

ANGLIAN WATER SERVICES LIMITED

(REGISTERED NUMBER 2366656)

DIRECTORS' REPORT AND ACCOUNTS

31st March 2000



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The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2000.

principal activities and business review

Anglian Water Services Limited's principal activities during the year were the provision of drinking water and the treatment of wastewater in a region approximately one-fifth the area of England and Wales. The company provides drinking water to more than 4 million customers, and more than 5 million customers benefit from our wastewater services. A review of the company's performance during the year, together with comments on the financial results, is contained on pages 4 and 5.

results and dividends

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

research and development

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

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 23 to 35. The regulatory information has been prepared in accordance with guidelines issued by the DG.

directors and directors' interests

The directors at 31 March 2000 were:

C J Mellor – chairman

R A Pointer – managing director

A T Eckford

E M Mannis

Details of their interests in the share capital of Anglian Water Plc, and in options over such shares, are shown on pages 17 and 18.

charitable and political donations

During the year the company made charitable donations of £80,914 (1999 – £127,929). No political contributions were made.

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, electronic mailings and the wide circulation of the group newspaper.

Share option schemes are in place which encourage participation in the group'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 is, as far as possible, identical to that of other employees.

policy on the payment of creditors

It is the company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the company's supply chain management department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The company abides by the terms of payment. The company's average creditor payment period at 31 March 2000 was 63 days (1999 - 53 days).

auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution proposing their reappointment will be put to the annual general meeting.

By order of the board

~~Seamus Cullen~~
company secretary
31 May 2000

Jackie Fox

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

operating results

The results represent a good performance after taking account of the voluntary price freeze implemented at a cost of approximately £30.0 million. Since it was apparent that there would be price reductions from 2000 the directors believed it was not appropriate to increase prices in 1999/00 only to reduce them by a large amount in 2000/01 following the Office of Water Services' (Ofwat) price determination. This voluntary deferral of price increase was fully compensated for in prices set for the five years to 2005.

In 1999/00 turnover fell by 1.6 per cent, largely as a result of the effect of customers switching to water meters. The percentage of turnover relating to measured customers is now 39.6 per cent up from 36.2 per cent in the previous year as customers continue to switch to metered supply.

Operating costs, excluding exceptional charges and depreciation, rose from £265.8 million to £268.0 million reflecting inflation and additional obligations, offset by efficiency gains as our reorganisation begins to provide benefits.

Exceptional operating costs of £42.4 million include a £37.3 million provision for reorganisation costs and £5.1 million to ensure systems compliance with the millennium date change.

Net interest payable increased by 5.1 per cent from £91.6 million to £96.3 million, reflecting the effect of the increase in borrowings to finance the capital investment programme.

The Final Determination of the Periodic Review was announced by Ofwat on 25 November 1999. The announcement required a reduction in average customer bills for 2000/01 of 10 per cent before allowing them to remain roughly stable in real terms during the next four years. As part of the agreement the company will also be investing about £1.4 billion over five years on further improving bathing and river water quality.

financial needs and resources

At 31 March 2000 the company had net borrowings of £1,447.4 million, an increase of £274.6 million over the year. Net borrowings are a mixture of fixed and variable rate debt of £1,474.4 million and cash and deposits of £27.0 million. The increased net borrowings have been financed by a net increase of £255.6 million in loans (£301.4 million from the parent company). Before investing activities, the business generated a net cash inflow of £455.2 million in 2000 (1999 – £544.9 million). The capital investment programme for the year with the total expenditure of £338.1 million was 2.5 per cent lower than in 1999. Year end gearing (debt/equity) at 87.0 per cent compares to 71.4 per cent in 1999.

year 2000

The company successfully achieved Year 2000 compliance for all its core embedded chips and IT systems in June 1999. Further work to ensure compliance of administrative buildings and business support processes and to update contingency and emergency planning were complete by November 1999.

The total cost of this compliance work totalled £28.3million of which £5.1 million in 2000 has been charged as an exceptional operating cost and £1.2 million capitalised as a fixed asset, with the remainder having been incurred in previous years.

On the millennium night itself, and subsequently, no significant operational non-compliance has been detected and the compliance work can be judged as having successfully achieved its objective of minimising the company's exposure to Year 2000 risk.

shareholder's return and value created

Full year dividends, excluding the effect of the £177.1 million special dividend in 1999, have been held at 17.3p per share, the same level as for 1999. The total cost of dividends amounts to £148.9 million (1999 – £326.0 million).

statement of directors' responsibilities

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

We have audited the financial statements on pages 8 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 12 and 13.

respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and accounts. As described on page 6, this includes the responsibility for preparing the financial statements in accordance with applicable United Kingdom Accounting Standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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

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

basis of audit opinion

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

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

opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2000 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
Temple Court
35 Bull Street
Birmingham B4 6JT

31 May 2000

PRICEWATERHOUSECOOPERS 

profit and loss account

for the year ended 31 March

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Notes	2000			1999		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
2	731.5	-	731.5	743.1	-	743.1
	Operating costs:					
3.4	(268.0)	(42.4)	(310.4)	(265.8)	(34.8)	(300.6)
3	(121.3)	-	(121.3)	(117.4)	(1.4)	(118.8)
3.4	(389.3)	(42.4)	(431.7)	(383.2)	(36.2)	(419.4)
5	342.2	(42.4)	299.8	359.9	(36.2)	323.
	(1.0)	-	(1.0)	-	3.3	3.3
	Profit on ordinary activities before interest					
6	341.2	(42.4)	298.8	359.9	(32.9)	327.0
	(96.3)	-	(96.3)	(91.6)	-	(91.6)
	Profit on ordinary activities before taxation					
7	244.9	(42.4)	202.5	268.3	(32.9)	235.4
	(41.3)	8.0	(33.3)	(44.9)	2.1	(42.8)
	Profit on ordinary activities after taxation for the financial year					
8	203.6	(34.4)	169.2	223.4	(30.8)	192.6
	(148.9)	-	(148.9)	(326.0)	-	(326.0)
	54.7	(34.4)	20.3	(102.6)	(30.8)	(133.4)

The results above arise from continuing operations.

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 12 to 22 form part of these financial statements.

balance sheet

at 31 March


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Notes	2000 £m	1999 £m
Fixed assets		
12	3,387.2	3,202.0
13	0.3	0.3
	<u>3,387.5</u>	<u>3,202.3</u>
Current assets		
14	3.9	3.2
15	200.0	190.9
	27.0	46.0
	<u>230.9</u>	<u>240.1</u>
Creditors: amounts falling due within one year		
16	(321.0)	(46.2)
16	(359.8)	(465.8)
	<u>(680.8)</u>	<u>(512.0)</u>
	<u>(449.9)</u>	<u>(271.9)</u>
	<u>2,937.6</u>	<u>2,930.4</u>
Creditors: amounts falling due after more than one year		
17	(1,153.4)	(1,172.6)
18	(92.2)	(95.1)
	<u>(1,245.6)</u>	<u>(1,267.7)</u>
19	(29.1)	(20.1)
	<u>1,662.9</u>	<u>1,642.6</u>
Capital and reserves		
22, 23	860.0	860.0
23	802.9	782.6
23	<u>1,662.9</u>	<u>1,642.6</u>

The notes on pages 12 to 22 form part of these financial statements.

Approved by the board on 31 May 2000.


C Mellor
chairman


E M Mannis
director

cash flow statement

for the year ended 31 March

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Notes	2000 £m	1999 £m
(a) Net cash inflow from operating activities	<u>455.2</u>	<u>544.9</u>
Returns on investments and servicing of finance		
Interest received	2.3	1.1
Interest paid	(84.5)	(82.5)
Interest element of finance lease rental payments	<u>(10.7)</u>	<u>(14.6)</u>
	<u>(92.9)</u>	<u>(96.0)</u>
Taxation		
Corporation tax paid	<u>(23.1)</u>	<u>(3.2)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(338.9)	(371.4)
Grants and contributions received	15.3	19.1
Disposal of tangible fixed assets	15.4	11.6
	<u>(308.2)</u>	<u>(340.7)</u>
Equity dividends paid	<u>(305.6)</u>	<u>(158.9)</u>
Net cash outflow before financing	<u>(274.6)</u>	<u>(53.9)</u>
Financing		
Increase in loans	301.4	545.2
(c) Repayments of amounts borrowed	(35.8)	(360.4)
Capital element of finance lease rental payments	<u>(10.0)</u>	<u>(2.4)</u>
Net cash inflow from financing	<u>255.6</u>	<u>182.4</u>
(c) (Decrease)/increase in cash	<u>(19.0)</u>	<u>128.5</u>

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

notes to the cash flow statement

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	2000 £m	1999 £m
a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	299.8	323.7
Profit on disposal of tangible fixed assets	-	(0.6)
Depreciation (net of amortisation of deferred grants and contributions)	121.3	118.8
Net movement on pensions balances	-	(2.4)
Net movement on restructuring provision	9.0	6.5
	<u>430.1</u>	<u>446.0</u>
Decrease/(increase) in working capital:		
Stocks	(0.7)	1.3
Debtors	(10.8)	85.7
Creditors	36.6	11.9
	<u>25.1</u>	<u>98.9</u>
Net cash inflow from operating activities	<u>455.2</u>	<u>544.9</u>

Included above are cash outflows of £20.4 million in respect of 1999/00 exceptional charges and £1.3 million in respect of prior year exceptional charges. The prior year comparative includes cash outflow of £8.7 million in respect of prior year restructuring.

	1 April 1999 £m	Cash flows £m	Non cash movements £m	31 March 2000 £m
b) Analysis of net debt				
Cash	46.0	(19.0)	-	27.0
Debt due within 1 year	(46.2)	46.2	(321.0)	(321.0)
Debt due after 1 year	(1,172.6)	(301.8)	321.0	(1,153.4)
	<u>(1,172.8)</u>	<u>(274.6)</u>	<u>-</u>	<u>(1,447.4)</u>

Non cash movements comprise transfers between categories of debt.

	2000 £m	1999 £m
c) Movement in net debt		
At beginning of year	(1,172.8)	(1,118.9)
(Decrease)/increase in cash	(19.0)	128.5
Increase in loans	(301.4)	(545.2)
Repayment of amounts borrowed	35.8	360.4
Capital element of finance lease rental payments	10.0	2.4
At end of year	<u>(1,447.4)</u>	<u>(1,172.8)</u>

notes to the financial statements

1. **accounting policies**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and, except as disclosed in note 1d below as relating to grants and contributions, in accordance with the Companies Act 1985. The following principal accounting policies have been applied:

a) **changes in presentation of financial statements**

Financial Reporting Standard (FRS)15, the new standard on Tangible Fixed Assets, was introduced during the year. The treatment of tangible fixed assets and the capitalisation of costs has followed the standard, but no restatement of prior year comparatives was required as a result of its implementation.

b) **turnover**

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for services provided and, in respect of contract work in progress, the value of work carried out.

c) **tangible fixed assets and depreciation**

Tangible fixed assets comprise:

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

d) **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 as, while a provision is made for depreciation of infrastructure assets, these assets have no determinable finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 12. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

1. **accounting policies (continued)**

e) **leased assets**

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor, and the finance costs being written off to the profit and loss account over the primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

f) **investments**

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

g) **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.

h) **long-term contracts**

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

i) **pension costs**

The company is a member of the Anglian Water Plc group, which principally operates a defined benefit pension scheme. Contributions to the group's defined benefit pension scheme are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees in proportion to their expected payroll costs. The cost of defined contribution schemes is charged to the profit and loss account in the year in respect of which the contributions become payable.

j) **research and development**

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

k) **deferred taxation**

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

l) **related party transactions**

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

2. **segmental analysis**

The directors believe that the whole of the company's activities constitute a single class of business.

The company's turnover is wholly generated from within the United Kingdom.

notes to the financial statements continued

	Before operating exceptional items £m	Operating exceptional items £m	2000 Total £m	Before operating exceptional items £m	Operating exceptional items £m	1999 Total £m
3. operating costs						
Operating costs (excluding depreciation):						
Raw materials and consumables	14.2	-	14.2	25.2	-	25.2
Other operating costs	199.4	17.1	216.5	195.5	26.8	222.3
Staff costs (see note 9)	95.3	25.3	120.6	94.2	8.0	102.2
Own work capitalised	(40.9)	-	(40.9)	(48.5)	-	(48.5)
Profit on sale of fixed assets	-	-	-	(0.6)	-	(0.6)
Total operating costs (excluding depreciation)	268.0	42.4	310.4	265.8	34.8	300.6
Depreciation of tangible fixed assets	126.8	-	126.8	122.7	1.4	124.1
Amortisation of deferred grants and contributions	(5.5)	-	(5.5)	(5.3)	-	(5.3)
Depreciation net of amortisation of grants and contributions	121.3	-	121.3	117.4	1.4	118.8
Total operating costs	389.3	42.4	431.7	383.2	36.2	419.4
4. exceptional operating items					2000 £m	1999 £m
External charges:						
Restructuring costs					37.3	18.7
Year 2000 costs					5.1	17.5
					42.4	36.2
Taxation credit thereon					8.0	2.1
5. operating profit					2000 £m	1999 £m
Operating profit is stated after charging:						
Hire of plant and machinery					2.3	1.2
Other operating lease costs					12.2	9.8
Research and development expenditure					5.6	5.1
Fees paid to auditors:						
for audit work					0.1	0.1
for other work					0.1	0.7

	2000 £m	1999 £m
6. interest payable (net)		
Overdrafts and short-term borrowings	0.4	2.9
Other loans	85.8	77.9
Finance leases	10.7	12.6
	<u>96.9</u>	<u>93.4</u>
Interest receivable	(0.6)	(1.8)
	<u>96.3</u>	<u>91.6</u>

Interest of £63.8 million (1999 – £50.5 million) is payable to the parent company.

	2000 £m	1999 £m
7. taxation		
Tax on profit on ordinary activities comprises:		
Corporation Tax at 30 per cent (1999 – 31 per cent)	33.3	42.8
Analysed as:		
– before exceptional items	41.3	44.9
– exceptional items	(8.0)	(2.1)
	<u>33.3</u>	<u>42.8</u>

The effective rate of Corporation Tax for the year is less than the stated 30 per cent, due to excess capital allowances over depreciation for which no deferred taxation is provided (see note 20).

	2000 £m	1999 £m
8. dividends		
Ordinary:		
Interim	45.5	45.8
Final	103.4	103.1
	<u>148.9</u>	<u>148.9</u>
Special	–	177.1
	<u>148.9</u>	<u>326.0</u>

	Before operating exceptional items £m	Operating exceptional items £m	2000 Total £m	Before operating exceptional items £m	Operating exceptional items £m	1999 Total £m
9. employee information						
Staff costs:						
Wages and salaries	85.9	11.5	97.4	84.1	3.1	87.2
Social security costs	6.9	–	6.9	7.0	–	7.0
Other pension costs	2.5	13.8	16.3	3.1	4.9	8.0
	<u>95.3</u>	<u>25.3</u>	<u>120.6</u>	<u>94.2</u>	<u>8.0</u>	<u>102.2</u>

Other pension costs before exceptional charges are stated after crediting £6.8 million (1999 – £6.4 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

	2000	1999
Average number of full-time equivalent persons employed in the UK:		
Number employed	<u>3,989</u>	<u>4,052</u>

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. These amounts represent the following percentage of their total emoluments: Mr C J Mellor 50 per cent (1999 – 85 per cent), Mr R A Pointer 90 per cent (1999 – 90 per cent), Mr A T Eckford 10 per cent (1999 – 10 per cent) and Mr E M Mannis 50 per cent (1999 – 85 per cent). 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	2000 Total £000	1999 Total £000
C J Mellor	119	6	28	153	213
R A Pointer	131	8	31	170	155
A T Eckford	16	1	4	21	19
E M Mannis	75	9	18	102	118
J W Green (resigned 30/6/98)	-	-	-	-	34
	341	24	81	446	539

The amount of pension contributions paid on behalf of directors during the year to 31 March 2000, along with the amounts for pension entitlements earned, the accrued pension liabilities and the changes therein, are summarised below. The table shows the full amounts for each of these individuals. 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 (rounded to the nearest thousand pounds).

	Accrued pension 2000 £000 ⁽¹⁾	Increase in accrued pension 2000 £000 ⁽²⁾	Accrued pension lump sum 2000 £000 ⁽³⁾	Transfer value of increases 2000 £000 ⁽⁴⁾⁽⁵⁾	At 31 March 1999	
					Accrued pension £000 ⁽¹⁾	Accrued pension lump sum £000 ⁽³⁾
C J Mellor	109	17	273	305	89	223
R A Pointer	74	6	205	107	67	184
A T Eckford	20	6	-	98	14	-
E M Mannis	7	4	-	37	3	-
J W Green (resigned 30/6/98)	-	-	-	-	71	172

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

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

(3) 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.

(4) 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.

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

Mr A T Eckford and Mr E M Mannis participate in funded, unapproved retirement benefit schemes. For the year 1999/00 contributions to these schemes were made in respect of Mr A T Eckford £31,161 (1999 – £45,175) and in respect of Mr E M Mannis £18,532 (1999 – £11,235). The value of the benefits attributable to these amounts are included in the table of pension benefits above.

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

11. directors' interests in shares and contracts

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.

Throughout this section, all interests in shares as at 31 March 2000 are in relation to new ordinary shares of 47¹/₇ pence each following the capital reorganisation in 1998.

Beneficial and family interests in shares:	31 March 2000 No. of shares	31 March 1999 No. of shares
C J Mellor	15,972	8,805
R A Pointer	14,694	11,003
A T Eckford	2,720	833
E M Mannis	9,067	250
J W Green*	-	10,747

* At date of resignation (30 June 1998).

The figures at 31 March 2000 include ordinary shares held in trust for the directors at that date as the share element of the annual bonus scheme, being Mr C J Mellor (1,578), Mr A T Eckford (1,262), Mr R A Pointer (879) and Mr E M Mannis (817).

Following the issue of redeemable shares on 6 March 2000, Mr C J Mellor, Mr A T Eckford and Mr R A Pointer each hold 9,984 redeemable shares. These shares were issued in respect of their free, matching and contributed shares held in trust by Anglian Water Share Scheme Trustees Limited.

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 number of shares to which he would become entitled under the group's long-term incentive plan: Mr C J Mellor 35,221 (1999 - 20,107), Mr R A Pointer 22,319 (1999 - 13,497), Mr A T Eckford 27,820 (1999 - 17,617) and Mr E M Mannis 16,625 (1999 - 7,059).

Options outstanding 1 April 1999		Options granted		Options exercised						Options outstanding at 31 March 2000	
Sharesave share options	Number	Number	Option price (£)	Number	Weighted	Weighted	Gain on exercise of options (£)	Options lapsed	Option price (£)	Number	Weighted
					average exercise price (£)	average market price (£)					average exercise price (£)
C J Mellor	2,717	892	4.34	862	4.52	5.30	672	-	-	2,747	5.17
R A Pointer	2,769	892	4.34	-	-	-	-	544	7.12	3,117	4.56
A T Eckford	2,786	3,888	4.34	-	-	-	-	2,786	6.19	3,888	4.34
E M Mannis	1,360	2,232	4.34	-	-	-	-	1,360	7.12	2,232	4.34
Executive scheme options											
R A Pointer	16,805	-	-	-	-	-	-	-	-	16,805	4.74

These beneficial interests in shares and options are the same as, and not additional to, those disclosed in the annual report and accounts of Anglian Water Plc. 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 2000 was £5.1825, and the range during the year was £7.955 to £3.955.

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

11. directors' interests in shares (continued)

Options granted under the sharesave scheme are exercisable within a period of six months after either the third, fifth or seventh anniversary of the date of the savings contract. Options under the executive share option scheme are exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of grant. The dates of grant and the option prices are set out below.

	Date of grant	Option price		Date of grant	Option price
Sharesave scheme	21.12.1992	£3.82	Executive share option scheme	20.6.1990	£2.93
Sharesave scheme	20.12.1993	£4.04	Executive share option scheme	10.1.1991	£3.31
Sharesave scheme	14.12.1995	£4.65	Executive share option scheme	7.12.1991	£3.26
Sharesave scheme	12.12.1996	£4.52	Executive share option scheme	24.6.1992	£3.95
Sharesave scheme	10.12.1997	£6.19	Executive share option scheme	15.12.1992	£4.73
Sharesave scheme	9.12.1998	£7.12	Executive share option scheme	7.7.1993	£4.74
Sharesave scheme	13.1.2000	£4.34	Executive share option scheme	1.12.1993	£5.30
			Executive share option scheme	15.8.1994	£5.375
			Executive share option scheme	10.6.1996	£5.71
			Executive share option scheme	7.11.1996	£5.50

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

Cost

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
At 31 March 1999	51.0	1,652.4	2,027.5	658.5	4,389.4
Additions	6.4	125.9	68.3	137.5	338.1
Disposals	(3.4)	(0.9)	(16.0)	(6.3)	(26.6)
At 31 March 2000	54.0	1,777.4	2,079.8	789.7	4,700.9
Grants and contributions					
At 31 March 1999	-	121.5	-	-	121.5
Additions	-	9.7	-	-	9.7
At 31 March 2000	-	131.2	-	-	131.2
Depreciation					
At 31 March 1999	16.8	265.1	564.4	219.6	1,065.9
Charge for the year	2.8	17.2	25.1	81.7	126.8
Disposals	(0.3)	(0.7)	(5.2)	(4.0)	(10.2)
At 31 March 2000	19.3	281.6	584.3	297.3	1,182.5
Net book amount					
At 31 March 2000	34.7	1,364.6	1,495.5	492.4	3,387.2
At 31 March 1999	34.2	1,265.8	1,463.1	438.9	3,202.0

12. **tangible fixed assets (continued)**

Tangible fixed assets at 31 March 2000 include £380.6 million of assets in the course of construction (1999 – £458.0 million) and also include land of £9.8 million (1999 – £9.2 million) which is not subject to depreciation. The company's interests in land and buildings are almost entirely freehold.

The net book value of tangible fixed assets held under finance leases at 31 March 2000 was £160.2 million (1999 – £164.9 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2000 amounted to £5.6 million (1999 – £6.4 million).

Capital commitments

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

The commitments shown below reflect only the value of orders placed at 31 March 2000.

	2000 £m	1999 £m
Contracted for but not provided in the financial statements	66.1	236.0

 13. **fixed asset investments**

Shares at cost in participating interests

Other loans

	2000 £m	1999 £m
Shares at cost in participating interests	0.2	0.2
Other loans	0.1	0.1
	0.3	0.3

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.

	2000 £m	1999 £m
14. stocks		
Raw materials and consumables	3.9	3.2

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

	2000 £m	1999 £m
15. debtors		
Amounts falling due within one year		
Trade debtors	159.7	154.3
Amounts owed by other group undertakings	7.5	6.7
Other debtors	14.9	11.5
Prepayments and accrued income	4.6	5.1
	186.7	177.6
Amounts falling due after more than one year		
Prepaid pension contributions	13.3	13.3
	200.0	190.9

notes to the financial statements continued

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	2000 £m	1999 £m
16. creditors: amounts falling due within one year		
Current portion of long-term loans (including £300 million (1999 – £nil) from the parent company)	309.2	35.7
Obligations under finance leases	11.8	10.5
Short term borrowings	321.0	46.2
Trade creditors	104.7	89.5
Amounts owed to other group undertakings	30.6	14.5
Receipts in advance	48.6	48.2
Corporation Tax	52.7	42.5
Other taxation and social security	1.2	2.4
Accruals and deferred income	18.6	8.6
Proposed dividend	103.4	260.1
Other creditors	359.8	465.8
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)	76.5	75.6
Adjustment for swap agreements (a)	2.8	3.7
	79.3	79.3
12% Fixed Rate loan 2014 (from the parent company)	100.0	100.0
5.125% Index Linked Loan Stock 2008 (from parent company)	138.9	137.5
6.66% Fixed Rate Loan 2023 (from the parent company)	200.0	200.0
6.4% Fixed Rate Loan 2029 (from the parent company)	200.0	200.0
European Investment Bank 2005 (Interest at 8.2%)	60.0	60.0
	778.2	776.8
Repayable by instalments, any of which is due for repayment after five years		
European Investment Bank 2005 (Interest at 8.5%)	30.0	35.0
European Investment Bank 2007 (Interest at 7.38%)	6.4	7.2
European Investment Bank 2007 (Interest at 9.9%)	21.0	24.0
Finance leases (b)	186.6	196.6
Other borrowings (c)	21.6	22.2
	265.6	285.0
Repayable wholly within five years		
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	–	25.0
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0
European Investment Bank 2002 (Interest at 7.99%)	60.0	60.0
European Investment Bank 2003 (Interest at 6.6%)	10.0	10.0
European Investment Bank 2004 (Interest at 11.5%)	9.5	10.9
6.56% Fixed Rate Loan 2000 (from the parent company)	300.0	–
Other loans (c)	1.1	1.1
	430.6	157.0
Total loans and other borrowings	1,474.4	1,218.8
Less amounts included in creditors falling due within one year	(321.0)	(46.2)
	1,153.4	1,172.6
Due for repayment as follows:		
Between one and two years	67.3	22.4
Between two and five years	144.5	196.7
After five years	941.6	953.5
	1,153.4	1,172.6

17. **loans and other borrowings falling due after more than one year (continued)**

- a) The company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loan 2006. In addition, through interest rate swaps, £59.8 million of these borrowings are effectively at a fixed interest rate of 8.4 per cent and the balance are at a floating rate of 6 month LIBOR + 0.39 per cent.
- b) Amounts due under finance leases comprise £11.8 million (1999 – £10.5 million) payable within one year, £8.0 million (1999 – £11.5 million) payable within one to two years, £36.9 million (1999 – £40.6 million) payable between two and five years and £129.9 million (1999 – £134.0 million) payable after five years.
- c) Of the unspecified loans and other borrowings, £19.0 million (1999 – £20.8 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.9 million (1999 – £0.9 million) secured on the revenues of the company.

	2000 £m	1999 £m
18. other creditors falling due after more than one year		
Trade creditors	0.4	3.3
Deferred grants and contributions	91.8	91.8
	<u>92.2</u>	<u>95.1</u>

	Restructuring costs £m
19. provisions for liabilities and charges	
At 31 March 1999	20.1
Charge for the year	37.3
Utilised in the year	(28.3)
At 31 March 2000	<u>29.1</u>

The provision for restructuring costs charged in the year relates to redundancy and other costs arising from the group restructuring announced in June 1999. The announcement anticipated that the restructuring would span the 1999/00 and 2000/01 financial years and that the principal cash flows would occur in these two years. Of the £29.1 million (1999 – £20.1 million) balance of restructuring costs, £20.4 million (1999 – £7.9 million) related to pension enhancements. These pension payments, as indicated in the original formal plans announced to employees at the time of their retirement, are expected to be paid in future accounting periods. The provision has been determined using actuarial assumptions based upon those used for the valuation of the company's pension schemes and has been discounted at a rate which reflects the company's cost of capital.

 20. **deferred taxation**

In accordance with the company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 2000. The full potential deferred taxation liability, calculated under the liability method at a tax rate of 30 per cent (1999 – 30 per cent), is:

	2000 £m	1999 £m
Accelerated capital allowances	605.2	576.2
Other timing differences	(18.7)	(13.8)
Advance Corporation Tax available for surrender from the parent company	(157.9)	(157.9)
	<u>428.6</u>	<u>404.5</u>

Had provision for deferred taxation been made on the full liability method, there would have been a charge of £24.1 million (1999 – £71.5 million).

notes to the financial statements continued

21. **commitments under operating leases**

At 31 March 2000 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	0.5	2.0
Between one and five years	0.5	4.8
After five years	2.0	0.1
	3.0	6.9

22. **share capital – equity shares**

Authorised

Ordinary shares of £1 each

2000 £m	1999 £m
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**

At beginning of year

Share capital £m	Profit and loss account £m	2000 Total £m	1999 Total £m
860.0	782.6	1,642.6	1,776.0

Profit for the financial year

–	169.2	169.2	192.6
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Dividends

–	(148.9)	(148.9)	(326.0)
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At end of year

860.0	802.9	1,662.9	1,642.6
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24. **pension commitments**

The company is a member of the Anglian Water Plc group. Pension arrangements for the majority of the group's UK employees are of the defined benefit type through Anglian Water Pension Scheme (AWPS). The administration and investment of the pension funds are maintained independently from the finances of the group.

The regular pension cost for the year ended 31 March 2000 was £9.3 million (1999 – £14.4 million). This cost was offset by a credit of £6.8 million (1999 – £6.4 million) in respect of the amortisation of actuarial surpluses in the AWPS scheme. At 31 March 2000 there was a prepayment in respect of pensions of £13.3 million (1999 – £13.3 million).

25. **contingent liabilities**

The company has guaranteed the borrowings of Anglian Water Plc amounting to £638.9 million (1999 – £637.6 million). Otherwise, there are no material contingent liabilities at 31 March 2000 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, registered in England, copies of whose financial statements may be obtained from the company secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

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 Ofwat. This additionally requires the directors to:

- confirm that, in their opinion, the company has sufficient financial and management resources for the next 12 months;
- confirm that, in their opinion, the company has sufficient rights and assets which would enable a special administrator to manage the affairs, business and property of the company;
- report to the Director General of Water Services changes in the company's activities which may be material in relation to the company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length;
- keep proper accounting records which comply with Condition F.

These responsibilities are additional to those already set out on page 6.

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 24. A current cost profit and loss account and balance sheet are shown on page 27. Other current cost disclosures appear on pages 28 to 35. Additional information required by the Licence is shown on pages 25 to 26.

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

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	2000			1999		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Turnover	724.4	6.9	731.3	731.8	9.0	740.8
Operating costs	(425.3)	(6.4)	(431.7)	(412.0)	(8.0)	(420.0)
(Loss)/profit on sale of fixed assets	(7.8)	6.8	(1.0)	3.9	-	3.9
Operating profit*	291.3	7.3	298.6	323.7	1.0	324.7
Other income	0.2	-	0.2	0.6	1.7	2.3
Interest payable (net)	(96.3)	-	(96.3)	(91.6)	-	(91.6)
Profit on ordinary activities before taxation	195.2	7.3	202.5	232.7	2.7	235.4
Taxation	(33.3)	-	(33.3)	(42.8)	-	(42.8)
Profit on ordinary activities after taxation	161.9	7.3	169.2	189.9	2.7	192.6
Dividends	(148.9)	-	(148.9)	(326.0)	-	(326.0)
Movement in reserves	13.0	7.3	20.3	(136.1)	2.7	(133.4)

* After exceptional items of £42.4 million (1999 - £32.9 million) within the appointed business.

historical cost balance sheet

for the year ended 31 March

	2000			1999		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Fixed assets						
Tangible assets	3,407.2	-	3,407.2	3,245.4	-	3,245.4
Investments	0.3	-	0.3	0.3	-	0.3
	3,407.5	-	3,407.5	3,245.7	-	3,245.7
Current assets						
Stocks	3.9	-	3.9	3.2	-	3.2
Debtors	200.0	-	200.0	190.9	-	190.9
Cash and deposits	14.5	12.5	27.0	40.8	5.2	46.0
	218.4	12.5	230.9	234.9	5.2	240.1
Creditors: amounts falling due within one year						
Short term borrowings	(321.0)	-	(321.0)	(46.2)	-	(46.2)
Proposed dividend	(103.4)	-	(103.4)	(260.1)	-	(260.1)
Other creditors	(256.4)	-	(256.4)	(205.7)	-	(205.7)
Net current liabilities	(462.4)	12.5	(449.9)	(277.1)	5.2	(271.9)
Total assets less current liabilities	2,945.1	12.5	2,957.6	2,968.6	5.2	2,973.8
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,153.4)	-	(1,153.4)	(1,172.6)	-	(1,172.6)
Other creditors	(92.2)	-	(92.2)	(95.1)	-	(95.1)
	(1,245.6)	-	(1,245.6)	(1,267.7)	-	(1,267.7)
Provisions for liabilities and charges	(49.1)	-	(49.1)	(63.5)	-	(63.5)
	1,650.4	12.5	1,662.9	1,637.4	5.2	1,642.6
Capital and reserves						
Called up equity share capital	860.0	-	860.0	860.0	-	860.0
Profit and loss account	790.4	12.5	802.9	777.4	5.2	782.6
Total shareholder's funds (all equity)	1,650.4	12.5	1,662.9	1,637.4	5.2	1,642.6

1. **accounting policies**

The accounting policies are set out on pages 12 and 13, except that, as noted on page 23, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory financial statements. In addition, infrastructure renewals accounting has been retained in the regulatory accounts in accordance with Ofwat's requirements.

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

The non-appointed 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 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 2000.
Sums borrowed by the appointee from associated companies were:

Lender	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc—fixed rate loan	100.0	2014	12.000
Anglian Water Plc—US\$ loan	76.5	2006	*
Anglian Water Plc—fixed rate loan	200.0	2023	6.660
Anglian Water Plc—fixed rate loan	200.0	2029	6.400
Anglian Water Plc—fixed rate loan	300.0	2000	6.560
Anglian Water Plc—index linked loan†	138.9	2008	5.125

* 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, £59.8 million of these borrowings are at a fixed interest rate of 8.4 per cent and the balance are at a floating rate of 6 month LIBOR + 0.39 per cent.

† The value of the capital and interest elements of the Index Linked Loan Stock are linked to movements in the Retail Price Index.

b) **Dividends paid to associated undertakings**

Full year dividends, excluding the effect of the £177.1 million special dividend in 1999, have been held at 17.3p per share, the same level as for 1999. The total cost of dividends amounts to £148.9 million (1999 – £326.0 million).

additional information required by the licence

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	12.000
Index Linked Loan Stock	138.9	2008	5.125
Fixed Rate Bond	200.0	2023	6.625
Fixed Rate Bond	200.0	2029	6.375

d) **Transfers of assets/liabilities**

During the course of the year there was a transfer of a number of properties comprising offices and houses to Ambury Estates Ltd. There were no other transfers to group companies.
Total net sale proceeds were £8.6 million (1999 – nil).

e) **Supply of services**

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Various services	Various	Market rates	3.0

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	7.4	Recharge of appropriate costs	5.5
Vehicle and plant maintenance	Powermarque Ltd	30.9	Competitive tendering/ negotiated market rates	17.1
Insurance services	Rutland Insurance Company Ltd	3.9	Negotiated market rates	3.6
Rental of office accommodation	Ambury Estates Ltd	5.9	Negotiated	3.5
Office accommodation service charges	Linkline Commercial Surveyors Ltd	2.7	Negotiated	1.9
Engineering, construction and fabrication	PURAC Ltd	28.1	Competitive tendering/ negotiated market rates	11.8
Asset management services	Geodesys Ltd	5.3	Negotiated	2.1
Sewerage maintenance services	Alpheus Environmental Ltd	7.2	Competitive tendering	1.3
				46.8*

* This total includes amounts of £11.8 million 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 profit and loss account for appointed business

for the year ended 31 March

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Notes	2000 £m	1999 £m	
2	Turnover	724.4	731.8
4	Current cost operating costs	(477.7)	(471.9)
3	(Loss)/profit on sale of fixed assets	(2.1)	3.6
		244.6	263.5
1(d)	Working capital adjustment	1.0	(0.2)
	Current cost operating profit*	245.6	263.3
	Other income	0.2	0.6
	Interest payable (net)	(96.3)	(91.6)
1(e)	Financing adjustment	31.7	23.3
	Current cost profit before taxation	181.2	195.6
	Taxation	(33.3)	(42.8)
	Current cost profit attributable to shareholder	147.9	152.8
	Dividends	(148.9)	(326.0)
7	Current cost loss	(1.0)	(173.2)

*After exceptional items of £42.4 million (1999 – £32.9 million).

current cost balance sheet for appointed business

for the year ended 31 March

Notes	2000 £m	1999 £m	
	Assets employed		
5	Fixed assets	17,245.6	15,663.0
	Third party contributions since 31 March 1990	(514.4)	(491.8)
		16,731.2	15,171.2
6	Working capital	(86.2)	(39.0)
	Net operating assets	16,645.0	15,132.2
	Cash and investments	0.3	0.3
	Non-trade debtors	28.2	24.8
	Dividends payable	(103.4)	(260.1)
	Other non-trade creditors due within one year	(321.0)	(46.2)
	Creditors due after one year	(1,153.9)	(1,176.0)
	Provisions for liabilities and charges – (restructuring costs)	(29.1)	(20.1)
	Net assets employed	15,066.1	13,654.9
	Financed by		
	Called up share capital	860.0	860.0
7	Profit and loss account	292.4	293.4
8	Current cost reserve	13,913.7	12,501.5
	Total capital and reserves	15,066.1	13,654.9

The notes on pages 29 to 35 form part of these current cost financial statements.

current cost cash flow statement for appointed business

for the year ended 31 March

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Notes	2000 £m	1999 £m
9(a) Net cash inflow from operating activities	454.7	542.2
Returns on investments and servicing of finance		
Interest received	2.3	1.1
Interest paid	(84.5)	(82.5)
Interest element of finance lease rental payments	(10.7)	(14.6)
	<u>(92.9)</u>	<u>(96.0)</u>
Taxation		
Corporation Tax paid	(23.1)	(3.2)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(298.5)	(329.8)
Grants and contributions received	15.3	19.1
Investment in infrastructure renewals	(40.4)	(41.6)
Disposal of tangible fixed assets	8.6	11.6
	<u>(315.0)</u>	<u>(340.7)</u>
Equity dividends paid	(305.6)	(158.9)
Net cash outflow before financing	(281.9)	(56.6)
Financing		
Increase in loans	301.4	545.2
Repayments of amounts borrowed	(35.8)	(360.4)
Capital element of finance lease payments	(10.0)	(2.4)
Net cash inflow from financing	255.6	182.4
(Decrease)/increase in cash	(26.3)	125.8

1. **accounting policies**

a) **General**

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

b) **Tangible fixed assets**

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

Land and buildings

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

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

Infrastructure assets

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

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

Other fixed assets

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

Surplus land

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

c) **Grants and other third party contributions**

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

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.

	Water services £m	Sewerage services £m	Appointed business 2000 £m	Water services £m	Sewerage services £m	Appointed business 1999 £m
2. turnover for the appointed business						
Measured	135.8	153.7	289.5	127.9	141.3	269.2
Unmeasured	132.7	246.6	379.3	142.5	262.9	405.4
Trade effluent	-	25.7	25.7	-	23.0	23.0
Third party services	20.1	1.7	21.8	19.9	1.9	21.8
Other sources	1.3	6.8	8.1	4.9	7.5	12.4
Total turnover	289.9	434.5	724.4	295.2	436.6	731.8
3. operating income and working capital adjustment for the appointed business						
Current cost (loss)/profit on disposal of fixed assets	(1.0)	(1.1)	(2.1)	1.8	1.8	3.6
Working capital adjustment	0.5	0.5	1.0	(0.1)	(0.1)	(0.2)

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	3.9	8.2	12.1	5.7	9.7	3.3	13.0	18.7	9.4	4.1	1.0
Power	5.4	5.6	11.0	3.0	6.8	3.3	10.1	13.1	-	0.1	-
Agencies	-	-	-	-	-	-	-	-	-	-	-
Hired and contracted services	2.7	7.8	10.5	4.6	5.8	13.7	19.5	24.1	5.8	1.1	0.6
Materials and consumables	3.2	2.2	5.4	1.0	3.4	3.4	6.8	7.8	0.3	1.0	-
Service charges	6.3	-	6.3	0.8	4.1	-	4.1	4.9	-	-	-
Bulk supply imports	0.5	-	0.5	-	-	-	-	-	-	-	-
Other direct costs	-	0.3	0.3	0.3	0.2	-	0.2	0.5	6.2	0.1	1.3
Total direct costs	22.0	24.1	46.1	15.4	30.0	23.7	53.7	69.1	21.7	6.4	2.9
General and support expenditure	8.6	11.9	20.5	8.7	15.5	8.4	23.9	32.6	7.8	2.1	0.8
Functional expenditure	30.6	36.0	66.6	24.1	45.5	32.1	77.6	101.7	29.5	8.5	3.7
Total business activities	-	-	20.4	-	-	-	-	21.3	-	-	-
Rates	-	-	20.9	-	-	-	-	10.6	-	-	-
Doubtful debts	-	-	3.2	-	-	-	-	5.5	-	-	-
Exceptional items	-	-	21.2	-	-	-	-	21.2	-	-	-
Total less third party services	-	-	132.3	-	-	-	-	160.3	-	-	-
Third party services	-	-	10.7	-	-	-	-	0.7	-	-	-
	-	-	143.0	-	-	-	-	161.0	-	-	-
Capital costs:											
Infrastructure renewals expenditure	0.7	22.2	22.9	17.3	0.2	-	0.2	17.5	-	-	-
Movement in infrastructure renewal accrual/prepayment	(0.5)	(12.8)	(13.3)	(10.0)	(0.1)	-	(0.1)	(10.1)	-	-	-
Depreciation [†] (allocated)	36.1	12.0	48.1	17.3	75.6	2.9	78.5	95.8	-	-	-
Amortisation of deferred credits	-	-	(2.0)	-	-	-	-	(3.5)	-	-	-
Business activities depreciation [†] (non-allocated)	-	-	7.5	-	-	-	-	7.9	-	-	-
Capital maintenance excluding third party services	-	-	63.2	-	-	-	-	107.6	-	-	-
Third party services – capital maintenance	-	-	2.2	-	-	-	-	0.7	-	-	-
Total capital maintenance	-	-	65.4	-	-	-	-	108.3	-	-	-
Total operating costs⁽¹⁾	-	-	208.4	-	-	-	-	269.3	-	-	-
1999 total operating costs	-	-	216.3	-	-	-	-	255.6	-	-	-
CCA (MEA) values*											
Service activities	995.4	3,881.8	4,877.2	10,569.9	1,515.2	81.1	1,596.3	12,166.2	-	-	-
Business activities	-	-	36.5	8.7	-	-	27.7	36.4	-	-	-
Service totals	-	-	4,913.7	10,578.6	-	-	1,624.0	12,202.6	-	-	-
Service assets for third parties	-	-	121.5	-	-	-	-	7.8	-	-	-
Total MEA values	-	-	5,035.2	-	-	-	-	12,210.4	-	-	-
1999 total MEA values	-	-	4,949.0	-	-	-	-	10,714.0	-	-	-

* On a modern equivalent asset (MEA) basis

[†] On a current cost basis.

⁽¹⁾ Included within total operating costs are reactive and planned expenditure costs on infrastructure assets of £17.7 million

This is split £0.3 million water resources and treatment, £11.2 million water distribution and £5.2 million sewerage.

	Specialised operational assets £m	Non-specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
b. fixed assets					
a) Fixed assets by type – water services					
Gross replacement cost					
At 31 March 1999	1,792.2	58.1	3,916.0	246.8	6,013.1
AMP adjustment	(611.9)	(48.2)	289.2	(33.9)	(404.8)
RPI adjustment	30.7	0.3	109.3	5.5	145.8
Disposals	–	(5.4)	–	(0.9)	(6.3)
Additions	50.8	3.9	54.5	15.4	124.6
At 31 March 2000	1,261.8	8.7	4,369.0	232.9	5,872.4
Depreciation					
At 31 March 1999	946.6	13.4	–	104.1	1,064.1
AMP adjustment	(301.2)	(8.5)	–	8.2	(301.5)
RPI adjustment	16.8	0.1	–	2.9	19.8
Disposals	–	(2.6)	–	(0.4)	(3.0)
Charge for the year	44.9	0.1	–	12.8	57.8
At 31 March 2000	707.1	2.5	–	127.6	837.2
Net book amount at 31 March 2000	554.7	6.2	4,369.0	105.3	5,035.2
At 31 March 1999	845.6	44.7	3,916.0	142.7	4,949.0
b) Fixed assets by type – sewerage services					
Gross replacement cost					
At 31 March 1999	2,973.9	47.5	9,120.0	168.3	12,309.7
AMP adjustment	(121.9)	(30.0)	1,282.4	44.4	1,174.9
RPI adjustment	74.1	0.5	270.5	5.5	350.6
Disposals	–	(13.0)	–	(0.9)	(13.9)
Additions	122.7	3.9	31.0	15.5	173.1
At 31 March 2000	3,048.8	8.9	10,703.9	232.8	13,994.4
Depreciation					
At 31 March 1999	1,494.0	11.7	–	90.0	1,595.7
AMP adjustment	24.1	(3.3)	–	26.9	47.7
RPI adjustment	39.5	0.2	–	3.0	42.7
Disposals	–	(6.0)	–	(0.5)	(6.5)
Charge for the year	81.9	0.1	–	22.4	104.4
At 31 March 2000	1,639.5	2.7	–	141.8	1,784.0
Net book amount at 31 March 2000	1,409.3	6.2	10,703.9	91.0	12,210.4
At 31 March 1999	1,479.9	35.8	9,120.0	78.3	10,714.0
c) Fixed assets by type – total					
Gross replacement cost					
At 31 March 1999	4,766.1	105.6	13,036.0	415.1	18,322.8
AMP adjustment	(733.8)	(78.2)	1,571.6	10.5	770.1
RPI adjustment	104.8	0.8	379.8	11.0	496.4
Disposals	–	(18.4)	–	(1.8)	(20.2)
Additions	173.5	7.8	85.5	30.9	297.7
At 31 March 2000	4,310.6	17.6	15,072.9	465.7	19,866.8
Depreciation					
At 31 March 1999	2,440.6	25.1	–	194.1	2,659.8
AMP adjustment	(277.1)	(11.8)	–	35.1	(253.8)
RPI adjustment	56.3	0.3	–	5.9	62.5
Disposals	–	(8.6)	–	(0.9)	(9.5)
Charge for the year	126.8	0.2	–	35.2	162.2
At 31 March 2000	2,346.6	5.2	–	269.4	2,621.2
Net book amount at 31 March 2000	1,964.0	12.4	15,072.9	196.3	17,245.6
At 31 March 1999	2,325.5	80.5	13,036.0	221.0	15,663.0

- d) In the preparation of its statutory accounts, the company has adopted the infrastructure renewals accounting basis as required by FRS15 (Tangible Fixed Assets). However, for the purposes of the regulatory accounts, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	Infrastructure assets £m
Cost	
At 31 March 2000 per regulatory accounts	15,072.9
Adjustment to opening balance at 31 March	(13,255.1)
Infrastructure renewals expenditure capitalised in the year	(40.4)
At 31 March 2000 per statutory accounts	<u>1,777.4</u>
Grants and contributions	
At 31 March 2000 per regulatory accounts	-
Adjustment to opening balance at 31 March	(131.2)
At 31 March 2000 per statutory accounts	<u>(131.2)</u>
Depreciation	
At 31 March 2000 per regulatory accounts	-
Adjustment to opening balance at 31 March	(264.4)
Depreciation charge for infrastructure renewal expenditure	(17.2)
At 31 March 2000 per statutory accounts	<u>(281.6)</u>
Net book value	
At 31 March 2000 per regulatory accounts	15,072.9
Adjustment to opening balance at 31 March	(13,650.7)
Infrastructure renewals expenditure capitalised in the year	(40.4)
Depreciation charge for infrastructure renewal expenditure	(17.2)
At 31 March 2000 per statutory accounts	<u>1,364.6</u>
Working capital	
At 31 March 2000 per regulatory accounts	20.0
Less infrastructure renewals accrual/prepayment	(20.0)
At 31 March 2000 per statutory accounts	<u>-</u>

	2000 £m	1999 £m
6. working capital		
Cash	14.5	40.8
Stocks	3.9	3.2
Trade debtors	159.7	154.3
Trade creditors	(76.1)	(38.7)
Short-term capital creditors	(28.6)	(50.8)
Infrastructure renewals accrual	(20.0)	(43.4)
Other trade accruals	(67.2)	(56.8)
Corporation Tax	(52.7)	(42.5)
Payroll-related taxes and social security contributions	(1.2)	(2.4)
Group trade debtors (net)	(23.1)	(7.8)
Prepayments	4.6	5.1
Total working capital	<u>(86.2)</u>	<u>(39.0)</u>

notes to the current cost financial statements continued

	2000 £m	1999 £m
7. current cost profit and loss account		
At beginning of year	293.4	466.6
Retained loss for the year for appointed business	(1.0)	(173.2)
At end of year	292.4	293.4
8. current cost reserve		
At beginning of year	12,501.5	12,215.2
AMP adjustment	1,023.9	-
RPI adjustments:		
Fixed assets	433.9	319.4
Working capital	(1.0)	0.2
Financing	(31.7)	(23.3)
Deferred grants and contributions	(12.9)	(10.0)
At end of year	13,913.7	12,501.5

In accordance with the company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 1998 as part of the revision of the company's AMP. A further adjustment was carried out at 31 March 1999 to reflect the 1998/99 Retail Price Index increase.

	2000 £m	1999 £m
9(a) reconciliation of current cost operating profit to net cash inflow from operating activities		
Current cost operating profit*	245.6	263.3
Working capital adjustment	(1.0)	0.2
(Increase)/decrease in stocks	(0.7)	1.3
Other income received	0.2	0.6
Current cost depreciation	162.2	166.7
Current cost loss/(profit) on sale of fixed assets	2.1	(3.6)
(Increase)/decrease in debtors and prepaid expenses	(10.8)	85.7
Increase in creditors and accrued expenses	36.6	11.9
Provision for infrastructure renewals	17.0	17.3
Net movement in restructuring provision	9.0	6.5
Amortisation of deferred grants and contributions	(5.5)	(5.3)
Net movement in prepaid pension contributions	-	(2.4)
Net cash inflow from operating activities	454.7	542.2

*After exceptional items of £42.4 million (1999 - £32.9 million).

	1 April 1999 £m	Cash flows £m	Non-cash movements £m	31 March 2000 £m
9(b) analysis of net debt				
Cash	40.8	(26.3)	-	14.5
Debt due within 1 year	(46.2)	46.2	(321.0)	(321.0)
Debt due after 1 year	(1,172.6)	(301.8)	321.0	(1,153.4)
	(1,178.0)	(281.9)	-	(1,459.9)

Non-cash movements comprise transfers between categories of debt.

10. current cost profit and loss account for appointed business	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	724.4	743.5	746.6	745.8	730.2
Current cost operating costs	(477.7)	(479.5)	(436.1)	(463.2)	(449.5)
Operating income	(2.1)	3.7	1.5	1.0	(0.8)
Working capital adjustment	1.0	(0.2)	3.9	5.3	6.1
Current cost operating profit*	245.6	267.5	315.9	288.9	286.0
Other income	0.2	0.6	0.9	1.9	1.2
Interest payable (net)	(96.3)	(93.1)	(81.5)	(64.4)	(53.8)
Financing adjustment	31.7	23.7	32.1	20.9	15.9
Current cost profit before taxation	181.2	198.7	267.4	247.3	249.3
Taxation	(33.3)	(43.5)	(12.4)	-	-
Current cost profit attributable to shareholder	147.9	155.2	255.0	247.3	249.3
Dividends	(148.9)	(331.2)	(207.5)	(126.5)	(330.8)
Current cost (loss)/profit	(1.0)	(176.0)	47.5	120.8	(81.5)

*After historical exceptional charge of £42.4 million (1999 – exceptional charge of £33.4 million, 1998 – exceptional credit of £6.3 million, 1997 – exceptional charge of £21.7 million, 1996 – exceptional credit of £2.2 million).

current cost balance sheet for appointed business	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Assets employed					
Fixed assets	17,245.6	16,070.2	15,925.3	15,770.9	15,585.1
Third party contributions since 31 March 1990	(514.4)	(504.6)	(497.4)	(484.0)	(464.3)
Working capital	(86.2)	(40.0)	10.8	(117.2)	(209.3)
Net operating assets	16,645.0	15,525.6	15,438.7	15,169.7	14,911.5
Cash and investments	0.3	0.3	0.3	0.2	0.2
Non-trade debtors	28.2	25.4	34.8	23.6	21.6
Dividends payable	(103.4)	(266.9)	(97.4)	(89.3)	(79.0)
Other non-trade creditors due within one year	(321.0)	(47.4)	(102.9)	(260.8)	(129.3)
Creditors due after one year	(1,153.9)	(1,206.6)	(1,080.9)	(679.9)	(703.1)
Provisions for liabilities and charges	(29.1)	(20.6)	(14.2)	(31.2)	(14.8)
Net assets employed	15,066.1	14,009.8	14,178.4	14,132.3	14,007.1
Financed by					
Called up share capital	860.0	882.4	900.4	932.2	956.3
Profit and loss account	292.4	301.0	488.5	456.7	344.5
Current cost reserves	13,913.7	12,826.4	12,789.5	12,743.4	12,706.3
Total capital and reserves	15,066.1	14,009.8	14,178.4	14,132.3	14,007.1

The financial information set out above for the four years ended 31 March 1999 is based on the audited current cost financial statements for those years, as adjusted to 1999/2000 prices for changes in the RPI.

auditors' report

to the Director General of Water Services

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We have audited the regulatory financial statements and other information on pages 23 to 35.

respective responsibilities of directors and auditors

As described on page 23, 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.

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

basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. 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 – qualified solely as regards the historical cost regulatory balance sheet

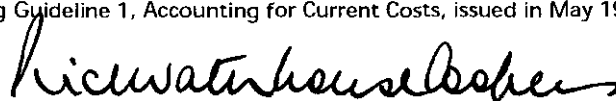
The historical cost regulatory balance sheet on page 24 has been drawn up in accordance with Ofwat's instructions of 6 April 2000 that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standard 12 and 15 disapplied. As a consequence an amount of £20.0 million has been included under provisions in the regulatory balance sheet and has been taken to increase the amount of fixed assets as shown in the statutory balance sheet on page 9.

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 2000 required to be published and submitted to you by Anglian Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water and sewage undertaker under the Water Industry Act 1991.

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

- (a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and the Regulatory Accounting Guidelines 1-4 issued by Ofwat;
- (c) the financial statements on pages 8 to 22 and pages 24 to 26 give, under the historical cost convention, a true and fair view of the revenues, costs and, except for accounting for infrastructure renewals in the regulatory balance sheet in the manner referred to above, the assets and liabilities of the appointee and its appointed business;
- (d) the current cost financial information on pages 27 to 35 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by Ofwat.

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
Temple Court
35 Bull Street
Birmingham B4 6JT



31 May 2000

PRICEWATERHOUSECOOPERS 

Anglian Water Services Ltd
Anglian House, Ambury Road,
Huntingdon, Cambridgeshire,
PE29 3NZ United Kingdom

www.anglianwater.co.uk

Ref no: BD113/00