

# Annual Report and Accounts 2002

Anglian Water Services Limited





profit before tax

**£177.4 million**

operating costs before depreciation and  
exceptional items down by £10.6 million to

**£270.1 million**

	2002	2001	Change
turnover	<b>£724.4m</b>	£694.6m	+4.3%
operating costs*	<b>£270.1m</b>	£280.7m	-3.8%
operating profit	<b>£276.8m</b>	£265.2m	+4.4%
profit before tax	<b>£177.4m</b>	£147.1m	+20.6%

\*before depreciation and exceptional items

**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. The company provides drinking water to more than 4.2 million customers, and more than 5.6 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 page 3.

The company is undertaking a major refinancing project which, it is anticipated, will be completed during the financial year 2002/2003.

**results and dividends**

The profit and loss account on page 6 shows the company's results and profit for the year.

**subsequent events**

AWG proposes to ringfence the operations of the regulated water and wastewater business to enable the transfer of existing debt across to the regulated business on a common set of terms and conditions, and subsequently allow new debt to be raised. AWG has reached agreement with Ofwat on the licence amendments necessary to implement the restructuring. Rating agencies have conducted an extensive review of the new ringfenced structure and have confirmed preliminary investment grade ratings. Negotiations with existing lenders to the group to transfer borrowings onto common terms are well advanced, with bondholder meetings scheduled for 31 May 2002 and, if necessary, adjourned meetings scheduled for 17 June 2002.

**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-related matters.

**regulation**

The company's activities are regulated 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 on pages 24 to 39. The regulatory information has been prepared in accordance with guidelines issued by the DG.

**directors and directors' interests**

During the year ending 31 March 2002 there were the following changes in the directors of Anglian Water Services Limited:

- E M Mannis and A T Eckford resigned on 26 November 2001;
- D S Hipple and C L Brown were appointed executive directors on 26 November 2001;
- R W Jewson and R Napier were appointed non-executive directors on 1 February 2002;
- R Witcomb was appointed non-executive director on 15 March 2002.

The directors at 31 March 2002 were:

C J Mellor	non-executive chairman
R A Pointer	managing director
C L Brown	executive director
D S Hipple	executive director
R W Jewson	non-executive director and deputy chairman
R Napier	non-executive director
R Witcomb	non-executive director

Details of their interests in the shares of awg plc, and in options over such shares, are shown on pages 16 and 17.

**charitable and political donations**

During the year the company made a payment of £1.5 million (2001 – £1.5 million) to the Anglian Water Trust Fund.

The AWG Community Investment Programme, which is predominantly based on employees' participation in community activities during working hours, saw 340 employees joining up for the Give me five matching hours scheme.

Fourteen management trainees were seconded to community organisations for three month secondments as part of their development programme.

Financially through charitable donations, educational, regeneration and recreation projects the company contributed £0.1 million (2001 – £0.1 million) to other charitable causes.

No political donations were made.

**health and safety**

The company is safety conscious and is seeking to achieve high standards for the well-being of its employees, contractors and customers. It encourages ownership of health and safety by all its employees, contractors, visitors and anyone else affected by its activities.

The company has operational procedures for each business area. These procedures take account of good management practice and specific business, statutory and legal requirements. Business heads are charged with the implementation of these procedures within their respective units.

**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.

The company operates a systematic approach to employee communication through regular briefings, presentations, electronic mailings and the wide circulation of the awg group magazine.

Share option and bonus schemes are in place to encourage participation in the company's performance.

The company is an equal opportunities employer and applications 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 continues and appropriate training is given. Career development and promotion of disabled people is, 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 supply chain management 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 2002 was 37 days (2001 – 46 days).

**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

**Nita Tinn**

company secretary  
29 May 2002

Registered Office: Anglian House  
Ambury Road, Huntingdon,  
Cambridgeshire PE29 3NZ  
Registered in England and Wales No. 2366656

**operating results**

Turnover in the current year increased by 4.3 per cent (2001 – reduction of 5.0 per cent), the increase was largely driven by the allowable k + Retail Price Index (RPI) increase and the impact of tariff initiatives. The percentage of turnover relating to measured customers, including large users and trade effluent customers, now stands at 50.5 per cent, up from 46.6 per cent in the previous year, partly because customers continue to switch to a metered supply.

Operating costs, excluding exceptional charges and depreciation, reduced from £280.7 million to £270.1 million due to one-off adjustments and efficiency savings offset by other factors such as upward inflation pressure, new obligations and additional bad debt provisions.

Exceptional operating costs of £26.9 million relate to restructuring costs (£4.4 million) and refinancing costs (£22.5 million).

Net interest payable has reduced by 14.5 per cent from £120.1 million to £102.7 million. The decrease was principally due to a reduction in the indexation charge (linked to RPI) of £9.0 million, a £3.0 million effect of lower interest rates on unhedged debt and a one-time charge of £4.3 million relating to an early redemption premium included in the prior year figure.

**financial needs and resources**

At 31 March 2002 the company had net borrowings of £1,970.9 million, an increase of £400.4 million over the year. Net borrowings are a mixture of fixed and variable rate debt of £1,802.8 million and cash and bank overdraft of £168.1 million. The increased net borrowings have largely been financed by a net increase of £231.9 million in loans and a net decrease of £188.0 million in cash. Before investing activities, the business generated a net cash inflow of £378.7 million in 2002 (2001 – £389.7 million).

£309.5 million of private placement debt received by the company in July 2001 was temporarily onlent on identical terms to the immediate parent company. The £309.5 million will be repaid to the company on or before the date of the refinancing (see directors' report).

The capital investment programme for the year was £264.4 million (2001 – £262.9 million). Over the current five year plan period (2000/2001 to 2004/2005) we will be investing approximately £1.5 billion on further improvements to drinking water, bathing and river water quality, as well as network improvements to maintain our serviceability and meet new demands.

**shareholder's return**

No dividend is proposed for the year (2001 – total dividend cost of £923.3 million). £799.2 million of the prior year dividend has not yet been paid and is included in creditors (see note 17).

Company law requires the directors to prepare, each financial year, financial statements 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 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. The directors are responsible for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. They are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes on pages 9 to 23 which have been prepared under the historical cost convention and the accounting policies set out in the accounting policy note.

#### **respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 1985. 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 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 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 2002 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  
Birmingham  
29 May 2002

Notes	2002			2001		
	Before exceptional items	Exceptional items	Total	Before exceptional items restated	Exceptional items	Total restated
	£m	£m	£m	£m	£m	£m
2	<b>Turnover</b>	–	<b>724.4</b>	694.6	–	694.6
	Operating costs:					
3, 4	– Operating costs before depreciation	(26.9)	(297.0)	(280.7)	(12.2)	(292.9)
3	– Depreciation net of amortisation of grants and contributions	–	(150.6)	(136.5)	–	(136.5)
3, 4	<b>Total operating costs</b>	<b>(26.9)</b>	<b>(447.6)</b>	<b>(417.2)</b>	<b>(12.2)</b>	<b>(429.4)</b>
5	<b>Operating profit</b>	<b>(26.9)</b>	<b>276.8</b>	277.4	(12.2)	265.2
	Dividends receivable from trade investments	–	–	0.2	–	0.2
	Profit on sale of fixed assets	<b>3.3</b>	<b>3.3</b>	–	1.8	1.8
	<b>Profit on ordinary activities before interest</b>	<b>(23.6)</b>	<b>280.1</b>	277.6	(10.4)	267.2
6	Interest payable (net)	–	(102.7)	(120.1)	–	(120.1)
	<b>Profit on ordinary activities before taxation</b>	<b>(23.6)</b>	<b>177.4</b>	157.5	(10.4)	147.1
7	Tax on profit on ordinary activities	<b>7.3</b>	<b>28.6</b>	(38.0)	2.4	(35.6)
	<b>Profit on ordinary activities after taxation for the financial year</b>	<b>(16.3)</b>	<b>206.0</b>	119.5	(8.0)	111.5
8	Dividends payable	–	–	(923.3)	–	(923.3)
	<b>Movement in reserves</b>	<b>(16.3)</b>	<b>206.0</b>	(803.8)	(8.0)	(811.8)

All the above results relate to continuing operations.

The prior year comparatives have been restated in respect of the adoption of Financial Reporting Standard (FRS) 19 'Deferred Tax' (see note 1(a)).

The notes on pages 10 to 23 form part of these financial statements.

#### statement of total recognised gains and losses for the year ended 31 March 2002

	2002	2001
£m	£m	restated £m
Profit on ordinary activities after taxation	<b>206.0</b>	111.5
Total recognised gains and losses for the year before prior year adjustment	<b>206.0</b>	111.5
<b>Prior year adjustment in respect of adoption of FRS 19 'Deferred Tax' (see notes 1(a) and 21)</b>		
Undiscounted provision for deferred taxation	(591.8)	
Effect of discounting the deferred tax provision	<b>493.6</b>	
Discounted provision for deferred taxation		<b>(98.2)</b>
Total recognised gains and losses since the last annual report		<b>107.8</b>

Notes	2002 £m	2001 restated £m
<b>Fixed assets</b>		
13 Tangible assets	3,607.0	3,516.5
14 Investments	0.2	0.2
	<b>3,607.2</b>	<b>3,516.7</b>
<b>Current assets</b>		
15 Stocks	4.1	4.0
16 Debtors	558.1	211.6
Cash at bank and in hand	0.8	19.9
	<b>563.0</b>	<b>235.5</b>
<b>Creditors: amounts falling due within one year</b>		
17 Short-term borrowings	(257.0)	(96.9)
17 Other creditors	(1,030.5)	(1,174.3)
	<b>(1,287.5)</b>	<b>(1,271.2)</b>
Net current liabilities	<b>(724.5)</b>	<b>(1,035.7)</b>
Total assets less current liabilities	<b>2,882.7</b>	<b>2,481.0</b>
<b>Creditors: amounts falling due after more than one year</b>		
18 Loans and other borrowings	(1,714.7)	(1,493.5)
19 Other creditors	(86.1)	(90.2)
	<b>(1,800.8)</b>	<b>(1,583.7)</b>
20 Provisions for liabilities and charges	<b>(114.1)</b>	<b>(135.5)</b>
	<b>967.8</b>	<b>761.8</b>
<b>Capital and reserves</b>		
23, 24 Called up equity share capital	860.0	860.0
24 Profit and loss reserve	107.8	(98.2)
24 <b>Total shareholder's funds (all equity)</b>	<b>967.8</b>	<b>761.8</b>

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1(a)) and to transfer deferred grants and contributions due within one year from creditors due after more than one year (see note 19) to creditors due within one year (see note 17).

The notes on pages 10 to 23 form part of these financial statements.

Approved by the board on 29 May 2002.

**C J Mellor**  
chairman

**D S Hipple**  
director

Notes	2002 £m	2001 £m
(a) <b>Net cash inflow from operating activities</b>	<b>378.7</b>	<b>389.7</b>
<b>Returns on investments and servicing of finance</b>		
Interest received	16.7	6.9
Interest paid	(100.0)	(79.4)
Interest element of finance lease rental payments	(10.4)	(11.5)
Dividend received from trade investments	–	0.2
Net cash outflow for returns on investments and servicing of finance	<b>(93.7)</b>	<b>(83.8)</b>
<b>Taxation</b>		
Corporation Tax paid	<b>(46.4)</b>	<b>(7.5)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(262.0)</b>	<b>(272.3)</b>
Grants and contributions received	17.9	14.7
Short-term loan to group company	<b>(309.5)</b>	–
Disposal of tangible fixed assets	4.8	(1.1)
Net cash outflow for capital expenditure and financial investment	<b>(548.8)</b>	<b>(258.7)</b>
<b>Acquisitions and disposals</b>		
Acquisition of trade and certain assets of Hartlepool Water Plc (net of cash acquired)	–	(7.3)
Disposal of investment	–	0.1
Net cash outflow for acquisitions and disposals	–	(7.2)
<b>Equity dividends paid</b>	<b>(86.9)</b>	<b>(140.6)</b>
<b>Net cash outflow before financing</b>	<b>(397.1)</b>	<b>(108.1)</b>
<b>Financing</b>		
Increase in loans	311.1	670.6
(c) Repayments of amounts borrowed	<b>(82.5)</b>	<b>(558.2)</b>
Capital element of finance lease rental payments	<b>(19.5)</b>	<b>(11.4)</b>
<b>Net cash inflow from financing</b>	<b>209.1</b>	<b>101.0</b>
(c) <b>Decrease in cash</b>	<b>(188.0)</b>	<b>(7.1)</b>

The notes on page 9 form part of this cash flow statement.

(a) <b>reconciliation of operating profit to net cash inflow from operating activities</b>	2002 £m	2001 £m
Operating profit	276.8	265.2
Depreciation (net of amortisation of deferred grants and contributions)	150.6	136.5
Net movement in prepaid pension contributions	(10.9)	(0.1)
Net movement on restructuring provision	(5.6)	2.2
	<u>410.9</u>	<u>403.8</u>
(Increase)/decrease in working capital:		
Stocks	(0.1)	0.1
Debtors	(26.1)	(10.0)
Creditors	(6.0)	(4.2)
	<u>(32.2)</u>	<u>(14.1)</u>
<b>Net cash inflow from operating activities</b>	<u><b>378.7</b></u>	<u><b>389.7</b></u>

The cash flow statement for the year ended 31 March 2002 includes net cash outflows of £9.4 million in respect of current year exceptional charges and £7.8 million in respect of prior year exceptional charges. The prior year comparative includes cash outflows of £5.7 million in respect of prior year exceptional costs.

(b) <b>analysis of net debt</b>	1 April 2001 £m	Cash flows £m	Non-cash movements £m	31 March 2002 £m
Cash	19.9	(19.1)	–	0.8
Bank overdraft	–	(168.9)	–	(168.9)
	19.9	(188.0)	–	(168.1)
Debt due within one year	(96.9)	96.9	(88.1)	(88.1)
Debt due after one year	(1,493.5)	(306.0)	84.8	(1,714.7)
	<u>(1,570.5)</u>	<u>(397.1)</u>	<u>(3.3)</u>	<u>(1,970.9)</u>

Non-cash movements comprise indexation of loan stock and transfers between categories of debt.

(c) <b>movement in net debt</b>	2002 £m	2001 £m
At beginning of year	(1,570.5)	(1,447.4)
Decrease in cash	(188.0)	(7.1)
Loan assumed from Hartlepool Water Plc	–	(2.7)
Increase in loans	(311.1)	(670.6)
Repayment of amounts borrowed	82.5	558.2
Indexation of loan stock	(3.3)	(12.3)
Capital element of finance lease rental payments	19.5	11.4
<b>At end of year</b>	<u><b>(1,970.9)</b></u>	<u><b>(1,570.5)</b></u>

**1 accounting policies**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and in accordance with the Companies Act 1985, except as disclosed in note 1(d) below as relating to grants and contributions.

During the year, three new accounting standards were introduced: FRS 17 'Retirement Benefits', FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax'.

In respect of FRS 17 'Retirement Benefits', the company has adopted the disclosure requirements only, and has not adopted the standard. This is permitted by FRS 17.

The effect of the implementation of FRS 19 is detailed below in note 1(a) and in note 21.

The objective of FRS 18 is to ensure that accounting policies and estimation techniques adopted are the most appropriate for the purpose of giving a true and fair view; and that those policies are reviewed regularly by the board of directors. None of the company's accounting policies have been changed as a result of the implementation of FRS 18.

The following principal accounting policies and estimation techniques have been applied to the financial statements as stated except for the change relating to FRS 19:

**(a) change in accounting policy**

FRS 19 'Deferred Tax' has been adopted for the first time by the company in the year ended 31 March 2002.

In previous years the company has complied with the Statement of Standard Accounting Practice 15 'Deferred Taxation' (SSAP 15) which has now been superseded by the introduction of FRS 19. SSAP 15 required provision for deferred taxation to be made using the liability method to the extent that net deferred tax assets or liabilities were likely to crystallise in the foreseeable future. This method was commonly referred to as partial provisioning. FRS 19, by contrast, requires a form of full provisioning (see note 1(j) deferred taxation).

The effect of the implementation of FRS 19 on reported results is to reduce the tax charge by £15.8 million (2001 – increase by £8.9 million) and reduce net assets by £88.4 million (2001 – £104.2 million) as set out below:

	2002 £m	2001 £m
(Reduction)/increase in tax on profit on ordinary activities	<u>(15.8)</u>	8.9
(Increase)/reduction in profit for the period	<u>(15.8)</u>	8.9
Deferred tax liability	<u>138.4</u>	122.5
Deferred tax asset	<u>(50.0)</u>	(18.3)
Net deferred tax liability	<u>88.4</u>	104.2

The adoption of FRS 19 has resulted in a provision for deferred tax primarily in respect of accelerated capital allowances and other short-term timing differences which were not recognised under SSAP 15, partially offset by an Advance Corporation Tax (ACT) asset. These amounts are stated after discounting, in accordance with FRS 19.

The prior year adjustment arising from the implementation of FRS 19 is set out below:

	2001 £m
Net deferred tax liability recognised	104.2
ACT charge previously offset against Corporation Tax liability	(6.0)
Prior year adjustment	<u>98.2</u>

**(b) turnover**

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

The measured income accrual is an estimation of the amount of main water and wastewater charges unbilled at the year end. The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated upon historical billing information.

**(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 level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan.

1 **accounting policies (continued)**

(c) **tangible fixed assets and depreciation (continued)**

**other assets** (including properties, overground plant and equipment) are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation of other assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets 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.

Interest costs are not capitalised into the cost of fixed assets.

(d) **grants and contributions**

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act 1985.

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 SSAP 4 'Accounting for Government Grants', but has been adopted in order to show a true and fair view as, in the opinion of the directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 13.

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

(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 impairment.

(g) **stocks**

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence.

(h) **pension costs**

The company is a member of the awg plc group, which principally operates defined benefit pension schemes.

Contributions to the group's defined benefit pension scheme is 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. The cost of the defined contribution scheme is charged to the profit and loss account in the year in respect of which the contributions become payable.

(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**

Deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of events and transactions recognised in the financial statements of the current and previous years. Deferred taxation is calculated at the rates at which it is estimated that taxation will arise. The deferred taxation balances are discounted using the post tax yields to maturity that could be obtained at the balance sheet date on Government bonds with maturity dates similar to those of the deferred taxation assets and liabilities.

Deferred taxation is not provided in respect of timing differences arising from the sale or revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into, and it is unlikely that any gain will be rolled over.

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

**1 accounting policies (continued)****(j) deferred taxation (continued)***Calculation of deferred tax on infrastructure assets:*

Infrastructure assets have an effectively unlimited life and a notional depreciation charge, the infrastructure renewal charge, is applied to the network (see note 1(c) tangible fixed assets and depreciation).

For the purposes of estimating the deferred tax liability in relation to infrastructure assets, the useful life over which the underlying differences reverse is estimated by deflating the current cost based infrastructure renewals charge to an appropriate deemed historic cost based depreciation charge.

**(k) bad debts**

The bad debt provision is calculated based on applying expected recovery rates to an aged debt profile.

**(l) 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.

**(m) financial instruments**

The principal derivative instruments utilised by the company are currency and interest rate swaps which are valued at cost. These instruments are used for hedging purposes in line with the group risk management policy and no trading in financial instruments is undertaken. Interest differentials are taken to net interest payable in the profit and loss account, and premiums and fees are amortised at a constant rate over the life of the underlying instrument. The principal amounts under currency swaps are revalued at closing rates of exchange and included in the sterling value of loans.

**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.

**3 operating costs**

## Operating costs

## before depreciation:

	Before operating exceptional items £m	Operating exceptional items £m	2002 Total £m	Before operating exceptional items £m	Operating exceptional items £m	2001 Total £m
Raw materials and consumables	17.7	–	17.7	17.4	0.2	17.6
Other operating costs	183.2	22.5	205.7	201.1	4.9	206.0
Staff costs (see note 9)	104.2	4.4	108.6	95.1	7.1	102.2
Own work capitalised	(35.0)	–	(35.0)	(32.9)	–	(32.9)
<b>Total operating costs before depreciation</b>	<b>270.1</b>	<b>26.9</b>	<b>297.0</b>	280.7	12.2	292.9
Depreciation of tangible fixed assets	156.6	–	156.6	142.3	–	142.3
Amortisation of deferred grants and contributions	(6.0)	–	(6.0)	(5.8)	–	(5.8)
<b>Depreciation net of amortisation of grants and contributions</b>	<b>150.6</b>	–	<b>150.6</b>	136.5	–	136.5
<b>Total operating costs</b>	<b>420.7</b>	<b>26.9</b>	<b>447.6</b>	417.2	12.2	429.4

4	<b>exceptional items</b>	2002 £m	2001 £m
	Operating costs:		
	Restructuring costs	4.4	12.2
	Refinancing costs	22.5	–
		<b>26.9</b>	<b>12.2</b>
	Profit on sale of fixed assets	(3.3)	(4.5)
	Loss on sale of fixed assets	–	2.7
		<b>(3.3)</b>	<b>(1.8)</b>
	Total exceptional items	<b>23.6</b>	10.4
	Taxation credit thereon	<b>(7.3)</b>	(2.4)

The restructuring costs in the current financial year relate wholly to a reorganisation undertaken by the company during the year and comprise principally redundancy costs.

The company is undertaking a major refinancing project which, it is anticipated, will be completed during the financial year 2002/2003. The costs shown in the current financial year, which comprise legal and advisers' fees and bankers' costs, relate to that project.

The profit on sale of fixed assets relates to various sales of surplus land and assets. The loss on sale of fixed assets in 2001 of £2.7 million arose from the sale of land in Cambridge.

5	<b>operating profit</b>	2002 £m	2001 £m
	Operating profit is stated after charging:		
	Hire of plant and machinery	2.1	4.4
	Other operating lease costs	11.1	10.3
	Research and development expenditure	2.3	5.2
	Fees paid to auditors:		
	– for audit work	0.1	0.1
	– for other work	1.1	0.1

Fees paid to the auditors for other work are primarily in respect of advisory services relating to the refinancing proposals.

6	<b>interest payable (net)</b>	2002 £m	2001 £m
	Bank loans and overdrafts	1.2	0.3
	Other loans including financing expenses	106.1	112.0
	Finance leases	9.9	12.3
	Amortisation of discount on long-term provisions (see note 20)	2.2	2.0
		<b>119.4</b>	<b>126.6</b>
	Interest receivable	(16.7)	(6.5)
	Total interest payable (net)	<b>102.7</b>	<b>120.1</b>

Interest of £74.6 million (2001 – £73.8 million) is payable to the immediate parent company.

Interest of £14.9 million (2001 – £nil) is receivable from the immediate parent company.

	2002 £m	2001 restated £m
<b>7 taxation</b>		
<b>(a) analysis of tax (credit)/charge in the year</b>		
Current tax		
UK Corporation Tax at 30 per cent (2001 – 30 per cent)	22.3	26.7
Adjustments in respect of previous periods	(35.1)	–
Total current tax (see note 7(b))	(12.8)	26.7
Deferred tax		
Origination and reversal of timing differences	35.1	28.7
Increase in discount	(32.8)	(18.0)
Discounted effect of movements in ACT	(23.9)	(1.8)
Adjustments in respect of previous periods	5.8	–
Total deferred tax	(15.8)	8.9
Tax (credit)/charge on ordinary activities	(28.6)	35.6
Analysed as:		
– before exceptional items	(21.3)	38.0
– exceptional items	(7.3)	(2.4)
Total taxation (credit)/charge	(28.6)	35.6

**(b) factors affecting tax charge for the period**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2002 £m	2001 restated £m
Profit on ordinary activities before tax	177.4	147.1
Profit on ordinary activities at the standard UK rate of tax (30 per cent)	53.2	44.1
Effects of:		
Expenses not deductible for tax purposes	2.4	3.2
Accounting for depreciation not eligible for tax purposes	1.7	2.9
Capital allowances for the year in excess of depreciation	(28.4)	(23.2)
Short-term timing differences	(6.6)	(0.3)
Adjustments to tax charge in respect of previous period	(35.1)	–
Current tax (credit)/charge for the year (see note 7(a))	(12.8)	26.7

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1(a)).

**8 dividends**

	2002 £m	2001 £m
Ordinary:		
Interim paid	–	37.2
Final payable	–	886.1
	–	923.3

	Before operating exceptional items £m	Operating exceptional items £m	2002 Total £m	Before operating exceptional items £m	Operating exceptional items £m	2001 Total £m
<b>9 employee information</b>						
Staff costs:						
Wages and salaries	91.3	2.9	94.2	86.1	2.8	88.9
Social security costs	8.0	–	8.0	8.7	–	8.7
Pension costs (see note 25)	4.9	1.5	6.4	0.3	4.3	4.6
	<b>104.2</b>	<b>4.4</b>	<b>108.6</b>	95.1	7.1	102.2

Pension costs are stated after crediting £6.4 million (2001 – £9.9 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

Average number of full-time equivalent persons employed:

	2002	2001
Number employed	<b>3,705</b>	3,773

#### 10 non-executive directors' fees

The fees for the non-executive directors are set by the board. From 1 April 2002 these fees are £25,000 per annum (pa). The deputy chairman is entitled to additional remuneration of £15,000 pa (inclusive of remuneration for chairing the audit committee). Mr R Napier receives additional remuneration of £6,000 pa for chairing the sustainable development committee.

The non-executive directors, other than Mr C J Mellor, do not receive benefits or pension contributions from the group, nor do they participate in any of the group's incentive schemes.

Mr C J Mellor receives the salary, benefits and pension contributions detailed in note 11 below.

#### 11 directors' emoluments

The emoluments of Mr C J Mellor, Mr R A Pointer, Mr A T Eckford and Mr E M Mannis were paid by Anglian Water Plc (AW Plc) and the following percentage of their total emoluments – C J Mellor 10 per cent (2001 – 10 per cent), R A Pointer 70 per cent (2001 – 70 per cent), A T Eckford nil per cent (2001 – nil per cent) and E M Mannis 10 per cent (2001 – 10 per cent) – was included within the management charge by AW Plc to the company. All the other directors were paid direct by the company.

The emoluments of the directors of Anglian Water Services Limited for their services as directors of the company are set out below (rounded to the nearest thousand pounds).

	Salary £000	Benefits £000	Bonus £000	FURBS compensation £000	2002 Total £000	2001 Total £000
C J Mellor	30	2	2	–	34	35
R A Pointer	142	11	30	–	183	157
A T Eckford (resigned 26 November 2001)	–	–	–	–	–	–
E M Mannis (resigned 26 November 2001)	20	2	2	7	31	28
C L Brown (appointed 26 November 2001)	41	6	–	–	47	–
D S Hipple (appointed 26 November 2001)	41	5	–	–	46	–
R W Jewson (appointed 1 February 2002)	10	–	–	–	10	–
R Napier (appointed 1 February 2002)	5	–	–	–	5	–
R Whitcomb (appointed 15 March 2002)	2	–	–	–	2	–
	<b>291</b>	<b>26</b>	<b>34</b>	<b>7</b>	<b>358</b>	220

**11 directors' emoluments (continued)**

The amount of pension entitlements earned, the accrued pension liabilities and the changes therein during the year to 31 March 2002 are summarised below. The table shows the full amounts for each of the directors for their services to the awg group. The pension liabilities are calculated using the cash equivalent transfer value method, which is the method adopted in the Listing Rules of the Financial Services Authority (rounded to the nearest thousand pounds).

	Accrued pension 2002 £000 <sup>(1)</sup>	Increase in accrued pension 2002 £000 <sup>(2)</sup>	Accrued pension lump sum 2002 £000 <sup>(3)</sup>	Transfer value of increases 2002 £000 <sup>(4)(5)</sup>	At 31 March 2001	
					Accrued pension £000 <sup>(1)</sup>	Accrued pension lump sum £000 <sup>(3)</sup>
C J Mellor	147	11	371	154	134	337
R A Pointer	105	10	290	161	94	259
A T Eckford	38	8	–	111	30	–
E M Mannis	22	7	–	43	15	–
C L Brown	32	1	–	11	–	–
D S Hipple	28	5	–	49	–	–

(1) The accrued pension entitlement shown is that which would be paid annually on retirement based on service to the end of the financial year.

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

(3) The accrued pension lump sum shown is that which is payable on retirement based on service to the end of the financial year.

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

(5) The transfer value of increases includes adjustment of pensions to reflect salary increases granted on promotion as well as, where relevant, the value of benefits on improvement award.

Mr A T Eckford and Mr E M Mannis participate in funded, unapproved retirement benefit schemes (FURBS). For the year ended 31 March 2002 the group contributed to these schemes in respect of Mr A T Eckford £57,996 (2001 – £55,574) and in respect of Mr E M Mannis £36,686 (2001 – £30,442). The value of the benefits attributable to these amounts is included under directors' emoluments.

The transfer values disclosed in the previous table are actuarially determined to provide for pensions liability and not sums paid by the group to the individuals concerned. They cannot meaningfully be added to their annual remuneration.

**12 directors' interests in shares and contracts**

The beneficial interests in shares and options for Mr C J Mellor, Mr R A Pointer, Mr A T Eckford and Mr E M Mannis are the same as, and not additional to, those disclosed in the Annual Report and Accounts of awg plc.

Directors have the right to participate in the employee Sharesave Scheme.

Details of directors' options are available in the company's Register of Directors' Interests, which is open to inspection.

The interests of the directors in the shares of awg plc and in options over such shares granted under that company's Executive Share Option Scheme, annual bonus scheme, long-term incentive plan and Sharesave Scheme are set out below.

Throughout this note, all interests in shares as at 31 March 2002 are in relation to awg plc ordinary shares of 10p each.

Beneficial and family interests in shares:	31 March 2002 No. of shares	31 March 2001 No. of shares
C J Mellor	21,575	19,650
R A Pointer	25,724	24,576
A T Eckford <sup>(1)</sup>	5,404	4,121
E M Mannis <sup>(1)</sup>	11,663	10,380
C L Brown <sup>(2)</sup>	5,615	5,615
D S Hipple <sup>(2)</sup>	–	–
R W Jewson <sup>(3)</sup>	784	784
R Napier <sup>(3)</sup>	–	–
R Whitcomb <sup>(4)</sup>	–	–

(1) At date of resignation (26 November 2001) and 31 March 2001.

(2) At date of appointment (26 November 2001) and 31 March 2002.

(3) At date of appointment (1 February 2002) and 31 March 2002.

(4) At date of appointment (15 March 2002) and 31 March 2002.

12 **directors' interests in shares and contracts (continued)**

The figures at 31 March 2002 include ordinary shares held in trust for directors as the share element of the annual bonus scheme, being Mr C J Mellor 4,000, Mr R A Pointer 2,418, Mr A T Eckford 2,684 and Mr E M Mannis 2,596.

Each executive 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 75,819 (2001 – 75,819), Mr R A Pointer 49,375 (2001 – 49,375), Mr A T Eckford 51,614 (2001 – 51,614), Mr E M Mannis 50,372 (2001 – 50,372), Mr C L Brown 21,625 (2001 – 21,625) and Mr D S Hipple nil (2001 – nil).

Each executive 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 Executive Share Option Scheme: Mr C J Mellor 173,595, Mr R A Pointer 126,148 (2001 – 10,418), Mr A T Eckford 115,730, Mr E M Mannis 115,730, Mr C L Brown nil and Mr D S Hipple nil. All of these Executive Share Options, apart from the 10,418 granted to Mr R A Pointer prior to 1996, are subject to performance targets details of which are shown in the remuneration report section of the awg plc Annual Report and Accounts 2002.

Options to subscribe for ordinary shares, under the Sharesave and Executive Share Option Schemes, granted to, lapsed and exercised by directors during the year, are summarised below. Details of these schemes, including exercise dates, are shown below.

	Options outstanding at 1 April 2001		Options granted		Options exercised					Options outstanding at 31 March 2002		
	Number	Weighted average exercise price (£)	Number	Option price (£)	Number	Weighted average exercise price (£)	Weighted average market price (£)	Gain on exercise of options (£)	Options lapsed	Option price (£)	Number	Weighted average exercise price (£)
<b>Sharesave Scheme</b>												
C J Mellor	2,419	–	–	–	–	–	5.58	–	–	–	2,419	5.25
R A Pointer	2,133	–	–	–	–	–	5.58	–	–	–	2,133	4.54
A T Eckford	3,888	–	–	–	–	–	5.58	–	–	–	3,888	4.34
E M Mannis	2,232	–	–	–	–	–	5.58	–	–	–	2,232	4.34
C L Brown	4,642	–	–	–	1,483	4.65	5.58	1,379	–	–	3,159	4.43
D S Hipple	–	–	2,261	4.20	–	–	5.58	–	–	–	2,261	4.20
<b>Executive Share Option Scheme</b>												
C J Mellor	–	–	173,595	5.27	–	–	5.58	–	–	–	173,595	5.27
R A Pointer	10,418 <sup>(1)</sup>	–	115,730	5.27	–	–	5.58	–	–	–	126,148	5.28
A T Eckford	–	–	115,730	5.27	–	–	5.58	–	–	–	115,730	5.27
E M Mannis	–	–	115,730	5.27	–	–	5.58	–	–	–	115,730	5.27

(1) Options granted to Mr R A Pointer prior to 1996.

The market price of shares in awg plc at 31 March 2002 was £5.255, and the range during the year was £4.92 to £5.85.

No director has an interest in the shares or debentures of the company or any other group company other than as shown above.

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	14 December 1995	£4.65	Executive Share Option Scheme	15 December 1992	£4.73
Sharesave Scheme	12 December 1996	£4.52	Executive Share Option Scheme	7 July 1993	£4.74
Sharesave Scheme	10 December 1997	£6.19	Executive Share Option Scheme	1 December 1993	£5.30
Sharesave Scheme	9 December 1998	£7.12	Executive Share Option Scheme	15 August 1994	£5.375
Sharesave Scheme	12 January 2000	£4.34	Executive Share Option Scheme	10 June 1996	£5.71
Sharesave Scheme	31 January 2001	£4.68	Executive Share Option Scheme	7 November 1996	£5.50
Sharesave Scheme	6 February 2002	£4.20	Executive Share Option Scheme	21 December 2001	£5.27

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.

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
<b>13 tangible fixed assets</b>					
<b>Cost</b>					
At 1 April 2001	59.3	1,865.2	2,147.5	902.7	4,974.7
Additions	1.3	92.0	57.1	114.0	264.4
Disposals	(1.0)	(0.7)	(0.5)	(2.6)	(4.8)
<b>At 31 March 2002</b>	<b>59.6</b>	<b>1,956.5</b>	<b>2,204.1</b>	<b>1,014.1</b>	<b>5,234.3</b>
<b>Grants and contributions</b>					
At 1 April 2001	–	137.4	–	–	137.4
Additions	–	15.8	–	–	15.8
<b>At 31 March 2002</b>	<b>–</b>	<b>153.2</b>	<b>–</b>	<b>–</b>	<b>153.2</b>
<b>Depreciation</b>					
At 1 April 2001	22.0	308.5	607.4	382.9	1,320.8
Charge for the year	1.7	27.1	24.2	103.6	156.6
Disposals	(0.1)	(0.7)	(0.4)	(2.1)	(3.3)
<b>At 31 March 2002</b>	<b>23.6</b>	<b>334.9</b>	<b>631.2</b>	<b>484.4</b>	<b>1,474.1</b>
<b>Net book amount</b>					
<b>At 31 March 2002</b>	<b>36.0</b>	<b>1,468.4</b>	<b>1,572.9</b>	<b>529.7</b>	<b>3,607.0</b>
At 31 March 2001	37.3	1,419.3	1,540.1	519.8	3,516.5

Tangible fixed assets at 31 March 2002 include £197.5 million of assets in the course of construction (2001 – £269.9 million) and also include land of £15.0 million (2001 – £10.6 million) which is not subject to depreciation. The company's interests in land and buildings are almost entirely freehold.

The net book value of tangible fixed assets held under finance leases at 31 March 2002 was £170.3 million (2001 – £190.3 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2002 amounted to £19.8 million (2001 – £19.7 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 2002.

	2002 £m	2001 £m
Contracted for but not provided in the financial statements	<b>63.4</b>	66.5

#### 14 fixed asset investments

	2002 £m	2001 £m
Shares at cost in participating interests	<b>0.1</b>	0.1
Other loans	<b>0.1</b>	0.1
	<b>0.2</b>	0.2

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.

A new, wholly-owned subsidiary, Anglian Water Services Financing Plc, whose principal activity is that of a financing company, was incorporated in England and Wales during the year.

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 awg 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.

	2002 £m	2001 £m
<b>15 stocks</b>		
Raw materials and consumables	<b>4.1</b>	4.0

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

	2002	2001 restated
	£m	£m
<b>16 debtors</b>		
<b>Amounts falling due within one year</b>		
Trade debtors	81.5	76.5
Amounts owed by other group undertakings	341.9	15.0
Other debtors	16.7	17.5
Prepayments and accrued income	93.7	89.2
	<b>533.8</b>	<b>198.2</b>
<b>Amounts falling due after more than one year</b>		
Prepaid pension contributions	24.3	13.4
	<b>558.1</b>	<b>211.6</b>

Prepayments and accrued income as at 31 March 2002 includes water and wastewater income not yet billed of £91.4 million (2001 – £85.0 million). In the 2001 financial statements this debtor was reported within trade debtors. The directors believe the current year classification to be more appropriate.

	2002	2001 restated
	£m	£m
<b>17 creditors: amounts falling due within one year</b>		
Current portion of long-term loans (including £4.6 million (2001 – £21.8 million) from the parent company)	75.3	77.8
Bank overdraft	168.9	–
Obligations under finance leases	12.8	19.1
<b>Short-term borrowings</b>	<b>257.0</b>	<b>96.9</b>
Trade creditors	95.9	108.3
Amounts owed to other group undertakings	13.2	28.5
Receipts in advance	54.1	55.2
Corporation Tax	7.7	65.9
Other taxation and social security	3.0	3.1
Deferred grants and contributions	6.0	5.8
Accruals and deferred income	51.4	21.4
Dividend payable	799.2	886.1
<b>Other creditors</b>	<b>1,030.5</b>	<b>1,174.3</b>

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1(a)) and to transfer deferred grants and contributions due within one year from long-term creditors (see note 19). The directors believe the current year classification to be more appropriate.

	2002	2001
	£m	£m
<b>18 loans and other borrowings falling due after more than one year</b>		
<b>Repayable wholly after five years</b>		
7.01% US\$122.75m loan 2008 <sup>(b)</sup>	86.3	–
7.13% US\$23m loan 2009 <sup>(b)</sup>	16.2	–
7.23% US\$215m loan 2011 <sup>(b)</sup>	151.1	–
	<b>253.6</b>	–
US\$ loan costs <sup>(h)</sup>	(0.9)	–
Adjustment for swap agreements <sup>(b)</sup>	2.6	–
	<b>255.3</b>	–
€350m loan 2009 (from the parent company) <sup>(c)</sup>	214.6	218.6
Adjustment for swap agreements <sup>(c)</sup>	14.7	10.7
	<b>229.3</b>	<b>229.3</b>
12.0% Fixed Rate Loan 2014 (from the parent company)	100.0	100.0
5.125% Index Linked Loan Stock 2008 (from the parent company) <sup>(e)</sup>	146.8	145.2
3.875% Index Linked Loan Stock 2020 (from the parent company) <sup>(e)</sup>	157.7	156.0
6.66% Fixed Rate Loan 2023 (from the parent company)	200.0	200.0
6.4% Fixed Rate Loan 2029 (from the parent company)	200.0	200.0
	<b>1,289.1</b>	<b>1,030.5</b>

## 18 loans and other borrowings falling due after more than one year (continued)

	2002	2001
	£m	£m
<b>Repayable by instalments, any of which is due for repayment after five years</b>		
Finance leases <sup>(f)</sup>	199.3	218.4
Other loans <sup>(g)</sup>	0.7	2.6
	<b>200.0</b>	<b>221.0</b>
<b>Repayable wholly within five years</b>		
6.57% US\$40m loan 2005 <sup>(b)</sup>	28.1	–
6.65% US\$35m loan 2006 <sup>(b)</sup>	24.6	–
	<b>52.7</b>	–
US\$ loan costs <sup>(h)</sup>	(0.2)	–
Adjustment for swap agreements <sup>(b)</sup>	0.6	–
	<b>53.1</b>	–
US\$122m loan 2006 (from the parent company) <sup>(a)</sup>	85.7	85.1
Adjustment for swap agreements <sup>(a)</sup>	(6.4)	(5.8)
	<b>79.3</b>	<b>79.3</b>
LIBOR plus 0.45% Floating Rate Loan 2002 (from the parent company)	–	20.0
LIBOR plus 0.5% Floating Rate Loan 2002 (from the parent company)	1.8	1.8
LIBOR plus 1% Floating Rate Loan 2002 (from the parent company)	1.0	–
LIBOR plus 1% Floating Rate Loan 2002 (from the parent company)	0.8	–
Base Rate plus 1% Floating Rate Loan 2002 (from the parent company)	1.0	–
LIBOR minus 0.15% European Investment Bank Loan 2001	–	50.0
7.985% European Investment Bank Loan 2002	60.0	60.0
6.6% European Investment Bank Loan 2003 <sup>(d)</sup>	10.0	10.0
11.5% European Investment Bank Loan 2004	6.3	8.0
6.62% European Investment Bank Loan 2005	20.0	25.0
8.2% European Investment Bank Loan 2005	60.0	60.0
7.38% European Investment Bank Loan 2007	4.5	5.5
5.28% (previously 9.9%) European Investment Bank Loan 2007	15.0	18.0
Finance leases <sup>(f)</sup>	0.9	1.3
	<b>313.7</b>	<b>338.9</b>
<b>Total loans and other borrowings</b>	<b>1,802.8</b>	<b>1,590.4</b>
Less amounts included in creditors falling due within one year	(88.1)	(96.9)
	<b>1,714.7</b>	<b>1,493.5</b>
Due for repayment as follows:		
Between one and two years	36.0	96.5
Between two and five years	278.9	244.9
After five years	1,399.8	1,152.1
	<b>1,714.7</b>	<b>1,493.5</b>

(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 this loan is effectively at a fixed interest rate of 8.371 per cent and the balance is at a floating rate of 6 month LIBOR plus 0.385 per cent.

(b) The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to these US\$ loans.

(c) The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the € loan 2009. In addition, through interest rate swaps, the loan is effectively at a fixed interest rate of 6.328 per cent.

(d) Through interest rate swaps the loan is effectively at a floating interest rate of 6 month LIBOR plus 0.18 per cent.

(e) The value of capital and interest elements of the Index Linked Loan Stocks are linked to movements in the Retail Price Index. The increase in the capital value during the year of £3.3 million has been taken to the profit and loss account as part of interest payable.

(f) Amounts due under finance leases comprise £12.8 million (2001 – £19.1 million) payable within one year, £15.2 million (2001 – £30.4 million) payable within one to two years, £62.2 million (2001 – £53.4 million) payable between two and five years and £110.0 million (2001 – £116.8 million) payable after five years.

(g) Of the unspecified loans and other borrowings, £0.7 million (2001 – £1.9 million) are at fixed rates and £nil (2001 – £0.7 million) are at variable rates. Loans and other borrowings include £0.5 million (2001 – £0.7 million) secured on the revenues of the company.

(h) These costs are amortised at a constant rate on the carrying amount of debt over the life of the underlying instruments.

	2002 £m	2001 restated £m
19 <b>other creditors falling due after more than one year</b>		
Deferred grants and contributions	<b>86.1</b>	90.2

The prior year has been restated to allow for the element of deferred grants and contributions due within one year to be transferred to short-term creditors (see note 17). The directors believe the current year classification to be more appropriate.

	Restructuring costs £m	Unfunded pension obligations £m	Deferred tax £m	Total £m
20 <b>provisions for liabilities and charges</b>				
At 31 March 2001	5.5	25.8	–	31.3
Prior year adjustment	–	–	104.2	104.2
As restated at 31 March 2001	5.5	25.8	104.2	135.5
Charge/(credit) for the year	4.4	–	(15.8)	(11.4)
Amortisation of discount	–	2.2	–	2.2
Utilised in the year	(9.9)	(2.3)	–	(12.2)
<b>At 31 March 2002</b>	<b>–</b>	<b>25.7</b>	<b>88.4</b>	<b>114.1</b>

The provision for restructuring costs has been fully utilised in the year.

The provision for pension obligations relates to the cost of unfunded pension enhancements. These pension payments are expected to be made over several future accounting periods. The provision is determined using actuarial assumptions based on those used for the valuation of the AWG group's pension scheme and has been discounted at a rate of 9 per cent which reflects the AWG group's cost of capital.

The balance at 31 March 2001 has been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1(a)).

The deferred tax provision is analysed in note 21.

## 21 deferred taxation

FRS 19 'Deferred Tax' has been adopted for the first time by the company in this Annual Report and Accounts, the effects of which are explained in note 1(a).

The total tax charge or credit in the current and future years will include discounted deferred taxation. Consequently, changes in the medium and long-term interest rates used to discount deferred taxation assets and liabilities will affect the amount of deferred taxation charged or credited in the profit and loss account.

In addition, an ACT asset is offset against deferred tax liabilities; this would be liable to de-recognition if changes in the tax legislation were introduced which restricted the ability of companies to use ACT. In this event, an additional tax charge would arise in the profit and loss account.

At 1 April 2001 (originally £nil before prior year adjustment of £98.2 million and £6.0 million ACT charge provisionally offset against Corporation Tax liability)	104.2
Deferred tax credited to the profit and loss account	(15.8)
<b>At 31 March 2002</b>	<b>88.4</b>

	2002 £m	2001 restated £m
Accelerated capital allowances	<b>715.4</b>	648.1
Short-term timing differences	<b>(16.2)</b>	(19.8)
Surplus ACT asset	<b>(98.8)</b>	(30.5)
Undiscounted provision for deferred tax	<b>600.4</b>	597.8
Discount	<b>(512.0)</b>	(493.6)
Discounted provision for deferred tax	<b>88.4</b>	104.2

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1(a)).

**22 commitments under operating leases**

At 31 March 2002 the company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	2002		2001	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	0.1	–	–	2.2
Between one and five years	–	7.9	–	3.2
After five years	3.4	–	2.5	–
	<b>3.5</b>	<b>7.9</b>	2.5	5.4

**23 share capital – equity shares****Authorised**

Ordinary shares of £1 each

**Allotted, issued and fully paid**

Ordinary shares of £1 each

	Share capital £m	Profit and loss reserve £m	2002	2001
			Total £m	Total restated £m
			860.0	860.0
			<b>860.0</b>	860.0
			860.0	860.0
			860.0	1,573.6
			206.0	111.5
			–	(923.3)
			<b>860.0</b>	<b>761.8</b>

**24 movement in shareholder's funds**

At beginning of year

Profit for the financial year

Dividends

**At end of year**

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1(a)).

**25 pension commitments**

(a) Pension arrangements for the majority of the company's employees are of the defined benefit type through the AWG Pension Scheme (AWGPS). The scheme's actuaries are Bacon and Woodrow.

The administration and investment of the pension fund is maintained separately from the finances of the awg group.

The accounting pension costs have been based on the most recent actuarial valuations. Details of the most recent actuarial valuation of the pension scheme are summarised below:

**Scheme**

Date of most recent valuation

31 March 2001  
projected unit

Actuarial method

Main assumptions:

Excess of investment returns over:

– general salary increases

1.9%

– annual increases in pensions

3.9%

Results:

– market value of assets

£505.0 million

– funding level

116%

Due date of next full actuarial valuation

31 March 2002

The net pension cost for the year ended 31 March 2002 was £6.4 million (2001 – £4.6 million). The net pension cost includes a credit of £6.4 million (2001 – £9.9 million) in respect of the amortisation of actuarial surpluses. At 31 March 2002 there was a prepayment in respect of pensions of £24.3 million (2001 – £13.4 million).

(b) In November 2000 the Accounting Standards board issued FRS 17 'Retirement Benefits'. FRS 17 is fully effective for periods ending on or after 22 June 2003, although certain disclosures are required in the transition period, for periods ending on or after 22 June 2001. These further disclosures are included below.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation for the AWG Pension Scheme which was at 31 March 2001, this has been updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2002. The company also operates an unfunded pension arrangement (see note 20), which has been valued by independent actuaries under the requirements of FRS 17 as at 31 March 2002.

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

25 **pension commitments (continued)**

	% pa
Discount rate	6.0
Inflation rate	2.8
Increase to deferred benefits during deferment	2.8
Increases to inflation related pensions in payment	2.9
Salary increases	4.8

The long-term expected rate of return and the assets in the scheme are:

	AWGPS	Unfunded pensions	2002 Total
	Expected rate of return % pa	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	8.0	407.0	–
Corporate Bonds	6.0	28.0	–
Gilts	5.0	63.3	–
Property	8.0	15.7	–
Other	4.0	13.7	–
<b>Total assets</b>		<b>527.7</b>	<b>–</b>
Fair value of scheme liabilities		(540.5)	(36.7)
Deficit in the scheme		(12.8)	(36.7)
Related deferred tax asset		3.0	8.0
<b>Net pension liability</b>		<b>(9.8)</b>	<b>(28.7)</b>

If the above amounts had been recognised in the financial statements, the company's net asset and reserves at 31 March 2002 would be as follows:

<b>Net assets</b>	2002 £m
Net assets	967.8
Exclude existing net pension liability and prepayment (under SSAP 24)	1.4
	969.2
FRS 17 pension liability	(38.5)
Net assets including FRS 17 pension liability	930.7
<b>Profit and loss reserve</b>	2002 £m
Profit and loss reserve	107.8
Exclude existing net pension liability and prepayment (under SSAP 24)	1.4
	109.2
FRS 17 pension liability	(38.5)
Profit and loss reserve including FRS 17 pension liability	70.7

26 **contingent liabilities**

The company has guaranteed the borrowings of Anglian Water Plc amounting to £804.5 million (2001 – £802.1 million). Otherwise, there are no material contingent liabilities at 31 March 2002 for which provision has not been made in these financial statements.

27 **ultimate parent company**

Anglian Water plc, a company registered in England and Wales, is the immediate parent company of Anglian Water Services Limited and is the parent company of the smallest group to consolidate the accounts of Anglian Water Services Limited.

awg plc, a company registered in England and Wales, is the parent company of the largest group to consolidate the accounts of Anglian Water Services Limited. The directors consider awg plc to be the ultimate parent company.

Copies of the group accounts of Anglian Water plc and awg plc can be obtained from the company secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

28 **subsequent events**

AWG proposes to ringfence the operations of the regulated water and wastewater business to enable the transfer of existing debt across to the regulated business on a common set of terms and conditions, and subsequently allow new debt to be raised. AWG has reached agreement with Ofwat on the licence amendments necessary to implement the restructuring. Rating agencies have conducted an extensive review of the new ringfenced structure and have confirmed preliminary investment grade ratings. Negotiations with existing lenders to the group to transfer borrowings onto common terms are well advanced, with bondholder meetings scheduled for 31 May 2002 and, if necessary, adjourned meetings scheduled for 17 June 2002.

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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 (Ofwat).

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 (DG) 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 arm's length;
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out on page 4.

**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 regulatory historical cost profit and loss account and balance sheet between appointed and non-appointed business is set out on pages 26 and 27. A current cost profit and loss account and balance sheet are shown on pages 30 and 31. Other current cost disclosures appear on pages 32 to 39. Additional information required by the Licence is shown on pages 28 and 29.

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 ringfencing**

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

	2002			2001		
	Appointed £m	Non appointed £m	Total £m	Appointed restated £m	Non appointed £m	Total restated £m
<b>Turnover</b>	<b>717.9</b>	<b>5.4</b>	<b>723.3</b>	687.4	6.8	694.2
Operating costs	(442.6)	(5.0)	(447.6)	(423.3)	(6.1)	(429.4)
Profit on sale of fixed assets	3.3	–	3.3	1.8	–	1.8
<b>Operating profit*</b>	<b>278.6</b>	<b>0.4</b>	<b>279.0</b>	265.9	0.7	266.6
Other income	1.1	–	1.1	0.6	–	0.6
Interest payable (net)	(102.7)	–	(102.7)	(120.1)	–	(120.1)
<b>Profit on ordinary activities before taxation</b>	<b>177.0</b>	<b>0.4</b>	<b>177.4</b>	146.4	0.7	147.1
Taxation	28.6	–	28.6	(35.6)	–	(35.6)
<b>Profit on ordinary activities after taxation</b>	<b>205.6</b>	<b>0.4</b>	<b>206.0</b>	110.8	0.7	111.5
Dividends	–	–	–	(910.1)	(13.2)	(923.3)
<b>Movement in reserves</b>	<b>205.6</b>	<b>0.4</b>	<b>206.0</b>	(799.3)	(12.5)	(811.8)

\* After exceptional items of £26.9 million (2001 – £12.2 million) within the appointed business.

The prior year comparatives have been restated in respect of the adoption of Financial Reporting Standard (FRS) 19 'Deferred Tax' (see note 1).

	2002			2001		
	Appointed £m	Non appointed £m	Total £m	Appointed restated £m	Non appointed £m	Total restated £m
<b>Fixed assets</b>						
Tangible assets	3,602.3	–	3,602.3	3,526.3	–	3,526.3
Investments	0.2	–	0.2	0.2	–	0.2
	<b>3,602.5</b>	<b>–</b>	<b>3,602.5</b>	<b>3,526.5</b>	<b>–</b>	<b>3,526.5</b>
<b>Current assets</b>						
Stocks	4.1	–	4.1	4.0	–	4.0
Debtors	562.8	–	562.8	211.6	–	211.6
Cash at bank and in hand	(12.8)	13.6	0.8	6.7	13.2	19.9
	<b>554.1</b>	<b>13.6</b>	<b>567.7</b>	<b>222.3</b>	<b>13.2</b>	<b>235.5</b>
<b>Creditors: amounts falling due within one year</b>						
Short-term borrowings	(257.0)	–	(257.0)	(96.9)	–	(96.9)
Proposed dividend	(786.0)	(13.2)	(799.2)	(872.9)	(13.2)	(886.1)
Other creditors	(231.3)	–	(231.3)	(288.2)	–	(288.2)
Net current liabilities	<b>(720.2)</b>	<b>0.4</b>	<b>(719.8)</b>	<b>(1,035.7)</b>	<b>–</b>	<b>(1,035.7)</b>
Total assets less current liabilities	<b>2,882.3</b>	<b>0.4</b>	<b>2,882.7</b>	<b>2,490.8</b>	<b>–</b>	<b>2,490.8</b>
<b>Creditors: amounts falling due after more than one year</b>						
Loans and other borrowings	(1,714.7)	–	(1,714.7)	(1,493.5)	–	(1,493.5)
Other creditors	(86.1)	–	(86.1)	(90.2)	–	(90.2)
	<b>(1,800.8)</b>	<b>–</b>	<b>(1,800.8)</b>	<b>(1,583.7)</b>	<b>–</b>	<b>(1,583.7)</b>
<b>Provisions for liabilities and charges</b>	<b>(114.1)</b>	<b>–</b>	<b>(114.1)</b>	<b>(145.3)</b>	<b>–</b>	<b>(145.3)</b>
	<b>967.4</b>	<b>0.4</b>	<b>967.8</b>	<b>761.8</b>	<b>–</b>	<b>761.8</b>
<b>Capital and reserves</b>						
Called up equity share capital	860.0	–	860.8	860.0	–	860.0
Profit and loss reserve	107.4	0.4	107.8	(98.2)	–	(98.2)
<b>Total shareholder's funds (all equity)</b>	<b>967.4</b>	<b>0.4</b>	<b>967.8</b>	<b>761.8</b>	<b>–</b>	<b>761.8</b>

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1) and to transfer deferred grants and contributions due within one year from creditors due after more than one year to creditors due within one year.

**1 accounting policies**

The accounting policies are set out on pages 10 to 12, except that, as noted on page 25, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory financial statements. In addition, infrastructure renewals accounting 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 business relates 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.

The North Tees water supply agreements with turnover of £0.7 million and a profit of £0.1 million have been treated as appointed business.

**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 (f) below.

**(a) borrowings or sums lent**

£309.5 million of private placement debt received by the company in July 2001 was temporarily onlent on identical terms to the immediate parent company. The £309.5 million will be repaid to the company on or before the date of the refinancing which is currently being undertaken by the company.

No other sums were lent by the appointee to associated companies at 31 March 2002.

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	79.3	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 – € loan	229.3	2009	**
Anglian Water Plc – index linked loan stock†	146.8	2008	5.125
Anglian Water Plc – index linked loan stock†	157.7	2020	3.875
Anglian Water Plc – floating rate loan	1.8	2002	LIBOR plus 0.500
Anglian Water Plc – floating rate loan	1.0	2002	LIBOR plus 1.000
Anglian Water Plc – floating rate loan	0.8	2002	LIBOR plus 1.000
Anglian Water Plc – floating rate loan	1.0	2002	Base Rate plus 1.000

\* The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loan. In addition, through interest rate swaps, £59.8 million of this loan is effectively at a fixed interest rate of 8.371 per cent and the balance is at a floating rate of 6 month LIBOR plus 0.385 per cent.

\*\* The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the € loan. In addition, through interest rate swaps, the loan is effectively at a fixed interest rate of 6.328 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.

**(b) dividends payable**

No dividend is proposed for the year (2001 – total dividend cost of £923.3 million).

(c) **guarantees/securities**

The appointee has guaranteed the following borrowings of Anglian Water Plc:

	Principal amount £m	Repayment date	Interest rate %
Index Linked Loan Stock	146.8	2008	5.125
Fixed Rate Bond	100.0	2014	12.000
Index Linked Loan Stock	157.7	2020	3.875
Fixed Rate Bond	200.0	2023	6.625
Fixed Rate Bond	200.0	2029	6.375

(d) **supply of services**

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Various services	Various	Market rates	1.4

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	n/a	Recharge of appropriate costs	8.7
Fleet management	Powermarque Ltd	57.7	Competitive tendering	9.7
Insurance services	Rutland Insurance Company Ltd	3.0	Other market testing	1.7
Rental of office accommodation	Ambury Investments Ltd	7.6	Negotiated	1.6
Estate management, etc.	Ambury Estates Ltd	2.7	Negotiated	0.8
Acquisition of land, etc.	Ambury Estates Ltd	2.7	Other market testing	0.6
Engineering, construction and fabrication	PURAC Ltd	42.5	Competitive tendering	22.9
Asset management services	Geodesys Ltd	7.2	Other market testing Negotiated	0.2 1.7
Sewerage maintenance services	Alpheus Environmental Ltd	10.2	Competitive tendering	1.5
Tankering, legionella testing, etc.	Alpheus Environmental Ltd	10.2	Negotiated	0.3
Engineering, construction and fabrication	Morrison Construction	211.5	Competitive tendering	1.9
Facilities management services	Morrison FM	10.0	Other market testing	1.9
Client management	H <sub>2</sub> Go	0.9	Negotiated	0.9
Other	n/a	n/a	n/a	0.7
				55.1*

\* This total includes amounts of £24.6 million which were capitalised by the appointed business.

(e) **omissions of rights**

No material omissions took place during the year.

(f) **waivers**

There were no material waivers during the year.

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Notes	2002 £m	2001 restated £m
2 <b>Turnover</b>	<b>717.9</b>	687.4
4 Current cost operating costs	<b>(500.1)</b>	(480.2)
3 Operating income	<b>1.8</b>	(0.6)
	<b>219.6</b>	206.6
1(d),3 Working capital adjustment	<b>1.3</b>	2.0
	<b>220.9</b>	208.6
<b>Current cost operating profit*</b>		
Other income	<b>1.1</b>	0.6
Interest payable	<b>(119.4)</b>	(126.6)
Interest receivable	<b>16.7</b>	6.5
1(d) Financing adjustment	<b>21.9</b>	34.1
	<b>141.2</b>	123.2
<b>Current cost profit before taxation</b>		
Current tax	<b>12.8</b>	(26.7)
Deferred tax	<b>15.8</b>	(8.9)
	<b>169.8</b>	87.6
<b>Current cost profit attributable to shareholder</b>		
Dividends	<b>-</b>	(910.1)
7 <b>Current cost profit/(loss)</b>	<b>169.8</b>	(822.5)

\*After exceptional items of £26.9 million (2001 – £12.2 million).

The notes on pages 33 to 39 form part of these current cost financial statements.

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1).

Notes	2002 £m	2001 restated £m
<b>Assets employed</b>		
5	<b>18,087.6</b>	17,823.1
	<b>(554.0)</b>	(535.1)
	<b>17,533.6</b>	17,288.0
6	<b>287.8</b>	(100.8)
<b>Net operating assets</b>		
	<b>17,821.4</b>	17,187.2
	<b>0.2</b>	0.2
	<b>41.0</b>	30.9
	<b>(786.0)</b>	(872.9)
	<b>(257.0)</b>	(96.9)
	<b>(1,714.7)</b>	(1,493.5)
	<b>(88.4)</b>	(104.2)
	<b>(25.7)</b>	(31.3)
	<b>14,990.8</b>	14,619.5
<b>Financed by</b>		
	<b>860.0</b>	860.0
7	<b>(449.6)</b>	(619.4)
8	<b>14,580.4</b>	14,378.9
	<b>14,990.8</b>	14,619.5

The notes on pages 33 to 39 form part of these current cost financial statements.

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1).

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Notes	2002 £m	2001 £m
9(a) <b>Net cash inflow from operating activities</b>	<b>378.3</b>	389.0
<b>Returns on investments and servicing of finance</b>		
Interest received	16.7	6.9
Interest paid	(100.0)	(79.4)
Interest element of finance lease rental payments	(10.4)	(11.5)
Dividend received from trade investments	–	0.2
Net cash outflow for returns on investments and servicing of finance	<b>(93.7)</b>	<b>(83.8)</b>
<b>Taxation</b>		
Corporation Tax paid	<b>(46.4)</b>	(7.5)
<b>Capital expenditure and financial investment</b>		
Gross cost of purchase of fixed assets	<b>(220.5)</b>	(234.8)
Grants and contributions received	17.9	14.7
Infrastructure renewals expenditure	(41.5)	(37.5)
Short-term loan to group company	<b>(309.5)</b>	–
Disposal of tangible fixed assets	4.8	(1.1)
Net cash outflow for capital expenditure and financial investment	<b>(548.8)</b>	<b>(258.7)</b>
<b>Acquisitions and disposals</b>	–	(7.2)
<b>Equity dividends paid</b>	<b>(86.9)</b>	(140.6)
<b>Net cash outflow before financing</b>	<b>(397.5)</b>	<b>(108.8)</b>
<b>Financing</b>		
Increase in loans	311.1	670.6
Repayments of amounts borrowed	(82.5)	(558.2)
Capital element of finance lease payments	(19.5)	(11.4)
<b>Net cash inflow from financing</b>	<b>209.1</b>	101.0
<b>Decrease in cash</b>	<b>(188.4)</b>	(7.8)

Note 9 on page 38 forms part of this current cost cash flow statement.

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 deferred income.

1 **accounting policies (continued)**(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 is incorporated within operating costs in the profit and loss account. The disposal of fixed assets adjustment is incorporated within operating income 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. No adjustment has been made to the Financing adjustment for the effect of FRS 19 in the prior year as the adjustment is not material.

	Water service £m	Sewerage service £m	Appointed business 2002 £m	Water service £m	Sewerage service £m	Appointed business 2001 £m
<b>2 turnover for the appointed business</b>						
Measured	123.9	188.3	312.2	112.6	166.6	279.2
Unmeasured	115.9	214.1	330.0	118.2	210.7	328.9
Trade effluent	–	29.1	29.1	–	24.0	24.0
Large user revenues	22.9	–	22.9	20.0	–	20.0
Third party services	18.6	1.4	20.0	18.9	1.4	20.3
Other sources	1.1	2.6	3.7	3.8	11.2	15.0
<b>Total turnover</b>	<b>282.4</b>	<b>435.5</b>	<b>717.9</b>	<b>273.5</b>	<b>413.9</b>	<b>687.4</b>
<b>3 operating income and working capital adjustment for the appointed business</b>						
Current cost profit/(loss) on disposal of fixed assets	0.9	0.9	1.8	(0.3)	(0.3)	(0.6)
Working capital adjustment	0.7	0.6	1.3	1.0	1.0	2.0

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

	Service analysis								Business activities		
	Water service			Sewerage service					Customer services	Scientific services	Other business activities
	Resources and treatment	Distribution	Water service subtotal	Sewerage	Sewage treatment	Sludge treatment & disposal	Sewage T&D subtotal	Sewerage service subtotal			
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
<b>Direct costs:</b>											
Employment costs	5.9	7.0	12.9	9.1	13.1	5.0	18.1	27.2	10.8	4.9	1.0
Power	6.4	5.8	12.2	2.8	7.0	3.9	10.9	13.7	–	0.1	–
Hired and contracted services	2.8	9.4	12.2	6.5	8.4	13.9	22.3	28.8	6.3	1.1	0.2
Materials and consumables	3.2	1.3	4.5	1.7	5.1	5.0	10.1	11.8	–	0.8	–
Service charges	6.7	–	6.7	0.8	4.4	–	4.4	5.2	–	–	–
Bulk supply imports	0.6	–	0.6	–	–	–	–	–	–	–	–
Other direct costs	0.1	0.3	0.4	0.5	0.5	0.2	0.7	1.2	6.1	0.5	1.4
<b>Total direct costs</b>	<b>25.7</b>	<b>23.8</b>	<b>49.5</b>	<b>21.4</b>	<b>38.5</b>	<b>28.0</b>	<b>66.5</b>	<b>87.9</b>	<b>23.2</b>	<b>7.4</b>	<b>2.6</b>
General and support expenditure	6.9	7.6	14.5	6.4	10.0	7.2	17.2	23.6	4.5	1.4	0.6
Functional expenditure	32.6	31.4	64.0	27.8	48.5	35.2	83.7	111.5	27.7	8.8	3.2
<b>Total business activities</b>			<b>21.1</b>					<b>18.6</b>			
Rates			19.0					5.5			
Doubtful debts			4.5					8.3			
Exceptional items			13.5					13.4			
<b>Total less third party services</b>			<b>122.1</b>					<b>157.3</b>			
Third party services			11.8					0.8			
			<b>133.9</b>					<b>158.1</b>			
<b>Capital costs:</b>											
Infrastructure renewals expenditure	–	22.8	22.8	18.9	(0.2)	–	(0.2)	18.7			
Movement in infrastructure renewal accrual/prepayment	(0.2)	(7.8)	(8.0)	(6.5)	–	–	–	(6.5)			
Depreciation† (allocated)	41.7	15.7	57.4	19.6	86.2	5.1	91.3	110.9			
Amortisation of deferred credits			(2.1)					(3.9)			
Business activities depreciation† (non-allocated)			7.8					8.3			
Capital maintenance excluding third party services			77.9					127.5			
Third party services – capital maintenance			2.1					0.6			
<b>Total capital maintenance</b>			<b>80.0</b>					<b>128.1</b>			
<b>Total operating costs<sup>(1)</sup></b>			<b>213.9</b>					<b>286.2</b>			
2001 total operating costs			205.7					274.5			
<b>CCA (MEA) values*</b>											
Service activities	1,053.1	4,175.2	5,228.3	11,067.2	1,536.1	84.1	1,620.2	12,687.4			
Business activities			22.3	5.1			16.1	21.2			
<b>Service totals</b>			<b>5,250.6</b>	<b>11,072.3</b>			<b>1,636.3</b>	<b>12,708.6</b>			
Service assets for third parties			121.5					6.9			
<b>Total MEA values</b>			<b>5,372.1</b>					<b>12,715.5</b>			
2001 total MEA values			5,294.6					12,528.5			

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

† On a current cost basis.

(1) Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £16.8 million.

This is split £9.7 million water distribution and £7.1 million sewerage.

	Specialised operational assets £m	Non-specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
<b>5 fixed assets</b>					
<b>(a) fixed assets by type – water service</b>					
<b>Gross replacement cost</b>					
At 1 April 2001	1,338.1	9.4	4,619.9	253.2	6,220.6
RPI adjustment	17.4	0.1	60.1	3.3	80.9
Disposals	(1.0)	(0.4)	(0.1)	(1.2)	(2.7)
Additions	29.6	0.5	35.5	11.2	76.8
<b>At 31 March 2002</b>	<b>1,384.1</b>	<b>9.6</b>	<b>4,715.4</b>	<b>266.5</b>	<b>6,375.6</b>
<b>Depreciation</b>					
At 1 April 2001	777.1	2.8	–	146.1	926.0
RPI adjustment	10.1	–	–	1.9	12.0
Disposals	(0.6)	(0.1)	–	(1.1)	(1.8)
Charge for the year	45.4	0.1	–	21.8	67.3
<b>At 31 March 2002</b>	<b>832.0</b>	<b>2.8</b>	<b>–</b>	<b>168.7</b>	<b>1,003.5</b>
<b>Net book amount at 31 March 2002</b>	<b>552.1</b>	<b>6.8</b>	<b>4,715.4</b>	<b>97.8</b>	<b>5,372.1</b>
Net book amount at 31 March 2001	561.0	6.6	4,619.9	107.1	5,294.6
<b>(b) fixed assets by type – sewerage service</b>					
<b>Gross replacement cost</b>					
At 1 April 2001	3,234.0	9.6	10,962.4	256.7	14,462.7
RPI adjustment	42.0	0.1	142.5	3.4	188.0
Disposals	(0.9)	(0.6)	–	(2.0)	(3.5)
Additions	112.0	0.8	16.6	16.7	146.1
<b>At 31 March 2002</b>	<b>3,387.1</b>	<b>9.9</b>	<b>11,121.5</b>	<b>274.8</b>	<b>14,793.3</b>
<b>Depreciation</b>					
At 1 April 2001	1,760.2	2.9	–	171.1	1,934.2
RPI adjustment	23.0	–	–	2.2	25.2
Disposals	–	(0.2)	–	(1.2)	(1.4)
Charge for the year	84.3	0.1	–	35.4	119.8
<b>At 31 March 2002</b>	<b>1,867.5</b>	<b>2.8</b>	<b>–</b>	<b>207.5</b>	<b>2,077.8</b>
<b>Net book amount at 31 March 2002</b>	<b>1,519.6</b>	<b>7.1</b>	<b>11,121.5</b>	<b>67.3</b>	<b>12,715.5</b>
Net book amount at 31 March 2001	1,473.8	6.7	10,962.4	85.6	12,528.5
<b>(c) fixed assets by type – total</b>					
<b>Gross replacement cost</b>					
At 1 April 2001	4,572.1	19.0	15,582.3	509.9	20,683.3
RPI adjustment	59.4	0.2	202.6	6.7	268.9
Disposals	(1.9)	(1.0)	(0.1)	(3.2)	(6.2)
Additions	141.6	1.3	52.1	27.9	222.9
<b>At 31 March 2002</b>	<b>4,771.2</b>	<b>19.5</b>	<b>15,836.9</b>	<b>541.3</b>	<b>21,168.9</b>
<b>Depreciation</b>					
At 1 April 2001	2,537.3	5.7	–	317.2	2,860.2
RPI adjustment	33.1	–	–	4.1	37.2
Disposals	(0.6)	(0.3)	–	(2.3)	(3.2)
Charge for the year	129.7	0.2	–	57.2	187.1
<b>At 31 March 2002</b>	<b>2,699.5</b>	<b>5.6</b>	<b>–</b>	<b>376.2</b>	<b>3,081.3</b>
<b>Net book amount at 31 March 2002</b>	<b>2,071.7</b>	<b>13.9</b>	<b>15,836.9</b>	<b>165.1</b>	<b>18,087.6</b>
Net book amount at 31 March 2001	2,034.8	13.3	15,582.3	192.7	17,823.1

5 **fixed assets (continued)**

(d) In the preparation of its statutory financial statements, the company has adopted the infrastructure renewals accounting basis as required by FRS 15 'Tangible Fixed Assets'. However, for the purposes of the regulatory financial statements, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the tangible fixed assets shown in the statutory financial statements is set out below:

	Infrastructure assets £m
<b>Cost</b>	
At 31 March 2002 per regulatory financial statements	15,836.9
Adjustment to opening balance at 31 March	(13,921.9)
Infrastructure renewals expenditure capitalised in the year	41.5
At 31 March 2002 per statutory financial statements	<u>1,956.5</u>
<b>Grants and contributions</b>	
At 31 March 2002 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(153.2)
At 31 March 2002 per statutory financial statements	<u>(153.2)</u>
<b>Depreciation</b>	
At 31 March 2002 per regulatory financial statements	-
Adjustment to opening balance at 31 March	(307.9)
Depreciation charge for infrastructure renewal expenditure	(27.0)
At 31 March 2002 per statutory financial statements	<u>(334.9)</u>
<b>Net book value</b>	
At 31 March 2002 per regulatory financial statements	15,836.9
Adjustment to opening balance at 31 March	(14,383.0)
Infrastructure renewals expenditure capitalised in the year	41.5
Depreciation charge for infrastructure renewal expenditure	(27.0)
At 31 March 2002 per statutory financial statements	<u>1,468.4</u>
<b>Working capital</b>	
At 31 March 2002 per regulatory financial statements	(4.7)
Less infrastructure renewals (accrual)/prepayment	4.7
At 31 March 2002 per statutory financial statements	<u>-</u>

6 **working capital**

	2002 £m	2001 restated £m
Cash	(12.8)	6.7
Stocks	4.1	4.0
Trade debtors	81.5	76.5
Trade creditors	(73.8)	(89.8)
Short-term capital creditors	(22.1)	(18.5)
Infrastructure renewals (accrual)/prepayment	4.7	(9.8)
Other trade prepayments/(accruals)	(105.5)	(76.6)
Corporation Tax	(7.7)	(65.9)
Payroll related taxes and social security contributions	(3.0)	(3.1)
Group trade debtors (net)	328.7	(13.5)
Prepayments	93.7	89.2
<b>Total working capital</b>	<u>287.8</u>	(100.8)

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1) and to transfer the measured income accrual (£81.4 million) and the trade effluent accrual (£3.6 million) from Trade debtors to Prepayments as the directors believe that this is a more appropriate classification.

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	2002 £m	2001 restated £m
<b>7 current cost profit and loss reserve</b>		
At beginning of year	(619.4)	203.1
Retained profit/(loss) for the year for appointed business	169.8	(822.5)
<b>At end of year</b>	<b>(449.6)</b>	<b>(619.4)</b>

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1).

	2002 £m	2001 £m
<b>8 current cost reserve</b>		
At beginning of year	14,378.9	13,913.7
Acquired from Hartlepool Water Plc	–	113.6
RPI adjustments:		
Fixed assets	231.7	399.5
Working capital	(1.3)	(2.0)
Financing	(21.9)	(34.1)
Deferred grants and contributions	(7.0)	(11.8)
<b>At end of year</b>	<b>14,580.4</b>	<b>14,378.9</b>

	2002 £m	2001 £m
<b>9(a) reconciliation of current cost operating profit to net cash inflow from operating activities</b>		
Current cost operating profit*	220.9	208.6
Working capital adjustment	(1.3)	(2.0)
Decrease/(increase) in stocks	(0.1)	0.1
Other income received	1.1	0.4
Current cost depreciation	187.1	172.2
Current cost (profit)/loss on sale of fixed assets	(1.8)	0.6
Increase in debtors and prepaid expenses	(26.1)	(10.0)
Increase in creditors and accrued expenses	(6.0)	(4.2)
Provision for infrastructure renewals	27.0	27.0
Net movement in restructuring provision	(5.6)	2.2
Amortisation of deferred grants and contributions	(6.0)	(5.8)
Net movement in prepaid pension contributions	(10.9)	(0.1)
<b>Net cash inflow from operating activities</b>	<b>378.3</b>	<b>389.0</b>

\* After exceptional items of £26.9 million (2001 – £12.2 million).

	1 April 2001 £m	Cash flows £m	Non-cash movements £m	31 March 2002 £m
<b>9(b) analysis of net debt</b>				
Cash	6.7	(19.5)	–	(12.8)
Bank overdrafts	–	(168.9)	–	(168.9)
	6.7	(188.4)	–	(181.7)
Debt due within one year	(96.9)	96.9	(88.1)	(88.1)
Debt due after one year	(1,493.5)	(306.0)	84.8	(1,714.7)
	(1,583.7)	(397.5)	(3.3)	(1,984.5)

Non-cash movements comprise indexation of loan stock and transfers between categories of debt.

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10 **current cost profit and loss account  
for appointed business**

	2002 £m	2001 restated £m	2000 restated £m	1999 restated £m	1998 restated £m
<b>Turnover</b>	<b>717.9</b>	697.8	757.1	776.9	780.1
Current cost operating costs	(500.1)	(487.5)	(499.2)	(501.0)	(455.7)
Operating income	1.8	(0.6)	(2.2)	3.8	1.5
Working capital adjustment	1.3	2.0	1.0	(0.2)	4.1
<b>Current cost operating profit*</b>	<b>220.9</b>	211.7	256.7	279.5	330.0
Other income	1.1	0.6	0.2	0.6	1.0
Interest payable (net)	(102.7)	(121.9)	(100.6)	(97.2)	(85.2)
Financing adjustment	21.9	34.6	33.1	24.7	33.5
<b>Current cost profit before taxation</b>	<b>141.2</b>	125.0	189.4	207.6	279.3
Taxation	28.6	(36.1)	(42.1)	(62.4)	4.2
<b>Current cost profit attributable to shareholder</b>	<b>169.8</b>	88.9	147.3	145.2	283.5
Dividends	–	(923.9)	(155.6)	(346.1)	(216.8)
<b>Current cost (loss)/profit</b>	<b>169.8</b>	(835.0)	(8.3)	(200.9)	66.7

\* After historical exceptional charge of £26.9 million (2001 – exceptional charge of £12.4 million, 2000 – exceptional charge of £44.3 million, 1999 – exceptional charge of £34.9 million, 1998 – exceptional credit of (£6.6) million).

**current cost balance sheet  
for appointed business**

	2002 £m	2001 restated £m	2000 restated £m	1999 restated £m	1998 restated £m
<b>Assets employed</b>					
Fixed assets	18,087.6	18,061.2	17,870.3	16,655.7	16,506.3
Third party contributions since 31 March 1990	(554.0)	(542.2)	(533.0)	(523.0)	(515.6)
Working capital	287.8	(102.1)	(89.3)	(41.5)	11.2
<b>Net operating assets</b>	<b>17,821.4</b>	17,416.9	17,248.0	16,091.2	16,001.9
Cash and investments	0.2	0.2	0.3	0.3	0.3
Non-trade debtors	41.0	31.3	29.2	26.4	36.0
Dividends payable	(786.0)	(884.7)	(107.1)	(276.6)	(100.9)
Other non-trade creditors due within one year	(257.0)	(98.2)	(332.6)	(49.1)	(106.7)
Creditors due after one year	(1,714.7)	(1,513.4)	(1,195.7)	(1,250.5)	(1,120.3)
Provisions for liabilities and charges	(114.1)	(137.3)	(122.7)	(108.9)	(86.7)
<b>Net assets employed</b>	<b>14,990.8</b>	14,814.8	15,519.4	14,432.8	14,623.6
<b>Financed by</b>					
Called up share capital	860.0	871.5	891.2	914.5	933.3
Profit and loss reserve	(449.6)	(627.7)	210.5	224.5	434.4
Current cost reserve	14,580.4	14,571.0	14,417.7	13,293.8	13,255.9
<b>Total capital and reserves</b>	<b>14,990.8</b>	14,814.8	15,519.4	14,432.8	14,623.6

The financial information set out above for the four years ended 31 March 2001 is based on the audited current cost financial statements for those years, as adjusted to 2001/2002 prices for changes in the RPI.

On 1 April 2000 the company acquired the trade and certain assets and liabilities from Hartlepool Water Plc. The trading results and balance sheet figures for the year ending 31 March 2002 and the year ending 31 March 2001 reflect this acquisition and are therefore not strictly comparable to previous years.

The prior year comparatives have been restated in respect of the adoption of FRS 19 'Deferred Tax' (see note 1).

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We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement, the related notes and the statement of accounting policies ('the statutory financial statements'), the supplementary regulatory historical cost statements ('the supplementary historical cost statements') and the current cost accounting statements which comprise the current cost profit and loss account, the current cost balance sheet, the cash flow statement, the related notes and the statement of accounting policies ('the current cost financial statements') (together, the 'regulatory financial statements').

**basis of preparation**

The regulatory financial statements have been prepared in accordance with regulatory accounting guidelines.

The regulatory financial statements are separate from the statutory financial statements of the company and have not necessarily been prepared under the basis of generally accepted accounting principles. Financial information other than that prepared on the basis of generally accepted accounting principles does not necessarily represent a true and fair view of the financial position of a company.

The nature, form and content of regulatory financial statements are determined by the Office of Water Services (Ofwat). It is not appropriate for the auditors to assess whether the nature of the information is suitable or appropriate for Ofwat's purposes. Accordingly we make no assessment.

**respective responsibilities of directors and auditors**

As described on page 24, 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 regulatory financial statements, performed in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, and to report our opinion to you.

Our responsibility is to the member of the company. We do not accept any duty of care or responsibility to any other person and deny all liability whether in contract, tort (including negligence), statutory duty or otherwise to any other person who chooses to rely on this report.

We read the other information contained in the regulatory financial statements and consider the implications for our report if we become aware of any apparent misstatements or

material inconsistencies with the regulatory 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.

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the company, which are prepared for a different purpose. We do not and will not, by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of the company's statutory financial statements required by the Companies Act 1985; we and our employees shall have no liability whether in contract, negligence or otherwise to any parties other than the company in relation to our audits of the company's statutory financial statements.

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, except as modified in respect of the following:

(a) the regulatory historical cost financial statements on pages 26 and 27 have been drawn up in accordance with the Ofwat instruction of 29 April 2002 that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from generally accepted accounting principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 37; and

(b) the current cost financial information on pages 30 to 39 has been drawn up in accordance with Regulatory Accounting Guideline 1.02 'Accounting for Current Costs', issued in May 1992 by Ofwat.

**opinion**

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 2002 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 and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guidelines 1-4 issued by Ofwat;
- (c) the statutory financial statements on pages 6 to 23 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the appointee and its appointed business;
- (d) the supplementary historical cost statements on pages 26 to 29 presents fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its Appointed Business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guidelines 2.02 and 4.01;
- (e) the current cost financial statements on pages 30 to 39 have been properly prepared in accordance with Regulatory Accounting Guideline 1 'Accounting for Current Costs', issued in May 1992 by Ofwat and Regulatory Accounting Guideline 4 'Analysis of Operating Costs and Assets', issued in June 1992 by Ofwat.

**PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors  
Birmingham  
29 May 2002





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**awg plc group publications**

To receive a copy of any of these publications please call Freephone 0800 919155:

- Annual Report and Accounts 2002
- Sustainable Development Report 2002
- Drinking Water Quality Summary Report 2001

**Disability and Discrimination Act**

awg plc shareholder communications are available in alternative formats in order to provide better access to information for those with disabilities.

For more information on audio tape, braille and large print versions please call 0870 600 3953 or, for shareholders with hearing difficulties, textphone 0870 600 3950.

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