

**PLEASE NOTE THAT
DUE TO THE POOR
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FOLLOWING IMAGES
ARE ALSO OF POOR
QUALITY**

Do you need
to invest so much money ?

How will you meet
your new efficiency targets ?

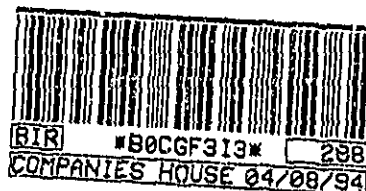
What drives your
environmental policy ?

Is compulsory metering
really the way forward ?

Is a cautious approach
to diversification justified ?

Annual Report 1994

 Anglian Water



The answers are not always simple

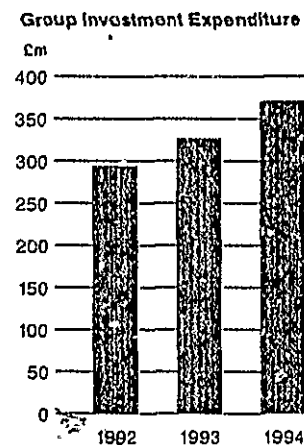
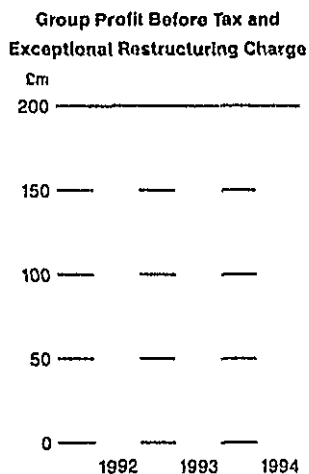
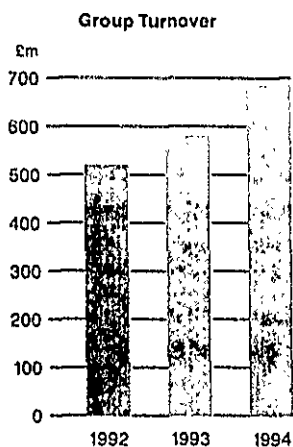
We are constantly being asked questions about our services and performance by shareholders, customers and other interested parties.

In this annual report we have tried to give an honest response to some of the most frequent questions that we receive. In a period of considerable uncertainty we hope that these help to explain our view of the future.

In response to comments from a number of shareholders, we have reverted to a single document containing this year's report and accounts. Shareholders previously receiving only an annual review will therefore receive the full annual report for 1994.

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Financial Highlights

Turnover – £687.9m up 18.0% on 1993

Profit before tax and exceptional restructuring charge – £192.2m up 3.7% on 1993

Exceptional restructuring charge – £60.0m

Earnings per share before exceptional restructuring charge – 59.2p up 5.0% on 1993

Earnings per share after exceptional restructuring charge – 39.0p down 30.9% on 1993

Full year dividend – 22.8p per share up 8.0% on 1993

Investment expenditure – £372.0m up 13.5% on 1993

Achievements of the year

- 12 month strategic restructuring review of regulated business now complete.
- Implementation of restructuring will lead to continuing savings in operating costs in excess of £20m per annum.
- Our highest ever drinking water and waste water quality standards.

Anglian Water Group Profile

Anglian Water Services

Major processes:

Customer Services Focuses on all aspects of service to customers, from the delivery of water to customers' taps and the removal of waste water, to billing, metering and other customer contacts by letter, telephone or home visits.

Production The processing and treatment of clean water to meet rigorous purity and quality standards monitored by the Drinking Water Inspectorate and the treatment of waste water to achieve effluent standards set by the National Rivers Authority.

Water Quality Responsible for laboratories and analysis of samples, providing scientific support and advice on quality standards, environmental protection and conservation.

Regulation Liaison with regulatory and other outside bodies on regulatory topics. The provision of economic and regulatory information and advice to the Group.

Engineering Management of the capital investment programme, and the provision of engineering services including feasibility, design, project management, site supervision and commissioning, to internal and external customers.

Information Services Provides a complete range of information technology services and systems including billing and income management, communications and remote control and monitoring of water and sewage plant by telemetry.

Innovation Research into, and development of, technology, science and organisational structures to identify and implement quantum improvements to the business.

Total Quality Management Facilitates and encourages the continuous improvement of customer services and other aspects of the business and fosters cultural change through an increased emphasis on teamwork.

Financial Services, Business Planning, Treasury and Internal Audit Provides accounting, tax, funding and cash management services to the Group and management information and financial resources to support the other processes.

Corporate Strategy A small "think-tank" producing ideas for the development of the regulated and non-regulated businesses.

Corporate Relations The management of the Group's relationships with investors, the media and other opinion formers.

Human Resources Development and training of employees, industrial relations and remuneration policy.

Anglian Water International

Design, construction and operation of water and waste water systems to meet customer needs and ensure compliance with regulatory standards. These activities may be carried out through operating and maintenance contracts, public/private partnerships and/or ownership arrangements with municipal and industrial customers overseas. Consultancy on all aspects of water services and systems.

Anglian Water Processes

Provides process technology engineering and advanced water treatment products for water and waste water systems, through a worldwide network of companies in Europe, USA and Australasia.

Area:

Anglian Water Key Facts 1993/94

Average number of employees:

Anglian Water is geographically the largest of the 10 regional water service companies of England and Wales. The region we serve stretches from the Humber to the Thames and to Oxfordshire in the West.

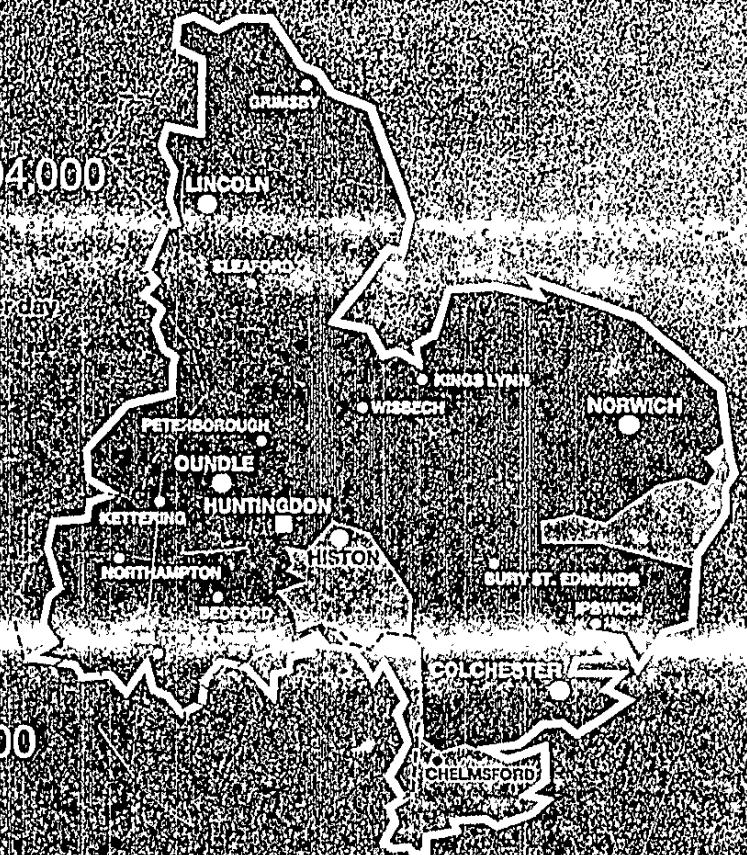


- Population: **3.9 million**
- Water treatment works: **159**
- Length of water mains: **33,200 km**
- Number of new connections: **20,100**
- Number of water quality samples tested: **204,000**

Water supplied: **1,120 million litres**
on average per day

Sewerage Services

- Population: **5.1 million**
- Sewage treatment works: **1,072**
- Length of sewers: **29,000 km**
- Number of new connections: **24,350**
- Number of sewage samples tested: **120,000**



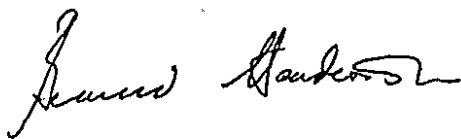
Head Office
 Major Offices
 Water Only Companies
 Water supplied by Anglian Water outside company boundary

succeeded Francis Cator as deputy chairman in February and who will take over from me as chairman in early autumn when his current responsibilities as chief executive and managing director of BP Nutrition have been completed. Francis Cator, who has been non-executive deputy chairman of the Company and its predecessor public authority since 1988, retires at the Annual General Meeting. He will be greatly missed and we wish him a happy retirement.

Two other new members have joined the Board. John Green was managing director of the Company's subsidiary Anglian Water Engineering and Business Systems and is now group technical director, and David Challen joins as a non-executive director. He has been a director of the merchant bank J. Henry Schroder Wagg since 1979.

We wish a happy and successful retirement to Jim Adams, who retired from the Board in November after 46 years in the water industry, latterly as managing director of Anglian Water International, and to John Simpson who was operations director and managing director of Anglian Water Services until his departure in January. We shall miss their wisdom and experience and thank them for their outstanding help in the transition of the Company from the public to the private sector.

This year, because of uncertainty created by our restructuring, I offer a special thanks to everyone who works for Anglian Water. The Company has had an excellent year and is now well placed to become a world class water and waste water company. The strength of our management and our commitment to being a customer driven company are the essence of our success. I have many regrets at leaving the Company at such an exciting time, but I leave it in good heart and in good hands and with a deep feeling of gratitude to a splendid team of friends dedicated to providing the best possible service to our customers.



Bernard Henderson CBE
Chairman



Alan Smith
Group Managing Director

Managing Director's Report

The results for the year clearly demonstrate continued progress by Anglian Water, and the fundamental reorganisation of the Group's structure and systems now under way should ensure it stays in the forefront of water industry efficiency and enterprise.

It has been a challenging and rewarding year. Our regulated subsidiary delivered its highest ever standards of quality, the capital expenditure programme remains on target and within budget, and customer service has been improved substantially.

We continued to build up our non-regulated activities during the year and were pleased to acquire Fluid Systems Corporation, a San Diego based membrane technology company, in March.

Much of the credit for our success over the last few years must go to Bernard Henderson, who is shortly to retire after 13 years as chairman. He led Anglian when it was a public sector water authority and helped us steer the difficult path into the private sector. We owe him a considerable debt and we wish him a happy and successful future.

Our Strategy

At privatisation we made a positive decision to increase the operating resources in our regulated business over the first few years to meet higher standards and bring about improvements in levels of service for customers. We believe that in the tightly regulated regime in which we operate, this was the right strategy to add long term value for shareholders. We have now largely achieved this improvement in standards, and the time has come to adopt a strategy to meet the challenges of the next decade and beyond.

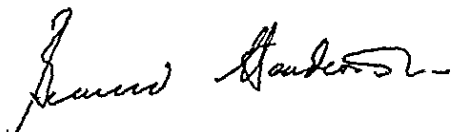
We have therefore streamlined our structure by reducing the number of subsidiary companies within the Group and reducing the chains of command. We propose to continue to concentrate on the regulated business by containing operating costs through the rigorous pursuit of efficiency initiatives and at the same time build up our unregulated activities.

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Bernard Henderson CBE
Chairman



Do you need
to invest so much money ?

Quality Standards

The level of capital expenditure is around 60% of total income and is mainly determined by the increased standards set by outside bodies. Although drinking water quality has been high in this country there has been a need to deal with tighter standards set by the UK Government and the European Union on, for example, pesticides and nitrates and these programmes are now close to completion. Again, although sewage treatment standards are high by comparison with most countries, a better standard of treatment is required to deal with population growth and the increasing demands of our customers for cleaner rivers and bathing waters.

Restructuring

One of the keys to our future prosperity lies in the success of the strategic systems review we announced last year. The last major organisational change in the Company was conducted before privatisation, when the structure was designed to achieve the main objective of compliance. This has now largely been done, thanks to the scale of the capital investment programme we have undertaken and significant operating improvements.

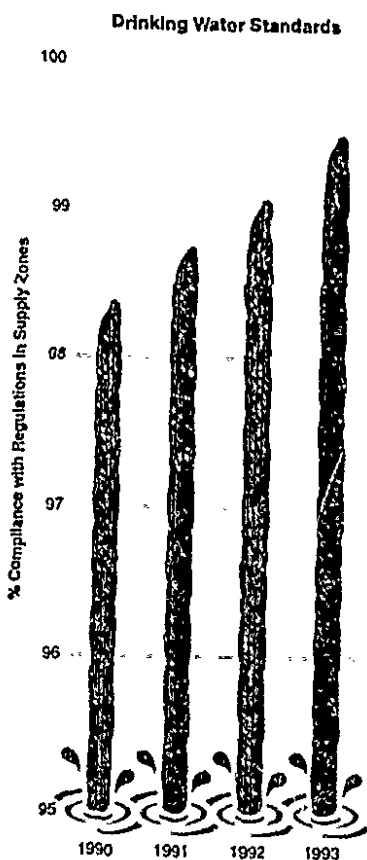
But the water industry, including Anglian, has been changing fast since privatisation and we need to meet new challenges. We must recognise that the main priority now is for our businesses to become much better at serving our customers. The existing structures and methods of working were not helpful in achieving this and we needed radical change.

If we are to become truly customer focussed we have to reduce our costs so that we can minimise price increases while maintaining a value added service. The service our customers receive must not only be the best but also be seen to be the best. We aim to make Anglian Water a benchmark company against which others will be judged.

The rationale of the strategic systems review is therefore to focus ourselves on our customers, streamline decision making by reducing bureaucracy, and reduce costs by removing duplication and unnecessary activities in order to encourage an approach that is flexible and responsive to changing demands.

Implementation of changes resulting from the strategic systems review over the next four to five years will result in a radical shift from a hierarchical structure to an integrated process based organisation. Removing bureaucracy will involve reducing management layers whilst increasing the level of empowerment throughout the workforce.

The process will involve a substantial change in company culture as well as in its structure. We recognise that the changes now taking place are fundamental and in view of the demands stimulating these changes, it is inevitable we will end up with a new organisation with radically different jobs.



How will you meet
your new efficiency targets ?

Efficiency

Our fundamental review of the way we organise our business is designed to achieve a step-change in efficiency at the same time as improving customer services.

We believe we can make incremental improvements, as we have done in the years since privatisation, but significant savings in operating costs and in the capital costs of meeting new standards will only come from a completely new approach, which we are committed to.



There have to be job losses over the next two to three years but we will endeavour to achieve this on a voluntary basis. Overall we expect there will be about 900 fewer jobs. It is bound to be an unsettling time for our employees as the new systems are put into place, but they understand the need for change and we are convinced the process will be worthwhile and is necessary for the future prosperity of the Company.

We have made provisions of £60m in this year's accounts to cover redundancy payments, pension costs and outplacement assistance for staff together with the costs of developing the new organisation through training, relocation and changes to systems. The payback will start during 1994/95 and by 1996/97 we expect ongoing savings in operating costs in excess of £20m per annum.

The first stage of the review was completed late last year with the introduction of a new corporate structure within the regulated subsidiaries. This involved the merging of Anglian Water Engineering and Business Systems which provided engineering, computing and billing services, and of certain support services, into Anglian Water Services.

The latter company is being restructured. The purpose is to move from a divisional geographic structure to one based on integrated processes, including one responsible for all customer services. There are a number of other key functions such as Production, Information Services and Innovation providing expertise in critical areas like advanced treatment systems, telemetry, and research and development. Once fully implemented, the changes should not only produce efficiency savings and reduced costs but also mean a better service for customers.

Regulated Business Operation

Our compliance record continues to improve and is now amongst the best in the industry. On the waste water side compliance with legal consents has risen from 80% in 1988/89 to 98% this year. This should continue to improve as more capital projects are completed.

Similarly, overall compliance with drinking water standards has shown a consistent improvement over the last few years, and in 1993/94 the highest ever level of 99.4% was recorded. Improvements to drinking water quality are continuing and our investment programme is on target to ensure that by the end of 1995 water leaving our treatment works will be fully compliant with UK regulations.

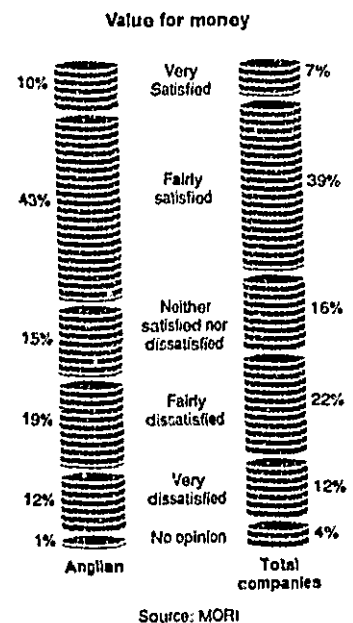
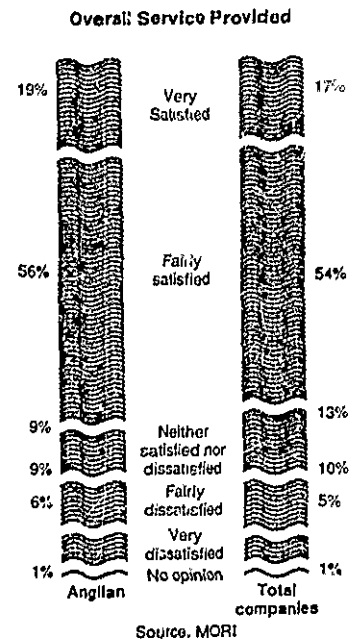
An independent poll of water services customers published in January by MORI, the market research organisation, showed performance in the Anglian region was considered by customers to be above average in all six areas covered – overall service, value for money, drinking water quality, sewage treatment, bathing water quality and river water quality. We performed particularly well in the two main categories of overall service and value for money.

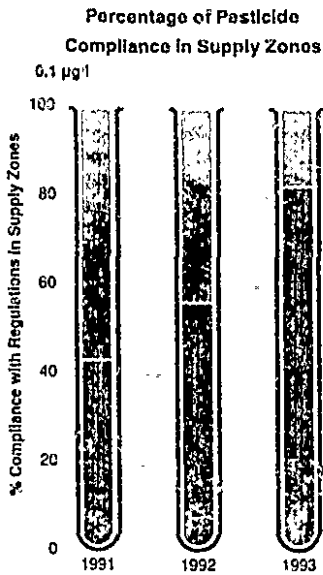
Since privatisation, disconnections in the region have averaged less than 550 a year compared with more than 2,000 when Anglian was in the public sector, but the number of domestic disconnections rose last year from 214 to 978 reflecting our tougher stance on customers who are able but refuse to pay their bills. We continue to offer advice and flexible arrangements for those having genuine difficulty in paying.

Safeguarding The Environment

Every part of our business is concerned with protecting and improving the environment. For many companies this is only a peripheral part of their responsibility; for us, it is a core one. Each year we publish an objective assessment of our environmental performance to highlight our "green" credentials. Anglian Water is the largest investor in environmental improvement in the region with a ten year £4bn programme aimed at improving the quality of drinking water, bathing waters, and waste water treatment systems.

The huge capital programme to improve quality and enhance the environment is on target and includes two of the biggest water service projects in the country, one at Grafham and the other at Cleethorpes. Over £60m is being spent at the water treatment works at Grafham, Cambridgeshire on major





extensions and refurbishment to improve water quality by enhanced treatment methods. At Cleethorpes, South Humberside, we are well ahead of schedule in a £54m bathing waters improvement scheme to build a new sewage plant with full processing capability including Britain's largest ultra-violet treatment disinfection system. Our bathing waters programme, of which Cleethorpes is only one of a number of major schemes, is also ahead of schedule.

We are making particularly good progress in reducing the effects of nitrate pollution, the result of the intensive agricultural presence in the region, and the £80m nitrate removal programme will be concluded ahead of the target date of 1995.

We have achieved the NAMAS Accreditation for our laboratories and other parts of the business and we have opened up the entire supply chain to the rigours of the British Standards Institute's inspection. As a result, we are the first of the major water companies to receive BS5750 Quality Assurance in one of our districts for the entire process from water collection through treatment, storage, pumping, distribution, testing and all support services.

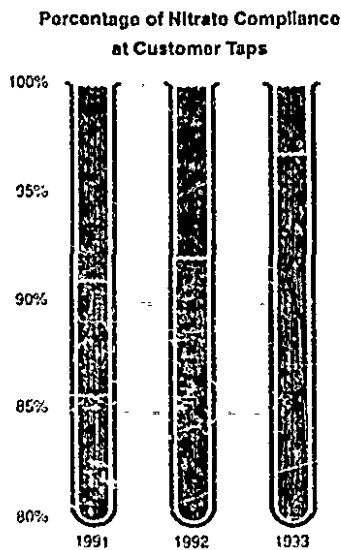
Periodic Review of K

My colleagues throughout the organisation have devoted much time and effort this year to prepare for the Periodic Review of K factors which will determine our price control limits for the ten years beginning 1995/96

The outcome of OFWAT's determination is due to be announced on 28 July.

Our water charges are always bound to be high in comparison with many others as the Company serves a dry, flat rural region. There are therefore not the economies of scale that are available in more urban areas. The low population density requires long pipe runs to customers, many pumping stations and a large number of small treatment plants.

Our customers appreciate these realities and have shown support for real increases in charges to pay for further quality and environmental improvements



Environmental Policy

David Jackson
11 Cranmere Avenue
Rushmore
Northampton
NN1 5M

27 April 1994

Mr B Henderson
Chairman
Anglian Water plc
Anglian House
Asbury Road
Peterborough
PE1 2AE

RECEIVED
28 APR 1994
METERING

Dear Mr Henderson

I am writing to you as a shareholder of Anglian Water and am
deeply concerned with environmental issues.
The enclosed item appeared in a journal earlier this year. The
question of raising standards of water quality and sewage disposal
has been prominent in the news over the last year, particularly
with the discussions over costly European water directives.
I would be grateful if you could let me have your company views on
this matter.

David Jackson
David Jackson

Environment

Water Standards and water quality in a river discharged into water course are determined by outside

Metering

We believe metering is right for

three main reasons. First, it is fair and is the only charging mechanism that does not penalise low users of water who, in effect, subsidise heavy users.

Secondly, the majority of our metered customers prefer it to the rateable value method which has to be replaced by the year 2000.

Thirdly, the Anglian region is the driest in the country and has the highest population growth. Metering discourages wastage and this will, we believe, minimise the need for further resource development in the long term.

Is compulsory metering really the way forward?

Shareholder Survey

If you have already completed the survey, please do not complete the questions below, and no need to write in the space provided.

1. How did you think of the content of the Shareholder News?

How often did you read it?

2. Would you be interested in receiving any future issues of Shareholder News?

PLEASE TICK THE APPROPRIATE BOX

Thank you

Metering

One practical move we are making to conserve precious reserves is to lead the industry in advocating the widespread metering of domestic supplies. Anglian is so far the only one of the ten water and sewage companies in England and Wales to have decided on a charging mechanism in preparation for when the current charging method based on the rateable value of property ends in the year 2000.

In the past three years we have metered around 70,000 new properties and currently there are over 190,000 metered customers, of which 100,000 are domestic customers. The first "compulsory" meters are being installed this year and the whole programme is expected to take 15 to 20 years to complete. Our voluntary meter option scheme has been very popular, particularly with pensioners and small households.

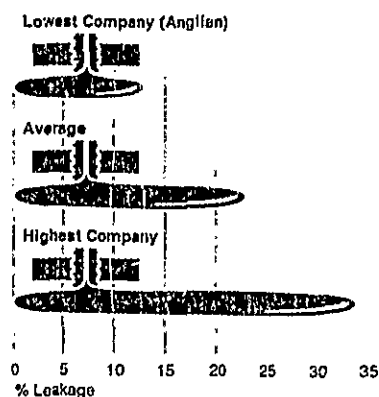
Metering has been our preferred option for the last three years because we believe it has an intrinsic fairness compared with a flat rate or charges based on property values. It is logical to ask customers to pay for the water they consume just as they do for gas and electricity.

We have one of the best records for reducing leakage from our mains. Metering enables customers to identify and rectify leakage in their own pipes, which can account for up to a half of all leakage.

Metering makes particular sense for our region as East Anglia is the driest part of the UK and has experienced the fastest population growth. There are serious and widespread environmental concerns about the possibility of ultimately having to develop major new water resources in the region, and strong public support for conservation and the effective management of existing resources. Our extensive metering trials, which have been going on for 2 years now, indicate that customers charged on a metered rather than flat rate basis use 15% less water. Independent market research has confirmed that metering is backed by a majority of our customers.

We estimate that 60% of customers will see little difference in their bills after metering; some of the remainder will gain and others will lose.

Supply Pipe Leakages 1992/1993



Source: OFWAT estimate

There will be a special "safety net" system so that for the first six months customers will pay the lesser amount charged under the old system or via their new meter. This will give customers an opportunity to judge the effect of the change and, if appropriate, adjust the pattern of their water consumption.

Further trials in automatic meter reading were also initiated during the year.

Non-Regulated Activities

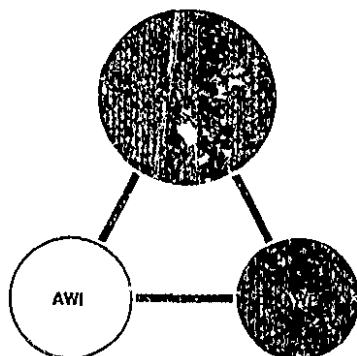
We have been cautious about diversifying away from our regulated business, which will always have the highest priority. However, we do see benefits both to shareholders and customers in developing our activities in a careful and sensible way while building on our strengths – designing, building and operating water and waste water systems.

Our strategy is not diversification but expansion into related areas by exporting our core skills and capabilities into overseas markets, and developing a complementary international process engineering business.

We have set up two sister companies, Anglian Water International (AWI) and Anglian Water Processes (AWP), which operate closely together with the regulated business. The Group's strengths in telemetry, capital investment management, asset management, planning and financial expertise are all prime assets and we plan to use these strengths to expand these businesses as opportunities arise from the privatisation policies of overseas governments and municipalities.

AWP, formerly Anglian Water Process Engineering, is responsible for all the non-regulated process engineering operations within the Group and combines two types of activity – the design, building and refurbishing of clean water and waste water treatment plants for both the municipal and industrial markets, and the design, construction and installation of a wide range of water treatment products.

The acquisition by Anglian of Nordic Water just over a year ago has led to new opportunities for the Group. Anglian's subsidiaries, Farmgas and Rosewater, have been incorporated with the Nordic companies into AWP, headed by Göran Wijkmark, former President of Nordic.

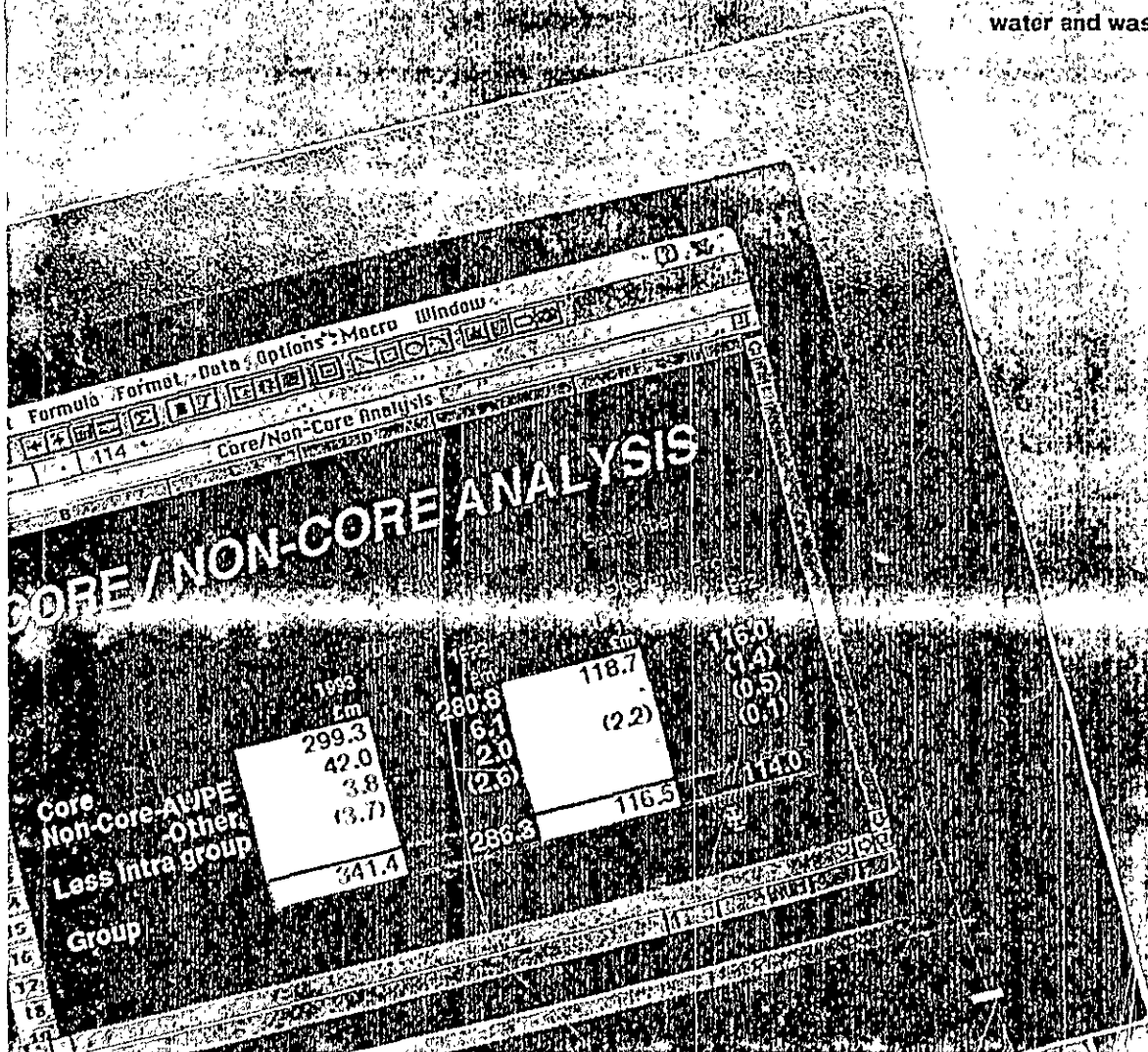


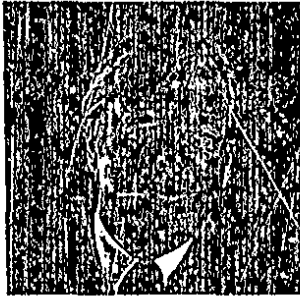
Is a cautious approach
to diversification justified ?

Diversification

We believe so. In the first few years following privatisation our focus was firmly on the regulated business - achieving compliance was of prime importance. Our commitment remains to the regulated business and we do not see our non-regulated activities as true diversification.

Rather, through our triangle concept, Anglian Water International and Anglian Water Processes both reinforce and feed off our expertise in operating and designing clean water and waste water systems.





Göran Wijkmark
Managing Director,
Anglian Water Processes



David Latham
Managing Director,
Anglian Water International

In March, AWP purchased Fluid Systems Corporation, a San Diego based membrane technology company. This acquisition will strengthen the range of solutions our process engineering group will be able to offer its clients.

Anglian Water International, under its managing director David Latham, offers worldwide operational and consultancy services and often uses the local presence and expertise of its sister process company. The basic concept is to develop a portfolio of concession contracts with water utilities overseas. Particular targets are European Union countries, or aspiring EU members, where local water authorities are being driven by market and regulatory requirements to improve services.

AWI is also involved in partnership projects in Buenos Aires and Mexico City, a consultancy partnership in New Zealand to exploit opportunities around the Pacific Rim, and Gibb-Anglian, a joint consultancy with Sir Alexander Gibb and Partners, the consulting engineers.

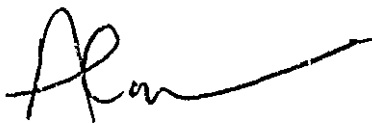
A joint venture, *American-Anglian Environmental Technologies*, was formed last year with American Water Works Company, the largest investor-owned water utility in the US, to concentrate on the privatisation of municipal waste water services. We are seeking operation and maintenance contracts, public and private partnerships and ownership opportunities throughout the US, mainly in smaller municipalities.

AWI and AWP are currently most active in Northern Europe including the United Kingdom, Scandinavia and Germany, and in the United States. There are also operating bases in Poland, Spain and France, and a joint operation is being pursued in the Czech Republic.

The Future

We are strongly committed to the success of our regulated business and I am greatly encouraged by the progress we have made since privatisation. The investment programme is on course and our compliance record is now excellent. To complement this we have a clear strategy for developing related non-regulated businesses. A sound basis for the future has been established.

But no business can stand still. We are now all involved in building for that future by streamlining our structure, promoting a more dynamic culture, developing our skills and technologies and by becoming more efficient. Our aim is to become one of the most successful water service companies in the world.

A handwritten signature in black ink, appearing to read 'Alan', with a long horizontal stroke extending to the right.

Alan Smith
Group Managing Director

Board of Directors



Bernard Henderson

Bernard Henderson CBE (65) Chairman, Anglian Water Plc and Anglian Water Authority (1981 to date) Chairman, British Waterways Board (1994 to date), Chairman (1983 - 1989) and Director (1989 to date), Water Research Centre Plc, Non-Executive Director, Shire Scol Investment Trust (1991 to date); formerly Chief Executive, Henderson Group Plc.



Robin Gourlay

Robin Gourlay BSc (54) Non-Executive Director (1993 to date) and Deputy Chairman (1994 to date), Anglian Water Plc; Non-Executive Director, Rugby Group Plc (1994 to date), Chief Executive and Managing Director, BP Nutrition (1990 to date); Managing Director, BP Group Australia (1986 - 1990); Board Member, Petroleum Institute, Australia. Director, Australian Administrative Staff College; Chairman, Business in the Community, Victoria (1986 - 1990).



Alan Smith

Alan Smith IPFA (49) Group Managing Director, Anglian Water Plc (1990 to date); Deputy Group Managing Director and Director of Finance, Anglian Water Plc and Anglian Water Authority (1989 - 1990); Director of Finance, Anglian Water Authority (1980 - 1989); Assistant Director of Finance, Southern Water Authority (1975 - 1980).

Chris Mellor IPFA (45) Group Finance Director, Anglian Water Plc (1990 to date), Head of Finance and Planning, Anglian Water Plc and Anglian Water Authority (1988 - 1990); Non-Executive Director, Addenbrooke's NHS Trust (1993 to date).



Chris Mellor



John Green

John Green BSc (50) Executive Director, Anglian Water Plc (1993 to date); Group Technical Director (1994 to date), Managing Director Anglian Water Engineering and Business Systems Ltd (1992 - 1994); Director of Water Services, Anglian Water Services Ltd (1990 - 1992)

Francis Cator FCA (65) Non-Executive Director, Anglian Water Plc and Anglian Water Authority (1988 to date), Deputy Chairman, Anglian Water Plc (1989 - 1994); a Vice Chairman, Norwich Union Insurance Group; Director, Portsmouth and Sunderland Newspapers Plc.

David Challen (51) Non-Executive Director, Anglian Water Plc (1993 to date); Director, J. Henry Schroder Wagg & Co. Limited (1979 to date); Member of The Takeover Panel (1993 to date); Member of the Governing Body of Morley College (1993 to date); Member of the Advisory Committee on Business and the Environment (1991 - 1993).

The Earl of Cranbrook D Sc DL (60) Non-Executive Director, Anglian Water Plc and Anglian Water Authority (1987 to date); Chairman, English Nature (Nature Conservancy Council for England); Member, Broads Authority and Harwich Haven Authority; President, Suffolk Wildlife Trust; Patron, Suffolk Naturalists' Trust.

Richard Jewson MA (49) Non-Executive Director, Anglian Water Plc (1991 to date); Director and Chairman, Meyer International Plc (1983 to 1993); Non-Executive Director, Eastern Counties Newspaper Group (1982 to date); Council Member, University of East Anglia (1980 to date); Director, Proshare Limited (1992 to date); Director, Queen's Moat House Plc (1994 to date).

June de Moller (46) Non-Executive Director, Anglian Water Plc (1992 to date); Director and Managing Director, Carlton Communications Plc (1983 to date); Non-Executive Director, Riverside Mental Health NHS Trust (1992 to date).

Dinah Nichols BA (50) Non-Executive Director, Anglian Water Plc (1992 to date); Deputy Secretary, Department of the Environment, Housing and Construction (1994 to date); Property and Construction (1991 - 1993); Head of Water Directorate (1989 - 1991); Non-Executive Director of John Laing ETE (1987 - 1990).



Dinah Nichols



June de Moller



Richard Jewson



Francis Cator



David Challen



The Earl of Cranbrook

Operating and Financial Review

Accounting Standards

The 1994 annual report and financial statements have been produced in accordance with the standards issued by the Accounting Standards Board and this review has been prepared in accordance with the guidance set out in the "Operating and Financial Review" statement published in July 1993.

The 1993 report included early adoption of the requirements of Financial Reporting Standard (FRS) 3 – Reporting Financial Performance and a statement of compliance with the Cadbury Code on Corporate Governance. We have increased the level of our disclosures on directors' remuneration and share options in this year's report as part of our commitment to the spirit of Cadbury. The accounting treatment adopted for the Group's capital instruments complies with FRS4 (Capital Instruments), and we are unaffected by FRS5 (Reporting the Substance of Transactions).

Operating Results

Turnover for the year increased by 18.0% from £583.2m to £687.9m. There has been a £33.4m increase in the regulated water and sewerage business and £73.3m in the Group's non-regulated activities. Inter-segmental trading increased by £2.0m. The vast majority of turnover during the year (some 85%) came from our regulated business.

The £33.4m growth in regulated turnover represents an increase of 6.0% over 1993, almost all of which arose from price increases in accordance with the price controls agreed at the time of privatisation. The effect of the recession continued to be felt in 1993/94. Before the effect of price increases and new connections, metered income was down about 7%. Some 20,100 new houses were connected to our water system, a small increase over 1992/93.

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

abating our increase by 0.5%. This equates to a £2.5m reduction in charges to our customers.

	RPI* %	K Permitted %	K Implemented %
1990/91	7.7	5.5	5.5
1991/92	9.7	5.5	5.5
1992/93	4.3	5.5	5.0
1993/94	3.0	5.5	5.0

* As at November in the preceding year.

Some 94% of regulated turnover in the year came from main charges for water, sewerage and trade effluent services. Some 75% of this was unmeasured and 25% measured. This ratio will change significantly as we progressively introduce a programme of compulsory metering over the next 15-20 years (all new properties have been metered since 1990). Progress on the metering programme will depend on the agreement reached on funding this investment during the K setting process.

Regulated business operating costs have increased by 5.2% from £344.9m to £362.7m (before restructuring costs). Inflation added some 2.8% to our costs. Depreciation increased from £56.3m to £65.4m as a result of capital expenditure. Around £1.3 billion of investment has been undertaken since privatisation and increasing depreciation costs will continue to feature as the effect of rising levels of capital expenditure feed through as charges against profits.

During 1993 the regulated business commenced a strategic systems review in recognition of the need to become more customer focused and to promote even greater efficiency in the way we operate. This review is discussed further on pages 8 and 10. The restructuring charge of £60.0m which has been made in this year's accounts represents the estimated costs which will arise from its implementation.

The infrastructure renewals charge derives from our long term investment plans and represents our assessment of the cost of maintaining our

network of underground pipes and sewers in perpetuity. At £35.5m it is £2.4m lower than in 1993. The reduction reflects lower estimates of future costs following a review of our asset management plan for the purposes of the Periodic Review of K factors. Whilst actual expenditure on infrastructure maintenance is still lower than the profit and loss account charge, this is in line with our plans. This trend will reverse in the second half of the decade as we undertake significant amounts of work on those assets which are part of the water mains replacement and renovation programme.

The other principal areas of increase in regulated business operating costs are in meeting increased quality standards and new obligations £3.8m, customer service initiatives £2.0m, insurance £1.8m, rates £1.1m, Periodic Review costs £0.3m and increased expenditure on research and development £0.7m. Against this, increased efficiencies of £4.7m have been secured and the charge for bad debts reduced by £3.7m.

The year's results reflect a significant growth in the level of operations of non-regulated companies. Non-regulated turnover increased by £73.3m and at £102.4m now represents 15% of total Group activity. The increases in the year arise primarily from the full year contribution of the Nordic Water group of companies (acquired in February 1993) to the results of AWP.

Our process engineering activities have been further enhanced by the acquisition on 31 March 1994 of Fluid Systems Corporation for \$27.0m (£18.2m).

Group operating profit for the year before restructuring costs, rose by 7.6% from £211.6m to £227.7m largely from the regulated business. Non-regulated businesses made an operating loss of £3.5m with £0.6m profit on intra-group trading.

AWP had a difficult first half of the year reflecting the business climate and competitive pressures in its principal markets, but its performance has improved in the second half. Operating profit from the process engineering segment for the full year was £2.3m compared to a loss of £3.2m in 1993.

AWI has made an operating loss for the year of £1.5m. This reflects the increasing level of bid activity as it continues to identify and respond to opportunities as they arise throughout the world.

The results of other activities principally comprise losses, including closure costs, of our well-drilling and plumbing businesses

Group profits have benefited from £1.6m profits on sale of properties and other fixed assets. We continue to review our asset base to identify surplus assets for disposal.

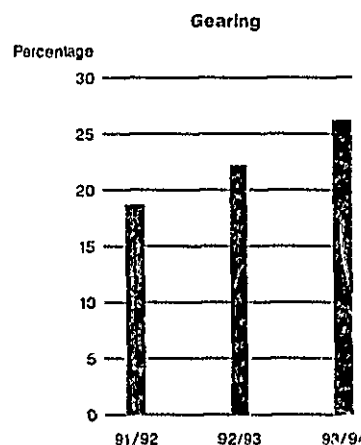
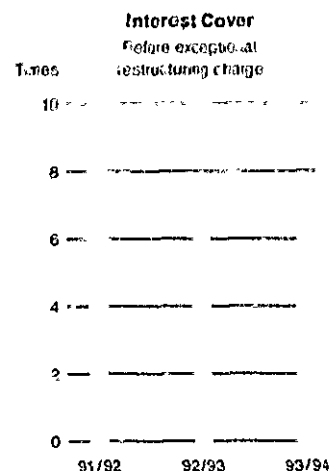
Group borrowings have increased to finance the capital expenditure programme and net interest has risen accordingly. Our net interest for the year at £37.1m shows an increase of 25.8%. Profit before tax and restructuring costs at £192.2m is 3.7% higher than in 1993.

The Group became liable for corporation tax in 1989. We have sufficient allowances on our capital expenditure to ensure that no liability will arise for 1993/94. However, we are required to pay advance corporation tax (ACT) in respect of dividends paid. Since we are not currently a tax payer it is considered prudent to write off this ACT against profits as it is unclear when it will be utilised. The ACT written off to date amounts to £82.1m and remains available for set off against future corporation tax liabilities.

Financial Needs and Resources

At 31 March 1994 the Group had net borrowings of £503.0m, an increase of £110.5m over the year. The increased net borrowings have been financed by £20m from leasing, £10m from the European Investment Bank and £82m from a bond issue. Before expenditure on fixed assets of £348.3m, infrastructure renewals of £23.8m and investments in subsidiary and associated undertakings and other participating interests of £21.9m and after capital grants and contributions of £30.4m, the business generated a net cash inflow of £252.6m in 1994.

Year end gearing (debt/debt plus equity) at 26.3% compares to 22.3% in 1993. Net borrowings are a mixture of fixed and variable rate debt of £588.3m offset by cash and deposits, net of overdrafts, of £85.3m. Borrowings include £180.9m at floating rates. The balance between fixed and floating rate debt is aimed at securing funds to meet our increasing requirements whilst achieving the lowest cost in the medium term and minimising exposure to short term



interest rate fluctuations. The debt maturity profile is indicated in note 19 to the accounts. Where attractive opportunities have presented themselves the Group has continued to pre-fund its operations. Our treasury policy reflects the need to secure funds to finance the substantial long term capital investment programme of our regulated water and sewerage business and the expansion of our non-regulated operations. The majority of treasury activities are carried out in the UK and there are no substantial foreign currency borrowings. Existing borrowings are supplemented by further unutilised facilities of £170m.

Borrowings to fund our regulated activities are ring fenced from the rest of the Group and non-regulated diversification is financed on an 'arm's-length' basis from the regulated business. Borrowings were made during the year to fund non-regulated activities which carried no covenants or guarantees from the regulated business. The source of these funds was the issue by Anglian Water Plc of bonds with warrants which raised net proceeds of £70.8m.

Our excellent long term credit ratings (Aa3 from Moody's and AA from Standard and Poor's) have been maintained, enabling us to borrow on preferential terms and gain access to a wide range of capital markets.

The capital investment programme for the year was once again completed on budget. Total expenditure at £372.0m was 13.5% higher than in 1993. The managing director's report on pages 6 to 19 gives more details on the programme itself.

The Group's balance sheet shows a reduced working capital requirement with debtors showing little change year on year in spite of the increase in turnover, and creditors increasing, mainly due to the later payment of the interim dividend to take advantage of lower ACT rates. Our new billing system introduced in 1993 has helped to improve our debt collection performance.

The Periodic Review of K to be completed in 1994 will have a significant impact on our borrowing requirements, since it will determine the level of price increases for the second half of the decade and thereby influence profits that can be retained to finance capital investments and the level of external finance needed.

Shareholders' Return and Value Created

Earnings (before restructuring charges) increased by 5.3% from £166.4m to £175.3m. After allowing for an increase in the number of shares in issue during the year (principally as part of an employee profit sharing scheme) this translates to a 5.0% increase in earnings per share from 56.4p to 59.2p. After accounting for restructuring costs earnings per share for the year is 39.0p. The full year dividend has been increased by 8.1% from 21.1p to 22.8p, a real increase of 6.3% over the average rate of inflation during the year.

The table below shows the trend in earnings per share and dividends per share since privatisation.

	Earnings per share		Dividends per share	
	(p)	Increase (%)	(p)	Increase (%)
1989/90	39.5*	-	15.3	-
1990/91	45.9	16.2	17.5	14.4
1991/92	51.7	12.6	19.3	10.3
1992/93	56.4	9.1	21.1	9.3
1993/94	59.2†	5.0	22.8	8.1

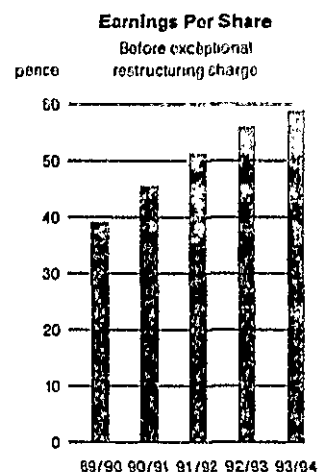
*Restated to reflect requirements of FRS3. Original pro-forma 42.1p
 †Before exceptional restructuring charge.

The 1994 dividend increase reflects our policy of paying a higher dividend than was anticipated at privatisation where we can justify it either through increased efficiency or through non-regulated earnings.

The outcome of the Periodic Review will be published on 28 July 1994 when the Director General of Water Services (DG) issues new K's for the whole industry. The DG has a duty under the Water Industry Act 1991 to ensure that companies can finance the proper carrying out of their functions. We consider it essential that adequate provision is made to enable us to maintain our assets and that sufficient incentives exist to improve the efficiency and quality of services to customers.

Note: Throughout this operating and financial review (OFR), disclosure of regulated business results represent the composite of Anglian Water Services Limited (AWS) and, to the extent that activities of Anglian Water Engineering and Business Systems Limited and Anglian Water Plc relate to Appointed Business, those results also.

The directors' report and financial statements of AWS (published separately) also include an OFR. Results reported as regulated business differ from the above, since they are prepared on the basis of AWS as a separate entity and include transactions which are eliminated on Group consolidation.



Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Corporate Governance

Following the issue of the Cadbury Committee's Code of Best Practice in December 1992, the Board carried out a full review of the Company's compliance. The Board has ensured that the Company has been in full compliance with the Code since May 1993, other than in regard to those proposals on which guidance is awaited from the accounting and auditing profession. In those areas where further guidance is awaited, for example, on internal controls, the directors believe that existing systems and standards are such that there should be no difficulty in complying.

The Board currently consists of eleven directors, of whom seven are non-executive, with a considerable breadth of successful business, governmental and environmental experience. It meets eight times a year to review operational, financial and strategic matters and meets on other occasions if required. The roles of chairman and managing director are separate. The seven non-executive directors have access to the same information as the executive directors and all directors are entitled to obtain independent legal advice. No director has a service contract of more than three years' duration.

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements of Anglian Water Plc for the year ended 31 March 1994.

Principal activities and business review

The principal activities of the Group during the year were water supply and distribution, sewerage, sewage treatment and disposal and process engineering. A review of the Group's performance during the year, with comments on the financial results and future developments, is contained on pages 1 to 27.

Group results and dividends

The profit and loss account on page 33 shows the Group's results and retained profit for the year. An interim dividend of 7.3p per share was paid on 6 April 1994. The directors are recommending the payment of a final dividend of 15.5p per ordinary share to shareholders on the register at the close of business on 8 July 1994, making a total net dividend for the year of 22.8p. The final dividend, if approved at the Annual General Meeting, will be paid on 3 October 1994.

Fixed assets

Details of total movements in fixed assets are shown in notes 13 and 14 on pages 41 to 44.

Research and development

Research and development activities have focused on advanced process technologies, driven by the need to meet ever more stringent water quality and environmental regulations. Research into ozone contact tanks, designed to minimise the formation of unwanted by-products, was incorporated into new plant commissioned during the year.

On the waste water side, we concentrated on ways of meeting the requirements of the Urban Wastewater Treatment Directive and this included construction of a demonstration plant for biological nutrient removal.

Share capital

Details of the Company's share capital are shown in note 24 on page 48. Options outstanding (including options granted to directors detailed on pages 30 and 31) under the Company's share option schemes at 31 March 1994 were as follows:

	No of shares	Date of grant	Option price
Sharesave Scheme	1,632,934	12 December 1989	£1.76
Sharesave Scheme	662,569	6 December 1990	£2.67
Sharesave Scheme	1,107,703	30 December 1991	£2.72
Sharesave Scheme	526,270	21 December 1992	£3.82
Sharesave Scheme	831,108	20 December 1993	£4.04
Executive Share Option Scheme	5,893	19 February 1990	£2.99
Executive Share Option Scheme	42,959	20 June 1990	£2.93
Executive Share Option Scheme	104,150	10 January 1991	£3.31
Executive Share Option Scheme	216,960	7 December 1991	£3.26
Executive Share Option Scheme	55,190	24 June 1992	£3.95
Executive Share Option Scheme	54,851	15 December 1992	£4.73
Executive Share Option Scheme	137,239	7 July 1993	£4.74
Executive Share Option Scheme	18,580	1 December 1993	£5.30

Directors' Report

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

In addition to the options shown above 14,651,000 warrants were issued during the year, in conjunction with a bond issue, which grant the holders the right to exercise each warrant for one ordinary share at a price of £4.95 during the period to 24 August 1998.

Directors

A list of directors at 31 March 1994 and their biographies are shown on pages 20 and 21. Mr F Cator served as deputy chairman until 1 February 1994 and will retire at the Annual General Meeting. Mr J Adams retired on 26 November 1993 and Mr J A Simpson resigned on 31 January 1994. Mr J W Green and Mr R M Gourlay were appointed on 9 September 1993 and Mr D J Challen was appointed on 9 November 1993. The directors appointed during the year will retire at the Annual General Meeting. Being eligible, they offer themselves for re-election. Mr R M Gourlay was appointed deputy chairman on 1 February 1994. Mr R W Jewson retires by rotation in accordance with the Articles of Association and, being eligible, offers himself for re-election. Mr J W Green has a service contract which may be terminated by the Company giving three years notice at any time. Mr R W Jewson, Mr D J Challen and Mr R M Gourlay have no service contracts.

Directors' Interests

The interests of the directors in the shares of the Company and in options over such shares granted under the Company's Executive Share Option Scheme and Sharesave Scheme are set out below. Options to purchase fully paid ordinary shares were granted under the share option schemes described above.

Beneficial and family interests in shares:	31 March 1994 No. of shares	1 April 1993 (or date of appointment if later) No. of shares
B V Henderson	8,992	8,887
R M Gourlay	1,000	1,000
A F Smith	1,063	5,075
C J Mellor	3,557	1,129
J W Green	3,731	3,731
F Cator	2,156	2,156
D J Challen	—	—
The Earl of Cranbrook	1,100	1,100
R W Jewson	840	840
Mrs J F de Moller	750	750
Miss D A Nichols	—	—

Number of options under Executive Share Option Scheme and weighted average exercise price:	1 April 1993 (or date of appointment if later)	Movements during the year		31 March 1994	Weighted average exercise price of options outstanding at 31 March 1994
		Granted	Exercised		
B V Henderson	92,536	1,582	65,645	20,473	£3.42
A F Smith	77,986	10,621	-	88,607	£3.55
C J Mellor	75,424	7,144	40,952	41,616	£3.82
J W Green	32,730	10,566	-	43,296	£4.18

Details of weighted average prices in respect of movements under Executive Share Option Scheme during the year:	Weighted average price at which options were		Weighted average market price at date of exercise
	Granted	Exercised	
B V Henderson	£4.74	£3.08	£5.59
A F Smith	£4.78	-	-
C J Mellor	£4.83	£3.11	£5.2
J W Green	£5.30	-	-

Sharesave Scheme Options (at 1 April 1993, or date of appointment if later, and 31 March 1994):	Number	Weighted average exercise price of options outstanding at 31 March 1994
A F Smith	8,893	£2.06
C J Mellor	6,724	£2.73
J W Green	9,916	£2.03

No options were either granted or exercised under the Sharesave Scheme.

The market price of the Company's shares at 31 March 1994 was £5.25.

At 31 March 1994, and at the date of his appointment, Mr D J Challen held £24,000 of the Company's 5 1/8% Index Linked Loan Stock 2008.

No director has an interest in the shares or debentures of the Company other than as shown above, and no changes in the interests have occurred in the period from 31 March 1994 to 6 June 1994.

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.

Substantial shareholdings

According to notifications received, at 6 June 1994 there were no shareholders with "material" interests (as defined in the Disclosure of Interests in Shares (Amendment) Regulations 1993) in 3% or more of the Company's issued share capital, and none with any aggregate interest ("material" or otherwise) in 10% or more.

Charitable and political donations

During the year the Group made charitable donations of £55,000 (including £31,000 to Water Aid, a charity established to bring safe water and basic sanitation to poor communities in the developing world). No political contributions were made.

Directors' Report

Employees

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

Share option schemes are in place which encourage participation in the 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 continues and appropriate training, career development and promotion of a disabled person should, as far as possible, be identical to that of other employees.

Liability Insurance

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

Close company status

The Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

Auditors

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

Annual General Meeting

The notice convening the Annual General Meeting to be held on 27 July 1994 is sent to shareholders separately with this report, together with an explanation of the business to be conducted at the meeting.

By order of the Board

Roger Dickinson
Company Secretary
Registered Office:
Anglian House,
Ambury Road,
Huntingdon,
Cambridgeshire PE18 6NZ



6 June 1994

Registered in England No. 2366618

Telephone 0480 443000

Fax 0480 443115

Group Profit and Loss Account

For the year ended 31 March 1994	Notes	Before exceptional restructuring charge 1994 £m	Exceptional restructuring charge (note 5) 1994 £m	Total 1994 £m	1993 £m
Turnover from continuing operations	2	687.9	-	687.9	583.2
Operating costs	3	(460.2)	(60.0)	(520.2)	(371.6)
Operating profit from continuing operations	2, 4	227.7	(60.0)	167.7	211.6
Profit on sales of assets in continuing operations		1.6	-	1.6	3.3
Profit on ordinary activities before interest		229.3	(60.0)	169.3	214.9
Interest payable (net)	6	(37.1)	-	(37.1)	(29.5)
Profit on ordinary activities before taxation		192.2	(60.0)	132.2	185.4
Taxation	7	(16.9)	-	(16.9)	(19.0)
Profit for the financial year	12	175.3	(60.0)	115.3	166.4
Dividends	8			(67.5)	(62.3)
Retained profit for the financial year				47.8	104.1
Earnings per share	9	59.2p		39.0p	56.4p

Total Recognised Gains and Losses

Statement of total recognised gains and losses for the year ended 31 March 1994	Notes	1994 £m	1993 £m
Profit for the financial year		115.3	166.4
Currency translation differences on foreign currency net investments		-	(0.2)
Total recognised gains relating to the year	12, 25	115.3	166.2

The notes on pages 36 to 52 form part of these financial statements

Balance Sheets

At 31 March 1994	Notes	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
Fixed assets					
Tangible assets	13	2,308.7	2,049.6	1.4	2.8
Investments	14	6.8	3.9	1,157.5	1,125.5
		2,315.5	2,053.5	1,158.9	1,128.3
Current assets					
Stocks	16	12.0	10.9	—	—
Debtors	17	124.2	120.5	62.1	61.3
Cash and deposits		101.5	113.0	139.0	190.4
		237.7	244.4	201.1	251.7
Creditors: amounts falling due within one year					
Short term borrowings	18	(17.1)	(9.9)	(100.8)	(210.9)
Other creditors	18	(298.1)	(268.7)	(93.3)	(74.1)
Net current (liabilities)/assets		(77.5)	(34.2)	7.0	(33.3)
Total assets less current liabilities		2,238.0	2,019.3	1,165.9	1,095.0
Creditors: amounts falling due after more than one year					
Loans and other borrowings	19	(587.4)	(495.6)	(301.8)	(238.3)
Other creditors	20	(66.4)	(48.6)	—	—
		(653.8)	(544.2)	(301.8)	(238.3)
Provisions for liabilities and charges	21	(171.4)	(106.1)	—	(0.6)
		1,412.8	1,369.0	864.1	856.1
Capital and reserves					
Called up share capital	24	296.2	295.5	296.2	295.5
Share premium account	25	4.0	2.1	4.0	2.1
Profit and loss account	25	1,103.8	1,071.4	555.1	558.5
Other reserves	25	8.8	—	8.8	—
		1,412.8	1,369.0	864.1	856.1

The notes on pages 36 to 52 form part of these financial statements.

Approved by the Board on 6 June 1994

B V Henderson CBE
Chairman



C J Mellor
Group Finance Director



Group Cash Flow Statement

For the year ended 31 March 1994	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	28(a)	335.8	316.8
Returns on investments and servicing of finance			
Interest received		8.1	14.1
Interest paid		(34.0)	(35.0)
Interest element of finance lease rental payments		(7.4)	(1.2)
Dividends paid		(42.2)	(58.4)
Net cash outflow from returns on investments and servicing of finance		(75.5)	(80.5)
Taxation			
Advance Corporation Tax paid		(19.0)	(19.0)
Investing activities			
Purchase of tangible fixed assets		(348.3)	(288.8)
Investment in infrastructure renewals		(23.8)	(15.4)
Grants and contributions received		30.4	33.1
Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	28(b)	(19.0)	(27.3)
Sale of fixed assets		3.3	4.1
Investment in associated undertakings		(1.2)	—
Investment in other participating interests		(1.7)	(1.2)
Decrease/(increase) in short term deposits	28(c)	8.0	(15.0)
Net cash outflow from investing activities		(352.3)	(310.5)
Net cash outflow before financing		(111.0)	(93.2)
Financing			
Issue of 6½% Fixed Rate Bond 1998		62.0	—
Loans from the European Investment Bank		10.0	25.0
Other long term loans		—	20.0
Amounts received under finance lease arrangements		21.8	55.3
Repayments of amounts borrowed		(2.8)	(5.3)
Capital element of finance lease rental payments		(2.0)	(0.8)
Issue of warrants		8.8	—
New share capital subscribed		1.6	1.2
Net cash inflow from financing	28(d)	99.4	95.4
(Decrease)/increase in cash and cash equivalents	28(c)	(11.6)	2.2

The notes on pages 36 to 52 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

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

a. Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the Company and all of its subsidiaries to 31 March. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The treatment of a company as an associated undertaking has regard to the Group's holding of at least 20% of the equity capital, representation on its board of directors and participation in policy making, including dividend policy. The Group's share of the profits or losses of these companies is included in the profit and loss account and the investments are included in the balance sheet at the Group's share of the net tangible assets of the companies.

b. Goodwill

On the acquisition of a subsidiary undertaking, fair values are attributed to the net assets acquired. Goodwill, which represents the difference between the purchase consideration and the fair values, is taken to reserves.

c. Turnover

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

d. Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as an addition and included at cost. Investment expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets, in accordance with the operational policies and standards underlying Anglian Water Services Limited's asset management plan. The timing of the investment programme and other operational considerations result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account therefore comprise actual expenditure together with accruals which recognise planned expenditure identified in the asset management plan.

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

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

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

e. Grants and contributions

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act. Grants and contributions to capital expenditure on infrastructure assets are deducted from the cost of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true and fair view since, as explained above, infrastructure

e. Grants and contributions (continued)

assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 13. Other grants and contributions are credited to the profit and loss account in the year to which they apply.

f. Leased assets

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

g. Investments

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

h. Stocks and work in progress

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

i. 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.

j. Pension costs

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

k. Research and development

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

l. Foreign currencies

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

m. Deferred taxation

Tax deferred as a result of timing differences is only provided for to the extent that there is a reasonable probability that such deferred taxation will be payable in the foreseeable future. Provision is made for potential taxation liabilities which could arise on the remittance of retained overseas earnings only to the extent that there is currently an intention to remit such earnings.

Notes to the Financial Statements

2. Segmental analysis	Turnover		Operating profit		Net operating assets	
	1994 £m	1993 £m	1994 £m	1993 £m	1994 £m	1993 £m
By class of business						
Water supply and sewerage services	594.5	561.1	171.8	216.2	1,998.7	1,827.3
Process engineering	97.0	23.5	2.3	(3.2)	(2.1)	(12.4)
International	0.4	0.2	(1.5)	(0.6)	3.1	1.4
Other	5.0	5.4	(4.3)	(0.6)	0.5	6.4
Less intersegment trading	(9.0)	(7.0)	(0.6)	(0.2)	-	-
	687.9	583.2	167.7	211.6	2,000.2	1,822.7
By geographical origin						
United Kingdom	640.0	579.8	167.2	212.0	1,997.9	1,826.0
Other	47.9	3.4	0.5	(0.4)	2.3	(3.3)
	687.9	583.2	167.7	211.6	2,000.2	1,822.7

Other turnover arises principally in Europe. Turnover by destination is not significantly different from turnover by origin. Net operating assets are shown before deduction of net debt, dividends payable and advance corporation tax of £587.4m (1993 - £453.7m). The acquisitions during the year described in note 15 relate to the process engineering segment. These businesses contributed £3.4m to net operating assets but their contributions to turnover and operating profit were immaterial. Process engineering and International operations have been analysed as separate business segments this year to reflect their increasing significance within the Group. Prior period figures have been restated accordingly.

3. Operating costs	Before exceptional restructuring charge 1994 £m	Exceptional restructuring charge (note 5) 1994 £m	Total 1994 £m	1993 £m
	Raw materials and consumables	88.8	-	88.8
Other external charges	185.5	14.3	199.8	163.3
Staff costs (see note 10)	127.3	45.7	173.0	108.4
Change in stocks of finished goods and work in progress	3.5	-	3.5	(0.7)
Own work capitalised	(47.2)	-	(47.2)	(38.8)
	357.9	60.0	417.9	276.6
Depreciation of tangible fixed assets	68.6	-	68.6	58.3
Amortisation of deferred grants and contributions	(1.0)	-	(1.8)	(1.2)
Infrastructure renewals	35.5	-	35.5	37.9
	460.0	60.0	520.2	371.6

4. Operating profit	1994 £m	1993 £m
Operating profit is stated after charging/(crediting):		
Share of losses of associated undertakings	1.1	0.2
Hire of plant and machinery	1.9	1.2
Other operating lease costs	2.0	1.0
Research and development expenditure	4.1	2.6
Grants and contributions	(0.4)	(0.4)
Closure costs of terminated businesses (including goodwill of £0.6m)	1.5	—
Fees paid to auditors:		
for audit work	0.4	0.5
for other work (including £0.1 m overseas (1993 – £0.2m))	0.3	0.7
Included above are fees of £nil m charged to cost of investments (1993 – £0.4m)		

5. Exceptional restructuring charge	1994 £m	1993 £m
Provision for restructuring of the water and sewerage business:		
Severance and other reorganisation costs	60.0	—

6. Interest payable (net)	1994 £m	1993 £m
Overdrafts and other loans repayable wholly within five years	5.7	2.1
Long term loans (any part repayable after five years)	34.2	37.4
Finance leases	5.6	5.3
	45.5	44.8
Interest receivable	(8.4)	(15.3)
	37.1	29.5

Interest payable on long term loans includes the indexation element of the Index Linked Loan Stock (see note 19).

7. Taxation	1994 £m	1993 £m
Advance corporation tax	16.9	19.0

Taxation allowances on capital expenditure are sufficient to ensure that no UK mainstream corporation tax liability arises and consequently advance corporation tax for the year is written off. No provision for deferred taxation is required for the year ended 31 March 1994 (see note 22).

8. Dividends	1994 £m	1993 £m
Interim dividend 7.3p (1993 – 6.8p) per ordinary share	21.6	20.1
Proposed final dividend 15.5p (1993 – 14.3p) per ordinary share	45.9	42.2
	67.5	62.3

Notes to the Financial Statements

9. Earnings per share

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation of £115.3m (1993 – £166.4m) by 295.9m (1993 – 295.2m) being the weighted average number of ordinary shares in issue during the year. Earnings per ordinary share in 1994 would have been 20.2p higher if calculated before the exceptional restructuring charge. On a nil distribution basis earnings per ordinary share is 44.7p (1993 – 62.8p). Earnings per ordinary share is not materially affected if calculated on a fully diluted basis.

	Before exceptional restructuring charge 1994 £m	Exceptional restructuring charge 1994 £m	Total 1994 £m	1993 £m
10. Employee information				
Staff costs:				
Wages and salaries	105.7	20.5	126.2	91.2
Social security costs	10.4	–	10.4	7.1
Other pension costs (see note 26)	10.2	25.2	35.4	9.1
Employee profit share (see note 24)	1.0	–	1.0	1.0
	127.3	45.7	173.0	108.4

Average number of full time equivalent persons employed:	1994	1993
Water and sewerage services	5,180	5,147
Process engineering	729	289
International	10	5
Other	112	110
	6,031	5,551

The numbers include 414 full time equivalent persons employed outside the UK (1993 – 25).

11. Directors' emoluments

Executive directors' remuneration represents salary plus a bonus based on the performance of the Group in meeting investment objectives, quality standards, levels of service and financial targets. The basis of remuneration is set by a Remuneration Committee, comprising the non-executive directors of the Company, after taking independent specialist advice. The combined emoluments of the directors of Anglian Water Plc for their services as directors of the Company and its subsidiaries are set out below.

	1994 £000	1993 £000
Fees	94	113
Contributions to pension schemes	111	114
Bonuses	61	72
Other emoluments	581	567
	847	866
Pension to a former director	6	4
Compensation to a former director in respect of early retirement from executive office	210	107
	1,063	977
The emoluments of the chairman were:		
Salary and benefits in kind	101	101
Pension contributions	35	35
The emoluments of the highest paid director (Mr A F Smith) were:		
Salary and benefits in kind	144	139
Bonus	25	24
	169	163
Pension contributions	18	17

11. Directors' emoluments (continued)

The chairman did not receive a bonus in either year. Included within the compensation to a former director in 1994 was a payment of £180,000 to the executive pension scheme in accordance with the rules of that scheme (1993 – compensation to a former director included a car valued at £10,300). Included within fees are amounts totalling £30,000 paid to third parties for making available the services of three of the non-executive directors (1993 – £14,000 for one non-executive director).

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

	No. of Directors			No. of Directors	
	1994	1993		1994	1993
£5,001 – £10,000	2	1	£100,001 – £105,000	1	1
£10,001 – £15,000	–	1	£115,001 – £120,000	–	1
£15,001 – £20,000	5	6	£120,001 – £125,000	–	1
£35,001 – £40,000	–	1	£125,001 – £130,000	1	–
£70,001 – £75,000	2	–	£160,001 – £165,000	–	1
£90,001 – £95,000	–	1	£165,001 – £170,000	1	–
£95,001 – £100,000	1	–			

Details of share options granted to directors are shown in the directors' report on pages 30 and 31.

12. Profit of parent company

Anglian Water Plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the profit for the financial year dealt with in the accounts of the parent company is £64.1m (1993 – £52.8m). 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.

13. Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
The Group					
Cost					
At 31 March 1993	47.5	869.4	1,344.3	151.8	2,413.0
New subsidiaries	–	–	–	4.3	4.3
Additions	2.9	98.6	204.2	40.0	345.7
Disposals	(0.3)	–	–	(12.3)	(12.6)
At 31 March 1994	50.1	968.0	1,548.5	183.8	2,750.4
Grants and contributions					
At 31 March 1993	–	47.1	–	–	47.1
Additions	–	17.9	–	–	17.9
At 31 March 1994	–	65.0	–	–	65.0
Depreciation					
At 31 March 1993	7.6	–	230.3	78.4	316.3
New subsidiaries	–	–	–	2.7	2.7
Charge for the year	1.1	–	42.6	24.9	68.6
Disposals	–	–	–	(10.9)	(10.9)
At 31 March 1994	8.7	–	272.9	95.1	376.7
Net book amount					
At 31 March 1994	41.4	903.0	1,275.6	88.7	2,308.7
At 31 March 1993	39.9	822.3	1,114.0	73.4	2,049.6

Notes to the Financial Statements

13. Tangible fixed assets (continued)

Tangible fixed assets of the Group at 31 March 1994 include £382.7m of assets in the course of construction (1993 – £278.2m) and also include land £8.6m (1993 – £8.2m) which is not subject to depreciation. The Group's interests in land and buildings are almost entirely freehold. In accordance with the Group's accounting policy there is no provision for depreciation on infrastructure assets and the related grants and contributions are not amortised.

The net book value of the Group's tangible fixed assets held under finance leases at 31 March 1994 was £113.4m (1993 – £94.9m).

Depreciation charged on assets held under finance leases during the year ended 31 March 1994 amounted to £3.3m (1993 – £2.4m).

	Freehold land and buildings £m	Vehicles, plant and equipment £m	Total £m
The Company			
Cost			
At 31 March 1993	0.9	2.8	3.7
Additions	0.3	4.1	4.4
Transfer from/(to) subsidiaries	0.2	(6.5)	(6.3)
Disposals	–	(0.3)	(0.3)
At 31 March 1994	1.4	0.1	1.5
Depreciation			
At 31 March 1993	–	0.9	0.9
Charge for the year	0.1	0.6	0.7
Transfer to subsidiaries	–	(1.3)	(1.3)
Disposals	–	(0.2)	(0.2)
At 31 March 1994	0.1	–	0.1
Net book amount			
At 31 March 1994	1.3	0.1	1.4
At 31 March 1993	0.9	1.9	2.8

Investment commitments

As described more fully in the managing director's report, the Group has a substantial long term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect the value of orders placed and expenditure specifically authorised but not placed at 31 March 1994. Figures quoted for commitments in previous years have represented the value of the 5 year capital programme agreed in principle. The directors believe that the disclosure adopted in the figures below is more reflective of the actual commitments of the Group and prior year figures have been restated accordingly.

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Contracted for but not provided in the financial statements	244.8	283.5	–	–
Authorised but not yet contracted for	325.2	346.3	–	3.3

14. Investments

The Group

Shares at cost or amount under equity method of accounting

	Associated undertakings £m	£100,000 £m	Total £m
At 31 March 1993	0.1	1.4	1.5
Additions	0.4	1.7	2.1
At 31 March 1994	0.5	3.1	3.6

Loans

At 31 March 1993	2.4	—	2.4
Net movement	0.8	—	0.8
At 31 March 1994	3.2	—	3.2

Total

At 31 March 1994	3.7	3.1	6.8
At 31 March 1993	2.5	1.4	3.9

The associated undertakings are:

	Country of Registration	Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
Grafham Carbons Limited	England	Regeneration of granular activated carbon (GAC)	40,000	£40,000	50	Ordinary £1 shares
Anglian H&G Limited	England	GAC regeneration technology	200,000	£200,000	50	Ordinary £1 shares
Gibb-Anglian Limited	England	Engineering and design consultancy	1,000	£1,000	50	Ordinary £1 shares
Exchange Technology Limited	England	Marketing nitrate removal equipment	10,000	£10,000	50	Ordinary £1 shares
Saepur SARL	France	Process engineering	4,000	FF2.0m	50	Ordinary FF500 shares
American-Anglian Environmental Technologies	USA	Waste water treatment	Partnership		50	—

These undertakings principally operate in their country of registration.

Other participating interests include the Group's investment in Aguas Argentinas, a consortium which operates the water and sewerage system in Buenos Aires, Argentina.

Notes to the Financial Statements

14. Investments (continued)

The Company

Investment in subsidiary undertakings

Shares

	1993 £m	1994 £m	1993 £m
At 31 March 1993	866.2	(5.8)	860.4
Additions	0.6	-	0.6
At 31 March 1994	866.8	(5.8)	861.0

Loans

At 31 March 1993	265.1	-	265.1
Net movement during the year	31.4	-	31.4
At 31 March 1994	296.5	-	296.5

Total

At 31 March 1994	1,163.3	(5.8)	1,157.5
At 31 March 1993	1,131.3	(5.8)	1,125.5

The principal subsidiary undertakings of the Group are listed in note 29 on page 52.

15. Acquisitions

On 31 March 1994 the Group acquired 100% of the issued share capital of Fluid Systems Corporation of San Diego, California, for US \$27.0 million, payable in cash. Details of net assets acquired and goodwill written off to reserves in respect of this purchase, and one small further acquisition, are as follows:

	Fluid Systems £m	Other £m	Total £m
Consideration and related costs	18.2	0.3	18.5
Fair value of net assets acquired	2.4	0.1	2.5
Goodwill written off	15.8	0.2	16.0

	Book value prior to acquisition £m	Alignment of accounting policies £m	Reorganisation costs £m	Fair value of assets to Anglian Water £m
Fixed tangible assets	1.6	-	-	1.6
Stocks	2.9	(0.4)	-	2.5
Debtors	2.3	-	-	2.3
Creditors	(2.9)	(0.3)	-	(3.2)
Provisions	-	-	(0.7)	(0.7)
	3.9	(0.7)	(0.7)	2.5

In the period from 1 January 1994 to the date of acquisition Fluid Systems' loss before tax was approximately US\$0.7m. The directors do not consider that this reflects the ongoing, underlying performance of the business. In the year to 31 December 1993 the company made profits before tax of US\$2.3m on a turnover of US\$18.6m.

The acquisitions were accounted for by the acquisition method. No businesses were disposed of during the year.

16. Stocks	Group	
	1994 £m	1993 £m
Work in progress	2.2	5.4
Payments on account	(0.4)	(4.7)
	1.8	0.7
Raw materials and consumables	10.2	10.2
	12.0	10.9

The current replacement cost of stocks does not materially exceed the historical costs stated above. There were no stocks in the Company.

17. Debtors	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Amounts falling due within one year				
Trade debtors	92.4	93.7	-	-
Amounts recoverable on contracts	2.1	4.1	-	-
Amounts owed by subsidiary undertakings	-	-	59.9	56.9
Other debtors	21.3	14.2	-	0.7
Prepayments and accrued income	7.6	8.0	2.2	3.7
	123.4	120.0	62.1	61.3
Amounts falling due after more than one year				
Trade debtors	0.8	0.3	-	-
Other debtors	-	0.2	-	-
	124.2	120.5	62.1	61.3

18. Creditors: amounts falling due within one year	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Bank loans, overdrafts and temporary borrowings	16.2	8.1	100.4	210.5
Current portion of long term loans	0.8	1.0	0.4	0.4
Obligations under finance leases	0.1	0.8	-	-
Short term borrowings	17.1	9.9	100.8	210.9
Trade creditors	134.9	128.2	0.5	5.4
Payments on account in excess of contract value	9.3	13.1	-	-
Amounts owed to subsidiary undertakings	-	-	-	1.3
Receipts in advance	43.9	45.1	-	-
Advance corporation tax	16.9	19.0	16.9	19.0
Other taxation and social security	6.4	7.0	0.8	0.9
Accruals and deferred income	19.2	14.1	7.6	5.3
Proposed dividends	67.5	42.2	67.5	42.2
Other creditors	298.1	268.7	93.3	74.1

The temporary borrowings of the Company include £100.0m (1993 - £210.0m) owed to a subsidiary undertaking.

Notes to the Financial Statements

19. Loans and other borrowings falling due after more than one year	1994		1993	
	£m	£m	£m	£m
Repayable wholly after five years				
5½% Index Linked Loan Stock 2003 (a)	118.7	117.1	118.7	117.1
12% Fixed Rate Bond 2014	100.0	100.0	100.0	100.0
European Investment Bank 1999	25.0	25.0	–	–
European Investment Bank 2003	10.0	–	–	–
Other	–	0.3	–	–
Repayable by instalments, any of which is due for repayment after five years				
European Investment Bank 1995/2007 (interest in the range 6.75 – 11.5%)	105.0	105.0	–	–
Finance leases (b)	120.9	100.3	–	–
Other borrowings	24.9	26.5	–	–
Repayable wholly within five years				
6½% Fixed Rate Bond 1998 (c)	62.3	–	62.3	–
Other loans	21.4	22.2	21.2	21.6
Finance leases (b)	0.1	1.0	–	–
Total loans and other borrowings	588.3	497.4	302.2	238.7
Less amounts included in creditors falling due within one year	(0.9)	(1.8)	(0.4)	(0.4)
	587.4	495.6	301.8	238.3
Due for repayment as follows:				
Between one and two years	2.0	1.1	0.4	0.4
Between two and five years	114.2	40.1	62.7	20.8
After five years	471.2	454.4	218.7	217.1
	587.4	495.6	301.8	238.3

(a) The value of the capital and interest elements of the Index Linked Loan Stock are linked to movements in the Retail Price Index. The increase in the capital value during the year of £1.6m (1993 – £4.2m) has been taken to the profit and loss account as part of interest payable.

(b) Amounts due under finance leases include £3.7m (1993 – £0.2m) payable between one and five years and £117.2m (1993 – £100.3m) payable after five years.

(c) The Fixed Rate Bond was issued in conjunction with the warrants described in the directors' report. The net proceeds of the issue were used to refinance in full the 1993 acquisition of the Nordic Water companies, and for general corporate purposes.

(d) Of the unspecified loans and other borrowings £21.4m (1993 – £21.4m) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £1.4m (1993 – £1.4m) secured on the revenues of a subsidiary undertaking.

20. Other creditors falling due after more than one year	Group	
	1994 £m	1993 £m
Trade creditors	4.7	2.9
Receipts in advance	4.3	4.8
Accruals and deferred income	1.8	0.8
Deferred grants and contributions	55.6	40.1
	66.4	48.6

There were no other creditors falling due after more than one year in the Company.

21. Provisions for liabilities and charges	Infrastructure renewals £m	Restructuring costs £m	Acquisition provisions £m	Total £m
The Group				
At 31 March 1993	102.2	2.4	1.5	106.1
Charge for the year	35.5	60.0	-	95.5
Utilised in the year	(26.3)	(3.2)	(1.4)	(30.9)
On acquisition of new businesses	-	-	0.7	0.7
At 31 March 1994	111.4	59.2	0.8	171.4
The Company				
At 31 March 1993	-	0.6	-	0.6
Utilised in the year	-	(0.6)	-	(0.6)
At 31 March 1994	-	-	-	-

At 31 March 1994 acquisition provisions relate to relocation costs.

22. Deferred taxation

In accordance with the Group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1994. The Group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 33%, is:

	1994 £m	1993 £m
Accelerated capital allowances	140.5	130.8
Other timing differences	(64.2)	(40.4)
Available tax losses	(19.3)	(55.0)
Advance corporation tax	(34.5)	(21.5)
	22.5	13.9

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £8.6m (1993 - £10.9m).

In addition to the amounts set out in the table above, there is advance corporation tax of £47.6m (1993 - £43.7m) which will be available to set against the Group's liability on taxable profits arising in future periods.

As Infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of a disposal of such assets at amounts in excess of their tax written down value. In the opinion of the directors, the likelihood of a liability crystallising in the foreseeable future is remote. Accelerated capital allowances on infrastructure assets of £172.9m (1993 - £153.0m) have therefore been excluded from the amounts set out above, assuming a tax rate of 33%.

Notes to the Financial Statements

23. Commitments under operating leases	Land and buildings £m	Other £m
At 31 March 1994 the Group had commitments to make payments during the next twelve months under non-cancellable operating leases which expire as follows:		
The Group		
Within one year	0.2	0.2
Between one and five years	0.1	0.8
After five years	1.6	-
	1.9	1.0

There were no such commitments by the Company.

24. Share capital of Anglian Water Plc	1994 £m	1993 £m
Authorised		
Ordinary shares of £1 each	400.0	400.0
Special rights redeemable preference share of £1 (the "Special Share")	-	-
	400.0	400.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	296.2	295.5
Special Share	-	-
	296.2	295.5

In August 1993 330,317 fully paid ordinary shares were allotted at an average price of £4.86 to Anglian Water Share Scheme Trustees Limited under an employee profit share scheme, thereby giving rise to a share premium of £1.3m. The total cash consideration amounted to £0.6m with an additional £1.0m charged to profit and loss account.

During the year 281,780 options were exercised under the Executive Share Option Scheme at an average price of £3.26, giving rise to a share premium of £0.6m and 36,561 options were exercised under the Sharesave Scheme at an average price of £2.28, giving rise to a share premium of £nil m.

The Special Shareholder may require the Company to redeem the Special Share at par at any time prior to 31 December 1994 and, unless so redeemed, the Special Share will be redeemed by the Company on 31 December 1994. The Special Share offers no rights to participate in the capital or profits of the Company nor to vote at general meetings; however, the Special Shareholder is entitled to repayment in preference to other shareholders and to attend and speak at the general meetings. Certain matters require the prior written consent of the Special Shareholder.

The Company's Articles of Association prohibit a person from owning or controlling directly or indirectly the right to cast 15% or more of the votes on a poll at general meetings of the Company during the period to 31 December 1994 or the date of redemption of the Special Share if earlier.

Details of outstanding options and warrants are shown in the directors' report on pages 29 and 30.

23. Movement in shareholders' funds	Share capital £m	Share premium account £m	Profit and loss account £m	Other reserves £m	1994 Total £m	1993 Total £m
The Group						
At beginning of year	295.5	2.1	1,071.4	-	1,369.0	1,308.7
Total recognised gains relating to the year	-	-	115.3	-	115.3	166.2
Dividends	-	-	(67.5)	-	(67.5)	(62.3)
Goodwill written back on terminated businesses	-	-	0.6	-	0.6	-
Goodwill written off (see note 15)	-	-	(16.0)	-	(16.0)	(45.8)
New share capital subscribed (see note 24)	0.7	1.9	-	-	2.6	2.2
New warrants issued	-	-	-	8.8	8.8	-
At end of year	296.2	4.0	1,103.8	8.8	1,412.8	1,369.0
The Company						
At beginning of year	295.5	2.1	558.5	-	856.1	863.4
Profit for the financial year	-	-	64.1	-	64.1	52.8
Dividends	-	-	(67.5)	-	(67.5)	(62.3)
New share capital subscribed (see note 24)	0.7	1.9	-	-	2.6	2.2
New warrants issued	-	-	-	8.8	8.8	-
At end of year	296.2	4.0	555.1	8.8	864.1	856.1

The cumulative goodwill taken to reserves, net of goodwill relating to undertakings disposed of, as at 31 March 1994 amounts to £66.8m.

New warrants were issued during the year in conjunction with the 6½% Fixed Rate Bond 1998 (note 19).

Notes to the Financial Statements

26. Pension commitments

Pension arrangements for the majority of the Group's UK employees are of the defined benefit type, through Anglian Water Mirror Image Pension Scheme ("AWMIS") and Anglian Water Pension Scheme ("AWPS"). In addition, a number of other schemes of both the defined benefit and defined contribution type operate in the UK and overseas.

The administration and investment of the pension funds are maintained independently from the finances of the Group.

Details of the latest actuarial valuations of the two principal schemes are summarised below.

	AWMIS	AWPS
Date of valuation	31 March 1993	31 March 1992
Actuarial method	Attained age	Projected unit
Main assumptions		
Excess of investment returns over:		
- general salary increases	2.5%	2.0%
- dividend growth	4.5%	4.5%
- annual increases in pensions	4.5%	4.0%
Results		
Market value of assets	£164.2m	£23.0m
Funding level	101%	101%

The pensions charge for the year ended 31 March 1994, before exceptional restructuring charge, was £10.2m (1993 - £9.1m). The Company has a commitment to a former director to pay a pension of £5,564 per annum, adjusted by the annual increase in the retail price index.

27. Contingent liabilities

The Company has guaranteed the overdrafts of a number of subsidiaries amounting to £66.8m at 31 March 1994 (1993 - £95.8m).

28. Notes to the Group cash flow statement

a) Reconciliation of operating profit to net cash inflow from operating activities	1994 £m	1993 £m
Operating profit	167.7	211.6
Depreciation (net of amortisation of deferred grants and contributions)	66.8	57.1
Provision for infrastructure renewals	35.5	37.9
Net movements on other provisions	55.4	(3.7)
Goodwill written back on terminated businesses	0.6	-
Employee profit share	1.0	1.0
	327.0	303.9
(Increase)/decrease in working capital:		
Stocks	1.4	(1.2)
Debtors	(1.6)	(11.7)
Creditors	9.0	25.8
	8.8	12.9
Net cash inflow from operating activities	335.8	316.8

28. Notes to the Group cash flow statement (continued)

b) Purchase of subsidiary undertakings	1994 £m	1993 £m
Fair value of net assets/(liabilities) acquired (see note 15)	2.5	(1.5)
Goodwill	16.0	45.8
Consideration	18.5	44.3
Deferred payments relating to 1993 acquisition	0.5	(0.9)
Satisfied in cash	19.0	43.4
Cash acquired	-	(17.3)
Bank overdrafts of subsidiaries acquired	-	1.2
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	19.0	27.3

The subsidiary undertakings acquired during the year absorbed £nil m (1993 - £1.9m) of the Group's net operating cash flows, and utilised £nil m (1993 - £0.4m) for investing activities.

c) Analysis of cash and cash equivalents as shown in the balance sheet	1994 £m	1993 £m	Change in year	
			1994 £m	1993 £m
Cash and deposits	29.5	33.0	(3.5)	(1.0)
Bank loans, overdrafts and temporary borrowings	(16.2)	(8.1)	(8.1)	3.2
	13.3	24.9	(11.6)	2.2

Cash and deposits includes only investments which were within three months of maturity when acquired. At 31 March 1994 the Group also held deposits of £72.0m (1993 - £80.0m) which were more than three months but less than one year from maturity when acquired.

d) Analysis of changes in financing during the year	Loans and other borrowings		Share capital, share premium and other reserves	
	1994 £m	1993 £m	1994 £m	1993 £m
At beginning of period	497.4	391.5	297.6	295.4
Cash inflow from financing	89.0	94.2	10.4	1.2
Debt acquired through acquisitions	-	3.5	-	-
Indexation of loan stock	1.6	4.2	-	-
Amortisation of discount and expenses relating to debt issue	0.3	-	-	-
Deferred finance charges on finance lease arrangements	-	4.0	-	-
Employee profit share scheme	-	-	1.0	1.0
At end of period	588.3	497.4	309.0	297.6

Notes to the Financial Statements

29. Principal group companies

The principal subsidiary undertakings at 31 March 1994 are shown below

	Country of incorporation	Activities
Water and sewerage services		
Anglian Water Services Limited*	England	Water and sewerage undertaker, regulated principally by the Water Industry Act 1991
Anglian Water Engineering and Business Systems Limited*	England	Engineering, computing and business services. Its activities, assets and liabilities were transferred to Anglian Water Services Limited on 31 March 1994.
Process engineering		
Anglian Water Processes Limited*	England	Holding company
Purac Engineering Inc.	USA	Contracting for water and sewerage treatment processes.
Purac Industry AB	Sweden	
Purac Leuna GmbH	Germany	
Purac Nordic AB	Sweden	
Purac Pacific Pty Limited	Australia	
Purac Rosewater Limited	England	
Purac Water Spolka Z.o.o.	Poland	
Aquafine Engineering Services Limited	England	Water treatment products
Axel Johnson Engineering GmbH	Germany	
Fluid Systems Corporation Inc.	USA	
Nordic Water Products AB	Sweden	
Nordic Water Products Limited	England	
Noxon AB	Sweden	
Rocon Systems Limited	England	
Zickert Products AB	Sweden	
Other group companies		
Alpheus Environmental Limited*	England	Waste water treatment
Anglian Water International Limited*	England	Engineering consultancy services
Rutland Insurance Company Limited*	Guernsey	Provides insurance to Group companies

The Group also owns a number of smaller and non-trading companies. All subsidiaries are 100% owned by the Group or the Company. Companies marked with an * are owned directly by Anglian Water Plc. The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation, except for Anglian Water International Limited which operates worldwide.

Auditors' Report

Auditors' Report to the Shareholders of Anglian Water Plc

We have audited the financial statements on pages 33 to 52 which have been prepared under the historical cost convention and the accounting policies set out on pages 36 and 37.

Respective responsibilities of directors and auditors

As described on page 28, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

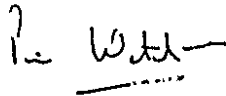
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse

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

6 June 1994

Price Waterhouse



Group Financial History

Profit and loss account	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m
Turnover					
Water supply and sewerage services	398.8	454.0	514.2	501.1	594.5
Process engineering	1.7	7.6	12.1	23.5	97.0
International	—	—	—	0.2	0.4
Other	1.6	1.1	2.6	5.4	5.0
Less intersegment trading	(0.8)	(2.1)	(5.8)	(7.0)	(9.0)
	401.3	460.6	523.1	583.2	687.9
Operating profit					
Water supply and sewerage services	154.9	170.4	195.5	216.2	171.8*
Process engineering	(0.5)	0.4	0.5	(3.2)	2.3
International	—	—	—	(0.6)	(1.5)
Other	0.3	(0.2)	(1.6)	(0.6)	(4.3)
Less intersegment trading	—	(0.2)	(0.4)	(0.2)	(0.6)
	154.7	170.4	194.0	211.6	167.7
Profit on sales of assets	0.4	0.3	0.2	3.3	1.6
Privatisation costs	(7.7)	—	—	—	—
Interest payable (net)	(69.0)	(18.1)	(22.9)	(29.5)	(37.1)
Profit on ordinary activities before taxation	78.4	152.6	171.3	185.4	132.2
Taxation	(10.0)	(17.2)	(19.0)	(19.0)	(16.9)
Profit for the financial year	68.4	135.4	152.3	166.4	115.3
Dividend per ordinary share	15.3p[§]	17.5p	19.3p	21.1p	22.8p
Earnings per ordinary share	39.5p[§]	45.9p	51.7p	56.4p	39.0p
Earnings per ordinary share before exceptional restructuring charge					59.2p
Balance sheet					
Fixed assets	1,425.1	1,596.4	1,814.3	2,053.5	2,315.5
Net current liabilities†	(66.7)	(107.8)	(82.7)	(137.3)	(161.9)
Long term liabilities	(8.9)	(22.0)	(32.2)	(48.6)	(66.4)
Provisions for liabilities and charges	(31.7)	(59.3)	(86.9)	(106.1)	(171.4)
Net borrowings	(183.4)	(194.7)	(303.8)	(392.5)	(503.0)
Shareholders' funds	1,134.4	1,212.6	1,308.7	1,369.0	1,412.8

* After an exceptional restructuring charge of £67.0m.

§ Pro-forma basis

† Excluding cash and deposits and short term borrowings

Certain of the figures shown above were restated in 1993 to reflect the requirements of Financial Reporting Standard 3 – Reporting Financial Performance. The principal change was to reclassify privatisation costs from extraordinary to ordinary activities in 1990 and recalculate earnings per ordinary share accordingly. Prior to this change, earnings per ordinary share in 1990 were 42.1p on a pro-forma basis.

Shareholder Information

Analysis of shareholdings (as at 31 March 1994)	Number of shareholders	%	Number of shares held	%
1 - 99	2,571	2.8	155,678	~
100 - 499	47,222	51.0	8,842,448	30
500 - 999	34,769	37.5	23,313,459	7.9
1,000 - 4,999	6,993	7.6	10,135,068	3.4
5,000 - 9,999	211	0.2	1,392,789	0.5
10,000 - 49,999	396	0.4	9,160,831	3.1
50,000 - 99,999	124	0.1	8,507,188	2.9
100,000 - highest	332	0.4	234,658,101	79.2
	92,618	100.0	296,165,562	100.0

Corporate bodies represent 87% of the total share capital in terms of numbers of shares held. Individuals represent 13% of the total share capital in terms of numbers of shares held.

Shareholder enquiries

Shareholders with enquiries about Anglian Water Plc or shareholder matters can contact the Shareholder Enquiry Unit Telephone 0480 443000.

Share register

The Company's share register is maintained by Lloyds Bank Plc. Shareholders requiring help or information about their shareholding may either write to The Registrar, Lloyds Bank Plc, 54 Pershore Road South, Birmingham B30 1BR or telephone 021 433 8000.

Registered office

Anglian Water Plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE18 6NZ. Telephone 0480 443000. Fax 0480 443115.

Advisers

Merchant bank

J. Henry Schroder Wagg & Co. Limited, 120 Cheapside, London EC2V 6HDS.

Auditors

Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT.

Solicitors

Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS.

Brokers

Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN.

Allied Provincial Securities Ltd, Trinity Court, Trinity Street, Peterborough PE1 1DA.

Registrars

Lloyds Bank Plc, Registrar's Department, 54 Pershore Road South, Birmingham B30 1BR.

Principal bankers

Barclays Bank Plc, 1 Market Hill, Huntingdon, Cambridgeshire PE18 6AE.

Glossary of Accounting Terms

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

Advance corporation tax (ACT)

ACT is payable whenever the Company pays a dividend to its shareholders and is available for offset against the Company's future corporation tax liabilities. Since we are not likely to be a corporation tax payer for some years, ACT in respect of the current year is written off against profits.

Associated undertaking

A company in which the Group holds at least 20% but not more than 50% of the equity capital, has representation on its board of directors and participation in policy making, including dividend policy.

Contingent liabilities

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

Deferred taxation

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

Depreciation

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

Earnings per share (EPS)

A widely used indicator of company performance, EPS represents the profit after taxation notionally attributable to each share in issue during the year.

Emoluments

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

Finance leases

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

Fixed assets

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

Index linked loan stock

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

Infrastructure renewals charge

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

Provisions

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

Reserves

Shareholders' funds, excluding share capital and share premium.

Share capital and share premium

Share capital is the "nominal" value of a company's shares (£1 each for Anglian Water Plc) multiplied by the number of shares in issue. Share premium represents any excess of proceeds received on issue over and above the nominal value of the shares issued.

Special redeemable preference share

The £1 special rights share held by HM Government. Whilst held, the shareholding of other parties is restricted to less than 15% of the Company's issued share capital. This special share must be redeemed by no later than 31 December 1994.

Subsidiary undertaking

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

Warrants

A financial instrument which confers the right to acquire shares in the Company at a fixed price over a specified period.

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