issued has been applied RPI linked cash flows have been forecast using rates derived from Sterling Index Linked Gilts

	Opening fair value £'000	Movement at cost £'000	Movement in fair value £'000	Closing fair value £'000
Cash and cash equivalents	51,862	(51,466)	-	396
Loans to customers - fixed rate	59,808	-	378	60,186
Loans to customers – RPI indexed	410,837	-	16,206	427,043
Fixed rate bonds	(359,383)	-	(2,290)	(361,673)
Total return swaps	(110,652)	-	(14,295)	(124,947)
	52,472	(51,466)	(1)	1,005

NOTES TO THE ACCOUNTS
For the year ended 31 March 2011

11. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of financial assets and financial liabilities (continued)

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements The fair value hierarchy has the following levels

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),

b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices) (Level 2), and

c) inputs for the asset or liability that are not based on observable market date (unobservable inputs) (Level 3)

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets				
Loans to customers - fixed rate	60,186	-	60,186	-
Loans to customers – RPI indexed	427,043	-	427,043	-
Total return swaps	736		736	
	487,965	-	487,965	-
Financial liabilities				
Fixed rate bonds	361,673	361,673	-	-
Total return swaps	125,683	-	125,683	-
	487,356	361,673	125,683	-

12. RELATED PARTY TRANSACTIONS

Capita Trust Company Limited is the corporate service provider for the Company During the year, fees incurred for these services were £33,075 (2010 £12,867)

13. ULTIMATE PARENT AND CONTROLLING PARTY

Previously, the immediate and ultimate parent company and controlling party was Capita IRG Trustees Limited which holds a majority shareholding under the terms of a declaration of a Charitable Trust

On 3 August 2009, Capita IRG Trustees Limited transferred 49,999 ordinary shares to Capita Trust Nominees No 1 Limited Consequently, the immediate and ultimate parent company and controlling party is Capita Trust Nominees No 1 Limited under the terms of a declaration of a Charitable Trust