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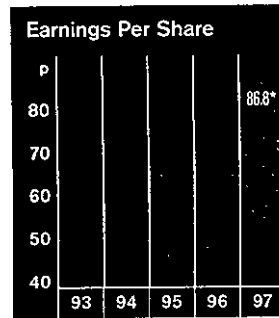
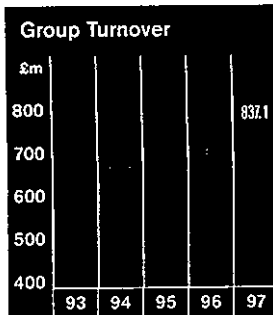
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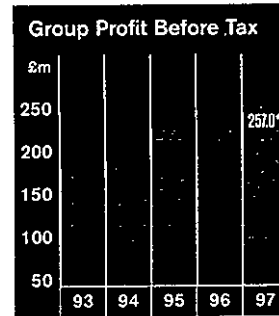
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IN THE LAST TWELVE MONTHS ANGLIAN WATER SERVICES, THE UK REGULATED BUSINESS, HAS PERFORMED PARTICULARLY WELL, ACHIEVING NOTABLE PROGRESS IN PRODUCT QUALITY, ENVIRONMENTAL PERFORMANCE AND CUSTOMER SERVICE, WHILST CONTINUING TO IMPROVE BOTH OPERATING AND CAPITAL INVESTMENT EFFICIENCY.

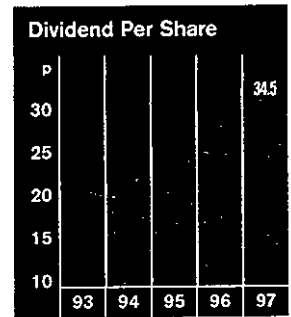
Financial Highlights



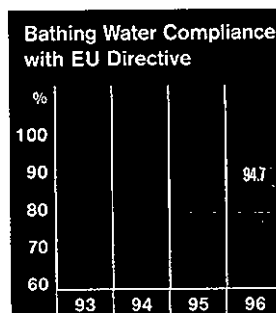
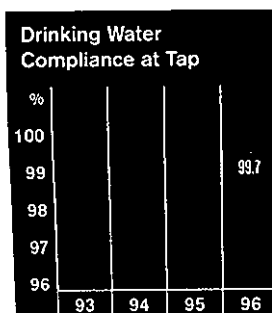
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*before exceptional charges



Operational Highlights



- We provide water and sewerage services in these areas
- We provide water services only in these areas
- ◻ We provide sewerage services only in these areas
- Head Office



Group Profile

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

Water Services

- Population: 4.0 million
- Properties supplied: 1.75 million
- Number of water quality samples tested: 142,200
- Water treatment works: 155
- Total length of water mains: 33,800 kilometres
- Number of new connections: 20,254
- Water supplied: 1,272 million litres (on average per day)

Sewerage Services

- Population: 5.3 million
- Properties supplied: 2.38 million
- Sewage treatment works: 1,068
- Total length of sewers: 32,500 kilometres
- Number of new connections: 25,733
- Number of sewage samples tested: 40,314 and trade effluent 16,645



Anglian Water International operations

Future target locations

Future target areas

Anglian Water International (AWI) – developing an international portfolio of utility and construction projects in the competitive water industry. Exploiting the skills of all the companies in the Anglian Water Group. Major focus is on the Asia-Pacific region and North America and Panama.

AWI provides

- long term concession operation
- operations and management
- process design for water and waste water treatment
- innovative technologies
- design and build contracts

Chairman's Statement

"The company's reputation and skills make the international market a natural target for growth, but we shall participate only where we can be sure of creating value for our shareholders."



Robin Gourlay, Chairman

In the last 12 months Anglian Water Services, the UK regulated business, has performed particularly well, achieving notable progress in product quality, environmental performance and customer service, whilst continuing to improve both operating and capital investment efficiency.

As a regulated water company, we sit between our customers who expect uninterrupted supplies backed by good service, and our regulators; OFWAT which regulates us on prices and service, and the Environment Agency which controls our access to water supplies and our discharges to the environment.

We are the contractor, not the principal. We operate within the limits and rules set by our regulators. Water resources both in the immediate future and the long term have become a high profile national concern. In the Anglian Water region pressure on water

resources is increasing by the year and together with Essex & Suffolk Water, we have initiated plans to develop a new reservoir at Feltwell in Norfolk.

Regulatory support for such an initiative will depend on the progress we make towards water conservation. Our excellent record in leakage prevention and the ongoing investment programme aimed at achieving even lower leakage, together with our well-publicised and increasingly popular approach to metering, will provide the foundation for any formal proposals we may make. We have initiated a significant communications campaign to advise customers of our conservation activity and how their actions can support us. Around 25% of our domestic households now pay for their water by meter.

The water industry will be faced with many new challenges over the next few years. Even higher

standards of service will be expected of us by our customers, and regulation will become more prescriptive. Anglian Water has always taken a strategic and consistent approach to investment and I am confident that the company is in a favourable position to respond to any reasonable demands placed on it.

At the time of writing, the Government has not published the full extent of its intentions regarding a utilities tax. We have made clear our opposition to this retrospective taxation, which will bear inevitably on our customers and shareholders. Our customers will not see the benefit of future discretionary investment which will inevitably be reduced by the imposition of the tax, and our shareholders – largely pension and investment funds but also private individuals – will lose through lower dividends than would otherwise be possible. At the very

least we shall argue the case for the tax paid by Anglian Water to be re-invested in our region by the Government.

Progress in our overseas business has not been satisfactory. However, we remain confident of being able to apply our core skills and technology to growing overseas markets. Our unsuccessful bidding experience in Manila confirmed our potential to participate in the largest water management contracts. However we were only prepared to offer prices that would give a real return. Margins in the process engineering sector during the year were disappointing, but have now improved as we enter the new financial year. The company's reputation and skills make the international market a natural target for growth. Your Board preserves its intention to create an international business based on progressive growth and sound investment and

to participate only where we can be sure of creating value for our shareholders, not just in the very long term, but in the foreseeable future.

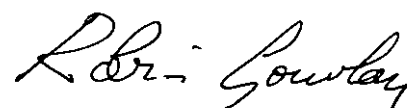
Profit before tax and exceptional charges for 1996/97 of £257.0 million on a turnover of £837.1 million represents a 7.7% increase on the previous year. These results reflect the strong performance of the core business. The Board is recommending a final dividend of 24.3p bringing the total dividend for the year to 34.5p.

In addition to Tony Eckford, managing director of Anglian Water International, we were pleased to welcome two non-executive directors to the Board: Sally O'Sullivan, who brings a wealth of experience from the communications and consumer sectors, and James Cronin, joint managing director of GEC Alsthom NV (Paris), whose extensive experience in international

contracting will bring a valuable added dimension to the Board.

Finally, a word of thanks to our employees. Their ability to cope with extremes of supply and demand, and their enthusiasm for Anglian Water and its central role in the community have enabled us to maintain our reputation as a company which does its job increasingly efficiently and well, and cares for its customers.

By continuing to do both of these, I believe we shall sustain the basis for good returns to our shareholders.

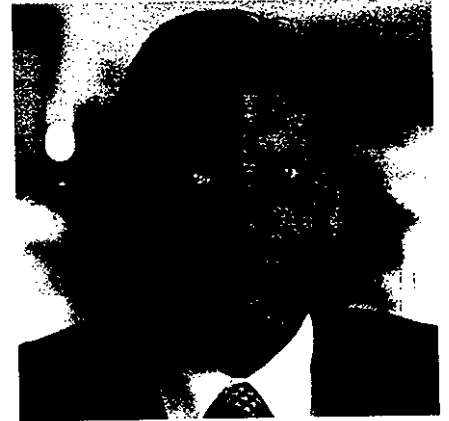


Robin Gourlay, Chairman

Managing Director's Review

"Customer focus . . . underpins our service and provides the foundation for performance improvements."

Alan Smith, Group Managing Director



Customer focus needs to be integral to everything we do. It underpins our service and provides the foundation for performance improvements. Our staff are responding to this change in focus and although our service performance is improving, there is no room for complacency.

The announcement of 300 job cuts has put further pressure on our staff and we are making special efforts to manage this phase of change. The insecurity which continuous change creates is a major challenge for us.

We have continued to invest significantly in developing our people. Our human resources department has been strengthened and this has enabled us to place greater emphasis on training and development. In the future staff will need to possess a wider range

of skills and be capable of handling more sophisticated computer equipment, so that we are able to take full advantage of the opportunities created by new technology to enhance customer service.

Coaching skills and leadership training have been at the heart of our efforts to develop our managers and supervisors. We need to continue to help staff to respond to the demand for continuous improvement.

Costs have risen slightly this year due to substantial investment in information technology following two years of reduction. We expect the benefits of this spend to accrue and costs are planned to start falling again in 1997/98.

As the new technology comes on-stream, we have sought to combine the investment with increased

emphasis on training and development of our people. This investment will widen our skills base, and enable us to deliver better service to our customers, the environment and the community at large as the company moves towards the millennium.

Our water and sewerage business had another good year, making further improvements to drinking water quality and ensuring the delivery of clean and safe water to 1.75 million households in our region.

1996 was a difficult year in terms of resources. Rainfall continued to be significantly below average for the region, at a time when we experienced some of the highest ever peak demands for water. Despite this, there were no usage restrictions anywhere in our region last year.

During the year we also made further progress on water conservation, including our five-year mains replacement programme and the £8.3 million scheme to install the district meters which help us to detect leaks. As a result, our leakage rate is now one of the lowest in the country.

We believe domestic water metering is an equitable and environmentally positive alternative to traditional payment methods and our pro-active approach in this area is also contributing to our conservation strategy.

Our efforts to inform the public about the advantages of metering have paid off and we are experiencing unprecedented demand from customers in response to our meter options programme. We expect that we will have installed 500,000 domestic meters by the year 2000.

In 1996/97 we saw improvements in other key areas of our operation. For example, our compliance levels for sewage treatment increased after extreme weather conditions restricted our progress in the previous year.

Our significant investment in the sewerage network and in sewage treatment is improving the quality of the region's 38 designated bathing waters, 36 of which met the exacting regulatory standards last year. And, although we faced some prosecutions for unacceptable discharges to rivers last year, overall river quality in the region continues to improve. Where mistakes have been made action has been taken to ensure no recurrence.

We take our environmental responsibilities very seriously and can report some interesting developments in this area. Last year,

we launched our Pestisafe strategy, which aims, by working with local councils and other bodies, to reduce the amount of non-agricultural pesticides used on roads and railways.

Further afield, following a review by Tony Eckford, our new managing director of Anglian Water International, we have implemented a new strategy for our international business. Although this has resulted in some prudent provisioning, we are confident that our international business will move quickly to contribute to the Group's performance and profitability.



Alan Smith,
Group Managing Director

WE RETAINED OUR CHARTER MARK –
AWARDED BY THE GOVERNMENT – AND WON
THE ACCESSIBLE BUSINESS AWARD IN THE
NATIONAL UTILITY INDUSTRY ACHIEVEMENT
AWARDS FOR OUR NO BARRIERS APPROACH
TO CUSTOMER CONTACT.

Customer Services

Anglian Water's commitment to customer service, clearly demonstrated during the dry summer of 1995, was reinforced again during 1996, despite rainfall levels being even lower.

One benefit from this ongoing success, is that customer satisfaction ratings have reached record levels.

The Government was satisfied that the company deserved to retain its Charter Mark – awarded for achievements in customer service. In the National Utility Industry Achievement Awards, the company won the Accessible Business Award, in recognition of its no barriers approach to customer contact.

Such recognition, an award from the Royal National Institute for the Blind and a commendation from the Royal National Institute for the Deaf, made 1996/97 a very rewarding year.

Recognition, however, came only

after another year of hard work, intensive training spearheaded by the Anglian Water National Vocational Qualification in customer service, and continuous progress.

Operational and billing complaints declined during the year and the speed of response met OFWAT's very good category. The service given to customers with billing queries was also exceptional with 98% being handled within five days.

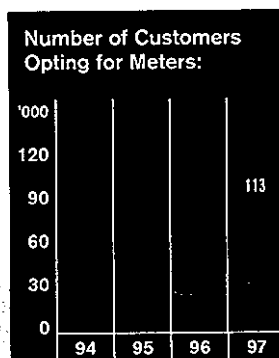
Disconnections were down to the lowest level on record, but not at the expense of the company's income collection. A sympathetic and personal approach to customers who had difficulty paying their bills, together with a range of widely-promoted and flexible payment options, ensured that progress was made in both of these areas.

Service innovations also ranked highly with the company determined

to exceed expectations on customer service:

- the new Customer Charter and improved compensation arrangements, introduced in April 1997, offer guarantees for those occasions when things do go wrong.
- The Anglian Water Trust, launched in April 1996 helps customers with severe financial difficulties. We have committed a further £2 million to the Trust this year.

- Anglian Water's commitments to both water conservation and customer service were brought together in an initiative to help eliminate leaks called the Watertight Promise. Since 1st January 1997, domestic customers have been offered a repair or replacement service on any leaks that are found on the section of underground supply pipe that they own. Customers paying unmeasured bills can now pay



Our customer service centre at Lincoln handles nearly 1.5 million calls per year.



Our engineers are working 365 days a year giving us one of the lowest rates of leakage in the country.

a subsidised figure, whereas those paying metered water bills receive this service free of charge.

– since July 1996 water meters have been made available free of charge to all customers and despite record demand, few customers have had to wait more than a few weeks for the installation to be completed.

Supported by such service commitments, the popularity of water meters grew significantly during the year. With over 113,000 metered accounts being added to the database in the year, around 25% of all domestic customers now pay by metered charges. Customer calls, asking for advice about switching to a water meter, continue at a rate of over 3,000 a week.

Some customers, however, remain confused or worried about water meters. Some are unaware of the See for Yourself installation

programmes, where meters are installed by Anglian Water and customers are invited to see how this would affect future bills before deciding to switch to metered charges. Until the benefits become widely understood and accepted, significant effort will continue, to inform customers of the environmental and customer service benefits of water metering. In that respect, the experience in Bury St. Edmunds has been revealing.

Over 95% of the properties in the town were fitted with water meters in 1996, supported by a detailed customer care and information programme. The reaction has been very encouraging with customers showing a high level of satisfaction with, and acceptance of, water metering.

Commercial customers are nearly all metered and the industry-leading

Streamline Tariff structure was further improved in March 1997. This introduced an element of choice for thousands of commercial customers, allowing them to choose the tariff that best suits their business needs.

The separation of industrial and commercial customers from domestic customers, has also made for ever-improving customer relationships. With a more focused account management and commercial team, the level of service has improved, together with the company's understanding of the particular needs of the commercial customer.

DESPITE ANOTHER DRY SUMMER, MARKED BY SOME OF THE HIGHEST PEAK DEMANDS EVER EXPERIENCED IN THE REGION, ANGLIAN WATER DELIVERED AN UNRESTRICTED SERVICE TO OUR CUSTOMERS THROUGHOUT THE YEAR.

Drinking Water

Total rainfall in 1996 was 79% of the long-term average. But, despite another dry summer, marked by some of the highest peak demands ever experienced in the region, Anglian Water delivered an unrestricted service to our customers throughout the year.

In the event of continuing drought conditions, we have decided to commit £34 million of additional discretionary expenditure to improve reliability and flexibility of our supply network in those areas with potential drought problems.

During the year, we spent £41.4 million on water treatment works and trunk main improvements. 90 major schemes have been completed, including upgrades to treatment facilities at Pilsgate, Barton and Riddlesworth waterworks.

Water Quality

Since 1988, we have spent over

£275 million on improving water treatment, focusing particularly on the reduction of nitrate and pesticide traces and the removal of iron and manganese. This investment programme is now largely complete and the high standard of drinking water it has delivered was maintained during the year.

We carried out a total of 338,140 tests on the water we supplied during 1996 and 99.7% complied with the standards set by the Drinking Water Inspectorate. On the rare occasions where water did not meet the standards, there was no risk to our customers. The micro-biological quality of all our water continues to be extremely high and in the few cases where problems were detected, we took immediate corrective action.

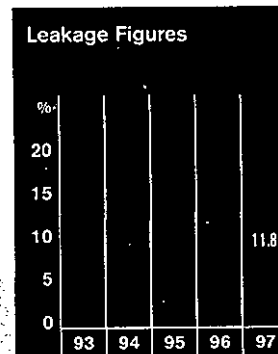
We continue to be active in the development of advanced water treatment processes, including

membrane technology, for the cost-effective achievement of specific parameters for nitrates, iron and water hardness.

Occasional traces of iron from our old cast-iron mains can result in minor infringements to water quality standards. As a result of the continual monitoring of levels of iron in the water arising from the corrosion of iron mains we are able to identify specific lengths which require replacement for water quality reasons.

Although traces of iron are harmless the water can become discoloured and washing can be stained and therefore we need to replace the contributing mains.

An investment programme to the end of the century, for mains replacement is therefore agreed with the Drinking Water Inspectorate which concentrates on removing



During 1996 we replaced a further 526 km of old iron mains with polyethylene pipes.



Every year we carry out over 300,000 quality tests on the water we supply.

the worst sections of mains first.

We then monitor the iron levels before and after replacement to measure the improvement in water quality to our customers.

In fact, during 1996/97 we replaced a further 526 km of old iron mains with modern polyethylene pipe at a cost of £41.5 million and delivered significant quality improvements to our customers.

Leakage Control

Work also continued on our £8.3 million programme to install meters at strategic points on our water mains network and link them to our electronic monitoring system. We will then be able to accurately locate leaks on our system and respond promptly to carry out any repairs.

At 11.8%, our leakage rate is already among the lowest in the country, but we are determined to

drive it down still further. We must help our customers to understand however, that there would be a very significant price to pay for a leakage rate of less than 10%. Recent analysis suggests that we have achieved further performance improvements in spite of the dry summer and frosty winter.

In addition to our water quality programme for water mains replacement, we continue to carry out a range of projects which will improve water pressure at customers' taps. Following investment to address pressure problems, this year 2,870 customers now benefit from an improvement to their pressure with more to follow from schemes under construction.

We also have a continuing programme to replace water mains which burst frequently and cause significant disruption to customers.

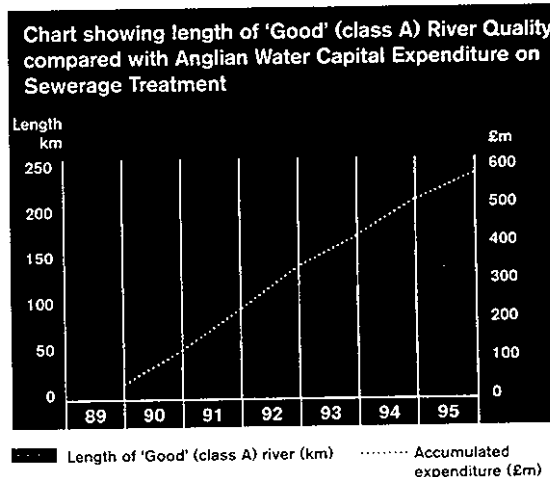
During 1996/97 we replaced 59 km of mains for this reason at a cost of £6 million.

Innovation

Developing new technologies and materials to improve water quality at reduced costs continues to be a priority. We have had approval from the Drinking Water Inspectorate for our new, low-energy, reverse osmosis water softening plant at Bunwell, Norfolk.

Centres of excellence have been created within the company, intended to help us to create new approaches for the business, an example being the pilot desalination plant we are installing over the next 18 months. These centres acted as early cornerstones in the establishment of the University of Water, Anglian Water's commitment to a learning organisation.

SINCE 1990, THE QUALITY OF OUR RIVERS, MEASURED BY THE ENVIRONMENT AGENCY, HAS IMPROVED BY 37%, COMPARED WITH AN OVERALL IMPROVEMENT OF 26% ACROSS ENGLAND AND WALES.



Waste Water

Our ability to meet and sometimes exceed the waste water standards required is a measure of the company's commitment to the social and environmental well being of the Anglian Water region.

To that end we continued to invest in advanced waste water treatment solutions during a year that saw significant improvements in both the bathing and river water quality in the region.

Bathing Waters

Project Clearwater, our £266 million bathing water improvement programme, is progressing well and the £37.5 million we invested in sewerage and sewage treatment around our coast this year, helped us achieve the best-ever compliance levels for our beaches.

Although the number of designated bathing waters in the

region increased to 38 this year, only two failed to comply with quality standards, compared with four in 1995 and seven the year before.

A key achievement in 1996 was the completion of the Great Yarmouth sewerage scheme, ahead of schedule. All six bathing waters at this important tourist resort now comply with the regulations. We also completed schemes at Heacham, Hunstanton, Brightlingsea and West Mersea.

In October 1996, work began on Project Orwell, a £33 million scheme to update Ipswich's Victorian sewerage system and significantly improve the natural environment in the Orwell river system.

We also spent £60.4 million on more than 120 separate schemes to improve our sewage treatment works including an £11 million

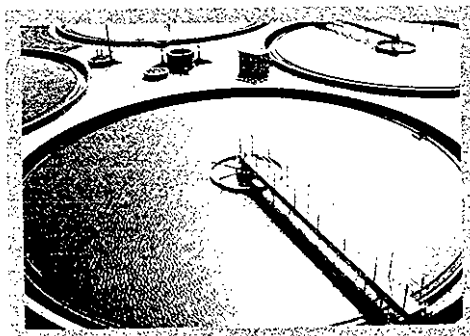
upgrade of our Cliff Quay works in Ipswich.

River Quality

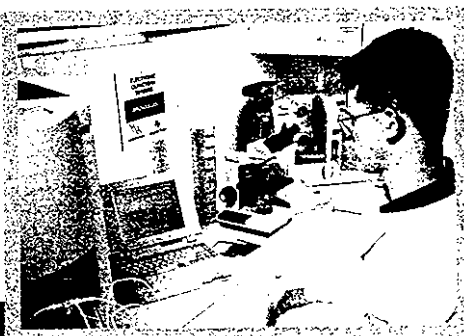
The region's topography, combined with low rainfall and intensive farming, produces slow-flowing rivers, rich in nutrients. Discharges must, therefore, be treated to a very high standard and treatment works carefully managed to prevent environmental damage. In the Norfolk Broads, we are investing £4 million to remove excess nutrients from sewage effluents. This will help to improve water quality in the Broads system, the Country's only wetland based national park.

As a result of these concerted efforts, 98.7% of our 1,068 treatment plants now comply with their consents.

Since 1990, the quality of our rivers, measured by the Environment



Our investment in sewage treatment works has resulted in significant improvement to river water quality.



Our comprehensive lab services ensure accurate testing of the quality of water we return to the environment.

EU Bathing Water Directive – AW historical results

Year	Compliance with mandatory coliform standards of directive		
	Compliant bathing waters	Total bathing waters	% Compliant
1993	31	36	86.11
1994	29	36	80.56
1995	33	37	89.19
1996	36	38	94.74

Agency, has improved by 37%, compared with an overall improvement of 26% across England and Wales. This is largely the result of our investment in improving the standards of inland discharges.

Sludge Disposal

Over 80% of the sewage sludge we produce is already used on agricultural land and we are committed to this form of recycling. New plant at the Tilbury sewage treatment works will allow us to completely eliminate sludge disposal at sea by the end of 1998.

We have also installed an innovative composting plant at the new Ipswich Cliff Quay treatment scheme. Using a mix of green waste from the community and sewage sludge, the new plant produces a commercially viable product.

Our expenditure on improved sludge treatment is set to rise as we improve the quality of the treated product still further.

Innovation

We continue to develop our technology innovation programme to produce 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.

AS NEW TECHNOLOGY COMES ON STREAM, WE HAVE SOUGHT TO COMBINE THAT INVESTMENT WITH INCREASED EMPHASIS ON THE TRAINING AND DEVELOPMENT OF OUR PEOPLE.

Environment and Community

Concern for the environment is at the very heart of our business. Protecting and conserving our resources now will ensure we can meet today's needs, while looking after the needs of future generations.

It is both our aim and responsibility to manage the water environment in a sustainable fashion, so we were delighted to be voted top water company this year in the Community and Environment section of Britain's Most Admired Companies poll.

£5 Million Package

Biodiversity was the main theme of our environment committee's initiatives this year. We announced a £5 million package of schemes to improve our region's environment and encourage wildlife and promote conservation, around £2 million of which will be spent in the Norfolk

Broads on new reed beds, desilting operations and fen management.

Other biodiversity projects include the development of a new nature reserve at Bowthorpe and Earham Marshes, near Norwich, improving flows in the mill stream through Stamford and developments at Alton Water in Suffolk.

Perhaps our most exciting conservation project was the launch of a five-year programme to re-introduce Ospreys to Rutland Water. If successful, it will see Ospreys breeding in England for the first time in 150 years.

Environment Awards

We ran our Caring for the Environment Awards for the fifth year running to encourage environmental projects in our region and, this year, doubled the prize fund to £40,000.

Full details of our environmental

performance are reported in the Anglian Water Environmental Activity Report which has set new standards in environmental reporting.

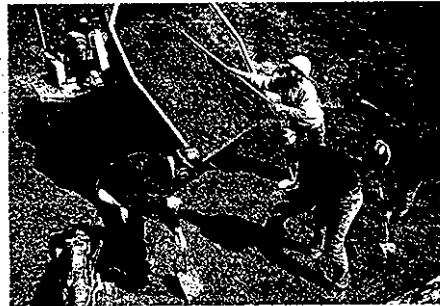
Community

Anglian Water operates in a diverse community and we believe we have a responsibility to contribute to, and participate in, that community over and above our commercial activities. To this end, Anglian Water has dedicated significant resources to a variety of projects in the region.

Lessons for Life, our swimming sponsorship programme has helped over 100,000 children learn to swim throughout the region. We are strongly committed to enhancing the community's quality of life by continued investment in recreation, including wider and better access to facilities at our larger reservoirs.



Through our programme to reintroduce Ospreys we hope to see breeding pairs in England for the first time in 150 years.



Staff members are supported in their efforts to enhance their local community.



Through Lessons for Life we have helped over 100,000 children learn to swim.

Staff Involvement

We also encourage staff involvement with local community groups and charities, through our volunteering scheme which offers gifts in kind and fund matching to individuals and groups of employees.

Last year Anglian Water continued its fund-raising for WaterAid, the industry charity which provides clean, safe drinking water to the developing world. We are supporting Bolgatanga, a very dry area in Ghana. We aim to fund the construction of 36 wells and the training of 132 village health co-ordinators.

Closer to home, we have developed a partnership with In Bloom, which organises the annual competition for communities which use flowers and planting to improve the quality of their local environment.

Support for the Disabled

We are committed supporters of the charities and voluntary groups which care for the disabled in our region. Our employees themselves have established regional fund-raising committees to support the National Society for Prevention of Cruelty to Children and during 1996/97, they raised over £10,000 through a series of innovative events.

Support for our People

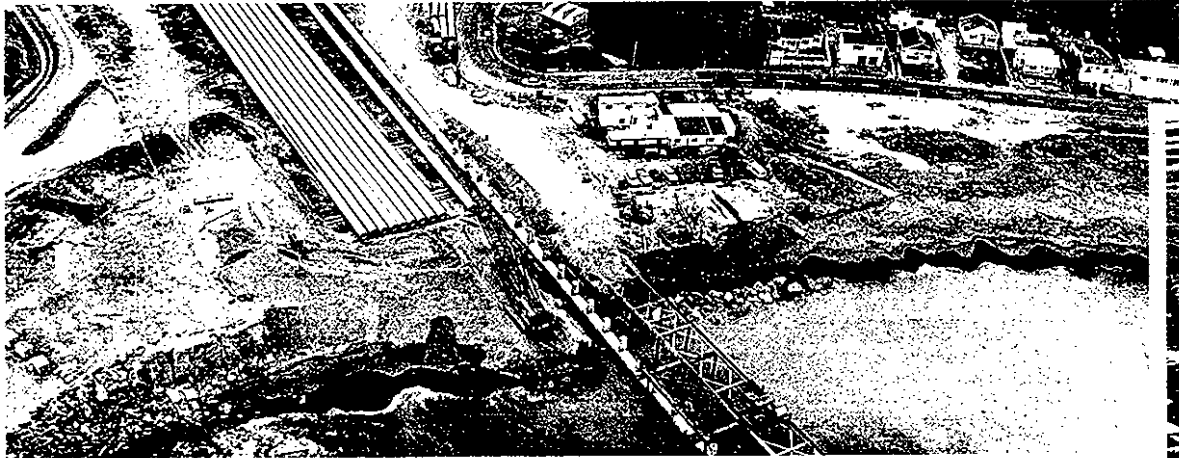
As new technology comes on-stream, we have sought to combine that investment with increased emphasis on the training and development of our people.

This is exemplified by our efforts to bring out the best in our supervisors and our managers by developing their coaching and leadership skills. This will have the

effect of liberating them from the old culture and bringing a new sense of dynamism to the business.

That investment will widen our skills and enable us to deliver better service to our customers, the environment and the community at large, as the company moves towards the new millennium.

BY EXPORTING OUR EXPERTISE AND ENVIRONMENTALLY SENSITIVE TECHNOLOGIES... WE EXPECT ANGLIAN WATER INTERNATIONAL TO CONTRIBUTE PROGRESSIVELY TO THE SUCCESS... OF THE GROUP.



Outfall pipes assembled for placing in seabed, Moa Point, New Zealand.



Water treatment plant, Evansville, Indiana, USA.

International Business

Tony Eckford was appointed managing director of AWI and joined the Board of Anglian Water Plc in August 1996. He has undertaken a thorough review of the international business and the markets in which it operates. This has been concluded following which strengthening of the management team is in hand. The implementation of a redefined strategy aims to ensure that the business will deliver profitable growth in the future.

Our process engineering division, Purac, is now headed by Lars-Ingvar Nilsson, who has a worldwide brief and 60% of its order book is for projects outside the UK. In the products division, we have sold the Nordic Water Products Group which did not fit in with our evolving strategy. We have limited our production activities specifically to Fluid Systems, our California based

membrane business. This world leading technology represents significant growth potential.

We are taking action to improve our position in Brazil and the Czech Republic and have strengthened the financial and project management of the Moa Point team in New Zealand. The deep shaft sewage works in Brusque, Brazil, is now operational.

Peter Robinson has also joined AWI, after many years working at senior level within the international water business.

Future Strategy

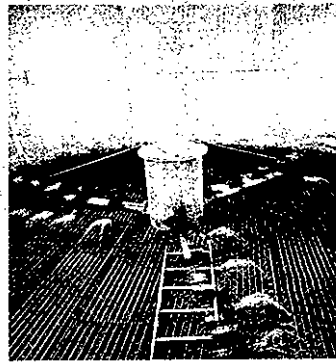
The knowledge and expertise Anglian Water has developed as a provider of water services in the driest region of the UK, serving both urban and rural customers, is a valuable asset. We intend to build our international business by exploiting this operating

experience, together with the expertise of our process company Purac and the innovative technologies we have developed.

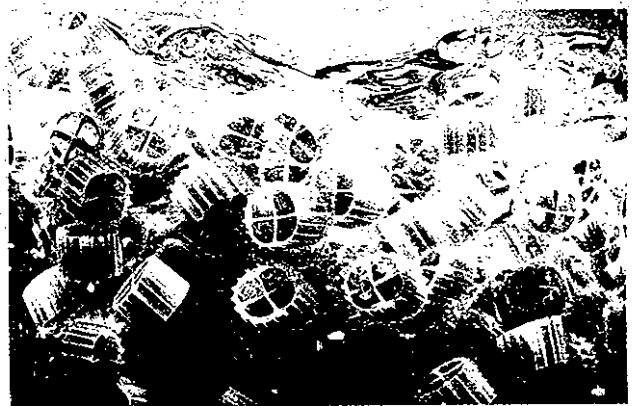
We have identified two key regions, the Asia-Pacific region, and North America and Panama. We are targeting specific countries and projects within these areas, which we believe offer significant opportunities for AWI and good long-term returns for Anglian Water.

Long-term operating concessions are our preferred projects, but we will also be seeking contract opportunities in build, own, operate and transfer; operate and manage; and design, build and operate.

We have strengthened our international business through the formation of strong local partnerships which will enable us to build our capabilities, improve our responsiveness and share risk in our target markets.



Dalarö, Stockholm, waste water treatment plant made to look like a summer house in an environmentally sensitive area. Interior above right.



Kaldnes suspended moving bed plastic elements.

Growing Business

American Anglian Environmental Technologies, our joint venture with American Water Works Company, Inc., has recently won water and waste water operating contracts in the USA. It recently secured an operating contract for Evansville, Indiana to serve 300,000 people, valued at US\$54.5 million. This brings our number of US operational contracts to 17 and in excess of 220 employees.

Our project at Moa Point, Wellington, New Zealand, with a design and construction phase valued in excess of £50 million, is progressing and the sea outfall is now complete, one year ahead of schedule.

During the year, Purac secured four new equipment supply contracts in China totalling £9 million, taking our total order volume in China, across 14 contracts, to £49 million.

These contracts in Beijing, Guangdong and Zhejiang provinces will provide waste water or drinking water treatment for over two million people. In Thailand, we are involved in the development of three paper industry treatment plants, valued at over £7 million.

There have been successes, too, in the Scandinavian/European market with contracts for 21 waste water treatment and water treatment plants, with a total value of over £64 million.

Fluid Systems, continues to expand in the hi-tech water treatment market on a world wide basis. Recent successes include sales of membranes for use in contracts for drinking water treatment plants in the United Kingdom, USA and Saudi Arabia, desalination in Egypt, industrial applications in Asia and the Americas and water reclamation in the USA. These plants range in

size up to 30 million litres a day. Fluid Systems' sales during the past year were US\$30 million.

Aguas Argentinas, the company serving seven million people in Buenos Aires, in which AWI has a stake, continues to trade profitably and is expected to continue to yield a positive contribution to our performance over many years.

By exporting our expertise and environmentally-sensitive technologies and operations, we expect AWI to contribute progressively to the success and profitability of the Group.

Operating and Financial Review

“With further efficiency improvements in our Water and Sewage business and restructuring of our International business, we are in good shape for the future.”



Chris Mellor, Group Finance Director

The 1997 annual report and financial statements have been produced in accordance with the standards issued by the Accounting Standards Board.

Our policy is to keep pace with best practice in accounting and reporting disclosure developments.

Operating Results

Turnover for the year increased by 7.9% from £775.7 million to £837.1 million, as a result of a £38.2 million increase in the regulated water and sewerage business and a £30.2 million increase in non regulated business.

The growth in regulated turnover represents an increase of 5.8% over 1995/96. This mainly results from price increases under the RPI + K (of 1.5%) formula which contributed an extra 4.6%. This was partly offset by the effect of customers switching to water meters.

Total regulated business operating costs (before exceptional charges) have increased by 1.1% from £360.6 million to £364.4 million. Depreciation 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 £17.7 million (1996 £17.3 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 regulated business

operating costs (before exceptional charges) have reduced by £3.8 million this year, which after taking account of the effects of inflation represents a real reduction of £8.2 million. 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 accounts include an exceptional charge of £20.0 million against the cost of these reductions. In addition there is an exceptional charge of £2 million for a further payment to our customer trust fund.

The results of Anglian Water International (AWI) show a significant increase in turnover from £131.4 million to £154.7 million. Operating losses before exceptional

charges at £6.1 million are broadly unchanged. The results continue to reflect our expenditure on marketing and bidding to become established in our target markets. We have been involved in a number of bids during the year, most notably in Manila where we were disappointed that we were unsuccessful.

In New Zealand work is progressing well on the £50 million contract we won in 1995 to design and build sewage treatment facilities for Wellington. The installation of the long sea outfall, a key element of the contract, has been completed one year early in order to help ensure the success of the project. The design and build costs on the project have increased by £2.7 million and the full amount has been provided for.

For the process engineering companies the year proved once again particularly difficult. In February 1997 we sold a number of product companies which were part of this sub group but which did not fit in with our overall strategy. These were sold for £7.2 million but generated an exceptional loss of £8.2 million in the profit and loss account after accounting for £8.7 million of goodwill previously written off.

Under its new managing director, Tony Eckford, the AWI strategy has been reviewed. As a result of this process we have made provisions which cover write downs of investments and associated costs of £7.3 million in Brazil and £2.8 million in the Czech Republic. A further £8.7 million is provided in respect of restructuring charges and contract and other provisions.

These provisions, together with the loss on disposal of the products companies have produced exceptional charges in AWI of £27.0 million.

Following the review of the AWI strategy the management team is being strengthened and the Board believes that this, together with the implementation of the redefined strategy will position the business to deliver profitable growth in the future.

Net interest payable for the Group increased from £56.3 million to £70.2 million, reflecting the effect of the increase in borrowing necessary to finance the capital investment programme and the 1995 share buy back. Profit before exceptional charges and tax at £257.0 million is 7.7% higher than in 1995/96.

It is likely that the Group will become liable to mainstream corporation tax on its 1997/98 profits, although the effect will be mitigated by the availability of tax losses, advance corporation tax and capital allowances.

The Utilities tax has been widely heralded by the Government but we do not have any details about the incidence or basis of calculation. We shall respond further when such information becomes available.

Financial needs and resources

At 31 March 1997 the Group had net borrowings of £938.6 million, an increase of £106.8 million over the year.

Year end gearing (debt/equity) at 59.4% compares to 56.3% in 1996.

Net borrowings are a mixture of fixed and variable rate debt of £1,015.5 million offset by cash and deposits of £76.9 million. Borrowings include £238.2 million at floating rates. The balance between fixed and floating rate debt is aimed at securing funds to meet our increasing requirements whilst achieving the lowest cost in the medium term and minimising exposure to short term interest

rate fluctuations. The debt maturity profile is indicated in note 17 to the accounts.

The majority of treasury activities are carried out in the UK. Borrowings include £84.9 million denominated in foreign currencies. Of this amount £79.1 million has been swapped to eliminate the risk of currency fluctuations.

Borrowings to fund our regulated activities are ring fenced from the rest of the Group and non-regulated diversification is financed on an 'arm's length' basis from the regulated business.

The capital investment programme for the year with total expenditure at £354.2 million was as planned 23.5% higher than in 1995/96. The Managing Director's report on pages 6 to 17 gives more details on the programme itself. Investment in 1997/98 is expected to be at a similar level.

Shareholders' return and value created

Earnings before exceptional charges increased by 7% from £218.5 million to £233.9 million. However, after taking account of the reduction in the number of shares in issue during the year (through the share buy back in August 1995) this translates to a 11.1% increase in earnings per share from 78.1p to 86.8p. The full year dividend has been increased by 15% from 30.0p to 34.5p, a real increase of 12.3% over the average rate of inflation during the year.

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



Robin Gourlay
Chairman



Alan Smith
Group Managing Director



Chris Mellor
Group Finance Director



John Green Managing Director –
Anglian Water Services



Richard Jewson
Non-Executive Deputy Chairman



Tony Eckford Managing Director –
Anglian Water International



David Challen
Non-Executive Director



The Earl of Cranbrook
Non-Executive Director



June de Moller
Non-Executive Director



Sally O'Sullivan
Non-Executive Director



James Cronin
Non-Executive Director

Board of Directors

Robin Gourlay¹
BSc (58) Chairman (1994 to date); Deputy Chairman (Feb 1994-Sept 1994); Non-Exec. Director (Sept 1993-Sept 1994), Anglian Water Plc; Chairman, Rugby Group Plc (1996 to date); Non-Exec. Director, Astec Plc (1995 to date); Non-Exec. Director, Beazer Homes Plc (1994 to date); Chief Executive and Managing Director, BP Nutrition (1990-1994); Managing Director, BP Group Australia (1986-1990); Board Member, Petroleum Institute, Australia; Director, Australian Administrative Staff College; Chairman, Business in the Community, Victoria (1986-1990).

Alan Smith¹
IPFA (52) Group Managing Director, Anglian Water Plc (1990 to date); Deputy Group Managing Director and Director of Finance, Anglian Water Plc and Anglian Water Authority (1989-1990); Director of Finance, Anglian Water Authority (1980-1989); Assistant Director of Finance, Southern Water Authority (1975-1980); Director of Peptide Therapeutics Group Plc (1990 to date); Director of East of England Investment Agency Ltd (1997 to date). Director, St Felix School (1996 to date).

Chris Mellor¹
IPFA (48) Group Finance Director, Anglian Water Plc (1990 to date); Head of Finance and Planning, Anglian Water Plc and Anglian Water Authority (1988-1990); Non-Exec. Director, Addenbrooke's NHS Trust (1993 to date).

John Green¹
BSc (53) Group Technical Director, Anglian Water Plc (1994 to date); Managing Director, Anglian Water Services Ltd. (1996 to date); Executive Director, Anglian Water Plc (1993 to 1994); Managing Director, Anglian Water Engineering and Business Systems Ltd (1992-1994); Director, Anglian Water Services Ltd (1991-1992); Director of UK

Water Industry Research Limited (1995 to date); Director of The Water Services Association of England and Wales (1996 to date).

Richard Jewson^{2,5,7}
MA (52) Non-Exec. Deputy Chairman (1994 to date); Non-Exec. Director (1991 to 1994), Anglian Water Plc; Director and Chairman, Meyer International Plc (1983-1993); Non-Exec. Director, Eastern Counties Newspaper Group (1996 to date); Council Member, University of East Anglia (1980 to date); Director, Non-Exec. Director, Chairman, Ideal Hardware Plc (1994 to date) Director, Queen's Moat House Plc (1994 to date); Non-Exec. Director, Savills (1994 to 1995) Chairman of Savills (1995 to date).

Tony Eckford¹
(48) Executive Director Anglian Water Plc, Managing Director Anglian Water International. (1996 to date); Managing Director – International Thames Water Plc (1994 to 1996). Deputy Chairman (1993 to 1994), Managing Director (1986 to 1993), AMEC Process & Energy.

David Challen²
(54) Non-Exec. Director Anglian Water Plc (1993 to date); Director (1979 to 1997), Chairman (1997), J. Henry Schroder & Co. Limited; Member of the Takeover Panel (1993-1994); Member of the Governing Body of Morley College (1993 to date); Member of the Advisory Committee on Business and the Environment (1991-1993). Member of Financial Reporting Council (1995 to date).

The Earl of Cranbrook^{2,3,4,9}
DSc DL (63) Non-Exec. Director, Anglian Water Plc (1989 to date); Chairman, English Nature (Nature Conservancy Council for England) (1991 to date); Chairman, ENTRUST, Regulator of Environmental

Bodies under Landfill Tax Regulations (1996 to date); Member, Broads Authority and Harwich Haven Authority; President, Suffolk Wildlife Trust (1992 to date).

June de Moller^{2,5,8}
(49) Non-Exec. Director, Anglian Water Plc (1992 to date); Managing Director, (1993 to date), Director (1983 to 1993) Carlton Communications Plc. Member of the Advisory Board for the Judge Institute of Management Studies (1996 to date).

Sally OSullivan^{3,4}
BA (47) Non-Exec. Director Anglian Water Plc (1997), Editor-in-Chief Home Interest Group, IPC Magazines (1996 to date), member of Broadcasting Standards Council (1994 to date), member of Nuffield Council of Bioethics (1995 to date), Non-Executive Director of London Transport (1995 to date), member of Advisory Council on the Misuse of Drugs (1995 to date).

James Cronin^{2,3}
SCIMA (58) Non-Exec. Director Anglian Water Plc (1996 to date); Managing Director of GEC Alstom NV (1990 to date), Director GEC Plc (1996 to date).

¹ Member of the Executive Committee

² Member of the Audit Committee

³ Member of the Remuneration Committee

⁴ Member of the Environment Committee

⁵ Member of the Nominations Committee

⁶ Chairman of the Executive Committee

⁷ Chairman of the Audit Committee

⁸ Chairman of the Remuneration Committee

⁹ Chairman of the Environment Committee

Corporate Governance

Compliance

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

The Board currently comprises 11 members, 6 of whom are non-executive directors with a considerable breadth and depth of business and environmental experience. It meets regularly and monitors executive management through its oversight of strategic, operational and financial matters.

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

All Board appointments are subject to full Board approval and no director has a service contract of more than 2 years.

The pay of executive directors is determined by the Remuneration Committee which is made up entirely of non-executive directors. Details of the structure of directors' remuneration are set out in the report on remuneration and related matters on pages 23 to 26.

The constitution and terms of reference of the Audit Committee are in accordance with Cadbury Committee recommendations. Other reporting requirements are dealt with in the Statement of Director's Responsibilities on page 22

and in the following explanations covering going concern and internal financial control.

The membership of the Audit and Remuneration Committees is set out on page 20.

The Nominations Committee requires a majority of non-executive directors.

Going Concern

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

Internal Financial Control

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

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

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

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

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

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Group for that period. In preparing those financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Auditors' Report to the Directors on Corporate Governance Matters

In addition to our audit of the financial statements we have reviewed your statements on page 21 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

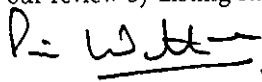
Basis of opinion

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

Opinion

In our opinion, your statements on internal financial control and going concern on page 21 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Group and examination of relevant documents, your statement on page 21 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).



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

27 May 1997

Price Waterhouse



Report on Remuneration and Related Matters

The Committee

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

Mrs JF de Moller (Chair), RW Jewson, DJ Challen, Lord Cranbrook, JB Cronin and Ms SA O'Sullivan.

The Chairman, RM Gourlay and Group Managing Director, AF Smith, assist the Committee except in relation to matters specifically concerning their own remuneration. The Committee receives professional advice from external sources and has carried out a full review of all aspects of directors' remuneration.

Remuneration Policy

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

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

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

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

Remuneration Package

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

The Chairman does not participate in the annual bonus scheme or in the long term incentive share scheme.

Directors' emoluments are shown on page 25 and interests in shares and share options are shown on page 26.

Service Contracts

All executive directors have service contracts with an initial term of two years with a notice entitlement of one year expiring at any time thereafter. The Committee considers this provision to be appropriate, in line with the market and the knowledge and experience of the individuals.

None of the service contracts provides for pre-determined amounts of compensation in the event of early termination.

Incentive Arrangements

1. Annual Bonus Scheme

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

The performance is assessed using measured objectives for:

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

The bonus, which is not pensionable, has a maximum of 30% of base salary. The bonuses awarded to the executive directors for the year ended 31 March 1997 are set out in the table to this report on page 25.

The Committee recognises that it is in the interests of the Company that the directors build up a personal stake in the Company, thereby exposing them to the same risks as shareholders. To this end the annual bonus scheme provides that one third of the post tax annual bonus should be paid in shares of equivalent value to be held in trust for the participants for a period of two years.

2. Long Term Incentive Share Scheme

A Long Term Incentive Share Scheme was introduced in 1996.

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

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

Pensions

Messrs AF Smith, CJ Mellor and JW Green are members of the Anglian Water Mirror Image Pension Scheme. The normal retirement age under the pension scheme is 65 with a maximum pension after 45 years service equal to 56% of pensionable salary, with a lump sum of 3.75% of pensionable salary per year of service. Pensionable salary is defined as the base salary and benefits excluding bonus payments. These directors have been in the Scheme or its predecessors for an average of 32 years and in that time have received the same entitlements as other employees.

Messrs RM Gourlay and AT Eckford are members of the Anglian Water Executive Pension Scheme to the extent permitted by Inland Revenue limits and for that element of base salary in excess of the limits, payments are made to funded and unfunded unapproved retirement benefit schemes respectively. No benefits received by Messrs RM Gourlay and AT Eckford are pensionable. All new senior executives are eligible for the Executive Pension Scheme on the same terms and conditions. The scheme provides for a maximum pension after 20 years service equal to two thirds salary. Following review and to bring the scheme into line with current median practice the normal retirement age of the scheme has been reduced from 62 to 60 with effect from 1 April 1997.

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

Non Executive Directors' Fees

The fees for the non-executive directors are set by the Board. The basic fees were increased to £19,500 p.a. with effect from 1 April 1996, and have not been increased in the current year. The Deputy Chairman is entitled to an additional fee of £7,500 p.a. (inclusive of any fees for chairing Board Committees). Each of the Chairmen of the main Board Committees (Audit, Remuneration, Environmental) are entitled to an additional fee of £3,500.

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

Compliance with Greenbury

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

Directors' Emoluments

The emoluments of the directors of Anglian Water Plc for their services as directors of the Company and its subsidiaries are set out below (rounded to the nearest thousand pounds).

	Salary and fees £000	Benefits £000	Bonus £000	1996/97 Total £000	1995/96 Total £000
RM Gourlay – Chairman	123	10	n/a	133	122
AF Smith – Managing Director	185	9	22	216	199
CJ Mellor	140	8	17	165	162
JW Green	118	10	14	142	138
AT Eckford (Appointed 1 August 1996)	93	3	22*	118	–
DJ Challen	20	–	n/a	20	17
The Earl of Cranbrook	23	1	n/a	24	21
RW Jewson	27	1	n/a	28	25
Mrs JF de Moller	23	–	n/a	23	17
Ms SA O'Sullivan (Appointed 1 August 1996)	13	–	n/a	13	–
JB Cronin (Appointed 1 October 1996)	10	–	n/a	10	–
Directors who did not serve in current year	–	–	–	–	11
	775	42	75	892	712
Contributions to pension schemes				124	96
				1,016	808

*Includes a £10,000 non-pensionable payment made in accordance with the terms agreed on his appointment. The same sum will become payable in each of the next two years.

The bonuses earned by the executive directors shown above are payable under the Annual Bonus Scheme. As explained above one third of the post tax bonus awarded under the scheme should be paid in shares of equivalent value to be held in trust for two years.

Executive directors (other than Mr RM Gourlay) also participate in the Long Term Incentive Share Scheme for which shareholder approval was obtained at the 1996 AGM. At this early stage in the life of the scheme no provision is currently required in the accounts.

Included within non-executive directors' fees are amounts totalling £19,500 paid to third parties for making available the services of one of the non-executive directors (1996 two directors – £28,000).

* 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
RM Gourlay	48	12	5	–	49
AF Smith	12	83	10	248	125
CJ Mellor	9	55	5	149	46
JW Green	8	51	8	132	104
AT Eckford	16	3	3	–	22

(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.

The amounts for Mr RM Gourlay include contributions to a funded unapproved retirement benefit scheme of £38,464 (1996 – £33,900).

Mr AT Eckford participates in an unfunded unapproved retirement benefit scheme. The amount charged in the profit and loss account in respect of this scheme was £30,600 and has been included within contributions to pension schemes, above.

The salary of Mr RM Gourlay with effect from 1 October 1996 is £126,000. With effect from 1 April 1997 the following salaries have been agreed: Mr AF Smith £191,000, Mr CJ Mellor £145,000, Mr JW Green £129,000, Mr AT Eckford £144,000.

Directors' Interests in Shares and Debentures

The interests in the shares of the Company at 31 March 1997 of persons who were directors on that date are shown below.

Beneficial and family interests in shares:	31 March 1997 No of shares	1 April 1996* No of shares
RM Gourlay	1,000	1,000
AF Smith	10,643	7,886
CJ Mellor	5,572	5,325
JW Green	16,545	12,079
AT Eckford	-	-
DJ Challen	1,000	1,000
The Earl of Cranbrook	1,100	1,100
RW Jewson	840	840
Mrs JF de Moller	750	750
Mrs SA O'Sullivan	-	-
JB Cronin	2,500	2,500

*Or date of appointment if later.

Each executive director has notified the Company that, for the purposes of S324 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; Mr JW Green 8,931 and Mr AT Eckford 10,641.

Options to subscribe for ordinary shares, under the Executive share option and Sharesave schemes, granted to and exercised by directors during the year, are summarised below. Details of these schemes including exercise dates are shown in the Directors' Report on page 27.

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 options (£)	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									
RM Gourlay	3,709	-	-	-	-	-	-	3,709	4.65
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

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

The market price of the Company's shares at 31 March 1997 was £6.39, and the range during the year was £5.12 to £6.81.

At 31 March 1997, and throughout the year, Mr DJ Challen held £24,000 of the Company's 5 1/8% Index Linked Loan Stock 2008.

No director has an interest in the shares or debentures of the Company other than as shown above. The following change in the interests (solely as a result of bonus allocations within a PEP) has occurred in the period from 31 March 1997 to 27 May 1997: Mr AF Smith acquired 24 shares.

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.

JF de Moller
Chair
Remuneration Committee

Directors

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

Principal Activities and Business Review

The principal activities of the Group during the year were water supply and distribution, sewerage, sewage treatment and disposal, and process engineering. A review of the Group's performance during the year, with comments on the financial results and future developments, is contained on pages 4 to 19.

Group Results and Dividends

The profit and loss account on page 29 shows the Group's results and retained profit for the year. An interim dividend of 10.2p per share was paid on 17 February 1997. The directors are recommending the payment of a final dividend of 24.3p per Ordinary share to shareholders on the register at the close of business on 4 July 1997, making a total net dividend for the year of 34.5p. The final dividend, if approved at the Annual General Meeting, will be paid on 22 August 1997.

Research and Development

Details of research and development activities are described in the Managing Director's report on pages 6 to 17.

Share Capital

Details of the Company's share capital are shown in note 22 on page 42. Options outstanding (including options granted to directors detailed on page 26) under the Company's share option schemes at 31 March 1997 were as follows:

	No. of shares	Date of grant	Option price
Sharesave Scheme	21,851	12 December 1989	£1.76
Sharesave Scheme	5,303	6 December 1990	£2.67
Sharesave Scheme	406,474	30 December 1991	£2.72
Sharesave Scheme	364,662	21 December 1992	£3.82
Sharesave Scheme	550,139	20 December 1993	£4.04
Sharesave Scheme	1,041,134	14 December 1995	£4.65
Sharesave Scheme	766,782	12 December 1996	£4.52
Executive Share Option Scheme	6,787	20 June 1990	£2.93
Executive Share Option Scheme	15,734	10 January 1991	£3.31
Executive Share Option Scheme	23,312	7 December 1991	£3.26
Executive Share Option Scheme	6,835	24 June 1992	£3.95
Executive Share Option Scheme	14,811	15 December 1992	£4.73
Executive Share Option Scheme	89,651	7 July 1993	£4.74
Executive Share Option Scheme	15,044	1 December 1993	£5.30
Executive Share Option Scheme	203,908	15 August 1994	£5.375
Executive Share Option Scheme	14,664	13 July 1995	£5.51
Executive Share Option Scheme	15,679	7 December 1995	£5.74
Executive Share Option Scheme	10,506	10 June 1996	£5.71
Executive Share Option Scheme	19,090	7 November 1996	£5.50

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

In addition to the options shown above, 14,651,000 warrants were outstanding at 31 March 1997. These grant the holders the right to exercise each warrant for one Ordinary share at a price of £4.95 during the period to 24 August 1998.

Directors

A list of directors at 31 March 1997 and their biographies are shown on page 20.

Mr RW Jewson and Mr AF Smith retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Mr AF Smith has a service contract for an initial period of 2 years expiring with 1 years notice on or after 1 January 1999 and Mr RW Jewson does not have a service contract.

Messrs JB Cronin and AT Eckford, and Ms SA O'Sullivan, having been appointed during the year offer themselves for re-election. Mr AT Eckford has a service contract for an initial period of 2 years expiring with 1 years notice on or after 1 July 1998. Mr JB Cronin and Ms SA O'Sullivan do not have service contracts.

Directors' Interests

The interests of the directors in the shares of the Company and in options over such shares granted under the Company's Executive Share Option Scheme and Sharesave Scheme are set out on page 26.

Substantial Shareholdings

According to notifications received, at 27 May 1997 there were no shareholders with "material" interests (as defined in the Disclosure of Interests in Shares (Amendment) Regulations 1993) in 3% or more of the Company's issued share capital, and none with any aggregate interest ("material" or otherwise) in 10% or more.

Purchase of Own Shares

Permission was obtained from shareholders at the AGM in July 1996 to purchase up to 10% of the Company's Ordinary share capital in order to optimise the financial and tax efficiency of its capital structure.

Policy on the Payment of Creditors

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

Charitable and Political Donations

During the year the Group made charitable donations of £106,377. In addition the Group 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 made aware of the general financial and economic factors influencing the Group. We operate a systematic approach to employee communication through regular briefings, presentations and the wide circulation of the Group newspaper.

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

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

Close Company Status

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

Auditors

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

Annual General Meeting

The notice convening the Annual General Meeting to be held on 23 July 1997 is sent to shareholders separately with this report, together with an explanation of the business to be conducted at the meeting.

By order of the Board

27 May 1997

Roger Dickinson, Company Secretary
Registered Office: Anglian House,
Ambury Road, Huntingdon,
Cambridgeshire PE18 6NZ
Registered in England No.2366618

Group Profit and Loss Account

For the year ended 31 March

Notes	1997 Pre-exceptional charges £m	1997 Exceptional charges £m	1997 Total £m	1996 Total £m
2	837.1	–	837.1	775.7
3	(509.9)	(40.8)	(550.7)	(482.0)
2 5	327.2	(40.8)	286.4	293.7
4	–	(8.2)	(8.2)	–
	–	–	–	1.2
	327.2	(49.0)	278.2	294.9
5	(70.2)	–	(70.2)	(56.3)
	257.0	(49.0)	208.0	238.6
7	(23.1)	–	(23.1)	(20.1)
11	233.9	(49.0)	184.9	218.5
8	(93.4)	–	(93.4)	(80.7)
	140.5	(49.0)	91.5	137.8
9	86.8p	(18.2)p	68.6p	78.1p

Statement of Total Recognised Gains and Losses

For the year ended 31 March

Notes	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
	184.9	218.5	74.8	272.5
	(0.6)	0.6	(0.2)	–
23	184.3	219.1	74.6	272.5

The notes on pages 32 to 46 form part of these financial statements.

Balance Sheets

At 31 March

Notes	Group		Company		
	1997 £m	1996 £m	1997 £m	1996 £m	
	Fixed assets				
12	Tangible assets	2,865.3	2,655.9	1.0	1.0
13	Investments	10.4	24.0	1,330.0	1,145.5
		<u>2,875.7</u>	<u>2,679.9</u>	<u>1,331.0</u>	<u>1,146.5</u>
	Current assets				
14	Stocks	15.5	16.9	-	-
15	Debtors	178.8	154.6	91.8	194.8
	Cash and deposits	76.9	35.6	98.8	5.2
		<u>271.2</u>	<u>207.1</u>	<u>190.6</u>	<u>200.0</u>
	Creditors: amounts falling due within one year				
16	Short term borrowings	(51.4)	(23.4)	(20.9)	(0.1)
16	Other creditors	(323.3)	(336.0)	(129.8)	(86.5)
	Net current (liabilities)/assets	<u>(103.5)</u>	<u>(152.3)</u>	<u>39.9</u>	<u>113.4</u>
	Total assets less current liabilities	<u>2,772.2</u>	<u>2,527.6</u>	<u>1,370.9</u>	<u>1,259.9</u>
	Creditors: amounts falling due after more than one year				
17	Loans and other borrowings	(964.1)	(844.0)	(521.6)	(395.1)
18	Other creditors	(103.7)	(88.3)	-	-
		<u>(1,067.8)</u>	<u>(932.3)</u>	<u>(521.6)</u>	<u>(395.1)</u>
19	Provisions for liabilities and charges	(124.4)	(118.2)	-	-
		<u>1,580.0</u>	<u>1,477.1</u>	<u>849.3</u>	<u>864.8</u>
	Capital and reserves				
22, 23	Called up equity share capital	270.4	269.1	270.4	269.1
23	Share premium account	11.7	9.7	11.7	9.7
23	Other reserves	38.5	38.5	38.5	38.5
23	Profit and loss account	1,259.4	1,159.8	528.7	547.5
	Total shareholders' funds (all equity)	<u>1,580.0</u>	<u>1,477.1</u>	<u>849.3</u>	<u>864.8</u>

The notes on pages 32 to 46 form part of these financial statements.

Approved by the Board on 27 May 1997.



RM Gourlay
Chairman



J Mellor
Group Finance Director

Group Cash Flow Statement

For the year ended 31 March

Notes	1997 £m	1996 £m
26(a)	386.7	352.2
Net cash inflow from operating activities		
Returns on investments and servicing of finance		
Interest received	9.3	8.0
Interest paid	(67.3)	(49.5)
Interest element of finance lease rental payments	(6.0)	(6.5)
Dividends received from participating interests	1.5	-
	(62.5)	(48.0)
Taxation		
Advance corporation tax paid	(19.9)	(19.3)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(322.3)	(246.3)
Investment in infrastructure renewals	(32.4)	(20.9)
Grants and contributions received	21.8	22.8
Disposal of tangible fixed assets	3.3	4.5
Purchase of own shares for Long Term Incentive Plan	(0.4)	-
	(330.0)	(239.9)
Acquisitions and disposals		
Investment in associated undertakings	(2.6)	(15.3)
Repayment of loans by associated undertakings	0.3	-
26(b) Sale of subsidiary undertakings	5.0	-
Purchase of subsidiary undertakings	-	(0.1)
	2.7	(15.4)
	(84.5)	(77.5)
Equity dividends paid		
Management of liquid resources		
26(c) (Increase)/decrease in short term deposits	(46.1)	51.2
Net cash (outflow)/inflow before financing	(153.6)	3.3
Financing		
Purchase of own shares	-	(197.5)
New share capital subscribed	3.3	2.7
26(f) Increase in loans	150.0	205.7
26(i) Repayments of amounts borrowed	(7.6)	(1.4)
Capital element of finance lease rental payments	(0.4)	-
Net cash inflow from financing	145.3	9.5
26(d) (Decrease)/increase in cash	(8.3)	12.8

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

The notes on pages 32 to 46 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 1e below, in accordance with the Companies Act 1985. The following principal accounting policies have been applied:

a) Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the Company and all of its subsidiaries to 31 March. The results of companies acquired or disposed of are consolidated from the effective date of the acquisition or to the effective date of disposal. The treatment of a company as an associated undertaking has regard to the Group's holding of at least 20% of the equity capital, representation on its board of directors and participation in policy making, including dividend policy. The Group's share of the profits or losses of these companies is included in the profit and loss account and the investments are included in the balance sheet at the Group's share of the net assets of the companies.

b) Goodwill

On the acquisition of a subsidiary undertaking, fair values are attributed to the net assets acquired. Goodwill, which represents the difference between the purchase consideration and the fair values, is taken to reserves. On disposal of a subsidiary any goodwill arising on acquisition that was previously written off to reserves is taken into account in determining the profit or loss on sale.

c) Turnover

Turnover represents the income receivable (excluding value added tax) in the ordinary course of business for goods and services provided and, in respect of contract work in progress, the value of work carried out.

d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) comprise a network of systems. Investment expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as an addition and included at cost. Investment expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

The charge for infrastructure renewals expenditure takes account of planned expenditure on maintaining the operating capability of infrastructure assets, in accordance with the operational policies and standards underlying Anglian Water Services Limited's asset management plan. The timing of the investment programme and other operational considerations result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account therefore comprise actual expenditure together with accruals which recognise planned expenditure identified in the asset management plan.

Other assets (including properties, overground plant and equipment) are included at cost less accumulated depreciation. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Operational structures	40-80 years
Buildings	30-60 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	3-10 years

Assets in the course of construction are not depreciated until they are commissioned.

e) Grants and contributions

Grants and contributions on capital expenditure, other than those relating to infrastructure assets, are credited to a deferral account and are released to revenue evenly over the expected useful life of the relevant asset in accordance with the provisions of the Companies Act. Grants and contributions to capital expenditure on infrastructure assets are deducted from the costs of these assets. This policy is not in accordance with the provisions of the Companies Act but has been adopted in order to show a true

1. Accounting Policies continued

and fair view since, as explained above, infrastructure assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The financial effect of this departure is disclosed in note 12. Revenue grants and contributions are credited to the profit and loss account in the year to which they apply.

f) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor, and the finance costs being written off to the profit and loss account over the primary period of the lease. The assets are depreciated over the shorter of their estimated useful lives and the lease period. All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed over the term of the lease.

g) Investments

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

h) Stocks and work in progress

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

Long term contracts

Amounts recoverable on long term contracts are stated at cost plus attributable profits less provision for any known or anticipated losses and payments on account and are included in debtors. Payments on account in excess of amounts recoverable on long term contracts are included in creditors.

i) Pension costs

Contributions to the Group's defined benefit pension schemes are charged to the profit and loss account so as to spread the regular cost of pensions over the average service lives of employees, in accordance with the advice of an independent qualified actuary. Actuarial surpluses and deficits are amortised, where appropriate, over the average remaining service lives of employees in proportion to their expected payroll costs. The cost of defined contribution schemes is charged to the profit and loss account in the year in respect of which the contributions become payable.

j) Research and development

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

k) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Assets and liabilities denominated in foreign currencies, including the Group's interest in the underlying net assets of overseas subsidiary and associated undertakings, are translated into sterling at the financial year end exchange rates. Profits and losses of overseas subsidiaries and associates are translated into sterling at average rates of exchange during the year. Gains or losses arising on the translation of the net assets of overseas subsidiaries and associates are taken to reserves, together with exchange differences arising on related foreign currency borrowings. Other exchange differences are taken to the profit and loss account.

l) Deferred taxation

Tax deferred as a result of timing differences is only provided for to the extent that there is a reasonable probability that such deferred taxation will be payable in the foreseeable future. Provision is made for potential taxation liabilities which could arise on the remittance of retained overseas earnings only to the extent that there is currently an intention to remit such earnings.

2. Segmental Analysis	Turnover		Operating profit		Net operating assets	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
By class of business						
Water supply and sewerage services	697.7	659.5	311.3	298.9	2,601.8	2,383.2
International	154.7	131.4	(24.9)	(5.7)	4.3	3.0
Other	6.9	-	-	0.5	1.5	(0.3)
Less intersegment trading	(22.2)	(15.2)	-	-	-	-
	837.1	775.7	286.4	293.7	2,607.6	2,385.9
By geographical origin						
United Kingdom	726.0	687.0	298.3	292.4	2,596.7	2,385.3
Europe	64.1	55.9	1.6	1.0	2.8	(2.9)
Other	47.0	32.8	(13.5)	0.3	8.1	3.5
	837.1	775.7	286.4	293.7	2,607.6	2,385.9
By geographical destination						
United Kingdom	728.9	685.3				
Europe	50.6	42.5				
Other	57.6	47.9				
	837.1	775.7				

Operating profit is stated after exceptional charges to Water supply and sewerage services of £22.0m (1996 - £nil) and International of £18.8m (1996 - £nil).

Intersegment trading represents sales from the International and Other businesses to the Water supply and sewerage services business.

Net operating assets are shown before deduction of net debt, dividends payable and advance corporation tax of £1,027.6m (1996 - £908.8m).

3. Operating Costs	1997	1997	1997	1996
	Pre-exceptional charges £m	Exceptional charges £m	Total £m	Total £m
Raw materials and consumables	111.1	-	111.1	104.7
Other external charges	215.2	11.6	226.8	195.1
Staff costs (see note 10)	116.5	18.3	134.8	120.7
Change in stocks of finished goods and work in progress	(0.8)	-	(0.8)	(3.9)
Own work capitalised	(41.2)	-	(41.2)	(37.8)
	400.8	29.9	430.7	378.8
Dividends receivable from participating interests	(1.1)	-	(1.1)	(0.4)
Profit on sale of tangible fixed assets	(1.2)	-	(1.2)	-
Depreciation of tangible fixed assets	98.8	-	98.8	90.2
Provision for diminution in value of investments	-	8.9	8.9	-
Amortisation of deferred grants and contributions	(5.1)	-	(5.1)	(3.9)
Customer trust fund	-	2.0	2.0	-
Infrastructure renewals	17.7	-	17.7	17.3
Total net operating costs	509.9	40.8	550.7	482.0

4a. Exceptional Charges	1997	1996
	£m	£m
Restructuring costs (includes £2.0m in respect of International business)	22.0	-
Provision for diminution in value of investments (includes associated costs of £1.2m)	10.1	-
Contract and other provisions	6.7	-
Customer trust fund	2.0	-
	40.8	-
Loss on disposal of Products business (note 4(b))	8.2	-
	49.0	-

	1997 £m	1996 £m
4b. Loss on disposal of Products business		
Profit on disposal of assets	0.5	-
Goodwill written back	(8.7)	-
	(8.2)	-
	1997 £m	1996 £m
5. Operating Profit		
Operating profit is stated after charging/(crediting):		
Share of losses of associated undertakings	0.5	0.1
Dividends receivable from participating interests	(1.1)	(0.4)
Hire of plant and machinery	1.2	0.9
Other operating lease costs	3.8	2.7
Research and development expenditure	6.6	6.2
Grants and contributions	-	(0.3)
Fees paid to auditors:		
for audit work (including £0.1m in respect of the Company (1996 - £0.1m)).	0.4	0.4
for other work (including £0.1m overseas (1996 - £0.3m)).	0.3	0.5
	1997 £m	1996 £m
Interest Payable (Net)		
Overdrafts and short term borrowings	9.5	3.6
Other loans	66.0	52.8
Finance leases	6.0	6.7
	81.5	63.1
Interest receivable	(11.3)	(6.8)
	70.2	56.3

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

	1997 £m	1996 £m
Taxation		
Advance corporation tax	23.1	20.1

Taxation allowances on past and current year capital expenditure are sufficient to ensure that no UK mainstream corporation tax liability arises and consequently advance corporation tax for the year is written off. No overseas tax liability arises. No Provision for deferred taxation is required for the year ended 31 March 1997 (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.

	1997 £m	1996 £m
Dividends		
Interim dividend 10.2p (1996 - 8.9p) per ordinary share	27.7	23.9
Proposed final dividend 24.3p (1996 - 21.1p) per ordinary share	65.7	56.8
	93.4	80.7

Earnings Per Share

Earnings per ordinary share has been calculated by dividing profit on ordinary activities after taxation of £184.9m (1996 - £218.5m) by 269.6m (1996 - 279.7m) being the weighted average number of ordinary shares in issue during the year. Earnings per ordinary share would have been 18.2p higher in 1997 if calculated before the exceptional charges. On a nil distribution basis earnings per ordinary share, after exceptional charges, is 77.2p (1996 - 85.3p). Earnings per ordinary share is not materially affected if calculated on a fully diluted basis.

	1997 Pre-exceptional charges £m	1997 Exceptional charges £m	1997 Total £m	1996 Total £m
10. Employee Information				
Staff costs:				
Wages and salaries	104.7	9.4	114.1	100.7
Social security costs	10.8	-	10.8	10.5
Other pension costs (see note 24)	1.0	8.9	9.9	9.2
Employee profit share	-	-	-	0.3
	116.5	18.3	134.8	120.7

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).

	1997	1996
Average number of full time equivalent persons employed:		
Water and sewerage services	4,278	4,287
International	979	974
Other	76	-
	5,333	5,261

The numbers include 598 full time equivalent persons employed outside the UK (1996 - 576).

Details of directors' emoluments and interests are included in the report on remuneration and other related matters on pages 23 to 26.

11 Profit of Parent Company

Anglian Water Plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the profit for the financial year dealt with in the accounts of the parent company is £74.8m (1996 - £272.5m).

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Vehicles, plant and equipment £m	Total £m
12. Tangible Fixed Assets					
The Group					
Cost					
At 31 March 1996	52.9	1,162.4	1,789.6	277.2	3,282.1
Exchange adjustments	(0.1)	-	-	(0.7)	(0.8)
Sale of subsidiary undertakings	(0.2)	-	-	(1.9)	(2.1)
Additions	5.1	98.7	73.9	142.4	320.1
Disposals	(0.4)	(0.3)	(1.8)	(9.1)	(11.6)
At 31 March 1997	57.3	1,260.8	1,861.7	407.9	3,587.7
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	11.7	-	395.9	125.1	532.7
Exchange adjustments	(0.1)	-	-	(0.7)	(0.8)
Sale of subsidiary undertakings	(0.1)	-	-	(1.2)	(1.3)
Charge for the year	2.1	-	71.7	25.0	98.8
Disposals	-	-	(1.8)	(7.7)	(9.5)
At 31 March 1997	13.6	-	465.8	140.5	619.9
Net book amount					
At 31 March 1997	43.7	1,158.3	1,395.9	267.4	2,865.3
At 31 March 1996	41.2	1,068.9	1,393.7	152.1	2,655.9

12. **Tangible Fixed Assets** continued

Tangible fixed assets of the Group 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 Group's interests in land and buildings are almost entirely freehold. In accordance with the Group's accounting policy there is no provision for depreciation on infrastructure assets and the related grants and contributions are not amortised.

The net book value of the Group's tangible fixed assets held under finance leases at 31 March 1997 was £101.1m (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).

	Freehold land and buildings £m
The Company	
Cost	1.2
At 31 March 1996 and 31 March 1997	
Depreciation	0.2
At 31 March 1996 and 31 March 1997	
Net book amount	1.0
At 31 March 1996 and 31 March 1997	

investment commitments

The Group has a substantial long term investment programme, which includes expenditure to meet regulatory requirements, shortfalls in performance and condition and to provide for new demand and growth. The commitments shown below reflect only the value of orders placed at 31 March 1997.

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

13. Investments	Own shares £m	Associated undertakings £m	Other participating interests £m	Total £m
The Group				
Shares at cost or amount under equity method of accounting				
At 31 March 1996	-	8.4	3.9	12.3
Additions	-	0.7	-	0.7
Reclassification to debtors	-	(0.5)	-	(0.5)
Provision for diminution in value	-	(5.2)	-	(5.2)
Share of losses	-	(0.5)	-	(0.5)
At 31 March 1997	-	2.9	3.9	6.8
Loans				
At 31 March 1996	-	11.7	-	11.7
Additions/(repayments)	-	(4.9)	0.1	(4.8)
Provision for diminution in value	-	(3.7)	-	(3.7)
At 31 March 1997	-	3.1	0.1	3.2
Own shares				
At 31 March 1996	-	-	-	-
Additions	0.4	-	-	0.4
At 31 March 1997	0.4	-	-	0.4
Total				
At 31 March 1997	0.4	6.0	4.0	10.4
At 31 March 1996	-	20.1	3.9	24.0

The associated undertakings are:

	Country of registration	Activity	Number of shares in issue	Nominal value of share capital in issue	% held	Class of share
Grafham Carbons Limited	England	Regeneration of granular activated carbon (GAC)	40,000	£40,000	50	Ordinary £1 shares
Anglian H&G Limited	England	GAC regeneration technology	200,000	£200,000	50	Ordinary £1 shares
Gibb-Anglian Limited	England	Engineering and design consultancy	1,000	£1,000	50	Ordinary £1 shares
Cejen-Anglian LTDA	Brazil	Water & waste water treatment	1,400,000	\$1.4m	37.5	Ordinary \$1 shares
VAKJC a.s.	Czech Rep	Water & waste water treatment	158,440	KCS 158.4m	34	Ordinary KCS1,000 shares
Laqua Services Limited	England	Water & waste water treatment	2	£2	50	Ordinary £1 shares
Exxchange Technology Limited	England	Marketing nitrate removal equipment	10,000	£10,000	50	Ordinary £1 shares
American-Anglian Environmental Technologies	USA	Waste water treatment	Partnership	-	50	-

These undertakings principally operate in their country of registration.

Other participating interests include the Group's 4.25% investment in Aguas Argentinas, a consortium which operates the water and sewerage system in Buenos Aires, Argentina.

During the year Anglian Water Long Term Incentive Plan (AWLTIP) Limited was established with the purpose of holding shares in the Company for subsequent transfer to executive directors and certain senior management under the long term incentive plan. During the year AWLTIP Limited purchased 66,305 shares in the Company at a cost of £0.4m; these had a market value of £0.4m at 31 March 1997.

	Own shares £m	Cost £m	Provisions £m	Net book amount £m
13 Investments continued				
The Company				
Investment in subsidiary undertakings				
Shares				
At 31 March 1996	-	868.8	(5.8)	863.0
Additions	-	1.0	-	1.0
At 31 March 1997	-	869.8	(5.8)	864.0
Loans				
At 31 March 1996	-	282.5	-	282.5
Net movement during the year	-	192.0	(8.9)	183.1
At 31 March 1997	-	474.5	(8.9)	465.6
Own shares				
At 31 March 1996	-	-	-	-
Additions	0.4	-	-	0.4
At 31 March 1997	0.4	-	-	0.4
Total				
At 31 March 1997	0.4	1,344.3	(14.7)	1,330.0
At 31 March 1996	-	1,151.3	(5.8)	1,145.5

The principal subsidiary undertakings of the Group are listed in note 28 on page 46.

	Group	
	1997 £m	1996 £m
14 Stocks		
Raw materials and consumables	5.3	7.4
Work in progress	8.3	6.9
Finished goods	1.9	2.6
	15.5	16.9

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

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
15 Debtors				
Amounts falling due within one year				
Trade debtors	132.0	117.2	-	-
Amounts recoverable on contracts	13.7	11.0	-	-
Amounts owed by subsidiary undertakings	-	-	89.6	194.4
Amounts owed by associated undertakings	0.5	-	-	-
Amounts owed by participating undertakings	-	0.4	-	-
Other debtors	20.9	21.0	0.2	0.4
Prepayments and accrued income	3.8	3.6	2.0	-
	170.9	153.2	91.8	194.8
Amounts falling due after more than one year				
Trade debtors	0.8	0.6	-	-
Prepaid pension contributions	6.4	-	-	-
Other debtors	0.7	0.8	-	-
	178.8	154.6	91.8	194.8

16.	Creditors: Amounts Falling Due Within One Year	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
	Bank overdrafts	18.4	15.4	-	-
	Current portion of long term loans	31.3	7.4	20.9	0.1
	Obligations under finance leases	1.7	0.6	-	-
	Short term borrowings	51.4	23.4	20.9	0.1
	Trade creditors	141.3	150.9	-	-
	Payments on account in excess of contract value	10.1	11.1	-	-
	Receipts in advance	42.7	52.6	-	-
	Advance corporation tax	23.3	20.1	23.3	20.1
	Amounts owed to subsidiary undertakings	-	-	26.2	-
	Other taxation and social security	4.4	4.2	0.1	0.8
	Accruals and deferred income	35.8	40.3	14.5	8.8
	Proposed dividends	65.7	56.8	65.7	56.8
	Other creditors	323.3	336.0	129.8	86.5
17.	Loans and Other Borrowings Falling Due After More Than One Year	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
	Repayable wholly after five years				
	5½% Index Linked Loan Stock 2008 (a)	128.6	125.8	128.6	125.8
	12% Fixed Rate Bonds 2014	100.0	100.0	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	-	-
	US\$122m Private Placements 2006 (b)	79.1	79.1	74.6	79.1
	8¼% Fixed Rate Bonds 2006	149.0	-	149.0	-
	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	-	-
	US\$10m Private Placement (Interest at 6.71%)	5.8	6.5	5.8	6.5
	Finance leases (c)	121.9	122.3	-	-
	Other borrowings (d)	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	-	-
	6½% Fixed Rate Bonds 1998	64.1	63.4	64.1	63.4
	£20m Private Placement 1997 (Interest at 9.07%)	20.0	20.0	20.0	20.0
	Other loans (d)	3.5	2.7	0.4	0.4
	Total loans and other borrowings	997.1	852.0	542.5	395.2
	Less amounts included in creditors falling due within one year	(33.0)	(8.0)	(20.9)	(0.1)
		964.1	844.0	521.6	395.1
	Due for repayment as follows:				
	Between one and two years	77.6	32.0	64.9	20.0
	Between two and five years	127.5	134.5	1.9	63.7
	After five years	759.0	677.5	454.8	311.4
		964.1	844.0	521.6	395.1

- a) The value of the capital and interest elements of the Index Linked Loan Stock are linked to movements in the Retail Price Index. The increase in the capital value during the year of £2.8m (1996 - £4.3m) has been taken to the profit and loss account as part of interest payable.

17. **Loans and Other Borrowings Falling Due After More Than One Year** continued

- b) The Group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US\$122m Private Placements 2006. In addition, through interest rate 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%.
- c) 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 £100.0m (1996 – £107.3m) payable after five years.
- d) 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 a subsidiary undertaking.

	Group	
	1997 £m	1996 £m
18. Other Creditors Falling Due After More Than One Year		
Trade creditors	9.1	1.5
Receipts in advance	3.6	3.6
Accruals and deferred income	–	1.3
Deferred grants and contributions	91.0	81.9
	103.7	88.3

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

	Infrastructure renewals £m	Restructuring costs £m	Other provisions £m	Total £m
19. Provisions For Liabilities and Charges				
The Group				
At 31 March 1996	104.9	13.3	–	118.2
Charge for the year	17.7	22.0	5.1	44.8
Utilised in the year	(34.1)	(4.5)	–	(38.6)
At 31 March 1997	88.5	30.8	5.1	124.4

Of the £31.1m (1996 – £13.3m) balance of restructuring costs, £17.8m (1996 – £10.0m) relates to pension obligations. There were no provisions for liabilities and charges in the Company.

20. **Deferred Taxation**

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

	1997 £m	1996 £m
Accelerated capital allowances	245.6	205.9
Other timing differences	(46.1)	(42.8)
Available tax losses	(19.8)	(25.7)
Advance corporation tax	(108.9)	(83.3)
	70.8	54.1

Had provision for deferred taxation been made on the full liability method, there would have been a tax charge of £16.7m (1996 – £19.9m).

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 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.

In addition to the amounts set out in the table above, there is advance corporation tax of £68.9m (1996 – £71.4m) which will be available to set against the Group's liability on taxable profits arising in future periods.

21. **Commitments Under Operating Leases**

At 31 March 1997 the Group had commitments to make payments during the next twelve months under non-cancellable operating leases which expire as follows:

	Land and buildings £m	Other £m
The Group		
Within one year	0.2	0.3
Between one and five years	0.4	2.0
After five years	1.9	—
	2.5	2.3

There were no such commitments by the Company.

22. **Share Capital of Anglian Water Plc**

	1997 £m	1996 £m
Authorised		
Ordinary shares of £1 each	400.0	400.0
	400.0	400.0
Allotted, issued and fully paid		
Ordinary shares of £1 each	270.4	269.1
	270.4	269.1

During the year 155,623 options were exercised under the Executive Share Option Scheme at an average price of £3.23, giving rise to a share premium of £0.3m, and 1,131,091 options were exercised under the Sharesave Scheme at an average price of £2.50, giving rise to a share premium of £1.7m.

Details of outstanding options and warrants are shown in the Directors' Report on page 27.

23	Movement in Shareholders' Funds	Share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	1997 Total £m	1996 Total £m
	The Group							
	At beginning of year	269.1	9.7	29.7	8.8	1,159.8	1,477.1	1,530.6
	Total recognised gains relating to the year	-	-	-	-	184.3	184.3	219.1
	Dividends	-	-	-	-	(93.4)	(93.4)	(80.7)
	Goodwill written back/(off)	-	-	-	-	8.7	8.7	(0.2)
	New share capital subscribed (see note 22)	1.3	2.0	-	-	-	3.3	5.8
	Purchase of own shares	-	-	-	-	-	-	(197.5)
	At end of year	270.4	11.7	29.7	8.8	1,259.4	1,580.0	1,477.1
	The Company							
	At beginning of year	269.1	9.7	29.7	8.8	547.5	864.8	864.7
	Total recognised gains relating to the year	-	-	-	-	74.6	74.6	272.5
	Dividends	-	-	-	-	(93.4)	(93.4)	(80.7)
	New share capital subscribed (see note 22)	1.3	2.0	-	-	-	3.3	5.8
	Purchase of own shares	-	-	-	-	-	-	(197.5)
	At end of year	270.4	11.7	29.7	8.8	528.7	849.3	864.8

The cumulative goodwill taken to reserves, net of goodwill relating to undertakings disposed of, as at 31 March 1997 amounts to £62.2m (1996 - £70.9m).

Other reserves comprise warrants to subscribe for equity share capital as described in the Directors' Report on page 27.

24 Pension Commitments

Pension arrangements for the majority of the Group's UK employees are of the defined benefit type, through Anglian Water Mirror Image Pension Scheme ("AWMIS") and Anglian Water Pension Scheme ("AWPS"). In addition, a number of other schemes of both the defined benefit and defined contribution type operate in the UK and overseas.

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

During the year the Schemes' Actuaries undertook valuations of AWMIS and AWPS details of which are summarised below.

	AWMIS	AWPS
Date of valuation	31 March 1996	31 March 1996
Actuarial method	Attained age	Projected unit
Main assumptions		
Excess of investment returns over:		
- general salary increases	2.5%	2.5%
- dividend growth	4.5%	4.5%
- annual increases in pensions	4.5%	4.0%
Results		
Market value of assets	£260.5m	£73.1m
Funding level	137%	113%

Both schemes are subject to triennial valuations.

The regular pension cost for the year ended 31 March 1997 was £10.7m (1996 - £9.2m) and included £0.3m (1996 - £0.3m) for overseas schemes. These costs were 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 Group and Company have entered into a number of performance bonding and guarantee arrangements in the normal course of business, the principal one being in relation to Anglian Water International's £50m contract to design and build a sewage treatment works in Wellington, New Zealand. Provision is made for any amounts that the directors consider may become payable under such arrangements. In addition, the company has guaranteed the overdrafts of a number of subsidiaries amounting to £11.0m at 31 March 1997 (1996 - £14.0m).

Notes to the Group Cash Flow Statement		1997 £m	1996 £m
26.	Notes to the Group Cash Flow Statement		
a)	Reconciliation of operating profit to net cash inflow from operating activities		
	Operating profit	286.4	293.7
	Dividends received from participating interests	(1.1)	-
	Share of associated companies' losses	0.5	-
	Profit on disposal of tangible fixed assets	(1.2)	-
	Depreciation (net of amortisation of deferred grants and contributions)	93.7	86.3
	Provision for infrastructure renewals	17.7	17.3
	Net movement on pensions balances	(6.4)	-
	Net movements on other provisions	22.6	(18.2)
	Employee profit share	-	0.3
	Provision for diminution in value of investments	8.9	-
		<u>421.1</u>	<u>379.4</u>
	Increase in working capital:		
	Stocks	(1.5)	(3.8)
	Debtors	(18.0)	(21.4)
	Creditors	(14.9)	(2.0)
		<u>(34.4)</u>	<u>(27.2)</u>
	Net cash inflow from operating activities	<u>386.7</u>	<u>352.2</u>
	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 1995 exceptional charges.		
	The cash flows of the business disposed of during the year were not material to the Group's cash flows.		
b)	Sale of subsidiary undertakings		1997 £m
	Net assets/(liabilities) disposed of:		
	Fixed assets		0.8
	Stock		4.2
	Debtors		6.2
	Cash at bank		1.4
	Bank overdrafts		(0.5)
	Creditors		(6.2)
			<u>5.9</u>
	Goodwill (previously written off)		8.7
	Costs associated with disposal		0.8
	Loss on disposal		(8.2)
			<u>7.2</u>
	Satisfied by:		
	Cash		3.8
	Cash in settlement of intra-group debt		2.2
	Deferred consideration		1.2
			<u>7.2</u>
	Analysis of the net inflow of cash in respect of the sale of subsidiary undertakings:		
	Cash received upon completion		6.0
	Cash at bank of disposed subsidiary undertakings		(1.4)
	Bank overdrafts of disposed subsidiary undertakings		0.5
	Costs of disposal paid during the year		(0.1)
	Net inflow of cash in respect of the sale of subsidiaries		<u>5.0</u>

26 Notes to the Group Cash Flow Statement continued

	1 April 1996 £m	Cash flows £m	Disposals £m	Non cash movements £m	Exchange movement £m	31 March 1997 £m
c) Analysis of net debt						
Cash	21.2	(4.0)	(1.4)	–	0.6	16.4
Bank overdrafts	(15.4)	(3.4)	0.5	–	(0.1)	(18.4)
	5.8	(7.4)	(0.9)	–	0.5	(2.0)
Short term deposits	14.4	46.1	–	–	–	60.5
Debt due within 1 year	(8.0)	8.0	–	(33.1)	0.1	(33.0)
Debt due after 1 year	(844.0)	(150.0)	–	29.6	0.3	(964.1)
	(831.8)	(103.3)	(0.9)	(3.5)	0.9	(938.6)

Non cash movements comprise amortisation of discounts and expenses relating to debt issues, indexation of loan stock and transfers between categories of debt.

	1997 £m	1996 £m
d) Movement in Group net debt		
At beginning of year	(831.8)	(584.7)
(Decrease)/increase in cash	(8.3)	12.8
Increase/(decrease) in short term bank deposits	46.1	(51.2)
Increase in loans	(150.0)	(205.7)
Repayment of loans	7.6	1.4
Indexation of loan stock	(2.8)	(4.3)
Amortisation of discount and expenses relating to debt issue	(0.7)	(0.6)
Exchange translation	0.9	–
Deferred finance charges on finance lease arrangements	–	(0.3)
Conversion of loan notes into shares	–	0.8
Capital element of finance lease rental payments	0.4	–
At end of year	(938.6)	(831.8)

27. **Related Party Transactions**

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

28. **Principal Group Companies**

The principal subsidiary undertakings at 31 March 1997 are shown below:

	Country of incorporation	Activities
Water and sewerage services		
Anglian Water Services Limited*	England	Water and sewerage undertaker, regulated principally by the Water Industry Act 1991.
International		
Anglian Water International Limited	England	Engineering consultancy services
AWI Holdings Limited*	England	Holding company
Purac Engineering Inc	USA	Contracting for water and sewerage treatment Processes.
Purac AB	Sweden	
Purac Industry AB	Sweden	
Purac Leuna GmbH	Germany	
Anglian Water International Pty Limited	Australia	
Purac Limited	England	
Purac Water Spolka Z.o.o.	Poland	
Kaldnes Miljøteknologi A/S	Norway	
Aquafine Engineering Services Limited	England	Water treatment products
Fluid Systems Corporation Inc.	USA	
Anglian Water International (NZ) Limited	New Zealand	Management and operation of waste water projects
Other group companies		
Rutland Insurance Company Limited*	Guernsey	Provides insurance to Group companies
Alpheus Environmental Limited	England	Waste water treatment

The Group also owns a number of smaller and non-trading companies. All subsidiaries are 100% owned by the Group or the Company. Companies marked with an * are owned directly by Anglian Water Plc. All shareholdings are of ordinary equity share capital. The voting rights in respect of each subsidiary are in the same proportion as the shares held. Those companies shown as incorporated in England are registered in England and Wales. All companies operate principally in their country of incorporation, except for Anglian Water International Limited which operates worldwide.

Auditors' Report

Auditors' Report to the Shareholders of Anglian Water Plc

We have audited the financial statements on pages 29 to 46 (including the additional disclosures on pages 25 and 26 relating to the remuneration of directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention and the accounting policies set out on pages 32 and 33.

Respective Responsibilities of Directors and Auditors

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

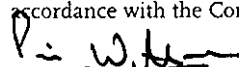
Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse

27 May 1997

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

Price Waterhouse



Group Financial History

Profit and Loss Account	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m
Turnover					
Water supply and sewerage services	561.1	594.5	629.7	659.5	697.7
International	23.7	97.4	100.2	131.4	154.7
Other	5.4	5.0	-	-	6.9
Less intersegment trading	(7.0)	(9.0)	(9.8)	(15.2)	(22.2)
	583.2	687.9	720.1	775.7	837.1
Operating profit					
Water supply and sewerage services	216.2	171.8*	262.8*	298.9	311.3*
International	(3.8)	0.8	(6.3)	(5.7)	(24.9)§
Other	(0.6)	(4.3)	(0.9)	0.5	-
Less intersegment trading	(0.2)	(0.6)	-	-	-
	211.6	167.7	255.6	293.7	286.4
Profit on sales of assets	3.3	1.6	3.2	1.2	-
Loss on disposal of business	-	-	-	-	(8.2)
Interest payable (net)	(29.5)	(37.1)	(42.7)	(56.3)	(70.2)
Profit on ordinary activities before taxation	185.4	132.2	216.1	238.6	208.0
Taxation	(19.0)	(16.9)	(19.3)	(20.1)	(23.1)
Profit for the financial year	166.4	115.3	196.8	218.5	184.9
Dividend per Ordinary share	21.1p	22.8p	26.0p	30.0p	34.5p
Earnings per Ordinary share	56.4p	39.0p	66.4p	78.1p	68.6p
Earnings per Ordinary share before exceptional charges	56.4p	59.2p	71.1p	78.1p	86.8p

Balance sheet

Fixed assets	2,053.5	2,315.5	2,499.9	2,679.9	2,875.7
Net current liabilities†	(137.3)	(161.9)	(170.3)	(164.5)	(129.0)
Long term liabilities	(48.6)	(66.4)	(76.8)	(88.3)	(103.7)
Provisions for liabilities and charges	(106.1)	(171.4)	(137.5)	(118.2)	(124.4)
Net borrowings	(392.5)	(503.0)	(584.7)	(831.8)	(938.6)
Shareholders' funds	1,369.0	1,412.8	1,530.6	1,477.1	1,580.0

* After exceptional charges of £60.0m in 1994, £14.0m in 1995, and £22.0m in 1997.

† Excluding cash and deposits and short term borrowings.

§ After exceptional charges of £18.8m in 1997.

Shareholder Information

Analysis of shareholdings (as at 31 March 1997)	Number of shareholders	%	Number of shares held	%
1 – 99	2,472	3.1	102,127	–
100 – 499	41,303	52.3	7,949,252	3.0
500 – 999	27,313	34.6	18,108,866	6.7
1,000 – 4,999	6,584	8.3	10,169,505	3.8
5,000 – 9,999	286	0.4	1,940,977	0.7
10,000 – 49,999	483	0.6	11,180,275	4.1
50,000 – 99,999	177	0.2	12,676,119	4.7
100,000 – highest	355	0.5	208,224,310	77.0
	78,973	100.0	270,351,431	100.0

Corporate bodies represent 88% of the total share capital in terms of numbers of shares held. Individuals represent 12% of the total share capital in terms of numbers of shares held.

Shareholder enquiries

Shareholders with enquiries about Anglian Water Plc or shareholder matters can contact the Shareholder Enquiry Unit. Telephone 01480 443000.

Share register

The Company's share register is maintained by Lloyds Bank Plc. Shareholders requiring help or information about their shareholding may either write to The Registrar, Lloyds Bank Plc, 54 Pershore Road South, Birmingham B30 1BR or telephone 0121 433 8000.

Registered office

Anglian Water Plc, Anglian House, Ambury Road, Huntingdon, Cambridgeshire PE18 6NZ. Telephone 01480 443000. Fax 01480 443115.

Advisers

Merchant bank

J. Henry Schroder Wagg & Co. Limited, 120 Cheapside, London EC2V 6HDS.

Auditors

Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT.

Solicitors

Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS.

Brokers

Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN.

Allied Provincial Securities Ltd, Trinity Court, Trinity Street, Peterborough PE1 1DA.

Registrars

Lloyds Bank Plc, Registrar's Department, 54 Pershore Road South, Birmingham B30 1BR.

Principal bankers

Barclays Bank Plc, 1 Market Hill, Huntingdon, Cambridgeshire PE18 6AE.

Financial Calendar

Ex-dividend	30 June 1997
Record date	4 July 1997
Annual General Meeting	23 July 1997
Dividend payment	22 August 1997

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

[HTTP://WWW.anglianwater.co.uk](http://WWW.anglianwater.co.uk)