



it's clear why people trust Anglian Water

Anglian Water Services Limited
annual report and accounts 1998



Anglian Water

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directors' report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 1998.

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 four million customers and over five million customers benefit from our sewerage and sewage treatment services. A review of the company's performance during the year, together with comments on the financial results, is contained on page 4.

Results and dividends

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

Research and development

Research and development activities cover water and wastewater activities and focus on delivering our services more efficiently in water treatment. We are continuing to install membrane plants and we have developed a pilot seawater desalination plant at Felixstowe using membrane technology.

On the wastewater side we are working to provide compact, cost-effective treatment processes.

Regulation

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

Under condition F of the Licence the company is obliged to provide the Director General of Water Services (DG) with additional accounting information to that contained in the historical cost financial statements. This information is presented in pages 19 to 30. The regulatory information has been prepared in accordance with guidelines issued by the DG.

Directors and directors' interests

The directors at 31 March 1998 were:

C J Mellor—Chairman

R A Pointer—Managing Director

J W Green

Mr A F Smith resigned from the board on 31 December 1997. Mr R A Pointer was appointed on 19 January 1998.

Details of their interests in the share capital of Anglian Water Plc and in options over such shares are shown on pages 13 and 14.

Charitable and political donations

During the year the company made charitable donations of £104,603. In addition, the company contributed £100,000 to the 'Lessons for Life' campaign, a scheme of support for swimming pools in the region to encourage people to learn to swim. No political contributions were made.

directors' report

Employees

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

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

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

Policy on the payment of creditors

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the company's procurement department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The company abides by the terms of payment. The company's average creditor payment period at 31 March 1998 was 39 days (1997-40 days).

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


P Nicoll

Company Secretary

26 May 1998

Registered Office: Anglian House
Ambury Road, Huntingdon,
Cambridgeshire PE18 6NZ
Registered in England No. 2366656

operating and financial review

Operating results

It has been another good year for the company. Turnover increased by 3.6 per cent from £697.7 million to £723.0 million. Profit before tax and exceptional items increased by 1.7 per cent from £274.5 million to £279.1 million. The growth in turnover results from price increases which were partly offset by the effect of customers switching to water meters.

The percentage of turnover relating to measured customers increased to 31.2 per cent from 26.7 per cent as we progressively install meters throughout the region in existing properties, and also offer customers the opportunity to switch to a meter.

Total operating costs (before exceptional charges) have increased by 0.7 per cent to £366.1 million. Depreciation (net of amortisation of deferred grants and contributions) increased from £91.6 million to £97.4 million.

The infrastructure renewals charge is £18.5 million (1997-£17.7 million). As planned, actual expenditure of £39.3 million has significantly exceeded the charge in the year as we have increased our investment to reduce leakage rates and to improve the operational performance of our networks.

Operating costs (before exceptional charges) excluding depreciation and infrastructure renewals charges have reduced by £4.2 million this year, which after taking account of the effects of inflation represents a real reduction of £14.2 million.

Profits have benefited from an exceptional profit of £6.0 million on the sale of properties. Net interest payable increased from £59.5 million to £77.8 million, reflecting the effect of the increase in borrowing necessary to finance the capital investment programme and the payment of the 'windfall' tax.

The company has, as anticipated, recognised a tax charge for the first time, although the mainstream corporation tax liability continues to be reduced by the capital allowances generated by our investment programme.

Financial needs and resources

At 31 March 1998 the company had net borrowings of £1,118.9 million, an increase of £264.7 million over the year. The increased net borrowings have been financed by an increase of £175.0 million in loans from the parent company and additional finance leasing of £75.0 million under a sale and leaseback transaction. Before investing activities, the business generated a net cash inflow of £349.3 million in 1998 (1997-£377.3 million).

Year end gearing (debt/equity) at 63.0 per cent compares to 50.2 per cent in 1997. Net borrowings are a mixture of fixed and variable rate debt of £1,036.4 million and overdrafts of £82.5 million. Borrowings include £370.9 million at floating rates. The debt maturity profile is indicated in note 17 to the accounts. Our treasury policy reflects the need to secure funds to finance the substantial long term capital investment programme whilst achieving the lowest costs in the medium term and minimising exposure to short term interest rate fluctuations.

The capital investment programme for the year with total expenditure at £372.1 million was 6.3 per cent higher than in 1997.

Year 2000 and Euro

Work is progressing well in achieving year 2000 compliance. There are two primary areas where we are affected; operational management systems with machine embedded chips, and our central IT functions. We have completed the planning of our activities to achieve full compliance of both business critical systems and our other IT applications. Early estimates indicate that the costs of compliance may be £32 million by 1999/2000.

We are also taking action to ensure that, where appropriate, systems are adapted to handle the introduction of the Euro following economic and monetary union.

Shareholders' return and value created

Excluding the special dividend, the full year dividend has been increased by 13.0 per cent, a real increase of 9.4 per cent over the average rate of inflation during the year. The increase arises from further increased efficiencies in the regulated business. We have also paid a special dividend of £65.9 million to finance the payment of the windfall tax by the parent company.

The dividend increase confirms the board's commitment to delivering value to shareholders.

statement of directors' responsibilities

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

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

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 shareholder 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 1998 and of the 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

26 May 1998

Price Waterhouse



profit and loss account

for the year ended 31 March

Notes	1998 Total £m	1997 Total £m
2 Turnover from continuing operations	723.0	697.7
3 Operating costs:		
–excluding exceptional charges	(366.1)	(363.7)
4 –exceptional charge	–	(20.0)
3 Total operating costs	(366.1)	(383.7)
5 Operating profit from continuing operations	356.9	314.0
Profit on sale of fixed assets within continuing operations	6.0	–
Profit on ordinary activities before interest	362.9	314.0
6 Interest payable (net)	(77.8)	(59.5)
Profit on ordinary activities before taxation	285.1	254.5
7 Taxation	(11.8)	–
Profit for the financial year	273.3	254.5
8 Dividends	(198.0)	(116.8)
23 Retained profit for the financial year	75.3	137.7

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

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

balance sheet

at 31 March

Notes	1998 £m	1997 £m
Fixed assets		
12 Tangible assets	3,063.9	2,855.2
13 Investments	0.3	0.2
	<u>3,064.2</u>	<u>2,855.4</u>
Current assets		
14 Stocks	4.5	3.8
15 Debtors	282.0	167.6
	<u>286.5</u>	<u>171.4</u>
Creditors: amounts falling due within one year		
16 Short term borrowings	(95.8)	(239.0)
16 Other creditors	(268.3)	(251.6)
	<u>(364.1)</u>	<u>(490.6)</u>
Net current liabilities		
	<u>(77.6)</u>	<u>(319.2)</u>
Total assets less current liabilities		
	<u>2,986.6</u>	<u>2,536.2</u>
Creditors: amounts falling due after more than one year		
17 Loans and other borrowings	(1,023.1)	(615.2)
18 Other creditors	(106.2)	(103.0)
	<u>(1,129.3)</u>	<u>(718.2)</u>
19 Provisions for liabilities and charges	(81.3)	(117.3)
	<u>1,776.0</u>	<u>1,700.7</u>
Capital and reserves		
22, 23 Called up equity share capital	860.0	860.0
23 Profit and loss account	916.0	840.7
23 Total shareholder's funds (all equity)	<u>1,776.0</u>	<u>1,700.7</u>

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

Approved by the board on 26 May 1998.


C J Mellor
Chairman


R A Pointer
Managing Director

cash flow statement

for the year ended 31 March

Notes	1998 £m	1997 £m
27(a) Net cash inflow from operating activities	349.3	377.3
Returns on investments and servicing of finance		
Interest received	0.3	1.5
Interest paid	(67.6)	(53.1)
Interest element of finance lease rental payments	(7.9)	(6.0)
Dividends received from participating interests	-	1.1
	(75.2)	(56.5)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(342.2)	(318.1)
Grants and contributions received	13.9	21.8
Investment in infrastructure renewals	(39.3)	(32.4)
Disposal of tangible fixed assets	16.3	2.6
Purchase of fixed asset investments	(0.1)	-
	(351.4)	(326.1)
Equity dividends paid	(187.4)	(105.4)
Net cash outflow before financing	(264.7)	(110.7)
Financing		
27(c) Increase in loans	431.2	175.0
27(c) Repayments of amounts borrowed	(195.4)	(7.4)
Capital element of finance lease rental payments	(1.6)	(0.4)
Net cash inflow from financing	234.2	167.2
27(c) (Decrease)/increase in cash	(30.5)	56.5

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 1c below, in accordance with the Companies Act 1985. 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 asset management plan.

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

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

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

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 costs of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true and fair view 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 12 on page 14. Revenue grants and contributions are credited to the 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 primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other cases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

balance sheet

at 31 March

Notes	1998 £m	1997 £m	
Fixed assets			
12	Tangible assets	3,063.9	2,855.2
13	Investments	0.3	0.2
		<u>3,064.2</u>	<u>2,855.4</u>
Current assets			
14	Stocks	4.5	3.8
15	Debtors	282.0	167.6
		<u>286.5</u>	<u>171.4</u>
Creditors: amounts falling due within one year			
16	Short term borrowings	(95.8)	(239.0)
16	Other creditors	(268.3)	(251.6)
		<u>(364.1)</u>	<u>(490.6)</u>
	Net current liabilities	<u>(77.6)</u>	<u>(319.2)</u>
	Total assets less current liabilities	<u>2,986.6</u>	<u>2,536.2</u>
Creditors: amounts falling due after more than one year			
17	Loans and other borrowings	(1,023.1)	(615.2)
18	Other creditors	(106.2)	(103.0)
		<u>(1,129.3)</u>	<u>(718.2)</u>
19	Provisions for liabilities and charges	<u>(81.3)</u>	<u>(117.3)</u>
		<u>1,776.0</u>	<u>1,700.7</u>
Capital and reserves			
22, 23	Called up equity share capital	860.0	860.0
23	Profit and loss account	916.0	840.7
23	Total shareholder's funds (all equity)	<u>1,776.0</u>	<u>1,700.7</u>

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

Approved by the board on 26 May 1998.


C J Mellor
Chairman


R A Pointer
Managing Director

notes to the financial statements

	1998 £m	1997 £m
4. Exceptional charge		
External charges:		
– Provision for restructuring	–	20.0
	–	20.0

	1998 £m	1997 £m
5. Operating profit		
Operating profit is stated after charging/(crediting):		
Dividends receivable from participating interests	–	(1.1)
Hire of plant and machinery	1.0	0.7
Other operating lease costs	8.4	2.4
Research and development expenditure	4.8	5.2
Fees paid to auditors:		
for audit work	0.1	0.1
for other work	0.1	0.1

	1998 £m	1997 £m
6. Interest payable (net)		
Overdrafts and short term borrowings	5.9	7.3
Other loans	63.5	46.3
Finance leases	8.7	6.0
	78.1	59.6
Interest receivable	(0.3)	(0.1)
	77.8	59.5

Interest of £35.8m (1997–£19.4m) is payable to the parent company.

	1998 £m	1997 £m
7. Taxation		
Tax on profit on ordinary activities comprises:		
Corporation tax at 31% (1997–33%)	8.1	–
Payment to group companies for group relief surrendered	3.7	–
	11.8	–

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

	1998 £m	1997 £m
8. Dividends		
Interim dividends	39.1	34.4
Special dividend	65.9	–
Proposed final dividend	93.0	82.4
	198.0	116.8

The special dividend was paid in order to finance the payment of the windfall tax by the parent company.

notes to the financial statements

	1998 Total £m	1997 Total £m
9. Employee information		
Staff costs:		
Wages and salaries	83.6	91.6
Social security costs	4.8	6.8
Other pension costs	0.7	9.0
	89.1	107.4

The 1997 costs include exceptional charges of £18.3m (wages and salaries £9.4m and other pension costs £8.9m). Other pension costs before exceptional charges is stated after crediting £8.5m (1997 - £9.7m) in respect of the amortisation of an actuarial surplus in each of the two main UK pension schemes (see note 24).

Average number of full time equivalent persons employed in the UK:	1998	1997
Number employed	4,085	4,269

10. Directors' emoluments

The emoluments of the directors were paid by Anglian Water Plc and an appropriate proportion of their remuneration is included within management recharges. The emoluments of the directors of Anglian Water Services Limited for their services as directors of the company are set out below.

	Salary £000	Benefits £000	Bonus £000	Other £000	1998 Total £000	1997 Total £000
A F Smith (Chairman) (resigned 31/12/97) ⁽¹⁾	129	7	20	185	341	195
C J Mellor (Chairman from 1/1/98)	143	7	15	-	165	148
J W Green ⁽²⁾	116	10	13	134	273	127
R A Pointer (appointed 19/1/98)	20	4	3	-	27	-
	408	28	51	319	806	470
Contributions to pension schemes					-	26
					806	496

(1) Includes under 'Other' compensation for loss of office of £185,000 on retirement by mutual consent in December 1997.

(2) Includes under 'Other' compensation for loss of office of £134,000 on retirement by mutual consent in June 1998.

The amount of pension contributions paid on behalf of directors during the year to 31 March 1998, along with the amounts for pension entitlements earned, the accrued pension liabilities and the changes therein, are summarised below. These pension liabilities are calculated using the cash equivalent transfer value method, which is the method adopted in the Listing Rules of the London Stock Exchange.

	Accrued pension 1998 £000 ⁽¹⁾	Increase in accrued pension 1998 £000 ⁽²⁾⁽³⁾	Accrued pension lump sum 1998 £000 ⁽⁴⁾	Transfer value of increase 1998 £000 ⁽⁵⁾⁽⁶⁾	At 31 March 1997	
					Accrued lump sum £000 ⁽¹⁾	Accrued pension lump sum £000 ⁽⁴⁾
A F Smith	100	14	263	578	83	248
C J Mellor	64	7	172	104	55	149
J W Green	64	11	167	325	51	132
R A Pointer	47	4	40	72	-	-

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

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

(3) The increase in accrued pension includes amounts of £11,230 pa and £7,000 pa for Mr A F Smith and Mr J W Green respectively, reflecting top-ups of pensionable service, given in accordance with the group's practice to all members of the Mirror Image Pension Scheme who leave employment early at the group's request, are aged over 50 and have completed more than two years' service.

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

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

(6) Transfer values include for Mr A F Smith and Mr J W Green amounts reflecting the actuarial calculation of the service top-ups in note (2) and the payment of pension prior to normal retirement date without application of a reduction.

notes to the financial statements

11. Directors' interests in shares

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 in shares	31 March 1998 No. of shares	31 March 1997 No. of shares
A F Smith*	11,338	10,643
C J Mellor	6,705	5,572
J W Green	10,747	16,545
R A Pointer†	8,617	8,293

* at date of resignation (31 December 1997) and 31 March 1997.

† at 31 March 1998 and date of appointment (19 January 1998).

The figures at 31 March 1998 include shares to which the directors become entitled as the share element of the annual bonus share, being Mr A F Smith (671), Mr C J Mellor (509), Mr J W Green (426) and Mr R A Pointer (0). Each director has notified the company that, for the purposes of Section 324 of the Companies Act 1985, he has a contingent interest in the following number of shares, representing the maximum aggregate number of shares to which he would become entitled under the group's Long Term Incentive Plan: Mr A F Smith (11,502), Mr C J Mellor (20,664), Mr J W Green (17,848) and Mr R A Pointer (13,722). Those of Mr A F Smith were reduced from 27,264 at the time of his leaving the group and those of Mr J W Green will be reduced to 10,413 at the time of his leaving the group.

	Options outstanding 1 April 1997*		Options granted		Options exercised			Options outstanding at 31 March 1998	
	Number	Number	Option Price (£)	Number	Weighted average exercise Price (£)	Weighted average Market Price (£)	Gain on exercise of option (£)	Number	Weighted average exercise Price (£)
Executive share options									
C J Mellor	7,606	-	-	7,606	5.36	8.06	20,356	-	-
J W Green	27,100	-	-	-	-	-	-	27,100	5.16
R A Pointer	16,805	-	-	-	-	-	-	16,805	4.74
Sharesave scheme options									
A F Smith	3,087	-	-	-	-	-	-	3,087	3.84
C J Mellor	3,500	1,114	6.19	-	-	-	-	4,614	4.14
J W Green	3,751	-	-	-	-	-	-	3,751	3.47
R A Pointer	4,122	-	-	-	-	-	-	4,122	4.27

* or date of appointment if later

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

The market price of shares in Anglian Water Plc at 31 March 1998 was £9.37, and the range during the year was £6.30 to £9.67.

No director has an interest in the shares of the company or any other group company other than as shown above, and no changes in the interests have occurred in the period from 31 March 1998 to 26 May 1998.

Options granted under the Sharesave Scheme are 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 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 overleaf.

notes to the financial statements

11. Directors' interests in shares (continued)

	Date of grant	Option price		Date of grant	Option price
Sharesave Scheme	6.12.1990	£2.67	Executive Share Option Scheme	24.6.1992	£3.95
Sharesave Scheme	30.12.1991	£2.72	Executive Share Option Scheme	15.12.1992	£4.73
Sharesave Scheme	21.12.1992	£3.82	Executive Share Option Scheme	7.7.1993	£4.74
Sharesave Scheme	20.12.1993	£4.04	Executive Share Option Scheme	1.12.1993	£5.30
Sharesave Scheme	14.12.1995	£4.65	Executive Share Option Scheme	15.8.1994	£5.37
Sharesave Scheme	12.12.1996	£4.52	Executive Share Option Scheme	13.7.1995	£5.51
Sharesave Scheme	10.12.1997	£6.19	Executive Share Option Scheme	7.12.1995	£5.74
Executive Share Option Scheme	20.6.1990	£2.93	Executive Share Option Scheme	10.6.1996	£5.71
Executive Share Option Scheme	10.1.1991	£3.31	Executive Share Option Scheme	7.11.1996	£5.50
Executive Share Option Scheme	7.12.1991	£3.26			

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

12. Tangible fixed assets	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
Cost					
At 31 March 1997	55.5	1,260.8	1,860.1	392.1	3,568.5
Additions	3.6	94.6	92.7	141.9	332.8
Disposals	(8.6)	-	(0.1)	(18.3)	(27.0)
At 31 March 1998	50.5	1,355.4	1,952.7	515.7	3,874.3
Grants and contributions					
At 31 March 1997	-	102.5	-	-	102.5
Additions	-	7.1	-	-	7.1
At 31 March 1998	-	109.6	-	-	109.6
Depreciation					
At 31 March 1997	13.3	-	465.8	131.7	610.8
Charge for the year	2.2	-	78.2	22.0	102.4
Disposals	(1.4)	-	-	(11.0)	(12.4)
At 31 March 1998	14.1	-	544.0	142.7	700.8
Net book amount					
At 31 March 1998	36.4	1,245.8	1,408.7	373.0	3,063.9
At 31 March 1997	42.2	1,158.3	1,394.3	260.4	2,855.2

Tangible fixed assets at 31 March 1998 include £352.1m of assets in the course of construction (1997-£353.2m) and also include land of £8.2m (1997-£8.9m) which is not subject to depreciation. The company's interests in land and buildings are almost entirely freehold. 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 1998 was £176.1m (1997-£100.9m). Depreciation charged on assets held under finance leases during the year ended 31 March 1998 amounted to £5.5m (1997-£4.1m).

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 commitments shown below reflect only the value of orders placed at 31 March 1998.

	1998 £m	1997 £m
Contracted for but not provided in the financial statements	265.1	177.3

notes to the financial statements

13. Fixed asset investments	1998 £m	1997 £m
Shares at cost in participating interests	0.2	0.2
Other loans	0.1	-
	0.3	0.2

The company has the following investment in an associated undertaking, which is registered and principally operates in England.

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

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

14. Stocks	1998 £m	1997 £m
Raw materials and consumables	4.5	3.8

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

15. Debtors	1998 £m	1997 £m
Amounts falling due within one year		
Trade debtors	143.3	115.1
Amounts owed by other group undertakings	102.7	28.5
Other debtors	22.3	14.7
Prepayments and accrued income	2.8	2.9
	271.1	161.2
Amounts falling due after more than one year		
Prepaid pension contributions	10.9	6.4
	282.0	167.6

16. Creditors: amounts falling due within one year	1998 £m	1997 £m
Bank overdrafts	82.5	52.0
Current portion of long-term loans	10.5	10.4
Loan due within one year	-	175.0
Obligations under finance leases	2.8	1.6
Short term borrowings	95.8	239.0
Trade creditors	97.5	108.8
Amounts owed to other group undertakings	9.8	2.4
Receipts in advance	47.7	42.7
Corporation tax	2.9	-
Other taxation and social security	2.6	2.7
Accruals and deferred income	14.8	12.6
Proposed dividend	93.0	82.4
Other creditors	268.3	251.6

notes to the financial statements

	1998 £m	1997 £m
17. Loans and other borrowings falling due after more than one year		
Repayable wholly after five years		
US\$122m loan 2006 (from the parent company) (a)	72.8	74.8
Adjustment for swap agreements (a)	6.5	4.5
	79.3	79.3
12% Fixed Rate loan 2014 (from the parent company)	100.0	100.0
European Investment Bank 2002 (Interest at 8.0%)	–	60.0
European Investment Bank 2003 (Interest at 6.6%)	10.0	10.0
European Investment Bank 2005 (Interest at 8.2%)	60.0	60.0
Repayable by instalments, any of which is due for repayment after five years		
European Investment Bank 2004 (Interest at 11.5%)	12.1	13.2
European Investment Bank 2005 (Interest at 8.5%)	40.0	45.0
European Investment Bank 2007 (Interest at 10.25%)	8.2	9.1
European Investment Bank 2007 (Interest at 9.9%)	27.0	30.0
Finance leases (b)	191.4	121.7
Other borrowings (c)	22.4	22.8
Repayable wholly within five years		
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	25.0	25.0
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0
European Investment Bank 2002 (Interest at 8.0%)	60.0	–
Floating rate loan 1998 (from the parent company)	–	175.0
Parent Company Loan 1999 (Interest at 7.5%)	350.0	–
Other loans (c)	1.0	1.1
Total loans and other borrowings	1,036.4	802.2
Less amounts included in creditors falling due within one year	(13.3)	(187.0)
	1,023.1	615.2
Due for repayment as follows:		
Between one and two years	390.1	13.1
Between two and five years	167.3	123.8
After five years	465.7	478.3
	1,023.1	615.2

- a) The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loan. Taking account of these swaps £59.8m of these borrowings are effectively at a fixed interest rate of 8.4% and the balance are at a floating rate of 3 month LIBOR + 0.39%.
- b) Amounts due under finance leases comprise £2.8m (1997–£1.7m) payable within one year, £28.6m (1997–£20.2m) payable between one and five years and £160.0m (1997–£99.8m) payable after five years.
- c) Of the unspecified loans and other borrowings, £20.9m (1997–£4.3m) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £1.0m (1997–£1.1m) secured on the revenues of the company.

	1998 £m	1997 £m
18. Other creditors falling due after more than one year		
Trade creditors	5.7	8.4
Receipts in advance	3.6	3.6
Deferred grants and contributions	96.9	91.0
	106.2	103.0

	Infrastructure renewals £m	Restructuring costs £m	Total £m
19. Provisions for liabilities and charges			
At 31 March 1997	88.5	28.8	117.3
Charge for the year	18.5	–	18.5
Utilised in the year	(39.3)	(15.2)	(54.5)
At 31 March 1998	67.7	13.6	81.3

notes to the financial statements

20. Deferred taxation

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

	1998 £m	1997 £m
Accelerated capital allowances	235.6	245.7
Other timing differences	(9.2)	(44.7)
Available tax losses	–	(7.1)
Advance corporation tax available for surrender from the parent company	(146.1)	(117.5)
	<u>80.3</u>	<u>76.4</u>

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £3.9m (1997–£19.4m).

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of a disposal of such assets at amounts in excess of their tax written down value. In the opinion of the directors, the likelihood of a liability crystallising in the foreseeable future is remote. Accelerated capital allowances on infrastructure assets of £305.6m (1997–£287.0m), assuming a tax rate of 31%, have therefore been excluded from the amounts set out above.

21. Commitments under operating leases

At 31 March 1998 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	–	2.3
Between one and five years	0.1	3.3
After five years	1.6	–
	<u>1.7</u>	<u>5.6</u>

22. Share capital – equity shares

Authorised

	1998 £m	1997 £m
Ordinary shares of £1 each	860.0	860.0

Allotted, issued and fully paid

Ordinary shares of £1 each	860.0	860.0
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23. Movement in shareholder's funds

	Share capital £m	Profit and loss account £m	1998 Total £m	1997 Total £m
At beginning of year	860.0	840.7	1,700.7	1,563.0
Profit for the financial year	–	273.3	273.3	254.5
Dividends	–	(198.0)	(198.0)	(116.8)
At end of year	<u>860.0</u>	<u>916.0</u>	<u>1,776.0</u>	<u>1,700.7</u>

24. 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 ('AWMIS') and the Anglian Water Pension Scheme ('AWPS'). 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. The AWMIS and AWPS schemes were merged after the year end on 1 May 1998. The next full actuarial valuation of the combined scheme will take place on 31 March 1999. Further details may be found within the financial statements of Anglian Water Plc.

The regular pension cost for the year ended 31 March 1998 was £9.2m (1997–£9.8m). This cost was offset by a credit of £8.5m (1997–£9.7m) in respect of the amortisation of actuarial surpluses in the AWMIS and AWPS schemes. At 31 March 1998 there was a prepayment in respect of pensions of £10.9m (1997–£6.4m).

notes to the financial statements

25. Contingent liabilities

The company has guaranteed the borrowings of Anglian Water Plc amounting to £232.9m (1997 – £228.6m). Otherwise, there are no material contingent liabilities at 31 March 1998 for which provision has not been made in these financial statements.

26. Ultimate parent company

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

27. Notes to the cash flow statement

	1998 £m	1997 £m
a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	356.9	314.0
Dividends received from participating interests	–	(1.1)
Profit on disposal of tangible fixed assets	(2.2)	(1.1)
Depreciation (net of amortisation of deferred grants and contributions)	97.4	91.6
Provision for infrastructure renewals	18.5	17.7
Net movement on pensions balances	(4.5)	(6.4)
Net movement on restructuring provision	(15.2)	15.5
	<u>450.9</u>	<u>430.2</u>
Decrease/(increase) in working capital:		
Stocks	(0.7)	0.5
Debtors	(103.4)	(44.6)
Creditors	2.5	(8.8)
	<u>(101.6)</u>	<u>(52.9)</u>
Net cash inflow from operating activities	<u>349.3</u>	<u>377.3</u>

Net cash inflow from operating activities for the year ended 31 March 1998 is arrived at after cash outflows of £4.2m (1997 – £4.5m) in relation to the 1994 exceptional restructuring charge and £11.0m relating to 1997 exceptional restructuring charges.

	1 April 1997 £m	Cash flows £m	Non cash movements £m	31 March 1998 £m
b) Analysis of net debt				
Bank overdrafts	(52.0)	(30.5)	–	(82.5)
Debt due within 1 year	(187.0)	187.0	(13.3)	(13.3)
Debt due after 1 year	(615.2)	(421.2)	13.3	(1,023.1)
	<u>(854.2)</u>	<u>(264.7)</u>	<u>–</u>	<u>(1,118.9)</u>

Non cash movements comprise transfers between categories of debt.

	1998 £m	1997 £m
c) Movement in net debt		
At beginning of year	(854.2)	(743.5)
(Decrease)/increase in cash	(30.5)	56.5
Increase in loans	(431.2)	(175.0)
Repayment of loans	195.4	7.4
Capital element of finance lease rental payments	1.6	0.4
At end of year	<u>(1,118.9)</u>	<u>(854.2)</u>

28. Related party transactions

There are no related party transactions requiring disclosure in this year's financial statements in accordance with FRS8 'Related Party Transactions'.

statement of directors' responsibilities for regulatory information

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

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

These responsibilities are additional to those already set out on page 5.

notes on regulatory information

1. General

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

An analysis of the historical cost profit and loss account and balance sheet between appointed and non-appointed business is set out on page 20. A current cost profit and loss account and balance sheet are shown on page 23. Other current cost disclosures appear on pages 24 to 30. Additional information required by the Licence is shown on pages 21 to 22.

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

2. Protection of the regulated business

- a) In the opinion of the directors, the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the regulated activities (including the investment programme necessary to fulfil its obligations under the appointment).
- b) In the opinion of the directors the company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

3. Ring fencing

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

historical cost profit and loss account

for the year ended 31 March

	1998 Appointed £m	1998 Non Appointed £m	1998 Total £m	1997 Appointed £m	1997 Non Appointed £m	1997 Total £m
Turnover	712.4	8.1	720.5	688.6	7.4	696.0
Operating costs	(359.5)	(8.8)	(368.3)	(379.1)	(6.9)	(386.0)
Profit on sales of fixed assets	8.2	-	8.2	1.1	-	1.1
Operating profit*	361.1	(0.7)	360.4	310.6	0.5	311.1
Other income	0.9	1.6	2.5	1.8	1.1	2.9
Interest payable (net)	(77.8)	-	(77.8)	(59.5)	-	(59.5)
Profit on ordinary activities before taxation	284.2	0.9	285.1	252.9	1.6	254.5
Taxation	(11.8)	-	(11.8)	-	-	-
Profit on ordinary activities after taxation	272.4	0.9	273.3	252.9	1.6	254.5
Dividends	(198.0)	-	(198.0)	(116.8)	-	(116.8)
Retained profit for the year	74.4	0.9	75.3	136.1	1.6	137.7

* After an exceptional credit of £6.0m (1997-£20.0m charge) within the appointed business.

historical cost balance sheet

at 31 March

	1998 Appointed £m	1998 Non Appointed £m	1998 Total £m	1997 Appointed £m	1997 Non Appointed £m	1997 Total £m
Fixed assets						
Tangible assets	3,063.9	-	3,063.9	2,855.2	-	2,855.2
Investments	0.3	-	0.3	0.2	-	0.2
	3,064.2	-	3,064.2	2,855.4	-	2,855.4
Current assets						
Stocks	4.5	-	4.5	3.8	-	3.8
Debtors	282.0	-	282.0	167.6	-	167.6
	286.5	-	286.5	171.4	-	171.4
Creditors: amounts falling due within one year						
Short term borrowings	(98.3)	2.5	(95.8)	(240.6)	1.6	(239.0)
Proposed dividend	(93.0)	-	(93.0)	(82.4)	-	(82.4)
Other creditors	(175.3)	-	(175.3)	(169.2)	-	(169.2)
Net current liabilities	(80.1)	2.5	(77.6)	(320.8)	1.6	(319.2)
Total assets less current liabilities	2,984.1	2.5	2,986.6	2,534.6	1.6	2,536.2
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,023.1)	-	(1,023.1)	(615.2)	-	(615.2)
Other creditors	(106.2)	-	(106.2)	(103.0)	-	(103.0)
	(1,129.3)	-	(1,129.3)	(718.2)	-	(718.2)
Provisions for liabilities and charges	(81.3)	-	(81.3)	(117.3)	-	(117.3)
	1,773.5	2.5	1,776.0	1,699.1	1.6	1,700.7
Capital and reserves						
Called up equity share capital	860.0	-	860.0	860.0	-	860.0
Profit and loss account	913.5	2.5	916.0	839.1	1.6	840.7
Total shareholder's funds (all equity)	1,773.5	2.5	1,776.0	1,699.1	1.6	1,700.7

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 19, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory financial statements.

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

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

3. Allocation to principal service

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

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

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

a) Borrowings or sums lent

No sums were lent by the appointee to associated companies at 31 March 1998.
Sums borrowed by the appointee from associated companies were:

Lender	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc—fixed rate loan	100.0	2014	12
Anglian Water Plc—US\$ loan	72.8	2006	*
Anglian Water Plc—fixed rate loan	350.0	1999	7.5

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

b) Dividends paid to associated undertakings

During the year dividends of £187.4m were paid to Anglian Water Plc. This comprised a final dividend for the year ended 31 March 1997 of £82.4m, a special dividend of £65.9m and an interim dividend for the year ended 31 March 1998 of £39.1m. The interim and proposed final dividends for 1998 represent a 13% increase over 1997, which amounts to a real increase of 10% over the average rate of inflation during the year. The special dividend was paid to fund payment of the windfall tax by the parent company.
The dividend level has been established by reference to the dividends payable by the parent company in respect of the year ended 31 March 1998.

c) Guarantees/securities

The appointee has guaranteed the following borrowings of Anglian Water Plc	Amount £m	Repayment date	Interest rate %
Fixed Rate Bond	100.0	2014	12
Index Linked Loan Stock	132.9	2008	5½

additional information required by the licence

d) **Transfers of assets/liabilities**

During the course of the year a number of motor vehicles were sold to group companies at market value. Total sale proceeds were £6.3m (1997-£0.2m).

e) **Supply of services**

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Rental of office accommodation	Various	Market rent	0.3
Other services	Various	Market rates	1.7
			2.0

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Management charge	Anglian Water Plc	3.8	Recharge of appropriate costs	3.1
Engineering, construction and fabrication	Aquafine Engineering Services Limited	7.1	Competitive tendering/negotiated market rates	3.9
Vehicle and plant maintenance	Powermarque Limited	11.6	Competitive tendering/negotiated market rates	10.3
Management of granular activated carbon regeneration facilities	Grafham Carbons Limited	0.6	At cost under terms of joint venture agreement	0.3
Insurance services	Rutland Insurance Company Limited	3.1	Negotiated market rates	2.9
Engineering, construction and fabrication	Purac Limited	51.5	Competitive tendering/negotiated market rates	10.4
Asset management services	Geodesys Limited	2.4	Negotiated market rates	1.3
				32.2*

* This total includes amounts of £12.5m 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 appointed business		1998	1997
Notes	for the year ended 31 March 1998	£m	£m
2	Turnover	712.4	688.6
4	Current cost operating costs	(416.1)	(427.7)
3	Profit on sales of fixed assets	1.4	0.9
		297.7	261.8
1(d), 8	Working capital adjustment	3.7	4.9
	Current cost operating profit*	301.4	266.7
	Other income	0.9	1.8
	Interest payable (net)	(77.8)	(59.5)
1(d), 8	Financing adjustment	30.6	19.3
	Current cost profit before taxation	255.1	228.3
	Taxation	(11.8)	-
7	Current cost profit attributable to shareholder	243.3	228.3
	Dividends	(198.0)	(116.8)
	Current cost profit retained	45.3	111.5

*After an exceptional credit of £6.0m (1997-£20.0m charge).

Current cost balance sheet for appointed business at 31 March 1998		1998	1997
Notes		£m	£m
	Assets employed		
5	Fixed assets	15,210.4	14,548.8
	Third party contributions since 31 March 1990	(475.1)	(446.5)
		14,735.3	14,102.3
6	Working capital	10.3	(108.1)
	Net operating assets	14,745.6	13,994.2
	Cash and investments	0.3	0.2
	Non-trade debtors	33.2	21.8
	Dividends payable	(93.0)	(82.4)
	Other non-trade creditors due within one year	(98.3)	(240.6)
	Creditors due after one year	(1,032.4)	(627.2)
	Provisions for liabilities and charges - (restructuring costs)	(13.6)	(28.8)
	Net assets employed	13,541.8	13,037.2
	Financed by		
	Called up share capital	860.0	860.0
7	Profit and loss account	466.6	421.3
8	Current cost reserve	12,215.2	11,755.9
	Total capital and reserves	13,541.8	13,037.2

The notes on pages 25 to 30 form part of these current cost financial statements.

current cost financial statements

Current cost cash flow statement		1998	1997
Notes	for appointed business for the year ended 31 March 1998	£m	£m
9(a)	Net cash inflow from operating activities	348.4	375.7
	Returns on investments and servicing of finance		
	Interest received	0.3	1.5
	Interest paid	(67.6)	(53.1)
	Interest element of finance lease rental payments	(7.9)	(6.0)
	Dividends from participating interests	-	1.1
		(75.2)	(56.5)
	Capital Expenditure and financial investment		
	Gross cost of purchase of fixed assets	(342.2)	(318.1)
	Grants and contributions received	13.9	21.8
	Investment in infrastructure renewals	(39.3)	(32.4)
	Disposal of tangible fixed assets	16.3	2.6
	Purchase of fixed asset investments	(0.1)	-
		(351.4)	(326.1)
	Equity dividends paid	(187.4)	(105.4)
	Net cash outflow before financing	(265.6)	(112.3)
	Financing		
	Increase in loans	431.2	175.0
	Repayments of amounts borrowed	(195.4)	(7.4)
	Capital element of finance lease payments	(1.6)	(0.4)
	Net cash inflow from financing	234.2	167.2
	(Decrease)/increase in cash	(31.4)	54.9

notes to the current cost financial statements

1. Accounting policies

a) General

These financial statements have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990. The accounting policies used are the same as those adopted in the statutory historical cost financial statements, except as set out below:

b) Tangible fixed assets

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

Land and buildings

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

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

Infrastructure assets

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

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

Other fixed assets

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

Surplus land

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

c) Grants and other third party contributions

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

notes to the current cost financial statements

d) Real financial capital maintenance adjustments

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

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

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

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

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

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

2. Turnover for the appointed business	Water services	Sewerage services	Appointed Business 1998	Water services	Sewerage services	Appointed Business 1997
	£m	£m	£m	£m	£m	£m
Measured	111.8	113.1	224.9	97.5	91.2	188.7
Unmeasured	154.5	270.4	424.9	168.4	277.7	446.1
Trade effluent	—	24.2	24.2	—	21.3	21.3
Third party services	22.3	1.8	24.1	17.8	1.4	19.2
Other sources	4.2	10.1	14.3	3.7	9.6	13.3
Total turnover	292.8	419.6	712.4	287.4	401.2	688.6

3. Operating income and working capital adjustment for the appointed business	Water services	Sewerage services	Appointed Business 1998	Water services	Sewerage services	Appointed Business 1997
	£m	£m	£m	£m	£m	£m
Current cost profit on disposal of fixed assets	0.6	0.8	1.4	0.5	0.4	0.9

Working capital adjustment	Water services	Sewerage services	Appointed Business 1998	Water services	Sewerage services	Appointed Business 1997
	£m	£m	£m	£m	£m	£m
	1.7	2.0	3.7	2.1	2.8	4.9

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	Scientific services	Cost of regulation
	Resources and treatment	Distribution	Water supply subtotal	Sewerage treatment	Sludge treatment & disposal	Sewage T&D subtotal	Sewerage services subtotal	£m			
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Direct costs:											
Employment costs	5.0	8.3	13.3	6.0	11.7	1.5	13.2	19.2	9.0	3.5	0.5
Power	6.2	7.0	13.2	2.5	8.6	0.7	9.3	11.8	-	-	-
Agencies	0.7	-	0.7	-	-	-	-	-	-	-	-
Hired and contracted services	2.4	5.8	8.2	3.9	4.5	10.9	15.4	19.3	1.9	0.5	0.4
Materials and consumables	4.0	2.7	6.7	1.1	3.9	1.1	5.0	6.1	1.4	0.4	-
Service charges	5.1	-	5.1	0.8	3.2	-	3.2	4.0	-	-	-
Bulk supply imports	-	-	-	-	-	-	-	-	-	-	-
Other direct costs	-	0.2	0.2	0.2	0.1	-	0.1	0.3	10.8	1.8	1.2
Total direct costs	23.4	24.0	47.4	14.5	32.0	14.2	46.2	60.7	23.1	6.2	2.1
General and support expenditure	9.5	11.6	21.1	8.4	13.8	5.8	19.6	28.0	7.8	1.9	0.6
Functional expenditure	32.9	35.6	68.5	22.9	45.8	20.0	65.8	88.7	30.9	8.1	2.7
Total business activities			18.6					23.1			
Rates			17.6					9.4			
Doubtful debts			2.6					2.7			
Exceptional items			-					-			
Total opex less third party services			107.3					123.9			
Third party services-opex			12.1					0.4			
Total operating expenditure:			119.4					124.3			
Capital costs:											
Infrastructure renewals expenditure	-	19.7	19.7	19.4	0.2	-	0.2	19.6			
Movement in infrastructure renewal accrual/prepayment	-	(10.5)	(10.5)	(10.3)	(0.1)	-	(0.1)	(10.4)			
CC depreciation (allocated)	41.0	13.7	54.7	13.9	70.1	2.9	73.0	86.9			
Amortisation of deferred credits			(1.9)					(3.1)			
Business activities CC depreciation (non-allocated)			7.2					7.6			
Capital maintenance excluding third party services			69.2					100.6			
Third party services-capital maintenance			2.0					0.6			
Total capital maintenance			71.2					101.2			
Total operating costs⁽¹⁾			190.6					225.5			
1997 Total operating costs			199.9					227.8			
CCA (MEA) values*											
Service activities	946.2	3,673.8	4,620.0	9,045.1	1,284.0	33.1	1,317.1	10,362.2			
Business activities			49.2					50.0			
Service totals			4,669.2					10,412.2			
Service assets for third parties			120.1					8.9			
Total MEA values:			4,789.3					10,421.1			
1997 total MEA values			4,553.0					9,995.8			

* On a modern equivalent asset (MEA) basis.

⁽¹⁾ Included within total operating costs are reactive and planned expenditure costs on water infrastructure assets of £20.0m. This is split £0.3m water resources and treatment, £11.6m water distribution and £8.1m sewerage.

notes to the current cost financial statements

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
5. Fixed assets					
a) Fixed assets by type – water services					
Gross replacement cost					
At 31 March 1997	1,568.9	55.7	3,613.0	207.5	5,445.1
RPI adjustment	54.9	1.9	126.5	7.3	190.6
Disposals	–	(7.9)	–	(10.2)	(18.1)
Additions	76.0	3.9	50.4	21.2	151.5
At 31 March 1998	1,699.8	53.6	3,789.9	225.8	5,769.1
Depreciation					
At 31 March 1997	791.7	12.8	–	87.6	892.1
RPI adjustment	27.7	0.4	–	3.1	31.2
Disposals	–	(1.3)	–	(6.1)	(7.4)
Charge for the year	52.8	0.5	–	10.6	63.9
At 31 March 1998	872.2	12.4	–	95.2	979.8
Net book amount at 31 March 1998	827.6	41.2	3,789.9	130.6	4,789.3
At 31 March 1997	777.2	42.9	3,613.0	119.9	4,553.0
b) Fixed assets by type – sewerage services					
Gross replacement cost					
At 31 March 1997	2,590.8	45.5	8,560.4	133.5	11,330.2
RPI adjustment	90.7	1.6	299.6	4.6	396.5
Disposals	–	(7.9)	–	(10.3)	(18.2)
Additions	111.8	4.0	44.4	21.1	181.3
At 31 March 1998	2,793.3	43.2	8,904.4	148.9	11,889.8
Depreciation					
At 31 March 1997	1,258.9	10.6	–	64.9	1,334.4
RPI adjustment	44.1	0.4	–	2.2	46.7
Disposals	–	(1.3)	–	(6.2)	(7.5)
Charge for the year	78.6	0.7	–	15.8	95.1
At 31 March 1998	1,381.6	10.4	–	76.7	1,468.7
Net book amount at 31 March 1998	1,411.7	32.8	8,904.4	72.2	10,421.1
At 31 March 1997	1,331.9	34.9	8,560.4	68.6	9,995.8
c) Fixed assets by type – total					
Gross replacement cost					
At 31 March 1997	4,159.7	101.2	12,173.4	341.0	16,775.3
RPI adjustment	145.6	3.5	426.1	11.9	587.1
Disposals	–	(15.8)	–	(20.5)	(36.3)
Additions	187.8	7.9	94.8	42.3	332.8
At 31 March 1998	4,493.1	96.8	12,694.3	374.7	17,658.9
Depreciation					
At 31 March 1997	2,050.5	23.4	–	152.6	2,226.5
RPI adjustment	71.9	0.8	–	5.2	77.9
Disposals	–	(2.6)	–	(12.3)	(14.9)
Charge for the year	131.4	1.2	–	26.4	159.0
At 31 March 1998	2,253.8	22.8	–	171.9	2,448.5
Net book amount at 31 March 1998	2,239.3	74.0	12,694.3	202.8	15,210.4
At 31 March 1997	2,109.2	77.8	12,173.4	188.4	14,548.8

notes to the current cost financial statements

	1998 £m	1997 £m
6. Working capital		
Stocks	4.5	3.8
Trade debtors	143.3	115.1
Trade creditors	(36.3)	(35.5)
Short term capital creditors	(61.2)	(73.3)
Infrastructure renewals accrual	(67.7)	(88.5)
Other trade accruals	(62.5)	(55.3)
Corporation tax	(2.9)	-
Payroll related taxes and social security contributions	(2.6)	(2.7)
Group trade debtors (net)	92.9	26.1
Prepayments	2.8	2.2
Total working capital	10.3	(108.1)

	1998 £m	1997 £m
7. Current cost profit and loss account		
At beginning of year	421.3	309.8
Retained profit for the year for Appointed Business	45.3	111.5
At end of year	466.6	421.3

	1998 £m	1997 £m
8. Current cost reserve		
At beginning of year	11,755.9	11,426.6
RPI adjustments:		
Fixed assets	509.2	364.4
Working capital	(3.7)	(4.9)
Financing	(30.6)	(19.3)
Deferred grants and contributions	(15.6)	(10.9)
At end of year	12,215.2	11,755.9

In accordance with the company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 1993 as part of the revision of the company's AMP.

9(a) Reconciliation of current cost operating profit to net cash inflow from operating activities	1998 £m	1997 £m
Current cost operating profit*	301.4	266.7
Working capital adjustment	(3.7)	(4.9)
Increase/(decrease) in stocks	(0.7)	0.5
Other income received	0.9	0.7
Current cost depreciation	159.0	145.3
Current cost profit on sales of fixed assets	(1.4)	(0.9)
Increase in debtors and prepaid expenses	(103.4)	(44.6)
Increase/(decrease) in creditors and accrued expenses	2.5	(8.8)
Provision for infrastructure renewals	18.5	17.7
Net movement in restructuring provision	(15.2)	15.5
Amortisation of deferred grants and contributions	(5.0)	(5.1)
Net movement in prepaid pension contributions	(4.5)	(6.4)
Net cash inflow from operating activities	348.4	375.7

*After an exceptional credit of £6.0m (1997-£20.0m charge).

notes to the current cost financial statements

9(b) Analysis of net debt	1 April 1997 £m	Cash flows £m	Non-cash movements £m	31 March 1998 £m
Bank overdrafts	(53.6)	(31.4)	—	(85.0)
Debt due within 1 year	(187.0)	187.0	(13.3)	(13.3)
Debt due after 1 year	(615.2)	(421.2)	13.3	(1,023.1)
	(855.8)	(265.6)	—	(1,121.4)

Non-cash movements comprise transfers between categories of debt.

10. Current cost profit and loss account for appointed business	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover	712.4	711.3	696.6	686.5	667.5
Current cost operating costs	(416.1)	(441.8)	(428.8)	(447.5)	(529.8)
Operating income	1.4	0.9	(0.7)	3.5	1.6
Working capital adjustment	3.7	5.1	5.8	6.6	3.7
Current cost operating profit*	301.4	275.5	272.9	249.1	143.0
Other income	0.9	1.9	1.2	1.1	2.1
Interest payable (net)	(77.8)	(61.5)	(51.3)	(41.2)	(37.1)
Financing adjustment	30.6	19.9	15.1	20.6	9.3
Current cost profit before taxation	255.1	235.8	237.9	229.6	117.3
Taxation	(11.8)	—	—	—	—
Current cost profit attributable to shareholder	243.3	235.8	237.9	229.6	117.3
Dividends	(198.0)	(120.7)	(315.6)	(105.4)	(94.7)
Current cost profit/(loss) retained	45.3	115.1	(77.7)	124.2	22.6

* After a historical exceptional credit of £6m (1997—exceptional charge of £20.0m, 1996—exceptional credit of £2.0m, 1995—exceptional charge of £14.0m and 1994—exceptional charge of £60.0m).

Current cost balance sheet for appointed business	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Assets employed					
Fixed assets	15,210.4	15,058.0	14,870.3	14,742.0	14,540.4
Third party contributions since 31 March 1990	(475.1)	(462.1)	(443.0)	(425.4)	(354.2)
Working capital	10.3	(111.9)	(199.7)	(221.3)	(193.1)
Net operating assets	14,745.6	14,484.0	14,227.6	14,095.3	13,993.1
Cash and investments	0.3	0.2	0.2	0.2	113.0
Non-trade debtors	33.2	22.6	20.6	23.3	0.8
Dividends payable	(93.0)	(85.3)	(75.3)	(72.9)	(64.7)
Other non-trade creditors due within one year	(98.3)	(249.0)	(123.4)	(90.6)	(79.4)
Creditors due after one year	(1,032.4)	(649.2)	(670.9)	(476.3)	(578.9)
Provisions for liabilities and charges	(13.6)	(29.8)	(14.1)	(34.0)	(66.8)
Net assets employed	13,541.8	13,493.5	13,364.7	13,445.0	13,317.1
Financed by					
Called up share capital	860.0	890.1	912.5	937.4	970.1
Profit and loss account	466.6	436.0	328.7	417.8	304.0
Current cost reserves	12,215.2	12,167.4	12,123.5	12,089.8	12,043.0
Total capital and reserves	13,541.8	13,493.5	13,364.7	13,445.0	13,317.1

The financial information set out above for the four years ended 31 March 1997 is based on the audited current cost financial statements for those years, as adjusted to 1997/98 prices for changes in the Retail Price Index.

auditors' report

to the Director General of Water Services

We have audited the regulatory financial statements and other information on pages 19 to 30.

Respective responsibilities of directors and auditors

As described on page 19, the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 1998 required to be published and submitted to you by Anglian Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewage undertaker under the Water Industry Act 1991.

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

- (a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records, complies with the requirements of Condition F of the Instrument, and has been properly prepared in accordance with the Regulatory Accounting Guidelines 1-4 issued by the Office of Water Services;
- (c) the financial statements on pages 6 to 18 and pages 20 to 22 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 23 to 30 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.


Price Waterhouse

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

26 May 1998

Price Waterhouse



glossary of accounting terms

In this glossary some of the terms used 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 financial statements (pages 6 to 18) this means a company in which Anglian Water Services Limited 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, including dividends.

In the regulatory financial statements (pages 23 to 30) 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 financial statements.

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 deferment of tax is expected to become payable in the near future, a provision is made. For the company 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 financial statements 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.

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, for which the actual expenditures 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 reserves also include revaluations of fixed assets.

Share capital

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

Subsidiary undertaking

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