

**Anglian Water Plc**  
**(Registered number 2366618)**

**Directors' report and financial statements**

**For the year ended 31 March 2002**



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# **Anglian Water Plc**

## **directors' report for the year ended 31 March 2002**

The directors have pleasure in presenting their report and the audited financial statements of Anglian Water group for the year ended 31 March 2002.

### **principal activities, business review and future developments**

The principal activities of the group during the year were water supply and distribution, waste water collection and treatment, process engineering, construction, commercial, residential and infrastructure development and asset management. The principal activities of the company during the year were that of providing treasury services to the group and also acting as a holding company.

The most significant development during the year has been the progress made with plans to restructure the group, as detailed in the subsequent events section below.

In addition to the organisational and financial restructuring of the group, considerable work has gone into the continued integration of last year's acquisitions. Group turnover for the year increased 41 per cent to £1,813.1 million, primarily due to the first full year contributions from Morrison and ESVAL which were acquired in September 2000 and August 2000 respectively.

### **results and dividends**

The profit and loss account on page 6 shows the group's results and loss for the year. During the current year, the company paid a dividend of £125.0 million (2001 - £140.7 million).

### **going concern**

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

### **share capital**

Details of Anglian Water Plc's share capital are shown in note 25 on page 36.

### **directors**

The names of the directors who served during the year were as follows:

C J Mellor  
A T Eckford  
E M Mannis  
R A Pointer

## **Anglian Water Plc**

### **directors' report (continued) for the year ended 31 March 2002**

#### **directors' interests in shares and debentures and emoluments**

None of the directors held shares, either directly or through family interests, in Anglian Water Plc at 31 March 2002 or 31 March 2001.

#### **charitable and political donations**

During the year the group made a payment of £1.5 million (2001 - £1.5 million) to the Anglian Water Trust Fund and other charitable donations of £nil (2001 - £0.1 million). The company made no charitable or political donations during the year (2001 - £nil).

#### **employees**

Employees are kept informed on matters affecting them and made aware of general financial and economic factors influencing the group. The group operates a systematic approach to employee communication through regular briefings, presentations, electronic mailing and the wide circulation of group magazines.

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

The group is an equal opportunities employer and applications from disabled persons are fully and fairly considered, having regard to the aptitude and abilities of the applicant. In the event of disability, every effort is made to ensure that employment continues and appropriate training is given. Career development and promotion of disabled people is, as far as possible, identical to that of other employees.

#### **policy on the payment of creditors**

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the company's procurement department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The company abides by the terms of payment. At 31 March 2002, the group had 62 days purchases outstanding (2001 - 61 days).

# Anglian Water Plc

## directors' report (continued) for the year ended 31 March 2002

### auditors

PricewaterhouseCoopers have identified their willingness to continue in office and a resolution proposing their re-appointment will be put to the annual general meeting.

### substantial shareholders

The company is one hundred per cent owned by awg plc, which is therefore the only substantial shareholder.

### research and development

The group and its subsidiaries have a continuing policy of undertaking market-focused research and development on process plant, biosolids treatment, automatic meter reading and other water and wastewater-related matters.

### subsequent events

The group has recently made significant progress on the financial and operational restructuring of its businesses. The restructuring involves the separation of the group into two, clearly-delineated businesses: the regulated water and wastewater business, and the five divisions of the infrastructure management group. This part of the restructuring is now complete and has been reflected in the segmental analysis of results shown in note 2.

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

By order of the board



### S Gillen

company secretary

Registered office: Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ

Registered in England and Wales no. 2366618

29 May 2002

## **Anglian Water Plc**

### **statement of directors' responsibilities for the year ended 31 March 2002**

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

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

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

## **Anglian Water Plc**

### **independent auditors' report to the member of Anglian Water Plc**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the statement of movement in group shareholders' funds and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

#### **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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

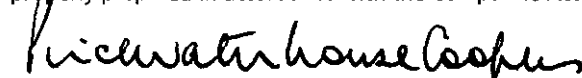
#### **basis of audit opinion**

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 group 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 2002 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Birmingham

29 May 2002

## group profit and loss account for the year ended 31 March

Notes	2002			2001			
	Before exceptional items and goodwill amortisation	Exceptional items and goodwill amortisation	Total	Before exceptional items and goodwill amortisation restated	Exceptional items and goodwill amortisation restated	Total restated	
	£m	£m	£m	£m	£m	£m	
	<b>Group turnover:</b>						
2	Turnover: total group and share of joint ventures and associates	1,813.1	-	1,813.1	1,287.9	-	1,287.9
2	Less: share of turnover of joint ventures and associates	(108.5)	-	(108.5)	(57.0)	-	(57.0)
		<u>1,704.6</u>	<u>-</u>	<u>1,704.6</u>	<u>1,230.9</u>	<u>-</u>	<u>1,230.9</u>
	Operating costs before depreciation and amortisation of goodwill	(1,192.7)	(146.1)	(1,338.8)	(757.4)	(13.3)	(770.7)
3	Depreciation net of amortisation of grants and contributions	(189.4)	(2.4)	(191.8)	(166.6)	-	(166.6)
	Amortisation of goodwill	-	(16.5)	(16.5)	-	(8.3)	(8.3)
	Goodwill impairment	-	(30.0)	(30.0)	-	-	-
3	<b>Group operating costs</b>	<u>(1,382.1)</u>	<u>(195.0)</u>	<u>(1,577.1)</u>	<u>(924.0)</u>	<u>(21.6)</u>	<u>(945.6)</u>
	<b>Group operating profit</b>	<u>322.5</u>	<u>(195.0)</u>	<u>127.5</u>	<u>306.9</u>	<u>(21.6)</u>	<u>285.3</u>
	Share of operating (loss)/profit in:						
	Joint ventures	10.7	(16.3)	(5.6)	5.3	-	5.3
	Associates	-	-	-	0.8	-	0.8
	<b>Total operating profit: group and share of joint ventures and associates</b>	<u>333.2</u>	<u>(211.3)</u>	<u>121.9</u>	<u>313.0</u>	<u>(21.6)</u>	<u>291.4</u>
4	Profit on disposal of business	-	19.6	19.6	-	-	-
4	Profit on disposal of investment	-	12.0	12.0	-	-	-
4	Loss on sale of fixed assets	-	-	-	-	(2.7)	(2.7)
2	<b>Profit on ordinary activities before interest</b>	<u>333.2</u>	<u>(179.7)</u>	<u>153.5</u>	<u>313.0</u>	<u>(24.3)</u>	<u>288.7</u>
6	Interest payable (net)	(190.4)	-	(190.4)	(159.1)	-	(159.1)
	<b>(Loss)/profit on ordinary activities before taxation</b>	<u>142.8</u>	<u>(179.7)</u>	<u>(36.9)</u>	<u>153.9</u>	<u>(24.3)</u>	<u>129.6</u>
7	Tax on (loss)/profit on ordinary activities	(11.3)	24.4	13.1	(53.0)	2.5	(50.5)
	<b>(Loss)/profit on ordinary activities after taxation</b>	<u>131.5</u>	<u>(155.3)</u>	<u>(23.8)</u>	<u>100.9</u>	<u>(21.8)</u>	<u>79.1</u>
	Equity minority interest	(8.7)	-	(8.7)	(5.9)	-	(5.9)
	<b>(Loss)/profit for the financial year</b>	<u>122.8</u>	<u>(155.3)</u>	<u>(32.5)</u>	<u>95.0</u>	<u>(21.8)</u>	<u>73.2</u>
8	Dividends	(125.0)	-	(125.0)	(140.7)	-	(140.7)
	<b>Loss for the financial year</b>	<u>(2.2)</u>	<u>(155.3)</u>	<u>(157.5)</u>	<u>(45.7)</u>	<u>(21.8)</u>	<u>(67.5)</u>
9	<b>Loss per share - basic</b>	43.6p	(55.1p)	(11.5p)	34.7p	(8.4p)	26.3
9	<b>Loss per share - diluted</b>	-	-	(11.5p)	-	-	26.2p

The prior year comparatives have been restated in respect of the adoption of FRS 19 "Deferred tax" (see notes 1(b) and 23).

All the above results relate to continuing operations. The impact of acquisitions on the results for the year is negligible.

## notes to the financial statements continued

### 25 share capital

	2002 £m	2001 £m
Authorised		
503.4 million ordinary shares of 47 1/7 pence each	237.3	237.3
279.8 million B shares of 56 pence each	-	156.7
300.0 million B shares of 100 pence each	300.0	-
34,845.7 million redeemable shares of 0.1 pence each	34.8	34.8
	<u>572.1</u>	<u>428.8</u>
Allotted, issued and fully paid		
282.0 million (2001 - 282.0 million) ordinary shares of 47 1/7 pence each	133.0	133.0
290.0 million (2001 - nil) B shares of 100 pence each	290.0	-
	<u>423.0</u>	<u>133.0</u>

On the 16 August 2001, 150.0 million B shares were issued at par for total cash proceeds of £150.0 million. On the 28 March 2002 a further 140.0 million B shares were issued at par for total cash proceeds of £140.0 million.

### 26 movement in share capital, reserves and shareholder's funds

	Ordinary share capital £m	B share capital £m	Total share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total Reserves £m	Total shareholder's funds £m
<b>The group</b>								
At 31 March 2001	133.0	-	133.0	102.3	227.6	1,335.5	1,665.4	1,798.4
Prior year adjustment	-	-	-	-	-	(64.8)	(64.8)	(64.8)
As restated	133.0	-	133.0	102.3	227.6	1,270.7	1,600.6	1,733.6
Issue of shares	-	290.0	290.0	-	-	-	-	290.0
Total recognised gains and losses relating to the year	-	-	-	-	-	(24.7)	(24.7)	(24.7)
Dividend	-	-	-	-	-	(125.0)	(125.0)	(125.0)
<b>At 31 March 2002</b>	<u>133.0</u>	<u>290.0</u>	<u>423.0</u>	<u>102.3</u>	<u>227.6</u>	<u>1,121.0</u>	<u>1,450.9</u>	<u>1,873.9</u>
	Ordinary share capital £m	B share capital £m	Total share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss reserve £m	Total reserves £m	Total shareholder's funds £m
<b>The company</b>								
At 31 March 2001	133.0	-	133.0	102.3	227.6	616.3	946.2	1,079.2
Issues of shares	-	290.0	290.0	-	-	-	-	290.0
Total recognised gains and losses relating to the year	-	-	-	-	-	(211.1)	(211.1)	(211.1)
Dividend	-	-	-	-	-	(125.0)	(125.0)	(125.0)
<b>At 31 March 2002</b>	<u>133.0</u>	<u>290.0</u>	<u>423.0</u>	<u>102.3</u>	<u>227.6</u>	<u>280.2</u>	<u>610.1</u>	<u>1,033.1</u>



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

Note		2002 £m	2001 restated £m
	(Loss)/profit attributable to group shareholder	(32.5)	73.2
	Currency translation differences on foreign currency net investments	7.8	4.3
26	Total recognised gains and losses for the year before prior year adjustment	<u>(24.7)</u>	<u>77.5</u>
	Prior year adjustment in respect of the adoption of FRS 19 (see notes 1(b) & 23):		
	Undiscounted provision for deferred taxation	(491.9)	
	Effect of discounting the deferred tax provision	<u>427.1</u>	
	Discounted provision for deferred taxation	<u>(64.8)</u>	
	<b>Total recognised gains and losses since the last annual report</b>	<u>(89.5)</u>	

## statement of movement in group shareholder's funds for the year ended 31 March

Notes		2002 £m	2001 £m
	Total recognised gains and losses	(24.7)	77.5
	Dividends	(125.0)	(140.7)
25	Issue of shares	290.0	61.3
	Redemption of redeemable shares	-	(8.5)
	(Decrease)/increase in shareholder's funds	<u>140.3</u>	<u>(10.4)</u>
	Opening shareholder's funds as previously stated	1,798.4	1,784.6
	Prior year adjustment in respect of the adoption of FRS 19 (see notes 1 (b) and 23):	(64.8)	(40.6)
	Opening shareholder's funds as restated	<u>1,733.6</u>	<u>1,744.0</u>
	<b>Closing shareholder's funds</b>	<u>1,873.9</u>	<u>1,733.6</u>

## group and company balance sheets at 31 March

Notes	Group		Company	
	2002 £m	2001 restated £m	2002 £m	2001 £m
	<b>Fixed assets</b>			
12	257.1	311.5	-	-
13	4,071.3	3,961.5	0.3	-
14	Investments			
	Joint ventures:			
	333.6	278.4	-	-
	(313.5)	(263.2)	-	-
	20.1	15.2	-	-
	0.6	0.9	-	-
	25.4	32.4	2,623.3	2,683.8
	46.1	48.5	2,623.3	2,683.8
	4,374.5	4,321.5	2,623.6	2,683.8
	<b>Current assets</b>			
16	137.1	169.0	-	-
17	614.4	547.8	48.9	170.2
18	-	124.2	-	124.2
	220.3	173.6	261.1	49.4
	971.8	1,014.6	310.0	343.8
	<b>Creditors: amounts falling due within one year</b>			
19	(396.0)	(723.9)	(97.8)	(455.3)
19	(685.7)	(594.8)	(436.0)	(58.8)
	(1,081.7)	(1,318.7)	(533.8)	(514.1)
	(109.9)	(304.1)	(223.8)	(170.3)
	4,264.6	4,017.4	2,399.8	2,513.5
	<b>Creditors: amounts falling due after more than one year</b>			
20	(2,078.4)	(1,962.4)	(1,366.7)	(1,434.3)
21	(98.1)	(106.3)	-	-
	(2,176.5)	(2,068.7)	(1,366.7)	(1,434.3)
22	(105.0)	(101.5)	-	-
	1,983.1	1,847.2	1,033.1	1,079.2
	<b>Capital and reserves</b>			
25	423.0	133.0	423.0	133.0
26	102.3	102.3	102.3	102.3
26	227.6	227.6	227.6	227.6
26	1,121.0	1,270.7	280.2	616.3
	1,873.9	1,733.6	1,033.1	1,079.2
	109.2	113.6	-	-
	1,983.1	1,847.2	1,033.1	1,079.2

All shareholder's funds relate to equity holdings.

The prior year comparatives for the group have been restated in respect of the adoption of FRS 19 'Deferred tax' (see notes 1 (b) and 23).

The notes on pages 12 to 42 form part of these financial statements.

Approved by the board on 29 May 2002

  
EM Mannis  
Director

  
J Mellor  
Director

## group cash flow statement

	2002 £m	2001 £m
Notes		
a		
<b>Net cash inflow from operating activities</b>	469.7	349.4
<b>Dividends received from joint ventures</b>	-	3.3
<b>Returns on investments and servicing of finance</b>		
Interest received	17.6	29.8
Interest paid	(173.5)	(145.2)
Interest element of finance lease rental payments	(13.7)	(16.0)
Dividends received from trade investments	0.7	0.9
Equity dividends paid to minorities	(4.0)	-
<b>Net cash outflow for returns on investments and servicing of finance</b>	(172.9)	(130.5)
<b>Taxation</b>		
Taxation received/(paid)	11.5	(20.4)
<b>Net cash inflow/(outflow) for taxation</b>	11.5	(20.4)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(377.6)	(328.1)
Purchase of intangible fixed assets	(1.2)	-
Grants and contributions received	18.9	14.7
Disposal of tangible fixed assets	37.7	15.0
<b>Net cash outflow for capital expenditure and financial investment</b>	(322.2)	(298.4)
<b>Acquisitions and disposals</b>		
Payments to acquire investments in associates and joint ventures	(6.9)	(6.6)
Payments to acquire subsidiary undertakings (net of cash and overdrafts acquired)	-	(374.6)
b Receipts from sales of subsidiary undertaking (net of cash and overdrafts disposed of)	19.6	-
Receipts from sales of investments in associates or joint ventures	5.2	0.8
Cash paid in respect of acquisitions made in previous years	(0.8)	-
<b>Net cash inflow/(outflow) for acquisitions and disposals</b>	17.1	(380.4)
<b>Equity dividends paid</b>	(145.0)	(120.7)
<b>Management of liquid resources</b>		
c Decrease/(increase) in short-term deposits and investments	63.4	(56.7)
<b>Net cash inflow/(outflow) before financing</b>	(78.4)	(654.4)
<b>Financing</b>		
New share capital subscribed	290.0	1.8
Redemption of redeemable shares	-	(2.5)
Redemption of Class B preference shares	-	(6.0)
d Increase in loans and finance lease agreements	635.1	832.9
d Repayments of amounts borrowed	(799.6)	(54.8)
Capital element of finance lease rental payments	(35.1)	(51.5)
<b>Net cash (outflow)/inflow from financing</b>	90.4	719.9
c <b>Increase in cash</b>	12.0	65.5

## notes to the group cash flow statement

(a) <b>reconciliation of operating profit to net cash inflow from operating activities</b>	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Group operating profit	127.5	285.3
Dividends received from trade investments	(0.7)	(0.9)
Depreciation (net of amortisation of deferred grants and contributions)	191.8	166.6
Amortisation and impairment of goodwill	46.5	8.3
Impairment of trade investment	3.8	-
Net movements on provisions	(1.9)	0.5
	<b>367.0</b>	<b>459.8</b>
Decrease/(increase) in working capital:		
Stock	32.0	(76.4)
Debtors	34.6	(62.7)
Creditors	36.1	28.7
	<b>102.7</b>	<b>(110.4)</b>
<b>Net cash inflow from operating activities</b>	<b>469.7</b>	<b>349.4</b>

The group cash flow statement for the year ended 31 March 2002 includes net cash outflows of £10.7 million in respect of current year exceptional charges and £4.3 million in respect of the settlement of prior year exceptional charges. The prior year comparatives include cash outflows of £6.2 million in respect of prior year exceptional costs.

(b) <b>disposal of subsidiary undertaking</b>	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Net assets disposed of:		
Cash at bank and in hand	2.4	-
Profit on disposal	19.6	-
Satisfied by cash	<b>22.0</b>	<b>-</b>
Analysis of the net cash inflow in respect of the disposal of subsidiary undertaking:		
Cash received upon completion	22.0	-
Cash at bank of disposed subsidiary	(2.4)	-
Net cash inflow in respect of the disposal of subsidiary undertaking	<b>19.6</b>	<b>-</b>

(c) <b>analysis of net debt</b>	31 March 2001 £m	Cashflows £m	Non-cash movement £m	Currency translation difference £m	31 March 2002 £m
Cash at bank and in hand	124.2	(19.2)	-	-	105.0
Bank overdrafts	(47.6)	31.2	-	-	(16.4)
	<b>76.6</b>	<b>12.0</b>	<b>-</b>	<b>-</b>	<b>88.6</b>
Deposits and investments	173.6	(63.4)	-	5.1	115.3
Debt due within 1 year	(676.3)	162.9	145.1	(11.3)	(379.6)
Debt due after 1 year	(1,962.4)	32.3	(148.8)	0.5	(2,078.4)
	<b>(2,388.5)</b>	<b>143.8</b>	<b>(3.7)</b>	<b>(5.7)</b>	<b>(2,254.1)</b>

Non-cash movements comprise amortisation of discounts and expenses relating to debt issues, indexation of loan stock and transfers between categories of debt. Management of liquid resources shown in the cashflow statement is comprised of movements in short term deposits, which have maturity dates of up to one year.

## notes to the group cash flow statement continued

(d) <b>movement in group net debt</b>	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
At beginning of year	(2,388.5)	(1,599.1)
Net increase in cash	12.0	65.5
(Decrease)/increase in short-term bank deposits and investments	(63.4)	39.3
Loans assumed within subsidiary undertakings	-	(84.8)
Loan notes issued	(4.4)	(68.1)
Increase in loans and finance lease arrangements	(635.1)	(832.9)
Repayment of amounts borrowed	799.6	54.8
Indexation of loan stock	(3.3)	(10.7)
Amortisation of discount and expenses relating to debt issues	(0.4)	(0.2)
Currency translation difference	(5.7)	(3.8)
Capital element of finance lease rental payments	35.1	51.5
At end of year	(2,254.1)	(2,388.5)

## 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 in accordance with the Companies Act 1985, except as disclosed in note 1 (i). During the prior year the group was restructured, and a new parent company, awg plc, was formed through a Scheme of Arrangement.

During the year, three new accounting standards were introduced: Financial Reporting Standard (FRS) 17 "Retirement Benefits", FRS18 "Accounting Policies" and FRS19 "Deferred Tax".

In respect of FRS17 "Retirement Benefits", the group has adopted the disclosure requirements only, and has not adopted the standard. This is permitted by FRS 17.

The effect of the implementation of FRS19 is detailed below and in 1 (b) and in note 23.

The objective of FRS18 is to ensure that accounting policies and estimation techniques adopted are the most appropriate for the purpose of giving a true and fair view; and that those policies are reviewed regularly by the board of directors. None of the group's accounting policies have been changed as a result of the implementation of FRS18.

The following principal accounting policies and estimation techniques have been applied to the financial statements as stated:

#### a) basis of consolidation

The group financial statements comprise a consolidation of the financial statements of the company and all of its subsidiaries at 31 March. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The treatment of a company as an associated undertaking has regard to the group's holding of at least 20 per cent of the equity capital, representation on its board of directors and participation in policy making, including dividend policy. The group's share of the profits or losses of these companies is included in the profit and loss account and the investments are included in the balance sheet at the group's share of the net assets of the companies. An entity is treated as a joint venture if the group jointly controls that entity together with one or more other venturers under a contractual arrangement. The group's share of turnover, operating profit and interest in joint ventures has been reported on the face of the profit and loss account and the group's share of gross assets and liabilities has been reported on the balance sheet. Intra-group sales and profit are eliminated fully on consolidation.

#### b) change in accounting policy

FRS19 'Deferred Tax' has been adopted for the first time by the group in the year ended 31 March 2002.

In previous years the group has complied with the Statement of Standard Accounting Practice 15 "Deferred Taxation" (SSAP15) which has now been superseded by the introduction of FRS19. SSAP15 required provision for deferred taxation to be made using the liability method to the extent that net deferred tax assets or liabilities were likely to crystallise in the foreseeable future. This method was commonly referred to as partial provisioning. FRS19, by contrast, requires a form of full provisioning (see note 1(q) deferred taxation).

The effect of the implementation of FRS19 on reported results is to increase the tax charge for the year by £5.4 million (2001 - £24.2 million) and reduce net assets by £70.2 million (2001 - £64.8 million) as set out below:

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Increase in tax on profit on ordinary activities	5.4	24.2
Reduction in profit for the year	5.4	24.2
Deferred tax liability	136.1	122.7
Deferred tax asset	(65.9)	(57.9)
Net deferred tax liability	70.2	64.8

The adoption of FRS19 has resulted in a provision for the deferred tax primarily in respect of accelerated capital allowances and other short-term timing differences which were not recognised under SSAP15, partially offset by an ACT asset. These amounts are stated after discounting, in accordance with FRS 19.

No adjustment has been made to goodwill; the impact of FRS19 on goodwill arising in respect of recent acquisitions has been evaluated and is not material.

## notes to the financial statements continued

### 1 **accounting policies (continued)**

#### c) **goodwill**

On the acquisition of a subsidiary undertaking, fair values are attributed to the net identifiable assets or liabilities acquired. Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the net assets acquired. Fair values are assessed in accordance with FRS 7 "Fair Values in Acquisition Accounting". Goodwill arising on acquisitions prior to 31 March 1998 was set off directly against reserves and has not been reinstated on implementation of FRS 10 "Goodwill and Intangible Assets". Positive goodwill arising on acquisitions since this date is capitalised in the financial statements as an intangible asset and amortised on a straight line basis over its useful economic life. On disposal of a subsidiary any goodwill arising on acquisition that was previously written off to reserves, or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on disposal.

#### d) **associates and joint ventures**

The group's share of turnover and profit and loss of associates and joint ventures is included in the consolidated profit and loss account. The group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned or from coterminous management accounts if the balance sheet date in those audited financial statements is greater than three months from the balance sheet date of the relevant group financial statements.

#### e) **unincorporated joint ventures**

The group share of turnover and profit/loss of unincorporated joint ventures is included in arriving at operating profit and its share of individual assets and liabilities is included, where appropriate, in the consolidated balance sheet.

#### f) **profit take policy**

##### i. *construction*

Profits on short term contracts are included in the financial statements upon substantial completion of those contracts. Profits on long term contracts are included in the financial statements when the outcome of a contract can be assessed with reasonable certainty and are determined by reference to an internal valuation of measured work carried out less related costs of production. Provision is made in full for foreseeable losses.

##### ii. *property development*

Profit is included in the financial statements in connection with property developments when a legally binding contract for the sale of the development has been entered into and legal completion has taken place before the year end. When legally binding contracts exist, profits on the construction and refurbishment elements of the development are determined on the same basis as for construction. Other profits arising from developments are included in the financial statements only when legal completion of the sale of development has been effected.

##### iii. *claims*

In establishing turnover and profit, credit is taken for claims only when agreed by the client. Having taken such claims to income, provision is made whenever ultimate payment seems doubtful.

#### g) **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 contract work in progress, the value of work carried out.

Income includes 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.

## notes to the financial statements *continued*

### 1 accounting policies (continued)

#### h) tangible fixed assets and depreciation

Tangible fixed assets comprise:

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

Other assets (including properties, over ground plant and equipment) are included at cost less accumulated depreciation. Freehold land is not depreciated. Depreciation of other assets is calculated at rates expected to write off cost less the estimated residual value of the relevant assets over their estimated economic lives, which are principally as follows:

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

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

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

#### i) grants and contributions

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account within creditors and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act 1985. Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the provisions of SSAP 4 – "Accounting for Government Grants" but has been adopted in order to show a true and fair view as, in the opinion of the directors, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 13. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

#### j) 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.

Equipment leased to customers under operating leases is capitalised in accordance with 1 (h) above. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

#### k) investments

Investments held as fixed assets are stated at cost less any provision for impairment.

#### l) stocks and work in progress

Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress, with the exception of long-term contract work in progress, is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and attributable overheads. Net realisable value is the estimated proceeds from the sale of stock less all further costs to be incurred.

#### m) long-term contracts

Amounts recoverable on long-term contracts are stated at cost plus attributable profits less provision for any known or anticipated losses and payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long-term contracts are included in creditors.



## notes to the financial statements continued

### 1 accounting policies (continued)

#### n) pension costs

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

#### o) research and development

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

#### p) foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies, including the group's interest in the underlying net assets of overseas subsidiary and associated undertakings, are translated into sterling at the financial year end exchange rates. Profits and losses of overseas subsidiaries and associates are translated into sterling at average rates of exchange during the year. Gains or losses arising on the translation of the net assets of overseas subsidiaries and associates are taken to reserves, together with exchange differences arising on related foreign currency borrowings. Other exchange differences are taken to the profit and loss account.

#### q) deferred taxation

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

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

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

#### *Calculation of deferred tax on infrastructure assets:*

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

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

#### r) financial instruments

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

#### s) pre-contract costs

Pre-contract costs incurred (including those arising in prior years) are recorded as an asset but fully provided against until the group becomes preferred bidder, at which time the provision is released.

## notes to the financial statements continued

2	segmental analysis	Turnover		Profit before interest		Net operating assets (a)	
		2002	2001	2002	2001	2002	2001
		£m	restated £m	£m	restated £m	£m	restated £m
<b>By class of business</b>							
	UK Water and Wastewater (b)	724.4	696.6	280.1	268.2	3,508.4	3,296.4
	Utility Services (c)	227.3	98.3	9.4	5.1	86.1	88.5
	Government Services (d)	71.2	47.7	3.2	3.9	63.6	65.9
	Project Management Services (e)	353.8	155.0	(12.5)	(2.0)	39.5	57.3
	Developments and Commercial Services (f)	219.5	99.1	(63.5)	13.2	263.5	279.5
	International Services (g)	212.6	195.6	2.9	3.8	406.6	491.8
	Other (h)	57.7	44.2	(64.1)	(2.4)	(45.8)	69.1
	Less: intersegment trading (k)	(53.4)	(48.6)	(2.0)	(1.1)	-	-
		<u>1,813.1</u>	<u>1,287.9</u>	<u>153.5</u>	<u>288.7</u>	<u>4,321.9</u>	<u>4,348.5</u>
	Total						
	- Group	1,704.6	1,230.9	159.1	282.6		
	- Joint ventures and associates (i)	108.5	57.0	(5.6)	6.1		
<b>By geographical origin</b>							
	United Kingdom	1,639.4	1,114.9	144.2	264.9	3,889.6	3,934.6
	Europe	102.1	105.7	2.1	10.1	124.5	103.1
	Rest of World	71.6	67.3	7.2	13.7	307.8	310.8
		<u>1,813.1</u>	<u>1,287.9</u>	<u>153.5</u>	<u>288.7</u>	<u>4,321.9</u>	<u>4,348.5</u>
<b>By geographical destination</b>							
	United Kingdom	1,639.8	1,129.3				
	Europe	89.5	85.7				
	Rest of World	83.8	72.9				
		<u>1,813.1</u>	<u>1,287.9</u>				

The segmental analysis reflects the divisional structure put in place during the year. The 2001 comparatives have been reanalysed accordingly.

- (a) Net operating assets are shown before the deduction of net debt, dividends payable, corporation tax and deferred tax of £2,338.8 million (2001 - £2,501.3 million).
- (b) Profit before interest in 2002 for the UK Water and Wastewater segment is stated after operating exceptional charges of £25.3 million (2001 - £12.5 million) and a loss on disposal of fixed assets of £nil (2001 - £2.7 million).
- (c) Utility Services is stated after amortisation of goodwill of £2.7 million (2001 - £1.3 million).
- (d) Government Services is stated after exceptional charges of £nil (2001 - £0.5 million) and goodwill amortisation of £3.3 million (2001 - £1.7 million).
- (e) Project Management Services is stated after amortisation of goodwill of £5.8 million (2001 - £2.7 million).
- (f) Developments and Commercial Services is stated after operating exceptional charges of £132.0 million (2001 - £nil), profit on disposal of businesses of £19.6 million (2001 - £nil), amortisation of goodwill of £1.5 million (2001 - £0.8 million) and exceptional profit on disposal of a joint venture interest of £12.0 million.
- (g) International Services is stated after operating exceptional charges of £9.4 million (2001 - £0.3 million). Amortisation of goodwill of £2.9 million (2001 - £1.8 million) has been deducted from International Services.
- (h) The other segment comprises Powermarque and head office costs and is stated after operating exceptional charges of £28.1 million (2001 - £nil) and goodwill amortisation of £0.3 million (2001 - £nil).
- (i) The joint venture and associates results are mainly within the Development and Commercial Services segment and are stated after exceptional losses of £16.3 million. Group share of joint venture and associate net assets at 31 March 2002 was £20.7 million (2001 - £16.1 million).
- (j) An analysis of exceptional costs is shown in note 4.
- (k) All intersegmental trading originates from the United Kingdom.

## notes to the financial statements continued

### 3 operating costs

	2002			2001		
	Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	Total £m	Before exceptional items and goodwill amortisation £m	Exceptional items and goodwill amortisation £m	Total £m
Operating costs excluding depreciation, amortisation and impairment of goodwill:						
Raw materials and consumables	239.8	-	239.8	166.3	-	166.3
Other external charges	774.6	107.9	882.5	537.9	6.2	544.1
Staff costs (see note 10)	275.8	8.2	284.0	180.8	7.1	187.9
Change in stocks of finished goods and work in progress	(63.3)	30.0	(33.3)	(95.3)	-	(95.3)
Own work capitalised	(35.0)	-	(35.0)	(32.9)	-	(32.9)
Dividends receivable from investments	(0.7)	-	(0.7)	(0.9)	-	(0.9)
Contribution to Anglian Water Trust fund	1.5	-	1.5	1.5	-	1.5
Total operating costs (excluding depreciation and goodwill costs)	1,192.7	146.1	1,338.8	757.4	13.3	770.7
Depreciation of tangible assets	195.4	2.4	197.8	172.4	-	172.4
Amortisation of deferred grants and contributions	(6.0)	-	(6.0)	(5.8)	-	(5.8)
Depreciation net of amortisation of grants and contributions	189.4	2.4	191.8	166.6	-	166.6
Amortisation of goodwill	-	16.5	16.5	-	8.3	8.3
Impairment of goodwill	-	30.0	30.0	-	-	-
Total operating costs	1,382.1	195.0	1,577.1	924.0	21.6	945.6

### 4 exceptional costs

	2002 £m	2001 £m
Restructuring costs	11.7	13.3
Joint venture losses	16.3	-
Goodwill impairment	30.0	-
Tangible asset impairment	44.7	-
Powermarque losses	20.7	-
Refinancing costs	45.6	-
Provision against loan to fellow subsidiary	25.8	-
Charged against operating profit	194.8	13.3
Profit on disposal of business	(19.6)	-
Profit on disposal of investment	(12.0)	-
Loss on sale of fixed assets	-	2.7
	163.2	16.0
Taxation credit thereon	(24.4)	(2.5)
Total exceptionals (excluding goodwill amortisation of £16.5 million (2001 - £8.3 million))	138.8	13.5

Restructuring costs of £11.7 million in 2002 principally comprise redundancy and associated early retirement pension obligations in the UK water and wastewater business and International Services divisions. Restructuring costs of £13.3 million in 2001 principally related to the UK water and wastewater business.

## notes to the financial statements continued

### 4 exceptional costs (continued)

The joint venture losses of £16.3 million relate to the group's share of the write down of the development property held by Morrison Merlin Great Northern Limited following an external valuation performed by an independent firm of chartered surveyors during the year. This occurred prior to the group disposing of its investment in this joint venture investment.

The goodwill impairment charge of £30.0 million relates to the acquisition of Morrison plc in September 2000. A first year impairment review of the acquisition indicated that an impairment to the carrying value of the investment had occurred. The resultant goodwill impairment charge of £30.0 million has been measured with reference to a value-in use calculation performed in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill" using a discount rate of 9 per cent and arises in the Developments and Commercial Services division. A further asset impairment charge of £30.0 million has also arisen in this division as a result of the impairment review, and is disclosed separately (see below).

The asset impairments of £44.7 million comprise the £30.0 million impairment of tangible assets as referred to above, together with certain property write downs arising from external valuations performed and other asset write downs in the year totalling £10.9 million, and £3.8 million in respect of the impairment of the Aguas Argentinas trade investment.

The Powermarque losses of £20.7 million principally comprise fixed asset write downs and bad debt provisions. Of this amount, £9.7 million arose in respect of the prior year.

The refinancing costs of £45.6 million comprise the legal and advisors' fees and bankers' costs incurred to date in respect of the proposals to ringfence and subsequently refinance the regulated business.

The provision costs of £25.8 million relate to a provision of £25.8 million, which was made against a loan due from Morrison Merlin Great Northern Limited, a fellow subsidiary of awg plc.

The profit on disposal of business of £19.6 million relates to the disposal of the group's 100% interest in Ambury Investments Limited in March 2002 for a cash consideration of £22.0 million. During the year this subsidiary contributed a profit after tax of £2.8 million to the group (2001 - £4.5 million). Further details are provided in the notes to the cash flow statement.

The profit on disposal of investment of £12.0 million relates to the disposal of the group's investment in Morrison Merlin Great Northern Limited during the year to awg plc.

The costs incurred in 2001 for the Scheme of Arrangement related to the restructuring of the group and the formation of a new parent company last year and principally comprised advisors fees.

The loss on sale of fixed assets in 2001 of £2.7 million arose from the sale of land in Cambridge.

### 5 operating profit

	2002 £m	2001 £m
Operating profit is stated after charging/(crediting):		
Hire of plant and machinery	33.0	20.1
Other operating lease costs	8.6	9.4
Rentals receivable under operating leases	(15.6)	(11.7)
Research and development expenditure	2.3	5.3
Fees paid to the auditors:		
- for audit work (including £nil (2001 - £ nil) in respect of the company)	0.8	0.6
- for other work (all in the United Kingdom)	2.9	0.4
Fees paid to other accounting firms for other work	1.7	2.0

Fees paid to the auditors for other work are primarily in respect of advisory services relating to the proposals to ringfence and subsequently refinance the regulated business.

## notes to the financial statements continued

6	<b>interest payable (net)</b>	<b>2002</b>	<b>2001</b>
		<b>£m</b>	<b>£m</b>
	Bank loans and overdrafts	6.9	9.2
	Other loans including financing expenses	177.3	158.1
	Finance leases	17.4	16.0
	Amortisation of discount on long term provisions (see note 22)	2.0	2.0
		<b>203.6</b>	<b>185.3</b>
	Interest receivable	(16.7)	(29.1)
	Group interest payable	186.9	156.2
	Share of joint venture interest payable (net)	3.5	2.9
	<b>Total interest payable (net)</b>	<b>190.4</b>	<b>159.1</b>

7	<b>taxation</b>	<b>2002</b>	<b>2001</b>
		<b>£m</b>	<b>restated £m</b>
	<b>The tax (credit)/charge for the year comprised:</b>		
	UK tax – current year charge	10.2	48.7
	UK tax – adjustments in respect of prior years	(26.9)	-
	Overseas tax	3.6	1.8
	<b>Tax on (loss)/profit on ordinary activities</b>	<b>(13.1)</b>	<b>50.5</b>
	<b>Analysed as:</b>		
	- before exceptional items	11.3	53.0
	- exceptional items	(24.4)	(2.5)
	<b>Tax on (loss)/profit on ordinary activities</b>	<b>(13.1)</b>	<b>50.5</b>
	<b>Tax on (loss)/profit on ordinary activities comprises:</b>		
	UK Corporation tax at 30 per cent (2001 – 30 per cent)	(0.4)	28.9
	Adjustments in respect of previous periods	(24.9)	-
	Overseas taxation	3.6	1.8
	<b>Total current tax</b>	<b>(21.7)</b>	<b>30.7</b>
	Deferred tax (note 23)		
	Charge for timing differences arising in year	33.6	55.1
	Discount effect	(26.2)	(36.9)
	Adjustments in respect of previous periods	(2.0)	-
	<b>Total deferred tax</b>	<b>5.4</b>	<b>18.2</b>
	<b>Total group taxation</b>	<b>(16.3)</b>	<b>48.9</b>
	Share of joint ventures taxation	3.2	1.3
	Share of associates taxation	-	0.3
	<b>Tax on (loss)/profit on ordinary activities</b>	<b>(13.1)</b>	<b>50.5</b>

Adjustments in respect of previous periods arise from the agreement of prior year tax computations.

## notes to the financial statements continued

### 7 taxation (continued)

#### factors affecting tax (credit)/charge for the year

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

	2002	2001
	£m	restated £m
(Loss)/profit on ordinary activities before taxation	(36.9)	129.6
(Loss)/profit on ordinary activities at the standard UK rate of tax (30 per cent)	(11.1)	38.9
Effects of:		
Items not deductible for tax purposes (primarily goodwill and impairment)	34.2	6.2
Accounting for depreciation not eligible for tax purposes	3.0	3.0
Capital allowances for the year in excess of depreciation	(23.1)	(24.5)
Short term timing differences	(5.5)	6.6
Adjustments to tax charge in respect of previous periods	(24.9)	-
Overseas losses which cannot be relieved in the year	10.1	2.4
Utilisation of tax losses	-	(0.3)
Lower tax rates on overseas earnings	(1.2)	-
Share of joint ventures taxation	(3.2)	(1.3)
Share of associates taxation	-	(0.3)
Current tax (credit)/charge for the year	(21.7)	30.7

### 8 dividends

	2002	2001
	£m	£m
Dividends paid and dividends proposed	125.0	140.7

All the above dividends relate to ordinary shares.

## notes to the financial statements continued

9	earnings per share	2002	2001 restated
	<b>Basic</b>		
	(Loss)/earnings attributable to ordinary shareholders	£(32.5m)	£73.2m
	Weighted average number of ordinary shares in issue	282.0m	278.1
	Basic (loss)/earnings per share	(11.5p)	26.3p
	<b>Basic (before exceptional items and goodwill amortisation)</b>		
	Basic (loss)/earnings per share	(11.5p)	26.3p
	Exceptional items (after tax)	49.2p	5.4p
	Basic earnings per share (before exceptional items)	37.7p	31.7p
	Goodwill amortisation	5.9p	3.0p
	Basic loss per share (before exceptional items and goodwill amortisation)	43.6p	34.7p

Basic earnings per share before exceptional items and goodwill amortisation is disclosed as the directors consider it to be an appropriate reflection of the group's normalised performance. It includes the benefit of a £26.9 million prior year tax credit.

In accordance with FRS 14 "Earnings per Share" the diluted earnings per share is taken as being equal to basic earnings per share for the current year as the group recorded a loss and the effect of including the options is anti-dilutive. The comparative diluted earnings per share is set out below:

Diluted	2001 restated
Earnings attributable to ordinary shareholders	£73.2m
Weighted average number of ordinary shares in issue	278.1m
Dilutive effect of options	0.9m
Average number of shares outstanding	279.0m
Diluted (loss)/earnings per share	26.2p

10	employee information	2002			2001		
		Before operating exceptional items £m	Operating exceptional items (note 3) £m	Total £m	Before operating exceptional items £m	Operating exceptional items (note 3) £m	Total £m
	Staff costs:						
	Wages and salaries	236.8	6.1	242.9	157.1	2.8	159.9
	Social security costs	25.6	0.6	26.2	20.1	-	20.1
	Pension costs (note 27)	13.4	1.5	14.9	3.6	4.3	7.9
		275.8	8.2	284.0	180.8	7.1	187.9

Pension costs are stated after crediting £6.6 million (2001 - £13.1 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

## notes to the financial statements continued

### 10 employee information (continued)

Average number of full time equivalent persons employed:	2002	2001
UK water and wastewater	3,705	3,773
Utility Services	2,359	1,942
Government Services	935	770
Project Management services	1,510	1,243
Developments and Commercial Services	283	233
International Services	3,422	3,507
Other	172	220
	12,386	11,688

The 2001 comparatives have been reanalysed to reflect the new divisional structure.

The numbers above include 3,132 full time equivalent persons employed outside the UK (2001 - 3,344). All of the directors are also directors of awg plc and their interests in the shares of that company are disclosed in the annual report and accounts of awg plc. The annual report and accounts of awg plc contains details of the directors emoluments in respect of their services to the group.

### 11 profit of parent company

Anglian Water Plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. Loss for the financial year dealt with in the financial statements of the parent company is £211.1 million (2001 – profit of £121.2 million).

### 12 intangible fixed assets

	£m
<b>The group</b>	
<b>Cost</b>	
At 1 April 2001	320.2
Exchange adjustments	(5.8)
Addition	1.2
Reduction in previously recognised goodwill	(3.5)
<b>At 31 March 2002</b>	312.1
<b>Amortisation</b>	
At 1 April 2001	8.7
Exchange adjustments	(0.2)
Charge for the year	16.5
Impairment (see note 4)	30.0
<b>At 31 March 2002</b>	55.0
<b>Net book amount</b>	
<b>At 31 March 2002</b>	257.1
<b>At 31 March 2001</b>	311.5

Intangible assets mainly comprise goodwill arising on acquisitions of subsidiaries, which is being amortised over 20 years, the directors' best estimate of its useful economic life, and premiums paid to acquire unincorporated businesses. There are no intangible assets in the company.

During the year, the group renegotiated a deferred consideration payable in respect of the purchase of a subsidiary in the prior year. This renegotiation reduced previously recognised goodwill by £3.5 million.

The addition relates to a premium paid to a local authority to acquire a maintenance business and is being amortised over a 10 year period.

A further £57.0 million of goodwill (2001 – £57.0 million) arising on acquisitions prior to 31 March 1998 has been eliminated directly against reserves in prior years.



## notes to the financial statements continued

### 13 tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles plant and equipment £m	Total £m
<b>The group</b>					
<b>Cost</b>					
At 1 April 2001	104.4	1,889.5	2,397.9	1,086.6	5,478.4
Exchange adjustments	(5.5)	3.1	(22.4)	(1.1)	(25.9)
Additions	8.0	101.6	64.5	206.2	380.3
Disposals	(10.1)	(1.0)	(1.2)	(37.8)	(50.1)
<b>At 31 March 2002</b>	<b>96.8</b>	<b>1,993.2</b>	<b>2,438.8</b>	<b>1,253.9</b>	<b>5,782.7</b>
<b>Grants and contributions</b>					
At 1 April 2001	-	137.2	-	-	137.2
Additions	-	15.8	-	-	15.8
<b>At 31 March 2002</b>	<b>-</b>	<b>153.0</b>	<b>-</b>	<b>-</b>	<b>153.0</b>
<b>Depreciation</b>					
At 1 April 2001	30.3	305.9	619.1	424.4	1,379.7
Exchange adjustments	(0.3)	0.2	(6.3)	(0.3)	(6.7)
Charge for the year	4.8	31.7	29.3	132.0	197.8
Disposals	(1.4)	(1.0)	(0.6)	(9.4)	(12.4)
<b>At 31 March 2002</b>	<b>33.4</b>	<b>336.8</b>	<b>641.5</b>	<b>546.7</b>	<b>1,558.4</b>
<b>Net book amount</b>					
<b>At 31 March 2002</b>	<b>63.4</b>	<b>1,503.4</b>	<b>1,797.3</b>	<b>707.2</b>	<b>4,071.3</b>
<b>At 31 March 2001</b>	<b>74.1</b>	<b>1,446.4</b>	<b>1,778.8</b>	<b>662.2</b>	<b>3,961.5</b>

Tangible fixed assets of the group at 31 March 2002 include £233.7 million of assets in the course of construction (2001 - £294.2 million) and also include land of £20.2 million (2001 - £15.6 million), which is not subject to depreciation. The group's interest in land and buildings are almost entirely freehold.

The net book value of the group's tangible fixed assets held under finance leases at 31 March 2002 is £193.9 million (2001 - £190.3 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2002 amounted to £30.9 million (2001 - £19.7 million).

Included within the amounts shown above for vehicles, plant and equipment are assets held as lessor for use in operating leases with a cost of £107.9 million (2001 - £87.9 million) and accumulated depreciation of £41.2 million (2001 - £23.3 million).

## notes to the financial statements continued

### 13 tangible fixed assets (continued)

	<b>Assets under construction £m</b>
<b>The company</b>	
<b>Cost</b>	
At 1 April 2001	-
Additions	0.3
<b>At 31 March 2002</b>	<b>0.3</b>
<b>Net book amount</b>	
At 31 March 2002	0.3
At 31 March 2001	-

### 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 2002.

Amounts contracted for but not provided for in the financial statements at 31 March 2002 are £81.9 million (2001 - £75.9 million). There are no such commitments in the company.

### 14 investments

	<b>Joint ventures £m</b>	<b>Associated undertakings £m</b>	<b>Other £m</b>	<b>Total £m</b>
<b>The group</b>				
<b>Shares, loans and deposits</b>				
<b>At cost or amount under equity method of accounting</b>				
At 1 April 2001	15.2	0.9	32.4	48.5
Additions	6.5	-	0.4	6.9
Loss for the year	(12.3)	-	-	(12.3)
Disposals	10.7	(0.3)	(3.6)	6.8
<b>At 31 March 2002</b>	<b>20.1</b>	<b>0.6</b>	<b>29.2</b>	<b>49.9</b>
<b>Provision for impairment</b>				
At 1 April 2001	-	-	-	-
Charge in the year	-	-	3.8	3.8
<b>At 31 March 2002</b>	<b>-</b>	<b>-</b>	<b>3.8</b>	<b>3.8</b>
<b>Total</b>				
<b>At 31 March 2002</b>	<b>20.1</b>	<b>0.6</b>	<b>25.4</b>	<b>46.1</b>
<b>As 31 March 2001</b>	<b>15.2</b>	<b>0.9</b>	<b>32.4</b>	<b>48.5</b>

Of the above net book value, £28.1 million are shares, £0.4 million are loans and £17.6 million are deposits.

Joint venture disposals includes the carrying value of the investment in Morrison Merlin Great Northern as at the date of the disposal of the investment to awg plc. At the disposal date the group's share of the net liabilities of Morrison Merlin Great Northern Limited was £12.0 million.

## notes to the financial statements continued

### 14 Investments (continued)

#### principal associated undertakings

Set out below is an analysis of the group's principal associated undertakings at 31 March 2002.

	Country of incorporation	Activity	Class of share	Proportion of shares held	Accounting year end
All Asia Anglian Water Corporation	Philippines	Water and wastewater services	Ordinary 1 Philippine Peso	40.00%	31 December
Strathclyde Business Park (Developments) Limited	Scotland	Development of land and buildings	Ordinary £1	31.00%	28 February

These undertakings principally operate in their country of incorporation and are held by subsidiaries of Anglian Water Plc.

#### Joint Ventures

Set out below is an analysis of the group's principal joint ventures at 31 March 2002.

Undertaking (i)	Country of incorporation	Activity	Proportion of shares held note (ii)
Morrison Property Solutions (Birmingham Childrens Hospital) Limited	England	Development of land and buildings	50%
Morrison Properties Limited	Scotland	Residential properties	50%
Morrison Edison Investments Limited	Scotland	Development of land and buildings	50%
Nothwood Residential Limited	Ireland	Residential properties	40%
Danesfort Developments Limited	Northern Ireland	Residential properties	50%
MPA Utilities Pte Limited	Singapore	Holding company	50% (iii)
Adyard Anglian Joint Venture	UAE	Operation of sewerage pumping stations	49% (iv)
Anhui Hezhou-Anglian Water Co. Limited	China	Provision of water services	95% (v) (vi)
Gibb Anglian Limited	England	Engineering and design consultancy	50%
Morrison Serviceteam Limited	England	Maintenance and repair services	50%

## notes to the financial statements continued

### 14 Investments (continued)

These undertakings principally operate in their country of incorporation, and are held by subsidiaries of Anglian Water plc.

- (i) The accounting year end for all the above undertakings is 31 March, with the exception of Morrison Property Solutions (Birmingham Childrens Hospital) Limited, All Asia Anglian Water Corp and Anhui Hezhou-Anglian Water Co. Limited which have an accounting year end of 31 December.
- (ii) Unless otherwise stated the class of shares held are ordinary shares of £1 each.
- (iii) The class of shares held are ordinary shares of 1 Singapore Dollar each.
- (iv) The class of shares held are ordinary shares of 1 UAE Dirham each.
- (v) The class of shares held are ordinary shares of 1 Renminbi each.
- (vi) Anhui Hezhou-Anglian Water Co. Limited is not considered to be a subsidiary undertaking as the group does not have significant control of the entity.

#### Other investments

Other investments in the group include a long-term deposit of US\$25 million and a 4.35 per cent investment in Aguas Argentinas, a consortium which operates the water and wastewater system in Buenos Aires, Argentina. The investment in Aguas Argentinas of £3.8 million has been fully provided against in the year (see note 4).

	Other	Subsidiary Undertakings		Total £m
	Investments £m	Cost £m	Provisions £m	
<b>The company</b>				
<b>Shares</b>				
At 1 April 2001 and 31 March 2002	-	1,159.2	(14.4)	1,144.8
<b>Loans</b>				
At 1 April 2001	-	1,644.1	(105.6)	1,538.5
Additions	-	105.5	-	105.5
Exchange movement	-	(8.1)	-	(8.1)
Charge for the year	-	-	(175.5)	(175.5)
<b>At 31 March 2002</b>	-	1,741.5	(281.1)	1,460.4
<b>Other Investments</b>				
At 1 April 2001	0.5	-	-	0.5
Additions	17.6	-	-	17.6
<b>At 31 March 2002</b>	18.1	-	-	18.1
<b>Total</b>				
<b>At 31 March 2002</b>	18.1	2,900.7	(295.5)	2,623.3
At 31 March 2001	0.5	2,803.3	(120.0)	2,683.8

The principal subsidiary undertakings of the group are listed in note 30.

## notes to the financial statements continued

### 15 acquisitions

There were no acquisitions during the year

#### acquisitions in previous years

There were no changes to the provisional fair values detailed in the 2001 financial statements.

### 16 stock

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Raw materials and consumables	7.7	10.6	-	-
Work in progress	129.4	156.1	-	-
Finished goods	-	2.3	-	-
	137.1	169.0	-	-

Work in progress includes long-term contract balances of £238.0 million (2001 – £213.0 million) less applicable payments on account of £219.1 million (2001 – £195.0 million).

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

### 17 debtors

	Group		Company	
	2002 £m	2001 restated £m	2002 £m	2001 £m
Amount falling due within one year:				
Trade debtors	160.7	158.5	-	-
Amounts recoverable on contracts	86.0	56.9	-	-
Advance Corporation Tax recoverable	-	-	-	33.0
Amounts owed by joint ventures and associates	84.0	111.2	-	-
Amounts owed by group undertakings	38.9	-	48.3	129.9
Other debtors	43.0	45.4	-	1.5
Prepayments and accrued income	142.7	147.8	0.6	5.8
	555.3	519.8	48.9	170.2
Amounts falling due after more than one year:				
Trade debtors	2.3	2.5	-	-
Amounts recoverable on contracts	4.3	3.8	-	-
Amounts owed by joint ventures and associates	28.2	8.3	-	-
Prepaid pension contributions	24.3	13.4	-	-
	614.4	547.8	48.9	170.2

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

## notes to the financial statements continued

18	current asset investments	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
	Money market investments	-	124.2	-	124.2
19	creditors: amounts falling due within one year	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
	Bank overdrafts	16.4	47.6	-	5.2
	Current portion of long-term loans (see note 20)	145.0	576.9	69.7	450.1
	Bank loans repayable (see note 20)	214.3	77.9	28.1	-
	Obligations under finance leases (see note 20)	20.3	21.5	-	-
	<b>Short-term borrowings</b>	<b>396.0</b>	<b>723.9</b>	<b>97.8</b>	<b>455.3</b>
	Trade creditors	279.8	249.3	-	-
	Payments on account in excess of contract value	25.3	37.2	-	-
	Receipts in advance	44.8	52.9	-	-
	Amounts due to joint ventures and associates	12.4	4.2	-	2.9
	Amounts owed to group undertakings	56.7	-	398.1	-
	Corporation tax	14.5	28.0	8.2	-
	Other creditors	58.1	38.3	0.2	0.2
	Other taxation and social security	14.6	13.0	-	1.3
	Dividend declared not yet paid	-	20.0	-	20.0
	Accruals and deferred income	174.0	138.1	29.5	34.4
	Deferred consideration for acquisition	5.5	13.8	-	-
	<b>Other creditors</b>	<b>685.7</b>	<b>594.8</b>	<b>436.0</b>	<b>58.8</b>

## notes to the financial statements continued

20	loans, other borrowings and financial instruments	Group		Company	
		2002 £m	2001 £m	2002 £m	2001 £m
	<b>Loans and other borrowings</b>				
	£100m 5.125% Index Linked 2008 (a)	146.8	145.2	146.8	145.2
	£150m 3.875% Index Linked 2020 (a)	156.1	154.4	156.2	154.4
	£100m 12% Fixed 2014	100.0	100.0	100.0	100.0
	UF 1.7m 7% Bonds 2008/2021	29.5	31.1	-	-
	UF 1.8m TAB plus 0.8% 2007	31.1	-	-	-
	£200m 6.625% Fixed 2023	196.8	196.7	196.8	196.7
	£200m 6.375% Fixed 2029	198.5	198.5	198.5	198.5
	€350m 5.375% Fixed 2009	229.2	229.2	214.6	229.2
	Morrison Loan Notes LIBID minus 0.5% 2007	62.9	64.7	62.9	64.7
	US\$166m Private Placements 6.54%2008, 6.84% 2013	98.5	98.5	98.5	98.5
	US\$25m 7.5% Fixed 2008	18.1	15.3	-	-
	US\$13.5m CFBM plus 0.5% 2008	8.9	11.1	-	-
	US\$ 435.75m 6.57%-7.23% Private Placements 2005-2011	308.4	-	-	-
	US\$25m 6.57% Private Placement 2004-2009	17.6	15.5	17.6	15.5
	US\$10m 6.71% Private Placement 2006	3.2	3.8	3.2	3.8
	Finance Leases	216.5	251.6	-	-
	Interest-free Czech Government Loans 2008-2012	2.9	2.9	-	-
	£50m LIBOR minus 0.15% European Investment Bank 2001	-	50.0	-	-
	£60m 7.985% European Investment Bank 2002	60.0	60.0	-	-
	£10m 6.6% European Investment Bank 2003	10.0	10.0	-	-
	£10m 11.5% European Investment Bank 2004	6.3	8.0	-	-
	£50m 6.62% European Investment Bank 2005	20.0	25.0	-	-
	£60m 8.2% European Investment Bank 2005	60.0	60.0	-	-
	£8.8m 7.38% European Investment Bank 2007	4.6	5.5	-	-
	£30m 9.9% European Investment Bank 2007	15.0	18.0	-	-
	Hartlepool Water Loan Notes LIBOR minus 1% 2002	1.8	2.4	1.8	2.4
	US\$122m 6.35% Private Placements 2006	79.2	79.1	85.7	76.3
	£150m 8.25% Fixed 2006	149.5	149.4	149.5	149.4
	Revolving Multi-Currency Credit Facilities 2002/2003	6.4	418.9	-	418.9
	US\$40m Bank Loan 2002	28.1	27.9	28.1	27.9
	THB 301.8m Bank Loan 2003	4.7	2.2	-	-
	US\$75m Bank Loan 2002	49.6	49.7	-	-
	UF 0.8m TAB plus 1.3% 2004	-	14.5	-	-
	¥977m Bank Loan 2003	6.5	5.7	-	-
	US\$183m Revolving Credit Facility 2002	118.7	121.0	-	-
	US\$5m Revolving Credit Facility 2002	3.5	3.5	-	-
	Other loans (b)	9.1	9.4	4.3	3.0
	<b>Total loans and other borrowings</b>	<b>2,458.0</b>	<b>2,638.7</b>	<b>1,464.5</b>	<b>1,884.4</b>
	Less amounts included in creditors falling due within one year excluding bank overdrafts (see note 19)	(379.6)	(676.3)	(97.8)	(450.1)
	<b>Loans and other borrowings falling due after more than one year</b>	<b>2,078.4</b>	<b>1,962.4</b>	<b>1,366.7</b>	<b>1,434.3</b>

a) The value of the capital and interest elements of the Index Linked Loan Stock are linked to movements in the Retail Price Index. The increase in the capital value during the year of £3.3 million (2001 - £10.7 million) has been taken to the profit and loss account as part of interest payable.

b) Of the unspecified loans and other borrowings, £0.7 million (2001 - £2.6 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.5 million (2001 - £0.7 million) secured on the revenues of a subsidiary undertaking.

c) Of the above total, £1,204.7 million (2001 - £1,218.0 million) is repayable wholly after five years. £558.2 million (2001-£296.6 million) is repayable by instalments, some of which fall due after more than five years. Of these instalments, £418.6 million (2001-£186.9 million) actually falls due after more than five years.

## notes to the financial statements continued

### 20 loans, other borrowings and financial instruments (continued)

#### maturity analysis of financial liabilities

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Less than one year	406.6	728.2	97.8	455.3
Between one and two years	73.1	179.5	0.7	2.7
Between two and five years	472.7	278.5	245.8	308.5
After five years	1,544.6	1,522.1	1,120.2	1,123.1
	<u>2,497.0</u>	<u>2,708.3</u>	<u>1,464.5</u>	<u>1,889.6</u>

Included above are amounts due under finance leases of £20.3 million (2001 - £21.5 million) payable within one year, £23.9 million (2001 - £33.6 million) payable between one to two years, £62.3 million (2001 - £59.3 million) payable between two and five years and £110.0 million (2001 - £137.2 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, redeemable shares, long term creditors, accruals and provisions) totalling £39.0 million (2001 - £69.6 million), of which £27.0 million falls due in less than one year (2001 - £51.9 million). This analysis is net of issue costs totalling £7.2 million (2001 - £7.6 million).

The company analysis includes overdrafts at 31 March 2002 of £nil (2001 - £5.2 million).

#### Borrowing facilities

	2002	2001
	£m	£m
The group has the following unused committed borrowing facilities:		
Expiring within one year	70.0	309.7
Expiring between one and two years	-	72.7
Expiring between two and five years	100.0	-
	<u>170.0</u>	<u>382.4</u>

#### Financial instruments disclosures

The group's policies on management of financial risk are set out below:

##### Management of financial risk

Financial risks faced by the group include funding, interest rate, contractual, country and currency risks. The board of the immediate parent company, awg plc, 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 November 2001 and treasury matters are reported to the board each month.

The group aims to fund its operations primarily through public bond markets, private placements, bank loans and finance leases. Surplus cash is invested in short-term bank deposits.

The group also enters into derivative transactions (principally currency and interest rate swaps and foreign exchange contracts) to manage the interest rate and currency risks arising from the group's operations and its sources of finance. It is, and has been throughout the period under review, the group's policy to hold derivatives for risk management purposes only.

The group manages country-specific risks by focusing its activities into geographical sectors and placing area management in key locations; principally the UK, Ireland, Czech Republic, Chile and Thailand.

The group's governance structure includes strict limits on authority to enter into contractual commitments. The progress of contracts is closely monitored at a local level with regular management input as part of the formalised contract review process.



## notes to the financial statements continued

### 20 **loans, other borrowings and financial instruments (continued)**

#### **Control of group treasury**

Group financing, including debt, interest costs and foreign exchange is substantially directed by a central treasury team reporting to the group finance director. Treasury policy continues to be focused on the efficient and effective management of cash and financial resources within the group. The group treasury function actively seeks opportunities to:

- Secure funds and invest temporary surplus cash to best advantage at minimal financial risk
- Actively protect the group's foreign exchange and interest rate exposures
- Maintain an excellent reputation with providers of finance and rating agencies
- Improve cash management techniques and systems throughout the group

Treasury policy, organisation and reporting will be formally reviewed by the board to ensure continued effectiveness and relevance following the proposed restructuring.

#### **Liquidity**

The group's objective is to maintain flexibility, diversification and continuity of funding through access to different markets and debt instruments. At the year end the group held cash, deposits and current asset investments of £220.3 million (2001 - £297.8 million) and had undrawn multi-currency facilities of £170.0 million (2001 - £382.4 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 above. These decreases reflect a movement of bank facilities to awg plc, the group's parent company.

#### **Borrowing covenants**

With the exception of asset-based funding in Anglian Water Services Limited (AWS) and some overseas businesses, all group borrowings are raised or guaranteed by awg plc, Anglian Water plc or AWS. The group treasury function monitors compliance against all financial obligations and it is group policy to manage the consolidated balance sheet so as to ensure operation within covenanted restrictions.

#### **Interest rates**

The group's policy as agreed by the board is to achieve an optimum mix of funding at indexed, fixed and floating rates of interest, including the use of interest rate swaps, to manage the group's exposure to interest rate fluctuations. At the year end, taking into account interest rate swaps, 12.2 per cent (2001 - 11.3 per cent) of the group's borrowings were at rates indexed to inflation, 72.9 per cent (2001 - 49.8 per cent) were at fixed rates and 14.9 per cent (2001 - 38.9 per cent) were at floating rates.

#### **Foreign currency**

The group has currency exposures resulting from overseas investments and purchases and sales in foreign currencies. The group uses a range of instruments to hedge such exposures. All hedges are undertaken for commercial reasons within the objective of minimising the impact of exchange rate fluctuations on net assets and profits.

The group's foreign exchange exposure management policy, as agreed by the board, is to hedge material transactional exposures against the reporting currency by means of forward foreign exchange contracts.

The group's policy is to hedge profits of overseas subsidiaries using currency borrowings only where such profits are reasonably certain. Net assets are held in a number of currencies and translated at prevailing year-end exchange rates. The resulting exposures are monitored and, at certain thresholds, may be hedged by currency borrowings, cross-currency swaps or forward exchange contracts. The group's continued investments in the Czech Republic and Chile have been hedged in accordance with this policy.

#### **Currency exposures**

The group has monetary liabilities of ¥977.0 million (2001 - ¥977.0 million) and US\$275.5 million (2001 - US\$298.7 million) in the form of bank loans in Chile. These liabilities have been hedged via currency swaps and forward exchange contracts into local currency (2001 - US\$41.7 million unhedged).

The US\$25.0 million and US\$10.0 million Private Placements are not hedged. They had a combined value of £20.8 million at 31 March 2002 (2001 - £19.3 million).

## notes to the financial statements continued

### 20 loans, other borrowings and financial instruments (continued)

Other than as described above, 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

	2002		2001	
	Book value	Fair value	Book value	Fair value
	£m	£m	restated £m	restated £m
The fair value of the group's financial instruments at 31 March was:				
Current asset investments	-	-	124.2	127.0
Cash at bank and in hand	220.3	220.3	173.6	173.6
Short-term borrowings	(394.6)	(397.5)	(723.9)	(732.7)
Long-term borrowings	(2,084.2)	(2,188.0)	(1,983.2)	(2,150.2)
Currency and interest rate swaps and forward exchange contracts	4.4	(8.3)	20.8	(2.3)
Net debt	(2,254.1)	(2,373.5)	(2,388.5)	(2,584.6)
Fixed asset investments	17.6	17.6	17.4	20.8
Provisions excluding deferred tax and pension obligations (see note 22) (1)	(9.1)	(9.1)	(10.9)	(10.9)
Other financial liabilities (see note 21)	(12.0)	(12.0)	(11.1)	(11.1)
	(2,257.6)	(2,377.0)	(2,393.1)	(2,585.8)

(1) Prior year comparatives have been restated to comply with current year classifications.

The fair value of loans and other borrowings represents 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 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 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 2002. 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. The group has also entered into swap arrangements to hedge overseas investments.

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

#### Hedges

At 31 March 2002 there were £22.4 million (2001 - £0.9 million) of unrecognised gains and £8.2 million (2001 - £24.0 million) of unrecognised losses in respect of interest rate swaps. Losses of £0.6 million were recognised in the profit and loss account for the year (2001 - £5.0 million). Of the unrecognised gains and losses at 31 March 2002, a net loss of £2.0 million is expected to be included in the profit and loss account for the year ended 31 March 2003 and the balance in future years.

At 31 March 2002 and 31 March 2001, gains and losses on forward exchange contracts taken out as hedges of sales and purchase transactions were not material.

## notes to the financial statements continued

### 20 loans, other borrowings and financial instruments (continued)

#### Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2002

	Total £m	Index linked £m	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is paid £m	Fixed rate	
						Weighted average interest rate	Weighted average years to maturity
Sterling	(2,135.6)	(303.0)	(104.1)	(1,728.5)	-	7.9%	12.6
US Dollar	(247.7)	-	(208.8)	(38.9)	-	9.9%	4.8
Other currencies	(91.1)	-	(52.2)	(36.0)	(2.9)	10.7%	12.5
<b>Total borrowings</b>	<b>(2,474.4)</b>	<b>(303.0)</b>	<b>(365.1)</b>	<b>(1,803.4)</b>	<b>(2.9)</b>		
Sterling	66.4	-	66.4	-	-		
Euro	7.4	-	7.4	-	-		
US Dollar	115.3	-	115.3	-	-		
Other currencies	31.2	-	31.2	-	-		
Cash, deposits and current asset investments	220.3	-	220.3	-	-		
<b>Net debt</b>	<b>(2,254.1)</b>	<b>(303.0)</b>	<b>(144.8)</b>	<b>(1,803.4)</b>	<b>(2.9)</b>		
Fixed asset investment	17.6	-	-	17.6	-	7.5%	7.0
Provisions	(9.1)	-	-	-	(9.1)		1.0
Other financial liabilities	(12.0)	-	-	-	(12.0)		1.5
<b>Net financial liabilities</b>	<b>(2,257.6)</b>	<b>(303.0)</b>	<b>(144.8)</b>	<b>(1,785.8)</b>	<b>(24.0)</b>		

#### Currency and interest rate analysis of net financial assets/(liabilities) at 31 March 2001

	Total restated £m	Index Linked £m	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is paid restated £m	Fixed rate	
						Weighted Average interest rate	Weighted Average years to maturity
Sterling	(2,332.3)	(299.6)	(796.1)	(1,236.6)	-	8.1%	15.1
US dollar	(81.3)	-	(62.0)	(19.3)	-	10.3%	5.4
Other currencies	(225.1)	-	(167.9)	(57.2)	-	10.8%	10.2
<b>Total borrowings</b>	<b>(2,638.7)</b>	<b>(299.6)</b>	<b>(1,026.0)</b>	<b>(1,313.1)</b>	<b>-</b>		
Sterling	110.1	-	110.1	-	-		
Euro	0.1	-	0.1	-	-		
Other currencies	140.0	-	140.0	-	-		
Cash, deposits and current asset investments	250.2	-	250.2	-	-		
<b>Net debt</b>	<b>(2,388.5)</b>	<b>(299.6)</b>	<b>(775.8)</b>	<b>(1,313.1)</b>	<b>-</b>		
Fixed asset investment	17.4	-	-	17.4	-	7.5%	8.0
Provisions (1)	(10.9)	-	-	-	(10.9)		1.0
Other financial liabilities	(11.1)	-	-	-	(11.1)		1.5
<b>Net financial liabilities</b>	<b>(2,393.1)</b>	<b>(299.6)</b>	<b>(775.8)</b>	<b>(1,295.7)</b>	<b>(22.0)</b>		

(1) Prior year comparatives have been restated to comply with current year classifications.

## notes to the financial statements continued

### 20 loans, other borrowings and financial instruments (continued)

The above tables reflect the net position after swap arrangements, the most significant effect of which is to swap US\$723.8 million (2001 – US\$288.0 million) and €350.0 million (2001 – €350.0 million) into sterling. Fixed rate loans are those for which the interest rate was fixed for more than 12 months at 31 March 2002 and 31 March 2001.

Floating rate cash and investments earn interest based on LIBID for the relevant currency. Floating rate borrowings incur interest based on LIBOR.

### 21 other creditors falling due after more than one year

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade creditors	8.7	11.1	-	-
Accruals and deferred income	3.3	-	-	-
Deferred grants and contributions	86.1	95.2	-	-
	98.1	106.3	-	-

### 22 provisions for liabilities and charges

	Deferred tax restated £m	Unfunded pension obligations £m	Restructuring costs £m	Contract and other provisions £m	Total restated £m
<b>The group</b>					
At 31 March 2001	-	25.8	4.3	6.6	36.7
Prior year adjustment	64.8	-	-	-	64.8
As restated at 31 March 2001	64.8	25.8	4.3	6.6	101.5
Charge for the year	5.4	-	11.7	3.3	20.4
Amortisation of discount	-	2.0	-	-	2.0
Utilised in the year	-	(2.1)	(14.6)	(2.2)	(18.9)
<b>At 31 March 2002</b>	70.2	25.7	1.4	7.7	105.0

The deferred tax provision is analysed in note 23.

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

The provision for restructuring costs charged in the year relates to redundancy and other costs arising on the redundancy programme announced in the year and will be utilised in the forthcoming year.

The contract and other provisions relate to potential warranty and certification costs and other exposures in the International business, which are expected to crystallise over a period of approximately three years.

## notes to the financial statements continued

### 23 deferred taxation

Financial Reporting Standard 19 "Deferred tax" (FRS19) has been adopted for the first time by the group in this annual report, the effects of which are explained in note 1(b), accounting policies.

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

In addition, an ACT asset is offset against deferred tax liabilities; this would be liable to be written off if the Shadow ACT Scheme was abolished, or if group restructuring meant that the ACT could not be surrendered. In this event, an additional tax charge in the profit and loss account would arise of £65.1 million.

	<b>£m</b>
At 31 March 2001 (originally nil before prior year adjustment of £64.8 million)	64.8
Charge for the year	5.4
<b>At 31 March 2002</b>	<b>70.2</b>

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>restated</b>
		<b>£m</b>
Accelerated capital allowances	713.8	651.3
Short term timing differences	(17.7)	(24.6)
Surplus ACT asset	(149.8)	(134.8)
Undiscounted provision for deferred tax	546.3	491.9
Discount	(476.1)	(427.1)
Discounted provision for deferred tax	70.2	64.8

The following are deferred tax assets that are not recognised in the accounts:

Tax losses carried forward	(33.8)	(21.3)
Deferred tax in Czech companies	(10.7)	(14.2)
	(44.5)	(35.5)

The tax losses carried forward relate to losses incurred which are not eligible for group relief. As they exist in companies where future profits are uncertain and no deferred tax liabilities exist, no asset has been recognised.

The deferred tax asset in the Czech companies relates to timing differences arising from fair value adjustments made to fixed assets on acquisitions. As taxable profits are expected to be minimal in the foreseeable future and no deferred liabilities exist, no asset has been recognised.

### 24 commitments under operating leases

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

	<b>2002</b>		<b>2001</b>	
	<b>Land and Buildings</b>	<b>Other</b>	<b>Land and Buildings</b>	<b>Other</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>The group</b>				
Within one year	0.4	0.8	0.6	0.8
Between one and five years	1.8	6.5	0.6	5.9
After five years	8.4	-	6.9	-
	10.6	7.3	8.1	6.7

The company had no such commitments.

## notes to the financial statements continued

### 27 pension commitments

Pension arrangements for the majority of the group's UK employees are of the defined benefit type, through the AWG Pension Scheme ("AWGPS") (previously Anglian Water Pension Scheme) and the Morrison Pension & Life Assurance Plan (Morrison Plan). In addition, a number of other schemes (including defined contribution schemes) operate in both the UK and overseas, and contributions to these schemes in the year amounted to £1.3 million. The group's actuaries are Bacon and Woodrow.

The administration and investment of the pension funds are maintained separately from the finances of the group. The accounting pension costs have been based on the most recent actuarial valuations. Details of the most recent actuarial valuations of the pension schemes are summarised below:

<b>Scheme</b>	<b>AWGPS</b>	<b>Morrison Plan</b>
Date of most recent valuation update	31 March 2001	31 March 2001
Actuarial method	projected unit	projected unit
Main assumptions:		
Excess of investment returns over:		
- general salary increases	1.9%	1.0%
- annual increases in pensions	3.9%	1.5% to 3.9%
Results:		
Market value of assets	£505.0 million	£57.3 million
Funding level	116%	103%
Due date of next full actuarial valuation	31 March 2002	31 March 2002

The net pension cost for the year ended 31 March 2002 was £12.4 million (2001 - £4.7 million) and included £0.1 million (2001 - £0.1 million) for overseas schemes. The net pension costs includes a credit of £6.6 million (2001 - £13.1 million) in respect of the amortisation of actuarial surpluses. At 31 March 2002 there was a prepayment in respect of pensions of £24.3 million (2001 - £13.4 million).

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

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations, which for the AWG Pension Scheme was 31 March 2001 and the Morrison Pension & Life Assurance Plan was 1 January 2000 updated by independent actuaries to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 March 2002. The group also operates an unfunded pensioner arrangement (see note 22), which has been valued by independent actuaries under the requirements of FRS 17 as at 31 March 2002. In addition to these two schemes, the group operates a number of other defined benefit and defined contribution schemes in both the UK and overseas. The assets and liabilities of these additional arrangements are not material to the group financial statements and have been excluded from the following disclosures.

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

	% pa
Discount rate	6.0
Inflation rate	2.8
Increase to deferred benefits during deferm ent	2.8
Increases to inflation related pensions in pay ment	2.9
Salary increases	4.8

## notes to the financial statements continued

### 27 pension commitments (continued)

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

	Expected rate of return % pa	2002 AWGPS Fair value of scheme assets £m	2002 Morrison Plan Fair value of scheme assets £m	2002 Unfunded pensioners Fair value of scheme assets £m	2002 Total £m
Equities	8.0	407.0	44.6	-	451.6
Corporate Bonds	6.0	28.0	3.3	-	31.3
Gilts	5.0	63.3	6.5	-	69.8
Property	8.0	15.7	1.0	-	16.7
Other	4.0	13.7	1.0	-	14.7
<b>Total assets</b>		527.7	56.4	-	584.1
Fair value of scheme liabilities		(540.5)	(78.2)	(36.7)	(655.4)
Deficit in the scheme		(12.8)	(21.8)	(36.7)	(71.3)
Related deferred tax asset (discounted)		3.0	5.4	8.0	16.4
<b>Net pension liability</b>		(9.8)	(16.4)	(28.7)	(54.9)

If the above amounts had been recognised in the financial statements, the group's net assets and the profit and loss reserve at 31 March 2002 would be as follows:

<b>Net assets</b>	2002 £m
Net assets	1,983.1
Exclude existing net pension liability and prepayment (under SSAP 24)	1.4
	1,984.5
FRS 17 pension liability	(54.9)
Net assets including FRS 17 pension liability	1,929.6
<b>Profit and loss reserve</b>	2002 £m
Profit and loss reserve	1,121.0
Exclude existing net pension liability and prepayment (under SSAP 24)	1.4
	1,122.4
FRS 17 pension liability	(54.9)
Profit and loss reserve including FRS 17 pension liability	1,067.5

### 28 contingent liabilities

The group and company have entered into a number of performance bonding and guarantee arrangements in the normal course of business. Provision is made for any amounts that the directors consider may become payable under such arrangements. The group has also guaranteed obligations of joint ventures and associates totalling £98.0 million (2001 - £49.4 million) and has guaranteed obligations of Aguas Argentinas (in which the group has a 4.35% investment) amounting to £14.5 million.

In addition, the company has guaranteed the overdrafts of a number of subsidiaries amounting to £16.4 million at 31 March 2002 (2001 - £47.6 million).

## notes to the financial statements continued

### 29 related party transactions

The group's related party transactions requiring disclosure in the financial statements in accordance with FR58 'Related Party Transactions' are summarised below:

	<b>2002</b>	<b>2001</b>
	<b>£m</b>	<b>£m</b>
Sales to associates on normal trading terms	1.8	4.2
Sales to joint ventures on normal trading terms	115.6	41.6
Amounts due by associates	0.6	1.3
Amounts due by joint ventures	49.0	39.5
Loans due by joint ventures	62.7	78.1
Amounts owed to joint ventures	4.7	5.1
Loans due to joint ventures	7.6	1.0
Loans due to associates	0.1	-



## notes to the financial statements continued

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### principal group companies

The principal subsidiary undertakings at 31 March 2002 are shown below:

	Country of Incorporation	Activities
<b>Group</b>		
Morrison Limited* (1)	Scotland	Holding company
Rutland Insurance Limited*	Guernsey	Provision of insurance to group companies
<b>UK water and wastewater services</b>		
Anglian Water Services Limited* (2)	England	Water and wastewater undertaker, regulated principally by the Water Industry Act 1991
<b>Utility Services</b>		
Alpheus Environmental Limited	England	Wastewater treatment
Anglian Water Direct Limited	England	Internet shopping and services
<b>Government Services</b>		
MVM Infrastructure Management Solutions Limited (3)	England	Asset and management services
AWG Project Investments Limited	Scotland	Bidding for and managing PFI projects
Morrison Property Care Limited	Scotland	Property maintenance and repair work
MVM Central Land Charges Company Limited	England	Provision of computerised land charge search services
MVM Consultants Plc	England	Sale of computer software and associated services
MVM Pickwick Limited	England	Provision of computer utility services
<b>Project Management Services</b>		
Morrison Construction Limited (4)	Scotland	Building and civil engineering and utility contracting
<b>Developments &amp; Commercial Services</b>		
Ambury Estates Limited	England	Corporate property management
Eastland Developments Limited (5)	England	Provision of infrastructure services to developers
AWG Developments Limited (7)	Scotland	Construction and the development of land and buildings
Morrison Homes Limited	Scotland	Development of residential estates
<b>International Services</b>		
Anglian Water International Limited	England	International water and wastewater business development services, holding company
Anglian Water International Holdings Limited	England	Holding company
Anglian Water Overseas Holdings Limited	England	Holding company
PURAC AB	Sweden	Contracting for water and wastewater treatment processes
PURAC GmbH	Germany	Contracting for water and wastewater treatment processes
PURAC Pty Limited	Australia	Management and operation of wastewater projects
PURAC Limited	England	Contracting for water and wastewater treatment processes
PURAC-Anglian Water Treatment System (Beijing) Co Ltd (6)	China	Contracting for water and wastewater treatment processes
Severomoravské Vodovody A Kanalizace Ostrava a.s. (6)	Czech Republic	Water and wastewater treatment
Vodovody A Kanalizace Jizni Cechy a.s. (6)	Czech Republic	Water and wastewater treatment
Vodovody A Kanalizace Beroun a.s. (6)	Czech Republic	Water and wastewater treatment

## notes to the financial statements continued

### 30 principal group companies (continued)

	Country of Incorporation	Activities
Anglian Water international (NZ) Limited	New Zealand	Management and operation of wastewater projects
Anglian Water (Ireland) Limited	Ireland	Management and operation of leakage reduction and wastewater projects
Kaldnes Miljøteknologi A/S	Norway	Manufacture of wastewater treatment media; contracting in wastewater treatment processes
Zickert Miljø A/S	Denmark	Contracting in wastewater treatment processes
Anglian Water Thailand	Thailand	Management and operation of leakage reduction
Empresa de Obras Sanitarias De Valparaiso S.A. (ESVAL) (6)	Chile	Water and wastewater undertaker
Anglian Water International Holdings Limited y Compania Limitada	Chile	Holding company
Morrison International Limited	Scotland	Building and civil engineering contracting
Morrison International Developments Limited	Scotland	Development of land and buildings
Celtic Anglian Water Limited	Ireland	Water and wastewater treatment
<b>Other</b>		
Powermarque Limited	England	Transport leasing and fleet maintenance

\* These companies are owned directly by Anglian Water Plc.

- (1) Morrison plc changed its name to Morrison Limited and re-registered as a private company on 1 May 2001.
- (2) Including Anglian Water Services trading as Hartlepool Water Limited.
- (3) Geodesys Limited changed its name to MVM Infrastructure Management Solutions Limited on 21 May 2002.
- (4) Morrison Construction Limited's activities are split between the Utility Services and Project Management Services divisions.
- (5) Anglian Water Infrastructure Limited changed its name to Eastland Developments Limited on 30 August 2001.
- (6) These companies have a year end date of 31 December to comply with local requirements.
- (7) Morrison Development Partnership Limited changed its name to AWG Developments Limited on 6 July 2001.

The group also owns a number of smaller and non-trading companies. All subsidiaries are 100 % owned by the group or the company with the exception of Morrison Property Care Limited which is 66.7% owned, Severomoravské Vodovody A Kanalizace Ostrava a.s. which is 54.3% owned, Vodovody A Kanalizace Jizní Čechy a.s. which is 95.2% owned, Celtic Anglian Water Limited which is 50.0% owned and Vodovody A Kanalizace Beroun a.s. which is 58.3% owned. Also, Aguas Puerto sa owns 49.8% of and exerts dominant influence over Empresa de Obras Sanitarias de Valparaiso S.A.

The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation, except for Anglian Water International Limited and the PURAC Companies.

All subsidiaries have a year end of 31 March with the exception of those companies shown in note (6) above.

All subsidiary undertakings disclosed above are included within the group consolidated financial statements.

## notes to the financial statements continued

### **31 subsequent events**

The group has recently made significant progress on the financial and operational restructuring of its businesses. The restructuring involves the separation of the group into two, clearly -delineated businesses: the regulated water and wastewater business, and the five divisions of the infrastructure management group of businesses. This part of the restructuring is now complete and has been reflected in the segmental analysis of results shown in note 2.

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

### **32 ultimate and immediate parent company**

The company's ultimate and immediate parent company is awg plc, a company registered in England and Wales. Copies of the financial statements of awg plc may be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

The smallest and largest group of undertakings of which the company is a member is the group of companies headed by awg plc.