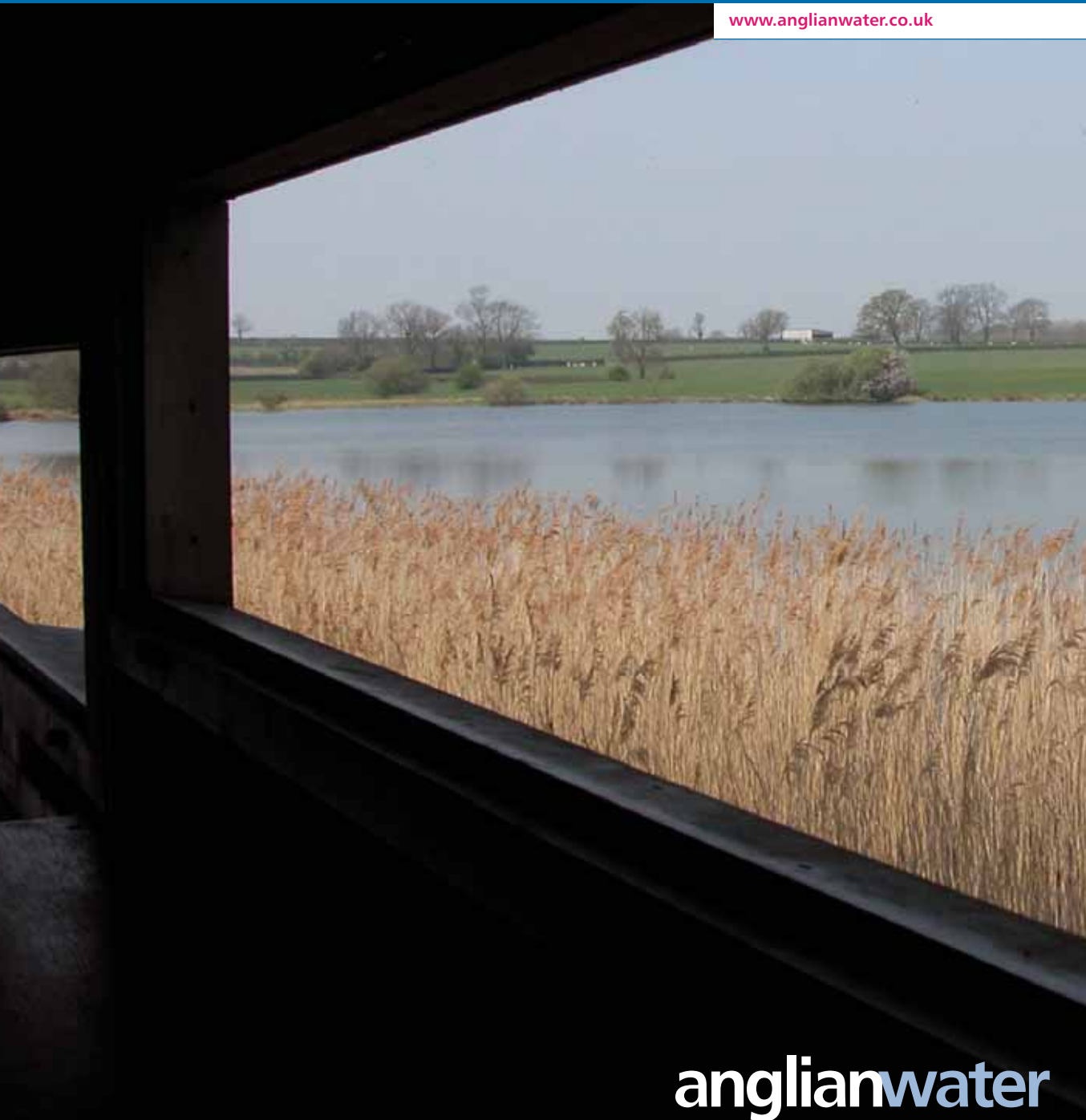


Annual Report and Accounts 2005
Anglian Water Services Limited

www.anglianwater.co.uk



anglianwater

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group publications

AWG Plc
Annual Report and Accounts 2005

Anglian Water Services Limited
Annual Report and Accounts 2005
Environment Report 2005
Drinking Water Quality Summary Report 2004

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 606 0382 or, for shareholders with hearing difficulties, textphone 0870 600 3950.

To receive a copy of any of these publications please call Freephone 0800 91 91 55.

The legal structure of **Anglian Water Services Limited**, its parent companies and subsidiary company is shown, right.



Anglian Water Services Limited and Anglian Water Services Financing Plc are collectively known as the Anglian Water Services group and the statutory accounts on pages 2 to 35 have been prepared for this group.

The regulatory accounts and regulatory information on pages 36 to 56 are for Anglian Water Services Limited only.

Under the Common Terms Agreement (see page 5) the four Anglian Water Services companies are collectively known as the Anglian Water Services Financing group.

turnover

2005 up **3.9%** on 2004

2005	£796.8m
2004	£766.6m
2003	£726.8m
2002	£724.4m
2001	£694.6m

total operating costs

2005 up **2.2%** on 2004

2005	£457.5m
2004	£447.7m
2003	£458.0m
2002	£447.6m
2001	£429.4m

operating profit

2005 up **6.4%** on 2004

2005	£339.3m
2004	£318.9m
2003	£268.8m
2002	£276.8m
2001	£265.2m

profit before tax

2005 up **3.2%** on 2004

2005	£277.9m
2004	£269.2m
2003	£166.9m
2002	£177.4m
2001	£147.1m

Anglian Water Services group

Anglian Water Services Limited and Anglian Water Services Financing Plc are collectively known as the Anglian Water Services group (the group) and are part of the AWG Plc group. The group operates on an arm's length basis from other companies within the AWG Plc group.

operating results

The group profit and loss account as presented on page 8 is summarised in Table 1 below:

Table 1	2005 £m	2004 £m	Movement %
Turnover	796.8	766.6	3.9
Operating profit	339.3	318.9	6.4
Net interest payable	(61.4)	(49.7)	23.5
Profit before tax	277.9	269.2	3.2
Taxation	(12.4)	33.5	(137.0)
Profit after tax	265.5	302.7	(12.3)
Dividends	(253.1)	(250.6)	1.0
Retained profit	12.4	52.1	(76.1)

In order to aid understanding of the accounts, a pro-forma group profit and loss account is provided in Table 2 below. In this profit and loss account the inter-company interest receivable by the group from Anglian Water Services Holdings Limited of £193.1 million (2004: £193.6 million) and the inter-company dividend payable of £193.1 million (2004: £193.6 million) via Anglian Water Services Overseas Holdings Limited to Anglian Water Services Holdings Limited have been eliminated.

Table 2	2005 £m	2004 £m	Movement %
Turnover	796.8	766.6	3.9
Operating profit	339.3	318.9	6.4
Net interest payable	(254.5)	(243.3)	4.6
Profit before tax	84.8	75.6	12.2
Taxation	(12.4)	33.5	(137.0)
Profit after tax	72.4	109.1	(33.6)
Dividends	(60.0)	(57.0)	5.3
Retained profit	12.4	52.1	(76.1)

The group's financial performance showed a continuing improvement in 2005 compared to the previous year.

Turnover increased by 3.9 per cent as a result of the regulatory pricing formula, partially offset by higher than normal revenues in the prior year due to the effect of the long, dry summer in 2003. This net increase in revenue contributed to a rise in operating profit of 6.4 per cent to £339.3 million (2004: £318.9 million).

Operating expenditure for the year (excluding depreciation) was almost flat at £291.1 million (2004: £291.7 million). This was despite additional costs from the previously announced redundancy programme and upward cost pressures from power, fuel and other material-related costs. Overall, operating expenditure as a percentage of turnover decreased from 38.1 per cent to 36.5 per cent.

The cost of the current year redundancy programme of £11.4 million (2004: £4.6 million), has been recognised in operating costs and is expected to generate future annual cash savings of £12 million per annum over the next five years. Of these savings, approximately £10 million per annum will contribute to reduced operating costs for manpower (the remaining annual savings will be realised in capital expenditure). The reduction in manpower costs and other identified initiatives will generate a significant proportion of the total operating efficiency savings required by the regulatory settlement in the AMP4 (see glossary on page 60) periodic review.

Net interest payable per Table 2 (excluding interest on an inter-company loan, see note 5 on page 15) increased from £243.3 million in 2004 to £254.5 million in 2005, reflecting the impact of additional borrowings and loan stock linked to the Retail Price Index (RPI).

Gross capital expenditure for the year was £293.7 million (2004: £276.9 million), giving an outperformance against the AMP3 determination in excess of 10 per cent over the five-year period.

financial needs and resources

At 31 March 2005 the group had net borrowings of £3,499.4 million, an increase of £48.5 million over the prior year. Net borrowings are a mixture of fixed, index linked and variable rate debt of £4,339.2 million and cash and deposits of £839.8 million. The increased net borrowings comprise a net increase of £416.6 million in loans and associated costs and a net increase of £368.1 million in cash and deposits. The business generated a net cash inflow from operating activities of £512.9 million in 2005 (2004: £484.0 million).

The group took advantage of the very strong market conditions that existed in the debt capital markets early in 2005 to raise £400 million (before debt issue costs) of new money prior to the year-end and £402 million (before debt issue costs) shortly after year-end at historically attractive levels. This provides a good start to funding the capital expenditure programme for AMP4 and the refinancing of debt instruments which expire in the period. In addition, as a part of its ongoing debt management strategy, the group has the ability to refinance certain of its existing floating rate note issues and will consider doing so in the next financial year, subject to prevailing market conditions, in line with the terms of the individual issues.

shareholder's return

Dividends have been declared at 29.43 pence per share (2004: 29.14 pence per share). The total cost of the dividend amounts to £253.1 million (2004: £250.6 million).

Of the above, £193.1 million (2004: £193.6 million) is payable to Anglian Water Services Holdings Limited in order for it to service the interest payable to the group on the inter-company loan of £1,609.1 million and £60.0 million (2004: £57.0 million) is payable outside the Anglian Water Services Financing group (see legal structure on page 1). The dividend payable outside the Anglian Water Services Financing group equates to 6.98 pence per share (2004: 6.63 pence per share).

liquidity

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At 31 March 2005 the group held cash, deposits and current asset investments of £839.8 million (2004: £471.7 million) and had undrawn committed facilities of £225.0 million (2004: £225.0 million). These resources are maintained to ensure liquidity and the continuation of the group's investment programme. The maturity profile of the group's borrowings is set out in note 15 on pages 21 to 25 of the accounts. In addition the group has access to £333.0 million of liquidity facilities (2004: £304.0 million), consisting of £257.0 million to finance debt service costs and £76.0 million to finance operating expenditure and maintenance capital expenditure in the event that the group was in default on its debt obligations and had insufficient liquidity.

interest rates

The group's policy, as agreed by the board, is to achieve an optimum mix of funding at indexed (to RPI), fixed and floating rates of interest. At the year-end, taking into account interest rate swaps, 30.1 per cent (2004: 32.4 per cent) of the group's borrowings were at rates indexed to RPI, 57.8 per cent (2004: 62.6 per cent) were at fixed rates and 12.1 per cent (2004: 5.0 per cent) were at floating rates. This includes the use of interest rate swaps to manage the group's exposure to interest rate fluctuations. The percentages quoted are net of financial assets on which no interest is paid. The increase in floating rate borrowings reflects the issuance of two new bonds (and related interest rate swaps) by the group in the last quarter of the year (totalling £400 million before debt issue costs). See note 15 on pages 21 to 25 for further details.

service quality

The group maintained a strong operating performance during the year and continues to perform well on the measures in the Office of Water Services (Ofwat) Overall Performance Assessment (OPA).

The group has met Ofwat's leakage target for 2004/05. At six cubic metres per kilometre of main per day, the group's leakage performance is one of the best of the water and sewerage companies in the United Kingdom (UK). The UK industry average is 11 cubic metres per kilometre of main per day.

Drinking water quality remained high, with 99.95 per cent of all water quality tests performed in 2004 complying with mandatory standards (2003: 99.70 per cent). Overall microbiological compliance for the period remains at a high level.

Although not fully measured within Ofwat's OPA targets, both bathing water and river quality improved during the year. All 46 designated bathing waters in the group's region passed the mandatory standards of the European Community Bathing Water Directive. This is the sixth time in the past eight years that 100 per cent compliance has been achieved.

The Environment Agency published its latest assessment of river water quality in October 2004, relating to the 2003 calendar year. For the Anglian Water region the assessment showed that 98.0 per cent of rivers' biological quality was classed as 'very good' to 'fair' (2002: 98.1 per cent). In 89.8 per cent of the region's rivers, chemical quality was in the 'very good' to 'fair' range (2002: 91.5 per cent). In its report, the Environment Agency believes the reduction in chemical quality is attributable to the effect of the long, dry summer in 2003.

regulation

During the year, the group successfully delivered the balance of its £1.5 billion AMP3 capital investment programme.

At the same time, the management team focused on achieving a satisfactory outcome from the AMP4 regulatory review. The review, which concluded in December 2004, established the lowest price increases for the group of any water and sewerage company in England and Wales. It also set a number of challenging efficiency targets.

In anticipation of the efficiency targets and known additional cost pressures from increases in energy costs, infrastructure renewals and pensions, the management team has put in place the framework and detailed plans to address the efficiency challenge.

A Capital Alliance has been created to deliver a large proportion of the capital investment programme. The Alliance is made up of the group and six partners in a collaborative and integrated team with common objectives and incentives. Its purpose is to deliver the AMP4 programme as quickly and efficiently as possible.

pensions

The group continues to account for pensions in accordance with Statement of Standard Accounting Practice (SSAP) 24. Applying SSAP 24 results in the group having a net pension prepayment at 31 March 2005 of £81.0 million (2004: £53.5 million). This compares with the Financial Reporting Standard (FRS) 17 pension deficit of £103.5 million (2004: £143.6 million). One of the reasons for the difference is that SSAP 24 recommends that the pension scheme is valued at least once every three years, with the last valuation for the scheme at 31 March 2002. Under FRS 17 the valuation is updated every year. In addition, the assumptions used under FRS 17 are different from those in SSAP 24. Under FRS 17 the discount rate used for calculating scheme liabilities is the yield on AA corporate bonds, whereas SSAP 24 uses a higher discount based on the expected return on scheme assets.

The group made additional pension contributions totalling £18.8 million in the year including deficit contributions of £9.2 million in relation to 2004/05 and £9.6 million in relation to 2005/06 (2004: £9.1 million). Future contributions to the AWG Pension Scheme (AWGPS) will continue to be made in line with actuarial advice.

Directors' report

The Directors present their report and the audited financial statements of the Anglian Water Services group (the group) for the year ended 31 March 2005.

The group serves the people of the Anglian Water region, an area stretching from the Humber to the Thames estuary and from Northamptonshire to the East coast, as well as customers in the Hartlepool Water region. The group aims to provide a high quality, cost-effective service to all customers, whilst ensuring compliance with environmental and public health standards.

The group provides water and wastewater services under licence from the Government. The quality of its service and the prices the group is able to charge its customers are regulated by the Office of Water Services. The group's customer base is increasing as the population grows. More than 200,000 new houses are expected to be built in the region over the next 10 years.

Common Terms Agreement

The group has a Common Terms Agreement (CTA) with its debt investors.

The CTA sets out the terms and conditions of the group's borrowing and the ongoing management of its Global Secured Medium Term Note (GSMTN) programme. The CTA also sets out the financial and non-financial covenants that must be complied with in relation to the GSMTN.

Under the CTA the four Anglian Water Services companies (see 'legal structure' on page 1) are collectively known as the Anglian Water Services Financing group.

corporate governance

The corporate governance measures put in place at the time of the financial restructuring in 2002 are designed to ensure that the group has the means to conduct its regulated business separately from other companies within the AWG Plc group, and that all dealings between other companies within the AWG Plc group and the group are on an arm's length basis.

Each company within the group is required to maintain at least three independent Non-Executive Directors, except for periods where a temporary vacancy exists. Further, the board of Directors of each group company may comprise Directors who are also Directors of other AWG Plc group companies, provided that the Executive Directors in this category do not constitute a majority of the Executive Directors. The constitutional documents of each company provide that all conflicts of interest of Directors must be disclosed and that no Director may vote on any contracts or arrangement between a group company and any other AWG Plc group company if he / she is also a Director of the AWG Plc group company.

The processes for identifying, evaluating and managing the significant risks to the group and the group's internal control systems are regularly reviewed by the Audit Committee which reports its findings for consideration by the board.

The Audit Committee is comprised of Non-Executive Directors and has written terms of reference. The terms of reference deal clearly with the committee's authority and duties.

The processes used by the committee to carry out its review include:

- the review of plans prepared by internal and external auditors
- the review of reports arising from the work of the Risk Management Committee on the effectiveness of risk management across the group
- discussions with management on significant risk areas and
- the review of significant issues highlighted by the Executive Directors, internal and external auditors.

principal activities

The group provides more than one billion litres of drinking water to 4.2 million customers every day. The water comes from a variety of sources: reservoirs, underground reserves (aquifers) and extraction from rivers.

The group receives approximately 950 million litres of wastewater per day from 5.4 million customers, including 1.2 million customers who receive their water from other companies. The wastewater is treated to a high standard and returned to the environment via rivers or coastal outlets. The organic waste is treated, dried and used in agriculture as a natural fertiliser.

results and dividends

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

health and safety

The health and safety of staff, contractors and the public is paramount. There is nothing so important that employees cannot take the time to do it safely and the commitment to health and safety is enshrined in the group's 'Safety First – Second Nature' philosophy.

The group has an effective Occupational Health and Safety (OH&S) management system in place, which continues to drive improvements in this area. In order to further strengthen this, and to provide external validation, it is actively seeking Occupational Health and Safety Assessment Series (OHSAS) 18001 accreditation (the internationally recognised quality award for OH&S).

In December 2004 the group scored an excellent 89 per cent in an external safety, health and environment audit by The Achilles Group.

The group continued to show improvement in the two key metrics used to assess OH&S performance: Accident Frequency Rate (number of accidents per 100,000 hours worked) reduced from 0.48 to 0.42, and Sickness Absence (number of days lost per person) reduced from 9.96 days to 8.26 days.

In recognition of the very high standards that the group has demonstrated over the past two years, the group has been awarded a prestigious Royal Society for the Prevention of Accidents (RoSPA) Bronze Award in 2005.

Seeking continuous improvement in its OH&S performance, the group has again set stringent targets for the year ahead and has a comprehensive action plan in place to meet them.

health and safety continued

The group 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.

environmental hazards

One of the group's key objectives is to minimise the impact of its operations on the environment. Unfortunately, given the scale of the group's operations, covering an area of 27,500 square kilometres, there can be instances of failure.

In 2004/05 the Environment Agency successfully prosecuted the group four times following pollution incidents, with fines amounting in aggregate to £61,500. The group has taken steps to ensure that lessons have been learned following these events and continues to make every effort to prevent any further such incidents from occurring.

regulation

The group'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 group is obliged to provide the Director General of Water Services (DG) with additional accounting information to that contained in the statutory financial statements. This information is presented in the regulatory accounts.

Directors and Directors' interests

The current Directors of Anglian Water Services Limited are listed below:

Jonson Cox – Chief Executive and Chairman

Peter Simpson – Executive Director

David Hipple – Executive Director

Chris Newsome – Executive Director

Jean Spencer – Executive Director

Scott Longhurst – Non-Executive Director

Robert Napier – Independent Non-Executive Director

John Watkinson – Independent Non-Executive Director

Roger Witcomb – Independent Non-Executive Director

All the above are also Directors of Anglian Water Services Financing Plc.

All of the Directors served throughout the year except for Jean Spencer, Chris Newsome, Peter Simpson and Scott Longhurst who were appointed on 20 May 2004, 24 September 2004, 18 November 2004 and 20 January 2005 respectively. Other Directors who served during the year were Colin Brown, Peter Hickson, Richard Jewson and Roy Pointer who resigned on 24 September 2004, 20 January 2005, 31 January 2005 and 26 April 2005 respectively.

John Watkinson was appointed as an Independent Non-Executive Director on 12 May 2005.

Details of the Directors' interests in the shares of AWG Plc, and in options over such shares, are shown in note 23 on pages 33 and 34.

charitable and political donations

During the year the group made a payment of £1.0 million (2004: £1.0 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 363 employees joining up for the *give me five* matching hours scheme.

The *give me five* scheme allows employees to take up to 30 hours a year of work time, matched by their own time, to get involved in community activities. The group's proviso is that participation also contributes to personal development objectives.

Financially through charitable donations, educational, regeneration and recreation projects the group contributed £0.1 million (2004: £0.1 million) to other charitable causes.

No political donations were made during the year.

research and development

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

employees

Employees are kept informed of changes in the business and general financial and economic factors influencing the group. This is done through a systematic approach to employee communication through regular briefings, presentations, electronic mailings and the wide circulation of the AWG employee magazine. The Anglian Water intranet is also widely used as a source of information.

The group values the views of its employees and consults with them and their representatives on a regular basis about matters that may affect them.

The group has an Ethics Policy, which informs all employees on the group's approach to a range of ethical issues. Procedures are in place to deal with allegations of misconduct, harassment, bullying and other inappropriate behaviour.

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

statement of Directors' responsibilities

A Sharesave Scheme and a Sharebuy Plan are in place to encourage participation in the AWG Plc group's performance.

The group values diversity within its workforce and has put in place procedures to ensure that it is an equal opportunities employer. All job applications 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 group's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the group's Supply Chain Management department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The group abides by the terms of payment. The group's average creditor payment period at 31 March 2005 was 35 days (2004: 36 days).

auditors

Under Section 386 of the Companies Act 1985, Anglian Water Services Limited has an elective resolution in place to dispense with the need to appoint auditors annually. PricewaterhouseCoopers LLP will continue to act as auditors of the company.

Annual General Meeting

Pursuant to Section 366A of the Companies Act 1985, Anglian Water Services Limited has dispensed with the obligation to hold an Annual General Meeting and pursuant to Section 252 the company has dispensed with the requirement to lay the annual report and accounts before the company in general meeting.

By order of the board

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit of the group for that period. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company or group will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently as set out in note 1 to the financial statements (Accounting policies). They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ended 31 March 2005 and the applicable accounting standards have been followed.

The Directors are responsible for ensuring that the annual report and accounts are published and where they are published on the Internet, for 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.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Patrick Firth
Company Secretary
1 June 2005

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

group profit and loss account

for the year ended 31 March

Notes	2005 Total £m	2004 Total £m	
2	Turnover – continuing operations	796.8	766.6
	Operating costs:		
3	Operating costs before depreciation	(291.1)	(291.7)
3	Depreciation net of amortisation of grants and contributions	(166.4)	(156.0)
3	Total operating costs	(457.5)	(447.7)
4	Operating profit – continuing operations	339.3	318.9
5	Interest payable (net)	(61.4)	(49.7)
	Profit on ordinary activities before taxation	277.9	269.2
6	Tax on profit on ordinary activities	(12.4)	33.5
	Profit on ordinary activities after taxation for the financial year	265.5	302.7
7	Dividends paid / payable	(253.1)	(250.6)
21	Profit for the financial year	12.4	52.1

The notes on pages 12 to 34 form part of these financial statements.

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

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

group cash flow statement

for the year ended 31 March

Notes	2005 £m	2004 £m
(a) Net cash inflow from operating activities	512.9	484.0
Returns on investments and servicing of finance		
Interest received	214.4	206.5
Interest paid	(231.4)	(211.7)
(d) Cash flows treated as finance costs under Financial Reporting Standard (FRS) 4	(0.3)	(1.3)
Interest element of finance lease rental payments	(8.0)	(9.1)
Net cash outflow for returns on investments and servicing of finance	(25.3)	(15.6)
Taxation		
Corporation tax (paid) / received	(0.8)	0.3
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(290.9)	(276.6)
Grants and contributions received	26.9	18.6
Disposal of tangible fixed assets	1.1	1.1
Net cash outflow for capital expenditure and financial investment	(262.9)	(256.9)
Acquisitions and disposals		
Receipt from sale of fixed asset investment	0.1	–
Net cash inflow for acquisitions and disposals	0.1	–
Equity dividends paid	(233.6)	(345.1)
Net cash outflow before management of liquid resources and financing	(9.6)	(133.3)
(c) Management of liquid resources		
(d) Increase in short-term deposits and investments	(503.4)	(180.8)
(d) Financing		
Increase in loans	398.3	453.2
Repayment of amounts borrowed	(3.3)	(0.7)
Capital element of finance lease rental payments	(17.3)	(24.4)
Net cash inflow from financing	377.7	428.1
(d) (Decrease) / increase in cash	(135.3)	114.0

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

notes to the group cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities	2005 £m	2004 £m
Operating profit	339.3	318.9
Depreciation (net of amortisation of deferred grants and contributions)	166.4	156.0
Profit on disposal of fixed assets	(0.8)	(0.8)
Net movement in prepaid pension contributions	(27.5)	(14.6)
Net movement on provisions	(2.6)	(2.1)
	<u>474.8</u>	<u>457.4</u>
Working capital:		
Increase in stocks	(0.3)	(2.0)
Decrease in debtors	21.9	28.9
Increase / (decrease) in creditors	16.5	(0.3)
	<u>38.1</u>	<u>26.6</u>
Net cash inflow from operating activities	<u>512.9</u>	<u>484.0</u>

The cash flow statement for the year ended 31 March 2004 includes £7.7 million in respect of previous year exceptional charges.

(b) Analysis of net debt	1 April 2004 £m	Cash flows £m	Non-cash movements £m	31 March 2005 £m
Cash	202.7	(135.3)	–	67.4
Deposits and investments	269.0	503.4	–	772.4
Debt due within one year	(22.0)	22.0	(88.1)	(88.1)
Debt due after one year	(3,900.6)	(399.4)	48.9	(4,251.1)
	<u>(3,450.9)</u>	<u>(9.3)</u>	<u>(39.2)</u>	<u>(3,499.4)</u>

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

Included within deposits and investments above are £676.6 million (2004: £269.0 million) of short-term deposits maturing within three months, which are included in the heading 'cash at bank and in hand' in the balance sheet.

(c) **Management of liquid resources**
This comprises movements in short-term deposits which have maturity dates of up to one year.

(d) Movement in net debt	2005 £m	2004 £m
At beginning of year	(3,450.9)	(3,289.4)
(Decrease) / increase in cash	(135.3)	114.0
Increase in short-term deposits and investments	503.4	180.8
Increase in loans	(398.3)	(453.2)
Repayment of amounts borrowed	3.3	0.7
Finance costs capitalised under FRS 4	0.3	1.3
Amortisation of discounts and expenses relating to debt issues and 'mark to market' adjustments	(1.2)	1.4
Indexation of loan stock and RPI swaps	(38.0)	(30.9)
Capital element of finance lease rental payments	17.3	24.4
At end of year	<u>(3,499.4)</u>	<u>(3,450.9)</u>

notes to the financial statements

1 Accounting policies

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

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

(a) Basis of consolidation

The Anglian Water Services group (the group) financial statements comprise a consolidation of the financial statements of Anglian Water Services Limited (the company) and its subsidiary, Anglian Water Services Financing Plc, at 31 March. Intra-group sales and profit are eliminated fully on consolidation.

(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 based upon historical billing information. The calculation is sensitive to estimated consumption for domestic customers (a fall of 1 cubic metre in average annual consumption will reduce turnover by approximately £1.0 million).

(c) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) Infrastructure assets

Infrastructure assets comprise a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and recorded at cost along with related capital grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network, which is based on the company's independently certified Asset Management Plan.

(ii) Other assets

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

A number of changes have been made to the assets included in each asset class. Opening balances by asset class have been restated to reflect the changes, but there is no impact on the total recorded net book value of tangible fixed assets. Further details are disclosed in note 10.

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

Operational assets	30-80 years
Buildings	30-60 years
Fixed plant	12-40 years
Vehicles, mobile plant and equipment	3-10 years

Fixed assets are assessed for impairment in accordance with Financial Reporting Standard (FRS) 11 'Impairment of fixed assets and goodwill', if an appropriate trigger arises.

- (d) **Grants and contributions**
Grants and contributions for capital expenditure include government grants, infrastructure charges, connection charges, sewer adoption fees and other contributions from third parties.
- Grants and contributions to capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are released to the profit and loss account evenly over the expected useful life of the relevant asset 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 Schedule 4 of the Companies Act 1985, which requires grants and contributions to be shown as deferred income, but has been adopted in order to show a true and fair view as, in the opinion of the Directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 10.
- Revenue grants and contributions are credited to the profit and loss account in the year to which they apply. In particular, commuted lump sums received in advance for water and sewer requisitions are credited to a deferral account within creditors and are released to the profit and loss account in proportion to 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**
Contributions to the AWG defined benefit pension scheme are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees. 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. The notes to the accounts disclose the effect of the transitional provisions of FRS 17 'Retirement benefits'.
- (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) **Foreign currencies**
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transactions or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies are translated into sterling at the financial year-end exchange rates or, if hedged forward, at the rate of exchange under the related forward currency contract.

notes to the financial statements

continued

1 Accounting policies (continued)

(k) 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. For assets with a life in excess of 30 years, the 30-year bond rate has been used as no other quoted rates are available.

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.

Calculation of deferred tax on infrastructure assets:

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

(l) Bad debts

The bad debt provision is calculated based on applying expected recovery rates, based on actual historical cash collection performance, to an aged debt profile.

(m) Related party transactions

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

(n) Financial instruments

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

(o) Capitalisation of finance costs

Costs that are incurred directly in connection with the issue of a capital instrument are capitalised and amortised at a constant rate over the life of the underlying instrument.

(p) Provisions

Provisions are recognised when the group has a present obligation for a past event, for which it is probable that a transfer of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Provisions of a long-term nature are discounted to reflect the time value of money in the estimated period over which the provision will be utilised. The rate of discount reflects the time value of money and the risks associated with the liability. Pension provisions are assessed in accordance with Statement of Standard Accounting Practice (SSAP) 24 'Accounting for pension costs' for both funded and unfunded obligations. The unwinding of the discount on these provisions (other than deferred tax) is included within net interest payable.

(q) Redundancy costs

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

(r) Onerous lease costs

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

2 Segmental analysis

The Directors believe that the whole of the group's activities constitute a single class of business.

The group's turnover is wholly generated from within the United Kingdom (UK).

3 Operating costs

	2005 £m	2004 £m
Operating costs before depreciation:		
Raw materials and consumables	26.9	21.3
Other operating costs	188.6	200.7
Staff costs (see note 8)	115.3	108.5
Own work capitalised	(39.9)	(39.0)
Contribution to Anglian Water Trust Fund	1.0	1.0
Profit on sale of fixed assets	(0.8)	(0.8)
Total operating costs before depreciation	291.1	291.7
Depreciation of tangible fixed assets	171.9	161.9
Amortisation of deferred grants and contributions	(5.5)	(5.9)
Depreciation net of amortisation of deferred grants and contributions	166.4	156.0
Total operating costs	457.5	447.7

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

4 Operating profit

	2005 £m	2004 £m
Operating profit is stated after charging:		
Fees paid to the auditors:		
– for statutory audit services (group and company)	0.1	0.1
– for regulatory audit services (company only)	0.1	0.1
– total audit services	0.2	0.2
– for other assurance services (group and company)	0.1	0.3
Total fees paid to the auditors	0.3	0.5
Hire of plant and machinery	1.5	1.2
Other operating lease costs	9.6	10.0
Research and development expenditure	1.3	1.7

The fees paid to auditors for other assurance work largely relates to work undertaken on the Periodic Review 2004 and the Global Secured Medium Term Note Programme.

5 Interest payable (net)

	2005 £m	2004 £m
Other loans including financing expenses	228.6	217.0
Indexation	38.0	30.9
Finance leases	7.9	9.1
Unwinding of discount on coupon enhancement provision (see note 17)	0.5	0.4
Unwinding of discount on unfunded pension obligations (see note 17)	2.4	2.4
Unwinding of discount on onerous lease obligation provision (see note 17)	0.2	–
	277.6	259.8
Interest receivable from Anglian Water Services Holdings Limited	(193.1)	(193.6)
Other interest receivable	(23.1)	(16.5)
Total interest payable (net)	61.4	49.7

£193.6 million (2004: £193.1 million) of the interest received per the cash flow statement (see page 10) is from Anglian Water Services Holdings Limited.

notes to the financial statements

continued

6 Taxation

	2005 £m	2004 £m
(a) Analysis of tax charge / (credit) in the year		
Current tax:		
UK Corporation Tax (see note 6(b))	1.8	–
Adjustments in respect of previous periods (see note 6(b))	–	(22.2)
Total current tax	1.8	(22.2)
Deferred tax:		
Charge for timing differences arising in year	23.5	23.6
Impact of discounting on deferred tax liability	(5.1)	(27.2)
Impact of decrease / (increase) in discount rates	2.1	(3.7)
Discounted effect of movements in Advance Corporation Tax (ACT)	(5.9)	(3.7)
Adjustments in respect of previous periods	(4.0)	(0.3)
Total deferred tax	10.6	(11.3)
Total tax charge / (credit) on profit on ordinary activities	12.4	(33.5)

The post tax yield to maturity on UK government bonds is used to discount the gross deferred tax liability of the group. Movements in the discount rates gave rise to a charge of £2.1 million (2004: credit of £3.7 million) in the year. If all UK gilt rates moved by 0.25 per cent a change in the tax charge of between £10.0 million to £15.0 million would occur.

It has been agreed that the group will not pay for tax losses surrendered to it by Anglian Water Services Holdings Limited. Adjustments in respect of previous periods arise from this agreement not to pay for losses and from the agreement of prior year computations.

Due to a change in tax legislation and based on capital investment plans for the AMP4 regulatory period (see glossary on page 60), the group expects to be able to claim tax relief on capital expenditure in-line with depreciation for the AMP4 regulatory period. This will lead to higher future tax payments compared to previous periods.

(b) Factors affecting tax charge / (credit) 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:

	2005 £m	2004 £m
Profit on ordinary activities before tax	277.9	269.2
Profit on ordinary activities at the standard UK rate of Corporation Tax (30 per cent)	83.4	80.7
Effects of:		
Items not deductible for tax purposes	(0.9)	(0.5)
Group relief not paid for	(57.9)	(57.1)
Accounting for depreciation not eligible for tax purposes	0.7	0.4
Capital allowances for the year in excess of depreciation	(13.8)	(19.4)
Short-term timing differences	(9.7)	(4.1)
Adjustments to tax charge in respect of previous period	–	(22.2)
Current tax charge / (credit) for the year (see note 6(a))	1.8	(22.2)

7 Dividends

	2005 £m	2004 £m
Ordinary:		
Interim paid	30.0	47.0
Dividend paid within the Anglian Water Services Financing group	145.5	145.5
Dividend payable within the Anglian Water Services Financing group	47.6	48.1
Final payable	30.0	10.0
	<u>253.1</u>	<u>250.6</u>

A dividend of £193.1 million (2004: £193.6 million) is payable to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609.1 million (see note 11).

8 Employee information and Directors' emoluments

	2005 £m	2004 £m
(a) Employee information		
Staff costs:		
Wages and salaries	96.6	91.3
Social security costs	7.7	7.6
Pension costs (see note 22)	11.0	9.6
	<u>115.3</u>	<u>108.5</u>

Pension costs are stated after crediting £2.2 million (2004: £2.4 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

Staff costs for the year ended 31 March 2005 include £37.3 million (2004: £30.3 million) of costs that have been capitalised as 'own work capitalised' and redundancy costs of £11.4 million (£6.2 million of wages and salaries and £5.2 million of pension costs) relating wholly to a reorganisation undertaken by the group (2004: £4.7 million of which £2.6 million represented wages and salaries and £2.1 million represented pension costs).

Average number of full-time equivalent persons employed:

	2005	2004
Number employed	<u>3,376</u>	<u>3,492</u>

(b) Directors' emoluments

	2005 £000	2004 £000
Aggregate emoluments	<u>1,618</u>	<u>826</u>

Aggregate emoluments of the Directors comprise salaries, taxable benefits and amounts payable under incentive schemes. The emoluments of the highest paid Director in 2005 were £362 thousand (2004: £313 thousand). Details of the emoluments of the Directors of the company who are also Directors of AWG Plc are given in that company's accounts. Retirement benefits are accruing to two Directors (2004: three Directors) under a defined benefit scheme.

9 Profit of parent company

The company has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. Profit for the financial year (see note 21) dealt with in the financial statements of the parent company is £9.6 million (2004: £49.3 million).

notes to the financial statements

continued

10 Tangible fixed assets

	Group and Company					Total £m
	Land and buildings £m	Infrastructure assets £m	Operational assets £m	Vehicles, plant & equipment £m	Assets under construction £m	
Cost						
At 1 April 2004	59.1	2,145.4	2,320.7	1,232.4	–	5,757.6
Reclassifications (see narrative below)	(32.9)	36.3	394.0	(612.8)	215.4	–
Adjustments (see narrative below)	–	64.1	–	–	–	64.1
Balance at 1 April 2004 (restated)	26.2	2,245.8	2,714.7	619.6	215.4	5,821.7
Additions	–	–	–	–	293.7	293.7
Transfers on commissioning	1.4	88.4	188.9	33.2	(311.9)	–
Disposals	–	–	(0.3)	(4.0)	–	(4.3)
At 31 March 2005	27.6	2,334.2	2,903.3	648.8	197.2	6,111.1
Grants and contributions						
At 1 April 2004	–	(172.5)	–	–	–	(172.5)
Reclassifications (see narrative below)	–	0.2	–	–	(0.2)	–
Adjustments (see narrative below)	–	5.7	–	–	–	5.7
Balance at 1 April 2004 (restated)	–	(166.6)	–	–	(0.2)	(166.8)
Additions	–	(10.3)	–	–	(1.3)	(11.6)
At 31 March 2005	–	(176.9)	–	–	(1.5)	(178.4)
Depreciation						
At 1 April 2004	(28.7)	(387.3)	(742.9)	(624.7)	–	(1,783.6)
Reclassifications (see narrative below)	27.0	(0.2)	(205.9)	179.1	–	–
Adjustments (see narrative below)	–	(69.8)	–	–	–	(69.8)
Balance at 1 April 2004 (restated)	(1.7)	(457.3)	(948.8)	(445.6)	–	(1,853.4)
Charge for the year	(0.3)	(27.0)	(94.3)	(50.3)	–	(171.9)
Disposals	–	–	0.1	3.9	–	4.0
At 31 March 2005	(2.0)	(484.3)	(1,043.0)	(492.0)	–	(2,021.3)
Net book amount						
At 31 March 2005	25.6	1,673.0	1,860.3	156.8	195.7	3,911.4
At 31 March 2004 (restated)	24.5	1,621.9	1,765.9	174.0	215.2	3,801.5

Tangible fixed assets at 1 April 2004 have been reviewed and reclassified to reflect more appropriately the operations of the business. Principal reclassifications comprise the incorporation of specialised operational buildings and integral plant, previously within land and buildings and vehicles, plant and equipment, to operational assets, reflecting the fact that they are an integral part of the asset. Assets in the course of construction at that date previously dealt with in a footnote have now been presented separately.

Adjustments principally comprise the grossing up of infrastructure assets cost and depreciation at 1 April 2004. This relates to expenditure on maintaining the operating capability of infrastructure assets previously charged to the profit and loss account but not reflected in the prior year adjustment on the implementation of FRS 12 'Provisions, contingent liabilities and assets' for the year ended 31 March 1999, along with minor reclassifications between cost, grants and contributions and depreciation.

As a result of the reclassifications and adjustments outlined above, the net book amount of tangible fixed assets at 1 April 2004 remains unchanged.

Tangible fixed assets at 31 March 2005 include land of £17.0 million (2004: £16.4 million) which is not subject to depreciation. The group's interests in land and buildings are almost entirely freehold.

The net book amount of tangible fixed assets held under finance leases at 31 March 2005 was £124.9 million (2004: £136.4 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2005 amounted to £11.5 million (2004: £15.3 million).

Capital commitments

The group 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 2005.

	Group and Company	
	2005	2004
	£m	£m
Contracted for but not provided in the financial statements	<u>71.6</u>	<u>79.7</u>

11 Fixed asset investments

	2005	Group	2005	Company
	£m	2004	£m	2004
		£m		£m
Shares at cost in participating interests	0.1	0.2	0.1	0.2
Loan to Anglian Water Services Holdings Limited	1,609.1	1,609.1	1,609.1	1,609.1
	<u>1,609.2</u>	<u>1,609.3</u>	<u>1,609.2</u>	<u>1,609.3</u>

The loan of £1,609.1 million, made by the company to Anglian Water Services Holdings Limited, is repayable on the later of 30 July 2038 and another date being the next interest payment date following a date which is two years and one day after the final maturity date of the longest dated bond issued from time to time by Anglian Water Services Financing Plc. Interest on the loan is calculated at 12 per cent per annum.

The sole subsidiary, which is 100 per cent owned, and is registered, incorporated and operating in the UK at 31 March 2005 is Anglian Water Services Financing Plc whose principal activity is that of a financing company.

12 Stocks

	2005	Group	2005	Company
	£m	2004	£m	2004
		£m		£m
Raw materials and consumables	<u>6.9</u>	<u>6.6</u>	<u>6.9</u>	<u>6.6</u>

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

notes to the financial statements

continued

13 Debtors

	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Amounts falling due within one year				
Trade debtors	75.4	77.1	75.4	77.1
Amounts owed by other AWG Plc group undertakings	48.1	48.6	464.7	87.5
Other debtors	12.7	16.7	8.2	15.0
Prepayments and accrued income	43.2	57.1	43.2	57.1
	179.4	199.5	591.5	236.7
Amounts falling due after more than one year				
Prepaid pension contributions	81.0	53.5	81.0	53.5
	260.4	253.0	672.5	290.2

Prepayments and accrued income as at 31 March 2005 includes water and wastewater income not yet billed of £37.5 million (2004: £51.2 million).

14 Creditors: amounts falling due within one year

	2005 £m	Group 2004 £m	2005 £m	Company 2004 (restated) £m
Current portion of long-term loans	67.6	4.7	67.6	4.7
Obligations under finance leases	20.5	17.3	20.5	17.3
Short-term borrowings (see note 15)	88.1	22.0	88.1	22.0
Trade creditors	87.4	87.4	87.4	87.4
Amounts (excluding dividends) owed to other AWG Plc group undertakings (see below)	1.1	2.1	85.7	86.6
Receipts in advance	72.6	62.0	72.6	62.0
Corporation tax	26.4	25.4	25.4	24.4
Other taxation and social security	3.2	3.0	3.2	3.0
Deferred grants and contributions	7.2	5.8	7.2	5.8
Accruals (see below)	106.9	100.3	22.0	16.0
Dividends payable to other AWG Plc group undertakings	77.6	58.1	77.6	58.1
Other creditors	382.4	344.1	381.1	343.3

Receipts in advance includes £52.6 million (2004: £49.6 million) relating to amounts received from customers for water and wastewater charges in respect of the following year.

In the company balance sheet, a prior year adjustment of £84.3 million has been made to reclassify interest accruals on back-to-back loans with Anglian Water Services Financing Plc from 'Accruals' to 'Amounts owed to other AWG Plc group undertakings'.

15 Loans, other borrowings and financial instruments

	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Loans and other borrowings				
£150m 8.25% fixed rate 2006 (d), (h)	150.0	150.0	150.0	150.0
£150m 'mark to market' adjustment (e)	5.1	8.1	5.1	8.1
£100m 5.5% index linked 2008 (c), (d), (h)	158.4	153.6	158.4	153.6
£100m 12.375% fixed rate 2014 (d), (h)	100.0	100.0	100.0	100.0
£250m 5.837% fixed rate 2022 (d), (h)	246.5	246.3	246.5	246.3
£200m 6.875% fixed rate 2023 (d), (h)	199.9	199.9	199.9	199.9
£200m 6.625% fixed rate 2029 (d), (h)	199.9	199.9	199.9	199.9
£246m 6.293% fixed rate 2030 (d), (h)	243.5	243.4	243.5	243.4
£275m 7.882% fixed rate 2012/2037 (d), (h), (i)	272.3	272.0	272.3	272.0
£250m 5.25% fixed rate 2015 (d), (h)	249.7	–	249.7	–
£150m 5.5% fixed rate 2017/2040 (d), (h), (i)	148.3	–	148.3	–
£150m 4.125% index linked 2020 (c), (d), (h)	169.8	164.7	169.8	164.7
£75m 3.666% index linked 2024 (c), (d), (h)	80.2	77.8	80.2	77.8
£200m 3.07% index linked 2032 (c), (d), (h)	212.3	205.9	212.3	205.9
£60m 3.07% index linked 2032 (c), (d), (h)	63.7	61.8	63.7	61.8
£50m LIBOR plus 1.2% floating rate 2007/2012 (d), (h), (i)	49.9	49.6	49.9	49.6
£180m LIBOR plus 1.25% floating rate 2009/2014 (d), (h), (i)	179.5	178.4	179.5	178.4
£100m LIBOR plus 2.8% floating rate 2010/2037 (d), (h), (i)	99.6	98.9	99.6	98.9
Finance leases (d)	136.8	154.1	136.8	154.1
Other fixed rate loans	0.1	0.1	0.1	0.1
£150m index linked swap 2024 (f), (h)	11.7	6.7	11.7	6.7
£175m index linked swap 2030 (f), (h)	13.6	7.8	13.6	7.8
£258m index linked swap 2013 (f), (h)	10.9	3.8	10.9	3.8
€350m 5.375% fixed rate 2009 (a), (d), (h)	229.2	229.2	229.2	229.2
€650m 4.625% fixed rate 2013 (a), (d), (h)	452.2	452.1	452.2	452.1
€115m EURIBOR plus 2.8% floating rate 2037 (a), (d), (h)	73.7	73.2	73.7	73.2
US\$40m 6.57% private placements 2005 (a), (d), (h)	28.4	28.4	28.4	28.4
US\$4m 7.21% private placements 2006 (a), (h)	1.0	1.6	1.0	1.6
US\$4m 'mark to market' adjustment (e)	–	0.1	–	0.1
US\$55m 6.85% private placements 2006 (a), (h)	35.8	35.8	35.8	35.8
US\$35m 6.62% private placements 2006 (a), (d), (h)	24.8	24.8	24.8	24.8
US\$400m LIBOR plus 0.4% floating rate 2007 (a), (d), (h)	253.5	252.9	253.5	252.9
US\$100m 7.01% private placements 2008 (a), (d), (h)	70.8	70.8	70.8	70.8
US\$25m 7.07% private placements 2009 (a), (h)	13.3	16.0	13.3	16.0
US\$25m 'mark to market' adjustment (e)	0.5	0.7	0.5	0.7
US\$23m 7.13% private placements 2009 (a), (d), (h)	16.3	16.3	16.3	16.3
US\$195m 7.23% private placements 2011 (a), (d), (h)	138.0	137.9	138.0	137.9
Total loans and other borrowings	4,339.2	3,922.6	4,339.2	3,922.6
Less amounts included in creditors falling due within one year	(88.1)	(22.0)	(88.1)	(22.0)
Loans and other borrowings due after more than one year	4,251.1	3,900.6	4,251.1	3,900.6

EURIBOR is the 'European Inter Bank Offer Rate'. LIBOR is the 'London Inter Bank Offer Rate'.

- (a) The group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US dollar and Euro loans. The adjustment to the US dollar loans is £123.6 million (2004 £(111.3)million) and the adjustment to the Euro loans is £(8.1) million (2004: £11.3 million).
- (b) The group has entered into swap agreements that convert its debt into either floating rate, fixed rate or index linked debt in accordance with the group's hedging policy (see page 13).
- (c) The value of the capital and interest elements of the index linked loans are linked to movements in the Retail Price Index (RPI). The total increase in the capital value of index linked loans during the year of £20.1 million (2004: £18.4 million) has been taken to the profit and loss account as part of interest payable.

15 Loans, other borrowings and financial instruments (continued)

- (d) These loans are shown net of issue costs. The issue costs are amortised at a constant rate based on the carrying amount of debt over the life of the underlying instruments.
- (e) 'Mark to market' adjustments relate to back-to-back debt reassigned from AWG Group Limited to Anglian Water Services Financing Plc in July 2002 at fair value rather than book value. The difference between the book value and fair value is being amortised at a constant rate based on the carrying amount of debt over the remainder of its life.
- (f) The group has entered into three index linked interest rate swap agreements. The values of the notional capital on these swaps are linked to movements in the RPI. The increase in the notional capital value is payable at the final maturity date of the swaps. The increase for the current year of £17.9 million (2004: £12.5 million) has been taken to the profit and loss account as part of interest payable.
- (g) The group has entered into two forward starting interest rate swaps commencing in 2007 and maturing in 2010 which have the effect of increasing the level of fixed rate debt for that period to a level consistent with the group's hedging policy.
- (h) These loans are 'back-to-back' inter-group loans from Anglian Water Services Financing Plc to the company. Under the company / Anglian Water Services Financing Plc loan agreement, Anglian Water Services Financing Plc onlends an equal amount to the sterling equivalent of each bond to the company on identical terms. Therefore each individual 'back-to-back' inter-group loan has been separately disclosed. Anglian Water Services Financing Plc charges the company an annual management fee in respect of entering into the company / Anglian Water Services Financing Plc loan agreement.
- (i) Legal maturity of these instruments is the second of the years quoted. Coupon 'step-up' is in the first of the years quoted.
- (j) Under a security agreement dated 30 July 2002 between Anglian Water Services Financing Plc, the company, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Deutsche Trustee Company Limited (as Agent and Trustee for itself and each of the Finance Parties to the Global Secured Medium Term Note Programme) creates a fixed and floating charge over the assets of the company to the extent permissible under the Water Industry Act 1991. In addition there is a fixed charge over the issued share capital of Anglian Water Services Financing Plc, the company and Anglian Water Services Overseas Holdings Limited. At 31 March 2005 this charge applies to £4,339.2 million (2004: £3,922.6 million) of the group debt listed above.

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

	2005		2004	
	Creditors < 1 year £m	Creditors > 1 year £m	Creditors < 1 year £m	Creditors > 1 year £m
Amounts owed to group undertakings ('back-to-back' inter-group loans)	70.7	4,150.7	6.5	3,785.0
Debt issue costs	(3.1)	(16.0)	(1.8)	(21.3)
Obligations under finance leases	20.5	116.3	17.3	136.8
Other loans	–	0.1	–	0.1
	88.1	4,251.1	22.0	3,900.6
			Group and Company	
			2005	2004
			£m	£m

Maturity analysis of financial liabilities

Less than one year	91.3	25.9
Between one and two years	205.0	92.6
Between two and five years	1,002.3	722.0
After five years	3,062.2	3,107.6
	4,360.8	3,948.1

Included above are amounts due under finance leases of £20.5 million (2004: £17.3 million) payable within one year, £23.8 million (2004: £20.5 million) payable between one and two years, £32.4 million (2004: £54.1 million) payable between two and five years and £60.1 million (2004: £62.2 million) payable after five years. The above maturity profile is determined by reference to the fixed dates on which the liability falls due.

In addition to loans and finance leases the above analysis includes other financial liabilities (including overdrafts, long-term creditors, accruals and provisions) totalling £21.6 million (2004: £25.5 million), of which £3.1 million falls due in less than one year (2004: £3.8 million). This analysis is net of issue costs totalling £19.1 million (2004: £23.1 million).

Borrowing facilities

	2005 £m	Group 2004 £m
The group has the following unused committed borrowing facilities:		
Expiring within one year	333.0	304.0
Expiring between one and two years	–	225.0
Expiring between two and five years	–	–
Expiring in more than five years	225.0	–
	<u>558.0</u>	<u>529.0</u>

Control of treasury

The Treasury Team, who report directly to the group's Finance Director, substantially manage the group financing, including debt, interest costs and foreign exchange. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The treasury function will actively endeavour to:

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

Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual and currency risks. The board of the group regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks. The last review was in June 2004 and treasury matters are reported to the board each month.

A Treasury Advisory Group (TAG), comprising the group Finance Director, the group Treasurer and a Non-Executive Director of the company, together with the same position holders at the ultimate shareholder AWG Plc, meets monthly with the specific remit of reviewing treasury matters.

The group aims to meet its funding requirements primarily through public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits and AAA rated money funds.

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

To ensure continued effectiveness and relevance, the board carry out a formal annual review of the treasury organisation and reporting.

Borrowing covenants

With the exception of asset-based funding all the group's borrowings are raised by Anglian Water Services Financing Plc and guaranteed by the Anglian Water Services Financing group (see 'legal structure' on page 1). The group treasury function monitors compliance against all financial obligations and it is the group's policy to manage the consolidated balance sheet so as to ensure operation within covenanted restrictions.

Foreign currency

The group has currency exposures resulting from debt raised in currencies other than sterling and very small purchases in foreign currencies. The group uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits.

notes to the financial statements

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15 Loans, other borrowings and financial instruments (continued)

Financial instruments disclosures

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

Currency exposures

The group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the particular operation.

Fair value of financial assets and financial liabilities

	Book value £m	2005 Fair value £m	Book value £m	2004 Fair value £m
The fair value of the group's financial instruments at 31 March was:				
Cash at bank and in hand	744.0	744.0	471.7	471.7
Current asset investments	95.8	95.8	–	–
Short-term borrowings	(76.7)	(75.2)	(23.3)	(23.8)
Long-term borrowings	(4,147.0)	(4,477.4)	(3,758.1)	(4,087.4)
Currency and interest rate swaps and forward exchange contracts	(115.5)	(200.8)	(141.2)	(175.6)
Net debt	(3,499.4)	(3,913.6)	(3,450.9)	(3,815.1)
Fixed asset investments	1,609.2	1,930.8	1,609.3	1,930.9
Provisions excluding deferred tax and pension obligations (see note 17)	(24.6)	(24.6)	(25.5)	(25.5)
	(1,914.8)	(2,007.4)	(1,867.1)	(1,909.7)

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

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

Interest is charged to the profit and loss account based on the contracted interest rates. To determine the fair value of interest rate swaps for inclusion in the above table, a calculation was made of the net gain or loss which would have arisen if these contracts had been terminated on 31 March 2005. The value at that date was determined by market interest rates, which fluctuate over time. The fair value of the group's fixed asset investments is calculated by discounting cash flows at prevailing rates reflecting the relative risks involved. The group has also entered into swap arrangements to hedge overseas investments.

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

	2005 Gains £m	2005 Losses £m	2005 Net £m	2004 Gains £m	2004 Losses £m	2004 Net £m
Unrecognised gains and losses on hedges						
Unrecognised at 1 April	31.9	(66.3)	(34.4)	13.6	(61.8)	(48.2)
Reversal of items unrecognised at 1 April	(12.0)	16.4	4.4	(0.2)	18.5	18.3
Recognised during the year	(6.1)	3.3	(2.8)	(0.1)	–	(0.1)
Arising during the year	5.0	(57.5)	(52.5)	18.6	(23.0)	(4.4)
Unrecognised at 31 March	18.8	(104.1)	(85.3)	31.9	(66.3)	(34.4)

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. The total net unrecognised loss of £85.3 million (2004: net loss £34.4 million) principally represents the opportunity cost of protecting the group interest charge against movements in interest rates at a time when interest rates were higher than at 31 March 2005.

Of the unrecognised gains and losses at 31 March 2005, a net loss of £2.6 million (2004: net gain of £3.2 million) is expected to be included in the profit and loss account for the year ended 31 March 2006 and the balance in future years.

Currency and interest rate analysis of net financial assets / (liabilities) at 31 March 2005

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Financial assets on which no interest is paid £m	Fixed rate weighted average interest rate %	Fixed rate weighted average years to maturity
Total borrowings (all sterling)	(4,339.2)	(1,301.9)	(523.8)	(2,513.5)	–	6.9	10.7
Cash, deposits and current asset investments (all sterling)	839.8	–	839.8	–	–		
Net debt	(3,499.4)	(1,301.9)	316.0	(2,513.5)	–		
Fixed asset investments	1,609.2	–	–	1,609.1	0.1		
Provisions	(24.6)	–	–	–	(24.6)		
Net financial liabilities	(1,914.8)	(1,301.9)	316.0	(904.4)	(24.5)		

Currency and interest rate analysis of net financial assets / (liabilities) at 31 March 2004

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Financial assets on which no interest is paid £m	Fixed rate weighted average interest rate %	Fixed rate weighted average years to maturity
Total borrowings (all sterling)	(3,922.6)	(1,270.8)	(200.4)	(2,465.7)	14.3	6.9	11.2
Cash, deposits and current asset investments (all sterling)	471.7	–	471.7	–	–		
Net debt	(3,450.9)	(1,270.8)	271.3	(2,465.7)	14.3		
Fixed asset investments	1,609.3	–	–	1,609.1	0.2		
Provisions	(25.5)	–	–	–	(25.5)		
Net financial liabilities	(1,867.1)	(1,270.8)	271.3	(856.6)	(11.0)		

The above tables reflect the net position after swap arrangements, the most significant effect of which is to swap US\$877 million (2004: US\$877 million) and €1,465 million (2004: €1,115 million) into sterling. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at 31 March 2005 and 31 March 2004.

Floating rate cash and investments earn interest based on the London Inter Bank Bid rate (LIBID) for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

16 Other creditors falling due after more than one year

	2005 £m	Group 2004 £m	2005 £m	Company 2004 £m
Deferred grants and contributions	98.4	90.0	98.4	90.0

notes to the financial statements

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17 Provisions for liabilities and charges

	Group and Company				
	Onerous lease enhancement obligation £m	Coupon enhancement provision £m	Unfunded pension obligations £m	Deferred tax £m	Total £m
At 31 March 2004	–	25.5	26.5	97.0	149.0
Charge to profit and loss account	3.2	–	–	10.6	13.8
Unwinding of discount	0.2	0.5	2.4	–	3.1
Utilised in the year	(0.4)	(4.4)	(2.2)	–	(7.0)
At 31 March 2005	3.0	21.6	26.7	107.6	158.9

The onerous lease provision relates to office space vacated by the group as part of the cost cutting programme to achieve efficiency targets set by the Office of Water Services (Ofwat). The provision is discounted and is expected to be utilised over the next 18 years.

The coupon enhancement provision of £21.6 million relates to coupon enhancement and other related costs incurred on the transfer of debt from AWG Group Limited to Anglian Water Services Financing Plc at the end of the refinancing exercise in 2002. The provision relates to several instruments with varying maturity dates. It is expected to be utilised in varying amounts over the next 24 years and has been discounted.

The provision for unfunded pension obligations relates to the cost of enhancements to the pension entitlements of former employees, over and above their entitlements in the group's pension schemes. The majority of these employees ceased their employment following redundancy programmes principally between 7 and 16 years ago. These pension enhancements are payable until the death of the employees (or their dependents), and payments are expected to be made over approximately 27 years. The provision is determined using actuarial assumptions based on those used for the valuation of the group's pension scheme and has been discounted.

The deferred tax provision and the effect of discounting is analysed in note 18.

18 Deferred taxation

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

The deferred tax liability is stated net of ACT recoverable. If changes in the tax legislation were introduced which restricted the ability of companies to use ACT, this asset may no longer be recoverable and in this event, an additional tax charge would arise in the profit and loss account of £69.1 million.

	Group and Company £m
At 1 April 2004	97.0
Deferred tax charged to the profit and loss account (see note 6)	10.6
At 31 March 2005	107.6

	Group and Company 2005 £m	2004 £m
Accelerated capital allowances	745.1	742.2
Short-term timing differences	3.6	(6.6)
Surplus ACT asset	(149.8)	(144.0)
Undiscounted provision for deferred tax	598.9	591.6
Discount	(491.3)	(494.6)
Discounted provision for deferred tax	107.6	97.0

19 Commitments under operating leases

At 31 March 2005 the group and the company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	2005		Group and Company 2004	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	–	1.1	–	1.3
Between one and five years	0.1	4.1	–	3.5
After five years	2.8	1.2	3.4	1.9
	2.9	6.4	3.4	6.7

20 Share capital – equity shares

	Group and Company 2005 £m	2004 £m
Authorised		
Ordinary shares of £1 each	860.0	860.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	860.0	860.0

21 Movement in shareholder's funds

	Share capital £m	Profit and loss account £m	2005 Total £m	Group 2004 Total £m	Share capital £m	Profit and loss account £m	2005 Total £m	Company 2004 Total £m
At beginning of year	860.0	776.4	1,636.4	1,584.3	860.0	774.1	1,634.1	1,584.8
Profit after taxation	–	265.5	265.5	302.7	–	262.7	262.7	299.9
Dividends	–	(253.1)	(253.1)	(250.6)	–	(253.1)	(253.1)	(250.6)
At end of year	860.0	788.8	1,648.8	1,636.4	860.0	783.7	1,643.7	1,634.1

22 Pension commitments

(a) Pension arrangements for the majority of the group's employees are of the funded defined benefit type through the AWG Pension Scheme (AWGPS). The group's actuary is Aon Consulting.

The defined benefit arrangements are closed to new employees, who are eligible instead for entry to AWG's defined contribution schemes.

The administration and investment of the pension funds are maintained separately from the finances of the AWG Plc group.

The accounting pension costs have been prepared under SSAP 24 'Accounting for pension costs', based on the most recent actuarial valuation. Details of the most recent actuarial valuation of the scheme are summarised below. The valuation as at 31 March 2005 is as yet unavailable from the group's actuaries and hence the most recent valuation used for the AWGPS scheme is 31 March 2002.

Scheme

Date of most recent valuation	AWGPS 31 March 2002
Actuarial method	Projected unit
Main assumptions:	
Excess of investment returns over:	
– general salary increases	1.9% pa
– annual increases in pensions	3.8% pa
Results:	
– market value of assets	£518.1 million
– funding level	109%
Due date of next full actuarial valuation	31 March 2005

notes to the financial statements

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22 Pension commitments (continued)

The net pension cost of AWGPS for the year ended 31 March 2005 was £5.0 million (2004: £6.5 million). The net pension cost includes a credit of £2.2 million (2004: £2.4 million) in respect of the amortisation of actuarial surpluses but exclude pension costs related to the reorganisation undertaken by the group as disclosed in note 8. At 31 March 2005 there was a prepayment in respect of pensions of £81.0 million (2004: £53.5 million).

- (b) In November 2000 the Accounting Standards Board issued FRS 17 'Retirement benefits'. The group is making use of the transitional arrangements regarding the adoption of FRS 17. Disclosures are included below as if FRS 17 had been applied from 1 April 2001.

The valuation used for FRS 17 disclosures has been based on the most recent full actuarial valuation for AWGPS (summarised above), 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 2005. The group is contributing 20.1 per cent of pensionable pay plus £9.2 million per annum to the AWGPS. The group also manages an unfunded pension arrangement (see note 17), which has been valued by independent actuaries to take account of the requirements of FRS 17 as at 31 March 2005.

In addition, the group operates a defined benefit scheme for the employees of the former Hartlepool Water Limited acquired on 1 April 2000 and a defined contribution scheme which commenced on 1 April 2002. The assets and liabilities of these arrangements are not material to the group in the context of SSAP 24, and were therefore excluded from the following disclosures in previous years. In the current year these schemes have been included in the FRS 17 disclosures for completeness.

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

	2005 % pa	2004 % pa	2003 % pa
Discount rate	5.4	5.5	5.4
Inflation rate	2.8	2.9	2.6
Increase to deferred benefits during deferment	2.8	2.9	2.6
Increases to inflation related pensions in payment	2.8	2.9	2.7
General salary increases	3.8	4.4	4.6

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2005 are:

	AWGPS		Unfunded pensions	Hartlepool	Total
	Expected rate of return % pa	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m	Fair value of scheme assets £m
Equities	7.7	352.4	n/a	8.2	360.6
Corporate bonds	5.1	37.0	n/a	1.6	38.6
Gilts	4.7	132.1	n/a	–	132.1
Property	6.7	16.0	n/a	0.3	16.3
Other	4.8	41.2	n/a	0.1	41.3
Total assets		578.7	n/a	10.2	588.9
Fair value of scheme liabilities		(682.2)	(40.2)	(13.8)	(736.2)
Deficit in the scheme		(103.5)	(40.2)	(3.6)	(147.3)
Related deferred tax asset		31.1	12.1	1.1	44.3
Net pension liability		(72.4)	(28.1)	(2.5)	(103.0)

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2004 were:

	Expected rate of return % pa	AWGPS Fair value of scheme assets £m	Unfunded pensions Fair value of scheme assets £m	Total Fair value of scheme assets £m
Equities	7.8	333.0	n/a	333.0
Corporate bonds	5.2	23.1	n/a	23.1
Gilts	4.8	113.6	n/a	113.6
Property	6.8	13.4	n/a	13.4
Other	4.0	32.1	n/a	32.1
Total assets		515.2	n/a	515.2
Fair value of scheme liabilities		(658.8)	(39.7)	(698.5)
Deficit in the scheme		(143.6)	(39.7)	(183.3)
Related deferred tax asset		43.4	11.9	55.3
Net pension liability		(100.2)	(27.8)	(128.0)

The long-term expected rate of return and the assets in the scheme relating to the company at 31 March 2003 were:

	Expected rate of return % pa	AWGPS Fair value of scheme assets £m	Unfunded pensions Fair value of scheme assets £m	Total Fair value of scheme assets £m
Equities	7.6	279.7	n/a	279.7
Corporate bonds	4.9	22.8	n/a	22.8
Gilts	4.6	65.3	n/a	65.3
Property	6.6	13.0	n/a	13.0
Other	4.0	23.3	n/a	23.3
Total assets		404.1	n/a	404.1
Fair value of scheme liabilities		(599.9)	(37.6)	(637.5)
Deficit in the scheme		(195.8)	(37.6)	(233.4)
Related deferred tax asset		58.7	11.3	70.0
Net pension liability		(137.1)	(26.3)	(163.4)

The deferred tax attributable to pension scheme deficits is not discounted because the related deficits are themselves determined on a discounted basis.

If these amounts had been recognised in the financial statements, the group's net assets and the profit and loss account at 31 March 2005 would be as follows:

	2005 £m	2004 £m
Net assets		
Net assets	1,648.8	1,636.4
Exclude existing net pension liability and prepayment (under SSAP 24)	(54.3)	(27.0)
	1,594.5	1,609.4
FRS 17 pension liability net of deferred tax	(103.0)	(128.0)
Net assets including FRS 17 pension liability	1,491.5	1,481.4

notes to the financial statements

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22 Pension commitments (continued)

	2005 £m	2004 £m
Profit and loss account		
Profit and loss account	788.8	776.4
Exclude existing net pension liability and prepayment (under SSAP 24)	<u>(54.3)</u>	<u>(27.0)</u>
	734.5	749.4
FRS 17 pension liability net of deferred tax	<u>(103.0)</u>	<u>(128.0)</u>
Profit and loss reserve including FRS 17 pension liability	<u>631.5</u>	<u>621.4</u>

The group's pension expense for its defined benefit schemes, in accordance with FRS 17, would have been as set out below.

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
2005 Profit and loss account				
Current service cost	(15.3)	–	(0.4)	(15.7)
Past service cost	(1.9)	–	–	(1.9)
Charge to operating profit	<u>(17.2)</u>	<u>–</u>	<u>(0.4)</u>	<u>(17.6)</u>
Expected return on pension scheme assets	35.5	–	0.6	36.1
Interest on pension scheme liabilities	(35.7)	(2.1)	(0.6)	(38.4)
Amount credited to other finance income	<u>(0.2)</u>	<u>(2.1)</u>	<u>–</u>	<u>(2.3)</u>
Charge to profit on ordinary activities before taxation	<u>(17.4)</u>	<u>(2.1)</u>	<u>(0.4)</u>	<u>(19.9)</u>

	AWGPS £m	Unfunded pensions £m	Total £m
2004 Profit and loss account			
Current service cost	(16.3)	–	(16.3)
Past service cost	(2.0)	–	(2.0)
Charge to operating profit	<u>(18.3)</u>	<u>–</u>	<u>(18.3)</u>
Expected return on pension scheme assets	27.4	–	27.4
Interest on pension scheme liabilities	(32.5)	(2.0)	(34.5)
Amount charged to other finance income	<u>(5.1)</u>	<u>(2.0)</u>	<u>(7.1)</u>
Charge to profit on ordinary activities before taxation	<u>(23.4)</u>	<u>(2.0)</u>	<u>(25.4)</u>

2005 Statement of total recognised gains and losses

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
Actual return on pension scheme assets less expected return	8.2	–	0.3	8.5
Experience gains and losses arising on the scheme liabilities	8.1	–	(4.2)	3.9
Changes in assumptions underlying the present value of the scheme liabilities	6.3	(0.6)	0.3	6.0
Gain / (loss) recognised	22.6	(0.6)	(3.6)	18.4

2004 Statement of total recognised gains and losses

	AWGPS £m	Unfunded pensions £m	Total £m
Actual return on pension scheme assets less expected return	75.5	–	75.5
Experience gains and losses arising on the scheme liabilities	–	–	–
Changes in assumptions underlying the present value of the scheme liabilities	(22.2)	(2.2)	(24.4)
Gain / (loss) recognised	53.3	(2.2)	51.1

2005 Movement in scheme deficit (before related deferred tax asset)

	AWGPS £m	Unfunded pensions £m	Hartlepool £m	Total £m
Deficit at 1 April 2004	(143.6)	(39.7)	–	(183.3)
Current service costs	(15.3)	–	(0.4)	(15.7)
Contributions	34.9	2.2	0.3	37.4
Past service costs	(1.9)	–	–	(1.9)
Net interest	(0.2)	(2.1)	0.1	(2.2)
Actuarial gain / (loss)	22.6	(0.6)	(3.6)	18.4
Deficit at 31 March 2005	(103.5)	(40.2)	(3.6)	(147.3)

2004 Movement in scheme deficit (before related deferred tax asset)

	AWGPS £m	Unfunded pensions £m	Total £m
Deficit at 1 April 2003	(195.8)	(37.6)	(233.4)
Current service costs	(16.3)	–	(16.3)
Contributions	22.3	2.1	24.4
Past service costs	(2.0)	–	(2.0)
Net interest	(5.1)	(2.0)	(7.1)
Actuarial gain / (loss)	53.3	(2.2)	51.1
Deficit at 31 March 2004	(143.6)	(39.7)	(183.3)

notes to the financial statements

continued

22 Pension commitments (continued)

	AWGPS	Unfunded pensions	Hartlepool	Total
2005 Details of experience gains and losses				
Difference between expected and actual returns on scheme assets:				
Amount (£m)	8.2	–	0.3	8.5
Percentage of scheme assets	1.4%	–	2.9%	1.4%
Experience gains and losses on scheme liabilities:				
Amount (£m)	8.1	–	(4.2)	3.9
Percentage of present value of scheme liabilities	1.2%	–	(30.4%)	0.5%
Amount in group statement of total recognised gains and losses:				
Amount (£m)	22.6	(0.6)	(3.6)	18.4
Percentage of present value of scheme liabilities	3.3%	(1.5%)	(26.1%)	2.5%
	AWGPS	Unfunded pensions		Total
2004 Details of experience gains and losses				
Difference between expected and actual returns on scheme assets:				
Amount (£m)	75.5	–		75.5
Percentage of scheme assets	14.7%	–		14.7%
Experience gains and losses on scheme liabilities:				
Amount (£m)	–	–		–
Percentage of present value of scheme liabilities	–	–		–
Amount in group statement of total recognised gains and losses:				
Amount (£m)	53.3	(2.2)		51.1
Percentage of present value of scheme liabilities	8.1%	(5.5%)		7.3%
	AWGPS	Unfunded pensions		Total
2003 Details of experience gains and losses				
Difference between expected and actual returns on scheme assets:				
Amount (£m)	(160.4)	–		(160.4)
Percentage of scheme assets	(39.7%)	–		(39.7%)
Experience gains and losses on scheme liabilities:				
Amount (£m)	–	0.9		0.9
Percentage of present value of scheme liabilities	–	2.4%		0.1%
Amount in group statement of total recognised gains and losses:				
Amount (£m)	(201.6)	(0.9)		(202.5)
Percentage of present value of scheme liabilities	(33.6%)	(2.4%)		(31.8%)

23 Directors' interests

The beneficial interests in shares and options for Jonson Cox, Scott Longhurst and Roy Pointer, who are also Directors of AWG Plc, and their interest in the shares of AWG Plc can be found in the AWG Plc annual report and accounts 2005.

The interests of the other Directors in the shares of AWG Plc and in options over such shares granted under that company's Share Schemes are set out below.

Beneficial and family interests in shares:

	1 April 2004 No. of shares	31 March 2005 No. of shares
Peter Simpson	3,031	3,031
David Hipple	–	–
Chris Newsome	–	–
Jean Spencer	–	–
Robert Napier	–	–
Roger Witcomb	–	–

The following contingent interests were held under the AWG Plc Long-term Incentive Plan 2004:

	Holding at 1 April 2004*	No. of shares awarded	No. of shares lapsed	Holding at 31 March 2005
Peter Simpson	–	17,715	–	17,715
David Hipple	–	12,543	–	12,543
Chris Newsome	–	12,205	–	12,205
Jean Spencer	–	13,111	–	13,111

*or at date of appointment

Options to subscribe for ordinary shares, under the Sharesave and Executive Share Option Schemes, are summarised below:

Interests in the AWG Plc Executive Share Option Scheme are as follows:

	No. of options at 1 April 2004	No. of options granted	No. of options lapsed	No. of options at 31 March 2005
Peter Simpson	44,074	–	–	44,074
David Hipple	11,266	–	–	11,266

Options granted under the Executive Share Option Scheme are exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant, providing performance conditions are met.

Interests in the AWG Plc Sharesave Scheme are as follows:

	No. of options at 1 April 2004*	No. of options granted	No. of options lapsed	No. of options at 31 March 2005
Peter Simpson	4,640	–	–	4,640
David Hipple	–	1,276	–	1,276
Chris Newsome	–	1,276	–	1,276
Jean Spencer	–	2,227	–	2,227

*or at date of appointment

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.

notes to the financial statements

continued

23 Directors' interests (continued)

The date of grant and the option prices are set out below:

Sharesave Scheme

Date of grant	Option price
10 December 1997	£6.19
9 December 1998	£7.12
12 January 2000	£4.34
31 January 2001	£4.68
6 February 2002	£4.20
31 January 2003	£3.38
5 February 2004	£4.28
28 January 2005	£7.42

Executive Share Option Scheme

Date of grant	Option price
21 December 2001	£5.27
9 July 2002	£5.38
31 July 2003	£5.40
16 January 2004	£5.26

24 Contingent liabilities

At 31 March 2005 £149.8 million (2004: £144.0 million) of Advance Corporation Tax (ACT) has been surrendered to the company by AWG Group Limited but remains unutilised. As part of the financial restructuring in 2002, the company is required to pay AWG Group Limited on utilisation of ACT. A provision has not been recognised in the group accounts as it is uncertain whether the ACT will be utilised (ie it is not probable that a transfer of economic benefits will be required to settle the obligation) and it is not possible to make a reliable estimate of the amount of the obligation.

The company, as part of the Anglian Water Services Financing group (see 'legal structure' on page 1), guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, which at 31 March 2005 amounted to £4,223.0 million (2004: £3,791.5 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company. Excluding the £1,609.1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2005.

There are no other material contingent liabilities at 31 March 2005 for which provision has not been made in these financial statements.

25 Subsequent events

On 20 April 2005, Anglian Water Services Financing Plc raised £402.0 million, before debt issue costs, through the issue of indexation Class A unwrapped bonds due 2035.

26 Ultimate parent company

Anglian Water Services Overseas Holdings Limited, a company registered in the Cayman Islands, is the immediate parent company of the company.

AWG Group Limited, a company registered in England and Wales, is the parent company of the smallest group to consolidate the accounts of the group.

AWG Plc, a company registered in England and Wales, is the parent company of the largest group to consolidate the accounts of the group. The Directors consider AWG Plc to be the ultimate parent company.

Copies of the accounts of AWG Group Limited, AWG Plc, Anglian Water Services Overseas Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Financing Plc can be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

independent auditors' report

We have audited the statutory financial statements, which comprise the group profit and loss account, the group and company balance sheets, the group cash flow statement and the related notes 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.

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. This report, including the opinion, has been prepared for, and only for, the company's member in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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. The other information comprises only the Directors' report and the performance review.

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 affairs of the company and the group at 31 March 2005 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
1 June 2005

regulatory accounts and required regulatory information

The regulatory accounts and required regulatory information on pages 39 to 56 are provided to comply with Condition F of the Instrument of Appointment of Anglian Water Services Limited as a water and sewerage undertaker under the Water Industry Act 1991.

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services.

There are differences between the United Kingdom Generally Accepted Accounting Principles and the Regulatory Accounting Guidelines. Where different treatments are specified under each, the Regulatory Accounting Guidelines take precedence.

A glossary of regulatory terms is shown on page 60.

statement of Directors' responsibilities for regulatory information

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

This additionally requires the Directors to:

- confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control 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
- confirm that, in their opinion, the company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker
- report to the Director General of Water Services changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length and
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements.

notes on regulatory information

1 General

As discussed in the Directors' report in the statutory financial statements, 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 function, these business activities are referred to as non-appointed business (see note 3 on page 41).

An analysis of the regulatory historical cost profit and loss account and regulatory historical cost balance sheet between appointed and non-appointed business is set out on pages 39 and 40. A current cost profit and loss account and current cost balance sheet are shown on pages 45 and 46. Other current cost disclosures appear on pages 47 to 56. Additional information required by the licence is shown on pages 41 to 43.

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 Instrument of Appointment).
- (b) In the opinion of the Directors the company will, for at least the next 12 months, have available to it management resources and methods of planning and internal control which are sufficient to carry out the regulated activities (including the investment programme necessary to fulfil its obligations under the Instrument of Appointment).
- (c) In the opinion of the Directors all contracts entered into with any associate company include all necessary provisions and requirements concerning the standard of service to be supplied to the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

3 Arm's length trading

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of Condition F of the licence throughout the year.

regulatory historical cost profit and loss account

of the company for the year ended 31 March

	2005			2004		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Turnover	789.6	7.2	796.8	758.6	8.0	766.6
Operating costs	(454.3)	(4.2)	(458.5)	(444.7)	(3.9)	(448.6)
Profit on sale of fixed assets	0.8	–	0.8	0.8	–	0.8
Operating profit	336.1	3.0	339.1	314.7	4.1	318.8
Interest receivable	213.0	–	213.0	207.6	–	207.6
Interest payable	(277.0)	–	(277.0)	(259.8)	–	(259.8)
Profit on ordinary activities before taxation	272.1	3.0	275.1	262.5	4.1	266.6
Taxation:						
– current tax	(0.9)	(0.9)	(1.8)	23.2	(1.2)	22.0
– deferred tax	(10.6)	–	(10.6)	11.3	–	11.3
Profit on ordinary activities after taxation	260.6	2.1	262.7	297.0	2.9	299.9
Dividends	(251.0)	(2.1)	(253.1)	(247.7)	(2.9)	(250.6)
Movement in reserves	9.6	–	9.6	49.3	–	49.3

regulatory historical cost balance sheet

of the company at 31 March

	2005			2004		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Fixed assets						
Tangible assets	3,867.3	–	3,867.3	3,767.3	–	3,767.3
Investments	1,609.2	–	1,609.2	1,609.3	–	1,609.3
	<u>5,476.5</u>	<u>–</u>	<u>5,476.5</u>	<u>5,376.6</u>	<u>–</u>	<u>5,376.6</u>
Current assets						
Stocks	6.9	–	6.9	6.6	–	6.6
Debtors	716.6	–	716.6	324.4	–	324.4
Cash at bank and in hand	44.2	3.0	47.2	157.5	4.9	162.4
Short-term investments	374.1	–	374.1	269.0	–	269.0
	<u>1,141.8</u>	<u>3.0</u>	<u>1,144.8</u>	<u>757.5</u>	<u>4.9</u>	<u>762.4</u>
Creditors: amounts falling due within one year						
Short-term borrowings	(88.1)	–	(88.1)	(22.0)	–	(22.0)
Dividends payable	(75.5)	(2.1)	(77.6)	(55.2)	(2.9)	(58.1)
Other creditors	(302.6)	(0.9)	(303.5)	(283.2)	(2.0)	(285.2)
Net current assets	<u>675.6</u>	<u>–</u>	<u>675.6</u>	<u>397.1</u>	<u>–</u>	<u>397.1</u>
Total assets less current	<u>6,152.1</u>	<u>–</u>	<u>6,152.1</u>	<u>5,773.7</u>	<u>–</u>	<u>5,773.7</u>
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(4,251.1)	–	(4,251.1)	(3,900.6)	–	(3,900.6)
Other creditors	(98.4)	–	(98.4)	(90.0)	–	(90.0)
	<u>(4,349.5)</u>	<u>–</u>	<u>(4,349.5)</u>	<u>(3,990.6)</u>	<u>–</u>	<u>(3,990.6)</u>
Provisions for liabilities and charges						
Deferred tax	(107.6)	–	(107.6)	(97.0)	–	(97.0)
Other provisions	(51.3)	–	(51.3)	(52.0)	–	(52.0)
	<u>(158.9)</u>	<u>–</u>	<u>(158.9)</u>	<u>(149.0)</u>	<u>–</u>	<u>(149.0)</u>
	<u>1,643.7</u>	<u>–</u>	<u>1,643.7</u>	<u>1,634.1</u>	<u>–</u>	<u>1,634.1</u>
Capital and reserves						
Called up equity share capital	860.0	–	860.0	860.0	–	860.0
Profit and loss account	783.7	–	783.7	774.1	–	774.1
Total shareholder's funds (all equity)	<u>1,643.7</u>	<u>–</u>	<u>1,643.7</u>	<u>1,634.1</u>	<u>–</u>	<u>1,634.1</u>

additional information required by the licence

1 Accounting policies

The accounting policies are set out in the statutory financial statements, except that, as noted on page 38, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory accounts. In addition, infrastructure renewals accounting has been retained in the regulatory accounts in accordance with the Office of Water Services requirements.

Cumulative infrastructure renewals expenditure, net of depreciation, has been included within debtors in the regulatory historical cost balance sheet in accordance with Regulatory Accounting Guideline 3.05. This represents a departure from the accounting policy adopted in the company's statutory financial statements and Financial Reporting Standard (FRS) 15, which require this amount to be included within fixed assets.

2 Link between Directors' pay and standards of performance

The company operates a bonus scheme covering all Directors and senior managers. Under this scheme, 60 per cent of the total available bonus relates to the company's overall performance and 40 per cent to personal performance. Of the element relating to company performance 70 per cent is attributable to meeting financial targets and 30 per cent to the company's performance in the Office of Water Services' OPA (Overall Performance Assessment) measures. Targets are set for the number of points achieved and the position in the league table. On the basis of the company's estimated score and position, bonuses of £0.1 million are payable to Directors for the year 2004/05.

The same approach and weightings are applied in calculating a team bonus for all of the company's employees.

3 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 service searches, recreation, leisure and the provision of consultancy services. The North Tees water supply agreement to the Huntsman Petrochemical site, which is not in the Anglian Water area, has also been treated as non-appointed business.

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.

4 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 (AMP).

(b) Capital costs, and hence the related depreciation charges, are incurred directly by specific service and have not required allocation.

5 Information in respect of transactions with any other business or activity of the appointee or any associated company

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

(a) Borrowings or sums lent

On 30 July 2002 £1,609.1 million was lent by the company to Anglian Water Services Holdings Limited. No other sums were lent by the appointee to associated companies at 31 March 2005.

additional information required by the licence

continued

5 Information in respect of transactions with any other business or activity of the appointee or any associated company (continued)

(a) Borrowings or sums lent (continued)

Sums borrowed by the appointee from Anglian Water Services Financing Plc, its financing subsidiary, were:

Type of loan	Principal amount £m	Repayment date	Interest rate %
Fixed rate	100.0	2014	12.375
Fixed rate	200.0	2023	6.875
Fixed rate	200.0	2029	6.625
Fixed rate	150.0	2006	8.25
'Mark to market' adjustments on £150.0m loan (1)	5.1	2006	
Fixed rate	250.0	2022	5.837
Fixed rate	246.0	2030	6.293
Fixed rate (5)	275.0	2012/2037	7.882
Fixed rate	229.3	2009	5.375
Fixed rate	453.2	2013	4.625
Fixed rate	13.3	2009	7.07
'Mark to market' adjustments on £13.3m loan (1)	0.6	2009	
Fixed rate	1.0	2006	7.21
Fixed rate	35.8	2006	6.85
Fixed rate	28.4	2005	6.57
Fixed rate	24.9	2006	6.62
Fixed rate	71.0	2008	7.01
Fixed rate	16.3	2009	7.13
Fixed rate	138.5	2011	7.23
Fixed rate	250.0	2015	5.25
Fixed rate (5)	150.0	2017/2040	5.5
Index linked (2)	158.4	2008	5.5
Index linked (2)	169.8	2020	4.125
Index linked (2)	215.8	2032	3.07
Index linked (2)	64.7	2032	3.07
Index linked (2)	80.9	2024	3.666
Floating rate (3)	254.8	2007	LIBOR plus 0.4%
Floating rate (3), (5)	50.0	2007/2012	LIBOR plus 1.2%
Floating rate (3), (5)	180.0	2009/2014	LIBOR plus 1.25%
Floating rate (3)	74.0	2037	EURIBOR plus 2.8%
Floating rate (3), (5)	100.0	2010/2037	LIBOR plus 2.8%
£150m index linked swap (3), (4)	11.7	2024	
£175m index linked swap (3), (4)	13.6	2030	
£258m index linked swap (3), (4)	10.9	2013	
	<u>4,223.0</u>		

EURIBOR is the 'European Inter Bank Offer Rate'. LIBOR is the 'London Inter Bank Offer Rate'.

- (1) As part of a financial restructuring of the company in 2002, 'back-to-back' loans to the company from AWG Group Limited were reassigned from AWG Group Limited to Anglian Water Services Financing Plc. The 'mark to market' adjustments relate to the reassignment of these loans at fair value rather than book value. The difference between the book value and fair value is being amortised at a constant rate on the carrying amount of the debt over the remainder of its life.
- (2) The value of the capital and interest elements of the index linked debt are linked to movements in the Retail Price Index (RPI).
- (3) The company has entered into swap agreements that convert its debt into either floating rate debt or index linked debt in accordance with the company's hedging policy.
- (4) The values of the notional capital on these index linked swaps are linked to movements in RPI. The increase in the notional capital value is payable at the final maturity date of the swaps.
- (5) Legal maturity of these instruments is the second of the years quoted. Coupon 'step-up' is in the first of the years quoted.

(b) **Dividends payable**

A dividend of £251.0 million is payable for the year (2004: £247.7 million). Of this dividend, £193.1 million (2004: £193.6 million) is ultimately payable to Anglian Water Services Holdings Limited, a parent undertaking, in order for it to service the interest payable to the company on the inter-company loan of £1,609.1 million (see note 5 (a) on page 41). £193.6 million of the dividend paid per the cash flow statement (see page 47) is ultimately paid to Anglian Water Services Holdings Limited.

(c) **Guarantees / securities**

The company, as part of the Anglian Water Services Financing group (see legal structure on page 1), guarantees unconditionally and irrevocably all the borrowings of Anglian Water Services Financing Plc, its wholly owned subsidiary, which at 31 March 2005 amounted to £4,223.0 million (2004: £3,791.5 million). The borrowings of Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited are also guaranteed unconditionally and irrevocably by the company. Excluding the £1,609.1 million loan made by the company to Anglian Water Services Holdings Limited, Anglian Water Services Holdings Limited and Anglian Water Services Overseas Holdings Limited had no outstanding indebtedness at 31 March 2005 (2004: nil).

(d) **Supply of services**

Recharges by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Payroll services	AWG Central Services Limited	Actual costs	0.2
Other services	AWG Central Services Limited	Actual costs	0.1

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company		Value £m
		£m	Terms of supply	
Pension administration	AWG Central Services Limited	n/a	Negotiated	0.1
Insurance	AWG Central Services Limited	n/a	Negotiated	0.3
Taxation services	AWG Central Services Limited	n/a	Negotiated	0.2
Internal audit services	AWG Central Services Limited	n/a	Negotiated	0.3
Rental of office accommodation	Ambury Developments Limited	26.1	Negotiated	0.1
Estate management, etc.	AWG Property Solutions Limited	1.9	Competitive tendering	1.2
Strumap	MVM limited	9.4	Other market testing	0.2
Engineering, construction and fabrication	Purac Limited	54.1	Competitive tendering	4.0
Facilities management services	AWG Facilities Services East Limited	3.1	Other market testing	0.1
Other	n/a	n/a	n/a	0.1
				<u>6.6*</u>

* This total includes amounts of £4.0 million that were capitalised by the appointed business.

Not included above are non-trade transactions of £5.0 million, primarily insurance premiums recharged as a pass through cost, with AWG Central Services Limited.

(e) **Charitable and political donations**

During the year the group made a payment of £1.0 million (2004: £1.0 million) to the Anglian Water Trust Fund.

Financially through charitable donations, educational, regeneration and recreation projects, the group contributed £0.1 million (2004: £0.1 million) to other charitable causes.

No political donations were made during the year.

(f) **Omissions of rights**

No material omissions took place during the year.

(g) **Waivers**

There were no material waivers during the year.

current cost five-year performance review

This review relates to the five-year profit and loss accounts and balance sheets on page 56 prepared using current cost accounting principles and should be read in conjunction with the performance review on page 3 of this document. The prior year figures are those reported in the regulatory accounts for that particular year and inflated to a common price base with figures reported in the current year. This is done by multiplying the prior year numbers by the Retail Price index (RPI) at 31 March 2005 and dividing by the RPI at 31 March in the relevant prior year. All figures are therefore presented at a March 2005 price base.

Current cost operating costs comprise the operating costs of the appointed business plus current cost depreciation and the infrastructure renewals charge. The operating costs increased by £4.5 million between 2004 and 2005 principally due to an increase in current cost depreciation.

A commentary on the movements between 2004 and 2005 (not discussed on page 3) is included below.

- (a) The working capital adjustment arises through the indexation of the 2004 balance sheet working capital by the RPI movement in the current year. This results in a credit to the balance sheet and an offsetting debit to the profit and loss of £13.2 million in the current year.
- (b) The financing adjustment was £76.6 million compared to £52.8 million in 2004 due to the indexation of the 2004 balance sheet net assets employed less net operating assets. Net assets employed are lower than net operating assets as net assets include the impact of long-term debt and dividends payable. This results in a credit balance sheet movement and an offsetting debit profit and loss account movement in the current year.
- (c) The increase in working capital in the balance sheet of £332.5 million between 2004 and 2005 is due primarily to a debtor of £400.0 million in the books of the company. This relates to the proceeds of borrowings that have been made by Anglian Water Services Financing Plc and on-lent to the company. These have then been passed back to Anglian Water Services Financing Plc to invest on behalf of the company and thereby give rise to a debtor in the books of the company.

Over the five-year period the major notable movements are as follows:

- (i) From 2001 to 2002 there was a K* of 1.0 per cent and an increase in turnover of £21.7 million. From 2002 to 2003 there was a reduction in turnover of £14.2 million. This was due to the allowable K increase of 2.2 per cent being offset by negative consumption movements and refinements to the accrual consumption calculation. From 2003 to 2004 there was an increase of £19.6 million due to an allowable K of 2.5 per cent and £8.0 million of additional turnover generated as a result of additional demand from metered customers during the exceptionally dry summer of 2003. The movement between 2004 and 2005 is explained on page 3.
- (ii) The two major elements that comprise current cost operating costs are operating costs (excluding depreciation) and current cost depreciation. Over the five-year period operating costs (excluding depreciation) started in 2001 at £317.3 million (in March 2005 prices) and ended at £287.9 million. The reduction is due to efficiency savings generated over the period. The regulatory price settlement for AMP3 held operating costs flat in real terms, and actuals were broadly in line with the determination. Current cost depreciation increased over the five-year period from £184.1 million in 2000 to £226.7 million in 2005. This is in line with the historic cost depreciation (as adjusted for price inflation).
- (iii) Net interest decreased by £20.8 million in 2002 as the prior year contained atypical costs for early termination of some loans and higher indexation on RPI linked bonds. Following the financial restructuring of the company completed on 30 July 2002 the composition of the net interest charge has changed and this makes comparability with prior years more difficult.

The 2003 charge consists of £197.4 million in underlying interest costs, £52.5 million of exceptional costs associated with refinancing and £137.2 million of interest receivable relating to an inter-company loan with Anglian Water Services Holdings Limited. The underlying interest charge increased compared to 2002 is because of the increased leverage of the company. The 2004 charge reduced by £59.0 million compared to 2003 primarily due to the exceptional costs in the prior year not being repeated. The increase from 2004 to 2005 is discussed on page 3.
- (iv) The taxation charge in 2001 was restated to include the impact of deferred tax as per Financial Reporting Standard (FRS) 19. In 2002 there was a credit of £30.1 million due to accrual releases following the settlement of prior year tax assessments plus a negative deferred tax charge due to movements in discount rates. In 2003 there was a charge of £38.0 million on current tax, which was predominantly due to charging tax on the interest receivable of £137.2 million (discussed above). In 2004, following agreement that the company will not pay for the losses surrendered to it by Anglian Water Services Holdings Limited, most of this charge was reversed which gave rise to a credit in 2004. The increase from 2004 to 2005 is analysed on page 16.

* The Office of Water Services defines K as the amount by which a company can increase, or must decrease, its average charge above or below inflation each year to finance its services and meet its legal obligations. When inflation is included, this is commonly referred to as the 'price limit'.

current cost profit and loss account for the appointed business

of the company for the year ended 31 March

Notes	2005 £m	2004 £m
2	789.6	758.6
4	(536.2)	(515.6)
3	0.6	0.3
	<hr/>	<hr/>
1(e), 3	254.0	243.3
	(13.2)	(3.2)
	<hr/>	<hr/>
	240.8	240.1
	–	–
	213.0	207.6
	(277.0)	(259.8)
1(e)	76.6	51.2
	<hr/>	<hr/>
	253.4	239.1
	(0.9)	23.2
	(10.6)	11.3
	<hr/>	<hr/>
	241.9	273.6
	(251.0)	(247.7)
	<hr/>	<hr/>
7	(9.1)	25.9
	<hr/>	<hr/>

The notes on pages 48 to 56 form part of these current cost financial statements.

current cost balance sheet for the appointed business

of the company at 31 March

Notes	2005 £m	2004 £m	
	Assets employed		
5	Fixed assets	20,435.8	19,181.0
	Third party contributions since 31 March 1990	(650.2)	(609.3)
		<u>19,785.6</u>	<u>18,571.7</u>
6	Working capital	756.9	411.2
		<u>20,542.5</u>	<u>18,982.9</u>
	Net operating assets		
	Cash and investments	1,609.2	1,609.3
	Non-trade debtors	89.2	68.5
	Dividends payable	(75.5)	(55.2)
	Other non-trade creditors due within one year	(88.1)	(22.0)
	Creditors due after one year	(4,251.1)	(3,900.6)
	Provisions for liabilities and charges		
	Deferred tax	(107.6)	(97.0)
	Other provisions	(51.3)	(52.0)
	Net assets employed	<u>17,667.3</u>	<u>16,533.9</u>
	Financed by		
	Called up share capital	860.0	860.0
7	Profit and loss account	173.2	182.3
8	Current cost reserve	16,634.1	15,491.6
	Total capital and reserves	<u>17,667.3</u>	<u>16,533.9</u>

The notes on pages 48 to 56 form part of these current cost financial statements.

Approved by the board on 1 June 2005

Peter Simpson
Chief Operating Officer

David Hipple
Finance Director

current cost cash flow statement for the appointed business

of the company for the year ended 31 March

Notes	2005 £m	2004 £m
9(a) Net cash inflow from operating activities	533.7	457.5
Returns on investments and servicing of finance		
Interest received	212.8	204.6
Interest paid	(231.4)	(212.2)
Cash flow treated as finance costs under Financial Reporting Standard (FRS) 4	(0.3)	(1.3)
Interest element of finance lease rental payments	(8.0)	(9.1)
Net cash outflow for returns on investments and servicing of finance	<u>(26.9)</u>	<u>(18.0)</u>
Taxation		
Corporation tax (paid) / received	<u>(0.8)</u>	<u>0.3</u>
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(253.9)	(236.1)
Grants and contributions received	26.9	18.6
Infrastructure renewals expenditure	(37.0)	(40.5)
Disposal of tangible fixed assets	1.1	1.1
Net cash outflow for capital expenditure and financial investment	<u>(262.9)</u>	<u>(256.9)</u>
Acquisitions and disposals	<u>0.1</u>	<u>–</u>
Equity dividends paid	<u>(230.7)</u>	<u>(343.2)</u>
Management of liquid resources		
Increase in short-term deposits and investments	<u>(105.1)</u>	<u>(180.8)</u>
Net cash outflow before financing	<u>(92.6)</u>	<u>(341.1)</u>
Financing		
Increase in loans	–	453.2
Repayments of amounts borrowed	(3.3)	(0.7)
Capital element of finance lease payments	(17.3)	(24.4)
Net cash (outflow) / inflow from financing	<u>(20.6)</u>	<u>428.1</u>
(Decrease) / increase in cash	<u>(113.2)</u>	<u>87.0</u>

Notes 9a and 9b on pages 54 and 55 form part of this current cost cash flow statement.

notes to the current cost financial statements

1 Accounting policies

(a) General

These financial statements have been prepared in accordance with the Regulatory Accounting Guidelines 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.

The regulatory accounts are separate from the statutory financial statements of the company. There are differences between the United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed.

The accounting policies used are the same as those adopted in the statutory financial statements, except as set out below:

(b) Tangible fixed assets

The assets have been valued in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values) on a modern equivalent asset (MEA) basis.

Depreciation is charged over the estimated remaining economic life of the asset. Infrastructure assets are not depreciated.

Additions during the year are taken at their historic cost values. Disposals are stated at the value of the replacement assets.

(i) 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).

(ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost, on an MEA basis, 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.

(iii) 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.

(iv) 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) Modern equivalent asset (MEA) valuation

A review of the MEA valuation and asset stock is undertaken as part of each five-year periodic review. The revised values arising from this review, once deemed effective by the Office of Water Services, provide the basis for calculating the MEA in the current cost financial statements.

(d) Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward as deferred income 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.

(e) **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.

2 **Turnover for the appointed business**

	2005			2004		
	Water service £m	Sewerage service £m	Total £m	Water service £m	Sewerage service £m	Total £m
Measured	149.4	232.9	382.3	148.6	210.7	359.3
Unmeasured	117.7	210.6	328.3	113.7	212.5	326.2
Trade effluent	–	7.0	7.0	–	7.4	7.4
Large user revenues	26.2	26.3	52.5	21.5	22.8	44.3
Third party services	13.0	1.6	14.6	16.4	2.1	18.5
Other sources	3.4	1.5	4.9	2.1	0.8	2.9
Total turnover	309.7	479.9	789.6	302.3	456.3	758.6

3 **Operating income and working capital adjustment for the appointed business**

	2005			2004		
	Water service £m	Sewerage service £m	Total £m	Water service £m	Sewerage service £m	Total £m
Current cost profit on disposal of fixed assets	0.3	0.3	0.6	0.2	0.1	0.3
Working capital adjustment	(6.6)	(6.6)	(13.2)	(1.6)	(1.6)	(3.2)

notes to the current cost financial statements

continued

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

2005

	Service analysis									Business activities		
	Water service			Sewerage service						Customer services	Scientific services	Cost of regulation
	Resources and treatment	Distribution	Water service subtotal	Sewerage treatment	Sewage treatment	Sludge & disposal	Sewage T&D subtotal	Sewerage service subtotal				
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
Direct costs:												
Employment costs	6.3	7.4	13.7	9.9	15.3	7.0	22.3	32.2	9.7	5.1	2.0	
Power	6.7	6.2	12.9	1.8	8.2	2.3	10.5	12.3	–	0.1	–	
Hired and contracted services	3.9	11.7	15.6	6.0	11.3	13.3	24.6	30.6	8.6	1.9	1.1	
Materials and consumables	3.9	1.0	4.9	1.6	4.1	7.3	11.4	13.0	0.8	0.6	–	
Service charges	7.7	–	7.7	1.0	5.1	–	5.1	6.1	–	–	–	
Bulk supply imports	1.2	–	1.2	–	–	–	–	–	–	–	–	
Other direct costs	0.2	0.3	0.5	0.4	0.9	0.3	1.2	1.6	4.8	0.2	1.6	
Total direct costs	29.9	26.6	56.5	20.7	44.9	30.2	75.1	95.8	23.9	7.9	4.7	
General and support expenditure	10.7	7.6	18.3	7.1	12.0	7.4	19.4	26.5	3.4	0.9	0.8	
Functional expenditure	40.6	34.2	74.8	27.8	56.9	37.6	94.5	122.3	27.3	8.8	5.5	
Total business activities			19.7					21.9				
Rates			16.5					14.1				
Doubtful debts			5.6					8.1				
Exceptional items			–					–				
Total less third party services			116.6					166.4				
Third party services			4.1					0.8				
Total operating costs			120.7					167.2				
Capital costs:												
Infrastructure renewals expenditure	0.1	19.2	19.3	17.7	–	–	–	17.7				
Movement in infrastructure renewal accrual / prepayment	–	(5.2)	(5.2)	(4.8)	–	–	–	(4.8)				
Depreciation† (allocated)	48.5	18.2	66.7	25.1	106.6	9.6	116.2	141.3				
Amortisation of deferred credits			(1.9)					(3.6)				
Business activities depreciation† (non-allocated)			5.9					8.8				
Capital maintenance excluding third party services			84.8					159.4				
Third party services–capital maintenance			3.2					0.9				
Total capital maintenance			88.0					160.3				
Total operating costs (1)			208.7					327.5				

Current cost accounting (modern equivalent asset) values

Service activities	1,191.2	4,782.5	5,973.7	12,602.9	1,664.0	94.4	1,758.4	14,361.3
Business activities			9.8					14.9
Service totals			5,983.5					14,376.2
Service assets for third parties			64.2					11.9
Total modern equivalent asset values			6,047.7					14,388.1

† On a current cost basis.

(1) Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £12.9 million. This is split £8.4 million water distribution and £4.5 million sewerage.

	Service analysis									Business activities		
	Water service			Sewerage service						Customer services	Scientific services	Cost of regulation
	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		
Direct costs:												
Employment costs	6.0	7.8	13.8	9.6	14.7	7.2	21.9	31.5	10.3	5.1	1.8	
Power	5.8	5.5	11.3	2.6	8.4	2.4	10.8	13.4	–	0.1	–	
Hired and contracted services	3.2	10.9	14.1	5.0	9.2	12.0	21.2	26.2	7.4	1.2	1.4	
Materials and consumables	3.9	1.0	4.9	1.7	5.2	6.9	12.1	13.8	0.3	0.5	–	
Service charges	7.6	–	7.6	1.0	4.9	–	4.9	5.9	–	–	–	
Bulk supply imports	1.1	–	1.1	–	–	–	–	–	–	–	–	
Other direct costs	0.1	0.3	0.4	0.2	0.2	0.1	0.3	0.5	4.6	0.2	1.5	
Total direct costs	27.7	25.5	53.2	20.1	42.6	28.6	71.2	91.3	22.6	7.1	4.7	
General and support expenditure	9.5	7.0	16.5	7.3	12.0	9.8	21.8	29.1	4.3	1.5	0.8	
Functional expenditure	37.2	32.5	69.7	27.4	54.6	38.4	93.0	120.4	26.9	8.6	5.5	
Total business activities			20.7					20.3				
Rates			18.7					13.5				
Doubtful debts			5.5					7.2				
Exceptional items			–					–				
Total less third party services			114.6					161.4				
Third party services			12.0					0.7				
Total operating costs			126.6					162.1				
Capital costs:												
Infrastructure renewals expenditure	0.1	17.3	17.4	23.1	–	–	–	23.1				
Movement in infrastructure renewal accrual / prepayment	–	(5.8)	(5.8)	(7.7)	–	–	–	(7.7)				
Depreciation† (allocated)	45.4	17.0	62.4	22.1	95.5	8.3	103.8	125.9				
Amortisation of deferred credits			(2.0)					(3.9)				
Business activities depreciation† (non-allocated)			5.4					8.1				
Capital maintenance excluding third party services			77.4					145.5				
Third party services–capital maintenance			3.1					0.9				
Total capital maintenance			80.5					146.4				
Total operating costs (1)			207.1					308.5				
Current cost accounting (modern equivalent asset) values												
Service activities	1,121.0	4,483.3	5,604.3	11,796.5	1,578.5	88.7	1,667.2	13,463.7				
Business activities			14.1					21.2				
Service totals			5,618.4					13,484.9				
Service assets for third parties			65.3					12.4				
Total modern equivalent asset values			5,683.7					13,497.3				

† On a current cost basis.

(1) Included within total operating costs are reactive and planned maintenance expenditure on infrastructure assets of £11.4 million. This is split £7.2 million water distribution and £4.2 million sewerage.

notes to the current cost financial statements

continued

5 Fixed assets

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
(a) Fixed assets by type – water service					
Gross replacement cost					
At 1 April 2004	1,544.2	10.1	5,036.6	291.2	6,882.1
AMP adjustment	4.4	–	30.8	(112.9)	(77.7)
RPI adjustment	49.5	0.3	162.2	5.7	217.7
Disposals	(0.6)	–	–	(0.2)	(0.8)
Additions	42.3	0.4	21.4	15.3	79.4
At 31 March 2005	1,639.8	10.8	5,251.0	199.1	7,100.7
Depreciation					
At 1 April 2004	976.4	3.0	–	219.0	1,198.4
AMP adjustment	(179.2)	(0.6)	–	(71.3)	(251.1)
RPI adjustment	25.5	0.1	–	4.7	30.3
Disposals	(0.2)	–	–	(0.2)	(0.4)
Charge for the year	41.9	0.1	–	33.8	75.8
At 31 March 2005	864.4	2.6	–	186.0	1,053.0
Net book amount at 31 March 2005	775.4	8.2	5,251.0	13.1	6,047.7
Net book amount at 31 March 2004	567.8	7.1	5,036.6	72.2	5,683.7
(b) Fixed assets by type – sewerage service					
Gross replacement cost					
At 1 April 2004	3,809.3	10.2	11,830.4	305.4	15,955.3
AMP adjustment	623.9	1.7	(193.2)	(73.4)	359.0
RPI adjustment	141.9	0.4	372.4	7.4	522.1
Disposals	(0.1)	–	–	(0.3)	(0.4)
Additions	118.8	0.6	34.8	23.0	177.2
At 31 March 2005	4,693.8	12.9	12,044.4	262.1	17,013.2
Depreciation					
At 1 April 2004	2,158.5	2.7	–	296.8	2,458.0
AMP adjustment	30.4	–	–	(90.7)	(60.3)
RPI adjustment	70.0	0.1	–	6.7	76.8
Disposals	–	–	–	(0.3)	(0.3)
Charge for the year	107.7	0.2	–	43.0	150.9
At 31 March 2005	2,366.6	3.0	–	255.5	2,625.1
Net book amount at 31 March 2005	2,327.2	9.9	12,044.4	6.6	14,388.1
Net book amount at 31 March 2004	1,650.8	7.5	11,830.4	8.6	13,497.3
(c) Fixed assets by type – total					
Gross replacement cost					
At 1 April 2004	5,353.5	20.3	16,867.0	596.6	22,837.4
AMP adjustment	628.3	1.7	(162.4)	(186.3)	281.3
RPI adjustment	191.4	0.7	534.6	13.1	739.8
Disposals	(0.7)	–	–	(0.5)	(1.2)
Additions	161.1	1.0	56.2	38.3	256.6
At 31 March 2005	6,333.6	23.7	17,295.4	461.2	24,113.9
Depreciation					
At 1 April 2004	3,134.9	5.7	–	515.8	3,656.4
AMP adjustment	(148.8)	(0.6)	–	(162.0)	(311.4)
RPI adjustment	95.5	0.2	–	11.4	107.1
Disposals	(0.2)	–	–	(0.5)	(0.7)
Charge for the year	149.6	0.3	–	76.8	226.7
At 31 March 2005	3,231.0	5.6	–	441.5	3,678.1
Net book amount at 31 March 2005	3,102.6	18.1	17,295.4	19.7	20,435.8
Net book amount at 31 March 2004	2,218.6	14.6	16,867.0	80.8	19,181.0

- (d) In the preparation of its statutory financial statements, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as required by FRS 15 'Tangible fixed assets'. However, for the purposes of the regulatory financial statements, the Office of Water Services 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
Cost	
At 31 March 2005 per regulatory financial statements	17,295.4
Adjustment to opening balance at 31 March	(14,998.2)
Infrastructure renewals expenditure capitalised in the year	37.0
At 31 March 2005 per statutory financial statements	<u>2,334.2</u>
Grants and contributions	
At 31 March 2005 per regulatory financial statements	–
Adjustment to opening balance at 31 March	(176.9)
At 31 March 2005 per statutory financial statements	<u>(176.9)</u>
Depreciation	
At 31 March 2005 per regulatory financial statements	–
Adjustment to opening balance at 31 March	(457.3)
Depreciation charge for infrastructure renewal expenditure	(27.0)
At 31 March 2005 per statutory financial statements	<u>(484.3)</u>
Net book value	
At 31 March 2005 per regulatory financial statements	17,295.4
Adjustment to opening balance at 31 March	(15,632.4)
Infrastructure renewals expenditure capitalised in the year	37.0
Depreciation charge for infrastructure renewal expenditure	(27.0)
At 31 March 2005 per statutory financial statements	<u>1,673.0</u>
Working capital	
At 31 March 2005 per regulatory financial statements	44.1
Less infrastructure renewals prepayment	(44.1)
At 31 March 2005 per statutory financial statements	<u>–</u>

6 Working capital

	2005 £m	2004 £m
Cash	418.3	426.4
Stocks	6.9	6.6
Trade debtors	75.4	77.1
Trade creditors	(62.1)	(62.1)
Short-term capital creditors	(25.3)	(25.3)
Infrastructure renewals prepayment	44.1	34.1
Other trade accruals	(179.5)	(162.8)
Corporation tax	(24.5)	(22.3)
Payroll related taxes and social security contributions	(3.2)	(3.0)
Group trade debtors (net)	463.6	85.4
Prepayments	43.2	57.1
Total working capital	<u>756.9</u>	<u>411.2</u>

notes to the current cost financial statements

continued

7 Current cost profit and loss account

	2005 £m	2004 £m
At beginning of year	182.3	156.4
Retained (loss) / profit for the year for the appointed business	(9.1)	25.9
At end of year	173.2	182.3

8 Current cost reserve

	2005 £m	2004 £m
At beginning of year	15,491.6	15,069.4
AMP adjustment	592.7	–
RPI adjustments:		
Fixed assets	632.7	485.3
Working capital	13.2	3.2
Financing	(76.6)	(51.2)
Deferred grants and contributions	(19.5)	(15.1)
At end of year	16,634.1	15,491.6

In accordance with the company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 2003 as part of the 2004 periodic review process. In accordance with the RD08/05 letter published by the Office of Water Services the revised amounts have been reflected in the regulatory accounts this year.

9 (a) Reconciliation of current cost operating profit to net cash inflow from operating activities

	2005 £m	2004 £m
Current cost operating profit	240.8	240.1
Working capital adjustment	13.2	3.2
Increase in stocks	(0.3)	(2.0)
Other income received	–	0.1
Current cost depreciation	226.7	205.8
Current cost profit on sale of fixed assets	(0.6)	(0.3)
Decrease in debtors and prepaid expenses	43.9	6.6
Increase / (decrease) in creditors and accrued expenses	18.6	(0.4)
Provision for infrastructure renewals	27.0	27.0
Net movement in provisions	(2.6)	(2.1)
Amortisation of deferred grants and contributions	(5.5)	(5.9)
Net movement in prepaid pension contributions	(27.5)	(14.6)
Net cash inflow from operating activities	533.7	457.5

9 (b) Analysis of net debt

	31 March 2004 £m	Cash flows £m	Non-cash movements £m	31 March 2005 £m
Cash	157.4	(113.2)	–	44.2
Deposits and investments	269.0	105.1	–	374.1
Finance leases due within one year	(17.3)	17.3	(20.5)	(20.5)
Finance leases due after one year	(136.8)	–	20.5	(116.3)
Other debt due within one year	(4.7)	3.6	(66.5)	(67.6)
Other debt due after one year	(3,763.8)	–	(371.0)	(4,134.8)
	<u>(3,496.2)</u>	<u>12.8</u>	<u>(437.5)</u>	<u>(3,920.9)</u>

Non-cash movements comprise indexation of index linked loan stock, indexation of RPI swaps, transfers between categories of debt, amortisation of debt issue costs and amortisation of 'mark to market' adjustments.

10 Regulatory capital value (RCV)

	2005 £m	2004 £m
Opening RCV for the year	4,251.9	4,032.6
Indexation of opening RCV	135.9	105.3
Movements in the year	38.2	114.0
Closing RCV	<u>4,425.9</u>	<u>4,251.9</u>
Average RCV	<u>4,353.5</u>	<u>4,146.6</u>

RCV figures are extracted from those published by the Office of Water Services on 10 March 2004 in their RD05/04 letter at 2002/03 prices. These have been indexed upwards to 2004/05 prices using an RPI factor of 190.5 / 179.9 (RPI at 31 March 2005 / RPI at 31 March 2003) to give the current year figures in the table excluding average RCV. The average RCV is derived by indexing the average RCV published in RD05/04 by the RPI factor of 188.2 / 177.5 (average RPI for the year ended 31 March 2005 / average RPI for the year ended 31 March 2003).

Subsequent to RD05/04 the Office of Water Services published the document entitled *Future water and sewerage charges 2005-10* on 2 December 2004. In this document the closing RCV carried forward was updated to give a new RCV at 1 April 2005. The new figure published was £4,143.0 million at March 2003 prices (RPI base of 179.9) and when indexed to March 2005 prices (RPI base of 190.5) becomes **£4,386.9 million**.

notes to the current cost financial statements

continued

11 Current cost profit and loss account for the appointed business

	2005	2004	2003	2002	2001 restated
	£m	£m	£m	£m	£m
Turnover	789.6	782.3	762.7	776.9	755.2
Current cost operating costs	(536.2)	(531.7)	(550.3)	(541.2)	(527.6)
Operating income	0.6	0.3	0.3	1.9	(0.6)
Working capital adjustment	(13.2)	(3.3)	(9.4)	1.4	2.2
Current cost operating profit*	240.8	247.6	203.3	239.0	229.2
Other income	–	–	0.1	1.2	0.7
Interest (net)	(64.0)	(53.8)	(112.8)	(111.1)	(131.9)
Financing adjustment	76.6	52.8	67.2	23.7	37.4
Current cost profit before taxation	253.4	246.6	157.8	152.8	135.4
Taxation – current tax	(0.9)	23.9	(38.0)	31.0	(39.1)
Taxation – deferred tax	(10.6)	11.6	(21.1)	–	–
Current cost profit attributable to shareholder	241.9	282.1	98.7	183.8	96.3
Dividends	(251.0)	(255.4)	543.8	–	(999.9)
Current cost (loss) / profit	(9.1)	26.7	642.5	183.8	(903.6)

* After historical exceptional charges in 2003 (£19.7 million), 2002 (£29.1 million), and 2001 (£13.4 million).

Current cost balance sheet for the appointed business

	2005	2004	2003	2002	2001 restated
	£m	£m	£m	£m	£m
Assets employed					
Fixed assets	20,435.8	19,794.0	19,765.7	19,746.1	19,717.2
Third party contributions since 31 March 1990	(650.2)	(628.8)	(615.9)	(604.8)	(592.0)
Working capital	756.9	424.4	129.1	314.2	(111.5)
Net operating assets	20,542.5	19,589.6	19,278.9	19,455.5	19,013.7
Cash and investments	1,609.2	1,660.7	1,704.1	0.2	0.2
Non-trade debtors	89.2	70.7	54.3	44.8	34.2
Dividends payable	(75.5)	(57.0)	(159.6)	(858.1)	(965.7)
Other non-trade creditors due within one year	(88.1)	(22.7)	(29.0)	(280.6)	(107.2)
Creditors due after one year	(4,251.1)	(4,025.3)	(3,641.5)	(1,871.9)	(1,652.2)
Provisions for liabilities and charges	(158.9)	(153.7)	(173.6)	(124.6)	(149.9)
Net assets employed	17,667.3	17,062.3	17,033.6	16,365.3	16,173.1
Financed by					
Called up share capital	860.0	887.5	910.7	938.8	951.4
Profit and loss account	173.2	188.1	165.6	(490.8)	(685.3)
Current cost reserve	16,634.1	15,986.7	15,957.3	15,917.3	15,907.0
Total capital and reserves	17,667.3	17,062.3	17,033.6	16,365.3	16,173.1

The financial information set out above for the four years ended 31 March 2004 is based on the audited current cost financial statements for those years, as adjusted to 2004/05 prices for changes in the Retail Price Index (RPI). The comparative for 2001 has been restated in respect of the adoption of FRS 19 'Deferred tax' in 2002.

On 1 April 2002 the company acquired part of the business and certain assets and liabilities of Geodesys Limited. The trading results and balance sheet figures for the years ending 31 March 2005, 31 March 2004 and 31 March 2003 reflect this acquisition and are therefore not strictly comparable to previous years.

independent auditors' report

to the Director General of Water Services and Directors of Anglian Water Services Limited

We have audited the regulatory accounts of Anglian Water Services Limited (referred to as the company) on pages 39 to 56 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account and the regulatory historical cost balance sheet; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

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

basis of preparation

The regulatory accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The regulatory accounts are separate from the statutory financial statements of the company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of the regulatory accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no assessment.

The Directors' responsibilities for preparing the regulatory accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of Directors' responsibilities for regulatory information on page 37.

Our responsibility is to audit the regulatory accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the "basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

We report to you our opinion as to whether the regulatory historical cost accounting statements present 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 Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 45 to 56 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the company has not kept proper accounting records as required by paragraph 3 of Condition F and whether 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 Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02.

We read the other information contained in the regulatory accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory accounts. The other information comprises the performance review, the notes on regulatory information, and the additional information required by the licence.

independent auditors' report

continued

basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the regulatory accounts, 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 accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of regulatory accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the regulatory accounts is separate from our opinion on the statutory financial statements of the company on which we reported on 1 June 2005, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the company (our "Statutory" audit) was made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a Statutory auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company and the company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 39 and 40 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting 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 53.

opinion

In our opinion the regulatory accounts of the company for the year ended 31 March 2005 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on pages 48 and 49, the state of the company's affairs at 31 March 2005 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

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 of Appointment;
- (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 Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (c) the regulatory historical cost accounting statements on pages 39 and 40 present 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 Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator;
- (d) the regulatory current cost accounting statements on pages 45 to 56 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
1 June 2005

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1. The maintenance and integrity of the company web site is the responsibility of the Directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the regulatory accounts since they were initially presented on the web sites.
 2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and regulatory accounts may differ from legislation in other jurisdictions.

glossary of regulatory terms

AMP adjustment – The revision in the real value of fixed assets arising periodically from improved information notably in the five-year Asset Management Plan process.

Appointed business – The appointed business comprises the regulated activities of the company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

Arm's length trading – Arm's length trading is where the company treats the associate companies on the same basis as external third parties.

Asset Management Plan (AMP) – A plan agreed with the Office of Water Services on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP3 covered the investment period April 2000 to March 2005. AMP4 covers the investment period April 2005 to March 2010.

Associate company – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the company and its associated companies to be disclosed subject to specified materiality considerations.

Director General of Water Services – The Director General of Water Services is the Government-appointed regulator for the water industry.

Financing adjustment – The impact of general inflation (RPI) on the real value of net finance for the business.

K factor – The annual increase, set by the Director General of Water Services, in charges that companies in the water industry can make. The amount by which a company can increase (or must decrease) its charges is controlled by the price limit formula $RPI + \text{or} - 'K' + 'U'$. RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. 'K' is a number determined by the Office of Water Services for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers and 'U' is the amount of 'K' not taken up by a company in previous years.

Licence – the Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Anglian Water Services Limited as a water and sewerage undertaker under the act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Modern Equivalent Asset (MEA) – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing, or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third party contributions.

Non-appointed business – The non-appointed business activities of the company are activities for which the company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the company (for example, the use of underground assets for cable television).

Office of Water Services (Ofwat) – The office of the Director General of Water Services and their staff.

Periodic review – The price determination process undertaken by the Office of Water Services every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which the Office of Water Services will determine prices (the K factor – see above).

Price limit – This is the name given to the combination of the Retail Price Index (RPI), 'K' and 'U'.

Regulatory Accounting Guidelines (RAG) – The accounting guidelines for regulatory accounts issued, and amended from time to time, by the Office of Water Services.

Retail Price Index (RPI) – The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.

Regulatory Capital Value (RCV) – The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Office of Water Services methodology (ie after current cost depreciation and infrastructure renewals accrual).

Third party contributions since 1989/90 – Grants and third party contributions received in respect of infrastructure assets and any deferred income relating to grants and third party contributions for non-infrastructure assets.

Working capital – The aggregate of stocks, trade debtors, trade creditors and working cash balances, if material.

Working capital adjustment – The impact of general inflation (RPI) on the real value of working capital to the business.

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