

REGISTERED No. 2366656

**Anglian Water Services Limited
Directors' Report and Financial Statements**

Year Ended 31 March 1994



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Directors' Report

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

Principal activities and business review

Anglian Water Services Limited's principal activities during the year were the provision of drinking water and the treatment of waste water in a region approximately one-fifth the area of England and Wales. We provide drinking water to nearly four million customers and over five million customers receive our sewerage and sewage treatment services. A review of the Company's performance during the year, together with comments on the financial results, is contained on pages 5 and 6.

Results and dividends

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

Fixed assets

Details of total movements in fixed assets are shown in notes 11 and 12 on pages 15 and 16.

Research and development

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

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

Transfers from other Group undertakings

On 31 March 1994 the Company purchased at book value the activities, assets and liabilities of Anglian Water Engineering and Business Systems Limited, a fellow subsidiary undertaking. Further details are shown in note 26(b) on page 20.

On the same date the Company also transferred at book value certain assets and liabilities from its parent company, Anglian Water Plc.

Regulation

The Company's activities are regulated principally by the Water Industry Act 1991 (which consolidated that part of the Water Act 1989 relating to water supply and sewerage) and the conditions of an Instrument of Appointment (the Licence) granted to the Company by the Secretary of State for the Environment on 1 September 1989. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage functions.

Under condition F of the Licence the Company is obliged to provide the Director General of Water Services (DG) with additional accounting information to that contained in the statutory accounts. This information is presented in pages 22 to 35. The regulatory information has been prepared in accordance with guidelines issued by the DG.

Directors and directors' interests

A list of directors at 31 March 1994 is set out below. In addition, J Adams served as a director until 26 November 1993, when he retired; J A Simpson, P Howarth, D C F Latham, P J Matthews, J W Smith, P Gleason, R A Pointer and D R Price served as directors until 31 January 1994, when they resigned.

The interests of the directors in the shares of Anglian Water Plc and in options over such shares granted under that company's Executive Share Option Scheme and Sharesave Scheme are set out below.

Beneficial and family interests in shares	31 March 1994 No. of shares	1 April 1993 No of shares
A F Smith (Chairman and Managing Director)	1,063	5,075
C J Mellor	3,557	1,129
J W Green	3,731	3,626

Number of options	Executive Share Option Scheme			Sharesave Scheme	
	1 April 1993	Movements during the year		31 March 1994	1 April 1993 and 31 March 1994
		Granted	Exercised		
A F Smith	77,986	10,621	-	88,607	8,893
C J Mellor	75,424	7,144	40,952	41,616	6,724
J W Green	24,693	18,603	-	43,296	9,916

These beneficial interests in shares and options are the same as, and not additional to, those disclosed in the Annual Report of Anglian Water Plc. No options were either granted or exercised under the Sharesave Scheme.

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

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

	Date of grant	Option price		Date of grant	Option price
Sharesave Scheme	12 December 1989	£1.76	Executive Share Option Scheme	10 January 1991	£3.31
Sharesave Scheme	6 December 1990	£2.67	Executive Share Option Scheme	7 December 1991	£3.26
Sharesave Scheme	30 December 1991	£2.72	Executive Share Option Scheme	24 June 1992	£3.95
Sharesave Scheme	21 December 1992	£3.87	Executive Share Option Scheme	15 December 1992	£4.73
Sharesave Scheme	20 December 1993	£4.04	Executive Share Option Scheme	7 July 1993	£4.74
Executive Share Option Scheme	19 February 1990	£2.99	Executive Share Option Scheme	1 December 1993	£5.30
Executive Share Option Scheme	20 June 1990	£2.93			

Options exercised during the year were at a weighted average price of £3.11 under the Executive Share Option Scheme.

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.

Directors' Report

Employees

Employees are kept informed on matters affecting them and made aware of the general financial and economic factors influencing the Company's performance. We operate a systematic approach to employee communication through regular briefings, presentations and the wide circulation of the Company newspaper. Share option schemes are in place which encourage participation in the Company's performance. We are an equal opportunities employer and applications for employment from disabled persons are fully and fairly considered having regard to the aptitudes and abilities of the applicant. In the event of disability, every effort is made to ensure that employment with the Company continues and appropriate training, career development and promotion of a disabled person should, as far as possible, be identical to that of other employees.

Liability Insurance

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

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.

By order of the Board

Roger Dickinson
Company Secretary

Registered Office:

Anglian House,

Ambury Road,

Huntingdon,

Cambridgeshire PE18 6NZ



6 June 1994

Registered in England No. 2366656

Operating and Financial Review

Accounting Standards

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

The 1993 report included early adoption of the requirements of Financial Reporting Standard (FRS) 3 – Reporting Financial Performance.

The accounting treatment adopted for the Company's capital instruments complies with FRS4 (Capital Instruments), and we are unaffected by FRS5 (Reporting the Substance of Transactions).

Operating Results

Turnover for the year increased by £33.6m from £563.2m to £596.8m. This represents an increase of 6.0%, almost all of which arose from price increases in accordance with the price controls agreed at the time of privatisation. The effect of the recession continued to be felt in 1993/94. Before the effect of price increases and new connections, metered income was down about 7.0%. Some 20,100 new houses were connected to our water system, a small increase over 1992/93.

The regulatory (RPI+K) price control formula allowed us to increase charges by RPI+5.5%. However, as in the previous year, we passed on some of the benefits secured from efficiency initiatives and lower capital inflation by abating our increase by 0.5%. This equates to a £2.5m reduction in charges to our customers.

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

*As at November in the preceding year

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

Operating costs have shown a 5.1% increase from £347.6m to £365.4m (before restructuring costs). Inflation added some 2.6% to our costs. Depreciation (net of amortisation of deferred grants and contributions) increased from £48.4m to £57.1m, as a result of capital expenditure. Around £1.3 billion of investment has been undertaken since privatisation and increasing depreciation costs will continue to feature as the effect of rising levels of capital expenditure feed through as charges against profits.

During 1993 the Company commenced a strategic systems review in recognition of the need to become more customer focused and to promote an even greater efficiency in the way we operate. The restructuring charge of £60.0m which has been made in this year's accounts represents the estimated costs of implementing the results of the review.

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

Operating and Financial Review

The other principal areas of increase in operating costs are in meeting increased quality standards and new obligations £3.8m, customer service initiatives £2.0m, Periodic Review costs £0.9m and increased expenditure on research and development £0.7m. Against this, increased efficiencies of £4.7m have been secured and the charge for bad debts reduced by £3.7m.

Operating profit for the year before restructuring costs rose by 7.3% from £215.6m to £231.4m. Profits have benefited from £1.4m profits on sale of properties and other fixed assets. We continue to review our asset base to identify surplus assets for disposal. Borrowings have increased to finance the capital expenditure programme and net interest has risen accordingly. Our net interest for the year at £33.1m shows an increase of 18.2%. Profit before tax and restructuring costs at £199.7m is 4.7% higher than in 1993.

Financial Needs and Resources

At 31 March 1994 the Company had net borrowings of £470.6m, an increase of £103.6m over the year. The increased net borrowings are represented by £20.0m from leasing, and £10.0m from the European Investment Bank with the remainder being a decrease in investments offset by a decrease in the bank overdraft. Before expenditure on fixed assets £339.1m, infrastructure renewals £23.8m and after capital grants and contributions of £30.4m, the business generated a net cash inflow of £340.5m in 1994.

Year end gearing (debt/debt plus equity) at 24.2% compares to 20.5% in 1993. Net borrowings are a mixture of fixed and variable rate debt of £504.8m offset by cash and deposits, net of overdrafts, of £34.2m. Borrowings include £179.7m 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. Where attractive opportunities have presented themselves the Company has continued to pre-fund its operations. Our treasury policy reflects the need to secure funds to finance the substantial long term capital investment programme. Existing borrowings are supplemented by further unutilised facilities of £170m.

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

The Company's balance sheet shows a reduced level of debtors despite the increase in turnover. Our new billing system introduced in 1993 has helped to improve our debt collection performance.

Shareholders' Return and Value Created

The full year dividend has been increased by 3.8%, a real increase of 2.1% over the average rate of inflation during the year.

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

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 of the profit for that period. In preparing those financial statements, the directors are required to

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

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

Auditors' Report

Auditors' Report to the Shareholders of Anglian Water Services Limited

We have audited the financial statements on pages 8 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

Respective responsibilities of directors and auditors

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

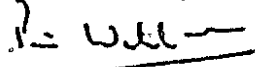
Basis of opinion

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

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

Opinion

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



Price Waterhouse

6 June 1994

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

Price Waterhouse



Profit and Loss Account

For the year ended 31 March 1994	Notes	Before exceptional restructuring charge 1994 £m	Exceptional restructuring charge (note 5) 1994 £m	Total 1994 £m	1993 £m
Turnover from continuing operations	2	596.8	-	596.8	563.2
Operating costs	3	(365.4)	(60.0)	(425.4)	(347.6)
Operating profit from continuing operations	2, 4	231.4	(60.0)	171.4	215.6
Profit on sales of assets in continuing operations		1.4	-	1.4	3.2
Profit on ordinary activities before interest		232.8	(60.0)	172.8	218.8
Interest payable (net)	6	(33.1)	-	(33.1)	(28.0)
Profit on ordinary activities before and after taxation	7	199.7	(60.0)	139.7	190.8
Dividends	8			(84.4)	(81.3)
Retained profit for the financial year	23			55.3	109.5

No statement of total recognised gains and losses has been presented as all gains and losses have been included in the profit and loss account.

The notes on pages 11 to 21 form part of these financial statements.

Balance Sheet


At 31 March 1994	Notes	1994 £m	1993 £m
Fixed assets			
Tangible assets	11	2,301.8	2,022.7
Investments	12	0.2	15.0
		2,302.0	2,037.7
Current assets			
Investments	13	100.0	210.0
Stocks	14	6.4	6.5
Debtors	15	96.3	103.8
Cash and deposits		1.2	—
		203.9	320.3
Creditors: amounts falling due within one year			
Short term borrowings	16	(67.5)	(100.1)
Other creditors	16	(223.3)	(209.3)
Net current (liabilities)/assets		(86.9)	10.9
Total assets less current liabilities		2,215.1	2,048.6
Creditors: amounts falling due after more than one year			
Loans and other borrowings	17	(504.3)	(476.9)
Other creditors	18	(64.5)	(47.8)
		(568.8)	(524.7)
Provisions for liabilities and charges	19	(170.6)	(103.5)
		1,475.7	1,420.4
Capital and reserves			
Called up share capital	22	860.0	860.0
Profit and loss account	23	615.7	560.4
	23	1,475.7	1,420.4

The notes on pages 11 to 21 form part of these financial statements.

Approved by the Board on 6 June 1994

A F Smith
Managing Director

C J Mellor
Finance Director



Cash Flow Statement

For the year ended 31 March 1994	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	26(a)	343.9	304.4
Returns on investments and servicing of finance			
Interest received		11.6	6.2
Interest paid		(34.0)	(25.4)
Interest element of finance lease rental payments		(7.4)	(1.2)
Dividends paid		(81.5)	(77.8)
Net cash outflow from returns on investments and servicing of finance		(111.3)	(98.2)
Investing activities			
Purchase of tangible fixed assets		(339.1)	(278.0)
Investment in infrastructure renewals		(23.8)	(15.4)
Grants and contributions received		30.4	33.1
Sales of fixed assets		2.0	3.8
Purchase of Group undertaking (net of cash and cash equivalents)	26(b)	(6.9)	—
Investment in subsidiary undertakings		0.4	(0.1)
Investment in other Group undertakings		110.0	(222.0)
Investment in associated undertakings		2.4	0.1
Net cash outflow from investing activities		(224.6)	(478.5)
Net cash inflow/(outflow) before financing		8.0	(272.3)
Financing			
Loans from Anglian Water Plc		80.0	102.7
Loans from the European Investment Bank		10.0	25.0
Amounts received under finance lease arrangements		21.8	55.3
Repayments of amounts borrowed		(84.7)	(2.3)
Capital element of finance lease rental payments		(1.9)	(0.8)
Net cash inflow from financing	26(c)	25.2	179.9
Increase/(decrease) in cash and cash equivalents	26(d)	33.2	(92.4)

The notes on pages 11 to 21 form part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

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

a. Turnover

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

b. Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network 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 the Company'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.

c. Grants and contributions

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act. Grants and contributions to capital expenditure on infrastructure assets are deducted from the cost of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true and fair view since, as explained above, infrastructure 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 11. Other grants and contributions are credited to profit and loss account in the year to which they apply.

d. Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor, and the finance costs being written off to the profit and loss account over the 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.

Notes to the Financial Statements

e. Investments

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

f. Stocks and work in progress

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

g. Pension costs

The Company is a member of the Anglian Water Plc Group, which operates two principal defined benefit pension schemes. Contributions to the Group's 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.

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.

2. Segmental analysis

The Directors believe that the whole of the Company's activities constitute a single class of business.

3. Operating costs	Before exceptional restructuring charge 1994 £m	Exceptional restructuring charge (note 5) 1994 £m	Total 1994 £m	1993 £m
Raw materials and consumables	28.7	–	28.7	25.7
Other external charges	178.9	14.3	193.2	172.4
Staff costs (see note 9)	82.0	45.7	127.7	76.5
Own work capitalised	(16.9)	–	(16.9)	(13.5)
Change in stocks of finished goods and work in progress	0.1	–	0.1	0.2
	272.8	60.0	332.8	261.3
Depreciation of tangible fixed assets	58.9	–	58.9	49.6
Amortisation of deferred grants and contributions	(1.8)	–	(1.8)	(1.2)
Infrastructure renewals	35.5	–	35.5	37.9
	365.4	60.0	425.4	347.6

4. Operating profit	1994 £m	1993 £m
Operating profit is stated after charging/(crediting):		
Hire of plant and machinery	1.4	1.0
Other operating lease costs	0.6	0.2
Research and development expenditure	3.3	2.6
Grants and contributions	(0.4)	(0.4)
Fees paid to auditors:		
for audit work	0.1	0.1
for other work	0.1	0.1

5. Exceptional restructuring charge	1994 £m	1993 £m
Provision for severance and other reorganisation costs	60.0	-

6. Interest payable (net)	1994 £m	1993 £m
Overdrafts and other loans repayable wholly within five years	1.3	0.7
Long term loans (any part repayable after five years)	35.7	31.6
Finance leases	5.6	5.3
	42.6	37.6
Interest receivable	(9.5)	(9.6)
	33.1	28.0

Interest payable on long term loans of £212m (1993 - £16.4m) is payable to the parent company and includes the indexation element of the index linked loan (see note 17). Interest receivable includes £9.2m (1993 - £7.5m) due from other Group undertakings.

7. Taxation

No mainstream corporation tax liability arises for the year ended 31 March 1994 and no provision for deferred taxation is required (see note 20).

8. Dividends	1994 £m	1993 £m
Interim dividend	27.0	26.8
Proposed final dividend	57.4	54.5
	84.4	81.3

Notes to the Financial Statements

9. Employee information	Before exceptional restructuring charge 1994	Exceptional restructuring charge 1994	Total 1994	1993
	£m	£m	£m	£m
Staff costs:				
Wages and salaries	68.2	20.5	88.7	64.0
Social security costs	5.6	-	5.6	4.9
Other pension costs (see note 24)	7.4	25.2	32.6	6.8
Employee profit share	0.8	-	0.8	0.8
	82.0	45.7	127.7	76.5

Average number of full time equivalent persons employed in the UK:	1994	1993
Number employed	3,942	3,970

10. Directors' emoluments

The emoluments of five directors (1993 - six) were paid by Anglian Water Plc and an appropriate proportion of their remuneration is included within management recharges. The combined emoluments of the directors of Anglian Water Services Limited for their services as directors of the Company, including management recharges of £414,000 (1993 - £446,000), are set out below.

	1994 £000	1993 £000
Fees	-	-
Contributions to pension schemes	121	122
Other emoluments	728	742
	849	864

In addition, compensation was paid to Mr J A Sampson in respect of early retirement from executive office of Anglian Water Plc. Further details may be found in the accounts of that company.

The emoluments of the chairman and, in 1994, also the highest paid director, excluding pension contributions, were: **119** **110**

The emoluments of the highest paid director, excluding pension contributions, were: **-** **112**

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

	No of Directors			No of Directors	
	1994	1993		1994	1993
£0 - £5,000	1	-	£65,001 - £70,000	1	-
£10,001 - £20,000	1	-	£70,001 - £75,000	2	1
£20,001 - £25,000	-	3	£80,001 - £85,000	-	1
£35,001 - £40,000	-	2	£85,001 - £90,000	1	-
£45,001 - £50,000	1	2	£105,001 - £110,000	-	1
£50,001 - £55,000	1	-	£110,001 - £115,000	-	1
£55,001 - £60,000	1	-	£115,001 - £120,000	1	-
£60,001 - £65,000	2	2			

Details of share options granted to directors are shown in the directors' report on page 3.

11. Tangible fixed assets	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
Cost					
At 31 March 1993	44.8	869.4	1,344.3	93.7	2,352.2
Additions	2.4	98.6	204.2	24.6	329.8
Disposals	-	-	-	(4.6)	(4.6)
Transfers from other Group undertakings	-	-	-	58.4	58.4
At 31 March 1994	47.2	968.0	1,548.5	172.1	2,735.8
Grants and contributions					
At 31 March 1993	-	47.1	-	-	47.1
Additions	-	17.9	-	-	17.9
At 31 March 1994	-	65.0	-	-	65.0
Depreciation					
At 31 March 1993	7.2	-	230.3	44.9	282.4
Charge for the year	1.0	-	42.6	15.3	58.9
Disposals	-	-	-	(4.0)	(4.0)
Transfers from other Group undertakings	-	-	-	31.7	31.7
At 31 March 1994	8.2	-	272.9	67.9	369.0
Net book amount					
At 31 March 1994	39.0	903.0	1,275.6	84.2	2,301.8
At 31 March 1993	37.6	822.3	1,114.0	48.8	2,022.7

Tangible fixed assets at 31 March 1994 include £382.6m of assets in the course of construction (1993 - £276.6m) and also include land of £8.6m (1993 - £7.5m) which is not subject to depreciation. In accordance with the Company'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 tangible fixed assets held under finance leases at 31 March 1994 was £113.3m (1993 - £94.5m). Depreciation charged on assets held under finance leases during the year ended 31 March 1994 amounted to £3.2m (1993 - £2.2m).

The Company's interests in land and buildings are almost entirely freehold.

Investment commitments

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

The commitments shown below reflect the value of orders placed and expenditure specifically authorised but not placed at 31 March 1994.

Figures quoted for commitments in previous years have represented the value of the 5 year capital programme agreed in principle.

The directors believe that the disclosure adopted in the figures below is more reflective of the actual commitments of the Company and prior year figures have been restated accordingly.

	1994 £m	1993 £m
Contracted for but not provided in the financial statements	244.8	283.5
Authorised but not yet contracted for	325.0	342.3

Notes to the Financial Statements

12. Fixed asset investments	Subsidiary undertakings £m	Other Group undertakings £m	Associated undertaking £m	Other participating interests £m	Total £m
Shares at cost					
At 31 March 1993 and 1994	-	-	-	0.2	0.2
Loans					
At 31 March 1993	0.4	12.0	2.4	-	14.8
Net movement	(0.4)	(12.0)	(2.4)	-	(14.8)
At 31 March 1994	-	-	-	-	-
Total					
At 31 March 1994	-	-	-	0.2	0.2
At 31 March 1993	0.4	12.0	2.4	0.2	15.0

The associated undertaking, which is registered and principally operates in England, is:

Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
Grafham Carbons Limited Regeneration of granular activated carbon	40,000	£40,000	50	Ordinary £1 shares

The Company also owns a number of non-trading companies. A complete list of subsidiary undertakings is available on request to the Company and will be filed with the next Annual Return to the Registrar of Companies.

Consolidated accounts have not been prepared as permitted under Section 228 of the Companies Act 1985, since the Company is itself a wholly owned subsidiary of Anglian Water Plc. In the opinion of the directors the value of the Company's investments is not less than the amount at which they are stated in the balance sheet.

13. Current asset investments

Current asset investments comprise loans to Anglian Water Plc which bear interest at commercial rates.

14. Stocks	1994 £m	1993 £m
Consumable stores	6.2	6.2
Work in progress	0.2	0.3
	6.4	6.5

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

	1994 £m	1993 £m
15. Debtors		
Amounts falling due within one year		
Trade debtors	72.6	79.3
Amounts owed by subsidiary undertakings	0.3	-
Amounts owed by other Group undertakings	0.6	10.9
Other debtors	19.9	12.8
Prepayments and accrued income	2.9	0.7
	96.3	103.7
Amounts falling due after more than one year		
Other debtors	-	0.1
	96.3	103.8
16. Creditors: amounts falling due within one year	1994 £m	1993 £m
Bank loans, overdrafts and temporary borrowings	67.0	95.0
Current portion of long term loans	0.4	0.5
Obligations under finance leases	0.1	0.6
Short term borrowings	67.5	100.1
Trade creditors	109.3	101.0
Amounts owed to subsidiary undertakings	-	0.3
Amounts owed to other Group undertakings	5.1	3.1
Receipts in advance	43.9	43.8
Other taxation and social security	2.9	2.0
Accruals and deferred income	4.7	4.6
Proposed dividend	57.4	54.5
Other creditors	223.3	209.3

Notes to the Financial Statements

17. Loans and other borrowings falling due after more than one year	1994 £m	1993 £m
Repayable wholly after five years		
12% Fixed Rate Loan 2014 (from the parent company)	100.0	100.0
European Investment Bank 1999	25.0	25.0
European Investment Bank 2003	10.0	-
Repayable by instalments, any one of which is due for repayment after five years		
European Investment Bank 1995/2007 (interest in the range 6.75 – 11.5%)	105.0	105.0
Finance leases (a)	120.9	100.3
Other borrowings	24.9	26.5
Repayable wholly within five years		
5½% Index Linked Loan (b)	118.7	117.1
Other loans	0.2	3.4
Finance leases (a)	0.1	0.7
Total loans and other borrowings	504.8	478.0
Less amounts included in creditors falling due within one year	(0.5)	(1.1)
	504.3	476.9
Due for repayment as follows:		
Between one and two years	120.0	117.7
Between two and five years	31.9	19.3
After five years	352.4	339.9
	504.3	476.9

(a) Amounts due under finance leases include £3.7m (1993 – £0.1m) payable between one and five years and £117.2m (1993 – £100.3m) payable after five years.

(b) The value of the capital and interest elements of the Index Linked Loan are linked to movements in the Retail Price Index. The increase in the capital value during the year of £1.6m (1993 – £4.2m) has been taken to the profit and loss account as part of interest payable. This loan, which is from the parent company, is repayable on 365 days notice, but has no fixed repayment date.

(c) Of the unspecified loans and other borrowings £1.4m (1993 – £1.4m) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £1.4m (1993 – £1.4m) secured on the revenues of the Company.

18. Other creditors falling due after more than one year	1994 £m	1993 £m
Trade creditors	4.6	2.9
Receipts in advance	4.3	4.8
Deferred grants and contributions	55.6	40.1
	64.5	47.8

19. Provisions for liabilities and charges	Infrastructure renewals £m	Restructuring costs £m	Total £m
At 31 March 1993	102.2	1.3	103.5
Charge for the year	35.5	60.0	95.5
Utilised in the year	(26.3)	(2.1)	(28.4)
At 31 March 1994	111.4	59.2	170.6

20. Deferred taxation

In accordance with the Company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1994.

The full potential deferred taxation liability, calculated under the liability method at a tax rate of 33%, is:	1994 £m	1993 £m
Accelerated capital allowances	140.5	131.7
Other timing differences	(62.2)	(38.9)
Available tax losses	(18.5)	(54.3)
Advance corporation tax available for surrender from the parent company	(36.2)	(23.3)
	23.6	15.2

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £8.4m (1993 – £11.8m).

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

21. Commitments under operating leases

At 31 March 1994 the Company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
Between one and five years	–	0.3
After five years	0.6	–
	0.6	0.3

22. Share capital

Authorised

	1994 £m	1993 £m
Ordinary shares of £1 each	860.0	860.0

Allotted, issued and fully paid

Ordinary shares of £1 each	860.0	860.0
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23. Movement in shareholders' funds

	Share capital £m	Profit and loss account £m	1994 Total £m	1993 Total £m
At beginning of year	860.0	560.4	1,420.4	1,310.9
Profit for the financial year	–	139.7	139.7	190.8
Dividends	–	(84.4)	(84.4)	(81.3)
At end of year	860.0	615.7	1,475.7	1,420.4

Notes to the Financial Statements

24. Pension commitments

The Company is a member of the Anglian Water Plc Group. The Group operates pension schemes covering the majority of its employees. The two principal schemes are the Anglian Water Mirror Image Pension Scheme and the Anglian Water Pension Scheme. These schemes are both of the defined benefit type. The administration and investment of the pension funds are maintained independently from the finances of the Group. Further details may be found within the accounts of Anglian Water Plc.

The pension charge for the year ended 31 March 1994, before exceptional restructuring charge, was £7.4m (1993 – £6.8m).

25. Ultimate parent company

The Company's ultimate parent company is Anglian Water Plc, which is registered in England, copies of whose accounts may be obtained from the Company Secretary, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE18 6NZ.

26. Notes to the cash flow statement

	1994 £m	1993 £m
(a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	171.4	215.6
Depreciation (net of amortisation of deferred grants and contributions)	57.1	48.4
Provision for infrastructure renewals	35.5	37.9
Net movements on other provisions	57.9	(1.9)
	321.9	300.0
Decrease/(increase) in working capital:		
Stocks	0.3	(0.6)
Debtors	6.9	(18.1)
Creditors	14.8	23.1
	22.0	4.4
Net cash inflow from operating activities	343.9	304.4
(b) Purchase of Group undertaking (Anglian Water Engineering and Business Systems Limited)		
		1994 £m
Tangible fixed assets		20.6
Stocks		0.2
Debtors		4.1
Cash and deposits		1.2
Short term borrowings		(8.1)
Creditors due in less than one year		(6.0)
Long term borrowings		(12.0)
Fair value of assets acquired		-
Cash acquired		1.2
Short term borrowings acquired		(8.1)
Net outflow of cash and cash equivalents in respect of the purchase of Group undertaking		(6.9)

26. Notes to the cash flow statement (continued)

c) Analysis of changes in financing during the year

	1993 and 1994 £m	
	1994 £m	1993 £m
At beginning of period	478.0	289.9
Cash inflow from financing	25.2	179.9
Indexation of loan	1.6	4.2
Deferred finance charges on finance lease arrangements	-	4.0
At end of period	504.8	478.0

d) Analysis of cash and cash equivalents as shown in the balance sheet

	Change in year			
	1994 £m	1993 £m	1994 £m	1993 £m
Cash and deposits	1.2	-	1.2	-
Bank loans, overdrafts and temporary borrowings	(67.0)	(99.0)	32.0	(92.4)
	(65.8)	(99.0)	33.2	(92.4)

Statement of Directors' Responsibilities for Regulatory Information

Further to the requirements of company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by the Office of Water Services. This additionally requires the directors to:

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

These responsibilities are additional to those already set out on page 7.

Notes on Regulatory Information

1. General

As discussed in the directors' report on page 2, the Company's activities are regulated by the conditions of a Licence granted to the Company by the Secretary of State for the Environment. With certain exceptions, the regulatory provisions do not apply to business activities which are not connected with the carrying out of the water and sewerage functions.

An analysis of the historic cost profit and loss account is set out on page 23. An historic cost balance sheet is shown on page 9. A current cost profit and loss account and balance sheet are shown on page 26. Other current cost disclosures appear on pages 27 to 34. Additional information required by the Licence is shown on pages 23 to 25.

Under the Regulatory Accounting Guidelines the treatment of certain turnover and expenditure items differs from that disclosed in the statutory accounts. Since the turnover, operating profit and net operating assets of non-appointed activities fall below defined materiality thresholds, the total business of the Company has been treated as the appointed business in these regulatory statements.

2. Protection of the regulated business

- (i) In the opinion of the directors, the Company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the regulated activities (including the investment programme necessary to fulfil its obligations under the Appointment).
- (ii) In the opinion of the directors the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

3. Ring fencing

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

Historic Cost Profit and Loss Account

For the year ended 31 March 1994	1994 £m	1993 £m
Turnover	594.9	561.5
Operating costs	(423.4)	(347.6)
Operating income	1.4	3.2
Operating profit	170.9*	217.1
Other income	1.9	1.7
Interest payable (net)	(33.1)	(28.0)
Profit on ordinary activities before and after taxation	139.7	190.8
Dividends	(84.4)	(81.3)
Retained profit for the year	55.3	109.5

*After an exceptional restructuring charge of £60.0m.

Additional Information Required by the Licence

1. Accounting policies

The accounting policies are set out on pages 11 and 12, except that, as noted on page 22, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory accounts.

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

The non-appointed businesses relate mainly to recreation, leisure and the provision of engineering services. A proportion of the operating costs relating to these activities is directly incurred and does not require allocation. Other relevant costs have been allocated according to time spent on these activities.

3. Allocation to principal service

- (i) Operating costs are incurred directly by specific service and have not required allocation. Indirect costs are allocated on either a causal link basis or according to local managers' assessments. The allocation to principal service of the charge for infrastructure renewals is based on the asset management plan.
- (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.

Additional Information Required by the Licence

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

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed in notes (a) to (g) below

(a) Borrowings or sums lent

Sums lent by the appointee to associated companies:

Borrower	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc	100.0	By agreement	3 month LIBID

Sums borrowed by the appointee from associated companies:

Lender	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc – index linked loan	118.7	365 days notice	5%
– fixed rate loan	100.0	2014	12

*The loan bears interest of 5½%. However, the value of the capital and interest elements are linked to movements in the Retail Price Index. The increase in the capital value during the year was £16m

In addition to the amounts shown above, loans of £124.8m disclosed in the 1993 accounts were repaid by, and £2.9m repaid to, associated companies in accordance with the terms of the respective agreements.

(b) Dividends paid to associated undertakings

During the year dividends of £81.5m were paid to Anglian Water Plc. This comprised a final dividend for the year ended 31 March 1994 of £54.5m and an interim dividend for the year ended 31 March 1994 of £27.0m. The interim and proposed final dividend for 1994 represent a 3.8% increase over 1993, which amounts to a real increase of 2.1% over the average rate of inflation during the year.

(c) Guarantees/securities

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

	Amount £m	Repayment date	Interest rate %
Index Linked Loan Stock	118.7	2008	5%
Fixed Rate Bond	100.0	2014	12

(d) Transfers of assets/liabilities

On 31 March 1994 the Company purchased at book value the activities, assets and liabilities of Anglian Water Engineering and Business Systems Limited, a fellow subsidiary undertaking. These activities comprised the provision of engineering, computing, customer accounting and exchequer services principally to the Company. Details of the assets and liabilities purchased are set out in note 26(b) on page 20.

On the same date, the Company also purchased at book value certain assets and liabilities from its parent company, Anglian Water Plc, as set out below:

Tangible fixed assets	52
Debtors	08
Short term borrowings	(05)
Creditors due in less than one year	(35)
	20

In addition, the Company also purchased during the year at book value, tangible fixed assets of £0.9m from its subsidiary undertakings F Smith & Son (Grimsby) Limited and Plumbers Limited

(e) Supply of services

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Rental and use of office accommodation	Anglian Water Engineering and Business Systems Limited	Market rent or allocation of cost	1.4
Rental of office accommodation	Anglian Water Plc	Market rent	0.2
Other services	Various	Market rates	0.8
			2.4

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Supply of customer accounting, exchequer and computer services	Anglian Water Engineering and Business Systems Limited	59.2	At cost of supply	36.5
Supply of engineering, design and project control services	Anglian Water Engineering and Business Systems Limited	59.2	At cost of supply	21.3
Management charge	Anglian Water Plc	11.2	Recharge of appropriate costs	9.7
Engineering, construction and fabrication	Anglian H & G Limited	26.4	Competitive tendering/ negotiated market rates	16.9
Engineering, construction and fabrication	Aquafine Engineering Services Limited	4.7	Competitive tendering/ negotiated market rates	3.0
Well-drilling	F. Smith & Son (Grimsby) Limited	1.5	Negotiated market rates	0.7
Supply of granular activated carbon	Graham Carbons Limited	2.4	At cost of supply under terms of joint venture agreement	1.3
Insurance services	Rutland Insurance Company Limited	1.9	Negotiated market rates	1.7
Engineering, construction and fabrication	Farm Gas Limited	3.4	Competitive tendering	2.4
Plumbing services	Plumbare Limited	1.3	Negotiated market rates	0.5
Engineering, construction and fabrication	Rosewater Limited	4.7	Competitive tendering	1.3
Engineering, construction and fabrication	Purac Rosewater Limited	35.1	Competitive tendering	0.4
Engineering, construction and fabrication	Nordic Water Products Limited	2.6	Competitive tendering	0.4
Other services	Alpheus Environmental Limited	1.7	Negotiated market rates	0.2
			96.3*	

* This total includes amounts of £46.4m which were capitalised by the appointed business

(f) Omissions of rights

No material omissions took place during the year.

(g) Waivers

There were no material waivers during the year.

Current Cost Financial Statements

Current cost profit and loss account for the year ended 31 March 1994			
	Notes	1994 £m	1993 £m
Turnover	2	594.9	561.5
Operating costs	4	(472.2)	(378.2)
Operating income	3	1.4	3.2
		126.1	186.5
Working capital adjustment	1(d)	3.3	1.5
Current cost operating profit		127.4*	188.3
Other income		1.9	1.7
Interest payable (net)		(33.1)	(28.0)
Financing adjustment	1(d)	8.3	5.7
Current cost profit attributable to shareholders		104.5	167.7
Dividends		(84.4)	(81.3)
Current cost profit retained	7	20.1	66.4
<i>*After an exceptional restructuring charge of £60.0</i>			
Current cost balance sheet at 31 March 1994			
	Notes	1994 £m	1993 £m
Assets employed			
Fixed assets	5	12,890.4	11,874.4
Third party contributions since 31 March 1990		(314.0)	(242.5)
		12,576.4	11,631.9
Working capital	6	(171.2)	(145.4)
Net operating assets		12,405.2	11,486.5
Cash and investments		100.2	225.0
Non-trade debtors		0.7	1.9
Dividends payable		(57.4)	(54.5)
Other non-trade creditors due within one year		(70.4)	(103.3)
Creditors due after one year		(513.2)	(484.6)
Provisions for liabilities and charges		(59.2)	(1.3)
Net assets employed		11,805.9	11,069.7
Financed by			
Called up share capital		860.0	660.0
Profit and loss account	7	269.5	249.4
Current cost reserve	8	10,676.4	9,960.3
Total capital and reserves		11,805.9	11,069.7

Current cost cash flow statement for the year ended 31 March 1994			
	Note	1994 £m	1993 £m
Net cash inflow from operating activities	9	343.9	304.4
Returns on investments and servicing of finance			
Interest received		11.6	6.2
Interest paid		(34.0)	(25.4)
Interest element of finance lease rental payments		(7.4)	(1.2)
Dividends paid		(81.5)	(77.8)
Net cash outflow from returns on investments and servicing of finance		(111.3)	(98.2)
Investing activities			
Gross cost of purchase of fixed assets		(352.9)	(293.4)
Grants and contributions received		30.4	33.1
Investment in Group and associated undertakings		105.9	(222.0)
Sales of fixed assets		2.0	3.8
Net cash outflow from investing activities		(224.6)	(478.5)
Net cash inflow/(outflow) before financing		8.0	(272.3)
Financing			
Capital element of finance lease rental payments		(1.9)	(0.8)
New medium/long term loans (net)		27.1	180.7
Net cash flow from financing		25.2	179.9
Increase/(decrease) in cash and cash equivalents		33.2	(92.4)

Notes to the Current Cost Financial Statements

1. Accounting policies

(a) General

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

(b) Tangible fixed assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle.

No provision is made for possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

Land and Buildings

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

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

Infrastructure assets

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

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

Other fixed assets

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

Surplus land

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

(c) Grants and other third party contributions

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

(d) Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Depreciation adjustment – this is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at historical cost profit.

Disposal of fixed assets adjustment – the difference between the values of realised assets in these current cost accounts and in the historical cost accounts.

The depreciation adjustment and disposal of fixed assets adjustment are incorporated within operating costs in the profit and loss account.

Working capital adjustment – this is calculated by applying the changes in the RPI over the year to the opening total of trade debtors and stock less trade creditors.

Financing adjustment – this is calculated by applying the changes in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital and dividends payable.

2. Turnover	Water services £m	Sewerage services £m	Total 1994 £m	Water services £m	Sewerage services £m	Total 1993 £m
Measured	72.9	51.5	124.4	73.2	48.8	122.0
Unmeasured	165.4	251.7	417.1	153.4	234.2	387.6
Trade effluent	–	16.9	16.9	–	14.9	14.9
Revenue grants	0.4	–	0.4	0.4	–	0.4
Non tariff basket charges	11.9	6.3	18.2	12.3	5.6	17.9
Rechargeable work	7.1	0.3	7.4	8.1	0.2	8.3
Other	4.3	6.2	10.5	4.6	5.8	10.4
Total turnover	262.0	332.9	594.9	252.0	309.5	561.5

3. Operating income

Profit on sales of fixed assets

1994 £m	1993 £m
1.4	3.2

Notes to the Current Cost Financial Statements

4. Analysis of operating costs and fixed asset net book values by service

	Service Analysis								Business Analysis		
	Water Supply			Sewerage Services					Customer services £m	Scientific services £m	Cost of regulation £m
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sewage treatment & disposal £m	Sewage T & U subtotal £m	Sewerage services subtotal £m			
Direct costs:											
Employment costs	5.8	11.4	17.2	3.7	13.6	1.3	14.9	18.6			
Power	7.6	5.3	12.9	2.9	9.6	0.5	10.1	13.0			
Agencies	-	-	-	(0.3)	-	-	-	(0.3)			
Hired & contracted services	1.6	3.9	5.5	8.5	4.1	6.2	10.3	18.8			
Materials and consumables	4.5	5.6	10.1	1.6	5.3	0.8	6.1	7.7			
Service charges	6.2	-	6.2	0.7	3.0	-	3.0	3.7			
Other direct costs	0.4	0.5	0.9	0.3	0.6	0.1	0.7	1.0			
Total direct costs	26.1	26.7	52.8	17.4	36.2	8.9	45.1	62.5	16.6	6.8	2.7
General and support expenditure	12.0	18.3	30.3	13.7	13.0	7.0	20.0	33.7	12.6	0.7	1.3
Functional expenditure	38.1	45.0	83.1	31.1	49.2	15.9	65.1	96.2	29.2	7.5	4.0
Capital costs:											
CC depreciation	24.9	8.1	33.0	9.4	44.2	1.7	45.9	55.3			
Infrastructure renewals expenditure	0.2	16.8	17.0	8.2	1.1	-	1.1	9.3			
Infrastructure renewals accrual/(prepayment)	0.1	10.6	10.7	(0.6)	(0.9)	-	(0.9)	(1.5)			
Functional costs	63.3	80.5	143.8	48.1	93.6	17.6	111.2	159.3			
Total including business analysis			164.5					179.3			
Rates			16.1					9.8			
Doubtful debts			6.1					6.9			
Exceptional items			30.1					29.9			
Business activities capital costs			6.3					6.8			
Service costs			223.1					232.7			
Services for third parties			15.1					1.3			
Total costs			238.2					234.0			
1993 Total costs			195.6					182.6			
Fixed asset net book values*											
Service activities	749.6	3,003.6	3,753.2	7,814.0	1,028.4	26.5	1,054.9	8,888.9			
Business activities			68.6	17.0			53.9	70.9			
Service totals			3,821.8	7,831.0			1,108.8	8,959.8			
Service assets for third parties			113.5					10.3			
Total MEA values			3,935.3					9,070.1			
1993 Total MEA values			3,752.6					8,121.8			

* On a modern equivalent asset (MEA) basis

5. Fixed assets	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m	
(a) Fixed assets by service					
Gross replacement cost					
At 31 March 1993	4,324.3	7,048.3	2,056.3	13,428.9	
AMP adjustment (note 8)	(23.3)	649.1	(215.1)	410.7	
RPI adjustment	98.9	177.1	42.3	318.3	
Disposals	(2.1)	(1.0)	(1.8)	(4.9)	
Additions	192.0	86.0	84.3	362.3	
Transfers from Group undertakings	25.7	12.0	20.7	58.4	
At 31 March 1994	4,615.5	7,971.5	1,986.7	14,573.7	
Depreciation					
At 31 March 1993	571.7	226.8	756.0	1,554.5	
AMP adjustment (note 8)	36.1	(105.6)	30.3	(39.2)	
RPI adjustment	14.0	2.8	18.1	34.9	
Disposals	(1.8)	(0.9)	(1.5)	(4.2)	
Charge for the year	41.6	10.6	53.4	105.6	
Transfers from Group undertakings	13.6	6.7	11.4	31.7	
At 31 March 1994	675.2	140.4	867.7	1,683.3	
Net book amount					
At 31 March 1994	3,940.3	7,831.1	1,119.0	12,890.4	
At 31 March 1993	3,752.6	6,821.5	1,300.3	11,874.4	
(b) Fixed assets by type					
	Specialised operational assets £m	Non-specialised operational assets £m	Infra- structure assets £m	Other tangible assets £m	Total £m
Gross replacement cost					
At 31 March 1993	3,445.0	69.9	9,788.3	125.7	13,428.9
AMP adjustment (note 8)	(300.1)	9.9	700.1	0.8	410.7
RPI adjustment	72.3	1.9	241.2	2.9	318.3
Disposals	-	-	-	(4.9)	(4.9)
Additions	203.2	2.3	131.2	25.6	362.3
Transfers from Group undertakings	-	-	-	58.4	58.4
At 31 March 1994	3,420.4	84.0	10,860.8	208.2	14,573.7
Depreciation					
At 31 March 1993	1,480.9	4.2	-	69.4	1,554.5
AMP adjustment (note 8)	(36.3)	14.9	-	(17.8)	(39.2)
RPI adjustment	33.3	0.4	-	1.2	34.9
Disposals	-	-	-	(4.2)	(4.2)
Charge for the year	92.1	0.5	-	13.0	105.6
Transfers from Group undertakings	-	-	-	31.7	31.7
At 31 March 1994	1,570.0	20.0	-	93.3	1,683.3
Net book amount					
At 31 March 1994	1,850.4	64.0	10,860.8	115.2	12,890.4
At 31 March 1993	1,964.1	65.7	9,788.3	56.3	11,874.4

Notes to the Current Cost Financial Statements

5. Fixed assets (continued)	Specialised operational assets £m	Non-specialised operational assets £m	Infra- structure assets £m	Other long term assets £m	Total £m
(c) Net book value of fixed assets by service and by type					
Water supply	691.4	35.8	3,140.7	72.4	3,940.3
Street lighting	188.5	4.6	7,626.4	11.6	7,831.1
Sewage treatment & disposal	970.5	23.6	93.7	31.2	1,119.0
At 31 March 1994	1,850.4	64.0	10,860.8	115.2	12,890.4

6. Working capital	1994 £m	1993 £m
Stocks	6.4	6.5
Trade debtors	75.7	79.3
Working cash balances	1.2	-
Trade creditors	(35.1)	(22.9)
Short term capital creditors	(74.2)	(78.1)
Infrastructure renewals accrual	(111.4)	(102.2)
Other trade accruals	(29.6)	(34.2)
Payroll related taxes and social security contributions	(2.9)	(2.0)
Group trade (creditors)/debtors	(1.2)	8.5
Other short term Group creditors	(3.0)	(1.0)
Prepayments	2.9	0.7
	(171.2)	(145.4)

7. Current cost profit and loss account	1994 £m	1993 £m
At beginning of year	249.4	163.0
Retained profit for the year	20.1	86.4
At end of year	269.5	249.4

8. Current cost reserve	1994 £m	1993 £m
At beginning of year	9,960.3	9,754.4
AMP adjustment (a)	449.9	-
RPI adjustments		
Fixed assets	283.4	216.8
Working capital	(3.3)	(1.8)
Financing	(8.3)	(5.7)
Deferred grants and contributions	(5.5)	(3.4)
At end of year	10,676.4	9,980.3

(a) In accordance with the Company's accounting policy, current cost gross asset values and cumulative depreciation have been reassessed as at 31 March 1993 as part of the recent revision of the Company's AMP. The adjustments necessary to reflect these changes are shown above as an "AMP adjustment".

9. Reconciliation of current cost operating profit to net cash inflow from operating activities	1994 £m	1993 £m
Current cost operating profit	127.4*	138.3
Current cost depreciation	105.6	79.9
Current cost profit on sales of fixed assets	(1.4)	(3.2)
Provision for infrastructure renewals	35.5	37.9
Decrease/(increase) in stocks	0.3	(0.6)
Decrease/(increase) in debtors and prepaid expenses	6.9	(18.1)
Increase in creditors and accrued expenses	14.8	23.1
Net movement in restructuring provision	57.9	(1.9)
Effect of other deferrals and accruals on operating activity cash flow	(1.7)	(0.9)
Working capital adjustment	(3.3)	(1.8)
Other income received	1.9	1.7
Net cash inflow from operating activities	343.9	304.4

*After an exceptional restructuring charge of £60.0m.

Notes to the Current Cost Financial Statements

10. Current cost rolling summary

	1994 £m	1993 £m	1992 £m	1991 £m
Profit and loss account				
Turnover	594.9	571.0	538.5	497.3
Operating costs	(472.2)	(384.6)	(370.5)	(350.4)
Operating income	1.4	3.3	0.1	0.3
Working capital adjustment	3.3	1.8	4.9	6.0
Current cost operating profit	127.4*	191.5	173.0	153.2
Other income	1.9	1.7	1.6	2.6
Interest payable (net)	(33.1)	(28.5)	(22.8)	(19.0)
Financing adjustment	8.3	5.8	7.9	16.6
Current cost profit attributable to shareholders	104.5	170.5	159.7	153.4
Dividends	(84.4)	(82.7)	(79.6)	(75.6)
Current cost profit retained	20.1	87.8	80.1	77.8

*After an exceptional restructuring charge of £60.0m.

	1994 £m	1993 £m	1992 £m	1991 £m
Balance sheet				
Assets employed				
Fixed assets	12,890.4	12,147.5	11,888.2	11,614.6
Third party contributions since 31 March 1990	(314.0)	(248.1)	(189.1)	(84.6)
Working capital	(171.2)	(148.7)	(109.8)	(126.3)
Net operating assets	12,405.2	11,750.7	11,598.3	11,403.7
Cash and investments	100.2	230.2	3.0	2.9
Non-trade debtors	0.7	1.9	1.3	-
Dividends payable	(57.4)	(55.8)	(53.1)	(49.4)
Other non-trade creditors due within one year	(70.4)	(105.6)	(12.0)	(9.6)
Creditors due after one year	(513.2)	(495.7)	(304.2)	(195.3)
Provisions for liabilities and charges	(59.2)	(1.3)	(3.3)	-
Net assets employed	11,805.9	11,324.4	11,230.0	11,152.3
Financed by				
Called up share capital	860.0	879.6	896.1	932.2
Profit and loss account	269.5	255.1	169.8	94.4
Current cost reserves	10,676.4	10,189.5	10,164.1	10,125.7
Total capital and reserves	11,805.9	11,324.4	11,230.0	11,152.3

The financial information set out above for the three years ended 31 March 1993 is based on the audited current cost financial statements for those years, as adjusted to 1993/94 prices for changes in the Retail Price Index.

Auditors' Report

Auditors' Report to the Director General of Water Services

We have audited the financial statements and other information on pages 23 to 34.

Respective responsibilities of directors and auditors

As described on page 22, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements and other information contain the information for the year to 31 March 1994 required to be published and submitted to you by Anglian Water Services Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991.

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

- (a) Proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the Instrument.
- (b) The information is in agreement with the appointee's accounting records, complies with the requirements of Condition F of the Instrument, and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services.
- (c) The financial statements on pages 8 to 21 and pages 23 to 25 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the appointee and its appointed business.
- (d) The current cost financial information on pages 26 to 34 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.
- (e) The bases used for the allocation and apportionment of revenues, costs, assets and liabilities between:
 - water supply, sewerage and sewage treatment and disposal;
 - the appointed business and any other business or activity of the appointee; and
 - the appointee and any associated company;

are as described on page 23 and are reasonable.


Price Waterhouse

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

6 June 1994

Price Waterhouse



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.

Associated undertaking

In the statutory accounts (pages 8 to 21) this means a company in which Anglian Water Services Limited 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 dividends.

In the regulatory accounts (pages 22 to 34) this definition is extended to include any other company within the Anglian Water Pic Group.

Contingent liabilities

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

Current cost accounting

A means of expressing accounting information at current price levels, the form and methodology of which is in accordance with that prescribed by the Director General of Water Services.

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. For the Company 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.

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 Company. 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

A loan issued by the parent company for which the level of interest payments and the ultimate capital repayment are linked to movements in the Retail Price Index.

Infrastructure renewals charge

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

Provisions

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

Reserves

The share of profit after tax and dividends that is retained for reinvestment by the Company. The current cost reserves also include revaluations of fixed assets.

Share capital

Share capital is the "nominal" value of a company's shares (£1 each for Anglian Water Services Limited) multiplied by the number of shares in issue.

Subsidiary undertaking

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