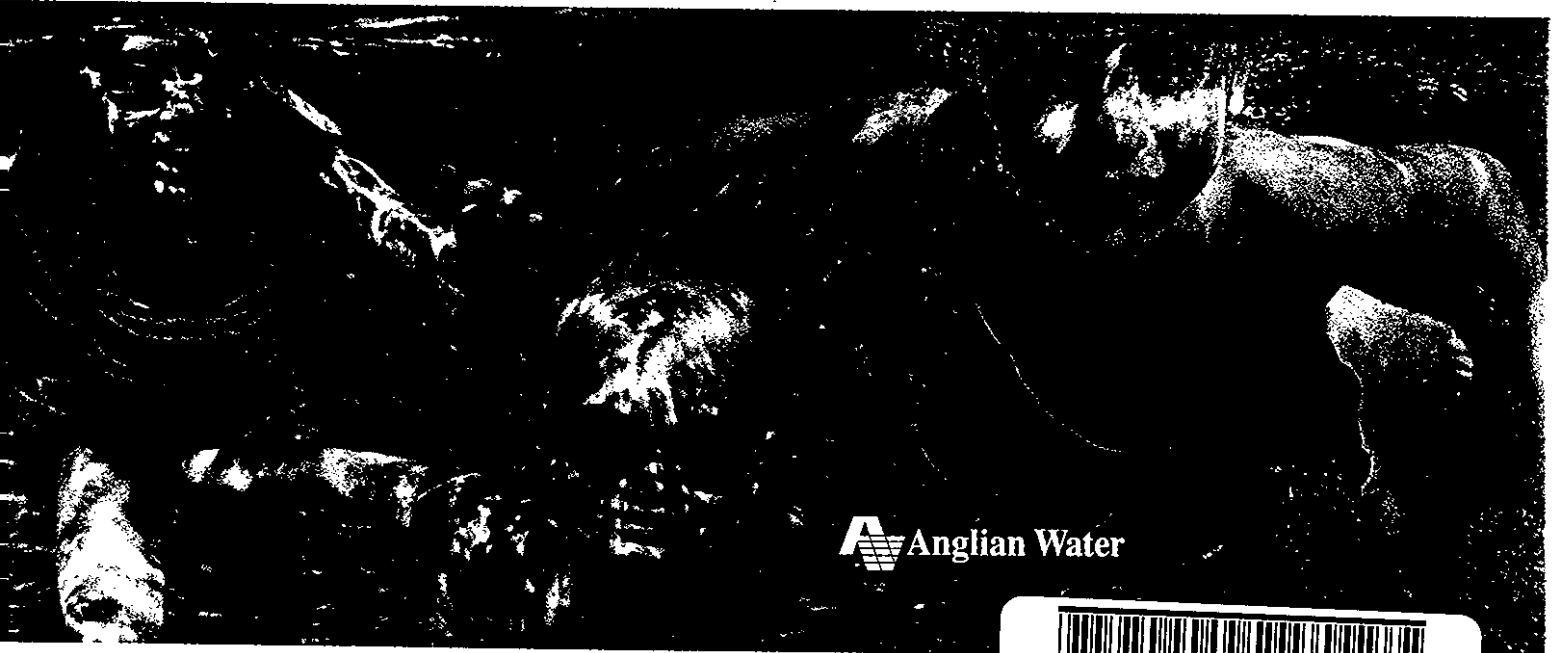


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Directors' Report and Financial Statements

Anglian Water Services Limited
Year Ended 31 March 1996



 Anglian Water



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

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 page 4.

RESULTS AND DIVIDENDS

The profit and loss account on page 6 shows the Company's results, dividends and retained profit for the year.

RESEARCH AND DEVELOPMENT

Research and development activities are driven by the need to meet water quality and environmental regulations. On the drinking water side, we have developed a treatment process consisting of ozone and granular activated carbon (GAC) for the removal of pesticides and an innovative process of ion-exchange for the removal of nitrates. One form of treatment which we believe offers many potential advantages involves the use of semi-permeable membranes to soften water supplies. An experimental plant has proved so successful, we are now constructing a full scale plant which we are planning to put into supply in the Autumn.

On the waste water side, we are creating less intrusive and more economical plants, and have developed one which takes up less than a third of the space of a conventional treatment works. We are also amongst the leaders in the application of ultra violet light systems for waste water disinfection.

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 20 to 31. The regulatory information has been prepared in accordance with guidelines issued by the DG.

DIRECTORS AND DIRECTORS' INTERESTS

The directors at 31 March 1996, who served for the whole of the financial year were:

AF Smith – Chairman and Managing Director
CJ Mellor
JW Green

Details of their interests in the share capital of Anglian Water Plc, and in options over such shares are shown in note 11 on page 13.

EMPLOYEES

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

POLICY ON THE PAYMENT OF CREDITORS

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

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

Registered in England No. 2366656



28 May 1996

ACCOUNTING STANDARDS

The 1996 annual report and financial statements have been produced in accordance with the standards issued by the Accounting Standards Board. The Company's policy is to keep pace with best practice in accounting and reporting disclosure developments.

OPERATING RESULTS

Turnover for the year increased by 4.7 per cent from £629.7 million to £659.5 million. The effect of price increases resulted in an extra 4.1 per cent but this was partly offset by the effect of customers switching to water meters. Further increases arose from higher consumption by existing customers, from new customers connected in the year and from a reduction in the number of void properties.

Following Ofwat's review of K factors in July 1994 our permitted price increases were reset at RPI+1.5 per cent for the ten years from 1 April 1995, down from RPI+5.5 per cent in the previous five years.

Some 94 per cent of turnover in the year came from main charges for water, sewerage and trade effluent services. Some 72 per cent (1995: 73 per cent) of this was unmeasured and 28 per cent (1995: 27 per cent) measured. We meter all new properties and we are continuing to install meters throughout the region in existing properties. We also offer customers the opportunity to switch to a meter outside of this main metering programme. To retain our leadership in metering policy we have decided that all meters will be fitted free of charge from 1 October 1996.

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

The infrastructure renewals charge which represents our assessment of the cost of maintaining our network of underground pipes and sewers in perpetuity is £0.6 million lower than in 1995, at £17.3 million. Actual expenditure has marginally exceeded the charge in the year. We anticipate that the expenditure will increase significantly over the next few years resulting in the utilisation of the brought forward infrastructure renewals provision.

Other operating costs (before exceptional charges) have reduced by £0.4 million this year. Cost increases of meeting new obligations and in relation to information technology, research and development and training of £8.3 million have been more than offset by savings arising largely from our 1994 restructuring of £20.0 million. We anticipate that by 1997/98 we will have achieved cost savings of £40.0 million compared with the cost base in 1993/94.

Profits have benefited from £1.4 million profits on sale of properties and other fixed assets against £3.2 million in 1995.

Our net interest for the year at £48.5 million shows an increase of 28.6 per cent reflecting the increase in borrowings. Profit before exceptional items and tax at £251.8 million is 3.9 per cent higher than in 1995. Interest cover stands at 6.2 times.

FINANCIAL NEEDS AND RESOURCES

At 31 March 1996 the Company had net borrowings of £743.5 million, an increase of £231.0 million over the year. The increased net borrowings have been financed by £120.0 million from the European Investment Bank and £79.3 million from the parent company. Before net investment expenditure of £237.1 million, the business generated a net cash inflow of £6.4 million in 1996. Year end gearing (debt/equity) has increased from 31.9 per cent in 1995 to 47.6 per cent. Net borrowings comprise fixed rate debt of £393.9 million, floating rate debt of £241.1 million and overdrafts of £108.5 million. Our treasury policy reflects the need to secure funds to finance our substantial long term capital investment programme 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 on page 16 of the accounts.

The capital investment programme for the year with total expenditure at £283.7 million was 5.6 per cent lower than in 1995. The reduction principally reflects a revision of expenditure plans which we have implemented following the K determination.

SHAREHOLDERS' RETURN AND VALUE CREATED

A special dividend of £197.5 million was paid in order to facilitate a share buy-back undertaken by the parent company as part of a capital restructuring exercise. The full year dividend, excluding this special dividend, has been increased by 4.5 per cent, a real increase of 1.2 per cent over the average rate of inflation during the year.

The Board's objective is to produce sustainable dividend increases from the regulated business through operating efficiencies. We intend to pay real dividend increases where we can justify this through the Company's performance.

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

Anglian Water Services Limited

We have audited the financial statements on pages 6 to 19 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

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.

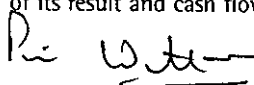
BASIS OF OPINION

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 as at 31 March 1996 and of its result and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



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

28 May 1996

Price Waterhouse



Profit and loss account

FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Turnover from continuing operations	2	659.5	629.7
Operating costs:			
– Excluding exceptional credit / (charges)		(360.6)	(352.9)
– Exceptional credit / (charges)	4	2.0	(14.0)
Total operating costs	3	(358.6)	(366.9)
Operating profit from continuing operations	2, 5	300.9	262.8
Profit on sale of assets in continuing operations		1.4	3.2
Profit on ordinary activities before interest		302.3	266.0
Interest payable (net)	6	(48.5)	(37.7)
Profit on ordinary activities before and after taxation	7	253.8	228.3
Dividends	8	(298.3)	(96.5)
Retained (loss) / profit for the financial year	23	(44.5)	131.8

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 9 to 19 form part of these financial statements.

Balance Sheet

AT 31 MARCH 1996	Notes	1996 £m	1995 £m
Fixed assets			
Tangible assets	12	2,646.4	2,479.2
Investments	13	0.2	0.2
		<u>2,646.6</u>	<u>2,479.4</u>
Current assets			
Stocks	14	4.3	5.5
Debtors	15	124.4	111.5
Cash and deposits		-	1.5
		<u>128.7</u>	<u>118.5</u>
Creditors: amounts falling due within one year			
Short term borrowings	16	(116.3)	(78.6)
Other creditors	16	(263.6)	(265.5)
Net current liabilities		<u>(251.2)</u>	<u>(225.6)</u>
Total assets less current liabilities		<u>2,395.4</u>	<u>2,253.8</u>
Creditors: amounts falling due after more than one year			
Loans and other borrowings	17	(627.2)	(435.4)
Other creditors	18	(87.0)	(73.7)
		<u>(714.2)</u>	<u>(509.1)</u>
Provisions for liabilities and charges	19	<u>(118.2)</u>	<u>(137.2)</u>
		<u>1,563.0</u>	<u>1,607.5</u>
Capital and reserves			
Called up equity share capital	22, 23	860.0	860.0
Profit and loss account	23	703.0	747.5
Total shareholder's funds (all equity)	23	<u>1,563.0</u>	<u>1,607.5</u>

The notes on pages 9 to 19 form part of these financial statements.

Approved by the Board on 28 May 1996.



AF Smith
Managing Director



CJ Mellor
Finance Director

Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Net cash inflow from operating activities	27(a)	346.3	358.4
Returns on investments and servicing of finance			
Interest received		0.3	6.4
Interest paid		(39.5)	(35.8)
Interest element of finance lease rental payments		(6.5)	(3.6)
Dividends paid		(294.2)	(87.0)
Net cash outflow from returns on investments and servicing of finance		(339.9)	(120.0)
Investing activities			
Purchase of tangible fixed assets		(243.3)	(281.6)
Investment in infrastructure renewals		(20.9)	(29.9)
Grants and contributions received		22.8	31.3
Sales of fixed assets		4.3	3.7
Repayment of loans made to other Group undertakings		-	100.0
Net cash outflow from investing activities		(237.1)	(176.5)
Net cash (outflow) / inflow before financing		(230.7)	61.9
Financing			
Loans from the European Investment Bank		120.0	50.0
Loans from Anglian Water Plc		79.3	-
Repayments of amounts borrowed		(1.2)	(122.0)
Net cash inflow / (outflow) from financing	27(c)	198.1	(72.0)
Decrease in cash and cash equivalents	27(b)	(32.6)	(10.1)

The notes on pages 9 to 19 form part of these financial statements.

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and, except as disclosed in note 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 the 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 12 on page 14. Other grants and contributions are credited to the 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 primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

(e) Investments

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

1. ACCOUNTING POLICIES (continued)

(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	1996 £m	1995 £m
Raw materials and consumables	29.0	31.5
Other external charges	170.3	168.5
Staff costs (see note 9)	95.0	110.2
Changes in stocks of finished goods and work in progress	0.1	-
Own work capitalised	(37.5)	(36.9)
	256.9	273.3
Depreciation of tangible fixed assets	88.3	77.9
Amortisation of deferred grants and contributions	(3.9)	(2.2)
Infrastructure renewals	17.3	17.9
	358.6	366.9

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

4. EXCEPTIONAL (CREDIT) / CHARGES	1996 £m	1995 £m
External charges:		
- Customer rebates	-	12.0
- Customer trust fund*	(2.0)	2.0
	(2.0)	14.0

*The Customer Trust Fund has been established by Anglian Water Plc rather than Anglian Water Services Limited. The credit in 1996 therefore represents the transfer to Anglian Water Plc of the charge made in 1995.

5. OPERATING PROFIT	1996 £m	1995 £m
Operating profit is stated after charging / (crediting):		
Hire of plant and machinery	0.4	0.4
Other operating lease costs	1.5	1.1
Research and development expenditure	5.3	3.5
Grants and contributions	(0.3)	(0.1)
Fees paid to auditors:		
for audit work	0.1	0.1
for other work	0.1	0.5

6. INTEREST PAYABLE (NET)	1996 £m	1995 £m
Overdrafts and short term borrowings	1.3	1.9
Other loans	41.0	38.0
Finance leases	6.7	3.6
	49.0	43.5
Interest receivable	(0.5)	(5.8)
	48.5	37.7

Interest of £18.0m (1995 – £21.0m) is payable to the parent company. Interest receivable includes £Nil (1995 – £5.7m) due from other Group undertakings.

7. TAXATION

No mainstream corporation tax liability arises for the year ended 31 March 1996 and no provision for deferred taxation is required (see note 20).

8. DIVIDENDS	1996 £m	1995 £m
Interim dividend	29.8	29.6
Special dividend*	197.5	–
Proposed final dividend	71.0	66.9
	298.3	96.5

*The special dividend was paid in order to facilitate a share buy-back undertaken by the parent company.

9. EMPLOYEE INFORMATION	1996 £m	1995 £m
Staff costs:		
Wages and salaries	79.8	90.7
Social security costs	6.6	7.7
Other pension costs (see note 24)	8.3	9.8
Employee profit share	0.3	2.0
	95.0	110.2

The employee profit share represents amounts provided for the issue of shares in Anglian Water Plc to employees.

Average number of full time equivalent persons employed in the UK:	1996	1995
Number employed	4,281	4,815

10. DIRECTORS' EMOLUMENTS

The emoluments of the directors were paid by Anglian Water Plc and an appropriate proportion of their remuneration is included within management recharges. The emoluments of the directors of Anglian Water Services Limited for their services as directors of the Company are set out below.

	Salary £000	Benefits £000	Bonus £000	1996 Total £000	1995 Total £000
AF Smith (Chairman and Managing Director)	144	8	27	179	180
CJ Mellor	117	7	22	146	127
JW Green	95	8	22	125	112
	356	23	71	450	419
Contributions to pension schemes				47	42
				497	461

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

	No. of Directors			No. of Directors	
	1996	1995		1996	1995
£110,001 – £115,000	–	1	£145,001 – £150,000	1	–
£120,001 – £125,000	1	–	£175,001 – £180,000	1	1
£125,001 – £130,000	–	1			

Details of share options granted to directors are shown in note 11.

11. DIRECTORS' INTERESTS IN SHARES

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 1996	1 April 1995
		No. of shares	No. of shares
AF Smith (Chairman and Managing Director)		7,886	5,249
CJ Mellor		5,325	5,829
JW Green		12,079	2,718

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

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 lapsed during the year. Executive directors retain the right to participate in the employee Sharesave scheme. Full details of directors' options are available in the Company's Register of Directors' interests, which is open to inspection.

No director has an interest in the shares of the Company or any other Group company other than as shown above, and no changes in the interests have occurred in the period from 31 March 1996 to 28 May 1996.

Options granted under the Sharesave Scheme are exercisable within a period of six months after either the fifth or seventh anniversary of the date of the savings contract. Options under the Executive Share Option Scheme are exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of grant. The dates of grant and the 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	24 June 1992	£3.95
Sharesave Scheme	6 December 1990	£2.67	Executive Share Option Scheme	15 December 1992	£4.73
Sharesave Scheme	30 December 1991	£2.72	Executive Share Option Scheme	7 July 1993	£4.74
Sharesave Scheme	21 December 1992	£3.82	Executive Share Option Scheme	1 December 1993	£5.30
Sharesave Scheme	20 December 1993	£4.04	Executive Share Option Scheme	15 August 1994	£5.375
Sharesave Scheme	14 December 1995	£4.65	Executive Share Option Scheme	13 July 1995	£5.51
Executive Share Option Scheme	20 June 1990	£2.93	Executive Share Option Scheme	7 December 1995	£5.74
Executive Share Option Scheme	10 January 1991	£3.31			
Executive Share Option Scheme	7 December 1991	£3.26			

No director had during the year, or has a material interest in any contract of significance to which the Company or any of its subsidiaries is or was a party.

12. TANGIBLE FIXED ASSETS	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
Cost					
At 31 March 1995	51.0	1,052.5	1,705.6	198.6	3,007.7
Additions	2.2	109.9	83.6	69.6	265.3
Disposals	(2.7)	-	(1.2)	(5.5)	(9.4)
At 31 March 1996	50.5	1,162.4	1,788.0	262.7	3,263.6
Grants and contributions					
At 31 March 1995	-	86.6	-	-	86.6
Additions	-	6.9	-	-	6.9
At 31 March 1996	-	93.5	-	-	93.5
Depreciation					
At 31 March 1995	10.0	-	330.9	101.0	441.9
Charge for the year	2.0	-	66.2	20.1	88.3
Disposals	(0.7)	-	(1.1)	(4.7)	(6.5)
At 31 March 1996	11.3	-	396.0	116.4	523.7
Net book amount					
At 31 March 1996	39.2	1,068.9	1,392.0	146.3	2,646.4
At 31 March 1995	41.0	965.9	1,374.7	97.6	2,479.2

Tangible fixed assets at 31 March 1996 include £314.7m of assets in the course of construction (1995 - £276.9m) and also include land of £9.2m (1995 - £9.9m) which is not subject to depreciation. The Company's interests in land and buildings are almost entirely freehold. 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 1996 was £105.2m (1995 - £109.3m). Depreciation charged on assets held under finance leases during the year ended 31 March 1996 amounted to £4.1m (1995 - £4.1m).

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 only the value of orders placed at 31 March 1996.

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

13. FIXED ASSET INVESTMENTS	Participating interests £m
Shares at cost	
At 31 March 1995 and 1996	0.2

The Company has the following investment in an associated undertaking, which is registered and principally operates in England.

	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.

14. STOCKS	1996 £m	1995 £m
Raw materials and consumables	4.2	5.3
Work in progress	0.1	0.2
	4.3	5.5

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

15. DEBTORS	1996 £m	1995 £m
Amounts falling due within one year		
Trade debtors	95.5	80.6
Amounts owed by other Group undertakings	7.6	7.3
Other debtors	18.5	17.9
Prepayments and accrued income	2.8	5.6
	124.4	111.4
Amounts falling due after more than one year		
Other debtors	-	0.1
	124.4	111.5

	1996 £m	1995 £m
16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
Bank loans, overdrafts and temporary borrowings	108.5	77.4
Current portion of long term loans	7.2	1.2
Obligations under finance leases	0.6	-
Short term borrowings	116.3	78.6
Trade creditors	114.8	112.0
Amounts owed to other Group undertakings	2.6	11.1
Receipts in advance	52.6	49.2
Other taxation and social security	2.2	4.5
Accruals and deferred income	20.4	21.8
Proposed dividend	71.0	66.9
Other creditors	263.6	265.5
17. LOANS AND OTHER BORROWINGS FALLING DUE AFTER MORE THAN ONE YEAR		
	1996 £m	1995 £m
Repayable wholly after five years		
12% Fixed Rate Bond 2014 (from the parent company)	100.0	100.0
US\$122m loan 2006 (from the parent company) (a)	79.3	-
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0
European Investment Bank 2002 (Interest at 8.0%)	60.0	-
European Investment Bank 2003 (Interest at 6.6%)	10.0	10.0
European Investment Bank 2005 (Interest at 8.2%)	60.0	-
Repayable by instalments, any one of which is due for repayment after five years		
European Investment Bank 2004 (interest at 11.5%)	14.1	15.0
European Investment Bank 2005 (interest at 8.5%)	50.0	50.0
European Investment Bank 2007 (interest at 10.25%)	10.0	10.0
European Investment Bank 2007 (interest at 9.9%)	30.0	30.0
Finance leases (b)	122.3	122.0
Other borrowings (c)	23.1	23.4
Repayable wholly within five years		
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	25.0	25.0
Other loans (c)	1.2	1.2
Total loans and other borrowings	635.0	436.6
Less amounts included in creditors falling due within one year	(7.8)	(1.2)
	627.2	435.4
Due for repayment as follows:		
Between one and two years	12.0	7.2
Between two and five years	69.7	65.6
After five years	545.5	362.6
	627.2	435.4

(a) The Company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loans. Taking account of these swaps £59.8m of these borrowings are at a fixed interest rate of 8.4% and the balance are at a floating rate of 3 month LIBOR + 0.39%.

(b) Amounts due under finance leases comprise £0.6m (1995 - nil) payable within one year, £14.4m (1995 - £8.9m) payable between one and five years and £107.3m (1995 - £113.1m) payable after five years.

(c) The unspecified loans and other borrowings are all at variable rates and include £1.2m (1995 - £1.3m) secured on the revenues of the Company.

18. OTHER CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR	1996 £m	1995 £m
Trade creditors	1.5	1.6
Receipts in advance	3.6	–
Deferred grants and contributions	81.9	72.1
	87.0	73.7

19. PROVISIONS FOR LIABILITIES AND CHARGES	Infrastructure renewals £m	Restructuring costs £m	Total £m
At 31 March 1995	106.0	31.2	137.2
Charge for the year	17.3	–	17.3
Utilised in the year	(18.4)	(17.9)	(36.3)
At 31 March 1996	104.9	13.3	118.2

20. DEFERRED TAXATION

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

	1996 £m	1995 £m
Accelerated capital allowances	203.8	184.2
Other timing differences	(46.3)	(53.0)
Available tax losses	(12.9)	(41.2)
Advance corporation tax available for surrender from the parent company	(87.6)	(54.5)
	57.0	35.5

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £21.5m (1995 – £11.9m).

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 the liability crystallising in the foreseeable future is remote. Accelerated capital allowances on infrastructure assets of £245.1m (1995 – £218.6m) assuming a tax rate of 33%, have therefore been excluded from the amounts set out above.

21. COMMITMENTS UNDER OPERATING LEASES

At 31 March 1996 the Company had commitments to make payments during the next 12 months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
Within one year	–	0.3
Between one and five years	0.1	1.0
After five years	1.0	–
	1.1	1.3

	1996 £m	1995 £m
22. SHARE CAPITAL – EQUITY SHARES		
Authorised		
Ordinary shares of £1 each	860.0	860.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	860.0	860.0

	Share capital £m	Profit and loss account £m	1996 Total £m	1995 Total £m
23. MOVEMENT IN SHAREHOLDER'S FUNDS				
At beginning of year	860.0	747.5	1,607.5	1,475.7
Profit for the financial year	–	253.8	253.8	228.3
Dividends	–	(298.3)	(298.3)	(96.5)
At end of year	860.0	703.0	1,563.0	1,607.5

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 financial statements of Anglian Water Plc.

The pension charge for the year ended 31 March 1996 was £8.3m (1995 – £9.8m).

25. CONTINGENT LIABILITIES

The Company has guaranteed the borrowings of Anglian Water Plc amounting to £225.8m (1995 – £221.5m). Otherwise, there are no material contingent liabilities at 31 March 1996 for which provision has not been made in these financial statements.

26. ULTIMATE PARENT COMPANY

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

27. NOTES TO THE CASH FLOW STATEMENT

	1996	1995		1996	1995
	£m	£m		£m	£m
(a) Reconciliation of operating profit to net cash inflow from operating activities					
Operating profit	300.9	262.8			
Depreciation (net of amortisation of deferred grants and contributions)	84.4	75.7			
Provision for infrastructure renewals	17.3	17.9			
Net movement on restructuring provision	(17.9)	(28.0)			
	384.7	328.4			
Decrease / (increase) in working capital:					
Stocks	1.2	0.9			
Debtors	(13.6)	(15.8)			
Creditors	(26.0)	44.9			
	(38.4)	30.0			
Net cash inflow from operating activities	346.3	358.4			
			Change in year		
(b) Analysis of cash and cash equivalents as shown in the balance sheet					
	1996	1995	1996	1995	
	£m	£m	£m	£m	
Cash and deposits	-	1.5	(1.5)	0.3	
Bank loans, overdrafts and temporary borrowings	(108.5)	(77.4)	(31.1)	(10.4)	
	(108.5)	(75.9)	(32.6)	(10.1)	
			Loans and other borrowings		
(c) Analysis of changes in financing during the year					
	1996	1995			
	£m	£m			
At beginning of year	436.6	504.8			
Cash inflow / (outflow) from financing	198.1	(72.0)			
Indexation of loan stock	-	2.8			
Deferred finance charges on finance lease arrangements	0.3	1.0			
At end of year	635.0	436.6			

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 5.

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 21. An historic cost balance sheet is shown on page 7. A current cost profit and loss account and balance sheet are shown on page 24. Other current cost disclosures appear on pages 25 to 31. Additional information required by the Licence is shown on pages 21 to 23.

Under the Regulatory Accounting Guidelines the treatment of certain turnover and expenditure items differs from that disclosed in the statutory financial statements. 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

- (a) 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).
- (b) In the opinion of the directors the Company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

3. RING FENCING

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

Historic Cost Profit and Loss Account

FOR THE YEAR ENDED 31 MARCH 1996	1996 £m	1995 £m
Turnover	658.4	628.7
Operating costs	(358.6)	(366.9)
Profit on sales of fixed assets	1.4	3.2
Operating profit*	301.2	265.0
Other income	1.1	1.0
Interest payable (net)	(48.5)	(37.7)
Profit on ordinary activities before and after taxation	253.8	228.3
Dividends	(298.3)	(96.5)
Retained (loss) / profit for the year	(44.5)	131.8

*After an exceptional credit of £2.0m (1995 - charge of £14.0m).

Additional Information Required by the Licence

1. ACCOUNTING POLICIES

The accounting policies are set out on pages 9 and 10, except that, as noted on page 20, 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

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

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

4. INFORMATION IN RESPECT OF TRANSACTIONS WITH ANY OTHER BUSINESS OR ACTIVITY OF THE APPOINTEE OR ANY ASSOCIATED COMPANY

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

(a) Borrowings or sums lent

No sums were lent by the appointee to associated companies at 31 March 1996.

Sums borrowed by the appointee from associated companies:

Lender	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc – fixed rate loan	100.0	2014	12
Anglian Water Plc – US\$ loan	79.3	2006	*

*The Company has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$ loan. Taking account of these swaps, £59.8m of these borrowings are at a fixed interest rate of 8.4% and the balance are at a floating rate of 3 month LIBOR + 0.39%.

(b) Dividends paid to associated undertakings

During the year dividends of £294.2m were paid to Anglian Water Plc. This comprised a final dividend for the year ended 31 March 1995 of £66.9m, an interim dividend for the year ended 31 March 1996 of £29.8m and a special dividend of £197.5m. The special dividend was paid to the parent company in August 1995 to facilitate a share buy-back which was effected to restructure the balance sheet of the Group. The interim and proposed final dividend for 1996 represent a 4.5 per cent increase over 1995, which amounts to a real increase of 1.2 per cent 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 %
Fixed Rate Bond	100.0	2014	12
Index Linked Loan Stock	125.8	2008	5 ¹ / ₈

(d) Transfers of assets / liabilities

There were no material transfers of assets or liabilities during the year other than those shown in note 4(a) above.

(e) Supply of services

Nature of transaction	Company	Terms of supply	Value £m
Rental of office accommodation	Various	Market rent	0.1
Other services	Various	Market rates	0.2
			0.3

(e) Supply of services (continued)

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Management charge	Anglian Water Plc	2.8	Recharge of appropriate costs	2.4
Engineering, construction and fabrication	Anglian H & G Limited	5.3	Competitive tendering/ negotiated market rates	1.5
Engineering, construction and fabrication	Aquafine Engineering Services Limited	9.0	Competitive tendering/ negotiated market rates	5.8
Supply of granular activated carbon	Grafham Carbons Limited	4.0	At cost of supply under terms of joint venture agreement	1.9
Insurance services	Rutland Insurance Company Limited	3.1	Negotiated market rates	2.9
Engineering, construction and fabrication	Purac Limited	31.2	Competitive tendering	8.8
Other services	Purac AB	28.8	Negotiated market rates	0.3
				23.6*

*This total includes amounts of £13.6m 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 PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Turnover	2	658.4	628.7
Operating costs	4	(405.3)	(409.8)
(Loss) / profit on sales of fixed assets	3	(0.7)	3.2
		252.4	222.1
Working capital adjustment	1(d), 8	5.5	6.0
Current cost operating profit*		257.9	228.1
Other income		1.1	1.0
Interest payable (net)		(48.5)	(37.7)
Financing adjustment	1(d), 8	14.3	18.9
Current cost profit attributable to shareholder		224.8	210.3
Dividends		(298.3)	(96.5)
Current cost (loss) / profit retained	7	(73.5)	113.8

*After an exceptional credit of £2.0m (1995 – charge of £14.0m).

CURRENT COST BALANCE SHEET AT 31 MARCH 1996	Notes	1996 £m	1995 £m
Assets employed			
Fixed assets	5	14,015.4	13,524.8
Third party contributions since 31 March 1990		(417.5)	(390.3)
		13,597.9	13,134.5
Working capital	6	(188.2)	(203.0)
Net operating assets		13,409.7	12,931.5
Cash and investments		0.2	0.2
Non-trade debtors		19.4	21.4
Dividends payable		(71.0)	(66.9)
Other non-trade creditors due within one year		(116.3)	(83.1)
Creditors due after one year		(632.3)	(437.0)
Provisions for liabilities and charges – (restructuring costs)		(13.3)	(31.2)
Net assets employed		12,596.4	12,334.9
Financed by			
Called up share capital		860.0	860.0
Profit and loss account	7	309.8	383.3
Current cost reserve	8	11,426.6	11,091.6
Total capital and reserves		12,596.4	12,334.9

CURRENT COST CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 1996	Notes	1996 £m	1995 £m
Net cash inflow from operating activities	9	346.3	358.4
Returns on investments and servicing of finance			
Interest received		0.3	6.4
Interest paid		(39.5)	(35.8)
Interest element of finance lease rental payments		(6.5)	(3.6)
Dividends paid		(294.2)	(87.0)
Net cash outflow from returns on investments and servicing of finance		(339.9)	(120.0)
Investing activities			
Gross cost of purchase of fixed assets		(264.2)	(311.5)
Grants and contributions received		22.8	31.3
Repayment of loans made to other group undertakings		-	100.0
Sales of fixed assets		4.3	3.7
Net cash outflow from investing activities		(237.1)	(176.5)
Net cash (outflow) / inflow before financing		(230.7)	61.9
Financing			
Loans from the European Investment Bank		120.0	50.0
Loans from Anglian Water Plc		79.3	-
Repayments of amounts borrowed		(1.2)	(122.0)
Net cash inflow / (outflow) from financing		198.1	(72.0)
Decrease in cash and cash equivalents		(32.6)	(10.1)

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 financial statements, except as set out below.

(b) Tangible fixed assets

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

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

Land and Buildings

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

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

Infrastructure assets

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

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

Other fixed assets

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

Surplus land

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

(c) Grants and other third party contributions

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

1. ACCOUNTING POLICIES (continued)

(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 1996 £m	Water services £m	Sewerage services £m	Total 1995 £m
Measured	82.3	70.8	153.1	82.0	61.3	143.3
Unmeasured	174.6	275.1	449.7	170.5	263.8	434.3
Trade effluent	–	19.3	19.3	–	17.3	17.3
Revenue grants	0.3	–	0.3	0.1	–	0.1
Non tariff basket charges	13.3	6.1	19.4	12.1	4.9	17.0
Rechargeable work	7.2	0.1	7.3	7.2	0.3	7.5
Other	3.7	5.6	9.3	3.9	5.3	9.2
Total turnover	281.4	377.0	658.4	275.8	352.9	628.7

3. (LOSS) / PROFIT ON SALES OF FIXED ASSETS

	1996 £m	1995 £m
Total	(0.7)	3.2

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 treatment £m	Sludge treatment & disposal £m	Sewage T & D subtotal £m	Sewerage services subtotal £m				
Direct costs:											
Employment costs	5.2	8.0	13.2	4.0	12.7	2.7	15.4	19.4			
Power	8.5	4.7	13.2	2.8	8.3	0.8	9.1	11.9			
Hired & contracted services	2.1	3.6	5.7	7.3	4.0	6.5	10.5	17.8			
Materials and consumables	7.4	4.1	11.5	1.8	5.0	0.9	5.9	7.7			
Service charges	5.9	-	5.9	0.8	3.2	-	3.2	4.0			
Other direct costs	0.4	0.3	0.7	0.2	0.4	0.1	0.5	0.7			
Total direct costs	29.5	20.7	50.2	16.9	33.6	11.0	44.6	61.5	10.4	5.5	1.9
General and support expenditure	17.6	17.6	35.2	11.6	20.3	7.3	27.6	39.2	5.1	1.4	0.4
Functional expenditure	47.1	38.3	85.4	28.5	53.9	18.3	72.2	100.7	15.5	6.9	2.3
Capital costs:											
CC depreciation	33.1	11.0	44.1	11.3	57.0	2.2	59.2	70.5			
Infrastructure renewals expenditure	-	7.6	7.6	10.8	-	-	-	10.8			
Infrastructure renewals reduction in accrual	-	(0.4)	(0.4)	(0.7)	-	-	-	(0.7)			
Functional costs	80.2	56.5	136.7	49.9	110.9	20.5	131.4	181.3			
Total including business analysis			148.3					194.4			
Rates			17.7					10.2			
Doubtful debts			3.0					4.1			
Exceptional items			(0.9)					(1.1)			
Business activities capital costs			6.7					7.2			
Service costs			174.8					214.8			
Services for third parties			14.5					1.2			
Total costs			189.3					216.0			
1995 Total costs			193.6					216.2			
Fixed assets net book values*											
Service activities	858.5	3,305.2	4,163.7	8,415.9	1,158.4	30.1	1,188.5	9,604.4			
Business activities			59.6	14.7			46.5	61.2			
Service totals			4,223.3	8,430.6			1,235.0	9,665.6			
Service assets for third parties			116.9					9.6			
Total MEA values			4,340.2					9,675.2			
1995 total MEA values			4,156.8					9,368.0			

*On a modern equivalent asset (MEA) basis.

5. FIXED ASSETS (a) Fixed assets by service	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
Gross replacement cost				
At 31 March 1995	4,901.9	8,326.7	2,154.0	15,382.6
RPI adjustment	132.4	224.7	58.3	415.4
Disposals	(5.0)	(2.9)	(3.2)	(11.1)
Additions	127.6	55.3	82.4	265.3
At 31 March 1996	5,156.9	8,603.8	2,291.5	16,052.2
Depreciation				
At 31 March 1995	745.1	156.3	956.4	1,857.8
RPI adjustment	20.1	4.2	25.8	50.1
Disposals	(2.8)	(0.7)	(2.6)	(6.1)
Charge for the year	54.3	13.4	67.3	135.0
At 31 March 1996	816.7	173.2	1,046.9	2,036.8
Net book amount				
At 31 March 1996	4,340.2	8,430.6	1,244.6	14,015.4
At 31 March 1995	4,156.8	8,170.4	1,197.6	13,524.8

(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 1995	3,697.3	90.6	11,352.6	242.1	15,382.6
RPI adjustment	99.8	2.5	306.5	6.6	415.4
Disposals	(0.3)	(4.7)	-	(6.1)	(11.1)
Additions	101.2	2.2	109.9	52.0	265.3
At 31 March 1996	3,898.0	90.6	11,769.0	294.6	16,052.2
Depreciation					
At 31 March 1995	1,724.5	21.4	-	111.9	1,857.8
RPI adjustment	46.5	0.6	-	3.0	50.1
Disposals	-	(1.1)	-	(5.0)	(6.1)
Charge for the year	111.0	0.9	-	23.1	135.0
At 31 March 1996	1,882.0	21.8	-	133.0	2,036.8
Net book amount					
At 31 March 1996	2,016.0	68.8	11,769.0	161.6	14,015.4
At 31 March 1995	1,972.8	69.2	11,352.6	130.2	13,524.8

(c) Net book value of fixed assets by service and by type	Specialised operational assets £m	Non-specialised operational assets £m	Infra-structure assets £m	Other tangible assets £m	Total £m
Water supply	732.0	38.2	3,466.5	103.5	4,340.2
Sewerage	184.9	4.1	8,219.6	22.0	8,430.6
Sewage treatment & disposal	1,099.1	26.5	82.9	36.1	1,244.6
At 31 March 1996	2,016.0	68.8	11,769.0	161.6	14,015.4

	1996 £m	1995 £m
6. WORKING CAPITAL		
Stocks	4.3	5.5
Trade debtors	95.5	80.6
Working cash balances	-	1.5
Trade creditors	(24.7)	(41.1)
Short term capital creditors	(90.1)	(70.9)
Infrastructure renewals accrual	(104.9)	(106.0)
Other trade accruals	(73.0)	(66.5)
Payroll related taxes and social security contributions	(2.2)	(4.5)
Group trade debtors / (creditors)	5.0	(3.8)
Prepayments	1.9	2.2
	(188.2)	(203.0)

	1996 £m	1995 £m
7. CURRENT COST PROFIT AND LOSS ACCOUNT		
At beginning of year	383.3	269.5
Retained (loss) / profit for the year	(73.5)	113.8
At end of year	309.8	383.3

	1996 £m	1995 £m
8. CURRENT COST RESERVE		
At beginning of year	11,091.6	10,676.4
RPI adjustments:		
Fixed assets	365.3	451.1
Working capital	(5.5)	(6.0)
Financing	(14.3)	(18.9)
Deferred grants and contributions	(10.5)	(11.0)
At end of year	11,426.6	11,091.6

In accordance with the Company's accounting policy, current cost gross asset values and cumulative depreciation were reassessed at 31 March 1993 as part of the revision of the Company's AMP.

	1996 £m	1995 £m
9. RECONCILIATION OF CURRENT COST OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Current cost operating profit*	257.9	228.1
Current cost depreciation (net of amortisation of deferred grants and contributions)	131.1	120.8
Current cost loss / (profit) on sales of fixed assets	0.7	(3.2)
Provision for infrastructure renewals	17.3	17.9
Decrease in stocks	1.2	0.9
Increase in debtors and prepaid expenses	(13.6)	(15.8)
(Decrease) / Increase in creditors and accrued expenses	(26.0)	44.9
Net movement in restructuring provision	(17.9)	(28.0)
Effect of other deferrals and accruals on operating activity cash flow	-	(2.2)
Working capital adjustment	(5.5)	(6.0)
Other income received	1.1	1.0
Net cash inflow from operating activities	346.3	358.4

*After an exceptional credit of £2.0m (1995 - charge of £14.0m)

10. CURRENT COST ROLLING SUMMARY	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	658.4	649.4	631.2	605.9	571.3
Operating costs	(405.3)	(423.3)	(501.0)	(408.1)	(393.1)
Operating income	(0.7)	3.3	1.5	3.5	0.1
Working capital adjustment	5.5	6.2	3.5	1.9	5.2
Current cost operating profit*	257.9	235.6	135.2	203.2	183.5
Other income	1.1	1.0	2.0	1.8	1.7
Interest payable (net)	(48.5)	(38.9)	(35.1)	(30.2)	(24.2)
Financing adjustment	14.3	19.5	8.8	6.2	8.3
Current cost profit attributable to shareholders	224.8	217.2	110.9	181.0	169.3
Dividends	(298.3)	(99.7)	(89.5)	(87.7)	(84.5)
Current cost (loss) / profit retained	(73.5)	117.5	21.4	93.3	84.8

*After an exceptional credit of £2.0m (1995 – charges of £14.0m and 1994 – charge of £60.0m)

Balance sheet	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Assets employed					
Fixed assets	14,015.4	13,889.9	13,702.5	12,919.2	12,641.1
Third party contributions since 31 March 1990	(417.5)	(400.9)	(333.8)	(263.8)	(201.1)
Working capital	(188.2)	(208.5)	(182.0)	(158.2)	(107.1)
Net operating assets	13,409.7	13,280.5	13,186.7	12,497.2	12,332.9
Cash and investments	0.2	0.2	106.5	244.8	3.3
Non-trade debtors	19.4	22.0	0.7	2.1	1.3
Dividends payable	(71.0)	(68.7)	(61.0)	(59.3)	(56.5)
Other non-trade creditors due within one year	(116.3)	(85.3)	(74.8)	(112.4)	(12.7)
Creditors due after one year	(632.3)	(448.8)	(545.5)	(527.2)	(323.4)
Provisions for liabilities and charges	(13.3)	(32.0)	(62.9)	(1.4)	(3.5)
Net assets employed	12,596.4	12,667.9	12,549.7	12,043.8	11,941.4
Financed by					
Called up share capital	860.0	883.2	914.2	935.7	952.9
Profit and loss account	309.8	393.6	286.5	271.3	180.6
Current cost reserves	11,426.6	11,391.1	11,349.0	10,836.8	10,807.9
Total capital and reserves	12,596.4	12,667.9	12,549.7	12,043.8	11,941.4

The financial information set out above for the four years ended 31 March 1995 is based on the audited current cost financial statements for those years, as adjusted to 1995/96 prices for changes in the Retail Price Index.

We have audited the regulatory financial statements and other information on pages 20 to 31.

Respective responsibilities of directors and auditors

As described on page 20, the Company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 1996 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 6 to 19 and pages 21 to 23 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 24 to 31 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.



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

28 May 1996

Price Waterhouse



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 financial statements (pages 6 to 19) 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 20 to 31) this definition is extended to include any other company within the Anglian Water Plc 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.

Infrastructure renewals charge

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

Provisions

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

Reserves

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.