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The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2001.

group re-organisation

During the year, the Anglian Water group underwent a major re-organisation through the introduction of a new holding company, awg plc, by means of a Scheme of Arrangement under Section 425 of the Companies Act 1985. Under the terms of the scheme, all of the shares in the former holding company Anglian Water Plc were cancelled. In return for this cancellation, the holders of Anglian Water Plc shares received, on a one for one basis, ordinary shares in the new holding company awg plc. As a consequence, awg plc became the new group holding company and the ultimate parent company of Anglian Water Services Limited.

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 5.5 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 page 3.

On 1 April 2000 the company acquired the trade and certain assets and liabilities from Hartlepool Water Plc – see details on page 20 (note 27).

results and dividends

The profit and loss account on page 6 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-related 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 on pages 21 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 2001 were:

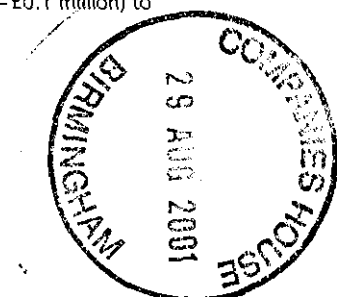
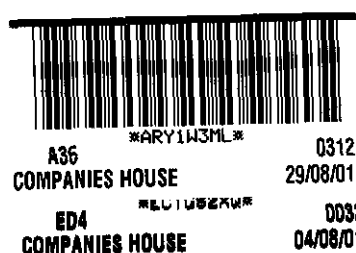
C J Mellor – chairman
R A Pointer – managing director
A T Eckford
E M Mannis

Details of their interests in the share capital of awg plc, and in options over such shares, are shown on pages 15 and 16.

charitable and political donations

During the year the company made a payment of £1.5 million (2000 – nil) to the Anglian Water Trust Fund. A new policy introduced during the year, which is predominantly based on employees' participation in community activities during working hours, saw over 200 employees joining up for the 'give me five' matching hours scheme. Five management trainees were seconded to community organisations for three month secondments as part of their development programme. A total of 154 recycled computers were donated to community organisations or charities. Financially, through charitable donations, educational, regeneration and recreation projects the company contributed £0.1 million (2000 – £0.1 million) to other charitable causes.

No political donations 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 magazine.

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

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

policy on the payment of creditors

It is the 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 2001 was 46 days (2000 – 63 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

Jackie Fox
company secretary
12 July 2001

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

operating results

Turnover in the current year fell by 5.0 per cent (2000 – 1.6 per cent), largely as a result of the impact of the Final Determination of the Periodic Review conducted by Ofwat, which has had the effect of reducing Anglian Water Services customer bills in the current year. The percentage of turnover relating to measured customers, including large users and trade effluent customers, now stands at 46.6 per cent, up from 42.9 per cent in the previous year, partly because customers continue to switch to metered supply.

Operating costs, excluding exceptional charges and depreciation, rose from £268.0 million to £280.7 million, reflecting inflation and additional obligations, partly offset by efficiency gains as our group re-organisation began to provide benefits.

Exceptional operating costs of £12.2 million relate to re-organisation costs.

Net interest payable has increased by 24.7 per cent from £96.3 million to £120.1 million.

financial needs and resources

At 31 March 2001 the company had net borrowings of £1,570.5 million, an increase of £123.1 million over the year. Net borrowings are a mixture of fixed and variable rate debt of £1,590.4 million and cash and deposits of £19.9 million. The increased net borrowings have been financed by a net increase of £116.0 million in loans (£113.4 million from the parent company). Before investing activities, the business generated a net cash inflow of £389.7 million in 2001 (2000 – £455.2 million).

The capital investment programme for the year was £262.9 million. We will be investing approximately £1.5 billion over the current five year plan (2000/01 to 2004/05) on further improvements to drinking water, bathing and river water quality, as well as network improvements to maintain our serviceability and meet new demands.

shareholder's return

Full year dividends have been declared at 107.4 pence per share. The total cost of dividends amounts to £923.3 million (2000 – £148.9 million).

Company law requires the directors to prepare each financial year financial statements which give a true and fair view of the state of affairs of the 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the related notes and the statement of accounting policies.

respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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

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

basis of audit opinion

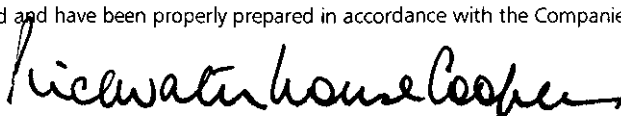
We conducted our audit in accordance with the auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 2001 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
Chartered Accountants
and Registered Auditors
Birmingham



12 July 2001

PRICEWATERHOUSECOOPERS 

Notes	2001			2000		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
2	694.6	–	694.6	731.5	–	731.5
	Operating costs:					
3, 4	(280.7)	(12.2)	(292.9)	(268.0)	(42.4)	(310.4)
3	(136.5)	–	(136.5)	(121.3)	–	(121.3)
3, 4	(417.2)	(12.2)	(429.4)	(389.3)	(42.4)	(431.7)
5	277.4	(12.2)	265.2	342.2	(42.4)	299.8
	0.2	–	0.2	–	–	–
	–	1.8	1.8	–	(1.0)	(1.0)
	Profit on ordinary activities before interest					
	277.6	(10.4)	267.2	342.2	(43.4)	298.8
6	(120.1)	–	(120.1)	(96.3)	–	(96.3)
	Profit on ordinary activities before taxation					
	157.5	(10.4)	147.1	245.9	(43.4)	202.5
7	(29.1)	2.4	(26.7)	(41.3)	8.0	(33.3)
	Profit on ordinary activities after taxation for the financial year					
	128.4	(8.0)	120.4	204.6	(35.4)	169.2
8	(923.3)	–	(923.3)	(148.9)	–	(148.9)
	Movement in reserves					
	(794.9)	(8.0)	(802.9)	55.7	(35.4)	20.3

The results above arise from continuing operations.

Trading results for 2001 include turnover of £6.3 million and operating profit of £1.6 million arising from the acquisition of the trade of Hartlepool Water Plc.

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 10 to 20 form part of these financial statements.

Notes	2001 £m	2000 £m
Fixed assets		
12 Tangible assets	3,516.5	3,387.2
13 Investments	0.2	0.3
	3,516.7	3,387.5
Current assets		
14 Stocks	4.0	3.9
15 Debtors	211.6	200.0
Cash and deposits	19.9	27.0
	235.5	230.9
Creditors: amounts falling due within one year		
16 Short-term borrowings	(96.9)	(321.0)
16 Other creditors	(1,174.5)	(359.8)
	(1,271.4)	(680.8)
Net current liabilities	(1,035.9)	(449.9)
Total assets less current liabilities	2,480.8	2,937.6
Creditors: amounts falling due after more than one year		
17 Loans and other borrowings	(1,493.5)	(1,153.4)
18 Other creditors	(96.0)	(92.2)
	(1,589.5)	(1,245.6)
19 Provisions for liabilities and charges	(31.3)	(29.1)
	860.0	1,662.9
Capital and reserves		
22, 23 Called up equity share capital	860.0	860.0
23 Profit and loss account	-	802.9
23 Total shareholder's funds (all equity)	860.0	1,662.9

The notes on pages 10 to 20 form part of these financial statements.

Approved by the board on 12 July 2001.


C J Mellor
chairman


E M Mannis
director

Notes	2001 £m	2000 £m
(a) Net cash inflow from operating activities	389.7	455.2
Returns on investments and servicing of finance		
Interest received	6.9	2.3
Interest paid	(79.4)	(84.5)
Interest element of finance lease rental payments	(11.5)	(10.7)
Dividend received from trade investments	0.2	-
	(83.8)	(92.9)
Taxation		
Corporation Tax paid	(7.5)	(23.1)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(272.3)	(338.9)
Grants and contributions received	14.7	15.3
Disposal of tangible fixed assets	(1.1)	15.4
	(258.7)	(308.2)
Acquisitions and disposals		
Acquisition of trade and certain assets of Hartlepool Water Plc (net of cash acquired)	(7.3)	-
Disposal of investment	0.1	-
	(7.2)	-
Equity dividends paid	(140.6)	(305.6)
Net cash outflow before financing	(108.1)	(274.6)
Financing		
Increase in loans	670.6	301.4
(c) Repayments of amounts borrowed	(558.2)	(35.8)
Capital element of finance lease rental payments	(11.4)	(10.0)
Net cash inflow from financing	101.0	255.6
(c) Decrease in cash	(7.1)	(19.0)

The notes on page 9 form part of this cash flow statement.

	2001 £m	2000 £m
a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	265.2	299.8
Depreciation (net of amortisation of deferred grants and contributions)	136.5	121.3
Net movement in prepaid pension contributions	(0.1)	-
Net movement on restructuring provision	2.2	9.0
	<u>403.8</u>	<u>430.1</u>
(Increase)/decrease in working capital:		
Stocks	0.1	(0.7)
Debtors	(10.0)	(10.8)
Creditors	(4.2)	36.6
	<u>(14.1)</u>	<u>25.1</u>
Net cash inflow from operating activities	<u>389.7</u>	<u>455.2</u>

Included above are cash outflows of £5.7 million in respect of 2000/01 exceptional charges and £4.3 million in respect of prior year exceptional charges. The prior year comparative includes cash outflows of £21.7 million in respect of prior year restructuring.

	1 April 2000 £m	Cash flows £m	Acquisitions £m	Non cash movements £m	31 March 2001 £m
b) Analysis of net debt					
Cash	27.0	(8.0)	0.9	-	19.9
Debt due within one year	(321.0)	321.0	-	(96.9)	(96.9)
Debt due after one year	(1,153.4)	(422.0)	(2.7)	84.6	(1,493.5)
	<u>(1,447.4)</u>	<u>(109.0)</u>	<u>(1.8)</u>	<u>(12.3)</u>	<u>(1,570.5)</u>

Non cash movements comprise indexation of loan stock and transfers between categories of debt.

	2001 £m	2000 £m
c) Movement in net debt		
At beginning of year	(1,447.4)	(1,172.8)
Decrease in cash	(7.1)	(19.0)
Loan assumed from Hartlepool Water Plc	(2.7)	-
Increase in loans	(670.6)	(301.4)
Repayment of amounts borrowed	558.2	35.8
Indexation of loan stock	(12.3)	-
Capital element of finance lease rental payments	11.4	10.0
At end of year	<u>(1,570.5)</u>	<u>(1,447.4)</u>

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 as relating to grants and contributions, 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 and, in respect of contract work in progress, the value of work carried out.

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 and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition and included at cost after deducting grants and contributions. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the 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.

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 1985.

Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the provisions of the Companies Act 1985, 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)**

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 leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

e) **investments**

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

f) **stocks and work in progress**

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

g) **pension costs**

The company is a member of the awg plc group, which principally operates defined benefit pension schemes.

Contributions to the group's defined benefit pension schemes are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees. The cost of defined contribution schemes is charged to the profit and loss account in the year in respect of which the contributions become payable.

h) **research and development**

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

i) **deferred taxation**

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

j) **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.

	Before operating exceptional items £m	Operating exceptional items £m	2001 Total £m	Before operating exceptional items £m	Operating exceptional items £m	2000 Total £m
3. operating costs						
Operating costs before depreciation:						
Raw materials and consumables	17.4	0.2	17.6	14.2	–	14.2
Other operating costs	201.1	4.9	206.0	199.4	17.1	216.5
Staff costs (see note 9)	95.1	7.1	102.2	95.3	25.3	120.6
Own work capitalised	(32.9)	–	(32.9)	(40.9)	–	(40.9)
Total operating costs before depreciation	280.7	12.2	292.9	268.0	42.4	310.4
Depreciation of tangible fixed assets	142.3	–	142.3	126.8	–	126.8
Amortisation of deferred grants and contributions	(5.8)	–	(5.8)	(5.5)	–	(5.5)
Depreciation net of amortisation of grants and contributions	136.5	–	136.5	121.3	–	121.3
Total operating costs	417.2	12.2	429.4	389.3	42.4	431.7

	2001 £m	2000 £m
4. exceptional items		
Operating costs:		
Restructuring costs	12.2	37.3
Year 2000 costs	–	5.1
	12.2	42.4
Profit on sale of fixed assets	(4.5)	(7.0)
Loss on sale of fixed assets	2.7	8.0
	(1.8)	1.0
Taxation credit thereon	(2.4)	(8.0)

In May 1999 the company announced a re-organisation. The redundancy costs identified at this time, together with related unfunded early retirement pension obligations and consultancy costs, were charged during the year ended 31 March 2000. A final tranche of this programme was announced and the additional costs were charged in the year ended 31 March 2001.

The (profit)/loss on sale of fixed assets relates to various sales of surplus land and assets.

	2001 £m	2000 £m
5. operating profit		
Operating profit is stated after charging:		
Hire of plant and machinery	4.4	2.3
Other operating lease costs	10.3	12.2
Research and development expenditure	5.2	5.6
Fees paid to auditors:		
– for audit work	0.1	0.1
– for other work	0.1	0.1

	2001 £m	2000 £m
6. interest payable (net)		
Overdrafts and short-term borrowings	0.3	0.4
Other loans	112.0	85.8
Finance leases	12.3	10.7
Amortisation of discount on long term provisions	2.0	–
	<u>126.6</u>	<u>96.9</u>
Interest receivable	(6.5)	(0.6)
	<u>120.1</u>	<u>96.3</u>

Interest of £73.8 million (2000 – £63.8 million) is payable to the immediate parent company.

Other loans interest for 2001 includes an early redemption premium of £4.3 million paid to English Partnerships.

	2001 £m	2000 £m
7. taxation		
Tax on profit on ordinary activities comprises:		
Corporation Tax at 30 per cent (2000 – 30 per cent)	<u>26.7</u>	<u>33.3</u>
Analysed as:		
– before exceptional items	29.1	41.3
– exceptional items	(2.4)	(8.0)
	<u>26.7</u>	<u>33.3</u>

As in the prior year, 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).

	2001 £m	2000 £m
8. dividends		
Ordinary:		
Interim paid	37.2	45.5
Final payable	<u>886.1</u>	<u>103.4</u>
	<u>923.3</u>	<u>148.9</u>

	Before operating exceptional items £m	Operating exceptional items £m	2001 Total £m	Before operating exceptional items £m	Operating exceptional items £m	2000 Total £m
9. employee information						
Staff costs:						
Wages and salaries	86.1	2.8	88.9	85.9	11.5	97.4
Social security costs	8.7	–	8.7	6.9	–	6.9
Pension costs	0.3	4.3	4.6	2.5	13.8	16.3
	<u>95.1</u>	<u>7.1</u>	<u>102.2</u>	<u>95.3</u>	<u>25.3</u>	<u>120.6</u>

Pension costs are stated after crediting £9.9 million (2000 – £6.8 million) in respect of the amortisation of an actuarial surplus in the main UK pension scheme.

	2001	2000
Average number of full-time equivalent persons employed:		
Number employed	<u>3,773</u>	<u>3,989</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 10 per cent (2000 – 50 per cent), Mr R A Pointer 70 per cent (2000 – 90 per cent), Mr A T Eckford nil per cent (2000 – 10 per cent) and Mr E M Mannis 10 per cent (2000 – 50 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	FURBS compensation £000	2001 Total £000	2000 Total £000
C J Mellor	28	1	6	–	35	153
R A Pointer	126	7	24	–	157	170
A T Eckford	–	–	–	–	–	21
E M Mannis	19	1	4	4	28	102
	173	9	34	4	220	446

The amount of pension entitlements earned, the accrued pension liabilities and the changes therein during the year to 31 March 2001 are summarised below. The table shows the full amounts for each of the directors for their services to the awg group. The pension liabilities are calculated using the cash equivalent transfer value method, which is the method adopted in the Listing Rules of the Financial Services Authority (rounded to the nearest thousand pounds).

	Accrued pension 2001 £000 ⁽¹⁾	Increase in accrued pension 2001 £000 ⁽²⁾	Accrued pension lump sum 2001 £000 ⁽³⁾	Transfer value of increases 2001 £000 ⁽⁴⁾⁽⁵⁾	At 31 March 2000	
					Accrued pension £000 ⁽¹⁾	Accrued pension lump sum £000 ⁽³⁾
C J Mellor	134	22	337	345	109	273
R A Pointer	94	18	259	316	74	205
A T Eckford	30	10	–	127	20	–
E M Mannis	15	7	–	52	7	–

(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.

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

(3) The accrued pension lump sum shown is that which is payable on retirement based on service to the end of the financial year.

(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 increases 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 (FURBS). For the year 2001 contributions to these schemes were made in respect of Mr A T Eckford £55,974 (2000 – £31,161) and in respect of Mr E M Mannis £30,442 (2000 – £18,532). The value of the benefits attributable to these amounts is 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**

These beneficial interests in shares and options are the same as, and not additional to, those disclosed in the annual report and accounts of awg plc. Directors have the right to participate in the employee sharesave scheme. Details of directors' options are available in the company's Register of Directors' Interests, which is open to inspection.

The interests of the directors in the shares of awg 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 note, all interests in shares as at 31 March 2001 are in relation to awg plc ordinary shares of 10 pence each. The figures as at 1 April 2000 are in respect of ordinary shares of 47½ pence in the capital of Anglian Water Plc and have been given for comparative purposes.

Beneficial and family interests in shares:	31 March 2001 No. of shares	31 March 2000 No. of shares
C J Mellor	19,650	15,972
R A Pointer	24,576	14,694
A T Eckford	4,121	2,720
E M Mannis	10,380	9,067

The figures at 31 March 2001 include ordinary shares held in trust for directors as the share element of the annual bonus scheme, being Mr C J Mellor (3,242), Mr A T Eckford (2,288), Mr R A Pointer (2,058) and Mr E M Mannis (2,130).

Following the issues of redeemable shares by awg plc on 23 October 2000 and 12 February 2001, Mr C J Mellor, Mr A T Eckford and Mr R A Pointer each hold 25,636 redeemable shares. These shares were issued in respect of their free and matching 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 75,819 (2000 – 35,221), Mr R A Pointer 49,375 (2000 – 22,319), Mr A T Eckford 51,614 (2000 – 27,820) and Mr E M Mannis 50,372 (2000 – 16,625).

	Options outstanding 1 April 2000 Number	Options granted		Options exercised						Options outstanding at 31 March 2001	
		Number	Option price (£)	Number	Weighted average exercise price (£)	Weighted average market price (£)	Gain on exercise of options (£)	Options lapsed	Option price (£)	Number	Weighted average exercise price (£)
Sharesave share options											
C J Mellor	2,747	413	4.68	741	4.65	5.65	741	–	–	2,419	4.65
R A Pointer	3,117	1,241	4.68	2,225	4.65	5.65	2,225	–	–	2,133	4.65
A T Eckford	3,888	–	–	–	–	–	–	–	–	3,888	4.34
E M Mannis	2,232	–	–	–	–	–	–	–	–	2,232	4.34
Executive scheme options											
R A Pointer	16,805	–	–	6,387	3.70	5.35	10,569	–	–	10,418	5.375

The market price of shares in awg plc at 31 March 2001 was £5.7750, and the range during the year was £4.8025 to £5.7899.

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 and contracts (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	20.12.1993	£4.04	Executive Share Option Scheme	20.6.1990	£2.93
Sharesave Scheme	14.12.1995	£4.65	Executive Share Option Scheme	10.1.1991	£3.31
Sharesave Scheme	12.12.1996	£4.52	Executive Share Option Scheme	15.12.1992	£4.73
Sharesave Scheme	10.12.1997	£6.19	Executive Share Option Scheme	7.7.1993	£4.74
Sharesave Scheme	9.12.1998	£7.12	Executive Share Option Scheme	1.12.1993	£5.30
Sharesave Scheme	12.1.2000	£4.34	Executive Share Option Scheme	15.8.1994	£5.375
Sharesave Scheme	31.1.2001	£4.68	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 2000	54.0	1,777.4	2,079.8	789.7	4,700.9
Acquired from Hartlepool Water Plc	0.7	7.9	3.1	0.3	12.0
Additions	1.3	80.6	65.0	116.0	262.9
Transfers from group undertaking	3.3	–	–	–	3.3
Disposals	–	(0.7)	(0.4)	(3.3)	(4.4)
At 31 March 2001	59.3	1,865.2	2,147.5	902.7	4,974.7

Grants and contributions

At 31 March 2000	–	131.2	–	–	131.2
Acquired from Hartlepool Water Plc	–	1.5	–	–	1.5
Additions	–	4.7	–	–	4.7
At 31 March 2001	–	137.4	–	–	137.4

Depreciation

At 31 March 2000	19.3	281.6	584.3	297.3	1,182.5
Charge for the year	2.7	27.6	23.5	88.5	142.3
Disposals	–	(0.7)	(0.4)	(2.9)	(4.0)
At 31 March 2001	22.0	308.5	607.4	382.9	1,320.8

Net book amount

At 31 March 2001	37.3	1,419.3	1,540.1	519.8	3,516.5
At 31 March 2000	34.7	1,364.6	1,495.5	492.4	3,387.2

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

Tangible fixed assets at 31 March 2001 include £269.9 million of assets in the course of construction (2000 – £380.6 million) and also include land of £10.6 million (2000 – £9.8 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 2001 was £190.3 million (2000 – £160.2 million). Depreciation charged on assets held under finance leases during the year ended 31 March 2001 amounted to £19.7 million (2000 – £5.6 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 2001.

	2001 £m	2000 £m
Contracted for but not provided in the financial statements	66.5	66.1

13. **fixed asset investments**

Shares at cost in participating interests
Other loans

	2001 £m	2000 £m
Shares at cost in participating interests	0.1	0.2
Other loans	0.1	0.1
	0.2	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 awg 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**

Raw materials and consumables

	2001 £m	2000 £m
Raw materials and consumables	4.0	3.9

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

15. **debtors**

Amounts falling due within one year

Trade debtors
Amounts owed by other group undertakings
Other debtors
Prepayments and accrued income

	2001 £m	2000 £m
Trade debtors	161.5	159.7
Amounts owed by other group undertakings	15.0	7.5
Other debtors	17.5	14.9
Prepayments and accrued income	4.2	4.6
	198.2	186.7

Amounts falling due after more than one year

Prepaid pension contributions

Prepaid pension contributions	13.4	13.3
	211.6	200.0

	2001 £m	2000 £m
16. creditors: amounts falling due within one year		
Current portion of long-term loans (including £21.8 million (2000 – £300 million) from the parent company)	77.8	309.2
Obligations under finance leases	19.1	11.8
Short term borrowings	96.9	321.0
Trade creditors	108.3	104.7
Amounts owed to other group undertakings	28.5	30.6
Receipts in advance	55.2	48.6
Corporation Tax	71.9	52.7
Other taxation and social security	3.1	1.2
Accruals and deferred income	21.4	18.6
Proposed dividend	886.1	103.4
Other creditors	1,174.5	359.8
17. loans and other borrowings falling due after more than one year		
Repayable wholly after five years		
12.0% Fixed Rate Loan 2014 (from the parent company)	100.0	100.0
5.125% Index Linked Loan Stock 2008 (from the parent company) (b)	145.2	138.9
LIBOR plus 0.465% Floating Rate Loan 2009 (from the parent company)	229.3	–
3.875% Index Linked Loan Stock 2020 (from the parent company) (b)	156.0	–
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
	1,030.5	638.9
Repayable by instalments, any of which is due for repayment after five years		
7.38% European Investment Bank Loan 2007	5.5	6.4
9.9% European Investment Bank Loan 2007	18.0	21.0
Finance leases (c)	192.7	181.6
Other loans (d)	2.6	21.6
	218.8	230.6
Repayable wholly within five years		
US\$122m loan 2006 (from the parent company) (a)	85.1	76.5
Adjustment for swap agreements (a)	(5.8)	2.8
	79.3	79.3
LIBOR plus 0.45% Floating Rate Loan 2002 (from the parent company)	20.0	–
LIBOR plus 0.57% Floating Rate Loan 2002 (from the parent company)	1.8	–
6.56% Fixed Rate Loan 2000 (from the parent company)	–	300.0
LIBOR minus 0.15% European Investment Bank Loan 2001	50.0	50.0
7.985% European Investment Bank Loan 2002	60.0	60.0
6.6% European Investment Bank Loan 2003	10.0	10.0
11.5% European Investment Bank Loan 2004	8.0	9.5
6.62% European Investment Bank Loan 2005	25.0	30.0
8.2% European Investment Bank Loan 2005	60.0	60.0
Finance leases (c)	27.0	5.0
Other loans (d)	–	1.1
	341.1	604.9
Total loans and other borrowings	1,590.4	1,474.4
Less amounts included in creditors falling due within one year	(96.9)	(321.0)
	1,493.5	1,153.4
Due for repayment as follows:		
Between one and two years	96.5	67.3
Between two and five years	244.9	144.5
After five years	1,152.1	941.6
	1,493.5	1,153.4

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 this loan is effectively at a fixed interest rate of 8.4 per cent and the balance is at a floating rate of 6 month LIBOR plus 0.39 per cent.
- b) The value of capital and interest elements of the Index Linked Loan Stocks are linked to movements in the Retail Price Index. The increase in the capital value during the year of £12.3 million has been taken to the profit and loss account as part of interest payable.
- c) Amounts due under finance leases comprise £19.1 million (2000–£11.8 million) payable within one year, £30.4 million (2000–£8.0 million) payable within one to two years, £53.4 million (2000–£36.9 million) payable between two and five years and £116.8 million (2000–£129.9 million) payable after five years.
- d) Of the unspecified loans and other borrowings, £1.9 million (2000–£19.0 million) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £0.7 million (2000–£0.9 million) secured on the revenues of the company.

18. **other creditors falling due after more than one year**

	2001 £m	2000 £m
Trade creditors	–	0.4
Deferred grants and contributions	96.0	91.8
	96.0	92.2

19. **provisions for liabilities and charges**

	Unfunded pension obligations £m	Restructuring costs £m	Total £m
At 31 March 2000	20.4	8.7	29.1
Charge for the year	4.3	7.9	12.2
Amortisation of discount	2.0	–	2.0
Utilised in the year	(0.9)	(11.1)	(12.0)
At 31 March 2001	25.8	5.5	31.3

The provision for restructuring costs charged in the year relates to redundancy and other costs arising on the second tranche of the redundancy programme announced in the year. The provision for pension obligations relates to the cost of unfunded pension enhancements.

These pension payments are expected to be made over several future accounting periods. The provision is determined using actuarial assumptions based upon those used for the valuation of the AWG group's pension scheme and has been discounted at a rate which reflects the AWG group'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 2001. The full potential deferred taxation liability, calculated under the liability method at a tax rate of 30 per cent (2000–30 per cent), is:

	2001 £m	2000 £m
Accelerated capital allowances	644.0	605.2
Other timing differences	(19.8)	(18.7)
Advance Corporation Tax available for surrender from the parent company	(151.9)	(157.9)
	472.3	428.6

Had provision for deferred taxation been made on the full liability method, there would have been a charge of £43.7 million (2000–£24.1 million).

21. commitments under operating leases

At 31 March 2001 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	–	2.2
Between one and five years	–	3.2
After five years	2.5	–
	<u>2.5</u>	<u>5.4</u>

22. share capital – equity shares

Authorised

Ordinary shares of £1 each

	2001 £m	2000 £m
	<u>860.0</u>	<u>860.0</u>

Allotted, issued and fully paid

Ordinary shares of £1 each

	<u>860.0</u>	<u>860.0</u>
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23. movement in shareholder's funds

At beginning of year

Profit for the financial year

Dividends

At end of year

	Share capital £m	Profit and loss account £m	2001 Total £m	2000 Total £m
	860.0	802.9	1,662.9	1,642.6
	–	120.4	120.4	169.2
	–	(923.3)	(923.3)	(148.9)
	<u>860.0</u>	<u>–</u>	<u>860.0</u>	<u>1,662.9</u>

24. pension commitments

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

The regular pension cost for the year ended 31 March 2001 was £10.2 million (2000 – £9.3 million). This cost was offset by a credit of £9.9 million (2000 – £6.8 million) in respect of the amortisation of actuarial surpluses in the AWPS scheme. At 31 March 2001 there was a prepayment in respect of pensions of £13.4 million (2000 – £13.3 million).

25. contingent liabilities

The company has guaranteed the borrowings of Anglian Water Plc amounting to £801.2 million (2000 – £638.9 million). Otherwise, there are no material contingent liabilities at 31 March 2001 for which provision has not been made in these financial statements.

26. ultimate parent company

The company's ultimate parent company is awg plc and its immediate parent company is Anglian Water Plc, both companies registered in England and Wales. Copies of the financial statements of awg plc may be obtained from the company secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE29 3NZ.

27. acquisitions

On 1 April 2000 the company acquired the trade and the following assets and liabilities of Hartlepool Water Plc:

	£m
Fixed assets	10.5
Stock	0.2
Debtors	1.9
Cash at bank	0.9
Loans	(2.7)
Creditors	(2.6)
Net assets acquired	<u>8.2</u>
Consideration paid	<u>(8.2)</u>
	<u>–</u>

Trading results for 2001 include turnover of £6.3 million and operating profit of £1.6 million arising from this acquisition.

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 (DG) 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 4.

notes on regulatory information

1. general

As discussed in the directors' report on page 1, 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 pages 22 and 23. A current cost profit and loss account and balance sheet are shown on pages 26 and 27. Other current cost disclosures appear on pages 28 to 35. Additional information required by the Licence is shown on pages 24 and 25.

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, having taken into account the declaration of the dividends referred to in note 4b on page 24, 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.

4. acquisitions

At the request of the DG the acquisition of the trade and certain assets and liabilities from Hartlepool Water Plc has been treated in the regulatory accounts as a group reconstruction. The current cost balances taken on as at 1 April 2000 are shown in the respective accounts.

Since the adjustments would not be material to the accounts, the 2000 comparative figures have not been changed to reflect the trade acquired from Hartlepool Water Plc.

	2001			2000		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Turnover	687.4	6.8	694.2	724.4	6.9	731.3
Operating costs	(423.3)	(6.1)	(429.4)	(425.3)	(6.4)	(431.7)
Profit/(loss) on sale of fixed assets	1.8	-	1.8	(7.8)	6.8	(1.0)
Operating profit*	265.9	0.7	266.6	291.3	7.3	298.6
Other income	0.6	-	0.6	0.2	-	0.2
Interest payable (net)	(120.1)	-	(120.1)	(96.3)	-	(96.3)
Profit on ordinary activities before taxation	146.4	0.7	147.1	195.2	7.3	202.5
Taxation	(26.7)	-	(26.7)	(33.3)	-	(33.3)
Profit on ordinary activities after taxation	119.7	0.7	120.4	161.9	7.3	169.2
Dividends	(910.1)	(13.2)	(923.3)	(148.9)	-	(148.9)
Movement in reserves	(790.4)	(12.5)	(802.9)	13.0	7.3	20.3

* After exceptional items of £12.2 million (2000 - £42.4 million) within the appointed business.

	2001			2000		
	Appointed £m	Non appointed £m	Total £m	Appointed £m	Non appointed £m	Total £m
Fixed assets						
Tangible assets	3,526.3	-	3,526.3	3,407.2	-	3,407.2
Investments	0.2	-	0.2	0.3	-	0.3
	3,526.5	-	3,526.5	3,407.5	-	3,407.5
Current assets						
Stocks	4.0	-	4.0	3.9	-	3.9
Debtors	211.6	-	211.6	200.0	-	200.0
Cash and deposits	6.7	13.2	19.9	14.5	12.5	27.0
	222.3	13.2	235.5	218.4	12.5	230.9
Creditors: amounts falling due within one year						
Short term borrowings	(96.9)	-	(96.9)	(321.0)	-	(321.0)
Proposed dividend	(872.9)	(13.2)	(886.1)	(103.4)	-	(103.4)
Other creditors	(288.4)	-	(288.4)	(256.4)	-	(256.4)
Net current liabilities	(1,035.9)	-	(1,035.9)	(462.4)	12.5	(449.9)
Total assets less current liabilities	2,490.6	-	2,490.6	2,945.1	12.5	2,957.6
Creditors: amounts falling due after more than one year						
Loans and other borrowings	(1,493.5)	-	(1,493.5)	(1,153.4)	-	(1,153.4)
Other creditors	(96.0)	-	(96.0)	(92.2)	-	(92.2)
	(1,589.5)	-	(1,589.5)	(1,245.6)	-	(1,245.6)
Provisions for liabilities and charges	(41.1)	-	(41.1)	(49.1)	-	(49.1)
	860.0	-	860.0	1,650.4	12.5	1,662.9
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
Total shareholder's funds (all equity)	860.0	-	860.0	1,650.4	12.5	1,662.9

1. **accounting policies**

The accounting policies are set out on pages 10 and 11, except that, as noted on page 21, 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 (f) below.

a) **Borrowings or sums lent**

No sums were lent by the appointee to associated companies at 31 March 2001.

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	85.1	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 – floating rate loan	229.3	2009	LIBOR plus 0.465
Anglian Water Plc – index linked loan†	145.2	2008	5.125
Anglian Water Plc – index linked loan†	156.0	2020	3.875
Anglian Water Plc – floating rate loan	20.0	2002	LIBOR plus 0.450
Anglian Water Plc – floating rate loan	1.8	2002	LIBOR plus 0.570

* 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 this loan is at a fixed interest rate of 8.4 per cent and the balance is at a floating rate of 6 month LIBOR plus 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**

Full year dividends have been declared at 107.4 pence per share. The total cost of dividends amounts to £923.3 million (2000 – £148.9 million).

c) **Guarantees/securities**

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

	Principal amount £m	Repayment date	Interest rate %
Index Linked Loan Stock	145.2	2008	5.125
Fixed Rate Bond	100.0	2014	12.000
Index Linked Loan Stock	156.0	2020	3.875
Fixed Rate Bond	200.0	2023	6.625
Fixed Rate Bond	200.0	2029	6.375

d) **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	4.0

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	5.2	Recharge of appropriate costs	2.2
Fleet management	Powermarque Ltd	44.2	Competitive tendering	5.1
Contract leasing	Powermarque Ltd	44.2	Negotiated	8.2
Insurance services	Rutland Insurance Company Ltd	4.0	Negotiated	4.0
Rental of office accommodation	Ambury Investments Ltd	10.1	Negotiated	1.5
Estate management, etc.	Ambury Estates Ltd	4.7	Negotiated	2.6
Acquisition of land, etc.	Ambury Estates Ltd	4.7	Negotiated	0.4
Engineering, construction and fabrication	PURAC Ltd	42.1	Competitive tendering	16.7
Asset management services	Geodesys Ltd	6.6	Negotiated	2.3
Sewerage maintenance services	Alpheus Environmental Ltd	9.2	Competitive tendering	1.2
Research and development	Alpheus Environmental Ltd	9.2	Negotiated	0.8
				45.0*

* This total includes amounts of £16.7 million which were capitalised by the appointed business.

e) **Omissions of rights**

No material omissions took place during the year.

f) **Waivers**

There were no material waivers during the year.

Notes	2001 £m	2000 £m
2 Turnover	687.4	724.4
4 Current cost operating costs	(480.2)	(477.7)
3 Operating income	(0.6)	(2.1)
	206.6	244.6
1(d),3 Working capital adjustment	2.0	1.0
	208.6	245.6
Current cost operating profit*	208.6	245.6
Other income	0.6	0.2
Interest payable (net)	(120.1)	(96.3)
1(d) Financing adjustment	34.1	31.7
	123.2	181.2
Current cost profit before taxation	123.2	181.2
Taxation	(26.7)	(33.3)
	96.5	147.9
Current cost profit attributable to shareholder	96.5	147.9
Dividends	(910.1)	(148.9)
	(813.6)	(1.0)
7 Current cost loss	(813.6)	(1.0)

*After exceptional items of £12.2 million (2000 – £42.4 million).

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

Notes		2001 £m	2000 £m
	Assets employed		
5	Fixed assets	17,823.1	17,245.6
	Third party contributions since 31 March 1990	(535.1)	(514.4)
		<u>17,288.0</u>	<u>16,731.2</u>
6	Working capital	(106.8)	(86.2)
	Net operating assets	<u>17,181.2</u>	<u>16,645.0</u>
	Cash and investments	0.2	0.3
	Non-trade debtors	30.9	28.2
	Dividends payable	(872.9)	(103.4)
	Other non-trade creditors due within one year	(96.9)	(321.0)
	Creditors due after one year	(1,493.5)	(1,153.9)
	Provisions for liabilities and charges	(31.3)	(29.1)
	Net assets employed	<u>14,717.7</u>	<u>15,066.1</u>
	Financed by		
	Called up share capital	860.0	860.0
7	Profit and loss account	(521.2)	292.4
8	Current cost reserve	14,378.9	13,913.7
	Total capital and reserves	<u>14,717.7</u>	<u>15,066.1</u>

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

Notes	2001 £m	2000 £m
9(a) Net cash inflow from operating activities	389.0	454.7
Returns on investments and servicing of finance		
Interest received	6.9	2.3
Interest paid	(79.4)	(84.5)
Interest element of finance lease rental payments	(11.5)	(10.7)
Dividend received from trade investments	0.2	-
	(83.8)	(92.9)
Taxation		
Corporation Tax paid	(7.5)	(23.1)
Capital expenditure and financial investment		
Gross cost of purchase of fixed assets	(234.8)	(298.5)
Grants and contributions received	14.7	15.3
Investment in infrastructure renewals	(37.5)	(40.4)
Disposal of tangible fixed assets	(1.1)	8.6
	(258.7)	(315.0)
Acquisitions and disposals	(7.2)	-
Equity dividends paid	(140.6)	(305.6)
Net cash outflow before financing	(108.8)	(281.9)
Financing		
Increase in loans	670.6	301.4
Repayments of amounts borrowed	(558.2)	(35.8)
Capital element of finance lease payments	(11.4)	(10.0)
Net cash inflow from financing	101.0	255.6
Decrease in cash	(7.8)	(26.3)

Note 9 on page 34 forms part of this current cost cash flow statement.

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 2001 £m	Water services £m	Sewerage services £m	Appointed business 2000 £m
2. turnover for the appointed business						
Measured	132.6	166.6	299.2	135.8	153.7	289.5
Unmeasured	118.2	210.7	328.9	132.7	246.6	379.3
Trade effluent	–	24.0	24.0	–	25.7	25.7
Third party services	18.9	1.4	20.3	20.1	1.7	21.8
Other sources	3.8	11.2	15.0	1.3	6.8	8.1
Total turnover	273.5	413.9	687.4	289.9	434.5	724.4
3. operating income and working capital adjustment for the appointed business						
Current cost loss on disposal of fixed assets	(0.3)	(0.3)	(0.6)	(1.0)	(1.1)	(2.1)
Working capital adjustment	1.0	1.0	2.0	0.5	0.5	1.0

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	Sewage treatment	Sludge treatment & disposal	Sewage T&D subtotal				Sewerage services subtotal
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		
Direct costs:											
Employment costs	5.1	8.2	13.3	6.8	11.4	4.8	16.2	23.0	10.5	5.5	1.0
Power	4.6	5.0	9.6	2.8	5.8	2.9	8.7	11.5	–	0.1	–
Hired and contracted services	3.1	7.4	10.5	6.3	8.3	18.4	26.7	33.0	7.3	1.1	0.1
Materials and consumables	3.2	1.7	4.9	1.6	4.2	4.0	8.2	9.8	0.1	0.9	–
Service charges	6.4	–	6.4	0.8	4.2	–	4.2	5.0	–	–	–
Bulk supply imports	0.8	–	0.8	–	–	–	–	–	–	–	–
Other direct costs	0.1	0.4	0.5	0.2	0.5	0.1	0.6	0.8	6.5	0.2	1.3
Total direct costs	23.3	22.7	46.0	18.5	34.4	30.2	64.6	83.1	24.4	7.8	2.4
General and support expenditure	9.6	10.7	20.3	6.8	12.1	8.9	21.0	27.8	7.0	1.8	0.4
Functional expenditure	32.9	33.4	66.3	25.3	46.5	39.1	85.6	110.9	31.4	9.6	2.8
Total business activities			21.8					22.0			
Rates			20.5					12.8			
Doubtful debts			3.8					4.7			
Exceptional items			6.0					6.2			
Total less third party services			118.4					156.6			
Third party services			11.2					0.6			
			129.6					157.2			
Capital costs:											
Infrastructure renewals expenditure	0.2	23.3	23.5	13.6	0.4	–	0.4	14.0			
Movement in infrastructure renewal accrual/prepayment	–	(6.6)	(6.6)	(3.8)	(0.1)	–	(0.1)	(3.9)			
Depreciation [†] (allocated)	37.7	14.2	51.9	18.0	79.9	3.8	83.7	101.7			
Amortisation of deferred credits			(2.5)					(3.3)			
Business activities depreciation [†] (non-allocated)			7.7					8.1			
Capital maintenance excluding third party services			74.0					116.6			
Third party services – capital maintenance			2.1					0.7			
Total capital maintenance			76.1					117.3			
Total operating costs⁽¹⁾			205.7					274.5			
2000 total operating costs			208.4					269.3			
CCA (MEA) values*											
Service activities	1,042.5	4,100.3	5,142.8	10,877.6	1,531.4	83.0	1,614.4	12,492.0			
Business activities			29.7	7.0			22.1	29.1			
Service totals			5,172.5					12,521.1			
Service assets for third parties			122.1					7.4			
Total MEA values			5,294.6					12,528.5			
2000 total MEA values			5,035.2					12,210.4			

* 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 £14.8 million.

This is split £9.0 million water distribution and £5.8 million sewerage.

	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 2000	1,261.8	8.7	4,369.0	232.9	5,872.4
Acquired from Hartlepool Water Plc (d)	15.4	–	116.9	1.5	133.8
RPI adjustment	29.3	0.2	103.2	5.4	138.1
Disposals	(0.2)	–	–	(0.3)	(0.5)
Additions	31.8	0.5	30.8	13.7	76.8
At 31 March 2001	1,338.1	9.4	4,619.9	253.2	6,220.6
Depreciation					
At 31 March 2000	707.1	2.5	–	127.6	837.2
Acquired from Hartlepool Water Plc (d)	7.9	–	–	1.1	9.0
RPI adjustment	16.4	0.1	–	2.9	19.4
Disposals	–	–	–	(1.3)	(1.3)
Charge for the year	45.7	0.2	–	15.8	61.7
At 31 March 2001	777.1	2.8	–	146.1	926.0
Net book amount at 31 March 2001	561.0	6.6	4,619.9	107.1	5,294.6
Net book amount at 31 March 2000	554.7	6.2	4,369.0	105.3	5,035.2
b) Fixed assets by type – sewerage services					
Gross replacement cost					
At 31 March 2000	3,048.8	8.9	10,703.9	232.8	13,994.4
RPI adjustment	70.1	0.2	246.2	5.4	321.9
Disposals	(0.3)	–	–	(1.9)	(2.2)
Additions	115.4	0.5	12.3	20.4	148.6
At 31 March 2001	3,234.0	9.6	10,962.4	256.7	14,462.7
Depreciation					
At 31 March 2000	1,639.5	2.7	–	141.8	1,784.0
RPI adjustment	37.7	0.1	–	3.3	41.1
Disposals	–	–	–	(1.4)	(1.4)
Charge for the year	83.0	0.1	–	27.4	110.5
At 31 March 2001	1,760.2	2.9	–	171.1	1,934.2
Net book amount at 31 March 2001	1,473.8	6.7	10,962.4	85.6	12,528.5
Net book amount at 31 March 2000	1,409.3	6.2	10,703.9	91.0	12,210.4
c) Fixed assets by type – total					
Gross replacement cost					
At 31 March 2000	4,310.6	17.6	15,072.9	465.7	19,866.8
Acquired from Hartlepool Water Plc (d)	15.4	–	116.9	1.5	133.8
RPI adjustment	99.4	0.4	349.4	10.8	460.0
Disposals	(0.5)	–	–	(2.2)	(2.7)
Additions	147.2	1.0	43.1	34.1	225.4
At 31 March 2001	4,572.1	19.0	15,582.3	509.9	20,683.3
Depreciation					
At 31 March 2000	2,346.6	5.2	–	269.4	2,621.2
Acquired from Hartlepool Water Plc (d)	7.9	–	–	1.1	9.0
RPI adjustment	54.1	0.2	–	6.2	60.5
Disposals	–	–	–	(2.7)	(2.7)
Charge for the year	128.7	0.3	–	43.2	172.2
At 31 March 2001	2,537.3	5.7	–	317.2	2,860.2
Net book amount at 31 March 2001	2,034.8	13.3	15,582.3	192.7	17,823.1
Net book amount at 31 March 2000	1,964.0	12.4	15,072.9	196.3	17,245.6

- d) Accumulated depreciation on assets acquired from Hartlepool Water Plc has not been netted off against the cost of assets acquired from Hartlepool Water Plc in accordance with Ofwat's requirements.
- e) 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 2001 per regulatory accounts	15,582.3
Adjustment to opening balance at 31 March	(13,675.5)
Infrastructure renewals expenditure capitalised in the year	(37.5)
Assets acquired from Hartlepool Water Plc – accumulated depreciation netted off against costs within the historical cost accounts	(4.1)
At 31 March 2001 per statutory accounts	<u>1,865.2</u>
Grants and contributions	
At 31 March 2001 per regulatory accounts	-
Adjustment to opening balance at 31 March	(137.4)
At 31 March 2001 per statutory accounts	<u>(137.4)</u>
Depreciation	
At 31 March 2001 per regulatory accounts	-
Adjustment to opening balance at 31 March	(285.0)
Depreciation charge for infrastructure renewal expenditure	(27.6)
Assets acquired from Hartlepool Water Plc – accumulated depreciation netted off against costs within the historical cost accounts	4.1
At 31 March 2001 per statutory accounts	<u>(308.5)</u>
Net book value	
At 31 March 2001 per regulatory accounts	15,582.3
Adjustment to opening balance at 31 March	(14,097.9)
Infrastructure renewals expenditure capitalised in the year	(37.5)
Depreciation charge for infrastructure renewal expenditure	(27.6)
At 31 March 2001 per statutory accounts	<u>1,419.3</u>
Working capital	
At 31 March 2001 per regulatory accounts	9.8
Less infrastructure renewals accrual/prepayment	(9.8)
At 31 March 2001 per statutory accounts	<u>-</u>

	2001 £m	2000 £m
6. working capital		
Cash	6.7	14.5
Stocks	4.0	3.9
Trade debtors	161.5	159.7
Trade creditors	(89.8)	(76.1)
Short-term capital creditors	(18.5)	(28.6)
Infrastructure renewals accrual	(9.8)	(20.0)
Other trade accruals	(76.6)	(67.2)
Corporation Tax	(71.9)	(52.7)
Payroll related taxes and social security contributions	(3.1)	(1.2)
Group trade debtors (net)	(13.5)	(23.1)
Prepayments	4.2	4.6
Total working capital	<u>(106.8)</u>	<u>(86.2)</u>

	2001 £m	2000 £m
7. current cost profit and loss account		
At beginning of year	292.4	293.4
Retained loss for the year for appointed business	(813.6)	(1.0)
At end of year	(521.2)	292.4
8. current cost reserve		
At beginning of year	13,913.7	12,501.5
Acquired from Hartlepool Water Plc	113.6	-
AMP adjustment	-	1,023.9
RPI adjustments:		
Fixed assets	399.5	433.9
Working capital	(2.0)	(1.0)
Financing	(34.1)	(31.7)
Deferred grants and contributions	(11.8)	(12.9)
At end of year	14,378.9	13,913.7

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.

	2001 £m	2000 £m
9(a) reconciliation of current cost operating profit to net cash inflow from operating activities		
Current cost operating profit*	208.6	245.6
Working capital adjustment	(2.0)	(1.0)
Decrease/(increase) in stocks	0.1	(0.7)
Other income received	0.4	0.2
Current cost depreciation	172.2	162.2
Current cost loss on sale of fixed assets	0.6	2.1
Increase in debtors and prepaid expenses	(10.0)	(10.8)
(Increase)/decrease in creditors and accrued expenses	(4.2)	36.6
Provision for infrastructure renewals	27.0	17.0
Net movement in restructuring provision	2.2	9.0
Amortisation of deferred grants and contributions	(5.8)	(5.5)
Net movement in prepaid pension contributions	(0.1)	-
Net cash inflow from operating activities	389.0	454.7

*After exceptional items of £12.2 million (2000 - £42.4 million).

	1 April 2000 £m	Cash flows £m	Acquisitions £m	Non-cash movements £m	31 March 2001 £m
9(b) analysis of net debt					
Cash	14.5	(8.7)	0.9	-	6.7
Debt due within one year	(321.0)	321.0	-	(96.9)	(96.9)
Debt due after one year	(1,153.4)	(422.0)	(2.7)	84.6	(1,493.5)
	(1,459.9)	(109.7)	(1.8)	(12.3)	(1,583.7)

Non-cash movements comprise indexation of loan stock and transfers between categories of debt.

**10. current cost profit and loss account
for appointed business**

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover	687.4	745.7	765.3	768.5	767.5
Current cost operating costs	(480.2)	(491.8)	(493.5)	(448.9)	(476.7)
Operating income	(0.6)	(2.2)	3.8	1.5	1.0
Working capital adjustment	2.0	1.0	(0.2)	4.0	5.5
Current cost operating profit*	208.6	252.7	275.4	325.1	297.3
Other income	0.6	0.2	0.6	1.0	2.0
Interest payable (net)	(120.1)	(99.1)	(95.8)	(83.9)	(66.3)
Financing adjustment	34.1	32.6	24.4	33.0	21.5
Current cost profit before taxation	123.2	186.4	204.6	275.2	254.5
Taxation	(26.7)	(34.3)	(44.8)	(12.7)	-
Current cost profit attributable to shareholder	96.5	152.1	159.8	262.5	254.5
Dividends	(910.1)	(153.3)	(340.9)	(213.6)	(130.2)
Current cost (loss)/profit	(813.6)	(1.2)	(181.1)	48.9	124.3

* After historical exceptional charge of £12.2 million (2000 – exceptional charge of £43.6 million, 1999 – exceptional charge of £34.4 million, 1998 – exceptional credit of £6.5 million, 1997 – exceptional charge of £22.3 million).

**current cost balance sheet
for appointed business**

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Assets employed					
Fixed assets	17,823.1	17,634.8	16,436.1	16,288.7	16,121.6
Third party contributions since 31 March 1990	(535.1)	(526.0)	(516.1)	(508.8)	(494.8)
Working capital	(106.8)	(88.1)	(40.9)	11.0	(119.8)
Net operating assets	17,181.2	17,020.7	15,879.1	15,790.9	15,507.0
Cash and investments	0.2	0.3	0.3	0.3	0.2
Non-trade debtors	30.9	28.8	26.0	35.6	24.2
Dividends payable	(872.9)	(105.7)	(272.9)	(99.6)	(91.3)
Other non-trade creditors due within one year	(96.9)	(328.2)	(48.5)	(105.3)	(266.6)
Creditors due after one year	(1,493.5)	(1,179.9)	(1,234.0)	(1,105.6)	(695.0)
Provisions for liabilities and charges	(31.3)	(29.8)	(21.1)	(14.6)	(31.9)
Net assets employed	14,717.7	15,406.2	14,328.9	14,501.7	14,446.6
Financed by					
Called up share capital	860.0	879.4	902.4	921.0	953.0
Profit and loss account	(521.2)	299.0	307.9	499.7	466.8
Current cost reserves	14,378.9	14,227.8	13,118.6	13,081.0	13,026.8
Total capital and reserves	14,717.7	15,406.2	14,328.9	14,501.7	14,446.6

The financial information set out above for the four years ended 31 March 2000 is based on the audited current cost financial statements for those years, as adjusted to 2000/2001 prices for changes in the RPI.

On 1 April 2000 the company acquired the trade and certain assets and liabilities from Hartlepool Water Plc. The trading results and balance sheet figures for the year ending 31 March 2001 reflect this acquisition and are therefore not strictly comparable to previous years.

We have audited the financial statements which comprise the historical cost profit and loss account and balance sheet, the current cost profit and loss account and balance sheet, the cash flow statement, the related notes and the statement of accounting policies.

respective responsibilities of directors and auditors

As described on page 21, 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 23 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 disappplied. As a consequence an amount of £9.8 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 7.

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 2001 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 6 to 20 and pages 22 to 25 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 26 to 35 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by Ofwat and Regulatory Accounting Guideline 4, Analysis of Operating Costs and Assets, issued in June 1992 by Ofwat.

PricewaterhouseCoopers

Chartered Accountants
and Registered Auditors
Birmingham

PricewaterhouseCoopers
12 July 2001

PRICEWATERHOUSECOOPERS 