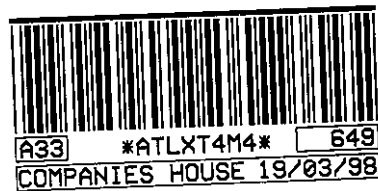


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Directors' Report

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 1997.

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 four million customers and over five million customers benefit from 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 had approval from the Drinking Water Inspectorate for our new, low energy, reverse osmosis water softening plant at Bunwell, Norfolk.

On the waste water side, we are creating compact, more cost efficient treatment processes. In particular, the development of our Kaldnes suspended carrier process for accelerated sewage treatment is proving very effective and has helped significantly at works such as Anwick in Lincolnshire.

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 historical cost financial statements. This information is presented in pages 19 to 30. The regulatory information has been prepared in accordance with guidelines issued by the DG.

Directors and Directors' Interests

The directors at 31 March 1997, who served for the whole of the financial year were:

AF Smith – Chairman

CJ Mellor

JW Green – Managing Director

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.

Charitable and Political Donations

During the year the Company made charitable donations of £106,377. In addition the Company contributed £100,000 to the "Lessons for Life" campaign, a scheme of support for swimming pools in the region to encourage people to learn to swim. No political contributions were made.

Employees

Employees are kept informed on matters affecting them and 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

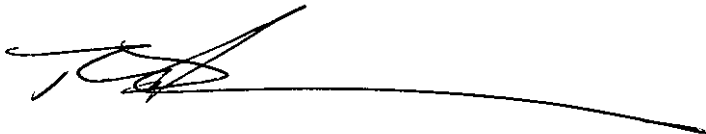
It is the Company's policy to provide suppliers of goods and services with a statement of general conditions of contract. This document is available from the Company's procurement department. In general, regional purchasing agreements are in place with preferred suppliers and the terms will apply to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

27 May 1997



Operating and Financial Review

Accounting Standards

The 1997 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 5.8 per cent from £659.5 million to £697.7 million. This mainly results from price increases under the RPI+K (of 1.5 per cent) formula which contributed an extra 4.6 per cent. This was partly offset by the effect of customers switching to water meters.

Some 94 per cent of turnover in the year came from main charges for water, sewerage and trade effluent services. Some 68 per cent (1996: 72 per cent) of this was unmeasured and 32 per cent (1996: 28 per cent) measured. We meter all new properties and we are progressively installing meters throughout the region in existing properties and also offer customers the opportunity to switch to a meter outside of this main metering programme at no charge.

Total operating costs (before the exceptional charge) have increased by 0.9 per cent from £360.6 million to £363.7 million. Depreciation (net of amortisation of deferred grants and contributions) increased from £84.4 million to £91.6 million as a result of the capital expenditure programme. Around £2.2 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 £0.4 million higher than in 1996, at £17.7 million. As planned, actual expenditure of £34.1 million has significantly exceeded the charge in the year as we have invested to reduce leakage rates and to improve the operational performance of our mains and sewers.

Other operating costs (before exceptional items) have reduced by £4.5 million this year. We anticipate that by 1997/98 we will have achieved cost savings of £50.0 million compared with the cost base in 1993/94.

In our continued drive for further efficiency savings we are planning net reductions of 300 amongst our operational staff. The financial statements include an exceptional charge of £20.0 million against the cost of these reductions.

Our net interest for the year at £59.5 million shows an increase of 22.7 per cent reflecting the increase in borrowing necessary to finance the capital investment programme. Profit before exceptional items and tax at £274.5 million is 9.0 per cent higher than in 1996. Interest cover stands at 5.3 times.

Financial Needs and Resources

At 31 March 1997 the Company had net borrowings of £854.2 million, an increase of £110.7 million over the year. The increased net borrowings have been financed by a £175.0 million loan from the parent company offset by a £56.5 million reduction in the Company's bank overdraft. Before net investment expenditure of £326.1 million, the business generated a net cash inflow of £320.8 million in 1997. Year end gearing (debt/equity) has increased from 47.6 per cent in 1996 to 50.2 per cent. Net borrowings comprise fixed rate debt of £391.4 million, floating rate debt of £410.8 million and overdrafts of £52.0 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 financial statements.

The capital investment programme for the year with total expenditure at £350.1 million was as planned 23.4 per cent higher than in 1996.

Shareholders' Return and Value Created

The full year dividend, excluding the special dividend paid in 1996, has been increased by 15.9 per cent, a real increase of 13.5 per cent over the average rate of inflation during the year.

The dividend increase confirms the Board's commitment to delivering continuing real dividend growth and progressively reducing dividend cover.

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 of the Company 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 Shareholder of Anglian Water Services Limited

We have audited the financial statements on pages 6 to 18 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.

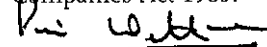
Basis of Opinion

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 1997 and of the profit 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

27 May 1997

Price Waterhouse 

Profit and Loss Account

For the year ended 31 March 1997

Notes	1997 Pre-exceptional charge £m	1997 Exceptional charge £m	1997 Total £m	1996 Pre-exceptional credit £m	1996 Exceptional credit £m	1996 Total £m	
2	Turnover from continuing operations	697.7	–	697.7	659.5	–	659.5
3	Operating costs	(363.7)	(20.0)	(383.7)	(360.6)	2.0	(358.6)
2, 5	Operating profit from continuing operations	334.0	(20.0)	314.0	298.9	2.0	300.9
	Profit on sale of assets in continuing operations	–	–	–	1.4	–	1.4
	Profit on ordinary activities before interest	334.0	(20.0)	314.0	300.3	2.0	302.3
6	Interest payable (net)	(59.5)	–	(59.5)	(48.5)	–	(48.5)
7	Profit on ordinary activities before and after taxation	274.5	(20.0)	254.5	251.8	2.0	253.8
8	Dividends	(116.8)	–	(116.8)	(298.3)	–	(298.3)
23	Retained profit/(loss) for the financial year	157.7	(20.0)	137.7	(46.5)	2.0	(44.5)

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 9 to 18 form part of these financial statements.

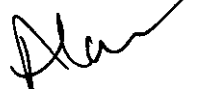
Balance Sheet

At 31 March 1997

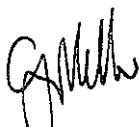
Notes	1997 £m	1996 £m	
	Fixed assets		
12	Tangible assets	2,855.2	2,646.4
13	Investments	0.2	0.2
		<u>2,855.4</u>	<u>2,646.6</u>
	Current assets		
14	Stocks	3.8	4.3
15	Debtors	167.6	124.4
		<u>171.4</u>	<u>128.7</u>
	Creditors: amounts falling due within one year		
16	Short term borrowings	(239.0)	(116.3)
16	Other creditors	(251.6)	(263.6)
	Net current liabilities	<u>(319.2)</u>	<u>(251.2)</u>
	Total assets less current liabilities	<u>2,536.2</u>	<u>2,395.4</u>
	Creditors: amounts falling due after more than one year		
17	Loans and other borrowings	(615.2)	(627.2)
18	Other creditors	(103.0)	(87.0)
		<u>(718.2)</u>	<u>(714.2)</u>
19	Provisions for liabilities and charges	<u>(117.3)</u>	<u>(118.2)</u>
		<u>1,700.7</u>	<u>1,563.0</u>
	Capital and reserves		
22,23	Called up equity share capital	860.0	860.0
23	Profit and loss account	840.7	703.0
23	Total shareholders' funds (all equity)	<u>1,700.7</u>	<u>1,563.0</u>

The notes on pages 9 to 18 form part of these financial statements.

Approved by the Board on 27 May 1997.



AF Smith
Chairman



C Mellor
Finance Director

Cash Flow Statement

For the year ended 31 March 1997

Notes	1997 £m	1996 £m
27(a)		
Net cash inflow from operating activities	377.3	346.3
Returns on investments and servicing of finance		
Interest received	1.5	0.3
Interest paid	(53.1)	(39.5)
Interest element of finance lease rental payments	(6.0)	(6.5)
Dividends received from participating interests	1.1	-
	<u>(56.5)</u>	<u>(45.7)</u>
Capital expenditure		
Purchase of tangible fixed assets	(318.1)	(243.3)
Grants and contributions received	21.8	22.8
Investment in infrastructure renewals	(32.4)	(20.9)
Disposal of tangible fixed assets	2.6	4.3
	<u>(326.1)</u>	<u>(237.1)</u>
Equity dividends paid	(105.4)	(294.2)
Net cash outflow before financing	<u>(110.7)</u>	<u>(230.7)</u>
Financing		
27(b) Increase in loans	175.0	199.3
27(c) Repayments of amounts borrowed	(7.4)	(1.2)
Capital element of finance lease rental payments	(0.4)	-
Net cash inflow from financing	<u>167.2</u>	<u>198.1</u>
27(c) Increase/(decrease) in cash	<u>56.5</u>	<u>(32.6)</u>

The company has adopted the revised FRS1 "Cash Flow Statements" and accordingly certain comparative figures have been reanalysed.

The notes on pages 9 to 18 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 costs of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true and fair view since, as explained above, infrastructure assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 12 on page 14.

Revenue 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 cases 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.

1. **Accounting Policies** continuedf) **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 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.

j) **Related party transactions**

The Company has taken advantage of the exemption not to disclose transactions with other members of the Group under FRS8 "Related Party Disclosures" as it is a wholly owned subsidiary.

2. **Segmental Analysis**

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

	1997 Pre-exceptional charge £m	1997 Exceptional charge £m	1997 Total £m	1996 Total £m
3. Operating Costs				
Raw materials and consumables	24.0	–	24.0	29.0
Other external charges (1996: net of exceptional credit £2.0 million)	184.4	1.7	186.1	170.3
Staff costs (see note 9)	89.1	18.3	107.4	95.0
Change in stocks of finished goods and work in progress	0.1	–	0.1	0.1
Own work capitalised	(41.0)	–	(41.0)	(37.5)
	256.6	20.0	276.6	256.9
Dividends receivable from participating interests	(1.1)	–	(1.1)	–
Profit on sale of tangible fixed assets	(1.1)	–	(1.1)	–
Depreciation of tangible fixed assets	96.7	–	96.7	88.3
Amortisation of deferred grants and contributions	(5.1)	–	(5.1)	(3.9)
Infrastructure renewals	17.7	–	17.7	17.3
Total net operating costs	363.7	20.0	383.7	358.6

The 1996 operating costs include the exceptional item set out in note 4.

	1997 £m	1996 £m
4. Exceptional Charge/(Credit)		
External charges:		
– Provision for restructuring	20.0	–
– Customer trust fund*	–	(2.0)
	20.0	(2.0)

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

5	Operating Profit	1997 £m	1996 £m
	Operating profit is stated after charging/(crediting):		
	Dividends receivable from participating interests	(1.1)	–
	Hire of plant and machinery	0.7	0.4
	Other operating lease costs	2.4	1.5
	Research and development expenditure	5.2	5.3
	Grants and contributions	–	(0.3)
	Fees paid to auditors:		
	for audit work	0.1	0.1
	for other work	0.1	0.1

6	Interest Payable (Net)	1997 £m	1996 £m
	Overdrafts and short term borrowings	7.3	1.3
	Other loans	46.3	41.0
	Finance leases	6.0	6.7
		59.6	49.0
	Interest receivable	(0.1)	(0.5)
		59.5	48.5

Interest of £19.4m (1996 – £18.0m) is payable to the parent company.

7 Taxation

No mainstream corporation tax liability arises for the year ended 31 March 1997 and no provision for deferred taxation is required (see note 20).

At the date of the approval of the financial statements no legislation had been introduced to implement proposals for a tax on utilities and consequently no provision has been made for any such tax that may arise.

8	Dividends	1997 £m	1996 £m
	Interim dividend	34.4	29.8
	Special dividend*	–	197.5
	Proposed final dividend	82.4	71.0
		116.8	298.3

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

9. Employee Information	1997	1997	1997	1996
	Pre-exceptional charge £m	Exceptional charge £m	Total £m	Total £m
Staff costs:				
Wages and salaries	82.2	9.4	91.6	79.8
Social security costs	6.8	–	6.8	6.6
Other pension costs (see note 24)	0.1	8.9	9.0	8.3
Employee profit share	–	–	–	0.3
	89.1	18.3	107.4	95.0

Other pension costs before exceptional charges is stated after crediting £9.7m (1996 – £nil) in respect of the amortisation of an actuarial surplus in each of the two main UK pension schemes (see note 24).

Average number of full time equivalent persons employed in the UK:	1997	1996
Number employed	4,269	4,281

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	1997 Total £000	1996 Total £000
AF Smith (Chairman)	166	9	20	195	179
CJ Mellor	126	7	15	148	146
JW Green	106	9	12	127	125
	398	25	47	470	450
Contributions to pension schemes				26	47
				496	497

The amount of pension contributions paid on behalf of directors during the year to 31 March 1997, along with the amounts for pension entitlements earned, the accrued pension liabilities and the changes therein, are summarised below. These pension liabilities are calculated using the cash equivalent transfer value method, which is the method adopted in the Listing Rules of the London Stock Exchange.

	Company's pension contributions £000	Accrued pension ⁽¹⁾ £000	Increase in accrued pension ⁽²⁾ £000	Accrued pension lump sum ⁽³⁾ £000	Transfer value of increase ⁽⁴⁾ £000
AF Smith	11	83	10	248	125
CJ Mellor	8	55	5	149	46
JW Green	7	51	8	132	104

⁽¹⁾ The accrued pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.

⁽²⁾ The increase in accrued pension during the year excludes any increase for inflation.

⁽³⁾ The accrued pension lump sum shown is that which would be paid on retirement based on service to the end of the year.

⁽⁴⁾ The transfer value of the increase has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

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 1997 No. of shares	31 March 1996 No. of shares
AF Smith	10,643	7,886
CJ Mellor	5,572	5,325
JW Green	16,545	12,079

Each executive director has notified the Company that, for the purposes of Section 324 of the Companies Act 1985, he has a contingent interest in the following number of shares, representing the maximum aggregate number of shares to which he would become entitled under the Group's Long Term Incentive Plan: Mr AF Smith 14,062; Mr CJ Mellor 10,641 and Mr JW Green 8,931.

Executive share options	Options outstanding 1 April 1996	Options granted			Options exercised			Options outstanding at 31 March 1997	
	Number	Number	Option Price (£)	Number	Weighted average exercise Price (£)	Weighted average Market Price (£)	Gain on exercise of option (£)	Number	Weighted average exercise Price (£)
CJ Mellor	21,863	–	–	14,257	4.73	5.77	14,827	7,606	5.36
JW Green	27,100	–	–	–	–	–	–	27,100	5.16
Sharesave scheme options									
AF Smith	4,982	862	4.52	2,757	2.72	6.50	10,421	3,087	3.84
CJ Mellor	5,420	862	4.52	2,782	2.69	6.21	9,793	3,500	3.49
JW Green	12,141	1,526	4.52	9,916	2.03	6.61	45,415	3,751	3.47

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.

The market price of shares in Anglian Water Plc at 31 March 1997 was £6.39, and the range during the year was £5.12 to £6.81.

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 1997 to 27 May 1997 except for Mr AF Smith who acquired 24 shares solely as a result of bonus allocations within a PEP.

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
Sharesave Scheme	12 December 1996	£4.52	Executive Share Option Scheme	7 December 1995	£5.74
Executive Share Option Scheme	20 June 1990	£2.93	Executive Share Option Scheme	10 June 1996	£5.71
Executive Share Option Scheme	10 January 1991	£3.31	Executive Share Option Scheme	7 November 1996	£5.50
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 1996	50.5	1,162.4	1,788.0	262.7	3,263.6
Additions	5.1	98.7	73.9	138.3	316.0
Disposals	(0.1)	(0.3)	(1.8)	(8.9)	(11.1)
At 31 March 1997	55.5	1,260.8	1,860.1	392.1	3,568.5
Grants and contributions					
At 31 March 1996	–	93.5	–	–	93.5
Additions	–	9.0	–	–	9.0
At 31 March 1997	–	102.5	–	–	102.5
Depreciation					
At 31 March 1996	11.3	–	396.0	116.4	523.7
Charge for the year	2.0	–	71.6	23.1	96.7
Disposals	–	–	(1.8)	(7.8)	(9.6)
At 31 March 1997	13.3	–	465.8	131.7	610.8
Net book amount					
At 31 March 1997	42.2	1,158.3	1,394.3	260.4	2,855.2
At 31 March 1996	39.2	1,068.9	1,392.0	146.3	2,646.4

Tangible fixed assets at 31 March 1997 include £353.2m of assets in the course of construction (1996 – 314.7m) and also include land of £8.9m (1996 – £9.2m) 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 1997 was £100.9m (1996 – £105.2m). Depreciation charged on assets held under finance leases during the year ended 31 March 1997 amounted to £4.1m (1996 – £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 1997.

	1997 £m	1996 £m
Contracted for but not provided in the financial statements	177.3	102.8

13. Fixed Asset Investments	Participating interests £m
Shares at cost	
At 31 March 1996 and 1997	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	40,000	£40,000	50	Ordinary £1 shares
Regeneration of granular activated carbon				

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 financial statements 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	1997 £m	1996 £m
Raw materials and consumables	3.8	4.2
Work in progress	–	0.1
	3.8	4.3

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

15. Debtors	1997 £m	1996 £m
Amounts falling due within one year		
Trade debtors	115.1	95.5
Amounts owed by other Group undertakings	28.5	7.6
Other debtors	14.7	18.5
Prepayments and accrued income	2.9	2.8
	161.2	124.4
Amounts falling due after more than one year		
Prepaid pension contributions	6.4	–
	167.6	124.4

16. Creditors: Amounts Falling Due Within One Year	1997 £m	1996 £m
Bank overdrafts	52.0	108.5
Current portion of long term loans	10.4	7.2
Loan due within one year	175.0	–
Obligations under finance leases	1.6	0.6
Short term borrowings	239.0	116.3
Trade creditors	108.8	114.8
Amounts owed to other Group undertakings	2.4	2.6
Receipts in advance	42.7	52.6
Other taxation and social security	2.7	2.2
Accruals and deferred income	12.6	20.4
Proposed dividend	82.4	71.0
Other creditors	251.6	263.6

17. Loans and Other Borrowings Falling Due After More Than One Year	1997 £m	1996 £m
Repayable wholly after five years		
US\$122m loan 2006 (from the parent company) (a)	74.8	79.3
Adjustment for swap agreements (a)	4.5	–
	79.3	79.3
12% Fixed Rate loan 2014 (from the parent company)	100.0	100.0
European Investment Bank 2002 (Interest at 8.0%)	60.0	60.0
European Investment Bank 2003 (Interest at 6.6%)	10.0	10.0
European Investment Bank 2005 (Interest at 8.2%)	60.0	60.0
Repayable by instalments, any of which is due for repayment after five years		
European Investment Bank 2004 (Interest at 11.5%)	13.2	14.1
European Investment Bank 2005 (Interest at 8.5%)	45.0	50.0
European Investment Bank 2007 (Interest at 10.25%)	9.1	10.0
European Investment Bank 2007 (Interest at 9.9%)	30.0	30.0
Finance leases (b)	121.7	122.3
Other borrowings (c)	22.8	23.1
Repayable wholly within five years		
European Investment Bank 1999 (Interest at LIBOR minus 0.2%)	25.0	25.0
European Investment Bank 2001 (Interest at LIBOR minus 0.15%)	50.0	50.0
Floating rate loan 1998 (from the parent company)	175.0	–
Other loans (c)	1.1	1.2
Total loans and other borrowings	802.2	635.0
Less amounts included in creditors falling due within one year	(187.0)	(7.8)
	615.2	627.2
Due for repayment as follows:		
Between one and two years	13.1	12.0
Between two and five years	123.8	69.7
After five years	478.3	545.5
	615.2	627.2

- a) 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 effectively 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 £1.7m (1996 – £0.6m) payable within one year, £20.2m (1996 – £14.4m) payable between one and five years and £99.8m (1996 – £107.3m) payable after five years.
- c) Of the unspecified loans and other borrowings, £4.3m (1996 – £0.1m) are at fixed rates and the remainder are at variable rates. Loans and other borrowings include £1.1m (1996 – £1.2m) secured on the revenues of the Company.

18. Other Creditors Falling Due After More Than One Year	1997 £m	1996 £m
Trade creditors	8.4	1.5
Receipts in advance	3.6	3.6
Deferred grants and contributions	91.0	81.9
	103.0	87.0

19. Provisions For Liabilities and Charges	Infrastructure renewals £m	Restructuring costs £m	Total £m
At 31 March 1996	104.9	13.3	118.2
Charge for the year	17.7	20.0	37.7
Utilised in the year	(34.1)	(4.5)	(38.6)
At 31 March 1997	88.5	28.8	117.3

20. **Deferred Taxation**

In accordance with the Company's accounting policy there is no requirement for a provision for deferred taxation at 31 March 1997. The full potential deferred taxation liability, calculated under the liability method at a tax rate of 33%, is:

	1997 £m	1996 £m
Accelerated capital allowances	245.7	203.8
Other timing differences	(44.7)	(46.3)
Available tax losses	(7.1)	(12.9)
Advance corporation tax available for surrender from the parent company	(117.5)	(87.6)
	76.4	57.0

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £19.4m (1996 - £21.5m).

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 £287.0m (1996 - £245.1m), assuming a tax rate of 33%, have therefore been excluded from the amounts set out above.

21. **Commitments Under Operating Leases**

At 31 March 1997 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	0.1	0.3
Between one and five years	-	2.0
After five years	1.2	-
	1.3	2.3

22. **Share Capital - Equity Shares**

	1997 £m	1996 £m
Authorised		
Ordinary shares of £1 each	860.0	860.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	860.0	860.0

23. **Movement in Shareholders' Funds**

	Share capital £m	Profit and loss account £m	1997 Total £m	1996 Total £m
At beginning of year	860.0	703.0	1,563.0	1,607.5
Profit for the financial year	-	254.5	254.5	253.8
Dividends	-	(116.8)	(116.8)	(298.3)
At end of year	860.0	840.7	1,700.7	1,563.0

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 ("AWMIS") and the Anglian Water Pension Scheme ("AWPS"). 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 regular pension cost for the year ended 31 March 1997 was £9.8m (1996 - £8.3m). This cost was offset by a credit of £9.7m (1996 - £nil) in respect of the amortisation of actuarial surpluses in the AWMIS and AWPS schemes. At 31 March 1997 there was a prepayment in respect of pensions of £6.4m (1996 - £nil).

25. **Contingent Liabilities**

The Company has guaranteed the borrowings of Anglian Water Plc amounting to £228.6m (1996 – £225.8m). Otherwise, there are no material contingent liabilities at 31 March 1997 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**

a)	1997 £m	1996 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	314.0	300.9
Dividends received from participating interests	(1.1)	–
Profit on disposal of tangible fixed assets	(1.1)	–
Depreciation (net of amortisation of deferred grants and contributions)	91.6	84.4
Provision for infrastructure renewals	17.7	17.3
Net movement on pensions balances	(6.4)	–
Net movement on restructuring provision	15.5	(17.9)
	430.2	384.7
Decrease/(increase) in working capital:		
Stocks	0.5	1.2
Debtors	(44.6)	(13.6)
Creditors	(8.8)	(26.0)
	(52.9)	(38.4)
Net cash inflow from operating activities	377.3	346.3

Net cash inflow from operating activities for the year ended 31 March 1997 is arrived at after cash outflows of £4.5m (1996 – £17.9m) in relation to the 1994 exceptional restructuring charge and £nil (1996 – £11.9m) relating to the 1995 exceptional charges.

b)	1 April 1996 £m	Cash flows £m	Non cash movements £m	31 March 1997 £m
Analysis of net debt				
Bank overdrafts	(108.5)	56.5	–	(52.0)
Debt due within 1 year	(7.8)	7.8	(187.0)	(187.0)
Debt due after 1 year	(627.2)	(175.0)	187.0	(615.2)
	(743.5)	(110.7)	–	(854.2)

Non cash movements comprise transfers between categories of debt.

c)	1997 £m	1996 £m
Movement in net debt		
At beginning of year	(743.5)	(512.5)
Increase/(decrease) in cash	56.5	(32.6)
Increase in loans	(175.0)	(199.3)
Repayment of loans	7.4	1.2
Deferred finance charges on finance lease arrangements	–	(0.3)
Capital element of finance lease rental payments	0.4	–
At end of year	(854.2)	(743.5)

28. **Related Party Transactions**

There are no related party transactions requiring disclosure in this year's financial statements in accordance with FRS8 "Related Party Transactions".

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 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 and balance sheet is set out on page 20. A current cost profit and loss account and balance sheet are shown on page 23. Other current cost disclosures appear on pages 24 to 30. Additional information required by the Licence is shown on pages 21 to 22.

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 of non-appointed activities for the year ended 31 March 1997 is now material under Regulatory Accounting Guideline 3, appointed and non-appointed businesses have been separately analysed in these regulatory financial 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 1997

	1997 Appointed £m	1997 Non Appointed £m	1997 Total £m	1996 Total £m
Turnover	688.6	7.4	696.0	658.4
Operating costs	(379.1)	(6.9)	(386.0)	(358.6)
Profit on sales of fixed assets	1.1	–	1.1	1.4
Operating profit**	310.6	0.5	311.1	301.2
Other income	1.8	1.1	2.9	1.1
Interest payable (net)	(59.5)	–	(59.5)	(48.5)
Profit on ordinary activities before and after taxation	252.9	1.6	254.5	253.8
Dividends	(116.8)	–	(116.8)	(298.3)
Retained profit/(loss) for the year	136.1	1.6	137.7	(44.5)

*After an exceptional charge of £20.0m (1996 – exceptional credit of £2.0m) within the appointed business.

Historic Cost Balance Sheet

At 31 March 1997

	1997 Appointed £m	1997 Non Appointed £m	1997 Total £m	1996 Total £m
Fixed assets				
Tangible assets	2,855.2	–	2,855.2	2,646.4
Investments	0.2	–	0.2	0.2
	2,855.4	–	2,855.4	2,646.6
Current assets				
Stocks	3.8	–	3.8	4.3
Debtors	167.6	–	167.6	124.4
	171.4	–	171.4	128.7
Creditors: amounts falling due within one year				
Short term borrowings	(240.6)	1.6	(239.0)	(116.3)
Proposed dividend	(82.4)	–	(82.4)	(71.0)
Other creditors	(169.2)	–	(169.2)	(192.6)
Net current liabilities	(320.8)	1.6	(319.2)	(251.2)
Total assets less current liabilities	2,534.6	1.6	2,536.2	2,395.4
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(615.2)	–	(615.2)	(627.2)
Other creditors	(103.0)	–	(103.0)	(87.0)
	(718.2)	–	(718.2)	(714.2)
Provisions for liabilities and charges	(117.3)	–	(117.3)	(118.2)
	1,699.1	1.6	1,700.7	1,563.0
Capital and reserves				
Called up equity share capital	860.0	–	860.0	860.0
Profit and loss account	839.1	1.6	840.7	703.0
Total shareholders' funds (all equity)	1,699.1	1.6	1,700.7	1,563.0

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 19, under the Regulatory Accounting Guidelines certain turnover and expenditure items are treated differently in the regulatory financial statements.

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 and consultancy 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 1997.

Sums borrowed by the appointee from associated companies were:

Lender	Principal amount £m	Repayment date	Interest rate %
Anglian Water Plc – fixed rate loan	100.0	2014	12
Anglian Water Plc – US\$ loan	74.8	2006	*
Anglian Water Plc – Floating rate loan	175.0	1998	Floating

*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 £105.4m were paid to Anglian Water Plc. This comprised a final dividend for the year ended 31 March 1996 of £71.0m and an interim dividend for the year ended 31 March 1997 of £34.4m. The interim and proposed final dividends for 1997 represent a 15.9 per cent increase over 1996, which amounts to a real increase of 13.5 per cent over the average rate of inflation during the year.

The dividend level has been established by reference to the dividends payable by the parent company in respect of the year ended 31 March 1997.

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	128.6	2008	5 ¹ / ₈

4. **Information in Respect of Transactions with any Other Business or Activity of the Appointee or any Associated Company** continued

d) **Transfers of assets/liabilities**

On 31 March 1997 a granular activated carbon regeneration plant held by Grafham Carbons Limited was transferred to the Company at the negotiated price of £6.2 million.

During the course of the year a number of motor vehicles were sold to group companies at market value. Total sale proceeds were £0.2 million.

e) **Supply of services**

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Terms of supply	Value £m
Rental of office accommodation	Various	Market rent	0.1
Other services	Various	Market rates	0.5
			0.6

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Value £m
Management charge	Anglian Water Plc	3.8	Recharge of appropriate costs	3.5
Engineering, construction and fabrication	Aquafine Engineering Services Limited	8.9	Competitive tendering/ negotiated market rates	6.0
Vehicle and plant maintenance	Powermarque Limited	3.9	Competitive tendering	3.3
Supply of granular activated carbon	Grafham Carbons Limited	4.6	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	39.5	Competitive tendering	12.4
				30.0*

*This total includes amounts of £15.8m 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 Appointed Business for the year ended 31 March 1997		1997 £m	1996 £m
2	Turnover	688.6	658.4
4	Current cost operating costs	(427.7)	(405.3)
3	Profit/(loss) on sales of fixed assets	0.9	(0.7)
		261.8	252.4
1(d). 8	Working capital adjustment	4.9	5.5
	Current cost operating profit*	266.7	257.9
	Other income	1.8	1.1
	Interest payable (net)	(59.5)	(48.5)
1(d). 8	Financing adjustment	19.3	14.3
	Current cost profit attributable to shareholder	228.3	224.8
	Dividends	(116.8)	(298.3)
7	Current cost profit/(loss) retained	111.5	(73.5)

*After an exceptional charge of £20.0m (1996 – exceptional credit of £2.0m).

Current Cost Balance Sheet for Appointed Business at 31 March 1997		1997 £m	1996 £m
Assets employed			
5	Fixed assets	14,548.8	14,015.4
	Third party contributions since 31 March 1990	(446.5)	(417.5)
		14,102.3	13,597.9
6	Working capital	(108.1)	(188.2)
	Net operating assets	13,994.2	13,409.7
	Cash and investments	0.2	0.2
	Non-trade debtors	21.8	19.4
	Dividends payable	(82.4)	(71.0)
	Other non-trade creditors due within one year	(240.6)	(116.3)
	Creditors due after one year	(627.2)	(632.3)
	Provisions for liabilities and charges – (restructuring costs)	(28.8)	(13.3)
	Net assets employed	13,037.2	12,596.4
Financed by			
	Called up share capital	860.0	860.0
7	Profit and loss account	421.3	309.8
8	Current cost reserve	11,755.9	11,426.6
	Total capital and reserves	13,037.2	12,596.4

Current Cost Cash Flow Statement for Appointed Business for the year ended 31 March 1997		1997 £m	1996 £m
9	Net cash inflow from operating activities	375.7	346.3
	Returns on investments and servicing of finance		
	Interest received	1.5	0.3
	Interest paid	(53.1)	(39.5)
	Interest element of finance lease rental payments	(6.0)	(6.5)
	Dividends from participating interests	1.1	-
		<u>(56.5)</u>	<u>(45.7)</u>
	Capital Expenditure		
	Gross cost of purchase of fixed assets	(318.1)	(243.3)
	Grants and contributions received	21.8	22.8
	Investment in infrastructure renewals	(32.4)	(20.9)
	Disposal of tangible fixed assets	2.6	4.3
		<u>(326.1)</u>	<u>(237.1)</u>
	Equity dividends paid	(105.4)	(294.2)
	Net cash outflow before financing	<u>(112.3)</u>	<u>(230.7)</u>
	Financing		
9(b)	Increase in loans	175.0	199.3
9(b)	Repayments of amounts borrowed	(7.4)	(1.2)
9(b)	Capital element of finance lease payments	(0.4)	-
	Net cash inflow from financing	<u>167.2</u>	<u>198.1</u>
	Increase/(decrease) in cash	<u>54.9</u>	<u>(32.6)</u>

The company has adopted the revised FRS1 "Cash Flow Statements" and accordingly certain comparative figures have been reanalysed.

Notes to the Current Cost Financial Statements

1. Accounting Policies

a) General

These financial statements 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** continuedd) **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 financial statements 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 financial statements and in the historical cost financial statements.

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 for the Appointed Business	Water services £m	Sewerage services £m	Appointed Business 1997 £m	Water services £m	Sewerage services £m	Total Business 1996 £m
Measured	97.5	91.2	188.7	82.3	70.8	153.1
Unmeasured	168.4	277.7	446.1	174.6	275.1	449.7
Trade effluent	–	21.3	21.3	–	19.3	19.3
Revenue grants	–	–	–	0.3	–	0.3
Third party services	17.8	1.4	19.2	19.2	1.6	20.8
Other sources	3.7	9.6	13.3	5.0	10.2	15.2
Total turnover	287.4	401.2	688.6	281.4	377.0	658.4

3. Operating Income and Working Capital Adjustment for the Appointed Business	Water services £m	Sewerage services £m	Appointed Business 1997 £m	Water services £m	Sewerage services £m	Total Business 1996 £m
Current cost profit on disposal of fixed assets	0.5	0.4	0.9	(0.1)	(0.6)	(0.7)

	Water services £m	Sewerage services £m	Appointed Business 1997 £m	Water services £m	Sewerage services £m	Total Business 1996 £m
Working capital adjustment	2.1	2.8	4.9	2.4	3.1	5.5

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	Sludge treatment & disposal £m	Sewage T&D subtotal £m				Sewerage services subtotal £m
Direct costs:											
Employment costs	5.1	9.2	14.3	6.7	14.3	3.7	18.0	24.7	6.8	3.8	0.9
Power	6.6	6.6	13.2	2.8	8.1	0.9	9.0	11.8	-	-	-
Hired & contracted services	2.2	5.6	7.8	5.7	4.0	7.0	11.0	16.7	4.0	0.9	0.1
Materials and consumables	4.8	3.8	8.6	2.0	4.4	0.9	5.3	7.3	0.6	0.6	0.1
Service charges	5.1	-	5.1	0.8	3.4	-	3.4	4.2	-	-	-
Bulk supply imports	0.7	-	0.7	-	-	-	-	-	-	-	-
Other direct costs	-	0.4	0.4	0.3	0.3	-	0.3	0.6	5.9	0.7	1.2
Total direct costs	24.5	25.6	50.1	18.3	34.5	12.5	47.0	65.3	17.3	6.0	2.3
General and support expenditure	9.0	15.5	24.5	7.5	13.6	4.7	18.3	25.8	6.8	2.0	0.7
Functional expenditure	33.5	41.1	74.6	25.8	48.1	17.2	65.3	91.1	24.1	8.0	3.0
Total business activities			15.0					20.1			
Rates			17.6					10.2			
Doubtful debts			2.5					3.6			
Exceptional items			10.0					10.0			
Total opex less third party services			119.7					135.0			
Third party services – opex			14.2					0.9			
Total operating expenditure:			133.9					135.9			
Capital costs:											
Infrastructure renewals expenditure	0.1	18.5	18.6	15.3	0.3	-	0.3	15.6			
Movement in infrastructure renewal accrual/prepayment (0.1)		(8.9)	(9.0)	(7.3)	(0.2)	-	(0.2)	(7.5)			
CC depreciation (allocated)	37.2	12.4	49.6	12.6	63.5	2.7	66.2	78.8			
Amortisation of deferred credits			(2.0)					(3.1)			
Business activities CC depreciation			6.9					7.4			
Capital maintenance excluding third party services			64.1					91.2			
Third party services – capital maintenance			1.9					0.7			
Total capital maintenance			66.0					91.9			
Total operating costs			199.9					227.8			
1996 Total operating costs			189.3					216.0			
CCA (MEA) values*											
Service activities	899.0	3,481.6	4,380.6	8,690.7	1,208.9	31.4	1,240.3	9,931.0			
Business activities			54.5					55.6			
Service totals			4,435.1					9,986.6			
Service assets for third parties			117.9					9.2			
Total MEA values:			4,553.0					9,995.8			
1996 total MEA values			4,340.2					9,675.2			

*On a modern equivalent asset (MEA) basis.

5. Fixed Assets		Specialised operational assets £m	Non-specialised operational properties £m	Infra-structure assets £m	Other tangible assets £m	Total £m
a)	Fixed assets by type – water services					
	Gross replacement cost					
	At 31 March 1996	1,456.7	50.3	3,466.5	183.4	5,156.9
	RPI adjustment	37.9	1.3	90.2	4.7	134.1
	Disposals	–	(0.1)	–	(5.1)	(5.2)
	Additions	74.3	4.2	56.3	24.5	159.3
	At 31 March 1997	1,568.9	55.7	3,613.0	207.5	5,445.1
	Depreciation					
	At 31 March 1996	724.7	12.1	–	79.9	816.7
	RPI adjustment	18.9	0.3	–	2.1	21.3
	Disposals	–	–	–	(4.3)	(4.3)
	Charge for the year	48.1	0.4	–	9.9	58.4
	At 31 March 1997	791.7	12.8	–	87.6	892.1
	Net book amount at 31 March 1997	777.2	42.9	3,613.0	119.9	4,553.0
	At 31 March 1996	732.0	38.2	3,466.5	103.5	4,340.2
b)	Fixed assets by type – sewerage services					
	Gross replacement cost					
	At 31 March 1996	2,441.3	40.3	8,302.5	111.2	10,895.3
	RPI adjustment	63.5	1.1	215.8	2.9	283.3
	Disposals	–	(0.1)	–	(5.0)	(5.1)
	Additions	86.0	4.2	42.1	24.4	156.7
	At 31 March 1997	2,590.8	45.5	8,560.4	133.5	11,330.2
	Depreciation					
	At 31 March 1996	1,157.3	9.7	–	53.1	1,220.1
	RPI adjustment	30.0	0.3	–	1.4	31.7
	Disposals	–	–	–	(4.3)	(4.3)
	Charge for the year	71.6	0.6	–	14.7	86.9
	At 31 March 1997	1,258.9	10.6	–	64.9	1,334.4
	Net book amount at 31 March 1997	1,331.9	34.9	8,560.4	68.6	9,995.8
	At 31 March 1996	1,284.0	30.6	8,302.5	58.1	9,675.2
c)	Fixed assets by type – total					
	Gross replacement cost					
	At 31 March 1996	3,898.0	90.6	11,769.0	294.6	16,052.2
	RPI adjustment	101.4	2.4	306.0	7.6	417.4
	Disposals	–	(0.2)	–	(10.1)	(10.3)
	Additions	160.3	8.4	98.4	48.9	316.0
	At 31 March 1997	4,159.7	101.2	12,173.4	341.0	16,775.3
	Depreciation					
	At 31 March 1996	1,882.0	21.8	–	133.0	2,036.8
	RPI adjustment	48.9	0.6	–	3.5	53.0
	Disposals	–	–	–	(8.6)	(8.6)
	Charge for the year	119.6	1.0	–	24.7	145.3
	At 31 March 1997	2,050.5	23.4	–	152.6	2,226.5
	Net book amount at 31 March 1997	2,109.2	77.8	12,173.4	188.4	14,548.8
	At 31 March 1996	2,016.0	68.8	11,769.0	161.6	14,015.4

6	Working Capital	1997 £m	1996 £m
	Stocks	3.8	4.3
	Trade debtors	115.1	95.5
	Trade creditors	(35.5)	(24.7)
	Short term capital creditors	(73.3)	(90.1)
	Infrastructure renewals accrual	(88.5)	(104.9)
	Other trade accruals	(55.3)	(73.0)
	Payroll related taxes and social security contributions	(2.7)	(2.2)
	Group trade debtors (net)	26.1	5.0
	Prepayments	2.2	1.9
		<u>(108.1)</u>	<u>(188.2)</u>
7	Current Cost Profit and Loss Account	1997 £m	1996 £m
	At beginning of year	309.8	383.3
	Retained profit/(loss) for the year for Appointed Business	111.5	(73.5)
	At end of year	<u>421.3</u>	<u>309.8</u>
8.	Current Cost Reserve	1997 £m	1996 £m
	At beginning of year	11,426.6	11,091.6
	RPI adjustments:		
	Fixed assets	364.4	365.3
	Working capital	(4.9)	(5.5)
	Financing	(19.3)	(14.3)
	Deferred grants and contributions	(10.9)	(10.5)
	At end of year	<u>11,755.9</u>	<u>11,426.6</u>
	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.		
9(a)	Reconciliation of Current Cost Operating Profit to Net Cash Inflow from Operating Activities	1997 £m	1996 £m
	Current cost operating profit*	266.7	257.9
	Working capital adjustment	(4.9)	(5.5)
	Decrease in stocks	0.5	1.2
	Other income received	0.7	1.1
	Current cost depreciation	145.3	135.0
	Current cost (profit)/loss on sales of fixed assets	(0.9)	0.7
	Increase in debtors and prepaid expenses	(44.6)	(13.6)
	Decrease in creditors and accrued expenses	(8.8)	(26.0)
	Provision for infrastructure renewals	17.7	17.3
	Net movement in restructuring provision	15.5	(17.9)
	Amortisation of deferred grants and contributions	(5.1)	(3.9)
	Net movement in prepaid pension contributions	(6.4)	-
	Net cash inflow from operating activities	<u>375.7</u>	<u>346.3</u>

*After an exceptional charge of £20.0m (1996 – exceptional credit of £2.0m).

9(b) Analysis of net debt	1 April 1996 £m	Cash flows £m	Non cash movements £m	31 March 1997 £m
Bank overdrafts	(108.5)	54.9	–	(53.6)
Debt due within 1 year	(7.8)	7.8	(187.0)	(187.0)
Debt due after 1 year	(627.2)	(175.0)	187.0	(615.2)
	(743.5)	(112.3)	–	(855.8)

Non cash movements comprise transfers between categories of debt.

10. Current Cost Rolling Summary for Appointed Business	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	688.6	674.2	664.5	646.1	620.4
Current cost operating costs	(427.7)	(415.0)	(433.2)	(512.9)	(417.9)
Operating income	0.9	(0.7)	3.4	1.5	3.5
Working capital adjustment	4.9	5.6	6.3	3.6	2.0
Current cost operating profit*	266.7	264.1	241.0	138.3	208.0
Other income	1.8	1.1	1.1	2.1	1.9
Interest payable (net)	(59.5)	(49.6)	(39.8)	(35.9)	(30.9)
Financing adjustment	19.3	14.6	20.0	9.0	6.3
Current cost profit attributable to shareholders	228.3	230.2	222.3	113.5	185.3
Dividends	(116.8)	(305.5)	(102.0)	(91.7)	(89.8)
Current cost profit/(loss) retained	111.5	(75.3)	120.3	21.8	95.5

*After an exceptional charge of £20.0m (1996 – exceptional credit of £2.0m and 1995 – exceptional charge of £14.0m)

Current Cost Balance Sheet for Appointed Business	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Assets employed					
Fixed assets	14,548.8	14,379.8	14,255.2	14,063.5	13,251.8
Third party contributions since 31 March 1990	(446.5)	(428.4)	(411.4)	(342.6)	(270.6)
Working capital	(108.1)	(193.1)	(214.0)	(186.8)	(162.3)
Net operating assets	13,994.2	13,758.3	13,629.8	13,534.1	12,818.9
Cash and investments	0.2	0.2	0.2	109.3	251.1
Non-trade debtors	21.8	19.9	22.6	0.8	2.1
Dividends payable	(82.4)	(72.8)	(70.5)	(62.6)	(60.8)
Other non-trade creditors due within one year	(240.6)	(119.4)	(87.6)	(76.8)	(115.2)
Creditors due after one year	(627.2)	(648.7)	(460.6)	(559.9)	(540.8)
Provisions for liabilities and charges	(28.8)	(13.6)	(32.9)	(64.6)	(1.5)
Net assets employed	13,037.2	12,923.9	13,001.0	12,880.3	12,353.8
Financed by					
Called up share capital	860.0	882.4	906.4	938.3	959.8
Profit and loss account	421.3	317.9	404.0	294.0	278.3
Current cost reserves	11,755.9	11,723.6	11,690.6	11,648.0	11,115.7
Total capital and reserves	13,037.2	12,923.9	13,001.0	12,880.3	12,353.8

The financial information set out above for the four years ended 31 March 1996 is based on the audited current cost financial statements for those years, as adjusted to 1996/97 prices for changes in the Retail Price Index.

Auditors' Report

We have audited the regulatory financial statements and other information on pages 19 to 30.

Respective responsibilities of directors and auditors

As described on page 19, 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.

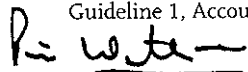
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other 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 1997 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 sewage 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 1-4 issued by the Office of Water Services;
- (c) the financial statements on pages 6 to 18 and pages 20 to 22 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 23 to 30 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

27 May 1997

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 financial statements (pages 6 to 18) 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 financial statements (pages 23 to 30) 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 financial statements.

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 financial statements 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.