

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 1990

 **Anglian Water
Services Limited**

2366656



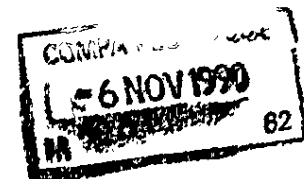
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DIRECTORS' REPORT

The Directors present their Report, together with the Accounts for the year ended 31 March 1990.

Company History

The Company was incorporated on 1 April 1989. On 1 September 1989 the property, rights and liabilities of Anglian Water Authority (other than those transferred to the National Rivers Authority) were vested in the Company in accordance with the Water Act 1989. Also on 1 September 1989 the Secretary of State for the Environment appointed the Company as a water and sewerage undertaker in accordance with the terms of an Instrument of Appointment ("the Licence"). The Company is a wholly owned subsidiary of Anglian Water Plc.

Regulatory Information

The Company's activities are principally regulated by the Water Act 1989, the regulations made under that Act and the conditions of the Licence. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage functions.

Under the conditions of the Licence the Company is obliged to provide the Director General of Water Services with additional accounting information to that contained in the statutory accounts in order to comply with Licence Condition F. This information is presented on pages 21 to 24 for the benefit of customers and other interested parties.

Pages 25 to 28 include current cost accounting information which the Director General requires to judge the financial performance of the regulated business.

Subsequent events

In accordance with an agreement dated 30 September 1989, on 1 April 1990 the Company transferred certain business activities and assets and liabilities, at book values, to its fellow subsidiaries Anglian Water Engineering and Business Systems Limited and Anglian Water Commercial Developments Limited. Further details are set out in note 27 on page 17.

Principal activities and Business Review

The principal activities of the Company during the year were water supply and distribution, sewerage and sewage treatment and disposal.

As part of the capital restructuring of the Anglian Water Group prior to flotation, as described in note 23 on page 16, some £752.3m of Government debt was written-off. Further details of the capital restructuring are set out in note 22 on page 15.

As described in the Prospectus of Anglian Water Plc, the Company has a substantial long term investment programme of some £3.5 billion (at November 1989 prices) over the 10 years to 31 March 2000. This programme will bring about major improvements in water quality and in the water environment. The programme is on course and on budget. In the current year the Company will be spending more in real terms than in the year to 31 March 1990 and launching nearly 300 new investment schemes.

From 1 April 1990 the Company has been subject to economic regulation by the Director General of Water Services. In addition to expenditure required by the investment programme, substantial additional expenditure may be required in respect of existing or future legal or regulatory obligations. Under the new regulatory regime, the Company is allowed to increase the average of its principal charges by the percentage change in RPI plus an adjustment factor "K" (currently 9.9%). Much of the additional investment expenditure would be eligible for consideration for an increase in the K factor.

Results and dividends

The results of the Company and the dividends for the year ended 31 March 1990 are set out on page 5.

Directors and Directors' interests

The first Directors of the Company were Mr JAE Gurnea and Mr AD Whetnall, nominees of HM Government, both of whom resigned on 31 August 1989.

The present Directors are set out below and all were appointed on 31 August 1989 except for Mr C J Mellor who was appointed on 23 April 1990.

Mr A G Semple served as Chairman from 1 September 1989 until 23 April 1990 when he was replaced by Mr A F Smith.

The beneficial interests of the Directors in the shares of Anglian Water Plc and in options over such shares granted under that company's Sharesave Option Scheme and Executive Share Option Scheme as at 31 March 1990 are set out below. Option prices for the Sharesave and Executive Share Option Schemes are £1.76 and £2.99, respectively. The beneficial interests in shares also represent the holdings at 12 December 1989, the date on which the shares of Anglian Water Plc were admitted to the Official List, except in the case of Mr Mellor where the relevant date is 23 April 1990, the date of his appointment.

	Shares	Options	
		Sharesave Option Scheme	Executive Share Option Scheme
A F Smith ^o	786	6,136	35,117
J A Simpson ^o	786	6,136	35,117
A G Semple ^o	1,096	4,772	37,625
C J Mellor ^o	1,687	2,045	6,613
T Bolongaro	1,495	6,136	6,613
J W Green	2,291	7,159	6,613
D C Flaham	1,481	6,136	7,142
P J Matthews	3,295	7,159	6,613

^oThese beneficial interests in shares and options are the same as, and not additional to, those reported in the Annual Report of Anglian Water Plc.

None of the Directors had during the year or has a material interest in any contract of significance to which the Company or any other Group company is or was a party.

Share capital

Details of the changes in the Company's share capital are shown in note 22 on page 15.

Fixed assets

Movements in tangible fixed assets are shown in note 12 on page 12.

Employee involvement

It is the Company's policy to keep employees fully informed of matters affecting them as employees and to make them aware of the financial and economic factors influencing the Company's performance. This is done through announcements, briefings and the Anglian Water Plc group magazine.

Share option schemes are in place with the Anglian Water Plc group which encourage the involvement of participants in the Company's performance.

The care and maintenance of the health and safety of employees and the public is a corporate objective. The Company operates an equal opportunities policy.

Disabled employees

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 any employee becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical with that of other employees.

Auditors

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

By Order of the Board

Malcolm Brown
Company Secretary

11 June 1990

Registered Office:
Ambury Road
Huntingdon
Cambridgeshire PE18 6NZ.

AUDITORS' REPORT TO THE MEMBERS OF
ANGLIAN WATER SERVICES LIMITED

We have audited the financial statements on pages 5 to 17 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 1990 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
PRICE WATERHOUSE
Chartered Accountants
Birmingham

11 June 1990

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1990

	Notes	1990 £m
TURNOVER	1	401.3
Operating costs	2	(243.6)
Exceptional items	3	(3.0)
OPERATING PROFIT	1, 4	154.7
Other income	5	0.4
Interest	6	(69.0)
PROFIT ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION	7	86.1
Extraordinary items	8	(7.7)
PROFIT FOR THE FINANCIAL YEAR		78.4
Dividends	9	(905.5)
TRANSFER FROM RESERVES	23	(827.1)

The accounting policies and notes on pages 8 to 17 form part of these financial statements.

BALANCE SHEET

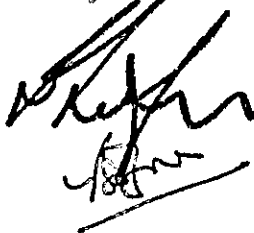
At 31 March 1990

	Notes	1990 £m
FIXED ASSETS		
Tangible assets	12	1,424.3
Investments	13	0.5
		1,424.8
CURRENT ASSETS		
Stocks and work in progress	14	6.8
Debtors	15	66.6
Cash and deposits		1.7
		75.1
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Short term borrowings	16	134.7
Other creditors	16	151.9
NET CURRENT LIABILITIES		
		211.5
TOTAL ASSETS LESS CURRENT LIABILITIES		
		1,213.3
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		
Loans and other borrowings	17	49.9
Other creditors	18	5.6
		55.5
PROVISIONS FOR LIABILITIES AND CHARGES		
	19	28.9
		1,128.9
CAPITAL AND RESERVES		
Called up share capital	22	860.0
Profit and loss account	23	268.9
		1,128.9

Approved by the Board on 11 June 1990

J A SIMPSON
Managing Director

T BOLONGARO
Finance Director



The accounting policies and notes on pages 8 to 17 form part of these financial statements

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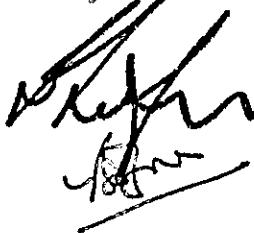
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REGULATORY INFORMATION
Additional information required by the Licence

1. Accounting policies

The accounting policies are set out on pages 8 and 9.

2. Statement of assets and liabilities and source and application of funds

Substantially all the assets and liabilities of the Company shown on page 6 are considered to relate to the appointed business.

Separate accounting records have not been maintained for the non-appointed businesses in view of their immateriality. Consequently it is neither practical nor meaningful to prepare a separate balance sheet or source and application of funds statement for the non-appointed businesses.

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

The non-appointed businesses relate mainly to the sale of computer time to external users and the provision of engineering and plumbing services.

These activities have been segregated within the accounting records only with respect to turnover, debtors and stocks and work in progress. At 31 March 1990 these amounted to £2.5m, £0.9m and £nil, respectively. Operating costs have been allocated pro rata to the level of sales attributable to the non-appointed businesses.

4. Allocations to principal service

(i) **Operating Costs.** The majority of costs are incurred directly by specific service and have not required allocation. Divisional administration costs are allocated pro rata to direct operating costs. Office and managerial costs are allocated according to time spent on each principal service by the staff concerned.

The charge for infrastructure renewals is based on the Asset Management Plan, which sets out planned infrastructure spending over a 20 year period. The allocation largely reflects the high investment planned to satisfy water quality concerns.

(ii) **Capital Costs.** The majority of capital costs, and hence the related depreciation charges, are incurred directly by specific service and have not required allocation.

5. Ring fencing

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

SOURCE AND APPLICATION OF FUNDS STATEMENT

For the year ended 31 March 1990

	1990 £m
SOURCE OF FUNDS	
Profit on ordinary activities	86.1
Extraordinary items	(7.7)
Items not involving the movement of funds:	
Depreciation	32.6
Profit on sales of fixed assets	(0.4)
Provisions charged	32.7
	143.3
Issue of shares	859.9
Capital grants and contributions	8.9
Proceeds from sales of fixed assets	2.4
Loans	120.0
	1,134.5
APPLICATION OF FUNDS	
Capital expenditure:	
Tangible assets	(188.7)
Investments	(0.3)
Loan repayments	(172.2)
Dividend paid	(859.9)
Divestment of the NRA	(15.8)
Finance lease repayments	(0.6)
Provisions applied	(8.3)
Creditors: amounts falling due after more than one year ^o	(2.4)
	(113.7)
(INCREASE)/DECREASE IN WORKING CAPITAL	
Stocks and work in progress ^o	(0.2)
Debtors ^o	(15.4)
Creditors: amounts falling due within one year ^o	36.2
	(93.1)
INCREASE/(DECREASE) IN NET LIQUID FUNDS	
Cash and bank balances ^o	1.5
Short term borrowings and overdrafts ^o	(94.6)
	(93.1)

^oThe movements shown above are after adjusting for the assets and liabilities deemed to have vested in the Company as at 1 April 1989 which were formerly in the ownership of Anglian Water Authority. Further details are set out in note 26.

The accounting policies and notes on pages 8 to 17 form part of these financial statements.

ACCOUNTING POLICIES

In accordance with Section 91 of the Water Act 1989, these financial statements incorporate the results of the activities of Anglian Water Authority from 1 April 1989 which were vested in the Company on 1 September 1989.

The results exclude the activities of Anglian Water Plc, the Company's holding company, which commenced trading on 1 September 1989. During the period 1 September 1989 to 31 March 1990 certain assets and liabilities were transferred, at book value, from the Company to Anglian Water Plc.

No comparative financial information has been provided as the Company did not commence trading until 1 September 1989. Details of the balances deemed to have vested in the Company as at 1 April 1989 are set out in note 26.

The financial statements have been prepared under the historical cost convention applying the following principal accounting policies:

A) TURNOVER

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for services provided.

B) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets comprise:

- (i) Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls); and
- (ii) Other assets (including properties, overground plant and equipment).

(a) Infrastructure assets

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increase in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

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 in the profit and loss account of Anglian Water Authority for the year ended 31 March 1989 comprised the actual expenditure on maintaining the operating capability of infrastructure networks.

With effect from 1 April 1989 the charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the Company's Asset Management Plan and Surface Investment Requirement, which differ from the operational policies and standards previously adopted by Anglian Water Authority. 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 Anglian's 20 year Asset Management Plan.

(b) Other assets

Other assets are included at cost less accumulated depreciation. Additions are included at cost, after deducting grants and contributions.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings	30 - 60 years
Operational structures	40 - 80 years
Fixed plant	20 - 40 years
Vehicles, mobile plant and computers	4 - 10 years

Assets in the course of construction are not depreciated until commissioning.

C) 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 charges being written off to the profit and loss account over the period of the lease in reducing amounts in relation to the written down amount. 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 in the year they are incurred.

D) RELATED COMPANIES

The treatment of a company as a related company has regard to the Company's holding of at least 20% of the equity capital, representation on its Board of Directors and participation in policy making, including dividend policy.

Anglian Water Services' share of the profits of these companies is included in the profit and loss account and the investments are shown in the balance sheet at the Company's share of the net tangible assets of the companies less provisions.

E. INVESTMENTS

Investments held as fixed assets other than related companies are stated at cost less amounts written off.

F. STOCKS AND WORK IN PROGRESS

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

G. PENSION COSTS

Prior to 1 September 1989 ("Vesting", Anglian Water Authority participated in two pension schemes, the Local Government Superannuation Scheme ("LGSS") through a single central fund for all Water Authorities, the Water Authorities Superannuation Fund ("WASF"), and the Anglian Water Pension Scheme ("AWPS").

Contributions to WASF were determined actuarially to fund pension benefits over employees' service lives, excluding pensions increases. The contributions were charged to the profit and loss account when the amounts were payable. Anglian Water Authority was not empowered under LGSS to pre-fund for statutory increases to pensions and for supplementary arrangements. Statutory increases to pensions, and lump sum payments and augmentations under supplementary arrangements, were charged to the profit and loss account when the amounts were payable.

Since Vesting, the Anglian Water Group has continued to operate AWPS and has introduced the Anglian Water Mirror Image Pension Scheme ("AWMIS") set up to require the same employee contributions and provide the same benefit structure as LGSS. At Vesting AWMIS and AWPS were fully funded for past service (including past service liabilities for pensions increases) by actuarially determined transfers of assets from WASF calculated after making allowance for future salary increases and on the basis of actuarial assumptions specified by the Secretary of State. The amount charged to the profit and loss account therefore represents the full cost of providing pensions in the period prior to Vesting.

Pension costs for AWMIS and AWPS are determined actuarially so as to spread the cost of providing pension benefits over the estimated period of employees' service with the Anglian Water Group.

H. RESEARCH AND DEVELOPMENT

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

I. DEFERRED TAXATION

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

NOTES TO THE FINANCIAL STATEMENTS

1 Analysis of turnover and operating profit by class of business

	Turnover	Operating profit
	1990	1990
	£m	£m
Water supply	161.9	31.2
Sewerage services	236.9	123.7
Other trading activities	2.5	(0.2)
	401.3	154.7

Substantially all turnover and operating profit arise in the UK.

2 Operating costs

	1990
	£m
Raw materials and consumables	22.0
Other external charges	109.3
Staff costs (see note 10)	64.0
Own work capitalised	(16.5)
	178.8
Depreciation of fixed tangible assets	32.6
Infrastructure renewals	32.2
	243.6

3 Exceptional items

	1990
	£m
Restructuring and relocation costs	3.0

4 Operating profit

	1990
	£m
Operating profit is stated after charging:	
Hire of plant and machinery	0.9
Other operating lease costs	0.4
Auditors' remuneration	0.2
Research and development expenditure	1.9

5 Other income

	1990
	£m
Profit on sale of tangible fixed assets	0.4

6 Interest	1990 £m
Interest payable	
Overdrafts and other loans repayable wholly within five years	69.1
Long term loans (any part payable after five years)	0.6
Finance leases	0.5
	70.2
Interest receivable	(1.2)
	69.0

Interest payable on overdrafts and other loans repayable wholly within five years includes amounts payable to the holding company in respect of finance charges.

- 7 Taxation**
The Company became liable to corporation tax on 1 September 1989. Taxation allowances on capital expenditure are sufficient to ensure that no corporation tax liability arises. No provision for deferred taxation is required at 31 March 1990 (see note 20).

8 Extraordinary items	1990 £m
Privatisation costs	7.7
9 Dividends	1990 £m
Interim dividend paid (see below)	859.9
Final proposed dividend	45.6
	905.5

The interim dividend was declared and paid as part of the capital restructuring of the Anglian Water Plc Group immediately prior to and consequent upon the privatisation of the Group. The liability arising on declaration of the dividend was ultimately satisfied by way of an issue of ordinary shares (see note 22).

10 Employee information	1990 £m
Staff costs:	
Wages and salaries	54.8
Social security costs	4.0
Other pension costs (see note 24)	5.2
	64.0

Average number of full time equivalent persons employed in the UK:

Numbers employed	Total 4,328
------------------	----------------

The number of employees of the Company with emoluments exceeding £30,000 were as follows:

	Number of employees
	1990
£30,001 - £35,000	53
£35,001 - £40,000	18
£40,001 - £45,000	4
£45,001 - £50,000	3
£50,001 - £55,000	1

The details of staff costs and numbers include those employees who were subsequently transferred under the arrangements reported in note 27.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11 Emoluments of Directors

The emoluments of the Directors noted below include their emoluments for the entire period since 1 April 1989.

	1990 £'000
Fees	—
Other emoluments	440
	440
The emoluments of the Chairman, excluding pension contributions, were*	77

The emoluments (excluding pension contributions) of the other Directors of the Company during the year were within the following ranges:

	Number of Directors 1990
£0 – £5,000	2
£40,001 – £45,000	2
£45,001 – £50,000	2
£70,001 – £75,000*	2

*These emoluments are the same as, and not additional to, those reported in the Annual Report of Anglian Water Plc.

12 Tangible fixed assets

	Water supply £m	Sewerage services £m	Other trading activities £m	General £m	Total £m
Cost					
At 1 April 1989	492.9	881.5	0.6	91.3	1,466.3
Additions	57.6	105.7		24.4	188.7
Grants and contributions	11.8	17.0		10.1	38.9
Disposals		(0.4)		(2.3)	(2.7)
Intra-group transfers				(0.9)	(0.9)
At 31 March 1990	508.7	980.8	0.6	112.4	1,602.5
Depreciation					
At 1 April 1989	10.5	84.3	0.1	28.3	123.2
Charge for year	6.1	15.4		1.1	32.6
Disposals				(1.0)	(1.0)
Intra-group transfers				(0.6)	(0.6)
At 31 March 1990	36.6	103.7	0.1	37.8	178.2
Net book amount					
At 31 March 1990	472.1	877.1	0.5	74.6	1,424.3

General assets comprise assets which are shared by a number of services.

Tangible fixed assets at 31 March 1990 include £1.5m of assets in the course of construction.

Tangible fixed assets include assets not subject to depreciation as follows:

	1990 £m
Land	5.9
Infrastructure assets	655.0
	660.9

The net book value of tangible fixed assets held under finance leases at 31 March 1990 was £1.8m. Depreciation charged on assets held under finance leases during the year ended 31 March 1990 amounted to £1.7m.

12 Tangible fixed assets - Continued

Investment commitments

The Company has a substantial long term investment programme, which has been derived from its Asset Management Plan for underground assets and its Surface Investment Requirement for overground assets. The long term investment programme, which was agreed with the Government as part of the K setting process, "the K investment programme", includes expenditure to meet regulatory requirements and shortfalls in performance and condition and to provide for new demand and growth.

The aggregate investment expenditure stated at the time of the Prospectus was some £3.5 billion (at November 1989 prices) over the 10 years to 31 March 2000.

In addition to expenditure required by the K investment programme, substantial additional expenditure may be required in respect of existing or future legal or regulatory obligations. Much of this expenditure would be eligible for consideration for adjustment to the K factor.

The table below includes only the Company's short term investment commitments for projects where contracts have been placed or for authorised projects where contracts have not yet been placed:

	1990 £m
Contracted for but not provided in the financial statements	78.7
Authorised but not yet contracted for	431.3

13 Investments

	Related companies £m	Other investments £m	Total £m
Shares at valuation			
At 1 April 1989	—	0.1	0.1
Additions	—	0.1	0.1
At 31 March 1990	—	0.2	0.2
Loans			
At 1 April 1989	0.1	—	0.1
Net movements during the year	0.1	—	0.1
At 31 March 1990	0.2	—	0.2
Net book amount			
At 31 March 1990	0.2	0.2	0.4

The related companies are:

	Country of operation	Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
Grafham Carbons Limited	UK	Regeneration of granular activated carbon	4,000	£4,000	50	ordinary £1 shares
Hensby Biotech Limited	UK	Compost processing	1,000	£1,000	49	ordinary £1 shares

The Company also owns a number of non-trading companies.

14 Stocks and work in progress

	1990 £m
Consumable stores	5.6
Work in progress	1.2
	6.8

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

15 Debtors

	1990 £m
Amounts falling due within one year:	
Trade debtors	49.5
Other debtors	11.9
Prepayments and accrued income	1.8
	63.2
Amounts falling due after more than one year:	
Other debtors	3.4
	66.6

Included in other debtors is £3.5m due from Thames Water Plc in respect of assets transferred in a previous year.

16 Creditors: Amounts falling due within one year

	1990 £m
Bank loans, overdrafts and temporary borrowings	132.7
Current portion of long term loans	0.7
Obligations under finance leases	1.3
Short term borrowings	134.7
Trade creditors	60.7
Amounts owed to Group companies	10.5
Receipts in advance	33.1
Other taxation and social security	1.4
Accruals and deferred income	0.6
Proposed dividend	45.6
Other creditors	151.9

17 Loans and other borrowings falling due after more than one year

	1990 £m
Repayable wholly within 5 years	2.5
Repayable by instalments, any one of which is due for repayment after 5 years	47.3
Repayable after 5 years	0.1
	49.9
Due for repayment as follows:	
Between 1 and 2 years	2.2
Between 2 and 5 years	3.3
After 5 years	44.4
	49.9

Interest rates are in the range of 5.1% to 11.5%. Loans and other borrowings of approximately £19.8m are at fixed rates and the remainder are at variable rates.

Loans and other borrowings include £4.9m secured on the revenues of the Company.

Included in the above are amounts due under finance leases of £1.7m, payable between one and five years.

18 Other creditors falling due after more than one year

	1990 £m
Trade creditors	3.0
Receipts in advance	2.6
	5.6

19 Provisions for liabilities and charges

	Infrastructure renewals £m	Restructuring costs £m	Total £m
At 1 April 1989	—	4.5	4.5
Utilised in year	(3.3)	(2.2)	(5.5)
Charge for year	32.2	0.5	32.7
Intra-group transfer	—	(2.0)	(2.8)
At 31 March 1990	28.9	—	28.9

20 Deferred taxation

In accordance with the Company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1990.

The full potential deferred taxation liability, calculated under the liability method at a tax rate of 35%, is:

	1990 £m
Accelerated capital allowances	18.3
Other timing differences	(6.9)
Available tax losses	(11.4)
	Nil

In addition to the amounts set out above, there are the following amounts, calculated at a tax rate of 35%, which will be available to set against the Company's liability on taxable profits arising in future periods:

	1990 £m
Available tax losses	14.9

Also, further capital allowances will become available in respect of infrastructure assets. These allowances will reduce the Company's corporation tax liability over a number of years by £174.7m, assuming a tax rate of 35%.

21 Commitments under operating leases

	Land and buildings £m	Other £m
At 31 March 1990 the Company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows		
Within 1 year	—	0.1
Between 1 and 5 years	—	0.3
After 5 years	0.5	—
	0.5	0.4

22 Share capital

	1990 £m
Authorised	
Ordinary shares of £1 each	860.0
Allotted, issued and fully paid	
Ordinary shares of £1 each	860.0

The Company was incorporated on 1 April 1989 with an authorised share capital of 100 £1 ordinary shares of which two were issued. On 29 August 1989 a resolution was passed to increase the authorised share capital to 50,000 £1 ordinary shares and a further 49,998 were issued. On 20 November 1989 the authorised share capital was further increased to 860 million £1 ordinary shares and a further 859,950,000 shares were issued at par to Anglian Water Plc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

23 Profit and Loss Account

	£m
At 1 April 1989 as reported in the Prospectus issued in November 1989	359.6
Adjustments relating to the divestment of the National Rivers Authority	(15.8)
Intra-group debt written off (see below)	752.3
Capitalisation issue of shares on 29 August 1989 (see note 22)	(0.1)
Profit and loss account	(827.1)
At 31 March 1990	268.9

As part of the capital restructuring of the Anglian Water Plc group prior to flotation, loans amounting to £813.3m were transferred at book value from the Company to Anglian Water Plc. These loans were subsequently written off by the Secretary of State for the Environment and the Public Works Loan Commissioners. In addition, Anglian Water Plc issued a £61.0m debenture to HM Treasury. As a consequence of the foregoing Anglian Water Plc wrote off loans totalling £752.3m (being £813.3m less £61.0m) due from the Company.

The results for the year are after paying an interim dividend of £859.9m as part of the capital restructuring referred to above.

24 Pension commitments

Pension arrangements for the majority of the Company's employees are of the defined benefit type through:

- (i) The Anglian Water Mirror Image Pension Scheme ("AWMIS")
- or (ii) The Anglian Water Pension Scheme ("AWPS").

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

Pending the first actuarial valuations of AWMIS and AWPS, the Company is contributing to AWMIS at a rate of 12.8% of pensionable pay and to AWPS at the rate of 12.5% of pensionable pay. Lower employer contribution rates apply in respect of members of AWPS with the lower benefit packages. Clay and Partners have confirmed that employer contributions at these interim rates together with contributions payable by the members, are appropriate to meet the benefits to be earned in the future, and constitute acceptable rates for determining pension costs for accounting purposes in accordance with the requirements of Statement of Standard Accounting Practice No. 24. The employer's contributions for the year ended 31 March 1990 were as follows:

	1990 £m
WASF pre Vesting	1.3
AWMIS	2.8
AWPS	1.1
	5.2

The actuarial methods used in determining the above contribution rates were the attained age method and the projected unit method for AWMIS and AWPS respectively. The main actuarial assumptions were that investment returns would be 2% higher than general salary increases, 3.5% higher than dividend growth and 3.5% and 4% higher than annual increases in pensions for AWMIS and AWPS respectively.

Other pension related costs of £2.0m arise as a result of the arrangements made when the water industry was reorganised in 1974. Most of these costs relate to pension increases for pre 1974 employees, payments in respect of which are made by the local authorities or other bodies who are responsible for the basic pension. From 1 April 1990 these costs will not be borne by the Company.

25 Contingent liabilities

There were contingent liabilities at 31 March 1990 in respect of bridging guarantees amounting to £0.9m.

26 Source and application of funds

Set out below are details of the assets and liabilities as at 1 April 1989 which were legally vested in the Company under the Water Act 1989.

Assets	£m	Liabilities	£m
Tangible fixed assets	1,279.1	Short term borrowings	164.7
Investments	0.2	Other creditors due within one year	70.1
Stocks	6.6	Loans and other borrowings falling due after more than one year	730.4
Debtors	51.2	Other creditors due after more than one year	8.0
Cash and deposits	0.2	Provisions for liabilities and charges	4.5
			977.7
		Financed by:	
		Revenue reserves	359.6
	1,337.3		1,337.3

27 Subsequent events

In accordance with an agreement dated 30 September 1989, on 1 April 1990 the Company transferred at book value certain business activities and the related assets and liabilities to its fellow subsidiaries, Anglian Water Engineering and Business Systems Limited and Anglian Water Commercial Developments Limited. In the period from 1 October 1989 to 31 March 1990 these companies traded as undisclosed agents for the Company in respect of the following activities:

	Activities
Anglian Water Engineering and Business Systems Limited	Engineering, computing, customer accounting and exchequer services to Group companies and external clients. The company also provides consultancy services in the UK and overseas.
Anglian Water Commercial Developments Limited	Fabrication Services.

The aggregate value of the activities and net assets transferred by the Company on 1 April 1990 is not material to its financial statements.

28 Ultimate holding company

The Company's ultimate holding company is Anglian Water Plc.

REGULATORY INFORMATION

REGULATORY INFORMATION

Report of the Auditors to the Director General of Water Services

We have audited the accounting statements set out on pages 21 to 28 in accordance with Auditing Standards.

In our opinion:

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3, Condition F of the Instrument of Appointment.
- (b) The accounting statements are in agreement with the Appointee's accounting records and comply with the relevant paragraphs of the Instrument of Appointment (and guidelines issued by the Director General of Water Services).
- (c) The accounting statements, prepared under the historical cost convention, set out on pages 5 to 17 and 21 to 24 represent a true and fair view of the revenues, costs, assets and liabilities of, or reasonably attributable to, the business and activities described in paragraph 4, Condition F of the Instrument of Appointment.
- (d) The current cost financial statements set out on pages 25 to 28, as required by paragraph 8, Condition F of the Instrument of Appointment have been properly prepared in accordance with the current cost accounting policies and methods described on page 26.

Price Waterhouse.

PRICE WATERHOUSE
Chartered Accountants
Birmingham

11 June 1990

REGULATORY INFORMATION

The aggregate profit and loss account for Anglian Water Services Limited is set out in the historical cost accounts on page 5.

As required by Licence Condition F a supplementary analysis of the profit and loss account between appointed and non-appointed business, and which provides details of operating profit by principal service, is set out below.

Profit and loss account for the year ended 31 March 1990

	Appointed business		Non-appointed business	Total
	Water supply	Sewerage services		
TURNOVER	£m	£m	£m	£m
Measured	43.7	33.9	—	77.6
Unmeasured	94.9	183.2	—	278.1
Trade effluent	—	12.3	—	12.3
Grants	0.2	—	—	0.2
All other sources	23.1	7.5	2.5	33.1
Total turnover	161.9	236.9	2.5	401.3

	Appointed business			Sewerage services	Non-appointed business	Total
	Water supply	Sewerage	Sewage treatment and disposal			
EXPENDITURE	£m	£m	£m	£m	£m	£m
Manpower costs	25.4	5.2	20.9	26.1	—	51.5
Other costs of employment	1.6	0.3	1.1	1.4	—	3.0
Power	12.7	0.9	7.1	8.0	—	20.7
Rates	10.9	—	6.7	6.7	—	17.6
Water charges (including abstraction and bulk supplies)	5.4	—	0.1	0.1	—	5.5
Local authority agencies	—	8.6	—	8.6	—	8.6
Materials and consumables	12.6	1.3	6.9	8.2	—	20.8
Hired and contracted services	12.2	3.0	11.5	14.5	—	26.7
Doubtful debts	1.1	0.5	0.8	1.3	—	2.4
Discounts	0.8	0.5	0.6	1.1	—	1.9
Other costs	7.5	3.3	6.6	9.9	2.7	20.1
	90.2	23.6	62.3	85.9	2.7	178.8
Depreciation	11.5	5.2	15.9	21.1	—	32.6
Infrastructure renewals	27.7	4.3	0.2	4.5	—	32.2
Total operating costs	129.4	33.1	78.4	111.5	2.7	243.6
Exceptional items	1.3	0.7	1.0	1.7	—	3.0
OPERATING PROFIT/(LOSS)	31.2			123.7	(0.2)	154.7
Other income	0.1			0.3	—	0.4
PROFIT/LOSS, ON ORDINARY ACTIVITIES BEFORE INTEREST PAYABLE	31.3			124.0	(0.2)	155.1

REGULATORY INFORMATION
Additional information required by the Licence

1. Accounting policies

The accounting policies are set out on pages 8 and 9.

2. Statement of assets and liabilities and source and application of funds

Substantially all the assets and liabilities of the Company shown on page 6 are considered to relate to the appointed business.

Separate accounting records have not been maintained for the non-appointed businesses in view of their immateriality. Consequently it is neither practical nor meaningful to prepare a separate balance sheet or source and application of funds statement for the non-appointed businesses.

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

The non-appointed businesses relate mainly to the sale of computer time to external users and the provision of engineering and plumbing services.

These activities have been segregated within the accounting records only with respect to turnover, debtors and stocks and work in progress. At 31 March 1990 these amounted to £2.5m, £0.9m and £nil, respectively. Operating costs have been allocated pro rata to the level of sales attributable to the non-appointed businesses.

4. Allocations to principal service

(i) **Operating Costs.** The majority of costs are incurred directly by specific service and have not required allocation. Divisional administration costs are allocated pro rata to direct operating costs. Office and managerial costs are allocated according to time spent on each principal service by the staff concerned.

The charge for infrastructure renewals is based on the Asset Management Plan, which sets out planned infrastructure spending over a 20 year period. The allocation largely reflects the high investment planned to satisfy water quality concerns.

(ii) **Capital Costs.** The majority of capital costs, and hence the related depreciation charges, are incurred directly by specific service and have not required allocation.

5. Ring fencing

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

REGULATORY INFORMATION

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

Borrowings or sums lent

Loan to Grafham Carbons Ltd of £0.2m with no interest nor fixed repayment date.

Loan to Hensby Biotech Ltd of £0.1m with no interest nor fixed repayment date.

Guarantees/securities

Guarantee to Barclays Bank Plc, Huntingdon for £0.2m at 16% interest, in respect of employee housing.

Transfers of assets/liabilities

Assets and liabilities have been transferred to Anglian Water Plc ("the Plc") as follows:

Assets	£m	Liabilities	£m
Tangible fixed assets	0.3	Short term borrowings	0.4
Debtors	0.7	Other creditors due within one year	5.0
		Deferred income	3.3
		Provisions for liabilities and charges	2.8
	1.0		
Financed by:			
Amount due to the Plc	10.6		
	11.6		11.5

The amount due to the Plc bears no interest and has no fixed repayment date.

Other transactions with the Plc include dividends as described in note 9 to the accounts, share capital as described in note 22 and loans affected by capital restructuring as described in note 23. Interest paid to the Plc includes £21.1m under the terms of the capital restructuring and £4.2m with respect to short term borrowings. In addition, the Plc was reimbursed £2.0m in respect of long term loan facilities.

Supply of service

None.

Omissions of rights

None.

Waivers

None.

REGULATORY INFORMATION

7. Tangible fixed assets

An analysis of tangible fixed assets between principal services is set out in note 12 to the historical cost accounts. As required by Licence Condition F a supplementary analysis of sewerage assets between sewerage and sewage treatment and disposal services is set out below.

	Sewerage £m	Sewage treatment and disposal £m	Total £m
a) Sub-analysis of Sewerage Assets			
Cost			
At 1 April 1989	414.8	466.7	881.5
Additions	37.9	68.8	106.7
Grants and contributions	(3.6)	(3.4)	(7.0)
Disposals	(0.1)	(0.3)	(0.4)
At 31 March 1990	449.0	531.8	980.8
Depreciation			
At 1 April 1989	12.8	75.5	88.3
Charge for the year	3.3	12.1	15.4
Disposals	—	—	—
At 31 March 1990	16.1	87.6	103.7
Net book amount at 31 March 1990	432.9	444.2	877.1

b) Sub-analysis of Infrastructure assets

	Water supply £m	Sewerage £m	Sewage treatment and disposal £m	Total £m
At 1 April 1989	243.5	330.9	33.6	608.0
Network expenditure	21.4	27.5	0.9	49.8
Add:				
(a) Valves and hydrants	1.1	—	—	1.1
(b) Impounding and pumped reservoirs	—	—	—	—
(c) Dams	—	—	—	—
(d) Sludge pipe lines	—	—	—	—
(e) Outfall pipes	—	1.4	0.1	1.5
Infrastructure expenditure	22.5	28.9	1.0	52.4
Less infrastructure renewals	(0.6)	(2.7)	—	(3.3)
Infrastructure additions	21.9	26.2	1.0	49.1
Grants and contributions	(1.4)	(0.6)	—	(2.0)
Disposals	—	(0.1)	—	(0.1)
At 31 March 1990	264.0	356.4	34.6	655.0

c) Details of fixed assets reclassified as current assets

None.

REGULATORY INFORMATION
Current cost financial statements (Licence Condition F8)

Current cost profit and loss account for the year ended 31 March 1990

	Note	Appointed business			Sewerage services £m	Non-appointed business £m	Total £m
		Water supply £m	Sewerage £m	Sewage treatment and disposal £m			
TURNOVER		161.9			236.9	2.5	401.3
Operating costs	1	(138.8)	(37.7)	(102.3)	(140.0)	(2.7)	(281.5)
Exceptional items		(1.3)	(0.7)	(1.0)	(1.7)	—	(3.0)
OPERATING PROFIT		21.8			95.2	(0.2)	116.8
Other expenditure	2						(1.6)
Interest							(69.0)
PROFIT ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION							46.2
Extraordinary items							(7.7)
PROFIT FOR THE FINANCIAL YEAR							38.5
Dividends							(905.5)
TRANSFER FROM RESERVES							(867.0)

Current cost balance sheet at 31 March 1990

	Note	£m
Fixed assets*	3	4,478.6
Net current liabilities		(211.5)
Total assets less current liabilities		4,267.1
Creditors: Amounts falling due after more than one year		55.5
Provisions for liabilities and charges		28.9
Called up share capital		860.0
Current cost reserves	4	3,322.7
		4,267.1

*includes investments of £0.5m.

REGULATORY INFORMATION

Current cost financial statements

Principal current cost accounting policies and methods adopted

A) GENERAL

(a) These statements have been prepared under the current cost convention having regard to the guidance contained in the publication entitled "Accounting for the effects of changing prices: A Handbook" issued by the Accounting Standards Committee. The current cost convention is not a system of accounting for general inflation, but allows for price changes specific to the Company's operations.

(b) The main accounting policies used are the same as those used in the historic cost main accounts with the exceptions set out below.

B) PRINCIPAL CURRENT COST ACCOUNTING POLICIES AND METHODS ADOPTED

(a) *Tangible fixed assets*

Properties

Properties are included in the current cost balance sheet at their value to the business which is based on depreciated replacement cost. Replacement costs have been arrived at on the following bases:

(i) *Specialised operational properties*

The gross replacement cost of properties acquired prior to 1 April 1982 is arrived at using published or locally derived construction cost formulae or unit costs, indexed for the effects of subsequent price level changes.

Additions since 1 April 1982 have been included at original cost indexed for the effects of changing price levels.

(ii) *Non-specialised operational properties*

The net replacement cost of non-specialised operational properties is based on estimated open market value on an existing use basis.

Infrastructure assets

Infrastructure assets are stated in the current cost balance sheet at their value to the business, based on their estimated replacement costs. Replacement costs are calculated using estimated unit costs where appropriate.

As in the historical cost accounts, expenditure on maintaining the operating capability of the network is charged as an operational cost. Accordingly no depreciation is charged on infrastructure assets.

In the year ended 31 March 1989, as in the historical cost accounts, the basis of accounting for infrastructure assets was changed and the new policy is more fully described on page 8. Depreciation since 1 April 1984, being the earliest practicable date for implementation of the new policy, has been written back and past infrastructure renewals expenditure since that date has been restated in accordance with the new policy. Infrastructure assets at 1 April 1984 have been included at their current cost and net book value at that date indexed for the effects of subsequent price level changes. Additions since 1 April 1984 have been included at replacement cost.

Other assets

Other assets, are included at estimated replacement cost less accumulated depreciation.

Stores

Stores are stated at their value to the business, based upon the estimated net current replacement cost, which is calculated by applying indices to reflect increases in purchase costs.

Cost of sales and monetary working capital adjustments

These current cost adjustments have not been applied as they are not material.

REGULATORY INFORMATION
Notes to the current cost financial statements

1 Operating costs
Operating costs include current cost depreciation on fixed tangible assets of £70.5m

2 Other expenditure
Other expenditure represents the loss on disposal of tangible fixed assets

3(a) Fixed assets by service

	Appointed business			Non-appointed business £m	Total £m
	Water supply £m	Sewerage £m	ST & D £m		
Gross replacement cost					
At 1 April 1989	1,623.5	1,934.5	1,479.2	1.0	5,038.2
Additions	66.0	45.0	77.7	—	188.7
Grants and contributions	(1.8)	(3.6)	(3.5)	—	(8.9)
Disposals	(1.0)	(0.3)	(34.5)	—	(35.8)
Revaluation adjustment	126.3	158.4	111.6	0.1	396.4
At 31 March 1990	1,813.0	2,134.0	1,630.5	1.1	5,578.6
Depreciation					
At 1 April 1989	318.8	97.9	568.1	0.4	985.2
Charge for year	20.9	9.8	39.8	—	70.5
Disposals	(0.1)	(0.1)	(31.9)	—	(32.1)
Revaluation adjustment	22.2	6.7	48.0	—	76.9
At 31 March 1990	361.8	114.3	624.0	0.4	1,100.5
Net book amount at 31 March 1990	1,451.2	2,019.7	1,006.5	0.7	4,478.1

3(b) Fixed assets by type

	Specialised operational properties and structures £m	Non-specialised operational properties £m	Intra structure assets £m	Plant, machinery and vehicles £m	Other £m	Total £m
	Gross replacement cost					
At 1 April 1989	1,671.4	79.9	2,639.7	608.8	38.4	5,038.2
Additions	55.8	2.0	71.1	48.3	11.5	188.7
Grants and contributions	(5.2)	(0.5)	(3.6)	—	—	(8.9)
Disposals	(22.9)	—	(0.9)	(12.0)	—	(35.8)
Revaluation adjustment	127.8	4.8	213.9	47.0	2.9	396.4
At 31 March 1990	1,826.9	86.6	2,920.2	692.1	52.8	5,578.6
Depreciation						
At 1 April 1989	564.8	15.3	—	388.1	17.0	985.2
Charge for year	27.3	1.7	—	33.4	8.1	70.5
Disposals	(20.6)	—	—	(11.5)	—	(32.1)
Revaluation adjustment	48.8	1.0	—	26.2	0.9	76.9
At 31 March 1990	620.3	18.0	—	436.2	26.0	1,100.5
Net book amount at 31 March 1990	1,206.6	68.6	2,920.2	255.9	26.8	4,478.1

Notes:

(i) Specialised operational properties and structures principally comprise intake works, pumping stations, treatment works and boreholes.

(ii) Non-specialised operational properties comprise offices, depots, workshops, residential properties directly connected with water and sewerage services and land held for the purpose of protecting the wholesomeness of water supplies.

(iii) Infrastructure assets comprise mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls.

REGULATORY INFORMATION
Notes to the current cost financial statements (continued)

4 Current cost reserves

	<i>£m</i>
At 1 April 1989	3,133.8
Revaluation surpluses reflecting price changes	319.5
Profit and loss account	(867.0)
Intra-group debt written off	752.3
Adjustments relating to the divestment of the National Rivers Authority	(15.8)
Capitalisation issue of shares	(0.1)
At 31 March 1990	3,322.7

5 Gearing

(i) The long term assets and working capital of the Company have been financed partly by borrowing. As the obligation to repay borrowing is fixed in monetary amount, the liability it represents decreases in real terms during a period of inflation compared with the related assets. The gearing adjustment would recognise this by abating the current cost depreciation adjustment by the proportion of the Company's net operating assets which are financed by borrowing.

(ii) No gearing adjustment has been included in the profit and loss account because the changes which have taken place during the year in capital structure make it potentially misleading.