



# providing solutions

---

Anglian Water Services Limited  
annual report and accounts 1999



**statutory information**

- 2 directors' report
- 4 operating and financial review
- 6 statement of directors' responsibilities
- 7 auditors' report
- historical cost financial statements:**
- 8 profit and loss account
- 9 balance sheet
- 10 cash flow statement
- 11 notes to the cash flow statement
- 12 notes to the financial statements

**regulatory information**

- 23 statement of directors' responsibilities for regulatory information
  - notes on regulatory information
- 24 historical cost profit and loss account
  - historical cost balance sheet
- 25 additional information required by the licence
  - current cost financial statements:**
  - 27 current cost profit and loss account for appointed business
    - current cost balance sheet for appointed business
  - 28 current cost cash flow statement for appointed business
  - 29 notes to the current cost financial statements
- 35 auditors' report

## directors' report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 1999.

### principal activities and business review

Anglian Water Services Limited's principal activities during the year were the provision of drinking water and the treatment of wastewater in a region approximately one-fifth the area of England and Wales. We provide drinking water to 4.0 million customers and over 5.4 million customers benefit from our wastewater services. A review of the company's performance during the year, together with comments on the financial results, is contained on pages 4 and 5.

### results and dividends

The profit and loss account on page 8 shows the company's results, dividends and loss for the year.

### research and development

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

### regulation

The company's activities are regulated principally by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and sewerage) and the conditions of an Instrument of Appointment (the Licence) granted to the company by the Secretary of State for the Environment on 1 September 1989. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage functions.

Under condition F of the Licence the company is obliged to provide the Director General of Water Services (DG) with additional accounting information to that contained in the historical cost financial statements. This information is presented in pages 23 to 34. The regulatory information has been prepared in accordance with guidelines issued by the DG.

### directors and directors' interests

The directors at 31 March 1999 were:

C J Mellor—chairman

R A Pointer—managing director

A T Eckford appointed to the board on 22 July 1998

E M Mannis appointed to the board on 22 July 1998

Mr J W Green resigned from the board on 30 June 1998. Details of their interests in the share capital of Anglian Water Plc, and in options over such shares, are shown on pages 17 and 18.

### charitable and political donations

During the year the company made charitable donations of £127,929 (1998—£104,603). No political contributions were made.

## employees

Employees are kept informed on matters affecting them and are made aware of the general financial and economic factors influencing the company's performance. We operate a systematic approach to employee communication through regular briefings, presentations and the wide circulation of the company newspaper.

Share option schemes are in place which encourage participation in the company's performance.

We are an equal opportunities employer and applications for employment from disabled persons are fully and fairly considered having regard to the aptitudes and abilities of the applicant. In the event of disability, every effort is made to ensure that employment with the company continues and appropriate training, career development and promotion of a disabled person should be, as far as possible, identical to that of other employees.

## policy on the payment of creditors

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the company's procurement department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The company abides by the terms of payment. The company's average creditor payment period at 31 March 1999 was 53 days (1998 – 59 days).

## auditors

Following the merger of Price Waterhouse and Coopers & Lybrand, Price Waterhouse resigned as the company's auditors and the directors appointed PricewaterhouseCoopers to fill the casual vacancy in the office of auditors. PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the annual general meeting.

By order of the board

### Peter Nicoll

company secretary

25 May 1999

Registered Office: Anglian House

Ambury Road, Huntingdon,

Cambridgeshire PE18 6NZ

Registered in England No. 2366656

## operating and financial review

### operating results

The results represent another year of strong financial performance.

Turnover increased by 2.8 per cent from £723.0 million to £743.1 million, mainly resulting from price increases offset by the effect of customers switching to water meters. The percentage of turnover relating to measured customers has increased to 36.2 per cent, as we progressively install meters throughout the region in new properties.

Operating costs (excluding exceptional charges and depreciation) have increased by 6.2 per cent to £265.8 million, reflecting inflation offset by efficiency gains, plus the cost of a number of additional obligations including biosolids management, pension costs, a further payment to the Anglian Water Trust fund, an increased charge for bad debts, and as a consequence of additional investment in IT infrastructure.

Following a change in the method of accounting for infrastructure maintenance expenditure following the introduction of FRS 12, the total depreciation charge before exceptionals of £117.4 million now includes the charge previously shown separately as infrastructure renewals. We have also restated prior years to reflect the infrastructure renewals charge as depreciation and the actual expenditure incurred as additions to fixed assets. The effect on the balance sheet is to remove the infrastructure renewals provision at 31 March 1998 of £67.7 million and reduce the net book value of fixed assets by the same amount.

Exceptional operating costs of £36.2 million include a £15.0 million provision for the centralisation of the Engineering function and £17.5 million to ensure systems compliance with the millennium date change.

Profits have benefited from an exceptional profit of £3.3 million arising on the sale of properties as we continue to release surplus sites.

Net interest payable increased by 17.7 per cent from £77.8 million to £91.6 million, reflecting the effect of the increase in borrowings to finance the capital investment programme and dividends to the parent company to fund the final payment of the second instalment of the windfall tax.

During the year considerable effort has been focused on the Periodic Review, being the process through which Ofwat, the water industry regulator, will determine price limits for the five-year period commencing in April 2000. In accordance with the established process, we have made a number of submissions to Ofwat culminating in the strategic business plan submission in April 1999. Ofwat is now reviewing this and will issue a draft determination of price limits in July 1999 and, after further consultation, will issue a final determination in November 1999.

### financial needs and resources

At 31 March 1999 the company had net borrowings of £1,172.8 million, an increase of £53.9 million over the year. The increased net borrowings have been financed by a net increase of £177.2 million in loans (£187.6 million net from the parent company) and additional finance leasing of £7.6 million under a sale and leaseback transaction. Net borrowings are a mixture of fixed and variable rate debt of £1,218.8 million and cash and deposits of £46.0 million. Borrowings include £303.4 million at floating rates. Before investing activities, the business generated a net cash inflow of £544.9 million in 1999 (1998 – £349.3 million). The capital investment programme for the year with the total expenditure of £346.7 million was 6.8 per cent lower than in 1998. Year end gearing (debt/equity) at 71.4 per cent compares to 63.0 per cent in 1998.

### year 2000 and Euro

Work to achieve Year 2000 compliance is proceeding according to plan, with compliance for embedded chips and IT systems on course for June 1999. A second phase has been looking at administrative buildings and business support processes with a third phase updating contingency and emergency planning. Compliance has been achieved as a result of investing £22.0 million this year; £17.5 million charged as an exceptional operating cost and £4.5 million capitalised as a fixed asset. A further £6.0 million is expected to be invested in 1999/00.

The activities of Year 2000 programmes focus on achieving a significant reduction of the Year 2000 risk. However, there can be no guarantee that all components have been identified and fixed or that the programmes of critical suppliers have been successfully completed.

We are also continuing to take action to ensure that, where appropriate, systems are adapted to handle the introduction of the Euro.

### shareholders' return and value created

Full year dividends (excluding the special dividend) have been increased by 12.7 per cent, a real increase of 9.3 per cent over the average rate of inflation during the year. The increase arises from further increased efficiencies in the regulated business. The dividend increase confirms the board's commitment to delivering value to shareholders. We have also declared a special dividend of £177.1 million to finance the payment of the second instalment of the windfall tax and a capital restructuring.

## statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are also responsible for keeping proper accounting records which 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 1985. 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.

We have audited the financial statements on pages 8 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 and 13.

### respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report, including as described on page 6 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### basis of audit opinion

We conducted our audit in accordance with the Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

#### PricewaterhouseCoopers

Chartered Accountants  
and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

25 May 1999

PRICEWATERHOUSECOOPERS 

## profit and loss account

for the year ended 31 March

Notes	1999			1998		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
2	743.1	–	743.1	723.0	–	723.0
3	Operating costs:					
	– Depreciation net of amortisation of grants and contributions					
	(117.4)	(1.4)	(118.8)	(115.9)	–	(115.9)
	– Other					
	(265.8)	(34.8)	(300.6)	(250.2)	–	(250.2)
3, 4	<b>Total operating costs</b>					
	(383.2)	(36.2)	(419.4)	(366.1)	–	(366.1)
5	<b>Operating profit</b>					
	359.9	(36.2)	323.7	356.9	–	356.9
	Profit on sale of fixed assets					
	–	3.3	3.3		6.0	6.0
	<b>Profit on ordinary activities before interest</b>					
	359.9	(32.9)	327.0	356.9	6.0	362.9
6	Interest payable (net)					
	(91.6)	–	(91.6)	(77.8)	–	(77.8)
	<b>Profit on ordinary activities before taxation</b>					
	268.3	(32.9)	235.4	279.1	6.0	285.1
7	Tax on profit on ordinary activities					
	(44.9)	2.1	(42.8)	(11.8)	–	(11.8)
23	<b>Profit on ordinary activities after taxation for the financial year</b>					
	223.4	(30.8)	192.6	267.3	6.0	273.3
8, 23	Dividends					
	(326.0)	–	(326.0)	(198.0)	–	(198.0)
	<b>Movement in reserves</b>					
	(102.6)	(30.8)	(133.4)	69.3	6.0	75.3

The results above arise from continuing operations

No statement of total recognised gains and losses has been presented as all gains and losses have been included in the profit and loss account.

The notes on pages 12 to 22 form part of these financial statements.

## balance sheet

at 31 March

Notes	1999 £m	1998 As restated £m
<b>Fixed assets</b>		
12	3,202.0	2,996.2
13	0.3	0.3
	<b>3,202.3</b>	<b>2,996.5</b>
<b>Current assets</b>		
14	3.2	4.5
15	190.9	282.0
	46.0	–
	<b>240.1</b>	<b>286.5</b>
<b>Creditors: amounts falling due within one year</b>		
16	(46.2)	(95.8)
16	(465.8)	(268.3)
	<b>(512.0)</b>	<b>(364.1)</b>
	Net current liabilities	(271.9) (77.6)
	Total assets less current liabilities	<b>2,930.4</b> 2,918.9
<b>Creditors: amounts falling due after more than one year</b>		
17	(1,172.6)	(1,023.1)
18	(95.1)	(106.2)
	<b>(1,267.7)</b>	<b>(1,129.3)</b>
19	<b>(20.1)</b>	<b>(13.6)</b>
	<b>1,642.6</b>	<b>1,776.0</b>
Capital and reserves		
22, 23	860.0	860.0
23	782.6	916.0
23	<b>1,642.6</b>	<b>1,776.0</b>

The presentation of the balance sheet has been amended following the adoption of FRS 12 'Provisions, contingent liabilities and contingent assets' as explained in note 1 of the financial statements.

The notes on pages 12 to 22 form part of these financial statements.

Approved by the board on 25 May 1999.

**C J Mellor**  
chairman

**E M Mannis**  
director

## cash flow statement

for the year ended 31 March

Notes	1999 £m	1998 £m
(a) <b>Net cash inflow from operating activities</b>	<b>544.9</b>	349.3
Returns on investments and servicing of finance		
Interest received	1.1	0.3
Interest paid	(82.5)	(67.6)
Interest element of finance lease rental payments	(14.6)	(7.9)
	<b>(96.0)</b>	(75.2)
<b>Taxation</b>		
Corporation tax paid	<b>(3.2)</b>	–
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(371.4)</b>	(381.5)
Grants and contributions received	19.1	13.9
Disposal of tangible fixed assets	11.6	16.3
Purchase of fixed asset investments	–	(0.1)
	<b>(340.7)</b>	(351.4)
<b>Equity dividends paid</b>	<b>(158.9)</b>	(187.4)
Net cash outflow before financing	<b>(53.9)</b>	(264.7)
<b>Financing</b>		
(c) Increase in loans	<b>545.2</b>	431.2
(c) Repayments of amounts borrowed	<b>(360.4)</b>	(195.4)
(c) Capital element of finance lease rental payments	<b>(2.4)</b>	(1.6)
Net cash inflow from financing	<b>182.4</b>	234.2
(c) (Increase)/decrease in cash	<b>128.5</b>	(30.5)

The notes on page 11 form part of this cash flow statement.

Prior year cash flows relating to infrastructure are now included in the purchase of tangible fixed assets.

## notes to the cash flow statement

	1999 £m	1998 £m
a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	<b>323.7</b>	356.9
Profit on disposal of tangible fixed assets	<b>(0.6)</b>	(2.2)
Depreciation (net of amortisation of deferred grants and contributions)	<b>118.8</b>	115.9
Net movement on pensions balances	<b>(2.4)</b>	(4.5)
Net movement on restructuring provision	<b>6.5</b>	(15.2)
	<b>446.0</b>	450.9
Decrease/(increase) in working capital:		
Stocks	<b>1.3</b>	(0.7)
Debtors	<b>85.7</b>	(103.4)
Creditors	<b>11.9</b>	2.5
	<b>98.9</b>	(101.6)
Net cash inflow from operating activities	<b>544.9</b>	349.3

Net cash inflow from operating activities for the year ended 31 March 1999 is arrived at after cash outflows of £1.2 million (1998–£4.2 million) in relation to the 1994 exceptional restructuring charge, £7.5 million (1998–£11.0 million) relating to 1997 exceptional restructuring charges and £2.1 million relating to the 1999 exceptional restructuring charges.

	1 April 1998 £m	Cash flows £m	Non cash movements £m	31 March 1999 £m
b) Analysis of net debt				
Cash	–	46.0	–	<b>46.0</b>
Bank overdrafts	(82.5)	82.5	–	–
	(82.5)	128.5	–	<b>46.0</b>
Debt due within 1 year	(13.3)	12.8	(45.7)	<b>(46.2)</b>
Debt due after 1 year	(1,023.1)	(195.2)	45.7	<b>(1,172.6)</b>
	(1,118.9)	(53.9)	–	<b>(1,172.8)</b>

Non cash movements comprise transfers between categories of debt.

	1999 £m	1998 £m
c) Movement in net debt		
At beginning of year	<b>(1,118.9)</b>	(854.2)
Increase/(decrease) in cash	<b>128.5</b>	(30.5)
Increase in loans	<b>(545.2)</b>	(431.2)
Repayment of amounts borrowed	<b>360.4</b>	195.4
Capital element of finance lease rental payments	<b>2.4</b>	1.6
At end of year	<b>(1,172.8)</b>	(1,118.9)

## notes to the financial statements

### 1. accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and, except as disclosed in note 1d below as relating to grants and contributions, in accordance with the Companies Act 1985. The following principal accounting policies have been applied:

#### a) change in presentation of financial statements

A number of new Financial Reporting Standards (FRS) introduced during the year have been adopted with no material effect on the company's financial reporting except as noted below.

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS 12 'Provisions, contingent liabilities and contingent assets' as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence the balance sheet has been restated to take account of necessary changes since the year to 31 March 1989, when renewals accounting was first adopted in the accounts, and any previous provisions or prepayments have been subsumed into fixed assets. This had the effect of removing the provision for infrastructure renewals of £67.7 million at 31 March 1998 and reducing fixed assets by the same amount. This change of accounting disclosure has no effect on the profit and loss account other than to reclassify the renewal charge of £17.3 million (1998–£18.5 million) as depreciation. The comparative amounts have been restated.

#### b) turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for services provided and, in respect of contract work in progress, the value of work carried out.

#### c) tangible fixed assets and depreciation

Tangible fixed assets comprise:

**infrastructure assets** (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network, and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition and included at cost after deducting grants and contributions. The depreciation charge for infrastructure assets is the estimated average level of expenditure required to maintain the operating capability of the network which is based on the company's independently-certified asset management plan.

**other assets** (including properties, overground plant and equipment) are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Operational structures	40-80 years
Buildings	30-60 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	3-10 years

Assets in the course of construction are not depreciated until they are commissioned.

#### d) grants and contributions

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act. Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. 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, while a provision is made for depreciation of infrastructure assets, these assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 12 on pages 18 and 19. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

### 1. accounting policies (continued)

#### e) leased assets

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

#### f) investments

Investments held as fixed assets are stated at cost less any provision for permanent diminution in value.

#### g) stocks and work in progress

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

#### h) pension costs

The company is a member of the Anglian Water Plc group, which principally operates a defined benefit pension scheme. Contributions to the group's defined benefit pension scheme are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees in proportion to their expected payroll costs.

#### i) research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

#### j) deferred taxation

Tax deferred as a result of timing differences is provided only for to the extent that there is a reasonable probability that such deferred taxation will be payable in the foreseeable future.

#### k) related party transactions

The company has taken advantage of the exemption not to disclose transactions with other members of the group under FRS 8 'Related Party Disclosures' as it is a wholly-owned subsidiary.

### 2. segmental analysis

The directors believe that the whole of the company's activities constitute a single class of business. The company's turnover is wholly generated from within the United Kingdom.

## notes to the financial statements

	Before operating exceptional items £m	Operating exceptional items £m	1999 Total £m	1998 Total £m
<b>3. operating costs</b>				
Depreciation of tangible fixed assets	122.7	1.4	<b>124.1</b>	120.9
Amortisation of deferred grants and contributions	(5.3)	–	<b>(5.3)</b>	(5.0)
Depreciation net of amortisation of grants and contributions	117.4	1.4	<b>118.8</b>	115.9
Other operating costs:				
Raw materials and consumables	25.2	–	<b>25.2</b>	24.1
Other external charges	195.5	26.8	<b>222.3</b>	188.8
Staff costs (see note 9)	94.2	8.0	<b>102.2</b>	89.1
Own work capitalised	(48.5)	–	<b>(48.5)</b>	(49.6)
	266.4	34.8	<b>301.2</b>	252.4
Profit on sale of fixed assets	(0.6)	–	<b>(0.6)</b>	(2.2)
Total other operating costs	265.8	34.8	<b>300.6</b>	250.2
Total net operating costs	383.2	36.2	<b>419.4</b>	366.1

	1999 £m	1998 £m
<b>4. exceptional operating items</b>		
External charges:		
Restructuring costs	<b>18.7</b>	–
Year 2000 cost	<b>17.5</b>	–
	<b>36.2</b>	–
Taxation credit thereon	<b>2.1</b>	–

The restructuring costs comprise £15.0 million for reorganisation of the Engineering function to create a Centre of Excellence and £3.7 million for other reorganisation. £1.4 million of the engineering charge comprises accelerated depreciation of fixed assets.

	1999 £m	1998 £m
<b>5. operating profit</b>		
Operating profit is stated after charging:		
Hire of plant and machinery	<b>1.2</b>	1.0
Other operating lease costs	<b>9.8</b>	8.4
Research and development expenditure	<b>5.1</b>	4.8
Fees paid to auditors:		
for audit work	<b>0.1</b>	0.1
for other work	<b>0.7</b>	0.1

Non audit fees paid to PricewaterhouseCoopers in 1999 included £0.1 million (1998–£0.1 million) paid to Price Waterhouse and nil (1998–nil) paid to Coopers & Lybrand prior to the date of appointment of PricewaterhouseCoopers.

## notes to the financial statements

	1999 £m	1998 £m
<b>6. interest payable (net)</b>		
Overdrafts and short-term borrowings	2.9	5.9
Other loans	77.9	63.5
Finance leases	12.6	8.7
	<b>93.4</b>	78.1
Interest receivable	(1.8)	(0.3)
	<b>91.6</b>	77.8

Interest of £50.5 million (1998– £35.8 million) is payable to the parent company.

	1999 £m	1998 £m
<b>7. taxation</b>		
Tax on profit on ordinary activities comprises:		
Corporation Tax at 31 per cent (1998–31 per cent)	42.8	8.1
Payment to group companies for group relief surrendered	–	3.7
	<b>42.8</b>	11.8
Analysed as:		
–before exceptional items	44.9	11.8
–exceptional items	(2.1)	–
	<b>42.8</b>	11.8

No provision for deferred taxation is required for the year ended 31 March 1999 (1998–nil) (see note 20).

	1999 £m	1998 £m
<b>8. dividends</b>		
Ordinary:		
Interim	45.8	39.1
Final	103.1	93.0
	<b>148.9</b>	132.1
Special	177.1	65.9
	<b>326.0</b>	198.0

	1999 Total £m	1998 Total £m
<b>9. employee information</b>		
Staff costs:		
Wages and salaries	87.2	83.6
Social security costs	7.0	4.8
Other pension costs	8.0	0.7
	<b>102.2</b>	89.1

The 1999 costs include exceptional charges of £8.0 million (wages and salaries–£3.1 million and other pension costs–£4.9 million).

Other pension costs before exceptional charges are stated after crediting £6.4 million (1998–£8.5 million) in respect of the amortisation of an actuarial surplus in each of the two main UK pension schemes (see note 24).

Average number of full time equivalent persons employed in the UK:	1999	1998
Number employed	<b>4,052</b>	4,085

## notes to the financial statements

### 10. directors' emoluments

The emoluments of the directors were paid by Anglian Water Plc and an appropriate proportion of their remuneration is included within management recharges. These amounts represent the following percentage of their total emoluments: Mr C J Mellor 85%, Mr R A Pointer 90%, Mr A T Eckford 10%, Mr E M Mannis 85%, Mr A F Smith 90% and Mr J W Green 90%. The emoluments of the directors of Anglian Water Services Limited for their services as directors of the company are set out below.

	Salary £000	Benefits £000	Bonus £000	1999 Total £000	1998 <sup>(1)</sup> Total £000
C J Mellor (chairman from 1/1/98)	170	8	35	213	195
R A Pointer	122	8	25	155	27
A T Eckford (appointed 22/7/98)	15	1	3	19	–
E M Mannis (appointed 22/7/98)	82	11	25	118	–
A F Smith (resigned 31/12/97)	–	–	–	–	340
J W Green (resigned 30/6/98)	31	3	–	34	282
	420	31	88	539	844
Contributions to pension schemes				–	–
				539	844

(1) In the prior year bonuses were disclosed on a cash basis. In the current year bonuses are those accrued for the year to March 1999. Comparative figures have been restated on a comparable basis.

The amount of pension contributions paid on behalf of directors during the year to 31 March 1999, along with the amounts for pension entitlements earned, the accrued pension liabilities and the changes therein, are summarised below. The table shows the full amounts for each of these individuals. These pension liabilities are calculated using the cash equivalent transfer value method, which is the method adopted in the Listing Rules of the London Stock Exchange.

	Accrued pension 1999 £000 <sup>(1)</sup>	Increase in accrued pension 1999 £000 <sup>(2)</sup>	Accrued pension lump sum 1999 £000 <sup>(3)</sup>	Transfer value of increase 1999 £000 <sup>(4)(5)</sup>	At 31 March 1998	
					Accrued lump sum £000 <sup>(1)</sup>	Accrued pension lump sum £000 <sup>(3)</sup>
C J Mellor	89	25	223	412	64	172
R A Pointer	67	20	184	349	47	140
A T Eckford	14	6	–	70	8	–
E M Mannis	3	3	–	19	–	–
J W Green	71	7	172	146	64	167

(1) The accrued pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year or date of leaving, as applicable.

(2) The increase in accrued pension during the year excludes any increase for inflation.

(3) The accrued pension lump sum shown is that which would be paid on retirement based on service to the end of the year, or date of leaving, as applicable.

(4) The transfer value of the increase has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

(5) Transfer value of increases includes adjustment of pensions to reflect salary increase granted on promotion as well as, where relevant, the value of benefits given on merger of pension schemes on 1 May 1998.

Mr A T Eckford and Mr E M Mannis participate in funded unapproved retirement benefit schemes. For the year 1998/99 the company contributed to these schemes in respect of Mr A T Eckford £45,175 (1998–£50,800) and in respect of Mr E M Mannis £11,235 (1998–nil). The value of the benefits attributable to these amounts are included in the table of pension benefits above.

11. **directors' interests in shares and contracts**

The interests of the directors in the shares of Anglian Water Plc and in options over such shares granted under that company's executive share option scheme and sharesave scheme are set out below.

Throughout this section, all interests in shares as at 31 March 1999 are in relation to new ordinary shares of 47<sup>1</sup>/<sub>7</sub> pence each following the capital reorganisation in 1998, interests as at any date prior to 28 September 1998 are in relation to ordinary shares of £1 each existing before such reorganisation. In general, a holding changed so as to be one of 14 new ordinary shares of 47<sup>1</sup>/<sub>7</sub> pence each for every 15 ordinary shares of £1 previously held. No director has an interest in 'B' shares in the capital of the company.

Beneficial and family interests in shares:	31 March 1999 No. of shares	31 March 1998 No. of shares
C J Mellor	8,805	6,705
R A Pointer	11,003	8,617
A T Eckford*	833	380
E M Mannis*	250	–
J W Greent†	10,747	10,747

\* At 31 March 1999 and on date of appointment (22 July 1998).

† At date of resignation (30 June 1998) and 31 March 1998.

The figures at 31 March 1999 include shares to which the directors become entitled as the share element of the annual bonus scheme: Mr C J Mellor (920), Mr R A Pointer (91) and Mr A T Eckford (755), Mr E M Mannis (nil).

Each director has notified the company that, for the purposes of Section 324 of the Companies Act 1985, he has a contingent interest in the following number of shares, representing the maximum aggregate number of shares to which he would become entitled under the group's long-term incentive plan: Mr C J Mellor (30,748), Mr R A Pointer (20,528), Mr A T Eckford (28,258) Mr E M Mannis (7,059), and Mr J W Green (10,413) which were reduced from 17,848 at the time of his leaving the group.

Options outstanding 1 April 1998*		Options granted		Options exercised				Options outstanding at 31 March 1999	
Sharesave share options	Number	Number	Option price (£)	Number	Weighted average exercise price (£)	Weighted average market price (£)	Gain on exercise of options (£)	Number	Weighted average exercise price (£)
C J Mellor	4,614	–	–	1,897	3.82	9.37	10,528	2,717	5.24
R A Pointer	4,122	544	7.12	1,897	3.82	8.62	9,106	2,769	5.14
A T Eckford*	2,786	–	–	–	–	–	–	2,786	6.19
E M Mannis*	–	1,360	7.12	–	–	–	–	1,360	7.12
Executive scheme options									
R A Pointer	16,805	–	–	–	–	–	–	16,805	4.74

\* Or date of appointment if later.

These beneficial interests in shares and options are the same as, and not additional to, those disclosed in the annual report and accounts of Anglian Water Plc. No options lapsed during the year. Directors retain the right to participate in the employee sharesave scheme. Full details of directors' options are available in the company's Register of Directors' Interests, which is open to inspection.

The market price of shares in Anglian Water Plc at 31 March 1999 was £7.60, and the range during the year was £7.03 to £9.55.

No director has an interest in the shares of the company or any other group company other than as shown above, and no changes in the interests have occurred in the period from 31 March 1999 to 25 May 1999.

## notes to the financial statements

### 11. directors' interests in shares (continued)

Options granted under the sharesave scheme are exercisable within a period of six months after either the third, fifth or seventh anniversary of the date of the savings contract. Options under the executive share option scheme are exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of grant. The dates of grant and the option prices are set out below.

	Date of grant	Option price		Date of grant	Option price
Sharesave scheme	30.12.1991	£2.72	Executive share option scheme	20.6.1990	£2.93
Sharesave scheme	21.12.1992	£3.82	Executive share option scheme	10.1.1991	£3.31
Sharesave scheme	20.12.1993	£4.04	Executive share option scheme	7.12.1991	£3.26
Sharesave scheme	14.12.1995	£4.65	Executive share option scheme	24.6.1992	£3.95
Sharesave scheme	12.12.1996	£4.52	Executive share option scheme	15.12.1992	£4.73
Sharesave scheme	10.12.1997	£6.19	Executive share option scheme	7.7.1993	£4.74
Sharesave scheme	9.12.1998	£7.12	Executive share option scheme	1.12.1993	£5.30
			Executive share option scheme	15.8.1994	£5.37
			Executive share option scheme	10.6.1996	£5.71
			Executive share option scheme	7.11.1996	£5.50

No director had during the year, or has, a material interest in any contract of significance to which the company or any of its subsidiaries is or was a party.

### 12. tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
<b>Cost</b>					
At 31 March 1998					
As previously reported	50.5	1,355.4	1,952.7	515.7	3,874.3
Adjustments for change in method of accounting	–	180.7	–	–	180.7
As restated	50.5	1,536.1	1,952.7	515.7	4,055.0
Additions	1.2	116.8	78.9	149.8	346.7
Disposals	(0.7)	(0.5)	(4.1)	(7.0)	(12.3)
<b>At 31 March 1999</b>	<b>51.0</b>	<b>1,652.4</b>	<b>2,027.5</b>	<b>658.5</b>	<b>4,389.4</b>
<b>Grants and contributions</b>					
At 31 March 1998	–	109.6	–	–	109.6
Additions	–	11.9	–	–	11.9
<b>At 31 March 1999</b>	<b>–</b>	<b>121.5</b>	<b>–</b>	<b>–</b>	<b>121.5</b>
<b>Depreciation</b>					
At 31 March 1998					
As previously reported	14.1	–	544.0	142.7	700.8
Adjustment for change in method of accounting	–	248.4	–	–	248.4
As restated	14.1	248.4	544.0	142.7	949.2
Charge for the year	3.4	17.3	20.6	82.8	124.1
Disposals	(0.7)	(0.6)	(0.2)	(5.9)	(7.4)
<b>At 31 March 1999</b>	<b>16.8</b>	<b>265.1</b>	<b>564.4</b>	<b>219.6</b>	<b>1,065.9</b>
<b>Net book amount</b>					
<b>At 31 March 1999</b>	<b>34.2</b>	<b>1,265.8</b>	<b>1,463.1</b>	<b>438.9</b>	<b>3,202.0</b>
At 31 March 1998	36.4	1,178.1	1,408.7	373.0	2,996.2

12. **tangible fixed assets (continued)**

Following a change in accounting disclosure (as stated in note 1) infrastructure assets are now depreciated and the figures for prior years have been restated accordingly. Although a provision is made for depreciation of infrastructure assets, these assets have no finite economic life and hence no basis exists to amortise the related grants and contributions.

Tangible fixed assets at 31 March 1999 include £458.0 million of assets in the course of construction (1998–£352.1 million) and also include land of £9.2 million (1998–£8.2 million) which is not subject to depreciation. The company's interests in land and building are almost entirely freehold.

The net book value of tangible fixed assets held under finance leases at 31 March 1999 was £164.9 million (1998–£176.1 million). Depreciation charged on assets held under finance leases during the year ended 31 March 1999 amounted to £6.4 million (1998–£5.5 million).

**Capital commitments**

The company has a substantial long-term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect only the value of orders placed at 31 March 1999.

	1999 £m	1998 £m
Contracted for but not provided in the financial statements	<b>236.0</b>	265.1

13. **fixed asset investments**

Shares at cost in participating interests  
Other loans

	1999 £m	1998 £m
Shares at cost in participating interests	<b>0.2</b>	0.2
Other loans	<b>0.1</b>	0.1
	<b>0.3</b>	0.3

The company also owns a number of non-trading companies. A complete list of subsidiary undertakings is available on request to the company and will be filed with the next Annual Return to the Registrar of Companies. Consolidated financial statements have not been prepared as permitted under Section 228 of the Companies Act 1985, since the company is itself a wholly-owned subsidiary of Anglian Water Plc. In the opinion of the directors the value of the company's investments is not less than the amount at which they are stated in the balance sheet.

14. **stocks**

Raw materials and consumables

	1999 £m	1998 £m
Raw materials and consumables	<b>3.2</b>	4.5

The current replacement value of stocks does not materially exceed the historical costs stated above.

15. **debtors**

**Amounts falling due within one year**

Trade debtors  
Amounts owed by other group undertakings  
Other debtors  
Prepayments and accrued income

	1999 £m	1998 £m
Trade debtors	<b>154.3</b>	143.3
Amounts owed by other group undertakings	<b>6.7</b>	102.7
Other debtors	<b>11.5</b>	22.3
Prepayments and accrued income	<b>5.1</b>	2.8
	<b>177.6</b>	271.1

**Amounts falling due after more than one year**

Prepaid pension contributions

Prepaid pension contributions	<b>13.3</b>	10.9
	<b>190.9</b>	282.0

## notes to the financial statements

	1999 £m	1998 £m
<b>16. creditors: amounts falling due within one year</b>		
Bank overdrafts	–	82.5
Current portion of long-term loans	35.7	10.5
Obligations under finance leases	10.5	2.8
<b>Short term borrowings</b>	<b>46.2</b>	<b>95.8</b>
Trade creditors	89.5	97.5
Amounts owed to other group undertakings	14.5	9.8
Receipts in advance	48.2	47.7
Corporation Tax	42.5	2.9
Other taxation and social security	2.4	2.6
Accruals and deferred income	8.6	14.8
Proposed dividend	260.1	93.0
<b>Other creditors</b>	<b>465.8</b>	<b>268.3</b>
<b>17. loans and other borrowings falling due after more than one year</b>		
<b>Repayable wholly after five years</b>		
US\$122m loan 2006 (from the parent company) (a)	75.6	72.8
Adjustment for swap agreements (a)	3.7	6.5
	<b>79.3</b>	<b>79.3</b>
12% Fixed Rate loan 2014 (from the parent company)	100.0	100.0
5.125% Index Linked Loan Stock 2008 (from parent company)	137.5	–
6.66% Fixed Rate Loan 2023 (from the parent company)	200.0	–
6.4% Fixed Rate Loan 2029 (from the parent company)	200.0	–
European Investment Bank 2003 (Interest at 6.6%)	–	10.0
European Investment Bank 2005 (Interest at 8.2%)	60.0	60.0
	<b>776.8</b>	<b>249.3</b>
<b>Repayable by instalments, any of which is due for repayment after five years</b>		
European Investment Bank 2004 (Interest at 11.5%)	–	12.1
European Investment Bank 2005 (Interest at 8.5%)	35.0	40.0
European Investment Bank 2007 (Interest at 7.38%)	7.2	8.2
European Investment Bank 2007 (Interest at 9.9%)	24.0	27.0
Finance leases (b)	196.6	191.4
Other borrowings (c)	22.2	22.4
	<b>285.0</b>	<b>301.1</b>
<b>Repayable wholly within five years</b>		
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	25.0	25.0
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0
European Investment Bank 2002 (Interest at 7.99%)	60.0	60.0
European Investment Bank 2003 (interest at 5.56%)	10.0	–
European Investment Bank 2004 (interest at 11.5%)	10.9	–
Parent Company Loan 1999 (Interest at 7.5%)	–	350.0
Other loans (c)	1.1	1.0
	<b>157.0</b>	<b>486.0</b>
Total loans and other borrowings	<b>1,218.8</b>	<b>1,036.4</b>
Less amounts included in creditors falling due within one year	<b>(46.2)</b>	<b>(13.3)</b>
	<b>1,172.6</b>	<b>1,023.1</b>
Due for repayment as follows:		
Between one and two years	22.4	390.1
Between two and five years	196.7	167.3
After five years	953.5	465.7
	<b>1,172.6</b>	<b>1,023.1</b>

17. **loans and other borrowings falling due after more than one year (continued)**

- a) The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loan 2006. In addition, through interest rate swaps, £59.8 million of these borrowings are effectively at a fixed interest rate of 8.4 per cent and the balance are at a floating rate of 3 month LIBOR + 0.39 per cent.
- b) Amounts due under finance leases comprise £10.5 million (1998–£2.8 million) payable within one year, £11.5 million (1998–£4.4 million) payable within one to two years, £40.6 million (1998–£24.2 million) payable between two and five years and £134.0 million (1998–£160.0 million) payable after five years.
- c) Of the unspecified loans and other borrowings, £20.8 million (1998–£20.9 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.9 million (1998–£1.0 million) secured on the revenues of the company.

	1999 £m	1998 £m
18. <b>other creditors falling due after more than one year</b>		
Trade creditors	3.3	5.7
Receipts in advance	–	3.6
Deferred grants and contributions	91.8	96.9
	<b>95.1</b>	<b>106.2</b>

19. **provisions for liabilities and charges**

	Infrastructure renewal £m	Restructuring costs £m	Total costs £m
At 31 March 1998			
As previously reported	67.7	13.6	81.3
Adjustment for change in method of accounting	(67.7)	–	(67.7)
As restated	–	13.6	13.6
Charge for the year	–	17.3	17.3
Utilised in the year	–	(10.8)	(10.8)
<b>At 31 March 1999</b>	<b>–</b>	<b>20.1</b>	<b>20.1</b>

Due to a change in accounting disclosure the net underspend on infrastructure renewals is no longer shown as a provision. Instead, infrastructure renewals expenditure is recorded as fixed asset additions and the infrastructure renewals charge is disclosed as depreciation as explained in note 1.

The provision for restructuring costs charged in the year relates to redundancy and other costs arising from a review of the Engineering function announced in September 1998 when the formal plan was announced to the employees at the locations concerned. The announcement anticipated that the plan would be largely implemented by December 1999. Accordingly this will result in cash outflows primarily in 1999/00. Of the £20.1 million (1998–£13.6 million) balance of restructuring costs £7.9 million (1998–£10.3 million) relates to pension enhancements. These pension payments, as indicated in the original formal plans announced to employees, are expected to be paid in future accounting periods.

20. **deferred taxation**

In accordance with the company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1999. The full potential deferred taxation liability, calculated under the liability method at a tax rate of 30 per cent (1998–31 per cent), is:

	1999 £m	Restated 1998 £m
Accelerated capital allowances	576.2	537.5
Other timing differences	(13.8)	(6.0)
Advance Corporation Tax available for surrender from the parent company	(157.9)	(198.5)
	<b>404.5</b>	<b>333.0</b>

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £71.5 million (1998–£3.9 million).

As stated in note 1, infrastructure assets have been depreciated for the first time. As a result, accelerated capital allowances relating to infrastructure assets have been included in the figures shown above and the 1998 comparative figures restated to reflect this change.

## notes to the financial statements

### 21. commitments under operating leases

At 31 March 1999 the company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
Within one year	–	1.4
Between one and five years	0.6	5.8
After five years	1.1	–
	<b>1.7</b>	<b>7.2</b>

### 22. share capital – equity shares

#### Authorised

Ordinary shares of £1 each

1999 £m	1998 £m
------------	------------

<b>860.0</b>	860.0
--------------	-------

#### Allotted, issued and fully paid

Ordinary shares of £1 each

<b>860.0</b>	860.0
--------------	-------

### 23. movement in shareholder's funds

	Share capital £m	Profit and loss account £m	1999 Total £m	1998 Total £m
At beginning of year	860.0	916.0	<b>1,776.0</b>	1,700.7
Profit for the financial year	–	192.6	<b>192.6</b>	273.3
Dividends	–	(326.0)	<b>(326.0)</b>	(198.0)
At end of year	860.0	782.6	<b>1,642.6</b>	1,776.0

### 24. pension commitments

The company is a member of the Anglian Water Plc group. Pension arrangements for the majority of the group's UK employees are of the defined benefit type through Anglian Water Pension Scheme (AWPS) which now includes Anglian Water Mirror Image Pension Scheme (AWMIS) following the merger of the two schemes on 1 May 1998. The administration and investment of the pension funds are maintained independently from the finances of the group. The next full actuarial valuation of the combined scheme will take place as at 31 March 1999. Further details may be found within the financial statements of Anglian Water Plc.

The regular pension cost for the year ended 31 March 1999 was £14.4 million (1998– £9.2 million). This cost was offset by a credit of £6.4 million (1998– £8.5 million) in respect of the amortisation of actuarial surpluses in the AWMIS and AWPS schemes. At 31 March 1999 there was a prepayment in respect of pensions of £13.3 million (1998– £10.9 million).

### 25. contingent liabilities

The company has guaranteed the borrowings of Anglian Water Plc amounting to £637.6 million (1998– £232.9 million). Otherwise, there are no material contingent liabilities at 31 March 1999 for which provision has not been made in these financial statements.

### 26. ultimate parent company

The company's ultimate parent company is Anglian Water Plc, registered in England, copies of whose financial statements may be obtained from the company secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE18 6NZ.

## statement of directors' responsibilities for regulatory information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Office of Water Services. This additionally requires the directors to:

- confirm that, in their opinion, the company has sufficient financial and management resources for the next 12 months;
- confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company;
- report to the Director General of Water Services changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arms length;
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out on page 6.

## notes on regulatory information

### 1. **general**

As discussed in the directors' report on page 2, the company's activities are regulated by the conditions of a Licence granted to the company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage functions.

An analysis of the historical cost profit and loss account and balance sheet between appointed and non-appointed business is set out on page 24. A current cost profit and loss account and balance sheet are shown on page 27. Other current cost disclosures appear on pages 28 to 34. Additional information required by the Licence is shown on pages 25 to 26.

Under the Regulatory Accounting Guidelines the treatment of certain turnover and expenditure items differs from that disclosed in the statutory financial statements.

### 2. **protection of the regulated business**

- a) In the opinion of the directors, the company 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 its obligations under the appointment).
- b) In the opinion of the directors the company 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.

### 3. **ring fencing**

In the opinion of the directors, the company was in compliance with paragraph 3.1 of Condition K of the Licence throughout the year.

## historical cost profit and loss account

for the year ended 31 March

	1999			1998		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
<b>Turnover</b>	731.8	9.0	<b>740.8</b>	712.4	8.1	720.5
Operating costs	(412.0)	(8.0)	<b>(420.0)</b>	(359.5)	(8.8)	(368.3)
Profit on sale of fixed assets	3.9	–	<b>3.9</b>	8.2	–	8.2
<b>Operating profit*</b>	323.7	1.0	<b>324.7</b>	361.1	(0.7)	360.4
Other income	0.6	1.7	<b>2.3</b>	0.9	1.6	2.5
Interest payable (net)	(91.6)	–	<b>(91.6)</b>	(77.8)	–	(77.8)
<b>Profit on ordinary activities before taxation</b>	232.7	2.7	<b>235.4</b>	284.2	0.9	285.1
Taxation	(42.8)	–	<b>(42.8)</b>	(11.8)	–	(11.8)
<b>Profit on ordinary activities after taxation</b>	189.9	2.7	<b>192.6</b>	272.4	0.9	273.3
Dividends	(326.0)	–	<b>(326.0)</b>	(198.0)	–	(198.0)
Movement in reserves	(136.1)	2.7	<b>(133.4)</b>	74.4	0.9	75.3

\* After exceptional items of £32.9 million (1998 – £6.0 million credit) within the appointed business.

## historical cost balance sheet

at 31 March

	1999			1998		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
<b>Fixed assets</b>						
Tangible assets	3,245.4	–	<b>3,245.4</b>	3,063.9	–	3,063.9
Investments	0.3	–	<b>0.3</b>	0.3	–	0.3
	3,245.7	–	<b>3,245.7</b>	3,064.2	–	3,064.2
<b>Current assets</b>						
Stocks	3.2	–	<b>3.2</b>	4.5	–	4.5
Debtors	190.9	–	<b>190.9</b>	282.0	–	282.0
Cash and deposits	40.8	5.2	<b>46.0</b>	–	–	–
	234.9	5.2	<b>240.1</b>	286.5	–	286.5
<b>Creditors: amounts falling due within one year</b>						
Short term borrowings	(46.2)	–	<b>(46.2)</b>	(98.3)	2.5	(95.8)
Proposed dividend	(260.1)	–	<b>(260.1)</b>	(93.0)	–	(93.0)
Other creditors	(205.7)	–	<b>(205.7)</b>	(175.3)	–	(175.3)
Net current liabilities	(277.1)	5.2	<b>(271.9)</b>	(80.1)	2.5	(77.6)
Total assets less current liabilities	2,968.6	5.2	<b>2,973.8</b>	2,984.1	2.5	2,986.6
<b>Creditors: amounts falling due after more than one year</b>						
Loans and other borrowings	(1,172.6)	–	<b>(1,172.6)</b>	(1,023.1)	–	(1,023.1)
Other creditors	(95.1)	–	<b>(95.1)</b>	(106.2)	–	(106.2)
	(1,267.7)	–	<b>(1,267.7)</b>	(1,129.3)	–	(1,129.3)
<b>Provisions for liabilities and charges</b>						
	(63.5)	–	<b>(63.5)</b>	(81.3)	–	(81.3)
	1,637.4	5.2	<b>1,642.6</b>	1,773.5	2.5	1,776.0
<b>Capital and reserves</b>						
Called up equity share capital	860.0	–	<b>860.0</b>	860.0	–	860.0
Profit and loss account	777.4	5.2	<b>782.6</b>	913.5	2.5	916.0
<b>Total shareholder's funds (all equity)</b>	1,637.4	5.2	<b>1,642.6</b>	1,773.5	2.5	1,776.0

## additional information required by the licence

### 1. accounting policies

The accounting policies are set out on pages 12 and 13, except that, as noted on page 23, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory financial statements. In addition infrastructure renewals accounting, which has been the subject of a prior year adjustment as stated in note 1 on page 12 in the statutory accounts, has been retained in the regulatory accounts in accordance with Ofwat's requirements.

### 2. information in relation to allocations and apportionments between the appointed and any other business or activity of the appointee or associated company

The non-appointed businesses relate mainly to recreation, leisure and the provision of engineering and consultancy services. A proportion of the operating costs relating to these activities is directly incurred and does not require allocation. Other relevant costs have been allocated according to time spent on these activities.

### 3. allocation to principal service

- a) Operating costs are incurred directly by specific service and have not required allocation. Indirect costs are allocated on either a causal link basis or according to local managers' assessments. The allocation to principal service of the charge for infrastructure renewals is based on the asset management plan.
- b) Capital costs and hence the related depreciation charges, are incurred directly by specific service and have not required allocation.

### 4. information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in notes (a) to (g) below.

#### a) Borrowings or sums lent

No sums were lent by the appointee to associated companies at 31 March 1999.

Sums borrowed by the appointee from associated companies were:

Lender	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc—fixed rate loan	100.0	2014	12.000
Anglian Water Plc—US\$ loan	75.6	2006	*
Anglian Water Plc—fixed rate loan	200.0	2023	6.660
Anglian Water Plc—fixed rate loan	200.0	2029	6.400
Anglian Water Plc—index linked loan†	137.6	2008	5.125

\* The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loan. Taking account of these swaps, £59.8 million of these borrowings are at a fixed interest rate of 8.4 per cent and the balance are at a floating rate of 3 month LIBOR + 0.39 per cent.

† The value of the capital and interest elements of the Index Linked Loan Stock are linked to movements in the Retail Price Index. The increase in the capital value during the year has been taken to the profit and loss account as part of interest payable.

#### b) Dividends paid to associated undertakings

The special dividend declared includes amounts to fund the net cost of a capital restructuring at £111.2 million and the windfall tax second tranche of £65.9 million. The interim and proposed final dividends for 1999 represent a 12.7 per cent increase over 1998, which amounts to a real increase of 9.3 per cent over the average rate of inflation during the year.

## additional information required by the licence

### c) Guarantees/securities

The appointee has guaranteed the following borrowings of Anglian Water Plc

	Amount £m	Repayment date	Interest rate %
Fixed Rate Bond	100.0	2014	12.000
Index Linked Loan Stock	137.6	2008	5.125
Fixed Rate Bond	200.0	2023	6.625
Fixed Rate Bond	200.0	2029	6.375

### d) Transfers of assets/liabilities

During the course of the year there were no transfers to group companies.

Total sale proceeds were £nil (1998– £6.3 million).

### e) Supply of services

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Rental of office accommodation	Various	Market rent	0.2
Other services	Various	Market rates	1.5
			<u>1.7</u>

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Management charge	Anglian Water Plc	6.8	Recharge of appropriate costs	4.9
Vehicle and plant maintenance	Powermarque Ltd	18.5	Competitive tendering/ negotiated market rates	15.3
Insurance services	Rutland Insurance Company Ltd	3.0	Negotiated market rates	3.0
Engineering, construction and fabrication	Purac Ltd	42.0	Competitive tendering/ negotiated market rates	25.6
Asset management services	Geodesys Ltd	3.4	Negotiated market rates	1.5
Sewerage maintenance services	Alpheus Environmental Ltd	5.6	Competitive tendering	1.2
				<u>51.5*</u>

\* This total includes amounts of £25.6 million which were capitalised by the appointed business.

### f) Omissions of rights

No material omissions took place during the year.

### g) Waivers

There were no material waivers during the year.

## current cost profit and loss account for appointed business

for the year ended 31 March

Notes	1999 £m	1998 £m
2 <b>Turnover</b>	<b>731.8</b>	712.4
4 Current cost operating costs	<b>(471.9)</b>	(416.1)
3 Profit on sale of fixed assets	<b>3.6</b>	1.4
	<b>263.5</b>	297.7
1(d), 8 Working capital adjustment	<b>(0.2)</b>	3.7
<b>Current cost operating profit*</b>	<b>263.3</b>	301.4
Other income	<b>0.6</b>	0.9
Interest payable (net)	<b>(91.6)</b>	(77.8)
1(d), 8 Financing adjustment	<b>23.3</b>	30.6
<b>Current cost profit before taxation</b>	<b>195.6</b>	255.1
Taxation	<b>(42.8)</b>	(11.8)
<b>Current cost profit attributable to shareholder</b>	<b>152.8</b>	243.3
Dividends	<b>(326.0)</b>	(198.0)
7 Current cost profit retained	<b>(173.2)</b>	45.3

\*After exceptional items of £32.9 million (1998–£6.0 million credit).

## current cost balance sheet for appointed business

at 31 March

Notes	1999 £m	1998 £m
<b>Assets employed</b>		
5 Fixed assets	<b>15,663.0</b>	15,210.4
Third party contributions since 31 March 1990	<b>(491.8)</b>	(475.1)
	<b>15,171.2</b>	14,735.3
6 Working capital	<b>(39.0)</b>	10.3
<b>Net operating assets</b>	<b>15,132.2</b>	14,745.6
Cash and investments	<b>0.3</b>	0.3
Non-trade debtors	<b>24.8</b>	33.2
Dividends payable	<b>(260.1)</b>	(93.0)
Other non-trade creditors due within one year	<b>(46.2)</b>	(98.3)
Creditors due after one year	<b>(1,176.0)</b>	(1,032.4)
Provisions for liabilities and charges – (restructuring costs)	<b>(20.1)</b>	(13.6)
<b>Net assets employed</b>	<b>13,654.9</b>	13,541.8
<b>Financed by</b>		
Called up share capital	<b>860.0</b>	860.0
7 Profit and loss account	<b>293.4</b>	466.6
8 Current cost reserve	<b>12,501.5</b>	12,215.2
<b>Total capital and reserves</b>	<b>13,654.9</b>	13,541.8

The notes on pages 29 to 34 form part of these current cost financial statements.

## current cost cash flow statement for appointed business

for the year ended 31 March

Notes	1999 £m	1998 £m
9(a) <b>Net cash inflow from operating activities</b>	<b>542.2</b>	<b>348.4</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	1.1	0.3
Interest paid	(82.5)	(67.6)
Interest element of finance lease rental payments	(14.6)	(7.9)
	<b>(96.0)</b>	<b>(75.2)</b>
<b>Taxation</b>		
Corporation Tax paid	(3.2)	–
<b>Capital expenditure and financial investment</b>		
Gross cost of purchase of fixed assets	(329.8)	(342.2)
Grants and contributions received	19.1	13.9
Investment in infrastructure renewals	(41.6)	(39.3)
Disposal of tangible fixed assets	11.6	16.3
Purchase of fixed asset investments	–	(0.1)
	<b>(340.7)</b>	<b>(351.4)</b>
<b>Equity dividends paid</b>	<b>(158.9)</b>	<b>(187.4)</b>
Net cash outflow before financing	<b>(56.6)</b>	<b>(265.6)</b>
<b>Financing</b>		
Increase in loans	545.2	431.2
Repayments of amounts borrowed	(360.4)	(195.4)
Capital element of finance lease payments	(2.4)	(1.6)
Net cash inflow from financing	<b>182.4</b>	<b>234.2</b>
<b>Increase/(decrease) in cash</b>	<b>125.8</b>	<b>(31.4)</b>

## notes to the current cost financial statements

### 1. accounting policies

#### a) General

These financial statements have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements 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 assets acquired prior to 31 March 1990. The accounting policies used are the same as those adopted in the statutory historical cost financial statements, except as set out below:

#### b) Tangible fixed assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. No provision is made for possible funding of future replacement of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

##### Land and buildings

Non-specialised operational properties are valued on the basis of open market value for existing use as part of the periodic asset management plan (AMP) reviews and are expressed in real terms by indexation using the Retail Price Index (RPI) thereafter.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic AMP reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

##### Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, determined principally on the basis of data provided by the AMP.

A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In the intervening years, values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

##### Other fixed assets

All other fixed assets are valued periodically at depreciated replacement costs. Between periodic AMP reviews, values are restated for inflation as measured by changes in the RPI.

##### Surplus land

Surplus land is valued at recoverable amount, taking into account that part of any proceeds to be passed on to customers under condition B of the Licence.

#### c) Grants and other third party contributions

Grants, infrastructure charges, and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is after restatement for the change in the RPI for the year. This balance is treated as for deferred income.

## notes to the current cost financial statements

### d) Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Depreciation adjustment – this is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.

Disposal of fixed assets adjustment – the difference between the values of realised assets in these current cost financial statements and in the historical cost financial statements.

The depreciation adjustment and disposal of fixed assets adjustment are incorporated within operating costs in the profit and loss account.

Working capital adjustment – this is calculated by applying the changes in the RPI over the year to the opening total of trade debtors and stock less trade creditors.

Financing adjustment – this is calculated by applying the changes in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and dividends payable.

	Water services £m	Sewerage services £m	Appointed business 1999 £m	Water services £m	Sewerage services £m	Appointed business 1998 £m
<b>2. turnover for the appointed business</b>						
Measured	127.9	141.3	<b>269.2</b>	111.8	113.1	224.9
Unmeasured	142.5	262.9	<b>405.4</b>	154.5	270.4	424.9
Trade effluent	–	23.0	<b>23.0</b>	–	24.2	24.2
Third party services	19.9	1.9	<b>21.8</b>	22.3	1.8	24.1
Other sources	4.9	7.5	<b>12.4</b>	4.2	10.1	14.3
<b>Total turnover</b>	<b>295.2</b>	<b>436.6</b>	<b>731.8</b>	<b>292.8</b>	<b>419.6</b>	<b>712.4</b>
<b>3. operating income and working capital adjustment for the appointed business</b>						
Current cost profit on disposal of fixed assets	1.8	1.8	<b>3.6</b>	0.6	0.8	1.4
Working capital adjustment	(0.1)	(0.1)	<b>(0.2)</b>	1.7	2.0	3.7

## notes to the current cost financial statements

### 4. analysis of operating costs and fixed asset net book values by service

	Service Analysis							Business Analysis			
	Water Supply			Sewerage Services				Customer services £m	Scientific services £m	Cost of regulation £m	
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewage T&D subtotal £m				Sewerage services subtotal £m
<b>Direct costs:</b>											
Employment costs	4.0	8.4	12.4	6.2	9.8	2.1	11.9	18.1	9.3	3.4	0.5
Power	5.4	5.7	11.1	3.0	8.0	2.2	10.2	13.2	–	–	–
Agencies	–	–	–	–	–	–	–	–	–	–	–
Hired and contracted services	3.1	8.2	11.3	4.2	5.8	12.5	18.3	22.5	6.5	0.9	1.3
Materials and consumables	3.8	3.3	7.1	1.6	3.4	1.3	4.7	6.3	0.7	0.6	–
Service charges	6.8	–	6.8	0.8	3.8	–	3.8	4.6	–	–	–
Bulk supply imports	0.7	–	0.7	–	–	–	–	–	–	–	–
Other direct costs	0.1	1.7	1.8	0.6	0.1	–	0.1	0.7	5.5	0.8	1.2
<b>Total direct costs</b>	<b>23.9</b>	<b>27.3</b>	<b>51.2</b>	<b>16.4</b>	<b>30.9</b>	<b>18.1</b>	<b>49.0</b>	<b>65.4</b>	<b>22.0</b>	<b>5.7</b>	<b>3.0</b>
General and support expenditure	9.1	12.9	22.0	8.8	12.4	8.4	20.8	29.6	7.6	2.0	0.9
Functional expenditure	33.0	40.2	73.2	25.2	43.3	26.5	69.8	95.0	29.6	7.7	3.9
<b>Total business activities</b>	<b>–</b>	<b>–</b>	<b>18.1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>23.1</b>	<b>–</b>	<b>–</b>	<b>–</b>
Rates	–	–	19.5	–	–	–	–	7.9	–	–	–
Doubtful debts	–	–	2.4	–	–	–	–	7.3	–	–	–
Exceptional items <sup>(1)</sup>	–	–	18.1	–	–	–	–	18.1	–	–	–
<b>Total less third party services</b>	<b>–</b>	<b>–</b>	<b>131.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>151.4</b>	<b>–</b>	<b>–</b>	<b>–</b>
Third party services	–	–	10.8	–	–	–	–	1.1	–	–	–
<b>Total operating expenditure:</b>	<b>–</b>	<b>–</b>	<b>142.1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>152.5</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Capital costs:</b>											
Infrastructure renewals expenditure	–	23.6	23.6	17.8	0.2	–	0.2	18.0	–	–	–
Movement in infrastructure renewal accrual/prepayment	–	(13.7)	(13.7)	(10.5)	(0.1)	–	(0.1)	(10.6)	–	–	–
Depreciation <sup>†</sup> (allocated)	42.8	14.2	57.0	16.3	71.4	2.7	74.1	90.4	–	–	–
Amortisation of deferred credits	–	–	(2.1)	–	–	–	–	(3.2)	–	–	–
Business activities depreciation <sup>†</sup> (non-allocated)	–	–	7.3	–	–	–	–	7.8	–	–	–
Capital maintenance excluding third party services	–	–	72.1	–	–	–	–	102.4	–	–	–
Third party services – capital maintenance	–	–	2.1	–	–	–	–	0.7	–	–	–
<b>Total capital maintenance</b>	<b>–</b>	<b>–</b>	<b>74.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>103.1</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total operating costs<sup>(2)</sup></b>	<b>–</b>	<b>–</b>	<b>216.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>255.6</b>	<b>–</b>	<b>–</b>	<b>–</b>
1998 Total operating costs	–	–	190.6	–	–	–	–	225.5	–	–	–
<b>CCA (MEA) values*</b>											
Service activities	983.8	3,801.8	4,785.6	9,237.5	1,353.5	71.4	1,424.9	10,662.4	–	–	–
Business activities	–	–	42.9	10.4	–	–	32.9	43.3	–	–	–
<b>Service totals</b>	<b>–</b>	<b>–</b>	<b>4,828.5</b>	<b>9,247.9</b>	<b>–</b>	<b>–</b>	<b>1,457.8</b>	<b>10,705.7</b>	<b>–</b>	<b>–</b>	<b>–</b>
Service assets for third parties	–	–	120.5	–	–	–	–	8.3	–	–	–
<b>Total MEA values:</b>	<b>–</b>	<b>–</b>	<b>4,949.0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>10,714.0</b>	<b>–</b>	<b>–</b>	<b>–</b>
1998 total MEA values	–	–	4,789.3	–	–	–	–	10,421.1	–	–	–

\* On a modern equivalent asset (MEA) basis.

† On a current cost basis.

(1) Included within exceptional items is accelerated depreciation on IT equipment of £1.4 million, allocated equally between water and sewerage services.

(2) Included within total operating costs are reactive and planned expenditure costs on infrastructure assets of £18.9 million.

This is split £0.3 million water resources and treatment, £12.2 million water distribution and £6.4 million sewerage.

## notes to the current cost financial statements

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
<b>5. fixed assets</b>					
<b>a) Fixed assets by type – water services</b>					
<b>Gross replacement cost</b>					
At 31 March 1998	1,699.8	53.6	3,789.9	225.8	5,769.1
RPI adjustment	35.7	1.1	79.5	4.8	121.1
Disposals	(2.0)	–	–	(4.0)	(6.0)
Additions	58.7	3.4	46.6	20.2	128.9
<b>At 31 March 1999</b>	<b>1,792.2</b>	<b>58.1</b>	<b>3,916.0</b>	<b>246.8</b>	<b>6,013.1</b>
<b>Depreciation</b>					
At 31 March 1998	872.2	12.4	–	95.2	979.8
RPI adjustment	18.3	0.3	–	2.0	20.6
Disposals	–	–	–	(3.4)	(3.4)
Charge for the year	56.1	0.7	–	10.3	67.1
<b>At 31 March 1999</b>	<b>946.6</b>	<b>13.4</b>	<b>–</b>	<b>104.1</b>	<b>1,064.1</b>
<b>Net book amount at 31 March 1999</b>	<b>845.6</b>	<b>44.7</b>	<b>3,916.0</b>	<b>142.7</b>	<b>4,949.0</b>
At 31 March 1998	827.6	41.2	3,789.9	130.6	4,789.3
<b>b) Fixed assets by type – sewerage services</b>					
<b>Gross replacement cost</b>					
At 31 March 1998	2,793.3	43.2	8,904.4	148.9	11,889.8
RPI adjustment	58.5	0.9	187.1	3.2	249.7
Disposals	(1.9)	(0.1)	–	(4.0)	(6.0)
Additions	124.0	3.5	28.5	20.2	176.2
<b>At 31 March 1999</b>	<b>2,973.9</b>	<b>47.5</b>	<b>9,120.0</b>	<b>168.3</b>	<b>12,309.7</b>
<b>Depreciation</b>					
At 31 March 1998	1,381.6	10.4	–	76.7	1,468.7
RPI adjustment	29.0	0.2	–	1.6	30.8
Disposals	–	–	–	(3.4)	(3.4)
Charge for the year	83.4	1.1	–	15.1	99.6
<b>At 31 March 1999</b>	<b>1,494.0</b>	<b>11.7</b>	<b>–</b>	<b>90.0</b>	<b>1,595.7</b>
<b>Net book amount at 31 March 1999</b>	<b>1,479.9</b>	<b>35.8</b>	<b>9,120.0</b>	<b>78.3</b>	<b>10,714.0</b>
At 31 March 1998	1,411.7	32.8	8,904.4	72.2	10,421.1
<b>c) Fixed assets by type – total</b>					
<b>Gross replacement cost</b>					
At 31 March 1998	4,493.1	96.8	12,694.3	374.7	17,658.9
RPI adjustment	94.2	2.0	266.6	8.0	370.8
Disposals	(3.9)	(0.1)	–	(8.0)	(12.0)
Additions	182.7	6.9	75.1	40.4	305.1
<b>At 31 March 1999</b>	<b>4,766.1</b>	<b>105.6</b>	<b>13,036.0</b>	<b>415.1</b>	<b>18,322.8</b>
<b>Depreciation</b>					
At 31 March 1998	2,253.8	22.8	–	171.9	2,448.5
RPI adjustment	47.3	0.5	–	3.6	51.4
Disposals	–	–	–	(6.8)	(6.8)
Charge for the year	139.5	1.8	–	25.4	166.7
<b>At 31 March 1999</b>	<b>2,440.6</b>	<b>25.1</b>	<b>–</b>	<b>194.1</b>	<b>2,659.8</b>
<b>Net book amount at 31 March 1999</b>	<b>2,325.5</b>	<b>80.5</b>	<b>13,036.0</b>	<b>221.0</b>	<b>15,663.0</b>
At 31 March 1998	2,239.3	74.0	12,694.3	202.8	15,210.4

## notes to the current cost financial statements

	1999 £m	1998 £m
<b>6. working capital</b>		
Cash	40.8	–
Stocks	3.2	4.5
Trade debtors	154.3	143.3
Trade creditors	(38.7)	(36.3)
Short-term capital creditors	(50.8)	(61.2)
Infrastructure renewals accrual	(43.4)	(67.7)
Other trade accruals	(56.8)	(62.5)
Corporation Tax	(42.5)	(2.9)
Payroll related taxes and social security contributions	(2.4)	(2.6)
Group trade debtors (net)	(7.8)	92.9
Prepayments	5.1	2.8
<b>Total working capital</b>	<b>(39.0)</b>	<b>10.3</b>

	1999 £m	1998 £m
<b>7. current cost profit and loss account</b>		
At beginning of year	466.6	421.3
Retained (loss)/profit for the year for appointed business	(173.2)	45.3
At end of year	293.4	466.6

	1999 £m	1998 £m
<b>8. current cost reserve</b>		
At beginning of year	12,215.2	11,755.9
RPI adjustments:		
Fixed assets	319.4	509.2
Working capital	0.2	(3.7)
Financing	(23.3)	(30.6)
Deferred grants and contributions	(10.0)	(15.6)
At end of year	12,501.5	12,215.2

In accordance with the company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 1993 as part of the revision of the company's AMP. A further reassessment of values was carried out at 31 March 1998 but has not been incorporated into the accounts in accordance with Ofwat requirements.

	1999 £m	1998 £m
<b>9(a) reconciliation of current cost operating profit to net cash inflow from operating activities</b>		
Current cost operating profit*	263.3	301.4
Working capital adjustment	0.2	(3.7)
Decrease/(increase) in stocks	1.3	(0.7)
Other income received	0.6	0.9
Current cost depreciation	166.7	159.0
Current cost profit on sale of fixed assets	(3.6)	(1.4)
Decrease/(increase) in debtors and prepaid expenses	85.7	(103.4)
Increase in creditors and accrued expenses	11.9	2.5
Provision for infrastructure renewals	17.3	18.5
Net movement in restructuring provision	6.5	(15.2)
Amortisation of deferred grants and contributions	(5.3)	(5.0)
Net movement in prepaid pension contributions	(2.4)	(4.5)
<b>Net cash inflow from operating activities</b>	<b>542.2</b>	<b>348.4</b>

\*After exceptional items of £32.9 million (1998 – £6.0 million credit).

## notes to the current cost financial statements

	1 April 1998 £m	Cash flows £m	Non-cash movements £m	31 March 1999 £m
9(b) <b>analysis of net debt</b>				
Cash	–	40.8	–	<b>40.8</b>
Bank overdrafts	(85.0)	85.0	–	–
Debt due within 1 year	(13.3)	12.8	(45.7)	<b>(46.2)</b>
Debt due after 1 year	(1,023.1)	(195.2)	45.7	<b>(1,172.6)</b>
	<b>(1,121.4)</b>	<b>(56.6)</b>	<b>–</b>	<b>(1,178.0)</b>

Non-cash movements comprise transfers between categories of debt.

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
10. <b>current cost profit and loss account for appointed business</b>					
<b>Turnover</b>	<b>731.8</b>	734.5	734.0	718.3	708.5
Current cost operating costs	<b>(471.9)</b>	(429.0)	(455.9)	(442.2)	(461.8)
Operating income	<b>3.6</b>	1.4	1.0	(0.8)	3.6
Working capital adjustment	<b>(0.2)</b>	3.8	5.2	6.0	6.8
<b>Current cost operating profit*</b>	<b>263.3</b>	310.7	284.3	281.3	257.1
Other income	<b>0.6</b>	0.9	1.9	1.2	1.1
Interest payable (net)	<b>(91.6)</b>	(80.1)	(63.4)	(52.9)	(42.5)
Financing adjustment	<b>23.3</b>	31.5	20.6	15.6	21.3
<b>Current cost profit before taxation</b>	<b>195.6</b>	263.0	243.4	245.2	237.0
Taxation	<b>(42.8)</b>	(12.2)	–	–	–
Current cost profit attributable to shareholder	<b>152.8</b>	250.8	243.4	245.2	237.0
Dividends	<b>(326.0)</b>	(204.1)	(124.5)	(325.4)	(108.8)
<b>Current cost loss/(profit) retained</b>	<b>(173.2)</b>	46.7	118.9	(80.2)	128.2

\*After historical exceptional items of £32.9 million (1998–exceptional credit of £6.0 million, 1997–exceptional charge of £20.0 million, 1996–exceptional credit of £2.0 million and 1995–exceptional charge of £14.0 million).

### current cost balance sheet for appointed business

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
<b>Assets employed</b>					
Fixed assets	<b>15,663.0</b>	15,529.8	15,363.5	15,178.7	15,053.1
Third party contributions since 31 March 1990	<b>(491.8)</b>	(485.0)	(471.4)	(452.2)	(434.4)
Working capital	<b>(39.0)</b>	10.5	(114.2)	(203.8)	(225.9)
<b>Net operating assets</b>	<b>15,132.2</b>	15,055.3	14,777.9	14,522.7	14,392.8
Cash and investments	<b>0.3</b>	0.3	0.2	0.2	0.2
Non-trade debtors	<b>24.8</b>	33.9	23.0	21.0	23.8
Dividends payable	<b>(260.1)</b>	(95.0)	(87.0)	(76.9)	(74.5)
Other non-trade creditors due within one year	<b>(46.2)</b>	(100.3)	(254.1)	(125.9)	(92.5)
Creditors due after one year	<b>(1,176.0)</b>	(1,054.1)	(662.3)	(684.8)	(486.4)
Provisions for liabilities and charges	<b>(20.1)</b>	(13.9)	(30.4)	(14.4)	(34.7)
<b>Net assets employed</b>	<b>13,654.9</b>	13,826.2	13,767.3	13,641.9	13,728.7
<b>Financed by</b>					
Called up share capital	<b>860.0</b>	878.1	908.2	931.4	957.2
Profit and loss account	<b>293.4</b>	476.4	444.9	335.5	426.5
Current cost reserves	<b>12,501.5</b>	12,471.7	12,414.2	12,375.0	12,345.0
<b>Total capital and reserves</b>	<b>13,654.9</b>	13,826.2	13,767.3	13,641.9	13,728.7

The financial information set out above for the four years ended 31 March 1998 is based on the audited current cost financial statements for those years, as adjusted to 1998/99 prices for changes in the RPI.

We have audited the regulatory financial statements and other information on pages 23 to 34.

### respective responsibilities of directors and auditors

As described on page 23, the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

We read the other information contained in the annual report and accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the regulatory financial statements in terms of generally accepted accounting principles, the Regulatory Accounting Guidelines and consistency with the statutory financial statements.

### opinion – qualified solely as regards the historical cost regulatory balance sheet

The historical cost regulatory balance sheet on page 24 has been drawn up in accordance with Ofwat's instructions of 21 April 1999 that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standard 12 disappplied. As a consequence an amount of £43.3 million has been included under provisions in the regulatory balance sheet and has been taken to increase the amount of fixed assets as shown in the statutory balance sheet on page 24.

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 1999 required to be published and submitted to you by Anglian Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewage undertaker under the Water Industry Act 1991.

In respect of this information we report that in our opinion:

- (a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records, complies with the requirements of Condition F of the Instrument, and has been properly prepared in accordance with the Regulatory Accounting Guidelines 1-4 issued by the Office of Water Services;
- (c) the financial statements on pages 8 to 22 and pages 24 to 26 give, under the historical cost convention, a true and fair view of the revenues, costs and, except for accounting for infrastructure renewals in the regulatory balance sheet in the manner referred to above, the assets and liabilities of the appointee and its appointed business;
- (d) the current cost financial information on pages 27 to 34 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.

PricewaterhouseCoopers

Chartered Accountants  
and Registered Auditors  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

25 May 1999

PRICEWATERHOUSECOOPERS 





**Anglian Water Services Limited**

Anglian House

Ambury Road

Huntingdon

Cambridgeshire PE18 6NZ

Tel: 01480 323000

[www.anglianwater.co.uk](http://www.anglianwater.co.uk)

Printed on environmentally friendly paper  
Ref No: B058/6/99



**Anglian Water**