



**Anglian Water**

**ANGLIAN WATER SERVICES LIMITED**

**DIRECTOR'S REPORT  
AND FINANCIAL  
STATEMENTS**

For the year ended 31 March 2000

# CONTENTS

## Statutory Information

Directors' Report .....	2
Historic Cost Financial Statements:	
Profit and Loss Account .....	6
Statement of Total Recognised Gains and Losses .....	6
Balance Sheet .....	7
Cash Flow Statement .....	8
Notes to the Financial Statements .....	9
Statement of Directors' Responsibilities .....	19
Auditors' Report .....	19
Operating and Financial Review .....	20
Regulatory Information	
Historic Cost Profit and Loss Account .....	23
Additional Information Required by the Licence .....	24
Current Cost Financial Statements:	
Profit and Loss Account .....	27
Balance Sheet .....	27
Cash Flow Statement .....	28
Notes to the Current Cost Financial Statements .....	29
Auditors' Report to the Director General of Water Services .....	35
Glossary of Accounting Terms .....	36



## DIRECTORS' REPORT

The Directors have pleasure in presenting their Report and the audited Financial Statements for the year ended 31 March 1993.

### Principal activities and business review

Anglian Water Services Limited's principal activities during the year were the provision of drinking water and the treatment of waste water in a region approximately one-fifth the area of England and Wales. We provide drinking water to nearly four million customers and over five million customers receive our sewerage and sewage treatment services.

The financial results reflect a continued strong performance; profit before tax increased by 9.9% to £190.8m on a turnover of £563.2m.

The Directors are committed to ensuring that the business secures the benefits which flow from our emphasis on being a customer driven Company. This year we were awarded the first of the Government's Charter Marks for the quality of our customer service; for the second year running we received an excellent report from the independent Drinking Water Inspectorate; we saw the best ever levels of compliance by our sewage treatment works; and we received the highest quality accreditation for our laboratories and our first certifications under BS5750. Work has already begun towards adopting the achievement of quality into the whole fabric and operation of the Company by adopting the principles of Total Quality Management. As part of this process we have continued to encourage our workforce to achieve National Vocational Qualifications (NVQ's) in recognition of their skills and competence to work to nationally agreed standards. NVQ's are now available across the many disciplines of the Company in providing water and sewerage services.

A prime driver to service improvement is our capital investment programme which continues on target and on budget. Investment in the year in excess of £300m means that around £1 billion of investment has been undertaken since privatisation. Progress on improving the quality of effluent discharged from our sewage treatment works has been particularly good. All works are now capable of meeting their legal consents. Through the provision of improved treatment facilities we are also contributing to higher standards of bathing water quality along the Anglian coast. The emphasis of the investment programme has now moved to drinking water. This will ensure that all water leaving our water treatment works complies with the more stringent EC standards by December 1995. The main part of this programme will concentrate on further reducing the levels of nitrate, iron, manganese and pesticides.

Our Environmental policy reflects our commitment to the environment. As the largest investor in environmental improvements in Eastern England, we are delighted that our environmental achievements were independently recognised. For the second year in succession we received a major commendation in the Business Commitment to the Environment Award Scheme - this year for habitat development work at Marston Sewage Treatment Works. We were overall winners of the Environmental Solutions Awards for Industry for the development of innovative technology for the handling and use of granular activated carbon in water treatment. In 1992 our Conservation Award Scheme was introduced, which makes cash awards for nature conservation and heritage projects. HRH Queen Elizabeth the Queen Mother presented the awards at the East of England Show.

We continue to develop innovative applications using high technology systems to improve efficiency and performance. This year saw the first full year of the operation of our income management system for unmeasured customers which was extended to measured customers in April 1993. The new system will significantly improve our ability to deal with customers more quickly and efficiently. We are committed to providing a quality and value for money service to our customers and a range of further improvements in this regard have been made in the year. Our Telemetry system is already one of the largest in Europe, we are further enhancing the network to facilitate wider and more efficient use of information about the performance of our installations. The resilience and flexibility in the operation of this network enabled us to maintain customer supplies despite the prolonged drought. Following this winter's rainfall our reservoirs are at their highest level for 4 years and we do not anticipate any problems in meeting demand this summer.

We are required by legislation to seek alternatives to the use of rateable value as a basis for charging by the year 2000. We plan to introduce a programme of compulsory water metering of existing houses from 1994. We believe the intrinsic fairness of metering makes it more acceptable than the alternatives available to replace the existing charging method based on the rateable value of property. This view is supported by the customer research carried out by the Office of Water Services (OFWAT) and by independent surveys in our region. The Company is undertaking a detailed and extensive survey of domestic water consumption. The work has been running since April 1992 and represents the largest study of its kind in the UK. The results will put us in a unique position to understand patterns of water usage and help in constructing appropriate tariffs.

The K price control limits are to be reviewed with results effective from 1 April 1995. In advance of this we are heavily engaged in an extensive review of progress since privatisation and what needs to be done to the turn of the century. An important element of the process is the development of our Asset Management Plan.

The cost of securing the service improvements already made and those which we expect to make from future capital investment must be reflected in higher charges. It is however encouraging to note from our Market Plan research that customers in our region are prepared to support further real increases in charges of around 6% per annum in order to safeguard and improve service standards. We were able to abate price increases by half a percent less than permitted by the Government price control formula and we agreed with OFWAT that this reduction would apply in the two years (1993/94 and 1994/95) leading up to the Periodic Review.

The work of the first three years since privatisation has been directed towards addressing the shortfalls of the past, developing our customer services and improving service standards. To build on this very strong foundation we have now embarked on a major review of systems and procedures to enable us to get even closer to our customers, deliver quality systems in the most cost effective manner and have a structure and culture which will ensure the best possible performance.

3

#### Results and dividends

The results of the Company and the dividends for the year ended 31 March 1993 are set out on page 6.

#### Fixed assets

Details of total movements in fixed assets are shown in note 10 on page 13.

#### Research and development

As we face ever more stringent water quality and environmental regulations our focus on research and development is moving into advanced process technologies. Control measures are being developed to reduce the incidence of algal blooms in our reservoirs by a technique which removes phosphate. Work has also been targeted on further improving potable water treatment via ozone and granular activated carbon methods.

Further development of plastic bead sewage treatment systems has been undertaken and odour control, nutrient removal and sewerage refurbishment techniques are under active investigation.

#### Regulation

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

Under the conditions of the Licence the Company is obliged to provide the Director General of Water Services with additional accounting information to that contained in the statutory accounts, in order to comply with Licence Condition F. This information is presented on pages 23 to 35.

The regulatory information has been prepared in accordance with the guidelines issued by the Director General.

## DIRECTORS' REPORT

### Directors and Directors' interests

A list of Directors at 31 March 1993 is set out below. In addition, Mr A G Semple served as a Director until 29 July 1992 when he retired.

The interests of the Directors in the shares of Anglian Water Plc and in options over such shares granted under that Company's Executive Share Option Scheme and Sharesave Scheme are set out below.

Beneficial and family interests	31 March 1993 No. of shares	1 April 1992 (or date of appointment if later) No. of shares
A F Smith* (Chairman)	5,075	786
J A Simpson* (Managing Director)	1,958	786
C J Mellor*	1,129	487
J Adams* (appointed 1 August 1992)	6,037	595
D C F Latham	1,613	1,381
J W Green	3,626	2,291
P J Matthews	5,010	3,295
P Howarth	2,122	2,000
J W Smith	122	-
P Gleeson (appointed 24 September 1992)	1,181	417
R A Pointer (appointed 3 August 1992)	2,509	2,387
D R Price (appointed 1 August 1992)	704	582

	Options at 31 March 1993		Options granted during the year		Options exercised in the year
	Anglian Water Sharesave Scheme	Anglian Water Executive Share Option Scheme	Anglian Water Sharesave Scheme	Anglian Water Executive Share Option Scheme	
A F Smith*	8,893	77,986	-	8,245	35,117
J A Simpson*	8,893	56,660	-	4,281	35,117
C J Mellor*	6,724	75,424	1,897	8,245	6,613
J Adams*	-	39,667	-	16,924	14,920
D C F Latham	8,893	39,300	-	1,478	-
J W Green	9,916	24,693	-	5,177	6,613
P J Matthews	10,467	11,015	-	855	6,613
P Howarth	2,757	9,866	-	2,811	-
J W Smith	827	13,916	-	3,054	-
P Gleeson	4,090	8,777	-	622	6,364
R A Pointer	8,033	16,427	1,897	622	-
D R Price	6,215	14,861	1,423	1,591	-

\*These beneficial interests in shares and options are the same as, and not additional to, those disclosed in the Directors' Report of Anglian Water Plc.

No Director has an interest in the shares of the Company or any other Group company other than as shown above.

## DIRECTORS' REPORT

Options granted under the Sharesave Scheme are normally exercisable within a period of six months after either the fifth or seventh anniversary of the date of the savings contract. Options under the Executive Share Option Scheme are normally exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of grant. The dates of grant and the option prices are set out below:

	Date of grant	Option price
Sharesave Scheme	12 December 1989	£1.76
Sharesave Scheme	6 December 1990	£2.67
Sharesave Scheme	30 December 1991	£2.72
Sharesave Scheme	21 December 1992	£3.82
Executive Share Option Scheme	19 February 1990	£2.99
Executive Share Option Scheme	20 June 1990	£2.93
Executive Share Option Scheme	10 January 1991	£3.31
Executive Share Option Scheme	7 December 1991	£3.26
Executive Share Option Scheme	24 June 1992	£3.95
Executive Share Option Scheme	15 December 1992	£4.73

Options exercised during the year were at £2.99 under the Executive Share Option Scheme dated 19 February 1990. No Director had during the year or has a material interest in any contract of significance to which the Company or any of its subsidiaries is or was a party.

### Employees

Employees are kept informed on matters affecting them and made aware of the general financial and economic factors influencing the Company's performance. We operate a systematic approach to employee communication through regular briefings, presentations and the wide circulation of the Company newspaper. Share option schemes are in place within the Anglian Water Group which encourage participation in the Company's performance.

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

### Liability insurance

The Company maintains insurance under Section 310(3) of the Companies Act 1985 for its officers against liabilities incurred in relation to the Company.

### Auditors

The Auditors of the Company, Price Waterhouse, have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the Annual General Meeting.

By order of the Board  
Roger Dickinson  
Company Secretary

7 June 1993

Registered Office:  
Anglian House, Ambury Road,  
Huntingdon, Cambridgeshire, PE18 6NZ

Registered in England No. 2366656

## PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1993	Notes	1993 £m	1992 £m
Turnover from continuing operations	2	563.2	516.9
Operating costs	3	(347.6)	(321.8)
Operating profit from continuing operations	2,4	215.6	195.1
Profit on sales of assets in continuing operations		3.2	0.2
Profit on ordinary activities before interest		218.8	195.3
Interest payable (net)	5	(28.0)	(21.7)
Profit on ordinary activities before and after taxation	6	190.8	173.6
Dividends	7	(81.3)	(75.9)
Retained profit for the financial year		109.5	97.7

## TOTAL RECOGNISED GAINS AND LOSSES

Statement of total recognised gains and losses For the year ended 31 March 1993	Note	1993 £m	1992 £m
Profit for the financial year	22	190.8	173.6

The notes on pages 9 to 18 form part of these financial statements.

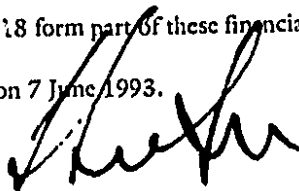
# BALANCE SHEET

At 31 March 1993	Notes	1993 £m	1992 £m
<b>Fixed assets</b>			
Tangible assets	10	2,022.7	1,789.6
Investments	11	15.0	3.0
		<b>2,037.7</b>	<b>1,792.6</b>
<b>Current assets</b>			
Investments	12	210.0	-
Stocks	13	6.5	5.9
Debtors	14	103.8	80.6
		<b>320.3</b>	<b>86.5</b>
<b>Creditors : amounts falling due within one year</b>			
Short term borrowings	15	(100.1)	(8.2)
Other creditors	15	(209.3)	(154.9)
<b>Net current assets/(liabilities)</b>		<b>10.9</b>	<b>(76.6)</b>
<b>Total assets less current liabilities</b>		<b>2,048.6</b>	<b>1,716.0</b>
<b>Creditors : amounts falling due after more than one year</b>			
Loans and other borrowings	16	(476.9)	(288.3)
Other creditors	17	(47.8)	(32.2)
		<b>(524.7)</b>	<b>(320.5)</b>
<b>Provisions for liabilities and charges</b>	18	<b>(103.5)</b>	<b>(84.6)</b>
		<b>1,420.4</b>	<b>1,310.9</b>
<b>Capital and reserves</b>			
Called up share capital	21	860.0	860.0
Profit and loss account	22	560.4	450.9
		<b>1,420.4</b>	<b>1,310.9</b>

The notes on pages 9 to 18 form part of these financial statements.

Approved by the Board on 7 June 1993.

J A SIMPSON  
Managing Director



P HOWARTH  
Finance Director





## CASH FLOW STATEMENT

For the year ended 31 March 1993	Notes	1993 £m	1992 £m
<b>Net cash inflow from operating activities</b>	<b>25(a)</b>	<b>304.4</b>	<b>245.3</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		6.2	1.8
Interest paid		(25.4)	(14.8)
Interest element of finance lease rental payments		(1.2)	(0.4)
Dividends paid		(77.8)	(70.5)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(98.2)</b>	<b>(83.9)</b>
<b>Investing activities</b>			
Purchase of tangible fixed assets		(278.0)	(282.7)
Investment in infrastructure renewals		(15.4)	(11.3)
Grants and contributions received		33.1	31.7
Sales of fixed assets		3.8	0.6
Investment in subsidiary undertakings		(0.1)	-
Investment in other Group undertakings		(222.0)	-
Investment in associated undertakings		0.1	(0.3)
<b>Net cash outflow from investing activities</b>		<b>(478.5)</b>	<b>(262.0)</b>
<b>Net cash outflow before financing</b>		<b>(272.3)</b>	<b>(100.6)</b>
<b>Financing</b>			
Loans from Anglian Water Plc		102.7	0.3
Loans from the European Investment Bank		25.0	65.0
Amounts received under finance lease arrangements		55.3	40.0
Repayments of amounts borrowed		(2.3)	(3.9)
Capital element of finance lease rental payments		(0.8)	(1.3)
<b>Net cash inflow from financing</b>	<b>25(b)</b>	<b>179.9</b>	<b>100.1</b>
<b>Decrease in cash and cash equivalents</b>	<b>25(c)</b>	<b>(92.4)</b>	<b>(0.5)</b>

The notes on pages 9 to 18 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and, except as disclosed in note 1(C) below, in accordance with the Companies Act 1985. The accounts have been prepared in accordance with the requirements of Financial Reporting Standard 3 – Reporting Financial Performance, and consequently certain comparatives have been restated. The following principal accounting policies have been applied:

#### (A) TURNOVER

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for services provided.

#### (B) 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 is treated as an addition and included at cost. Investment expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets, in accordance with the operational policies and standards underlying the Company's Asset Management Plan. The timing of the investment programme and other operational considerations result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account therefore comprise actual expenditure together with accruals which recognise planned expenditure identified in the 20 year Asset Management Plan.

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

Operational structures	40 - 80 years
Buildings	30 - 60 years
Fixed plant	20 - 40 years
Vehicles, mobile plant and computers	4 - 10 years

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

#### (C) GRANTS AND CONTRIBUTIONS

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act. Grants and contributions to capital expenditure on infrastructure assets are deducted from the cost of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true and fair view since, as explained above, infrastructure assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 10. Other grants and contributions are credited to profit and loss account in the year to which they apply.

**(D) 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 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.

**(E) INVESTMENTS**

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

**(F) STOCKS AND WORK IN PROGRESS**

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

**(G) PENSION COSTS**

The Company is a member of the Anglian Water Plc Group, which operates two principal defined benefit pension schemes. Contributions to the Group's 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 in proportion to their expected payroll costs.

**(H) RESEARCH AND DEVELOPMENT**

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

**(I) DEFERRED TAXATION**

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

**2. Segmental analysis**

The Directors believe that the whole of the Company's activities constitute a single class of business, and that the analysis between water supply and sewerage services which was previously shown in the segmental information is more meaningfully covered in the regulatory accounts.

## NOTES TO THE FINANCIAL STATEMENTS

	1993 £m	1992 £m
<b>3. Operating costs</b>		
Raw materials and consumables	25.9	28.0
Other external charges	172.4	158.3
Staff costs (see note 8)	76.5	69.6
Own work capitalised	(13.5)	(10.3)
	<b>261.3</b>	<b>245.6</b>
Depreciation of tangible fixed assets	49.6	39.6
Amortisation of deferred grants and contributions	(1.2)	(1.0)
Infrastructure renewals	37.9	37.6
	<b>347.6</b>	<b>321.8</b>
<b>4. Operating profit</b>	<b>1993</b>	<b>1992</b>
	<b>£m</b>	<b>£m</b>
Operating profit is stated after charging/(crediting):		
Restructuring and relocation costs	-	3.3
Hire of plant and machinery	1.0	1.0
Other operating lease costs	0.2	0.2
Auditors' remuneration	0.2	0.2
Research and development expenditure	2.6	2.7
Grants and contributions	(0.4)	(0.4)
<b>5. Interest payable (net)</b>	<b>1993</b>	<b>1992</b>
	<b>£m</b>	<b>£m</b>
Overdrafts and other loans repayable wholly within five years	0.7	1.2
Long term loans (any part repayable after five years)	31.6	20.9
Finance leases	5.3	1.4
	<b>37.6</b>	<b>23.5</b>
Interest receivable	(9.6)	(1.8)
	<b>28.0</b>	<b>21.7</b>

Interest payable on long term loans of £16.4m (1992 - £12.3m) is payable to the parent company and includes the indexation element of the index linked loan (see note 16). Interest receivable includes £7.5m (1992 - £nil) due from Group companies.

### 6. Taxation

No mainstream corporation tax liability arises for the year ended 31 March 1993 and no provision for deferred taxation is required (see note 19).

## NOTES TO THE FINANCIAL STATEMENTS

7. Dividends	1993 £m	1992 £m
Interim dividend	26.8	24.9
Proposed final dividend	54.5	51.0
	<u>81.3</u>	<u>75.9</u>

8. Employee information	1993 £m	1992 £m
Staff costs:		
Wages and salaries	64.0	59.0
Social security costs	4.9	4.4
Other pension costs (see note 23)	6.8	6.2
Employee profit share	0.8	-
	<u>76.5</u>	<u>69.6</u>

Average number of full time equivalent persons employed in the UK:	1993	1992
Numbers employed	3,970	3,927

### 9. Directors' emoluments

The emoluments of six directors (1992 - five) were paid by Anglian Water Plc and an appropriate proportion of their remuneration is included within management recharges. The combined emoluments of the Directors of Anglian Water Services Limited for their services as Directors of the Company, including management recharges of £446,000 (1992 - £334,000), are set out below. The 1992 figures have been restated to include management recharges.

	1993 £000	1992 £000
Fees	-	-
Contributions to pension schemes	122	64
Other emoluments	742	531
	<u>864</u>	<u>595</u>
The emoluments of the Chairman, excluding pension contributions, were	110	72
The emoluments of the highest paid Director, excluding pension contributions, were	112	82

The emoluments of the other Directors of the Company, excluding pension contributions, were within the following ranges:

	No. of Directors	
	1993	1992
£20,001 - £25,000	3	-
£30,001 - £35,000	-	1
£35,001 - £40,000	2	-
£45,001 - £50,000	2	1
£55,001 - £60,000	-	3
£60,001 - £65,000	2	1
£65,001 - £70,000	-	1
£70,001 - £75,000	1	-
£80,001 - £85,000	1	-

Details of share options granted to Directors are shown in the Directors' Report on page 4.

NOTES TO THE FINANCIAL STATEMENTS

10. Tangible fixed assets	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles plant and equipment £m	Total £m
<b>Cost</b>					
At 31 March 1992	41.5	789.4	1,149.4	74.2	2,054.5
Additions	3.3	80.0	195.0	22.6	300.9
Disposals	-	-	(0.1)	(3.1)	(3.2)
At 31 March 1993	44.8	869.4	1,344.3	93.7	2,352.2
<b>Grants and contributions</b>					
At 31 March 1992	-	29.5	-	-	29.5
Additions	-	17.6	-	-	17.6
At 31 March 1993	-	47.1	-	-	47.1
<b>Depreciation</b>					
At 31 March 1992	6.1	-	193.5	35.8	235.4
Charge for the year	1.1	-	36.9	11.6	49.6
Disposals	-	-	(0.1)	(2.5)	(2.6)
At 31 March 1993	7.2	-	230.3	44.9	282.4
<b>Net book amount</b>					
At 31 March 1993	37.6	822.3	1,114.0	48.8	2,022.7
At 31 March 1992	35.4	759.9	955.9	38.4	1,789.6

13

Tangible fixed assets at 31 March 1993 include £276.6m of assets in the course of construction (1992 - £253.8m) and also include land of £7.5m (1992 - £6.5m) which is not subject to depreciation.

In accordance with the Company's accounting policy there is no provision for depreciation on infrastructure assets and the related grants and contributions are not amortised.

The net book value of tangible fixed assets held under finance leases at 31 March 1993 was £94.5m (1992 - £41.5m). Depreciation charged on assets held under finance leases during the year ended 31 March 1993 amounted to £2.2m (1992 - £1.0m).

The Company's interests in land and buildings are almost entirely freehold.

**Investment commitments**

The Company has a substantial long term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth.

The table below only includes short term investment commitments for projects where contracts have been placed or for authorised projects where contracts have not yet been placed:

	1993 £m	1992 £m
Contracted for but not provided in the financial statements	313.3	151.9
Authorised but not yet contracted for	1,033.5	648.3

## NOTES TO THE FINANCIAL STATEMENTS

11. Fixed asset investments	Subsidiary undertakings £m	Other Group undertakings £m	Associated undertakings £m	Other participating interests £m	Total £m
Shares at cost					
At 31 March 1992 and 1993	-	-	-	0.2	0.2
Loans					
At 31 March 1992	0.3	-	2.5	-	2.8
Net movement	0.1	12.0	(0.1)	-	12.0
At 31 March 1993	0.4	12.0	2.4	-	14.8
Net book amount					
At 31 March 1993	0.4	12.0	2.4	0.2	15.0
At 31 March 1992	0.3	-	2.5	0.2	3.0

The associated undertaking, which is registered and principally operates in England, is :

Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
Grafham Carbons Limited Regeneration of granular activated carbon	40,000	£40,000	50	Ordinary £1 shares

At 31 March 1993 the following subsidiary undertakings, which are registered and principally operate in England, were 100% owned by the Company.

Activities
Smith-Wyatt Limited Well-drilling and hole-boring
Plumbsure Limited Plumbing services

The Company also owns a number of non-trading companies.

Consolidated accounts have not been prepared as permitted under Section 228 of the Companies Act 1985, since the Company is itself a wholly owned subsidiary of Anglian Water Plc. In the opinion of the Directors the value of the Company's investments is not less than the amount at which they are stated in the balance sheet.

### 12. Current asset investments

Current asset investments comprise loans to Anglian Water Plc which bear interest at commercial rates.

## NOTES TO THE FINANCIAL STATEMENTS

13. Stocks	1993 £m	1992 £m
Consumable stores	6.2	5.4
Work in progress	0.3	0.5
	6.5	5.9

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

14. Debtors	1993 £m	1992 £m
<b>Amounts falling due within one year</b>		
Trade debtors	79.3	66.0
Amounts owed by subsidiary undertakings	-	0.1
Amounts owed by other Group undertakings	10.9	0.9
Other debtors	12.8	12.7
Prepayments and accrued income	0.7	0.8
	103.7	80.5
<b>Amounts falling due after more than one year</b>		
Other debtors	0.1	0.1
	103.8	80.6

15. Creditors : amounts falling due within one year	1993 £m	1992 £m
Bank loans, overdrafts and temporary borrowings	99.0	6.6
Current portion of long term loans	0.5	0.7
Obligations under finance leases	0.6	0.9
Short term borrowings	100.1	8.2
Trade creditors	101.0	77.3
Amounts owed to subsidiary undertakings	0.3	0.5
Amounts owed to other Group undertakings	3.1	1.1
Receipts in advance	43.8	19.7
Other taxation and social security	2.0	1.9
Accruals and deferred income	4.6	3.4
Proposed dividend	54.5	51.0
Other creditors	209.3	154.9



## NOTES TO THE FINANCIAL STATEMENTS

	1993 £m	1992 £m
16. Loans and other borrowings falling due after more than one year		
Repayable wholly within 5 years	117.2	113.6
Repayable by instalments, any one of which is due for repayment after 5 years	231.7	174.3
Repayable after 5 years	128.0	0.4
	476.9	288.3
Due for repayment as follows:		
Between 1 and 2 years	117.7	114.1
Between 2 and 5 years	19.3	10.0
After 5 years	339.9	164.2
	476.9	288.3

The above tables include the following:

	Interest Rate %	Repayment date	1993 £m	1992 £m
From the parent company:				
Index linked loan	5.125	See below	117.1	112.9
Fixed rate loan	12.000	2014	100.0	-
Other:				
European Investment Bank	Variable	1999	25.0	-
European Investment Bank	9.9-11.5	1995-2007	105.0	105.0
Finance leases	-	-	100.3	41.0

The value of the capital and interest elements of the index linked loan are linked to movements in the Retail Price Index. The increase in the capital value during the year of £4.2m (1992 - £5.9m) has been taken to the profit and loss account as part of interest payable. The loan is repayable on 366 days notice, but has no fixed repayment date and the Directors do not consider it likely that the loan will be repaid within the next five years.

Of the unspecified loans and other borrowings approximately £1.4m (1992 - £1.5m) are at fixed rates and the remainder are at variable rates.

Loans and other borrowings include £1.4m (1992 - £1.5m) secured on the revenues of the Company. Included in the above are amounts due under finance leases of £0.1m (1992 - £0.6m), payable between one and five years and £100.3m (1992 - £41.0m) payable after five years.

	1993 £m	1992 £m
17. Other creditors falling due after more than one year		
Trade creditors	2.9	2.4
Receipts in advance	4.8	1.2
Deferred grants and contributions	40.1	28.6
	47.8	32.2

## NOTES TO THE FINANCIAL STATEMENTS

18. Provisions for liabilities and charges	Infrastructure renewals £m	Restructuring costs £m	Total £m
At 31 March 1992	81.4	3.2	84.6
Charge for the year	37.9	-	37.9
Utilised in the year	(17.1)	(1.9)	(19.0)
At 31 March 1993	102.2	1.3	103.5

### 19. Deferred taxation

In accordance with the Company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1993. The full potential deferred taxation liability, calculated under the liability method at a tax rate of 33%, is:

	1993 £m	1992 £m
Accelerated capital allowances	131.7	97.0
Other timing differences	(38.9)	(31.4)
Available tax losses	(54.3)	(51.6)
Advance corporation tax available for surrender from the parent company	(23.3)	(10.6)
	15.2	3.4

Further capital allowances will become available in respect of infrastructure assets. The allowances will reduce the Company's corporation tax liability over a number of years by £103.8m (1992 - £122.6m), assuming a tax rate of 33%.

### 20. Commitments under operating leases

At 31 March 1993 the Company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
Within one year	-	0.2
After five years	0.2	-
	0.2	0.2

### 21. Share capital

	1993 £m	1992 £m
Authorised		
Ordinary shares of £1 each	860.0	860.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	860.0	860.0

## NOTES TO THE FINANCIAL STATEMENTS

22. Shareholders' funds	Share capital £m	Profit and loss account £m	Total £m
At 31 March 1992	860.0	450.9	1,310.9
Total recognised gains relating to the year	-	190.8	190.8
Dividends	-	(81.3)	(81.3)
At 31 March 1993	860.0	560.4	1,420.4

### 23. Pension commitments

The Company is a member of the Anglian Water Plc Group. The Group operates pension schemes covering the majority of its employees. The two principal schemes are the Anglian Water Mirror Image Pension Scheme and the Anglian Water Pension Scheme. These schemes are both of the defined benefit type. The administration and investment of the pension funds are maintained independently from the finances of the Group. Further details may be found within the accounts of Anglian Water Plc. The pensions charge for the year ended 31 March 1993 was £6.8m (1992 - £6.2m).

### 24. Ultimate parent company

The Company's ultimate parent company is Anglian Water Plc, which is registered in England, copies of whose accounts may be obtained from the Company Secretary, Anglian House, 1 Embury Road, Huntingdon, Cambridgeshire PE18 6NZ.

### 25. Notes to the cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities	1993 £m	1992 £m
Operating profit	215.6	195.1
Depreciation (net of amortisation of deferred grants and contributions)	48.4	38.6
Provision for infrastructure renewals	37.9	37.6
Net movement in restructuring provision	(1.9)	3.2
	300.0	274.5
Changes in working capital:		
(Increase)/decrease in stocks	(0.6)	0.6
Increase in debtors	(18.1)	(2.0)
Increase/(decrease) in creditors	23.1	(27.8)
	4.4	(29.2)
Net cash inflow from operating activities	304.4	245.3

b) Analysis of changes in financing during the year	1993 £m	1992 £m	Change in year	
			1993 £m	1992 £m
Loans and finance lease obligations:				
Due within one year	1.1	1.6	(0.5)	(1.1)
Due after one year	476.9	288.3	188.6	108.1
	478.0	289.9	188.1	107.0
Changes in the year comprise:				
Net cash inflow			179.9	100.1
Indexation of loan			4.2	5.9
Deferred finance charges on finance lease arrangements			4.0	1.0
			188.1	107.0

c) Analysis of cash and cash equivalents as shown in the balance sheet	1993 £m	1992 £m	Change in year	
			1993 £m	1992 £m
Bank loans, overdrafts and temporary borrowings	99.0	6.6	(92.4)	(0.5)

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## AUDITORS' REPORT

### Auditors' Report to the Shareholders of Anglian Water Services Limited

We have audited the financial statements on pages 6 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

#### Respective responsibilities of Directors and Auditors

As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

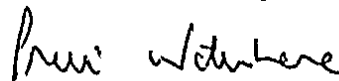
#### Basis of opinion

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

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 1993 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

7 June 1993



**Introduction**

The inclusion of this operating and financial review reflects our commitment to supporting best practice in financial reporting in line with the recommendations of the Accounting Standards Board.

**Operating Results**

Turnover for the year increased by 9.0% from £516.9m to £563.2m, almost all of which arose from price increases in accordance with the price control limits agreed at the time of privatisation. The effect of the recession continued to be felt in 1992/93. Some 18,400 new houses were connected to our water system, the lowest level for some time, and measured consumption showed a marginal reduction. However, the overall impact on turnover was less than 1%.

The regulatory (RPI + K) price control formula allowed us to increase charges by RPI + 5.5%. However, in 1993 we passed on some of the benefits secured from efficiency initiatives and lower inflation by abating our increase by 0.5%.

	RPI* %	K Permitted	K Implemented
1990/91	7.7	5.5	5.5
1991/92	9.7	5.5	5.5
1992/93	4.3	5.5	5.0
*As at November in the preceding year			

The Director General has issued notice of his intention to carry out a Periodic Review of all companies' K factors effective from 1 April 1995. Notwithstanding this, we agreed with OFWAT that in the two years leading up to the Periodic Review, our charges increases would be restricted to RPI + 5.0%, that is 0.5% less in each year than permitted under the formula agreed with Government at privatisation. This reduction mainly reflects the benefits of lower construction price inflation. The two year arrangement with OFWAT restores the stability in our price controls for 1993/94 and 1994/95.

Around 93% of turnover in the year came from main charges for water, sewerage and trade effluent services. 74% of this was income from unmeasured customers and 26% from measured customers. These proportions will change significantly as we progressively introduce a programme of compulsory metering over the next 15-20 years (all new properties have been metered since 1990). Although we believe that metering is a more equitable basis for charging we recognise that there are additional costs associated with its introduction. Progress on metering will depend on the agreements reached on funding this investment during the K setting process at Periodic Review.

Increased operating costs in the first two years after privatisation reflected changes which were necessary to bring about improvements in the standards and levels of service. This initial backlog of work has now been completed. Operating costs show an 8.0% increase from £321.8m to £347.6m. Inflation added some 4% to our costs. Depreciation increased from £38.6m to £48.4m as a result of capital expenditure, where around £1 billion of investment has been undertaken since privatisation. Increasing depreciation costs will continue to feature as the effect of rising levels of capital expenditure feed through as charges against profits.

Operating costs are largely fixed in the short term. Marginal changes result from movements in customer demand, but more significant changes arise from the need to meet increased standards arising from new obligations. The largest element of our direct operating costs is manpower. Following the termination of the sewerage agency arrangements with local authorities, we now directly employ our own workforce to carry out this work.

The infrastructure renewals charge derives from our long term investment plans and represents the cost of maintaining our network of underground pipes and sewers in perpetuity. At £37.9m it is almost unchanged from 1992, reflecting the downward trend in inflation. The profile of our expenditure programme means that whereas in the last three years our actual expenditure has been less than the profit and loss account charge, this trend will reverse in the second half of the decade. As planned, we will be undertaking significant amounts of work on those assets which are part of the water mains replacement and renovation programme.

The other principal areas of increase in operating costs are in meeting increased quality standards £3.2m, provisions for bad debts £8.4m and the increased cost from the National Rivers Authority for direct discharges £1.3m. Against this, increased efficiencies of £4.1m have been secured.

The increased bad debt charge reflects the prevailing economic climate. We have made significant efforts to ensure that through television advertising and other campaigns, those of our customers who face genuine difficulty have the opportunity to enter into flexible payment schemes. However, provisions against potential exposure in this area have been increased accordingly.

Operating profit for the year rose by 10.5% from £195.1m to £215.6m.

Profits have benefited from £3.2m profits on sale of properties and other fixed assets. We continue to review our asset base to identify surplus assets for disposal. As borrowings have increased to finance the capital expenditure programme, net interest for the year at £28.0m shows an increase of 29.0%. Profit before and after tax at £190.8m is 9.9% higher than in 1992.

### Financial Needs and Resources

At 31 March the Company had net borrowings of £367.0m, an increase of £70.5m over the year. This is in line with our plans. We were one of only two water companies with net debt immediately following privatisation. The K setting process allows for our capital investment programme to be funded not only by internal generation of funds (all retained profit over the last three years having been used to help finance capital investment) but also by increased borrowings. The increased net borrowings have been financed by £55.3m from leasing and £25m from EIB. The increasing use of leasing is enabling us to maximise the benefits of our mainstream tax position, where capital allowances have and continue to give us significant taxable losses.

Year end gearing (Debt/Debt plus Equity) at 20.5% compares to 18.4% in 1992. Net borrowings are a mixture of fixed and variable rate elements (£478.0m) offset by investments, cash and deposits, net of overdrafts (£111.0m). Borrowings include £154.5m at floating rates. The balance between fixed and floating rate debt is aimed at securing funds to meet our increasing requirements whilst achieving the lowest cost in the medium term and minimising exposure to short term interest rate fluctuations. Where opportunities have presented themselves the Company's operations have been prefunded. Excess cash is invested only where the timely repayment of principal and interest is certain. Our existing borrowings are supplemented by a revolving credit facility of £200m. This has been progressively reduced from the £1 billion in place at privatisation. This facility expires in 1995 and negotiations are underway to replace it.

The capital investment programme for the year has been completed on time and on budget. Total expenditure for the year of £318.0m represents an increase of 11.8% on 1991/92.

The Periodic Review of K in 1994 will have a significant impact on our borrowing requirements, since it will

determine the maximum price limits for the second half of the decade. This will partly determine profits that can be retained to finance capital investment and the level of external finance needed. The Director General of Water Services has indicated that he would like to see Water Companies' obligations being financed by increased levels of gearing. This issue will form part of the discussions taking place in the run up to K setting.

The Company's balance sheet shows a reduced working capital requirement despite the significant increase in debtors. As a long term measure to enable us to control our billing and debt collection process more effectively, a major new computer system has been introduced to improve income management. We would expect to see the benefits of this development beginning to flow through in 1994.

### Shareholder's Return and Value Created

The full year dividend has been increased from £75.9m to £81.3m, a real increase of 3.9% over the average rate of inflation during the year.

The outcome of negotiations at the Periodic Review will influence the future level of return to the Group's shareholders. The Director General has a duty under the Water Industry Act 1991 to ensure that companies can finance the proper carrying out of their functions. It will also be important to ensure that sufficient incentives exist for the companies and their shareholders to continue to improve the efficiency and quality of services to customers. We will be looking to promote such incentives whilst maintaining a balance between shareholder and customer interests.

## REGULATORY INFORMATION

As discussed in the Directors' Report on page 3, the Company's activities are regulated by the conditions of an Instrument of Appointment ("the Licence") granted to the Company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage functions.

As required by Licence Condition F, an analysis of the historic cost profit and loss account is set out below. An historic cost balance sheet is shown on page 7. A current cost profit and loss account and balance sheet are shown on page 27. Other current cost disclosures appear on pages 28 to 34.

The regulatory statements are prepared in accordance with guidelines issued by the Director General of Water Services. Under the guidelines the treatment of certain turnover and expenditure items differs from that disclosed in the statutory accounts. Since the turnover, operating profit and net operating assets of non-appointed activities fall below materiality thresholds defined by the Director General, the total business of the Company has been treated as the appointed business in these regulatory statements.

Historic cost profit and loss account for the year ended 31 March 1993	1993 £m	1992 £m
Turnover	561.5	514.9
Operating costs	(347.6)	(321.8)
Operating income	3.2	0.2
Operating profit	217.1	193.3
Other income	1.7	2.0
Interest payable (net)	(28.0)	(21.7)
<b>Profit on ordinary activities before and after taxation</b>	<b>190.8</b>	<b>173.6</b>
Dividends	(81.3)	(75.9)
<b>Retained profit for year</b>	<b>109.5</b>	<b>97.7</b>



**ADDITIONAL INFORMATION REQUIRED BY THE LICENCE**

1. **Accounting policies**  
The accounting policies are set out on pages 9 and 10, except that as noted on page 23, under the guidelines issued by the Director General of Water Services certain turnover and expenditure items are treated differently in the regulatory accounts.
2. **Information in relation to allocations and apportionments between the appointed and any other business or activity of the appointee or associated company**  
The non-appointed businesses relate mainly to recreation, leisure and the provision of engineering services. A proportion of the operating costs relating to these activities is directly incurred and does not require allocation. Other relevant costs have been allocated according to time spent on these activities.
3. **Allocation to principal service**
  - (i) Operating costs are incurred directly by specific service and have not required allocation. Indirect costs are allocated on either a causal link basis or according to local managers' assessments. The allocation to principal service of the charge for infrastructure renewals is based on the Asset Management Plan.
  - (ii) Capital costs. The majority of capital costs, and hence the related depreciation charges, are incurred directly by specific service and have not required allocation.
4. **Protection of the core business**
  - (i) In the opinion of the Directors, the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil its obligations under the Appointment).
  - (ii) In the opinion of the Directors the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.
5. **Ring fencing**  
*In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of Condition K of the Licence throughout the year.*
6. **Information in respect of transactions with any other business or activity of the appointee or any associated company**  
To the best of the Directors' knowledge, all appropriate transactions with associated companies have been disclosed in notes (a) to (g) below:

(a) **Borrowings or sums lent**

Sums lent by the appointee to associated companies:

Borrower	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc	180.0	1993	3 month LIBID
Anglian Water Plc	30.0	1994	3 month LJBID plus 0.2%
Anglian Water Engineering and Business Systems Limited*	12.0	-	-
Grasham Carbons Limited	2.4	2001	11.25
Smith-Wyatt Limited	0.3	On demand	11.25
Plumbsure Limited	0.1	366 days notice	5 year gilts plus 1%

\*This associated company's activities relate almost entirely to the appointed business. The loan is repayable by agreement between the parties.

## ADDITIONAL INFORMATION REQUIRED BY THE LICENCE

Sums borrowed by the appointee from associated companies :

Lender		Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc	- index linked	117.1	366 days notice	5.125*
	- fixed rate loan	100.0	2014	12.000
	- other	2.9	366 days notice	various

\*The loan bears interest of 5.125%. However, the value of the capital and interest elements are linked to movements in the Retail Price Index. The increase in the capital value during the year was £4.2m.

**(b) Dividends paid to associated companies**

During the year dividends of £77.8m were paid to Anglian Water Plc. This comprised a final dividend for the year ended 31 March 1992 of 5.93p per share (£51.0m) and an interim dividend for the year ended 31 March 1993 of 3.113p per share (£26.8m). The interim and proposed final dividend for 1993 represent a 7.1% increase over 1992 which amounts to a real increase of 3.9%.

**(c) Guarantees/securities**

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

	Amount £m	Repayment date	Interest rate %
Index Linked Loan Stock	117.1	2008	5.125
Fixed Rate Bond	100.0	2014	12.000

**(d) Transfers of assets/liabilities**

No material transfers took place during the year.

**(e) Supply of services**

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Rental and use of office accommodation	Anglian Water Engineering and Business Systems Limited	Market rent or allocation of cost	1.5
Rental of office accommodation	Anglian Water Plc	Market rent	0.2
Other services	Various	Market rates	0.5
			2.2

**ADDITIONAL INFORMATION REQUIRED BY THE LICENCE**

Services supplied to the appointee by associated companies :

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Supply of customer accounting, exchequer and computer services	Anglian Water Engineering and Business Systems Limited	52.3	At cost of supply	33.4
Supply of engineering and project control services	Anglian Water Engineering and Business Systems Limited	52.3	At cost of supply	17.9
Management charge	Anglian Water Plc	11.8	Recharge of appropriate costs	10.3
Engineering construction and fabrication	Anglian H & G Limited	6.3	Competitive tendering/negotiated market rates	5.4
Engineering construction and fabrication	Anglian Engineering Services Limited	4.5	Competitive tendering/negotiated market rates	3.5
Well-drilling	Smith-Wyatt Limited	2.4	Negotiated market rates	1.5
Supply of granular activated carbon	Graham Carbons Limited	2.4	At cost of supply under terms of joint venture agreement	1.5
Insurance services	Rutland Insurance Company Ltd	1.3	Negotiated market rates	1.1
Engineering construction and fabrication	Farm Gas Limited	5.8	Negotiated market rates	0.9
Plumbing services	Plumbsure	1.4	Negotiated market rates	0.6
Engineering construction and fabrication	Rosewater Limited	6.7	Negotiated market rates	0.3
Other services	Alpheus Environmental Limited	1.3	Negotiated market rates	0.1
				<b>76.5</b>

\*This total includes amounts of £29.4m which were capitalised by the appointed business.

- (f) **Omissions of rights**  
No material omissions took place during the year.
- (g) **Waivers**  
There were no material waivers during the year.

## CURRENT COST FINANCIAL STATEMENTS

Current cost profit and loss account for the year ended 31 March 1993	Notes	1993 £m	1992 £m
Turnover	2	561.5	514.9
Operating costs	4	(378.2)	(355.7)
Operating income	3	3.2	0.1
		186.5	159.3
Working capital adjustment		1.8	4.7
<b>Current cost operating profit</b>		<b>188.3</b>	<b>164.0</b>
Other income		1.7	2.0
Interest payable (net)		(28.0)	(21.7)
Financing adjustment		5.7	7.5
<b>Current cost profit attributable to shareholders</b>		<b>167.7</b>	<b>151.8</b>
Dividends		(81.3)	(75.9)
<b>Current cost profit retained</b>		<b>86.4</b>	<b>75.9</b>

Current cost balance sheet at 31 March 1993	Notes	1993 £m	1992 £m
<b>Assets employed</b>			
Fixed assets	5	11,874.4	11,409.0
Third party contributions since 31 March 1990		(242.5)	(181.5)
		11,631.9	11,227.5
Working capital	6	(145.4)	(96.7)
<b>Net operating assets</b>		<b>11,486.5</b>	<b>11,130.8</b>
Cash and investments		225.0	3.0
Non-trade debtors		1.9	1.2
Non-trade creditors due within one year		(157.8)	(62.5)
Creditors due after one year		(484.6)	(291.9)
Provisions for liabilities and charges		(1.3)	(3.2)
<b>Net assets employed</b>		<b>11,069.7</b>	<b>10,777.4</b>
<b>Financed by</b>			
Called up share capital		860.0	860.0
Profit and loss account	7	249.4	163.0
Current cost reserve	8	9,960.3	9,754.4
<b>Total capital and reserves</b>		<b>11,069.7</b>	<b>10,777.4</b>

## CURRENT COST FINANCIAL STATEMENTS

Current cost cash flow statement for the year ended 31 March 1993	Note	1993 £m	1992 £m
Net cash inflow from operating activities	9	302.7	243.3
<b>Returns on investments and servicing of finance</b>			
Other income received		1.7	2.0
Interest received		6.2	1.8
Interest paid		(25.4)	(14.8)
Interest in finance lease rentals		(1.2)	(0.4)
Dividends paid		(77.8)	(70.5)
Net cash outflow from returns on investments and servicing of finance		(96.5)	(81.9)
<b>Investing activities</b>			
Purchase of fixed assets		(260.3)	(262.3)
Investment in Group undertakings		(222.0)	(0.3)
Disposal of fixed assets		3.8	0.6
Net cash outflow from investing activities		(478.5)	(262.0)
Net cash outflow before financing		(272.3)	(100.6)
<b>Financing</b>			
Capital in finance lease rentals		(0.8)	(1.3)
New medium/long term loans (net)		180.7	101.4
Net cash inflow from financing		179.9	100.1
Decrease in cash and cash equivalents		(92.4)	(0.5)

1. Accounting policies

(a) General

These accounts have been prepared for Anglian Water Services Limited in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the statutory historical cost accounts, except as set out below:

(b) Tangible fixed assets

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

Land and Buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 1990 and have been expressed in real terms by indexation using the Retail Price Index (RPI) since that date.

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

Infrastructure assets

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

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

Other fixed assets

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

Surplus land

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

(c) Grants and other third party contributions

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

# NOTES TO THE CURRENT COST FINANCIAL STATEMENTS

(d) Real financial capital maintenance adjustments

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

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

Disposal of fixed assets adjustment - the difference between the values of realised assets in these current cost accounts and in the historical cost accounts.

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

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

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

30

2. Turnover	Water services £m	Sewerage services £m	Total 1993 £m	Water services £m	Sewerage services £m	Total 1992 £m
Measured	73.2	48.8	122.0	65.3	41.0	106.3
Unmeasured	153.4	234.2	387.6	136.7	216.3	353.0
Trade effluent	-	14.9	14.9		14.1	14.1
Revenue grants	0.4	-	0.4	0.4	-	0.4
Non tariff basket charges	12.3	5.6	17.9	11.7	6.9	18.6
Rechargeable work	8.1	0.2	8.3	11.2	0.3	11.5
Services charged to associated companies	0.5	0.7	1.2	0.7	0.8	1.5
Other	4.1	5.1	9.2	3.3	6.2	9.5
<b>Total turnover</b>	<b>252.0</b>	<b>309.5</b>	<b>561.5</b>	<b>229.3</b>	<b>285.6</b>	<b>514.9</b>

3. Operating income	1993 £m	1992 £m
Profit on sale of fixed assets	3.2	0.1

# NOTES TO THE CURRENT COST FINANCIAL STATEMENTS

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

	Service Analysis								Business Analysis		
	Water Supply			Sewerage Services					Customer services £m	Scientific services £m	Cost of regulation £m
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewage T&D subtotal £m	Sewerage services subtotal £m			
Direct costs											
Employment costs	5.3	12.4	17.7	3.4	13.5	1.3	14.8	18.2	6.5	4.8	0.3
Power	6.8	5.7	12.5	2.6	9.1	0.6	9.7	12.3	-	-	-
Agencies	-	-	-	(0.1)	-	-	-	(0.1)	-	-	-
Hired & contracted services	1.6	2.9	4.5	8.4	4.8	5.6	10.4	18.8	1.1	0.5	0.4
Materials and consumables	6.4	3.3	9.7	1.5	4.7	0.7	5.4	6.9	0.6	0.9	-
Service charges	7.3	-	7.3	0.6	2.7	-	2.7	3.3	-	-	-
Other direct costs	0.4	0.1	0.5	0.2	0.6	0.1	0.7	0.9	5.6	0.3	0.8
<b>Total direct costs</b>	<b>27.8</b>	<b>24.4</b>	<b>52.2</b>	<b>16.6</b>	<b>35.4</b>	<b>8.3</b>	<b>43.7</b>	<b>60.3</b>	<b>13.8</b>	<b>6.5</b>	<b>1.5</b>
General and support expenditure	10.2	18.0	28.2	11.8	11.6	6.0	17.6	29.4	11.9	0.9	0.9
Functional expenditure	38.0	42.4	80.4	28.4	47.0	14.3	61.3	89.7	25.7	7.4	2.4
Capital costs:											
CC depreciation	11.9	8.3	20.2	8.2	31.6	1.0	32.6	40.8			
Infrastructure renewals expenditure	0.1	12.3	12.4	3.6	1.1	-	1.1	4.7			
Infrastructure renewals accrual/(prepayment)	0.1	19.0	19.1	2.7	(1.0)	-	(1.0)	1.7			
<b>Functional costs</b>	<b>50.1</b>	<b>82.0</b>	<b>132.1</b>	<b>42.9</b>	<b>78.7</b>	<b>15.3</b>	<b>94.0</b>	<b>136.9</b>			
Total including business analysis			150.0					154.5			
Rates			15.4					10.0			
Doubtful debts			8.0					7.7			
Exceptional items			-					-			
Business activities capital costs			6.6					9.3			
<b>Service cost</b>			<b>180.0</b>					<b>181.5</b>			
Services for third parties			15.6					1.1			
<b>Total cost</b>			<b>195.6</b>					<b>182.6</b>			
1992 Total cost			181.4					174.3			
Fixed asset net book values*											
Service activities	573.1	2,997.6	3,570.7	6,792.9	1,216.9	30.5	1,247.4	8,040.3			
Business activities			55.3	28.6			49.1	77.7			
Service totals			3,626.0	6,821.5			1,296.5	8,118.0			
Service assets for third parties			126.6					3.8			
<b>Total MEA values</b>			<b>3,752.6</b>					<b>8,121.8</b>			
1992 Total MEA values			3,531.6					7,877.4			

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



# NOTES TO THE CURRENT COST FINANCIAL STATEMENTS

## 5. Fixed assets

(a) Fixed assets by service	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
<b>Gross replacement cost</b>				
At 31 March 1992	4,066.5	6,850.1	1,944.1	12,860.7
RPI adjustment	77.3	130.2	36.9	244.4
Disposals	(2.4)	(1.2)	(2.0)	(5.6)
Additions	182.9	69.2	77.3	329.4
At 31 March 1993	4,324.3	7,048.3	2,056.3	13,428.9
<b>Depreciation</b>				
At 31 March 1992	534.9	212.1	704.7	1,451.7
RPI adjustment	10.2	4.0	13.4	27.6
Disposals	(2.0)	(1.0)	(1.7)	(4.7)
Charge for the year	28.6	11.7	39.6	79.9
At 31 March 1993	571.7	226.8	756.0	1,554.5
<b>Net book amount</b>				
At 31 March 1993	3,752.6	6,821.5	1,300.3	11,874.4
At 31 March 1992	3,531.6	6,638.0	1,239.4	11,409.0

32

(b) Fixed assets by type	Specialised operational assets £m	Non- Specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
<b>Gross replacement cost</b>					
At 31 March 1992	3,189.5	65.3	9,499.2	106.7	12,860.7
RPI adjustment	60.6	1.3	180.5	2.0	244.4
Disposals	-	-	-	(5.6)	(5.6)
Additions	194.9	3.3	108.6	22.6	329.4
At 31 March 1993	3,445.0	69.9	9,788.3	125.7	13,428.9
<b>Depreciation</b>					
At 31 March 1992	1,391.2	3.4	-	57.1	1,451.7
RPI adjustment	26.4	0.1	-	1.1	27.6
Disposals	-	-	-	(4.7)	(4.7)
Charge for the year	63.3	0.7	-	15.9	79.9
At 31 March 1993	1,480.9	4.2	-	69.4	1,554.5
<b>Net book amount</b>					
At 31 March 1993	1,964.1	65.7	9,788.3	56.3	11,874.4
At 31 March 1992	1,798.3	61.9	9,499.2	49.6	11,409.0
<b>(c) Net book value of fixed assets by service and by type</b>					
	£m	£m	£m	£m	£m
Water supply	710.0	32.2	2,986.2	24.2	3,752.6
Sewerage	257.8	11.4	6,540.4	11.9	6,821.5
Sewage treatment & disposal	996.3	22.1	261.7	20.2	1,300.3
At 31 March 1993	1,964.1	65.7	9,788.3	56.3	11,874.4

## NOTES TO THE CURRENT COST FINANCIAL STATEMENTS

	1993 £m	1992 £m
<b>6. Working capital</b>		
Stocks	6.5	5.9
Trade debtors	79.3	66.0
Trade creditors	(22.9)	(21.3)
Short term capital creditors	(78.1)	(56.0)
Infrastructure renewals accrual	(102.2)	(81.4)
Other trade accruals	(1.4)	(0.1)
Payroll related taxes and social security contributions	(2.0)	(1.9)
Group trade debtors/(creditors)	7.5	(0.6)
Other trade debtors/(creditors)	(32.8)	(8.1)
Prepayments	0.7	0.8
	<b>(145.4)</b>	<b>(96.7)</b>
<b>7. Current cost profit and loss account</b>		
Opening balance	163.0	87.1
Retained profit for the year	86.4	75.9
Closing balance	<b>249.4</b>	<b>163.0</b>
<b>8. Current cost reserve</b>		
Opening balance	9,754.4	9,341.1
RPI adjustments:		
Fixed assets	216.8	428.6
Working capital	(1.8)	(4.7)
Financing	(5.7)	(7.5)
Deferred grants and contributions	(3.4)	(3.1)
Closing balance	<b>9,960.3</b>	<b>9,754.4</b>
<b>9. Reconciliation of current cost operating profit to net cash flow from operating activities</b>		
Current cost operating profit	188.3	164.0
Current cost depreciation (net of amortisation of deferred grants and contributions)	78.7	72.5
Current cost profit on sale of assets	(3.2)	(0.1)
Provision for infrastructure renewals	37.9	37.6
(Increase)/decrease in stocks	(0.6)	0.6
Increase in debtors and prepaid expenses	(18.1)	(2.0)
Increase/(decrease) in creditors and accrued expenses	23.1	(27.8)
Net movement in restructuring provision	(1.9)	3.2
Effect of other deferrals and accruals of operating activity cash flow	0.3	-
Working capital adjustment	(1.8)	(4.7)
Net cash flow from operating activities	<b>302.7</b>	<b>243.3</b>

## NOTES TO THE CURRENT COST FINANCIAL STATEMENTS

10. Current cost rolling summary	1993	1992	1991
Profit and loss account	£m	£m	£m
Turnover	561.5	529.2	489.2
Operating costs	(378.2)	(364.1)	(344.6)
Operating income	3.2	0.1	0.3
Working capital adjustment	1.8	4.8	5.9
Current cost operating profit	188.3	170.0	150.8
Other income	1.7	1.5	2.6
Interest payable (net)	(28.0)	(22.4)	(18.7)
Financing adjustment	5.7	7.7	16.3
Current cost profit attributable to shareholders	167.7	156.8	151.0
Dividends	(81.3)	(78.3)	(74.4)
Current cost profit retained	86.4	78.5	76.6

Balance Sheet	1993	1992	1991
	£m	£m	£m
<b>Assets employed</b>			
Fixed assets	11,874.4	11,625.8	11,357.5
Third party contributions since 31 March 1990	(242.5)	(184.9)	(82.7)
Working capital	(145.4)	(98.5)	(123.5)
Net operating assets	11,486.5	11,342.4	11,151.3
Cash and investments	225.0	3.0	2.9
Non-trade debtors	1.9	1.2	-
Non-trade creditors due within one year	(157.8)	(63.7)	(57.7)
Creditors due after one year	(484.6)	(297.4)	(191.0)
Provisions for liabilities and charges	(1.3)	(3.3)	-
Net assets employed	11,069.7	10,982.2	10,905.5
<b>Financed by</b>			
Called up share capital	860.0	876.3	911.6
Profit and loss account	249.4	166.1	92.3
Current cost reserve	9,960.3	9,939.8	9,901.6
Total capital and reserves	11,069.7	10,982.2	10,905.5

The financial information set out above for the two years ended 31 March 1992 is based on the audited current cost financial statements for those years, as adjusted to 1992/93 prices for changes in the Retail Price Index.

## Auditors' Report to the Director General of Water Services

We have audited the financial statements on pages 23 to 34 in accordance with Auditing Standards.

In our opinion the financial statements contain the information for the year to 31 March 1993 required to be published and submitted to you by Anglian Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991.

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

- (a) Proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the Instrument.
- (b) The information is in agreement with the appointee's accounting records, complies with the requirements of Condition F of the Instrument, and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services.
- (c) The financial statements on pages 6 to 18 and pages 23 to 26 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the appointee and its appointed business.
- (d) The current cost financial information on pages 27 to 34 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.
- (e) The bases used for the allocation and apportionment of revenues, costs, assets and liabilities between:
  - water supply, sewerage and sewage treatment and disposal;
  - the appointed business and any other business or activity of the appointee; and
  - the appointee and any associated company;

are as described on page 24 and are reasonable.

*Price Waterhouse*

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

7 June 1993



## GLOSSARY OF ACCOUNTING TERMS

In this glossary some of the terms in the Financial Statements are explained. The definitions are intended as a guide for those who may not be familiar with some of the accounting terminology. They do not however replace any of the more commonly accepted definitions recognised in financial accounting practice.

### **Associated undertaking**

In the statutory information (pages 2 to 22) this means a company in which Anglian Water Services holds at least 20% but not more than 50% of the equity capital, has representation on its Board of Directors and participation in policy making.

In the regulatory information (pages 23 to 35) this definition is extended to include any other company within the Anglian Water Plc group.

### **Contingent liabilities**

Potential liabilities which depend on one or more uncertain future events. Such liabilities are therefore not provided for in the accounts.

### **Current cost accounting**

A means of expressing accounting information at current price levels, the form and methodology of which is in accordance with that prescribed by the Director General of Water Services.

### **Deferred taxation**

Profits arrived at for accounting purposes differ from those determined for calculation of corporation tax, e.g. depreciation is replaced in tax computations by capital allowances. This can lead to payments of tax on profit being deferred. Where this temporary *deferral of tax is expected to become payable in the near future, a provision is made. For AWS no such provision is currently necessary since we anticipate that capital allowances will exceed annual depreciation charges for the foreseeable future.*

### **Depreciation**

The amount charged against profits to reflect the usage of fixed assets with a finite economic life expectancy.

### **Emoluments**

Earnings including salaries, bonuses, contributions to pension schemes, and the estimated value of benefits in kind.

### **Finance leases**

Leases which transfer substantially all of the risks and rewards of ownership of assets to the Company. The relevant assets are treated in the accounts as if they had been purchased, albeit that they have to be paid for over a number of years.

### **Fixed assets**

Assets of a long lasting or permanent nature, held for continuing use in the business e.g. land, buildings, plant and machinery.

### **Index linked loan**

Loan issued by the Parent Company for which the level of interest payments and the ultimate capital repayment are linked to movements in the Retail Price Index.

### **Infrastructure renewals charge**

An annual charge based upon our long term investment plan. This reflects the cost of maintaining in perpetuity the operating capability of the network of infrastructure assets to defined standards of service.

### **Provisions**

Estimated liabilities, the actual expenditures for which are expected to arise in future accounting periods.

### **Reserves**

The share of profit after tax and dividends that is retained for reinvestment by the company. The current cost reserve also includes revaluation of fixed assets.

### **Share capital**

Share capital is the "nominal" value of a company's share (£1 each for Anglian Water Services) multiplied by the number of shares in issue.

### **Subsidiary undertaking**

A company in which Anglian Water Services owns more than 50% of the share capital and/or has effective control of policy making.