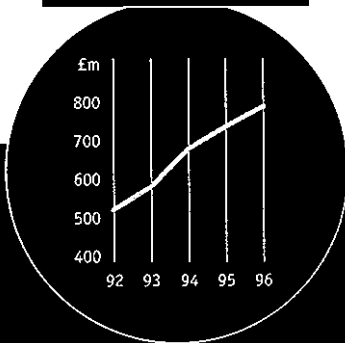


Throughout the year we have been able to deliver increased returns to our shareholders while continuing a successful programme in satisfying the needs of our customers.

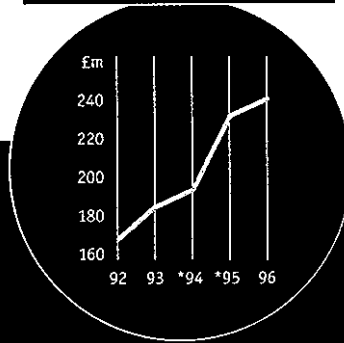


Financial Highlights

GROUP TURNOVER



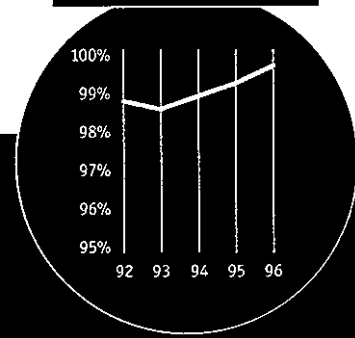
GROUP PROFIT BEFORE TAX



* before exceptional charges

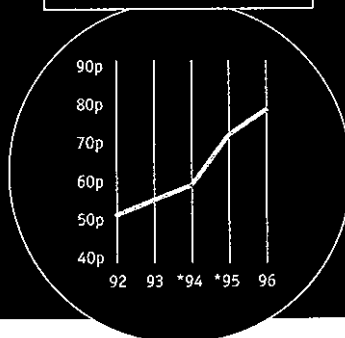
Quality Highlights

DRINKING WATER COMPLIANCE AT TAP



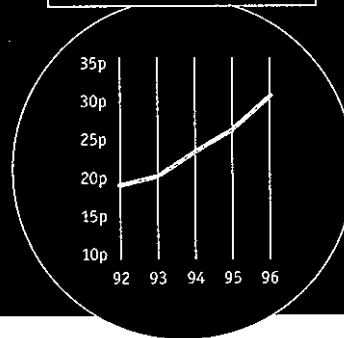
Water compliance with drinking water quality standards within public water supply zones

EARNINGS PER SHARE

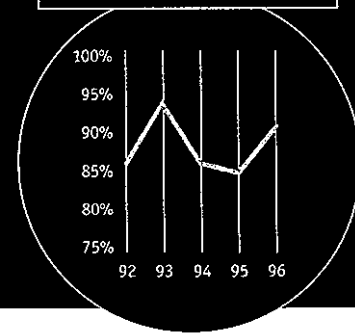


* before exceptional charges

DIVIDEND PER SHARE



BATHING WATER COMPLIANCE WITH EU DIRECTIVE



Compliance of bathing water with European Union directive

Delivering quality service in all areas of our business

REGULATED BUSINESS

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

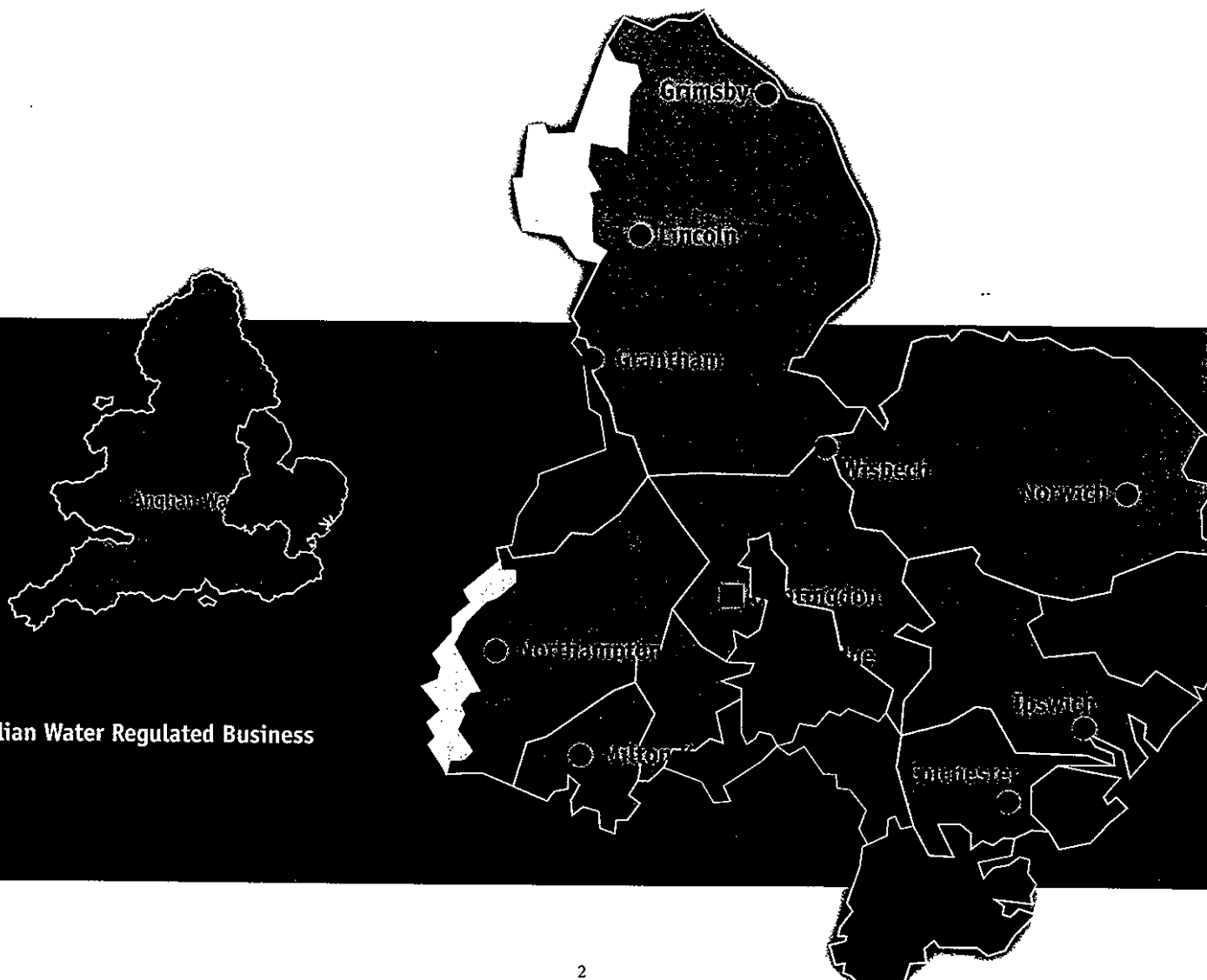
Water Services

- Population: 4.0 million
- Properties supplied: 1.7 million
- Number of water quality samples tested: 172,049
- Water treatment works: 155
- Total length of water mains: 33,500 km
- Number of new connections: 20,530
- Water supplied: 1,263 million litres (on average per day)

Sewerage Services

- Population: 5.3 million
- Properties supplied: 2.35 million
- Sewage treatment works: 1,071
- Length of sewers: 32,126 km
- Number of new connections: 24,344
- Number of sewage samples tested: 66,969 and trade effluent 21,831

Anglian Water Regulated Business

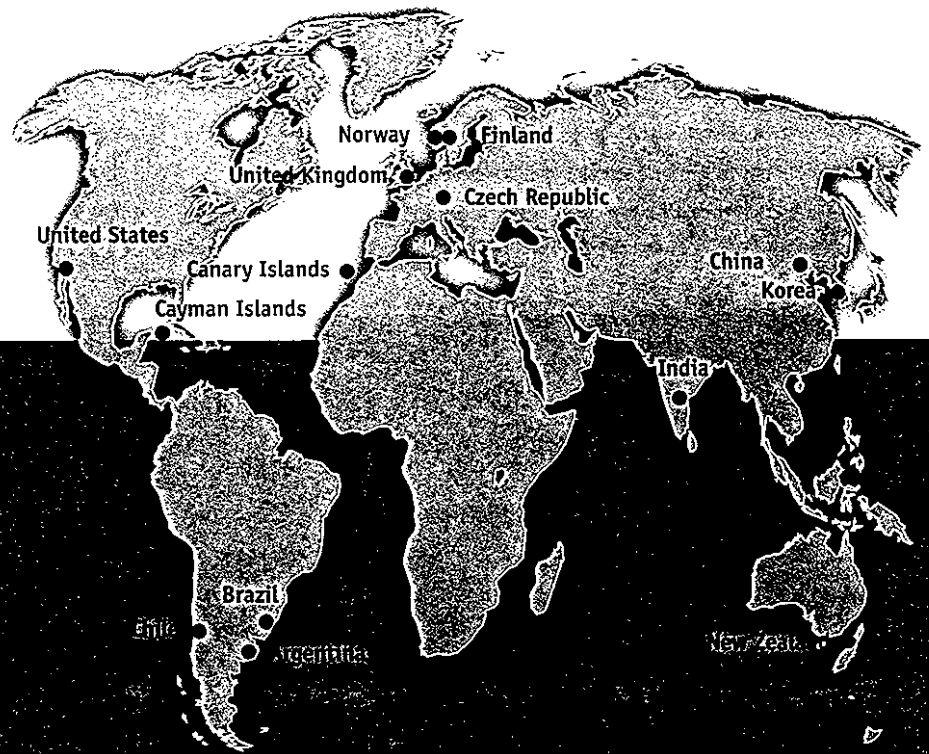


ANGLIAN WATER INTERNATIONAL
 Anglian Water's international business offers a wide range of operational, managerial, engineering and consultancy services to municipal and industrial markets around the world.

AWI provides:

- Concession services to water and waste water utilities;
- Operation and maintenance of water and waste water systems;
- Design and construction of water, sewage and industrial waste water treatment plants, using a range of advanced water treatment process

technologies. These include reverse osmosis membrane elements for desalination and high rate waste water treatment using the Kaldnes process.



- We provide water and sewerage services in these areas
- ▨ We provide water services only in these areas
- We provide sewerage services only in these areas
- Head Office
- Other Offices

Anglian Water International

We aim to deliver shareholder value by putting our customers first

The Company's achievement in maintaining supplies throughout the summer of 1995 without serious interruption or hosepipe ban was no more than our customers expected. Nevertheless the daily peaks of consumption and the long period of high demand stretched our organisation, our water networks and especially our people in a way that they have seldom been tested before.

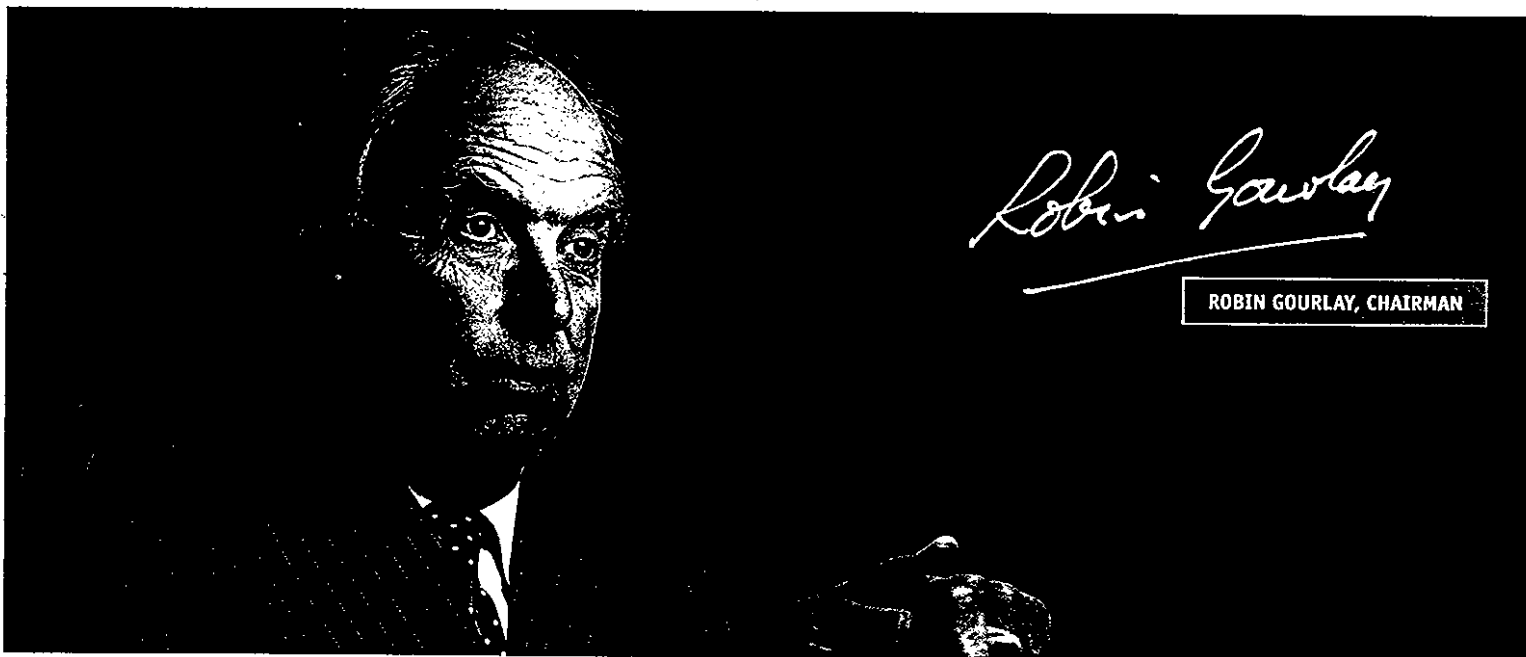
We learned a number of lessons from the experience. Over the winter we have been making additional investment in new water resources from boreholes, and in reinforcing a number of potentially weak spots in our distribution systems. But the major lesson was a reminder of the wisdom of our predecessors who built, against raging local opposition, Rutland Water and Grafham Water, and of the good sense in more recent years of our capital maintenance programme which, among other benefits, has given Anglian Water a leakage rate which is one of the lowest in the industry.

Our policy of promoting domestic metering, which is now being adopted by other large water companies,

has also stood us and our customers in good stead, given the obvious incentive for metered customers to use water efficiently and to minimise waste.

Our forecasts of long term demand for water in our region indicate a need for investment in additional water resources in the first two decades of the next century. Since underground water is already being tapped at close to maximum levels, we are talking about a new reservoir, with a very long lead time for planning and construction. The Environment Agency has already made it clear that support for such an application from the Company will be given only if a significant proportion of our customers are metered at that time. This requirement gives us an added incentive to maintain our policy of progressive metering through persuasion.

We have continued with our efforts to create a source of long term overseas earnings. Our strategy is specifically to do in other countries what we do in the UK: the design and construction of clean and waste water systems and their operational management. We have had some success, but progress has not been as fast as we wished. Competition, notwithstanding



the small number of competitors, is intense, and the timing of contracts unpredictable. Investment has been, and will continue to be, directed at a few key markets where we anticipate winning new contracts in the coming years. Our intention to create a profitable overseas business will lead, in my view, to the creation of worthwhile long term value for our shareholders.

My aim is that Anglian Water earns a widely recognised reputation as an outstanding water utility which gives its customers excellent value and first class service, gives its employees good conditions of service, combined with opportunities for personal development, and gives its shareholders superior returns. Your Board will continue to view the interests of these groups in a balanced way, and will continue to seek opportunities for growth in the UK and overseas, using the Company's core skills.

Your Board is recommending a final dividend of 21.1 pence per share, making a total of 30.0 pence for the year. The increase reflects the Board's confidence that the Company can continue to improve on the cost and investment targets it has been set by OFWAT for the

second five year K period. We shall seek from this base to deliver significant real dividend growth in the coming years.

GREENBURY

The Board had already adopted most of the Greenbury proposals before the report was published. We have now introduced the remaining material aspects of the code. We have made changes to directors' contracts and propose to introduce performance related incentive schemes which will reward participants when specific quality and customer service standards are met and when targets for growth in shareholder value are achieved. Our Remuneration Committee is constituted precisely as recommended by Greenbury.

BOARD CHANGES

We were sad to lose the services of Dinah Nichols, a non-executive director since 1992. Her new post as Director General of Environmental Protection in the Department of the Environment includes responsibility for the water sector, and so she has resigned from the Board. We are sorry to lose her, but delighted that the UK's environmental policy is led by someone with first hand experience of the water industry.

"We have laid the foundations to deliver substantial benefits to our customers and significant dividend growth for Anglian Water shareholders."

Great strides have been made towards improved customer service, quality and efficiency

We are well on target towards implementing the most radical restructuring of the regulated business. We have put in place a stronger organisation which is highly focused on customer service and on increased efficiencies which will bring benefits to both customer and shareholder. That is not to say that the year has been without problems. Performance has reflected some growing pains and we have redoubled our efforts to address areas in which difficulties were experienced.

The Strategic Systems Review launched two years ago is just the start of an on-going process of profound change. We intend to transform Anglian Water into a utility that is regarded as one of the world's best. It is our ambition to be regarded as a benchmark for efficiency and customer service.

The six years since privatisation have brought great benefits to the water industry in general and to Anglian Water in particular. We have been able to fund a capital programme of £1.8 billion to upgrade

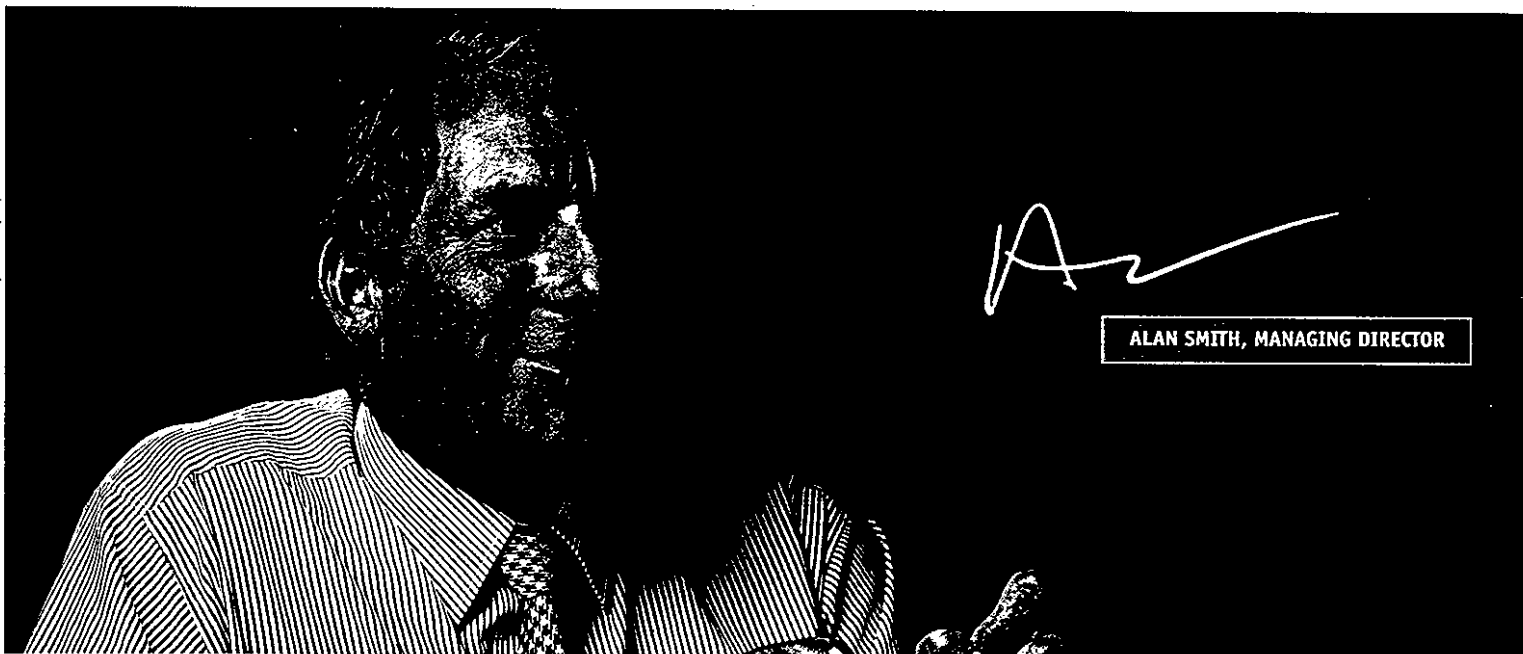
the water supply and waste water infrastructure after decades of neglect. We intend to continue to outperform OFWAT's challenging efficiency targets. As well as providing continuing value for shareholders, this will benefit customers by providing lower price rises in future.

We have changed the organisation's culture from one of providing a public sector service to one putting the needs of the customer first, while providing excellent returns for the shareholder.

The amount of money dedicated to training and development has doubled. We regard this as the best investment we could make on behalf of customers and shareholders. It has a hard commercial logic as it will generate a better performance, not only from individuals, but from the Company as a whole. Our staff are a critical resource and we are maximising the personal development of all our employees by unlocking latent talent, in order to create a highly motivated workforce.

QUALITY IMPROVEMENTS

We had further successes in improving drinking water and bathing water quality standards during the year.



However, there was a slight deterioration in the performance of some of our sewage treatment works. We take this situation very seriously and are making every effort to ensure better performance in future.

We have virtually completed the major improvement programmes for drinking water and sewage treatment launched at privatisation. Attention has now turned to improving the water distribution system, finishing the bathing water improvement schemes, and completing the urban waste water treatment programme. We are well on schedule and within budget with all this work. We are also improving the quality of our service by increasing the range of payment options and by tailoring tariffs more to the needs of our commercial customers.

INTERNATIONAL STRATEGY

During the year we reorganised our non-core companies into a single integrated structure, Anglian Water International, to allow us to build a strong presence in key markets around the world. It will take time to develop our international business and deliver

satisfactory returns, but we believe our current strategy is the correct one. In 1995/96 we faced very tough trading conditions and had a disappointing performance. This was widely anticipated and underscores the fundamental importance of a long term vision in the international marketplace.

We are investing £6 million a year to establish ourselves in new markets and we are seeking to move gradually away from cyclical process engineering towards higher margin and more stable operating contracts. Last year was a difficult one in process engineering, but the order book so far this year is much more promising.

OUTLOOK

I am confident that the lessons learned this year, when the drought proved the coherence of our strategy and the resilience of our systems, will lead to even better performance in future. Areas of disappointing performance provide an increased focus for our team and will be a cornerstone of our efforts in the future.

"We are building a highly responsive, customer focused organisation by promoting cultural change, investing in our people and improving our services."

Since privatisation measures of customer satisfaction have continued to improve

Anglian Water's focus on providing first class customer service, the top priority of our Strategic Systems Review, has been tested severely over the last year of climate extremes. Our systems and people have performed well.

The region, together with the rest of the country, had one of the hottest and driest summers this century which brought water demand to record levels. The Company's comprehensive experience of managing water supplies in a dry climate ensured that our customers were able to enjoy a water service without the restrictions experienced in some places in England. There were few supply interruptions and no hosepipe bans.

The winter brought its own difficulties with heavy snowfalls and extremely low temperatures followed by a rapid thaw. The combination created ground movements that caused a threefold increase in burst mains.

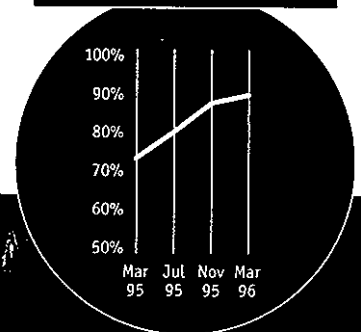
Although many customers suffered frozen pipes and leaks, the impact of these problems was minimised by the prompt action and advice of our employees.

All aspects of customer service are now grouped together in a single team, handling everything from paying bills to coping with bursts, and our staff are empowered to make decisions to ensure situations are resolved promptly. This streamlining has provided a much improved service whilst helping us to continue to reduce costs. Our ambition, to become a company renowned for its customer service, is a commitment shared by all our employees.

CUSTOMER INITIATIVES

Further research is a priority to provide a better understanding of customers' needs. A series of meetings has been held with our customer advisory panels where groups of

LEVELS OF SATISFIED CUSTOMER



"Putting the customer first is the driving force of our thinking. It has been vital to move away from the old engineering-led approach to the business and think instead about what the users of water want from us."

JOHN GARDNER, CUSTOMER SERVICES REPRESENTATIVE

eight customers are able to discuss relevant issues. Representatives of each panel have met directors to provide customer input at Board level.

The discrepancies between our levels of service and customer expectations have been examined in detail, with 3,000 customers invited through independent interviews to tell us what they want and expect. The analysis of this study has been used to focus effort towards improving our services and providing better value for money.

Investment in new technology is also enabling us to monitor customer queries more closely and to highlight aspects of our service which need improving. We are providing employees in the field with powerful computing technology, to improve the link between our service centre and our mobile teams, and to enable us to be more responsive to customer calls.

We strive to be sensitive to the needs of customers and we have made contact much easier by implementing freephone and local rate telephone services as well as a language line.

Our efforts to improve contact are not confined to the telephone. This year saw the relaunch of the WaterCare service. This is a programme of services to suit our customers with special needs. The Royal National Institute for the Blind recognised the WaterCare initiative and gave it the award for the best example of a campaign sympathetic to the needs of blind people.

As we have no high street presence, we were concerned customers might have difficulty meeting us face to face. We now have a fleet of four mobile advice centres manned by experienced staff to provide information and to offer help sessions on village



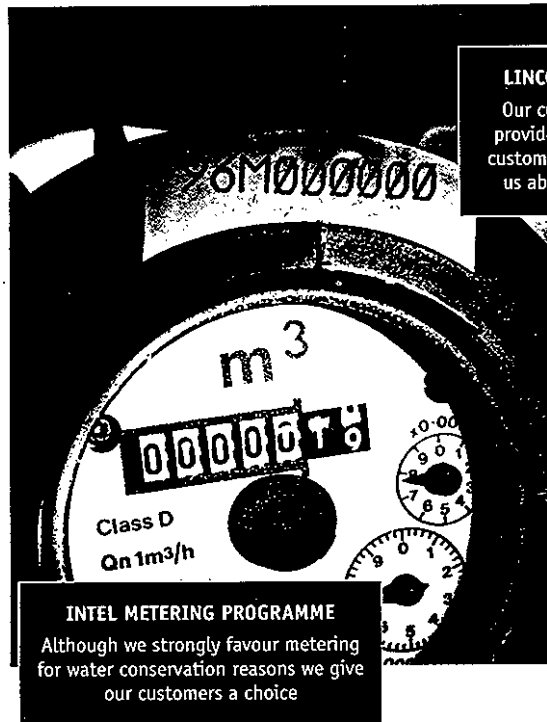
LINCOLN SERVICE CENTRE

Our customer service centre provides a 'one stop shop' for customers who need to contact us about any service matter



INTEL METERING PROGRAMME

Although we strongly favour metering for water conservation reasons we give our customers a choice



greens and in out-of-town shopping centres.

Providing a choice of payment method is a key element of our service strategy. We now offer weekly and fortnightly as well as monthly instalments and we have conducted trials to evaluate prepayment schemes to assist customers who have accumulated debt. A £2 million Water Trust Fund has been established, administered by independent trustees, to help those customers who, through no fault of their own, find themselves in arrears.

Increased personal contact with customers and the introduction of a wider range of payment options has led to a fall in disconnections from 403 in 1994/95 to 230 last year.

METERING

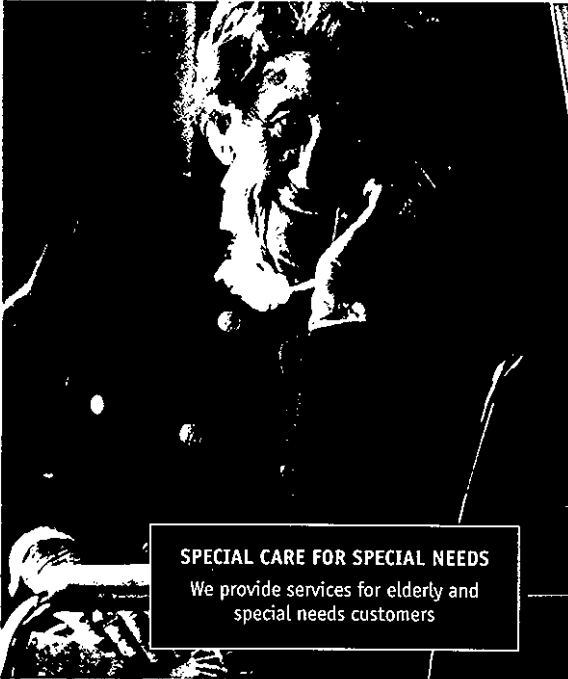
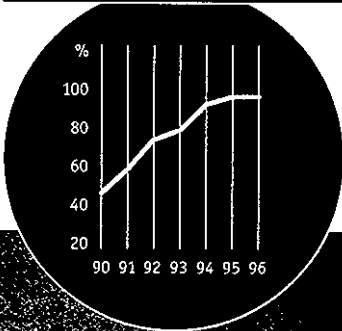
Metering remains Anglian Water's preferred system for charging and currently 200,000, or nearly 15 per cent, of our domestic customers pay by meter, by far the highest proportion in the UK water industry. Metering makes particular sense for our region, which is the driest part of the country and which is experiencing the fastest population growth. There are widespread environmental concerns at the prospect of having to develop major new water resources, and strong public support for conservation and the careful management of existing resources.

Metering encourages conservation, with metered customers typically using 15 per cent less water than

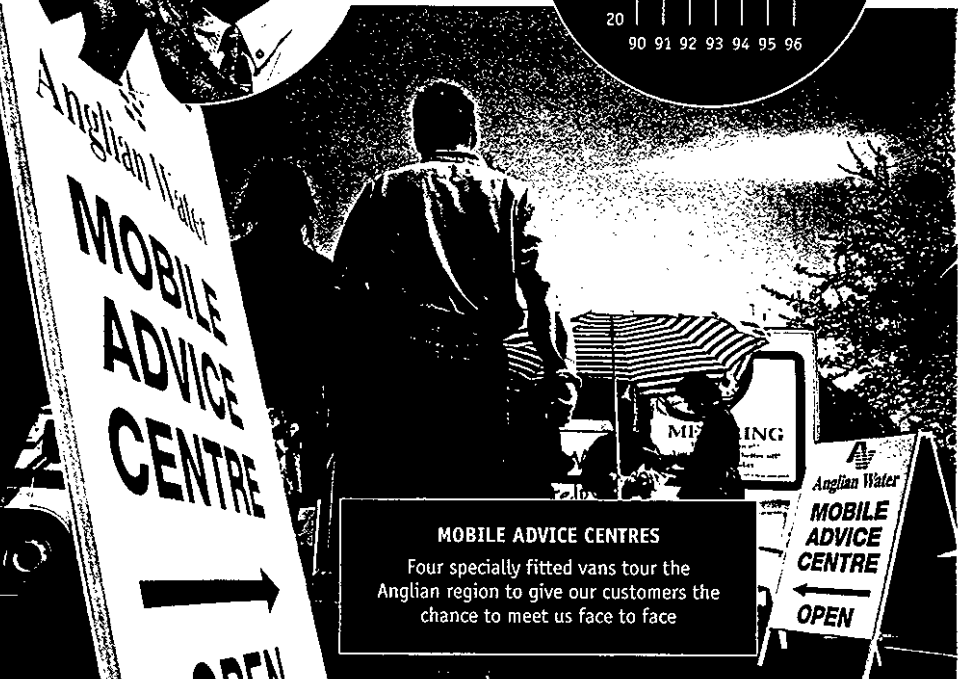
JOHN SANSBY
Customer Services Director



BILLING QUERIES DEALT WITH
WITHIN 2 WORKING DAYS



SPECIAL CARE FOR SPECIAL NEEDS
We provide services for elderly and special needs customers



MOBILE ADVICE CENTRES
Four specially fitted vans tour the Anglian region to give our customers the chance to meet us face to face

customers charged by the traditional rateable value method, simply by being more aware. Metering is a particularly popular option with pensioners, who constitute 25 per cent of our customer base. After our decision to change from a compulsory to a voluntary metering policy, there are signs that the benefits of metering are becoming increasingly understood by our customers.


Around 43,000 customers have opted to have a meter installed this year rather than wait until the scheme comes to their area. An additional 70,000 have had meters installed as part of our extended metering system. Those customers have the choice of moving to the measured system at a time that suits them. We help them to assess the method best suited to them by comparing different types of bill.

To retain our leadership in metering policy, we have decided that all meters will be fitted free of charge from 1 October 1996. We are at the leading edge of metering technology. Systems such as automated meter reading are being designed to help us to be more efficient while maximising the benefits for customers.

Responding effectively to customers' needs is a challenge which requires the dedication of a well trained and empowered workforce. To achieve the necessary skills, all team members attend regular workshops and a National Vocational Qualification in customer service, the first in the industry, has been developed. Our continuing success in delivering first class customer service was recognised by the retention of the Government Charter Mark this year.

COMMERCIAL SUPPORT

Our commercial managers make a special effort to appreciate the needs of our industrial customers



"Staff are much more responsive to customer calls. Calls are answered quickly, problems are solved faster and special needs are met more effectively."

PAULINE HEHIR, CUSTOMER

Despite the worst drought in 300 years our capital investment programme kept the water flowing

The region served by Anglian Water is the driest in England with an average annual rainfall of 600mm, approximately half that in the west of the country. Water resources must therefore be well planned and carefully managed to meet existing and future demands. The long drought of last year was a particular challenge, but we managed to maintain our service without restrictions on supply.

Over the past five years we have invested over £450 million in improving and maintaining our water supply infrastructure and further expenditure of £320 million is planned by the turn of the century.

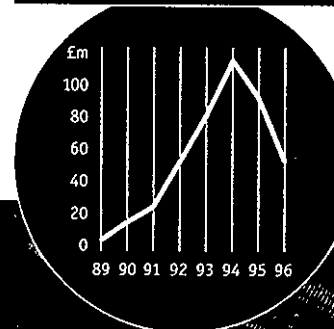
The major investment programme in water treatment, which we launched following privatisation, is now substantially complete and the results have been reflected in our continuously improving performance. Apart from minor exceedences all the water entering supply from our treatment works meets

the strict standards laid down in the Drinking Water Regulations, which include the standards in the European Drinking Water Directive.

Anglian Water's performance in meeting water quality standards is closely monitored by the Government's Drinking Water Inspectorate. For the year 1995, 99.75 per cent of the water quality tests we carried out on samples taken from our supply zones complied with the relevant standards. The 0.25 per cent of tests which exceeded the standard did not represent any risk to public health and the water we supplied remained safe to drink at all times.

To ensure the accuracy of the results we produce, our laboratories are independently audited by NAMAS (National Measurement Accreditation Service) which is part of the Department of Trade and Industry. The quality of service produced by our

INVESTMENT IN DRINKING WATER QUALITY SINCE PRIVATISATION



"The Anglian region has lower than average rainfall and last year's demand was higher than ever. It tested all of our systems, but we delivered all year long."

STEVE LEE, WATER TREATMENT WORKS TECHNICIAN

laboratories is increasingly being recognised by outside organisations and the analysis we carry out on a contract basis for others has risen significantly.

The microbiological quality of our water has continued to be extremely high. In the very few cases where problems were detected, immediate corrective action was taken.

The results showed that Anglian Water has maintained a consistent improvement in drinking water quality since privatisation, following extensive investment in new treatment plant and distribution systems and the dedicated help of our employees.

The results also showed our drive towards total quality management through continuous review and improvement of operational procedures is paying off. This is recognised by our ISO 9002 certification for water supply operations.

PESTICIDE REMOVAL

A key component of our steady improvement has been the Company's strategy for pesticide removal. Most of the region's rivers contain trace amounts of the herbicides used for weed control on cereal crops, and the standard for any pesticide in drinking water is not more than one part in ten thousand million. Following a programme of research we have developed a treatment process consisting of ozone and granular activated carbon (GAC) which will ensure we meet this strict standard for all the water we supply.

During 1995 our five year programme to install ozone and extended contact GAC at our surface water treatment plants was completed. This very effective treatment combination not only removes traces of pesticides, but also improves the organic quality of the water leading to improved taste and odour of the treated water.

COMPLYING WITH QUALITY STANDARDS

The £60m extension programme at Grafham plays a key role in enabling us to improve quality and meet increased demand

OZONE TREATMENT

Advanced ozone technology is used to remove pesticides and improve taste and odour of the water we supply

CHEMICAL BUILDING

During last year's long hot summer there was exceptional plant growth in our Pitsford reservoir which gave an unpleasant odour to the water. Although harmless, this gave rise to customer complaints in the Northampton area. The new ozone/GAC plant at Pitsford has now been brought into service and will prevent similar incidents in the future.

One of our most demanding tasks has been to ensure that all our drinking water meets the strict standard for nitrate. We have just completed a five year, £80 million capital investment programme which will ensure that all our water supplies comply. Underpinning this innovative programme is a process called ion-exchange which involves passing water through a resin specially designed to remove nitrate ions. Although this method has been used in the food processing industry for many years, we were the first major water company to apply it to the full scale removal of nitrate from drinking water. We developed

a standard design involving large permanent pressure tanks at our larger works and an innovative, portable design which can be bolted on to smaller works serving rural communities. This process has now gained world wide acceptance wherever nitrates are a problem.

LOOKING TO THE FUTURE

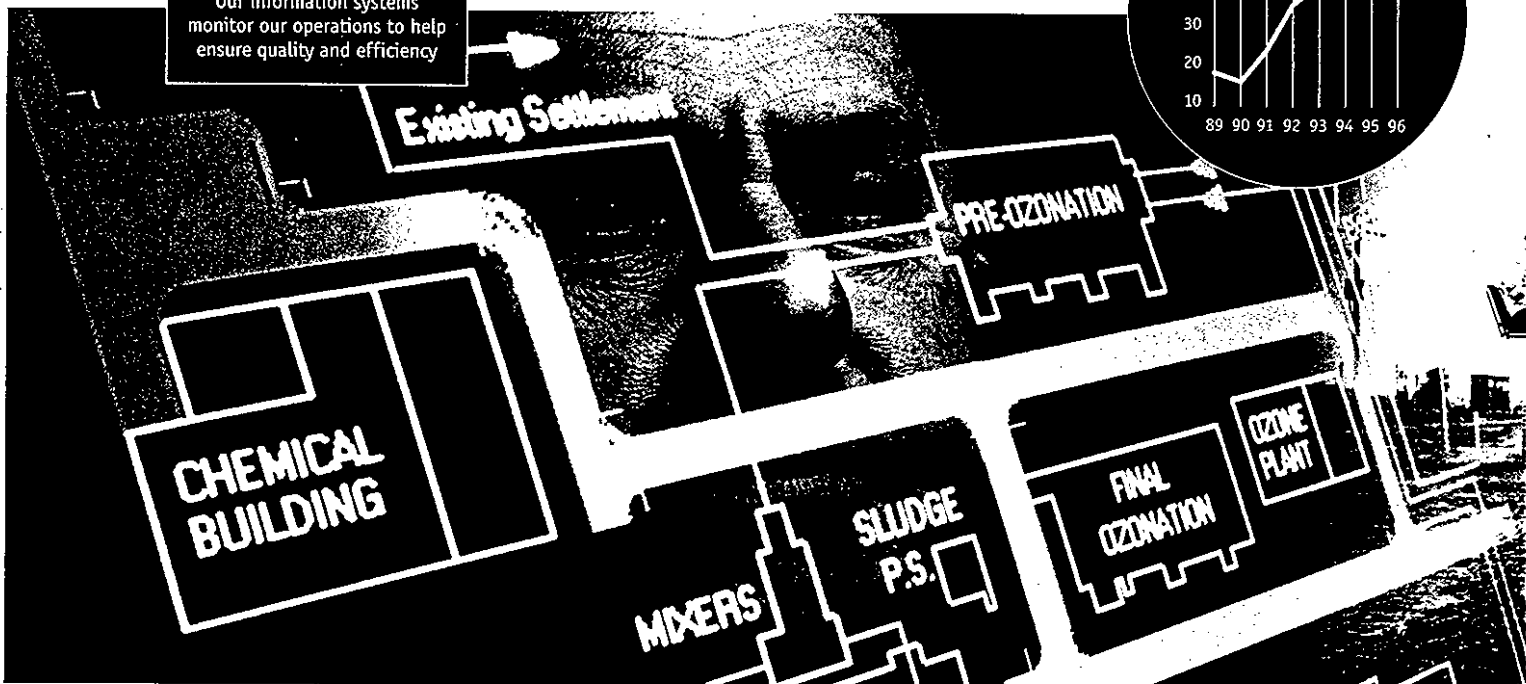
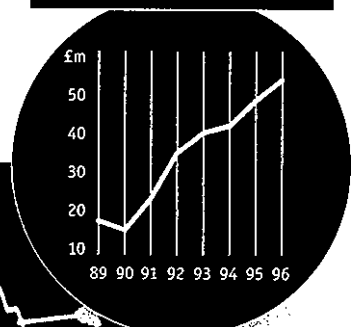
As a result of our investment since privatisation our water treatment works now employ some of the most advanced processes in use anywhere in the world. To ensure we remain at the forefront of this technology we are continuing to research and develop the next generation of treatment plants.

One form of treatment which we believe offers many potential advantages involves the use of semi-permeable membranes. Although such treatment has been used in specialist applications for many years it has always proved too expensive for large

INFORMATION SYSTEMS TECHNOLOGY AT WORK

Our information systems monitor our operations to help ensure quality and efficiency

INVESTMENT IN OUR WATER MAINS NETWORK



scale water supply. Recent advances in membrane technology, resulting in much lower operating costs, have now made possible far wider application.

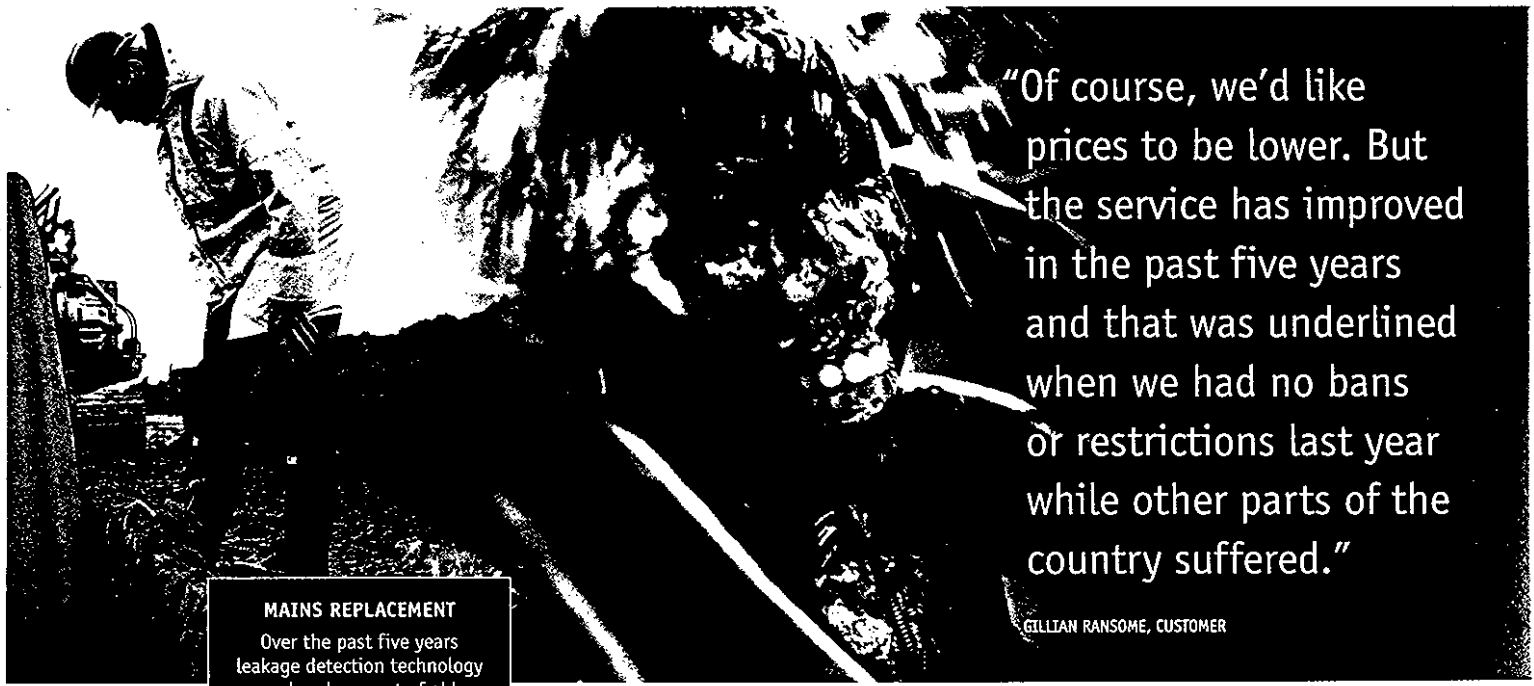
An application of particular interest to Anglian Water involves the use of membranes to soften water supplies. The water we abstract for treatment is hard due to the prevalence of chalk and limestone in the region. Although hard water is harmless, the scale it produces can be unpleasant for customers. At our treatment works at Bunwell, Norfolk, we installed an experimental water softening plant which proved so successful we are now constructing a full scale plant which we are planning to put into supply in the autumn.

LOWEST LEAKAGE

Having completed our initial capital investment programme in water treatment, our engineering teams are turning their attention to work on our system of

water mains, pumping stations and local water storage. Many of the 33,000 km of water mains we operate are made of iron and need replacing because of corrosion. During 1995 we started a five year programme to replace 2,500 km of these older mains with new polyethylene pipes which will improve water quality and also further reduce leakage and the susceptibility of mains to burst.

Anglian Water has reduced the leakage rate from its mains from 16 per cent in 1990 to 13 per cent in 1995/96 with the help of dedicated teams whose sole task is to detect and repair leaks. This rate is one of the lowest in the country and compares favourably with the average of nearly 23 per cent throughout England and Wales. We are more determined than ever, given the experiences of last summer, to reduce this still further.



MAINS REPLACEMENT
Over the past five years leakage detection technology and replacement of old pipes has helped us save 52 million litres per day

"Of course, we'd like prices to be lower. But the service has improved in the past five years and that was underlined when we had no bans or restrictions last year while other parts of the country suffered."

GILLIAN RANSOME, CUSTOMER

Our rivers and beaches are cleaner and more attractive as a result of well-managed long term investment

As the programme for upgrading drinking water treatment works draws to a close, top priority has switched back to waste water in order to meet new European environmental standards and to complete the bathing waters improvement programme by the start of the 1998 bathing season.

We have continued to make significant investments following the successful completion of a £220 million programme to ensure that our 1,071 waste water plants are able to comply with their consents. This will further improve the quality of our rivers and bathing waters. Total expenditure in 1995/96 amounted to £86 million on maintaining, upgrading and extending our works and sewers and a further £39 million on new treatment plant to improve bathing water quality.

In spite of this we did have an increase to 31 in the

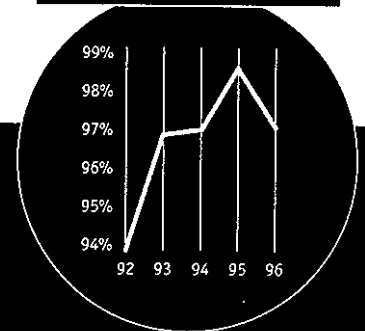
number of sewage treatment works that failed to meet their consent conditions. A significant factor was the prolonged cold weather in February and March which adversely affected the biological treatment processes. We have taken steps to recover the situation and the number of non-compliant works was down to 25 by the end of April 1996.

We have gone beyond our legal obligations in some cases to improve water quality further in response to the views and wishes of our customers.

BATHING WATERS

Our major £266 million investment programme, Project Clearwater, will be completed in 1997. The programme will provide improved sewerage and sewage treatment at designated bathing waters and help ensure that none of the 38 bathing waters along the region's coast fail to meet quality standards as a

COMPLIANCE OF SEWAGE TREATMENT WORKS



"Following privatisation, one of our top priorities was to meet the new European standards for cleanliness of rivers and beaches and to complete our bathing water improvement programme."

JANET HARRIS, WORKS MANAGER, WASTE WATER

result of our discharges. The overall programme is currently ahead of schedule.

In particular, the timetable for the project at Great Yarmouth has been advanced and is expected to be substantially completed this year, two years ahead of its original schedule.

The new works at Newton Marsh, which serves Cleethorpes, was completed in August 1995 at a cost of £21.5 million. It incorporates the latest ultraviolet light technology to disinfect the final waste water before it is discharged into the sea. This investment has produced a great improvement in bathing water quality. Similarly, the North Norfolk scheme, which serves Cromer and Sheringham, has improved the quality of bathing waters in this popular holiday area.

Other major projects to improve bathing water quality are in progress

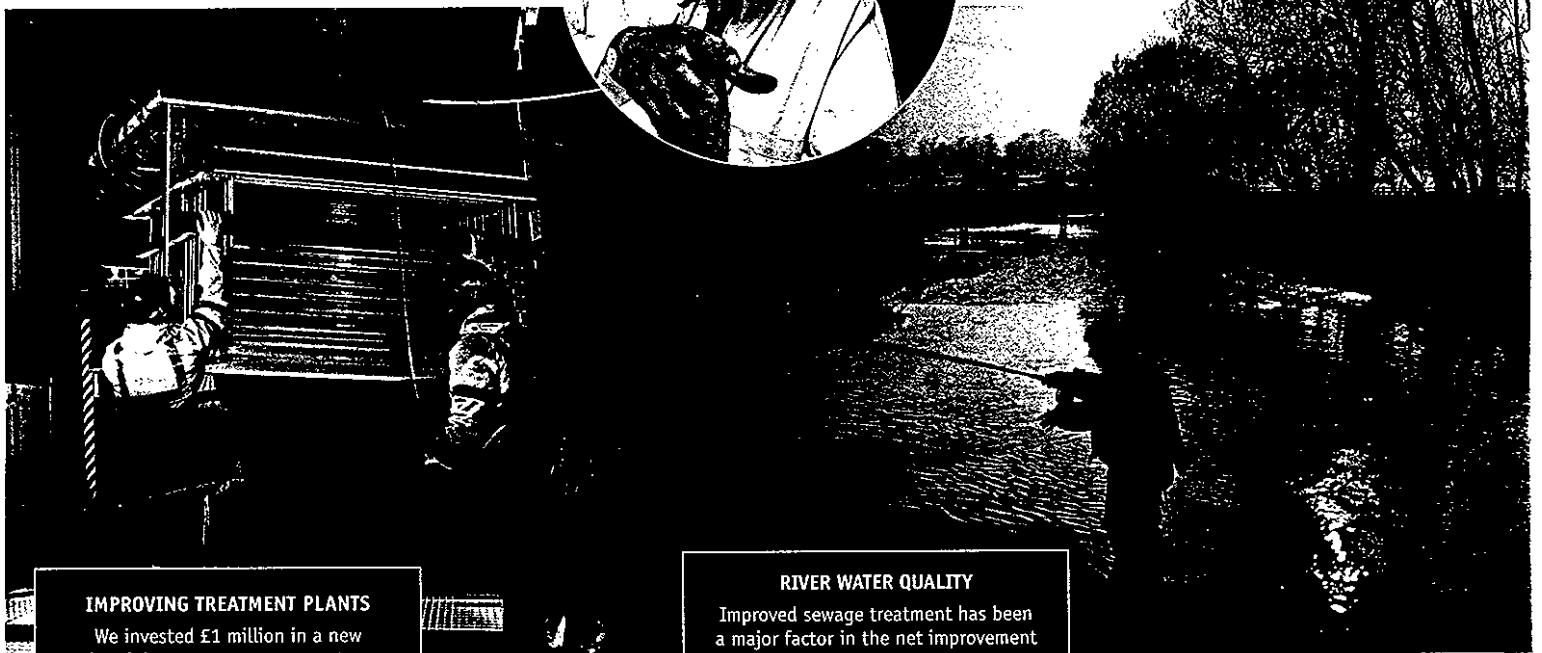
at Dovercourt, Harwich and Felixstowe. Our performance, as measured by the Environment Agency (EA), improved in the 1995 bathing season with only four failures, down from seven in the previous bathing season.

RIVER AND ESTUARY QUALITY

Our customers attach high priority to the quality of the region's rivers and we intend to continue the improvements we have already made. Most rivers in the Anglian region are fertile and slow-flowing because of the flat landscape. This requires that a high degree of treatment be given to discharges to offset the lack of natural dilution provided by faster flowing rivers.

The latest water quality report from the EA shows that river quality in the Anglian region is better now than it has been for the last 20 years and has

ROY POINTER
Director of Production



IMPROVING TREATMENT PLANTS

We invested £1 million in a new ultraviolet treatment process at our sewage treatment plant in Cleethorpes

RIVER WATER QUALITY

Improved sewage treatment has been a major factor in the net improvement of water quality in 1,526 km of rivers in our region

"experienced one of the greatest net improvements in water quality". The report also disclosed an overall improvement of 34 per cent in river quality since privatisation in 1989. Expenditure in the year amounted to £25 million.

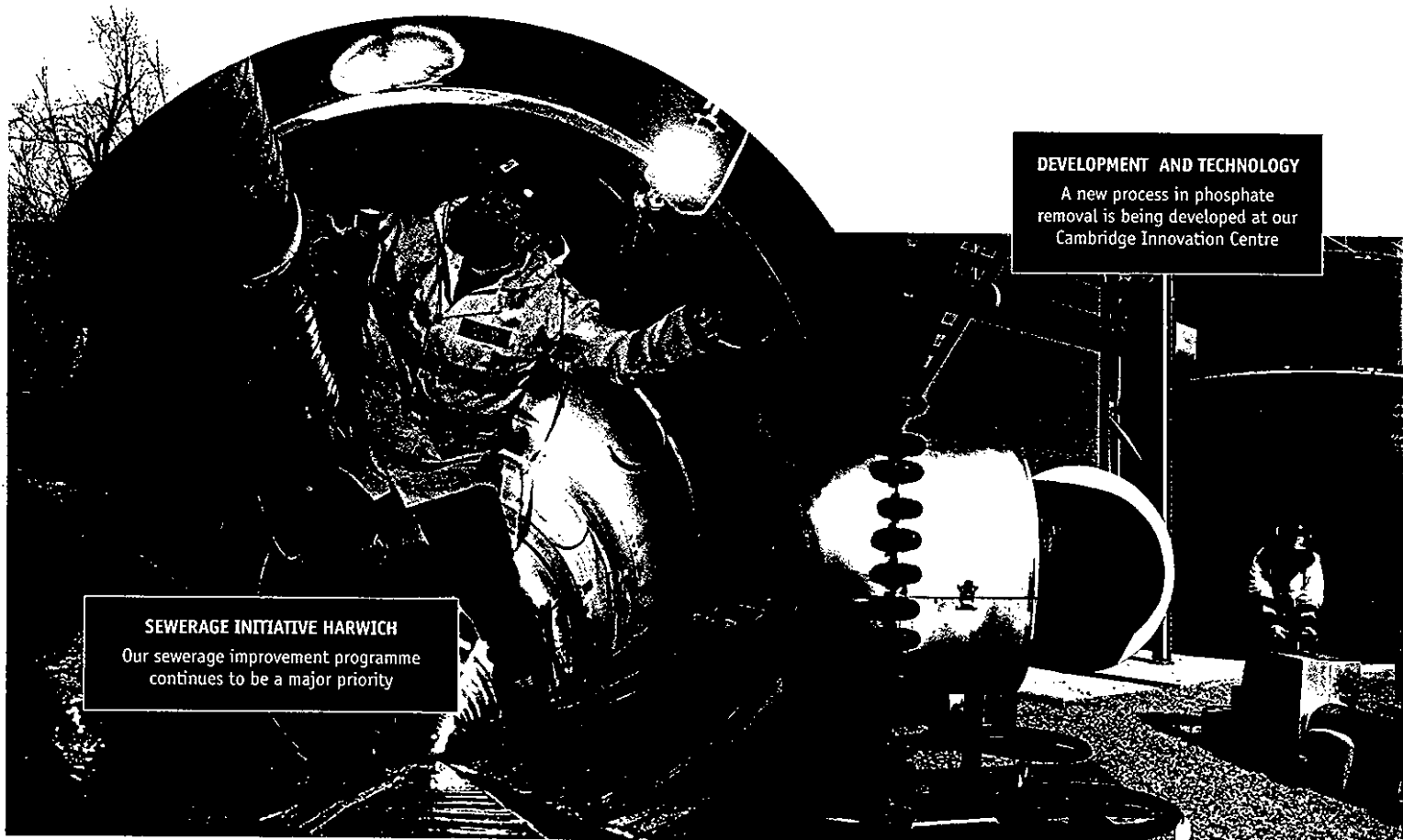
Major extensions are being made to the Cliff Quay treatment works serving Ipswich. Inlet screens were installed in December 1995 and secondary biological treatment and sludge treatment processes are also being introduced. This will result in much higher quality effluent being discharged into the River Orwell estuary. Another major scheme is currently under way at King's Lynn, where secondary treatment and ultraviolet disinfection are being introduced.

In addition, we have agreed a discretionary programme of investment with the EA amounting to £42 million. It is targeted at areas where river quality

improvements would have particular benefits, including phosphate removal at nine works draining into the Norfolk Broads, and improvements at Cambridge and Flag Fen (Peterborough) which discharge into the rivers Cam and Nene respectively.

SLUDGE DISPOSAL

Recycling is an important part of our strategy and we are committed to the environmentally friendly disposal of treated sewage sludge on agricultural land. Sludge consists of bio-solids which contain a high level of nutrients and are excellent for use as a soil conditioner. We are undertaking a number of initiatives to maximise the benefits of sludge to the environment while reducing our operating costs. Currently over 80 per cent of our sludge is recycled in this way and the proportion is growing.



SEWERAGE INITIATIVE HARWICH
Our sewerage improvement programme continues to be a major priority

DEVELOPMENT AND TECHNOLOGY
A new process in phosphate removal is being developed at our Cambridge Innovation Centre

Several capital schemes are in progress on our treatment works discharging to the Thames estuary, primarily to eliminate sludge disposal at sea by the end of 1998. A pilot plant has been built at Tilbury to assess the most cost effective method of treating the complex local mix of domestic sewage and trade effluent sludges.

We have entered into a joint venture with ADAS (Agricultural Development Advisory Service) to develop a partnership with the farming community under the banner of our "AWARD" service to agriculture. We have also reviewed existing arrangements with contractors for sludge tankering and disposal. New contracts effective from April 1996 will deliver higher levels of service to farmers and lower unit

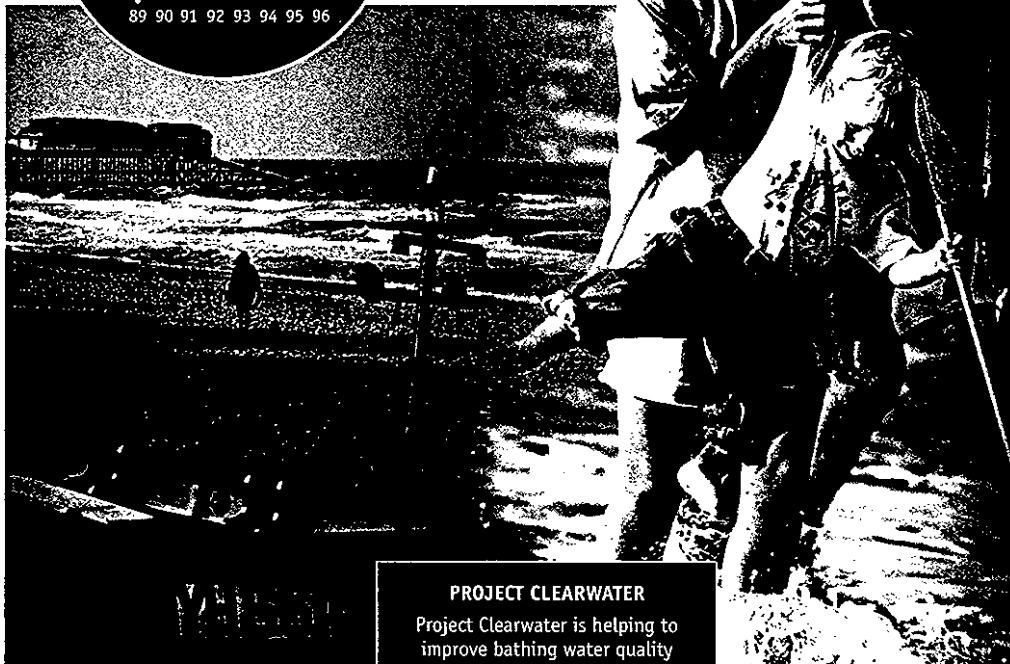
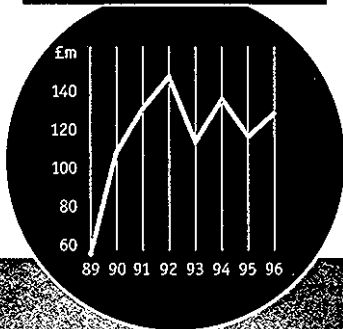
costs for our sludge disposal activities.

At Rochford in Essex we have built a full-scale plant to combine sewage sludge with kiln dust to produce a granular compost for use as a soil conditioner. We are investigating the commercial viability of this product for sale to the gardening market.

ODOUR CONTROL

Odour is a fact of life on a sewage treatment works. It can be a nuisance and it can affect the quality of the environment. We are investing in new technology to control or eliminate the problems where they affect our customers. We have constructed odour control plants at Colchester and Witham and are investigating cost effective solutions for use elsewhere in the region.

INVESTMENT IN SEWERAGE SERVICES



"I would call it the best service in Northamptonshire. It costs our family 85p per day. We waste far too much of it – perhaps because its so cheap."

MICHAEL CLARKE, CUSTOMER

PROJECT CLEARWATER

Project Clearwater is helping to improve bathing water quality along the Anglian coast

We aim to build profitability by exporting our skills, products and services, worldwide

Our commitment to Anglian Water International is firm and in the past year the business has been restructured to enable it to consolidate its achievements and position itself to take advantage of further opportunities for growth, as they occur worldwide.

During the year, and as a result of the Group's review of its non-regulated businesses, Anglian Water Processes (AWP) and Anglian Water International (AWI) merged under the title of Anglian Water International.

STRATEGY FOR THE FUTURE


The new, integrated business is focused on developing long term privatisation projects, through concession contracts, and on acquisition. This is supported by AWI's ability to offer a complete range of skills under one banner. These include operations and maintenance

skills, developments in water processes, improvements to customer services, design, construction, project management and financial planning.

Long term privatisation projects form the basis of our five year plan for phased entry into markets in targeted areas of the world. The plan includes regular reviews of the commercial potential of the targeted areas and other areas of opportunity which may arise.

To promote that strategy, AWI has been organised into three geographic regions – the Americas, Europe and Asia/Pacific – which reflect the pattern of our existing operational contracts and our areas of concentration for the future. These provide strong support and guidance for the country-based teams.

The effect has been to create a more streamlined operation, with improved communications and



"AWI is using Anglian Water's skills, expertise and experience to build an international reputation as a quality provider of water and waste water services."

DAVID LATHAM, DEPUTY MANAGING DIRECTOR, AWI

organisation and the ability to draw rapidly on Group financial and strategic strengths.

KEY DEVELOPMENTS

During the year, AWI strengthened its relationships in Central Europe and South America.

In Brazil, AWI has formed a partnership with CEJEN, a local civil engineering company, to pursue specific BOOT (Build Own Operate and Transfer) schemes, along with other projects. The partnership is building its first industrial effluent treatment works which will serve 16 industrial outlets with the equivalent of 300,000 people. The scheme employs the same kind of advanced "deep shaft" technology that is used by Anglian Water at Tilbury in the UK.

In the Czech Republic, AWI acquired a 34 per cent stake in VAKJC, the water and waste water company

serving nearly 300 municipalities with a total population of 486,000 in South Bohemia. VAKJC is a company with considerable experience, running more than 100 water and waste water treatment works and maintaining a network of 4,400 km of mains and sewers. AWI advised on the privatisation which led to the creation of VAKJC and now looks forward to a successful partnership in South Bohemia.

Aguas Argentinas, the company that holds a 30 year concession contract serving seven million inhabitants of Buenos Aires and in which AWI has a stake, moved into profit last year.

The project which has a further 26 years to run is expected to make a continuing, positive contribution to the Group. It is an approach to privatisation that is increasingly being seen as a model for private sector



MEMBRANE TECHNOLOGY

Advances in membrane technology by our subsidiary, Fluid Systems, are revolutionising aspects of water treatment

NEW ZEALAND

Our Moa Point waste water treatment system will use advance technologies to serve the New Zealand capital, Wellington
Harry Rowlands



Fluid Systems
10024 001 0000

participation in other parts of the world, including conurbations in South East Asia.

In addition to these successes, China has continued to be an important export market, with orders totalling more than £40 million. The full benefit of new work obtained will not be felt until after 1996/97. Key deliveries of process equipment have now been made to the largest project, the Gao Bei Dian waste water treatment plant which serves three million people in Beijing. Five further contracts have been signed for the supply of water treatment plant, supported by foreign aid funds from Sweden and the UK.

Fluid Systems has also been successful, commissioning reverse osmosis systems for seawater desalination in the Cayman and Canary Islands and providing process equipment in countries as far apart as Korea, Argentina, Norway and the United States.

Another AWI process, DynaSand, which is a continuously washing sand filter, has achieved success in Finland. Here, the largest DynaSand water supply plant in the world has been commissioned to produce 1.8 million litres of water per hour for a pulp and paper mill at Imatra. In Norway, AWI's advanced Kaldnes suspended carrier process for waste water treatment is at the heart of a new plant, designed, built and commissioned by AWI this year at Nordre Follo.

In the UK, AWI and John Laing Construction formed a joint venture company this year, called Laqua Services Ltd. The company was formed specifically to bid for private finance initiative (PFI) schemes in Scotland.

In New Zealand, work is progressing well on the £50 million contract we won last year to design and build sewage treatment facilities for the



CZECH REPUBLIC

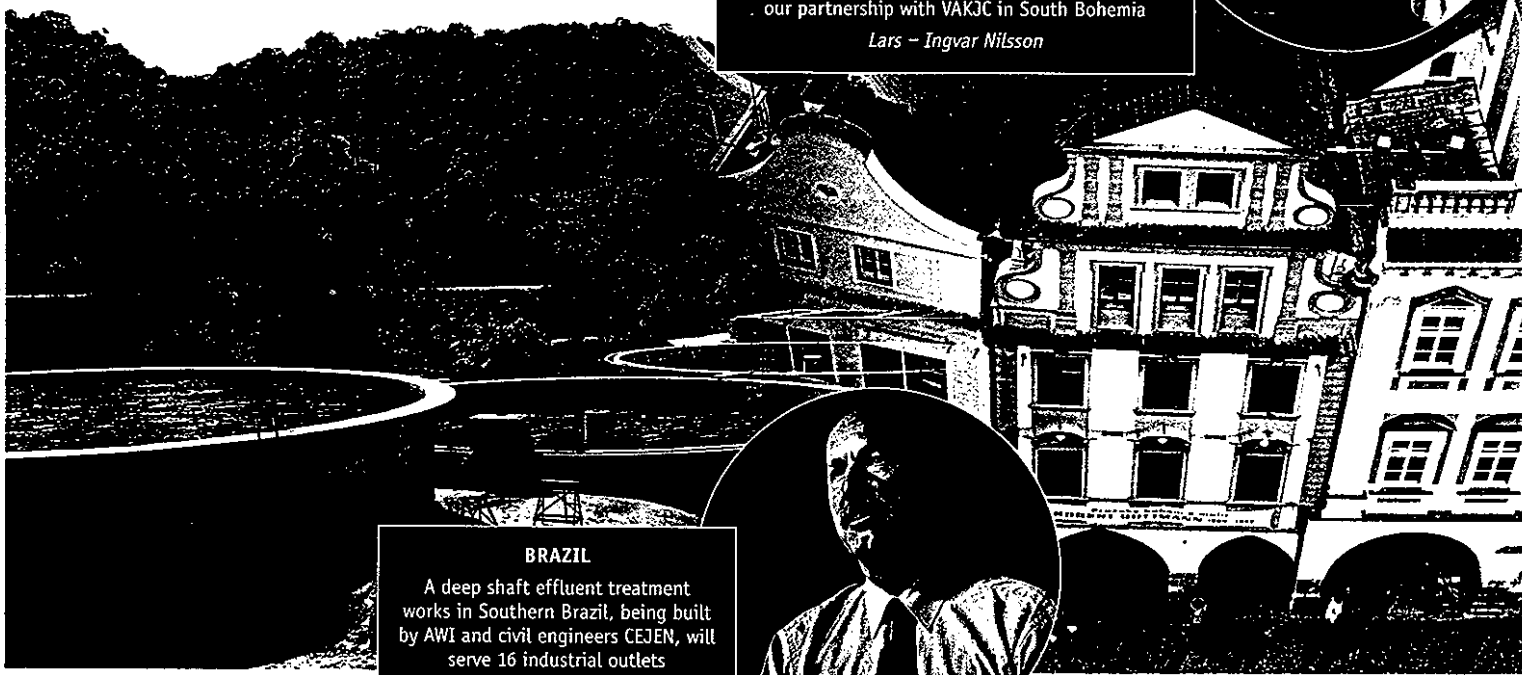
AWI advised on the privatisation of the water industry in the Czech Republic. From that stemmed our partnership with VAKJC in South Bohemia

Lars - Ingvar Nilsson

BRAZIL

A deep shaft effluent treatment works in Southern Brazil, being built by AWI and civil engineers CEJEN, will serve 16 industrial outlets

Merrick Howse



capital, Wellington, and to operate the plant for the next 21 years. The success of the operation was tempered by sadness, however, with the sudden death this year of Project Director, Alan Morrell. He had already made a considerable contribution to the Anglian Water Group and we extend our sincere sympathy to his family.

LOOKING TO THE FUTURE

Anglian Water, geographically, is the largest water services company in the UK. AWI is able to draw on the extensive skills and knowledge that stem from the experience that brings in the supply of services to major cities, towns and rural areas and the resorts and coastline of one of the country's most popular holiday areas.

Technical and commercial developments are a constant process, particularly within the Innovation and Customer Services directorates, bringing improved

services to Anglian Water's UK customers. AWI is able to draw on those advances and incorporate them into its operations overseas, strengthening its position in the highly competitive global market place. As an environmentally conscious company, AWI applies ecological principles to its proposals for overseas contracts.

Within the market place, AWI has defined the Asia/Pacific rim and South America as key areas for new ventures. New offices have been established at Curitiba in Brazil and Santiago in Chile. These are all viewed as areas with significant medium to long term growth potential for privatisation projects. In addition, an office has been opened in Bangalore, India.

Together with our existing operations, they form the nucleus of our strategy in the next five years to build profitability for the Group by exporting our skills, processes and services worldwide.



INNOVATION

Innovation and adaptation are key contributions to AWI's worldwide operations

"A competitively priced total package, complemented by a professional team, backed up by a major player in the industry."

PETER MARKS, DRAINAGE AND WATER SUPPLY MANAGER,
WELLINGTON CITY COUNCIL

Investing today for a better tomorrow

Two key aspects of our Strategic Systems Review over the last two years have been to develop the full potential of our employees within the Anglian Water organisation and to take a more responsible role within the community we serve.


DEVELOPING OUR PEOPLE

The Company has developed a unique process of transformation in the field of business change called 'The Journey'. It is about helping employees through the process of change from the old way of doing things to the new. Its success lies in its ability to galvanise the workforce to work more effectively by unlocking their latent potential and encouraging them to embrace new ideas and different ways of working.

Based on the principles of action-centred learning the Journey enables groups to explore different aspects of development – all the time exposing people to the challenges of the business world. Each group undertakes a series of projects designed to resolve or progress an issue of value to themselves, the team or the organisation.

There are now over 2,000 employees participating in the Journey within the Company. One common theme is team development from working on projects that benefit the wider community, like:

- the group who sank a well in the Ivory Coast to provide better drinking water for a village;
- the group who provided access paths for disabled people in woods at Sheringham;



"Anglian attaches great importance to being a good corporate citizen, and encourages all staff to play a role in the community."

GLYNIS HAMMOND, SPONSORSHIP MANAGER

THE JOURNEY

Personal development through community involvement is encouraged. One team has created access paths for the disabled in Sheringham Woods

CONTRIBUTING TO THE COMMUNITY

The main focus of our corporate community involvement is centred on programmes initiated by our employees. Over the past year a number of key initiatives have been launched to ensure that employees can make the best use of their talents and realise their full potential, while making a valuable contribution to their community in a way that they have chosen.

We support schemes based either on employee volunteers, which could involve matched funding, gifts in kind and fund-raising initiatives, or employer initiated schemes designed to meet specific objectives which take place in work time and are seen as a development tool. The latter type supports secondments allowing employees time to participate on boards of health authorities or to become school governors or trustees of not-for-profit organisations.

SPONSORSHIP

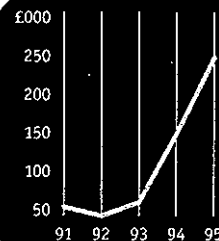
Anglian Water also has a locally targeted sponsorship programme which includes an expanded "Lessons for Life" programme providing swimming lessons for over 70,000 young children throughout the region. The scheme is in its third year and now covers 40 swimming pools. Its success has won backing from the Government's Sportsmatch scheme to match our investment on a pound for pound basis.

The Group's charitable contributions are directed primarily at local community initiatives and charities for the disabled and at WaterAid, the industry charity that helps provide clean water throughout the developing world.

WATERAID

We are enthusiastic supporters of WaterAid, which provides equipment and expertise to help villages in developing countries get fresh water

INCREASED COMMUNITY INVOLVEMENT



LESSONS FOR LIFE

More than 70,000 children have learned to swim through our Lessons for Life programmes

We are the largest investor in environmental improvement in our region

Our Board Environment Committee has had the task this year of reviewing the Environmental Policy we first adopted in 1990. The purpose of the review was to reflect changing needs and to sustain the impetus of our environmental work. In November we launched our new policy to our employees, which reaffirms the central position of the environment to our business and the importance of environmental protection to our continuing success as a Company.

Protecting and enhancing the environment for the benefit of our customers and the wider community is a central responsibility for Anglian Water. We are proud of our record as the largest investor in environmental improvements in the region and of our environmental performance. Our commitment to giving the highest priority to environmental protection is

demonstrated by the weekly meeting of executive and operational directors to review water quality performance.

A large proportion of the £5.3 million budget for research and development is targeted at environmental improvements. Subjects of investigation have included Kaldnes technology for sewage treatment, the potential for using domestic "greywater" for toilet flushing and new techniques for the disinfection of sewage effluents.

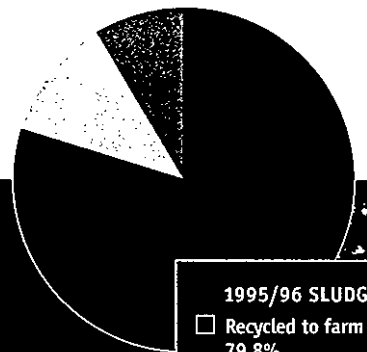
We announced recently that a further £5 million will be used to fund environmental initiatives around the region, including schemes to reduce oil pollution of rivers, to introduce sewage treatment solutions tailored to the special environmental needs of country areas and to launch a region-wide campaign to encourage less use of environmentally harmful pesticides.

The Environment Committee has reviewed the



"Maintaining the quality of our environment is more challenging in the Anglian region than in almost any part of Britain. We are determined to develop our position as a premier environmental company."

BOB PAYNE, FARM LIAISON



1995/96 SLUDGE USE	
□	Recycled to farm land 79.8%
▨	Disposal to dedicated/sacrificial site 10.4%
□	Disposed at sea 8.5%
■	Landfill 1.3%

environmental aspects of several of the Company's activities. One of its major decisions was to commission an innovative study to compare the environmental impact of every available option for sludge treatment and disposal. Preliminary results provide support for Anglian Water's current policy, under which 80 per cent of our sewage sludge is recycled to agricultural land.

As a result of the Committee's recommendations on procurement, we are now developing ways of incorporating environmental considerations more successfully into all our purchasing decisions. The use of energy was also reviewed and a strategy is being developed to minimise our environmental impact from its use.

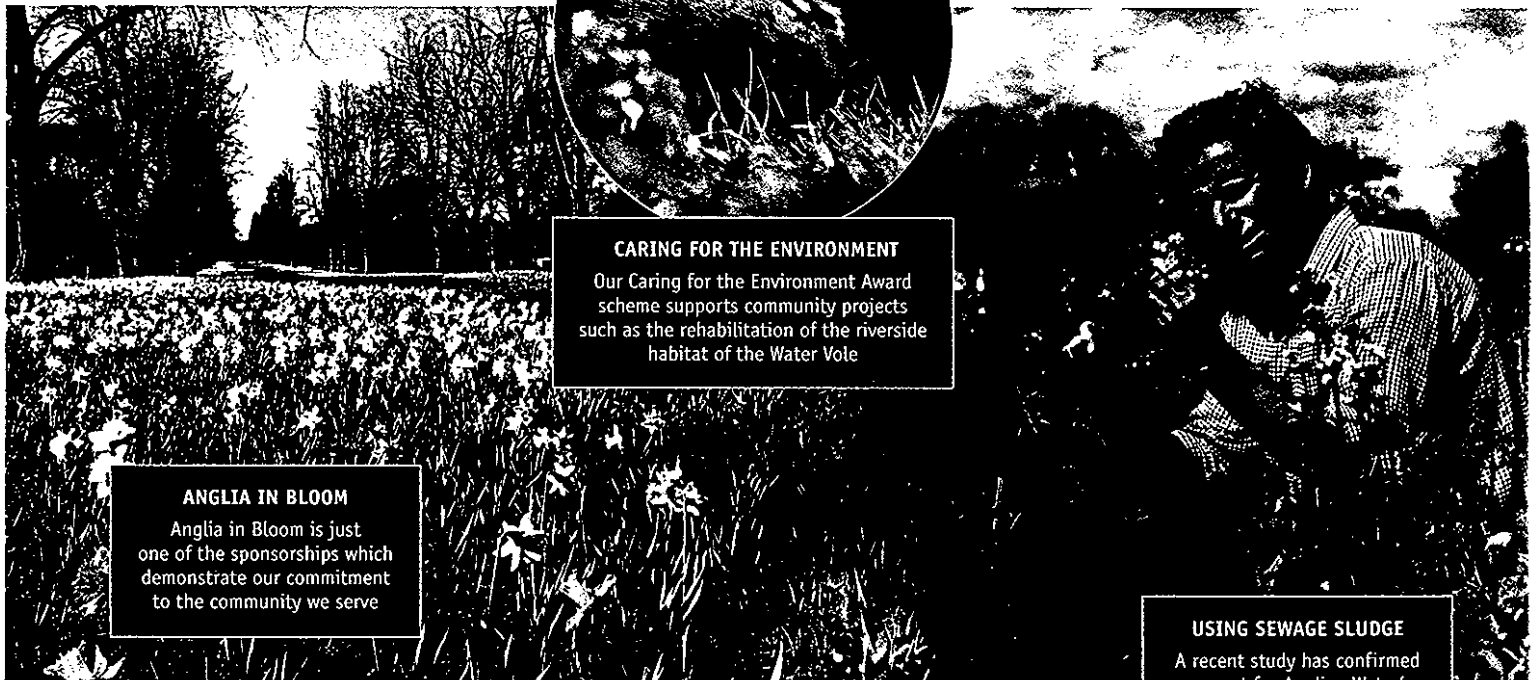
CONSERVATION

Our conservation work has again been most successful. We received an award from the British Association of

Landscape Industries (BALI) for the conservation and environmental education area we have developed at Milton Keynes sewage treatment works.

In addition to our own programme of conservation work, we encourage projects by voluntary and charitable groups in our region through our Caring for the Environment award scheme. The premier award this year was won by the Northamptonshire Wildlife Trust, which is encouraging the re-establishment of water voles in local rivers.

This year, for the fourth successive year, we have published separate reports on our environmental performance and on our activities in Conservation, Access and Recreation. These reports show we have maintained the high standards we set ourselves in previous years. We welcome requests for these reports to our Corporate Relations team.



ANGLIA IN BLOOM

Anglia in Bloom is just one of the sponsorships which demonstrate our commitment to the community we serve

CARING FOR THE ENVIRONMENT

Our Caring for the Environment Award scheme supports community projects such as the rehabilitation of the riverside habitat of the Water Vole

USING SEWAGE SLUDGE

A recent study has confirmed support for Anglian Water's policy under which 80 per cent of sewage sludge is recycled for agricultural use

A year of well managed growth

The 1996 annual report and financial statements have been produced in accordance with the standards issued by the Accounting Standards Board. Our policy is to keep pace with best practice in accounting and reporting disclosure developments. This year we have incorporated additional disclosures on directors' pension costs in the remuneration committee report along the lines of the Greenbury Committee proposals.

OPERATING RESULTS

Turnover for the year increased by 7.7 per cent from £720.1 million to £775.7 million, as a result of a £29.8 million increase in the regulated water and sewerage business and a £31.2 million increase in non regulated business. Whilst the vast majority of external turnover during the year (85 per cent) came from the regulated business, the non-regulated element has now increased to 15 per cent of the Group total.

The growth in regulated turnover represents an increase of 4.7 per cent over 1994/95. This mainly results from price increases which contributed an

extra 4.1 per cent, which was partly offset by the effect of customers switching to water meters. We also generated additional income from new and existing customers.

The RPI + K price control formula now allows us to increase prices by RPI + 1.5 per cent.

Some 94 per cent of regulated turnover in the year came from our main charges for water, sewerage and trade effluent services. Some 72 per cent (1995 73 per cent) of this was unmeasured. We are continuing to progressively install meters throughout the region in existing properties and we also offer customers the opportunity to switch to a meter outside of this main metering programme.

Total regulated business operating costs (before exceptional charges) have increased by 2.2 per cent from £352.9 million to £360.6 million. Depreciation increased from £75.7 million to £84.4 million as a result of the capital expenditure programme. Around £1.8 billion of investment has now been undertaken since privatisation.



The infrastructure renewals charge which represents our assessment of the cost of maintaining our network of underground pipes and sewers in perpetuity is £17.3 million (1995 £17.9 million). Actual expenditure has marginally exceeded the charge in the year. We anticipate that the expenditure will increase significantly over the next few years resulting in the utilisation of the brought forward infrastructure renewals provision.

Other regulated business operating costs (before exceptional charges) have reduced by £0.4 million this year, which after taking account of the effects of inflation represents a real reduction of £11 million. Regulated business nominal operating expenses are now some 5 per cent lower than they were in 1993/94 reflecting our strategic restructuring of the business. Controllable costs have met forecasts with £20.0 million saved this year. We anticipate that, by 1997/98, we will have achieved cost savings of £40.0 million compared with the cost base in 1993/94.

The results of Anglian Water International (AWI) include the former Anglian Water Processes business segment and AWI itself. These businesses were merged during the year into a single integrated management structure to extract the maximum benefit from the synergies between the two groupings and to allow it to build a stronger presence in key markets around the world. There was a significant increase in combined turnover from £100.2 million to £131.4 million. Operating losses reduced from £6.3 million to £5.7 million. The results reflect an overall improvement in the trading performance of the non-regulated companies in the Group, but were offset by the increase in expenditure on marketing and bidding to become established in our target markets. To this end we have entered into joint ventures in the Czech Republic and Brazil. In New Zealand work is progressing well on the £50 million contract we won last year to

design and build sewage treatment facilities for Wellington. None of these developments are yet sufficiently well advanced to contribute to our results.

For the process engineering companies the year proved once again particularly difficult but the prospects look brighter. The AWI companies are entering the new year with a forward order book of £173 million and turnover of £120 million has already been secured for 1996/97.

The Board believes that the integrated international business will, over time, deliver satisfactory returns for shareholders.

Group profits have benefited from £1.2 million profits on sale of properties and other fixed assets against £3.2 million in 1994/95.

Net interest payable increased from £42.7 million to £56.3 million, reflecting the effect of the increase in borrowing necessary to finance the capital investment programme and the share buy back. Profit before exceptional items and tax at £238.6 million is 3.7 per cent higher than in 1994/95.

The Group has no liability for corporation tax because of the allowances on our capital expenditure. However, we are required to pay advance corporation tax (ACT) in respect of dividends. Since we are not currently a mainstream corporation tax payer it is considered prudent to write off the ACT against profits as it is unclear when it will be utilised. The ACT written off to date amounts to £154.7 million and remains available for set off against future corporation tax liabilities. The Group may become liable to mainstream corporation tax on its 1996/97 profits, although the effect will be mitigated by the availability of tax losses and capital allowances.

FINANCIAL NEEDS AND RESOURCES

At 31 March 1996 the Group had net borrowings of £831.8 million, an increase of £247.1 million over the

year. The increased net borrowings have been financed by £120.0 million from the European Investment Bank, £85.6 million from private placements and also reflect a reduction in cash and deposits. Before investing activities, the business generated a net cash inflow of £207.4 million in 1996 (1995 £212.8 million).

Year end gearing (debt/equity) at 56.3 per cent compares to 38.2 per cent in 1995. Net borrowings are a mixture of fixed and variable rate debt of £852.0 million offset by cash and deposits, (net of overdrafts) of £20.2 million. Borrowings include £242.2 million 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 17 to the accounts. 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. During the year the Group borrowed \$132 million through private placements. \$122 million of this amount has been swapped to eliminate the risk of currency fluctuations.

In August 1995 the Directors used the powers granted at the last AGM to buy back 10 per cent of the issued share capital. As a result 29.7 million shares were purchased at £5.48 per share. The total cost of the buy back (including ACT and expenses), amounting to £197.5 million was written off directly to reserves.

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. A debt issue of \$10.0 million was made during the year to fund non-regulated activities.

The capital investment programme for the year with total expenditure at £286.7 million was 5.9 per cent lower than in 1994/95. The Managing Director's report on pages 6 to 27 gives more details on the programme itself. The reduction principally reflects the completion of investment in new drinking water plant. Investment in 1996/97 is expected to increase to around £320 million as we implement a number of large bathing water schemes and improve the water distribution network.

SHAREHOLDERS' RETURN AND VALUE CREATED

Earnings (before exceptional charges) increased by 3.7 per cent from £210.8 million to £218.5 million. However, after taking account of the reduction in the number of shares in issue during the year (through the buy back) this translates to a 9.8 per cent increase in earnings per share from 71.1p to 78.1p. The full year dividend has been increased by 15.4 per cent from 26.0p to 30.0p, a real increase of 11.7 per cent over the average rate of inflation during the year.

The dividend increase confirms the Board's commitment to delivering continuing real dividend growth progressively reducing dividend cover to around 2 times by the end of the decade.

Board of Directors



Robin Gourlay
Chairman



Alan Smith
Group Managing Director



Chris Mellor
Group Finance Director



John Green
Group Technical Director



Richard Jewson
Non-Executive Deputy Chairman



David Challen
Non-Executive Director



The Earl of Cranbrook
Non-Executive Director



June de Molter
Non-Executive Director

ROBIN GOURLAY

BSc (57) Chairman (1994 to date); Deputy Chairman (Feb 1994–Sept 1994); Non-Exec. Director (Sept 1993–Sept 1994), Anglian Water Plc; Non-Exec. Director, Rugby Group plc (1994 to date); Non-Exec. Director, Beazer Homes plc (1994 to date); Chief Executive and Managing Director, BP Nutrition (1990–1994); 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). Member of Executive Committee.

CHRIS MELLOR

IPFA (47) Group Finance Director, Anglian Water Plc (1990 to date); Head of Finance and Planning, Anglian Water Plc and Anglian Water Authority (1988–1990); Non-Exec. Director, Addenbrooke's NHS Trust (1993 to date). Member of Executive Committee.

RICHARD JEWSON

MA (51) Non-Exec. Deputy Chairman (Oct 1994 to date); Non-Exec. Director (1991 to date), Anglian Water Plc; Director and Chairman, Meyer International Plc (1983–1993); Non-Exec. Director, Eastern Counties Newspaper Group (1982 to date); Council Member, University of East Anglia (1980 to date); Director, Proshare Limited (1992 to date); Non-Exec. Director, Delian Lloyds Investment Trust (1993 to date); Chairman, Ideal Hardware plc (1994 to date); Director, Queen's Moat House Plc (1994 to date); Non-Exec. Director, Savills (1994 to date) Chairman of Savills (1995 to date); Non-Exec. Director, Miller Insurance Group (1995). Chairman of Audit Committee and Member of Remuneration Committee.

THE EARL OF CRANBROOK

DSc DL (62) Non-Exec. Director, Anglian Water Plc (1989 to date); Chairman, English Nature (Nature Conservancy Council for England); Member, Broads Authority and Harwich Haven Authority; President, Suffolk Wildlife Trust (1992 to date). Chairman of the Environment Committee, Member of Audit Committee, Member of Remuneration Committee.

ALAN SMITH

IPFA (51) 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); Director of Peptide Therapeutics Group Plc (1990–to date). Chairman of Executive Committee.

JOHN GREEN

BSc (52) Group Technical Director (1994 to date); Executive Director, Anglian Water Plc (1993 to date); Managing Director, Anglian Water Engineering and Business Systems Ltd (1992–1994); Director, Anglian Water Services Ltd (1991–1992); Director of UK Water Industry Research Limited (1995–to date); Director of The Water Services Association of England and Wales (1996–to date). Member of Executive Committee and Member of Environment Committee.

DAVID CHALLEN

(53) Non-Exec. Director Anglian Water Plc (1993 to date); Director (1979 to date), Vice-Chairman (1995), J. Henry Schroder Wagg & Co. Limited; Member of the Takeover Panel (1993–1994); Member of the Governing Body of Morley College (1993 to date); Member of the Advisory Committee on Business and the Environment (1991–1993). Member of Audit Committee and Member of Remuneration Committee.

JUNE DE MOLLER

(48) Non-Exec Director, Anglian Water Plc (1992 to date); Director and Managing Director, Carlton Communications Plc (1983 to date); Non-Exec. Director, Riverside Mental Health NHS Trust (1992 to date). Chairman of Remuneration Committee.

OVERALL COMPLIANCE

The directors are satisfied that the Company has complied throughout the year with the provisions of the Code of Best Practice recommended by the Cadbury Committee.

The Board currently comprises 8 members, 4 of whom are non-executive directors with a considerable breadth and depth of business and environmental experience. It meets regularly and monitors executive management through its review of strategic, operational and financial matters.

The roles of Chairman and Managing Director are separate and all directors have access to the advice of the Company Secretary and to independent professional advice.

All Board appointments are subject to full Board approval and no director has a service contract of more than 2 years. The pay of executive directors is determined by the Remuneration Committee which is made up entirely of non-executive directors. Details of the structure of directors' remuneration are set out in the report on remuneration and related matters on pages 35 to 38.

The constitution and terms of reference of the Audit Committee are in accordance with Cadbury Committee recommendations. Other reporting requirements are dealt with in the Statement of Directors' Responsibilities on page 34 and in the following explanations covering going concern and internal control.

The membership of the Audit and Remuneration Committees is set out on page 32.

A Nominations Committee, which is convened as required, has no permanent members but requires a majority of non-executive directors.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

INTERNAL FINANCIAL CONTROL

In addition to their responsibilities under company law set out in the Statement of Directors' Responsibilities, the directors also acknowledge their responsibility for the Group's systems of internal financial control. These systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss.

The Board retains responsibility for a schedule of matters covering strategic, operational, financial and compliance issues and receives regular reports in all of these areas, including treasury strategy and capital investment matters. The implementation of systems of internal financial control is delegated to executive management within the framework of a specific scheme of delegated authority.

The Group's overall management process includes arrangements which integrate the roles of the Plc Board, an Executive Committee and a network of other executive groups which meet regularly to consider key business issues including those relating to financial management and budgetary control.

Systems of internal financial control are monitored through the work of internal and external auditors who report the results of their work, and are accountable, to the Audit Committee, which comprises non-executive directors.

Through these arrangements the directors have reviewed the effectiveness of the Group's systems of internal financial control.

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.

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

Auditors' Report on Corporate Governance

Report to the Directors on Corporate Governance Matters

In addition to our audit of the financial statements we have reviewed your statements on page 33 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

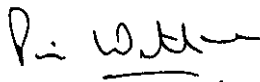
BASIS OF OPINION

We carried out our review having regard to the Bulletin 1995/1 'Disclosures Relating to Corporate Governance' issued by the Auditing Practices Board. That bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

OPINION

In our opinion the directors' statements on internal financial control and going concern on page 33 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Group and examination of relevant documents, your statement on page 33 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.



Price Waterhouse
Chartered Accountants
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

28 May 1996

Price Waterhouse



THE COMMITTEE

The Remuneration Committee determines executive directors' remuneration. The Committee comprises all the non-executive directors of Anglian Water:

Mrs JF de Moller (Chair), RW Jewson, DJ Challen and Lord Cranbrook.

The Chairman, RM Gourlay and Group Managing Director, AF Smith, assist the Committee except in relation to matters specifically concerning their own remuneration. The Committee receives professional advice from external sources.

REMUNERATION POLICY

The Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of high quality, and reflecting their levels of responsibility and experience. The Committee also aims, via its remuneration policy, to align the interests of the executive directors with those of Anglian Water shareholders, customers and regulators. The annual bonus scheme reflects the importance the Committee places on balancing financial measures with environmental and water quality, and customer service. The proposed long term incentive share scheme is focussed on the return to shareholders.

To assess competitive practice the Committee reviews the executive directors' remuneration against that of directors in two groups of companies:

- a group of water and regional electricity utilities; and
- a broader group of public companies spanning a range of industry sectors.

The comparisons allow for company size and complexity and the nature of their markets.

REMUNERATION PACKAGE

The executive directors' remuneration package comprises four elements: an annual base salary and benefits, an annual bonus scheme, a proposed long term incentive plan and a pension. The benefits include a car and insurances for life, disability, personal accident and health. In common with all staff, the executive directors are eligible to participate in a save as you earn share scheme, a profit sharing scheme and a performance related pay scheme.

The Chairman does not participate in the annual bonus scheme and will not participate in the proposed long term incentive share scheme.

Directors' emoluments are shown on page 37 and interests in shares and share options are shown on page 38.

SERVICE CONTRACTS

No executive director has a service contract containing a notice entitlement exceeding two years. From April 1995, AF Smith, CJ Mellor and JW Green accepted a reduction in notice entitlement from three to two years without compensation. The Committee considers the two year notice period appropriate. It is in line with the market and takes full account of the length of service of the executive directors and of the substantial knowledge and experience they bring to Anglian Water and its businesses.

None of the service contracts provides for pre-determined amounts of compensation in the event of early termination and the Committee's policy is to seek full mitigation.

INCENTIVE ARRANGEMENTS

1. Annual Bonus Scheme

The executive directors (with the exception of the Chairman) participate in an annual bonus scheme which rewards them for achieving demanding short term performance targets addressing the requirements of Anglian Water's shareholders, customers and regulators.

The performance is assessed using measured objectives for:

- financial targets (e.g. comparison of the regulated company's operating costs and capital expenditure with the 'K' targets set by OFWAT; profitability of other Group companies; earnings per share);
- water quality targets based on DWI data;
- environmental targets based on NRA data;
- levels of service measures set by OFWAT;
- public and customer relations measured by independent surveys;

and contribution to the business assessed by the Committee.

The bonus, which is not pensionable, has a maximum of 30% of base salary. The bonuses awarded to the executive directors for the year ended 31 March 1996 are set out in the table to this report on page 37.

The Committee recognises that it is in the interests of the Company that the directors build up a personal stake in the Company, thereby exposing them to the same risks as shareholders. To this end it is now proposed to revise the existing annual bonus scheme so that part of the bonus is paid in shares. Shareholder approval will be sought for this revision to the annual bonus scheme at the 1996 AGM.

Under the revised scheme one third of the post tax annual bonus will be paid in shares of equivalent value to be held in trust for the participants for a period of two years.

Assuming shareholder approval is obtained the revised scheme will operate in relation to the year ending 31 March 1997 and thereafter.

2. Long Term Incentive Share Scheme

It was decided in 1995 and reported in last year's Annual Report and Accounts that the existing Executive Share Option Scheme would no longer apply to executive directors and that a new Long Term Incentive Share Scheme would be introduced.

The Scheme now proposed is designed to encourage continuing improvement in Anglian Water's performance in terms of shareholder return over the longer term. Its participants are the executive directors and a number of senior executives, who are best placed to influence such performance.

Under this Scheme – which will operate annually – a participant will be conditionally awarded a number of Anglian Water shares based on a value equating to a percentage as determined by the Committee (not exceeding 45%) of his/her base salary. The proportion of the award to be released to the participant will depend on Anglian Water's performance in terms of total shareholder return (i.e. share price movement and dividends paid) against a comparator group of other water utility companies over a three year period. No shares will be released for below median performance. Above this level there will be a progressive release of shares up to 100% of the shares if Anglian Water's total shareholder return ranks in the top quartile. The release of any shares to the participant will be made four years after the initial award.

Having consulted The Association of British Insurers on all these matters the Committee believes that the operation of the Scheme will be in accordance with best practice.

Shareholder approval will be sought for the introduction of the Long Term Incentive Share Scheme at the 1996 AGM. Assuming shareholder approval is obtained this Scheme will operate with effect from 1 April 1996.

PENSIONS

Executive directors (other than the Chairman) are members of the Anglian Water Mirror Image Pension Scheme. The normal retirement age under the pension scheme is 65 with a maximum pension after 45 years service equal to 56% of pensionable salary, with a lump sum of 3.75% of pensionable salary per year of service. Pensionable salary is defined as the base salary and benefits excluding bonus payments. The executive directors (other than the Chairman) have been in the Scheme or its predecessors for an average of 31 years and in that time have received the same entitlements as other employees.

The Chairman is a member of the Anglian Water Executive Pension Scheme to the extent permitted by Inland Revenue limits and for that element of base salary in excess of the limits, payments are made to a funded unapproved retirement benefits scheme. All new senior executives are eligible for the Executive Pension Scheme on the same terms and conditions. The scheme provides for a normal retirement age of 62 with a maximum pension over 30 years service equal to two thirds salary. No benefits received by the Chairman are pensionable.

For all executive directors there is a payment of a lump sum in the event of death in service equivalent to four times salary, and pensions for their dependants.

NON EXECUTIVE DIRECTORS' FEES

The fees for the non-executive directors are set by the Board. The basic fees were increased to £19,500 p.a. with effect from 1 April 1996, having been set at £16,500 p.a. for the past two years. The Deputy Chairman is entitled to an additional fee of £7,500 p.a. (inclusive of any fees for chairing Board Committees). Each of the Chairmen of the main Board Committees (Audit, Remuneration, Environmental) are entitled to an additional fee of £3,500.

Other than Mr RW Jewson and Lord Cranbrook who receive health insurance cover, the non-executive directors do not receive benefits or pension contributions from Anglian Water nor participate in any Anglian Water incentive scheme.

RE-ELECTION OF CHAIRMAN AND MANAGING DIRECTOR

It is proposed to alter the Articles of Association of the Company to require the retirement by rotation and standing for re-election of the Chairman and Managing Director. Shareholder approval to this amendment will be sought at the 1996 AGM and the Managing Director will retire and stand for re-election at the 1997 AGM, with the Chairman retiring and standing for re-election at the 1998 AGM.

COMPLIANCE WITH GREENBURY

The Company complies with the recommendations relating to remuneration committees as made by the Greenbury study group on directors remuneration, now incorporated in Section A of the best practice provisions annexed to the Stock Exchange Listing Rules. In formulating its remuneration policy the Committee gives full consideration to Section B of the best practice provisions annexed to the Stock Exchange Listing Rules.

JF de Moller
Chair
Remuneration Committee

DIRECTORS' EMOLUMENTS

The emoluments of the directors of Anglian Water Plc for their services as directors of the Company and its subsidiaries are set out below.

	Salary and fees £000	Benefits £000	Bonus £000	1995/96 Total £000	1994/95 Total £000
RM Gourlay – Chairman from 1 October 1994*	112	10	n/a	122	68
AF Smith – Managing Director	160	9	30	199	199
CJ Mellor	130	8	24	162	141
JW Green	105	8	25	138	125
DJ Challen	17	–	n/a	17	17
The Earl of Cranbrook	20	1	n/a	21	16
RW Jewson	24	1	n/a	25	22
Mrs JF de Moller	17	–	n/a	17	17
Miss DA Nichols (Retired 15 December 1995)	11	–	n/a	11	17
Directors who did not serve in current year†	–	–	–	–	57
	596	37	79	712	679
Contributions to pension schemes				96	79
				808	758
Pension to a former director				6	6
				814	764

*1994/95 shows Mr Gourlay's fees (£12,000) as a non-executive director for the period to 30 September 1994 and his salary as Chairman thereafter.

†Includes £53,000 in relation to Mr BV Henderson who served as Chairman for the period to 30 September 1994.

Included within non-executive directors' fees are amounts totalling £28,000 paid to third parties for making available the services of two of the non-executive directors (1994 three directors – £45,000). During the year Mrs JF de Moller waived fees of £3,500.

Pension contributions were paid on behalf of Mr RM Gourlay £43,656 (1995 - £17,886); Mr BV Henderson £nil (1995 - £14,175); Mr AF Smith £20,981 (1995 - £19,735). The amounts for Mr Gourlay include contributions to a funded unapproved retirement benefits scheme of £33,900 (1995 - £12,972).

The values for pension entitlements earned in the year to 31 March 1996 were: Mr RM Gourlay £59,000, Mr AF Smith £38,000, Mr CJ Mellor £69,000, Mr JW Green £31,000. These pension benefits are calculated using the cash equivalent transfer value method, which is one of the methods proposed by the Institute of Actuaries and the Faculty of Actuaries but not (at the time of publication) adopted in the Listing Rules of the London Stock Exchange.

With effect from 1 April 1996 the following salaries have been agreed: Mr AF Smith £185,000, Mr CJ Mellor £140,000, Mr JW Green £117,500. The increase in salaries reflect the policy of the Remuneration Committee to achieve the median level of remuneration indicated by the comparator groups. Mr JW Green's salary reflects his new role as Managing Director of Anglian Water Services Ltd.

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

	No. of directors			No. of directors	
	1995/96	1994/95		1995/96	1994/95
£5,001 – £10,000	–	1	£120,001 – £125,000	1	1
£10,001 – £15,000	1	–	£135,001 – £140,000	1	–
£15,001 – £20,000	2	4	£140,001 – £145,000	–	1
£20,001 – £25,000	2	1	£160,001 – £165,000	1	–
£50,001 – £55,000	–	1	£195,001 – £200,000	1	1
£65,001 – £70,000	–	1			

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The interests in the shares of the Company at 31 March 1996 of persons who were directors on that date are shown below.

Beneficial and family interests in shares:	31 March 1996	1 April 1995
	No. of shares	No. of shares
RM Gourlay	1,000	1,000
AF Smith	7,886	5,249
CJ Mellor	5,325	5,829
JW Green	12,079	2,718
DJ Challen	1,000	1,000
The Earl of Cranbrook	1,100	1,100
RW Jewson	840	840
Mrs JF de Moller	750	750

Options to subscribe for ordinary shares, under the Executive share option and Sharesave schemes, granted to and exercised by directors during the year, are summarised below. Details of these schemes including exercise dates are shown in the Directors' Report on page 39.

Executive share options	1 April 1995	Options granted		Options exercised			Options cancelled	Options outstanding at 31 March 1996	
	Number	Number	Option Price (£)	Number	Weighted average exercise Price (£)	Market Price (£)	Number	Number	Weighted average exercise Price (£)
AF Smith	97,537	–	–	69,741	3.23	5.46	27,796	–	–
CJ Mellor	21,863	–	–	–	–	–	–	21,863	4.95
JW Green	51,793	–	–	24,693	3.51	5.77	–	27,100	5.16
Sharesave scheme options									
RM Gourlay	–	3,709	4.65	–	–	–	–	3,709	4.65
AF Smith	2,757	2,225	4.65	–	–	–	–	4,982	3.58
CJ Mellor	4,679	741	4.65	–	–	–	–	5,420	3.36
JW Green	9,916	2,225	4.65	–	–	–	–	12,141	2.51

No options lapsed during the year. Executive directors retain the right to participate in the employee Sharesave scheme. Full details of directors' options are available in the Company's Register of Directors' Interests, which is open to inspection.

The market price of the Company's shares at 31 March 1996 was £6.00, and the range during the year was £4.75 to £6.08.

At 31 March 1996, and throughout the year, Mr DJ Challen held £24,000 of the Company's 5¹/₈% 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 1996 to 28 May 1996.

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.

The directors have pleasure in presenting their report and the audited financial statements of Anglian Water Plc for the year ended 31 March 1996.

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 4 to 30.

GROUP RESULTS AND DIVIDENDS

The profit and loss account on page 41 shows the Group's results and retained profit for the year. An interim dividend of 8.9p per share was paid on 19 February 1996. The directors are recommending the payment of a final dividend of 21.1p per ordinary share to shareholders on the register at the close of business on 16 July 1996, making a total net dividend for the year of 30.0p. The final dividend, if approved at the Annual General Meeting, will be paid on 1 October 1996.

RESEARCH AND DEVELOPMENT

Details of research and development activities are described in the Managing Director's report on pages 6 to 27.

SHARE CAPITAL

Details of the Company's share capital are shown in note 22 on page 54. Options outstanding (including options granted to directors detailed on page 38) under the Company's share option schemes at 31 March 1996 were as follows:

	No. of shares	Date of grant	Option price
Sharesave Scheme	375,273	12 December 1989	£1.76
Sharesave Scheme	481,900	6 December 1990	£2.67
Sharesave Scheme	866,619	30 December 1991	£2.72
Sharesave Scheme	409,688	21 December 1992	£3.82
Sharesave Scheme	646,423	20 December 1993	£4.04
Sharesave Scheme	1,098,389	14 December 1995	£4.65
Executive Share Option Scheme	12,663	20 June 1990	£2.93
Executive Share Option Scheme	44,558	10 January 1991	£3.31
Executive Share Option Scheme	54,615	7 December 1991	£3.26
Executive Share Option Scheme	24,874	24 June 1992	£3.95
Executive Share Option Scheme	25,469	15 December 1992	£4.73
Executive Share Option Scheme	117,023	7 July 1993	£4.74
Executive Share Option Scheme	15,279	1 December 1993	£5.30
Executive Share Option Scheme	203,908	15 August 1994	£5.375
Executive Share Option Scheme	14,664	13 July 1995	£5.51
Executive Share Option Scheme	15,679	7 December 1995	£5.74

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

In addition to the options shown above, 14,651,000 warrants were outstanding at 31 March 1996. These 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 1996 and their biographies are shown on pages 31 and 32. Miss DA Nichols resigned on 15 December 1995 and has yet to be replaced.

Mr CJ Mellor and Mrs JF de Moller retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Mr CJ Mellor has a service contract terminable with 2 years notice and Mrs JF de Moller does not have a service contract.

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 on page 38.

SUBSTANTIAL SHAREHOLDINGS

According to notifications received, at 28 May 1996 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.

PURCHASE OF OWN SHARES

Permission was obtained from shareholders at the AGM in July 1995 to purchase up to 10% of the Company's ordinary share capital in order to optimise the financial and tax efficiency of its capital structure. In August 1995 29,740,246 £1 ordinary shares, being 10% of the issued share capital, were purchased at a price of £162,976,548 and cancelled.

POLICY ON THE PAYMENT OF CREDITORS

It is the Company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the Company's procurement department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to all transactions. The Company abides by the terms of payment.

CHARITABLE AND POLITICAL DONATIONS

During the year the Group made charitable donations of £125,675. In addition the Group contributed £100,000 to the Learn to Swim campaign, a scheme of support for swimming pools in the region to encourage people to learn to swim. No political contributions were made.

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 Group newspaper.

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

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

CLOSE COMPANY STATUS

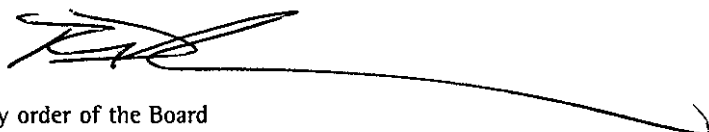
The Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

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 24 July 1996 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
Registered in England No.2366618

28 May 1996

Group Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Turnover from continuing operations	2	775.7	720.1
Operating costs:			
- Excluding exceptional charges		(482.0)	(450.5)
- Exceptional charges	4	-	(14.0)
Total operating costs	3	(482.0)	(464.5)
Operating profit from continuing operations	2, 5	293.7	255.6
Profit on sale of assets in continuing operations		1.2	3.2
Profit on ordinary activities before interest		294.9	258.8
Interest payable (net)	6	(56.3)	(42.7)
Profit on ordinary activities before taxation		238.6	216.1
Taxation	7	(20.1)	(19.3)
Profit for the financial year	11	218.5	196.8
Dividends	8	(80.7)	(77.3)
Retained profit for the financial year		137.8	119.5
Earnings per share	9	78.1p	66.4p
Earnings per share before exceptional charges	9	78.1p	71.1p

Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Profit for the financial year		218.5	196.8
Currency translation differences on foreign currency net investments		0.6	(0.3)
Total recognised gains relating to the year	11, 23	219.1	196.5

The notes on pages 44 to 57 form part of these financial statements.

Balance Sheets

AT 31 MARCH 1996	Notes	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
Fixed assets					
Tangible assets	12	2,655.9	2,487.8	1.0	1.4
Investments	13	24.0	12.1	1,145.5	1,054.7
		2,679.9	2,499.9	1,146.5	1,056.1
Current assets					
Stocks	14	16.9	12.6	-	-
Debtors	15	154.6	133.7	194.8	76.8
Cash and deposits	26(c)	35.6	73.5	5.2	123.9
		207.1	219.8	200.0	200.7
Creditors: amounts falling due within one year					
Short term borrowings	16	(23.4)	(17.4)	(0.1)	(5.9)
Other creditors	16	(336.0)	(316.6)	(86.5)	(81.8)
Net current (liabilities)/assets		(152.3)	(114.2)	113.4	113.0
Total assets less current liabilities		2,527.6	2,385.7	1,259.9	1,169.1
Creditors: amounts falling due after more than one year					
Loans and other borrowings	17	(844.0)	(640.8)	(395.1)	(304.4)
Other creditors	18	(88.3)	(76.8)	-	-
		(932.3)	(717.6)	(395.1)	(304.4)
Provisions for liabilities and charges	19	(118.2)	(137.5)	-	-
		1,477.1	1,530.6	864.8	864.7
Capital and reserves					
Called up equity share capital	22, 23	269.1	297.4	269.1	297.4
Share premium account	23	9.7	5.3	9.7	5.3
Other reserves	23	38.5	8.8	38.5	8.8
Profit and loss account	23	1,159.8	1,219.1	547.5	553.2
Total shareholders' funds (all equity)		1,477.1	1,530.6	864.8	864.7

The notes on pages 44 to 57 form part of these financial statements.

Approved by the Board on 28 May 1996.



RM Gourlay
Chairman



CJ Mellor
Group Finance Director

Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Net cash inflow from operating activities	26(a)	352.2	355.5
Returns on investments and servicing of finance			
Interest received		8.0	8.0
Interest paid		(49.5)	(39.1)
Interest element of finance lease rental payments		(6.5)	(3.6)
Dividends paid		(77.5)	(91.2)
Net cash outflow from returns on investments and servicing of finance		(125.5)	(125.9)
Taxation			
Advance corporation tax paid		(19.3)	(16.9)
Investing activities			
Purchase of tangible fixed assets		(246.3)	(289.3)
Investment in infrastructure renewals		(20.9)	(29.9)
Grants and contributions received		22.8	31.3
Investment in associated undertakings		(15.3)	(4.8)
Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	26(b)	(0.1)	(3.6)
Sales of fixed assets		4.5	4.6
Investment in other participating interests		-	(0.8)
Decrease in short term deposits	26(c)	11.4	52.0
Net cash outflow from investing activities		(243.9)	(240.5)
Net cash outflow before financing		(36.5)	(27.8)
Financing			
Loans from the European Investment Bank		120.0	50.0
US\$ Private Placements		85.6	-
Other loans		0.1	1.5
Purchase of own shares		(197.5)	-
New share capital subscribed		2.7	2.1
Repayments of amounts borrowed		(1.4)	(0.4)
Capital element of finance lease rental payments		-	(0.1)
Net cash inflow from financing	26(d)	9.5	53.1
(Decrease)/increase in cash and cash equivalents	26(c)	(27.0)	25.3

The notes on pages 44 to 57 form part of these 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 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 costs of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true and fair view since, as explained above, infrastructure assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 12. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

1. ACCOUNTING POLICIES continued

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 primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

g) Investments

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

	Turnover		Operating profit		Net operating assets	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
2. SEGMENTAL ANALYSIS						
By class of business						
Water supply and sewerage services	659.5	629.7	298.9	262.8	2,383.2	2,190.0
International	131.4	100.2	(5.7)	(6.3)	3.0	(1.5)
Other	-	-	0.5	(0.9)	(0.3)	(0.4)
Less intersegment trading	(15.2)	(9.8)	-	-	-	-
	775.7	720.1	293.7	255.6	2,385.9	2,188.1
By geographical origin						
United Kingdom	687.0	658.5	292.4	257.1	2,385.3	2,185.9
Europe	55.9	43.9	1.0	(0.6)	(2.9)	(1.7)
Other	32.8	17.7	0.3	(0.9)	3.5	3.9
	775.7	720.1	293.7	255.6	2,385.9	2,188.1
By geographical destination						
United Kingdom	685.3	657.9				
Europe	42.5	36.9				
Other	47.9	25.3				
	775.7	720.1				

International operations comprises those segments previously identified as Process Engineering and International.

Intersegment trading represents sales from the international business to the water supply and sewerage services business.

Net operating assets are shown before deduction of net debt, dividends payable and advance corporation tax of £908.8m (1995 - £657.5m).

	1996 £m	1995 £m
3. OPERATING COSTS		
Raw materials and consumables	104.7	81.9
Other external charges	194.7	200.0
Staff costs (see note 10)	120.7	134.2
Change in stocks of finished goods and work in progress	(3.9)	(1.2)
Own work capitalised	(37.8)	(45.8)
	378.4	369.1
Depreciation of tangible fixed assets	90.2	79.7
Amortisation of deferred grants and contributions	(3.9)	(2.2)
Infrastructure renewals	17.3	17.9
	482.0	464.5

Operating costs in 1995 include the exceptional items set out in note 4.

	1996 £m	1995 £m
4. EXCEPTIONAL CHARGES		
External charges:		
- Customer rebates	-	12.0
- Customer trust fund	-	2.0
	-	14.0

5. OPERATING PROFIT	1996 £m	1995 £m
Operating profit is stated after charging/(crediting):		
Share of losses of associated undertakings	0.1	1.6
Dividend receivable from participating interests	0.4	-
Hire of plant and machinery	0.9	0.9
Other operating lease costs	2.7	2.3
Research and development expenditure	6.2	5.1
Grants and contributions	(0.3)	(0.1)
Fees paid to auditors:		
for audit work	0.4	0.4
for other work (including £0.3m overseas (1995 - £0.3m))	0.5	0.9

6. INTEREST PAYABLE (NET)	1996 £m	1995 £m
Overdrafts and short term borrowings	3.6	0.6
Other loans	52.8	42.9
Finance leases	6.7	5.3
	63.1	48.8
Interest receivable	(6.8)	(6.1)
	56.3	42.7

Interest payable on loans includes the indexation element of the Index Linked Loan Stock (see note 17).

7. TAXATION	1996 £m	1995 £m
Advance corporation tax	20.1	19.3

Taxation allowances on past and current year 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 overseas tax liability arises. No provision for deferred taxation is required for the year ended 31 March 1996 (see note 20). Advance corporation tax of £33.2m was paid during the year as part of the cost of the purchase of own shares and has been taken directly to reserves (see note 23)

8. DIVIDENDS	1996 £m	1995 £m
Interim dividend 8.9p (1995 - 8.0p) per ordinary share	23.9	23.7
Proposed final dividend 21.1p (1995 - 18.0p) per ordinary share	56.8	53.6
	80.7	77.3

9. EARNINGS PER SHARE

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation of £218.5m (1995 - £196.8m) by 279.7m (1995 - 296.4m) being the weighted average number of ordinary shares in issue during the year. Earnings per ordinary share would have been 4.7p higher in 1995 if calculated before the exceptional charges. On a nil distribution basis earnings per ordinary share is 85.3p (1995 - 72.9p). Earnings per ordinary share is not materially affected if calculated on a fully diluted basis.

10. EMPLOYEE INFORMATION	1996 £m	1995 £m
Staff costs:		
Wages and salaries	100.7	110.4
Social security costs	10.5	11.1
Other pension costs (see note 24)	9.2	10.7
Employee profit share (see note 22)	0.3	2.0
	120.7	134.2
Average number of full time equivalent persons employed:	1996	1995
Water and sewerage services	4,287	4,832
International	974	901
	5,261	5,733

The numbers include 576 full time equivalent persons employed outside the UK (1995 – 498).

Details of directors' emoluments and interests are included in the report on remuneration and other related matters on pages 37 to 38.

11. 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 £272.5m (1995 – £75.4m). 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.

12. 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 1995	53.8	1,052.5	1,707.3	210.1	3,023.7
Exchange adjustments	0.1	–	–	0.6	0.7
Transfer to current assets	(0.2)	–	–	–	(0.2)
New subsidiaries	–	–	–	0.2	0.2
Additions	1.8	109.9	83.6	73.0	268.3
Disposals	(2.6)	–	(1.3)	(6.7)	(10.6)
At 31 March 1996	52.9	1,162.4	1,789.6	277.2	3,282.1
Grants and contributions					
At 31 March 1995	–	86.6	–	–	86.6
Additions	–	6.9	–	–	6.9
At 31 March 1996	–	93.5	–	–	93.5
Depreciation					
At 31 March 1995	10.5	–	330.9	107.9	449.3
Exchange adjustments	–	–	–	0.5	0.5
Charge for the year	1.8	–	66.2	22.2	90.2
Disposals	(0.6)	–	(1.2)	(5.5)	(7.3)
At 31 March 1996	11.7	–	395.9	125.1	532.7
Net book amount					
At 31 March 1996	41.2	1,068.9	1,393.7	152.1	2,655.9
At 31 March 1995	43.3	965.9	1,376.4	102.2	2,487.8

12. TANGIBLE FIXED ASSETS continued

Tangible fixed assets of the Group at 31 March 1996 include £314.7m of assets in the course of construction (1995 - £276.9m) and also include land of £9.2m (1995 - £9.9m) 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 1996 was £105.2m (1995 - £109.3m). Depreciation charged on assets held under finance leases during the year ended 31 March 1996 amounted to £4.1m (1995 - £4.1m).

The transfer to current assets represents a property due to be sold within the next year.

	Freehold land and buildings £m	Vehicles, plant and equipment £m	Total £m
The Company			
Cost			
At 31 March 1995	1.4	0.1	1.5
Transfer to current assets	(0.2)	-	(0.2)
Disposals	-	(0.1)	(0.1)
At 31 March 1996	1.2	-	1.2
Depreciation			
At 31 March 1995	0.1	-	0.1
Charge for the year	0.1	-	0.1
At 31 March 1996	0.2	-	0.2
Net book amount			
At 31 March 1996	1.0	-	1.0
At 31 March 1995	1.3	0.1	1.4

Investment commitments

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 only the value of orders placed at 31 March 1996.

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Contracted for but not provided in the financial statements	102.8	171.6	-	-

13. INVESTMENTS	Associated undertakings £m	Other participating interests £m	Total £m
The Group			
Shares at cost or amount under equity method of accounting			
At 31 March 1995	0.2	3.9	4.1
Additions	13.3	-	13.3
Share of losses	(0.1)	-	(0.1)
At 31 March 1996	13.4	3.9	17.3
Loans			
At 31 March 1995	8.0	-	8.0
Net movement	(1.3)	-	(1.3)
At 31 March 1996	6.7	-	6.7
Total			
At 31 March 1996	20.1	3.9	24.0
At 31 March 1995	8.2	3.9	12.1

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
Cejen-Anglian LTDA	Brazil	Water & waste water treatment	1,400,000	\$1.4m	37.5	Ordinary \$1 shares
VAKJC a.s.	Czech Rep	Water & waste water treatment	158,440	KCS 158.4m	34	Ordinary KCS1,000 shares
Laqua Services Limited	England	Water & waste water treatment	2	£2	50	Ordinary £1 shares
Exxchange Technology Limited	England	Marketing nitrate removal equipment	10,000	£10,000	50	Ordinary £1 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.

13. INVESTMENTS continued	Cost £m	Provisions £m	Net book amount £m
The Company			
Investment in subsidiary undertakings			
Shares			
At 31 March 1995	867.8	(5.8)	862.0
Additions	1.0	-	1.0
At 31 March 1996	868.8	(5.8)	863.0
Loans			
At 31 March 1995	192.7	-	192.7
Net movement during the year	89.8	-	89.8
At 31 March 1996	282.5	-	282.5
Total			
At 31 March 1996	1,151.3	(5.8)	1,145.5
At 31 March 1995	1,060.5	(5.8)	1,054.7

The principal subsidiary undertakings of the Group are listed in note 27 on page 57.

14. STOCKS	Group	
	1996 £m	1995 £m
Work in progress	6.9	3.4
Payments on account	-	(0.2)
	6.9	3.2
Raw materials and consumables	7.4	7.5
Finished goods	2.6	1.9
	16.9	12.6

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

15. DEBTORS	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts falling due within one year				
Trade debtors	117.2	98.7	-	-
Amounts recoverable on contracts	11.0	6.1	-	-
Amounts owed by subsidiary undertakings	-	-	194.4	76.1
Amounts owed by participating undertakings	0.4	-	-	-
Other debtors	21.0	20.8	0.4	0.7
Prepayments and accrued income	3.6	6.2	-	-
	153.2	131.8	194.8	76.8
Amounts falling due after more than one year				
Trade debtors	0.6	0.8	-	-
Other debtors	0.8	1.1	-	-
	154.6	133.7	194.8	76.8

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank loans, overdrafts and temporary borrowings	15.4	14.9	-	4.8
Current portion of long term loans	7.4	2.5	0.1	1.1
Obligations under finance leases	0.6	-	-	-
Short term borrowings	23.4	17.4	0.1	5.9
Trade creditors	150.9	136.0	-	0.5
Payments on account in excess of contract value	11.1	11.3	-	-
Receipts in advance	52.6	49.2	-	-
Advance corporation tax	20.1	19.3	20.1	19.3
Other taxation and social security	4.2	6.7	0.8	0.8
Accruals and deferred income	40.3	40.5	8.8	7.6
Proposed dividends	56.8	53.6	56.8	53.6
Other creditors	336.0	316.6	86.5	81.8
17. LOANS AND OTHER BORROWINGS FALLING DUE AFTER MORE THAN ONE YEAR				
Repayable wholly after five years				
5 ¹ / ₈ % Index Linked Loan Stock 2008 (a)	125.8	121.5	125.8	121.5
12% Fixed Rate Bond 2014	100.0	100.0	100.0	100.0
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0	-	-
European Investment Bank 2002 (Interest at 8.0%)	60.0	-	-	-
European Investment Bank 2003 (Interest at 6.6%)	10.0	10.0	-	-
European Investment Bank 2005 (Interest at 8.2%)	60.0	-	-	-
US\$122m Private Placements 2006 (d)	79.1	-	79.1	-
US\$10m Private Placement (Interest at 6.71%)	6.5	-	6.5	-
Repayable by instalments, any of which is due for repayment after five years				
European Investment Bank 2004 (Interest at 11.5%)	14.1	15.0	-	-
European Investment Bank 2005 (Interest at 8.5%)	50.0	50.0	-	-
European Investment Bank 2007 (Interest at 10.25%)	10.0	10.0	-	-
European Investment Bank 2007 (Interest at 9.9%)	30.0	30.0	-	-
Finance leases (b)	122.3	122.0	-	-
Other borrowings (c)	23.1	23.4	-	-
Repayable wholly within five years				
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	25.0	25.0	-	-
6 ¹ / ₂ % Fixed Rate Bond 1998	63.4	62.8	63.4	62.8
Other loans (c)	22.7	23.6	20.4	21.2
Total loans and other borrowings	852.0	643.3	395.2	305.5
Less amounts included in creditors falling due within one year	(8.0)	(2.5)	(0.1)	(1.1)
	844.0	640.8	395.1	304.4
Due for repayment as follows:				
Between one and two years	32.0	7.2	20.0	-
Between two and five years	134.5	149.4	63.7	82.9
After five years	677.5	484.2	311.4	221.5
	844.0	640.8	395.1	304.4

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 £4.3m (1995 - £2.8m) has been taken to the profit and loss account as part of interest payable.

17. LOANS AND OTHER BORROWINGS FALLING DUE AFTER MORE THAN ONE YEAR continued

- b) Amounts due under finance leases comprise £0.6m (1995 – nil) payable within one year, £14.4m (1995 – £8.9m) payable between one and five years and £107.3m (1995 – £113.1m) payable after five years.
- c) Of the unspecified loans and other borrowings, £20.1m (1995 – £20.0m) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £1.2m (1995 – £1.3m) secured on the revenues of a subsidiary undertaking.
- d) The Company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$122m Private Placements 2006. Taking account of these swaps, £59.8m of these borrowings are effectively at a fixed interest rate of 8.4% and the balance are at a floating rate of 3 month LIBOR + 0.39%.

	Group	
	1996 £m	1995 £m
18. OTHER CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR		
Trade creditors	1.5	1.7
Receipts in advance	3.6	–
Accruals and deferred income	1.3	3.0
Deferred grants and contributions	81.9	72.1
	88.3	76.8

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

19. PROVISIONS FOR LIABILITIES AND CHARGES	Infrastructure renewals £m	Restructuring costs £m	Acquisition provisions £m	Total £m
The Group				
At 31 March 1995	106.0	31.2	0.3	137.5
Charge for the year	17.3	–	–	17.3
Utilised in the year	(18.4)	(17.9)	(0.3)	(36.6)
At 31 March 1996	104.9	13.3	–	118.2

Of the £13.3m (1995 – £31.2m) balance of restructuring costs, £10.0m (1995 – £18.1m) relates to pension obligations.

There were no provisions for liabilities and charges in the Company.

20. DEFERRED TAXATION

In accordance with the Group's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1996. The Group's full potential deferred taxation liability, calculated under the liability method at a tax rate of 33%, is:

	1996 £m	1995 £m
Accelerated capital allowances	205.9	184.7
Other timing differences	(42.8)	(51.4)
Available tax losses	(25.7)	(46.4)
Advance corporation tax	(83.3)	(52.7)
	54.1	34.2

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £19.9m (1995 – £11.7m).

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 £245.1m (1995 – £218.6m), assuming a tax rate of 33%, have therefore been excluded from the amounts set out above.

In addition to the amounts set out in the table above, there is advance corporation tax of £71.4m (1995 – £48.7m) which will be available to set against the Group's liability on taxable profits arising in future periods.

21. COMMITMENTS UNDER OPERATING LEASES

At 31 March 1996 the Group had commitments to make payments during the next twelve months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
The Group		
Within one year	0.1	0.4
Between one and five years	0.5	1.1
After five years	1.6	-
	2.2	1.5

There were no such commitments by the Company.

22. SHARE CAPITAL OF ANGLIAN WATER PLC	1996 £m	1995 £m
Authorised		
Ordinary shares of £1 each	400.0	400.0
	400.0	400.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	269.1	297.4
	269.1	297.4

In May 1995, 150,703 fully paid ordinary shares were allotted at a market price of £4.98 on conversion of certain loan notes, thereby giving rise to a share premium of £0.6m.

During the year 320,719 options were exercised under the Executive Share Option Scheme at an average price of £3.73, giving rise to a share premium of £0.9m, and 443,406 options were exercised under the Sharesave Scheme at an average price of £2.44, giving rise to a share premium of £0.6m. In August 1995 515,980 fully paid ordinary shares were allotted at an average price of £5.37 to Anglian Water Share Scheme Trustees Limited under an employee profit share scheme, thereby giving rise to a share premium of £2.3m. The total cash consideration amounted to £0.5m with an additional £2.3m having been charged to profits.

In August 1995 the Company purchased for cancellation 29,740,246 of its own shares at a price of £5.48 per share (see note 23)

Details of outstanding options and warrants are shown in the Directors' Report on page 39.

23. MOVEMENT IN SHAREHOLDERS' FUNDS	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	1996 Total £m	1995 Total £m
The Group							
At beginning of year	297.4	5.3	-	8.8	1,219.1	1,530.6	1,412.8
Total recognised gains relating to the year	-	-	-	-	219.1	219.1	196.5
Dividends	-	-	-	-	(80.7)	(80.7)	(77.3)
Goodwill written off	-	-	-	-	(0.2)	(0.2)	(3.9)
New share capital subscribed (see note 22)	1.4	4.4	-	-	-	5.8	2.5
Purchase of own shares	(29.7)	-	29.7	-	(197.5)	(197.5)	-
At end of year	269.1	9.7	29.7	8.8	1,159.8	1,477.1	1,530.6
The Company							
At beginning of year	297.4	5.3	-	8.8	553.2	864.7	864.1
Profit for the financial year	-	-	-	-	272.5	272.5	75.4
Dividends	-	-	-	-	(80.7)	(80.7)	(77.3)
New share capital subscribed (see note 22)	1.4	4.4	-	-	-	5.8	2.5
Purchase of own shares	(29.7)	-	29.7	-	(197.5)	(197.5)	-
At end of year	269.1	9.7	29.7	8.8	547.5	864.8	864.7

The cumulative goodwill taken to reserves, net of goodwill relating to undertakings disposed of, as at 31 March 1996 amounts to £70.9m.

The total cost of £197.5m for the purchase of own shares comprises cost of shares (£163.0m), advance corporation tax (£33.2m) and other expenses (£1.3m).

Other reserves comprise warrants to subscribe for equity share capital as described in the Directors' Report on page 39.

24. 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.

During the year the Scheme's Actuaries undertook a valuation of AWPS. Details of this and the latest actuarial valuation of AWMIS are summarised below.

	AWMIS	AWPS
Date of valuation	31 March 1993	31 March 1995
Actuarial method	Attained age	Projected unit
Main assumptions		
Excess of investment returns over:		
- general salary increases	2.5%	2.5%
- dividend growth	4.5%	4.5%
- annual increases in pensions	4.5%	4.5%
Results		
Market value of assets	£164.2m	£53.3m
Funding level	101%	113%

Both schemes are subject to triennial valuations.

The pensions charge for the year ended 31 March 1996 was £9.2m (1995 - £10.7m). The Company has a commitment to a former director to pay a pension of £5,786 per annum which is adjusted by the increase in the retail price index each year.

25. CONTINGENT LIABILITIES

The Group and Company have entered into a number of performance bonding and guarantee arrangements in the normal course of business, the principal one being in relation to Anglian Water International's £50m contract to design and build a sewage treatment works in Wellington, New Zealand. Provision is made for any amounts that the directors consider may become payable under such arrangements. In addition, the Company has guaranteed the overdrafts of a number of subsidiaries amounting to £14.0m at 31 March 1996 (1995 - £88.0m).

26. NOTES TO THE GROUP CASH FLOW STATEMENT

	1996 £m	1995 £m
a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	293.7	255.6
Depreciation (net of amortisation of deferred grants and contributions)	86.3	77.5
Provision for infrastructure renewals	17.3	17.9
Net movements on other provisions	(18.2)	(28.5)
Employee profit share	0.3	2.0
Other	-	0.3
	379.4	324.8
(Increase)/decrease in working capital:		
Stocks	(3.8)	(1.4)
Debtors	(21.4)	(11.1)
Creditors	(2.0)	43.2
	(27.2)	30.7
Net cash inflow from operating activities	352.2	355.5

Net cash inflow from operating activities for the year ended 31 March 1996, is arrived at after cash outflows of £17.9m (1995 - £28.0m) in relation to the 1994 exceptional restructuring charge, and £11.9m relating to 1995 exceptional charges.

	1996 £m	1995 £m
b) Purchase of subsidiary undertakings		
Fair value of net assets/(liabilities) acquired	0.2	(0.5)
Goodwill	0.2	3.5
Consideration	0.4	3.0
Deferred payments relating to prior year acquisitions	-	0.6
Deferred consideration	(0.3)	-
Satisfied in cash	0.1	3.6
Cash acquired	-	(0.4)
Bank overdrafts of subsidiaries acquired	-	0.4
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	0.1	3.6

Change in year

c) Analysis of cash and cash equivalents as shown in the balance sheet	1996 £m	1995 £m	1996 £m	1995 £m
Cash and deposits	27.0	53.5	(26.5)	24.0
Bank loans, overdrafts and temporary borrowings	(15.4)	(14.9)	(0.5)	1.3
	11.6	38.6	(27.0)	25.3

Cash and deposits above includes only investments which were within three months of maturity when acquired. At 31 March 1996 the Group also held deposits of £8.6m (1995 - £20.0m) which were more than three months but less than one year from maturity when acquired.

26. NOTES TO THE GROUP CASH FLOW STATEMENT continued	Loans and other borrowings		Share capital, share premium and other reserves	
	1996 £m	1995 £m	1996 £m	1995 £m
d) Analysis of changes in financing during the year				
At beginning of year	643.3	588.3	311.5	309.0
Cash inflow from financing (excluding purchase of own shares)	204.3	51.0	2.7	2.1
Indexation of loan stock	4.3	2.8	-	-
Amortisation of discount and expenses relating to debt issue	0.6	0.5	-	-
Deferred finance charges on finance lease arrangements	0.3	1.1	-	-
Conversion of loan notes into shares	(0.8)	(0.4)	0.8	0.4
Employee profit share scheme	-	-	2.3	-
At end of year	852.0	643.3	317.3	311.5

27. PRINCIPAL GROUP COMPANIES

The principal subsidiary undertakings at 31 March 1996 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.
International		
AWI Holdings Limited* (formerly Anglian Water Processes Limited)	England	Holding company
Purac Engineering Inc.	USA	Contracting for water and sewerage treatment processes.
Purac AB	Sweden	
Purac Industry AB	Sweden	
Purac Leuna GmbH	Germany	
Anglian Water International Pty Limited	Australia	
Purac Limited	England	
Purac Water Spolka Z.o.o.	Poland	
Kaldnes Miljøteknologi A/S	Norway	
Aquafine Engineering Services Limited	England	
Axel Johnson Engineering GmbH	Germany	
Fluid Systems Corporation Inc.	USA	
Nordic Water Products AB	Sweden	
Noxon AB	Sweden	
Zickert Products AB	Sweden	
Alpheus Environmental Limited	England	Waste water treatment
Other group companies		
Anglian Water International Limited	England	Engineering consultancy services
Anglian Water International (NZ) Limited	New Zealand	Management and operation of waste water projects
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. All shareholdings are of ordinary equity share capital. 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 41 to 57 (including the additional disclosures on pages 37 and 38 relating to the remuneration of directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention and the accounting policies set out on pages 44 and 45.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 34, 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.

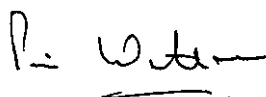
BASIS OF OPINION

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 and the Group'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 as at 31 March 1996 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,
19 Cornwall Street,
Birmingham B3 2DT

28 May 1996

Price Waterhouse



Group Financial History

PROFIT AND LOSS ACCOUNT	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Turnover					
Water supply and sewerage services	514.2	561.1	594.5	629.7	659.5
International	12.1	23.7	97.4	100.2	131.4
Other	2.6	5.4	5.0	-	-
Less intersegment trading	(5.8)	(7.0)	(9.0)	(9.8)	(15.2)
	523.1	583.2	687.9	720.1	775.7
Operating profit					
Water supply and sewerage services	195.5	216.2	171.8*	262.8*	298.9
International	0.5	(3.8)	0.8	(6.3)	(5.7)
Other	(1.6)	(0.6)	(4.3)	(0.9)	0.5
Less intersegment trading	(0.4)	(0.2)	(0.6)	-	-
	194.0	211.6	167.7	255.6	293.7
Profit on sales of assets	0.2	3.3	1.6	3.2	1.2
Interest payable (net)	(22.9)	(29.5)	(37.1)	(42.7)	(56.3)
Profit on ordinary activities before taxation	171.3	185.4	132.2	216.1	238.6
Taxation	(19.0)	(19.0)	(16.9)	(19.3)	(20.1)
Profit for the financial year	152.3	166.4	115.3	196.8	218.5
Dividend per ordinary share	19.3p	21.1p	22.8p	26.0p	30.0p
Earnings per ordinary share	51.7p	56.4p	39.0p	66.4p	78.1p
Earnings per ordinary share before exceptional charges	51.7p	56.4p	59.2p	71.1p	78.1p
Balance sheet					
Fixed assets	1,814.3	2,053.5	2,315.5	2,499.9	2,679.9
Net current liabilities†	(82.7)	(137.3)	(161.9)	(170.3)	(164.5)
Long term liabilities	(32.2)	(48.6)	(66.4)	(76.8)	(88.3)
Provisions for liabilities and charges	(86.9)	(106.1)	(171.4)	(137.5)	(118.2)
Net borrowings	(303.8)	(392.5)	(503.0)	(584.7)	(831.8)
Shareholders' funds	1,308.7	1,369.0	1,412.8	1,530.6	1,477.1

*After exceptional charges of £60.0m in 1994 and £14.0m in 1995.

†Excluding cash and deposits and short term borrowings.

Shareholder information

Analysis of shareholdings (as at 31 March 1996)	Number of shareholders	%	Number of shares held	%
1 - 99	3,091	3.6	147,484	-
100 - 499	43,688	51.0	8,486,701	3.2
500 - 999	30,554	35.7	20,379,913	7.6
1,000 - 4,999	7,061	8.3	10,713,564	4.0
5,000 - 9,999	267	0.3	1,758,329	0.7
10,000 - 49,999	433	0.5	9,801,003	3.6
50,000 - 99,999	137	0.2	9,428,763	3.5
100,000 - highest	327	0.4	208,366,977	77.4
	85,558	100.0	269,082,734	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 01480 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 0121 433 8000.

Registered office

Anglian Water Plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE18 6NZ. Telephone 01480 443000. Fax 01480 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.



Anglian Water Plc, Anglian House, Ambury Road,
Huntingdon, Cambridgeshire PE18 6NZ.

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.

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, for which the actual expenditures 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.

SUBSIDIARY UNDERTAKING

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

WARRANT

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

